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Challenges faced by CEOs in executing turnaround strategies in state-owned enterprises in South Africa

Authors:
Morongwa Mpete[1]
Christoph Maier[1]

Affiliations:
[1]Graduate School of Business Administration, Faculty of Commerce, Law and Management, University of the Witwatersrand, Johannesburg, South Africa

Corresponding author:
Morongwa Mpete,
morongwampete47@gmail.com

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Purpose: Building on theories of the firm, this research examines the challenges faced by chief executive officers (CEOs) in executing a turnaround strategy in the state-owned enterprises (SOEs) in South Africa.

Design/methodology/approach: This is a qualitative study conducted within 10 of the 21 SOEs classified as Schedule 2 (major public institutions) in the *Public Finance Management Act* (PFMA) that previously embarked on a turnaround. The study comprised 24 semi-structured interviews with CEOs, chief financial officers (CFOs), chief operating officers (COOs), boards, union representatives, regulators, and shareholders as the key players in a turnaround of a SOE. Thematic analysis was used to analyse data.

Findings/results: This research suggests that political landscape and power struggles, inappropriate practices of board, politicians and shareholders, inefficient internal operations, leadership instability, legislation and corporate governance hinder the execution of turnaround strategies in the SOEs. This research is consistent with public choice, agency and resource dependence theories.

Practical implications: State-owned enterprises need to be free from political interference to be able to turn around. Government, board, shareholders, communities, regulators, service providers and unions need to relook at how they portray the CEOs of SOEs, and rethink how they deal with them.

Originality/value: This research contributes to policy, theory, practice, economy and society by expanding the theories of the firm, capturing real-life challenges the CEOs of SOEs face in executing a turnaround strategy and solutions to tackle the challenges. A roadmap to assist SOEs in executing a turnaround strategy successfully is recommended.

Keywords: state-owned enterprise; CEO; turnaround; challenges; South Africa.

Introduction

There seems to be a problem with state-owned enterprises (SOEs) in South Africa as they perform poorly even after the adoption of turnaround strategies (Nyatsumba & Pooe, 2021; United Nations Economic Commission for Africa, 2018). The chief executive officers (CEOs), central to executing turnaround strategies in the SOEs, appear to be facing challenges that hinder the execution of turnaround strategies.

The 2018–2019 report compiled by the Auditor General of South Africa (AGSA) attests to this by suggesting that the annual turnaround plans that were initiated by the SOEs have yielded no results. They failed to implement their turnaround strategies as a result of a number of factors such as incapable boards and insufficient capacity (United Nations Economic Commission for Africa, 2018). In an attempt to address turnaround failures in the SOEs, the Operation Vulindlela project which is steered by the Presidency, in conjunction with National Treasury, was launched in October 2020 to forge ahead with the turnaround of network industries (Hausmann et al., 2022). In addition, the President of the country has appointed the members of the Presidential State-Owned Enterprises Council in June 2020 to assist the SOEs to implement their turnaround strategies (The Presidency Republic of South Africa, 2020).

The report compiled by AGSA cites the instability of the executives and management as reasons for the failure of the turnaround plans. Sithomola (2019) argues that South Africa's SOEs are experiencing a catastrophic leadership 'bankruptcy' which has led to the loss of confidence and trust in their ability to play their central roles of development and revenue generation to sustain their operations.

Adam (2013), Madumi (2018), Mashamaite and Raseala (2019), Thabane and Snyman-Van Deventer (2018) state that the failure of SOEs in South Africa is caused by, among others, poor leadership and performance, political interference, corruption, and ineffective performance management system. Coetzee and Bezuidenhout (2019) point out that the high unemployment rate, South Africa's downgrade to junk status, social unrest, service delivery strikes, among others, create a sense of urgency to hold the CEOs accountable for the performance of the SOEs. Drawing on literature, one would therefore suggest that the absence of leadership could be a key reason for the failure of the turnaround strategies in the SOEs. The views of Ugoani (2020) and Zimmerman (2011) on successful turnaround underline that the quality of leadership is key.

Kaplan et al. (2012) posit that CEOs could have a significant impact on the success of the organisation, considering the leadership position and remuneration. The CEO is responsible for the overall performance and operations of the business (Adriaanse, 2016). Considering the role that the CEOs play in the organisation, one would argue that they should be free from any challenges to be able to execute a turnaround strategy successfully. Literature on corporate governance and corporate finance suggests that the CEO performs the business leader role and therefore he or she is the most powerful agent in terms of major decisions (Da Silveira & Barros, 2012).

There is a gap in the literature on leadership and turnaround (Andalas et al., 2017; Ghazzawi, 2018) at the CEO level in SOEs. Liu et al. (2015) suggest that future research should consider exploring topics on leadership for professional managers instituting organisational change in an SOE. Past studies did not dwell on the challenges faced by CEOs in an SOE as far as turnaround is concerned.

Past studies were fixated mostly on researching the performance of SOEs (Böwer 2017) and governance challenges in the SOEs (Chauke & Motubatse, 2020; Kanyane, 2018; Kanyane & Sambo, 2021; Kanyane & Sausi, 2015; Kikeri, 2018; Mutize & Tefera, 2020). The field of turnaround is under-researched in South Africa (Pretorius & Holtzhauzen, 2008). Nyatsumba and Pooe (2021) explored the constraints that SAA experienced in the implementation of its turnaround strategy. The study comprised only one SOE. This research therefore closes that gap by conducting research in 10 Schedule 2 SOEs.

Other previous studies (Bezuidenhout & Bussin, 2020; Marimuthu & Kwenda, 2019) on the CEO of an SOE were not focussing on the challenges the CEOs face when executing a turnaround strategy in the SOE but rather on the impact the CEOs' remuneration has on performance. Fourie (2014) analysed the role of four SOEs in South Africa and discussed their financial contribution and performance. Internationally, Nyatsumba and Pooe (2022) explored the experiences and challenges associated with the implementation of a turnaround strategy at Kenya Airways. Ngwenya et al. (2016) explored the extent of successful implementation of turnaround strategies in Zimbabwe. In Indonesia, a study investigated the effect of top leadership (i.e. the CEO) on organisational performance under the condition of a turnaround strategy in Indonesia (Andalas et al., 2017). The study therefore attempts to address this literature gap.

This research intends to examine the challenges faced by CEOs in executing a turnaround strategy in the SOEs in South Africa. Based on these challenges, it designs a roadmap for CEOs to indicate how they might successfully navigate their SOE through the envisaged turnaround.

The study is structured as follows: introduction to the study followed by literature review, research methodology, results and discussion, recommendations, conclusion, limitations, contributions and future research.

Literature review

This section discusses the extant literature on the three main themes of this research: the CEO, turnaround, and SOEs. The topics are further aligned to the objectives of this research. The literature assists in setting up the empirical research and addressing the research problem. The literature review deals with these concepts inclusive of the theories (Agency and resource dependence) that underpin this research.

Theories underpinning research

The main theories underpinning the three main concepts of the research (CEO, SOE, and turnaround) are agency theory and resource dependence theory. The theories are aligned with the objectives of this research and therefore assist in examining the challenges faced by CEOs in executing a turnaround strategy in the SOEs in South Africa. These theories are discussed in the next section.

