

University of Zimbabwe



**Organisational decline and turnaround: A qualitative case study of
RioZim Limited (2008-2012)**

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Dissertation submitted in partial fulfilment of the requirements for the
degree of Master of Business Administration, Graduate School of
Management, University of Zimbabwe

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February 2013

DECLARATION

I, **LUCKY CHISI**, do hereby declare that this dissertation is the result of my own investigation and research, except to the extent indicated in the Acknowledgements, References and by comments included in the body of the report, and that it has not been submitted in part or in full for any other degree to any other university.

Student signature: _____ **Date:** _____

Supervisor Name: Prof. T Hawkins **Signature:** _____

Date: _____

DEDICATION

This dissertation is dedicated to my dad, John Moses Chisi.

ACKNOWLEDGEMENTS

Firstly, I thank **God**, for within Him is the foundation of all knowledge and wisdom. Secondly, I am most grateful to thank Professor T. Hawkins for availing his precious time to guide me through this research study.

Special thanks to my family, my loving wife, Simisosenkosi Ncube Chisi for being the pillar of my strength.

I would like to thank friends and dear colleagues at ENR and Analytical Laboratories with special mention to Mr P. Shuro and Mr E. Tobias.

I am very grateful to RioZim Management for grating me the permission to conduct this study. I would also like to thank all who contributed by participating in the interviews and questionnaire as part of this research data gathering process.

ABSTRACT

The study sought to provide deep insights into RioZim Limited business decline and turnaround experience between 2009 and 2012. Premised on an interpretive research paradigm, primary data were collected using semi-structured interviews of four senior managers of RioZim Limited and questionnaires distributed amongst the company's middle level managers. Furthermore, secondary data were collected extensively from relevant company documents in company's archives and public domain.

The research found that RioZim's viability problems stemmed from internal problems which were exacerbated by macroeconomic environment that prevailed Zimbabwe. The main internal factors were poor financial management, operational inefficiencies at Empress Nickel Refinery and Renco Mine, lack of strategic direction and weak corporate governance across the RioZim group. External factors such as the unavailability of flexible and cheap sources of capital, non-remission of foreign currency earnings from gold deposits by the Reserve Bank of Zimbabwe; challenges in supply of key inputs such as matte, electricity, oxygen and water and increasing costs of key inputs such as electricity also contributed to the company's decline.

The study found that RioZim's response to the decline included the following: Cost reduction through measures such as reduction of labour numbers; improvement of productivity and operational efficiency; organisational restructuring such as top management and board changes; debt reduction and restructuring; increased revenue generation and long term growth and development initiatives. The study noted the following challenges in the implementation of RioZim's turnaround strategy: lack of a strategic blue print, lack of stakeholder engagement and non performance of some revenue generation initiatives. Further studies can be done to evaluate the effectiveness of RioZim's turnaround initiatives.

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ABBREVIATIONS/ACRONYMS

BCL	Bamangwato Concessions Limited (BCL) is a mining and smelting company located in Selebi-Phikwe, Botswana. Its shareholders are the Botswana Government holding 94% and 6% for Norilsk Nickel.
BOC	BOC Zimbabwe (Pvt) Ltd
ENR	Empress Nickel Refinery Limited, a subsidiary of the RioZim Limited.
GEM	Global Emerging Markets (GEM) Management Limited, according to the company's website the company is a US\$ 3.4 billion investment group (founded in 1991) which operates in 65 countries (Source: www.gemny.com).
GEM-Raintree Investments	Mauritius based company that represents the interests of GEM and Raintree Mining.
Murowa	Murowa Diamonds (Private) Limited is an associate of the RioZim Limited.
PGM(s)	Platinum Group Metals
Raintree Mining	Raintree Mining (Private) Limited is an indigenous Zimbabwean mining entity (www.raintreemining.com).
Renco	Renco Gold Mine, a division of RioZim Limited.
RioZim	RioZim Limited or "the Company", a mining company listed on the ZSE.
Tati Nickel Mine	Tati Nickel (Botswana), Norilsk Nickel's subsidiary
ZESA	Zimbabwe Electricity Supply Authority
ZSE	Zimbabwe Stock Exchange

CHAPTER 1

INTRODUCTION

1.1 Background to the study

Industries are not static, the competitive environments and conditions change over time (Klepper, 1997). Hence every company is likely to experience severe adversity (Zimmerman, 1991, p. 27) and deterioration in performance (Ford, 1985, p. 770) at some point. Hofer (1980, p.19) observed that declining business performance can occur in any company irrespective of its size or where it operates from. Business decline is part of the organisational lifecycle (Hanks, 1990) hence it is import for business practitioners to understand the causes of business decline. Furthermore, how firms in distress turnaround and avoid bankruptcy is of significance to various stakeholders (Sudarsanam and Lai, 2001). Argenti (1976) and Schendel, Patton & Riggs (1976) were amongst the early scholars who emphasized the importance of understanding organisational decline and turnaround phenomena.

Failure of a business may have positive implications for surviving companies due to reduction in competition (Iqbal, 2002). However, at a macro level, high business failure rate brings about various negative implications which can severely affect the national economy (Naples, 1997, p. 521). Hambrick and D'Aveni (1988) cite waste of resources, increase in unemployment as some of the detrimental socio-economic consequences of business decline and failure. In view of these arguments, the researcher sought to contribute to the understanding of corporate decline and turnaround phenomena by focusing on the causes of business decline and the turnaround initiatives of an organisation in the mining sector in Zimbabwe.

Zimbabwe went through a political and economic crisis in the period 2000 to 2008 that resulted in the “cumulative contraction of Zimbabwe’s economy by over 40%” (2013 National Budget statement). Furthermore, the crisis resulted in the growing incidence of company decline and failure as many mining companies experienced viability challenges (Hawkins, 2009). In 2012, the government outlined economic growth as one of its priorities with the mining sector expected to be one of key drivers (2013 National Budget statement). However against this background of contraction of the mining sector in Zimbabwe, there has been little qualitative research in Zimbabwe on organisational decline and turnaround. This study was set to provide a holistic picture of turnaround strategies and processes within the contexts of the mining industry in Zimbabwe. It is a case study of RioZim Limited, a company that experienced significant decline since 2009 and has employed initiatives in an attempt to turnaround the organisation. The research was set at the time of significant changes at RioZim Limited, through which the myriad issues associated with business decline and the turnaround process could be adequately observed.

1.2 History and background of RioZim Limited

The organisation featured in this case study is RioZim Limited, a mining and exploration company with operations based in Zimbabwe. RioZim was incorporated in 1956 as Rio Tinto Southern Rhodesia Ltd (RioZim company profile, 2012). However, in 2004 RioZim separated from Rio Tinto plc and listed on the Zimbabwe Stock Exchange (ZSE). Prior to the divestment, Rio Tinto owned 56% while 44% of the company was owned by local shareholders (ibid). RioZim has a portfolio of assets covering gold, diamonds, coal and base metals as shown in Table 1.1.

Table 1.1 RioZim subsidiaries

Asset	Mineral	Status	Ownership
Renco Mine	Gold	Operating	100%
Empress Nickel Refinery	Nickel, Copper, PGM and cobalt concentrates	Operating	100%
Murowa Diamond	Diamonds	Operating	22%, in partnership with RioTinto
Cam and Motor	Gold	Non operating	100%
Darwandale Chrome	Chrome	Non operating	60%, in partnership with Maranatha ferrochrome
Sengwa Colliary	Coal	Non operating	50%, joint venture with RioTinto

Source: RioZim Annual Report (2011)

1.2.1 Empress Nickel Refinery

Empress Nickel Refinery (ENR) is located near the city of Kadoma in central Zimbabwe (RioZim, 2012). It was originally part of the Empress Nickel operation, which comprised the Empress Nickel mine, concentrator, conventional nickel smelter, and refinery. Empress Nickel Mine was opened in 1968 but was closed in 1982 due depleted resources and a massive drop in nickel prices which made the operation a significant loss maker (ibid). In 1985 ENR reopened as a toll refiner, treating matte from Bamangwato Concessions Limited (BCL) and Tati Nickel Mine in Botswana on behalf of a Swiss metal trading company, Centametal AG (ibid). However the toll refining contract signed in 1985 was terminated in April 2012 (RioZim, 2012). In October 2012, the company successfully negotiated a deal to procure matte directly from BCL Ltd and to sell the products copper, nickel, PGMs and cobalt cake on the international markets (Works council minutes, October 2012). The refinery uses the Outokumpu Process to for leaching the matte, whilst the electroplating is used to produce nickel and copper cathodes from the leach solutions (ENR technical report, 2009). In 1985-1995 ENR capacity was expanded to take additional matte from Tati Nickel operations in Botswana whose concentrates were being smelted by BCL Limited. In 1992 the Siro smelt furnace was commissioned (ibid). ENR's capacity was increased to take in 17500 tonnes of matte per year, with an output of up to 700t nickel and 700t of copper per month (RioZim Annual report, 2011). Other products of ENR are PGMs and cobalt concentrates.

1.2.2 Renco Mine

Renco gold mine was commissioned in 1982 and is located in Masvingo south east of Zimbabwe (RioZim operations overview, 2012). The operation comprises an underground mine operation with various shafts and a carbon in leach beneficiation plant. Renco has produced more than 37 tonnes of gold and has potential to produce 1600kgs per annum (RioZim Annual report, 2011). As at December 2011, the total ore reserve base was 435 000 tonnes containing 62 000 ounces and an ore resource base of 1 233 000 tonnes containing 220 000 ounces of gold with potential for further development into known resource areas (ibid). The mine is currently treatment an average of about 19 000 tonnes of ore per month at a grade of 3grams/tonne (ibid).

1.2.3 Sengwa Colliery

Sengwa colliery is a resource which RioZim jointly owns 50:50 with Rio Tinto. It has proven ore reserves of 538 million tonnes and total reserves that exceed 1.3 billion tonnes. RioZim through a subsidiary called Sengwa Power Station (Private) Limited has an Independent Power Producer license to build a 2 400 megawatt thermal power station which would use coal from Sengwa Colliery (RioZim Mining indaba presentation, September 2012).

1.2.4 Murowa Diamond

RioZim owns 22% of Murowa diamond while Rio Tinto Plc owns 78% (Murowa Diamond Business overview, 2010). The project is managed and operated by Rio Tinto Plc and comprises two open pit kimberlite mining operations and a diamond beneficiation plant. Its current annual output stands at 300,000 carats, and has the potential to expand production to 1,000,000 carats (ibid).

1.2.5 Cam and Motor Gold Mine

The old Cam and Motor gold mine which was closed in 1968 had an average ore grade of 12.4 grams per tonne and used to produce 150 tonnes of gold per month. RioZim has evaluated the potential for an open pit operation on lower grade-near surface ores that were not processed during its operations. According to the company's exploration reports (2011), the mineral resource was defined as consisting of 5 million tonnes of ore at a grade of 4.4 grams/tonne expected to contain 850 000 ounces of gold.

1.2.6 Darwendale Chrome

Darwendale Chrome is a joint venture between RioZim (60%) and Maranatha Ferrochrome (40%). It comprises several mining claims covering 6 742 hectares within the Hartley Complex of the Great Dyke of Zimbabwe. The mineral resources are subdivided into alluvial and in-situ seam type chrome resources.

1.2.7 Additional exploration projects

RioZim has a number of other claims that include Chimakasa Nickel Prospect and the Panorama (Kenilworth) Gold Prospect (RioZim Mining indaba presentation, September 2012).

1.3 Lead up to RioZim turnaround interventions

RioZim's Emergency General Meeting of March 2012 highlighted that the company's problems were so severe to the extent that the going concern status of the company was in doubt. At that time, five financial institutions who are creditors of the Company made application to the High Court of Zimbabwe seeking an Order that the Company be placed in Judicial Management (RioZim circular to shareholders, 02 March 2012, p.11). An extract from RioZim financial statement (June 2012, p.1) summaries the company's situation:

“During the first quarter 2012 the Company went through what is possibly the worst time in its history with a mounting debt burden that could have forced it into judicial management”.

The main concern for all the shareholders at that juncture was to improve the company’s performance, to halt the business decline and put the company on a growth trajectory (ibid).

1.3.1 Signs and symptoms of RioZim’s decline

The researcher identified the following symptoms and signs of decline of RioZim Limited (Based on Slatter and Lovett’s list of signs and symptoms of business decline, 1999 p.17):

1. Increasing disputes and law suits from creditors and suppliers due to late payment of supplier invoices. For example RioZim Limited was sued by three companies for failing to pay for goods supplied (RioZim half year financial statements, June 2012). Some of RioZim’s suppliers were demanding cash on delivery for their supplies to RioZim. In addition, ZESA disconnected power at Renco and Empress Nickel Refinery operations due to non payment in January 2012 (ENR monthly report, January 2012).
2. Breach of banking covenants: According to RioZim financial statement (June 2012), legal proceedings were instituted against RioZim for late settlement on borrowings by a financial institution claiming US\$3.0 million together with interest.
3. RioZim was struggling to meet payroll, payroll taxes and employee benefits. This is evidenced by termination of medical aid services RioZim employees due to the company’s failure to pay service providers. Furthermore, the disbursement of salaries and wages was irregular (ENR Works Council minutes, 2012). RioZim applied for exemption not to pay the NEC for the mining industry awarded increments of 5% and 7.5% for 2011 and 2012 respectively (ENR works council minutes, October, 2012).

4. RioZim embarked on several unsuccessful attempts to raise capital between 2009 and 2012 as sources of financing were not interested in refinancing or extending additional credit. The attempts are summed up as follows:
 - US10 million private placement in February 2010
 - US40 million rights issue in September 2010
 - US\$59 million rights offer in December 2011
5. Delays in publishing accounts, RioZim delayed its annual general meeting scheduled for 22 May 2012 because its financial reports had not been completed (Zimbabwe Stock Exchange, May 2012).

1.3.2 Analysis of RioZim's financial performance and position

The researcher used year to year change analyses to compare data from RioZim financial reports in order to explain the trends in the changes of company's performance and position.

1.3.2.1 Declining profitability

Scholars have cited different indicators of performance decline, for example: downward turns on return on equity (Lubatkin & Chung, 1985, p.27); decline in return on total assets (Lohrke & Bedeian, 1998, p.8); deteriorating profits (Bibeault, 1982, p.10) and reductions in net income (O'Neill, 1986, p.1). Hence the researcher analysed RioZim's financial performance using the mentioned indicators (Table 1.2). The company declared losses of US\$16.22 million (2009), US\$16.38 million (2010) and US\$12.22 million (2011). RioZim's deteriorating performance resulted in the destruction of shareholder value as shown by the negative return on equity (Table 1.2) far below the cost of capital. The deteriorating profit situation was worsened by the increasing burden of interest and capital repayments.

Table 1.2 RioZim's profitability ratios

Profitability Ratios		2011	2010	2009
Gross profit margin (%)	Gross profit x 100/Sales	40%	30%	25%
Operating Profit Margin (%)	Operating profits (EBIT) x 100/Sales	-3%	-21%	-18%
Net profit margin	Net profit after taxes x 100/Sales	-22%	-34%	-37%
Return on Assets (ROA)	Net Profit/Total Assets	(0.12)	(0.16)	(0.16)
Return on Equity (ROE)	Net Profit / Stockholder Equity	(0.74)	(0.58)	(0.34)

Source: Using own calculation using RioZim financial results

1.3.2.2 Growing and excessive debt

In 2011 RioZim was heavily borrowed to the extent that the company's financial director announced that the company was technically insolvent (AGM, December 2011). The debt equity ratios of RioZim (Table 1.2) reveal over gearing. RioZim financed its operations through short term debts through out 2009 to 2011. The trend of the current ratio and quick asset ratio show that the company's liquidity position (Table 1.3) was deteriorating hence its ability to meet short term obligations was also reducing. Some of the signs of cash flow crisis have been highlighted in section 1.3.1 above. The banks were exposed to RioZim's debt include BancABC, Kingdom Bank, Metropolitan Bank, Trust Bank, Tetrad, ZB Bank, Ecobank, the Infrastructure Development Bank, Imara Corporate Finance, Renaissance Bank and the Afreximbank (RioZim circular to shareholders, 02 March 2012, p.11).

Table 1.3 RioZim capital structure and liquidity ratios

Capital strucutre ratios		2011	2010	2009
Long term Debt:Equity ratio	Long Term Debt/Equity	13%	16%	18%
Total Debt:Equity ratio	Total Debt/Equity	490%	257%	98%
Long term Debt:Assets ratio	Long term Debt/Total Assets	2%	4%	8%
Total Debt:Assets ratio	Total debt/Total Assets	81%	69%	45%
Liquidity ratios				
Current ratio	Current assets/Current liabilities	0.55	0.70	1.11
Quick Asset ratio	(Current assets -Inventory)/Current liabilities	0.22	0.30	0.48

Source: Using own calculation using RioZim financial results

1.3.2.3 Declining share price

The deterioration in performance has resulted in massive erosion of shareholder value (Table 1.2). RioZim has not declared a dividend since the financial year ended 2006 (Shareholders' statement March 2012, p.23). RioZim share price tumbled from US\$2.75 per share at its peak in 2009 to around US\$0.25 per share in January 2012 (Figure 1.1). This represents a drop of more than 90% in the price of RioZim shares in just less than two years. However as at February 2013 RioZim's share price was US\$0.55, representing about 20% of the peak price of 2009.

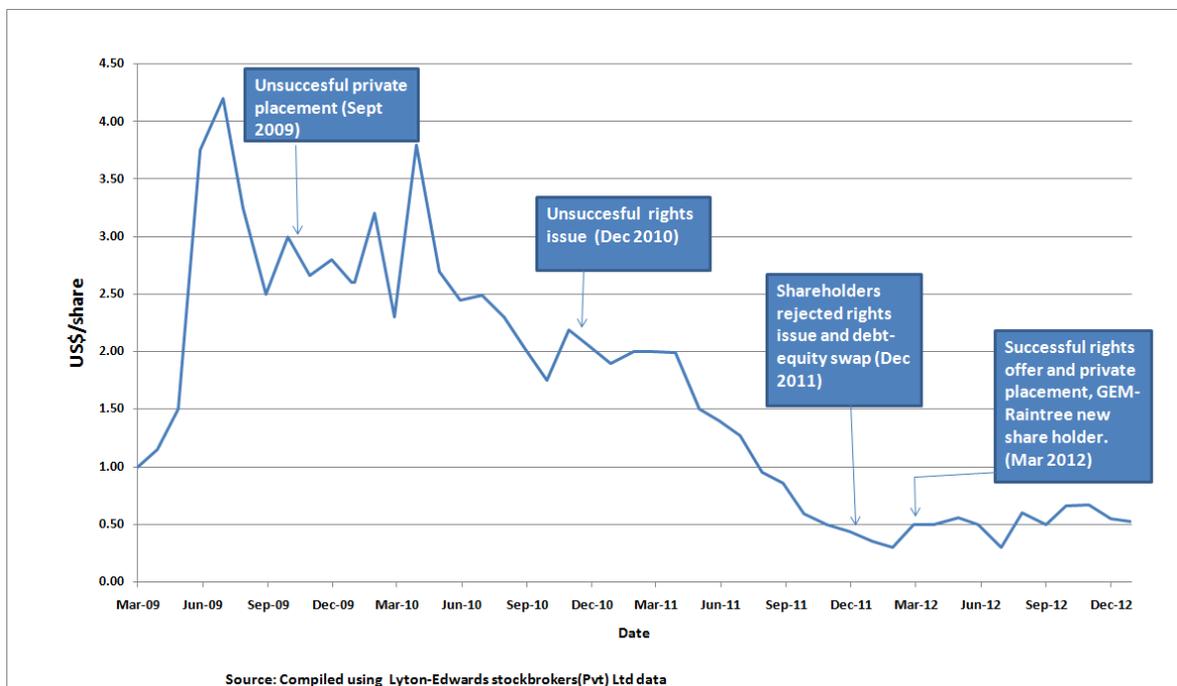


Figure 1.1 RioZim share price and critical events

1.3.2.4 RioZim near bankruptcy

Altman's (2000) Z score is recognized as a reliable method for predicting company failure. It uses five financial ratios to classify a firm as solvent or insolvent. A calculation of Altman Z scores for RioZim shows a declining trend of 4.90 (2009), 3.10 (2010) and 1.50 (2011), showing that the company was moving towards insolvency. RioZim's 2011 Z score was far lower than the $Z < 1.81$ "Distress" Zones

classified by Altman. The Altman's Z score figures for RioZim show that the company was moving towards bankruptcy.

1.4 Research Problem

Zimbabwe's mining sector recorded growth in exports of 138.1% and 38.7% in 2010 and 2011 respectively whilst growth for 2012 was projected to be 13.3% (Ministry of Finance, 2011). Furthermore, the prices of base metals and Platinum Group Metals prices on global markets that have been relatively favourable from 2010 (Figure 4.2). However, against this background RioZim Limited, one of the biggest mining companies listed on the Zimbabwe stock exchange experienced a substantial drop in operating performance and a marked declining profitability from 2009 to 2011. This is evidenced by the company making losses of US\$16.22 million (2009), US\$16.38 million (2010) and US\$12.22 million (2011). By December 2011 RioZim was in state of financial distress that was threatening the going concern status of the group and its ability to meet its financial obligations. According to the company's financial statements (2011), the company was struggling under a heavy debt of about US\$53 million that it owed a number of local banking institutions.

