
UNIVERSITY OF KWAZULU-NATAL

By

Cynthia Ntombifuthi Khumalo

Student number 201509825

**EXPLORING CRITICAL FACTORS FOR EFFECTIVE CORPORATE
GOVERNANCE PRACTICES OF THE SCHEDULE THREE STATE-
OWNED ENTITIES IN KWAZULU-NATAL**

**A thesis submitted in partial fulfilment of the requirements for the degree
of
Doctor of Business Administration**

**Graduate School of Business
Faculty of Management Studies**

Supervisor: Dr. S. Kaye

2018

DECLARATION

I, CYNTHIA NTOMBIFUTHI KHUMALO, declare that

- I. the research reported in this thesis, except where otherwise indicated, is my original research.
- II. This thesis has not been submitted for any degree or examination at any other university.
- III. This thesis does not contain other persons' data, pictures, graphs or other information, unless specifically acknowledged as being sourced from other persons.
- IV. This thesis does not contain other persons' writing, unless specifically acknowledged as being sourced from other researchers. Where other written sources have been quoted, then:
 - a) Their words have been re-written but the general information attributed to them has been referenced
 - b) Where their exact words have been used, their writing has been placed inside quotation marks, and referenced.
- V. Where I have reproduced a publication of which I am author, co-author or editor, I have indicated in detail which part of the publication was actually written by myself alone and have fully referenced such publications.
- VI. This thesis does not contain text, graphics or tables copied and pasted from the Internet, unless specifically acknowledged and the source being detailed in the thesis and in the References sections.

Signed



ACKNOWLEDGEMENTS

I would like to extend my sincere appreciation and gratitude to the following people who contributed hugely to the successful completion of my studies:

- Professor Sylvia Kaye, my supervisor, for her excellent guidance, dedication, patience and engaging approach which made this exercise a very valuable learning experience for me
- Mr Tina for excellently and professionally conducting the statistical analysis
- The Editor, Ms Sylvia Benatar
- Rev. James Ngomane for assisting with layout and design of the graphs, and general look of the document
- Zikhona Mojalafela, the Administrator within the Professional services staff, in the Graduate School of Business and Leadership- UKZN, for her help and patience
- CEOs and Board members of the KZN-based SOEs for their assistance, cooperation and willingness to participate in the filling in of questionnaires and interviews
- My colleagues, especially Lynne Crouch (my PA), and all Executives and Management in the Durban Marine Theme Park for their support and encouragement
- Information Technology department at my workplace, particularly Zodumo and Thembeke.
- My family, especially my children, Thabani, Sizwe, Melusi and Lulu for their understanding and moral support; and Lulu for her IT skills
- Fr Vusi Phenyane for pushing me to the limit, and
- Most of all, God Almighty, who made it possible for me to reach this milestone, whose presence in my life makes all things possible.

DEDICATION

This work is dedicated to my three biological children and my other son who has now been part of us for 13years, for the loving enabling and conducive environment they have created for me at home, which has made me the strongly grounded person that I am today. Further it is dedicated to my loving God, who is omnipresence in my life, and through him, all things are possible.

ABBREVIATIONS

ANZ	Australia and New Zealand Banking
APP	Annual Performance Plan
APRM	African Peer Review Mechanism
BRICS	Brazil, Russia, India, China and South Africa
CACG	Commonwealth Association for Corporate Governance
CEO	Chief Executive Officer
GAAP	Generally Accepted Accounting Principles
GDP	Gross Domestic Product
GRAP	Generally Recognized Accounting Practices
ICGN	International Corporate Governance Network
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IoD	Institute of Directors
KZN	KwaZulu-Natal
MEC	Member of Executive Council
MFMA	Municipality Finance Management Act
NDP	National Development Plan
OECD	Organisation for Economic Cooperative and Development
PFMA	Public Finance Management Act
PHX	Phoenix Sky Harbor International Airport
PPC	Pretoria Portland Cement
PwC	Price Waterhouse Coopers
SAA	South African Airways
SABC	South African Broadcasting Corporation
SAPA	South African Press Association
SOC	State-Owned Company
SOE	State-Owned Entity
SCOPA	Standing Committee on Public Accounts (South Africa)
UNICEF	United Nations Children's Fund
USA	United States of America

ABSTRACT

The State-Owned Entities (SOEs) are considered strategic vehicles allowing Government to deliver on the socio-economic needs of the citizens of South Africa, the economic infrastructure, provision of vital services and products as well as providing employment and capacity building. Government has come up with a National Development Plan (NDP) and the focus has been to roll out the plan, with SOEs playing a critical role in this process. Successful SOEs will put South Africa at a competitive advantage, but the key to better company performance is good corporate governance, which provides the regulatory framework for acceptable practice, strategic direction and sound business judgement.

As SOEs are primarily owned and led by Government, Government departments and Boards of Entities are partners in providing corporate governance to ensure their success. SOEs are different from the private sector because corporate governance includes both Government and Boards, with Government making final decisions concerning the allocation of finance and the selection and retention of Board Members. Both groups are therefore involved with the process of governing these companies. It has emerged in this study that the quality of corporate governance depends on whether Corporate Governors have the capacity, knowledge, experience, expertise and integrity to make and carry out wise decisions in the interests of the shareholder, company and stakeholders including the public.

This study was aimed at exploring critical factors that contribute to effective corporate governance practiced by the Schedule Three SOE's in KwaZulu-Natal (KZN), in order to establish an understanding of and recommend strategies to improve their corporate governance, using both the quantitative and qualitative research methods.

The empirical objectives of this thesis were firstly to identify internal and external factors contributing to the understanding of the corporate governance practice of Schedule Three SOEs, secondly to evaluate the level of awareness and knowledge about corporate governance practices among the different categories of these Entities, thirdly to examine the extent to which their different categories comply with the provisions for corporate governance and lastly to recommend strategies for improvement of corporate governance practices within Schedule Three SOEs in KZN.

The results of the research revealed that the institutional quality of SOEs must be measured against the detail and quality of their decision-making structures, processes and annual reports issued. Existence of corruption and collusion-free SOEs based on good governance are the foundation of the country's economy. The results suggested that for good corporate governance to be practised, several critical factors need to be present, inter-alia: structures, systems and processes, the right mix of intelligence, knowledge, experience and expertise, regulatory certainty and understanding as well as principles and practice of sound corporate governance.

Table of Contents

DECLARATION.....	ii
ACKNOWLEDGEMENTS.....	iii
DEDICATION.....	iv
ABBREVIATIONS	v
ABSTRACT.....	vi
LIST OF TABLES	ix
FIGURES	xiv
LIST OF APPENDICES	xviii
CHAPTER 1: INTRODUCING THE PROBLEM.....	1
1.1 INTRODUCTION	1
1.2.2 OUTLINE OF THE PROBLEM STATEMENT	3
1.3 OVERALL AIM	5
1.4 BACKGROUND OF THE RESEARCH.....	5
1.5 LITERATURE REVIEW	9
1.6 SIGNIFICANCE OF THE RESEARCH.....	15
1.7 RESEARCH METHODOLOGY AND DESIGN	15
1.8 RELIABILITY AND VALIDITY	20
1.9 ETHICAL CONSIDERATIONS.....	21
1.10 SCOPE OF THE STUDY.....	21
1.11 STRUCTURE OF THE CHAPTERS	22
1.12 CONCLUSION	23
CHAPTER 2: SOUTH AFRICAN CORPORATE GOVERNANCE IN CONTEXT	24
2.1 INTRODUCTION	24
2.2 CORPORATE GOVERNANCE DEFINITIONS.....	25
2.3 HISTORICAL DEVELOPMENT OF CORPORATE GOVERNANCE PRACTICES.....	26
2.4 SITUATIONAL ANALYSIS OF SOE GOVERNANCE IN SOUTH AFRICA	28
2.5 CORPORATE GOVERNANCE WITHIN THE SOUTH AFRICAN CONTEXT	31
2.6 CORPORATE GOVERNANCE LEGISLATION IN SOUTH AFRICA	40
2.7 OUTLINE OF THE SOUTH AFRICAN KING CODE OF GOVERNANCE PRINCIPLES	43
2.8 CORPORATE GOVERNANCE IN SOUTH AFRICAN SOEs.....	44
2.9 FACTORS IMPACTING ON EFFECTIVENESS OF CORPORATE GOVERNANCE PRACTICES	52
2.10 CONCLUSION	57
CHAPTER 3: THE GLOBAL PRACTICES AND TRENDS IN CORPORATE GOVERNANCE	59
3.1 INTRODUCTION	59
3.2 THE INTERNATIONAL TRENDS OF CORPORATE GOVERNANCE PRACTICE	59
3.3 GLOBAL SOE CORPORATE GOVERNANCE TRENDS.....	62
3.4 KEY CONSIDERATIONS IN THE CORPORATE GOVERNANCE BEST PRACTICES	67
3.5 THE KEY FACTORS INFORMING SOE BOARD STRUCTURES	72

3.6	THE EVOLUTION OF DIFFERENT CORPORATE GOVERNANCE APPROACHES	75
3.7	UNDERSTANDING ROLES AND RESPONSIBILITIES OF KEY PLAYERS	79
3.8	THE VALUE AND BENEFITS OF CORPORATE GOVERNANCE	83
3.9	THE GENERIC CHALLENGES IN CORPORATE GOVERNANCE	84
3.10	THE GOVERNANCE AND OWNERSHIP MODELS OF SOEs	87
3.11	CONCLUSION	89
4.1	INTRODUCTION	91
4.2	RESEARCH DESIGN	92
4.3	POPULATION AND SAMPLING PROCEDURE	97
4.4	PHASES OF THE RESEARCH	100
4.5	DATA COLLECTION	102
4.6	DATA ANALYSIS	110
4.7	RELIABILITY AND VALIDITY	112
4.8	ETHICAL CONSIDERATIONS	114
4.9	LIMITATIONS OF THE STUDY	115
4.10	CONCLUSION	118
	CHAPTER 5: DATA PRESENTATION AND ANALYSIS	119
5.1	INTRODUCTION	119
5.2	SAMPLE OF RESPONDENTS	120
5.3	FACTORS AFFECTING EFFECTIVENESS OF CORPORATE GOVERNANCE IN SOEs	124
5.5	COMPLIANCE WITH CORPORATE GOVERNANCE PROVISIONS IN SOEs	157
5.6	STRATEGIES TO IMPROVE CORPORATE GOVERNANCE IN SOEs	170
5.7	QUALITATIVE DATA ANALYSIS: RESULTS OF INTERVIEWS	190
5.8	DATA ANALYSIS: DOCUMENT ANALYSIS	216
5.9	CONCLUSION	220
	CHAPTER 6: DATA ANALYSIS AND INTERPRETATION	222
6.1	INTRODUCTION	222
6.2	FACTORS AFFECTING EFFECTIVE CORPORATE GOVERNANCE PRACTICES	223
6.4.	COMPLIANCE WITH CORPORATE GOVERNANCE PROVISIONS IN SOEs	238
6.5	STRATEGIES TO IMPROVE CORPORATE GOVERNANCE IN SOEs	257
6.6	CRITICAL FACTORS AND CHALLENGES IN THE CORPORATE GOVERNANCE OF SOEs	268
6.7	CONCLUSION	269
7.1	INTRODUCTION	271
7.2	REVIEW OF THE STUDY	272
7.3	SUMMARY OF FINDINGS PER RESEARCH OBJECTIVES	275
7.4	RECOMMENDATIONS BASED ON THE RESULTS OF THE STUDY	285
7.5	LIMITATIONS OF THE RESEARCH STUDY	294
7.6	RECOMMENDATIONS FOR FUTURE RESEARCH	296
7.7	THE VALUE CONTRIBUTION OF THE RESEARCH STUDY	298
	REFERENCES	302

LIST OF TABLES

Table 1.1	List of SOEs as per National Treasury.	6
Table 1.2	List of schedule 3 SOEs in KZN per category.	6
Table 1.3	Description of SOE mandate per category.	7
Table 1.4	Sampling of targeted reserved participants per category.	18
Table 2.1	Corporate Governance Codes/ structure per African Country.	38
Table 2.2	Remuneration of CEOs in SOEs in SA.	48
Table 2.3	Performance Challenges in SOEs.	51
Table 3.1	Countries that comply with Corporate Governance Codes.	60
Table 3.2	Seven key factors defining best practise countries.	67
Table 3.3	Meaning of each corporate Governance elements.	71
Table 3.4	Trends in different countries.	73
Table 4.1	Sample population per category or stratum in quantitative research.	98
Table 4.2	Sample population per category or stratum in qualitative research.	99
Table 4.3	Phases of Research.	100
Table 4.4	Example of a questionnaire in qualitative research.	104
Table 5.1	Information on SOE Categories questionnaire response analysis.	121
Table 5.2	Comparison of respondents in non-respondent's information.	123
Table 5.3	Gender and major background experience.	129
Table 5.4	Greatest influence over policies of entity by gender.	132
Table 5.5	Number of companies serving as board members by gender.	133
Table 5.6	Average attendance by age.	137
Table 5.7	Availability of Audit Committee on board by years of experience.	138
Table 5.8	Roles and responsibilities of audit committee by qualification.	140
Table 5.9	Chairperson: an independent non-executive director by job category	141
Table 5.10	Majority of audit committee members are financially literate	142

Table 5.11	Attendance of CEO and CFO at Audit Committee meetings.	144
Table 5.12	Audit Committee holds meetings with the external auditor.	144
Table 5.13	HR/remuneration committee by years of experience in current portfolio.	146
Tables 5.14	HR/remuneration committee meetings by years of experience.	149
Table 5.15	Code of conduct and ethics for directors by gender.	153
Table 5.16	Knowledge and understanding: years of experience.	154
Table 5.17	Knowledge and understanding of sector: years of experience.	155
Table 5.18	There is a set retirement age for non-executive directors.	157
Table 5.19	Board members sign disclosure forms annually.	158
Table 5.20	Corporate governance system includes: culture and value.	163
Table 5.21	Corporate governance system includes financial reporting framework.	163
Table 5.22	Corporate governance system includes: regulatory framework.	164
Tables 5.23	Entity ensures shareholder and stakeholder involvement.	165
Tables 5.24	Timeous submission of budget and corporate plan	165
Tables 5.25	Approval of strategic plan and risk register at board meeting.	167
Tables 5.26	Disclosure of CEO and CFO terms.	168
Table 5.27	Shareholder involvement in corporate governance through.	169
Table 5.28	Lack of integrity/ethics among top management by job category.	171
Table 5.29	Lack of transparency in financial reporting by job category.	172
Table 5.30	Extent of conflict of interest of directors by job category.	173
Table 5.31	Extent of inadequate and inefficient risk management by job category.	174
Table 5.32	Standards of accounting, audit and disclosure by years of experience.	178
Table 5.33	Conducting and publicizing corporate governance ratings of entity.	179
Table 5.34	Audit committee greater power to investigate financial reporting.	180
Table 5.35	Audit and non- audit services not from the same provider.	181
Table 5.36	Remuneration packages for executive directors linked to performance.	183

Table 5.37	Board Committee composed of independent non-executive directors.	184
Table 5.38	An age limit for directors by job category.	185
Table 5.39	Full disclosure of the recruitment policy of new board directors.	186
Table 5.40	Remuneration of each board director disclosed in the annual reports.	187
Table 5.41	Imposed limitations on the number of directorships.	189
Table 5.42	Adoption of a code of conduct and ethics.	190
Table 5.43	Qualitative data analysis: Document analysis.	216
Table 5.44	Level of compliance to corporate governance by the SOEs.	217
Table 6.1	Years of experience in the current portfolio.	225
Table 6.2	Form of structured training on corporate governance.	226
Table 6.3	Strongest voice in selection and appointment of board members.	227
Table 6.4	Greatest influence over the policies of your entity.	228
Table 6.5	The audit committee has written terms of reference.	228
Table 6.6	The majority of the audit committee members are financially literate.	229
Table 6.7	Written guidelines of the remuneration committee.	230
Table 6.8	How many meetings were held last financial year remuneration committee	231
Table 6.9	Dissents are recorded in the committee minutes.	232
Table 6.10	How many meetings were held last financial year for risk committee.	232
Table 6.11	Transparent procedures for the elections of directors.	234
Table 6.12	Recruitment based on knowledge and understanding.	234
Table 6.13	Limit on number of simultaneous directorships served in other companies.	236
Table 6.14	How many board meetings were held last financial year.	237
Table 6.15	Does the board has the board charter which are reviewed annually.	238
Table 6.16	Does the board have a shareholder compact.	239
Table 6.17	Does the board have a succession plan for the executive management.	240
Table 6.18	Does the board have an appropriately qualified company secretary?	240

Table 6.19	There is a set retirement age for non-executives directors.	241
Table 6.20	Does the board have a clear and comprehensive delegation of authority.	242
Table 6.21	Recusal when there is conflict of interest.	243
Table 6.22	The shareholder department evaluates performance of the board annually.	243
Table 6.23	Does the board have transfer payment agreement based on budget received.	244
Table 6.24	Does the board have a development programme for their members.	245
Table 6.25	Public disclosure of Annual financial statements.	245
Table 6.26	Board members sign disclosure forms annually.	246
Table 6.27	Public disclosure of Audit Committee report.	247
Table 6.28	Public disclosure of Corporate governance report.	247
Table 6.29	Public disclosure of Chairperson's report.	248
Table 6.30	Public disclosure of Audited Annual reports.	249
Table 6.31	Disclosure of Executives' terms of contract and notice terms.	250
Table 6.32	Corporate governance system includes internal Management regulations.	251
Table 6.33	Corporate governance system includes financial reporting feedback.	252
Table 6.34	Corporate governance system includes has framework/ monitoring system.	252
Table 6.35	Consultation of shareholders prior to finalisation of budget and corporate plan.	253
Table 6.36	Timeous submission of budget and corporate plan.	254
Table 6.37	Timeous submission of annual financial statements as per PFMA timelines.	254
Table 6.38	Disclosure of Executives' contracts and notice terms.	255
Table 6.39	Disclosure of non-compliance with PFMA and other pertinent Acts.	256
Table 6.40	Lack of integrity and ethics among top management.	257
Table 6.41	Lack of transparency in financial reporting.	258
Table 6.42.	Conflicts of interest of directors.	259
Table 6.43	Drain off of funds through associates or subsidiary companies.	259
Table 6.44	Inadequate on inefficient risk management.	260

Table 6.45	Lack of transparency about board director's remunerations.	261
Table 6.46	Giving audit committee greater power to investigate financial reporting.	263
Table 6.47	Obtaining audit and non-audit services from the same provider.	264
Table 6.48	Composition of key board committees.	265
Table 6.49	Full disclosure of the recruitment policy of the new board directors.	266
Table 6.50	Disclosure of exact remuneration of each board director in the annual reports.	267
Table 6.51	Adoption of a code of conduct and ethics.	267

FIGURES

Figure 1.1	Outline of how SOEs are governed.	8
Figure 2.1	Corporate Governance Landscape.	32
Figure 2.2	Graphical representation of SOE, in SA.	45
Figure 2.3	List of KZN-based SOEs	45
Figure 2.4	Model of ineffective boards.	54
Figure 2.5	Key principles of good governance in public sector.	55
Figure 2.6	Hallmarks of improved corporate governance	56
Figure 3.1	Global SOE trends.	64
Figure 3.2	Five essential elements for good corporate.	70
Figure 3.3	Key corporate governance elements.	70
Figure 3.4	Three distinct layers of corporate governance structure.	76
Figure 3.5	Categorise two corporate governance approaches.	77
Figure 3.6	Shareholders and Stakeholders model.	78
Figure 3.7	Three pillars of SOE reform.	78
Figure 3.8	Issues that hinder enforcement of corporate governance.	86
Figure 5.1	Gender analysis.	125
Figure 5.2	Distribution by race.	125
Figure 5.3	Age group analysis	126
Figure 5.4	Distribution by qualifications.	126
Figure 5.5	Job specification.	127
Figure 5.6	Years of Experience in current portfolio.	127
Figure 5.7	Background experience in current portfolio.	128
Figure 5.8	Structured training.	128
Figure 5.9	Category of the entity or department.	130
Figure 5.10	Greatest influence over policies of the entity.	130

Figure 5.11	Structured training provided by entity by gender.	131
Figure 5.12	Strongest voice in appointment of board members.	132
Figure 5.13	Shareholder representation in the board.	134
Figure 5.14	Sector or industry representation.	134
Figure 5.15	Employee representation.	135
Figure 5.16	Representation of other constituencies.	135
Figure 5.17	Number of board meetings.	136
Figure 5.18	Number of meetings by age.	136
Figure 5.19	Average attendance by race.	137
Figure 5.20	Availability of audit committee.	138
Figure 5.21	Terms of reference audit committee.	139
Figure 5.22	Composition of audit committee by years of experience in current portfolio.	140
Figure 5.23	Financial literacy of audit committee by job category.	142
Figure 5.24	Number of audit committee meetings in the previous financial year.	143
Figure 5.25	Attendance of CEO and CFO at audit committee meeting by job category.	143
Figure 5.26	Subjection of audit committee recommendations to full board review.	145
Figure 5.27	Written guidelines of the remuneration committee.	147
Figure 5.28	Composition of remuneration committee.	148
Figure 5.29	Chairing of remuneration Committee.	148
Figure 5.30	Dissents are recorded in the committee minutes.	150
Figure 5.31	Subjecting remuneration committee recommendation to full board review	150
Figure 5.32	Formal and transparent procedures for the election of directors.	151
Figure 5.33	Number of meetings by risk committee in previous financial year.	152
Figure 5.34	All Boards have risk committees.	153
Figure 5.35	Limit on number of simultaneous directorships.	155
Figure 5.36	Recusing themselves if there is conflict of interest.	156

Figure 5.37	Annual evaluation of performance by shareholder department.	156
Figure 5.38	Public disclosure of annual financial statement	158
Figure 5.39	Public disclosure of chairperson's report.	159
Figure 5.40	Public disclosure of corporate governance report.	160
Figure 5.41	Public disclosure of non-compliance with PFMA and others.	161
Figure 5.42	Public disclosure of Executives' contracts.	161
Figure 5.43	Corporate governance system includes internal management regulations, policies and procedures.	162
Figure 5.44	Submission of annual financial statement as per PFMA.	166
Figure 5.45	Disclosure of Executives' contracts by years of experience.	168
Figure 5.46	Shareholder and stakeholder involvement: Disclosure of non-compliance with PFMA and others.	169
Figure 5.47	Lack of integrity and ethics among top management.	170
Figure 5.48	Lack of transparency in financial reporting.	172
Figure 5.49	Conflict of interest of directors.	173
Figure 5.50	Inadequate and inefficient risk management.	174
Figure 5.51	Lack of transparency about board directors' remuneration.	175
Figure 5.52	Effective board functions, active shareholder participation.	176
Figure 5.53	Enact specific regulations, monitoring, and stakeholder participation.	177
Figure 5.54	Enhancing the standard of accounting, audit and disclosures.	178
Figure 5.55	Greater power for Audit Committee to investigate financial reporting.	180
Figure 5.56	Audit and non-audit services from the same provider.	181
Figure 5.57	Linkages of remuneration packages to performance.	182
Figure 5.58	Composition of key board committees.	183
Figure 5.59	An age limit for directors.	185
Figure 5.60	Full closure of the recruitment policy of new board directors.	186
Figure 5.61	Disclosure of exact remuneration of each board directors in annual reports.	187

Figure 5.62	Imposed limitations on the number of directorships.	188
Figure 5.63	Adoption of a code of conduct and ethics.	190
Figure 5.64	SOEs currently being served in KZN in terms of Treasury listing.	192
Figure 5.65	Experience as a board member.	193
Figure 5.66	Critical factors for effective corporate governance.	193
Figure 5.67	Critical factors for effective corporate governance of SOEs.	194
Figure 5.68	Understanding of Corporate Governance in South Africa.	197
Figure 5.69	Positive contributing factors.	198
Figure 5.70	Positive contributing factors to effective corporate governance in SOEs.	199
Figure 5.71	Rating of Corporate Governance compliance in KZN-based SOE.	208
Figure 5.72	Rating of Corporate Governance compliance in own KZN SOE.	208
Figure 5.73	Challenges faced by boards of SOEs.	211
Figure 5.74	How corporate governance in SOEs can be improved.	212
Figure 7.1	Summary of the chapters of the study.	273
Figure 7.2	Key elements in the recommended corporate governance framework.	294

LIST OF APPENDICES

Appendix A:	Letter of request to conduct a study	315
Appendix B:	Consent form and Permission from the Department in KZN	316
Appendix C:	Listed Schedule 3 KZN-based State owned entities	318
Appendix D:	Legal and Regulatory Framework for SOEs in the S A (can) Region	320
Appendix E:	A Detailed Outline of the 76 King Code III Principles	324
Appendix F:	Questionnaire in the quantitative study on Corporate Governance Practices of Schedule three SOES in KZN	327
Appendix G:	Interview schedule: Qualitative research	334
Appendix H:	Questions used to analyse the published SOE Annual Reports	335
Appendix I:	Detailed results of Document analysis conducted on Annual reports of SOEs	336
Appendix J:	Approval from Ethics Committee of UKZN	338

CHAPTER 1: INTRODUCING THE PROBLEM

1.1 INTRODUCTION

If globalisation is to play a significant role in social and economic development, particularly in the developing world, the adherence to good corporate governance is of critical importance (Khoza and Adam, 2007, p. 15). They further argue that this is why the alignment of corporate governance standards, across the world, is a powerful tool for benchmarking the implementation of transparent, responsible and accountable stewardship regarding economic, social, and environmental performance of that particular country.

In the *Presidential Review Committee Report* (Phiyega, 2013, p. 9), it was reported that international experience shows that Governments worldwide were increasingly making use of State-owned Entities (SOEs) as catalysts for growth, development, employment generation and transformation of economies and societies. The Report further cited that in South Africa, SOEs were seen as important agents of change, able to contribute positively to economic and social transformation, as well as the creation of decent work, resulting in the growth and development of society.

In his 8th January 2008 statement, the President of the Republic of South Africa, Jacob Zuma, endorsed the concept of a developmental state and the expansion of SOEs when he stated: “The developmental state should maintain its strategic role in shaping the key sectors of the economy. This means that we need to... strengthen the role of State-owned enterprises and agencies in advancing our overarching industrial policy and economic transformation objectives.” (Politics Today, 2008)

It is therefore important that SOEs in South Africa practise good corporate governance, as they are able to make a positive contribution to the economy of the country. SOEs present an opportunity for Government to demonstrate its willingness to effect economic reform and attract inward investment. To do so, Government needs to ensure that it operates according to exemplary principles of good corporate governance.

This study was aimed at exploring the critical factors that determine corporate governance in Schedule Three SOEs in order to recommend best corporate governance strategies for SOEs in KwaZulu-Natal (KZN). Price Waterhouse Coopers (2011) defined SOEs as those organisations under the ownership control of the Government of the Republic of South Africa. According to South Africa (1999) these entities are referred to as government business enterprises under the ownership control of the line minister who is assigned financial and operational authority. Their principal business provides goods or services in accordance with ordinary business principles,

and they are financed fully or substantially by the National Revenue Fund or by way of tax, levy or other statutory money.