Agency theory

Agency theory was introduced in 1973 by Stephen Ross and Barry Mitnick. 'The theory of agency seeks to understand the problems created when one party, the agent, is acting for another, the principal' (Mitnick, 2015, p. Abstract). The theory discusses the problems in the organisation which exist as a result of separation of owners and managers and makes a suggestion to reduce the problem (Panda & Leepsa, 2017). Panda and Leepsa further point out that the agency problem has evolved to include other role players such as creditors and both the minor and major shareholders rather than just the principal and agent. Agency theory suggests that the failure of the organisation is caused by the agents and principals of the organisation (Eisenhardt, 1989; Jensen & Meckling, 1976). Agency theory also suggests that a contract between the agent and principal will ensure that the agent behaves appropriately to satisfy the principal

(Eisenhardt, 1989). The contract might lessen some of the challenges that SOEs are facing. In addition, Eisenhardt made a suggestion for effective governance system as a means to mitigate the agency problem. Agency theory could provide valuable insights into how to address some of the challenges faced by the CEOs of SOEs.

Resource dependence theory

Resource dependence theory was developed by Pfeffer and Salancik (1978). It suggests that the outcome of the organisation is dependent on the acquisition of external resources. Resource dependence theory further asserts that the need for resources inclusive of financial, physical and information acquired from the external environment led to organisations dependent on the resources' external sources (Pfeffer & Salancik, 2003). The turnaround success of SOEs is dependent on the availability of external resources, and failure to obtain such resources could render SOEs ineffective. Resource dependence theory attempts to explain the organisational and inter-organisational behaviour regarding the critical resources that the organisation should possess in order to survive and operate (Johnson, 1995). Furthermore, resource dependence theory assumes that the board should make provision for external resources through their social networks and also provide guidance and support to ensure the survival of the organisation. The lack of resources could be one of the contributing factors for the failure of some of the SOEs in South Africa in a turnaround situation. The SOEs in South Africa are not financially sustainable; they are dependent on state bailouts (Sithomola, 2019). This is a resource dependence issue.

State-owned enterprise

A SOE is sometimes referred to as a parastatal, a government entity, public entity, or state-owned company (SOC) which is established as a company and constituted according to the company law. The Presidential Review Committee (PRC) (2013) defines a SOE as a legal entity established by government to undertake commercial activities on behalf of the owner, that is the government. A state-owned enterprise is an entity which is owned by the state and mandated to deliver essential services which will, in turn, contribute to the economy.

Any corporate entity which is recognised by national law as an enterprise, wherein government exercises ownership, is regarded as an SOE (OECD, 2015b). The SOEs are closely intertwined with the economic, social and political objectives of the state in different spatial temporal contexts (Hu, 2017). State-owned enterprises can be found predominantly in China, the United States (US), New Zealand, and South Africa (CFI, 2015–2020b).

State-owned enterprises are prominent in sectors of the economy that provide critical services for businesses and consumers, and they contribute directly to economic growth and poverty reduction (World Bank, 2014). According to the Organisation for Economic Co-operation and Development (OECD), the importance of the SOEs is highlighted as the main providers of urban employment while they are also dominant in the sectors that are strategic in nature, such as infrastructure and utilities (e.g. air and rail transport, energy and water supply, broadcasting, finance [e.g. banking and insurance]) which are key for the private sector economy's competitive position (OECD, 2015c). They are also used by government to address market failures (Kikeri, 2018).

The structure of the SOEs could be playing a vital role in the performance of the SOEs. The study by Astami et al. (2010) found that the SOEs that are partially privatised perform better than SOEs that are fully owned by government. In South Africa, evidence in this case is how Telkom has managed to turn around by addressing the challenges it was facing as an organisation. Mutize and Tefera (2020) found Telkom to be one of the successful SOEs in Africa as a result of consistent profit after tax of more than R2.5 billion rands as from 2016. However, one has to take cognisance of the fact that, in the past, Telkom was bailed out several times by government because of under-performance (Thabane & Snyman-Van Deventer, 2018). There are other SOEs, such as Eskom, SABC and SAA, that are continuously receiving state bailout according to Thabane and Snyman-Van Deventer. It appears that these SOEs have not been successful in turning around. During the period 2004–2013, South Africa embarked on four turnaround strategies which were not successful, if not fully implemented (Nyatsumba & Pooe, 2021).

State-owned enterprises globally

Globally, SOEs are key tools for the advancement of policy objectives (Gupta & Kumar, 2020). The SOEs are the key drivers of the economy because of their contribution to the country's gross domestic product (GDP). They contribute approximately 10% of the GDP across the world (Bruton et al., 2015). Most of the SOEs are considered big investors and capital market players in the world (World Bank, 2014). According to Singh and Chen (2018), the reason behind the establishment of SOEs is to ensure that the state has adequate control on strategic industries and natural resources.

The SOEs around the world are faced with the same challenges as South African SOEs. These SOEs encounter performance and governance issues which are difficult to overcome because of a number of factors which are mainly ownership and mandate-related. China is another country that is experiencing challenges around the inefficiencies of the SOEs (Liu, 2009). However, through reforms in the 1980s, Chinese SOEs managed to transform, thus showing improvement in efficiency and productivity. In general, the public has not yet benefited from the reforms (Zheng & Chen, 2009). The private companies perform better compared to the SOEs (Abramov et al., 2017; Arens & Brouthers, 2001). A study by Arens and Brouthers (2001) found that private companies are inclined to adopt strategies that are competitive in nature which result in them performing better than SOEs. Singh and Chen (2018) argue that the weaknesses of SOEs in comparison with the private companies are a result of corporate governance and fiscal challenges. 'They encounter governance failures, which need attention. Consequently, they become unsustainable and vulnerable to corruption' (Kanyane & Sambo, 2021, p. 199). Corruption seems to be rife in emerging markets such as Brazil, Russia, India, China (and South Africa). Na et al. (2018, p. 2) assert that corruption in emerging markets is exacerbated by an 'unstable political and economic environment, customs and traditions, and other environmental factors'.

Some of the SOEs across the globe, particularly in China, were privatised through ownership reform decades ago to try and address the challenges that SOEs are facing. The privatised SOEs and general SOEs in China are still under-performing, compared to the private institutions in terms of profitability despite some improvement in performance (Harrison et al., 2019). Harrison et al. (2019) suggest that ownership alone cannot lead to improvement in performance of the SOEs. Change in government behaviour is also required. Adam (2013) concurs that good governance is crucial for the success of the organisation and not the nature of the organisation.

State-owned enterprises in South Africa

State-owned enterprises in South Africa play a crucial role in government activities as well as in delivering basic services to the people (Madumi, 2018). This view is supported by the OECD (2015c) in the sense that SOEs play an important role in the South African economy. National Treasury (2019) affirms that SOEs are central to driving the state's strategic objectives of creating jobs and enhancing equity and transformation. Many Southern African economies have positioned SOEs to be the core of their national development strategies (Balbuena, 2014).