It is therefore of academic and managerial significance not only to understand the underlying cause of RioZim's performance decline but also to detail the migratory actions that the company has employed to halt performance decline and revive business growth. RioZim has blamed most of its woes on economic circumstances and hyperinflation era of 2000 to 2008 (RioZim notice to stakeholders, May 2009). However, literature on organisational failure and decline posits that a number of factors can cause organisational decline (Slatter, 1984). RioZim's decline thus, can not be explained only by reference to overarching macro-environmental factors alone. Hence this study seeks to explore the causes of RioZim's performance deterioration. The study also seeks to detail the strategic initiatives that have been employed to arrest further decline, avert organisational failure and to rejuvenate the company during the period 2008 upto 2012.

1.5 Research Objectives

The overarching aim of the study is to describe corporate decline and turnaround phenomena, within the three contextual dimensions. These are RioZim's internal issues, Zimbabwe's business environment and within the context of global and regional economic developments. The research's specific objectives are:

1. To describe how and why RioZim Limited experienced a period of business decline (2008-2011)
 - a. To investigate external causes of business decline
 - b. To investigate internal causes of business decline.
2. To describe how RioZim Limited is implementing turnaround strategies (2012).
3. To describe the challenges in the implementation of RioZim's business turnaround strategies.

1.6 Research Questions

1. How and why did RioZim Limited experience business decline in 2009 to 2011?
2. How can RioZim Limited's turnaround strategy implementation be described?
3. What are the challenges in the implementation of RioZim's business turnaround strategies?

1.7 Proposition

RioZim Limited's decline in business in the period 2008 to 2011 resulted from the company's failure to recapitalize due to the demonetization of the local currency and the unfavourable macro economic environment that was prevailing in Zimbabwe.

1.8 Justification

The principal motivations for pursuing this study are threefold. First, the importance of understanding from turnarounds is heightened today, given that Zimbabwe experienced more than ten years of socioeconomic decline since 2000 that resulted in high mortality rate of businesses in Zimbabwe (Hawkins, 2009). Further more, the global economic recession of 2008-2009 saw the decline in commodity prices which affected the viability of many mining operations in Zimbabwe. Hence this study seeks to contribute to theoretical advancement of turnaround literature by examining the nature, content, context and process of decline and turnaround using RioZim Limited as the case study. O'Neill (1986) posits that valuable knowledge can be gleaned from studying attempts to rescue a failing organisation. This view is supported by Bibeault (1982, p.7) and Sutton, Eisenhardt & Jucker (1986) who argue that considerable wisdom can be culled from investigations of successful or unsuccessful turnaround efforts. Hence this study can provide insights that are applicable and relevant to mining companies in Zimbabwe.

Secondly, the search for general strategic principles behind turnaround action is of significance and considerable scholarly interest (O'Neill, 1986, p.1). Pretorius (2008, p.18) argues that understanding of business decline and success has turned into a central topic of international academic research. However, Greenhalgh (1983, p.265) observes that research on corporate decline and turnaround phenomena is thin and has not received the attention it deserves in the academic literature. Greenhalgh (1983, p.265) posits that organisational decline is one of the least understood phenomena in management of organisations. Hence this study seeks to extend previous research by examining a broad range of internal and external factors that impact on business decline and turnaround.

Past research on corporate turnaround has offered results that are inconclusive (Winn, 1993), inconsistent and at times contradictory (Francis & Mariola, 1980). This is supported by Boyne (2004, p.98) who argues that "empirical studies of turnaround contain many contradictory results" and hence of little assistance to organisations

and practitioners. Furthermore, Castrogiovanni and Bruton (2000) examined factors associated with turnaround and concluded that this phenomenon is still open and in need of further research. For example, Pandit (2000) argues that, research in the field of corporate turnaround has focused largely on mature, durable product industries while placing relatively scant attention on sectors such mining and extraction. Hence the third motivation for the study is to contribute towards closing these theoretical gaps in organisational decline and turnaround literature by exploring these phenomena in the context of RioZim Limited, a mining company in Zimbabwe. The results of the research may enable ailing mining companies like RioZim Limited to realize and make decisions, based on scientific evidence.

1.9 Scope of Research

This paper deals primarily with RioZim Limited during the period January 2008 to December 2012. The study seeks to expose the actions and strategies formulated and implemented in order to turnaround RioZim's financial position. Dicken (2007) posits that all companies are embedded in different cultural and location-specific contexts hence it is hard if not impossible to generalize the findings of this study across mining companies in Zimbabwe. Turnarounds in different companies unfold from varied settings as each company has specific idiosyncrasies (Lohrke & Bedeian, 1998, p. 10) therefore it is ill-advised to suggest a one-size-fits-all approach. For this reason the findings about RioZim Limited might not be applied to different contexts.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This chapter seeks to evaluate theoretical positions and illuminate the broad topic of turning around failing organisations by highlighting key insights, concepts, models provided by leading academics and practitioners. The second aim of this chapter is to devise a framework to make use of existing theory as a means to help organize and direct data analysis (Yin, 2003, p.109). This chapter begins with the exploration of literature of factors that cause corporate decline, followed by review of literature on corporate turnaround strategies. Finally, in order to cement the literature review in the context of the mining sector, two case studies of mining companies that embarked on business turnaround initiatives are also discussed.

Greenhalgh's (1983, p.232) argues that "despite years of conceptual analyses that have examined myriad issues associated with turnaround processes, the literature and research within turnaround management is confusing, uneven, simplistic and sterile". For example Chowdhury (2002) specifically posits that there is lack of dominant theory on turnarounds; Whetten (1987, p.5) that "the conceptual boundaries of organisational decline have been neither consensual nor clear". In view of these arguments, the review of literature of business decline and turnaround phenomena is of heightened importance.

2.2 Corporate decline

2.2.1 Definition of organisational decline

Organisational decline literature reveals that there is no exact, unique or decisive definition of business decline. Some scholars define corporate decline in terms of performance deterioration (Chowdhury & Lang (1993, p.8); Weitzel & Jonsson (1989) and Probst & Raisch (2005, p.90)), while Cameron, Sutton and Whetten

(1988, p. 9) and D'Aveni (1989, p. 598) define organisational decline in terms of decrease in an organisation resources. McKinley (n.d., cited in Sutton, 1990, p. 208) sums up the two perspectives by stating that organisational decline is a “downturn in organisational size and/or performance”. Pearce & Robbins (1993, p. 616) posit another perspective positing a comparison of the firm performance relative to other firms in the same industry. It is important to mention that companies rarely fail because of any single cause (Zimmerman, 2011, p.8) and that causes of business decline vary by industry (Slatter and Lovett, 1999, p.51).

2.2.2 Phases and Aspects of organisational decline

Business decline varies in terms of severity, pace and length of the period of decline. For example, Argenti (1976, p.149) posits that decline can be a gradual process whilst D'Aveni (1989, p.579) argues that decline can be a “sudden, unexpected disruption”. Different scholars have postulated various models that help understand the various phases of the decline process. Cameron, Sutton and Whetten (1988, p.208) proposed a simplistic two-step model of organisational decline. According to their model, the first phase is characterized by deterioration of adaptation to the micro niche. They posit that as the company's performance deteriorates further, it enters into the second phase where it experiences a reduction in its resources. Goldstein's (1988, p.34) proposed a model in which business decline unfolds through four phases. However, Castrogiovanni, Bahga, and Kidwell (1992, p.28) present a more comprehensive five-stage model of decline, which covers all of the aspects of Cameron et al. (1988) and Goldstein's (1988) business decline models. The Castrogiovanni et al.'s model:

Stage 1: The “blinded” stage, at this stage the weakening of a firm's strategic position starts to manifest however the firm may still be reporting profits.

Stage 2: The “inaction” stage, the firm reaches this stage when management fails to respond to problems that manifested in stage. This stage is characterized by decline in profits.

- Stage 3:** The “faulty action” stage, at this stage outsiders start to notice that the business is not performing well. The company’s losses increase and the company shifts to a defensive position.
- Stage 4:** The “crisis” stage, losses mount, inventories dwindle, credit is curtailed, and cash flow becomes increasingly scarce.
- Stage 5:** The “dissolution” stage, the company gets to this stage where the company is liquidated or taken over. This is usually due to that there are no turnaround interventions or if the interventions were insufficient or unsuccessful.

2.2.3 Causes of corporate decline

Some scholars emphasize the need to gain understanding of the causes of business decline before one can make sense of business turnaround strategies (Thain & Goldthorpe, 1989, p. 59 and Robbins & Pearce, 1993). Business decline can not be attributed to only a single factor (Kanter, 2003, p.5). Some researchers split the causes of decline into internal problems or external problems (Grinyer, Mayes & McKiernan (1988); Hofer (1980) and Schendel et al. (1976)). The internal factors are also referred to as operational, voluntaristic and company-specific factors over which management has a significant control. External factors have been referred to as strategic, deterministic and industry-specific factors beyond the control of management (Cameron, Kim, and Whetten, 1988). Several empirical studies (Table 2.1) have attributed most organisational failures to internal matters ((Starbuck, Greve & Hedberg (1978); Goodman, (1982); Slatter (1984); Boyle & Desai (1991); Schmalensee (1985) and Rumelt (1991)).

Table 2.1 Findings from empirical research of causes of business failure

	Bibeault (1982)	Dun and Bradstreet (1994, p19)	Patt (1998)
Internal Factors	70%	92%	87%
External factors	30%	8%	13%

2.2.4 Internal causes of business decline

Slatter and Lovett (1999, p.22) posited that several internal factors that cause business decline as shown in Table 2.2. These factors are discussed in detail below:

Table 2.2 Major causes of business decline

Internal factors	
Poor management	75%
Big projects	17%
Acquisitions	15%
Cost disadvantages	35%
Poor financial control	75%
Poor Marketing	22%
Weak financial policy	20%
External factors	
Economic changes	33%
Competitive changes	40%

Source: Slatter and Lovett (1999, p.22) and Bibeault, (1982, p.35)

2.2.4.1 Poor management and lack of leadership

Slatter (1984) described poor management as “sheer incompetence or lack of interest in the top management in management issues”. Some scholars have argued that poor management is the single most important factor in business decline. For example, Argenti (1976, p.122), Zimmerman (2011, p.8) and Walshe, Harvey, Hyde and Pandit (2004, p.202) all singled out bad management as a prime cause of business decline and failure. Poor management leads to inadequate internal controls, ill-advised strategic decisions and inappropriate risk assessment (Zimmerman, 2011, p.8). The following management traits were found to be significant contributors to organisational decline: **One man rule** (Schendel, Patton and Riggs, 1976; Argenti, 1976; Bibeault, 1982; Slatter and Lovett (1999, p.21); Gopal, 1991 and Pandit (2000)); **lack of management depth and skills** (Slatter, 1984 and Bibeault, 1982); **management change problems, inbred bureaucratic management** and **unbalanced top management** (Bibeault, 1982); **weak, non participative and ineffective board of directors** ((Argenti, 1976; Slatter and Lovett

(1999, p.21); Bibeault, 1982 and Gopal (1991)), **management neglect of core business** (Slatter, 1984), **Internal conflicts, dissension among partners** (Dutt, 1980). Miller (1977, p.44) identified four management syndromes that often lead to business decline and ultimately business failure. These are impulsive syndrome, stagnant bureaucracy, headless business and swimming upstream.

2.2.4.2 Poor financial management

Bibeault (1982) and Slatter (1984) cite weak finance function and poor understanding of management accounting as causes of poor financial management. Slatter (1984) explains that poorly designed management accounting systems and failure to produce useful, relevant, timely and accurate information on which to base decisions as signs of poor financial management. Hill and Jones (1995, p.302) cite the absence of or inadequacy following as examples of poor financial control: cash-flow forecasts, costing systems, budgetary control and monitoring of key performance indicators. Slatter and Lovett (1999, p.25) posit that some organisational structures can present bottlenecks that stifle effective control. Examples of poor financial control include poor working capital management (ibid, p.27), cost over-runs and diversion of funds (Dutt, 1980).

2.2.4.3 High costs

Slatter and Lovett (1999, p.31) posit that operational inefficiency is a major cause of business decline as it has a bearing on all elements of the organisation's cost structure. They posit that low labour productivity, poor production planning, lack of adequate maintenance, poor plant design, poorly planned allocation of advertising and promotional expenditure as some areas that can cause higher costs (ibid, p.31).

2.2.4.4 Organisational inertia

Hill and Jones (1995, p.302) posit that decline is the result of managers' failure to configure the firm's strategy, structure, and objectives in alignment with an evolving and changing environment such as changes in market demand, changes in regulations e.t.c. Businesses have to respond to internal or external pressures

because managerial paralysis or rigidity can hasten the demise of the company or threaten the organisation's long term existence (Slatter, 1984). Various scholars mention different causes of inertia. For example Cater and Schwab (2008) cited the "lack of expertise and basic competencies or skills to initiate necessary changes", while Slatter (1984) cites a combination of the following, "poor leadership, inappropriate organisational structure, poorly motivated staff, lack of clearly defined accountabilities and responsibilities, and inappropriate or non existent management processes". Slatter (1984) further explained that culture can also hinder effective response to changes.

2.2.4.5 Big projects and poor acquisitions

Slatter (1984) posits that 'not-properly scrutinized acquisitions; launching big projects without prior planning; acquisition of 'losers' and paying unjustified high purchase for acquire firm can erode shareholder value and profitability. Hill and Jones (1995, p.302) note that poor post acquisition management including poor project control during implementation of the capital expenditure cause business decline. Slatter (1984) adds that later design changes, external factors, costs under estimating, overestimating revenues, start-up difficulties, technical difficulties with plant and equipment, market entry costs constitute a plethora of factors that affect acquisitions and projects.

2.2.4.6 Poor financial policy

Slatter (1984) points out that very conservative financial policy characterized by lack of reinvestment in plant and equipment, high dividend payout ratio, high liquidity and low gearing can result in organisational decline. He argues that use of inappropriate financial sources can result in the company paying unnecessarily high financing costs. He further posits that weak forecasting and projection skills, under capitalization, excessive debt and inadequate financial controls.

2.2.4.7 Overtrading

Slatter (1984) posited that ineffective working capital management leads to overtrading. Overtrading results when managers trying to operate a level of business activity that exceeds the financial capacity of the organisation to operate the business (Morden, 2004, p.36). It is a situation in which the enterprise attempts to finance a given operational activity on the basis of inadequate working capital becomes over reliant on short term financing from banks and creditors resulting in a situation where there is a significant excess of current liabilities over current assets and the threat of bank and creditor's support (ibid. p.245).

2.2.4.8 Other factors that cause organisational decline

Poor industrial relations, such as union strangling management is a factor that was not mentioned by most scholars (Slatter 1984). However this is an important factor for example how job action has been affecting output and profitability of the South African platinum and gold mines. Other factors include lack of marketing effort (Slatter, 1984), inadequate research and development, and poor choice and/or execution of strategies (Scherrer, 2003).

2.2.5 External Causes of corporate decline

The company's external environment is an important situational element that has a strong impact on a firm's strategic direction (Scherrer, 2003). External factors are important in that they tend to exacerbate a firm's internal problems and have a bearing on critical success factors such as the ways a firm's resources are secured (ibid). Bibeault (1982, p.27) cites the following changes in the external environment that can affect business performance: economic change, competitive change, government constraints, social change, and technological change. Hence the researcher used the PESTEL framework to discuss the macro environment as it affects the mining sector in general. These external factors are discussed below:

2.2.5.1 Political

The Fraser Institute Annual Survey of Mining Companies 2011/2012 (p.12) cites the following political factors that affect mining companies: political stability, corruption, security and socio economic agreements/community development conditions (includes local purchasing or processing requirements, or supplying social infrastructure such as schools and hospitals e.t.c.).

2.2.5.2 Economic factors

The Fraser Institute Annual Survey of Mining Companies 2011/2012 (p.12) cites the following economic factors that affect mining industry directly: Taxation regime and the complexity associated with tax compliance; Infrastructure; Trade barriers (tariff and non-tariff barriers; restrictions on profit repatriation, currency restrictions, etc.) and availability of labour/skills. Economic growth/decline and the general economic climate, credit availability and money market activity can influence company's plans for expansion (Scherrer, 2003; Argenti, 1976; Bibeault, 1982). Other factors such as adverse movements in commodity prices (Slatter and Lovett, 1999, p.21), unforeseen shifts in demand (Hill and Jones 1995, p.302) affect revenues generated by mining operations.

2.2.5.3 Social

Argenti, (1976), Bibeault (1982), Grinyer, Mayes and McKiernan (1988) and Goldstein (1988) all argue that cultural social changes can also indirectly cause business failure. This may be due to declining sales caused by changing consumer preferences, purchasing patterns and the conditions under which a product is sold (ibid).

2.2.5.4 Technological factors

Technological changes can allow for rapid breakthroughs and changes in products, production and marketing distribution (Bibeault, 1982). In the context of mining sector, new extraction techniques and automation can help to lower operation costs and improve the efficiencies and recoveries.

2.2.5.5 Legal and environmental factors

The Fraser Institute Annual Survey of Mining Companies (2011/2012) argues that huge capital is required to develop projects and construct mines. The report also posits that the ability of a mining company to raise funds depends on the legal and environmental factors within the various jurisdictions of mining companies. Slatter and Lovett (1999, p.28) posit that unfavourable government policies in the form of taxation, foreign exchange policies and regulatory requirements can be sources cost disadvantages. Other scholars cite the following factors: Government constraints (Dutt, 1980; Bibeault, 1982; Goldstein, 1988); government policy (Schendel et al, 1976; Bibeault, 1982 and Gopal 1991) and regulatory changes (Scherrer, 2003). In the Zimbabwean context, investors and players in the mining sector have highlighted concerns over uncertainty concerning the administration, interpretation and enforcement of existing regulation such as the Indigenisation and Economic Empowerment Act (Chapter 14:33). Another area of concern uncertainty over the Zimbabwe government reluctance to honour agreements and commitments it entered into with mining companies. For example the government announced plans to repossess about 50 percent of the mining claims owned by Zimplats (over 27,000 hectares) under the compulsory acquisition of excess mining ground on a “use-it-or-lose-it basis” despite standing agreements with the company signed in 2006 (Zimplats, 2012).

According to the Fraser Institute Annual Survey of Mining Companies (2011/2012), labour unrest adversely affects the mining industry, hence the importance of labour regulation and employment agreements. For example in 2012, in South Africa several gold mining companies were forced to halt operations as a result of widespread wildcat strikes (South Africa Reserve Bank, December, 2012). Deteriorating labour relations environment and the high wage demands in the mining sector adversely affected the volume of mining exports and South Africa’s credit ratings (ibid).

2.2.5.6 Other external factors

Competitive changes such as the emergence of powerful new competition (Hill and Jones, 1995, p.302) can affect the performance of a company. Slatter and Lovett (1999, p.28) posits that absolute cost distribution due to competitors controlling strategic variables not available to the firm itself can be sources of cost disadvantages. Other factors include the following: Industry life cycle (Barker and Duhaime, 1997; Bibeault, 1982; Pearce and Robbins, 1993); General calamities (Gopal, 1991); adverse industrial relations (Kaveri, 1983 and Khandwalla, 2001); Availability of resources (Schendel, Patton & Riggs, 1980); inappropriate channels of distribution (Scherrer, 2003) economic downturns and Changes in market demand (Slatter & Lovett, 1999, p.21).

2.3 Corporate turnaround

2.3.1 Turnaround situation

Slatter (1984, p.13) argues that there is standard or fixed definition of what constitutes a turnaround situation. Slatter and Lovett (1999, p.5) define a turnaround situation as a situation where a company has to make serious interventions to ensure company's survival after experiencing continued performance decline. Zimmerman (2011) defines a turnaround situation as a firm's financial health indicators point that the business has high chances of failing unless short term corrective measures are taken".

2.3.2 Corporate turnaround definition

Turnaround is sometimes used interchangeably with words like restructuring (Beer & Nohria, 2000), recovery (Slatter, 1984), rescue (Pandit et al., 2000), revival (Lin et al., 2008), rejuvenation (Stopford & Baden-Fuller, 1990). Bibeault (1982, p.81) describes turnaround as a "substantial and sustained positive change in the performance of a company". Arogyaswamy and Ardekani (1997) emphasize that it is not only an effort to halt business decline to avoid failure, but also includes efforts to rejuvenate the enterprise. Other scholars have defined corporate turnaround, as: a

recovery of a firm's economic performance (Pandit, 2000, p.34); restoration to complete sustainable vitality (McCann et al., 2009 cited by Pretorius, 2012, p.77); prevention of the occurrence of financial disaster (Chathoth, Tse and Olsen, 2006, p.604); measures to employed by a business to persevere and survive through a adverse business conditions (Sheppard & Chowdhury, 2005, p.243).

Schmitt (2009, p.40) modelled the turnaround management process as shown in Figure 2.1. Zimmerman (2011 p.29) posited that turnaround management is “the amalgam of managerial skills, systems and procedures used; the individual character traits exhibited; and the actions taken during the turnaround event to achieve a recovery”. Sheppard and Chowdhury (2005) describe the process as a combination of strategies involving skills, systems and capabilities to achieve sustainable performance recovery (p.243). Smith and Graves (2005) describe it as a series of integrated steps involved in restoring a firm to profitability from performance decline. The researcher thus concludes that turnaround management is the totality of actions taken to avert performance deterioration and bring about substantial and sustained recovery.

