DEVELOPING A NORMATIVE FRAMEWORK FOR EFFECTIVE TURNAROUND MANAGEMENT FOR STATE-OWNED ENTERPRISES BY APPLYING KEY LEARNINGS OF SUCCESSFUL TURNAROUND MANAGEMENT IN THE PRIVATE SECTOR

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A research proposal submitted

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Of

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Abstract

The study sought to understand the factors that contribute to effective turnaround management of State-owned Enterprises (SOEs), based on the extant determinants of successful private sector turnaround strategies.

The purpose was to develop a normative framework for effective turnaround management in SOEs, as well as to provide a conceptual view of the potential cohesions of turnaround strategies in public and private sector management.

The study was conducted in two phases. A straw framework was developed based on the literature review, consisting of generic turnaround conceptual themes. This was supplemented by three primary strategies drawn from private sector evidence. The framework was then refined and used as a basis for analysing three published cases of turnaround in SOEs, with a pragmatic view to developing a normative framework for effective turnaround management.

The theoretical underpinnings of the resource-based view (RBV) were ruminated throughout the research process, and proved to be a fairly significant enabler for enhancing competitiveness through managerial-orientated competencies, during periods of turnaround.

Organisational conditions varied, rendering fluctuating impacts of the ascribed strategies. However, findings indicated that well-conceived adaptions of private sector strategies were broadly effective in improving performance in SOEs.

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Keywords

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Declaration

I declare that this research project is my own work. It is submitted in partial fulfillment 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 the research.

Matthew Emanuel **Date**

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Table of Contents

List of Figures

List of Tables

1 INTRODUCTION TO THE RESEARCH PROBLEM DEFINITION

1.1 Research Title

Developing a normative framework for effective turnaround management for state-owned enterprises by applying key learnings of successful turnaround management in the private sector

1.2 Introduction

In the context of today's rapidly changing global economic, political and social environment, the field of turnaround management is growing in significance. Academic research is limited with regards to how regressions in public service have been countered through performance-enhancing turnaround initiatives. Hambrick (1985, p. 22) defines a turnaround situation as "one in which business performance is persistently below some minimally acceptable level". Goodman (1982) provides an attuned description, whereby he explains that a turnaround is to produce an evident and supportable improvement in performance, to shift the trend of results upwards, from below the expected levels to clearly better, from underachieving to acceptable, from failing to succeeding.

In Boyne's (2006) comparative research on the potential cohesions of turnaround strategies in the public and private sectors, he submits that national policy makers and public service managers are striving to identify turnaround strategies to improve the performance of declining public organisations. "The performance of the public sector in advanced economies such as the United Kingdom and the United States is blighted by the occurrence of organisational failure" (Boyne, 2006, p. 383). Boyne (2006) complements this observation by referring to the lack of empirical evidence on public service turnaround, but reflects that considerable research has in fact been conducted on the reversal of decline in the private sector. Some of the better-known empirical cases of turnarounds include Continental Airlines (Thomson, 2003) and IBM (Nolan, 2000).

Private sector evidence submits that recovery from failure is associated with retrenchment, repositioning, and reorganisation strategies. Boyne (2006, p. 369) refers to the outcomes of 17 different studies, which measured the impact of these turnaround strategies on private organisations. The results are depicted in **Table 1** and report that these specific turnaround strategies had a positive influence on 57%, 66% and 67% of the respective organisations where they were implemented. The feasibility of application, and the impact of these strategies in the public sector, was evaluated in this research.

Table 1: Summary of Evidence on Turnaround

Study	*Number of Companies*	*Country*	*Impact of Retrenchment*	*Impact of Repositioning*	*Impact of Reorganization*
Schendel and Patton (1976)	72	US	—	NE	—
Hambrick and Schecter (1983)	260	US	+	+	—
O'Neill (1986a)	51	US	+	—	—
O'Neill (1986b)	9	US	NE	Θ	+
Thietart (1988)	217	US	+	+	+
Stopford and Baden-Fuller (1990)	6	UK	+	+	+
Pant (1991)	137	US	NE	—	—
Barr, Stimpert, and Huff (1992)	2	US	+	+	Θ
Robbins and Pearce (1992)	32	US	+	—	—
Barker and Mone (1994)	32	US	NE	—	—
Bruton and Wan (1994)	70	US	+	—	—
Chowdhury and Lang (1994)	172	US	NE	—	—
Pearce and Robbins (1994a, 1994b)	32	US	+	+	+
Chowdhury and Lang (1996)	172	US	+	—	—
Mueller and Barker (1997)	64	US	—	—	+
Barker, Mone, Mueller, and Freeman (1998)	68	US	+	+	—
Harker and Sharma (1999)	4	Australia	—	+	+
Evans and Green (2000)	97	US	NE	+	—
Sudarsanam and Lai (2001)	166	UK	NE	NE	NE
Dawley, Hoffman, and Lamont (2002)	207	US	+	+	—
Bruton, Ahlstrom, and Wan (2003)	90	HK, Singapore, and Taiwan	+	—	NE
% +			57	66	67
% Θ			0	17	11
% NE			43	17	22

NOTE: + = positive impact; Θ = negative impact; NE = no effect; — = variable not examined in the study; US = United States; UK = United Kingdom; HK = Hong Kong.

Source: Boyne (2006, p. 369)

Various turnaround process models were reviewed. These detail generic stages, from the onset of decline to eventual recovery or outright failure, and were used as a basis for the review. The models require refinement in terms of the application to public organisations, but offer workable platforms for further examination (Boyne, 2006; Gupta and Sathye, 2010). From a public management perspective, this paper focuses on State-owned Enterprises (SOEs) as distinct from state departments.

1.3 Synthesising the work of George A. Boyne

The research contributed by Boyne on strategic public service turnaround based on the principles of private sector turnaround management practices (Boyne, 2003, 2004, 2006), significantly informed the research method, design and conceptual thinking adopted in this study. Boyne's theories and research were used as the basis from which to examine the nuances of effective turnaround management within the specific research methodology parameters relevant to this particular study. Therefore, aside from the detail available in the literature review, it is necessary to firstly qualify, and secondly, synthesise the salient outcomes derived from Boyne's research from the outset, and to discuss the resulting impact on the normative framework developed.

An abridged interpretation of the keystones of Boyne's research contends that no distinct framework for successful turnaround management in the private sector has been formally developed. However, Boyne surmises that when strategies of retrenchment, repositioning and reorganisation (3Rs) were applied to cases of public service turnarounds, the extent of success was broadly attuned to the evidence derived from private sector organisations. This study involves an examination of the effectiveness of the theoretical underpinnings of these generic strategies derived from private sector research, and underlines the feasibility of these conceptual themes in the context of selected global turnaround cases of SOEs.

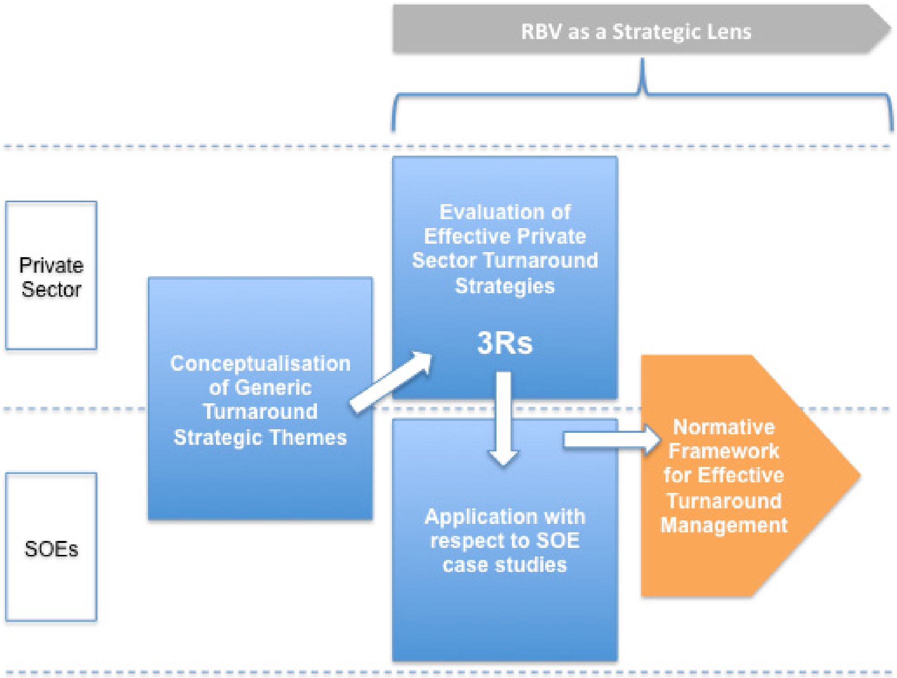
The definitions and more detailed explanations of Boyne's 3Rs are discussed later in the study (Chapter 2, Section 2.7). It should be emphasised at this stage, however, that the approach in this research is informed by Boyne's conclusion that internal reorganisation (or 'selective restructuring' as per the adapted term in the context of the normative framework developed) was the most prevalent strategy of the 3Rs, and that repositioning and retrenchment may have a smaller impact on the overall turnaround of an organisation. The research approach also acknowledges Boyne's observation that any combination of the 3Rs may be required to support a turnaround strategy, according to varying organisational conditions. The integration of the 3Rs, and how the strategies were assimilated in the context of the turnaround initiatives implemented within the SOE case studies analysed, was another notable premise drawn from the research of Boyne that was pertinent to the objectives of this study.

Awareness of the strategic articulation and the 'overlapping' nature of the 3Rs enabled the researcher to more rigorously explore the common and distinctive aspects of turnaround management, which have been empirically seen to be valuable in the public sector.

1.4 Research Purpose

Evidence suggests that organisational failure is symptomatic and describes the situational circumstances facing an organisation. Walshe *et al.* (2004) argue that existing research does not comprehensively address the situational catalysts, or what guiding actions should be pursued. The purpose of this research was to gain a deeper understanding of common and differentiating themes of turnaround management in both public and private sectors. The study provides conceptual explanations as to how these premises potentially contribute to the improved effectiveness of turnaround implementations in SOEs specifically. Insights were derived based on a determination of the key elements for success in the private sector, and how these factors then contributed to developing a normative framework for effective turnaround management. The overview compiled in **Figure 1** provides a high-level outline of the process adopted in analysing SOE-based turnarounds, with a view to developing a conceptual framework for successful turnaround management.

Figure 1: Conceptual Overview of the Research Approach



The overview serves to qualify that even though the normative framework focuses on SOEs, potential learnings for private sector practitioners exist and are not to be discounted. Therefore, the output of the normative framework is depicted as residing in the SOE sphere primarily, however, slightly overlaid with that of the private sector to represent the potential cohesions.

The identification of key attributes of successful turnaround strategies has become an important stream of research, particularly for stakeholders responsible for informing executives tasked as turnaround managers in both public and private management (Pearce & Robbins, 2008). Persisting research issues concern the characteristics of the different stages of the turnaround process in the public sector. Together with Pearce & Robbins (2008), Boyne (2006) questions why organisational decline occurs and how recovery strategies are formulated, taking into consideration the variables associated with stages of organisational decline across differing institutional contexts, such as types of services and different levels of government.

Fundamental concerns for public managers are that turnaround strategies need to not only be feasibly implemented, but a prospect of success must also be identifiable (Boyne, 2006). Based on the most relevant evidence available on private sector turnaround, a combination of retrenchment, repositioning, and reorganisation is more likely to lead to recovery than prolonged failure (Boyne, 2006; Pearce and Robbins, 2008). The form such private sector turnaround strategies take, how they can be potentially leveraged and configured to improve approaches to organisational turnarounds, not only in the private sector, but in SOE environments as well, are prerogatives of this study (Boyne, 2006).

Existing research on organisational breakdown and turnaround in private organisations details certain drawbacks. Walshe *et al.* (2004) argue that much of the research tends to treat clearly heterogeneous and quite complicated phenomena concerning organisational failure, as homogeneous circumstances. The typical approach is also largely atheoretical, with minimal attempt to move beyond empirical accounts of failure and turnaround. The tendency is to favour the formulation, testing or development of credible theories and models to help explain the conceptual reasoning behind turnaround management. Private sector literature does contain valuable theories relevant to the study of turnaround in public organisations (Walshe *et al.,* 2004). It is the purpose of this paper to synthesise the benefits of these findings for the overall turnaround theory-building process. It was further considered whether credible theory, consonant with a refined conceptual framework for effective turnarounds in the management of SOEs, could be formulated.

1.5 Scope of the Research

Turnaround administration occurs in SOEs and private sector organisations throughout developing and emerging markets. The commonalities and distinctions outlined in the turnaround management research include influencing factors that are inherent to both sectors. However, differences in the sectoral approaches to turnaround management were also found to be relevant, and the mode in which certain turnaround management tools and techniques are applied in SOEs and the private sector, was therefore examined in the context of SOEs.

However, the differing institutional environments between public and private sectors in terms of the socio-economic and political contexts, infers that varying success factors for effective turnaround management in both sectors, are evident (Daka, 2010). The heterogeneous nature of both sectors provides an opportunity to disseminate the intricate empirical phenomena related to turnaround management. From the perspective of case study analyses, the scope of this research comprised State-owned Enterprises (SOEs), limited to emerging countries.

1.6 Research Motivation

The researcher aimed to explore the various factors that predominantly impact turnaround management effectiveness in the private sector, and investigate how these outcomes may be integrated through cross-sectoral application, with specific focus on SOEs. The rationale behind the research was personal in the sense that the researcher (a management consultant by profession) developed, through experience in consulting to both private sector clients and SOEs, a strong interest in large-scale transformational change and the differentiation with which turnaround management strategies are executed in the respective environments. The focus of this research was, therefore, based on a practitioner-orientated rationale to turnaround management. The outcomes are intended to contribute to the body of knowledge applied by turnaround agents that are both internal and external (such as turnaround strategy consultants) to an organisation, and includes further research in the field of turnaround management.

The researcher derived “a multiple wealth of details” (Flyvbjerg, 2006, p. 223) through his association with cases of turnaround based on real-life scenarios (Flyvbjerg, 2006). The research approach supports the view that in order to gain a “nuanced view of reality” (Flyvbjerg, 2006, p. 223), organisational behaviour cannot be implicitly understood through only theoretical review. The examination of relevant cases enabled the researcher to control the learning process effectively, and evaluate the concrete and context-dependent organisational experiences, which was central to the researcher’s objectives (Flyvbjerg, 2006).

2 THEORY AND LITERATURE REVIEW

2.1 Introduction

A noteworthy observation emphasised by empirical research is that organisational decline and associated turnaround management initiatives are interactive and multi-dimensional in nature. Circumstances are rarely isolated, but rather develop concurrently, and can even co-evolve as the response to one problem may directly impact another (Walshe *et al.,* 2004). DeLisi (2001) and Higgins (2005) agree with this view and further suggest that the execution of effective turnaround management strategy is inhibited by the lack of a comprehensive approach. A more scientific-orientated management approach, which enhances organisational drivers that integrate people, culture, leadership and business processes, is required to optimise a shared values system and reinforce the elements of effective strategic execution (DeLisi, 2001).

2.2 Application of Strategic Theory

In Pretorius' (2008b) research on Porter's Generic Strategy Matrix, he rationalises that the model functions on the assumption that the organisation is profiting from demand for its product in a competitive environment. However, Pretorius continues to argue that if the venture faces circumstances deeming a turnaround, strategies focused on reducing costs, differentiation or increased focus will not be sufficient without supplementary strategically selected restructuring plans, such as changes to planning systems, the extent of decentralisation, revising performance management systems or restructuring executive management teams (Gupta and Sathye, 2010).

From the perspective of employing a strategic theoretical foundation, the research focused on the resource-based view (RBV), allowing for flexible degrees of relevance as applicable to public and private management conditions. Research interpretations were gauged in the context of the RBV, which took the form of a strategic lens as an understanding the determinants of effective turnarounds were developed. The RBV guided the identification and further informed development of a refined set of lessons for SOEs and the private sector.

2.2.1 Resource-based View (RBV) perspective

2.2.1.1 Introduction

Lado *et al.* (1992, p. 78) describe an organisation as "a nexus or bundle of specialised resources that are deployed to create a privileged market position". Eisenhardt and Martin (2000) define the resource-based view as an influential theoretical framework for gauging how competitive advantage within firms is firstly, achieved, and then sustained over time.

Firms that have failed to meet performance expectations must seek new ways of creating value (Morrow *et al.*, 2007). Using resource-based concepts, Morrow *et al.* (2007) indicate that valuable and difficult-to-imitate strategies that leverage the firm' s existing stock of resources to create new products, processes, or technologies, have a positive effect on organisational recovery as measured by investors' expectations. Similarly, the same researchers state that the acquisition of new resources through mergers or acquisitions has also been proven to have positive effects on performance expectations.

The RBV derives its strength from its ability to explain from a managerial perspective, why some organisations are more profitable than others, and how to effectively position the idea of core competence in business practice (Collis and Montgomery, 1995). The review of literature with respect to this study capitulates the impact of the following high-level areas encompassed in the theoretical field of the RBV: valuable resources, distinctive competencies, and the theoretical underpinnings of the Resources-Processes-Priorities-Culture (RPP-C) framework (Christensen and Kaufman, 2008; Collis and Montgomery, 1995; Lado *et al.,* 1992).

The RBV views organisations as diverse collections of physical and intangible (or core human and non-human) assets and capabilities that allow organisations to exceed performance expectations over a sustained period of time (Collis and Montgomery, 1995; Lado *et al.,* 1992). Taking private firms into consideration, but focusing more specifically on SOEs, research maintains that no two organisations are alike due to the differing set of experiences and processes through which they have acquired assets and skills, or built their unique organisational structures. “Superior performance will therefore be based on developing a competitively distinct set of resources and deploying them in a well-conceived strategy” (Collis and Montgomery, 1995, p. 120). These distinctive assets and capabilities determine how efficiently and effectively an organisation performs its functional activities (Collis and Montgomery, 1995).

Linking to this, Collis and Montgomery (1995, p. 120) provide that “Resources cannot be evaluated in isolation, because their value is determined in the interplay with market forces". In the context of a turnaround process, whether an entity is developing a strategy based on core competencies, or is building towards a learning organisation, the RBV advocates that an integrated strategy that inextricably links a unique and powerful set of internal resources and capabilities with the external environment, will foster "an enduring logic that transcends management fads" (Collis and Montgomery, 1995, p. 128). In developing a turnaround strategy, an entity must, therefore, consider the combining and exploitation of existing resources with the development of new ones, in order to sustain organisational effectiveness during the period of a turnaround process (Wernerfelt, 1984).

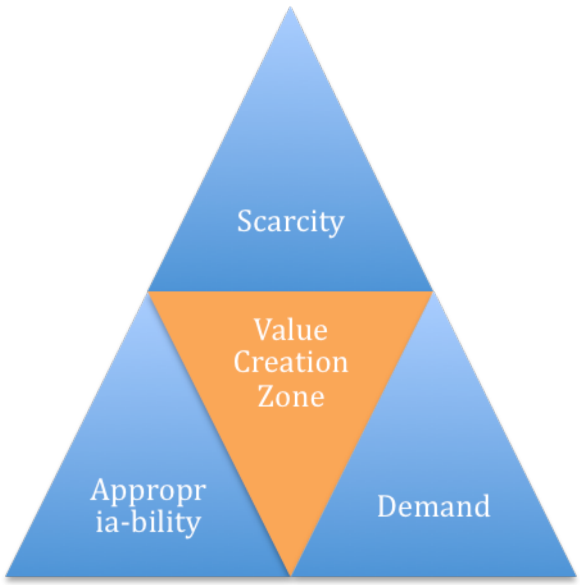
2.2.1.2 Defining a Valuable Resource or Capability

Now that a perspective of how the resource-based view of strategic theory influences the effectiveness of turnaround management, a clearer view of not only what defines a resource itself, but what constitutes a valuable resource is provided. Resources are at the core of the RBV, however, identifying resources is more complex than it may appear, and managers often experience difficulty in objectively evaluating their organisation's resources (Eisenhardt and Martin, 2000; Collis and Montgomery, 1995).

Collins and Montgomery (1995) denote that a valuable resource of an organisation may be tangible or an intangible organisational capability embedded in an entity's functional policies, processes and culture. "Sometimes a valuable resource is a combination of skills, none of which is superior by itself but which, when combined, can distinguish the organisation's competitive position" (Collins and Montgomery, 1995, p. 124).

Effective turnaround management, whatever the source of success, ultimately can be attributed to the ownership and optimal utilisation of valuable resources that enable the organisation to perform functional activities more economically (Collis and Montgomery, 1995). As depicted in the **Figure 2,** Collis and Montgomery (1995) refer to the dynamic interplay of three fundamental market resources (Scarcity, Appropriability and Demand), which contribute to determining the value of a resource's capability.

Figure 2: Strategic elements comprising a valuable resource



Note: Adapted from Collis and Montgomery (1995)

Collis and Montgomery (1995) allude to further external market tests to assess the value of a resource as an effective strategy. In continuance of the concepts represented in **Figure 1,** and in the context of the application of value-adding resources as drivers of effective turnaround strategy, a summary of the research taken from Collis and Montgomery (1995), discloses the following factors of examination:

1. Inimitability: How difficult is the resource to copy?
2. Durability: How quickly does the resource depreciate in value?
3. Appropriability: Refers to which stakeholders derive the value from the resource?
4. Substitutability: Can a supposedly unique resource be undermined by a different resource?
5. Competitive superiority: Assessment of whose resource really is more value-adding?

Note: Adapted from (Collis and Montgomery, 1995)

2.2.1.3 Distinctive Competencies

Linking to the research on valuable resources, Lado *et al.* (1992) discuss the concept of 'distinctive competencies', which allude to the specific leadership capabilities that contribute to the successful transformation of a public organisation. Distinctive competencies are the means by which an organisational strategy aims to attain a uniquely competitive position through optimal resource deployment (Lado *et al.,* 1992).