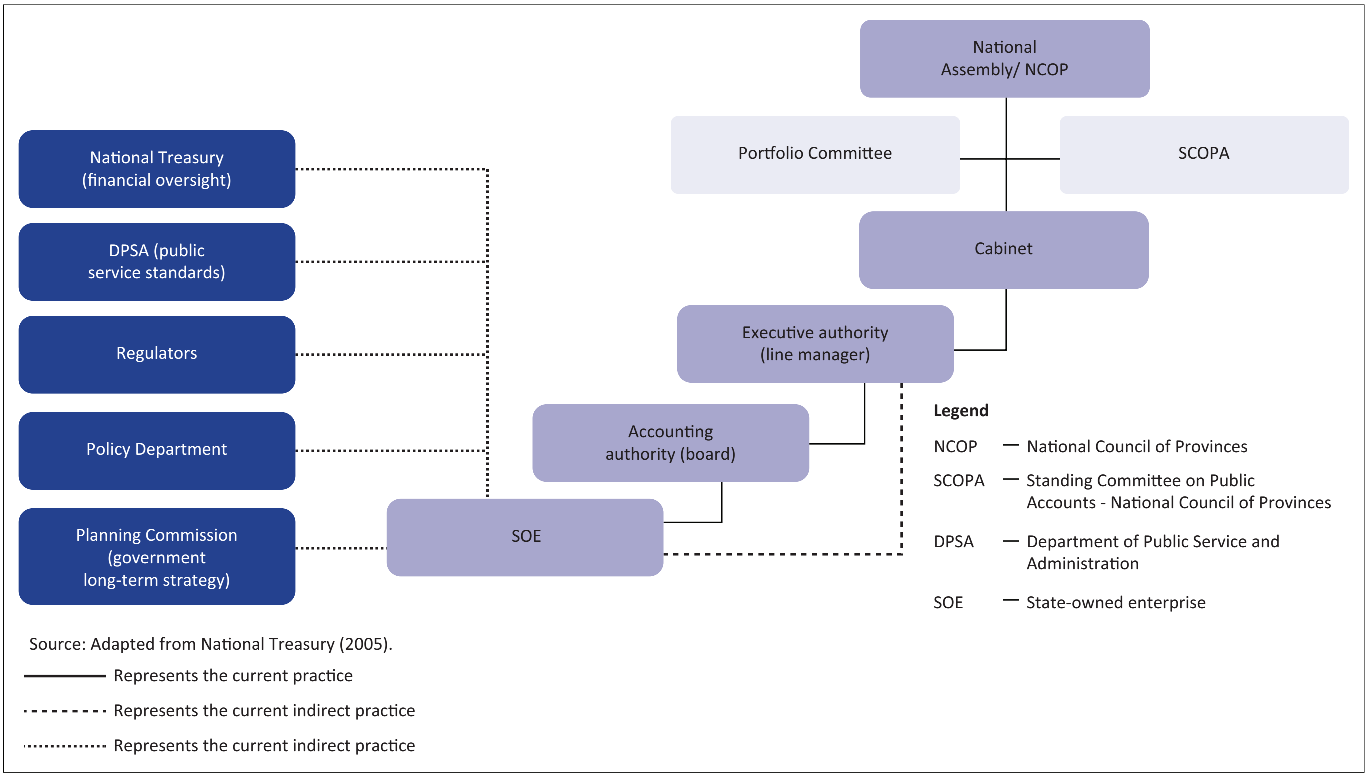
South Africa has a number of SOEs which are classified in different *Public Finance Management Act* (PFMA) Schedules. Schedule 1 of the PFMA comprises constitutional institutions, and Schedule 2 comprises the major public institutions. These SOEs are independent entities, partially or fully owned by the state and they are established to achieve the various socio-economic goals of government. Schedule 3 consists of part A (National public entities), part B (National government business enterprises), part C (Provincial public entities), and part D (Provincial government business enterprises) entities. The focus of this study is on *Schedule 2 SOEs* as they are major entities mandated to deliver economic and development activities. Schedule 2 SOEs (major) are expected to fulfil a dual commercial and developmental role (National Planning Commission, 2020).

The PRC has established that there are currently at least 715 SOEs (including their subsidiaries) in South Africa (PRC, 2013). The SOEs in South Africa are governed by the *Companies Act*, SOE legislation requirements which encapsulate a Protocol on Corporate Governance, the principles of the PFMA, and the King Report on Corporate Governance (National Treasury, 2005). National Treasury (2005, pp. 1–4) further describes the SOE's governance structure as outlined in detail below:

1. Parliament, the Executive and Boards of SOEs play an oversight role of the SOEs. Parliament exercises its role through evaluating the performance of SOEs by examining their annual financial statements.
2. The Standing Committee on Public Accounts (SCOPA) reviews the annual financial statements and the audit reports of the Auditor General, and the Portfolio Committee exercises oversight over the service delivery performance of SOEs by reviewing the non-financial information contained in the annual reports of SOEs.
3. The Executive Authority's (owner and/or shareholder) focus is on appropriate returns on investments and ensuring the financial viability of the SOEs. The relevant Executive Authority acts as the shareholder, while the Minister of Finance and the National Treasury play a financial oversight role.
4. Government is also the policymaker, concerned with the implementation of service delivery and acts as the regulator. The Cabinet, as policymaker, focusses on the implementation of service delivery and acts as a regulator. There is a responsible Minister (Executive Authority) and Department, or in some cases, a Policy Department; for example, the shareholder management of Eskom vests with the Department of Public Enterprises, while policy vests with the Department of Minerals and Energy.
5. The Executive Authority has the power to appoint and dismiss the Board of a SOE. It must also ensure that the appropriate mix of executive and non-executive directors is appointed, and that the directors are qualified to guide the SOE.
6. Shareholder oversight is spread between various shareholder departments, while policy departments which, in some instances are not the shareholder department, direct policy.
7. The governing body of a SOE is the Board of Directors of the SOE. The Board is fully accountable for the performance of the SOE.
8. The National Assembly and the Provincial Legislatures play an oversight role for the SOE and the Executive.
9. The SCOPA reviews the audit reports of the Auditor General.
10. The Portfolio Committees play an oversight role regarding the service delivery performance of SOEs.

The governance structure of the SOEs is depicted in Figure 1.

In South Africa, since 1994, SOEs have been seen as a mechanism for reducing poverty and the achievement of economic growth (Kikeri, 2018). However, some SOEs, such as Eskom, SAA and Denel, are in serious financial distress, and the state has had to step in and provide financial support. Madumi (2018) argues that most of South Africa's SOEs need serious reform because they are currently negating the economic growth of the country.



Source: Presidential Review Committee (PRC). (2013). *Presidential Review Committee on State-owned Enterprises*. Retrieved from https://www.gov.za/sites/default/files/gcis_document/201409/presreview.pdf

FIGURE 1: Governance structure of state-owned enterprises in South Africa.

Zimmerman (2011) describes a turnaround candidate as an organisation facing a serious period of crisis that qualifies for radical improvement for the organisation to remain competitive in the industry. The scholars of turnaround posit that for an organisation to qualify as a candidate of turnaround, they should have experienced financial distress or poor profitability and declining market share (Butar-Butar et al., 2019; Lawton et al., 2011).

In South Africa, it is evident that the SOEs that have undergone a turnaround process have not succeeded in ensuring that the objectives of the turnaround strategy were achieved (Nyatsumba & Pooe, 2021; United Nations Economic Commission for Africa, 2018).

