PERFORMANCE DRIVERS IN SOES: BOTSWANA POWER CORPORATION PERSPECTIVE

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Abstract

This paper investigates performance drivers in a State Owned Enterprise from a perspective of contending organizational theories. It is based on BPC, an SOE that has gone through varied performance trends under different business models over the last 44 years. The study uses both qualitative and quantitative data from the last 15 years and finds that good performance has been supported by notions of the agency, stewardship and resource theories while a blanket pursuit of the stakeholder theory undermined sustainable performance, just as public choice theory implications. Two perspectives emerge: a broadened view of the agency theory reconciling traditional shareholder centric interests with those of the wider society and a residual societal benefits inherent in the public choice theory.

Keywords: Agency, Public Choice, Stakeholder, Resource Based, Governance

1. INTRODUCTION

State Owned Enterprises (SOEs) are well known for poor performance and inefficiencies (Boko and Yuan Jain, 2011; Xia and Chen, 2007), but their relevance and importance remain uncontested. The importance of SOEs is evident in developing countries, including in sub-Saharan Africa (Elwel and Labonte, 2007), where they operate in virtually all sectors (Kikeri and Kolo, 2006). Despite their widely publicised poor performance, the literature on what fundamentally drives SOE performance is inadequate. By their nature, SOEs operate in a unique situation and this is often attributed to their ownership structures and ill-defined property rights. SOEs are typically saddled with geo-political deliverables of no tangible commercial outcomes (Carney *et al.,* 2011), including contradicting but legitimate expectations from a wide range of stakeholders (Freeman, 1994). This results in a tension that blurs the understanding of what fundamentally influences how SOEs perform, and this is the focus of this paper.

A wide array of variables are thought to have an influence on how SOEs perform, and there is quite often a contextual perspective: access to strategic resources and the existence of competition (Stan *et al.,* 2013) has been associated with good performance displayed by many American SOEs. In China, restrained political involvement and a good aptitude of the boards are factors widely admired in SOEs (Xu *et al.,* 2001). More recent studies also identify slack as a possible success factor in SOEs (Stan, 2013; Liu *et al.,* 2013; Li *et al*, 2013).

From a generic perspective, performance contracts have become popular due to their perceived positive influence on organisational performance. However empirical evidence on their effectiveness in SOEs remains rather inconclusive; a study analysing effects of performance contracts on productivity and financial performance of SOEs in Ghana, Senegal, India, Mexico, South Korea and the Philippines found no positive correlation (Shirley, 2008). Perhaps this is not surprising; the success of performance contracts invariably hinges on a supportive governance framework, typically pro-agency theory of which effects becomes diluted with heightened political interference and the pressure to maximise on social benefits often associated with SOEs (Mwaura, 2007).

Attempts to explain poor performance od SOEs with generic organisational theories have also not yielded much consensus, with some of the theories depicting conflicting positions.

Theories that have been commonly referenced in explaining organisational performance include the agency theory (Jensen and Meckling, 1976; Eisenhardt, 1989), the resource-based theory (Wernerfelt, 1984), the stakeholder theory (Freeman, 1994) and the public choice theory (Niskanen, 1971; Tullock, 1976 and Krueger 1990). Proponents of the agency theory have argued a case for effective boards as a foundation for dealing with the agency problem, whilst those of the resource-based theory emphasise the importance of resources owned and controlled by organisations in driving positive performance. The stakeholder theory holds that a good sense of existence for any organisations is underpinned by its stakeholder disposition and this would, among others be reflected by stakeholder representation on boards, whilst the public choice theory associates political influence and interference with poor organisational performance.

Still, the application of such theoretical underpinnings to an SOE context has not been adequately explored in academic studies (Bozec *et al.,* 2002). However, such an interrogation remains key given the extent of interaction of these theories in practical organisational settings, and even more so with SOEs, given their widely acknowledged uniqueness. The unique features of SOEs (heightened political influence, competing but legitimate stakeholder interests, flawed governance structures, the capability gap etc.) tend to imply tension amongst some of the organisational theories which can be best understood through a broad based-approach to academic inquiry. Such an approach will simultaneously interrogate a number of factors under the microscope of organisational theories, thereby dealing with the often overlooked but central question of how different organisational theories interact with each other to influence performance outcomes of an enterprise.

Most of the studies on the subject of SOE performance, for example Nayyar, (1990); Putterman, (1993); Xu *et al.,* (2001); Stan *et al.,* (2013); Mwaura, (2007) and Shirley, (2013) analyse SOE performance factors in isolation. Neither of these studies adequately addresses the issue of SOE performance from a perspective of combined several factors. A similar deficiency is observed in studies that review the performance of African SOEs, with quite a number focusing on the effects of privatisation pressures and commercialisation (Godana and Hlatshwayo, 1998; Nellis, 2005; Nellis, 2005b; Adeyemo and Salami, 2008). Similarly, poor governance in African SOEs (commonly due to political interference) is a widely researched area, for which many studies blame for poor performance (Mwaura, 2007; Edoun, 2015; Balbuena, 2014).

While all these studies contribute immensely to the debate on SOE reforms, they do not offer much in terms of improving SOE performance without necessarily altering their ownership structures, yet this remains an important dimension given that the positive effects of privatisation itself are yet to be proven by empirical evidence (Shirley, 2008).

This paper takes a much broader view in analysing and explaining how several factors interact with each other to influence performance. The paper considers governance, resource availability, political and stakeholder interactions. It does so in a context of organisational theories which, when applied to an SOE setting tend to display some degree of tension towards each other.

The study focuses on the electricity sector where the SOE business model is heavily relied on by almost all sub-Saharan African countries for the generation and transmission of electric power. Given the heavy influence of socio-geo-politics on the governance (and ultimately on the performance outcomes) of SOEs, this study chooses an entity from a country where relative political stability has been sustained over a long period of time. Thus, the case is based on the Botswana Power Corporation (BPC). The BPC has been in operation since 1970 and provides electricity to individuals and businesses spread throughout the country.

Despite a good performance history, by 2012 the BPC was nearing complete failure, heavily relying on government subventions to sustain core operations. During the four year period of 2010 to 2014, the corporation barely satisfied local power demand mainly due to the dwindling plant availability rates and the prohibitively priced emergency power supplies. Such an operational performance background and history also make the BPC a unique case to study.