1.2 PROBLEM STATEMENT

1.2.1 THE BACKGROUND/ CONTEXT OF THE RESEARCH PROBLEM

The prominence of matters related to the governance and management of SOEs was further illustrated by the establishment of the Presidential Review Committee (PRC) by President Jacob Zuma in 2010. The President conceded that prior reviews did not adequately address issues such as the legislative mandates, ownership models, governance and management reporting and accountability frameworks; as well as funding requirements of the SOEs. As the majority shareholder, the government is committed to ensuring that SOEs are properly governed and managed for purposes of addressing historically apartheid-induced imbalances, and to ensure that SOEs deliver on the developmental mandate. The ownership, governance and management challenges of the SOEs are not unique to South Africa. However, the dominating discourse involving performance of SOEs is based on their inefficiency, maladministration, and at worst, fraud and corruption. Issues relating to maladministration, corruption, rent-seeking and ultimately non-delivery point to weakness in the governance arrangement and ownership model.

Corporate governance theories accentuate the virtues of transparency, accountability, honesty, and integrity as the pillars of acceptable administration standards in both the public and private sectors. Notwithstanding these virtuous pillars, the ownership and governance structure of the public SOE is more complex than that of the private sector variant. The complexity of the SOE environment is reinforced by the frequency of policy changes. Adherence to expected corporate governance standards becomes more difficult to achieve in the context of factors such as the changing environment and the sheer size of SOEs; as well as the complex legislative environment and its associated bureaucracy. Despite the problematic SOE environment, their Boards and management are still expected to deliver on the diverse, contradictory mandates of SOEs that are often not adequately funded.

The implication is that stewards of SOEs have failed to act in the best interests of the shareholder, hence besmirching reports of corruption and maladministration continue to proliferate the public domain. The theoretical and practical governance challenges facing SOEs necessitate that speedy solutions be found in order to obviate the disruptive effects of copious decision-making processes. Such an orientation would ensure that South Africa's socio-economic development is catapulted in an upward trajectory, as the opposite would be catastrophic, given the recent negative ratings the country has attracted from reputable international financial institutions. As such, it is natural for SOE governance to reflect the characteristics of national governance—that is, the characteristics and quality of a national

regulatory regime for SOEs are deeply influenced by the prevailing national philosophy about the proper scope of state ownership of entities, separation of powers, the level of corruption in society, and related factors. Moreover, at least at a level of informal observation, the quality of SOE governance appears to be quite closely correlated with the quality of political governance in a given country. The diversity of approaches to SOE governance revealed by our study—even among countries that have managed the challenges relatively well—may be cause for optimism, by suggesting that effective governance strategies can be forged with the tools at hand in a given institutional environment, when coupled with appropriate doses of imagination and political will.

1.2.2 OUTLINE OF THE PROBLEM STATEMENT

The research problem is located within the premise of the need for SOE transformation, considering that these institutions are pivotal to furthering the developmental agenda of the State. Following the demise of apartheid, initiatives to transform the SOE sector were undertaken in 1994, 1999, and 2011 by means of changes in the legislative environment intended to address structural inequality and to promote good governance practices. Notwithstanding these noble intentions, the policy changes accruing from the legislative sphere created instability due to the response time associated with the realisation of the impact of policy changes, especially in complex environments.

The complexity of the SOE environment is reinforced by the frequency of policy changes. Adherence to expected corporate governance standards becomes more difficult to achieve in the context of factors such as the changing environment and the sheer size of SOEs; as well as the complex legislative environment and its associated bureaucracy. Despite the problematic SOE environment, their Boards and management are still expected to deliver on the diverse, contradictory mandates of SOEs. As much as the regulatory and policy environment have become the primary catalysts of change, the unintended consequences could occur in the form of engendering a culture of fear and instilling distrust between, and among the very custodians of SOEs. No amount of legislation and regulation suffices to create an environment of trust. Instead, relations are likely to deteriorate as a result of the ever-changing environment. The implication is that stewards of SOEs have failed to act in the best interests of the shareholder, hence besmirching reports of corruption and maladministration continues to proliferate the public domain.

The reality is that South Africa's Constitution is built on consultation ethos, which means that SOE custodians such as Boards and executives should promote a culture of consultation. In a nascent democracy such as South Africa, stakeholder theories – which advocate consultation – are a Constitutional and remedial imperative. Conversely, consultation may limit management's

capacity to act decisively on deviant behaviour – this claim is informed by the fact that organisations can be viewed as political systems. The theoretical and practical governance challenges facing SOEs necessitate that speedy solutions be found in order to obviate the disruptive effects of copious decision-making processes. Such an orientation would ensure that South Africa’s socio-economic development is catapulted in an upward trajectory, as the opposite would be catastrophic, given the recent negative ratings the country has attracted from reputable international financial institutions.

In OECD (Organisation for Economic Co-operation and Development) terms, ‘governance’ is conceptually synonymous with public administration systems that are based on the rule of law, rational specialisation of tasks, transparency and accountability mechanisms, as well as a professional and highly skilled public service. These elements are considered as the building blocks of good governance (OECD, 2005: 9). It is the researcher’s contention that the afore-cited OECD perspective is made to manifest by the manner in which the private sector and the SOEs are managed, directed and held accountable. For instance, all economic stakeholders are expected to comply with the sacrosanct dictates of the rule of law. In a similar vein, transparency and accountability find expression through legislation and regulation

Although good corporate governance has been encouraged by international communities, including OECD, for implementation by all companies in the world, insufficient research has yet been done on SOEs in the South African context.

There is a proliferation of SOEs in South Africa but there does not seem to be a common agenda for nor an understanding of the functioning of SOEs. Their legislative framework is inadequate and the governance, ownership policy and overseeing systems are also inadequate which as a result compromise and reduce the anticipated impact that can be made by the SOEs on public service delivery. The need therefore exists to examine the practise of corporate governance by the Schedule Three SOEs in KZN (SOEs that are based in KZN delivering goods and/or services to the public on behalf of the state), focusing on exploring the critical factors that inform this practice.

Johnston (2005, p. 9) argue that good corporate governance of SOEs is of critical importance for any country to ensure its positive contribution to its overall economic efficiency and competitiveness: corporate governance of SOEs was a major challenge in many economies. This study, therefore, is intended to explore critical factors that influence effective corporate governance of Schedule Three SOEs in KZN, determine the level at which it is practiced by these SOEs and recommend the best corporate governance model.

1.3 OVERALL AIM

This study was aimed at exploring critical factors that contribute to effective corporate governance practiced by the Schedule Three SOEs in KZN, in order to establish an understanding of and recommend strategies to improve their corporate governance.

1.3.1 Objectives

In order to achieve the overall aim of this study, the following sub-objectives were fulfilled through a mixed research methodology where data was collected and analysed.

Sub-objective 1: To identify internal and external factors contributing to the understanding of corporate governance practice of Schedule Three SOEs.

Sub-objective 2: To evaluate the level of awareness and knowledge about corporate governance practices among the different categories of Schedule Three SOEs.

Sub-objective 3: To examine the extent to which the different categories of Schedule Three SOEs comply with the provisions for corporate governance.

Sub-objective 4: To recommend strategies for improvement of corporate governance practices within Schedule Three SOEs in KZN.

1.3.2 Research Questions

The following key questions guided the entire research process:

1.3.2.1 What are the critical factors that contribute to effective corporate governance of SOEs?

1.3.2.2 What is the Schedule Three SOEs' level of corporate governance awareness and knowledge amongst key stakeholders in these Schedule Three SOEs?

1.3.2.3 What is the extent to which effective corporate governance is practiced amongst the different categories of the Schedule Three SOEs ?

1.3.2.4 What strategies and approaches will serve to improve corporate governance in the Schedule Three SOEs in KZN?

1.4 BACKGROUND OF THE RESEARCH

The South African National Treasury listed 299 public Entities, which were regarded as listed and registered Entities. This list excluded subsidiaries that fell under these Entities. In Table 1.1 below, these Entities were clustered into three schedules and were categorised into parts:

Table 1.1 The South African National Treasury listed Public Entities

Schedule	Category of Entities	Total number listed
Schedule 1	Constitutional Institutions	9
Schedule 2	Major Public Entities	21
Sub-Total		30
Schedule Three	Part A	153
	Part B	26
	Part C	72
	Part D	18
Sub-Total		269
TOTAL		299

Source: National Treasury 15 March 2013; www.treasury.gov.za

Schedule One SOEs, also known as Constitutional Institutions, were set in Chapter 9 of the Constitution of the Republic of South Africa to strengthen constitutional democracy. These include amongst others, *the Public Protector, the South African Human Rights Commission, the Auditor General, the Electoral Commission* and *the Commission for Gender Equality* (South Africa, 1996)

Schedule Two SOEs included major public Entities that fall under the National Government departments. They included *South African Broadcasting Corporation Limited (SABC), Telkom SA Limited and South African Post Office Limited*, which falls under the Department of Communications. Other Schedule Two major SOEs were those that fall under the Department of Public Enterprises, such as *Eskom, South African Airways Limited (SAA), Transnet Limited, DENEL (Pty) Ltd*, amongst others. As indicated in the above Table, there was a total of 21 such major SOEs.

Schedule One and Two SOEs were not the targets of this study and out of the 269 Schedule Three SOEs, the research targeted only those based in KZN, which made up 10% of the total number of Schedule Three SOEs that are national Entities but operate from KZN, or are provincial Entities and these were listed and categorised as in Table 1.2, below (also see **Appendix C** for the details with names of these SOEs):

Table 1.2: Provincial and National Entities operating in KZN

Schedule Three Categories	Description of Category	Number based in KZN
---------------------------	-------------------------	---------------------

Part A	National Public Entities	7
Part B	National Government Business Enterprises	2
Part C	Provincial Public Entities	14
Part D	Provincial Government Business Enterprises	5
TOTAL		28

Source: National Treasury: www.treasury.org.za

The *Presidential Review Committee* (Phiyega 2013) described the SOE categories as noted in the following Table 1.3:

Table 1.3 SOE categories

Categories	Classes	Description of the SOE Mandate
General Government-Public Entities	Stewardship	Acts as a steward of natural, cultural or other natural assets on behalf of citizens
	Research	Undertakes primary public interest or merits research
	Service delivery	A public Entity tasked with the delivery of well-defined goods or services that are not regulatory or advisory services
	Regulatory	A public Entity established to perform regulatory or quasi-judicial functions in a manner that enhances public confidence on the level of independence and expertise, underpinning its rulings and decisions
	Statutory advisory	A statutory advisory Entity renders independent, expert advisory services to a specific Minister or to Government as a whole. Experts serving on advisory Entities are not public servants
Government Enterprises	State-owned Companies	All Government enterprises are private companies registered in terms of Section 32 of the Companies Act of 1973 over which the State exercises ownership control, or in which the State has a material interest
	Financial intermediaries	A statutory corporation involved in financial intermediation or with banking or quasi-banking objectives
	State Investment Companies	A private business enterprise with commercial objectives in which the State, a statutory corporation, a State-owned company or a subsidiary of a State-owned company does not have 'ownership control' but still retains a material interest
	Statutory Corporations	A Government enterprise that the Government has established to supply on commercial basis specific goods or services that are of a strategic nature - in the sense that they address specific market inefficiencies and development objectives

Source: *The Presidential Review Committee Report (Phiyega, 2013, p. 49)*

The standards for financial management of SOEs, according to the South Africa (1999), had placed the responsibility for the implementation of mandates of SOEs on the Accounting

Authority or the Board, which in turn may assign powers and duties to executive management. The following diagrammatic representation, as in Figure 1.1, provides an outline of how SOEs were governed:

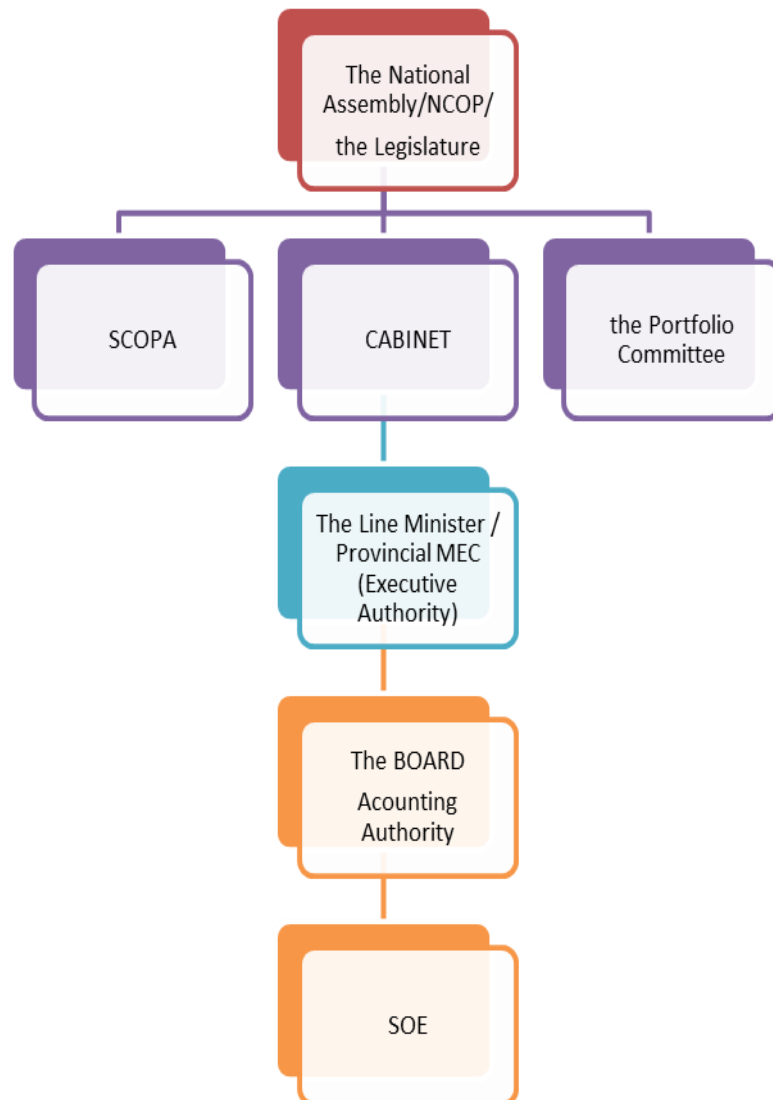


Figure 1 .1 SOE governance

Source: Price Waterhouse Coopers (2011)

According to Khoza and Adam (2007, p. 23), the governance challenge confronting SOEs had to do with creating a balance between the Government’s inclination to control public Entities and the business imperative to achieve excellent performance by those Entities.

There was no overarching SOE governance framework forming the basis for any Government institution, which was structured in a manner that was uniform across the different Government institutions. The report (Tong-Mongalo Corporate services cc, 2012) revealed that the lack of an overarching governance framework had led to a situation where the SOE may be formed within any sphere of Government, for any number of different purposes and in any of the industries. This had led to a multiplicity of founding, legislative instruments, which had provisions that

overlapped, conflicted with or duplicated those found in general statutes, and were applicable to corporate governance.

In South Africa, according to the *Presidential Review Committee Report* (Phiyega, 2013: 92), the existence of a number of legislative instruments was problematic in that it led to a different treatment of non-financial and governance provisions under the *Public Finance Management Act* (PFMA) and a plethora of such provisions sitting in a bouquet of SOE Founding Acts and the Companies Act. Johnston (2005) stated that despite the sterling efforts and recommendations contained in the *Corporate Governance Codes*, as documented in *King I, II and III*, South Africa continued to be bombarded with examples of poor governance practices in the South African public sector as well as in private and listed companies. He further stated that the SOE was at the coalface of service delivery, and therefore a relationship between the parent Government department and the SOEs should be built on the principles of sound governance, so that efficient public service could be achieved.

1.5 LITERATURE REVIEW

1.5.1 Introduction

Research conducted by the University of Stellenbosch Business School (2012, p. 7) highlighted that when assessing corporate governance of a state-owned enterprise, it was not acceptable to simply apply standard criteria of corporate governance which applied more to private companies, because the reality of SOEs dictated otherwise. This meant that SOEs straddled the divide between a corporate and a public environment, and therefore had their own dynamics. TMCS CC (2012) stated that the term “SOE” was employed in a broad sense to mean a State-owned Entity, and covered all SOEs operating within all spheres of Government, regardless of whether they were commercial enterprises, development, finance institutions, regulators, research Entities, basic service delivery agencies, or constitutional Entities. Steger and Amann (2008, p. 4) stated that corporate governance in an Entity should be structured in such a way that it provided clear requirements with regard to accountability, responsibility and transparency.

1.5.2. Definition of Corporate Governance

Dellaportas et al. (2005, p. 118) defined corporate governance as depicting the method by which an organisation was governed, administered, directed or controlled. Hiriyogen and Laouer (2013, p. 2) also described corporate governance as referring to the mechanism by which the owner of the corporation governed and regulated the activities of the managers. They further indicated that corporate governance was a concept that looked at the manner in which the suppliers of finance to corporations were assured of the flow of a return on their investment and that this conceptualization remained valid for the public as well as the private sector.

In the *Presidential Review Committee Report* (Phiyega, 2013, p. 11), corporate governance was defined as referring to all those structures, systems, processes, procedures and controls within an organisation, at both overseeing and monitoring level, and within the management structure of the organisation, designed to ensure that an organisation achieved its service delivery objectives. King (2009, p. 6) also described corporate governance as incorporating the establishment of structures and processes, which had clear checks and balances that could enable directors to discharge their legal responsibilities and hence be able to oversee compliance with relevant legislation and prescriptions.

Colley et al. (2005, p. 3) concurred with these definitions but further described corporate governance as a system of authoritative direction, where the shareholders would elect Directors as their representatives to manage the affairs of the business. These Directors who, as a group, were referred to as a Board of Directors would then put systems and structures in place to delegate responsibility for actual operations to the Chief Executive Officer (CEO) whom they had appointed. The CEO's final accountability would lie with the shareholder. They further cited that the Board also advised on and approved the selection of businesses and strategies of the company as well as overseeing results.

1.5.3 International Trends of Corporate Governance Practices

According to Monks and Minnow (2011, p. 458), corporate governance came to the centre of the international developmental agenda following the East Asian financial crisis of the late 1990s. They further stated that the international financial community had adopted corporate governance as one of the twelve core best-practice standards. Terblanche (2012) articulated that SOEs were created as distinct legal Entities that were run entirely by Government or were created as companies in which the state may be a major or majority shareholder. He further argued that political interference, corruption, and non-adherence to good corporate governance practices caused SOEs to fail. Johnston (2005, p. 55) maintained that good corporate governance of SOEs was becoming a reform priority in many countries, as they began to recognise that improved efficiency and better transparency in the state-owned sector will more often result in considerable economic gains for that country, especially in those countries where state ownership was important.

Most authors cited here agreed that improving corporate governance of SOEs had become a major policy objective in countries around the world. This was evidenced from different viewpoints arising from different authors. Just looking at a few BRICS countries (Brazil, Russia, India, China) of which South Africa has now become part, Brazil, according to Monks and Minnow (2011, p. 419), among emerging economies, had made many strides in the area of corporate governance as it had established the Brazilian Institute for Corporate Governance in

1995 and issued a code of best practices, which had since been updated twice. Robinett (2006, p. 4) reported that China also embarked on a corporate governance reform campaign in 2004.

Monks and Minnow (2011, p. 443) explained that the Chinese Government had long recognized the limitations and disadvantages of state-control of businesses, as an alternative to the problems of random decision-making, undisciplined job performance and a low level of managerial abilities in SOEs. They also highlighted that India had, as long ago as 2001, proposed *Principles of Corporate Governance for Public Enterprises*.

Thomas (2012, p. 452) stated that there were similar governance problems noted in the SOEs, some of which that occurred in South Africa also occurred within SOEs in the other BRICS countries. He made reference to the deficit crisis that affected the Brazilian SOEs which necessitated Government intervention, as well as the historical occurrence of “sick public enterprises” in India that had required Government assistance. There was existence of monopolistic SOE practices, Government protection and the promotion of unfair market conditions which led to a drastic decrease in innovation, as reported in Russia, where even the process of appointing government representatives to serve on Boards was found to lack transparency and led to the appointment of Board members who were passive and non-contributing members and who were frequently reshuffled.

Thomas (2012, p. 452-453) further cited key governance challenges for SOEs in India, as including lack of awareness of the corporate governance framework by government and political leaders, a serious lack of training programmes in corporate governance for board members, lack of compliance and transparency in disclosure of information, fragmented board structures, entrenched self-interest by board members and resistance to change. She further noted that SOE problems in Russia revolved around the fact that Board members often served as conduits for decisions made at senior government levels and that the main problems of SOE Boards related to the lack of a unified legal framework within which to operate, unclear responsibilities of Board members, adverse incentives for managers, protectionism by government, lack of transparency and blurred boundaries between the government as regulator and owner of SOEs.

In the *Presidential Review Committee Report* (Phiyega, 2013, p. 79), it was revealed that a number of countries had a dedicated overarching SOE legislation. Examples given were: the Australian Government-owned *Corporation Act of 1993*, New Zealand’s *State-owned Enterprise Act of 1986* and Namibia’s *State-owned Enterprises Governance Act*; all these Acts were said to be positioned as the supreme Act governing SOEs; and the SOE Act prevailed in instances where any of the previous Acts established before the SOE Act could be inconsistent with them.

This study compared corporate governance practice in different countries, but laid emphasis on BRICS countries because of the relationships between South Africa and these countries and the impact on their economic growth and profitability.

1.5.4 Corporate Governance on the African Continent

TMCS (2012, p. 20) argued that literature on corporate governance in Africa was just emerging and that compared to scholars in the developed economies who had produced a large body of literature on the subject, the same did not apply to the African continent. He argued that the dearth of literature when it came to corporate governance issues, was partly due to the process of separation of management and ownership of the modern corporations being a fairly recent development in large segments of Africa, as most economies were mainly dominated for a long time by SOEs whose ownership and management structures were derived from government.

Mwaura (2007, p. 67) indicated that in Kenya, the Government, as principle shareholder, contracted with management to run Entities. From an economic perspective, the author mentioned that weaknesses in the governance of these Entities arose as a result of a lack of sufficient market incentives and disciplines. Unlike the private sector, the public sector did not have a market for shares-imposing sanctions on poorly performing management. Given that the market for corporate control was absent, the SOE was never under the threat of replacements and this contributed to the poor performance of the boards of directors due to a lack of incentives to perform effectively. In addition, since SOEs were often bailed out by the State, it could be argued that lack of the threat of insolvency also contributed to weak governance.

1.5.5 Overview of Corporate Governance in South Africa

The *Report on Governance for South Africa* (2009) and the *Code of Governance Principles for South Africa* (2009), collectively known as *King III*, contained a code of principles and practices which were not legislated, were not compulsory and therefore served more as guidelines. *King III* applied to all Entities, both private and public sectors, regardless of their incorporation or establishment. (King, 2009, p. 111)

There was also the *Public Finance Management Act* (PFMA, 1999) that set out the powers and duties of the Boards of SOEs according to the *Presidential Review Committee Report* (Phiyega, 2013, p. 81). The PFMA stipulated that an SOE Board was appointed by and accountable to the shareholder for its stewardship of the company. This report stated that the Board had a collective responsibility to provide effective corporate governance amongst Entities. The Report also cited the *Companies Act 2008* which contained provisions on Directors' duties and liabilities, meetings, appointment and removal of Directors and other matters concerning the Board and its committees, focusing particularly on the fiduciary duties of the Board.

The *Protocol of Corporate Governance 2002* was a code of conduct similar to the King Report on Corporate Governance which also had not been legislated. It encapsulated the *King II Report*, and aligned corporate governance principles to the *Public Finance Management Act (PFMA)*, while striving to maintain the independence of SOEs. On the other hand, the Boards of SOEs constitute a fundamental base for the application and implementation of corporate governance principles amongst SOEs (Du Toit, 2005, p. 15). Van den Heever (2013, p. 6) stated that the King's code of principles had received global recognition for their progressive approach, and had influenced developments in corporate governance worldwide.

The above literature review highlighted that South Africa had a multiplicity of laws impacting on SOEs, and did not have a dedicated overarching corporate governance policy framework governing them, and that Government played a shareholder role on the SOEs through their Boards.

1.5.6 Characteristics of a Corporate Governance Model

Dellaportas et al. (2005, p. 127) classified corporate governance according to internal corporate governance controls which were put in place so as to monitor activities and take corrective action, where necessary, to accomplish the objectives of the company. They stated that this included monitoring of managers by the Board of Directors, formation of remuneration committees and audit committees as well as other incentives that were designed to align managers and shareholders' interests. The other type of controls described were the external governance controls which encompass those that external stakeholders exercise over the organisation, including debt covenants, external auditors and Government regulations, which place restrictions on management behaviour or serve to monitor their actions.

Colley et al. (2013, pp. 3-4) described a governance model of a successful corporation as being made up of the following characteristics:

- An effective Board of Directors able to execute its responsibilities with integrity and competence;
- A competent CEO appointed by the Board and delegated the authority to run the business;
- Selection by the CEO of a good business or businesses in which to operate with the Board's input and approval;
- A valid business concept developed by the CEO and his or her management team, also with the Board's input and approval;
- Appropriate implementation of the business concept which includes broad goal-setting, plans and resources to achieve those goals, and alignment of the interest of the Board and management with those of the shareholders;

- Systems to ensure that the organization's obligations to its major stakeholders are met with integrity and in compliance with applicable laws and regulations;
- Full and timely disclosure of the performance of the business to its owners or shareholders and to the investment community at large.

1.5.7 Impact of Corporate Governance on Company Performance

Hiriyogen and Laouer (2013, p. 2) described corporate governance as referring to the mechanism by which the owner of the corporation governs and regulates the activities of the managers. Modest improvements in the efficiency of SOEs in a country could free up financial resources equivalent to one to five percent of its Growth Domestic Product (Price-Waterhouse-Coopers 2011, p. 6).

Dellaportas et al. (2005, p. 140) argued that good corporate governance did not necessarily lead to better organisational performance but that a positive relationship between corporate governance and organisation performance was likely to be dependent on the type of the organisation. However, they further argued that bad corporate governance was more likely to lead to poor organisational performance, and that fundamental to good corporate governance was a Board of Directors and management with a mix of skills, experience, independence and the integrity necessary to enable them to make ethical decisions. They stated that in the private sector the importance of corporate governance was demonstrated by the fact that investors were prepared to pay more for a well-governed Entity, and this therefore put pressure on private companies to practice good corporate governance.

Garcia-Castro, Aguilera and Arino (2013, p. 392) were of the view that proper corporate governance alignment will result in effective governance and enable companies to reach high performance; they argued that the higher the alignment among governance practices, the better. Dellaportas *et al.* (2005, p. 118) emphasized that practising corporate governance was important for organisations, as absence thereof can lead to corporate collapse which will have an impact on the direct stakeholders of the organisation (such as employees, shareholders and Directors) and the economy as a whole.

King (2009, p. 8) argued that corporate governance should not be regarded as the key contributor to the current economic problems, including the credit crunch, and the resulting crisis among leading financial institutions in South Africa. This cannot be seen as reflecting dysfunction in the broader South African corporate governance where, he believed, values-based principles were followed and governance was applied.

1.6 SIGNIFICANCE OF THE RESEARCH

The reason for conducting this study was to establish a clear understanding of critical factors contributing to corporate governance of SOEs in KZN, so as to recommend the best corporate governance strategies that can be used to improve the management of Schedule Three Entities, and consequently the service provided by these Entities. Further study will bring a new understanding of corporate governance to improve abilities and activities beyond the current emerging trend.