Challenges faced by state-owned enterprises in South Africa

There are a number of challenges that South African SOEs are facing that impede their performance as mandated. The challenges in this regard can be attributed to corruption, poor leadership, political interference (Adam, 2013; Madumi, 2018; Mashamaite & Raseala, 2019; Thabane & Snyman-Van Deventer, 2018), a lack of governance (Mfeka, 2018), high turnover rate of CEOs (Kimanzi, 2021), ineffective financial, performance and accountability systems (Chauke & Motubatse, 2020; Raseala, 2018), as well as the lack of consequence management system and the instability of governance structures (Chauke & Motubatse, 2020). Kanyane's (2018) view is that all the Acts (e.g. the *PFMA* and *Companies Act*) have different provisions for appointment of CEOs, directors and/or executive managers, and this causes a confusion which affects service delivery. As a result of these challenges that the SOEs are facing, there appears a need for the SOEs in South Africa to be turned around to enable delivery of products and services that are core for the economy (Nyatsumba et al., 2022). The lack of effective corporate governance opens the doors for unethical practices. This view is supported by Mfeka (2018), as it is not only corruption that puts these SOEs into their current state.

Peng et al. (2016) discuss that agency theory argues that the organisations that are led by self-interested managers could grow to a point with diminishing returns to owners, except where there are proper corporate governance mechanisms to guide the managers. South African SOEs are diminishing. They are not generating revenue anymore to a point where they are dependent on the state to provide financial assistance. Agency theory further stipulates that if there is a contract in place, the agent will behave in a manner that satisfies the principal (Eisenhardt, 1989). In this research, agency theory could be tested in the context of SOEs to assess if the CEOs' actions are aligned with the contract in place, considering the fact that the CEO is an agent, and the board of directors and shareholders are the principals. Further to Eisenhardt's view on agency theory, Wheelen and Hunger (2012) assert that agency theory prescribes that the CEO, as an agent, could disregard the responsibilities of the organisation or shareholders to pursue their self-interests. The real problem appears to be the shareholder and governance models that enabled corruption. Kanyane and Sausi (2015) argue that the legislative and policy frameworks are fragmented, therefore impacting the ability of the SOEs to respond effectively to the socio-economic development mandate of the state. Similarly, Kanyane (2018) highlights the fact that SOEs in South Africa operate within a framework of multiple pieces of legislation which are at times in conflict with the broad strategic drive of the state. This calls for the reform of legislation. Kanyane and Sausi (2015), citing the SOE Policy Dialogue Report (2012), contend that apart from legislative reform, a mature and emotionally intelligent human factor is required to run the affairs of the SOE from a leadership and managerial point of view.

Adam (2013) and Al-Azzam et al. (2015) argue that good corporate governance ensures that the business environment is transparent, and the companies are held accountable for their actions. In South Africa, it is not clear whether the companies are held accountable for their actions as it has been observed on various occasions that SOEs receive a bailout in terms of funding or a cash injection from the state instead of addressing the wrongdoings by these SOEs.

Drawing on the work of Van Melle Kamp and Hofmeyr (2013), South African CEOs in general are challenged with a scarcity of resources, over-regulation, a complex socio-economic business environment, such as, for example, black economic empowerment and transformation imperatives, as opposed to their peers in other countries. In addition, they struggle with the attempt to balance the interests of the shareholders with that of the broader stakeholders. It is likely that the challenges described above are also present in the SOE environment.

Turnaround

A turnaround is successful when the company's value has been restored to competitive levels by reversing the performance crisis and sustaining its financial situation (Clapham et al., 2007; Gatti, 2002). In similar terms, Zimmerman (2011) points out that successful turnarounds are experienced when the company has an improved balance sheet, profitability and its competitive position has been restored. Ayiecha and Katuse (2014) suggest that the organisation needs to ensure that the organisational strategy is successfully implemented in order to realise the strategic objectives. Successful turnaround denotes that the turnaround strategy was implemented properly, and that achievement of the turnaround objectives has been met.

Failure to turn Schedule 2 SOEs in South Africa around necessitated a need to examine the challenges faced by CEOs in the turnaround of South African SOEs. The issue with the SOEs in South Africa is that the turnarounds are not sustainable. Once turnaround has been initiated, it has to be sustained (Moore, 1999). Denel started with the implementation of its macro turnaround strategy in 2006 (United Nations Economic Commission for Africa, 2018). According to the United Nations Economic Commission for Africa (2018), it appeared that the turnaround strategy was successfully implemented through the reduction of losses, improved solvency, and cash utilisation. It could be noted that though there are SOEs in South Africa that have been successful in turning around, the success was unsustainable. The case in point is Denel. Despite the successful turnaround which became evident in 2013–2014 financial year, today Denel is struggling to pay employees' salaries and service providers; it is dependent on state bailouts to survive (Parliament of the Republic of South Africa, 2022). Resource dependence theory assumes that the outcome of the organisation is the result of external resources (Pfeffer & Salancik, 2003). In this case, it could be that the success of turnarounds in the SOEs is influenced by the availability of critical resources.

Non-performance of SOEs is a global issue, but some of the ailing SOEs around the world have managed to turn themselves around (Eberhard, 2003; United Nations Economic Commission for Africa, 2018). Eberhard (2003) highlights that governments worldwide supported privatisation as a result of decades of poor performance of the SOEs in order to promote economic growth, reduce dependency on state bailouts, and achieving macroeconomic stability. In India, 24 of the largest non-financial SOEs resulted in 17% return on equity (ROE) in 2010; moreover, the profits have nearly doubled in the past five years (World Bank, 2014).

The study by Ngwenya et al. (2016) that explored the extent of successful implementation of turnaround strategies in Zimbabwe found, among others, unhealthy cultures, tight government policies and budgetary constraints, a lack of buy-in from the employees, old equipment and a lack of liquidity to be the major factors that negatively impact on the implementation of turnaround strategies. Considering the challenges above such as government policies, a lack of funds, one would argue that the main issue is availability of external resources which, in this regard, is a reflection of the resource dependence theory.

The role of the chief executive officer

The CEO role is known to be the head of an organisation (Asuquo & Obaretin, 2019; Jain & Yadav, 2017) and therefore the driver of the corporate strategy (Jain & Yadav, 2017). The position of CEO is the highest ranking executive office in the organisation (Jain & Yadav, 2017; OECD, 2015a; Wilson & Lohmann, 2019). The CEO reports to the chairperson of the board. He or she is responsible to execute the policies developed by the board (Boggs, 2006). The role of the CEO in every organisation is critical, as Finkelstein et al. (2009) explain that the CEO is an executive responsible for the overall performance and conduct of the organisation and for making top-level managerial decisions (Cannella et al., 2009; CFI, 2015–2020a).

The major responsibility of the CEO, according to Jain and Yadav (2017), Stata (1988), Wheelen and Hunger (2012), is leadership, to clearly articulate the desired end state (vision) and active participation in the management of key areas of the strategic plan, thus ensuring that the vision is achieved or increases the likelihood of the success of the key programmes. The success or failure of the organisation is often attributed to the CEO.