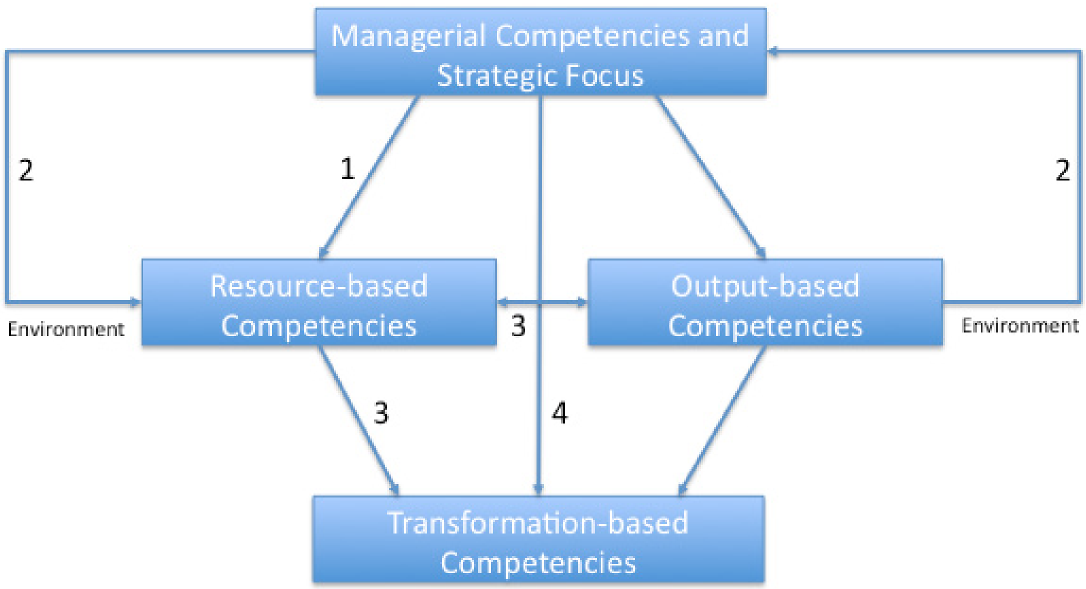
> *"As organisations develop greater insights, they can incorporate them into analytical models and adapt business processes to leverage them and increase competitive differentiation. These strategically focused insights, processes, and capabilities form the basis of the organization's distinctive capability"* (Lado *et al.,* p. 83).

In addition to the views expressed, Lado *et al.* (1992) provide an outlook on the conceptualisation of sustaining organisational performance. Notably, the concepts expressed are also aligned to a systems-based view of the RBV, and are portrayed in Figure 3, in which "four components of an organisation's "distinctive competencies" Lado *et al*. (1992. p. 82) are specifically integrated. These competencies include:

- Managerial Competencies and Strategic Focus
- Resource-based Competencies
- Transformation-based Competencies
- Output-based Competencies

Note: Adapted from (Lado *et al.* 1992)

Figure 3: Competency-based Model for Sustainable Performance



Note: Adapted from (Lado *et al.*, 1992, p. 82)

Managerial Competencies and Strategic Focus

The fundamental premise of the model is that robust managerial competencies and strategic focus assume a central position in creating resource-based, output-based and transformation-based competencies that are critical in a turnaround situation and are largely responsible factors in attracting specialised resources that are synergistically integrated, transformed, and channeled through a system that counters the implications of a turnaround situation by generating sustainable organisational performance improvements (Lado *et al.,* 1992). The same researchers indicate that Arrow 1 depicts the impact of strategic managerial competencies on specialised resource acquisition and mobilisation.

> *"Our model suggests that strategic leadership (through managerial competencies) will have a significant impact on organisational strategy and performance and be a source of sustainable competitive advantage insofar as such leadership exhibits characteristics of uniqueness in exploiting firm-specific competencies"* (Lado *et al.* 1992, p. 83).

The arrows labeled '2' (two of them) indicate management's potential to influence the impact of the business environment, and the other indicates the feedback flow of information (from the environment) that is necessary to further develop managerial competencies and strategic focus (Lado *et al.* 1992).

Resource-based Competencies

Arrows labeled '3' represent the link between resource- and operational output-based measurements that suggest the synergistic interactions between the competencies, which can lead to the overall development of transformation-based competencies (Lado *et al.* 1992). Lado fuses this view by stating that "…

Resource-based competencies potentially influence the ability of the firms to develop transformation-based and output-based competencies" (Lado *et al.* 1992, p. 84).

Transformation-based competencies are conceived as those organisational capabilities that are required to advantageously convert inputs into outputs through sets of activities involving the designing, developing, producing, and marketing of outputs to the customer (Lado *et al.* 1992). Arrow 4 depicts the interrelationship between transformation-based competencies with managerial, strategic focus, resource-based competencies, and output-based competencies (Lado *et al.* 1992).

The discussion of the competency-based model signifies the importance of resource-based propositions, such as organisational and managerial cognitive and behavioural characteristics (Lado *et al.* 1992). The research postulates that the four detailed sources of firm-specific distinctive competencies are synergistically related, and contributed to the process of holistic resource-based theoretical development, pertinent to this study of effective turnaround management (Lado *et al.* 1992).

2.2.1.4 Resources-Processes-Priorities-(Culture)- RPP(C) Framework

Each of the terms within the RPP(C) framework requires it's own unique definition to be articulated and analysed. However, the research argues that the consolidation of these elements provides a typology of how resource-related decision-making criteria and frameworks can generate a powerful mechanism in which to assess the strength of an organisation's distinctive capabilities (Christensen and Kaufman, 2008).

According to Christensen and Kaufman (2008), organisational resources (R) can include people, equipment and technology, intellectual property rights, cash, and relationships with internal and external stakeholders. The same researchers also categorise resources as the most tangible factor of the three components comprising the RPP framework. Formal and informal processes (P), together with those that are embedded within the organisational culture can be defined as patterns of interaction, coordination, communication, and decision-making, through which organisations create value by transforming processes (Christensen and Kaufman, 2008). "Processes include the ways that products are developed and the methods by which procurement, market research, budgeting, employee development, and resource allocation are accomplished" (Christensen and Kaufman, 2008, p. 2).

By nature, processes are not meant to change, and if established processes aligned to organisational objectives are adopted, this will further assist employees to perform recurring tasks consistently, without requiring forced managerial monitoring (Christensen and Kaufman, 2008). Brown and

Eisenhardt (2007) build on this by contributing that successful turnaround managers go beyond simply communicating procedures, and combine priorities and responsibilities with rational leeway to revise organisational processes.

Employees at all levels of an organisation are required to make business prioritisation decisions. Typical examples include funding decisions with respect to new products and services, which customers to target, and product design- and scheduling-related decisions (Christensen and Kaufman, 2008). The more complex a company becomes, the more important it is for a culture of learning to be cultivated, as well as for managers and employees to be suitably trained to act autonomously, and to make prioritised profit-generating decisions that are consistent with the structured overall business strategy (Christensen and Kaufman, 2008). The same researchers encapsulate that whereas resources and processes often act as enablers that define an organisation's capabilities, the ability to prioritise efficiently within the business model also represent an organisational constraint. They also emphasise the significance of the role that the organisational leader plays in imposing their view on what the organisations priorities ought to be.

Dynamic Capabilities

Eisenhardt and Martin (2000) describe dynamic capabilities as including eminent organisational processes, such as collaborative alliances, whose strategic value is embedded in their ability to derive value-creating strategies through the manipulation of resources. Gilbert (2005) conducted research on organisational inertia, where he surmised that the concepts of resource- and routine-related related rigidity could generate organisational inertia. Resource rigidity refers to the "failure to change resource investment patterns" (Gilbert, 2005, p. 741). Assuming discontinuous change, routine (process) rigidity may develop if an organisation's processes fail to effectively adapt to various transformations in the resources connected to these processes (Gilbert, 2005).

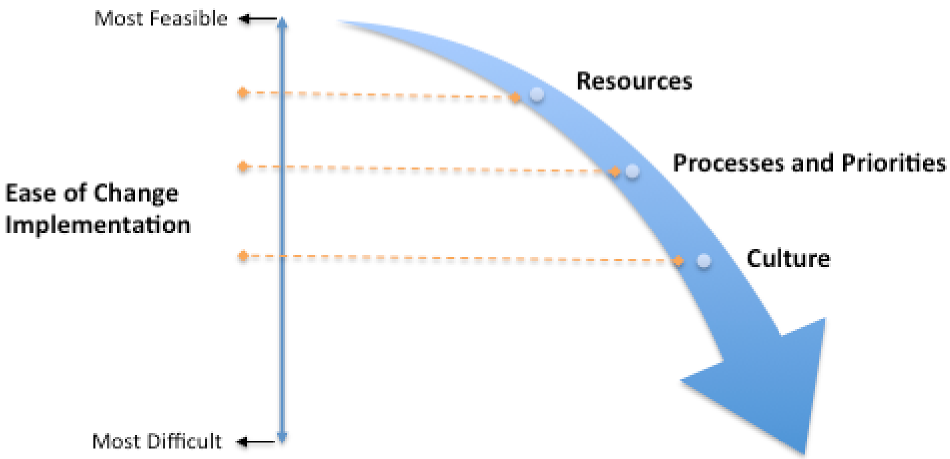
In terms of counteracting the occurrence of inertia, Christensen and Kaufman (2008) allude to a circumstance entailing the gradual shift of an organisation's capabilities towards a process-based business model that defines its own operational priorities. As people perform tasks cohesively, with the objective of executing recurrent tasks with greater efficiency, processes are defined, and the business model starts to shape itself around the activities that are accorded the highest importance (Christensen and Kaufman, 2008). Sustaining organisational success is, therefore, more feasible when the bearing of capability effectively migrates from resources to processes and the business model (Christensen and Kaufman, 2008).

Some researchers have extended the RPP framework to include Culture (C). Christensen and Kaufman (2008) for instance, advance that the adoption of the decision-based criteria described above, contribute to the development of organisational culture. As companies experience extensive phases within the turnaround, achieving cohesion amongst thousands of employees can be challenging (Christensen and Kaufman, 2008). However, assuming the organisation manages to mature through its employees' dynamic application of robust processes and prioritised decision-making, those methods of working would then constitute the organisation's culture (Christensen and Kaufman, 2008). Culture can, therefore, act as a powerful management tool in cases of turnaround, enabling employees to act autonomously, but towards a common business objective.

> *"Hence, the location of the most powerful factors that define the capabilities and disabilities of an organization migrates over time – from resources toward visible, conscious processes and priorities, and then toward culture. When the organization's capabilities reside primarily in its people, change is relatively simple to manage. But when the capabilities have come to reside in its processes and business model, and especially when they have become embedded in culture, change can be extraordinarily difficult"* (Christensen and Kaufman, 2008, p. 4).

This study illustrates Christensen and Kaufman's synthesis of the sequential rationale of the RPP(C) framework in **Figure 4,** which represents the feasibility of change initiatives relevant to a turnaround situation.

Figure 4: Feasibility of Change - RPP(C) Framework



Note: Information adapted from (Christensen and Kaufman, 2008)

2.2.1.5 Influence of the RBV on Effective Turnaround Management

Wernerfelt (1984) poses the question as to what circumstances will lead to a resource generating improved returns over an extended period of time? He elaborates, and provides guidance to his enquiry by expressing that an organisation's intention should be to develop a platform whereby its own resource-based position during a turnaround, directly or indirectly enables it to become more competitive (Wernerfelt, 1984).

To report on the significance of the RBV and its effect on how organisations achieve organisational effectiveness, Wernerfelt (1984) suggested that evaluating firms in terms of their resources could lead to insights that differ from the traditional industrial/organization (I/O) perspective of Porter. Lado *et al.* (1992) submit that the I/O-based model seemingly overlooks an organisation's "… idiosyncratic competencies that potentially generate a sustainable competitive advantage" (Lado *et al.,* 1992, p. 77).

Lado *et al.* (1992) further contest that I/O-based and neoclassical analysis has not sufficiently emphasised the proactive structuring of managerial and organisational components of performance, which play decisive roles in creating and sustaining competitive advantage during a turnaround. Empirical evidence indicates that economic factors account for approximately 15-40% of organisational effectiveness; the remaining variance may possibly be elicited by factors such as managerial volition, organisational practices and cultural proficiencies (Lado, Boyd & Wright, 1992).

Hoskisson *et al.* (2000) proposed that organisational resources, which are often intangible, could be differentiated on the basis of value, uniqueness and substitutability. Collis and Montgomery (1995, p.124) advocate that "… the best of these resources are often intangible, hence the emphasis in recent approaches on the softer aspects of corporate assets – the culture, the technology, and the transformational leader".

Research on the sustainability of organisational advantage reveals that by strategically harmonising resource-based and institutional factors, organisations can develop institutional capital that enhances optimal resource utilisation, resulting in increased financial returns (Hoskisson *et al.,* 2000). This links to the research conducted by Pretorius (2008a, 2008b), whereby he refers to resource munificence or organisation capital, as being the availability of critical resources required by an organisation to operate effectively. Organisations usually attempt turnarounds at advanced stages of decline, and are typically experiencing significant resource scarcity during this period. Resource munificence is, therefore, a critical factor in determining the seriousness of the preconditions of the turnaround, and the organisation's capacity to implement strategic change (Pretorius, 2008a, 2008b).

Organisations that manage to effectively exploit the full capabilities of their resources can earn benefits such as first-to-market advantages, for instance. Such rewards, however, are difficult to establish without strong relationships with local governments and an implicit understanding of the institutional context (Hoskisson *et al.,* 2000). Wernerfelt (1984) supports this view by providing that leveraging domestic contacts can support the development of production-related skills, for example, and these skills, for instance, could further boost the potential of acquiring strategic international associates.

With specific context being attributed to the distinctions between private sector and SOE environments, Wernerfelt (1984) provides that optimal management of a resource portfolio is theoretically comparable to optimum product portfolio management. However, as with the public and private sector frameworks investigated in this research, is it possible that the structures may underline differing avenues for growth.

2.2.1.6 Summation of the RBV

To synthesise the outlook of the research in light of the RBV, the review of turnaround-related strategies in global economies indicates that strategy literature has merely touched the surface regarding the implications of the RBV for private organisations and SOEs (Hoskisson *et al.,* 2000). Pearce and Robbins (2008) support this view by advocating that alignment between an organisation's resources capabilities, competitive pressures and the specific environmental opportunities, requires continuous monitoring and adjustment in order to stimulate change and deliver strategic initiatives. Pearce and Robbins (2008) are complemented by Collis and Montgomery (1995, p. 127) who state "Good corporate strategy requires continual assessment of the company's scope", and "managers must therefore continually invest in and upgrade their resources, however good those resources are today, and leverage them with effective strategies into attractive industries in which they can contribute to a competitive advantage" Collis and Montgomery (1995, p. 124).

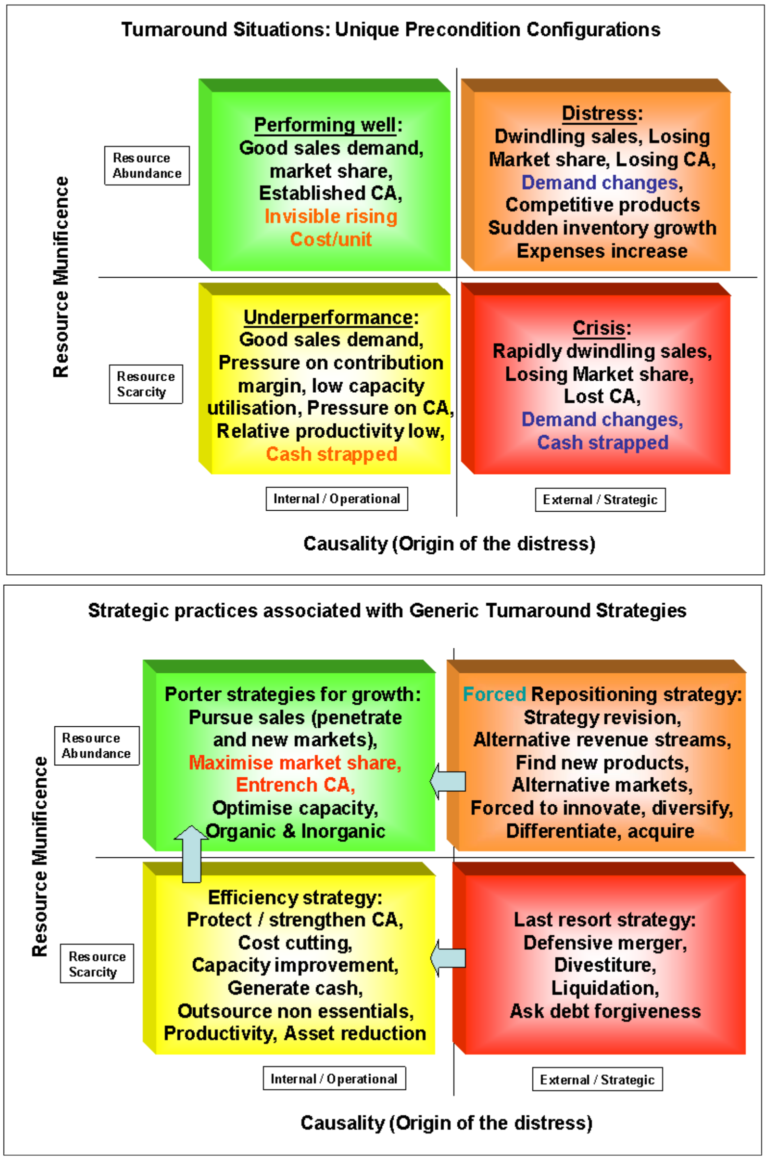
Lado *et al.* (1992) refers to the term 'strategic selection', which bears significant relevance to the normative framework detailed in **Figure 7** in Chapter 4, and emphasises the course of strategic decision-making that determines the effectiveness of turnaround management practices, and explicitly recognises the influence of managerial proactiveness in improving business performance. These competencies do not merely accrue to an organisation, but can be developed through conscious and systematic application by the purposive decisions and actions taken by the organisation's strategic leaders (Lado *et al.,* 1992).

By specifically focusing on the influence of the RBV, the study achieved the objective of providing a conceptual view of how strategic theory contributed to the identification of common and differentiating turnaround management themes across SOEs and the private sector.

2.3 Generic Turnaround Management Frameworks

In reviewing the research of Pretorius (2008b) on generic turnaround frameworks, Pretorius stated that "The strategies proposed in this study should not be seen as alternatives to those proposed by Porter, but rather as complementary to the model in view of the unique requirements of turnaround situations" (Pretorius, 2008b, p. 9). Pretorius (2008b) developed turnaround frameworks illustrated in **Figure 5,** which detail the preconditions of turnaround and the associated strategic practices.

Figure 5: Turnaround situations and associated practices



Source: Pretorius (2008b, p. 4-6)

Pretorius (2008b) explains that moving from a state of distress to performing well is more realistic than moving directly from crisis to performing well. If a turnaround is initiated from the crisis phase, then the intended shift should be towards the left of the matrix first, through a process of efficiency, and then towards growth (Pretorius, 2008b). **Figure 5** (lower) indicates the intended directions that firms should aspire to as the process gains momentum.

Pretorius' models are useful in classifying individual cases during the analysis process. This results in improved insight into the specific preconditions driving the turnaround, and enables turnaround managers to analyse their own business units and prepare strategic responses accordingly (Pretorius, 2008b).

The generic model of the turnaround process consists conceptually of at least seven separate stages, as illustrated in **Appendix A1**. The model is a depiction of a simplified process that is actually complex in real organisations, where stages may occur concurrently and stage performance is likely to be interactive (Boyne, 2006). Walshe, et al. (2004) express that this approach may encourage turnaround managers to be 'over analytical' in their rationalising about the dynamics of failure and turnaround. However, in practice, organisations exercise a considerable amount of discretion throughout the stages and can move backwards as well as forwards, and may even be in a static position in certain parts of the process (Walshe *et al.,* 2004). Nevertheless, this is a useful conceptual framework for identifying key stages in the process of decline and recovery. The nature of each stage in the model, and its relevance to public and private organisations, is discussed in this study.

Boyne (2006) argues that performance shortfalls are often only temporary and do not require the urgent action associated with turnaround. According to Donaldson (1999) and Sitkin (1992), short periods of relative failure act as a precondition of longer-term success as organisational learning is stimulated, which in turn is associated with the realisation of enhanced performance. Thus, the second stage of the stages of organisational turnaround in **Appendix A1** indicates an emission from temporary decline through corrective action by an organisation. In private sector instances, action may amount to very little other than waiting for an industrial cyclical decline to subside (Boyne, 2006).

Boyne (2006) contends that case studies of successful turnarounds are essentially descriptive accounts of actions deemed to be associated with public service performance improvement, and that these studies offer little guidance on the stages or elements of recovery. This reasoning is underlined by the third stage of the model in **Appendix A1,** representing an organisation in a turnaround that faces a stark choice between pursuing strategic change that may lead to recovery and persistence, but also potentially exposes the organisation to total failure (Boyne, 2006).

Boyne (2006) discerns that empirical studies of turnaround assume that it is possible for every failing company to return to commercial success. He challenges this assumption in **Appendix A1**, which splits Stage 5 of the turnaround process into two parts. Boyne goes on to argue that although this stage may entail the discovery of a new and improved strategy, it makes provision that a ‘no escape’ strategy can be encountered because some critical objectives cannot be achieved. This study, therefore, discerns that it is realistic that for the success of certain SOE turnaround initiatives to be considered impossible, and that organisations may even fall into terminal decline as a result (Boyne, 2006). Boyne also suggests that it is possible that stakeholder groups, such as customers, suppliers and certain staff who fear the risks associated with new turnaround strategies, to prefer a weak-performing organisation to one that ceases to exist. Boyne (2006) provides the explanation that the resistance to strategic change often impedes the option of an escape strategy being implemented in the public sector.

Pretorius (2008a) depicts a conceptual model in **Appendix A2**, which illustrates the overlapping closeness of the relationships that exist between the sub-domains of failing turnaround strategies. Pretorius (2008a) details these four core sub-domains as signs and prediction of decline, causes and preconditions leading to decline and failure, recovery (intervention actions), and cognition and learning during failure.

2.4 Implications of Turnaround Strategies in the Private Sector

Much of the literature on turnaround in the private sector consists of normative prescriptions and cases of organisational success, offering minimal evidence on the effectiveness of different turnaround strategies (Boyne, 2006). It can, therefore, be difficult to judge the extent of the validity of their prescriptions, as the same practices may also have been followed in companies that became insolvent (Boyne, 2006). A single classification scheme for private sector turnaround strategies does not exist, however, three primary generic strategies for the purposes of this research have been identified in empirical studies of turnaround - retrenchment, repositioning, and reorganisation (Boyne, 2006).