Based on what had been highlighted in the literature review section, there was a need for much more comprehensive research in this area because, in South Africa, there had been more focus on Schedule One (Constitutional Institutions) and Two (Major Public Entities), than Schedule Three SOEs which were at the coalface of service delivery in the Provinces. Besides general reference to other public Entities or SOEs, there did not seem to be any existing research that had focused on Schedule Three Entities, a category which incorporated National Public Entities, National Government Enterprises, Provincial Public Entities, and Provincial Government Business Enterprises.

This study will help SOEs to practice corporate governance better and achieve more sustainable and improved performance. It will also contribute a body of knowledge by developing strategies for corporate governance that will address their challenges best. It will therefore contribute new information that can be used to review current diverse strategies and refine them to give effect to improved corporate governance practices that allow for uniform application across all spheres of Government. The long-term benefit of the study will result in SOEs operating optimally in support of the developmental state and increasing their expected contribution towards rebuilding and growing the economy.

At the conclusion and approval of the study, the outcome will be converted into a 10 page Report, which will then be presented to policy makers and Boards in KZN, through the Department of Economic Development, Tourism and Environmental Affairs, which houses the bulk of these SOEs, for them to use for future policy review.

1.7 RESEARCH METHODOLOGY AND DESIGN

Research design refers to the plan and structure of the investigation that will be used to obtain evidence and to answer research questions. It describes the procedures and processes for conducting this study and for obtaining data to achieve the set objectives. The purpose of research design is to provide the most valid, reliable and accurate answers to research questions.

This study used a mixed method research to collect primary data, which Caruth (2013, p. 113) and Johnson et al. (2007, p. 123) define as the type of research in which a researcher combined elements of qualitative and quantitative research approaches for the broad purpose of breadth and depth of understanding and collaboration. It therefore used this mixed method research because, as further described by Johnson et al. (2007, p. 122), this research design would:

- Provide better understanding and a fuller picture
- Enhance description
- Validate and explicate findings from another approach and produce more comprehensive, internally consistent and valid findings
- Provide more elaborated understanding and greater confidence in conclusions.

In line with the quantitative element of this research, a questionnaire was developed and pre-tested in order to obtain the required information. Data was collected from the target population only once and a single cross-sectional design was used. The questions in the research questionnaire had a close-ended element, allowing respondents to provide responses in line with the instructions provided. The qualitative element of the research included individual interviews, based on research question number 3; and this was conducted on the sample of the target population and also included comprehensive document analysis.

1.7.1 Target Population

South Africa's National Treasury (2013) listed a total of 299 public Entities, excluding their subsidiaries. These were categorised into Schedules One, Two, and Three, with further sub-categories in Schedule Three, divided into Parts A, B, C, and D. The information on the listed and registered Entities included the number of Entities that fall under Schedule Three. The specific target population of this study was those Schedule Three Entities that were based, operating and servicing KZN only.

1.7.2 Sampling Frame

The choice of sampling was informed by the fact that the target population for this study was Schedule Three listed public Entities. From the total of 299 Entities listed by the National Treasury, the sample frame was sourced from the 269 Entities that were categorised as Schedule Three Entities, and here the research only targeted 28 Entities, which were the ones that are KZN-based, as per the area of this study, and which made up 10% of the total population of Schedule Three SOEs in South Africa. The sample for this study consisted of three types of respondents per state owned Entity:

- The current Executive Managers of SOEs
- The current Board Members of SOEs and

- The Managers in Government departments that work with these Entities on behalf of their departments.

The sample, for the quantitative element of the research, was made up of a total of 196 Executive Managers/Board Members/Managers in Government departments. This was to ensure that the researcher would get the depth of information from diverse views. The sample for the qualitative element of the research was Board Members in each stratum of the target population; and this was informed by the responses to the quantitative research questionnaire. It targeted Board Members because the corporate governance role for Boards was mainly their responsibility. Documents analysed were the Annual Reports, taken per stratum, as they contained most of the information pertaining to corporate governance practices of such SOEs and helped the researcher verify the information provided through responses to questionnaires.

1.7.3 Sample size

Castellan (2010, p. 6) stipulated that in many research situations, it was not feasible to involve the entire population that was being studied; therefore a subset of the population, called a sample, was usually randomly selected. This study was conducted with 196 respondents, chosen from the 28 SOEs based in KZN that make up 10% of the SOEs that were categorised as Schedule Three Entities. The sample size was deemed to be large enough for the study and allowed the researcher to conduct the research in line with the purpose and objectives of the study.

1.7.4 Sampling Method

The study used the stratified sampling method in the quantitative research element, in that the researcher divided the entire target population into different strata and then randomly selected the final sample proportionally from within the different strata. Morgan (2008) described stratified sampling as a process that first divided the overall population into separate sub-groups and then created a sample by drawing sub-samples from each of these sub-groups. She further explained that the overall process of sampling, stratification was related to the definition of the population because it required a prior definition of categories within the population before it was possible to draw samples from the sub-groups.

Stratified sampling was used in this research because the population was divided into strata, and the number of sample members in each strata is pre-determined (Harding 2006). This sampling approach took into account that there were four sub-categories within Schedule Three, namely Parts A, B, C and D. The sample was chosen based on the profile location of the Entities:

Table 1.4 sample of profile location of Entities

SCHEDULE THREE CATEGORIES	Number of Schedule Three Entities per sub-category	Targeted Executive Managers	Targeted Board Members	Targeted Government Department Managers	Total number targeted per Strata
PART A	7	21	14	14	49
PART B	2	6	4	4	14
PART C	14	42	28	28	98
PART D	5	15	10	10	35
TOTAL	28	84	56	56	196

Table 1.4 above illustrates the number of Entities per category or stratum and proportionally took three Executive Managers per Entity, a bigger slice of the sample because these Executive Managers were employed full time by the Entities and were more accessible. Two Board Members were targeted per Entity taking into account that they may not have been readily available or accessible; and two Managers working for a Government department were targeted per Entity, due to the fact that departments normally had few Managers working closely with Entities who had knowledge of and were exposed to what was going on within the SOEs owned by their departments.

The second part of the research, which involved individual in-depth interviews, used a purposive sampling method, which was deemed to be an important qualitative sampling method (Jogulu and Pansiri, 2011, p. 697) because the researcher decided which members of the population were most likely to provide answers to the research questions and then deliberately included them in the sample. The purpose for conducting this qualitative research was to close the gaps arising from the results of the quantitative research, to provide a fuller picture, validate and explicate findings and ensure that this study produced comprehensive, internally consistent and valid findings. For further verification the researcher analysed publicly-issued Annual Reports by a select group of SOEs.

1.7.5 Analysis unit

The unit of analysis was SOEs that were categorised as Schedule Three public Entities, based in KZN. The respondents were made up of a mix of Executive Managers currently working for public Entities, Board Members serving on Boards of SOEs at present, and Managers currently working for Government departments that oversee Schedule Three Entities based in KZN. The researcher targeted a higher number of Executive Managers working in the Schedule Three

Entities, as they were more accessible than the Board Members and Managers working in Government departments.

1.7.6 Data Collection instrument

The research approach followed a sequential approach (Jogulu and Pansiri, 2011, p. 690) wherein the quantitative phase of the study was then followed by the qualitative phase, such that the latter technique served to assist in explaining and interpreting the findings of the first technique. This was the QUAN-qual sequence where data of equal weight was collected by starting with quantitative data, followed by qualitative data collection and the qualitative findings was used to explain quantitative results.

The researcher used a quantitative research method in structuring the questionnaire. Yilmaz (2013, p. 313) indicated that quantitative methods required the researcher to use a pre-constructed standardised research instrument, or pre-determined response categories into which the respondents' varying perspectives and experiences are expected to fit. She further argued that the major advantage of this research method was that it allowed one to measure the responses of a number of participants to questions contained in the questionnaire, thereby facilitating comparison and statistical aggregation of the data. A total of 196 questionnaires were distributed to the respondents by personal delivery.

The information was gathered in the form of questionnaires, with the help of research assistants in all areas of interviews, and collected by visiting each respondent. The SOEs targeted were all based in KZN. Other respondents, who were managers in Government departments, were also identified through the overseeing line function work that they perform. These were from relevant Government departments, which were Government departments of the SEOs that fall within the sample. The measuring instrument for this study was a questionnaire, consisting of close-ended questions.

The literature review and the research objectives were used as the source of information and as a guide to formulate the questionnaire for this study. The qualitative research element used individual interviews, which were semi-structured; and were guided by what emerges from the quantitative research responses (Merriam 2002, p. 13). This was conducted on a sample of managers from each stratum in the target population using a purposive sampling approach together with the document analysis of Annual Reports from each stratum in line with the chosen stratified sampling approach.

1.7.7 Administration of the instrument

The questionnaire and the individual interviews were personally administered to provide clarification where necessary. Instructions were exactly the same on each questionnaire and the

set of questions for the in-depth interview. To prevent inconsistency in coding, all questionnaires were pre-coded. Categories for raw data were established through coding, tabulation and the drawing of statistical inferences and a pilot study was used to check the validity of the research questions before administration.

The documents to be analysed were sourced on-line from the websites of the sample of Entities in the target population. According to Thomas (2003, p. 2), careful sampling strategies together with experimental designs were key aspects of a research method approach that was aimed at producing generalized results. In this type of research, the researcher's role was to collect information, and all necessary measures were taken to ensure that there was no contamination of data through personal involvement with the research subjects.

1.7.8 Data analysis

Castellan (2010, p. 7) indicated that statistical methods and deductive reasoning were utilized to analyse data, which was also confirmed by Yilmaz (2013, p. 315), who stated that quantitative researchers used mathematical models and statistics to analyse data and report findings by using numbers. As a result, the data in this study was entered into the computer according to the questions' codes and analysed using the SPSS version 21.0 statistical software programme; with the help of a professional statistician.

A descriptive statistical presentation, including tables, graphs, frequencies, and cross-tabulation, was used, together with inferential statistical techniques. Qualitative data derived in interviews and document analysis, was analysed using narrative analysis, (Jogulu and Pansiri, 2011, p. 697) a method that helped researchers retain the integrity and narrative value of the data collected, thereby avoiding fragmentation.

1.8 RELIABILITY AND VALIDITY

Reliability is the extent to which a measurement procedure yielded the same answer every time it was carried out, with validity being the extent to which it gave the correct answer. This was as described by Yilmaz (2013, p. 317) who further defined reliability as the degree to which a research instrument measured a given variable consistently, every time it was used under the same condition, with the same subjects, with validity referring to the accuracy of research data. The research data was said to be valid if the results of the study measurement process were accurate.

The study was executed in a systematic manner, with properly selected and trained research assistants used for interviews and to administer the questionnaires. Occasional field checks were done to ensure that work was being done efficiently. The researcher targeted a bigger sample of

Executive Managers because they were more accessible compared with Board Members who serve for a particular period, and were changed after serving for a particular term of office. This is the same for managers in the Government departments where it was envisaged that it might not be easy to access those that deal specifically with Entities as part of their overseeing duties.

To ensure validity of the study, a pilot study was conducted on one Executive Manager from at least five of the selected SOEs, who were selected through purposeful sampling to ensure that the researcher received maximum responses. The main objective of the pilot study was to reveal errors in the research design and to refine the questionnaire prior to the main study. The length of the questionnaire was also considered, ensuring that it was not too long, while covering all the objectives so that respondents would not be reluctant to participate in the study. To ensure validity, the questions in the questionnaire were structured in such a way that they were aligned to each of the sub-objectives identified.

1.9 ETHICAL CONSIDERATIONS

Ethical issues were considered as part of this study, and included the confidentiality of information obtained during interviews, administration of questionnaires and collection and return of documents from the respondents. Formal correspondence (Appendices A and B) requesting permission to conduct the research was sent to the Chief Executive Officers of selected SOEs, the Board Chairpersons of selected SOEs, and the MECs/Heads of Departments of Government Departments, under which selected SOEs fall. This correspondence also detailed ethical considerations applicable to the study, which included how the researcher would ensure confidentiality, where the information will be stored, for how long and who will have access to it.

1.10 SCOPE OF THE STUDY

1.10.1 Delimitations

In determining the population, the SOEs considered were those listed by the National Treasury but subsidiaries that fell under these Entities were not considered as they were unknown. The total population, though it considered listed Entities, may include dormant Entities due to the National Treasury not distinguishing between active and inactive Entities.

Only the latest listings in the National Treasury website were used for this study. Entities selected were the 28 Schedule Three Entities, based in KZN. The sample consisted of all these Entities.

The study focused on how corporate governance was practiced within SOEs and did not look at other functional areas, such as funding financial viability, SOEs' financial performance, level of service delivery, competency of the executive management and stakeholder levels of satisfaction. Future research needs to focus on these unexplored areas as they are crucial in the overall performance of SOEs, particularly the stakeholder engagements as they are the direct beneficiaries of the service provided by the SOEs.

1.10.2 Limitations

The perception by managers that completing questionnaires was a waste of time was seen to be a possible restricting factor, as it could limit the number of respondents and could lead to obtaining inadequate results from which to draw sound conclusions and recommendations. To deal with this, assistant researchers were trained to liaise with reluctant respondents. Questionnaires were emailed as well as hand-delivered.

Respondents were given five days to complete the questionnaire, which should allow sufficient time to read it and appointments arranged to collect it at a later date. There was a risk of a possible reluctance on the side of respondents to divulge some of the information required in the questionnaires, as it might be viewed as being career limiting. To counter this problem, anonymity and confidence were guaranteed in writing and an assurance given that respondents' personal details would not be divulged.

1.11 STRUCTURE OF THE CHAPTERS

Chapter One presents the problem under investigation and outlined the background and preliminary review of the literature, in order to contextualise the problem. The aims and objectives were specified, along with a preliminary description of the research methodology, and the research design outlined how the researcher would solve the problem. The limitations and the significance of the study were clearly stipulated.

Chapters Two and Three are devoted to a comprehensive review of the literature related to the study, including the theoretical framework that had informed the study, as well as expanding and further elucidating key concepts. There was a review of key concepts on corporate governance in SOEs, together with underlying theories and empirical findings. Chapter Two focused on corporate governance within the South African context, while Chapter Three looked at international trends, and general principles governing corporate governance.

Chapter Four is comprised of a detailed description of the mixed research methodology used in the study. The research design was specified, methods of data collection described and data

analysis procedures outlined. A detailed description of the population of the study and the sampling procedures was given.

Chapter Five is an analysis and interpretation of the research findings. The data obtained by means of the self-completion questionnaire, in-depth interviews and document analysis was presented and statistically analysed, including the narrative analysis. The chapter described how the data would be processed into results that would then be interpreted.

Chapter Six focuses on the interpretation of the results for the study, based on the findings emerging from the literature review and the data from both quantitative and qualitative analysis.

Chapter Seven is the final chapter of the study and contained recommendations and conclusions that were drawn from the findings in chapters Five and Six. This chapter also contained suggestions for further research and the limitations of the study outlined.

1.12 CONCLUSION

The researcher outlined a problem that has massive implications on the growth of South Africa's economy and investor confidence. SOEs had been established in South Africa and in other countries as vehicles for service delivery, social transformation and economic growth. Effective corporate governance within these SOEs is critical for South Africa to achieve the above objectives. The study, through the research process outlined in this chapter, determined and explored the critical factors that contribute to effective corporate governance, and the level at which SOEs within the target population practice and comply with them. This study was intended to contribute to a body of knowledge that will assist Government and policy makers in the country with strategies for the improvement of corporate governance.

CHAPTER 2: SOUTH AFRICAN CORPORATE GOVERNANCE IN CONTEXT

2.1 INTRODUCTION

This chapter looks in depth at corporate governance practices in South Africa by initially exploring different definitions of the concept with a view to establishing the most suitable definition on which the study was based. Then it discussed how corporate governance has developed historically, an analysis of guiding legislation and benchmarking against legislation that governs corporate governance in different parts of the world, principles and the frameworks that guide this practice. We need to acknowledge that the legal and regulatory framework within which SOEs operate (Johnson 2005, p. 9) is often complex, therefore streamlining of legal responsibilities together with a coherent and consistent regulatory framework will facilitate the improvement of corporate governance practice in SOEs. This chapter, therefore, looked at the approach adopted by South Africa and how they measure against global corporate governance practices.

Nepad (2013, p. 69) states that some opinion makers have observed that there is always a link between good corporate governance and compliance with the law, where good governance is not something that exists separately from the law. Hence it is entirely inappropriate to unhinge governance from law. This is why this chapter also analysed the existing laws in South Africa that address corporate governance. Generally, (Uhrig 2003, p. 18) governance arrangements for SOEs should strike a balance between providing flexibility to enable these Entities to undertake their legislated functions and the policies of the Government of the day, and to act independently of Government as drawn by the Entity's legislative framework. This chapter looked at the rationale for establishing SOEs in South Africa from the perspective of Government, as the shareholder. Gibbons (2013, p. 7) refers to the fact that corporate governance in SOEs is a delicate balance as there is always an adversarial quality to any governance role; but where parties also have to work together and must rely on each other's competence and integrity, it is preferable to cultivate an independence based on respect and trust.

There seems to be a plethora of crises and controversies that continue to engulf SOEs, such as the power utility *Eskom*, the national carrier *South African Airways*, and the dysfunctional *South African Post Office*. *Sunday Times* (2014) writes that President Jacob Zuma has finally heeded the public outcry and taken steps to fix the three ailing parastatals by placing them under administration with the Deputy President Cyril Ramaphosa, who was given the task of

overseeing their turnaround strategy. This is discussed here, together with other examples of governance problems amongst SOEs having alleged political interference, lack of skills and expertise in appointed Board Members and others.

From the literature reviewed in this chapter, it has emerged that South Africa is not very far behind other countries in setting up corporate governance structures, codes and principles, and the inclusion of the corporate governance function in relevant legislation for the SOEs. Phiyega (2013) reports that in “best-practice countries”, executives, Boards and the public administration all share the same technical understanding of corporate governance; as a result they all seem to talk the same language, appreciate and abide by the rules of the game.

2.2 CORPORATE GOVERNANCE DEFINITIONS

Haque, Jalil and Naz (2007, p. 2) differentiate between two schools of thought that describe corporate governance as “structures and processes for decision making, accountability, control and behaviour of the governing body”; while the other view describes corporate governance as being just about “finding ways to ensure effective decision making”. Similarly, Uhrig (2003, p. 17) defines corporate governance as encompassing the arrangements by which the power of those who implement the strategy and direction of an organisation is both delegated and limited to ensure the organisation’s success, taking into account the environment in which the organisation is operating.

There are many other definitions of corporate governance, those that look at what an organisation has in place as evidence of conformance to corporate governance, or how the organisation behaves. This is also seen, in Tukula, Moretime and Rozariwo (2012, p. 3) who view corporate governance as being simply about how organisations are managed, how policies and laws are formulated and how politics affect the overall performance of the organisation. This is similar to Wicaksono’s (2009, p. 15) and Schulschenk’s (2012, p. 5) definitions that corporate governance is the system by which business corporations are directed and controlled in order to ensure protection of the assets of the owner. Gstraunthaler (2010, p. 146) also concurs that corporate governance describes the system by which companies are directed and controlled, and it covers a set of rules and principles written and enforced by law and professional bodies and is dependent upon good practices. He further acknowledges that corporate governance can also be political and dominated by the power-relation at a given point in time and strongly driven by political ideology and interests.

A different perspective in defining corporate governance, which looks at software issues, is from Oso and Semui (2012, p. 2) who refer to corporate governance as ‘a way of life’ that necessitates taking interest in every business decision and includes monitoring management,

based on ethics, values, parameters of conduct and behaviour of the company and its management. A concurring view from Rajendran (2012, p. 30) defines corporate governance as a voluntary ethical code of a company's business with total transparency, integrity and accountability of management; where management is made accountable to the stakeholders for effective management of the companies in the interests of the company, and also with adequate concern for ethics and values.

While the first few definitions are generic and put corporate governance into clear perspective, for the purposes of this study the researcher used both schools of thoughts as they allow the researcher to delve into issues and hence bring more focus to critical factors that are key in the corporate governance of SOEs. It should, however, be noted that according to Uhrig (2003, p. 17) there is no universally agreed definition of corporate governance, just as there are no universally accepted structures and practices that constitute good corporate governance.

2.3 HISTORICAL DEVELOPMENT OF CORPORATE GOVERNANCE PRACTICES

Historically there have been particular key, necessary and facilitating factors (Rajendran 2012, p. 33) which have contributed to the development of corporate governance and acted as drivers for growth of corporate governance globally. These are:

- Liberalisation efforts of the Government of that country with associated regulatory requirement
- Transparency in respect of functioning of corporate sector
- Keeness exhibited by captains of industry, corporate leaders and top management in that country.

The historical development of the concept of corporate governance dates back to the ancient times (Oso and Semui 2012, p. 4), where, during the Roman Empire, specific corporate bodies were developed to manage public affairs with transparency and for the common good; and in the post-Christ period, the traders from Europe gave rise to global trading entities which reported to the kings and this was deemed to be the beginning of corporate governance. The latter is confirmed by Haque, Jalil and Naz (2007, p. 12) who state that though corporate governance is viewed as a recent issue, there is in fact nothing new about the concept because it has been in existence for as long as there has been large-scale trade.

Gurria (2008, p. 1) describes how the first international corporate governance organisation called the *Organisation for Economic Cooperation Development* (OECD), was established,

within which countries were able to agree on global policies addressing sustainable economic growth, to contribute to sound economic expansion and expansion of world trade for member and non-member countries. The eighteen original member countries of the OECD were: Austria, Belgium, Canada, Denmark, France, Germany, Iceland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States.

He further states that the following ten countries became members subsequently through accession at the dates indicated: Japan (1964), Finland (1969), Australia (1971), New Zealand (1973), Mexico (1994), the Czech Republic (1995), Hungary (1996), Poland (1996), Korea (1996), Slovak Republic (2000).

According to Gurria (2008, p. 3), during the last decade the OECD has taken the lead among international organisations to promote good corporate governance, such that the OECD *Principles of Corporate Governance* have become the global benchmark, accepted in OECD and non-OECD countries alike (Governance of SOEs in South Africa, n.d).

OECD (2013) reports that South Africa and other African countries were evidently not part of the OECD countries, but are cited in its website as non-member countries. There is, however, an existing SOE Network for Southern Africa, launched in 2007, which provides a forum for regional dialogue and cooperation, focusing on SOE governance and mainly covering the member economies of the Southern Africa Development Community. The following fourteen countries are active participants: Angola, Botswana, DR Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe (OECD, 2013).

The key objectives for this SOE Network in Southern Africa (OECD, 2013) are:

- Raising awareness and building consensus on the challenges and the benefits associated with SOE governance
- Benchmarking progress and measuring change in participating countries
- Influencing policy-making and strengthening capacity by providing a forum in which policy-makers, practitioners and experts can share knowledge and experiences
- Supporting viable and effective reforms by analysing policy options, developing relevant recommendations and agreeing on regional reform priorities.

Diamond and Price (2010, p. 65) state that South African corporate governance reform has displayed a fascinating relationship between international factors and domestic political realities, the catalyst of which has been recognition that South Africa is a developing economy, and that it is distinct from the reform in corporate governance that occurred in developing

countries mostly as a reaction to corporate scandal and greed. They add that despite the variance in the reasons for reform, there are great similarities in the historical evolution of corporate governance reform in South Africa and Commonwealth economic systems.

According to Schulschenk (2012, p. 10), the *King Committee* in South Africa was commissioned in 1992 by the *Institute of Directors (IoD)* and its mandate was to promote the highest standards of corporate governance whilst taking into consideration global trends and the need to create enabling successful business environments. This has led to South Africa progressing from low levels of corporate governance awareness to a point where today it is consistently ranked as a leader in global competitiveness surveys for its good corporate governance practices which has led to a number of countries referring to the *King Reports* as a benchmark of corporate governance principles.

Walker, Ramashia and Rambau (2013) agree that corporate governance was institutionalized in South Africa through the *King Reports on Corporate Governance* (the King Codes) which were published by the King Committee, and where many of the recommendations contained in the King Codes have been included in the *Companies Act* of 2008.

2.4 SITUATIONAL ANALYSIS OF SOE GOVERNANCE IN SOUTH AFRICA

Crotty (2012) stated that despite a thriving corporate governance industry focused on transparency, it seems that Boards are just like marriages, where you have to be part of it to have any idea of what is really going on, or wait for a high profile divorce to get a glimpse of what has been going on and even then you might not get a very accurate picture. Crotty (2014) further reports that the *King III* code gives an anodyne normative model that the Board is a well-oiled machine, where highly skilled members of sub-committees ensure optimum efficiency and strict adherence to an ever-growing number of laws and regulations.

Lynne Brown, the Minister of Public Enterprises (Fin24 2016), has raised concerns about the general state of SOEs, citing that South African Airways and South African Express were the biggest headaches, that Eskom has had a bailout, Denel has largely turned itself around after bouts of challenges and is now sitting with about R30 billion orders, Safcol and Alexkor are not in massive difficulties although they could do better. The Minister stated that at this stage she is convinced that a different business and financial model is necessary for SOEs. She has mooted at the introduction of shareholder contracts (Khoisan 2015, p. 10) with consequence management clauses to be signed by Entities falling under her department, including Eskom, Denel, Safcol, South African Airways and Transnet.

Khoisan (2015, p. 10) reports that new legislation, aimed at strengthening governance to ensure that all SOEs function more effectively and efficiently, is also on the cards according to the Minister of Public Enterprises, Lynne Brown, which she said was needed because the regime driving the Entities needed to be reviewed, so that functions, operations and governance applied uniformly to all of them. The Minister cited that she will be appointing an independent technical team which would draft a White Paper, from which the new law governing functions, operations and governance of SOEs would be developed.

The following paragraphs look more closely to specific examples of what media has mainly been covering lately in the news with regard to SOEs.

2.4.1 Boards at African Bank and Pretoria Portland Cement (PPC)

Fin24 (2014), reporting on African Bank and PPC, a national cement producer, writes that there is not much efficiency in these two companies, such that Boards look like extremely messy places made up of rather ordinary humans with egos and ambitions of above average size rather than skilled Board Members. It reports that at the African Bank, the CEO selects his own Board that he can manipulate easily, one that would not challenge any decision he takes, and at PPC, nobody has control over the Board. The CEO does not have control over the Executives; instead the CFO reports directly to the Board and not to the CEO. It further reports that the shareholders are wary of contravening some or other regulation and as a result they have adopted a passive role, not even attending Board meetings, claiming that Executives keep them abreast of developments.

When interviewed Mouton (2014), Chairman of the Stellenbosch-based PSG Group which owns Capitec Bank, argued that African Bank's Board may have been too independent, that Board Members must be heavily invested to care, and that an independent, non-executive Director does not really care about the company. He is quoted as having said that nothing occupied the minds of Directors more than having a financial stake in a company, that Directors without a stake in a company only read the company documents looking for spelling mistakes, and this and that. His views contradict those of the King Code of corporate governance and she also states that the code exaggerated the importance of independent Directors and although some independent Directors on the Board are needed, they do not look after the wellbeing of the company nor spend sleepless nights thinking about how the company will survive.

2.4.2 Standoff at South African Airways (SAA)

According to SAPA (2014), the CEO of SAA was suspended by the chairperson of the Board and this has created a standoff between the Minister of Public Enterprises (the shareholder) and the Board Chairperson with regard to the suspension of the CEO by the Chairperson of the Board. The Minister has insisted that the CEO's suspension be lifted and that he be reinstated.