The chief executive officer in the turnaround of South African state owned enterprises

In a turnaround situation, the CEO is expected to drive the turnaround process, thus ensuring that the turnaround is executed effectively. In some cases, a turnaround specialist is appointed to assist with the turnaround process; however, the overall responsibility still lies with the CEO (Jain & Yadav, 2017; Moore, 1999; Safarova, 2013). The SOEs in South Africa are highly politicised (Mashamaite & Raseala, 2019). It is also in the public domain that the leaders are not appointed on merit (Kanyane & Sausi, 2015; Sithomola, 2019). According to the World Bank (2014), government retains the power to appoint and remove the CEO and the implication is that such authority creates problems by diminishing the board's power and its responsibilities. It also limits the accountability of the CEO to the board.

In discussing the challenges faced by the SOEs globally, inclusive of South Africa, it can be concluded that leadership and governance issues seem to be the main challenges. The CEO is the agent in charge of the turnaround as Gatti (2002) suggests that the turnaround specialist is normally the CEO. What are the challenges the CEO encounters? How can these challenges in South African SOEs be addressed so that the CEO navigates the SOE successfully through the turnaround?

Research methodology

A qualitative (inductive) approach was followed to answer the research questions. The research strategy adopted encompasses the elements of a phenomenological research. Block (2014) states that phenomenology is a field of philosophy which studies people's views and experiences in relation to the phenomena. This is the case in this study as one-on-one, online video semi-structured interviews were conducted to enable the researcher to explore the respondents' perceptions, experiences, and attitudes on the leadership of the CEO. The target population in this research is the former and current CEOs, chief financial officers (CFOs), chief operating officers (COOs), board members, regulators, shareholders, and union representatives from the 21 SOEs classified as Schedule 2 in the PFMA in South Africa that had undergone turnaround in the past. The sampled participants have an insight into the role of the CEO in the turnaround of SOE in South Africa. In this research, it is not possible to reflect the exact size of the target population considering the nature of the respondents being former and current. The researcher conducted a total of 24 interviews (23 online and 1 face-to-face interviews). A list of participants is presented in Table 1.

TABLE 1: Profile of participants per institution (*N* = 24).

Description of participant type	Total number of participants
Board member	5
CEO	8
CFO	3
COO	1
Regulator	2
Shareholder	4
Union representative	1
Total	**24**

CEO, chief executive officer; CFO, chief financial officer; COO, chief operating officer.

The researcher conducted a total of 24 semi-structured interviews (23 online and 1 face-to-face interviews) with former and current top managers (CEO, CFO, COO), union representatives, board members from eight SOEs that have undergone turnaround. In addition, data were collected from the regulators (oversight bodies) and shareholders (Government departments) associated with these SOEs. The participants were scattered throughout the country.

Data collection started on 26 June 2020 after validation of the interview questions (instrument). Data were collected over 9 months, up to 13 March 2021. The duration of the interviews with each participant was between 30 min and 2.5 h. All the interviews were recorded, transcribed and coded to capture the interviewee's views and resulted in approximately 500 pages of transcripts.

Thematic analysis was used for analysis whereby the concepts were grouped and manually coded. Thematic analysis is a method for identifying, analysing and reporting recurring ideas (themes) within data (Riger & Sigurvinsdottir, 2016). Rich data were collected through the interviews and verbatim data were quoted where necessary with an attempt to allow data to speak for itself.

Any form of bias in relation to the collection of data was eliminated or minimised by the researcher by recording the interview responses, probing for clarity, and following up on questions in need of clarity. The researcher also ensured credibility through persistent observation by developing the codes, themes and sub-themes that assisted in examining the characteristics of the data. The researcher read the data thoroughly, examined it, theorised it, and recoded the codes and relabelled them. In addition, the researcher conducted a revision of the themes and sub-themes accordingly. The data were studied until the final theory provided the intended depth of insight. The researcher followed the theme analysis steps for qualitative data as suggested by Castleberry and Nolen (2018), for credibility purposes. The researcher ensured confirmability by proving that the results are based on data collected from the participants and not the researcher's bias. In some cases, the researcher provided direct quotations to prove that the research conclusion is informed by the interpretations of the themes; furthermore, as proof of coding and how the themes were established.

Results and discussion

This section presents and analyses the data collected through the semi-structured interviews. The analysis is aligned to the objective of this research which is to analyse the challenges that CEOs of SOEs face in executing a turnaround strategy in the SOEs in South Africa.

In analysing the challenges, key themes were identified: political landscape and power struggles, inappropriate practices of board of directors, politicians and shareholders, leadership instability, ineffective turnaround strategies and processes, inefficient internal operations, legislation and corporate governance. The themes were further divided into sub-themes. The identified challenges depict the current state of the SOEs, while the recommendations on how to address these challenges reflect the future state of the SOEs. Figure 2 provides a summary of the identified challenges.

The findings of this research suggest that those CEOs who were successful in turning around SOEs in South Africa did not experience any political interference. The five challenges faced by CEOs in executing a turnaround strategy are discussed below:

- *Political landscape and power struggles*: This research found *multiple and parallel lines of decision-making and bureaucracy* to be a major challenge that prevents the CEOs of SOEs from executing turnaround strategies. This was described by the participant as:

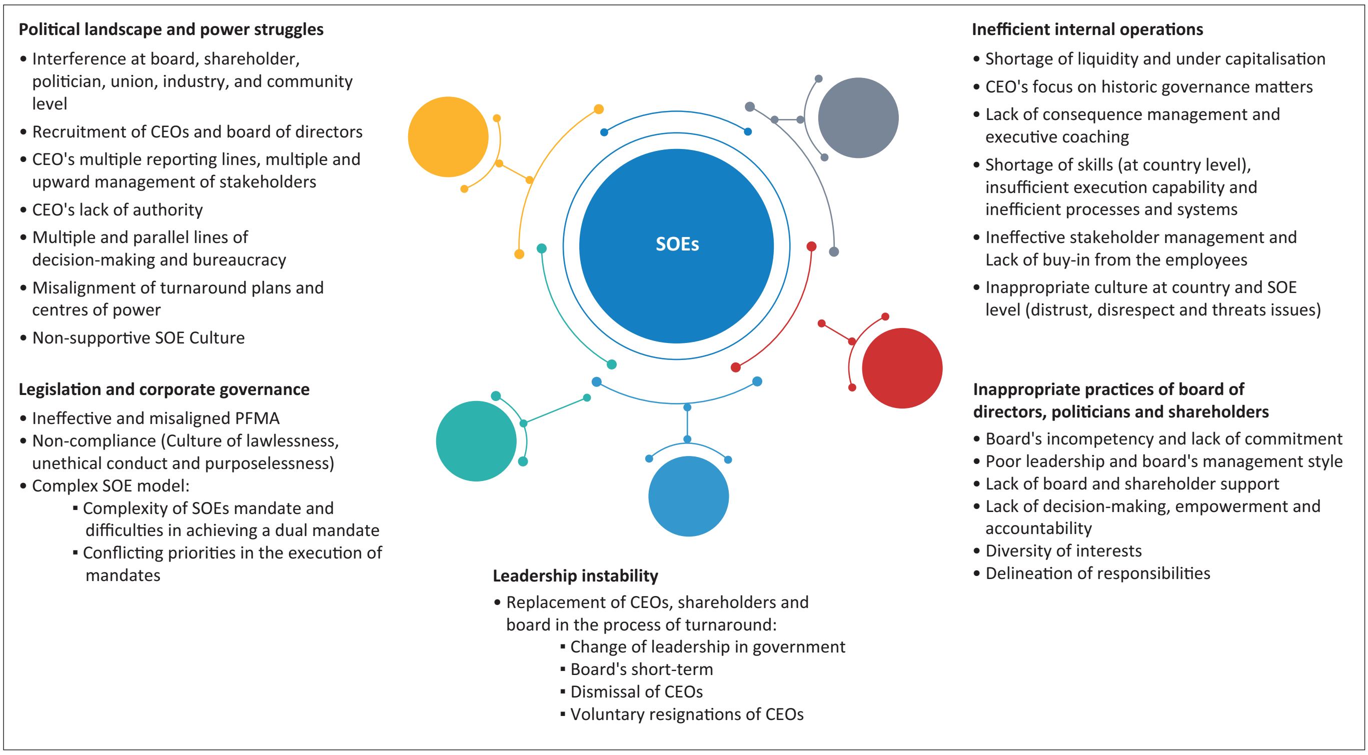
  > 'There's way too much politics into the running of the SOEs.' (AB [CEO] 7, p. 12)