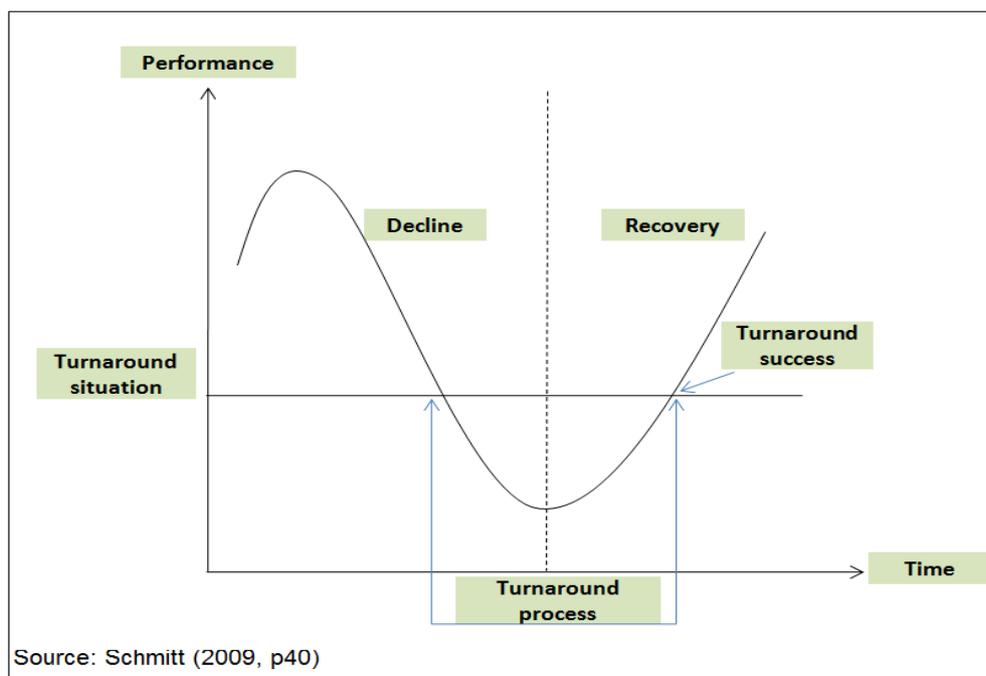


Figure 2.1 Concept of corporate turnaround

2.3.3 Complexity of turnaround processes

Pearce and Robinson (1992) posit that turnaround strategy is a “master plan of actions necessary to reverse a declining business situation”. Ketchen and Palmer (1999) emphasize that the need for managers to timely develop and implement an appropriate response to a decline in firm performance. Grinyer, Mayers, and McKieran (1990) argued that turnaround situations require a different managerial approach from common performance improvement. McCann et al. (2009, cited by Pretorius, 2012)) differentiates turnaround strategy from normal business conditions by explaining that in turnaround, resources such human and financial are very scarce and implementation of the strategies has to be done without delay. Zimmerman (2011, p.29) posits that turnaround process is “a multifaceted process of organisational learning, involving many people and many parts of the organisation”. Thus turnaround management is a holistic process that involves many managerial and technical variables and these variables impact on each other in a complex manner. This has resulted in that in terms of management research some variables fall into quantitative analysis while some are more organic and fall into qualitative analysis (ibid). Since turnaround is a complex process that involves a combination of situational factors, internal resources, and firm strategies this has a bearing on the choice of the research approach as discussed in Chapter 3 of this study.

According to Slatter and Lovett (1999, p.5) a holistic turnaround consists of four key issues that must be addressed as shown in Figure 2.2. Slatter (2004, p.6) posits that there are seven characteristics that characterize successful turnaround: 1) Crisis stabilization, 2) New leadership 3) Stakeholder management, 4) Strategic focus, 5) Critical process improvements, 6) Organisational change and 7) Financial restructuring. These turnaround initiatives are discussed below.

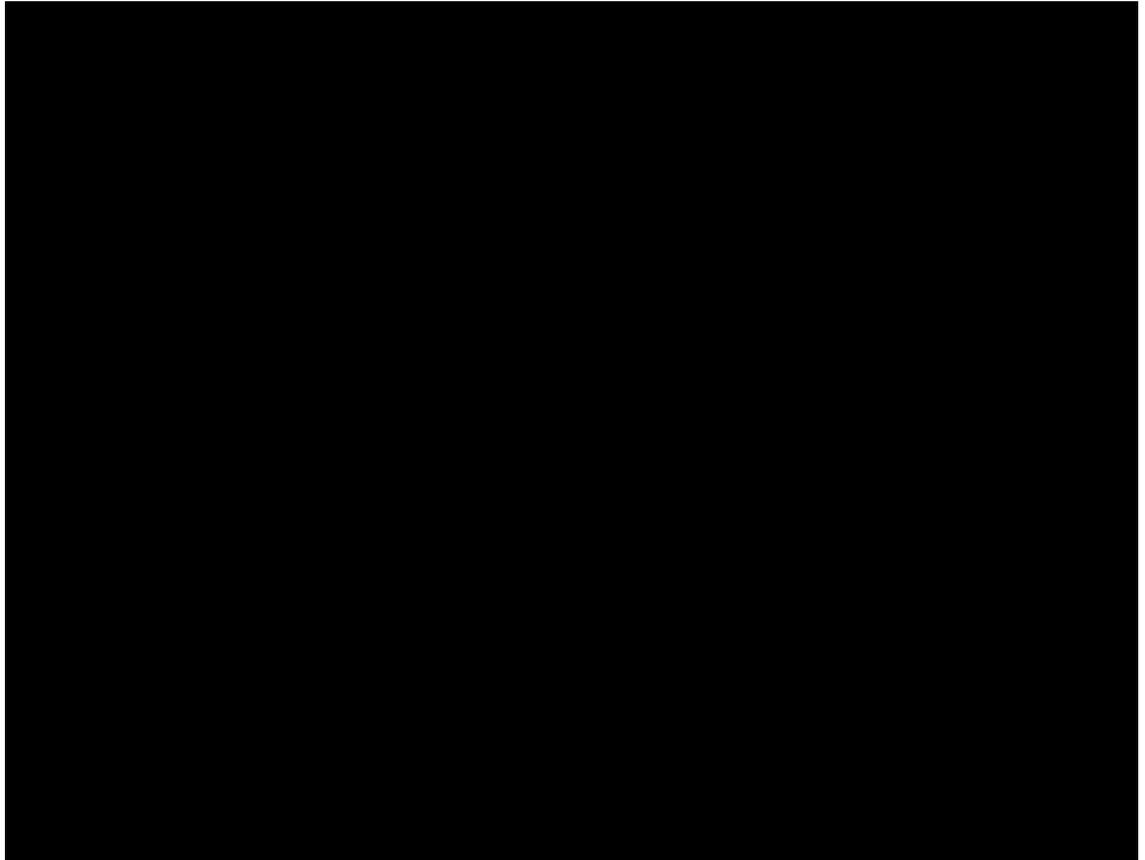


Figure 2.2 Key objectives and their essential ingredients

2.3.4 Description of turnaround strategies

There are several ways in which researchers have categorized turnaround strategies. For example Schendel, Patton and Riggs (1976) and Hofer (1980) classify turnaround strategies into **strategic and operational** actions. Hambrick & Scheter (1983) divide them into **entrepreneurial and efficiency oriented** actions. Both of these classifications are based on the causes of business decline. They argued that if the decline is primarily due to inefficient operations, then the company should adopt efficiency-oriented turnaround initiatives such as cost cutting and asset reduction. If the decline is due to deficiencies of the business strategy, then entrepreneurial-oriented strategies should be employed to suit the company's strategy to the markets and business environment.

Other scholars have posited different classifications of turnaround strategies. For example, Bibeault (1982), decline stemming and recovery strategies; Wheelen and Hunger (2001) posit **contraction and consolidation**; Boyne (2004), **retrenchment, repositioning, and reorganisation** strategies while Walshe et al. (2004, p.202) suggested a slightly different version of **retrenchment, renewal, and replacement**. However, the difference between these strategies is minimal. Slatter (1984, p.96) posited **ten generic turnaround strategies** which firms use alone or in combination:

- Change of management
- Strong central financial control
- Organisational change/decentralization
- New product-market focus
- Improved marketing
- Growth via acquisition
- Asset reduction
- Cost reduction strategies
- Investment strategies
- Debt restructuring strategies

The researcher chose to review turnaround strategies based on the ten turnaround strategies posited by Slatter (1984) as they offer a more comprehensive view of turnaround strategies and cover most of the issues highlighted by other turnaround scholars.

2.3.5 Phases of turnaround process

Various turnaround scholars have put forward different phases to describe the turnaround process in order to explain how these processes unfold. Pearce and Robbins (1993) and Arogyaswamy et al. (1995), posit two phases, **Retrenchment phase** and **Recovery phase**. Bibeault (1998, p.92) identified five distinct stages of turnaround processes: **management change stage, evaluation stage, emergency stage, stabilization stage, and return to normal growth**. Slatter (2011) identified

four distinct but overlapping phases which are: the **Analysis phase**, **Emergency phase**, **Strategic change phase**, **Growth and Renewal** (beyond turnaround). The researcher chose to combine Slatter (2011) and Bibeault (1998, p.92) to offer a more comprehensive view of turnaround phases. Hofer (1980) explained the effect of turnaround strategies on costs and revenues of an organisation as shown in figure 2.3.

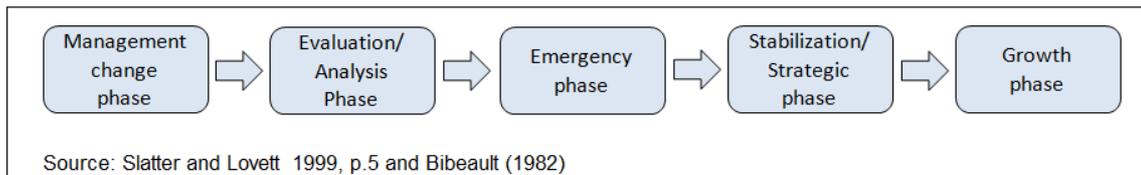


Figure 2.3 Phases of Turnaround processes

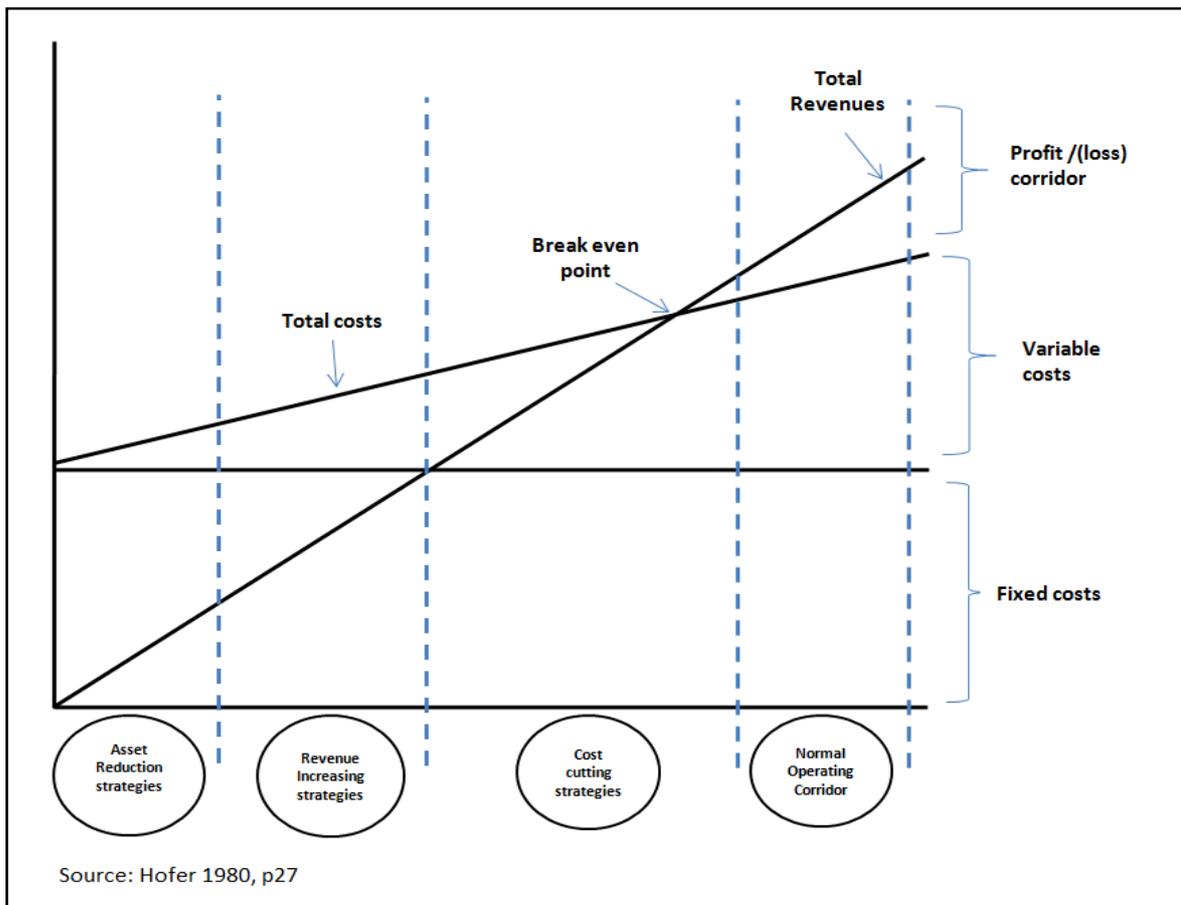


Figure 2.4 Turnaround strategies and costs

2.3.5.1 Management change phase

Schendel, Patton and Riggs (1976) cite poor management as the major cause of corporate decline. Bibeault (1982) and Hofer (1980) posit that change of senior management team is a precondition for successful turnarounds. Schendel, Patton, and Riggs (1978) in their study, found that management change leads to successful recovery in over 80 percent of the cases. In support of this view, Denis and Denis (1995) posit that dismissals of top management usually result in an improvement in operating performance. New management is typically associated with. New top managers can be an important signal for seriousness about recovery (Boyne, 2006).

This strategy is usually successful where the incumbent management was unable or unwilling to make the changes necessary to stem the decline (Goldthorpe, 1989). New top managers is important in facilitating strategic change because they often have different backgrounds and experience, bringing new understanding of the firm's environment and enable productive change to take place (Boyne, 2006). Additionally, new top managers, especially outsiders, have no personal commitments to previous policies and practices, and so are freer to commit radical changes (Schendel et al., 1978).

The success of this turnaround initiative bears on the ability of the new management provide a new sense of direction as they develop new financial and operating strategies to revitalize the firm (Slatter, 1984). The change in top management is usually associated with restructuring of the organisation, introduction of new strategy and redefinition of roles and policies. The new management may face stiff resistance from those who are uncomfortable with the changes thereby stalling the turnaround.

2.3.5.2 Evaluation stage

Pearce and Robbins (1993, p.625) and Hopkins (2008, p.5) argue that the success of turnaround strategies hinges on assessment of factors that caused performance decline and tailor making the turnaround response to address those causes. This argument is supported by Hofer (1980) who emphasizes that turnaround actions

must be developed in order to fit the prevailing environmental conditions. Furthermore, Bibeault (1998, p.25) and Slatter and Lovett (1999, p.5), argue that the choice of turnaround strategies is strongly influenced by the factors that caused the corporate decline. Toms and Filatochev (2006, p.427) argue that conditions responsible for business failure should be understood before being mitigated to achieve stability. According to Slatter (1984), the evaluation stage is the preliminary viability analysis. This stage involves evaluating the company's financial strength, company's competitive position and other resources such as employee competences contingent variables for deciding between the extent to which the company should employ cost and assert retrenchments (ibid). It is clear from the above arguments that that evaluation stage is important for understanding the severity of turnaround situation and the actions necessary to revive the enterprise.

2.3.5.3 Emergency stage

According to Slatter (2011), in the emergency stage an organization needs to implement actions that ensure its short term survival. This stage concentrating on retrenchment based on bottom-line considerations (Bibeault, 1982, p.237), severity of the distressed state (Pearce & Robbins, 1993 and Arogyaswamy et al., 1995), firm size (White, 1989), and availability of free resources (Arogyaswamy et al., 1995). Several of these studies have shown that retrenchments are associated with significant improvements in the performance of failing firms (O'Neill, 1986; Chowdhury & Lang, 1996; Pearce & Robbins, 1994; Stopford & Baden-Fuller, 1990). Scholars cite different reasons for embarking on retrenchment:

- To stabilize the company's financial condition (Bibeault, 1982)
- To reduce organisational costs or assets, improve operational efficiency (Wheelen and Hunger, 2001) and re-establish positive cash flows to ensure survival.
- To minimizing input resources and improving efficiency (Schmitt, 2009 p.53).
- To release resources from unproductive sections that can be reinvested in ones that are more productive (Pearce and Robbins, 1993).

Retrenchment may entail a reduction in the scope or size of the organisation (Boyne, 2006), downscaling and/or down-scoping activities (DeWitt, 1998). Downscaling refers to a reduction in the scale of operations while down-scoping denotes the sale of entire business units. Pearce and Robbins (1993), posits that retrenchment consisting of cost reduction and asset reduction.

a. Cost retrenchment

Cost-cutting (Hofer, 1980) is referred to as cost retrenchment (Boyne, 2004), cost improvement and cost containment (Fransis & Pett, 2004, p 40). Pearce and Robbins (1993) recommend cost-cutting for firms in a less severe turnaround situation. Cost-cutting usually includes deep staffing reductions (Meyer & Zucker, 1990). Employee layoffs are most suited when new technology changes the production process in a way that reduces the demand for labour (Iverson & Pullman, 2000). This involves the systematic reduction of a workforce through an intentionally instituted set of activities by which organisations aim to improve efficiency and performance (Schmitt, 2009).

A study by Pearce and Robbins (1994) concluded that retrenchment has a positive impact on an ailing business. Similar studies have shown that the successful implementation of a layoff strategy will enable firms to cut down on labour costs and also increase labour productivity. On the other hand, some studies failed to establish any positive link between retrenchment and recovery (Sudarsanam and Lai, 2001). Hence the impact of retrenchment on recovery and organizational turnaround is debatable.

b. Asset reduction

Asset reduction or asset retrenchment is defined as a reduction in assets (long-term and short-term) as a means of mitigating conditions responsible for a financial downturn and improving performance (Robbins & Pearce, 1992). They posit that asset reduction recommended is for firms in more severe turnaround situations. Sudarsanam and Lai (2001) (as cited by Schmitt, 2009, p.53) argue that asset reduction can result in increased operational efficiency and improved asset utilization. The logic behind an asset reduction strategy is that, by disposing of

redundant and nonperforming assets, and for a firm to operate the more useful assets (ibid). For a firm that has a huge debt overhang, cash realized from asset reductions could be used to reduce financial leverage (Kahl, 2002), improve cash flow (Hofer 1980, Taylor 1982), help in meeting the immediate cash obligations (Hambrick & Schechter, 1983) and create more productive assets (Robbins and Pearce 1992).

Asset reduction could be accomplished in different ways. Specifically, plant closings, divestitures (sell-offs, spin-offs and equity carve-outs), reductions in property and equipment and reduction in overstocking of materials and inventories, sale or lease of land and buildings, and equipment not essential to the basic activity of the firm (Ofek, 1993). Divestitures are the preserve of larger firms that have substantial investment in different business segments and subsidiaries (ibid).

A study by Morrow, Johnson and Busenitz (2004) supports the assertion that both cost and asset retrenchment are appropriate turnaround strategies that result in significant improvements in the performance of failing firms. However, one weakness of most empirical studies on retrenchment is that they do not discriminate clearly between these potential effects of reductions in organizational scope and size.

2.3.5.4 Stabilization stage

It is a settling down stage after the trauma of the emergency stage concentrating on profitability and running existing operations efficiently (Bibeault (1982, p.130). A company should aim to self finance during stabilization stage by making judicious divestments. This stage is aimed at creating a sound financial platform producing sustained growth requires investing in future growth, and investment requires a strong balance sheet (ibid, p.106). According to Slatter (2011) the objectives of the stabilization stage are to conserve cash in the short term and thereby provide a window within which to develop a turnaround plan and agree a financial restructuring plan and to rebuild stakeholder confidence. Slatter (2011) and Bibeault (1982)

mention the following initiatives at stabilization stage: establish effective controls, financial restructuring and stakeholder management.

a. Establish effective controls

The stabilization stage is the time to take a look at everything the company is doing, from cash management to cost accounting, from purchases to production, from design to distribution with the view of establishing control mechanisms (Bibeault, 1982, p.334). In the stabilization stage, budgetary performances and margin refinements should be brought in to effect tight controls (p.114). Companies implement tight budgetary controls and improved responsibility accounting (ibid, p.114). It involves institutionalizing controls by setting up effective control procedures and centralization of services such as purchasing, accounting, data processing, personnel etc (ibid, p.330).

b. Financial restructuring

Slatter (2011, p.84) posits that if the turnaround initiative does not address the capital structure of the business, all the effort will be in vain since covenant and other loan document breaches will soon recur (p.84). He posits that financial restructuring is necessary if a company suffers one or more of the following: cashflow problems; excessive gearing; inappropriate debt structure e.g. excessive short term/on demand borrowing and insufficient long term debt and balance sheet insolvency. Slatter (2011, p.84) posits that the objectives of the restructuring are:

- To establish a stable capital structure commensurate with the enterprise value and the cash generating capacity of the revitalized business
- To ensure that the new capital structure reflects correctly the interests of stakeholders
- To restore the risk profile in relation to the credit extended to the company in terms of leverage and other financial ratios, asset coverage and other covenanted performance criteria.