The rest of the paper is structured as follows: section 2 gives an overview of the BPC followed by a review of the relevant literature, and methodology in sections 3 and 4 respectively. Section 5 presents a detailed analysis, while section 6 concludes the discussion.

2. REVIEW OF LITERATURE

In a generic context, performance incentives, prevalence of the free rider problem and efficient performance monitoring are identified as determinants of organisational performance (Nayyar 1990; Putterman 1993). An SOE context however introduces a very distinct perspective with respect to performance objectives, that is, economic and social objectives and these potential clash (Aharoni, 1981).

Quite often SOEs are exposed to a wide spectrum of stakeholders without a unifying corporate governance mechanism which monitors their performance (Stan *et al.,* 2013). This, coupled with blurred agent-principal relationships has often exposed SOEs to political directives of no business rationale (Cuervo-Cazurra and Dau, 2009), yet at times such directives benefit a constituency of legitimate stakeholders (Shirley, 2008). Like in any organisation, resources are identified as potential drivers of SOE performance (Bourgeois, 1981; Tan and Peng, 2003) although they are often diverted to pet projects for political expediency (Stan *et al., 2013).*

The widely publicised success story of the Chinese SOE sector has been attributed to good governance (Aivazian *et al.,* 2005), implementation of effective performance monitoring devices (Kole and Mulherin ,1997) as well as restrained political influence (Xu *et al.,* 2001).

A number of theories exist to explain all these factors in a coherent manner and these include the following; agency theory (Jensen and Meckling, 1976; Eisenhardt, 1989), stakeholder theory popularised by Freeman (1994), stewardship theory (Donaldson and Davies, 1991; Donaldson, 1990; Barney, 1990), public choice theory (Niskanen, 1971; Tullock, 1976; Krueger, 1990) and the resource-based theory (Wernerfelt, 1984).

At the nucleus of the agency theory is a principal-agent problem that arises when managers subordinate the interests of the owners in pursuit of their own. Unlike with privately owned firms, the extent of the agent-principal problem in SOEs is less appreciated (Qian, 1996). This is because private owners often have a single and well-articulated objective of wealth maximisation whilst SOE goals can be diverse, vague and conflicting (Shirley, 2008). A widely held consensus is that fundamental problems in the governance of SOEs explain much of their poor performance (Robinett, 2006), but the extent to which this can be resolved through pro-agency theory models is less clear. Private owners have often resorted to boards of directors in dealing with the agency problem. Managerialism, supported by adequate reward schemes, has also become a popular approach in privately owned enterprises (Raelin and Bondy, 2013). Although SOEs are adopting the same approaches in resolving their counterproductive governance problems, important limitations remain: managerial incentives are often weak (Bolton, 1995), performance objectives and measures are frequently ill defined (Toninelli, 2000), boards in most cases constituted from politically connected individuals (Toninelli, 2000) and the shareholder is usually represented by politicians.

The agency theory has been criticised for its narrow focus on owners' interests (profit maximisation) to the detriment of societal benefits which are supposed to accrue from enterprises (Carney *et al.,* 2011). SOEs, by their nature are not profit maximisers, but rather deliver on a wide array of objectives in a self-sustaining manner (Wicaksono, 2009).

Under the stakeholder theory, a firm's value disposition, managerial decisions and its situation are shaped by legitimate stakeholder expectations. Such a view supports a conclusion by Carney *et al.,* (2011) that organisations are a nexus of contracts. Thus, successful performance is dependent upon contracting with the right stakeholders based on their justified expectations. Although supported by research (Coff, 1999; Mitchell *et al.,* 1997), such a view it is based on an oversimplified perception that stakeholders groups are homogenous. In reality, Stakeholders belong to groups with contesting interests, particularly in the context of the SOEs, given the broad expectations different groups have on them (Donaldson and Preston, 1995).

From a stewardship theory perspective, performance is dependent upon the existence of those organisational structures, including executive managerial capacity that aid the formulation and execution of sound strategic plans (Donaldson, 1985). Such structures must provide clear and consistent role expectations, and must also authorise and empower senior management (Donaldson and Davis, 1991). Thus, in accordance with the stewardship theory, boards, whilst they play an oversight function, may not solely be credited for good enterprise performance. This creates a complementary perspective between the agency and stewardship theories supported by an observed shift in the relationship between the CEOs and boards from being supervisor-supervisee to a collaborative undertaking (Yang *et al.,* 2009).

Whilst the majority of the firm theories deal with behavioural aspects of firm governance and management, the resource-based theory has taken a much wider view. The theory's proponents see organisations as bundles of resources which, depending on how they are uniquely combined, make one firm perform better than the next (Hamel and Prahalad, 1994). That calls for apt entrepreneurial ability, which Conner (1991) and Raza (2012) argue is essential for enterprise excellence. This view has been popular amongst other researchers (Grant, 1991; Makhija, 2003; Wernerfelt, 1984; Hoskisson *et al.,* 2000). In an enterprise setting, business rationale dictates the acquisition and allocation of resources, with competition being an important stimulant of innovative thinking (Nahapiet and Ghoshal, 1998). This, however, does not always hold for SOEs, where resource allocation and application is subjected to socio-political pressures beyond pure enterprise imperatives, (Xia and Chen 2007).

The Public choice theory deals with the widely publicised political influence on SOEs. The theory is premised on the homo-*oeconomicus* assumption that politicians generally act collectively to exploit a system in advancing their individual interests (Hill, 1999). SOEs are prone to such exploitation as they overseen by politicians. Such exploitation often comes in the form of biased legislation (Hill, 1999) and the abuse of resources and budget manipulation (Fudanga and Mwaba, 2006). However, the extent to which politicians can completely suppress a system for personal benefit vary by circumstances. Lack of voters' incentives to hold politicians accountable, and also voter ignorance, contribute immensely to the SOE's exploitation by politicians (Downs, 1957; Shaw, 2008). The governance systems often expected to guard against SOE political exploitation are under the custodianship of the very same politicians and politically appointed boards (Mwaura, 2007).