- The CEOs receive instructions from multiple stakeholders, including Parliament. Instructions are not channelled, according to the governance structure; in addition, major decisions are made by the board thus leaving the CEO and management team disempowered. One participant shared their experience on multiple and parallel lines of decision-making and bureaucracy in the following statement:

  > 'My experience is that people end up focusing on politics rather than running the organisation to achieve the set outcome.' (RR [Regulator] 1, p. 5)

In addition, the CEOs of South African SOEs have *multiple reporting lines, multiple and upward management of stakeholders*. They find themselves managing upward stakeholders, such as directors general from both policy and shareholder ministries and this results in prolonged turnarounds. *Interference at board, shareholder and politician level* was found to be significant. The CEOs are not empowered to drive the execution of a turnaround without the board or shareholder or politician interfering in the operations of the SOEs, inclusive of procurement. It is interference at all the levels including directors general and ministry which ultimately affects the functioning of the SOEs. The shareholders and politicians also interfere in board matters. The implication is that the CEO would not be in a position to implement turnaround initiatives with the board, shareholder and politicians interfering in operational matters and not providing support where it is due. One participant narrates their experience on political interference as follows:

> 'Political interference damages the implementation of turnaround strategies, it damages the reputation of the company because it deprives the CEOs and the boards from implementing the board's resolutions accordingly without political interference, deprives the board from making independent decisions because the government's representatives have to influence some of the decisions that the board has to make during a board meeting.' (AA [Board member] 5, p. 15)



CEO, chief executive officer; SOE, state-owned enterprise; PFMA, *Public Finance Management Act*.

FIGURE 2: Summary of the challenges faced by chief executive officers in executing a turnaround strategy.

This research identified the role of the board and shareholders (Government) as a big feature in the success of the CEO. The practices of the board and shareholders are not in line with the OECD guidelines on corporate governance of SOEs. Their behaviours have a triple effect in a sense that they affect the CEO or force the CEO to comply with their orders to secure employment which ultimately affect the public to an extent of establishing Commissions of Enquiry to resolve the self-enrichment behaviour. The findings of this research are aligned to Mbo and Adjasi (2017) who postulate that government involvement in the operations of SOEs hinders SOE performance which is a reflection of a notion of the public choice. In addition, this research is consistent with agency theory as a result of misalignment between agent and principal (Eisenhardt, 1989). Political interference and a lack of support by the principals (boards and shareholders) result in the CEO as an agent being disempowered to perform the tasks that will turn around the organisation or to achieve the turnaround objectives. One participant explicates the issue of CEO's disempowerment by stating that: 'So, unless you've got political support, and you're a very assertive person, I would advise executives to continue being in the private sector' (AB10, p. 11).

Based on this finding, it could be fair to conclude that this research supports agency theory to some extent. However, it takes into account the gap in this theory that the relationship issues are one-sided as the theory assumes that it is only the behaviour of the agent that should be justified. The researcher is of the view that the behaviours of the principals, for example the board and the shareholders, should also be justified. The findings are also consistent with resource dependence theory as the lack of support from the board and shareholder affects the SOE turnaround.

- *Inefficient internal operations*: This research also found the challenges around inefficient internal operations to be strongly evident. Th lack of liquidity as an internal operations issue appeared to be a significant challenge that CEOs of SOEs are facing. Execution of turnarounds requires funds and therefore a lack of such results in the CEOs not being able to turn around the SOEs successfully. The participants express their experiences around shortage of liquidity in the following statements:

  'We're not making money. We're burning the reserves, and that keeps me awake most of the time. … So, such things give me sleepless nights because you've got to think how else do I have to make an income to ensure that we sustain the SOE?' (AA2, p. 13)

  'Not having necessary finances to actually fulfil some of the state mandates that were in our Act.' (AC [COO] 1, p. 19)

  'The biggest challenge in the business was liquidity, you know we don't have cash. We never had enough. We started to lose our critical resources. And then it's a negative spiral, you know, once you lose people that you need then you can't succeed in that sense.' (AB6, p. 4)

This is a classic example of resource dependence where the success of the organisation is dependent on the acquisition of external resources (Pfeffer & Salancik, 2003). The board and shareholders are responsible for making the resources available. This, however, is not always the case in the SOE environment. The findings of this research are aligned to Ngwenya et al. (2016) and Nyatsumba and Pooe (2021) who found that the lack of liquidity and under-capitalisation are among the major factors that negatively impact the implementation of turnaround strategies:

- *Inappropriate practices of board of directors, politicians, and shareholders*: This research asserts that the boards' incompetence, poor management style, and a lack of commitment impact the success of turnarounds in the SOEs. This is evidenced by the following statements:

  'They are hugely inefficient, hugely ineffective, but they carry a lot of political weights. This is not a retirement place. It's also not a political rally, the board should be there because they deserve to be there.' (AB4, pp. 3–20)

  'SOEs boards are operating at plus or minus 25% of what the boards in the private sector do.' (AB4, p. 3)

The findings suggest that some of the boards comprise members who lack commercial acumen or knowledge of the different types of SOEs, as entailed in the PFMA, and the same applies to the shareholders. In addition, *the lack of decision, delayed and wrong decisions, the lack of support, disempowerment, and the lack of accountability* result in the high turnover rate of CEOs and ultimately, turnaround failure. Approval of PFMA section 54 applications takes a long time and this hinders the turnaround process. In a turnaround situation, quick decisions need to be made. This challenge was explained below by the participants:

> 'Decision-making has a long tail and bureaucracy. You may miss an opportunity that could have saved the company whilst waiting for the minister to make a decision. So, accountability tends to be diffused, responsibilities tend to be diffused … at the end of the day, the CEO is the one to be blamed.' (AB3, SS [Shareholder] 2, p. 15)

> 'So, the leadership of the company is not empowered to make decisions, the processes make the decisions for you and these processes take so long to work for you, so you have to wait for this train to leave Cape Town to come to Joburg, and only when it gets to Joburg you check what is in the carriage.' (AB5, p. 7)

The research data support Laher (2019) by stating poor management and direction from the board of directors as the reasons for failure of SOEs. Moreover, this research supports the Institute of Directors of South Africa (IODSA) (2021) which explained that many people do not have the specialised skills and knowledge required to fulfil the duties of a modern-day director.