Boyne (2006) attributes a performance decline in private organisations to a misalignment between an organisation and its environment. Changing external circumstances, such as a shift in consumer demands or the adoption of new technology by rival firms, can also cause a company to lose competitive advantage (Boyne, 2006). Collis and Montgomery (1995) remark on the challenges arising through the application of turnaround strategy at the corporate level. The same researchers refer to empirical evidence, which indicates how many corporate powerhouses in the 1980s were found to be ultimately destroying value by owning the business divisions that had initially appeared to align so suitably with their defined growth metrics. However, these corporations either suffered damaging setbacks (such as IBM, GM and Westinghouse) or underwent large-scale turnaround programmes and complex internal reorganisation, such as General Electric (GE) and ASEA Brown Boveri (ABB) (Collis and Montgomery, 1995).

Boyne (2006) asserts that empirical studies validate that turnaround performance is measured primarily via indicators of financial success, such as profitability and return on investment. Boyne (2006, p. 373) further contends, "… these measures neglect important performance criteria in the private sector such as corporate social responsibility, welfare of staff, and impact on the environment. In the public sector, the definition and measurement of performance is even more complex".

2.5 Implications of Turnaround Strategies in Public Management

Gupta and Sathye (2010, p. 90) that

> *"There are three distinct forms of public enterprise undertakings: departmental, statutory corporation, and joint stock companies with shares owned by the state. Many enterprises that began in the departmental form have eventually been transformed into one of the others. The statutory form of undertaking has more operational flexibility than the departmental form, but less than the company form".*

As the research focuses on reframing turnaround management in SOEs specifically, a definition provides that an SOE is a form of government in commerce, which is expected to realise various economic and operational productivity targets, while simultaneously being held accountable by the public for serving social objectives effectively (Yeung, 2005; Daka, 2010). Dissimilar to a regular conventional state department, in order to qualify as an SOE, an organisation must be owned in whole or at least in part by the government, and must also constitute a commercial enterprise (Daka, 2010).

Research demonstrates that SOEs throughout the globe are endeavoring to ascertain enhanced modes in achieving organisational turnaround, by eliminating service disparities across client groups, and bringing service standards up to levels that are expected, and also exhibited by the organisation's leadership (Boyne, 2006). Rainey (2003, p. 282) states, "public agencies typically have multiple goals that are politically constructed and contested". Boyne (2006, p. 373) builds on this by stipulating, "… different stakeholders use different criteria of performance and, even when they use the same criteria, are likely to apply different weights to them". Therefore, determining whether an SOE is deemed to be in a turnaround situation, depends on the perceived significance of the dimensions of performance criteria considered, such as efficiency and effectiveness (Boyne, 2006).

2.6 Differences between Turnaround Management in the Private Sector and SOEs

Boyne (2006) clarifies that the difference between public and private management is significant. He details that public organisations are generally more bureaucratic, public managers have less discretion over organisational personnel, and staff in public organisations are less likely to be motivated by financial incentives than in the private sector.

> *"Such differences imply that recovery from failure may be more difficult to achieve in the public than the private sector, especially if turnaround requires organisational flexibility, managerial autonomy, and monetary rewards for changes in behavior and performance" Boyne (2006, p. 366).*

Table 2 indicates situational differences between the public and private sectors based on three broad areas of comparison, namely ownership structures, organisational purpose and governance implications (Daka, 2010).

Table 2: Differences between Private Sector Firms and SOEs

	Private Sector	**SOE**
Ownership	Ownership is transferable	Non-transferable
	Private shareholders appoint, motivate and direct managers	The state appoints, motivates and oversees managers
	Principal more directly involved	Role of principal is unclear, resulting in conflicting agents
	Profit maximisation is the primary objective of shareholders.	Minister acts as principal shareholder, representing both government and affiliated political party
Purpose	Goals are strongly profit focused	Governmental requirements impose on economic and non-commercial goals
	Transparent goals are communicated by the board and are aligned to organisational prerogatives	Goals arise from a multitude of political processes and constituents, resulting in opposing directives and goals
	Enhanced monitoring capabilities	Monitoring capabilities are limited due to political authorities, resulting in information asymmetries
Governance	Not constrained by additional legislative prescripts	Adherence to applicable government policy required
	CEO appointed by the board	CEO often appointed by the board, which has a disenabling effect on the scrutinising of poor performance.

Note: Adapted from (Daka, 2010, p. 20; Boyne, 2006)

The concept of persistently poor performance has been operationalised in empirical studies of company turnaround as being between two to four years, reflecting a belief that turnaround effectiveness should be judged across undivided financial years (Boyne, 2006). Acknowledging that the focus on annual performance will always bear significant relevance in public organisations, this does not discount the fact that for many public services, the period constituting persistent failure is more situational in nature and dependent on the urgency of the types of services provided (Boyne, 2006).

The question of who should be responsible for overseeing the level of performance considered to be ‘minimally acceptable’, is only briefly discussed in the literature on private organisations (Boyne, 2006). Organisational leaders themselves will typically identify performance crises, either on the basis of their own past record or the financial returns currently achieved by their competitors (Boyne, 2006). The judgment of performance by a diverse range of external stakeholders is likely to be significant in terms of SOEs as public entities, which are typically involved in complex accountability arrangements with various parties (Boyne, 2006). Therefore, Boyne suggests that the degree of success is likely to be mediated by higher institutional bodies that impose legal, financial and operational protocols on public enterprises.

Boyne (2006) raises a further pertinent point based on the literature on private firms, which is that action should be rapid in order to salvage a failing company, and it needs to be effective the first time around as a second chance will rarely avail itself. Boyne (2006) weighs these factors with that of the public sector environment, too, and highlights that agencies that are highly visible and politically prominent are likely to be under increased pressure to rapidly produce a transformational plan. Private sector organisations may be less in the spotlight, and by contrast, may be more inclined to adopt a more analytical approach to formulating a turnaround strategy (Boyne, 2006).

Boyne (2006) implies that the command and control structure associated with private sector organisations permits little deviation between intended and realised strategies. Boyne (2006) notes that feedback on the effectiveness of the implemented turnaround management strategies is difficult to gauge, due to limited signals surfacing from existing empirical studies of private organisations. He still, however, provides that "… the way in which new strategies are implemented is clearly an important determinant of organisational success and must be a central element of a valid model of public service turnaround" (Boyne, 2006, p.377).

Without the established metrics of private sector organisations and the competitive pressures of an open market, defining decline in SOEs can be complex and subjective (Walshe *et al.,* 2004). Similarly, the performance of SOEs is more likely to be managed through mechanisms such as bureaucratic direction, regulation or prescribed performance indicators (Walshe *et al.,* 2004). Arguably, SOEs comprise a more complex set of stakeholders who are impacted by their performance – direct users, customers, the general public, professionals, funders, regulators and government departments all have a certain vested interest in SOE performance (Walshe *et al.,* 2004).
According to Walshe *et al.* (2004), private sector organisations typically exhibit greater singularity of leadership, and less reliance than SOEs on consensus and negotiated decision-making among stakeholder interests. In implementing turnaround strategies that are conceptually similar, these differences account for the likelihood of variable results across SOEs and those of private firms.

2.7 Implications of Leveraging Private Sector Turnaround Management in SOEs

A review of the research conducted by Lapsley (2009), leads to the notion of New Public Management (NPM), which has emerged internationally. NPM details governmental objectives of transforming public sector practices by deploying private sector performance criteria. Drawing on private sector management know-how is currently one of the principal ways of improving public management. However, there are significant differences in complexity, time horizons, resource constraints, hierarchical structures, organisational cultures, individual motivations and other factors that make public sector processes and organisations different from private ones (Lapsley, 2009).

This study postulates that the process of turnaround in SOEs, and particularly through the use of private sector turnaround interventions, may differ across SOEs where both the practical challenges, political environment, and governance and accountability arrangements are different (Boyne, 2006; Walshe *et al.,* 2004).

Broad application of the three R's introduced as Retrenchment, Repositioning and Reorganisation/Restructuring provides for the thorough analysis when applying private sector criteria to public management (Boyne, 2004; Boyne, 2006).

Retrenchment

Research does provide varying definitions of retrenchment, with respect to the broadness of the term. Gupta and Sathye (2010) include initiatives such as withdrawing from difficult markets or product lines, and selling assets in their definition of a retrenchment. For the purposes of this study, retrenchment strategies will focus primarily on downsizing of the staff base and outsourcing arrangements. Evidence determines that downsizing the organisation and its supply of services is a technically and politically feasible turnaround strategy for some public organisations, even if such actions are likely to be met by political resistance from staff and clients (Boyne, 2006). However, retrenchment is likely to be far less feasible in the public sector from a services perspective than the private sector, as public organisations are legally obliged to provide particular public services and cannot secede from the provision of public service work in difficult areas (Boyne, 2006). Therefore, Boyne (2006) interprets that retrenchment in SOEs is likely to comprise a more limited set of sub-strategies than in the private sector. With broad relevance to the concepts related to retrenchment, Pearce and Robbins (2008) uphold the view that organisations who attribute their turnaround situations to internal causes are likely to choose to continue in the downscaled mode, while executives who face external problems are more inclined to change their strategy.

Pearce and Robbins (2008) argue that retrenchment must be aggressive and broadly scoped, in order to achieve sufficient financial stability necessary for optimal turnaround results. Due to the fact that retrenchment practices in the public sector are not usually in the form of complete overhauls, piecemeal or incremental retrenchment is undertaken (Pearce and Robbins, 2008). Similarly, extensive restructuring is typically more performance enhancing than a conservative initiative focusing on a specific business unit (Pearce and Robbins, 2008). The same researchers argue that public management's chief goal must be to retrench with the intention of achieving stabilisation. Comprehensive turnaround, by way of strategic transformation, can then be effectively pursued in terms of competitively repositioning the organisation (Pearce & Robbins, 2008).

Repositioning

Responding to failure through repositioning involves embracing an entrepreneurial strategy that emphasises revenue growth, innovation around products and services, and the redefining of the mission and core activities of an organisation by becoming more competitive in an existing market, or diversifying into new markets (Boyne, 2006; Gupta and Sathye, 2010; Schendel and Patton, 1976). The absence of a repositioning strategy is also likely to be indicative of the bureaucratic constraints of public organisations such as SOEs, and thus, similar to retrenchment, repositioning will likely consist of a diluted set of strategies in the public sector and may have a correspondingly slighter impact on turnaround (Boyne, 2006).

Reorganisation/Restructuring

Case study literature indicates that the most prevalent turnaround strategy in the public sector was reorganisation, which describes any change in the internal management of an organisation involving longer-term actions aimed at re-establishing the strategic direction, vision and overall purpose of the organisation. More specific initiatives may include the revision of: planning or human resource systems such as performance management; decentralisation structures; or the strategic appointment of executive management teams (Gupta and Sathye, 2010). A fundamental review of operations and their long-term prospects, may lead to the closure of business areas, expansion in others, or the opening of new ventures (Boyne, 2006; Walshe *et al.,* 2004).

The predominance of this turnaround strategy may simply reflect the constraints on the adoption of retrenchment and repositioning in public management, and Boyne (2006) reiterates that reorganisation alone may not be sufficient to achieve turnaround, suggesting that optimal results can perhaps be best achieved in combination with retrenchment and/or repositioning initiatives. Therefore, an underlying purpose of reorganisation may be viewed as one of supporting retrenchment or repositioning strategies, or simply to improve the implementation of the current turnaround strategy without fundamentally altering the actual size or market position of an organisation.

The appointment of an executive or replacement of the entire senior leadership team with management from within the organisation, or others drawn externally, is a common theme in turnaround case study literature. If managed appropriately, the process can alter the culture of the organisation by effectively conveying the seriousness of the situation to external stakeholders, and encouraging them to have confidence in the strength of the organisation's commitment to successful turnaround (Boyne, 2006; Walshe *et al.,* 2004).

Chowdhury (2002) asserted that immediate improvements resulting from reorganisation-related interventions can often be discerned within a matter of weeks or months, however the longer-term successful impacts of turnaround are likely to take a matter of years to materialise. This study will further explore the interactive effects of the 3Rs through in-depth analysis of the selected SOE turnaround cases.

3 RESEARCH QUESTIONS AND PROPOSITIONS

3.1 Research Questions

3.1.1 Introduction

A foundation for the underlying research questions posed in this study, are applicably positioned by Boyne, who synthesised his research findings by providing that

> *"existing research on the public sector is consistent with, but does not directly support, the view that retrenchment, repositioning, and reorganisation are likely to lead to turnaround. This is, nevertheless, enough to suggest that the impact of these strategies on public service recovery from failure deserves to be rigorously and comprehensively investigated"* Boyne (2006, p. 383).

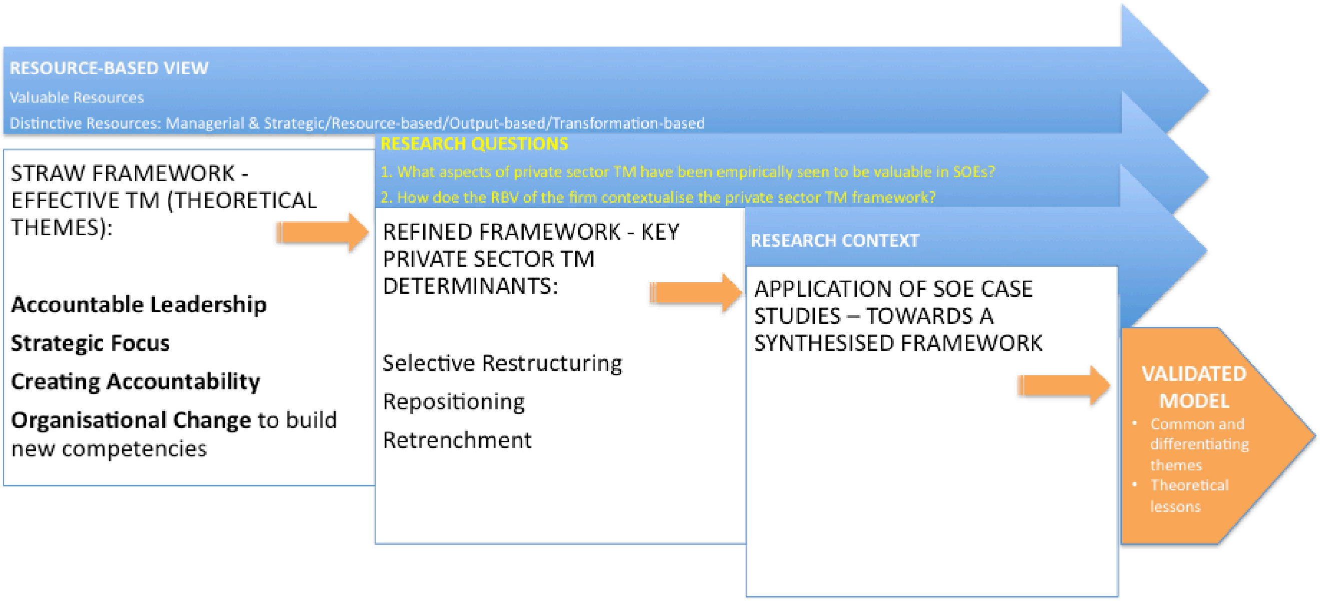
Aligned to the work conducted by Pretorius (2008), the researcher scrutinised the key determinants of turnaround management configurations and strategic practices proven to be successful in the private sector, and assimilated the value to be gained by SOEs by the application of the theoretical concepts identified. Leading on from this, the research questions to be investigated were the following:

1. What aspects of private sector Turnaround Management have been empirically seen to be valuable in the public sector?
    a. Does retrenchment strategy have a positive relationship with organisational turnaround?
    b. Does repositioning strategy have a positive relationship with organisational turnaround?
    c. Does reorganisation/restructuring strategy have a positive relationship with organisational turnaround?

2. How does the resource-based view of the firm contextualise the private sector turnaround management framework, and the selection of strategic practices applicable to effective turnaround management in the public sector?

The strategic objectives of the research questions and the conceptual underpinnings of the study are detailed in **Figure 6.**

Figure 6: High-level View of the Straw Framework and Refined Framework for Effective Turnaround Management



Note: Adapted from (Christensen and Kaufman, 2008; Collis and Montgomery, 1995; Daka, 2010; Harvey, 2011; Lado et al., 1992)

3.2 Rationale for this Research

Turnaround management literature has focused on private sector reform, with less emphasis on public management in the form of SOE transformation. A research opportunity existed to cognise the key contributing factors attuned to successful turnaround in SOEs, based on a normative framework for effective turnaround management centered on the private sector. Smith and Trebilcock (2001) report that that developing countries must design an SOE reorganisation strategy, which is compatible with the distinctive implications of its political and economic environment. Advancing theoretical implications for developing effective turnaround management capabilities, pertinent in both public and private management, required research that accounted for distinctions in both sectors on a global basis. This research paper aimed to achieve those objectives.

4 PROPOSED RESEARCH METHODOLOGY

4.1 Proposed Research Method

Walton (1992, p. 129) argued, “Case studies are likely to produce the best theory” A qualitative study, exploratory in nature, based on secondary data in the form of cases was the basis of the research method. This served to effectively describe, evaluate, compare and thereby, gain an intricate understanding of the organisations by identifying determinants for success and conceptual reasoning for strategic turnaround practices in SOEs, based on a normative framework for effective turnaround management criteria identified in the private sector.

These studies resulted in the development of a refined framework for effective turnaround management in the private and public sectors (Dul & Hak, 2008). The case study approach was a worthwhile strategy for as broad and complex a topic such as effective turnaround management, which emphasises the importance of social and organisational context (Dul & Hak, 2008). Flyvbjerg (2006, p. 235) supports this view by stating that “the advantage of the case study is that it can “close in” on real-life situations and test views directly in relation to phenomena as they unfold in practice”.

In order to uncover knowledge regarding the commonalities of turnaround implementation strategies in the context of a refined framework, the research: (a) identified distinctive situational environments in which similar turnaround strategies may have been implemented, (b) identified and described the various types of turnaround implementation strategies, and (c) compared and analysed the findings from the different SOE-based initiatives in order to develop a typology of turnaround management implementation strategies, applicable across SOEs and private management (Dul & Hak, 2008).

This study was positioned as a descriptive practice-orientated research paper. The aim was to contribute 'lessons' and suggest implications for practitioner-based theories and further research, by specifying broader variables of private sector effective turnaround management, how they related to the research questions and the SOE turnaround initiatives examined (Dul & Hak, 2008). Although the SOE-based case studies characterised the research, the analyses required information from the private sector as an input. These concepts were then applied to SOE environments in order to achieve the research outcomes (Dul & Hak, 2008).

The effectiveness of the descriptive practice-orientated research resulted in valid descriptions of the various types of variable turnaround practices and strategies, prevalent in the organisations examined, with specific focus on private sector criteria (Dul & Hak, 2008). A descriptive case study method was appropriate as the elements of this framework for effective turnaround management in SOEs and the private sector were not yet explicitly known or refined, and therefore, were examined in this research. Additionally, the method was even more apt, as the defining of a framework did not require the examination and testing of causal relations between turnaround variables (Dul & Hak, 2008).

Dul & Hak (2008) make further note of the distinction between practice-orientated and theory-orientated case studies, which was purposeful to this research. Their review showed that the majority of practice-orientated case studies, "describe the design, implementation and or evaluation of some interventions, or illustrate the usefulness of a theory or approach to a specific company or situation" (Dul & Hak, 2008, p. 8). The practice-orientated approach was particularly well-suited to this research as the researcher intended to contribute to the knowledge of turnaround practitioners, which have been defined as managers, entrepreneurs, policy-makers, staff members, teams, companies or business sectors (Dul & Hak, 2008).

4.2 Research Process

The research process comprised an inferential-orientation, based on the literature analysis aligning conceptual turnaround management themes with fundamental principles identified primarily through the resource-based view of strategic theory. The conceptual framework was further refined based on the evaluation of three content-applicable published case studies.

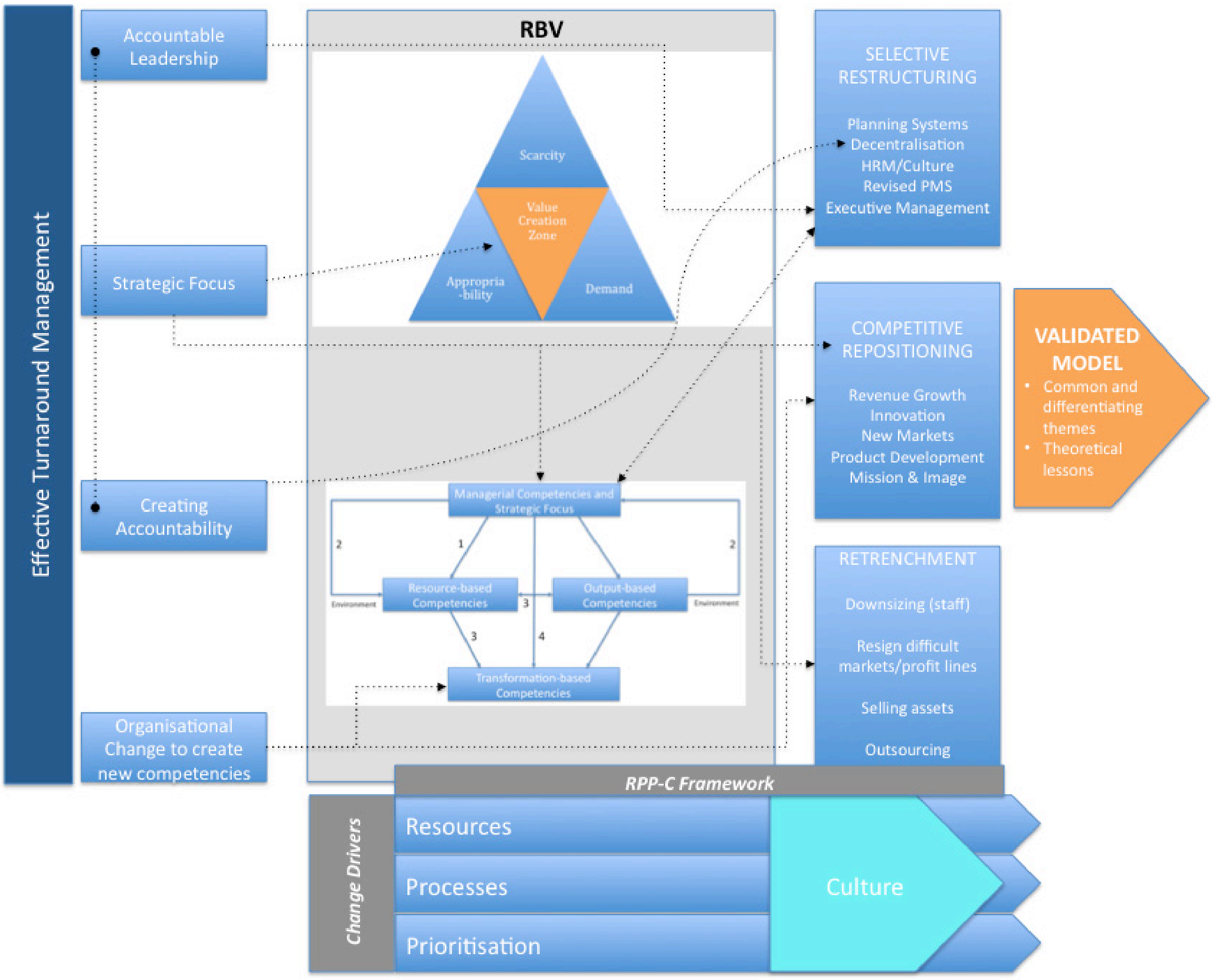
Arguably, a single case study was not sufficient in effectively testing a notion, however, a series of case studies formed part of the process of the assessment of theory (Blumberg; Cooper and Schindler, 2005). The cases identified consisted of SOEs from India and China. The outcomes culminated in a refined conceptual framework for effective turnaround management for SOEs, using strategic determinants for effective private sector turnaround management as a starting-point.