Whilst the agency theory focuses on incentives and the allocation of decision rights among managers and owners (Carney *et al.,* 2011), the stakeholder theory tends to be socio-political centric (Fligstein, 2001). Thus, the agency theory seeks a governance model which leads to wealth maximisation of owners, whereas a stakeholder driven model incorporates interests of society. This results in a balancing problem: can enterprises maximise wealth whilst at the same time delivering on societal benefits? Unfortunately, due to the dominance of the agency theory in corporate governance research work (Raelin and Bondy, 2013), the quest for good governance has concentrated too heavily on achieving wealth maximisation through managerialism. The defect of such an approach has been that other SOEs' specific counter-productive relationships are overlooked, such as the inverse relationship between political interference and the SOE performance (Xu *et al.,* 2001). Whilst resource-based theorists have argued that resources are a source of good performance (Grant, 1991), SOEs with vast resources tend to attract higher levels of exploitation by politicians for reasons of political expediency (Bozec *et al.,* 2002).

3. AN OVERVIEW OF THE BOTSWANA POWER SECTOR

The Botswana power industry has historically performed well in the sub-Saharan African context. Access to electricity by the rural population improved significantly from just 22% in 2000 to 55% in 2013 (BPC, 2013). This improvement has contributed to a growth of electricity consumption per capita to 1,406 kWh per annum by 2008, being amongst the top 20 in Africa (Tallapragada *et al.,* 2009). Power connection lead times in Botswana are 20-30 days, comparing favourably with an average of 35 days for the sub-Saharan Africa region (Tallapragada *et al.,* 2009).

However, by 2009 Botswana's power sector was seen as a major bottleneck to sustainable development, failing dismally to meet local power needs (BPC, 2009). Unprecedented power cuts and operational inefficiencies became a norm (Garmendia and Pushak, 2011).

Prior to 2007, the BPC had remained the exclusive power generator, transmitter and distributor in the country. Supply gaps were met with imports from neighbouring countries. An amendment of the Electricity Supply Act was passed in 2007 to permit the licensing of independent power producers to generate power. However, the

BPC retained the exclusive rights to purchase power from producers and distribute it to consumers.

4. METHODOLOGY

Gaining an in-depth understanding of how several variables combine to influence State Owned Enterprises' performance needs to be examined within an ontological context. A case analysis approach presents an advantage of cutting through the complexities (Johansson, 2003) whilst maintaining originality and testability (Eisenhardt, 1989).

This paper analyses how a variety of variables have combined to determine patterns of performance at the BPC. This paper is primarily based on secondary data obtained from publicly available audited financial statements, annual reports, relevant statutes and policy documents. However, the study makes limited use of primary data collected through face to face and paper-based interviews with senior managers selected on the basis of their involvement with core operations of the Corporation. These interviews were mainly for validation and clarification. The study focuses on a 15 year time period spanning from 2000, the year the Corporation's performance (by various measures) started an impressive upward trend which lasted up to 2005/06 when it reversed, reaching an all-time low in 2014. During this 15 year horizon, BPC went through phases which make the period an interesting one for this study.

4.1. Performance measurement variables

Firm performance is a widely researched area, but its measurement remains largely left to interpretation under a variety of settings. However, it is widely acknowledged that a more unifying approach to measuring firm performance would be one that consists of both financial and operational variables (Combs *et al.,* 2005; Venkatraman and Ramanujan, 1986). Despite the upsurge in popularity of financial measures of performance over the decades (Carton and Hofer, 2006; Richard., *et al.,* 2009), Cameron (1986b) has put forward a compelling case on the relationship between financial and operational measures, arguing that good financial performance logically precedes good operational performance. This view introduces the importance of focusing on industry-specific operational measures, combined with the generic financial measures in assessing organisational performance.

5. DISCUSSION OF FINDINGS

5.1. An overview of the BPC

The BPC was established in 1970 by an Act of Parliament, (BPC Act: CAP 74:01) with the objective of generating, transmitting, supplying and distributing electricity in the country. It is governed by a board of directors appointed by the minister responsible for energy affairs. The board comprises between six and eight members, including the chairperson. In making board appointments, the Act requires the minister to take into account the need to cater for the representation of key stakeholders.

Since 1970, the corporation has been gradually expanding in size (in terms of headcount, assets, areas of operation etc.) to the latest status as indicated in Table 3.

Table 1. Performance measurers

Performance measure	*Description*
Revenue	Total income from core operations
Profitability	Net income before Interest[1]
Local generation	Amount of power (in MW) generated from local sources
System losses	Amount of energy lost during transmission and distribution (expressed in % terms)
Staff retention	Number of employees leaving the employ of the corporation (expressed as a % of average number of employees)
Asset turnover	Total income from core operations/average assets (in Pula amounts)
Net current position	Current assets less current liabilities
Collections and debtors management	Amount of outstanding trade debtors compared to trade revenue and provisions

Table 2. Variables and underpinning theory

Theory	*Examples of data variables*
Agency	• Experience, qualifications and attendance record of board members • Performance management and measurement mechanisms in place (including management contracts) • Reward schemes in pace
Resource based	• Liquidity, asset base, strategic licenses (and other intangible resources)
Stakeholder	• Extent of stakeholder diversity in boards • Stakeholder focus in crafting business and operational strategies • Nature of non-economic transactions
Public choice	• The legal and regulatory environment • Extent of political directives in company operations • Level and nature of consultation with Ministry authorities in resource allocation and price setting

Table 3. The BPC Selected Statistics as at March 2013

Statistic	*Value*
Number of employees	2,047
Asset size in USD'000	189,130
Number of country wide customer service centers	24
Annual Turnover (USD'000)	227,000
Gross Expenditure (USD'000)	333,800

Source: BPC Annual report for the financial year to 31st March 2013

The BPC currently operates in all the 11 districts of Botswana in which it has a customer base of 300,000 individuals and institutions. The corporation has decentralised its sales, credit control, distribution and related technical and engineering functions. The rest of the corporate units remain centralised at its Gaborone[2] based head office, where a team of nine executives leads four business units (Generation, Transmission,

[1] BPC is a tax exempt enterprise
[2] Gaborone is the capital city of Botswana.

Distribution and Corporate Services) and five corporate support units (Human Resources, Finance, Audit, Legal, Strategy).

The analysis divide the 15-year-period covered by the study into two distinct but successive phases the BPC went through, i.e. the growth phase (prior to 2005) and the decline phase (post 2005).

5.2. The growth phase

Figures 1–8 below depict the corporation's historical good performance as measured by a variety of indicators[3].