SAPA (2014) further reports that at the same time there are questions that have been raised with regard to the Chairperson's qualifications and her academic record which has put into question her suitability for the job, with the Chairperson being supported by the Parliamentary Portfolio Committee to which she presents her reports about the performance of the Airline and challenges experienced. There also has been a reported exodus of Board Members who resigned because they were disgruntled due to the perceived lack of leadership from the Chairperson of the Board. As a result, the Airline has been struggling for a long time due to leadership challenges and the Chairperson has been accused of failing to attend Board meetings.

2.4.3 Shenanigans at the South African Broadcasting Cooperation (SABC)

According to SAPA (2014), the *Parliamentary Portfolio Committee on Communications* is at loggerheads with the chairperson of the SABC Board with regard to her questionable academic records, and she has been called to appear before the Committee's inquiry. She has subsequently taken the Committee to Court challenging them on the un-procedural nature of the inquiry.

Several media have since reported that the Chairperson resigned in November 2014, citing unfair persecution by the Parliament Portfolio Committee and the media; this is despite the University, in which the Chairperson claimed to have acquired her qualification, disputing that she had not completed such qualifications. Further, Ndenze (2015, p. 2) reports that the current Minister of Communications, Faith Muthambi, denied interfering with the SABC Board and that she considered suspending certain Board Members, this after a residual fallout from the Minister's appointment of the Chief Operations Officer of SABC. The Minister's actions are reported to be manifestly unlawful in terms of the appointment and removal of SABC Board Members.

Apart from the issues surrounding the chairperson of the Board (Shoba and Mokone 2015, p. 12), there are also challenges with regard to conflict between the Board and SABC's Chief Operating Officer, Mr Hlaudi Motsoeneng. It is reported that among the examples of chaos caused by the collapse of corporate governance are:

- Removal of Board Members who do not support the Chief Operating Officer
- Board meetings not taking place
- The secret amendment of the SABC's memorandum of incorporation, taking away the Board's powers and giving them to the Minister and the Chief Operating Officer
- The corporate plan and the budget being presented to Parliament when the Board had not seen nor approved them

2.4.4 Concerns at Eskom

SAPA (2014) reports that much like the SABC and SAA, Eskom has been a plaything of the African National Congress government and that its principal ingredients are inefficiency, meddling, maladministration, wastefulness, suspicion and paranoia, just like the other SOEs. Given the exodus of skills from its ranks at all levels, Eskom has given up the pretence of being a public utility run for the general good, having been turned into an arena of controversy with constant power supply failures that have led to nationwide load-shedding. He further comments that, supported by the quaint and outdated notion that only SOEs with a mandate to serve the general good can do so, Eskom guzzles public money while its bosses are paid salaries on a par with executives in the private sector, operating as a monopoly and chasing profit with determination while enjoying all the protection afforded by its special relationship with the state.

Khoisan (2015, p. 19) reports that Eskom, an Entity charged with the nation's power supply, seems to be caught in the proverbial eye of the storm, with the recent suspension of four top executives and also the recent resignation of the Board Chairperson when the other Board Members declared a vote of no confidence. Clarke (2015, p. 19) writes that Eskom's problems ranged from failure to maintain its generation infrastructure, unreliable and ageing equipment, too many people demanding too little electricity etc. Further, citing that the Board Chairperson believed that he needed to play a leading role in designing, guiding, measuring and enabling the changes needed, which seemed not be aligned to policies of the Department of Public Enterprises and the country as a whole.

2.4.5 Scandals at Dube TradePort Corporation (Schedule Three SOE in KZN)

Harper (2015) reported that Dube TradePort Corporation had been dogged by a series of crooked Chief Executive Officers where one resigned in 2012 over a scandal of allegedly soliciting bribes, and another one in 2015 was fired by the Board after falsifying her qualifications. Dube TradePort Corporation is a business initiative of the provincial KZN Government aimed at foreign and local investment enhancement, and developing KZN's biggest export potential.

2.5 CORPORATE GOVERNANCE WITHIN THE SOUTH AFRICAN CONTEXT

The report (Department of Public Enterprises 2014) indicates that Minister Lynne Browne has stated that the SOEs must continue to serve as effective strategic instruments of industrial policy and economic inclusion. Such objectives must be central to their thinking, as is performing their core business. She further emphasized that the Boards and management of SOEs must be

paragons of strong, visionary and strategic leadership, cutting-edge business practices, innovation and exemplary governance. Maggs (2013, p. 16) observes that ownership in South Africa is geographically spread and diverse, in a sense that companies are categorised between those that are privately held, those publicly traded and the State-owned companies; the state and private ownership are generally not combined.

Ramalho (2014) describes the corporate governance landscape in South Africa as being guided by legislation, the Constitution of the country (Section 195), *King III*, and the Fiduciary responsibilities of Board Members; this she depicts in Figure 2.1 as follows:



Figure 2.1 Corporate Governance Landscape

Source: Ramalho, IOD CEO, 2014

2.5.1 The Inception Stage: The King I and II Reports

Ntim and Osei (2011, p. 86) describe how the efforts at enhancing corporate governance practices in South Africa began with the publication of the first *King Report* (King I) in 1994, which explicitly institutionalized corporate governance practices in South Africa. Prior to 1990, (Schulschenk 2012, p. 6) the South African economy was largely isolated due to the sanctions enforced during apartheid and most large corporates were family-owned conglomerates. As a result, corporate governance was essentially absent and many companies were consequently characterised as having become complacent and ineffectively managed. The *King I* Committee came up with the concept of an inclusive approach to governance as opposed to an exclusive approach, which was the single bottom line in the primacy of the shareholder.

Ntim and Osei (2011, p. 86) further state that the *King I* proposals were heavily informed by those of the United Kingdom's *Cadbury Report* of 1992 which included an Anglo-American style unitary Board of Directors made up of executive and non-executive Directors who are mainly accountable to shareholders. It is also important to highlight that King (Diamond and Price, 2010, p. 62) strongly related South African corporate governance developments to British corporate history, starting with Gladstone and the Limited Liability Act of 1855 to more recently, the Adrian Cadbury's Committee on Corporate Governance and the Cadbury Report. Hence the South African corporate governance is firmly rooted in the British tradition.

Diamond and Price (2010, p. 65), however, state that the South African business community preferred a so-called "light touch" approach to corporate governance as opposed to the hard approach adopted especially by the *Sarbanes-Oxley Act 2002* in the United States of America. Armstrong, Segal and Davis (2005, p. 14) add that the first King report was instrumental in raising awareness of what constitutes good governance, both in the private and public sectors, as it offered a coherent and disciplined governance framework that was relevant to local circumstances and also offered practical guidance.

Gstraunthaler (2010) also states that the ideologically unpredicted times that followed the first democratic elections were countered by a move of corporations and professional bodies and the drive for guidance and best practices to enhance legitimacy. As a consequence, the *Institute of Directors in South Africa* established the King Committee on Corporate Governance, chaired by Mervyn King, a retired judge, which led to the formulation of the two King Codes, I and II. King II received positive feedback in particular for its introduction of integrated sustainability reporting.

Schulschenk (2012, p. 7) explains that the *King I* report was replaced in 2002 with a second *King Report (King II)* in order to address some of the limitations in *King I*. As a result, in 2002, the Committee issued the second King Report called *King II*, which recognised the African value system as the ethical foundation for corporate citizenship in South Africa and introduced the concepts of risk management which were a reflection of the evolving nature of corporate governance and the extent to which the King Committee was working to be cognisant of material issues for governance.

Ntim and Osei (2011, p. 85) state that, similar to other Anglo-American countries, South Africa has pursued corporate governance reforms in the form of *King I and II*; the main objective of the King Reports, especially *King II*, was to improve corporate governance standards by enhancing the independence and monitoring power of South African corporate Boards. Esser and Dekker (2008, p. 160) expand on this, citing that the South African *King II* report on corporate governance takes the *King I* report further by addressing the need for the recognition

of stakeholders' interests by recommending that companies adopt a 'triple bottom line' approach, which relates to the consideration of social, economic and environmental concerns when managing a company. In terms of the *King II* report, the shareholders are collectively the most important beneficiary of the Directors' fiduciary duties, but social, economic and environmental concerns should also be key considerations.

Armstrong, Segal and Davis (2005, p. 15) state that the *King II* report had its particular emphasis on the qualitative aspects of corporate governance, meaning that it was not designed as a regulatory instrument, but as a tool to identify core areas of good practice for Boards, Directors and companies, which extended beyond the existing legal and policy framework to embrace a number of aspirational principles.

According to Ntim and Osei (2011, p. 86), South Africa's *King II* report explicitly suggested that corporate Boards should meet at least four times a year, and proposed further that frequency of Board meetings should be fully disclosed in the annual report, thereby making available data that hitherto had been publicly inaccessible. However, critical concerns have been raised as to whether, given the South African context, a voluntary compliance regime like *King II* can be effective in raising corporate governance standards in South Africa by enhancing the independence and monitoring power of corporate Boards.

2.5.2 The Current Status: The King III Report

Walker and Meiring (2010) state that the First King Report on Corporate Governance, published in 1994 by the *Institute of Directors*, was in response to the increasing concern over corporate failures and the perceived need for a formal code of corporate governance; it sought to assist companies and their Directors by providing a comprehensive set of principles and guidelines to codify, clarify and expand upon the common law principles of corporate governance. They indicate that the Second King report reviewed and expanded on the First Report; and the *King III* Codes and Report on Corporate governance reviewed *King II* prompted by a number of developments that had occurred in South Africa since its release, including the publication of the new *Companies Act of 2008*, and changes in international governance trends. *King III* addresses many of the same areas as were addressed in *King II*, but has an increased focus on sustainability, risk management, information technology, internal audit, remuneration, alternate dispute resolution, business rescue and fundamental and affected transactions. It also introduces new requirements regarding independence and remuneration of Directors, and it constitutes a basis determining whether Directors of Boards have performed their duties with reasonable care, skill and diligence as required by the new Companies Act.

According to Gstraunthler (2010, p. 146), South Africa's historically Anglo-Saxon-shaped administration and business values led it to having a very westernized approach to corporate

governance and that the South African Corporate Governance Code, *King II*, has been reworked. The new code, *King III*, takes an interesting route trying to balance between international developments and African peculiarities wherein South Africa chose a code of principles and practices on a ‘apply or explain’ basis.

Wyngaard and Hendricks (2010, p. 104) emphasize that *King III* applies to all Entities regardless of the manner and form of incorporation or establishment. Whether in the public, private or non-profit sectors, the principles thereof have been drafted so that every Entity can apply them to achieve good governance. Even though *King III* is not legislation, the ‘apply or explain’ requirement creates the illusion that it has the same authority as legislation. It emphasizes that good governance is not something that exists separate from the law as it is inappropriate to unhinge governance from the law.

Schulschenk (2012, p. 14) further points out that *King III*’s shift from the traditional ‘comply or explain’ approach to an ‘apply or explain’ approach and the natural progression was in line with international trends at the time and sought to deal with the difficulties of a voluntary system by giving companies the opportunity to motivate their decisions. As a result (Maggs, 2013, p. 16) South Africa has a hybrid corporate governance system in place, made up of non-mandatory codes (i.e. *King III*, as well as legislation, i.e. the Companies Act) and that the King report is well known for the ground-breaking work that it has done by introducing concepts such as the triple-bottom line and integrated reporting with its stakeholder-inclusive approach.

According to Gstraunthaler (2010), South Africa rediscovered its own African roots, through the ‘African Renaissance’ which sought to Africanise the direction of business, bringing in African cultures which are seen to be communitarian. He states that even though *King II* focused a great deal on the South African situation and attempted to incorporate the local business culture, after the introduction of the new *Companies Act of 2008*, *King II* had to be adapted. To keep up with international developments, the *King III code* was then developed which focuses on three pillars: leadership, which is seen as the key to good governance and is facilitated through ethical values in particular; responsibility, accountability, fairness and transparency; sustainability and corporate citizenship. *King III* also focuses on two other unique South African issues:

- the changes in the economic situation
- the principle of Ubuntu (I am because we are, and since we are, therefore I am).

Jansen van Vuuren and Schulschenk (2013, p. 26) confirm that the development of *King III* has seen some significant changes from its predecessor, most significantly through the new recommendations for integrated reporting and inclusion of information technology governance. Schulschenk (2012, p. 28) further argues that although South Africa’s understanding of

corporate governance is advanced, an increasing concern, however, is that companies are insufficiently pressured to adhere to the principles and what remains is an issue of compliance rather than one of substantive commitment. Ultimately the responsibility lies with the Boards to understand, internalise and apply what corporate governance means to their companies.

Nepad (2013, p. 71) observes that the adoption and genesis of the *King III Code of Corporate Governance* instituted integrated reporting. This is quantitatively different from triple bottom line and sustainability reporting, as it is a concise communication mechanism on how an organisation's strategy, governance, performance and prospects lead to the creation of value over the short, medium and long term; it provides all stakeholders of an organisation with an intimate view of how the company will create value over time; as a result the requirements under King III institutionalizes this stakeholder-centric methodology for reporting a company's value produced in any period under review.

Jansen van Vuuren and Schulschenk (2013, p. 6) agree that *King III* has contributed significantly to a range of benefits to companies, from organisational performance through to Board effectiveness and that commitment to and understanding of the importance of stakeholder engagement remains high. As a result, companies are looking for ways in which to transcend a 'tick-box' approach to corporate governance and build on the leadership's understanding of the interconnected values, strategy, risks and opportunity.

There are many ways in which authors interpret King Codes, but Gstraunthaler (2010) puts it into better perspective by explaining that the King Code III includes two models of corporate governance: 'stakeholder inclusive' and 'enlightened shareholder'; the first model meaning an inclusion of legitimate interests and expectations of stakeholders; the enlightened shareholder model meaning that these interests and expectations would only be considered if they were in the interest of the shareholders. He visualises that South Africa has a United Kingdom-oriented principle-based corporate governance with an African touch, because *King III* code incorporated African values into financial reporting of companies, through recognition of the importance of stakeholders, not seen in the United Kingdom model. The African Peer Review Mechanism (APRM) Report (2014), also emphasizes this requirement under *King III* which institutionalises the stakeholder-centric methodology for reporting a company's value produced in any period under review.

2.5.3 Application of the King Codes

Armstrong, Segal and Davis (2005, p. 7) state that even though the King Reports provide guidelines for both private companies and SOEs, and these self-regulatory initiatives have placed South Africa among those in the top rank of emerging market economies that follow

corporate governance codes, the key question, however, is whether there is sufficient understanding and institutional capacity to implement the codes.

Armstrong, Segal and Davis (2005, p. 9) further explain that the development of the first King Report was not stimulated by any significant crisis in the corporate sector at that time; rather it concerned the competitiveness of the South African private sector following the re-admission of the country to the global economy, following its transition to a fully-fledged democracy after the collapse of apartheid.

King (2009, p. 16) points out that the principles in the codes are structured such as to allow Entities to continually improve corporate governance practices; that the 'apply or explain' approach adopted in the Code require Entities to consider and apply their minds and provide explanation of what has actually been done to implement the principles and best practice recommendation of governance. Copley (2012, p. 3) confirms that in the past, King Codes have applied to formalised, Johannesburg Stock Exchange-listed businesses only, but King III introduces a new dynamic, in that it is recommended practice for all South African organisations, regardless of form and with its comprehensive principles, it provides organisations with an opportunity to improve organisational resilience and delivery.

Copley (2012, p. 3) further explains that even though the Codes will not be legislated, the courts will apply the standards in order to make rulings. Therefore the approach of 'apply or explain' would mean that each Entity should consider the approach that best suits its size and complexity, and then disclose which principles and/or practices they have decided not to apply and explain why. As a result, this level of disclosure will allow stakeholders to comment on and challenge the Board to improve the level of governance. The *King III* process is a useful tool for providing evidence to stakeholders that principles of good governance have been considered and embedded in the functioning of the organisation.

According to Armstrong, Segal and Davis (2005, p. 34) there is a perverse consequence that has raised doubt to the institutional capacity of South Africa to implement the high standards demanded by corporate governance codes. This includes a concern as to whether the country can afford the high standards in practical terms which are mostly seen as First World approach to corporate governance, regulation of the business sector and economic policy. They argue that it is not necessarily the content of these measures that is in question but rather the basis on which they can be effectively implemented, given that South Africa is seen to have adopted high-level global standards that do not always accommodate the difficulties facing the emerging markets like South Africa's. South Africa, though, is likely to continue to pursue sophisticated measures to ensure that it holds its place as a prominent and desirable emerging market destination for investors.

2.5.4 Corporate Governance Codes in Other African Countries

Armstrong, Segal and Davis (2005, p. 9) state that while South Africa's Gross Domestic Product (GDP) is by far the largest on the African continent at 160 billion US dollars, this is a fraction of the global GDP of approximately 36 billion US dollars, making South Africa the 29th largest economy in the world in GDP terms. In respect of sub-Saharan Africa, South Africa makes up a significant part of the GDP of 147 billion dollars, which presents both challenges and obligations to South Africa in relation to the rest of the Continent.

Oso and Semui (2012, p. 7) state that globally there are three identified codes of corporate governance that are often cited and explicitly referred to in the development of national codes for corporate governance. These are:

- *Principles of Corporate Governance* (1999) developed by the Organisation for Economic Cooperative and Development (OECD)
- *Principles of Corporate Governance* developed by the Commonwealth Association for Corporate Governance (CACG)
- Either the first or second King Report on Corporate Governance for South Africa developed by the King Commission and managed by the Institute of Directors (IoD) of South Africa.

However, a number of countries in Africa have developed and published their national codes for the practice of good corporate governance. These are highlighted as follows in Table 2.1:

Table 2.1: African Countries national codes for the practice of good governance

COUNTRY	Country's Corporate Governance Codes or Framework or Structures	Year
GHANA	Manual on Corporate Governance in Ghana	2000
KENYA	Private sector Corporate Governance Trust	1999
MALAWI	Corporate Governance Task Force	2001
MAURITIUS	Report on Corporate Governance in Mauritius	2003
NIGERIA	Code of Corporate Governance in Nigeria	2003
SOUTH AFRICA	Institute of Directors of South Africa; King I, II and III	1994 2004 2009
TANZANIA	Steering Committee on Corporate Governance in Tanzania	2000
UGANDA	Manual on Corporate Governance and Code of Conduct	2000
ZAMBIA	IoD of Zambia	2000

ZIMBABWE	Principles for Corporate Governance in Zimbabwe	
-----------------	---	--

Source: Oso and Semui (2012)

Despite the above efforts, there are still corporate governance challenges faced by these countries as discussed by Sultan Balbuena (2014) who illustrates where these countries are with establishing ownership policies and/or reinforcing the above governance codes applicable to SOEs and other public commercial Entities, as seen in the Appendix D. This outline indicates that South Africa is ahead of all these countries in implementation of corporate governance legislation, setting up regulatory bodies, having ownership policies, national SOE guidelines or codes and the ownership function separate from regulatory functions.

There is, however, a range of corporate governance challenges faced by these countries, as also confirmed by Armstrong, Segal and Davis (2005, p. 35) who argue that notwithstanding the merits of advocating high global standards of corporate governance and regulation, these should be carefully measured against the capacity of countries to absorb such requirements, bearing in mind their other policy priorities, which are often of a social nature. They are concerned by the fact that many issues in corporate governance assume the existence of a well-developed capital market, which is not the case in many parts of Africa; even though well-functioning SOEs, following internationally accepted standards of good corporate governance that are appropriately designed for their particular structure of state ownership and control, would provide a boost to national standards. But this implies a measure of political will that is often absent in governments, and it also assumes that a country has appropriate institutions for credible director training and development, and readily available accounting and auditing skills. They further argue that ensuring that regulations are enforced and that the country can provide a framework for prosecution of economic offences that is independent of political interest, is extremely difficult in developing states.

Sultan Balbuena (2014) argues that one of the most pressing challenges in the Southern Africa region is arguably to establish clear ownership policies, specifying the purpose of state-ownership and the expectations of the state, as a prerequisite to providing individual SOEs with clear objectives, both commercial and non-commercial, and that the Government acting as owner, is guided by a consistent and coherent approach. He states that for some countries, the legislation establishing the SOEs may pose a constraint, while for others the challenge is the lack of clear categorisation of SOE activities and subsequent separation between social/developmental and commercial activities.

Diamond and Price (2010, p. 57), however, emphasize that the key contextual determinants of corporate governance are the laws and legal rules that shape that country including corporate laws and regulations. This is what most of the countries in the Southern Africa region have managed to achieve.

2.6 CORPORATE GOVERNANCE LEGISLATION IN SOUTH AFRICA

2.6.1 The Companies Act

Diamond and Price (2010, p. 65) state that the South African Government initially proposed a radical new Company Law regime, but eventually reverted to the new *Companies Act* based squarely on the traditions and history of the existing South African Company Law, due to preferences of internal role players in the South African business community. The *Companies Act (2008)* incorporated aspects of King I and King II, whilst King III was written to reflect the changes in company law. This does not undermine the King Reports but rather strengthens good governance by reinforcing some of the key principles through legislation. A more fundamental issue emerging is the extent to which King codes and the *Companies Act* truly embrace a stakeholder model of governance.

King (2009, p. 7) concurs that an international trend is that some of the principles of good corporate governance are being legislated in addition to a voluntary code of good governance practice. In this regard, perhaps the most important change in South Africa is incorporation of the common law duties of Directors in the Companies Act, which has meant that matters that were recommendations in the King II report are now matters of law because they are contained in the Companies Act.

In South Africa, the Companies Act (2008) legislates in respect of State-owned companies as defined in the *Public Finance Management Act* of 1999, which includes both national Government enterprises and national public Entities and prescribes that all companies must prepare annual financial statements, that every State-owned company must have a company secretary who has specific duties set out in the Act and that every State-owned company must appoint an audit committee, the duties of which are described in the Act. Nepad (2013, p. 65) and the APRM Report (2014) highlight that the new Companies Act of 2008 seeks primarily to facilitate the ease of doing business in relation to the formalisation of corporate Entities, and the enabling of a supporting environment for efficient growth of well-governed, credible businesses, by creating a single regulatory regime for all businesses. This Act eases the regulatory burden and streamlines company registration. As a result South Africa has seen an increase in the number of new companies since the implementation of the new Act as compared to the same period prior to the Act.

Walker, Ramashia and Rambau (2013, p. 305) specify the sections in the Companies Act that address corporate governance, as follows:

- Section 66, provides that the business and affairs of a company must be managed by or be under the direction of its Board of Directors which has the authority to exercise all the powers and perform all the functions of the company;
- Section 69, stipulates what type of a person is regarded as ineligible to be a Director of a company, including a juristic person, un-emancipated minor, under legal disability, declared disqualified by the court, un-rehabilitated insolvent, or if he had been removed from an office of trust on grounds of misconduct involving dishonesty.
- Section 72, entitles companies to appoint Board committees and delegate to any committee any authority of the Board.
- Section 76.3, obliges Directors to exercise their powers and perform their functions in good faith and for a proper purpose, in the best interests of the company, and with the degree of care, skill and diligence that may reasonably be expected of a person carrying out the same functions.
- Section 77, recognises that a Director may be held liable, in accordance with the principles of the common law relating to breach of a fiduciary duty, for loss, damages or costs sustained by the company as a consequence of a breach of fiduciary duty.
- Section 78, recognises that Directors may be covered by Directors' insurance.
- Section 94, obliges each State-owned company to have an audit committee comprising of at least three members.

In addition to the above, companies are further obliged to comply with additional disclosure requirements, to appoint a company secretary, to appoint an auditor and a social and ethics committee.

2.6.2 The Public Finance Management Act

Armstrong, Segal and Davis (2005, p. 15) observe that the introduction of the *Public Finance Management Act* (PFMA) in 1999 introduced much more rigorous standards for reporting and accountability by adopting an approach to financial management in public sector institutions that focuses on performance in service delivery and economic and efficient deployment of State assets and resources. The regulations accompanying the PFMA were comprehensively altered to conform with a number of recommendations contained in the *King II* report, and this was followed by a Government policy protocol that laid down comprehensive guidelines for good corporate governance in public sector institutions, emphasizing Government's own requirements for high standards of accountability and good governance in public institutions falling under its direct control and supervision.

Schulschenk (2012, p. 27) describes how the first King Report was intended to be applicable to SOEs. However, few such organisations adopted King codes at the time and given the state of flux in the country, a commission was established that published a protocol on governance for State-owned enterprises largely based on King I. Following the protocol, the *Public Finance Management Act* of 1999 was issued for Government Entities, reflecting the Government's commitment to governance principles - but the challenge of implementation remains.

Nevondwe, Odeku and Tshoose (2014) agree that SOEs operate within a framework of a variety of legislation including, inter alia, the PFMA, *Companies Act 71* of 2008, and the relevant legislation under which an SOE operates; and that it is therefore important that Directors of SOEs develop adequate working knowledge of this framework and ensure that the SOEs comply with their legal obligations. Nevondwe, Odeku and Tshoose (2014) further state that the PFMA also stipulates specifics such as every public Entity must have an accounting authority, usually the Board, which must be accountable for the purposes of the PFMA; and if there is no Board, the statutory governing body will be considered the "authority".

Bronstein and Olivier (2014) concur that national and provincial SOEs incorporated as companies are regulated by the Companies Act and the Public Finance Management Act, but further state that typically SOEs in the national or provincial sphere are also subject to specific empowering legislation which contains particular provisions about the regulation of the specific Entity. In cases of conflict between the PFMA and any other Act including the Companies Act, the PFMA prevails. The Public Finance Management Act (1999) regulates both national and provincial SOEs, and many provincial SOEs operate within areas of concurrent legislative competence between the provincial and national legislatures. National and provincial Government Entities are distinguished by the fact that the main or only shareholder of the Entities comes from either national or provincial Government respectively.

2.6.3 The Constitution

Section 195 of the supreme law of the country, *The Constitution 1996*, outlines the basic values and principles governing public administration, which apply to administration in every sphere of Government, organs of state and public enterprises, and these principles bear emphasis to the fact that public administration must be governed by the democratic values and principles enshrined in the Constitution; which include, inter-alia, that:

- A high standard of professional ethics must be promoted and maintained.
- Efficient, economic and effective use of resources must be promoted.
- Services must be provided impartially, fairly, equitably and without bias.
- Public administration must be accountable.

- Transparency must be fostered by providing the public with timely, accessible and accurate information.
- Public administration must be development-orientated.
- People's needs must be responded to, and the public must be encouraged to participate in policy-making.

2.7 OUTLINE OF THE SOUTH AFRICAN KING CODE OF GOVERNANCE PRINCIPLES

Gstraunthaler (2010, p. 148) explains that the *King III* report focuses on three pillars: leadership, sustainability and corporate citizenship, where effective leadership is seen as the key to good governance and is facilitated through ethical values, in particular responsibility, accountability, fairness and transparency. *King III's* interpretation of these values shows its denial of the one-size-fits-all approach and its focus on two South African issues, i.e. the changes in the economic situation and the principle of *Ubuntu*.

Copley (2012, p. 3) state that the *King III* Codes of good practice focus on governance and sustainability of organisations. They cover the following nine main principles:

- Ethical Leadership and Corporate Citizenship
- Role of Board and its Directors
- Importance of the Audit Committee
- The Governance of Risk, and risk management
- The Governance of Information Technology
- Compliance with laws, rules, codes and standards
- The Internal audit function
- Governing Stakeholder Relationships
- Integrated Reporting and Disclosure

The above key principles total to 76 principles and are very detailed and comprehensively discussed, as outlined in the King Code of Governance Principles of South Africa (King 2009) which have been referred to above by different authors. They are based on the 'apply or explain' approach which is listed in Appendix E.