Debt restructuring is aimed at re-arranging the firm's capital structure in order to meet its obligations towards its creditors and to lower interests (finance charges) and debt repayments (Sudarnam & Lai, 2001 as cited by Schmitt, 2009, p.55). By reducing such payments, a firm can preserve internal funds for financing other critical activities for the turnaround (Schmitt, 2009 p.55). Debt based restructuring activities seek to rearrange a firm's debt situation in order to avoid or reduce financial distress and avert bankruptcy (Sudarnam & Lai, 2001 as cited by Schmitt, 2009, p.55). This may also involve transactions to replace existing debt with a new contract aimed at reducing interest rates and/or extended maturity. Schmitt, 2009 (p.55) citing Brigham and Ehrhardt (2002), mentions the option of pledging specific assets by creating asset based securities, factoring or leasing. Another refinancing deal option to attain a favourable capital structure is debt-equity swap, whereby a debt holder obtains an equity position in exchange for debt cancellation (Schmitt, 2009). Equity based activities include cutting dividends, omissions, and new equity issues such as public offer, placement with institutional investors or rights issue (Kraus & Haghani, 2004 as cited by Schmitt, 2009 p.55).

c. Stakeholder Management

Stakeholder management is the core of a turnaround and should commence at or even before the diagnostic phase begins (Slatter, 2011). Arogyaswamy et al. (1995) argue that for turnaround initiatives to succeed managers should take decisive action on managing the firm's external stakeholders, and internal climate and decision making processes. Smith and Graves (2005, p.317) in their study of companies in distress concluded that firms that have high support from stakeholder are more likely to survive. According to Bernstein (2006) stakeholder management is a multi-stage act of balancing divergent interests, including shareholder-creditor, creditor-creditor, management-stakeholder and individual-organisational conflicts.

Slatter (2011) argues that the immediate task of the turnaround leader is to rebuild stakeholder confidence through a process of open communications to re-establishing a sense of direction and purpose. He explains that the leader must move quickly to initiate the development of a rescue plan, and communicate it to

stakeholders to avoid confusion across the organisation. The turnaround leader should seek the involvement of stakeholders in the development of turnaround plans. The power, influence and importance of stakeholders will vary; it is important for management to reconcile and balance conflicting needs (ibid).

2.3.6 Revenue enhancement and return to growth stage

Arogyaswamy et al. (1995) posit that turnaround researchers have largely ignored the option of implementing growth-oriented (entrepreneurial-oriented) strategies. Bibeault (1982 p.103) explains that cost cutting and divestment can solve short term cash flow problems but only sustained profitability can make available long term cash required for healthy growth. This phase consists of efficiency maintenance and entrepreneurial reconfiguration (Pearce & Robbins 1995, p.240). The growth stage is more proactive strategy and is complementary to retrenchment. The focus is on increasing revenue growth and profit growth by employing revenue enhancement mechanisms to maximize the firm's output (Bibeault, 1982 p.350). It is an entrepreneurial strategy that deals with effectiveness emphasizing growth and innovation (Schendel & Paton, 1976). These mechanisms involve repositioning the company and focus on its competitive strategy and other longer-term actions that sharpen the company's competitive edge (Pearce & Robbins, 2008). Slatter (2011) posits growth either organically through product development and market development or via acquisitions. Pearce and Robbins (2008) posit that market penetration, product innovation, new market entries and alliances and acquisitions are some of the growth initiatives that an organisation can pursue.

2.4 Case study: BHP Billiton successful turnaround

BHP Billiton is the world's largest diversified resource company which operates a wide variety of mining and processing operations in 25 countries (BHP Billiton - Our Company, 2012). BHP Billiton resulted from the merger of BHP and Billiton in 2001 (McLeod, n.d., p.1). Prior to the merger, BHP experienced decline in profitability from \$1.36 billion in 1996-97 to \$378 million profits in 1998-99 and successive losses of \$2.85 billion in 1997-98 and \$2.677 billion in 1998-99. According to CEO of BHP

before the merger, Paul Anderson 2001, as cited by McLeod (n.d.), one of the major challenges experienced by the company was the slowdown of most of the major economies and decline of commodity prices (p.2). According to McLeod (n.d., p.1), before the 2001 merger, BHP and Billiton considered that the global mining industry was in flux and that in the next stage of the life cycle the industry would be highly consolidated and more vertically integrated, especially backward into the mining process.

The first step was to raise capital in order to foster growth through value added growth projects, exploration and investment expenditures. This turnaround process was initiated which was geared to improve business efficiencies, foster greater focus and management accountability for the performance of assets. A series of performance measures were developed in relation to business turnaround initiatives to restore the mining company to profitability as outlined by Goodyear and Bainbridge (2001):

- Lowering cost structures: achieved \$285 million cost savings by December 31, 2002 by synergies created by the merger and efficiency gains (BHP Billiton annual report, 2003).
- Divestments targeting at eliminating underperforming, maturing or noncore assets and generate net operating cash flows.
- The company restructured the management to foster accountability and communication.
- Debt restructuring: Extend debt duration to greater than six years given the 30-40 years duration of assets.
- Reduce reliance of bank funding and credit support to less than 35 per cent by the end of financial year 2003 and utilize project and structured financing where appropriate.
- Increased financial control by Implementing more rigorous approval processes for new projects and capital allocation
- Linking employee rewards with results for shareholders.
- Broadening the management base by attracting outside talent with diverse experiences.

2.5 Theoretical Framework for the study

In view of the above discussion on the literature on business decline and turnaround the researcher came up the conceptual framework (Figure 2.5). The model was designed to guide the data gathering and analysis as explained in Chapter 3 of this study as well as facilitate a better understanding of the turnaround process by the researcher. The model shows the content, context and process dimensions of corporate turnaround (Pandit, 2000). The model suggests that turnaround management should be understood in the context of the industry characteristics, the macro economic environment, the company's relationship with stakeholders and the severity and nature of the causes of business decline (ibid). This can help in understanding why and how a firm got into a crisis situation. The model further suggests that turnaround initiatives are operational, financial and strategic in nature (Slatter, 2004). In terms of content, the model presents various strategic moves are commonly associated with business turnaround. The model presents the turnaround management process as divided into 5 phases: Management change phase, Evaluation phase, Emergency phase, Stabilization phase and Growth phase (Hofer, 1980; Slatter, 2004).

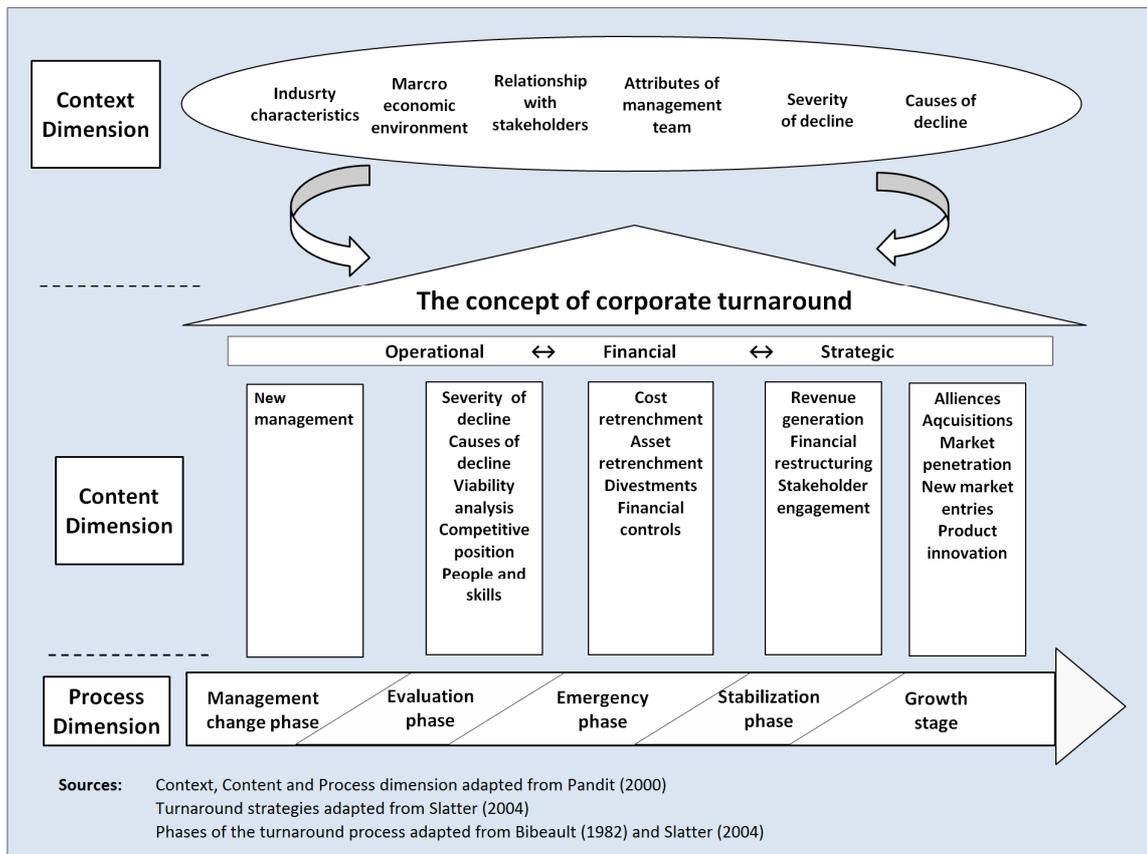


Figure 2.5 The conceptual framework of corporate decline and turnaround

2.6 Chapter summary

The objective of this chapter was to illuminate the broad topic of turning around failing organisations by highlight key insights, concepts, models provided by leading academics and practitioners in the fields of organisational decline and turnaround. The researcher explored the factors that cause corporate decline and examined the various turnaround strategies posited by different turnaround scholars. Two case studies of mining companies that embarked on business turnaround initiatives were also discussed. Furthermore, the researcher used the relevant and key concepts to come up with a theoretical framework which will help organize and direct data analysis (discussed later in chapter 3).

CHAPTER 3

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the philosophical assumptions, ontological and epistemological foundations underpinning this study. The researcher seeks to advance the criteria used for the choice of the research methodology by reviewing the major approaches to management research. The primary objective is to discuss various methodological preferences and perspectives in order to choose one most suited, comprehensive and economic method to find answers to the research questions and achieve the research objectives. In this chapter, the research process is explained and justified, data validity and reliability is ensured, research ethics are considered and the limitations are assessed. Crabtree and Miller (1999, p.346) emphasize that the strengths and merits of a methodology are dependent on how it relates to the research problem at hand. The research question(s) focuses the research and also guides selection of the research approach. Hence it is important at this stage to recall the research question of this study:

1. How and why did RioZim Limited experience business decline in 2009 to 2011?
2. How can RioZim Limited's turnaround strategy implementation be described?
3. What are the challenges in the implementation of RioZim's business turnaround strategies?

3.2 Research approaches

A review of common approaches to research work on corporate decline and turnaround can provide insights on how this researcher should conduct the study. Walshe, Harvey, Hyde and Pandit (2004) posit that research on organisational decline and/or turnaround can be approached in three different ways:

- (a) **Empiric quantitative research** involves verification of theories and hypothesis testing on causes of failure or strategic intervention.
- (b) **Qualitative empiric studies** are usually based on case studies that provide detailed outlines business failure and turnaround situations. It relies mainly on data from interviews, documentation and observation.
- (c) **Theoretical work** aims at describing and explaining empirical findings from various research studies on failure and turnaround by organizing the theoretical content.

The researcher believes that this study falls into the second category (Qualitative empiric study) and this approach is explained later in this chapter.

3.3 Philosophical background to research

Hughes (1994) emphasizes the importance of discussing research philosophies before one embarks on a research project. According to Saunders, Lewis and Thornhill (2009), research philosophy is the overarching term relating to the development of knowledge and the nature of that knowledge in relation to research. According to Kuhn (1977) paradigm refers to the research culture with a set of beliefs, values and assumptions that a community of researchers have in common regarding the nature and conduct of research. Research philosophy can help the researcher to identify which methodologies or methods should be used in a study, which type of data should be collected. It helps clarify how this research should interpret the data, and how it helps to answer the research questions. Saunders et al. (2009), classified research paradigms into three distinct philosophical categories applicable to management research: **realism**, **positivism** and **interpretive/phenomenological**.

In view of the above discussion, the researcher outlines ontological and epistemological foundations on which this research is built as they shape the approach to theory and the methods.

3.3.1 Epistemological and Ontological considerations

Epistemology is a philosophical foundation for understanding and explaining the adequacy and legitimacy of how we know what we know (Crotty, 1998; Maynard, 1994).

3.3.1.1 Positivist approach

Positivists are of the view that reality exists independent of the operation of any consciousness of both participants and researchers (Crotty, 1998, p.8). Therefore, the epistemological basis of positivists is objectivity, which implies that the social phenomena are value free and exist as external facts (Mertens, 1988, p.7). Positivism ontology is that the truth can be uncovered and presented by empirical means (Henning, Van Rensburg & Smit, 2004, p.17). Positivists generally use quantitative methods and experimental methodologies for gathering data and the results are usually generalizable and replicable (Cassell & Symon, 1994).

3.3.1.2 Interpretist approach

Interpretivists view is the opposite of that of positivists in that they argue that “phenomena do not exist independently of the researcher’s interpretation and every observation concomitantly affects what the researcher observes” Marsh & Furlong, 2002, p.26). Phenomenology according to Titchen & Hobson (2005, p.121), is “the study of lived, human phenomena within the everyday social contexts in which the phenomena occur from the perspective of those who experience them”. According to interpretivists, objectivity is not possible since reality is socially and discursively constructed (Crotty, 1998, p.8) and therefore subjectivity is the epistemological basis of interpretivist research (Marsh & Furlong, 2002, p.26). In line with their view that objectivity is not possible, interpretivists usually employ qualitative research methods of gathering and interpreting data (Yin, 2003).

3.3.1.3 *Realist approach*

Realism combines elements from both positivism and interpretivism and is somehow in between (Marsh & Furlong, 2002, p.30). Realists claim that there is a real world out there and that it is possible to make causal statements. There are deep structures that cannot be observed and what can be observed may offer a false picture of those phenomena/structures and their effects (ibid).

3.3.1.4 *Justification of interpretivist philosophical underpinning to this research*

Given the research problem as outlined in Chapter 1 and the research questions mentioned earlier in this chapter, the researcher decided that the best fit was to follow the interpretivist/phenomenological paradigm. This was done recognizing that this study meets the following parameters for phenomenological paradigm identified by Hussey and Hussey (1997, p.54):

- This study intends to produce qualitative data and this would fit well with the case study approach (explained later in section 3.5.1)
- The researcher intends to collect rich and subjective qualitative data in the context and setting of the participants' frames of reference (Interviews explained in section 3.4.5).
- The location for this research is natural setting, a mining company (rather than a laboratory setting).
- The challenge of low reliability of the research finding is to be countered by the use of triangulation (explained in section 3.6).

3.3.2 Methodological position considerations

Thus this study adopts the interpretivist approach which implies a subjective epistemology and ontological belief that reality is socially constructed were adopted. Based on these ontological and epistemological positions, the choice of the research method is hence discussed. Basically there are two main methodological positions quantitative and qualitative methods (Yin, 2009) that researchers should consider.

3.3.2.1 Quantitative methods

Creswell (1994, p.2) defines quantitative study as “an inquiry into a social or human problem, based on testing of theory composed of variables, measured with numbers and analysed with statistical procedures in order to determine whether the predictive generalizations of the theory holds true”. Quantitative methods are mostly employed by positivists as they try to produce causal explanations or even scientific laws (Yin, 2009). The aim is to have no interpretation in the analysis but to have direct and exact causations which are irrefutable. The great advantages of this approach are that the data is usually easy to replicate, which is a very important factor in natural science and they are easy to generalize. Typical methods of quantitative research are surveys or statistics. However, corresponding with the general criticisms of positivism is that the focus is not on the meaning of behaviour but on the explanation and causes of the behaviour (Hansen, Cottle, Negrine, & Newbold, 1998, p 95).

3.3.2.2 Qualitative methods

According to Creswell (1994, p.2), qualitative study involves building a holistic picture about a phenomenon by gathering detailed views of participants from the perspective of their natural environment. Corresponding to their ontological and epistemological position (explained above) interpretivist use qualitative methods such as interviews to get an in-depth sight into a field; with a richness of description not obtainable by quantitative research (Lunt & Livingstone, 1996, p.90). While the richness of information cannot be disputed, qualitative researchers have to face the problem that their work is hard to measure in terms of reliability, validity and generalizability (Gavin, 1998, p.172).

3.3.2.3 Justification of the qualitative approach to this study

The aim of this section was to select the appropriate research tools that will enable the researcher to receive thorough information and thereby obtain deeper understanding of the research problem. The researcher considered the qualitative approach more suitable for this study since it is not aimed at deducing and testing the implications of performed hypotheses, hence the researcher chose a qualitative

methodological paradigm for this study. Furthermore, given that the qualitative approach allows for the adoption of research tools that enable the researcher to seek for clarifications through close interaction with interviewees (Cassell & Symon, 1994). This also helps the researchers to develop a deeper understanding including that of complex situations (ibid). The nature of the research problem outlined in chapter 1 detects that the researcher gathering, analyzing and interpreting some data that are not quantifiable.

3.3.3 Deductive and inductive approach

It is important also to classify the research approach in terms of whether it is inductive or deductive (Saunders et al., 2003). Basing on the objectives of this study, the researcher notes that the thrust of this study was theory developing rather than theory testing. However, the researcher sought to make use of existing theory to guide the data gathering exercise. Hence the research approach combined elements of both deductive and inductive approaches whilst maintaining the epistemologically and ontological positions explained earlier. This approach is supported by Eisenhardt (1989, p.536) who notes combining the two approaches can benefit the research in that theory can help shape the initial design of theory building.

3.4 Research Design

According to Hartley (2004, p.326) research design is the totality of coherent and logical steps of collection, analysis and interpretation of data in order to answer the research question(s). In order to answer the research question of this study, the researcher considered the following qualitative research design strategies: **Experiment; Survey; Case study; Grounded theory; Ethnography and Action Research** (Saunders et al., 2003). The case study approach was chosen as the most appropriate approach towards meeting the research objectives.

3.4.1 Case study Approach

Robson (2002, p.178) defined case study as “a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence”. Case study approach involves investigating a single person, program, event, process, institution, organisation, social group or phenomenon within a specified time frame. One advantage of qualitative case study method, according to Bromley (1986) is that the researcher collects data in natural settings, compared to relying on derived data when on is using quantitative research methods (p.23). Creswell (1994) explains that “case study approach may describe the real-life context in a causal chain, illustrate specific constructs, and illuminate a situation when outcomes are not clear”.

3.4.2 Justification of Case study approach

The researcher attributed the choice of a case study research strategy to a number of reasons. First, corporate decline and turnaround phenomena are complex as explained the literature review (section 2.3). Collard (2006) posits that turning around a troubled entity is complex; it is made more difficult and compounded by the multiple constituencies involved, all of all of whom have different agendas. The researcher considered myriad of issues associated with turnaround processes and the presumed causal links between variables “too complex” for survey or experimental designs (Yin, 2009, p.19). The case study approach allows for thick descriptions of the phenomenon under study (Yin, 1994) giving the research access to subtleties of changing and multiple interpretation (Walsham, 1995). The case study approach was also chosen given that it is systemic and holistic approach (Gummesson, 2003, p.488) that will enable the researcher to give a full and rich account of a network of relationships between situations, events and factors at that impacted on RioZim’s decline and turnaround. This study adopted an interpretive stance as the researcher sought to present a holistic understanding of the complex interplay of a plethora of factors and situations that culminated in decline of RioZim Limited and also given that organisations face varying conditions of decline (Lohrke & Bedeian, 1998, p. 10). Another aim of the study was to present a consistent and

coherent picture of how RioZim Limited implemented its turnaround initiatives. The researcher chose this approach in line with Yin's (1989, p.82) argument that case studies allow a researcher to "reveal the multiplicity of factors [which] have interacted to produce the unique character of the entity that is the subject of study".

The case study approach is most suitable approach in this research given that one of the aims of study "is to try to figure out why and how RioZim's performance deteriorated in the period 2008 -2012. The case study method is also suitable as this research seeks to address descriptive or explanatory questions and aims to produce a first-hand understanding of people and events. The research questions relate to the different processes associated with the decline and turnaround of RioZim Limited. Each company has specific idiosyncrasies and turnaround approaches differ from company to company and industry to industry (Lohrke & Bedeian, 1998, p. 10) as they unfold from varied settings. The researcher considered that the turnaround processes that this study is investigating are embedded within the specific organisational context of RioZim Limited hence quantitative hypothesis testing would not be suitable. One advantage of case study's is that it allows the researcher to gather data from different sources such as documents, artefacts, interviews, and observations" (Yin, 2003, p.8). Case study approach is appropriate for this research as it deals with strategy based problems where the experiences of the actors such as top managers are important and the context within which strategies were implemented is critical. Furthermore, case study is well suited in that this study seeks to capture and document the knowledge and experiences of RioZim managers in the view of business decline and turnaround.