Figure 1. Financial indicators

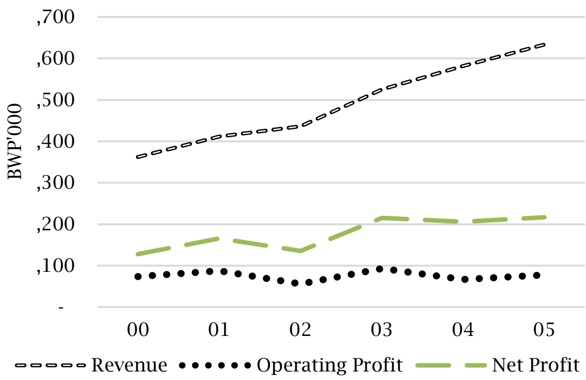


Figure 2. Returns

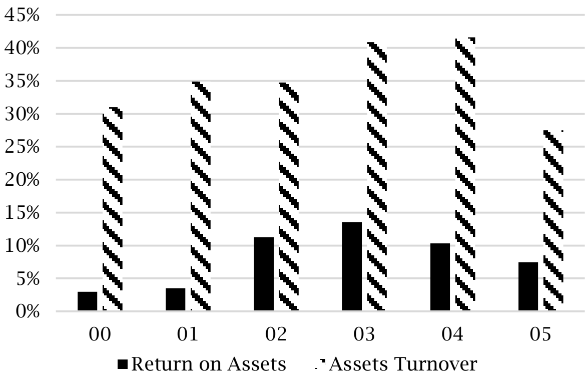


Figure 3. Revenue per employee

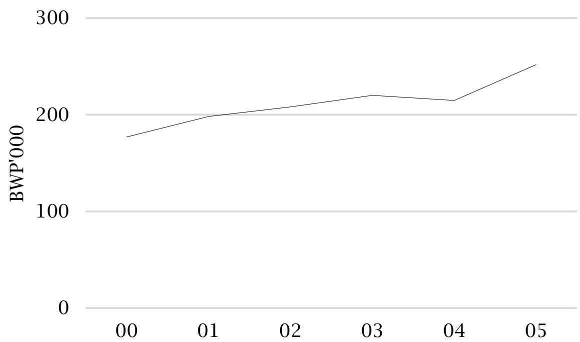


Figure 4. Gearing level[4]

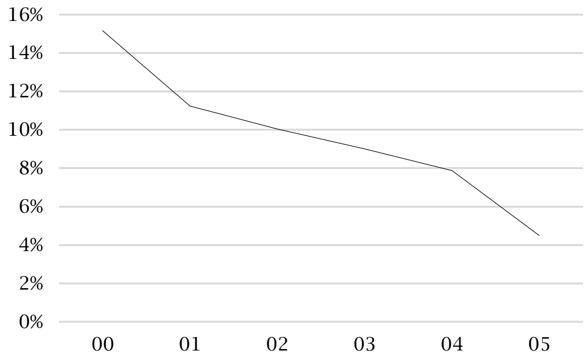


Figure 5. Net current position[5]

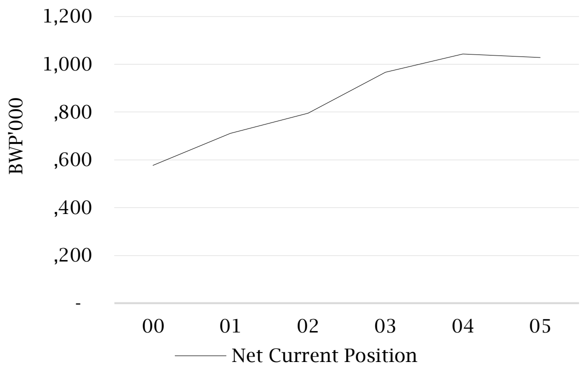


Figure 6. Book value and capital assets

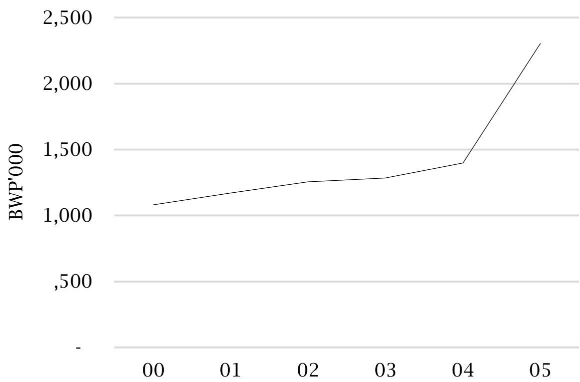
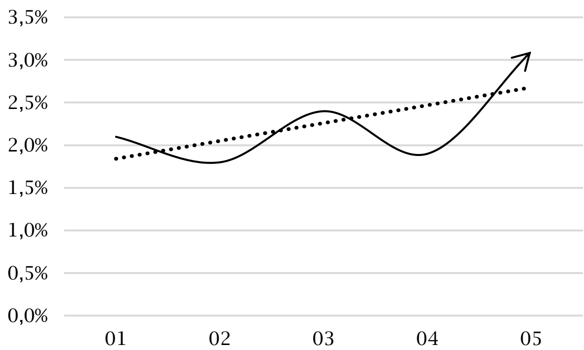


Figure 7. Staff attrition rates

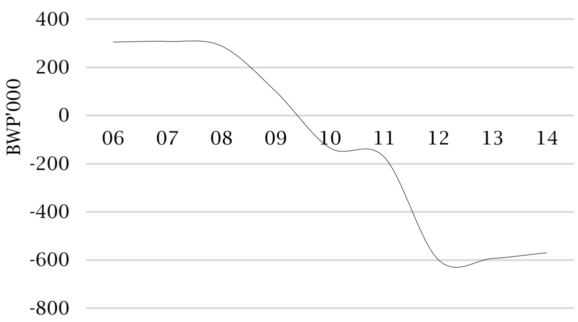


[3] Monetary values are in the local currency, Botswana Pula (BWP), whose unit is the Thebe (t).