The research was conducted in two-phases detailed as follows:

- ***Phase 1:*** This phase comprised a comprehensive literature review. Based on the turnaround literature, four key strategic themes for effective turnaround management were identified. These were disclosed as: (1) Accountable Leadership, (2) Strategic Focus, (3) Creating Accountability and (4) Organisational Change to Build New Competencies. These generic turnaround determinants took the form of strategic inputs to the normative disclosed in **Figure 7**. This theoretical portion of the framework served to frame the presentation of SOE cases within the scope of what this research argues to be relevant generic premises for effective turnaround management strategies. .

- ***Phase 2:*** In the second phase, the three selected published SOE-based cases, consisting of organisations that had undergone successful turnarounds were comprehensively studied. The key private sector-based turnaround management strategies (the 3Rs) detailed in literature review and also illustrated in **Figure 7** were applied across the context of the SOE turnaround cases, and examined through the strategic lens of the RBV. The study advises that the normative framework offers a practical theoretical base for use by turnaround agents in SOEs, as well as outlining potential learnings for private sector practitioners.

Figure 7: Normative Framework for Effective Turnaround Management – Application of Strategic Themes, RBV and private sector criteria



Note: Adapted from (Christensen and Kaufman, 2008; Collis and Montgomery, 1995; Daka, 2010; Harvey, 2011; Lado *et al.*, 1992)

Strategic elements related to the normative model pertain to the 3Rs, already defined in Section 2.7, and the relevant elements of the RBV defined in Section 2.2.1. Prior to the presentation of the research analyses findings detailed in Chapter 5, relevant explanations of the strategic themes encompassed in the Straw Framework are provided.

Accountable Leadership

Monks and Minow (2004) provide a starting point for understanding accountability at a board level, and state that in most regulatory codes, the fiduciary responsibilities of directors is to do what is best for the organisation. Lado *et al.* (1992) encapsulate their view on the role of accountable leadership by testifying that “Top management contributes to the ongoing delivery of value by specifying standards of performance, communicating these clearly and unambiguously to employees, establishing appropriate hiring, training, motivation, and reward systems for developing core skills, and boosting employee morale”. Christensen and Kaufman (2008) provide a high-level view of accountable leadership by affirming that executives managing turnaround need to demonstrate accountable leadership by structuring appropriate teams by starting at the highest level in the organisational design, and then cascading downward to resolve the issues at the lower levels of the organisation.

Strategic Focus

Lado et al., (1992) provide that the role of management is to develop an overall sense of purpose and direction, which guides the integration of strategy formulation and implementation in organisations. In deciding where best to focus organisational resources to enhance strategic impact, managers should answer the following questions adapted from (Davenport and Harris, 2007):

- How can the organisation distinguish itself in the marketplace?
- What is the distinctive capability?
- What key decisions in those processes, and elsewhere, need support from analytical insights?
- What information really matters most to the organisation?
- What are the information and knowledge leverage points of the organisation's performance?

As organisations develop deeper insights, they can incorporate these into analytical models, and adapt business processes to leverage this knowledge and increase competitive differentiation. "These strategically focused insights, processes, and capabilities form the basis of the organization's distinctive capability" (Christensen and Kaufman, 2008, p. 112).

Creating Accountability

The strategic theme of creating accountability bares a strong link with that of the definition of accountable leadership, in that organisational roles and responsibilities need to be cascaded downwards throughout all managerial and employee levels comprising the organisation (Christensen and Kaufman, 2008). However, Roberts *et al.* (2005) make an important distinction between accountable leadership and that of creating accountability, by arguing that a gap prevails between the expected role of boards and that of their actual reported performance. Huse (2005) presents a framework for creating accountability in **Appendix A3,** which provides an outline and explanation to the core notions of board behaviour such as role and performance expectations, influencing processes, formal and informal structures and the decision-making culture. Roberts *et al.* (2005) conclude that a positive leadership environment or decision-making culture at a board level is crucial to creating accountability.

Organisational Change to Develop New Competencies

Research argues that the creating of new business competencies rather than transforming the business models of existing units, is an effective way to manage business turnaround because disruption often begins while the established business still has profit sustaining potential (Christensen and Kaufman, 2008). This is strongly connected to the RBV and Coates and McDermott (2002) advocate that like organisational change, resource utilisation and development must be dynamic in nature. The same researchers continue to declare that resource change is rooted in innovative managerial behaviour, and that it is the effective combination and deployment of human, physical and intangible resources over time that results in the value creation.

4.3 Population and Unit of Analysis

The population of significance is SOEs and other applicable public entities in a global context. Literature provides for numerous case studies of organisations, which have undergone turnarounds through organisational decline. The unit of analyses is therefore, an SOE.

4.4 Size and Nature of the Sample

Denoting the views of Blumberg *et al.* (2005), the selection of the turnaround cases was not based on sampling logic, but rather replication logic with the results of the analyses being generalised to the theoretical private sector and resource-based turnaround management propositions presented. In the context of the selected SOE cases, the instances of SOE turnaround are described as literal replications, due to the similarities of the processes inherent to the respective organisational environments. A theoretical dimension was then adopted by comparing the outcomes of the normative private sector framework with that of the SOE case analyses (Blumberg; Cooper & Schindler, 2005).

4.4.1 Sample Selection for Phase 1

The intention of the case study approach was to gain deeper insights into the research concepts. A random sampling strategy that heightens the prevalence of representativeness would hardly have provided this kind of insight, and the selection of cases based on their validity in relation to the research questions was, therefore, more appropriate (Flyvbjerg, 2006).

In line with the objectives of the research, Flyvbjerg (2006, p. 229) reiterates that: "from both an understanding- oriented and an action-oriented perspective, it is often more important to clarify the deeper causes behind a given problem and its consequences than to describe the symptoms of the problem and how frequently they occur."

4.4.2 Sample Selection for Phase 2

Theoretical sampling was utilised for the case study analysis (Phase 2). Similar to the descriptive practice-orientated research strategy discussed earlier, case selection was information-orientated and confined to cases that maximised the utility of information, by permitting logical deductions regarding the practice of effective turnaround management from which further viewpoints were absorbed (Dul & Hak, 2008). However, Flyvbjerg (2006) does highlight the importance of each case being critical in nature, and holding strategic importance in relation to the general research problems. This view is confirmed when he states that, "if this is (not) valid for this case, then it applies to all (no) cases" (Flyvbjerg, 2006, p. 230).

The insights gained by further literature review also provided guidance in terms of the selection of cases. Multiple cases were sourced globally as the research advocates that this provided a more robust view of the fundamentally diverse principles drawn from public and private management institutions. Dul & Hak (2008) provide for two suggested principles that guide the identification of a smaller set of cases, namely: convenience, and the maximisation of the likelihood that an existing relation between the concepts will be discovered. In the context of this research, these related concepts referred to the likely effectiveness of common determinants identified through effective turnaround management practices in public and private sector organisations (Dul & Hak, 2008).

4.5 Data Collection

Due to the sensitive nature of the research and the complications of consistently accessing executive management, the study was primarily grounded on the review of secondary data sources in the form of published cases (Daka, 2010). Information was sourced from publicly available databases, including academic databases such as Harvard Business School (HBS) and IBS Centre for Management Research (IMCR).

4.6 Data Analysis

The research conducted by Perry (2001), explicitly warns against excessive summarisation of content rich case studies, explaining that the contextual value articulated is compromised when a researcher tries to condense large and mutually exclusive concepts. The normative framework developed and its application across the case studies assisted in encapsulating the findings and ensuring that the interpretations did not appear vague or ambiguous.

As the intention of this study was to identify common themes or patterns in effective turnaround management, the method of cross-case assessment was utilised in examining the selected SOE cases studies (Perry, 2001). Additionally, constant comparative analysis was employed as it resonated with the strategic theory encompassed in the literary review (Thorne, 2000), and with the theoretical sampling technique adopted in the analyses of the published case studies (Boeije, 2002).

4.7 Data Validity and Reliability

To ensure that the case study research was exclusive of slanted bias, which is sometimes intrinsic in various qualitative methodologies, only published cases that have been sufficiently peer-reviewed were utilised in this study.

4.8 Potential Research Limitations

Potential research limitations taken into consideration for this study were as follows:

- By selecting three case studies encompassing SOE organisations from different global regions, a representativeness constraint may exist in the applicability of certain determinants due to the natural arising differences between the domains and the environments in which they operate.
- The elements of the resource-based view of strategic theory detailed in the literature review are not exhaustive in terms the relevance of the RBV and other theoretical schools to turnaround management perspectives.
- Case study research has been accused of being subjective, allowing too broad a scope for the verification of the researcher's preconceived notions and personal interpretations (Flyvbjerg, 2006). Blumberg *et al.* (2005, p. 380) counters this opinion by explaining that "The quality of a case study depends very much on the skillful exploitation of advantages and the rigorousness of its conducting".
- It is often difficult to develop high-level theories on the basis of specified case studies, and the properties of the research questions can be misaligned, resulting in inaccurate case outcomes (Flyvbjerg, 2006).

- Flyvbjerg (2006, p. 241) provides that "Good studies should be read as narratives in their entirety". Nietzsche (1974, p. 335, p.373) builds on this view by declaring "one should not wish to divest existence of its rich ambiguity".

5 PRESENTATION OF RESULTS

5.1 Introduction

The study was conducted in two phases, as discussed in Chapter 4. In Phase 1, a straw framework comprising key strategic themes that contribute to the effective turnaround management was developed, based on the literature review. This served as a strategic foundation, enabling a deeper understanding of what successful turnaround management involves, before delving into the intricacies and interrelationships of the more detailed turnaround strategies identified. In Phase 2, this framework was refined, based on a comprehensive review of three published turnaround case studies of SOEs in emerging markets.

5.2 Description of the sample of the selected cases

The sample selection was limited to three published case studies on SOEs from the emerging markets of India and China. Within the emerging countries, only SOEs that underwent successful turnarounds were selected. This was done on the basis of the availability of the published case studies. **Table 3** provides detail with respect to the industry and originating country of the cases in the sample.

Table 3: Selected Cases

Organisation	Industry	Country	Period of Turnaround	Authors	Additional References
1. Haier	Manufacturing	China	1984 - 2004	Palepu & Khanna & Vargus (2006)	Palepu & Khanna (2006) Ruimin (2007)
2. Indian Railways	Transport (Railways)	India	1996 - 2007	Regani & Dutta (2004)	Gupta and Sathye, M. (2010)
3. Indian Bank	Banking	India	1995 - 2004	Reganni & Dutta (2004)	N/A

5.3 Layout of Findings

The layout of the findings discussed in Chapter 5 were categorised in accordance with the four high-level strategic themes indicated in the **Table 4.** Based on a comprehensive review of generic and private sector turnaround management principles, the researcher consolidated the findings into four strategic themes, which were defined in Chapter 4 and considered essential to the development of the normative framework for effective turnaround management. These are listed as Accountable Leadership, Strategic Focus, Creating Accountability, and Organisational Change to Develop New Competencies. By presenting the high-level case study findings in a synopsis within the scope of these strategic themes, a deeper understanding and flow of reasoning was effectively phased into the more detailed analyses of the case studies in Chapter 6. The case findings also outline the interrelationships between the facets of the generic strategic turnaround management themes, relevant elements of the resource-based view, and the key private sector turnaround determinants, whilst consistently applying the information to the specific context of the selected case studies.

Table 4: Significance of Generic Turnaround Strategic Themes with respect to SOE cases examined

	Generic Turnaround Strategic Themes			
SOE case studies analysed	**Accountable Leadership**	**Creating Accountability**	**Strategic Focus**	**Organisational Change to Build New Competencies**
Haier	• Experienced leader • Exhibited commitment to timelines and project success • Abdicated responsibility/ empowered employees • Actively boosted morale • Participative decision-making	• Refrained from over-supervision – encouraged employees to act as their own leaders • Introduced efficiency-related and market-driven incentives • Initiated exacting disciplinary measures	• Articulated benefits and a strategic direction • Focus on understanding the market and meeting customer needs • Emphasis on product innovation • Structured customised globalisation strategy	• Developing management talent • Emphasising marketing and design competencies in line with staying abreast of consumer tastes • Progress-based organisational culture • Gaining market intelligence by deploying staff internationally
Indian Bank	• Strategic Committee established to specify and communicate performance standards	Not considered a core emphasis of the turnaround based on the evidence provided	• Involvement in unprofitable subsidiaries indicated a lack of strategic focus and investment decision-making capabilities	• HR was ineffective. Surplus of ageing staff, misallocation and high costs existed • Low morale
Indian Railways	• Susceptible to political manipulation • Obligatory governmental purchases compromised quality – decision-making not in the best interests of the organisation	Lack of response to threat of unauthorised access and sabotage	• Rationalisation of tariff structure and associated reclassification of services	• Parliamentary pressure to generate profits resulted in debt burden • Increased competition from roadways and airlines • Recognition of safety as a critical issue • Unfavourable labour conditions

Legend:

- Green – Pertinent in the context of the case study
- Amber – Underlying theme based on the case evidence available
- Grey – Not considered a core emphasis of the turnaround based on the case evidence available

5.4 Case Analysis – Haier: Taking a Chinese Company Global

Introduction

In 1984, the Qingdao Refrigerator Factory was considered a dump, its workers were unpaid, and its products were substandard (Ruimin, 2007). Today, it is called Haier and the home-appliance giant is China's best-known global company (Ruimin, 2007).

The factory was originally a collective enterprise, with ultimate authority lying with the municipal government (Palepu *et al.,* 2006). Workers collectively held ownership of its assets and shared in profits after payment of relevant local and national taxes and appropriate reinvestment in the company (Palepu *et al.,* 2006). However, the government still influenced major business and senior staffing decisions such as those related to poor performance, labor disputes, or mismanagement of funds, which were all grounds for the senior management dismissal in terms of the local authorities (Palepu *et al.,* 2006). In 2004, Haier Group celebrated its 20th anniversary with annual sales topping RMB 100 billion indicated in **Appendix A4,** and was ranked as China's number-one company by the Asian Wall Street Journal (Palepu *et al.,* 2006).

In the first 20 years of its existence, Haier survived shrinking domestic sales, price wars and industry consolidation to emerge as one of China's strongest and most international brands (Palepu and Khanna, 2006; Palepu *et al.,* 2006). Presentation of the analyses involving the case of Haier's turnaround includes the sources of the organisation's domestic success, the rationale for going global, and its particular approach to international expansion despite increased competition from local firms and foreign multinationals in China, which was prompted by entry into the World Trade Organization in 2001 (Palepu and Khanna, 2006; Palepu *et al.,* 2006). “Before, our competitors were domestic brands… But now after China’s ascension into the WTO, our competitors are Siemens, Electrolux, Samsung, LG, Matsushita, Sony, GE, and Whirlpool” (Palepu *et al.,* 2006, p. 5).

Due to the national overcapacity in major appliances (estimated at 30%), manufacturers were cutting annual prices between ten and fifteen percent (Palepu *et al.,* 2006). Contrary to this environment, Haier was shaping its future on increasing global sales and export revenues for 2004 were close to double the previous year’s, with the company targeting $1 billion in sales to the United States alone for 2005 (Palepu *et al.,* 2006).

Accountable Leadership

Haier’s CEO, Zhang Ruimin, has proved that he is one of the world’s experts in leading and surviving change (Ruimin, 2007). “When I took the job of director of the Qingdao Refrigerator Factory in December 1984, the existence of the company was at stake” (Ruimin, 2007, p. 1). Net debt stood at RMB 1.47 million, and Zhang was the fourth director appointed that year, with the previous three either having left on their own or been dismissed (Ruimin, 2007). Over eight hundred workers’ pay was several months in arrears, and an additional fifty-one workers had applied for a transfer to a different company when Zhang’s appointment was announced (Ruimin, 2007). Unsurprisingly, the rate of employee turnover was high and nobody was able to assume the responsibility (Ruimin, 2007).

As the organisation reached more than 50,000 employees, Zhang noted how strongly he had to articulate certain change initiatives he intended to introduce, to ensure far-reaching acceptance of new practices (Ruimin, 2007). An apt example was when Haier embarked on an extensive business process-reengineering programme in 1998 with the purpose of standardising and consolidating various functions, such as procurement to marketing, which enabled more integrated and order-driven information (Ruimin, 2007). Various senior executives openly objected to the programme, and due to the significant growth of Haier, which now consisted of numerous business units each having their own suppliers, assets, and sales and human resources processes, the resistance to change resulted in organisational complexities (Ruimin, 2007). However, Zhang was aware that the implementation of the changes would not be easily accomplished, and he set a timeline of ten years to complete the work (Ruimin, 2007). Notably so, once Zhang decided to mobilise the consolidation, he made a firm commitment to carry it through to the end (Ruimin, 2007).

However, when Zhang realised he had underestimated the degree to which some executives resented what they viewed as a loss of power, negative attitudes manifested, resulting in deteriorating sales figures in the second half of the financial year (Ruimin, 2007). Zhang persistently communicated the message by continually liaising with senior executives and outlining the advantages of the process integration (Ruimin, 2007). He explained, for example, that by consolidating the procurement function, divisions would increase their ability to negotiate with the best suppliers for the most favourable price (Ruimin, 2007). This not only demonstrated Zhang's capabilities for displaying accountable leadership in the context of the normative framework, but also his capacity to develop more of a strategic focus for the organisation (Ruimin, 2007).

"When you start a business, your employees are willing to follow you if you set a good example and bear more hardships than they do. Later, it's conviction that appeals to people" (Ruimin, 2007, p. 1). When Haier started building an extensive Industrial Park in the 1990s, people hesitated, expecting problems to arise (Ruimin, 2007). But when Zhang's personal leadership exhibited the fact that he would spare no effort in ensuring the project was a successful reality, he gained the support of more and more people (Ruimin, 2007). "Today, I believe, what Haier's employees need is to be allowed to make decisions for themselves and not to feel that they are following me in their work" (Ruimin, 2007, p. 1). Through this display of accountable leadership, Zhang's expressions also indicate a strong nexus with the strategic theme of creating accountability throughout the organisation.

Other initiatives forged by Zhang involved borrowing funds to buy each worker a New Year's gift, and a bus that provided employees with a far more comfortable journey to work. "It may seem laughable now", said Zhang (Ruimin, 2007, p. 2), but these gestures had an immediately positive impact on morale (Ruimin, 2007).

Zhang Ruimin did not have a formal business education, however, he made the effort to know the names of most employees' names (Ruimin, 2007). "I could make a decision in the morning and approach the workers at noon to learn their reaction and check the results" (Ruimin, 2007, p. 3). His leadership was authoritative and task centered – he made decisions and created accountability within Haier, by expecting the rank and file to execute rigorously (Ruimin, 2007).

Strategic Focus

The evolution of Haier's aptitude for strategic focus can be traced by first identifying its core competencies, which can be disaggregated by assessing the organisation at each step of the firm value chain: product development, production, distribution, marketing, and finance (Palepu and Khanna, 2006). Noting that Haier executives never claimed any definitive operational superiority, but areas in which Haier were consistently acclaimed included: market responsiveness, product innovation, superior service (including after-sales service), efficient distribution (including development of nationwide distribution channels), market segmentation and exploitation of niches (Palepu and Khanna, 2006; Palepu *et al.,* 2006). In line with the effective turnaround management theme of strategic focus, this internal skill-set is first considered in Haier's home market, relative to the organisation's domestic rivals (Palepu and Khanna, 2006).

Chinese Market responsiveness

"We have been successful in China because we are focused on meeting customer needs… We are organized to understand what customers want and to meet those needs, which are sometimes quite differentiated," said Zhang (Palepu *et al.,* 2006, p. 7). The forty-two distribution centres that Haier had established throughout China operated as independent 'sales companies' that necessitated responsiveness to the requirements of customers in order to remain profitable (Palepu *et al.,* 2006). Similarly, Haier's eighteen design centres (some in foreign markets) facilitated rapid product development, and ideas from the field could be tested and configured into prototypes (Palepu *et al.,* 2006).

Having noted that American customers did not like deep-box freezers because items at the bottom were difficult to reach… a two-level model with a drawer on the bottom [was suggested]" (Palepu *et al.,* 2006, p. 15). Seventeen-hours later, a working model of this design was presented (Palepu *et al.,* 2006).

"When a customer in China's rural Sichuan province complained to Haier that his washing machine was breaking down, service technicians found the plumbing clogged with mud. Rural Chinese were using the Haier machines, meant to wash clothing, to clean sweet potatoes and other vegetables. Haier engineers modified the washer design to accommodate peasant needs. Since then, Haier washing machines sold in Sichuan were labeled, "Mainly for washing clothes, sweet potatoes and peanuts'… To accommodate summer lifestyles requiring frequent changes of clothing, Haier created a tiny washing machine that cleaned a single change of clothes. The model saved on electricity and water usage, making it an instant hit in Shanghai. It was later successfully introduced to Europe. Other innovations included a washer that cleaned clothes without detergent, and a model that could wash and dry clothes in a single machine, also popular in cities where space and time were at a premium" (Palepu *et al.,* 2006, p. 7). These anecdotes above relating to Haier's innovation in product design capture the strategic focus applied by the organisation and its leadership in developing an intimate understanding of their home market customer demands.