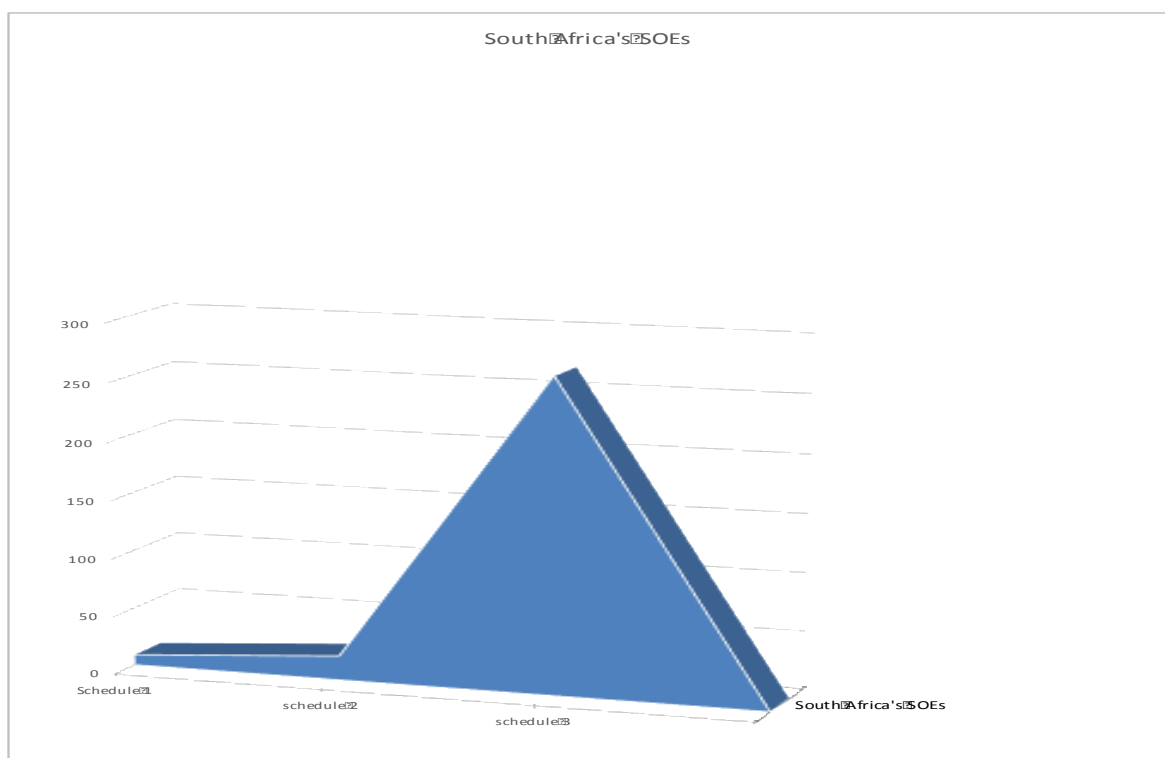
Gstraunthaler (2010, p. 149) further explains that with *King III*, South Africa seems to walk the line between various positions, its international harmonization and recognition of cultural peculiarities, a market-based control model with a call for a stronger influence of institutional investors on the companies in which to invest, or a liberal economic environment in which companies are supposed to commit social activities.

Walker, Ramashia and Rambau (2013) also argue that the underlying principle of *King III*, the common law and the new Companies Act is that Directors should act not just in accordance with the letter of the law, but also in accordance with the spirit of their fiduciary duties, and that it is clear that the introduction of this new legislation, the Companies Act and the increased emphasis on executive behaviour means that there should be an increased emphasis by Directors on the proper role and functioning of Boards. They further state that the enhancement of corporate governance is increasingly seen as a means to build shareholder confidence, add value to the company and attract foreign investment to South Africa; the implementation of King III and compliance of the common law and the new Companies Act should not be viewed as imposing bureaucratic and formalistic requirements which divert energy and resources away from the actual running of the business. The increased emphasis on corporate governance structures, procedures and principles forms part of a worldwide movement.

According to Nevondwe, Odeku and Tshoose (2014, p. 261), corporate governance principles should be vigorously enforced in both the national and provincial Governments for effective financial management. These principles involve openness, integrity and accountability, which can also be subdivided into features like independence, honesty, fairness, objectivity, discipline and responsibility. They further explain that corporate governance is based on principles such as conducting business with integrity and fairness, being transparent with regard to transactions, making all the necessary disclosures and decisions, complying with all the laws of the land, accountability and responsibility towards the stakeholders and commitment to conducting business in an ethical manner.

2.8 CORPORATE GOVERNANCE IN SOUTH AFRICAN SOEs

The South African National Treasury (2013) lists 299 SOEs excluding subsidiaries, based in



different parts of the country in its website, classifying them into three categories which are the Constitutional Organisations listed in Schedule 1, Major Public Entities listed in Schedule 2 and Schedule Three Entities described further below and depicted in Figure 2.2.

Figure 2.2 Graphical representation of SOEs in South Africa

Source: <http://www.nationaltreasury.gov.za>; 5 June 2013

There are 269 SOEs that are Schedule Three SOEs and 28 of them are based in KZN, and are categorised into four broad groups, which are:

- Part A: National Public Entities based in KZN but managed nationally
- Part B: National Government Business Enterprises, based in KZN but managed nationally
- Part C: Provincial Public Entities, based in KZN and managed provincially
- Part D: Provincial Government Business Enterprises based in KZN and managed provincially

These are depicted graphically in figure 2.3, as also referred to in Appendix C previously: *List of the KZN-based SOEs.*

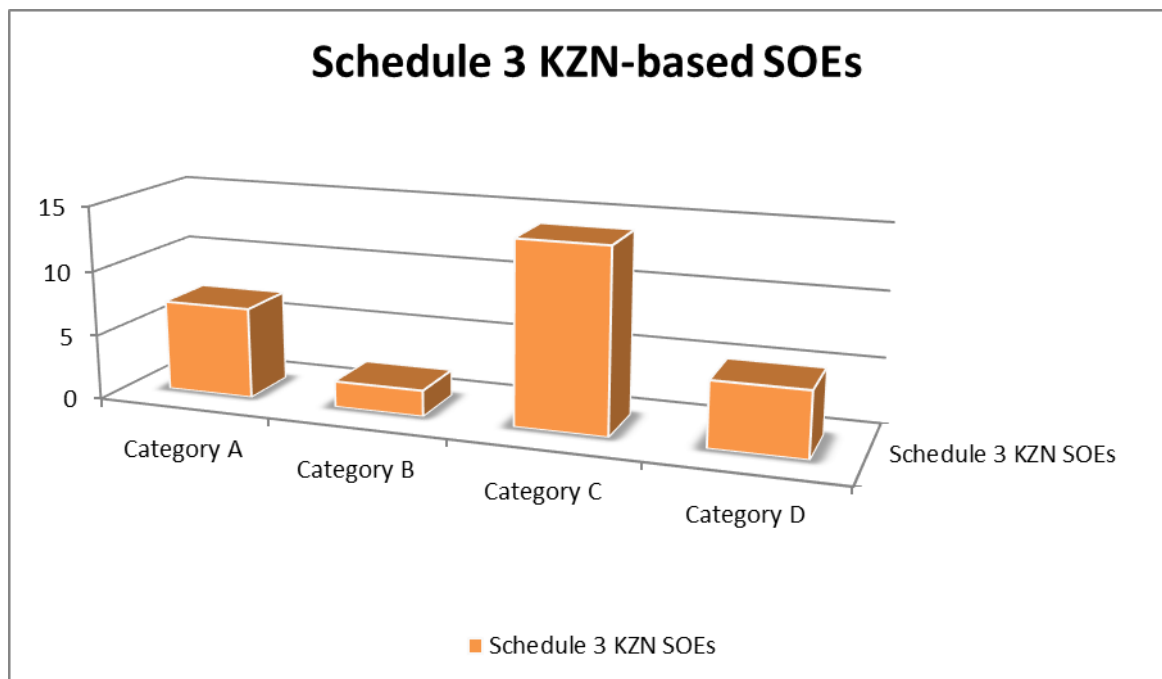


Figure 2.3, List of KZN-based SOES

Source: <http://www.nationaltreasury.gov.za>; 5 June 2013

2.8.1 Rationale for establishment of SOEs

South Africa relies on SOEs as vehicles for service delivery and invests in them enormously, as confirmed when Gill Marcus, the Governor of the South African Reserve Bank (National Treasury 2014) announced that the recent Government budget provides for capital expenditure by the major SOEs of almost R400 billion to be spent on infrastructure during the coming three years, the bulk of this on electricity and transport, which make the investment outlook from the Government and State-owned enterprises look positive, and should help with the crowding in of private sector investments. Msweli and Singh (2014, p. 86) emphasize that it is important to take note of the fact that State-owned companies are largely financed by tax revenue, thus requiring Boards of these Entities to adhere to strict accountability requirements introduced in the Companies Act.

Busari and Ngonini (2012, p. 267) reveal that in South Africa, SOEs are part of a dynamic environment that offers consumers increasing power in demanding higher quality products, lower prices and better services, which is a trend that has underscored the need to construct appropriate and measurable indicators of corporate performance, which are then subjected to rigorous shareholder and stakeholder review at the end of each fiscal year. Malherbe and Segal (2001, p. 10) describe how State-owned enterprises in South Africa gained in importance from the 1920s, particularly in the power, telecommunications and transport sector; which is the dominant structure within which the country's productive assets are managed. The arrangements, incentives and habits of corporate governance determine how effectively this is done. They further state that the high point of the SOE expansion phase occurred in the 1970s during which the capital stock controlled by SOEs tripled in real terms, mainly in the energy and transport sector, and from the early 1980s the Government became uncomfortable with its managerial role over such a large part of the corporate economy and embarked on a limited privatisation programme. This was halted during the transition to democracy in the early 1990s as the African National Congress at that point espoused nationalisation.

Further; Malherbe and Segal (2001, p. 40) state that upon inheriting SOEs, the 1994 Government had to find its own balance between using the SOEs to effect service delivery to the poor and adopting the internationally prevailing approach of privatisation; that in August 2000 the Government then announced a comprehensive privatisation policy for the major SOEs which were to sell minority stakes to strategic investors that had foreign operating experiences. Some operations were to be wholly privatised, and this meant that those SOEs would have the full trappings of corporate governance, such as the Board and Sub-Committees and its conduct would be determined by a 'shareholder compact'. This spells out strategies and objectives, wherein Government would make most of the more important decisions. The shareholders'

agreement usually confers a strong operating role and often outlines the management control on the strategic shareholder, spelling out the development role and objectives of the company.

Referring to developments in Africa, OECD (2013, p. 1) states that, following disappointment with the outcome of privatisations and structural reform programmes in the 1990s, many Southern African economies have placed SOEs at the centre of their national development strategies but SOEs tend to be fraught with out-dated governance and inconsistent ownership practices. However, better governance arrangements can lead to more effective institutions and accountability mechanisms which in turn can make a positive contribution to development. Uhrig (2003, p. 31) concurs that some of the work performed by statutory authorities is sensitive and requires objectivity, therefore the establishment of authorities with clearly specified boundaries of interaction both between peer public sector organisation and Government provides confidence for the community that operations are carried out in an independent and objective manner. It is the independent nature of these bodies that makes a framework of governance imperative to ensure that power is both provided and limited.

Nevondwe, Odeku and Tshoose (2014, p. 264) explain that in 1994, upon the election of a democratic majority Government, the South African Government found that some of the instruments used for delivering necessary services and carrying out policies were actually SOEs, and their control and governance were not based on any standardised principles or rules. They further explain that these SOEs were organised in many different ways and subordinate to a wide range of legislation and statutory regulations, and that South African SOEs form a significant portion of vital industries that drive the economy by providing inputs. For instance, according to the Department of Public Enterprises (2002), three key inputs, electricity, transportation and telecommunications are dominated by the SOEs, which are key drivers of the formal sector economy and provide the bulk of economic growth. Without these key inputs, the resources such as in tourism, information technology and manufacturing sectors cannot function effectively.

They further expand on this, by describing how in 1999, the Government affirmed the overall strategic vision of the restructuring of SOEs, and gave the Department of Public Enterprises a mandate to lead the programme of restructuring with the active participation of the Cabinet, which led to corporate governance as embodied in the new and revised Protocol, which seeks to provide guidance specifically to the public sector, taking into account the unique mandate of the SOEs which includes the achievement of socio-politico-economic objectives of the Government and to amplify and not supersede or conflict with the King Code.

2.8.2 Inconsistencies and Problems in the SOEs

2.8.2.1 Transparency, disclosure and accountability

Sultan (2014) states that high standards of transparency, disclosure and accountability are among the most important and challenging aspects of SOE governance that are recurrently cited among priority areas for reform across the Southern Africa region. The basic challenge for this reform is to ensure that SOEs are fully accountable, vis-à-vis national fiscal budget processes. Where SOEs carry out public service obligations alongside their commercial obligations, they should be directly compensated by the State. It emerges that the Board acts as an intermediary between the State as a shareholder and the company and its executive management and it is therefore important to identify clearly the role of the Board of Directors and ensure transparent and consistent procedures and practices for Board nomination and appointment. He states that there are challenges with Board composition and remuneration, in addition to moving towards performance-oriented Boards. Equally important is Board training and evaluation.

2.8.2.2 Decisions of Boards regarding Remuneration packages

The Department of Public Enterprises (2010, p. 2) reports that there are concerns regarding exorbitant and excessive remuneration packages of CEOs in SOEs. This has come on top of long-standing community discomfort about the widening gap between the remuneration of executives and other employees, as well as large termination payments with perceived lack of justification. The report highlights that the average total CEO remuneration for SOEs is R5.46 million whereas the average remuneration package of all workers in South Africa is R124 457 per annum. The total remuneration of the State President of South Africa was R1,89 million for the same period. The following Table 2.2, highlights some of the comparisons with other forms of companies:

Table 2.2 Remuneration of CEOs in SOEs in South Africa

CATEGORY	No. of Companies	Basic Salary	Profit for the year
Telecommunications	4	R5 115 000	R6 076 966 250
Oil and Gas	1	R6 790 000	R13 715 000 000
Resources	40	R3 966 821	R2 386 863 130
Health Care	5	R4 494 200	R766 025 800
Consumer Services	29	R3 018 435	R494 289 480
SOEs	16	R2 585 289	R328 905 451

Source: Department of Public Enterprises, 2010

The report of the Department of Public Enterprises (2010: 9) further suggests that there is a concern about the relationship between the CEO remuneration, the financial viability and sustainability and the remuneration levels of senior management of the SOEs. The current situation reflects that the levels of CEO remuneration in South Africa is sending a wrong

message regarding fairness to the average worker as it is by no convincing means the result of exceptionally talented performances and best corporate governance practices. Msweli and Singh (2014, p. 86) reveal that in 2013, the Auditor-General report showed that out of 536 South African public Entities audited for the financial year 2011/2012, only 22% received clean audit opinions.

2.8.2.3 Dynamics existing within Boards

The other challenge pointed out by Msweli and Singh (2014, p. 87) are the dynamics that exist within Boards, including failure for Boards to fulfil their legally mandated responsibilities due to political interference and lack of clarity of mandate, amongst other reasons. All this leads to State-owned Enterprises consequently running at a loss due to incorrect or ill-informed decision-making processes within and outside Board structures, possibly attributed to the political influence exerted by Board political appointees in State-owned Enterprises Boards. Mbo and Adjasi (2013, p. 6) also emphasize the fact that SOEs are State's own vehicles for service delivery, and since States are run and directed by politicians, it follows that politicians may have an upper hand in the direction of SOEs; with a glaring lack of incentives by voters to monitor the actions of the Government or rational ignorance on the part of voters which thus weakens incentive for good governance in public interest. This implies that SOEs tend to operate in line with interest of the politicians and not necessarily on management's self-interest thereby undermining the core corporate governance principles, the result of which would be poor performance.

Mbo and Adjasi (2013, p. 21) also highlights the fact that whilst some Governments have attempted to appoint strong Boards to SOEs, the downside has been that in some cases such Boards have been found to have a negative impact on SOE performance and this is because political directives quite often overrule good governance and objective rationale. It is therefore important for Governments to consider limiting political presence, at least of a direct nature, in the governing of State-owned Enterprises.

2.8.2.4 Lack of Transparency within Boards

Ntim, Opong and Danbolt (2012, p. 84) state that South Africa has pursued distinctive corporate governance disclosure policy reforms in the form of King Reports, which require Entities to disclose a set of recommended good corporate governance practices to both shareholders and stakeholders. Corporate Board structures are one of the most important corporate governance disclosure mechanisms that can effectively reduce conflicts between managers and shareholders.

Ntim, Opong and Danbolt (2012, p. 101) believe that there is a positive association between high levels of information transparency relating to corporate governance practices for

stakeholders, and the Entity Value. This provides a strong motivation for Governments and regulatory authorities to pursue corporate governance policy reforms that formally extend corporate governance disclosure rules to go beyond conventional financial aspects that are aimed at protecting narrow shareholder interests and include those that seek to provide broad context-specific socio-economic stakeholder needs.

2.8.2.5 Power of Government over Boards

Michael (2013) stated that South Africa's SOEs are protected from failure. Insolvency is not a concern as Government bailouts are the financial rescue plan in most instances and the threat or option of a takeover bid, which would be viable for private companies, is out of question for SOEs in South Africa. This results in possible slumps of management efficiency and the fall into complacency of many Board members. She further argues that the power of the Boards of SOEs is often usurped by Government, as it sets and drives the strategy of SOEs, appoints and dismisses the CEOs and approves financial and major capital expenditure of the SOEs. This causes a lot of confusion on Boards as to their powers of execution.

Nevondwe, Odeku and Tshoose (2014) indicate that the Government, as a major shareholder in SOEs, also faces a wide range of risks associated with the operations of SOEs, including financial, reputation, political and operational risks, and it is the responsibility of each Executive Authority (the line Ministry), in whom the primary responsibility for appropriate SOE overseeing and accountability to Parliament rests, to ensure that these risks are identified, reduced and managed. They argue that the key requirement of SOEs is to report and account for their performance to the relevant Executive Authorities in respect of financial and non-financial matters at the same time, while maintaining independence in the conduct of their duties and free from day to day involvement by the Executive Authority. This is why the Protocols, Shareholder Compacts and Policy Framework for SOEs are released by the relevant Executive Authorities from time to time, to ensure that there is no conflict of interest, and the Government's broad policy objectives are met by the SOEs, ensuring that the SOE Boards operate efficiently and effectively.

Bronstein and Olivier (2014) argue that the State has vast power to impose its will on SOEs. The main lever is the shareholder compact which takes the form of an agreement with the relevant executive authority, as at the moment there is no broad legislative scheme that governs the relationship between the State as shareholder and Directors of provincial and national SOEs. They further list the powers of the State shareholders as follows:

- The power to appoint and dismiss Directors
- Shareholder approval required to form subsidiary companies
- Shareholder approval required to acquire or dispose of a significant asset

- Shareholder approval in respect of borrowing, issuing guarantees, indemnities or security
- Capacity for direct and unceremonious intervention in SOEs by national treasury

Bronstein and Olivier (2014) further argue that good governance provides that there should not be improper interference in the selection of the CEO by the shareholder the Board has power to appoint, in concurrence with the executive authority. However, the hybrid nature of many SOEs, a business mandate with profit aim combined with some other developmental social or service delivery mandate complicates their governance and is a factor that influences the choice of an appropriate governance model.

2.8.2.6 Other Performance Challenges in SOEs

Sultan (2014) outlines Performance challenges in SOEs, as follows (Table 2.3):

Table 2.3: Performance challenges in SOEs

Challenge	Description
Inadequate capitalisation	SOEs rely on debt and finance to fund basic operations, but this may not be enough to fund capital intensive projects especially rehabilitation and upgrading of infrastructure in the utilities and network industries
Remnants of poor investment decisions	Remnants of initial investment decisions in industrial and commercial SOEs, lack of ability to adjust to changing market conditions
Collection deficiencies	SOEs have been underfinanced partly because, historically, they have not been able to collect on services
Inadequate reporting systems	Inadequate reporting and monitoring does not allow for transparency and accountability surrounding SOE cost structure; and does not help expose where SOEs may be over or under financed, and it ultimately shields SOEs from misuse of public budgets, corruption and from revealing where inefficiencies may exist
Deficient Board of Directors	SOEs' Boards may require further professionalization and shielding from the political apparatus
Other shortcomings	Encouraging and attracting talent in SOE Boards and in SOE management Upgrading or downsizing SOEs to ensure efficient functioning

2.8.2.7 Problems of corruption amongst SOEs

Keightley (2011, p. 343) states that South Africa has one of the most advanced legal and corporate governance frameworks available to deal with the problem of corporate corruption. However, the spectre of corruption repeatedly dominates the headlines in South Africa, with

reports of allegations and suspicions of corruption involving public figures as well as reports on the formal investigation and prosecution of individuals on corruption-related offences being very common on the media.

Keightley (2011, p. 358) further argues that good corporate governance is probably the most fundamental of all available mechanisms to prevent corporate corruption. As the reports and codes of conduct emanating from the King Committee on Governance provide the blueprint for corporate governance in South Africa in respect of private and public enterprises, while the King Codes are not legally binding and can be operated on an 'apply or explain' basis, as discussed, there is however a complementary relationship that exists between the corporate codes of conduct and legal measures which taken together may act as a powerful weapon in guarding against corrupt corporate practices.

2.9 FACTORS IMPACTING ON EFFECTIVENESS OF CORPORATE GOVERNANCE PRACTICES

Though this study was based on SOEs, this section will, however, review how corporate governance has evolved in South Africa, across different forms of ownership; to allow for a better understanding of corporate governance practice in SOEs.

Gibbons (2013, p. 7) recognises that there are different levels of ownership involved in the corporate governance of SOEs. This includes the leading governance role-players, the Boards and the shareholder, which in the case of SOEs is a single shareholder - Government; auditors, management, the stakeholders.

2.9.1 The Composition and Autonomy of the Board

In South Africa, Ntim and Osei, (2011, p. 86) state that generally *King II* builds on and expands most of the Anglo-American features of *King I* that were aimed at improving the independence and monitoring power of corporate Boards, including maintaining the central characteristics of unitary Boards. Further (De Beer, Steyn and Rensburg 2013), the *King III* Report requires that Boards should be comprised of a balance of power, not only between executive and non-executive Directors with a majority being independent Directors, but also in so far as diversity and demographics are concerned, recognising that the latter makes the Board more effective, where diversity refers to academic qualifications, technical expertise, industry knowledge, experience, nationality, age, race and gender.

Frederick (2011, p. 8), however, argues that much attention has been paid to the composition of the Board as to whether it has the necessary skills to achieve its goals and to the independence of Board members, Board structures, incentives and performance evaluations. Also a crucial

step taken to create the new SOE Board has been to shield it from political intervention or to properly channel such intervention.

De Beer (2013) outlines key factors that are important for the Boards to be more effective, as follows:

- Smaller Boards have better dynamics, which make them easier to chair, better focused and quicker to make decisions, also citing that the Board of not more than 11 Directors is the ideal size.
- Effective Boards generally have two executive Directors; out of the non-executive Directors around seven should be independent, hence by far the majority.
- Independence is valued more than industry knowledge in the Board; having only two industry specialists is deemed to be sufficient.
- Having a CEO from another company on a Board is pointed out as a significant benefit.
- The optimum number of Board appointments that a Director should have is three for them to remain appropriately focused and effective.
- At a minimum, two days per month is needed in order to be effective.

In South Africa, (Natesan and Dixon 2013), Boards of public companies have performed better on all measures with regard to corporate governance than the Boards of SOEs. The latter, however, face inherent challenges that will take time to overcome, such as the fact that the Boards are chosen by one person, normally the Minister, and that the Boards tend to get replaced when Ministers change, which can happen frequently. As a result there is a lack of institutional knowledge which in turn gives management too much power and also there are instances where the executives often see themselves as accountable to the Minister rather than the Board.

2.9.2 Board Effectiveness

Patmore (2014) describes an effective Board as one that can take the company purposefully into the future. He further illustrates different models of ineffective Boards compared with an effective Board, as follows in Figure 2.4 below:

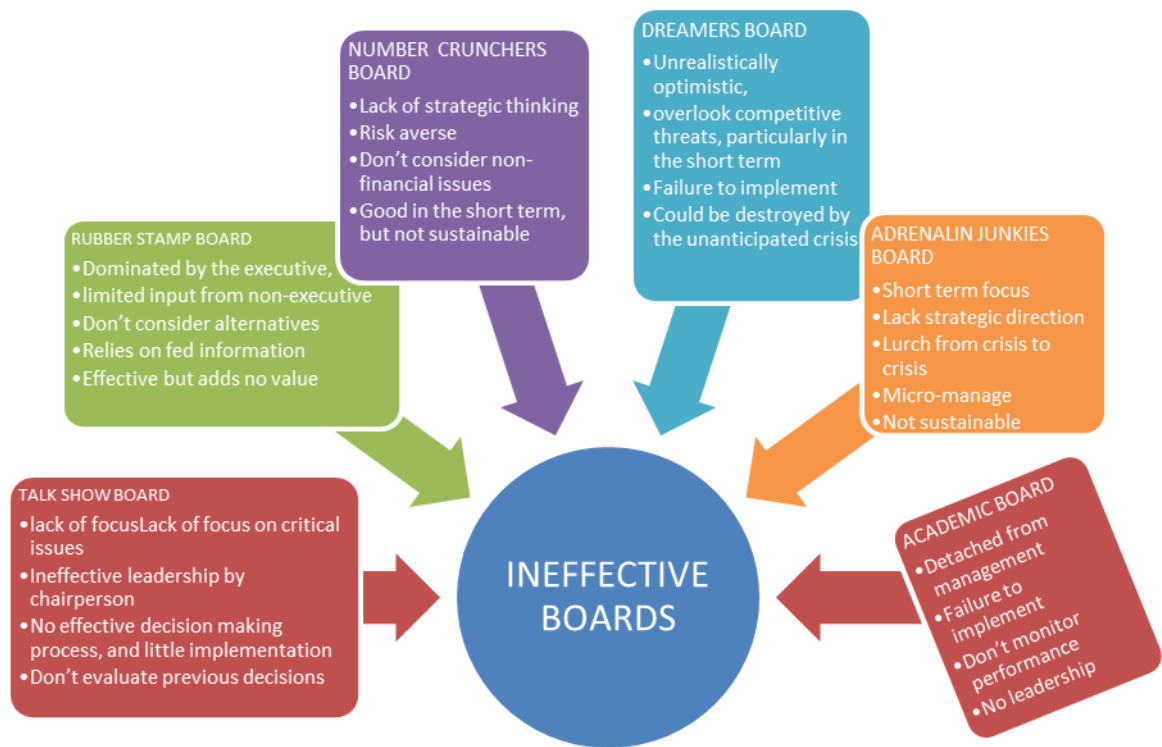


Figure 2.4 Model of ineffective Boards

Adapted from Source: Patmore (2014) Being a Director

Patmore (2014, p. 7) compares the above models for ineffective Boards, with one that outlines the characteristics of an effective model, as follows:

- Clear strategy aligned to capabilities
- Strong on implementation
- Effective monitoring of key performance areas
- Good risk management
- Considers needs of shareholders and stakeholders
- Rigorous evaluation of Board performance
- Sustainable superior performance

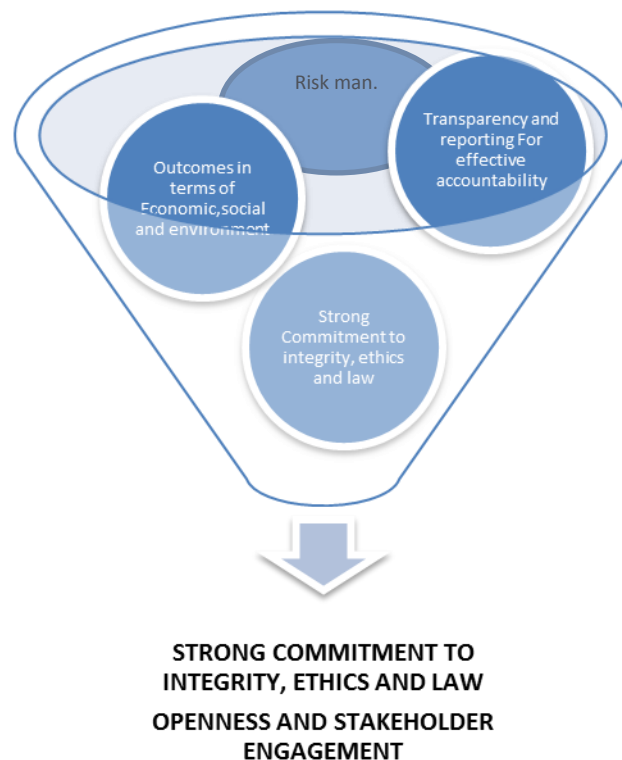
Similarly and complementing the above characteristics, Frederick (2011) alludes to the fact that the value of corporate governance is derived from a properly constituted and managed Board; and outlines the following characteristics depicting a value-adding Board:

- Responsiveness to management's need for direction
- Bringing skills and perspectives that management may be lacking
- Encouraging the development and examination of a range of options
- Being objective

- Encouraging and listening to in-house expertise
- Looking forward to the future and taking the long-term view
- Thinking strategically

This is also confirmed by IFAC (2013, p. 11) who identified the following key principles of good governance in the public sector:

- Acting in the public interest requires strong commitment to integrity, ethical values and the rule of law as well as openness and comprehensive stakeholder engagement
- Defining outcomes in terms of sustainable economic, social and environmental benefits
- Determining interventions necessary to optimise the achievement of intended outcomes
- Developing the capacity of the Entity, including the capability of its leadership and individuals within it
- Managing risks and performance through robust internal control and strong public financial management
- Implementing good practices in transparency and reporting to deliver effective accountability can be illustrated as follows (Figure 2.5):



**Adapted from source IFAC 2013
Figure 2.5 Key principles of good governance**



Figure 2.6 Hallmarks of improved corporate governance

According to Armstrong, Segal and Davis (2005, p. 6) there are ten hallmarks of improved corporate governance for SOEs, as in above diagram, and these include: social and environment

- Effective leadership by the Board in a manner that is sustainable and inclusive
- Clear definition of the roles of Parliament, the responsible minister, other Government departments and the Board
- An appropriate legislative and policy framework for good governance and accountability, which should include mechanisms for regular reporting to the shareholder on performance
- The appointment of an effective Board through transparent processes that ensure, among others, independence and a diversity of skills and experience in its members.
- Effective disclosure to stakeholders; and
- Procurement policies and practices that are efficient, effective and fair to minimise opportunities for corruption.