[4] Total debt as a proportion of total capital employed

[5] Current assets less current liabilities

Figure 8. Value created[6]



The BPC has historically performed well, registering a gradual improvement in profitability which reached an all-time high of BWP216.6 million (USD36 million) by 2005 (see Figure 1). Revenue growth rates averaged 12% for the 6 years to 2005 compared to an average of 7.4% Gross Domestic Product growth rate for the same period[7]. Asset turnover, value created and return on assets gradually improved during the same period, with productivity as measured by revenue per employee (Figures 1 and 3) also improving. The corporation's indebtedness was declining, with the gearing levels falling from 14% to as low as 5% by 2005 (Figure 4). The overall current position remained on a net asset (more current assets than liabilities), whose nominal value was on a consistent rise over the 6-year-period (Figure 5). Below this study interrogate what drove the good performance.

Human and capital resources have been identified as a source of good firm performance (Grant, 1991 and Makhija, 2003). However, this should be supported by an enabling corporate environment, an entrepreneurial orientation and innovative thinking (Conner, 1991; Nahapiet and Ghoshal, 1998). The resource-based view emphasises on the importance of control and ownership of performance driving resources (Raza, 2010). The power industry has increasingly become capital intensive and technology based. Therefore, constant investments in intellectual capital are a prerequisite for success.

The BPC progressively invested in capital assets from 2000 to 2005, a period during which the asset book value grew by 113% (see Figure 6). Such investments were mainly in transmission and distribution infrastructure which by law[8] are owned and controlled exclusively by the BPC. High quality transmission and distribution assets are associated with improved performance, reduced system losses, low repair and maintenance costs and also low fault levels. Investments in technologies were also made resulting in the book value of IT assets rising by over 70% within the six-year-period to 2005. Technological advancement supports efficiency and productivity. Human capacity development was a priority, with a fully-fledged training institute established in-house, offering a range of industry specific courses to a certification level. This is in addition to other staff development training initiatives (including executive development and graduate trainee programmess, staff exchange programmess). Such initiatives presumably contributed to staff motivation and satisfaction given the low attrition rate of just 3% on average for the six-year-period to 2005 (Figure 7).

The BPC maintained healthy liquidity levels[9], averaging five times during the six-year-period to 2005[10]. This was mainly driven by high levels of cash held, thus aiding the corporation to obtain favourable trading terms from suppliers. The ability of liquidity to drive firm performance has been established by a number of studies (Tang and Peng, 2003; Singh, 1997; Bromiley, 1991; Miller and Leiblein,1996; Hambrick and D'Aveni, 1988; Chudson, 1945).

Thus, a variety of resources owned and controlled by the BPC contributed to good performance in a number of ways.

A wide ranging forum of stakeholders places legitimate, but conflicting interests on the operations of the BPC. Two schools of thoughts influence an organisation's disposition to its stakeholders. The first is that stakeholder interests are to be reconciled and satisfied in order to achieve good overall enterprise performance (Freeman, 1994; Brenner and Cochran, 1991; Jones and Wicks; 1999). The second, which is supported by Heath (1994), Donaldson and Preston (1995), Post *et al.,* (2002) and Simmons (2004), argue that stakeholder tensions are inherent in the homogeneous nature of stakeholder groups hence attempts to reconcile them become a fruitless exercise. During the six-year-period to 2005, the BPC seem to have subscribed to the latter school of thought: there was no stakeholder engagement strategy in place, resulting in a very narrow focus targeting only a handful of stakeholder groups. Board composition was more biased towards quality (skills and competence) rather than stakeholder representation. Corporate reporting[11] focused on core operations (financial outcomes, delivery on core mandate and future expansion plans), and key performance indicators were limited to financial and core operational measures, which were more internal in nature.

Whilst such a narrow approach is supported by some literature, it potentially collides with the fundamentals of the stakeholder theory itself as projected by policy makers and the political leadership who may favour a broad-based approach. Perhaps the BPC escaped this counterproductive trap due to the willingness of political leaders to limit their interference on the affairs of the corporation during the period of growth (see Xu *et al.,* 2001 and Bortolotti and Pinotti, 2008).

In addition to these factors (good resource base, lack of political interference and the existence of an effective board), the BPC had appropriately qualified and experienced managers across its units. Stewardship theorists have argued that good quality managers are not necessarily as opportunistic as they are taken to be by the proponents of the agency theory, but are instead an important variable in driving organisational performance. However, the

[6] Total revenue less primary costs and operational expenditures
[7] http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG/countries (accessed on 23 October 2014)
[8] The Electricity Act of Botswana, No.1 of 1970
[9] Measured as current assets/current liabilities. It is an indicator of the extent to which an entity can meet its short term obligations from its short-term assets.
[10] BPC annual reports, 2000- 2005
[11] Reviewed annual reports from 1999 to 2004

existence of an enabling environment, based on established and respected structures and policies, is a prerequisite for good stewardship. For the entire period covered by the study, the BPC had in place minimum work experience and educational requirements for all management positions to ensure that the candidates employed were of the right calibre. A review of the corporation's human resources and operational guidelines reflects management as having adequate authority to plan, organise and execute the organisational mandate in accordance with the BPC Act as there is no provision for consultation with either the state or board on operational matters.

Ultimately, the agency and stewardship theories operated well with the resource-based theory to drive the positive growth, whilst the Public choice theory was under played mainly due to a non-interfering political leadership. On the surface, it would appear that a narrow focus on stakeholders assisted in driving good performance, but a later chapter exposes the limitations of this.

5.3. The decline phase

The corporation's performance entered a phase of accelerating decline as from the 2005/06 financial year. Figures 9-16 depicting the BPC's performance trends during this phase are presented below.