Haier in International Markets

The case analysis examined how Haier acquired and then leveraged local knowledge in other international markets (Palepu and Khanna, 2006). Contrary to common company trends in emerging markets, Haier elected to globalise into more developed countries relatively early on (Palepu and Khanna, 2006). The case analysis further discusses what factors drove this strategic approach, and scrutinises the feasibility of the decision (Palepu and Khanna, 2006).

Focus on difficult markets first

Once again, against the norms of conventional wisdom, "Haier determined to focus on the "difficult" developed markets first, and only after proving itself in those, to go after the relatively "easy" emerging markets" (Palepu *et al*., 2006, p. 11). This was substantiated by the fact that approximately 70% of Haier's international sales came from the developed markets of Europe, the United States, and Japan in 2004 (Palepu *et al*., 2006). These results reinforced the rational into the *strategic focus* of Haier's international market entries.

Begin with niche products

Typically, Haier would test developed markets with a selection of trial models, acting as a risk measure to avoid the unnecessary and suspicious attention of major competitors early on (Palepu *et al*., 2006). "When we entered the U.S. market, we found that nobody was making competitive refrigerators for students or for offices. So we offered what the U.S. manufacturers did not make because for them the volume and prices were too low, and within three years we had over 30% market share in compact refrigerators," said Overseas Division executive Diao Yunfeng (Palepu *et al*., 2006, p. 11-12). Courtesy of Haier's ability to exploit niche markets by assessment of the competitive dynamics of international markets through effective strategic planning and selection of product differentials, Haier again unveiled it's ability to master elements comprising the theme of *strategic focus* in the context of the normative model for effective turnaround management.

Creating Accountability

Zhang himself professed, "I want each employee coming to work for Haier to have the sense that he or she can find a place in the company to realize his or her own values as well as creating value for the enterprise. I have no desire to over-supervise employees" (Ruimin, 2007, p. 4). As a collective enterprise, Haier's corporate ownership structure took the form of an intermediate-type setup with respect to state-owned and private company systems. This structure resulted in Haier achieving a higher level of production efficiency in comparison to competitors and provided incentives for managers to generate long-term value in their businesses (Palepu and Khanna, 2006).

This was further supported by ensuring that compensation policies were designed to encourage employees to behave in a market-driven manner, with a significant proportion of rewards based on team performance (Ruimin, 2007). The impact that the team performance indicators had on creating accountability throughout the organisation was further analysed.

Zhang stated that "The enterprise will become great when it is able to operate by itself, with employees acting as their own leaders, understanding what to do to satisfy market and customer demand" (Ruimin, 2007, p. 5), and it was his belief that the adoption of this decentralised mindset will enable future CEOs of Haier to focus wholly on strategic issues and make decisions from a global perspective (Ruimin, 2007).

As Zhang's altruistic intentions gained broader support amongst employees, he then starting demanding improved levels of work performance (Ruimin, 2007). Up to that point, factory discipline had been lacking, and the formal rules and regulations that did exist, were only abided by on a discretionary basis (Ruimin, 2007). Disciplinary infractions were out of control, with urinating or defecating in workshops, and stealing of company property all sobering realities (Ruimin, 2007). Zhang, therefore, needed to be somewhat severe when articulating the terms of the organisation; he would guarantee timely payment of salaries, but only if employees obeyed the disciplinary measures which he instituted (Ruimin, 2007). The promotion of personal accountability was driven throughout the organisation, and was exacting, evidenced by, "having poorly performing workers stand on a pair of yellow painted feet on the factory floor at the end of the workday to explain their failings to assembled colleagues" (Palepu *et al.,* 2006, p. 2).

Organisational Change to Build and Identify New Competencies

Zhang believed that developing effective resources in the form of management talent was crucial to creating competitive advantages (Ruimin, 2007). Since a large part of Haier's strategic intentions and design strongly emphasised maintaining a closeness to the changing tastes of Chinese consumers, much attention was paid to the development of specific human resources in the areas of marketing and design (Palepu *et al.,* 2006). The tremendous effort invested to improve the quality of human resources was successful in creating a corporate culture that "embraces constant progress and the belief that victory comes through change" (Ruimin, 2007, p. 5)… I knew that the great majority of employees wanted from the bottom of their hearts to be good employees. The problem was that the atmosphere was too bad for them to work well in. Far from frightening employees, stronger discipline in the factory endowed them with confidence and hope" (Ruimin, 2007, p. 2).

From a foreign market perspective, the organisation believed that it would need to place local staff in key positions overseas in order to gain better market intelligence (Palepu *et al.,* 2006). "People are our eyes, noses, and ears. If you don't have the people, you don't know what is happening in the market. The country CEO cannot report on everything" (Palepu *et al.,* 2006, p. 12).

The organisational change experienced "was obvious within six months" (Ruimin, 2007, p. 2) and enabled a path for new competencies to be identified and developed at Haier. These changes were again, testament to accountable leadership in practice at Haier, and further showed how accountability has been created throughout organisational structures.

5.5 Case Analysis – The Turnaround of Indian Bank

Introduction

"In the fiscal year 1995-1996, the Indian Bank… was promptly branded the weakest PSB in the country" (Regani and Dutta, 2004, p. 3). Mrs. Ranjana Kumar, chairperson and managing director of Indian Bank, underpinned the effectiveness of the restructuring process, which is consistent with that of the literature review on private sector turnaround management when she stated in 2003: "During the three years of the restructuring plan, the bank could achieve consistent growth in business and also sustain its turnaround due to initiation of various structural, operational and cost control measures. The bank has also worked on marketing and motivational strategies and strengthened its planning and monitoring systems" (Regani and Dutta, 2004, p. 1). The quantitative improvements to business profitability during the period of restructuring are depicted in **Table 4 and 5.**

Table 5: Business and Profitability due to Restructuring

Business and Profitability (A Comparative Analysis)			
Domestic position (Rs. in Crore)	Performance during the three year period of Restructuring Plan (April 2000 to March 03) (A)	Performance during the corresponding preceding Period (April 97 to March 00) (B)	Improvement (A-B)
1. Total Deposits	8362	4814	3548
2. Savings Bank	2641	1411	1230
3. Non food	2728	588	2140
4. NPA Reduction	1291	163	1128
5. Total Income	8269	5660	2609
6. Interest Income	6926	4988	1938
7. Non-Interest inc.	1343	671	672
8. Operating Profit	959	-349	1308
9. Net Interest Inc.	1840	688	1152

Source: www.indian-bank.com

Source: Regani and Dutta (2004, p. 9)

Table 6: Changes in Net Income over the period

Indian Bank's Net Income over the Years

Year	Profit/ (Loss)
1995-1996	(1336.4 crores)
1996-1997	(389 crores)
1997-1998	(301.5 crores)
1998-1999	(778.5 crores)
1999-2000	(427 crores)
2000-2001	(274 crores)
2001-2002	33 crores
2002-2003	188 crores
2003-2004 (first half of fiscal)	116 crores

Compiled from various sources

Source: Regani and Dutta (2004, p. 9)

During the mid- to late-1990s, the gross non-performing assets figure (NPA) of the Indian Bank constituted approximately 37% of the gross advances (Regani and Dutta, 2004). Being the highest among public sector banks (PSBs), this was considered an unacceptably high figure (Regani and Dutta, 2004). This performance measure corresponds with Hambrick's definition as per the literature review of what constitutes a turnaround situation as "one in which business performance is persistently below some minimally acceptable level" (Hambrick, 1985, p. 22).

The decline of Indian Bank was not a sudden phenomenon, but rather a result of the building-up of various weaknesses over the period of six years, linking to the research of Boyne (2006), who recognises that the period constituting persistent failure in the public sector is more situational in nature, and therefore may extend the guideline based on empirical evidence in the private sector of two to four years.

Accountable Leadership

In order to enable Indian Bank to better cope with the new operational norms imposed, the Government of India (GoI) and the Reserve Bank of India (RBI) formulated a strategic committee of seven members, which was headed by a former Chairman of the State Bank of India (Regani and Dutta, 2004). The purpose of the committee was to analyse the circumstances surrounding weak performing public sector banks and suggest measures for their revival (Regani and Dutta, 2004). As per the normative model, this was the first step taken by Indian Bank to engender a platform for accountable leadership.

Strategic Focus

From an operational perspective, Indian Bank sponsored four Regional Rural Banks (RRBs) under the scheme initiated by the Reserve Bank of India (RBI), and also oversaw three specialised subsidiaries - in the areas of housing, mutual funds and merchant banking respectively (Regani and Dutta, 2004). The losses incurred by these RRBs and the respective subsidiaries, affected the overall liability of the bank and its ability to meet client obligations (Regani and Dutta, 2004). In terms of the RBV and the strategic direction of the bank, these manifestations raised questions as to the validity of the evaluation of resources, as well as the investment-related decision-making capabilities of Indian Bank (Regani and Dutta, 2004).

Organisational Change to Build and Identify New Competencies

According to the case, Human Resources operations were ineffectual. A surplus of staff existed, and the proportion of staff costs in relation to the bank's total income was considerably higher than comparable competitors (Regani and Dutta, 2004). In addition, "the average age of the staff in the late 1990s was forty seven and the staff lacked motivation and initiative" (Regani and Dutta, 2004, p. 4), which resulted in low productivity per employee. The staff base lacked enthusiasm, which was compounded by inactive recruitment and promotional resourcefulness (Regani and Dutta, 2004). Application of the normative framework intimated that these human resource-related implications were most appropriately classified under the strategic turnaround theme of organisational change to build and develop new competencies. The effects were embedded by the bank's inability to manage prevalent resource munificence and allocation within its staff structure (Pretorius, 2008). The private sector reorganisation strategies later discussed addressed the associated cultural issues that emanated within Indian bank.

5.6 Case Analysis – The Turnaround of Indian Railways

Introduction

Indian Railways (IR) was the largest railway network under a single management structure in the world (Regani and Dutta, 2004). It was also the largest employer in the world, with 1.6 million people working for the organisation directly, and provided a source of livelihood by bringing long-distance travel within the reach of the average Indian (Regani and Dutta, 2004).

Even after India's independence, IR remained a department under the central government. In order to make trains more affordable, IR introduced several express trains offering only second-class accommodation, and also initiated a nine-way zonal grouping of the railway system in 1950s (Regani and Dutta, 2004).

When the financial performance of IR hit its lowest point, several causes of the decline were identified, notably a lack of pricing and operational flexibility, rising employee costs, and poor staff productivity (Gupta and Sathye, 2010; Regani and Dutta, 2004).

According to the case, one of the critical areas in the proposed restructuring was the rationalisation of the tariff structure. There were several classes of people who were eligible for subsidised fares from IR. In the early-2000s, forty-two categories of people eligible for discounted fares existed (e.g. railways employees, students, nurses and war widows) (Regani and Dutta, 2004).

While the provision of subsidised fares was acknowledged as a welfare measure, analysts felt that it was one of the important reasons for the losses suffered by IR, especially since the subsidies were uniformly applied, resulting in even those who could afford to pay higher prices receiving the benefits of lowered fares (Regani and Dutta, 2004). Therefore, the rational tariff structure (discussed in more detail in Chapter 6) achieved the dual objectives of social benefit and profitability, by providing the needy and charging full prices to other passengers (Regani and Dutta, 2004).

Notably, the government did not consider the option privatisation in this turnaround case (barring some limited outsourcing), but has retained faith in full public ownership (Gupta and Sathye, 2010). However, analysts still indicated that a system-wide overhaul was required of the faltering organisation, which had been traditionally averse to change (Regani and Dutta, 2004).

In the period of 2003-2004, Rail Vikas Nigam Ltd was incorporated under the Ministry of Railways to implement the projects designed to improve the operations of IR, and made use of budgetary and non-budgetary resources to execute developmental programs in order to benefit IR in the long-run (Regani and Dutta, 2004).

Accountable Leadership

Operating as a government department, the Minister for Railways held the highest authority with the rank of a Cabinet Minister, and was directly answerable to the Indian Parliament (Regani and Dutta, 2004). General administration of IR was conducted by the Railway Board, which consisted of a chairman of the rank of a Secretary to the Government of India, and six specialised advisors (Regani and Dutta, 2004). Specialised directorates took care of the implementation of the board's policies, and zonal administration was overseen by General Managers at the 16 zonal offices (Regani and Dutta, 2004).

IR was susceptible to political manipulation with several politicians using their influence to develop certain lines to please their constituencies (Regani and Dutta, 2004). The opportunity cost of operating trains on unpopular routes was that busier routes were underutilised, while 30% were overused. (Regani and Dutta, 2004). This resulted in a loss in revenue on the busier routes and additional expenditure incurred on unpopular ones, leading to a severe imbalance in the department's budgetary resources (Regani and Dutta, 2004).

It was obligatory for IR to purchase most of its equipment from the government and therefore, quality was often compromised, which manifested in a major derailment in 1998 killing over 200 people (Regani and Dutta, 2004).

In terms of the strategic turnaround themes, this series of poor decision-making is a result of a lack of accountable leadership, which further failed to endow IR with strategically focused proficiencies in their operations.

Strategic Focus

Because of the sheer size of the operation, daily operations were undertaken by the Railway Board, with the minister being responsible for deciding on the overall strategic vision and monitoring of the key performance indicators (Gupta and Sathye, 2010). IR was also allocated a separate governmental budget, which was addressed on a dedicated day each year (Gupta and Sathye, 2010).

To remain consistent with market trends, IR undertook a reclassification of services in 1955 (Regani and Dutta, 2004). "The luxury services of First class… was abolished, and the Second, Inter and Third classes were renamed as First, Second and Third class respectively" (Regani and Dutta, 2004, p. 3).

Creating Accountability

Unlike in developed countries, in India, the rail tracks were easily accessible to unauthorised people, which resulted in the tracks being tampered with, leading to serious accidents and potential sabotage (Regani and Dutta, 2004). The lack of accountability for public well-being was a definite concern (Regani and Dutta, 2004).

Organisational Change to Build and Identify New Competencies

Despite being classified as a state department, IR was an economic entity that was still expected to generate its own resources and profits, as it received minimal support from Parliament (Regani and Dutta, 2004). Therefore, to balance social and economic requirements, IR resorted to subsidising passenger fares with commercial freight, which consequently resulted in private transporters being charged exorbitant rates to transfer freight (Regani and Dutta, 2004). Therefore, private transporters started eyeing alternative freight options, leading to a decline in railway revenues (Regani and Dutta, 2004). Heavy borrowing from the market followed, adding to IR's debt burden (Regani and Dutta, 2004).

Competition from roadways and airlines became predominant in the later part of the 1900s, with most passenger and freight traffic moving away from railways towards other modes train (Regani and Dutta, 2004). "An estimate revealed that IR's share in freight traffic came down from 89% in the 1950s to 40% in the early 2000s, and passenger traffic also fell from 80% to 20% in the same period" (Regani and Dutta, 2004, p. 6).

Safety was identified as one of the most critical issues for IR, and in the years of its operation, IR experienced a number of accidents, some of which took hundreds of lives (Regani and Dutta, 2004). Analysts held that although accidents were possible even on roads or by airways, train accidents took on a very serious character, especially in India, because of the number of people traveling by train (Regani and Dutta, 2004).
In addition to the problem of unauthorised access to rail tracks alluded to earlier, human error was also a significant factor, as train drivers (including relatively aged drivers) worked long hours and at odd times of the day (Regani and Dutta, 2004). Working conditions were less than favourable, which affected drivers' concentration, with small errors having the potential to lead to major tragedy (Regani and Dutta, 2004).

6 DISCUSSION OF RESULTS

6.1 Introduction

This chapter examines the effectiveness of private sector turnaround strategies when applied to the SOE case studies with respect to the 3Rs and the strategic elements of the RBV. **Table 7** provides a synopsis of the findings in the context of the RBV as a strategic lens. **Table 8** presents the summary of the effectiveness of the 3Rs in the SOE turnaround case studies.

Table 7: Pertinence of the RBV in the context of Turnaround Management in the Private Sector and SOEs

	In the context of the RBV as a Strategic Lens		
SOE case studies analysed	**Valuable Resources**	**Distinctive Competencies**	**RPP Framework**
Haier	• High-performing technology • Pricing, design and distribution aligned to domestic market • Operations were inimitable, value-creating and competitive • High-class R&D and production facilities • Local knowledge provided by resulted in competitive advantage	• Diversified holdings • Differentiated products • Specialised export strategy • Powerful brand enabling price premiums • Marketing creativity • Innovation-centered competencies	Developed core asset-base (Resources) before strategically diversifying the organisation's operations (Processes) to benefit from economies of scope
Indian Bank	Collaborative governmental relationship	➢ Managerial-based • Strategic committee appointed worked closely with management ➢ Resource-based • Lack of competitive service alternatives (resource misaligned)	Prioritising process applied through customer-focused product selection.
Indian Railways	Resource flexibility was a challenge due to the sheer size of the organisation	• Managerial leadership and an element of good fortune	After identifying safety as a high priority issue, resources and processes were organised around improving safety

Table 8: Effectiveness of the 3Rs - Haier

	Application of Effective Private Sector Turnaround Management Strategies		
SOE case studies analysed	**Selective Restructuring**	**Competitive Repositioning**	**Retrenchment**

Haier	➢ **Decentralisation**
	• Self-sustaining managerial processes
	• Boundaryless organisational structure, multi-divisional teams, which aided speed-to-market
	➢ **Operational process improvements**
	➢ **Revised PMS**
	• Emphasised developing the brand and superior quality
	• Repercussions for non-performers
	• Team performance focus and incentives
	➢ **Appointment of Executives/ Management**
	• Understanding of the market and its growth potential
	• Acumen to execute on longer-term potential
	• Emphasis on the value of knowledgeable managerial resources
		➢ **Longer-term Actions: redefining Strategic Purpose and Vision**
		• Investment into innovating product breakthroughs for repositioning domestically and abroad
		• Addition of 96 new products and 15,100 technical specifications
		• Market positioning strategy contrary to that of large manufacturers
		• Deploy R&D teams into the specific markets targeted for penetration
		• Increased operational capacity ahead of market upturn
		• However, resisted mass production after surge in market demand and continued to position itself as a quality brand
		• Later used the brand reputation to increase global footprint
		    • Focus on difficult markets first strategy
		    • Begin with niche products first strategy
		    • More customer-focused than competitors
		• Three-thirds revenue strategy:
		    • Manufactured and sold domestically
		    • Produced in China, sold globally
		    • Manufactured and sold internationally
		➢ **Growth through Acquisition**
		• Strategy involved acquiring and turning around firms that lacked management proficiency, but possessed high potential products
		➢ **Collaborative Growth**
		• Extended appliance-sales network and structured licensing arrangements
		• Grew sales channel capability in line with competitive pressures
		• Established extensive network of service contractors
		• JVs on five continents
		• Collaboration strategy: (1) Learn and absorb; (2) Imitate; (3) Design independently
			Not a core emphasis of the turnaround based on the evidence provided

6.2 Haier In the context of the RBV as a Strategic Lens

Valuable Resources

Media noted that multinationals entering the Chinese market tended to underestimate the Chinese manufacturers themselves, expecting most competition to come from other newly arriving foreign firms (Palepu *et al.,* 2006). Instead, they found the most noticeable competition arose from Haier and Kelon, and The Economist made specific reference to their valuable resources, "Their technology was nearly as good as Whirlpool's, their prices were lower, and their styling and distribution were better suited to China" (Palepu *et al.,* 2006, p. 5). In terms of the research conducted by Collis and Montgomery (1995), this supported the fact that Haier's operations were inimitable (difficult for foreign competitors to copy), durable (in terms of the structure of their technological processes applied), appropriate (value was being derived by the Chinese domestic market due to their market demands being met), a challenge to substitute (foreign brands could not easily enter the market and compete effectively), and competitively superior (in terms of pricing and market customisation).

Whirlpool launched somewhat of a comeback in 2001, whereby 30 new products were launched, two global research and development centres and a production facility were setup in China (Palepu *et al.,* 2006). However, despite the resulting loss in market share by Chinese brands, Haier's leadership maintained that the organisation's *valuable resources* in the form of local knowledge would preserve its advantage over foreign firms (Palepu *et al.,* 2006).

Distinctive Competencies

Haier's commitment to quality in the 1980s had been enough to distinguish it from competitors, but with an increase in the acquisition of weaker local firms, Haier faced more formidable Chinese competitors (Palepu *et al.,* 2006). Chronic price wars adversely affected leading players, often resulting in stock having to be sold at or below cost in order to clear inventories (Palepu *et al.,* 2006). Haier, however, cited its more diversified holdings, differentiated products, and its unique export strategy as protective factors that ensured continued profitability (Palepu *et al.,* 2006). It is these factors amongst others, which are more deeply examined in this research study.

In China, a strong brand was essential as there was not an intermediary to serve as an adjudicator of brand strength (Palepu *et al.,* 2006). This impacted Haier's approach to branding and they had to in a sense, pioneer the direction of their own quality branding. Haier executives cited the reputation of the brand and the company's creativity as one the organisation's key distinctive competencies and strengths for competing domestically (Palepu *et al.,* 2006). "Consumers recognize Haier as the number-one brand in China… Our prices are 20% more than our competitors', but we still have the most sales," said Gao, one of Haier's executives (Palepu *et al.,* 2006, p. 7).

Differentiation arose further from product innovation, which Haier engaged in on multiple levels (Ruimin, 2007). The brand was supported by continually investment of between five and seven percent5-7% of annual revenue into R&D (Palepu *et al.,* 2006). This enabled progressive product development and meant that Haier products were not made obsolete by competitors, but by new products introduced by Haier itself (Palepu *et al.,* 2006).

Many of Haier's customer-oriented innovations, such as the combination refrigerator and laptop table were cheap to create, and proved a timeous and expensive challenge for foreign competitors to efficiently replicate (Palepu *et al.,* 2006). It was Haier's distinctive innovation-related competencies that resulted in major U.S. competitors taking notice of them, and *not* ironically, an effort to compete directly with them on the basis of similar product lines.

Alignment with the Resources-Processes-Priorities (RPP) Framework

Once Haier had established its core asset-base, along with the ongoing development of its valuable resources and distinctive competencies, the organisation then strategically diversified in order to benefit from economies of scope (Palepu and Khanna, 2006). "Now we could let our reputation precede our new products. It was time to diversify," said CEO, Zhang Ruimin. The organisation also pursued collaborative learning opportunities, utilising joint ventures to absorb lessons and expertise from the failures of other Chinese companies, such as Kelon for example (Palepu and Khanna, 2006). Haier was anxious to then shift focus towards overseas markets after a decade of adding factories to its portfolio, but instead of surging ahead, the company first *selectively restructured* its operations in order to achieve greater efficiency and *competitively reposition* itself with multinationals both at home and abroad (Palepu and Khanna, 2006).