3.4.3 Determining the Case/Unit of Analysis

Merriam (1998, p.27) argues that it is critical for those carrying out case study research to clearly define, demarcate or delimit the object of study. This also involves defining what will not be studied (ibid). Miles and Huberman (1994) add that the case may be a unit, entity, or phenomena whose boundaries are clearly defined by the researcher (p.25). In this study, the case is RioZim Limited during the period January 2008 upto December 2012. The time frame considered in this study was

chosen to enable the researcher to be able to capture the intricacies of decline and turnaround at RioZim given that turnarounds take time (Zimmerman 2011 p 30), and because of the amount of time that passes when a firm becomes weaker and attempts to become stronger.

RioZim was selected for the studying corporate decline and turnaround phenomena because it met the following criteria. Firstly, the company was established in 1956 hence it is a sufficiently old company thus the decline it experienced was not purely from inadequate early project implementation phase. Secondly, the mining sector in Zimbabwe had experienced growth from 2009 upto 2012 hence it is important to understand the causes of deteriorating performance in the company when the mining sector in general was growing. Thirdly, the organisation reported operating losses for sufficiently long time (from 2009 upto 2011).

3.4.4 Determining the Type of Case Study

Hartley (2004, p.326) posits that it is helpful to consider whether the case study will be exploratory, descriptive or explanatory. Several researchers have used explanatory case study in turnaround literature. For example: situational and organisational determinants of turnaround (Francis and Desai, 2005), distinguishing between distressed firms that enact a turnaround and those that fail (Smith and Graves, 2005). According to Zikmund (2003), descriptive research is designed to describe characteristics of a population or a phenomenon. The overall purpose of this study is to describe the causes of corporate decline at RioZim and to explain how RioZim is implementing the corporate turnaround strategies. Therefore, within case research, this study identifies itself predominantly as a descriptive case study and partly as an explanatory research.

3.4.5 Case study Research tools

According to Yin (2003) there are six possible sources of evidence for case studies: documents, archival records, interviews, direct observation, participant-observation, and physical artefacts (p.836). He contends that the benefits from these six sources

can be maximised if three principles are followed: Use of multiple sources of evidence; creation of a case study database and maintaining a chain of evidence. This case studies employed questionnaires, interviews, documents and archival records.

3.4.5.1 Questionnaire

The questionnaire was useful in helping to elicit potential categories for further discussion and elaboration during the interviews. The participants, middle managers at Renco Mine and Empress Nickel Refinery completed a questionnaire. The target group consisted of about 45 employees (Appendix B). The use of a questionnaire as a research tool was considered in view of the following reasons.

- a) To gain a larger view of corporate decline and turnaround across the RioZim by providing participants with simple questions with a choice of options.
- b) To act as a test of reliability for the data that was collected in the face-to-face interviews.

3.4.5.2 Interviews

The interviews were the principal data gathering tool in this study. Lindridge et al. (2010, p.45) define an in-depth interview as a “personal interview in which a single participant is questioned by a highly skilled interviewer in order to identify underlying motivations, beliefs, insights, and feelings on a particular topic of interest”. The researcher used semi-structured interviews in order to gather in-depth, detailed information from individuals who could shed understanding of RioZim’s decline and turnaround phenomenon from their perspectives. Furthermore, semi-structured interviews were employed as they are a versatile tool in that they allow the interviewer to probe further with the view of clearing vague responses or ask for elaboration of incomplete answers (Welman & Kruger, 2001, p.161).

a. Choice of interview respondents

Given the nature of the research problem outlined in Chapter 1, non-probability data sampling methods were appropriate for this research study. According to Miles and Huberman (1994, p.27) non-probability sampling includes the following: accidental sample; quota sample; purposive sample; self-selected sample and incomplete sample. Considering the nature of this research, the purposive sampling method was selected as the most appropriate as there was less emphasis on generalizing from sample to population. The researcher paid greater attention to selecting respondents and interviewees with the potential to offer deep insights (Patton, 2002, p. 40) about the phenomena under consideration. For purposes of this study interviewees were chosen due to their knowledge of the subject area and their management role and experience in the operations of RioZim Limited. Based this criteria and the researcher's knowledge of the population and the objectives of the research (Powell, 1997 p.69), the interviewees were chosen purposively as shown in Table 3.1. The interviews were conducted with the four RioZim Senior managers within the month of December 2012.

Table 3.1 List of interviewees

Name	Position	Working experience
Mr P. Makharm	Group technical Director	Joined the company in 1976 and has worked in both operational and technical management roles. Appointed to the Board in 2004 with responsibilities for the company's mining and metallurgical operations and technical services Currently responsible for the Group's growth projects.
Mr F. Mungwariri	Group Financial Director	Joined RioZim as Finance Director in 2008 and sits on the Board of Directors.
Mr C. Kariwo	General Manager	Joined RioZim in 2009
Mr. H Magombedze	Administration Manager (ENR)	Joined RioZim in 2006

b. Interview procedure

The following considerations were taken into account in conducting the interviews that were held in December 2012. The purpose of the interviews, the format and roles of the interviewer and interviewees were explained briefly to the interviewee. The interview duration varied from 30 minutes to one hour depending on the setting and the purpose of the interview. The interviewee proceedings were recorded using a cell phone with voice recording capabilities. The recordings were then transcribed verbatim and forwarded to interviewees so that they could make any improvements, clarifications or omissions as they saw fit.

3.4.5.3 Documents and archival records

The collection of documents is part of the overall attempt to collect field data during an empirical research project, is recognized by a number of authors (Powell, 1997; Saunders et al., 2000; Yin, 1994). A number of documentary sources were collected during the empirical data gathering activities as part of this study. These included:

- RioZim corporate publications and press releases
- RioZim public web site
- Meeting agendas
- Minutes of meetings
- Presentation material
- RioZim press clippings

3.5 Data analysis

Yin (2003) observed that strategies for data analysis are one of the least developed and most difficult aspects of doing case studies (p.109), hence researchers have to make every effort to produce an analysis of the highest quality. Qualitative research are typically derived from identified patterns and uncovered conceptual, not statistical, relationships (ibid). Yin (2003) presented four principles that researcher's should take into account:

- Show that the analysis relied on all the relevant evidence,
- Include all major rival interpretations in the analysis,
- Address the most significant aspect of the case study and
- Use the researcher's prior, expert knowledge to further the analysis.

In this study, the analysis of data was divided into several stages such as transcribing the recordings and field notes, coding data into categories, and developing patterns and themes. For the interviews and document reviews, thematic analysis was used as a way to interpret and analyze the findings. Braun and Clarke (2006) define thematic analysis as a method for identifying, analyzing and reporting patterns (themes) within data and state that it can offer a more accessible form of analysis, particularly for those early in a qualitative research. Some data categories and codes were derived from theory following the proposed conceptual framework. Steps involved in doing thematic analysis as described by Braun and Clarke (2006) and followed by the researcher are shown by Table 3.2.

Table 3.2 Phases of thematic analysis

Phase	Description of the process
Familiarizing yourself with your data	Transcribing data (if necessary), reading and re-reading the data, noting down initial ideas.
Generating initial codes	Coding interesting features of the data in a systematic fashion across the entire data set, collating data relevant to each code.
Searching for themes	Collating codes into potential themes, gathering all data relevant to each potential theme.
Reviewing themes	Checking if the themes work in relation to the coded extracts (Level 1) and the entire data set (Level 2), generating a thematic 'map' of the analysis.
Defining and naming themes	Ongoing analysis to refine the specifics of each theme, and the overall story the analysis tells, generating clear definitions and names for each theme.
Producing the report	The final opportunity for analysis. Selection of vivid, compelling extract examples, final analysis of selected extracts, relating back of the analysis to the research question and literature, producing a scholarly report of the analysis.

(Source: Braun and Clarke, 2006).

3.6 Quality issues in case study

A major issue in designing case study research is the maximization of conditions related to design quality. Yin (2003, p.19) outlined the criteria for judging the quality of research designs which are “construct validity, internal validity, external validity and reliability”. According to Kvale (1997), a valid study is one which measures and researches what it is supposed to do and that the observations reflect what they were meant to do. In this section the researcher explains and discusses the quality of this study. According to Yin (2003) generalizability is not the main goal of case studies. Case study research does not have a large enough sample to generalize over different populations. Kvale (1997) discusses three different types of generalizability that can be related to case-study research; naturalistic, statistical and analytic. The researcher believes that this study will not have statistically generalizable results since it did not use a quantified and random sample.

Strelitz (2005) argues “triangulation in research can be described as the use of more than one method of investigation and hence more than one type of data” (p.60). In this study, triangulation was achieved by collecting data from different sources and using different collection tools. Primary data was collected using the interviews and questionnaires. Secondary data was collected from documents in the public domain such as news clippings and internal company documents and records. Triangulation was employed as an approach intended to increase the quality and validity of the qualitative research as Yin (1994 p.91) explained that, “a major strength of case study data collection is the opportunity to use many different sources of evidence.” These multiple sources of data allowed for triangulation to mitigate inherent problems (Golden, 1992). Darke et al. (1998), for example, advocated the use of triangulation to avoid bias on the part of the researcher, either in terms of the influence the researcher has on the behaviour of participants or in terms of the bias the researcher brings himself into the conduct of the research. Triangulation should help to overcome both these potential sources of bias even if bias is not totally eliminated.

3.7 Summary of research methodology

This chapter has explained the various options available for the execution of the field research and the logic for the selection of the specific approach, strategy and methods applied in this research project. The summary of the overall research methodology is presented in Table 3.3.

Table 3.3 Summary of the research methodology

Philosophy	Approach	Strategy	Case study type	Number of cases	Time horizon	Data Collection
Realism	Inductive	Experiment	Exploratory	Single	Longitudinal	Observation
Positivism	Deductive	Survey	Causal	Multiple	Cross-sectional	Interviews
Interpretivism		Case study	Descriptive			Secondary data
		Ethnography				Questionnaire
		Action Research				

CHAPTER 4

RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the findings of both primary and secondary research conducted to address the research objectives. It is divided into three main sections in an effort to answer the research questions:

1. How and why did RioZim Limited experience business decline in 2009 to 2011?
2. How can RioZim Limited's turnaround strategy implementation be described?
3. What are the challenges in the implementation of RioZim's business turnaround strategies?

4.2 Response rate

Questionnaires were sent to twenty middle management employees at ENR and Renco operations, however only fourteen were completed. Furthermore, four RioZim Senior managers were interviewed. The data from interviews and questionnaires were analysed and the findings are presented below:

4.3 Causes and Reasons for RioZim business decline

The focus of first objective of this study was on determining the probable causes of RioZim business decline. This study revealed that RioZim's decline was due to both external and internal causes.

4.3.1 External causes of RioZim's decline

There was consensus among the interviewees that external conditions prevailing in Zimbabwe in 2008 upto 2011 negatively impacted on the RioZim's performance. The following macro-environmental factors were identified in the study: Challenges in

recapitalizing, RBZ's non-remittance of foreign currency earnings, challenges in supply of key inputs, increasing costs of key inputs and decline of commodity prices 2008-2009. These factors are discussed in detail below:

4.3.1.1 Challenges in recapitalizing

The demonetization of the Zimbabwe dollar in February 2009 resulted in the loss of liquidity. As a result, RioZim like most companies became under capitalized lacking funds to finance its operations and invest in growth projects. RioZim embarked on a number of unsuccessful capital raising initiatives (RioZim notice to shareholders, March 2012). The interviewees pointed that lack of affordable funding severely compromised RioZim's ability to improve efficiencies, productivity and completion of exploration work for potentially profitable growth projects such as Cam and motor open pit gold project and Darwendale Chrome and Sengwa (Table 4.1).

Table 4.1 RioZim Capital raising initiatives from 2009 upto 2012

Date	Capital raising initiative	Outcome summary
February, 2010	US\$10 million private placement	<ul style="list-style-type: none"> Failed to secure technical investor concerns around mining legislation
September, 2010	US\$US\$40 million rights issue <ul style="list-style-type: none"> US\$13.8 million for retirement of local debt; US\$9 million for refurbishment of Renco and Empress Nickel Refinery; US\$1 million for the acquisition of Exploration and Prospecting Orders and balance would be expended on new projects 	<ul style="list-style-type: none"> Failed to secure an underwriter (Essar Global) the Essar Global cited the RioZim's heavy debt and Constraints due to indigenization and economic empowerment laws
December, 2011	US\$59 million rights offer <ul style="list-style-type: none"> US\$29 million debt equity swap, US\$11.6 million for working capital, US\$13.6 million for capital projects and US\$13 million for recapitalization. 	<ul style="list-style-type: none"> shareholders rejected the proposed rights issue shareholders resisted share dilution
March, 2012	US\$55 million capital raising project <ul style="list-style-type: none"> US\$5 million rights issue, US\$5 million private placement US\$45 million convertible debentures 	<ul style="list-style-type: none"> RioZim shareholders approved New shareholder GEM-Raintree (24.99) sub-underwriter, Old Mutual Life Assurance Company Zimbabwe Limited (29.6%)

Source: RioZim Limited Notices to Shareholders

The company had inadequate working capital resulting in frequent stock-outs of essential inputs. Furthermore, the company found it hard to implement significant technological improvements that were necessary to the improvement of its operations due to the adverse economic environment in Zimbabwe. Prior to 2000, Rio Tinto pioneered numerous technological improvements such as carbon in pulp (CIP) at Renco (1982), Column floatation at Cam Dump (1988) and the Siro smelt (1992). RioZim is yet to employ new and efficient metallurgical processes such as pressure leaching for high sulphur matte as is with modern nickel refineries (ENR technical report, 2009). For example, the process control software SCADA is old, planned maintenance is done manually (ENR monthly report, December 2011). Analysis of the interview data and company records revealed the following reasons that made it difficult for RioZim to recapitalize:

a. Lack of investor confidence

The main concerns gleaned from the interviewee and company publications about lack of investor confidence on the business environment in Zimbabwe were:

- **Concerns about security of tenure**
- **Policy inconsistencies**
- **Administration, interpretation and enforcement of regulations.**

The statement by the chairman (RioZim annual report, 2010) mentions the lack of clarity and finality on the implementation modalities of the Indigenization and Economic Empowerment Act (Chapter 14:33) and the amendments to the Mines and Minerals Act (Chapter 21:05) as strong inhibitors to significant investment into mining operations in general. The interviewees highlighted that policy inconsistency from key ministries such as the Ministry of Empowerment and Indigenization, Ministry of Finance and Ministry of mines and Mining Development reduced investor confidence resulting in the country not being able to attract enough foreign direct investment or foreign lines of credit to inject the much needed liquidity into the economy. This had a serious detrimental effect on the ability to fund mining activity

in the country due to lack of liquidity in the market. One interviewee summed how RioZim was affected:

“There was a lot of interest from external investors but they all suspended any real investment into the company following the publication of the Economic Empowerment regulations and the suspension of exports of chrome and concentrates”

The interviewees blamed the unsuccessful negotiations between RioZim and Essar Africa (May 2011) on the unfavourable business environment in Zimbabwe at the time. The negotiations were about a proposal for a major investment by way of a private placement and rights issue. This is the view of one of the respondent:

“After negotiations between RioZim, Essar Africa and the government that lasted seven months, it became apparent to all parties that it would not be possible under the prevailing economic and regulatory environment”.

The findings from the interviews are in line with the findings of the *Survey of Mining Companies 2011-2012* published by the Fraser Institute in which Zimbabwe is ranked 74 out of 96 countries (p.12). Zimbabwe perceived as a high country risk and this has limited direct foreign investment into the country (ibid). The survey cites socio-political risk as a major constraint for the mining industry. They mention the lingering uncertainties about ownership requirements are deterrent to the much needed capital injection.

b. The divestment of Rio Tinto from RioZim

The divestment by Rio Tinto in 2004 resulted in the formation of RioZim, a company wholly by local Zimbabwean shareholders. Rio Tinto plc being a global mining giant used to provide leverage to its operations in the form of access to various methods of financing negotiated at global level. After this divestment, these operations no longer had access to offshore fund. Thus RioZim being a local company, lacked the advantages enjoyed by its peers in the mining sector such as Mimosa, Zimplats and Unki mines whose parent companies provide financial leverage by using their balance sheets to borrow on behalf of its subsidiary at favourable rates. These

companies had access to offshore funding with better terms than RioZim which was depending on raising funds in the local market. One of the interviewees explained:

“From 2004 RioZim was no longer part of the RioTinto group hence it was no longer possible to arrange for an Irrevocable Letter of Credit to cover its ailing operations such as ENR. This seriously affected the ability of the company to recapitalize its operations to full capacity.”

Another interviewee highlighted the problem in this manner:

“Mining is capital intensive, not having the financial muscle of an international mining giant like RioTinto meant that had to use its own balance sheets to raise capital for growth and any working capital it needed.”

4.3.1.2 RBZ's Non-remittance of foreign currency earnings

Prior to the liberalization of gold marketing in Zimbabwe in 2009, the RBZ had total control of how gold was marketed. Some interview respondents and interviewees highlighted that RioZim experienced ‘crippling’ cash flow problems due to revenues that were being held by the Reserve Bank of Zimbabwe (RBZ) for gold deliveries. The interviewees allege that this weakened the company’s balance sheet as Renco gold mine was failing to generate free cash. Furthermore, this restricted RioZim from fully benefiting from the gold price rally (upto the decline in early 2008) as was done by mining companies in other countries. Even the Zimbabwe Chamber of Mines bemoaned the non-payment of gold delivered to Fidelity Printers and Refineries for pushing gold miners to the brink of closure (October, 2008). Gold producers in Zimbabwe were owed more than US\$30million by the RBZ due to non remittance of gold earnings (Hawkins, 2009, p.17). One of the interviewees explained that The RBZ paid gold producers using the local currency and based on the fixed exchange rates system yet they had to buy inputs using hard currency. This situation resulted in gold companies incurring huge losses.

4.3.1.3 Challenges in supply of key inputs

According to data from the interviews, the operating environment in Zimbabwe was extremely difficult for mining companies as it was plagued by supply side constraints. Specifically, the interviewees highlighted that RioZim experienced crippling and unreliable supply of key inputs such as electricity, matte, oxygen and water. Hawkins (2009, p.16) in the UNDP study on the mining sector in Zimbabwe noted that from 2003 until 2008 the Zimbabwe mining sector in general failed to exploit the unprecedented global commodity price boom due to supply constraints. Lost production at Renco and ENR operations due to crippling supply side constraints reduced the company's revenue generating capacity. These constraints are further explained below:

a. Inconsistent electricity supply

Renco and ENR operations experienced plant frequent stoppages due to unreliable power supply caused by load shedding and breakdowns on the ZESA grid. For example, according RioZim limited annual report 2009 (p.16), Renco Gold Mine had numerous power cuts and operated at a load limit of 4MVA against a requirement of 7MVA for extended periods adversely affecting production. RioZim made efforts to minimize losses due to erratic supply of power. For example, in December 2010, RioZim negotiated a higher electricity tariff arrangement in order to assure uninterrupted power supply without load shedding (ring-fenced). However, despite this costly arrangement, the company still experienced power supply interruptions due to the poor state of electricity distribution system and infrastructure.

b. Supply of matte by BCL Limited

ENR operations depended solely on regular supply of matte from the BCL Ltd smelter in Botswana. From 1985 upto 2006, the supply was consistent with minor interruptions (Matte receipt reports). However from 2007, BCL Ltd had major smelter failures at least once a year resulting in the BCL declaring *force majeure* on matte deliveries as shown in Figure 4.1. As a result of these *force majeure*, ENR lost production ranging from one to 3 months every year, which cumulatively accounts

for lost more than 13 months production within five years (from 2007 upto 2011). This represents an annual short fall of about 20% in the supply of matte. The graph below shows a declining trend in the quantity of matte supplied by BCL.

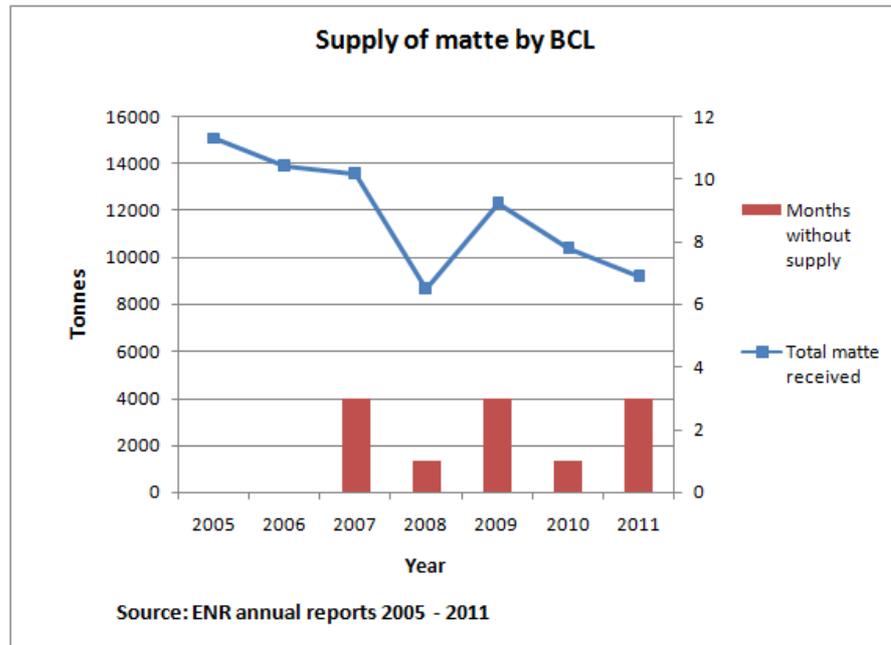


Figure 4.1 Fluctuations in the supply of matte by BCL

There are three key issues that can be deduced from this trend in the supply of matte:

1. **This is evidence of lack of organisational learning and planning:** BCL was the sole supplier of matte to ENR and ENR had to stop operations each time BCL declared a *force majeure*. RioZim management should have negotiated for supplies to create a buffer stock of about four months supply matte, given that the time needed to reline the BCL smelter after failure averaged about two months. An extract from RioZim annual report (2006, p.8) reveals this lack of organisational leaning:

“The supply of matte from BCL smelter was consistent and matched planned levels through out 2006. At times the refinery had to turn away available matte following extended disruptions to the process plant...”