Figure 9. Financial indicators

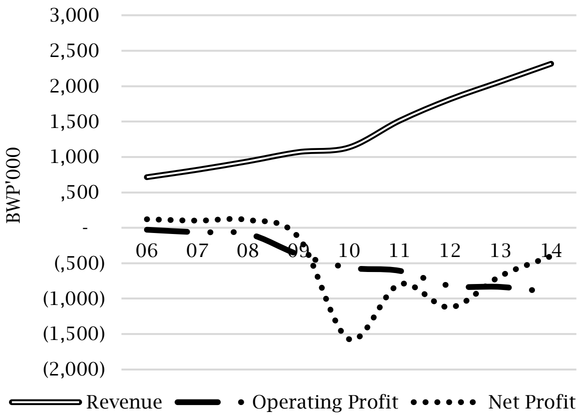


Figure 10. Net current position

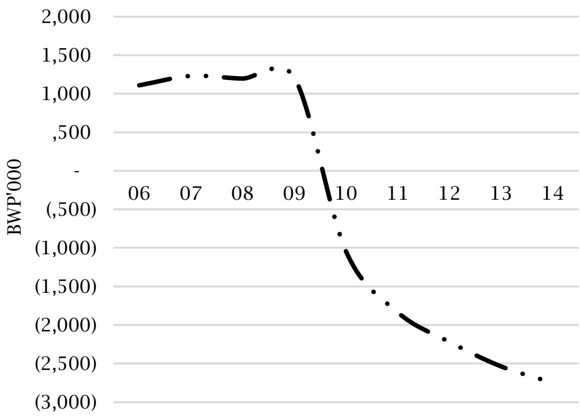


Figure 11. Highly liquid investments

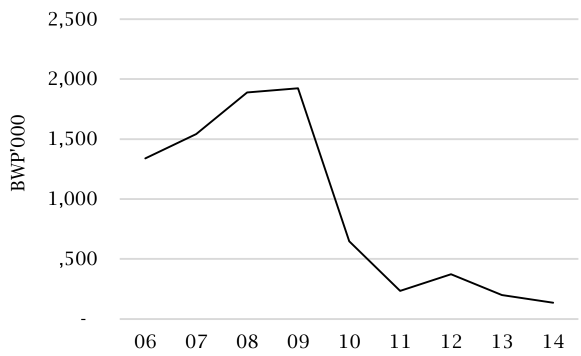


Figure 12. Returns

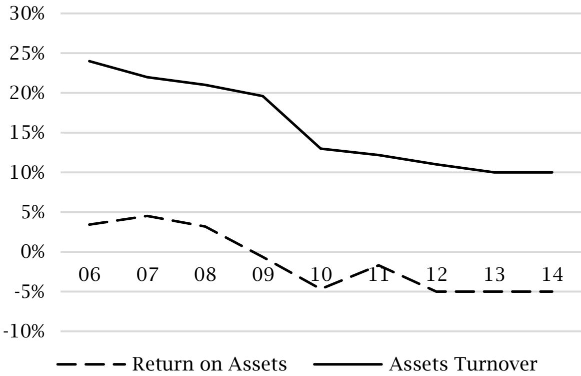


Figure 13. Staff attrition rates

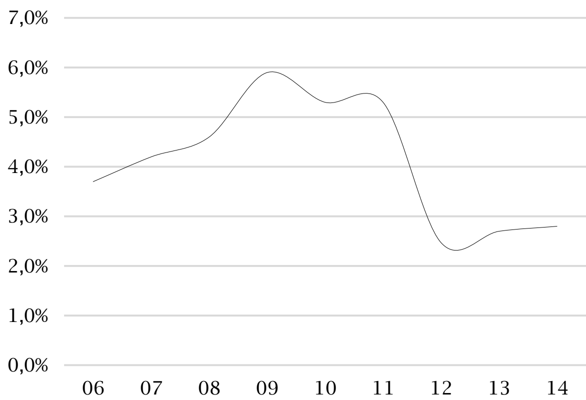


Figure 14. Total system losses

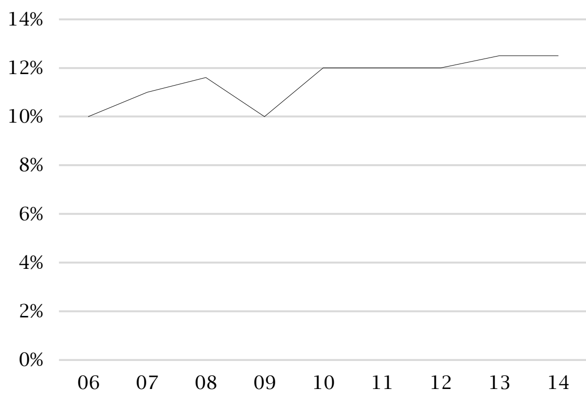


Figure 15. Local generation (GWh)

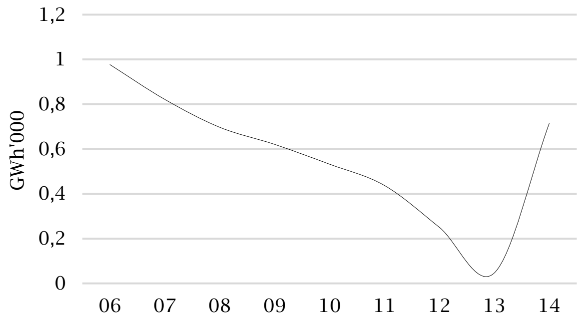
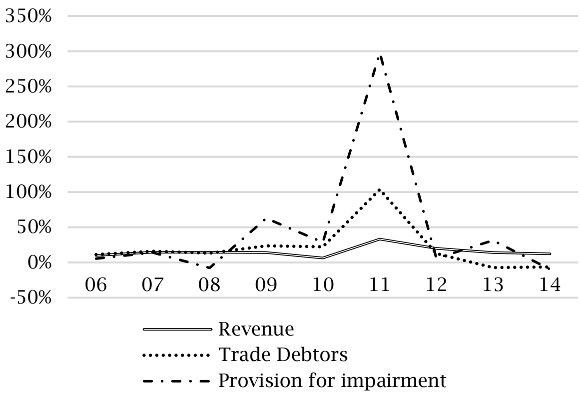


Figure 16. Revenue and debtor growth trends



Despite rising revenues, the BPC's profitability started declining from 2006 when the first operating loss was recorded (Figure 9). However, for the three years to 2008 these operational losses were fully offset by high finance income which accrued from invested cash reserves. Unfortunately, a sharp decline in these reserves set in from 2009 (Figure 13).

Thus, the first net loss was recorded in 2009 and rose exponentially over the years toreach a historically high of BWP1.5 billion (USD201 million), with negative value creation figures being reported as from 2011 (Figure 8). The BPC's main output (power generation) declined to its historical lows of 250 GWh (just 7% of the total power sold for the year, with the 93% covered by imports). Return on assets and assets turnover rapidly declined from 3% and 24% respectively in 2006 to -5% and 10% by 2012 along with a worsening net current liability of BWP 6.9 billion (over USD800 million) by 2013/14 financial year (Figures 10 and 12). Staff attrition rates were on the rise as from 2006 reaching 6% in 2009 before declining to lower levels in subsequent years (Figure 13). However, this decline has been associated with a depressed global labour market arising from the 2008 financial crises rather than from any circumstances specific to the BPC at that time.