The research holds that the sequential process summarised above, in which Haier employed their overall business strategies in line with the development of its resources, is analogous with that of the RPP framework outlined in the literature review. The organisation focused on building its core assets and *resources (R),* the effective execution of integrated processes (P), and thereby built credibility. With these stages in place, the study maintains that Haier prioritised (P) by repositioning itself (domestically and internationally) through optimal diversification, which contributed to the creation of a high-performance culture (C).

6.3 Relevance and Application of Identified Private Sector Turnaround Determinants as per the Normative Turnaround Model

6.3.1 Selective Reorganisation/Restructuring

Decentralisation

"My larger hope is that the question of who sits in the CEO's chair is of less and less importance. Haier should not be a company ruled by one man or woman but, rather, a self-sustaining system of excellent managerial processes" (Ruimin, 2007, p. 5). Zhang Ruimin exemplified his vision expressed above by providing employees with sufficient freedom to create value and fulfill their ambitions through instituting an organisational structure, which was as flat and as boundaryless as possible (Ruimin, 2007). Contrary to the practices of many large organisations that organise themselves around linear and functional structures, Zhang enabled Haier to perform better by forming multi-divisional project teams, whose strategic objectives were aligned to market demands and not to the demands of a hierarchical structure (Ruimin, 2007). Executives also credited the flat structure with aiding the speed with which products reached the market (Palepu *et al.,* 2006). Salespeople would provide intelligence directly to model managers who were in competition with each other, and, therefore, would quickly evaluate the technical feasibility and profitability metrics of a design before mobilising the necessary resources to produce it (Palepu *et al.,* 2006). In addition to providing detail to the implications of a decentralised managerial structure, Zhang's initiatives relate particularly closely to the strategic themes of *creating accountability* and *organisational change to create new competencies* in the context of effective turnaround management discussed in Chapter-5.

Haier's various manufacturing facilities were selectively restructured into seven product divisions: Refrigerator, Air Conditioner, Washing Machine, IT Products, Kitchen & Bath, Technology Equipment, and Direct Affiliates (Palepu *et al.,* 2006). Prior to 1998, most of Haier's acquired businesses operated independent R&D, procurement, production, and sales departments (Palepu *et al.,* 2006). Numerous service departments were replaced with "Development Divisions", serving the group as a whole in the areas of Finance, Sales, Logistics, HR, Customer Relations, and Global Operations, whose heads reported directly to Group President (Palepu *et al.,* 2006). Total Planning Management, Total Quality Management, and Total Equipment Management functional centers were also combined to serve these divisions, and an e-commerce company was formed in 2000 (Palepu *et al.,* 2006). Despite the consolidation of these divisions, the businesses acted as independent profit centers that competed with third-party service providers for Haier's business, marketed services externally as well (Palepu *et al.,* 2006).

An example of how Haier implemented organisational change to develop new competencies through successful decentralisation is Haier Logistics, an independently operated company created in 1999 as part of Haier's reorganisation, which "had become a national pioneer in the field, offering "just in time" (JIT) purchasing, raw materials delivery, and product distribution" (Palepu *et al.,* 2006, p. 8). During the period of 1998 and 2004, Haier effected significant operational improvements by reducing the size of its primary raw materials warehouse from 200 to 20,000 square meters, and its inventory cycle from thirty to just seven-days (Palepu *et al.,* 2006). The *selective* reorganising/restructuring of logistics into a single company serving the entire group, proved the main differentiator between Haier Logistics and other domestic competitors (Palepu *et al.,* 2006).

From an international divisional perspective, Haier also *restructured* global sales into five regional markets: The Americas, Europe, the Middle East, Southeast Asia and East Asia (Palepu *et al.,* 2006). The study argues that the agencification of the departments particularises the research conducted by Boyne (2006), which presents that restructuring in the form of decentralisation is an effective turnaround management strategy according to empirical research in the private sector.

Revised PMS

In order to gain the attention of employees and demonstrate leadership accountability, "Zhang once pulled 76 refrigerators off the line, some for minor flaws such as scratches, and ordered staff to smash them to bits" (Palepu *et al.,* 2006, p. 2). In terms of providing sharper clarity regarding Haier's *strategic purpose,* one of Zhang's primary objectives was to ensure that employees connected with his own vision of unsurpassed commitment to Haier's quality excellence (Palepu *et al.,* 2006).

Haier's marketing strategy placed a strong emphasis on developing the brand, and Haier sought to establish a reputation for quality superior to any standard that existed in China at the time by benchmarking itself against the best performing global competitors (Palepu and Khanna*,* 2006). Despite the fact that the government did not allow for conventional retrenchment procedures to be followed, Haier still instituted effective performance measures to *create accountability* throughout all employee levels. Those who did not meet expected performance standards were issued demerits, placed on probation, or deprived of their stake in the organisation's collective ownership system (Ruimin, 2007).

In line with the emphasis placed on team performance, which was discussed in the context of the strategic turnaround management theme of creating accountability in Chapter-5, project groups utilised numerous methods of pursuing certain performance targets, such as increasing the gross profit margin of a certain product for example (Ruimin, 2007). Integrated solutions such as augmenting the product design, streamlining the manufacturing processes, extracting certain raw materials costs, or implementing other changes, were applied and encouraged, with all team members receiving a bonus aligned to their respective contributions (Ruimin, 2007). Employee pay was based solely on performance results, and in fact, Haier did not have a position-related compensation system at all (Ruimin, 2007).

Appointment of Dynamic Executives and Management Teams

At the time of his appointment, Zhang was Vice-General Manager of the household appliance division of Qingdao's municipal government, and the local government wanted to appoint Zhang as director of the almost bankrupt organisation (Palepu *et al.,* 2006). Zhang reluctantly accepted the challenge to begin with, but was motivated by the future potential of what he observed as a latent demand for refrigerators (Palepu *et al.,* 2006). By seeing customers queue to pay cash for second-rate refrigerators at Qingdao General Refrigerator Factory, his experience informed him that the new production line planned for installation would improve both quality and efficiency in operations (Palepu *et al.,* 2006; Ruimin, 2007). Zhang was aware of the new line, as he was the man who had previously pushed the factory's governing body for the installation (Ruimin, 2007). When the third factory director of the year announced his resignation, Zhang felt compelled to take responsibility for driving the change, and he had also spent several months studying national consumer market trends where he deduced that if employees could be motivated to work more efficiently and improve manufacturing quality, Haier products would penetrate the market with substantial impetus (Ruimin, 2007).

In line with the appointment of a dynamic executive team, which empirical evidence has shown to be a critical success factor in effective private sector turnaround management, Zhang exhibited the acumen to form a longer-term vision for how Haier's competencies could be exploited most optimally going forward.

Aside from specific executive appointments, and adopting an international deployment perspective, Haier's leadership emphasised the importance of securing suitable management resources that would be required to maintain rapid growth in foreign markets (Palepu *et al.,* 2006). A member of the executive team (Li) detailed Haier's approach to local staffing when entering a new market: "the first stage is to use the right people to establish the structure… If we use local people, we can expand very quickly because local people know the local market very well. If we use Haier, we don't have enough human resources, especially people with an international perspective, to expand worldwide" (Palepu *et al.,* 2006, p. 12). Haier began by identifying a local resource with relevant experience in the appliance industry, to head the country operation (Palepu *et al.,* 2006). That person then sourced the local team to develop the sales and distribution channels (Palepu *et al.,* 2006).

Haier's strategy did not involve simply exporting management resources; they utilised local people to develop their own understanding of a particular market to better serve customer needs. This process of *selective management restructuring* enabled Haier to attract experienced people from industry to join the organisation in foreign markets, which provided them with a resource advantage over competitors (Palepu *et al.,* 2006).

For instance, when product design operations were mobilised for the European market, Haier appointed former sales executive of Italy's Merloni, Europe's third-largest appliance-maker, to head its European operations (Palepu *et al.,* 2006). The Italian executive had vast industry experience and had started his own trading company, selling GE, Whirlpool, and Siemens products, before joining Haier (Palepu *et al.,* 2006). By 2004, Haier claimed approximately a 10% market share of European air conditioner sales, and their headquarters in Varese, Italy, coordinated logistics operations through four distribution centers situated in Italy, Spain, the United Kingdom, and the Netherlands (Palepu *et al.,* 2006).

Similarly, Haier also earmarked India as a potential high-growth market, and invested extensively in developing production, distribution, and sales capacities in the country. In line with the effective private sector turnaround strategy of repositioning through collaborative growth (Boyne, 2006), Haier, amongst various other alliances (Whirlpool and Voltas) formed a deal with Indian appliance firm, Fedder Lloyd Corp. in 1999 and announced a four-year $200 million investment in India to establish a refrigerator factory and research and development center that would also serve as a production hub for Southeast Asian and African markets (Palepu *et al.,* 2006).

Despite the obvious benefits derived from the collaborations formed, Haier still placed significant reliance on locals, and largely attributed its success to the critical appointment of a former Whirlpool India executive to lead Haier India (Palepu *et al.,* 2006). "This key person explains the whole market to us, including how to develop the channels and how to do the marketing, and we just provide the product. He chooses the products and proposes modifications for the local market" (Palepu *et al.,* 2006, p. 14).

6.3.2 Competitive Repositioning

Longer-term Actions: Redefining Strategic Purpose and Vision

Building on from the strategic theme for effective turnaround management of *organisational change to develop new competencies* discussed in Chapter-5, Haier engaged in a three-year plan involving research and more specifically, technological development, in order to fuel innovation and yield product breakthroughs in the longer-term (Ruimin, 2007). Concepts experimented with included a refrigerator requiring no compressor, and a waterless washing machine (Ruimin, 2007). This study asserts that the programme of innovation and differentiation referred to, served as a prerequisite to Zhang's longer-term prerogative of *competitively repositioning* Haier domestically and abroad.

In further support of competitive differentiation, Zhang also concentrated on building Haier's marketing capability, following trend-related forays into direct marketing and delivery (Ruimin, 2007). Haier's strategy of differentiation, and the meeting of localised market responsiveness domestically and abroad through its innovative models, resulted in approximately 96 product categories and 15,100 technical specifications (Palepu *et al.,* 2006). Haier executives upheld that these feature-based innovations were inexpensive to produce, and highly valued by customers (Palepu *et al.,* 2006). "Our strategy for selling large refrigerators is the same as for compact refrigerators… We send our R&D people to the United States to talk directly with our customers, or even with the salespeople in chain stores, to find out their specific needs…. Large manufacturers aren't paying attention to such minor details," said Zhang (Palepu *et al.,* 2006, p. 15).

Zhang acted on another *strategic vision* of building an extensive industrial park (Ruimin, 2007). Contrary to widespread opinion and despite the apparent downturn in the Chinese economy, Zhang's closer analysis of the national economic situation impelled him to proceed with the development, providing *strategic purpose* by increasing Haier's operational capacity (Ruimin, 2007). Sure enough, in 1993, China entered a period of overheated growth and many of Haier's competitors missed out on the opportunity for growth by not mobilising similar developmental projects earlier (Ruimin, 2007).

Following this surge in market demand and soaring prices for appliances, Haier resisted mass production, and continued to focus on building a quality brand, winning a gold medal for quality in a national refrigerator competition in 1988 (Palepu *et al.,* 2006). When China's refrigerator market faced oversupply in

1989, rather than cut prices as its competitors did, Haier raised them and revealed that the brand commanded a 15% premium, despite the price war in the rest of the industry (Palepu *et al.,* 2006). Credibility is attributed to the brand confidence created and the strong *strategic direction* exercised by Haier, resulting in this sense of market power.

By the early 1990s, the oversupply issue had leveled-off and Haier continued to strategically *focus* on being recognised as a "first-class brand" (Palepu *et al.,* 2006, p. 3), which in the opinion of Haier's marketing executive arm, could only be enabled by increasing scale. As Haier's operations continued to expand, by 2004, it had successfully overtaken domestic competitors and shielded its market share from encroaching multinational firms to be recognised as the top appliance company in China with analysts estimating that Haier accounted for 61% of industry profits (Palepu *et al.,* 2006).

Haier's *strategic direction* through *selective repositioning* was also conveyed through the development of a formal global expansion strategy in 1997 when Zhang announced the "three thirds" goal, where Haier's revenue would be derived in equal parts from sales in three categories: one-third from products manufactured and sold in China, one-third produced in China and retailed in global markets, and one-third manufactured and retailed in global markets (Palepu *et al.,* 2006).

Zhang summarised Haier's *strategic purpose* in this regard by stating, "The objective of most Chinese enterprises is to export products and earn foreign currency. This is their only purpose… Our purpose in exporting is to establish a brand reputation overseas" (Palepu *et al.,* 2006, p. 10).

Unlike its major competitors, such as Kelon, who preferred to manufacture products for multinationals due to the perception of low-quality Chinese-manufactured products, Haier, was willing to bear the initial costs of establishing a presence as an independent global player, and reasoned that international profitable growth would be slightly slower than the overall profitable growth of Haier (Palepu *et al.,* 2006). This was exemplary of Haier's organisational maturity and its commitment to strategically invest resources, so as to most optimally *reposition* the company in the global market. In comparison to competitors, it is also indicative of the entrepreneurial spirit that Haier showed in establishing a global footprint.

From an international strategy perspective, many Chinese enterprises first exported to regions such as Southeast Asia, for instance, which has competitive markets, but arguably lacks strong competitors (Palepu *et al.,* 2006). Haier, however, chose to globalise to developed countries early on, and Zhang explained the feasibility of the adoption of the *Focus on difficult markets first* strategy, by providing that if Haier was able to successfully penetrate larger, more complex and more competitive markets such as the United States and Europe first, then the company would thrive in 'easier' markets as well (Palepu *et al.,* 2006; Palepu and Khanna, 2006). "We believe we have our separate position in the market, and they have theirs. They can step on us anytime they want, because we are so small compared to them in the United States," said Michael Jemal, founder of Haier America (Palepu *et al.,* 2006, p. 13). However, large companies are procedural and slow moving, and Haier exploited the opportunity to compete against them in their home markets by being more customer-focused than them (Palepu *et al.,* 2006). In 2005, Euromonitor reported that Haier held a 26% market share for compact refrigerators, over 50% of the wine cellar market, and 17% of air-conditioner sales in the United States (Palepu *et al.,* 2006). Haier's strategy also proved that a brand, or even a few successful products for that matter, which had established popularity in European and US markets, could arrive in emerging markets with ready-made status (Palepu *et al.,* 2006).

The *Focus on* difficult markets first strategy was coupled with the Begin with niche products concept also employed by Haier, and relates to the innovation and differentiation initiatives analysed earlier (Palepu *et al.,* 2006). Advantages of the niche products were that the margins were high and minimal competition existed at the time meaning that, "Haier was less likely to provoke retaliatory responses from the major competitors in the United States and other advanced markets (Palepu and Khanna, 2006, p. 5). In the context of the RBV, Haier's niche products were evaluated as strategically valuable resources as per Collis and Montgomery (1995). For instance, when competitors attempted to imitate the innovations, Haier added new modernisms such as mini-fridges that doubled as computer desks, aimed at college students living in dorms (Palepu *et al.,* 2006).

The research noted a linkage between both the Focus on difficult markets first and the Begin with niche products strategies and the research conducted by

Christensen and Kaufman (2008) on the RPP framework. The integrated execution of both these strategies enabled Haier's resources and processes to synergise and effectively expand into foreign markets. Additionally, the purposeful, and ultimately advantageous delay, of entry into the 'easier' markets was indicative of the prioritising mindset the organisation maintained throughout the process.

Growth through Acquisition

A series of acquisitions by Haier took place throughout the 1990s (Palepu *et al.,* 2006). Some of these acquisitions were involuntary in nature due to government pressure for Haier to takeover and turnaround poorly performing firms (Palepu *et al.,* 2006). An example of this occurrence was in 1995, when the Municipal Government forced the ownership of the almost bankrupt Red Star washing machine company onto Haier, with the obligation to take on all Red Star employees and RMB 132 million in debt, which was the equivalent of Haier's 1993 annual profits (Palepu *et al.,* 2006). However, within 18-months, through the application of Haier quality enhancement procedures, Haier turned Red Star into the top-ranked washing machine manufacturer in China (Palepu *et al.,* 2006).

With less governmental influence, Haier sourced two other candidates: the Qingdao Air Conditioner Factory, and the Qingdao General Freezer Factory, both faltering due to poor management (Palepu *et al.,* 2006). Haier took over the debt of each firm and retained the majority of their employees. Haier competitively repositioned each firm by introducing a new product line at the former, thereby revitalising the *strategic direction* of the firm would take, and *selectively restructured* the latter through revising the PMS and enforcing more stringent employee disciplinary measures, thereby creating a greater sense of accountability throughout the firm (Palepu *et al.,* 2006). Within a year, the newly restructured divisions had transformed a deficit of RMB 15 million into profitable figures (Palepu *et al.,* 2006). Similarly, Haier boosted its competitive position when it acquired Yellow Mountain Electronics in 1997 by incorporating televisions and telecommunications equipment to its product mix (Palepu *et al.,* 2006). By 1997, Haier had acquired and successfully turned around the performance of fifteen companies in accordance with their acquisition strategy, articulated by the following statement: "We buy only those firms that have markets and good products but bad management… Then we introduce our own management and quality control to turn them around."

The determinants described that were applied by Haier were considered key attributes in terms of the evaluation of the turnaround management strategy of competitive repositioning, examined in the research conducted by Boyne (2006) on effective private sector turnaround practices. However, in terms of the RBV, Haier's stated acquisition strategy also relayed how the company evaluated the resources (i.e. products) and competencies (i.e. poor performing management) of the firms being considered for acquisition before applying its own distinctive competencies in the form of managerial-, resource- *and transformation-based competencies* in the effective transformation of the acquired firms (Lado *et al.,* 1992).

Collaborative Growth

Prior to 2000, Haier's customers comprised primarily state-owned department stores, but by 2004 they extended their appliance-sales network into specialised shops and private retail chains, and also structured arrangements with licensed dealers that accounted for a further 30% of sales. The independent retailers and government purchases accounted for approximately 15% each, with online and telephone sales making up the remainder (Palepu *et al.,* 2006). Haier effectively aligned its organisational capabilities with that of identified environmental opportunities that stemmed from competitive pressures, and competitively repositioned itself through the collaborative growth of retail networks, another turnaround management theme evidenced to be effective in the private sector (Boyne, 2006).

Palepu and Khanna (2006) suggest that Haier's globalisation could possibly be viewed as a defensive initiative in order to protect its home market. Furthermore, global retailers such as Wal-Mart and Best Buy could have been considered potential players in China's distribution intermediary system, and therefore, establishing relationships with them in the U.S. market would have possibly supported help Haier in leveraging their retail networks in China (Palepu and Khanna*,* 2006). From a service viewpoint, Haier's service network consisted of 5,500 independent contractors in 2004, one per sales outlet, with some of these contractors being exclusive to Haier; others serviced both Haier and competitors' products (Palepu *et al.,* 2006).

The dynamic network of sales and service networks created by Haier contributed to customer appreciation of Haier service being acknowledged as one of the organisation's greatest competitive advantages (Palepu *et al.,* 2006). "Whether in quality of service or in volume, no one is able to compare to Haier at the moment," said a Haier executive, Gao (Palepu *et al.,* 2006, p. 8).

Haier's formal International Divisions also included JVs on five continents, with Haier generally being the majority shareholder (Palepu *et al.,* 2006). In the lead up to 2005, where Haier's largest global operations were based Europe and the United States, and the recently launched India operation was poised for rapid growth, Haier also ventured into various other global JVs (Palepu *et al.,* 2006). These included becoming one of the first Chinese companies to engage in foreign direct investment, setting up a refrigerator and air-conditioner plant in Indonesia in a JV with a local firm in 1995, JV with a Yugoslav company for a manufacturing base in Belgrade in 1997, partnerships in the Middle East, a Nigerian firm, Nigeria Haier Company in 2001, and with Haier New Zealand in 2002 (Palepu *et al.,* 2006).

Linking to topics of effective managerial deployment to repositioning through collaborative growth (Boyne, 2006), Haier continued to prefer to send only temporary technical support teams from China, and then relying on local partners to operate the businesses. "We hope to have Haier in each country be the Haier that *they* created. For example, in the United States, we hope that it is Americans who build up Haier America… If Americans can create GE and Whirlpool and Electrolux, they can create Haier" (Palepu *et al.,* 2006, p. 12).

Specific technology-orientated licensing agreements with German refrigerator manufacturer, Liebherr, for example, and JVs with Derby of Denmark, Sanyo and Mitsubishi of Japan and Merloni of Italy, were entered into in order to further infuse Haier's processes with enhanced technology and designs from its foreign counterparts (Palepu *et al.,* 2006). Haier's strategic intentions did not stop there, however. As Zhang explained, "First we observe and digest… Then we imitate. In the end, we understand it well enough to design it independently" (Palepu *et al.,* 2006, p. 2). This is an interesting incidence as the imitation and understanding of foreign products, were some of the challenges that Haier's rivals experienced when trying to compete against Haier's *distinctive competencies* of meeting localised demand through product differentiation.

Other Notable Themes

Other possible commonalities identified between that of Haier's turnaround and private sector turnaround management themes, which are perhaps not directly encapsulated in the normative model, include the process followed in financing large capital investments, such as the industrial park (Palepu *et al.,* 2006). When bank loans were no longer a viable option due to the central government tightening national credit, Haier turned to China's emerging stock market, and listed 43.7% of its refrigerator division on the Shanghai Stock Exchange in November 1993 (Palepu *et al.,* 2006). The IPO raised RMB 369 million and Zhang recalled: "It was the first time Haier had done such a risky thing… If we had not been successful with our IPO, Haier would have disappeared. We'd never done anything like this, and that should be the only time we do it." The research argues that the capital seeking initiative described is atypical of a municipally owned, collective enterprise, and more reminiscent of actions that major global corporations would take in order to raise project finance.