2.10 CONCLUSION

The literature review highlighted the centrality of corporate governance as the foremost determinant of the efficacy of SOEs in respect of the contending paradigms between their ownership and control. Legislation and regulation are recognised as the critical externally-driven mechanisms designed to ensure and enforce the separation of ownership and control in the public SOE sector. The overarching argument is that promulgation of generic legislation and regulations (such as the Constitution, PFMA, and Companies Act, King 1, 11 and 111), are a mechanism designed to address the inherent conflict of interest caused by separating ownership and management of SOEs. Regulations serve to protect the interests of consumers, while simultaneously ensuring SOE financial viability.

The externally-oriented terrain of corporate governance, together with the theoretical context derived from the review of relevant literature, assisted both the study and the researcher in the coherent arrangement of emergent themes. They aided also in illustrating the complex nexus between Board and management dynamics on the one hand and delivery mandates on the other. Notwithstanding the need for legislation and regulation, SOEs are confronted with multiple, fragmented legislation and regulations with varying reporting and accountability requirements. Boards and management thus have to navigate a complex external environment questioned by internal leadership as well as cultural dynamics riddled by political inference in the name of interventions. Eventually, SOEs are expected to add to their value by infusing and practicing a culture of good governance standards.

Michael (2013) states that research indicates that problems in corporate governance can be attributed to the poor operational and financial performance of SOEs in general, and that an effective Government shareholder management model that addresses the key challenges of SOEs' governance will improve the performance of SOEs and better protect the assets of Government, and that even modest improvements in the efficiency of SOEs in a country could free up financial resources equivalent to 1- 5% of its Gross Domestic Product.

Keightley (2011, p. 358) states that the *King III* report lays particular emphasis on the importance of ethics in corporate governance, where leaders are required to provide direction and to establish the ethics and values that will influence and guide practices and behaviour in the Entity and incorporate the company's ethical values into its code of conduct, strategies and operations, in dealing with all its stakeholders. It has emerged from this literature review that there is certainly a high level of awareness of governance in South Africa as a country. Particularly from 1994 the concept of corporate governance has been embraced more than in other emerging countries. However, Schulschenk (2012, p. 28) highlights the fact that the move from *King II* to *King III* has left companies in a position where they now need to comprehend

76 corporate governance principles, a task that has become onerous and in many cases has resulted in a tick-box mentality approach to corporate governance.

According to Nevondwe, Odeku and Tshoose (2014, p. 265) corporate governance in the public sector has a political dimension because the role of shareholder in governing the public sector is important. The shareholder represented by a governing body, for example Parliament, who has through elected representatives the responsibility of appraising performance. Armstrong, Segal and Davis (2005, p. 36) state that it is important that countries identify areas where improved corporate governance would contribute to greater economic effectiveness and then taking other policies into account, making considerable advances in critical areas with an idea of introducing regulatory and other incentives that would encourage companies to adopt good governance standards and practices, but would be partly self-regulatory in nature.

CHAPTER 3: THE GLOBAL PRACTICES AND TRENDS IN CORPORATE GOVERNANCE

3.1 INTRODUCTION

This chapter explores the corporate governance environment, reviewing the subject comprehensively, on the international trends and how corporate governance is practised in different countries, with particular emphasis on corporate governance measures that have been set up by those countries; as compared to South Africa, it then analyses the different levels of corporate governance structures existing within SOEs and the roles and responsibilities of each role-player.

This review also delves into the details that make up the key elements of corporate governance, looking at the different approaches that prevail. In concluding this chapter, the value and challenges of corporate governance were explored in detail. King (2009, p. 5) and Vig (2012, p. 189) indicate that corporate governance mainly involves the establishment of structures and processes, with appropriate checks and balances that enable the Board of Directors to discharge their legal responsibilities, and oversee compliance with legislation, in an efficient manner which is beneficial to all stakeholders; and they also refer to corporate governance as the manner in which a company conducts its affairs such that there is fairness to all stakeholders and its actions benefit the greatest number of stakeholders with openness, integrity and accountability.

This chapter looks in-depth at these structures and processes, the responsibilities involved and relationships that exist in an effort to identify the key critical factors that allow Boards of SOEs to be effective and meet the corporate governance requirements.

3.2 THE INTERNATIONAL TRENDS OF CORPORATE GOVERNANCE PRACTICE

3.2.1 The various approaches to corporate governance

According to Maggs (2013, p. 18), the Russian translation for governance is closer to “Control” than “Management”, and in companies situated in the Western countries, the concept of corporate governance is focused on broad governance, risk management, and strategic planning; in the United States of America (King 2009, p. 5) governance is about “comply or else”,

meaning that there are legal sanctions for non-compliance, whereas in South Africa (Phiyega 2013, p. 11) governance is seen as being concerned with overseeing the responsible, legal, ethical, transparent and effective achievement of organisational goals.

Fifty-six countries in the Commonwealth (King 2009), including South Africa, and twenty-seven States in the European Union have opted for codes of corporate governance principles and practices based on a “comply or explain” approach. However, there has been massive debate with regard to whether the United Nations Governance Code should be based on the “comply or explain” or the “comply or else” approach, as most countries were opposed to the word “comply” because it indicated that there had to be adherence with no room for flexibility.

3.2.2 Existing Corporate Governance International structures

There are two key corporate governance organisations (De Beer 2013) that are internationally recognised. i.e., *The Organisation for Economic Cooperation and Development (OECD)* and the *International Corporate Governance Network (ICGN)* that have both developed corporate governance codes with critical factors that recognise the importance of an appropriate mix of skills, expertise and independence on corporate Boards. According to the OECD website (2013), its current membership has grown from 28 members in 2000 and now stands at 34 member countries, which are countries that comply with the Corporate Governance codes referred to above (and South Africa is not a member country) as depicted in Table 3.1 below:

Table 3.1 Countries complying with corporate governance

Source: OECD (2013)

Australia	Italy
Austria	Japan
Belgium	Korea
Canada	Luxemborg
Chile	Mexico
Czech Republic	Netherlands
Denmark	New Zealand
Estonia	Norway
Finland	Poland Portugal
France	Slovak Republic
Germany	Slovenia
Greece	Spain
Hungary	Sweden
Iceland	Switzerland
Ireland	Turkey
Israel	United Kingdom
	United States

Ludvigsen (2010, p. 18) maintains that in countries like Sweden and Norway, codes for corporate governance have been produced by expert groups including representatives of the business community, with the aim of acting in a credible and predictable way, and the Government-owners have established their own principles for good corporate governance of State Owned Companies (SOCs). Taking a look at one of these codes, Frederick (2011, p. 10) for instance, when discussing the Norwegian State's principles of good corporate governance, highlights the following:

- There shall be transparency in State ownership of companies
- Ownership decisions/ resolutions shall be taken/ adopted at the annual general meeting
- The State, in cooperation with other owners when relevant, shall set performance targets for the companies, the Boards shall be responsible for achieving these targets
- The capital structure of the company shall be consistent with the objectives of the ownership and circumstance of the company
- The composition of the Board shall be characterised by competence, capacity and diversity and reflect the distinctive characteristics of the company
- Wage and incentive schemes shall be formulated so that they promote value creation in the companies and are perceived as reasonable
- On behalf of the owners, the Board shall exercise independent control of the company management
- The Board shall adopt a plan for its own activities and work actively to develop its own competencies
- The company shall be aware of its responsibility to society at large.

Amongst the key international structures that have been set up to deal with corporate governance, there is also the Business Roundtable which is an Association of Chief Executive Officers (CEOs) based at leading United States companies with over a trillion dollars in annual revenues and more than fourteen million employees (Business Roundtable 2012, p. 3) and their corporate governance principles state that it is the responsibility of:

- The Board, through its corporate governance committee, to play a leadership role in shaping the corporate governance of the corporation, and the composition and leadership of the Board.
- Management, overseen by the Board, to develop and implement the corporation's strategic plans and to identify, evaluate and manage the risks inherent in the corporation's strategy.
- The Board, through its audit committee, to engage an independent accounting firm to audit financial statements prepared by management and issue an opinion that those

statements are fairly stated in accordance with the Generally Accepted Accounting Principles, as well as to oversee the corporation's relationship with the outside auditor.

- The Board, through its compensation committee, to adopt and oversee the implementation of compensation policies, establish goals for performance-based compensation and determine the compensation of the CEO and senior management. These compensation policies and goals should be aligned with the corporation's long-term strategy.
- The corporation, to engage with long-term shareholders in a meaningful way on issues and concerns that are of widespread interest to long-term shareholders, with appropriate involvement from the Board of Directors and management.

In as far as South Africa is concerned, Schulschenk (2012, p. 28) alludes to the fact that there was strong agreement that the principles as embodied by the King Reports are consistently progressive and have become an international benchmark for principles of good corporate governance and that South Africa is certainly a leader by emerging market standards, with regard to both how key governance issues have been conceptualised and the broad corporate governance perspectives it has adopted. This he attributes to the seriousness with which corporate governance is viewed and the courage South Africa displayed in taking the lead as witnessed by the international interest in the King Reports, and as mentioned by De Beer (2013), in the annual Global Competitiveness Index, the World Economic Forum ranked South Africa second for the efficacy of its corporate Boards.

3.3 GLOBAL SOE CORPORATE GOVERNANCE TRENDS

Improving the corporate governance of SOEs is a policy objective in countries around the world today (Witherell 2005, p. 26) and this is confirmed by the following policy moves of countries, as in some of the BRICS countries (Brazil, Russia, India, China and South Africa) that are in coalition with South Africa:

- ❖ In China, as part of its campaign to bring about corporate governance reform, especially for listed SOEs, corporate governance has become a policy priority
- ❖ In India, the proposed Principles of Corporate Governance for Public Enterprises were issued in 2001 and
- ❖ South Africa released its first Protocol on Corporate Governance in the Public Sector in 1997, and a revised version in 2002.

Some countries have gone further using the OECD Principles, to develop own guidelines for governance of SOEs, as reported by the Bangladesh Enterprise Institute (2004, p. 13) where it

has been ensured that there is a levelling of the playing field for State-owned Enterprises competing with the private sector by:

- Clearly separating the State's ownership role from its regulatory role
- Allowing more flexibility in capital structures while making sure that SOEs face competitive access to finance
- Becoming more informed and active shareholders by simplifying the chain of accountability through centralizing or more effectively coordinating shareholding responsibilities within the State administration
- Reducing political interference in day-to-day management
- Introducing a transparent nomination process for Boards, based on competence and skills
- Empowering Boards by clarifying their mandates and respecting their independence
- Separating the role of Chairman and CEO and giving Boards the power to appoint CEOs
- Systematically monitoring the Board's performance
- Improving transparency by strengthening internal controls
- Carrying out independent, external audits based on international standards
- Discouraging losing any financial assistance from the State
- Producing aggregate performance reports.

3.3.1 Global status of SOEs

Witherell (2005, p. 15) indicates that as far as the absolute number of SOEs is concerned, the picture is dominated by the former socialist countries, Czech Republic and Poland, where the number of SOEs is very large (over 1,000) due to the fact that their data includes all entities in which the State still retains a share. But apart from these two countries, there is a wide distribution of the number of SOEs, with Australia having 12 SOEs, Greece, Netherlands, Spain, Turkey, Germany, New Zealand, Korea, Denmark, Norway, Italy having between 25 and 50 SOEs, Canada, France, United Kingdom, Austria, Japan, Sweden, Finland having between 50 and 100 SOEs and Slovak Republic having 115 SOEs, as outlined in Figure 3.1 below.

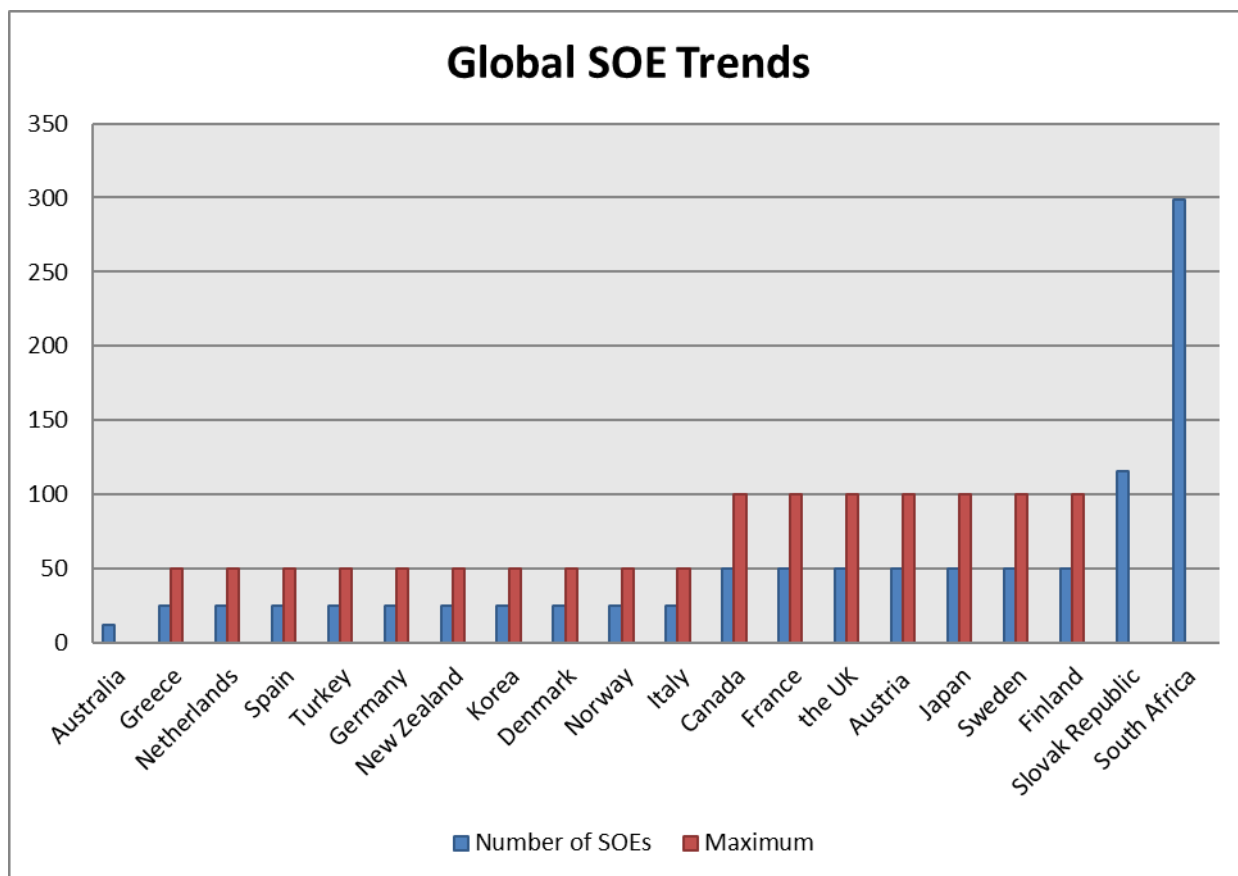


Figure 3.1 Global SOE Trends, Source Witherell (2005)

3.3.2 The SOEs' economic contribution

Witherell (2005, p. 25) indicates that at its peak, State ownership accounted for 20% of output in Africa, 12% in Asia and 10% in Latin America. Now SOEs produce approximately 15% of the Gross Domestic Product (GDP) in Africa, 8% in Asia and 6% in Latin America, and it has been estimated that globally, SOEs still account for 20% of investment and 5% of employment; therefore, SOEs play an important role overall in a number of major economies, including China, Russia, India, and to a lesser extent, in Brazil and South Africa. Chinese SOEs make up 35% of market capitalization; produce 18% of GDP and have a total market capitalisation equal to 40% of GDP².

According to Johnson (2005, p. 9), SOEs still represent a substantial part of the GDP, employment and market capitalisation and they are often prevalent in sectors whose performance is of great importance to Board segments of the population and to other parts of the business sector. However, a number of non-OECD countries, of which South Africa is one, also have a significant State-owned sector which in some cases is a dominant feature of the economy and these countries are in many cases reforming the way in which they organise and manage

their SOEs and have sought to share their experiences with OECD countries in order to support economic reforms at national level.

3.3.3 Governance of SOEs statutory authorities

Uhrig (2003, p. 30) explains that statutory authorities are established to undertake functions of Government or provide services to the community on behalf of Government. Essentially they represent a delivery vehicle for the implementation of established policy and intended outcomes based on those policies and these statutory authorities are often established by legislation, where a degree of operating independence is seen to provide either objectivity or promote efficiency depending on the nature of the task, where their contribution to objectivity and efficiency is through:

- Separating specialised activities from the broader and more complex set of requirements of a portfolio department
- Providing a narrow and clearly defined range of functions, which the authority is to fulfil
- Establishing a degree of independence through codifying the role of the authority and defining the power of the minister
- Creating a distinct body that might deal with cross-portfolio matters

According to Maggs (2013, p. 17), the fundamental rationale for State ownership in a principally market-based economy is that the company will better serve the needs of a country's population if it is State-owned and controlled rather than by private investors; and with this rationale, the governance and management of State-owned companies should be focused on ensuring that the companies fulfil their role to the maximum benefit of the country's population. However, Ludvigsen (2010, p. 17) argues that in practise, State ownership takes a number of forms ranging from Entities that are functionally, but not legally, distinct from the State to incorporated companies; hence the label 'SOES' is confined to those companies that are organised as separate Entities distinct from the Government, with the freedom to dispose of their own capital and income.

Frederick (2011, p. 9) observes that some countries will tend to emulate private sector practices while retaining 100% state ownership as seen in New Zealand, but in countries like Norway and other Nordic Countries, Governments there have decided that the best way to emulate private sector practices is to make SOEs partly private, and these are countries including Australia, New Zealand, and the United Kingdom, which have had considerable success with their corporate governance models.

3.3.4 Relationship between the Government and statutory authorities

Uhrig (2003, p. 62) states that the principle of responsible government requires Ministers to be accountable to Parliament (and ultimately the public) for government administration, including the activities of statutory authorities within their portfolios; and that this accountability is achieved in a variety of ways, including by statutory authorities reporting annually to Ministers who table those reports in Parliament, and by Ministers responding to questions in the Parliament about any matter within their portfolios, including the operations of statutory authorities. He contends that although not universal, the enabling legislation of a statutory authority typically provides a capacity for the responsible Minister to issue directions to the authority.

3.3.5 Trends of State representation in SOE Boards

Witherell (2005, p. 85) categorises countries according to three areas; in as far as state representation in Boards is concerned:

- Countries where there is no state representation: Korea, Australia, Denmark, Norway, Netherlands
- Countries where there is ONE or TWO state representation: Finland, Germany, Italy, Greece, Switzerland, United Kingdom
- Countries where there is a proportion of state representation or fixed percentage: Slovak Republic, Czech Republic, Austria, New Zealand, Mexico, Spain France

King (2009) has highlighted that in South Africa, the King codes of Governance Principles have emphasized that the Board should comprise a balance of power, with a majority being independent non-executive Directors. Phiyega (2013, p. 104) also reports that in South Africa there is a disparate and inconsistent approach in appointment of Boards. Appointment of state representatives is dependent on a type of SOE, and in some instances there are provisions for representation from the line ministry or even other departments, that most of the time are contained in the respective piece of legislation that established that SOE.

3.3.6 Employee Representatives in the SOE Boards

Witherell (2005, p. 86) states that a second major difference in the composition of SOE is the presence and number of employee representatives in the Boards. Reference is made to countries like Austria, the Czech Republic, Sweden, Finland, Norway, Denmark and Germany, where the presence of employee representatives on Boards is based on their Company Law requirements; whereas with regard to employee representation in SOE Boards, the practise differs from country to country. For instance in countries like France there is a requirement for a definite

number or percentage of employee representatives (varying between one third and two thirds of the Board) and in Greece each SOE Board must have two representatives of the employees.

In Switzerland, two out of nine Board members in three of the four federally-owned SOEs have to be employee representatives. Phiyega (2013) reported that in South Africa, the codes of governance principles do not specify whether or not there should be employee representation on Boards. Each Entity's legislation would normally determine this as there is no over-arching guideline and as a result there are disparities.

3.4 KEY CONSIDERATIONS IN THE CORPORATE GOVERNANCE BEST PRACTICES

Armstrong, Segal and Davis (2005, p. 20) identify key considerations for corporate governance as being risk management and internal control measures which are essential in a successful corporate governance system; and the South African King Code also provides clear-cut guidelines which emphasizes the Board's responsibility for the total process of risk in business; the importance of organisational integrity, and commitment to probity by drawing up an ethical code or statement of business principles monitored by the Board and Management.

3.4.1 Key Generic Corporate Governance Factors and Principles

Frederick (2011, p. 23) highlights seven key factors that define best practice countries, globally, in as far as corporate governance is concerned. These are noted in Table 3.2:

Table 3.2 Corporate Governance Factors

Leadership and legal barriers:	Best practice countries are proactive in setting the goal of better governance for their SOEs.
The importance of clear, considered and formal policies:	Best practice countries articulate clear policies at all levels.
Respecting extant policies:	Best practice countries have all parties who understand and respect the governance framework that has been put in place.
Awareness and training:	Best practice countries have well-educated Boards, but they also have well-educated public administration.
Communications :	Best practice countries have excellent communications between the executive, the Board and the owner.
Public transparency:	Best practice countries are transparent in order to enhance the accountability of both the SOE and the accountability of the public administration.
Privatisation:	Not all best practice countries privatise but all of

	them consider the potential impact of privatisation.
--	--

Adapted: Frederick (2011)

Ludvigsen (2010, p. 14) on the other hand, points out that governance decisions cannot simply be explained by conventional economic arguments, but even more basically we cannot explain governance decisions without also asking what motivates politicians when acting in their capacity as shareholders. This is taken further by Oso and Semui (2012, p. 8) who explore the cross-cutting principles covered in the corporate governance codes, which have their basis on the OECD, and look more in-depth at what determines corporate governance. They outline this as follows:

- Separating the roles of the CEO from those of the Board chairman
- Prescription of non-executive and executive Directors on the Board
- Improving the quality and performance of Board membership
- Introducing merit on criteria to hold top management positions
- Introducing transparency, due process and disclosure requirements
- Transparency on financial and non-financial reporting
- Protection of shareholders rights and privileges
- Defining the composition, role and duties of the audit committee

In line with the above principles, Witherell (2005, p. 66) reports that in most OECD countries surveyed, SOEs also publish bi-annual reports, such as in Norway, but only a few countries publish Quarterly Reports but Quarterly Reports have to be submitted by SOEs in New Zealand, Sweden, and Turkey and only by some SOEs in Norway. In France, only listed SOEs publish bi-annual reports. However, certain countries are issuing specific guidelines or booklets detailing key items to be included in Annual Reports as is the case, for example, in the state of Queensland, Australia, with the “Annual Reporting Guidelines for Queensland Government Agencies” and in Poland, with the Guidelines on Financial Reporting. In many OECD countries, large SOEs are also increasingly publishing consolidated accounts, as in Greece and France where a number of SOEs have begun to publish consolidated accounts since the year 2000.

3.4.2 Essential Imperatives of Corporate Governance

In exploring essential imperatives that are at the core of corporate governance, Oso and Semui (2012) identified the following key outcomes of good corporate governance:

- Adherence to the practice of good corporate governance enhances the efficiency of the corporate organisations
- Good corporate governance provides stability and desirable growth to the company

- Effective corporate governance reduces perceived risks, consequently reducing cost of capital
- Good corporate governance system demonstrated by adoption of good corporate governance practices and ethics builds stakeholders' confidence
- Adoption of corporate governance promotes stability and long-term sustenance of stakeholder relationship
- Potential shareholders aspire to enter into a relationship with enterprises whose corporate governance credentials are exemplary.