Although very little to no political interference was established during the years prior to the period of declining performance, the effects of political directives were later more discernible and dominating throughout the period of declining performance.

At the crux of the BPC's declining performance were the non-cost reflective tariffs, which for some time had remained among the lowest in the southern African region (Tallapragada *et al.,* 2009). Meanwhile, the BPC Act[12] requires that the tariffs charged by the corporation must enable it to cover all costs. However, the government regulates tariffs, with final approvals given by the minister responsible for energy, after consultation with the cabinet. The approval is given or declined on the basis of the submission from the BPC management, who compute tariffs required for the corporation to operate in a self-sustaining manner. Table 4 reflects historical submissions along with outcomes.

During the 11-year period to 2013, the BPC made requests for full cost recovery tariffs 10 times, but only four requests were approved. The rest were either partially approved or entirely rejected. In making decisions, the political leadership considers a wide range of dimensions beyond just commercial imperatives, including those of a socio-economic nature. For instance, whilst the BPC management may focus on ensuring the sustainability of operations through economic tariffs, such tariffs may be unaffordable to businesses and households, thus negating government's wider efforts of fighting other social ills like poverty and unemployment.

Another school of thought stems from the public choice theory view that politicians are self-serving and the decisions they collectively make are for political expediency (Hill, 1999; Bozec *et al.,* 2002). Buchanan (2003) extended the theory to managers and government officials who, like voters, take decisions according to electoral cycles. A probable conformity to this line of thought is displayed through the decisions taken by both management and politicians possibly to comply with wider voter expectations. No evidence on tariff request by the BPC management exists for the year 2003, ahead of the 2004 general elections. A similar pattern is observed for the year 2009 where no adjustments were approved ahead of the general elections in October of the same year. Whilst partial adjustments were awarded in 2011 and 2012, following a consultant's recommendation for a multi-year tariff adjustment plan, the trend was broken in 2013 ahead of the 2014 general elections.

The sub-economic tariffs had a noticeable ripple-effect on wide ranging areas, notably on resources the corporation had relied on in the years prior to 2006. For instance, faced with costs escalating at a rate higher than revenues, reliance was placed on cash reserves to fund operational losses. This resulted in severe capital expenditure budget cuts, reduced maintenance expenditures, and a staff recruitment and salary increase moratorium as well as lower interest earnings. The effect of restrained capital expenditures was reflected on increased customer complaints and increasing system losses (Figure 14). Transmission system faults reached a peak of 311 by 2011 and this translates to loss of revenue (BPC Annual Report, 2011). High failure rate at the generation plant further diminished the locally generated power (see Figure 15). The supply gap widened forcing the corporation to resort to highly expensive emergency power sources (diesel generated power, imported emergency supplies etc).

[12] Section 17 of the BPC Act No. 1 of 1970

Table 4. Historical outcomes on tariffs adjustment requests

Year	2002	2003	2004	2005	2006	2008	2009	2010	2011	2012	2013
Tariff awarded as submitted/ (Yes/No)	Yes	*	No	Yes	No	No	*	No	Yes	Yes	No

*Note: *Represents no evidence for requests*

The increase in staff attrition rates between 2006 and 2010 (see Figure 13) was possibly symbolic of a declining staff satisfaction. This would have been worsened by reduced training and development opportunities as reflected by trimmed staff development costs, which were a paltry BWP0.76 million (USD0.09 million) by 2014 compared to an average of BWP4.1 million (USD0.66 million) registered in the years prior to 2008[13].

Earlier on, this paper acknowledged and demonstrated the central role the resources owned and controlled by the BPC had driven its performance during the years prior to 2006. However, resources are a performance driver only to the extent to which they are sustained (Raza, 2010; Majumdar, 1996). Sub-economic tariffs, which were linked to political administrative process meant that the rate at which resources were being accumulated was diminishing, eventually leading to a depletion and deterioration of such resources.

The result was multi-faced; the corporation could not fund the much needed capital investments from internally generated resources, since these were being diverted to fund operational losses. Moreover, the ability to attract and retain talent was also impaired.

Despite the existence of a strong board and competent stewards, the corporation could not sustain its performance due to either depleted or significantly impaired resources. Since the deterioration of the resource base resulted from an event directly linked to a political process, an important question arises regarding the ability of both the management and the board to effectively influence such a process for the benefit of the enterprise. It would seem that they were either unable or simply unwilling to do so for several reasons. Most importantly, BPCs stakeholder engagement was unclear and if anything, too narrowly focused, hence there was not a formal mechanism of reacting to stakeholder interest induced pressures in a manner that would not compromise enterprise performance. The narrow stakeholder focus itself has the potential for attracting political interference.

Ultimately, the agency and the stewardship theories cannot explain good enterprise performance in isolation from the resource-based theory. Above all, the Public choice theory played dominance over other theories. A further crucial consideration is that an undue focus on a very narrow stakeholder base can be viewed as myopic and against the broader SOE corporate objectives, but an indiscriminate attempt to satisfy all interests could be detrimental to long-term sustainability. Therefore, a framework based balance is necessary.

5.3.1. Key responses to deepening crisis

As a means of turning around the corporation, various aspects were overhauled and radical changes introduced through a new business model which came into effect in 2007. Central to the changes was a redefinition of the corporation's mission, vision and values which were made more responsive to the needs of a broadened stakeholder base.

A 'corporate turnaround strategy' was formulated to serve as the cornerstone of crisis response. Its key aspects are outlined in Table 5.

The broad themes of the Turnaround Strategy were influenced by four theories: the resource-based, stewardship, agency and stakeholder theories. From a resource-based view, additional cash, being a primary source of liquidity (Hoskisson *et al.*, 2000), was to be raised through disposal of non-value adding assets and savings accruing from re-engineered business processes. New business lines were to bring in additional revenue.

The work of the stewards was enhanced through a re-organised value chain with more authority being delegated to business line executives and senior managers. Influenced by an agency theory perspective, the board introduced management contracting alongside a revamped performance management system.

To support the visibly widened stakeholder focus, a theme specifically dealing with improving stakeholder relations was incorporated into the Turnaround Strategy, aiming to depart from a the narrow focus disposition noted in the earlier years.