- *Leadership instability*: Replacement of the CEOs or board or shareholders in the process of turnaround impacts the success of turnarounds as the new team has to start from scratch instead of continuing where the previous team left off. The CEOs find themselves repositioning the turnaround strategy with change of leadership at government level. The participants shared their views below on the replacement of a CEO when turning around which results in the introduction of new risks with the appointment of new people and a loss of corporate memory:

> 'Remember every time you introduce new people you introduce new risks, no matter how smart you are going into a new environment, you bring with yourself new risks.' (RR2, pp. 19–20)

> 'When you exit a CEO, any of those senior executives, you lose a lot of leadership memory in the organisation. So, it's not very easy for somebody to just walk in from outside and in a short space of time be able to swing things.' (AA3, p. 8)

A decision to replace the CEO should be performance-based and this is explained below by the participants in detail:

> 'So, it should be purely based on performance. And if the CEO is unable to turnaround the company, then there must some negotiations for him or her to step down and be replaced.' (AA5, p. 10)

> 'If you've got a Porsche and is not reaching the set maximum speed and the driver says I am struggling, we can only get up to 160. What do you do? You know what the car can do? You replace the driver.' (AA1, p. 23)

Sometimes the CEO is being replaced because of the shareholder or board's preference for another candidate:

> 'Because there is a new political head who prefers to work with certain individuals and heads.' (AA5, p. 10)

There are also voluntary resignations as a result of the things that are beyond the control of the senior executives:

> 'I think the majority of them end up leaving after realising that they just don't have the tools to make a real difference in their environment that they are working in and things just take forever to move.' (RR1, p. 4)

> 'Their lives are made difficult as CEOs and then they find themselves compelled to think about exiting before even their plans are implemented.' (AA3, p. 24)

This research is aligned to Balbuena (2014) who suggested the high turnover rate of the board as a challenge facing SOEs. The impact in this regard is that change in leadership minimises the success rate of turnarounds because of reasons provided such as the new board having to take time acquainting themselves with the business and at times, things not working out with the new board.

- *Legislation and corporate governance*: The SOE model is complex in a way that the mandates are difficult to achieve. Complexity of SOEs' mandate and conflicting priorities result in difficulties in achieving the SOE mandate. There appears to be a dual mandate. The frustration around this dual mandate is clearly articulated by the participants:

> 'For example, when you are a CEO of a state-owned enterprise, you are expected to drive an agenda and a commercial developmental agenda at the same time. That does not work. So, I should've agreed with government that it will only be a commercial mandate that I'm going to drive, the developmental mandate will not be my responsibility.' (AB10, p. 9)

> 'Having a government as a shareholder means that you've got to have all government policies and imperatives at heart, rather than the business you need to solve for. You can't have an equation where you balance everything out, because if you try and balance everything out the status quo remains, nothing changes.' (AD [CFO] 2, pp. 5–6)

Van Melle Kamp and Hofmeyr (2013) affirm that generally, the South African CEOs are challenged with a scarcity of resources, over regulation, a complex socio-economic business environment, such as, for example, black economic empowerment and transformation initiatives, compared to the CEOs in other countries.

Drawing on agency theory, the CEOs' contracts are not achievable as a result of complex mandates, conflicted priorities, and unclear roles and responsibilities. The PFMA is rigid and in conflict with the *Companies Act*. In addition, it is subject to abuse by government officials. The participants elaborated below on the issue of PFMA:

> 'In some cases, the PFMA can be a hindrance to making quick decisions.' (AA1, p. 24)

> 'Some of the regulations and rules such as PFMA can be too prohibitive, particularly in a competitive space.' (AC1, p. 2)

> 'It takes years to get response or approval.' (AD3, p. 4)

The issue of misalignment between PFMA and the *Companies Act* is also discussed in Corrigan (2014, p. 3) that 'in South Africa, SOEs are subject to the *Companies Act of 2008* and the *Public Finance Management Act*, two sets of requirements that are not clearly aligned'.

Recommendations

Based on the qualitative data collected during the interviews, this research recommends a roadmap to address the key challenges facing the CEOs which are common in all SOEs. The challenges in this regard are hindrances to the success of turnarounds in the South African SOEs. The roadmap may enable the SOEs to implement their turnaround strategies by foreseeing, guarding against, and circumventing these challenges. Most of the initiatives in the roadmap should be carried out by the highest authority in the SOE environment, which is the Cabinet, as they are legislative in nature.

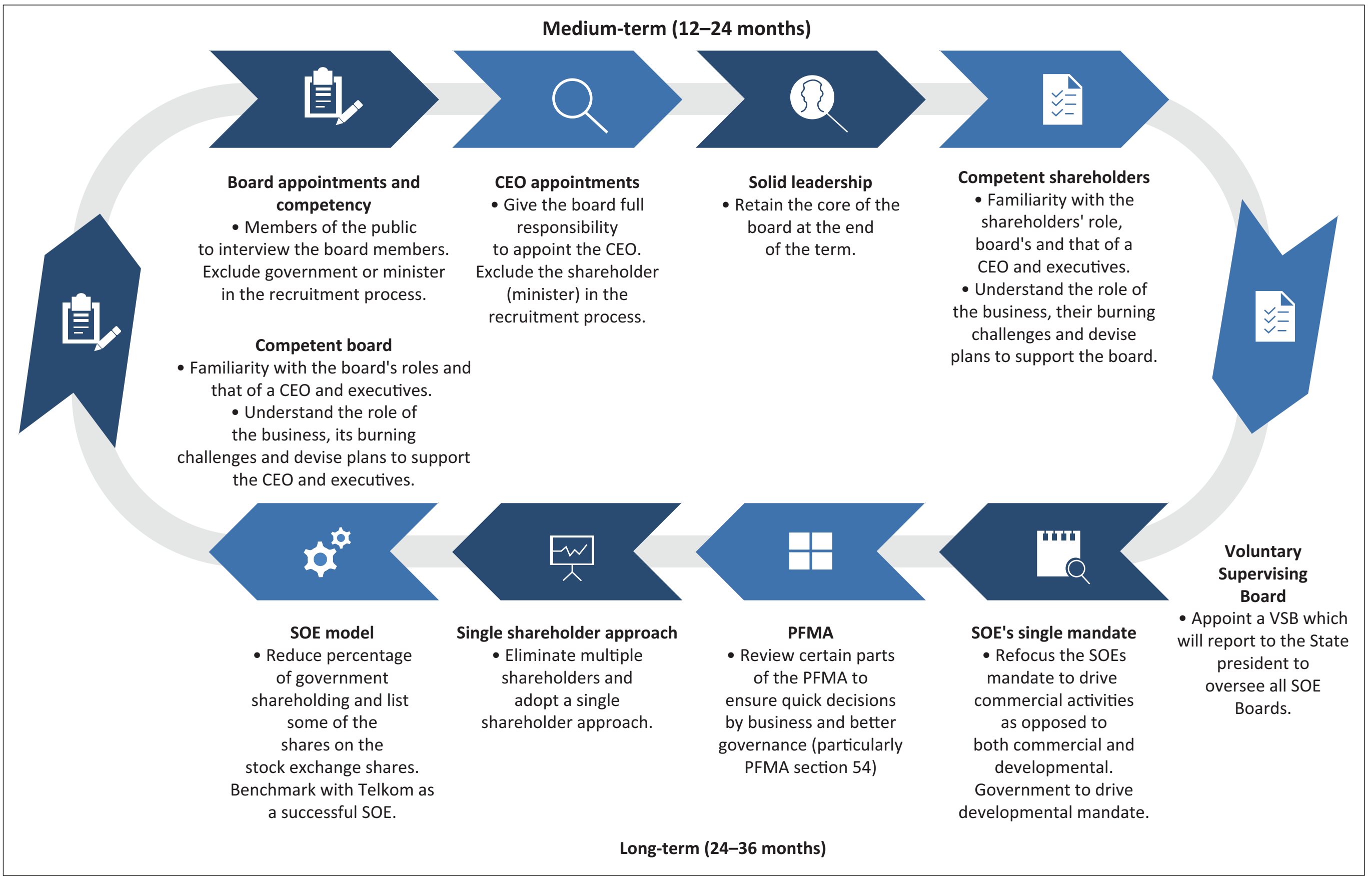
The roadmap which is based on data gathered during the interviews is depicted in Figure 3.