Haque, Jalil and Naz (2007, p. 8) concur with this viewpoint and further outline a few other guidelines and best practices on corporate governance which should receive considerable emphasis, such as:

- The position of the Chairman of the Board and CEO should be filled by different individuals
- A company should appoint Chief Financial Officer (CFO), a Head of Internal audit and a Company Secretary
- A company should have an audit committee as a sub-committee of the Board
- Directors, in the Annual Report, should give representation of the truth and fairness of accounts, compliance with accounting standard and proper internal control

According to Vig (2012, p. 191), there are five essential elements for good corporate governance, as illustrated in Figure 3.2 below:

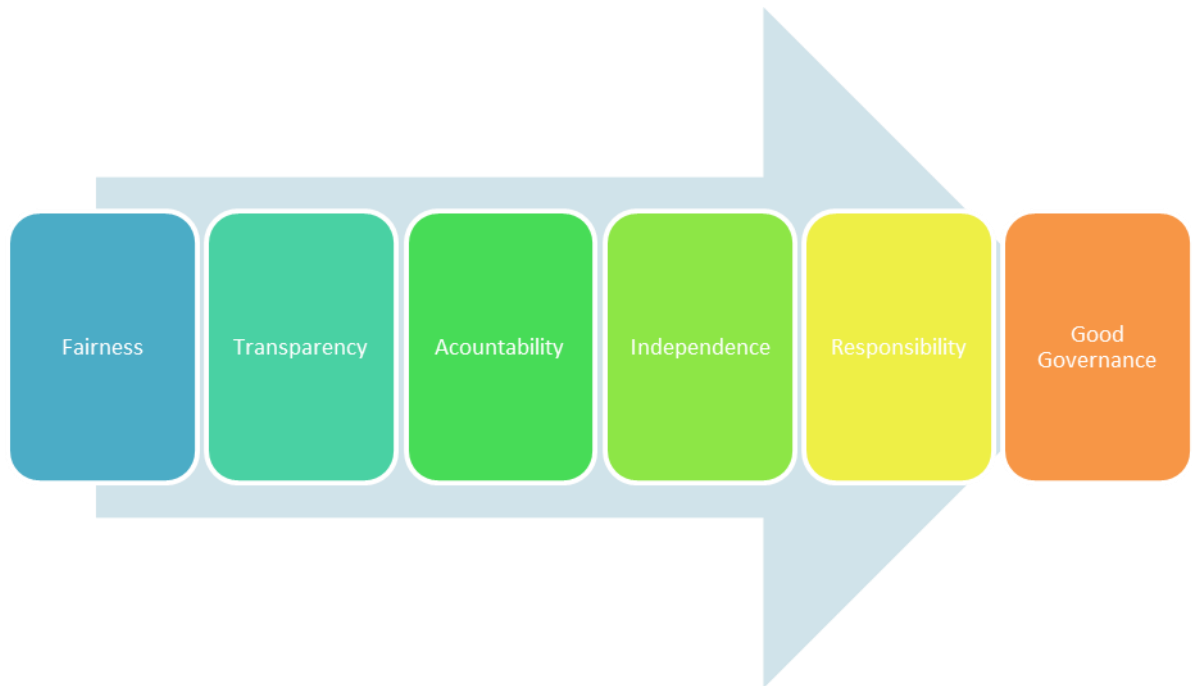


Figure 3.2 Elements of good governance; Source Vig (2012)

The above illustrates that it is important that companies reveal their information punctually, adequately, clearly, accurately and comparably, and that it should be easy for the stakeholders to access, because keeping these elements in view as supporting tools for providing this information, particularly in decision-making, is a priority.

Ilyas and Rafiq (2012, p. 174) agree with this view and highlight that **transparency** is extremely imperative to a good corporate governance system as it motivates shareholders confidence in the company, and that another notable corporate governance element which can enhance the function on good corporate governance is **accountability**. These depict the key factors that have influence on corporate governance and contribute to organisational success together with Interdependency, Social Awareness, Discipline, which are also key corporate governance elements that serve as dimensions to measure corporate governance, as depicted in Figure 3.3, as follows:

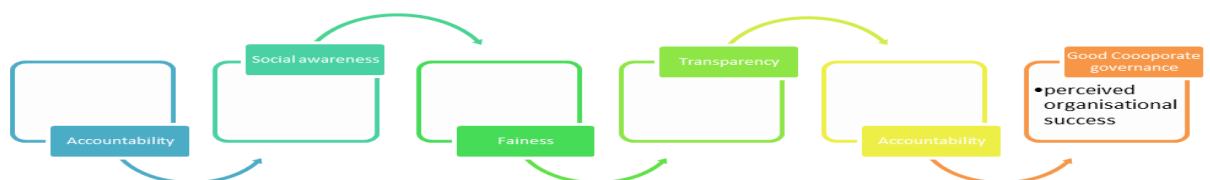


Figure 3.3 Elements of good governance, Source: Ilyas and Rafiq (2012)

To clarify this further, Ilyas and Rafiq (2012, p. 175) provide the following examples of what each of the above Corporate Governance elements mean (Table 3.3):

Table 3.3 Meaning of corporate governance elements

Discipline	The company has issued a “mission statement” that explicitly places a priority on good corporate governance.
Transparency	Management has disclosed clear and informative three or five year performance report.
Independence	The chairperson is an independent, non-executive Director and the Company has an audit committee; chaired by an independent Director
Accountability	The Board members and members of the management committee are substantially different’ and full Board meetings held at least quarterly.
Responsibility	The company acts effectively against individuals responsible for mismanagement and performing personal serving interests; and it has corrected such behaviour promptly; through defined mechanisms.
Fairness	There has not been any question raised over any decision by senior management in the past 5 years, where upper management are believed to have gained at the expense of middle or lower management
Social Awareness	Director’s remuneration has not increased faster than that of employees’ and the Company has an explicit public policy statement that emphasizes strict ethical behaviour.

Source: Ilyas and Rafiq (2012)

3.4.3 Other Perspectives of Corporate Governance

Rajendran (2012, p. 31) classifies the key factors for corporate governance into two different perspectives; which he asserts provide a framework for corporate governance that reflects interplay between internal incentives which define the relationships among the key players in the corporation and external forces like policy, legal, regulatory and market that together govern the behaviour and performance of the Entity. These are:

❖ The Corporation’s Perspective

Corporate governance is about maximising value to stakeholders subject to meeting the corporation’s financial and other legal and contractual obligations, which highlights the need for the Board of Directors to balance the interest of shareholders with those of other stakeholders like employees, customers, suppliers, investors and communities, in order to achieve long-term sustained value for the corporation.

❖ Public Policy Perspective

Corporate governance is about nurturing enterprises while ensuring accountability in the exercise of power and patronage by firms for larger public goodness, wherein the role of public policy is to provide firms with incentives and discipline to minimize the divergence between private and social returns and to protect the interest of stakeholders.

3.5 THE KEY FACTORS INFORMING SOE BOARD STRUCTURES

3.5.1 The independence of SOE Boards

Armstrong, Segal and Davis (2005, p. 19) state that the Board is identified as the focal point of corporate governance system because it is ultimately accountable for the performance and affairs of the company which calls for a unitary Board structure (common to countries falling broadly under the Commonwealth system of law) that requires a balance between executive and non-executive Directors. While the majority of non-executive Directors should be independent of management, the appointment of independent Directors, however, gives rise to a need for a more effective induction process for Directors and crafting of strategies to enable them to develop further ensuring that companies in both the private and public sectors remain competitive, with all Directors well-versed in their duties and obligations.

Witherell (2005, p. 87) observes that a critical characteristic of SOE Boards is their degree of autonomy, independence and being free from the day-to-day involvement of the Minister, and the presence of independent Board members, differs from country to country, whereas in many countries a specified percentage of Board members must be independent. This is the emerging scenario in different countries:

- **Greece** requires that at least 30% of Board members be non-executives, among which two must be independent, except when minority shareholders are represented on the Board
- In **France**, one third of the Board have to be “qualified personalities”, deemed to be independent from the state and the management
- In **Korea**, at least half the Board members should be “outside”, i.e. non-executive Directors, who are deemed to be independent
- In **Slovak Republic**, a majority of Board members have to be independent
- In the **UK**, the Combined Code on Corporate Governance is used as a benchmark for SOEs; which requires a majority of independent Directors on Boards of large companies
- In **Scandinavian countries** most if not all Board members are independent

- In the **Netherlands, Austria, Germany, Australia and New Zealand**, most SOE Board members (apart from employee or stakeholder representatives) come from the private sector

In South Africa, SOE Boards (King 2009) are determined by the King Codes of Governance principles, which states that the majority of non-executive Directors should be independent.

3.5.2 The Board structure and size

Witherell (2005, p. 83) states that the overall size of SOE Boards has been large in many countries, as in France where SOE Boards could once be comprised of up to 30 members but the size of SOE Boards has been generally reduced in recent years. This is the case in Sweden and New Zealand where the average size of SOE Boards has been reduced to 7 and a number of countries have also set limits for the size of SOE Boards, such as in Korea where Boards have up to 15 members. However, in South Africa (Phiyega 2013), there does not seem to be any existing regulation that regulates the number of Board members on SOE Boards. This is the trend seen in different countries (Table 3.4):

Table 3.4: International trends in regulations of Board members

Country	Minimum No. of Board members	Maximum No. of Board members	Average No. of Board members
Greece	7	13	None
Korea	None	15	None
Mexico	5	15	None
New Zealand	2	9	None
Switzerland	2	9	None

Source: OECD Comparative Report 2005

Witherell (2005, p. 84) observes that the functioning of SOE Boards differs greatly from one country to another according to the relative influence of the State. Business Roundtable (2012, p. 13) believes that in determining Board size, Directors should consider the nature, size and complexity of the corporation as well as its stage of development. However, the experiences of many Business Roundtable members who are CEOs of companies, suggest that smaller Boards often are more cohesive and work more effectively than larger Boards and having a variety of backgrounds and experience consistent with the corporation's need, is important to the overall composition of the Board.

3.5.3 The importance of Board Competency Level

Frederick (2011, p. 8) states that whereas it was uncommon in the past to limit the work of the Board to examination of the annual budget and financial statements, today Boards must

consider increasingly difficult technical issues including risk and risk management, financial instruments, financial reporting, systems, and other issues that may be less technical but challenging from a conceptual perspective such as corporate social responsibility. Stuckey and Errity (2012, p. 6) specify that the type of skill and experience most desired for Board success is industry knowledge, international business exposure, technology/Information Technology and operations. Frederick (2011, p. 14) agrees that the Board composition is important to the functioning of the Board and its performance and cites that the best practice is for the SOE Board members to have skills and experience that contribute to deliberations and respond to the needs of the SOE and that the type of Board members that are typically sought out have industry experience, financial expertise and also intangible qualities such as interpersonal skills, the ability to communicate, courage, diplomacy and leadership.

3.5.4 Age and term limits for Boards

Stuckey and Errity (2012, p. 6) found that mandatory retirement age limits are in place in companies in different countries. However, fewer than 50% of public companies across market capitalisation and industry categories have term limits, but for those companies that have instituted age limits for Directors, the most common retirement age across all company sizes is 72. Now age limits are increasing so that in 2008 about one third of small and mid-cap companies set 72 as the mandatory retirement age and by 2011, more than one-half did so. Currently mid- and large-cap companies have moved their retirement ages to 73, 74, or 75 in significant numbers.

Armstrong, Segal and Davis (2005, p. 19) state that in South Africa it was not considered appropriate to prescribe age limits or constraints on the length of service for Board members, largely due to skills shortage and although the King Code makes no recommendations for the size of Boards, institutional investors and regulators have raised issues regarding this which has resulted in a number of Boards reducing the size of Boards to conform to corporate governance norms.

3.5.5 The Board nomination process

Witherell (2005, p. 90) states that the nomination of SOE Boards is sometimes complex and may also lack transparency, and very few countries have set up clearly defined processes for the nominations of SOE Boards; and because political influence in the nomination process is strong in a number of OECD countries, the process can and often degenerates into a situation characterised as “political interference”; which is often identified as a main weakness of SOE governance. Too often, SOE Boards are populated with people chosen for their political allegiance rather than business acumen and this is prevalent in choosing Chairman or CEO. In South Africa the practice of political influence in the nomination process of Board members serving in SOEs, also seems to be prevalent.

3.6 THE EVOLUTION OF DIFFERENT CORPORATE GOVERNANCE APPROACHES

3.6.1 The original corporate governance approaches

3.6.1.1 The “comply or explain” approach

One of the original corporate governance approaches is described by Nedelchev (2013, p. 79) as having the following characteristics of the “comply or explain” approach:

- the approach gives options for decisions made by managers and shareholders taking into account long-term interests of the company
- the approach stimulates companies to follow good practices, which are fit for their corporate culture, without taking into account factors like company size, ownership structure and complexity of business actions
- the approach reduces the participation of regulatory authorities to imposition of minimum standards.

This “comply or explain” approach is at the heart of good practices in corporate governance as the all-important issues relating to corporate governance are a combination of law and codes. Nedelchev (2013, p. 78) further describes how the standard-based approach, “comply or explain” was initially modified to a rule-based approach called the “comply or else” approach. This modified approach differs from the original one by its mandatory obligation to comply with corporate governance standards, which are legally binding. Failure to obey these standards result in sanctions. This approach was adopted in the USA by Sarbanes-Oxley Act in 2002, and requires a higher cost of compliance and focus on compliance by the Board and Management.

3.6.1.2 The “apply or explain” approach

Walker and Meiring (2010, p. 1) explain that the South African *King III* Report moves from a “comply or explain” approach to an “apply or explain” approach allowing companies to deviate from a suggested practice and still comply with the overarching corporate governance principles of fairness, accountability, responsibility and transparency requiring an explanation of how the principles and recommendations were applied, or if not applied, the reasons for not doing so.

Nedelchev (2013, p. 79) also describes how the German legislation implements the “comply or explain” approach through putting in place requirements for disclosure of deviations from the code provisions without any reasons for the deviation. This modified approach is sometimes referred to as the “comply or disclose” approach. However, in the Netherlands “the comply or explain” approach was modified to the South African adopted approach of “apply or explain”. This modified approach contains recommendations on principles and practices rather than strict rules and those companies are advised to act accordingly, to use their own discretion as to

applying the recommended principles and practices. However, it is expected of each company to explain why it chose not to comply for example in annual reports as this approach requires regular reporting to stakeholders for critical scrutiny.

3.6.2 Other Corporate governance approaches

3.6.2.1 Board-Centralised approach

Frederick (2011, p. 11) states that the OECD guidelines on Corporate Governance of State-owned Enterprises propose an approach where decision making is more rational, more focused, based on competencies, which helps avoid confusion and reduce the potentially negative impact of politicisation. These guidelines suggest a governance structure composed of three distinct layers, each with a distinct role as illustrated in the following Figure 3.4:

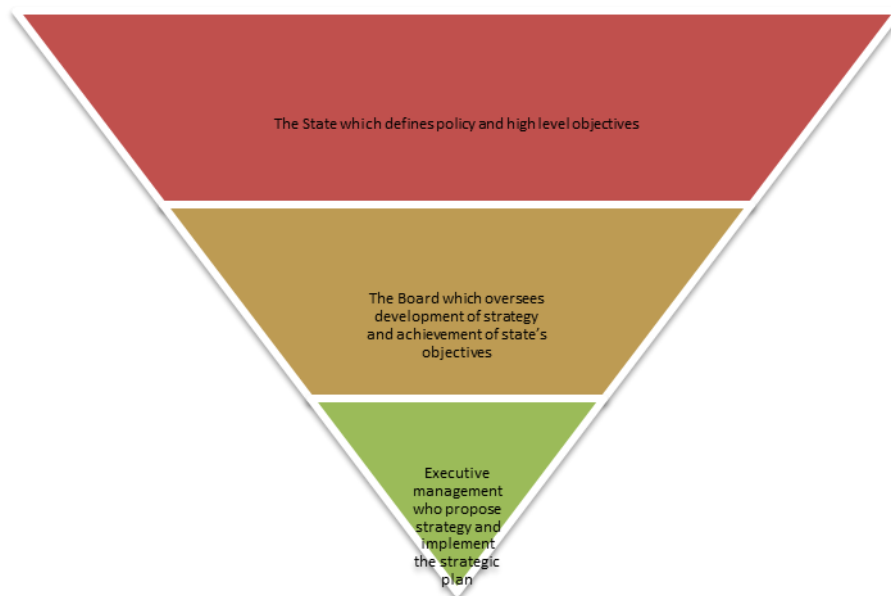


Figure 3.4 Illustration of corporate governance structure levels Source: Frederick 2011, p. 11

The above diagram highlights that under this ideal scheme the Board plays the central function in the governance of the SOE, as it carries the ultimate responsibility for SOE on behalf of the owners, which in a sense, is no different from a private sector Board; and there are a number of countries that have implemented this model to good effect. There are also a number of countries where the idea is challenged in reality. The principal impediments to best practices are:

- The irreconcilable objectives issued by the State
- How the State defines its role and the role of the Board

The Business Roundtable (2012, p. 15) is of the view that no one-leadership structure is right for every corporation at all times and Boards of different corporations may reach different conclusions about the leadership structures that are most appropriate for their corporations at any particular point in time. Nevertheless, there is recognition of the importance of the independent Board leadership.

3.6.2.2 *Conformance vs Performance approach*

Another approach described by Frederick (2011, p. 13) categorises two corporate governance approaches, as indicated in Figure 3.5, below:

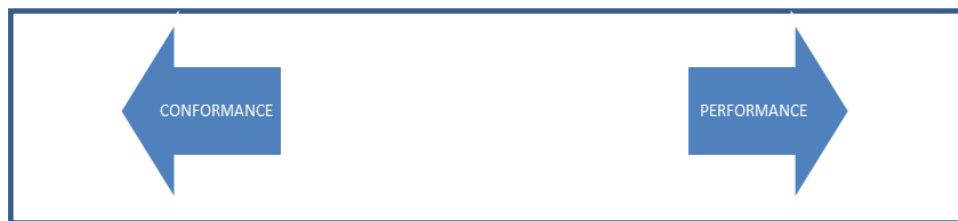


Figure 3.5 Categorise two corporate governance approaches, source: Frederick (2011).

In describing this, Frederick (2011) cites that conformance emanates from a view that the role of the Board is to prevent corporate excesses and political embarrassment emanating from misuse of public funds and that within the Board, a compliance mentality often manifests itself through a preoccupation with the budget-setting process and monitoring variations from budgets and plans, often at the expense of larger issues such as effectiveness of the overall business strategy. However, he further cites that focusing excessively on conformance can give Boards and owners a false sense that they are fulfilling their fiduciary functions and what has been a visible trend over the past decade among SOE Boards is a greater concern for the drivers of performance.

3.6.2.3 *The Stakeholder/ Shareholder-Centralised approach*

Gstraunthaler (2010, p. 149) explains that the King III Report includes two models of corporate governance: ‘stakeholder inclusive’ and ‘enlightened shareholder’. The first model means an inclusion of legitimate interests and expectations of stakeholders. In an enlightened shareholder model these interests and expectations would only be considered if they were in the interest of shareholders whilst the stakeholder-inclusive approach demands the inclusion of the interest and expectations of all stakeholders if it is in the best interest of the company.

This is supported by Wicaksono (2009, p. 38) who illustrates a form of corporate governance approach that focuses on shareholders and stakeholders as per the following model in Figure 3.6:

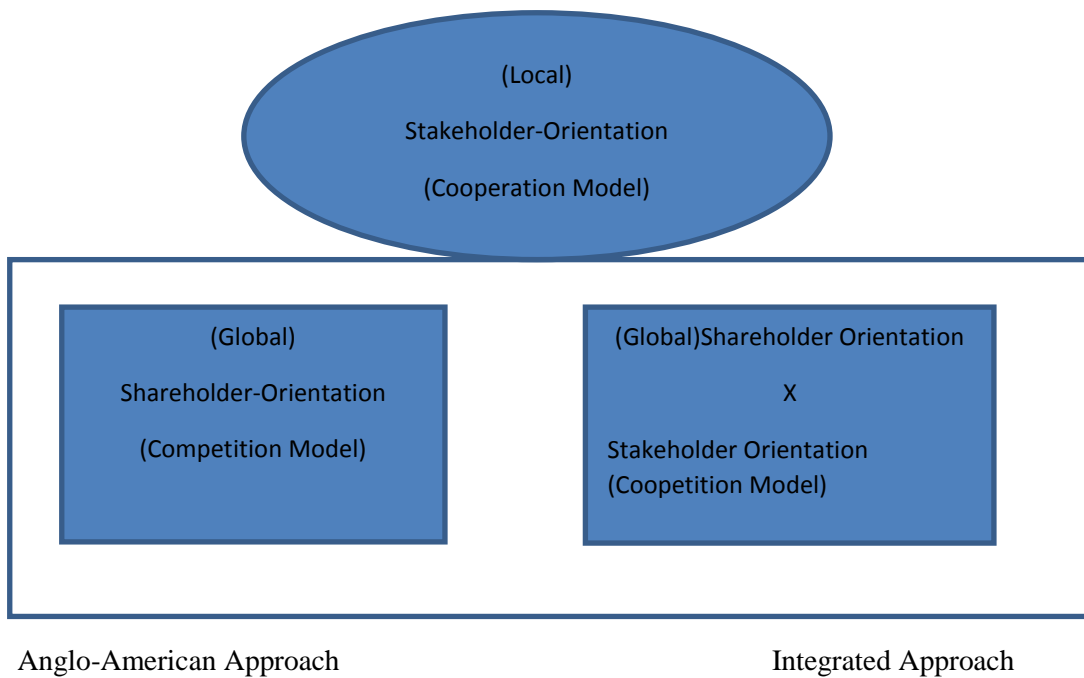


Figure 3.6 approach that focuses on shareholders and stakeholders: Source: Wicaksono (2009)

This approach, called the Temasek Holdings’ corporate governance model, incorporates both the orientation of Shareholder-Value and Stakeholder-Value and applies the principles of keeping corporate governance situational and strategic, where both shareholders and stakeholders are given a place in the determination of success and accountability. This approach is called the integrated “global model”.

3.6.2.4 The Three-Pillars approach

Another corporate governance approach described by Wicaksono (2009, p. 39) highlights three focus areas as drivers of corporate governance in SOEs that contribute to effective Board functioning and is known as the “**Three Pillars of SOE Reform**” as per Figure 3.7 below:

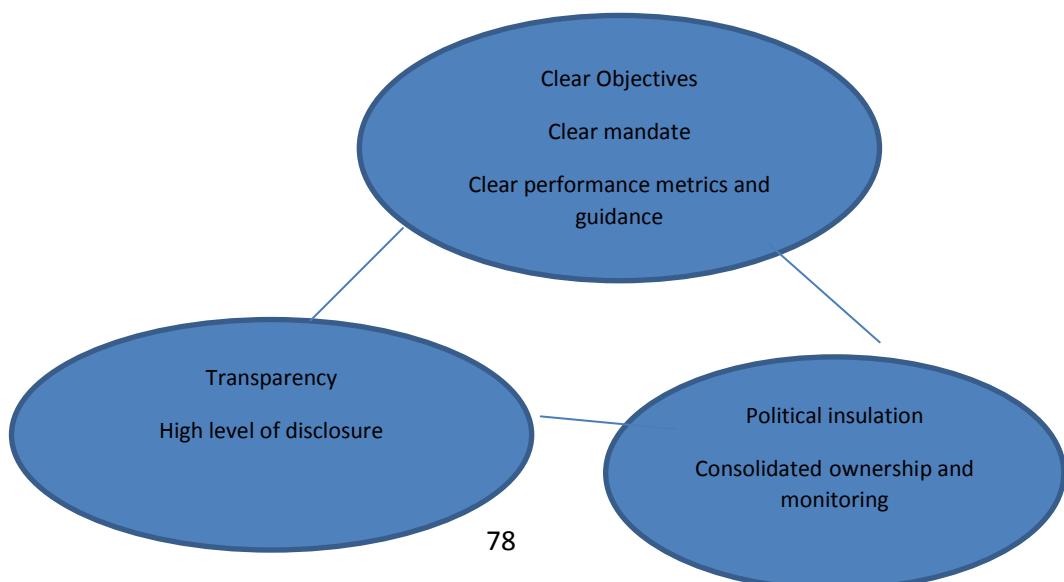


Figure 3.7 Three Pillars of SOE Reforms: Source: Wicaksono (2009)

In this approach Wicaksono (2009, p. 40) argues that corporate governance reform is a viable option if SOEs are to be profitable and efficient, or at least at the same standard as their private firm counterparts in the same industry. Therefore the corporate governance reform approach must tackle all three issues in an integrated manner, otherwise the results would be disappointing. This view is shared by Gibbons (2013, p. 9) who agrees that policies, structures and processes are just ways to position the company to achieve good governance, but good relationship is important to make corporate governance a living reality that delivers benefits. In the end it is its Directors that have to take responsibility, not only for performing the duties of governance, but for giving them life.

3.7 UNDERSTANDING ROLES AND RESPONSIBILITIES OF KEY PLAYERS

Uhrig (2003, p. 25) recognises that for an Entity to succeed, all relevant parties must have a clear understanding of their roles and responsibilities in the governance framework, as this assists in ensuring that effort is directed towards the goals of the organisation and that individuals carry out their responsibilities in an efficient manner and in accordance with the expectations of those delegating the power. The Business Roundtable (2012, p. 5) agrees with this view and states that effective corporate governance requires a clear understanding of the respective roles of the Board, Management and shareholders, their relationship with each other, and their relationships with others that have an interest in the corporation and its well-being.

3.7.1 The Role of the Board

Uhrig (2003, p. 27) outlines the role of the Board, emphasizing that the Board is accountable to shareholders, to the responsibilities delegated to it, including the financial success of the company and outlines other responsibilities of the Board, as follows:

- Approving the strategic goals developed by Management
- Ensuring Management achieves its strategic and other goals
- Providing the company with a strong sense of purpose
- Influencing the culture and standards of the company
- Appointing and removing the CEO
- Ensuring Management institutes adequate reporting systems, internal controls and systems for managing risk
- Ensuring Management delivers appropriate product quality

- Ensuring operations of the company take into account the expectations of customers, employees and the community to the extent that they are limited to the interests of the owners
- Approving matters of major capital allocation.

Business Roundtable (2012, p. 6) also classifies the Board's specific corporate governance responsibilities in addition to that of selecting and overseeing the CEO, as also including the following:

- Planning for senior management development and succession
- Reviewing, understanding and monitoring the implementation of the corporation's strategic plans
- Reviewing and understanding the corporation's risk assessment and overseeing the corporation's risk management processes
- Reviewing, understanding and overseeing annual operating plans and budgets
- Focusing on the integrity and clarity of the corporation's financial statements and financial reporting
- Advising Management on significant issues facing the corporation
- Reviewing and approving significant corporation actions
- Reviewing Management's plans for business resiliency
- Nominating Directors and committee members and overseeing effective corporate governance
- Overseeing legal and ethical compliance
- Having an effective mechanism for evaluating performance on a continuing basis

3.7.2 The individual fiduciary duty of Directors

Nepad (2013, p. 71) explains that in terms of the South African company law, the fiduciary duties of Directors are categorised into separate sub-duties which include acting with an unfettered discretion, for a proper purpose, within the limits of powers conferred upon the particular Director and without a conflict of interest. All these duties form part of one overriding duty, namely to act in good faith for the company as a whole, where Directors must act in good faith in the interests of the company seen as the interests of the shareholders collectively.

Uhrig (2003, p. 28) further states that Directors are responsible both as individuals and as a collective for any actions of the Board; and must therefore act honestly, with due care and diligence. Therefore, all Directors must be aware of their fiduciary duties to the company and must not allow conflicting interests to interfere with the discharge of those duties. This they can do if they are fully informed by having adequate access to and interaction with Management as well as access to relevant information.