Although a slowdown in the deterioration of certain performance measures (profitability, value creation and return) is observable as from 2012 (see Figures 8 to 12), a widely held sentiment was that the results of the turnaround strategy were not as intended. The possible reasons are analysed from different theoretical perspectives.

Earlier on it was argued that a careful balance is required in managing stakeholder interests, failing which performance gets compromised (see Heath, 2004). The stakeholder aspects of the strategy contained some fundamental flaws which impacted on performance. Improving stakeholder relations introduced lenience on debtors through a more relaxed credit control policy. Customers with overdue accounts were given an option to negotiate extended settlement periods beyond the established 15-day period free of penalties. This compounded into a growing debtor book characterised by increasing impairment provisions (Figure 16). Meanwhile, improving relations with creditors entailed enforcing shorter creditor days. Extended debtor days combined with shorter creditor days imposed an obvious strain on the corporation's working capital.

The stakeholder centric strategy also saw the BPC buying into a multi-year tariff adjustments (as opposed to steep and decisive adjustments). However, due to the affordability consideration, the adjustments consistently fell below the requisite levels, with a compounding effect on the cost-tariff gap.

[13] BPC audited annual financial statements for year 2000 – 2013

Table 5. An outline of the BPC Corporate Turnaround Strategy

Broad theme	*Typical choices and actions*	*Theory alignment*
Cash generation and preservation	• Ramping up tariffs • Obtaining revenue grants from government (through subsidizing tariffs) • Selling off non- core assets • Cost cutting across budget lines, including no adjustment to salaries	Resource based
New business generation	• Selling excess fiber optic capacity to third party telecommunications operators	
Business process re-engineering	• System integration and interface • Increased debt collection	
Business process re-engineering	• A re organization of the value chain • Staff rationalization • Reformulation of the organizational structure	Stewardship/Agency
Enhanced human resource performance	• Job profiling and redesigning • A new staff performance management and monitoring system • Contracts for senior management	Agency/ Resource based
Improving stakeholder relations	• Debtors and creditors • Government (shareholder) • Communities • Restatement of Mission and Values	Stakeholder

Whilst from a stakeholder perspective the BPC identified the government as a key stakeholder with whom relations had to be improved, the Public choice connotations coming with government ownership were not sufficiently addressed. The fundamental issue of the separation of ownership rights from matters of regulation (e.g. setting of tariffs and decisions on investments) were not explicitly built into the turnaround strategy. Thus, the political leadership continued to exercise ownership powers to cater for broader societal interests, but with unintended consequences on the corporation's performance patterns.

Whilst the stewards and the board of the BPC had identified a telecommunications business as a potential revenue generator, given the access optic fibre capacity the corporation owned, the political leadership, acting in the interest of the rural area based stakeholders, directed that the corporation venture into an unprofitable, but worthy business of providing solar-based heating and lighting solutions. The viability of this entity was in doubt right from inception, with a 100% impairment provision against its value on the BPC books on its first year of operation (BPC Annual Report, 2011).

Fundamental issues arise from the post-turnaround era of the BPC, being that of clarity of the SOE objectives, relationships between the SOE and the government, the balancing of stakeholder interests and the regulation of political interference and influence. It is a fair assumption that these are the critical issues upon which the success of this strategy relied.

From an agency theory perspective, agents and the board would have delivered well on their objectives provided corporate goals were clear. A balanced and well thought-out approach to stakeholder interests would have provided better guidance on how to service the different societal segments. From a Public choice perspective, the discord between political directives and corporate performance would have been avoided by a combination of two factors: 1) clear SOE objectives; and 2) a regulated framework of relations between the government and the SOE.

6. CONCLUSIONS AND POLICY IMPLICATIONS

This paper presents a new perspective on how various organisational theories combine and compete to influence the performance of an SOE. The perspective is drawn from analysing qualitative and quantitative data from the BPC over a 15-year-period. The analysis discerns and explains fundamental performance drivers in the context of some popular organisational theories.

It reveals that the resource-based, agency and stewardship theories combine well to explain the positive performance of the BPC. An uncoordinated focus on the stakeholder theory connotations contributed to poor enterprise performance. On the other hand, an excessively narrow focus potentially clashes with the Public choice theory. This calls for a careful choice of stakeholder interests to cater for in the normal course of business. Nonetheless, the Public choice theory predominates others, with a potential for undermining the performance if the SOE-government relations are not governed in a well-articulated framework that regulates political interference and influence.

This case reveals that an SOE's opportunity for enhanced performance is realised when its relations with the government is clearly defined, with regulatory matters separated from ownership rights. Different stakeholders' rights need to be approached with different models, for example, through service contracts between the state and the SOE.

Given the expansive nature of the objectives of SOEs, the analysis supports a case for a broadened view of the agency theory to reconcile traditional shareholder-centric interests with those of the wider society. Such a societal-shareholder approach to the governance and administration of SOEs would further contribute to the crafting of a balanced approach to the stakeholder engagement. Similarly, the narrow self-interest view of the public choice is challenged as the case demonstrates a residual societal benefit arising from political intervention, beyond the much publicised self-serving nature of politicians.

Formal remuneration perks of SOE managers are often linked to public sector salaries. There exists ranges of other fringe benefits such managers enjoy, and these are often industry specific and in most cases informal. Given the proven ability of strong reward systems in resolving the agency problem, a unique opportunity exists to formalise the otherwise informal perks and make up for the depressed managerial reward schemes in SOEs. Such a practice would enhance the position of SOEs in attracting high quality human resources from the labour markets to run successful SOEs in an environment of performance contracts and suitable reward schemes.

The non-economic objectives of SOEs are often too important to be overlooked, however they are in most cases responsible for the collapse of SOEs. A solution lies in subjecting SOE investments and operational initiatives to a sustainability hurdle, below which the state has to contract and bear costs of sub-economic but crucial investments on an arm's length basis.

Similarly, separating state politics from SOEs has proven to be almost exclusively a theoretical undertaking with no practical reality. Political influence on SOEs, typically through the government is not necessarily undesirable, but is a phenomenon that needs to be regularised through an appropriate regulatory framework monitored through supervisory boards. The state influence has to be limited to matters of policy, whilst independent boards hire competent senior managers to drive operational strategies of SOEs in a sustainable manner. SOE objectives, once clearly defined and contracted on by the state and boards, through appropriate performance contracts should guide effective resource allocation in relation to an order or priority.

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