Conclusion

Haier was considered a maverick among emerging market organisations by entering developed markets such as the United States and Europe early in its globalisation phase, and made a bold statement regarding its commitment to producing to international standards of quality (Palepu and Khanna, 2006). Internationalising also presented opportunities to learn from major global competitors, which Haier exploited, and despite the fact that many advanced markets were somewhat saturated, Haier still penetrated them and effectively tested its value proposition with a view to building new competencies through progressive organisational change (Palepu and Khanna, 2006).

But above all, Haier remained strategically focused on developing the brand (Palepu *et al.,* 2006). At the time of the case, Haier was number three in the world in the 'white' appliance market. The organisation explicitly stated their strategic intention to be number one, and planned to achieve that through a process of systematic prioritisation, which was how they had reached the majority of their turnaround milestones, through securing market leadership in domestic sectors before launching the product lines into the global market (Palepu *et al.,* 2006).

Progress in terms of Haier's longer-term goal of achieving Zhang's *strategic vision* of one-third domestic sales, one-third exports, and one-third produced and sold abroad, was reiterated by Zhang, “Exports are about 20% now, and overseas made are at less than 10% - so the potential is great” (Palepu *et al.,* 2006, p. 16)

6.4 Indian Bank In the context of the RBV as a Strategic Lens

6.4.1 Distinctive Competencies

Managerial

The appointment of dynamic executive management was identified as a critical private sector reorganisation turnaround strategy as per the research conducted by Boyne (2006). The fact that the strategic committee appointed worked closely with the management of Indian Bank, as well as other prominent credit-rating agencies, enabled the development of an insightful report on the status of not only Indian bank, but also all PSBs operating in India (Regani and Dutta, 2004). These findings support the elements of the normative model, which sketches the effectiveness of employing a cohesive management team (Harvey, 2011), and the alignment of *distinctive transformation-based and management competencies* in the context of the RBV.

Resource-based

"… Though the bank had a loyal customer base, analysts felt that people stayed with Indian Bank only because of a lack of competitive alternatives" (Regani and Dutta, 2004, p. 3). This exposed Indian Bank to levels of service disparities across client groups, which was even more apparent with the opening up of the banking sector in the 1990s (Regani and Dutta, 2004). From a RBV perspective, the study conceptualised this as a resource misalignment concern, exposed by the fact that private banks were offering increased variety and flexibility in their services (Boyne, 2006; Regani and Dutta, 2004). According to the research conducted by Boyne (2006) on organisational flexibility in private sector turnaround, Indian Bank, therefore, needed to work towards synchronisation between what were clearly obsolete operating systems, and the competitive pressures imposed by the private banking sector before, “Indian Bank caused customers to drift way” (Regani and Dutta, 2004, p. 3).

6.5 Alignment with the Resources-Processes-Priorities (RPP) Framework

Strategic value (Collis and Montgomery, 1995) was ascribed by introducing customer-focused product schemes according to a prioritisation process whereby, home loans were considered the most valuable form of loans, followed by personal loans and trade finance (Regani and Dutta, 2004). This was consistent with that of the RPP framework (Christensen and Kaufman, 2008).

6.6 Relevance and Application of Identified Private Sector Turnaround Determinants as per the Normative Turnaround Model

As depicted in the synopsis in **Figure 8,** selective restructuring and competitive repositioning were pertinent in driving the effectiveness of the turnaround at Indian Bank.

Figure 8: Application of Private Sector Turnaround Management Strategies – Indian Bank

	Application of Effective Private Sector Turnaround Management Strategies		
SOE case studies analysed	**Selective Restructuring**	**Competitive Repositioning**	**Retrenchment**
Indian Bank	• Led by dynamic leader, specialising in turnaround management • Comprehensive three-year strategic plan for restructuring including longer-term vision compiled • Informed disinvestment of non-performing financial assets • Focus on customer-structured retail products ➢ **Decentralisation** • Decision-making structure streamlined, increasing regional accountability, resulting in customised value propositions ➢ **Revised PMS** ➢ Introduced seven KPIs aligned to international financial measures ➢ **Appointment of Executives/ Management** • Strategic committee increased transparency regarding ineffective decision-making and governance principles • Appointment of MBA interns as well as other specialists officers in order to professionalise operations	➢ **Longer-term Actions: redefining Strategic Purpose and Vision** • Vision 2010 document formulated • Informed decisions against that of unproductive mergers and privatisation options ➢ **Collaborative Growth** • Optimal technology-based ATM-sharing agreements with other Public Sector Banks (PSBs) • 'Any Branch Banking' service setup • Successful insurance-product agreement • Ten new branches opened coupled with the national technology upgrade	• Voluntary Retrenchment Scheme (VRS) introduced

6.6.1 Selective Reorganisation/Restructuring

"… The bank embarked on a comprehensive restructuring program, under the leadership of Ranjana Kumar, who was known in Indian banking circles as the

"Turnaround Queen" for her unique ability to create something worthwhile out of the most hopeless banking failures" (Regani and Dutta, 2004, p. 1). Along with the selective restructuring initiatives that are further examined, from the outset, the analysis emphasised the dynamic leadership role played by Kumar, which is consistent with the elements of the strategic turnaround management theme of *accountable leadership* discussed in Chapter-5.

"The committee considered restructuring as the best possible option for the Indian Bank, given its financial and organizational condition" (Regani and Dutta, 2004, p. 5). In line with the set of effective private sector turnaround strategies, typified by the normative framework in the form of selective restructuring/reorganisation strategies, Kumar was appointed to drive the large-scale, system-wide restructuring due to her vast experience in the banking sector (Regani and Dutta, 2004).

Restructuring programmes started in 2000 when management, led by Kumar, submitted a strategic plan to the GoI detailing its plan for implementation during the three-year restructuring period (Regani and Dutta, 2004). The *strategic vision* emphasised in these programmes overlays with the longer-term objectives of *competitively repositioning* Indian Bank, which is consistent with the research in effective private sector turnaround management performed by Boyne (2006).

With the intention of improving the NPA levels, the bank capitalised on the 'securitization' act passed by the Indian Parliament, by issuing over seven hundred notices to defaulters and confiscating twelve properties (Regani and Dutta, 2004). The restructuring also involved the sale of a mutual fund subsidiary, a private mutual-fund company and its merchant-banking subsidiary, while control of the housing subsidiary was taken over by the bank itself (Regani and Dutta, 2004). Linking the restructuring ascendancies back to the strategic lens of the RBV and in the context of the normative framework, these decisions were connected to the operational evaluation of *valuable resources* by Indian Bank (Collis and Montgomery, 1995). Based on the analyses of the value of these subsidiaries specifically, more informed decisions were then taken with respect to disinvesting or leveraging these resources knowledgeably.

The leadership of Indian Bank projected *strategically focused* behaviour in executing a *repositioning* strategy that was in concurrence with the *restructuring* strategies already enabled (Lado, Boyd and Wright, 1992; Boyne, 2006). The bank achieved this by focusing on refined retail products in the form of customer-structured loan schemes (Regani and Dutta, 2004).

Decentralisation

The bank’s organisational structure was modified in order to streamline operations and improve decision-making (Regani and Dutta, 2004). Applying a decentralised restructuring strategy (Boyne, 2006) as per the normative framework, the original four-tiered structure was diluted into three-tiers by extracting the zonal office level, with the three remaining structural levels being: head office, regional offices and branches (Regani and Dutta, 2004). Regional offices were further empowered to make decisions at their appropriate business levels and consequently, provided better services to customers within their domains (Regani and Dutta, 2004). Dynamic leadership enabled the *creation of accountability* within Indian Bank, by entrusting managers throughout the business with increased levels of responsibility (Harvey, 2011; Lado et al., 1992). Similarly, branches were also segmented into four categories (corporate, commercial, personal and rural), enabling for more customised value propositions to be developed across the various target markets (Regani and Dutta, 2004). In conjunction with competitive repositioning, increased effectiveness was achieved at Indian Bank by “changing [the] organisation’s priorities within an existing market” (Boyne, 2006).

Revised PMS

“In the early 1990s, the RBI and GoI realized that it would not suffice to measure the growth and success of PSBs in terms of quantitative and social targets alone” (Regani and Dutta, 2004, p. 2). This corresponds with Collis and Montgomery (1995, p. 124), who advocate that turnaround approaches should place a higher emphasis on the “softer aspects of corporate assets.” The institutions further realised that PSBs operated in a highly regulated environment, and did not measure up to certain international standards representative to that of the foreign banks, which had opened branches in India in the 1990s and posed a serious threat to PSBs with their promise of superior service (Regani and Dutta, 2004). The competitive pressures imposed by the foreign banks served to exposed the early indicators to Indian Bank, signposting that it needed to align itself to a more private banking-orientated operating model.

This view is supported by the following extract from the case: “To help PSBs achieve international standards in operations, the GoI introduced a series of financial sector reforms in 1992. The reforms laid down prudential norms based on internationally accepted practices relating to capital adequacy ratio (CAR), income recognition, asset classification and provision for impaired assets” (Regani and Dutta, 2004, p. 3).

The committee developed a further set of seven key performance indicators (KPIs) under the management of three major heads, which classified the PSBs into three categories and suggested relevant measures for their improvement referred to in **Figure 9** (Regani and Dutta, 2004).

Figure 9: Indian Bank Efficiency Parameters

The Seven Parameters of Efficiency Adopted by the Working Group
Solvency
Capital Adequacy Ratio (CAR)
Coverage Ratio
Earning Capacity
Return on Assets
Net interest margin
Profitability
Ratio of operating profit to average working funds
Ratio of cost to income
Ratio of staff cost to net interest income + all other income

Source: The Verma Committee Report

Appointment of Dynamic Executives and Management Teams

The committee which was formed compiled a report that questioned the decision-making capabilities of the bank (specifically credit-related), and suggested that inappropriate loans were granted, due to the Managing Director succumbing to political influences (Regani and Dutta, 2004). In addition to its objective of instilling a sense of accountable leadership at Indian Bank, these findings introduced greater transparency regarding the status of strategic governance principles at the bank.

After no recruitment activity for eight years, the Indian Bank adopted the practice of employing MBA students for three-months during the summer with the expectation that they would provide a fresh and insightful view on the bank's general operations (Regani and Dutta, 2004). 250 probationary officers were employed in 2003, as well as the fifty-eight specialist officers, comprising engineers and MBA-graduates in an effort to professionalise operations (Regani and Dutta, 2004).

6.6.2 Competitive Repositioning

Longer-term Actions: Redefining Strategic Purpose and Vision

The committee formed by the GoI and the RBI advised against total closure of the bank as it was of the opinion that the cost of closure would be too overbearing for the shareholders, clients and employees affected (Regani and Dutta, 2004).

"Encouraged by the progress achieved during the three years of restructuring leading up to the turnaround, the Indian Bank developed a new long-term vision document called Vision 2010" (Regani and Dutta, 2004, p. 7). The document embodied the vision of the bank, looked ahead to the year 2010, and included plans such as the possibility of a public issue (Regani and Dutta, 2004). "Vision 2010 was aimed at making the Indian Bank one of the top banks in India by 2010" (Regani and Dutta, 2004, p. 7). The prospective reporting, documentation and formal communication of the overall purpose and strategic direction that Indian Bank intended to follow, was a course of action, prototypical of some of the longer-term strategic actions empirically observed to be effective in private sector reorganisational turnaround management portrayed in the normative model.

The committee's view on the option of merging with a stronger institution was disregarded due to the possible shortcomings of integrating a weak performing business unit with a sounder one (Regani and Dutta, 2004). "A merger between two banks and for that matter any two entities would be of any advantage only if it takes into account the synergies and complementarities of the merging units and provides opportunities for pooling of strengths… The problem gets compounded if, of the two units merging, one is already suffering from serious operational deficiencies and is merging with another comparatively larger unit merely to save its existence, albeit in a modified form. In such a situation, while the weak unit merges its deficiencies in the stronger unit, the merged entity does not get any opportunity to avail of post-merger advantages. As a result, the merged unit itself becomes weak and often loses its competitive abilities" (Regani and Dutta, 2004, p. 4). The associated risk of merging had already been witnessed in the Indian banking sector by an unsuccessfully attempted merger between two PSBs in 1993. The lack of synchronisation, primarily around conflicting service conditions amongst the merging staff, had resulted in litigation proceedings (Regani and Dutta, 2004).

Another strategic repositioning option not explicitly depicted in the normative model was the notion of privatisation. "The committee considered transfer of the ownership of the bank to private banks, private corporate groups or foreign banks, which would buy-out a part or whole of the government's stake in the Indian bank. However, it felt that PSBs were not ready for private management. First, the cost of restructuring would be exorbitantly high for the bank and it was unlikely that a private investor would be ready to invest a huge amount in the ailing bank" (Regani and Dutta, 2004, p. 4). Despite the committee's decision to initially refrain from privatisation, it did, however, signify an intent to be more strategically aligned to the performance agendas characteristic to that of the private sector. In contemplating inferences of the RBV as a strategic lens, the risks associated with any potential privatisation strategy considered in the future, included significant changes in the staffing pattern and organisational structure of the bank (Regani and Dutta, 2004).

Collaborative Growth

According to analysts, many PSBs were dependent on a regular infusion of government funding to maintain capital adequacy (Regani and Dutta, 2004). In the context of the RBV, and according to the normative framework suggested in the research, the bank's governmental relationships were evaluated, and thereafter, deemed as 'valuable resources' (Collis and Montgomery, 1995).

The normative framework outlines a path of *collaborative growth,* which has proved as an effective *repositioning* strategic option based on private sector turnaround management (Boyne, 2006). Indian Bank entered into a five-way ATM-sharing arrangement with other PSBs, which enabled a customer of Indian Bank to gain access to approximately 1,000 ATMs across the country (Regani and Dutta, 2004). Supporting the private sector turnaround attributes of *restructuring,* growth through effective *repositioning* and resource-optimising investment (Boyne, 2006; Lado et al., 1992), these technological advancements further materialised, and exhibited both the innovative and entrepreneurial proficiencies of Indian Bank (Boyne, 2006). “By early 2003 nearly six hundred branches had been computerised, covering approximately seventy-eight percent of the business. Furthermore, the bank considerably increased its ATM coverage in key centers across India. It also set up 47 online ATMs, which offered the ‘Any Branch Banking’ service in 12 major cities across India” (Regani and Dutta, 2004, p. 6).

In order to further extend the range of its services, Indian bank also entered into an agreement with an insurance company, whereby the bank would market the latter’s insurance-specific products (Regani and Dutta, 2004). To keep up with private and foreign banks, ten new branches were planned for opening across the country by the end of 2003, and the technology upgrade was also extended nationally to computerise its branches across India (Regani and Dutta, 2004).

The technology drive was consistent with resource-, output- and transformation-based competencies, is aligned to that of the existent competitive pressures, and also established the prerogative of the development of *organisational change with the intention to develop distinctive competencies* (Collis and

Montgomery, 1995; Boyne, 2006).

Retrenchment

In an effort to counter the number of surplus staff detailed earlier, Indian Bank introduced a Voluntary Retirement Scheme (VRS) (Regani and Dutta, 2004). "Through the VRS, the bank shed over 3,400 employees, bringing down the staff number to 22,400 by March 2003 from nearly 26,000 in 1999" (Regani and Dutta, 2004, p. 5).

Conclusion

The official turnaround period of the Indian Bank lasted three-years (2000 to 2003), however, efforts yielded tangible results within the first year itself (Regani and Dutta, 2004). Satisfied with the progress of the bank, the RBI released a substantial recapitalisation amount in 2002 (Regani and Dutta, 2004). With the infusion of the recapitalised funds, Indian Bank managed to reach a Capital Adequacy Ratio (CAR), which was higher than the minimum acceptable level. "In the Business Standard Annual 'Banker of the Year Survey' 2003, the Indian bank was ranked second on the growth parameter" (Regani and Dutta, 2004, p. 6).

6.7 Indian Railways In the context of the RBV as a Strategic Lens

When India began moving towards a market economy in the early 1990s, many IR policies were exposed as being obsolete (Regani and Dutta, 2004). Due to the size of the organisation and from a resource-based perspective, displaying flexibility in adapting to the changing resource requirements was a challenge for IR (Regani and Dutta, 2004). By the late 1990s, IR was very much aware of the need for a comprehensive restructuring program (Regani and Dutta, 2004).

6.7.1 Distinctive Competencies

Managerial

Gupta and Sathye (2010) submit that theory suggests that turnaround successes need to be understood not only in terms of managerial actions, but also externally, by taking the of favourability of environmental conditions into account. This is consistent with the concepts in the RBV covered in the literature review. The analysis of IR further reveals that both managerial leadership and good fortune contributed to the turnaround success of IR (Gupta and Sathye, 2010).

6.7.2 Alignment with the Resources-Processes-Priorities (RPP) Framework

Consistent with albeit, interrelated sequences of the RPP framework, IR identified safety as a crucial organisational priority and developed current resources and processes to improve operations. In 2002-2003, IR rebuilt one-thousand bridges in different parts of the country, and improved its communication network in order to provide more efficient service to passengers, including satellite communication that allowed passengers to talk to any telephone subscriber located anywhere in the world (Regani and Dutta, 2004).

6.8 Relevance and Application of Identified Private Sector Turnaround Determinants as per the Normative Turnaround Model

Similar to Indian Bank, and as depicted in **Figure 8,** strategies of selective restructuring and competitive repositioning were pertinent in driving the effectiveness of the turnaround at Indian Railways.

Figure 10: Application of Effective Private Sector Turnaround Strategies at Indian Railways

	Application of Effective Private Sector Turnaround Management Strategies		
SOE case studies analysed	**Selective Restructuring**	**Competitive Repositioning**	**Retrenchment**
Indian Railways	• Improved MIS and accounting systems • Long-range Decision Support System (LRDSS) • Provided for medical and educational benefits within its structure • Created call centers, improving customer service ➢ **Decentralisation** • Shift from politicised to business-oriented decision-making • Enabled better customer service by further decentralising its zonal centers • Procurement was also decentralised and a Vendor Management System introduced ➢ **Revised PMS** • In line with global financial turnaround indicators, IR displayed a positive shift towards market-orientation • Specific employee safety measures introduced	• Repositioning strategies focused on revenue-generation • Simplification of tariff structure enabled a more market-orientated position • e-Ticketing technology introduced (CONCERT) ➢ **Collaborative Growth** • Partnered with trucking companies to enable multi-modal freight transfer	• Leased out selected services • Reduced number of employees through Voluntary Retirement Scheme

6.8.1 Selective Reorganisation/Restructuring

IR improved the commercial viability of accounting and management information systems in order to increase efficiency (Gupta and Sathye, 2010). A long-range decision-support system (LRDSS) and enhanced investment selection programmes, were also introduced on the basis of expected future returns (Gupta and Sathye, 2010). Another positive feature of IR, was that despite being the largest employer in the world, was that it experienced little employee unrest, and provided various educational and medical benefits to its employees and their families (Regani and Dutta, 2004).

To counter an increase in competition from the aviation sector, IR responded by creating call centers to respond to customers' enquiries more efficiently, and regularly updated vacant positions (Gupta and Sathye, 2010). IR, thereby, moved from politicised to commercial, business-oriented decision-making (Kumar, 2001).

Decentralisation

IR enabled faster decision-making and provided better customer service by further decentralising its zonal centers from nine in 2003 to 16 in 2005 (Gupta and Sathye, 2010). Procurement was also decentralised and a Vendor Management System introduced, which improved vendor satisfaction (Gupta and Sathye, 2010).

Revised PMS

Bodies such as the Auditor-General, the Reserve Bank of India and the World Bank use four key indicators to evaluate financial turnaround the railway sector: operating ratio, net surplus, dividend paid on capital, and net revenue to capital ratio Kumar, 2001). IR's financial performance showed a positive shift towards market-orientation and customer focus from 2001 onwards (Kumar, 2001).

As fatigue enhanced the probability of accidents, IR also initiated several measures in order to improve the working conditions of drivers and guards (Gupta and Sathye, 2010). The number of accidents was 200 in 2007, more than half the figure of 473 in 2001, and the combined effect resulted in an increase of approximately 29% in passenger volume and 64% in passenger revenue in nominal terms (Yadav, 2006).

6.8.2 Competitive Repositioning

Competitive repositioning at IR focused on revenue generation (Gupta and Sathye, 2010). The turnaround of IR was driven primarily through freight revenue, and was traced to three factors: increasing the axle load, reduction of the wagon turnaround and instituting of market-oriented tariffs and schemes (Gupta and Sathye, 2010).

Through the implementation of technical adjustments in these areas, the turnaround time of wagons improved by 14%, and daily wagon capacity available per day increased by 36% (Gupta and Sathye, 2010). Freight earnings were boosted by the enhancement of loading limits from six to ten tonnes

(Gupta and Sathye, 2010).

Simplification of the tariff structure included the application of a market-oriented strategy, by reducing the number of classified freight items from 8,000 to less than 100, and from a lower to a higher-tariff band, resulting in a significant increase in freight revenue (Gupta and Sathye, 2010). Similarly, IR maintained the level of nominal passenger tariff, and thus achieved a reduction in the real tariff. Double-stack container trains were introduced on specific routes, which significantly increased the capacity of trains, leading to higher freight revenue and savings of approximately seven percent on capital cost and twenty-five percent in operating expense (Das, 2006).

With the intention of competing in the passenger market segment, IR introduced the CONCERT system (Country-wide Network for Computerized Enhanced Reservation and Ticketing) that connected the five regions where the computerised reservation system was operational, and enabled passengers to make reservations on any train, for any date, in any class, between any two stations at about 2,000 terminals across the country (Regani and Dutta, 2004). The innovative introduction of electronic reservations as well as the configuration of credit card payment systems was indicative of IR's shift towards a more customer-focused operational approach.

Collaborative Growth

IR also improved its freight services by conjoining with some trucking companies to solve the problem of the 'last mile' of transportation (Regani and

Dutta, 2004). It was predicted that this multi-modal approach to freight transfer would reduce the competition between road transport and IR considerably, bringing in additional revenue for IR as a consequence (Regani and Dutta, 2004).

6.8.3 Retrenchment

Sub-strategies were the focus in the cost-cutting strategy of retrenchment at IR. The organisation leased out its catering and parcel service business, and outsourced its advertising activities, resulting in significant savings (Yadav, 2007). IR attracted private investments under the wagon investment liberalisation scheme, thereby freeing up resources for more remunerative activities (Yadav, 2007).

The ratio of total working expenses to gross revenue receipts fell from 98.8% in 2001 to 83.2% in 2006, and a further to 78.7% in 2007, which was indicative of the operating efficiency achieved (Gupta and Sathye, 2010).