The roadmap entails initiatives which are classified into medium-term and long-term timeframes to address the key challenges in the SOEs. The main objective of these recommendations is to ensure successful turnaround of SOEs in the future. The recommendations are as follows:

- Appoint capable people in leadership and management positions and retain core board members at the end of board's term.
- Segregate the board and shareholder's responsibilities.
- Upskilling of the board and shareholders, and establishment of Voluntary Supervising Board (VSB).
- Review SOE model and the PFMA.

Conclusion, limitations, contributions and future research

This research examined the challenges faced by CEOs in executing a turnaround strategy in the SOEs in South Africa.



CEO, chief executive officer; SOE, state-owned enterprise; PFMA, *Public Finance Management Act*; VSB, Voluntary Supervising Board.

FIGURE 3: Turnaround roadmap for state-owned enterprises.

It made recommendations in the form of a roadmap for addressing the challenges. This article is among the first to narrate the challenges faced by CEOs in the turnaround of South African SOEs together with a roadmap to assist in addressing the challenges.

Political landscape and power struggles, leadership instability, inappropriate practices of the board of directors, politicians and shareholders, legislation, and corporate governance issues were found to be the major challenges faced by CEOs in executing a turnaround strategy in SOEs in South Africa. The challenges are clear cases of agency, public choice, leadership, and resource dependence problems. The findings of this research are aligned with Mbo and Adjasi (2017), who postulate that government involvement in the operations of SOEs hinders their performance which is a reflection of a notion of the public choice. In addition, this research is consistent with agency theory as a result of misalignment between the agent and principal (Eisenhardt, 1989). The findings of this research are further aligned with the study by Nyatsumba and Pooe (2021) who found the shareholder's slow decision-making, under-capitalisation, unstable political leadership, unhealthy board dynamics, leadership instability, and a lack of management skills as constraints for implementation of a turnaround strategy in an SOE. This research also validates the study of Gomathi (2014) that found a successful turnaround to be comprising stakeholders' co-operation, competent management, and sufficient capital to execute a turnaround plan.

The politicised and emotional environment of the study field had a negative impact on participation. A Commission of Inquiry, as a result of 'state capture', was taking place the same time as this research, and some of the potential participants were kept busy by the Commission as a result of preparations. This could have influenced the participation rate. Political dynamics in South Africa could also have impacted participation because of trust issues and therefore leading to the potential participants thinking that by participating in the research they could be limiting their careers. Anonymity of the study which appeared to be a necessity in order to be able to collect empirical data and conduct the research, perhaps prevented a deeper or more concrete understanding of challenges, processes and learnings. It also made pinpointed recommendations impossible.

The research makes a contribution to policy by suggesting a review of certain parts of the PFMA, SOE model and recruitment process because of their ineffectiveness. The proposed policy changes will ensure quick decision making, segregation of responsibilities, achievement of SOEs' mandates, and fairness, transparency and appointment of competent and qualified directors and executives. In addition, it contributes to theory by introducing and providing empirical support for the theories of the firm (Agency theory and resource dependence theory) to the SOE field. It expands knowledge in the field of leadership and turnaround into the public sector while also contributing to public choice and leadership theories. Practical solutions on the execution of SOE's turnaround strategies are provided by capturing real-life SOE challenges and practical recommendations to assist government and SOEs in addressing the challenges that CEOs face in executing a turnaround strategy. Furthermore, the findings of this research enhance an understanding of the leadership of the CEO in the turnaround of an SOE which will help the government, board, shareholders, communities, regulators, service providers and unions to relook at how they portray the CEOs of SOEs, and improve how they deal with them.

This research made a theoretical contribution particularly in identifying the challenges faced by CEOs in the turnaround of South African SOEs. It developed a roadmap for addressing these, a new piece of theory in itself.

This research made significant contributions particularly the development of a roadmap for addressing the challenges; however, it is not without limitations. This study took place in the South African context. This could be broadened and future studies could include other countries to determine if the same or similar results are reported. In the South African context, a different methodology could be used to overcome the limitations presented by this study. Ideally, the challenges identified could be tested quantitatively with a large sample. The future studies could therefore broaden the sample to include over 24 participants. This research focussed on the CEO in the turnaround of South African SOEs. The results of this study could be put in context with similar research on CEO in the turnaround of private organisations and determine if the challenges the CEOs of SOEs face in executing a turnaround strategy are similar to those in the public sector. A comparison of the challenges faced by the CEOs of SOEs and of private companies will shed further light on the success factors of turnaround strategies. Lastly, research of the turnaround success of a new generation of CEOs, adhering to the principles laid out in this research, could be studied in the future. Such studies will be the ultimate litmus test for the relevance of the theoretical and practical contributions made by this research.

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Competing interests

The authors declare that they have no financial or personal relationship(s) that may have inappropriately influenced them in writing this article.

Authors' contributions

M.M. contributed towards the conceptualisation, data collection, writing and editing of the research article. C.M. contributed towards the conceptualisation, writing and editing of the research article.

Ethical considerations

An application for full ethical clearance was made to the University of the Witwatersrand Human Research Ethics Committee and ethics consent was received on 12 June 2020. The ethics approval number (non-medical) is H20/05/27.

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Data availability

The data that support the findings of this study are stored in a password-protected laptop and are available from the corresponding author, M.M. upon reasonable request.

Disclaimer

The views and opinions expressed in this article are those of the authors and are the product of professional research. It does not necessarily reflect the official policy or position of any affiliated institution, funder, agency, or that of the publisher. The authors are responsible for this article's results, findings, and content.

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