Turning away matte at one time and then having to shutdown the plant a few months latter due to unavailability of matte clearly shows lack of planning and organisational learning.

2. **Lack of flexibility in the Centametall contract.** Due to “backwardation charges” RioZim was contractually obliged to deliver metals within sixty days of receiving matte. Interview respondents cited this as a constraint that was preventing ENR from holding large quantities of matte. Furthermore due to concern from Centametall’s side on the high country risk of Zimbabwe the matte supply regulated to prevent accumulation of high metal inventories at ENR. Interviewees indicated that Centametall was not committed to supply more matte than what it was contractually obliged to do, hence the lack of flexibility.
3. **Liquid oxygen and water supply.** The supply of oxygen is crucial to both ENR and Renco and supply shortages were responsible for production losses but to a limited extent as compared to electricity and matte. During 2004 to 2010 BOC Gases ltd had lost the capacity to meet the needs of the local industry. RioZim had to procure oxygen from South Africa due to erratic supply of oxygen. On the water supply, ENR is a hydrometallurgical plant that uses large quantities of water. The plant relies on water supply from Kadoma City council (KCC). KCC’s water supply infrastructure was in a sorry state to the extent that RioZim had to regularly assist by providing spares and artisans for the frequent repair work. Given the accumulative production time lost due to water shortages, management failed to put a lasting solution such as building adequate water storage facilities to mitigate the erratic supply.

4.3.1.4 Increasing costs of key inputs

RioZim endured escalating costs on a number of fronts, however this problem was exacerbated by the lack of understanding of the manner in which specific costs fluctuate and affect the company’s profitability (explained latter). RioZim faced declining margins due to increases energy, maintenance, consumables and labour.

The effect of increasing cost was especially significant for ENR. The interviewees explained that one of the major weaknesses in the Centametal-ENR contract that it was not responsive to changing costs of key inputs as it was based fixed toll refining fees. This fact is further highlighted in the RioZim Enterprise wide risk management annual review (2010, p.10):

“In some cases, due to the basis for pricing in sales contracts, or due to competitive markets, we may not be able to pass on to customers the full amount of raw material price increases or higher energy, freight or other operating costs”

These were the major changes in costs that affected RioZim’s bottom line.

a. Increase in electricity charges

RioZim group electricity consumption averages 2.76 GWh/month (RioZim Enterprise wide risk management annual review, 2010). Electricity is a significant cost for RioZim given that ENR uses electroplating in producing copper and nickel cathodes. ZESA, the sole supplier of electricity in Zimbabwe increased charges four fold from 2009. Electricity cost increased from 2.6c per KWH in 2009 to 5.6c per KWH then to 9.2KWH in 2012 (RioZim half year report 2012).

b. Suppliers charging higher mark ups due to lack of credit worthiness

The respondents explained that as RioZim’s working capital dried up, the company resorted to buying most of its supplies in credit. This severely affected RioZim’s cost structure as suppliers were charging high mark ups ranged from 10 to 300 percent (RioZim half year results, 2012). One respondent explained:

“...because RioZim was not a creditworthy company, suppliers used to milk us and procurement was the biggest challenge to the company...”

Another respondent explained:

“The suppliers were also charging us enormous amounts as they were factoring in the risks. We didn’t have an alternative because the threat of closing the plant. So we had to accept such exorbitant prices and unrealistic margins that suppliers were charging. We didn’t have the money, so we had to borrow to pay the exorbitant mark-ups and also paying for a huge bill on salaries. At the same time the metal prices were very low...”

c. Distorted cost structures due to RBZ managed exchange rate policy

Zimbabwe prior to dollarization in 2009 was using a fixed exchange rate system not backed by gold reserves. All of the interviewees cited the issue of exchange rates (2004 upto early 2009) as a significant factor that affected the bottom line. The fixed exchange rate policy had a double barreled effect in that at one end the company’s cost structures were distorted while at the other its revenues were eroded due to inflation and the effect of the over valued Zimbabwe dollar. One respondent explained:

“Zimbabwe dollar became overvalued and as the result, a parallel market emerged. Because of those conditions RioZim found it difficult to replenish its inputs...”

There were several challenges that were experienced by the company due to the exchange regime. For example, ENR an exporter of nickel and copper earned revenue in hard currency which it was using to buy some of its supplies locally in Zimbabwe dollars. This distortions in the exchange rates and the proliferation of the black market meant that cost denominated in the local currency were relatively cheap for the company. This resulted in the distortion of the company’s costs as one of the respondents explained:

“So the profits which were being reported were not real profits because of the distorted exchange rates. Production costs based on local currency were very low, labour costs became a negligible cost to the company. This bred into the company complacency in terms of cost monitoring and control...”

4.3.1.5 Decline of commodity prices 2008-2009

The mining sector in general is sensitive to exogenous shocks such as commodity prices fluctuations. Commodity prices are globally driven and independent of production costs hence margins may be affected by fluctuations in product prices. The interviewees highlighted that RioZim portfolio is not diversified enough to hedge exposure to movements in prices of commodities. The company's revenues were affected by the decline in commodity prices due to the global economic recession (Figure 4.2). One of the respondents highlighted the issue this way:

"... the commodities were coming down whilst the cost structures were going up like what we saw in 2008-2009. This affected the company's revenues in 2008-2009".

Hawkins (2009, p.16) in a UNDP study noted that in the later half of 2008, the collapse of demand and prices internationally combined with supply constraints threatened the viability of the mining companies in Zimbabwe.

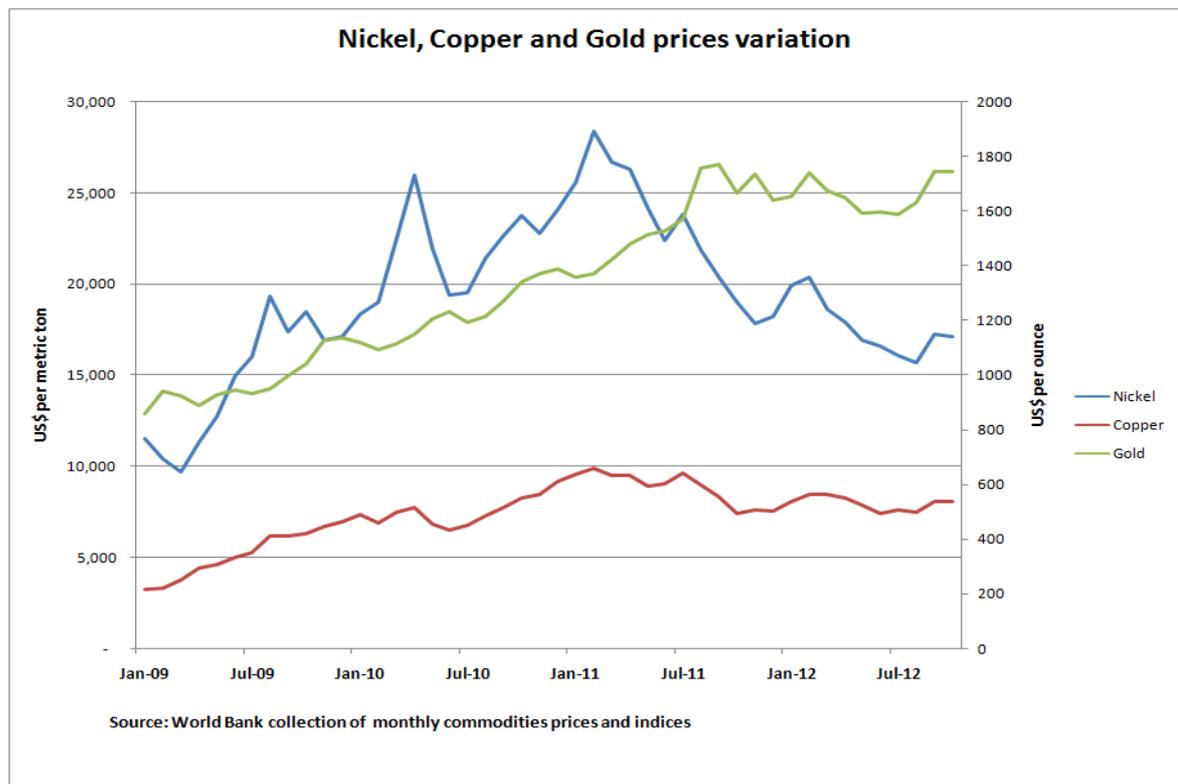


Figure 4.2 Fluctuations of Nickel, Copper and Gold prices

4.3.2 Internal causes of RioZim's decline

Some of the interviewees mentioned that the separation from Rio Tinto plc in 2004 meant that the managerial and technical skills provided by the former parent company, a global mining giant with years of mining experience and expertise were no longer available. They claim that this problem was exacerbated by the skills drain from the mining sector during Zimbabwe's economic crisis. One respondent explained:

"...when RioTinto left, we were thrust to the forefront and had to make decisions and do the strategy as a whole... This new management which was left to run RioZim lacked experience and exposure to making these strategic decisions..."

The interviewees that the management deficiencies gave rise to the following internal factors:

- Poor financial management;
- Operational inefficiencies;
- Bloated cost structures;
- Management inertia and poor planning;
- Poor strategy formulation and implementation and
- Weak corporate governance.

4.3.2.1 Poor financial management

The interviewees cited poor financial management as a factor that severely affected the Group's ability to operate profitably and as a going concern. The objective was to understand how RioZim financed its operations and the effects financing or capital structure in the view of interest rates, corporate governance and company development. The interviewees highlighted the following poor financial management practices that contributed to RioZim's decline:

- Poor understanding of costs and inflated cost structures
- Unjustified increase in labour numbers
- Excessive short-term debt
- Weak internal financial controls
- Poor investment decisions

a. Poor understanding of costs and inflated cost structures

RioZim failed to closely manage the organisation’s cost base evidenced by operational inefficiencies and inflated cost structures of existing assets. One respondent explained:

“...we had situation in which people didn’t understand what cost management was all about. There were situations where people thought the cost management was the responsibility of the finance department alone and could not see how their respective departments were contributing to the company’s bottom line...”

The company’s operating costs continuously exceeded budget from 2008 to 2011 (RioZim limited budget, 2012 p.1). The gross profit margins (Table 4.2) of the company show that the operations were able to generate enough revenue to meet the cost of raw materials. However, the financial ratios show that administrative costs gobbled up most of the company’s profits hence the losses that the company incurred. In 2009 and 2010, administration costs were more than the gross profits. The interviews cited bloated head office and bloated organisational structures as a huge contributor to high overhead costs.

Table 4.2 Proportion of costs to gross profit

Profitability Ratios		2011	2010	2009
Gross profit margin (%)	Gross profit x 100/Sales	40%	30%	25%
Operating Profit Margin (%)	Operating profits (EBIT) x 100/Sales	-3%	-21%	-18%
Net profit margin	Net profit after taxes x 100/Sales	-22%	-34%	-37%
Administrative expense/gross profit		83%	131%	119%
Finance cost/gross profit		62%	71%	39%
Return on Assets (ROA)	Net Profit/Total Assets	(0.12)	(0.16)	(0.16)
Return on Equity (ROE)	Net Profit / Stockholder Equity	(0.74)	(0.58)	(0.34)

Source: Using own calculation using RioZim financial results

b. Unjustified increase in labour numbers

A key indicator of poor human resources management in RioZim is unjustified increase in labour numbers hence unsustainable labour costs (RioZim half year financial results, 2012). After the divestment of Rio Tinto in 2004 as shown in (Figure 4.3), RioZim had increased the number of employees during the period 2004-2008. Skilled employee numbers increased by 56% from 184 in 2003 to 277 in 2009 while the numbers of semi skilled employees were increased by 28% from 1293 in 2003 to 1658 in 2008. This increase in labour force did not result in with increased output. In fact as production figures show, output declined despite increase in workforce numbers. The decline in employee productivity points to a lax in labour utilization and human resources management. It is also important to note that this increase in labour number was not due to new acquisitions or developed new metallurgical operations.

One of the respondents explained that the pre-dollarization era 'bred' into RioZim operational inefficiencies as wages and inputs procured in Zimbabwe dollars were not a significant cost due to inflation and the parallel market. The interviewee noted the company found itself with a huge unsustainable wage bill at the dawn of dollarization:

“Wages and salaries costs were insignificant before dollarization as the company used to benefit from the overvalued Zimbabwe dollar and the proliferation of the black market. Suddenly after dollarization, our wage bill was about US\$1 million. The profits that the company used to report in trillions of Zimbabwe dollars prior to dollarization all disappeared...”

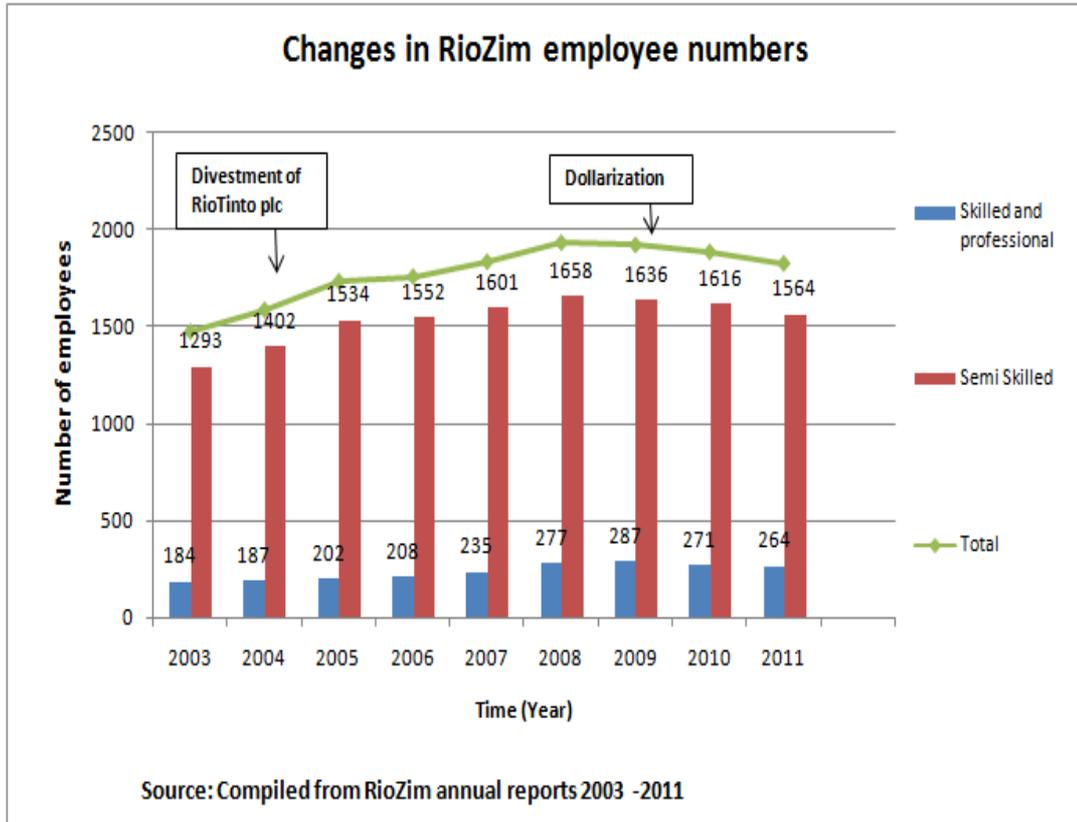


Figure 4.3 RioZim workforce trends

c. Excessive short debt

The interview respondent highlighted that the company’s cash flows were significantly eroded after a prolonged period of hyper-inflation and the dollarization of the economy in February 2009. In 2009, in anticipation of raising new capital, RioZim raised funding through short term debt facilities to address working capital and capital expenditure requirements of its operations. However, RioZim failed to manage its financial risk resulting from excessive financial gearing (Figure 4.4). The company’s financial reports show that financing cost ate into the company’s earnings. The finance charges incurred amounted to \$13.6 million in 2011, \$10.2 million in 2010 and \$4.3 million in 2009 representing 39% (2009), 71% (2010) and 69% (2011) of the gross profit. RioZim borrowed at the time when the local financial market remained very illiquid and any funds available were often supplied at penal interest rates. RioZim engaged expensive type of financing without considering the

revenue generating base of its operations or the risk/reward payoff to shareholders. The interviews highlighted that problem was propagated by the fact that the funds were not used to finance capital projects but was used for issues such as payment of wages and salaries. As a result, RioZim's debt was getting larger and its capacity to meet its obligations was getting weaker and weaker.

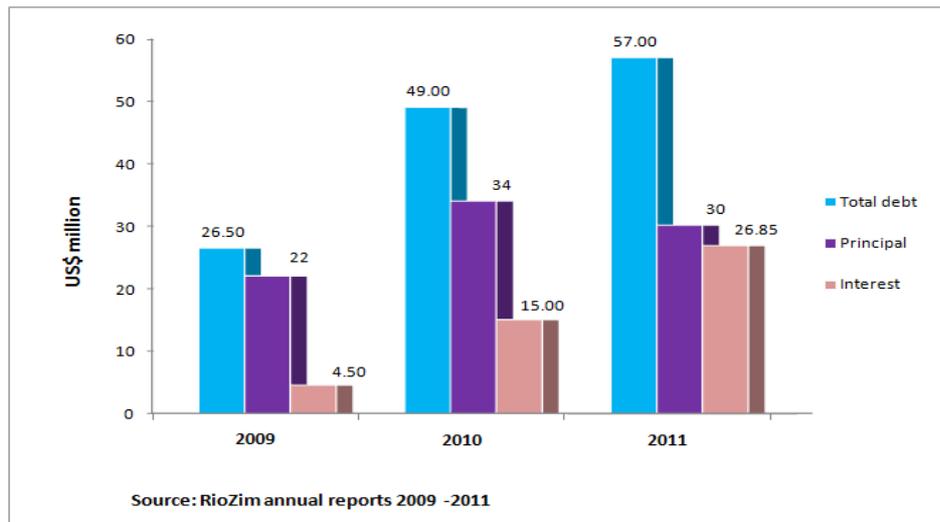


Figure 4.4 The structure of RioZim debt

d. Weak internal financial controls

Interviews highlighted that RioZim failed to maintain an effective system of internal financial controls. Without effective internal financial controls, the company was exposed to financial irregularities and losses from acts which had a significant impact on the ability of the business to operate. In the purchasing department, the company made losses through insider trading as some employees preferred to give business to their colleagues and friends at the expense of the company (RioZim Enterprise Risk Management, 2012). As one interviewee explained:

“One significant factor was the company’s blotted cost structures, I think the biggest spend was procurement. That procurement department we got many shenanigans. So we tried to clean it out...”

e. Poor investment decisions

Raising capital was difficult but RioZim managed to get a funding from Afrex-imbank and PTA bank. RioZim invested the funds in its Onestep project though it had more viable gold resources like Cam and Motor which they could have commissioned at a low scale. One respondent explained:

“We did nothing, we were just borrowing. We borrowed just over US\$4.5million to start on some project at Battlefields Onestep, which never came to fruition”.

RioZim failure to discover new reserves, maintain or enhance existing reserves or develop new operations, inability to recover investments in mining projects. RioZim failed to invest into growth projects that did not require significant capital injection such as the Cam and Motor tailings damp. Furthermore, after extensive exploration and geology RioZim was able to define copper resources in Mutandawe, Nickel in Chimakasa and diamonds claims next to where Murowa, RioZim failed to initiate small scale operations to foster growth into the organisation.

4.3.2.2 Operational inefficiencies

One of the respondents pointed out that the adoption of the multicurrency system exposed RioZim’s operational inefficiencies. Operational inefficiencies affected the company’s bottom line in that it reduced the company’s revenue generating capacity through declining production output and resulted in unsustainably high operational costs. The major causes of operational inefficiencies were:

- Old equipment, frequent equipment breakdown impact on production output
- Lack of production planning
- Poor understanding metallurgical operations
- Lack of proper metallurgical accounting systems
- Lack of understanding and control of key cost drivers

a. ENR operational inefficiencies

Production at ENR in 2009-2011 was below target and operating costs have continuously exceeded budget (RioZim limited budget 2012, p.3). The respondents cited ENR declining productivity as shown in Figure 4.4 and ineffective cost management strategies.