The number of employees, which peaked at 1.587 million in 1996, was progressively decreased to 1.472 million by 2003 and to 1.412 million by 2006. Part of the reduction was achieved through natural attrition of about 2% per year and the rest through the voluntary retirement scheme introduced in 2003. Vacancies created due to retirement or other reasons were not filled. It resulted in a significant decline of overall staff costs. It was hoped to reduce the work force further to 1.2 million by 2010.

7 CONCLUSIONS AND RECOMMENDATIONS

7.1 Introduction

The organisational decline of SOEs has induced a motivation to identify improved strategies for effective turnaround management. This is in line with the research of Boyne (2006) who advanced that limited academic research or empirical frameworks regarding the reversal of decline in SOEs exists. However, Boyne (2006) ratifies that even though a consolidated framework for private sector turnaround management also does not exist in isolation, considerable empirical research of this nature has in fact been conducted in the private sector. This research construes that the implementation of retrenchment, repositioning and reorganisation strategies (3Rs) has for the most part, had a positive impact on organisational performance. The aim of this research was to develop a normative framework for effective turnaround management by applying the 3Rs across SOE cases of turnaround, and examining the value these concepts through the strategic lens of the resource-based view.

7.1.1 Theoretical Foundation of the Literature Review

With the objective of linking the research findings with relevant strategic theory, the study focused on the influence of the resource-based view and how from a managerial perspective, organisations firstly, establish, and then sustain a platform whereby their own resource-based position enables improved performance during a turnaround (Eisenhardt and Martin, 2000; Wernerfelt, 1984). The review of pertinent elements of RBV-based literature provided a high-level insight into the impact of controlling valuable resources (via the areas of Inimitability, Durability, Appropriability, Substitutability and Competitive Superiority); the effective positioning of distinctive competencies; and the theoretical underpinnings of the Resources-Processes-Priorities-(Culture) framework on the organisation (Christensen and Kaufman, 2008; Collis and Montgomery, 1995; Eisenhardt and Martin, 2000).

The research upholds the logic that no two organisations are alike due to the environmental complexities and varying processes through which they have built their organisational structures. This is consistent with Collis and Montgomery (1995), who insinuate that competitive performance is based on the development and deployment of a powerful set of distinct and integrated resources that are inextricably linked to the strategic objectives of the organisational turnaround. The model formulated by Lado *et al*. (1992) was another framework utilised for assessing how the maturity of distinctive competencies influenced the decision-making capabilities of the organisations evaluated. The researchers' model corroborates that robust managerial competencies and strategic focus played a fundamental role in evolving resource-based, output-based and transformation-based competencies, considered critical in the generation of sustainable performance improvements.

Christensen and Kaufman (2008) stress the significance of the factors comprising the RPP(C) framework on the decision-making considerations of organisations, which was prevalent in the case studies assessed. They go on to reiterate the significance of the migration of organisational capabilities from resources toward processes and priorities, and then toward culture. This research postulates a practical interpretation of the outlook of Christensen and Kaufman (2008), providing that organisational leaders should exercise conscious attentiveness when prioritising change initiatives intended for implementation, in order to mitigate the risk of energy and resources being misused in an attempt to institute turnaround plans in areas of the organisation where the ease of implementation is low, and the potential impact for positive change is nominal. Therefore, it is typically advised that a sequence whereby turnaround efforts are initially concentrated on resources (R) where change is more feasible, as oppose to processes (P) and especially culture (C), where change is more difficult to manage.

The study advocates that effective turnaround management requires an ongoing assessment of the organisation's scope of operations. Additionally, management must continually upgrade resources irrespective of current performance, and leverage their portfolio of resources to complement turnaround strategies designed to create competitiveness (Collis and Montgomery, 1995).

7.2 Summary of Findings Commonalities and Differentiating Factors across the SOE case studies

3Rs

As detailed in Chapter 6, the private sector strategies of selective restructuring and competitive repositioning contributed fairly significantly, albeit in varying degrees, to the success of the turnarounds in all three of the SOEs analysed. The unwavering commitment to the development of a world-class brand at

Haier, fostered the establishment of a powerful global footprint, and further enabled the refinement in execution of Haier's globalisation approaches (such as the difficult markets first, niche products and three-thirds revenue strategies). Boyne (2006) supports these findings and also concludes that research on public sector turnaround is consistent with, but does not unequivocally provide that the 3Rs lead to successful turnaround.

Indications regarding the effectual impact of retrenchment strategies were not decidedly evident in the turnaround cases. Certain initiatives, such as the Voluntary Retirement Schemes instituted at Indian bank and Indian Railways bore partial applicability, however, retrenchment would be more suitably described as a sub-strategy within the broader scheme of the organisational turnarounds studied. The research rationalises that this is rooted in underlying political adherences of SOEs to their respective national governments, as well as their principal legal obligations to provide an expected level of public service. This is consistent with the research of Boyne (2006) who explains that due to the justifications provided, retrenchment strategies are likely to be less feasible in the public sector as oppose to the private sector.

7.3 Contextualising the RBV

A contextualisation pertaining to the influence of the RBV on the private sector turnaround management framework, and the selection of strategic practices applicable to effective turnaround management in SOEs is provided.

Valuable Resources

In the context of the private sector turnaround management framework and the application of the 3Rs, the valuable resources in existence at Haier especially, such as local knowledge, and the technical and operational advantages detailed in Chapter 6, attested to generating competitive advantages for Haier. On the contrary, the challenges experienced by Indian Railways in balancing resource flexibility requirements in a large organisation was flagged as a critical factor for improvement in the turnaround.

Distinctive Competencies

Innovation-based competencies centered on products at Haier, and effective managerial-based competencies in the form of strategic leadership at Indian Bank and Indian Railways, were active enablers in exposing the progressive dynamics of resource-orientated competencies in the turnaround cases.

RPP(C) Framework

Haier concentrated its resource portfolio before diversifying operations, Indian Bank sensibly prioritised its customer product line, and Indian Railways organised operational processes around the critical success factor of sustaining credible safety standards. Evidence drawn from the analysis of all three cases alludes to how management evaluated the status of their resource portfolio, prior to assessing the feasibility of implementation and degree of impact that the turnaround initiatives would bear on the associated operational processes, priorities and potential cultural issues within the organisations.

7.4 Pertinence of Generic Strategic Turnaround Management Themes

This research derived generic conceptual themes for effective turnaround management based on the literature review disclosed in the straw framework. A synopsis of the key dynamics derived from the application of the identified strategic themes is provided.

Accountable Leadership

Haier's committed leadership that empowered employees and promoted a participative decision-making environment, and the formation of the strategic committee at Indian Bank, which effectively communicated performance standards throughout the organisation, indicates the role that accountable leadership played in laying a platform for the effective turnaround that followed in both organisations. On the contrary, the lack of accountable leadership at Indian Railways accentuated the conditions of the decline from the onset, in terms of political manipulation and the compromising of quality.

Creating Accountability

At Haier especially, the avoidance of micro-management, initiation of market-driven incentives and a stricter disciplinary system proved to be an important foundation in the overall turnaround initiative.

Strategic Focus

Haier's in-depth conceptualisation of the market demands, culminating in the articulation of its superior product innovation strategies, and the rationalisation of the fee structure and associated reclassification of services by Indian

Railways, exhibited the competitive advantages derived through the organisations' strategically focused competencies. On the contrary, Indian Bank's ill-focused decision-making and misguided ventures into unprofitable investments, highlighted the detriments experienced due to the organisation's lack of strategic focus.

Organisational Change to Build New Competencies

The advanced development of management talent at Haier was divergent to the failing human resource system at Indian Bank, and the challenges of coping with increased competition and unfavourable employee working conditions at Indian Railways. Haier highlighted how a progressive environment could fuel the significant objectives of organisational change, whilst the environments leading up to the turnaround at Indian Bank and Indian Railways stifled the early opportunities of building new competencies through robust change.

7.5 Contingency-based view of turnaround

In Hofer's research on contingency theory, he argued that the selection of a turnaround strategy depends on the situation (Hofer, 1980). In agreement with the research of Walshe *et al.,* (2004), the turnaround strategies proposed within the normative framework are integrated and multi-dimensional in nature, and the researcher advocates that it is appropriate to explore the organisational field of contingency theory at this stage. The justifications of contingency theory are centered around the premise that varying circumstances surrounding the turnarounds in each of the case studies exist, and despite the fact that generic turnaround guidelines exist, the strategies of the 3Rs play out differently in each case.

This research, therefore, acknowledges that the strategies drawn from private sector turnaround management interventions and applied across SOE cases with the objective of improving performance, involve numerous complexities, and need to be adapted according to factors such as market share, resource constraints, accountability structures, organisational cultures, performance management systems, distribution channels, brand recognition, economies of marketing, political influences and other external factors that make SOE operating environments different to that of private ones (Boyne, 2006; Hambrick and Schecter, 1983; Lapsley, 2009; Walshe *et al.,* 2004). The research upholds that contingency theory plays a potential role in synthesising these trends.

7.6 Recommendations to Stakeholders

The strategic turnaround themes identified exhibit a notable correlation with the with effectiveness of the turnaround management practices detailed as per the case study analyses in Chapter 5. Due to the pertinence of the applied strategic turnaround themes already discussed, it is, therefore, recommended that practitioners in both public and private sectors take cognisance of the premises characteristic of the strategic themes when planning turnaround initiatives (such as those related to the 3Rs). The research proposes that this approach will provide a foundation for increased effectiveness in the execution of turnaround strategies.

The research was based on a practitioner-orientated rationale to turnaround management. Outcomes were intended to broaden the body of knowledge and present conceptual guidelines for effective turnaround strategies. Recording the accounts of effective turnaround strategies is useful, however, turnaround practitioners as well as further researchers in the field of turnaround management, are urged to synthesise the turnaround content with relevance to organisational nuances and fluctuations observed over time (Beeri, 2009; Pandit, 2000). This study proposes that ensuing this approach, will result in more pertinent research findings, leading to rapid theoretical advancement (Pandit, 2000).

7.7 Recommendations for Future Research

In accordance with the literature review of the research conducted by Pretorius (2008) relating to the unique precondition figurations of turnaround situations, the researcher was conscious of the fact that existing empirical research comprises evidence drawn from organisations in different stages of organisational decline. Pandit (2000) acknowledges the richness provided by anecdotal studies in terms of the complexity of the issues addressed, however, the researcher also accepts that the extent of the validity of these findings are compromised by the lack of methodological protocol. Schendel (1992, p. 3) echoes these concerns by stating “Too much strategy research proceeds in an ad hoc fashion without clear protocols that can be replicated and authenticate.”

Therefore, this research proposes that it would be optimal if various research approaches worked in concert (Pandit, 2000). For instance, it would be useful if the normative framework for effective turnaround management and other strategic commonalities and distinctions identified in this study, were complemented by performing research involving the quantitative analysis of relevant data in the context of the field of turnaround management (Pandit, 2000). A further suggestion to counter possible research limitations would be to conduct an analysis of a select sample of longitudinal turnaround case studies, as Pandit (2000) explains that longitudinal case studies are potentially able to reveal the integration of content, context, and process over a period of time.

The research has identified underlying strategic themes, and more detailed private sector turnaround strategies that contribute to the successful turnaround management execution. These strategic factors form a normative framework for effective turnaround management in SOEs borne from the analysis of organisations located in emerging markets. A detailed study that aims to test the applicability of the normative framework in developed markets is, therefore, recommended.

7.8 Conclusion

This research paper enquired why public and private sector turnaround management strategies require customisation, and alignment with the specific causes of organisational failure, as oppose to more generic 'one-size-fits-all' types of approaches. The refined concepts expressed in this research study intend to be recognised as bases for which organisational turnaround strategies in private management can be tailored to fulfill more specific requirements in SOEs (Walshe *et al.,* 2004).

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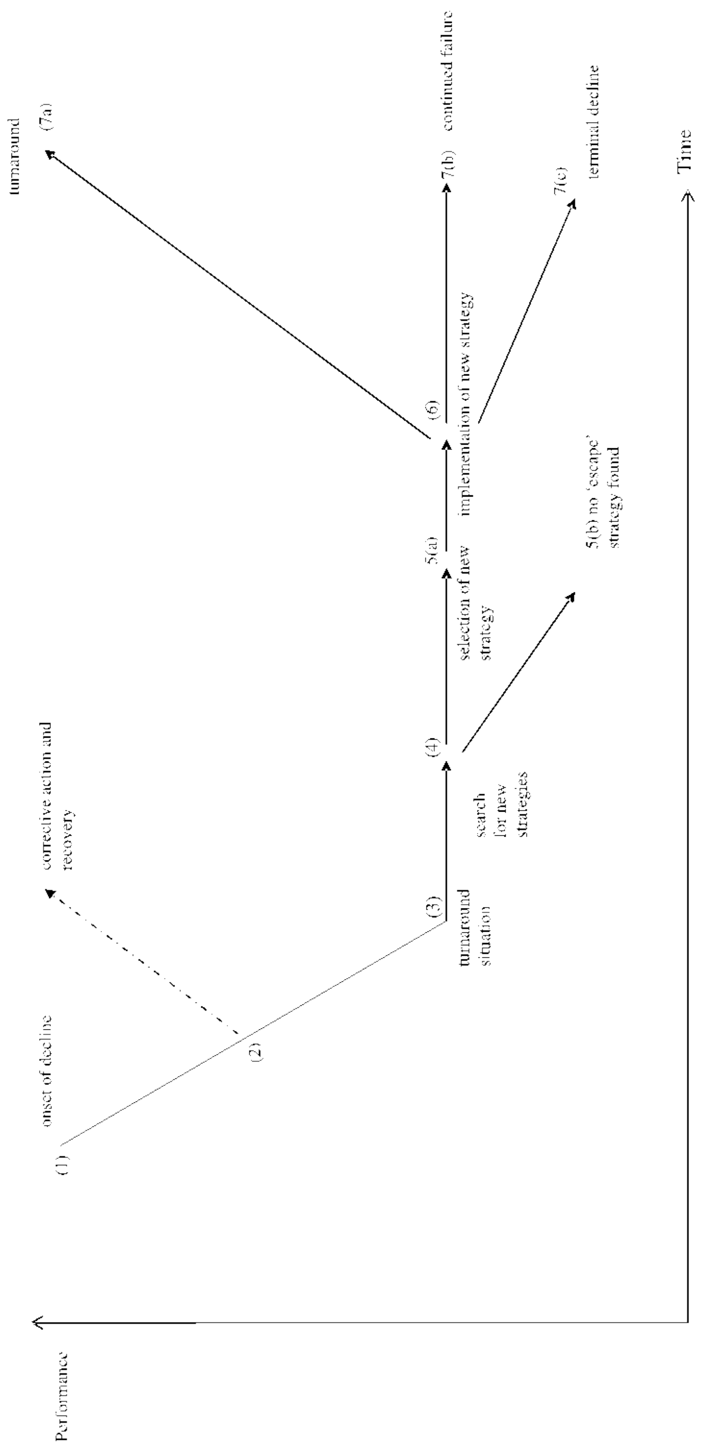
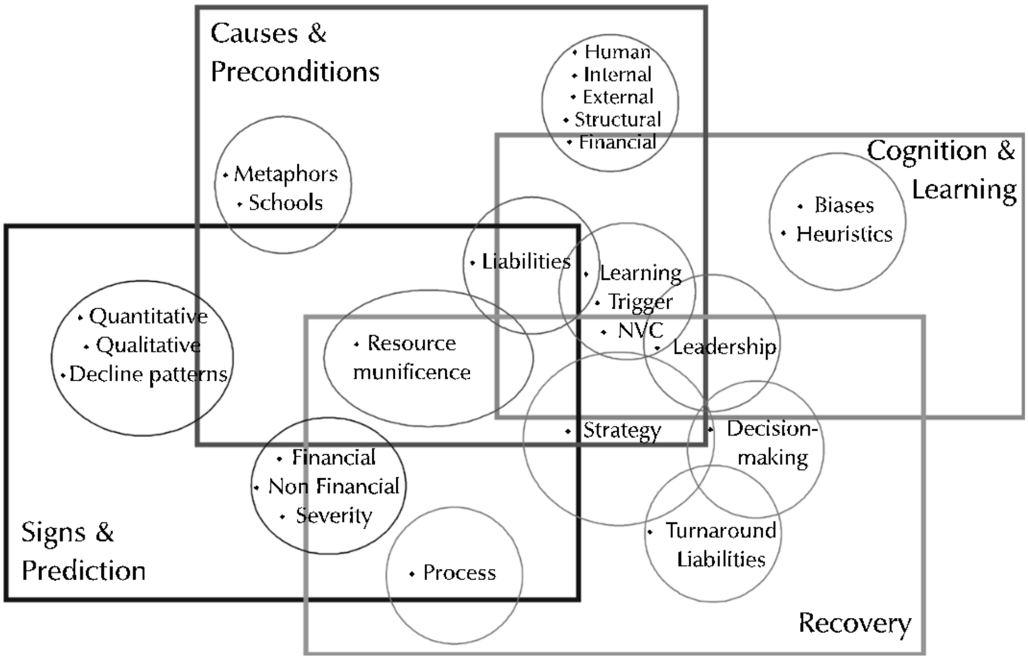
Appendix A1: Stages of Organisational Decline



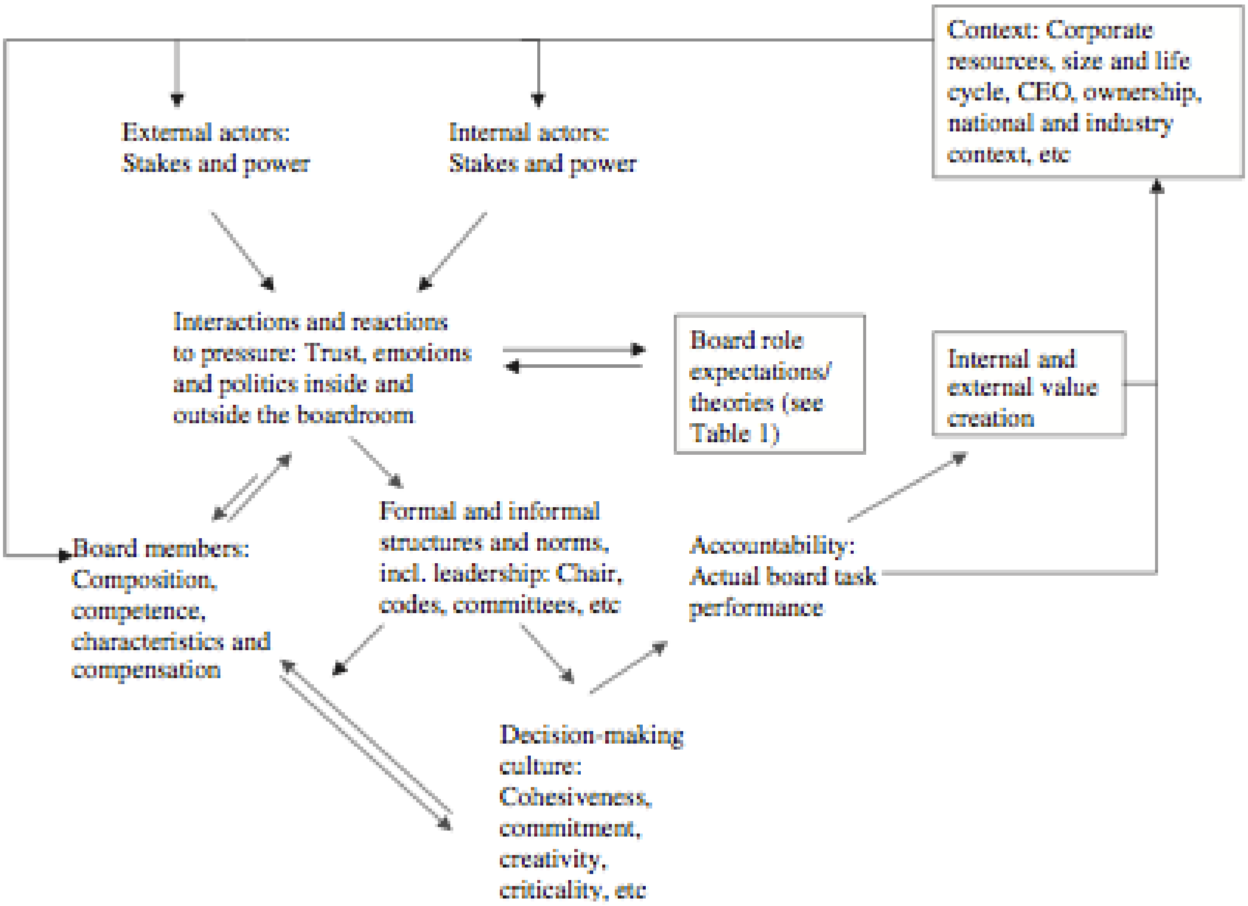
Source: Boyne (2006, p. 371)

Appendix A2: Failure Conceptual Classification Framework



Source: Pretorius (2008a, p. 411)

Appendix A3: Creating accountability: An agenda for understanding actual board behaviour



Source: Huse (2005, p. 67)

Appendix A4: Haier Revenue Growth

Exhibit 1a Haier Group Approximate Revenue and Net Profit (in RMB billions)

RMB bil	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Revenue	2.6	4.3	6.2	10.8	16.8	26.9	40.6	60.2	72.0	80.0	100.0
YoY growth	72%	69%	42%	75%	56%	60%	51%	48%	20%	11%	25%
Net profit							1.4	2.0	2.7	1.6	1.9
Net margin							3.4	3.3	3.8	2.0	1.9

Source: Company documents.

Note: Profit data for 1994–1999 was not available. Haier attributed the 2003 decline in profit to price wars in the domestic market and to increased investments in overseas markets.

Exhibit 1b Haier Group Approximate Revenue Breakdown (in US$ millions)

US$ millions	1998	1999	2000	2001	2002	2003	2004
Domestic sales	1,971	3,112	4,633	6,861	7,868	8,648	10,100
as % of total revenue	97.0	95.8	94.3	94.2	90.3	89.3	83.4
Exports from China	62	138	280	424	444	532	1,000
as % of total revenue	3.0	4.2	5.7	5.8	5.1	5.5	8.3
Overseas made & sold	<1	<1	<1	<1	400	500	1,000
as % of total revenue	na	na	na	na	4.6	5.2	8.3
Total revenue	2,033	3,250	4,913	7,284	8,712	9,680	12,100

Source: Company documents.

Source: Palepu *et al.* (2006, p. 17)