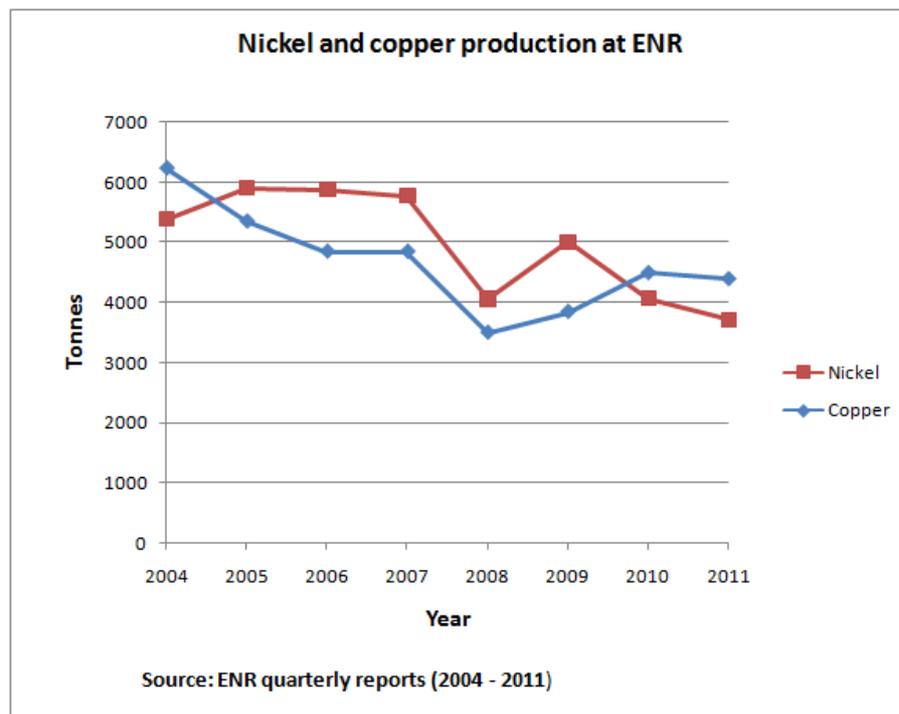


Figure 4.5 Nickel and Copper production at ENR (2004 -2011)

Some of the operational inefficiencies at ENR glean from the analysis of internal reports:

1. Excessive usage of consumables but not matching production output. For example consumables such as sulphuric acid and oxygen as shown by low metal solubilities and poor utilization of electricity in the electroplating process reflected by suboptimal current efficiencies.
2. ENR process accumulated unprecedented accumulation of inventory as semi processed metal residues due to failure to optimize operations.

3. Metal losses into slag damp due to poor smelter operation and optimization and weak metallurgical accounting systems. The inefficiencies at the Siro Smelter as shown by the amount of reverts recovered from the slag damp. In 2012 (second quarter), more than 800 tonnes of metals predominantly copper were recovered for sale to Xstrata. Optimal smelter operation minimizes losses of metal to slag.
4. Penalty deductions by Centametall due to failure by ENR to meet contractual obligations. This reflects the operational inefficiencies as shown by poor quality products and failure to meet product targets (Table 4.3).

Table 4.3 Major penalty deductions by Centametall in 2009 and 2010

Penalties (in US\$)	2009	2010
Copper quality off specification	86444	26466
Production Shortfall	1500000	3500000
Full cathodes	91437	24479
Offcuts	67361	29568
Nickel Quality off specification	132828	5207
Backwardation	99016	237012
Late shipments	0	12600
Repackaging	5160	0
Total	1982246	3835332

Source: ENR quarterley reports 2009 and 2010

b. Renco operational inefficiencies

During its peak in 1982 to 2000, gold production at Renco averaged 1600kgs per annum. However production decline started in 2001, declining to 750kg in 2009, 2008 production was only 450 kg (Figure 4.6).

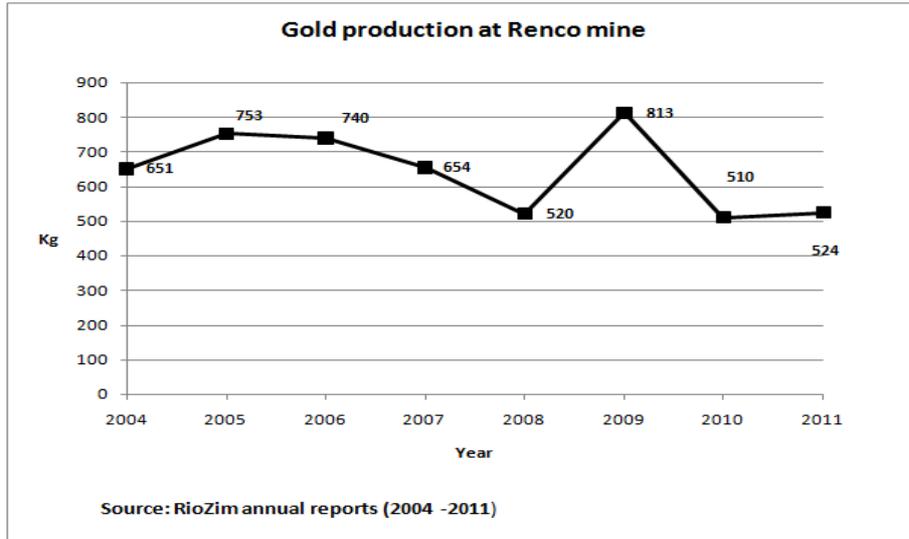


Figure 4.6 Gold production at Renco from 2004 to 2011

Renco production inefficiencies are highlighted by the high cost of gold production per ounce. Cost per oz above US\$1000 similar plants in Zimbabwe with costs at around US\$650. These high costs of gold production were due to sub-optimal usages of raw materials such cyanide and caustic. Other contributing factors are high repair, rework and maintenance costs.

4.3.2.3 Lack of strategic direction

Lack of strategic direction was a significant hindrance to the growth of the company. The respondents cited the following strategic failure in by the company's leadership:

- Poor strategy formulation and implementation
- Lack of strategic focus and responsiveness

a. Poor strategy formulation and implementation

Key issues gleaned from the analysis of interview data revealed lack of organisational vision and direction, disconnect between operational and executive goals, unrealistic targets, lack of sound well designed plan. Though RioZim was failing to replace obsolete equipment and upgrade its systems due to

undercapitalization, the top management continued to set high targets for the business units. One respondent observed:

“The key challenges were poor communication and the ineffective style of management... there was a disconnection between the executive management and the functional level management as to the capacity of the organisation and the strategic direction. The leadership was authoritarian, imposing unrealistic and unachievable targets without providing the necessary resources...”

b. Lack of strategic focus and responsiveness

Data from the interviews and company's internal records show that management inertia and poor planning were significant factors in RioZim's poor performance. For example, RioZim management failed to negotiate favourable contract terms for better and toll refining fees that were tied to commodity prices and responsive to changes in costs such as electricity. This is despite the fact that the Centametall-ENR had a huge bearing on the company's profitability. One respondent expressed it this way:

“The contract was designed more than 25 years ago and there were significant and fundamental changes upto now. Yet the contract was only revised ‘cosmetically’ 10-12 years ago... But I think one of the fundamental weaknesses of the contract was the pricing formulae that remained constant whilst operational costs were changing.”

RioZim management considered the Centametall AG-RioZim contract uncompetitive and a significant drain on the Company, loss making and skewed towards Centametall AG to the detriment of RioZim. Under the previous contract, was making losses of about US\$ 0.69million every month to maintain.

4.3.2.4 Weak corporate governance

After the divestment by Rio Tinto plc in 2004, RioZim the locally owned company had a fragmented shareholding structure with no dominant shareholder (Appendix A). This contributed a decline in corporate governance as evidenced by weak board oversight. One interviewee explained:

“...the fact of not having a controlling shareholder with any influence on the management of the company. The executive was left to make decisions without the necessary checks and balances. So whether the executive made the right decisions or the wrong decisions no one was there to ask why? There was lack of board oversight...”

One respondent expressed concern that the board members had stayed too long and this was reducing their effectiveness. The board composition as shown in (Appendix A), the average time spent by the board member in the RioZim board was 8.3 years. The third Report on Governance in South Africa (King III) emphasizes the need for the rotation of board members structured so as to retain valuable skills, to have continuity of knowledge and experience and to introduce people with new ideas and expertise.

4.4 RioZim’s Strategic turnaround process

All of the respondents acknowledge that the coming in of the new investor, GEM-Raintree Investments resulted in the company undertaking a number of strategic initiatives to reverse decline and to put the company on a growth trajectory. Analysis of interview and questionnaire data and data from company documents revealed that the company’s turnaround initiative focused on the following:

- Organisational restructuring
- Cost reduction
- Improvement of productivity and operational efficiency
- Asset retrenchment
- Financial restructuring
- Increased revenue generation

4.4.1 Organisational restructuring

4.4.1.1 Changes in top management team

The respondents revealed that the company had to shift its structure to suit the new business model whose thrust was on reversing business decline and pursuing new business operations. As a result, RioZim's turnaround drive was marked by internal reorganisation that saw the replacement of the company's Chief Executive Officer (CEO) in March 2012. The measures also included the overhaul of the finance department that culminated in the Finance director stepping down in October 2012 (CEO Communiqué, 03 October 2012). The company also made new appointments in the finance department of Group treasurer and finance director and financial controller under a new business model. The company created a position and made an appointment of the business development manager in October 2012 (ibid).

4.4.1.2 Changes in RioZim board structure and composition

The RioZim board was reconstituted, three board of directors were replaced and the board chairman stepped down in early 2012. One respondent explained that this was an effort to mitigate alleged short comings of the former board such as weak oversight. Changes in the board composition were also done to manage the interests of various stakeholders such as Banks. For example, the new board chairman is the current CEO of ZB bank. This was necessitated by the need to manage RioZim debt through debt restructuring initiatives whilst balancing the interests of various stakeholders such as shareholders and banks.

4.4.2 Cost reduction

According to RioZim's CEO (Special briefing, 21 December 2012) one of the turnaround initiatives is to realign costs to the levels that are sustainable for the company going forward. The company employed the following cost containment initiatives: reducing human resources costs (labour rationalization and reduction of employee benefits); streamlining of procurement process and the termination of the

Centametal-ENR contract. The company targeted cutting discretionary spend on items such as exploration, contractors and head office costs.

4.4.2.1 Labour rationalization

In October 2012, RioZim successfully completed its labour rationalization exercise as an effort to reduce the wages bill (RioZim half year financial report, 2012). According to company records, US\$850 000 was set aside to fund the retrenchment, RioZim head office costs have been cut by US\$2.0million on an annualized basis. The company retrenched 120 shop floor workers and senior management employees based at the Head office, Geological Technical Services (GTS) and Skilled Engineering Company (SEC) culminating in the formation of new organisational structure.

4.4.2.2 Reduction of employee benefits

The company made the following changes to its employee benefits

1. Reduced fuel allocation to employees by 20% (October 2012, works council minutes)
2. Stopped all new entrants to the education assistance scheme from January 2013. Meaning that all employees' children who were not part of the scheme by December 2012 would not benefit (CEO Special briefing 2012).
3. Terminated the company's car policy in December 2012 thereby declaring that all cars issued to employee as part of their employment benefits were now property of RioZim. No new cars were to be issued to employees (CEO Special briefing 2012)

4.4.2.3 Streamlining of procurement process

The new RioZim management considered restructuring the procurement department as a significant avenue for tackling costs. The company initiated a procurement rationalization of assessing the potential suppliers and measuring them against original equipment manufacturers (OEMS). In May 2012 a new head of procurement

was appointed with a specific mandate to streamline the procurement process and synchronize group-wide purchasing efforts. The efforts resulted in the vendors of spare parts and materials cutting their margins to about 15% compared to the 100-1000% that they were charging previously (RioZim half year financial report, 2012).

4.4.3 Improvement of productivity and operational efficiency

In the second quarter of 2012 the company initiated efforts to improve productivity and operational efficiency at Renco and ENR operations (RioZim half year financial report, 2012). These initiatives are outlined below:

4.4.3.1 Renco Mine

According to the interviewees, the company's strategy on the Renco operation was to increase efficiency whilst increasing volumes. This involved injecting critical capital and working capital support to finance Renco Mine to improve mining efficiencies and utilize excess capacity in the processing plant. The target was to enable the mine to achieve higher ore grades and thereby significantly improve profitability (Shareholders' statement March 2012, p.12). The overall goal for Renco was to double production from 800kg in 2012 to over 1700kg in 2014. So far, RioZim efforts to expand production at Renco have been fruitful with gold production increasing from about 40kg per month in March 2012 to over 70kg in September 2012 (Renco Monthly reports). The company set a target to improve production to 105kg by January 2013.

Furthermore, the company initiated measures to reduce production costs at Renco mine. The target was to reduce costs of gold production to below US\$800 per ounce (RioZim budget, 2012). The measures resulted in the reduction of gold production costs, which were around US\$1370 in April 2012 to US\$ 1000 in August 2012 (Renco monthly reports, 2012). Other operational efficiency measures at Renco included the use of electricity powered jack hammer as opposed to powering them with the inefficient compressed air (ibid).

4.4.3.2 Empress Nickel Refinery

According to the views of RioZim's top managers interviewed in the study, the company expects ENR operation to generate US\$1million a month positive cash inflow for the company when operating at full capacity. The turnaround strategy involves capital expenditure combined with working capital support to return ENR to optimum operating capacity. It also involves processing the metals currently tied up in the plant inventory, further improving the liquidity of the Group (Shareholders' statement March 2012, p.12).

The company successfully negotiated a deal for RioZim to procure 1400tonnes of matte directly from BCL ltd for refining at Empress Nickel Refinery (Works council minutes, October 2012). The management's expectation was that the new arrangement would have a positive impact on cashflow and profitability of future operations of ENR. Under the new supply arrangement, Empress Nickel Refinery reverted to being a principal in the refining of matte supplied by BCL ltd of Botswana and marketing of the resultant copper, nickel, PGMs and cobalt cake on the international markets on much improved terms (ibid). The supply of matte was expected to resume in December 2012.

4.4.4 Asset retrenchment

There were no significant asset retrenchment initiatives or divestments by RioZim. One of the respondents explained:

"We did not dispose of any significant assets, but we sought to develop those assets into business revenue generating initiatives like cam and motor to improve cash in flows reverts and also to cancel the contract and then sell the balance of metals that we ended up with generating over US\$14million by cancelling the contract..."

The termination of the Centametal AG deal injected approximately US\$15million in deferred sales proceeds, net of the settlement agreement. The cash receipts that were expected to be unlocked from the termination were expected to be as follows:

Reverts 800tonnes (US\$6.4million), Copper 101tonnes (US\$0.63million), Nickel 38tonnes (US\$0.55million), PGMs (US\$1.9million) and residues and cobalt cake (US\$0.58million).

4.4.5 Financial restructuring

As explained earlier, RioZim faced with an urgent need to recapitalize its operations and attend to the challenges of its expensive short term debt. RioZim's short term borrowings as at 31 December 2011 amounted to US\$58.8 million (Shareholders' statement March 2012, p.23). The company employed the following measures to restructure and settle the expensive debt burden, release cash resources towards capacity utilization and financing of future capital projects:

4.4.5.1 Debt and Equity restructuring in the short term

RioZim's debt was around US\$60million in March 2012. The main objective was to stabilize the balance sheet and release funding to operations (RioZim budget 2012 p.3). The company's target is to reduce debt significantly using the company's own resources and to eliminate existing debt by third quarter 2014, an important springboard for profitability and growth. From the second quarter 2012, the company made the following initiatives:

- A total of US\$ \$28m short term loans were restructured into longer-term debt (RioZim half year results 2012). According the report, the company managed to reduce the average cost of debt from around 30% to less than 18%.
- RioZim floated US\$5 million rights issue shares and shareholders subscribed 60.63%, Old Mutual took up 39.36% of the unsubscribed shares.
- RioZim raised US\$ US\$6.6 million through a private placement of to Global Emerging Markets Raintree.
- The funds derived from the Rights Offer and Private Placement were used towards the settlement of expensive short term. RioZim reduced its debt from \$60million to about \$40million (from January to June 2012) through repayment.
- US\$45million in the form of Convertible Debentures financing instrument by GEM Raintree Investments was made available to RioZim up to 2017. Drawn at the

election of RioZim, in multiples of US\$ 1million, Tenor of 60 months from the date of issue. Coupon: 12% per annum, with the coupon payable quarterly in arrears. Convertible, at the election of the investor, at any time prior to maturity, to Ordinary Shares.

- Partial debt equity conversion to equity.

4.4.5.2 Equity and assets restructuring in the long term

RioZim seeks to maintain a holding of at least 51% in each of its subsidiaries to ensure their indigenous status, whilst utilizing the available 49% shareholding in the subsidiaries to raise capital, acquire assets or source expertise. RioZim management's plan involves streamlining operations into focused mineral groups as follows:

- Rio Gold which will own Renco, Cam and Motor, and all other group gold assets
- Rio Base Metals which will own the Empress Nickel Refinery and all related base metal assets
- Rio Diamonds which will own Murowa and all other related diamond assets
- Rio Energy which will own Sengwa Colliery assets, including a potential power plant
- Rio Chrome which will own 60% of RM Enterprises and all related chrome assets.

An empirical studies by Klein et al. (1991) and Hulburt 2002 (as cited by Gilson 2010 p.480) have shown that "announcements of equity curve-outs are associated with increases in stock prices of the parent company".

4.4.6 Increased revenue generation

4.4.6.1 Vamping program

Renco mine started the vamping program in Second half of 2012 and is expected to last for about five years. The project involves collecting high grade ore from previously mined stops and is expected to provide about 20kg monthly. This is a significant revenue generating initiative given that the company approximates the cost for an ounce of gold produced from vamping to about US\$ 400 compared to at the selling price which had been averaging more than US\$1500.

4.4.6.2 Cam and Motor waste dump toll treatment

Tailings dump treatment. RioZim is exploring opportunities to unlock value from its surface resources. The mine's tailings dump resource has about 10.0m tonnes at an average grade of 1.3 g/t and a contained gold resource of approximately 13 tonnes. The dump has historically been retreated twice over the years, but this was prior to the advent of modern fine grind technology, which has unlocked value from similar dumps at other operations. RioZim engaged DRDGold, to carry out a comprehensive drilling and metallurgical test program. At Renco, the tailings resource is 7.4mt at an average grade of 0.8 g/t for contained gold of 5.8 tonnes. This investigation will be implemented with no capital outlay from RioZim and risk will lie with DRDGold.

RioZim started exploiting surface treatment opportunities for its historic waste dumps. Historically, the mine produced 150kg gold per month at an average grade of 12.4g/tonne. The cut-off grade was as high as 6.5g/t which explain its high grade tailings dump. RioZim entered into a toll treatment agreement with Ox Mining, and Falcon Gold (New Dawn) to treat its high grade sands material, sitting ironically, on the site of the proposed Cam and Motor open pit operation. At the rate of 30,000 tonnes per month, a total of 446kg of gold was expected to be produced from third quarter 2012 to May 2013. Management estimated that this operation had potential to generate cash receipts of about US\$8.0million. This involved utilizing New Dawn's

Dalny mine plant to treat 25,000 tonnes per month. On the other hand Ox Mine's Inez mine was treating at least 5,000 tonnes.

4.4.7 Business growth and development projects

4.4.7.1 New resource identified at the Cam and Motor

As at March 2010, core drilling work that was done to define the resource. The mine has potential of producing more than 10tonnes (320k oz) gold at a depth of 100meters and a cut-off grade of 4g/t. The company expects potential to increase to 16t (500k oz) at a depth of 200m. The company expects to exploit the resource using Open Pit mining operation producing 2000 kg (70 000 oz) per annum for more than 10years. The company is targeting to keep cost per ounce to be below \$600 to maximize returns from the project.

4.5 Challenges in RioZim's turnaround efforts

The interview respondents highlighted the following challenges and shortcomings in the RioZim turnaround initiatives:

- Lack of a strategic blueprint
- Lack of stakeholder engagement
- Non performance of some revenue generation initiatives
- Challenges due to the termination of the Centametal AG contract

4.5.1 Lack of a strategic blueprint

The Achilles' heel in the current turnaround initiatives is the lack of a turnaround strategy blue print, to the extent that some senior managers and directors are not sure of their roles in the current business turnaround efforts. Some of the changes introduced were viewed by interviewees as haphazard and piecemeal in that there is lack of an effective system-wide approach to business turnaround. There is lack of collective effort that involves employees at all level of the organisational structure. The current efforts have not utilised the synergies between the company's business units, Renco and ENR effectively.

The respondents expressed that RioZim's employee retrenchment exercise was done in a swift manner with no evaluation of skills done prior to the exercise. One of the respondents gave an example of the retrenchment of security personnel whilst opting for outsourcing which is proving to be more costly to the organisation. The majority of cost reduction strategies initiated by the company were reactionary and did not address the root causes of business decline. Some respondents expressed that inflated costs and operational inefficiencies were due to obsolete equipment. The restructuring initiative saw the creation of parallel organisation confusion in their roles, for example in the finance department ENR resulted in two finance and administration managers. The restructuring also saw the redeployment of senior personnel to ENR and Renco operations. Some of the new deployments had no specific responsibilities resulting in confusion.

None of the current turnaround efforts are directed towards addressing organisational culture issues. For example RioZim needs to address the lack of profit consciousness within the organisation as it was identified as one of the root causes of operational inefficiencies. RioZim has to be careful not to fall into the folly of "Doing the same thing and yet expecting different results".

Slatter and Lovert (2004) success of turnaround management depends on the adequacy of the turnaround prescription and effective implementation. However, as highlighted by the respondents, the turnaround initiatives at RioZim are inadequate and there are challenges that are hampering the implementation of turnaround actions. Kanter (2000) emphasizes that turnaround leaders must have a viable strategy or vision to set direction, define context, produce coherence, inspire voluntary behaviour and bring about passion, conviction and confidence in others involved in changing the organisation.

4.5.2 Lack of stakeholder engagement

Evidence from the questionnaire and interviews show that the company has not made much effort to communicate with key stakeholders such as employees. The company's formal strategy has not been clearly articulated to employees resulting in confusion across the organisation. RioZim has not made any initiatives to motivate and involve lower level employees in the current turnaround efforts. Slatter (2011) posits that stakeholder management is the core of a turnaround and that management should seek the involvement of stakeholders in the development of turnaround plans. RioZim endured crippling strikes at its ENR and Renco mine operations. Salaries and benefits dispute resulted in ENR workers went on strike 17-18 January 2013 (Chitagu, 2013, January 17). Their Renco counterparts strike lasted longer resulting in interference by local politicians (Chiriga and Kachembere, 2013, February 01). RioZim resorted to filing an urgent application with the High Court to bar politicians from disrupting operations at its Renco gold mine (ibid).

4.5.3 Non performance of some revenue generation initiatives

According to the respondents, the toll refining of the gold from the cam and motor damp has not generated enough revenue as was projected at the project initiation phase. Most of the revenue generated went towards offsetting transport costs to the haulage company GRG Godard and to the processing plants as toll fees. Furthermore, the Dalny plant experienced metallurgical and operational problems that had not been anticipated in the planning stage. This resulted in the project missing production targets and significantly reduced the projects' revenue generating potential.

The management's failure to commit financial resources for the turnaround initiatives evidenced by that there has been no capital injection to finance the current turnaround initiatives. RioZim has not utilized the US\$45million Convertible Debentures financing instrument by GEM Raintree Investments despite the fact that RioZim operations, Renco and ENR still face cashflow problems which is undermining their revenue generating capacity. All these challenges highlight

significant shortcomings in the planning and strategy execution. They also have a bearing on the structure of the company's balance sheet as the company had targeted to use the revenue generated to contribute towards reducing part of the company's debt.

4.5.4 Challenges due to the termination of the Centametall AG contract

The anticipated positive inflows from the termination of the Centametall contract were not as huge as management had projected. After the termination, the company was involved in prolonged negotiations with BCL for the supply of matte. This resulted in the shutdown of ENR from April 2012 to December 2012. This negatively affected the company's revenue generating capacity of the company.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter condenses the findings of this research in light of the research questions:

1. How and why did RioZim Limited experience business decline in 2009 to 2011?
2. How can RioZim Limited's turnaround strategy implementation be described?
3. What are the challenges in the implementation of RioZim's business turnaround strategies?

It is a summary of the causes of RioZim's decline, RioZim's turnaround initiatives and recommendations as observed from the results of the study.

5.2 Conclusions

The broad conclusion drawn from this study is that RioZim business decline can be attributed to both macro-environmental and company based factors. RioZim responded by employing several measures halt business decline and put the company on a sustainable growth trajectory. However, the company is facing several challenges in the implementation its turnaround initiatives.

5.2.1 Specific conclusions

5.2.1.1 Macro environmental factors that caused RioZim's decline

- Failure to recapitalize the business due to the unavailability of funds in the financial market in Zimbabwe. The lack of capital was a significant impediment to the growth and development of the company.
- Crippling cashflow constraints resulting from the demonetization of the Zimbabwe dollar (February, 2009) and non remittance of Gold earnings by the RBZ.
- Lost production at Renco and ENR operations due to supply side constraints reduced the company's revenue generating capacity.
- RioZim endured escalating costs on a number of fronts, such as cost of electricity. However, this problem was exacerbated by the lack of understanding of the manner in which specific costs fluctuate and affect the company's profitability.
- Reduced revenue generation due to the decline of commodity prices in 2008-2009.

5.2.1.2 Internal factors that caused RioZim's decline

Poor management was the over arching factor in the company's business decline. Specifically, the study revealed the following managerial problems:

- Poor financial management that resulted in the company incurring excessive debt due to weak financial controls and poor investment decisions.
- Failure to closely manage the organisation's cost base evidenced by operational inefficiencies and inflated cost structures.
- Lack of management responsiveness to changing business environment.
- Poor strategy formulation and implementation characterized by lack of vision, lack of strategic focus that destroyed shareholder value.
- Weak corporate governance structures and weak board oversight.

5.2.1.3 RioZim turnaround initiatives

RioZim employed the following measures to halt business decline and put the company on a sustainable growth trajectory:

- Cost reduction,
- Asset retrenchment
- Improvement of productivity and operational efficiency,
- Organisational restructuring,
- Debt reduction and restructuring,
- Increased Revenue generation and
- Long term growth and development plans

5.2.1.4 The challenges in the implementation of RioZim's turnaround strategy

The study found the following challenges in the current turnaround efforts pursued by the organisation: Lack of a strategic blue print, Lack of stakeholder engagement and Non performance of some revenue generation initiatives.

5.3 Recommendations

The Researcher proposes the following recommendations in view of the shortcomings and challenges in the current turnaround efforts.

1. RioZim needs a strategic blue print, setting out the direction of the organisation. Effective turnaround management involves making holistic changes to strategies, structure and practices throughout the organisation (Harker and Sharma 2000). The current approach is weak in that:
 - a. Turnaround initiative has not been holistic; managements should make sure that it is not skewed toward cost cutting as this has a bearing on employee motivation.
 - b. There is need to evaluate the viability of the projects before commissioning to avoid deepening the cashflow crisis. For example the

cam and motor sands program has not generated significant cash-flows as was anticipated by the management

- c. Evaluation of skills done prior to retrenchment was not short sighted and reactive as evidenced by the retrenchment of security personnel whilst opting for outsourcing is proving to be more costly to the organisation similar to “throwing away the baby with bathing water”.
2. The company needs to commit financial resources for the turnaround initiatives. According to Slatter (2011), troubled companies need two things leadership and capital. RioZim cashflow generating initiatives have not performed as per management expectation and the company has not utilized the convertible debenture availed by GEM-Raintree investments. This is slowing down the turnaround efforts.
3. There is need to communicate clearly and effectively with key stakeholder such as employees. Slatter (2011) posits that stakeholder management is the core of a turnaround and that management should seek the involvement of stakeholders in the development of turnaround plans.
4. RioZim needs to address organisational culture issues in its turnaround efforts so that they avoid the folly of “doing the same things and yet expecting different results”. For example RioZim needs to address the lack of profit consciousness within the organisation as it was identified as one of the root causes of operational inefficiencies.

5.4 Areas for further Study

Given the limited timeframe of this study, it was not possible to measure and assess the effectiveness of RioZim’s turnaround initiatives. Further studies can be done to evaluate the effectiveness of these turnaround initiatives.

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APPENDICES

Appendix A: RioZim shareholding structure

Table 7.1 Structure of RioZim shareholding as at 31 December 2010

Size of Holding	No. of Shares	% of Shareholding	No. of Shareholders	% of Shareholders
1-5000	1 364 024	4.55	1 809	86.14
5001-10000	785 932	2.62	113	5.38
10001-25000	1 315 285	4.39	83	3.95
25001-50000	1 582 166	5.28	45	2.14
50001-100000	1 177 739	3.93	17	0.81
100001-200000	1 752 918	5.85	12	0.57
200001-500000	5 005 160	16.7	16	0.76
500001-1000000	558 404	1.86	1	0.05
Above 1 000 000	16 420 600	54.8	4	0.19
Total	29 962 228	100	2 100	100

RioZim Foundation	20%
Old Mutual Zimbabwe	19%
Scaiflow (Pvt) Ltd	9%
Barclays Zimbabwe Nominees	6%
Stanbic Nominees	4%
Local Pension Funds	19%
Local Nominees	8%
Individuals (Zimbabweans)	6%
Individual-Non Resident shareholders	12%

Table 7.2 RioZim shareholding (as at 20 April 2012)

Rank		No. of Shares	% Held
1	Gem Raintree Investments Ltd (NNR)	13 325 000	24.99%
2	Old Mutual Life Assurance Co. Zim Ltd	11 850 832	22.23%
3	Riozim Foundation Co (Pvt) Ltd	6 003 579	11.26%
4	Turner Roy	5 504 370	10.33%
5	Stanbic Nominees (Pvt) Limited NNR	1 710 145	3.21%
6	TFS Nominees (Private) Limited	1 658 092	3.11%
7	Edwards Nominees (Private) Limited	1 479 175	2.77%
8	Les Nominees (Pvt) Ltd	794 285	1.49%
9	National Railways of Zimbabwe	562 737	1.06%
10	Datvest Nominees (Pvt) Ltd	497 635	0.93%
11	Barclays Zimbabwe Nominees (Private) Limited	476 450	0.89%
12	Invesci Investment (Pvt) Ltd	474 557	0.89%
13	Rio Tinto (Africa) Pension Fund	377 896	0.71%
14	Guramatunhu Family Trust	357 918	0.67%
15	Local Authorities Pension Fund	333 000	0.62%
16	Catering Industry Pension Fund	312 336	0.59%
17	Fed Nominees (Private) Limited	309 776	0.58%
18	Edwards Nominees (Private) Limited Nnr	295 282	0.55%
19	Lady Motor Investments	261 852	0.49%
20	Belgroom Investments (Pvt) Ltd	212 400	0.40%

Appendix B

Table 7.3 Extract of RioZim Financial results 2009 -2011

Statement of Financial Position (Extracts)	2011	2010	2009
Assets			
Property, plant and equipment	37812	38491	37037
Exploration and development expenditure	12119	10871	7810
Investment in associate company	5286	4691	5639
Other investments	18	18	18
	55235	54071	50504
Current assets			
Inventories	26834	29225	29091
Trade and other receivables	17036	18510	19484
Cash and cash equivalents	342	3512	2902
Total current assets	44212	51247	51477
Total assets	99447	105318	101981
EQUITY			
Share capital	425	425	425
Share premium	500	478	
Non distributable reserve			62873
Retained income/(accumulated loss)	15869	27711	-15985
	16794	28634	47313
Non-controlling interest	-310	-183	-39
Total equity	16484	28451	47274
LIABILITIES			
Non current liabilities			
Deferred income tax liability		2275	7333
Retirement benefit obligations	2041	2292	
Post-retirement cost provision			500
Mine closure provision	119	119	500
	2160	4686	8333
Current liabilities			
Trade and other payables	21976	20277	16982
Borrowings	58827	51904	29392
	80803	73181	46374
Total equity and liabilities	99447	105318	101981

Consolidated Statement of Comprehensive Income			
(Extracts)	2011	2010	2009
Revenue	54544	47836	43697
Cost of sales	-32510	-33507	-32562
Gross profit	22034	14319	11135
Distribution costs	-5627	-7114	-5816
Administrative expenses	-18316	-18771	-13251
Other (losses)/gains			-506
Other income	434	1288	722
Operating loss	-1475	-10278	-7716
Net finance cost	-13615	-10215	-4319
Finance income	4	8	6
Finance cost	-13619	-10223	-4319
Share of profit/(loss) of associate	595	-948	-2881
Loss before taxation	-14495	-21441	-14910
income tax expense			-1308
Income tax credit	2275	5058	
Loss for the year	-12220	-16383	-16218
Other comprehensive income			
Actuarial gains/(loss) recognized in current year	251	-2292	
Total comprehensive loss for the year	-11969	-18675	
Loss attributable to:			
Owner of the parent	-12093	-16239	-15620
Non-controlling interest	-127	-144	
Loss attributable to RioZim shareholders	-12220	-16383	-16218
Basic and diluted loss per share (cents)	-41	-55	-54
Diluted earnings per share (cents)	-40	-54	

Appendix B Questionnaire

Research title : Corporate decline and Turnaround: the case of RioZim limited (2008-2012)

Appendix 1 : The Quantitative Tool (Research questionnaire)

Research dates : 20 October 2012 - 10 November 2012

Introduction

My name is **Lucky Chisi**, I am a MBA Student at the University of Zimbabwe (Registration number **R107667W**), Graduate School of Management. I am carrying out a case study research on **corporate decline and turnaround management phenomena**.

The purpose of the interview is to understand the causes of the decline in RioZim (Pvt) Ltd and also to understand what RioZim is doing to turnaround the company back to profitability. **Permission for carrying out this research exercise has been obtained from the location manager and human resources department**. Your personal identification details and the RioZim details will be kept in the strictest confidence. This research will be used purely for academic purposes only. Your participation in this study is greatly appreciated. Answering this questionnaire is expected to take less than 10 minutes.

For queries on the authenticity of this study, kindly contact the research supervisor Prof. T Hawkins (tonyhawkins@yoafrica.com) or

Dr M. Mutowo

The Director

Graduate School of Management

University of Zimbabwe

Box 167, Harare

Tel: +263 (04) 745316

Email: mutowo@gmail.com

1. Please tick your current grade at RioZim	13	14	15	16	17	18

2. Please rate the following external environment factors in terms of their direct contribution to the decline of RioZim between 2008 -2012

Key: 5 = most severe 1= least severe

External Factor	5	4	3	2	1
Unstable political environment in Zimbabwe					
Fluctuating Metal prices in commodity market					
Increase in cost of raw materials					
Intense competition from other mines					
Unavailability of and/or expensive capital from banks					
Rapid changes in technology in the mining industry					
Dollarization of the economy					
Changes in social and cultural issues					
Unfavourable tax and legal environment					

3. Please list any other external factors that affected RioZim negatively between 2008 – 2012

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4. Please rate the following internal factors in terms of their direct contribution to the decline of RioZim between 2008 -2012

Key: 5 = most severe 1= least severe

Internal Factor	5	4	3	2	1
Inadequate financial control					
High cost structure					
Rigid bureaucratic controls					
Production inefficiencies					
Excessive head office interference					
Inadequate control systems					
Waste of resources					
Poorly planned projects					
Poor marketing of products					
Lack of strategic direction					
Lack of team work					

5. Please list any other internal factors that affected RioZim negatively between 2008 – 2012

.....

6. Turn around strategy implementation

	Strongly Agree	Agree	Don't know	Disagree	Strongly Disagree
RioZim turnaround strategy is well defined and adequately communicated to workers					
RioZim structure is suitable for the turnaround efforts being implemented					
Management has availed sufficient resources to complement turnaround strategy					
RioZim has adequate systems to ensure success of the turnaround effort					
RioZim personnel have adequate technical and managerial skills					

7. Please list examples of measures that have been taken to turnaround the company:

a) List any cost reduction measures

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b) List any cost revenue generation measures

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8. List any other changes that have come as a result of turnaround efforts

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9. What are the challenges and short comings of the current turnaround efforts?

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10. Any other comment?

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----- End of questionnaire – Thank you! -----

Appendix C Analysis of Interview Data

Causes of RioZim business decline (Research question 1)				
Cause of decline	ENR Manager	Finance and Administration manager	Technical director	Financial Director
External factors	<ol style="list-style-type: none"> 1. Global economic recession <ul style="list-style-type: none"> o commodity prices fluctuation 2. Zimbabwe's image from external image <ul style="list-style-type: none"> o indigenization laws o policy inconsistency 3. Raising working capital very difficult <ul style="list-style-type: none"> o Exorbitant interest rates. 4. RBZ managed exchange rate <ul style="list-style-type: none"> o difficult to actually replenish their inputs o Zimbabwe dollar was overvalued. 5. current tax regime <ul style="list-style-type: none"> o last two years taxes have been raised, mining industry 6. skilled personnel left the company 7. Fluctuations in supply of matte by BCL 8. Challenges in supply of key inputs <ul style="list-style-type: none"> o Inconsistent power supply <ul style="list-style-type: none"> ▪ Load shedding ▪ Power failures o Water supply challenges o Liquid oxygen supply constraints from BOC <ul style="list-style-type: none"> ▪ Had to source from SA 9. Increasing costs of key inputs <ul style="list-style-type: none"> o ZESA increased charges from 2.6c per KWH to 5.6c per KWH then to 9.2KWH o Suppliers charging high mark ups due to buying on credit 10. Centametall- ENR contract 	<ol style="list-style-type: none"> 1. disinvestment of Rio Tinto 2. RBZ fixed exchange rate policy 3. Illiquid market not supporting recapitalization 4. Electricity supply challenges to ENR 5. RBZ was forcibly liquidating foreign currency reserves 6. interest rates were very punitive, with low tenures company incur a huge debt burden 7. consistent policies unpredictable 8. lack of funding 9. global economic recession commodity prices fluctuation 10. Zimbabwe's image from external image 11. inconsistent policy implementation 12. RBZ managed exchange rate 13. Increasing costs of key inputs 14. ZESA increased charges 15. Suppliers charging high mark ups due to buying on credit 16. Centametall- ENR contract <ul style="list-style-type: none"> o Unfavourable toll refining fees not matched to ENR cost structure o Backwardation o Centametall withhold funds due to non performance 11. Dollarization <ul style="list-style-type: none"> o Price distortions 12. Rand dollar exchange rate fluctuation affecting the supply chain 	<ol style="list-style-type: none"> 1. Controlled exchange rates 2. Massive hyperinflation 3. Recapitalization challenges 4. Policy inconsistencies 5. Divestment of RioTinto plc 6. Brain drain 7. Skills and expertise 8. BCL matte supply 9. ZESA erratic supplies 10. Erratic water supply 11. Erratic of oxygen 	<ol style="list-style-type: none"> 1. disinvestment of Rio Tinto <ul style="list-style-type: none"> o provide leverage 2. capital raising challenges 3. exchange rate policy 4. RBZ non remittance of gold earnings 5. erratic power supply 6. Increase in electricity costs 7. commodity price fluctuations 8. Liquidity constraints 9. Policy inconsistency 10.

	<ul style="list-style-type: none"> ○ Penalties for poor 	<p>13. Poor state of the country's infrastructure</p> <ul style="list-style-type: none"> ○ Roads, rail ○ 		
Internal factors	<ol style="list-style-type: none"> 1. old equipment <ul style="list-style-type: none"> ○ High Repair, Rework and Maintenance costs ○ impact on production output 2. high overhead costs <ul style="list-style-type: none"> ○ expenses head-office 3. operational inefficiencies and high operational costs <ul style="list-style-type: none"> ○ excessive usage of consumables but not matching production output 4. Declining labour productivity 	<ol style="list-style-type: none"> 1. Lack of understanding of cost management 2. operational inefficiencies and high operational costs 3. high overhead costs 4. bloated head office and bloated organisational structures <ul style="list-style-type: none"> ○ cost management strategies useless 5. Poor human resources management <ul style="list-style-type: none"> ○ Poor performance management 6. Low motivation, moral and creativity of employees 5. Poor strategy formulation and implementation <ul style="list-style-type: none"> ○ Lack of organisational vision and direction ○ disconnect between operational and executive goals ○ unrealistic targets 6. Poor corporate governance <ul style="list-style-type: none"> ○ Weak board oversight 7. poor management <ul style="list-style-type: none"> ○ management inertia 8. Management 's huge appetite to borrow 9. Poor investment decisions <ul style="list-style-type: none"> ○ 4.5million to start on some project at Battlefields One-step 10. Overdependence on matte from Botswana 11. Managerial deficiencies, incompetence. 	<ol style="list-style-type: none"> 1. Inadequate managerial skills 2. Obsolete equipment 	<ol style="list-style-type: none"> 1. operational inefficiencies 2. weak corporate governance <ul style="list-style-type: none"> ○ controlling shareholder ○ lack of board oversight ○ fragmented shareholding 3. cost structures

Turnaround strategy processes and implementation (Research question 2)				
decline	ENR Manager	Finance and Administration manager	Technical director	Financial Director
Cost cutting measures	<ol style="list-style-type: none"> 1. Retrenchment of employees <ul style="list-style-type: none"> o Skilled Engineering (SEC) unit employees o Head office o No replacements for vacant posts 2. redeployed at various locations 3. daily monitoring of consumable usage 	<ol style="list-style-type: none"> 1. labour rationalization 2. reorganized the finance and procurement 3. optimize processes 4. Expansion in production. <ul style="list-style-type: none"> o Renco vamping program o damp treatment tailings both at Renco and CAM and Motor 4. New matte supply 5. a focused group SBUs 6. reverts program 7. We did not dispose of any significant assets 8. Debt restructuring <ul style="list-style-type: none"> o rights issue 		
Changes to the business structure	<ol style="list-style-type: none"> 1. procurement department restructured 2. New ENR- BCL contract 			
Assert restructuring	<ol style="list-style-type: none"> 1. inventory reduction <ol style="list-style-type: none"> a. reverts, cobalt b. stores warehouse levels c. disposed of redundant items 2. recovering scrap 			
Growth initiatives	<ol style="list-style-type: none"> 1. Inez mine and Dawn mine 			
Stakeholder engagement	<ol style="list-style-type: none"> 1. Lack of communication 	<ol style="list-style-type: none"> 1. Lack of turnaround strategy document 		
Long term strategies	<ol style="list-style-type: none"> 1. CAM project open cast mining 			
Obstacles and challenges to business turnaround (Research Question 3)				
	<ol style="list-style-type: none"> 1. Centametall - ENR contract termination 2. Securing a new BCL-RioZim contract 	<ol style="list-style-type: none"> 1. Delays in securing new matte supply 	<ol style="list-style-type: none"> 1. Centametall - ENR contract termination 2. Lack of mining experience of turnaround leaders 	