According to Business Roundtable (2012, p. 13), Directors with relevant business leadership experience are beneficial to the Board as a whole and to the corporation, as these Directors can provide a useful perspective on business strategy and significant risks as well as understanding of the challenges facing the business. Corporations should assist Directors who do not have a significant background in a corporation's business or industry through orientation programmes and other forms of trainings, so that they remain informed about issues and developments relevant to the corporation's business and industry. Stuckey and Errity (2012, p. 34) also emphasize the importance of proper Director on-boarding which should incorporate a thorough orientation process that acclimatizes new members to the company, its Board and its shareholders, as this is of value to the Entity and the individual Board Director.

3.7.3 The role of the Chief Executive Officer and Management

The Business Roundtable (2012, p. 10) states that it is the responsibility of the CEO and management, under the CEO's direction, to operate the corporation in an effective and ethical manner and it is the responsibility of management, being overseen by the Board, to operate the corporation in an effective and ethical manner in order to produce long-term value for shareholders. The Board of Directors, the CEO and Senior Management should set a 'tone at the top' that establishes a culture of legal compliance and integrity. The Directors and Management should never put personal interests ahead of or in conflict with the interests of the corporation. Their responsibilities include:

- Operating the corporation
- Strategic planning
- Identifying, evaluating and managing risks
- Annual operating plans and budgets
- Selecting qualified management and establishing an effective organisational structure
- Accurate and transparent financial reporting and disclosures

Frederick (2011, p. 11) also confirms that Chief Executive Officers (CEOs) in Norwegian firms are not allowed to sit in the Board in the firms where they hold managerial positions, which suggests that there is less scope for managerial influences on Board appointments in the present context.

3.7.4 The role of Board Committees

Business Roundtable (2012, p. 16) proposes that virtually all Boards of Directors of large, publicly owned Corporations should operate using committees to assist them. A committee structure permits the Board to address key areas in more depth than may be possible at the full Board level, as the functions generally performed by Board Committees, such as the audit and the compensation/remuneration committees, are central to effective corporate governance.

3.7.4.1 The Audit Committee

Business Roundtable (2012, p. 17) points out that every publicly owned corporation should have an Audit Committee of at least three members, who should all be independent Directors. These should meet minimum financial literacy standards and at least one member of the Audit Committee should be an financial expert in this field. All Audit Committee members should understand the Corporation's business and risk profile and apply their experience and judgement with an independent and critical eye to the issues for which the Committee is responsible. They should:

- oversee the Corporation's risks assessment and risk management process
- oversee the Corporation's internal audit function, including reviewing the scope of the internal audit plan, reports submitted by the internal audit staff and Management's responses, and the appointment and replacement of the senior internal auditing executive
- hold Audit Committee meetings at least quarterly, with additional meetings held frequently enough to allow the committee to monitor the Corporation's financial reporting appropriately
- hold private sessions on a regular basis with Senior Management responsible for the Corporation's legal function to facilitate the communication of concerns regarding legal compliance matters and significant legal contingencies

3.7.4.2 The Compensation/ Remuneration Committee

Business Roundtable (2012, p. 23) explains that every publicly owned corporation should have a committee composed solely of independent Directors that addresses compensation issues. It should have at least three members and be composed solely of independent Directors' and all committee members should have and maintain sufficient knowledge of executive compensation and related issues to perform their duties effectively. The compensation committee's responsibilities include:

- Overseeing the corporation's overall compensation structure, policies and programmes
- Establishing or recommending to the Board performance goals and objectives for the CEO and other members of Senior Management (or, in some companies, in conjunction with the corporate governance committee)
- Establishing or recommending to the independent Directors compensation for the CEO and Senior Management
- Seeing to it that the corporation's compensation policies reflect the core principle of pay for performance and should establish meaningful goals for performance-based compensation paid to senior management

- Seeing that the corporation's compensation policies and performance goals are closely linked to its strategic plan
- Understanding all aspects of an executive's compensation package
- Reviewing and understanding the maximum pay-out due under multiple scenarios (such as retirement, termination with or without cause, and severance in connection with business combinations or the sale of a business)
- Looking more broadly at the overall compensation structure of the enterprise to determine that it establishes appropriate incentives for management and employees at all levels and that these incentives do not encourage inappropriate risk-taking
- Seeing that the corporation has in place appropriate practises to mitigate risks created by compensation programmes

3.7.5 The role of SOE employees

Witherell (2005, p. 86) states that the underlying rationale for having employee representatives on Boards in SOEs is to increase accountability to employees as stakeholders and to provide for employees and the CEO as well as senior officers. Last but not least, employee representation may be a source of primary information for outside Board members regarding the situation within the SOE. The rationale for having employees represented on SOE Boards may be reinforced by their role as "examples" of good practice in terms of social and employment policy and the benefits will depend heavily on critical factors such as the competence and independence of employee representatives and their respect of confidentiality obligations as well as their acceptance and co-operation with the Board and Management.

3.7.6 The role of the State

Uhrig (2003, p. 33) states that the ministerial responsibility for statutory authorities is established through legislation which indicates areas where each minister has responsibility, where a major determinant of the governance arrangements of statutory authorities is their enabling legislation which gives detail to the relationship between the Minister and the SOEs, establishing the level of independence within which the SOEs will operate. In summary a Minister's involvement in the governance of statutory authority will range from appointing Boards, to setting strategic objectives for the SOEs against which they are expected to deliver.

3.8 THE VALUE AND BENEFITS OF CORPORATE GOVERNANCE

According to Oso and Semiu (2012, p. 1) the great value of corporate governance has in recent years created an unimaginable surge around the world and the phenomenon is also evident on the Continent of Africa in the number of national corporate governance

reports that have been produced and published and the impact of good corporate governance on economic performance.

3.8.1 Good company performance

Vig (2012, p. 189) adopts a perspective that says that corporate governance should maximise long-term shareholder value. Therefore the major issue of corporate governance is assuring the shareholders that the managers and the executive power act more in the interest of the shareholders than in their own interest. Schulschenk (2012, p. 17) questions whether good corporate governance translates into good company performance, measured in purely financial returns, as the results are mixed, although many studies have shown a strong correlation between good corporate governance and financial profit.

3.8.2 Good company ethics

Vig (2012, p. 189) maintains that corporate governance is about ethical conduct in business, where ethics are concerned with the code of values and principles that enable a person to choose between right and wrong. Therefore managers have to make decisions based on a set of principles influenced by the values, context and culture of the organisation. According to Uhrig (2003, p. 64), by actively exercising the ownership rights through clear and realistic objectives, the state can play an important role in monitoring corporate performance and establishing good corporate governance practices to the benefit of the corporations and the public at large.

3.8.3 Improved perception of the Country

Walker and Meiring (2010, p. 3) argue that enhancement of corporate governance is increasingly seen as a means to building shareowner confidence, adding value to the company and attracting foreign investments to South Africa. Therefore the implementation of *King III* Codes and compliance with the governance requirements of the common law and the new Companies Act should accordingly not be viewed merely as imposing bureaucratic and formalistic requirements which divert energy and resources away from the actual running of the business. They argue that the increased emphasis on corporate governance structures, procedures and principles forms part of a worldwide movement wherein the *King III* together with the new *Companies Act* provides a world class and comprehensive code of conduct for South African business which should be taken into account by all business people in their management of companies.

3.9 THE GENERIC CHALLENGES IN CORPORATE GOVERNANCE

3.9.1 Complacency of Boards

In the United States of America (King 2009, p. 5) the cost of compliance to corporate governance is seen as being burdensome, measured both in terms of time and direct costs and the danger is that the Board and management may become focused on compliance at the

expense of the enterprise. Witherell (2005, p. 7) states that SOEs face specific difficulties in terms of governance. Firstly SOEs are often effectively protected from two major threats that are essential in policing management behaviour in public corporations, i.e. the threat of takeover and bankruptcy, and therefore SOE management may enjoy more discretion than in the case of private ownership; and secondly, accounting and disclosure may not reach private sector standards but rather be oriented toward public expenditure control, which may be at the same time more burdensome and not fulfil the requirements of timeliness and materiality central to private sector disclosure practices.

3.9.2 Internal Board challenges

Oso and Semui (2012, p. 18) argue that there have been various challenges in the process of implementation of the various corporate governance codes and these are evident worldwide. They cut across different sectors, and some of these challenges are epitomised as follows:

- Technical incompetence of Board and management
- Boardroom squabbles and relationship among Directors
- Squabbles arising from knowledge gaps and relationship between management and staff
- Increased level of risks
- Ineffective integration of Entities
- Poor integration and development of information technology systems, accounting systems and records
- Inadequate management capacity
- Insider-related abuse
- Rendition of false returns
- Continued concealments
- Ineffective Board/ statutory audit committee
- Inadequate operational and financial controls
- Absence of a robust risk management system
- Discriminatory disposal of surplus assets
- Non-transparency and inadequate disclosure of information

3.9.3 Unclear reporting lines for Boards

Witherell (2005, p. 7) alludes to the fact that corporate governance difficulties may also derive from the fact that in the case of SOEs there is often no clear owner but competing owners and stakeholders with widely different objectives, as there is a complex agency chain with multiple and sometimes remote principals involving Ministries, the Parliament or interest groups, and the

SOE itself. To structure this complex chain of accountability in order to make sure that SOE management makes efficient decisions is a real challenge.

The Bangladesh Enterprise Institute (2004, p. 17) points out that as a result of political turmoil and vested interests on SOEs, the process of good corporate governance framework in Bangladesh is greatly hindered and the following are the issues that hinder the enforcement of corporate governance as per Figure 3.8 below:

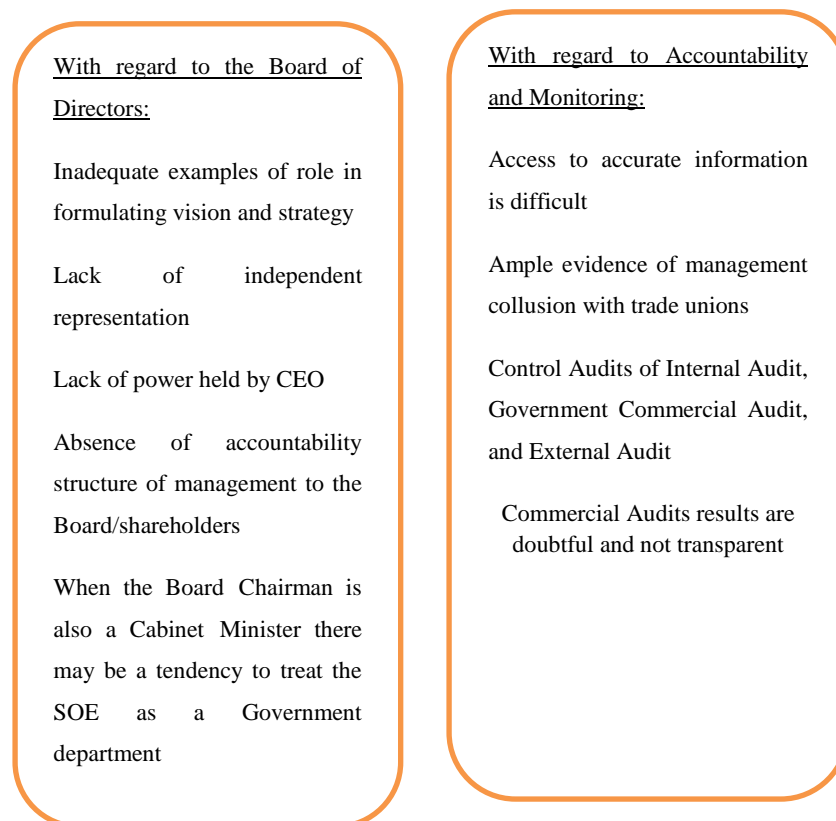


Figure 3.8: issues that hinder enforcement of corporate governance

Tukuta, Moretime and Rozariwo (2012, p. 4) explain that previous studies have revealed that there is still a lack of continentally formulated principles of good corporate governance that are to be identified as African standards so as to master conflicts of interests with overseas investors. They argue that Africa has been greatly affected by imported culture and principles on corporate governance and these have hindered progress towards attaining good corporate governance practices due to uniformity of two operating environments.

3.9.4 Lack of Board credibility

Schulschenk (2012, p. 28) alludes to the fact that South Africa's real challenge is corruption and that is where credibility issues are coming in, as there are concerns with regard to whether one can really apply corporate governance principles in an environment which is largely perceived

to be corrupt. As a result, corporate governance in South Africa has become institutionalized and Boards only have one choice which is not to do anything dishonest, as bribery, corruption and anti-competitive behaviour are absolutely unacceptable and must not be practiced.

Tukula, Moretime and Rozariwo (2012, p. 3) argue that bad corporate governance can be brought about by lack of integrity in the selection criteria for choosing leaders and managers who run corporations. This is because in Africa most business leaders are imposed on people according to their political affiliation and these leaders may lack experience, appropriate training and proper qualification. This argument brings focus to the need to re-emphasize the importance of integrity when running business ventures wherein nepotism has been criticised, since it negatively affects good corporate governance practices.

3.9.5 Compromised Reporting lines

Uhrig (2003, p. 66) maintains that where a CEO establishes regular contact with the Minister, the relationship between the Minister and the chairman becomes superfluous, the accountability process is further complicated in a number of ways by the existence of a Board with less than full governing powers. In such cases the Board would often become captured and fail to provide governance, tending to become an ally of the CEO rather than an objective critic. Consequently management may use a Board to obtain agreement for activities that may not otherwise be agreed by the Minister and then use the justification of 'Board approved' to explain why certain actions are occurring.

Haque, Jalil and Naz (2007, p. 5) indicate that SOEs face specific difficulties regarding their governance where they derive from a number of characteristics that may be more or less acute, depending on countries' administrative traditions, the recent State sector reforms and the degree of liberalization of the economies concerned.

Frederick (2011, p. 10) maintains that what differentiates best practices and bad practices is the manner in which the Government influences the course of the SOEs that it controls, where such influence is informed and considered, takes into account the SOE's objectives, goes through the proper channels and is not driven principally by political needs. Under bad practices, government interventions may be frequent and considerably less circumspect, take the form of a directive in response to a government need, and may override the needs of the SOE. Such a situation puts Boards in untenable positions, torn between their duty of loyalty to the SOE and the need to act on behalf of owners and the State and perform their corporate governance role.

3.10 THE GOVERNANCE AND OWNERSHIP MODELS OF SOEs

The corporate governance issues and challenges discussed in chapter 2 points to contestations of the current model of corporate governance in the country. The Presidential Review Committee

instituted by President Jacob Zuma in 2010 bears testimony to these issues as it was set up to investigate, inter alia, the impact of governance models on SOE performance in South Africa. This study recognises the importance of governance models as variables worth considering, as they have implications on how the SOEs perform. The literature review on the OECD and non-OECD countries discussed in this chapter, points to three main types of governance models, namely, centralised, decentralised and dual models (World Bank, 2006), analysed with a view to explicate their implications on corporate governance globally and in South Africa.

3.10.1 Centralised model

According to Vagliasindi (2008), the centralised model has often resulted from recent implementation of a privatisation programme. In this model, most SOEs have been put under the responsibility of one ministry (World Bank, 2006). The case in point is the model adopted by Norway and Sweden, which is used to preside over the most important SOEs. The main advantage of this model is the clear accountability of SOEs to the government and the ability for government to exert fiscal supervision and to form a coherent policy. The downside of this model is the likelihood that the designated ministries will command sectoral expertise. In the absence of sound sectoral expertise within the line function ministry, the performance and monitoring of SOEs is likely to suffer. The line function ministries are designed to provide oversight to avoid the principal-agent problems. Effective oversight is practical, provided the ministry has the technical capacity not only to develop shareholder compact with the Boards, but also to enforce them through a rigorous monitoring system.

3.10.2 Decentralised Model

Vagliasindi (2008) posited that the decentralised governance model is characterised by a situation in which the line ministry exercises the ownership function, a model said to have been prevalent in Eastern European countries, such as the Czech Republic, Poland and Hungary, prior to their transition to a market economy. Key challenges noted with this model of governance relate to the separation of ownership and regulation, and the risk of government interference in the day-to-day management of the SOEs. This model has serious implications for the Board as the custodian of corporate governance, as it likely to be pressured to address or play a political role rather than a professional role.

3.10.3 Dual Model

The dual model is common among developing countries such as South Africa, Mexico, and Turkey (Vagliasindi, 2008; World Bank, 2006). In a dual model, both the sector ministries and ministries such as Finance or Treasury, are responsible for exercising ownership rights. Different ministries may also have the right to nominate representatives to the Board. Similarly, dual responsibilities may include the approval of major transactions and strategic plans as well. Although the dual model is practiced in South Africa, its success hinges on a strong governance arrangement between different ministries, without which a lack of capacity to hold the Board

accountable may lead to multi-principal agency problems. However, risks associated with this model can be addressed through formal contractual arrangements between senior officials and ministries to reinforce accountability, and so bridge the political and administrative interface (Vagliasindi, 2008).

In South Africa, the President enters into a performance agreement with the line function Ministers, who are in turn expected to sign a performance contract with an SOE through the Board chairperson. Within the provinces, which are the main subject of this study, the Premier of the province will enter into performance agreements with members of executive council (MECs) who also in turn sign performance contracts, called shareholder compacts, with an SOE, through the Board Chairperson. Provincial Treasuries and offices of the Premier offer support to departments to develop and implement action plans that address their identified areas of responsibilities or mandates. These measures affirm the importance of performance monitoring, however issues relating to agency problems remain, considering the multiple reporting framework which binds SOEs to function in compliance mode.

3.11 CONCLUSION

From the above discussion in this chapter, it is evident that countries worldwide have long embraced the concept of corporate governance and use SOEs as vehicles to deliver services to their citizens. The nature of challenges experienced internationally is common. However, Armstrong, Segal and Davis (2005, p. 33) argue that while the policy-makers and regulators can take the formal requirements of corporate governance to a certain point, it still devolves on the Boards of companies in the private and public sectors to ensure that corporate governance as a guide to actual practice remains a priority issue. This is an economic imperative, given the global competition for international capital which is unrelenting in demanding sound corporate governance standards and the highest accountability and probity.

Well-functioning State-owned enterprises, following internationally accepted standards of good corporate governance that are appropriately designed for their particular structure of state ownership and control, would provide an immense boost to national standards. However, this implies a measure of political will and assumes that a country has appropriate institutions for credible Director training and development as well as readily available accounting and auditing skills.

It is important to note that (Haque, Jalil and Naz 2007, p. 25) while we have created legal requirements for good corporate governance, rushing to institutionalize the culture of governance through legal and regulatory requirements or through external pressures will do more harm than good. The objective of practising good governance is to help the Entity as well

as the society and the nation as it actually promotes a mechanism to use the capital market to enhance the growth of the Entities. For this to happen it is important that corporate sectors are educated to understand the benefits from good corporate governance under such a scenario, so that the state of governance in the SOEs will mature.

CHAPTER 4: RESEARCH METHODOLOGY AND DESIGN

4.1 INTRODUCTION

The previous chapter addressed a plethora of literature review on corporate governance trends and patterns nationally and internationally. Hart (1998) illuminates that literature reviews serve to distinguish what has been done from what needs to be done in order to make a meaningful contribution to the existing corpus of knowledge in a particular field of study, synthesising and gaining new perspectives. By means of the literature review, the researcher was able to establish why corporate governance has assumed prominence recently in South Africa and indeed, internationally. In the South African corporate landscape, different versions of King Reports demonstrate how South Africa seeks to address corporate governance challenges by means of law and codes of good practice.

At the international level, the researcher highlighted the key international corporate governance structures, global SOE trends, key international trends in regulation of SOE boards e.g. looking at the OECD Comparative Report, to mention but a few. The researcher was also able to interrogate and dissemble the notion of corporate governance from a variety of theoretical perspectives. Accordingly, the researcher argued that the current model of corporate governance in South Africa is under contestation, and looked at different models in different countries which will inform the best fit for South Africa. Legislation, regulations, policies and procedures are designed to align the interest of the shareholders and those of the managers. Although controls are desirable, their paucity is based on their inability to guarantee performance. As a result, issues such as leadership and organisational culture are equally important in fostering accountability and transparency amongst Boards and management alike.

This chapter is dedicated to the research design and methods utilised in the study. Fundamentally, literature reviews assist in shaping the research design and methodology as they shed light in terms of approaches needed, based on the types of issues and the identified research questions. This research has been undertaken to achieve the overall aim of this study, which is to explore critical factors of corporate governance practices applied by the Schedule Three SOEs in KZN in order to contribute an understanding and recommend strategies to improve corporate governance as expressed through four sub-objectives. These objectives are to determine critical factors that may be used to describe corporate governance practices, to evaluate trends and to provide responses to the research questions.

The research design addressed the following sub-objectives:

Sub-objective 1: To identify internal and external factors contributing to the understanding of corporate governance practice of Schedule Three SOEs.

Sub-objective 2: To evaluate the level of awareness and knowledge about corporate governance practices among the different categories of Schedule Three SOEs.

Sub-objective 3: To examine the extent to which the different categories of Schedule Three SOEs comply with the provisions for corporate governance.

Sub-objective 4: To recommend strategies for improvement of corporate governance practices within Schedule Three SOEs in KZN.

4.2 RESEARCH DESIGN

There are many definitions of research design, but no single definition imparts the full range of important aspects of research design. David and Sutton (2011, p. 205) describe research design as providing the logical framework upon which the research project is conducted and enabling the researcher to gather evidence that will allow the research question to be addressed.

The first part of the research design used in this study, which is the quantitative research, addressed the following three research questions:

- What are the critical factors that contribute to effective corporate governance of Schedule Three SOEs?
- What is the level of corporate governance awareness and knowledge amongst key stakeholders in the Schedule Three SOEs?
- What is the extent to which effective corporate governance is practiced amongst the different categories of the Schedule Three SOEs?
- The second part of the research design, which is the qualitative research, contributed further information and input to the above three research questions and in addition allowed the interviewees to contribute more information with regard to the fourth research question:
- What strategies and approaches will serve to improve corporate governance in the Schedule Three Entities in KZN?

The descriptions by Bless, Higson-Smith and Kagee (2006, p. 75), Cooper and Schindler (2003, p. 146) and Babbie and Mouton (2001, p. 74) mostly outline key essentials of research design and the following are relevant for this research:

- The design focuses on the end product
- The design is always based on the research question
- The design allows for observation and measurement of variations in the different variables involved in the research
- The design outlines procedures for every research activity

- The design is a plan or blueprint of how the researcher intends conducting the research. According to Mouton and Babbie (2001), research design refers to a plan or blueprint of how the researcher intends to conduct the research. The central questions of a research design are the types of questions which the researcher seeks to answer. In this study, the researcher is concerned with the critical factors affecting effective corporate governance practices of SOEs. Babbie and Mouton (2001, p55) illuminates further that the concepts ‘research design’ and ‘research methodology’ conjure different meanings to different social scientists and academic/professional researchers – depending on the particular intellectual paradigms or perspectives of a particular scholarly community of practice or “academic tribe”. While Coughlan, Cronin and Ryan (2007, p661) indicate that the research design and research methodology are two very different dimensions of research and distinguish between the two concepts, in that research methodology refers to the nuts and bolts of a research study and the key element in this process is the research design. For purposes of procedural clarity in this study, ‘research design’ and ‘research methodology’ have been used complementarily as two interrelated but separate research terms.

The research design is further regarded as “the management plan of the study” (Henning, 2005 p142), since it provides an outline of action, processes, and procedures to be followed in the realisation of both the study’s aim and objectives, as well as the resolution of the stated research problem as articulated by the researcher (Babbie and Mouton, 2001 p56). The study investigated the SOEs by describing and exploring the challenges of corporate governance as experienced by these entities. Part of the design was to undertake an extensive literature review to explore, describe and interpret the phenomenon of corporate governance in the context of SOEs. The theoretical categories that qualitative researchers use to explore, explain, interpret and understand the social world are in the form of grounded theory. The literature review was used as the basis for developing questions earmarked for government officials, Board members and executive management of the SOEs respectively.

Triangulated research design

The concept of triangulation is derived from cartography and trigonometry to refer to the use of multiple data collection methods in ensuring the scientific integrity of the data. According to Neuman (2000) it is used by qualitative and quantitative researchers to observe something from different angles or viewpoints, thus obtaining a fix on its true location. In the final analysis, the study combined various methodological techniques to improve accuracy.

In tandem with the conceptual framework, data on specific themes, for example, role of the Board in policy development, was collected from Board members and senior management respectively. As part of the triangulation processes, document review and analysis were

conducted in order to determine whether or not information from different sources is reinforced. Based on the outcome of interviews and document analysis, the study was able to make claims from multiple perspectives as the information obtained was viewed and verified from different points of view. This approach is endorsed by Hansen (2006), who argues that combining multiple sources of data in the same project allows the researcher to compare data over time, and that it is possible to compare interview data with documents. By means of triangulation, the researcher was able to explore and explain corporate governance practices from different perspectives of Board members and executive managers.

Nueman (2000) argues that triangulation is used to observe something from different angles to improve overall product accuracy. The implication of this statement is that if one observes something from one perspective, the chances are that the story can only be told from one perspective and that view may not be entirely accurate. It is on this basis that 18 (eighteen) participants were interviewed in order to increase levels of accuracy. Fundamentally corporate governance issues reflected the individual's views and orientations and this can be a potential bias. It was therefore important to have a large sample of respondents to mitigate risk associated with bias. Triangulation also assisted in mitigating skewed information as some participants can offer what the researcher wants to hear. Therefore combining interviews and documentary reviews enhanced the validity and reliability of the study.

Additionally, the multiple methods afforded by the triangulated data collection and interpretation processes were useful in distinguishing between relevant and irrelevant information. The study's research design embraces aspects of triangulation in that literature-based data collection and interviews that were conducted afterwards enhanced the qualitative element, while the quantitative component was enhanced by means of the questionnaires as the most fundamental research instruments. The multi-fold dimensions of triangulation enhanced and maximised its appropriateness to the study. Caruth (2013, p. 117) further summarised the above points and categorised them into three main benefits for mixing quantitative and qualitative methods designs, which is referred to as triangulation or cross validation, complementarity or mutual viewpoints and development or building on. Lopez-Fernandez and Molina-Azorin (2008, p. 4) describe triangulation as a means to achieve a convergence of results obtained via quantitative and qualitative approaches so that these results become more reliable.

With regard to the research methodology used in this study, the two main paradigms of research methodologies that have been prominent in educational research for a number of years are quantitative and qualitative research methodologies, however, a third research methodology called the mixed research approach has emerged. This is the one the researcher adopted for this study.

The purpose of using the mixed methods approach in this study is based on Caruth's (2013: 113) seven purposes for mixed methods research. They are:

- Complementarity: The researcher uses this method to obtain mutual viewpoints about similar experiences or associations.
- Completeness: To ensure that total representation of experiences or associations is attained.
- Developmental: To build questions from one method that materialize from the implications of a prior method or one method presents hypotheses to be tested in a subsequent method.
- Expansion: To clarify or elaborate on the knowledge gained from a prior method.
- Corroboration /Confirmation: To evaluate the trustworthiness of inferences gained from one method.
- Compensation: To counter the weaknesses of one method by employing the other.
- Diversity: To obtain opposing viewpoints of the same experiences or associations.

Complementarity is used where the main objective is to clarify or illustrate the results obtained with one method by also applying the other and developmental is where one piece of information is used to build on or to expand on another. This is where the designs are used sequentially as in the QUAN-qual design used in this study, whereby the qualitative approach was used to help evaluate and interpret the results obtained from the main quantitative study.

The type of mixed methods research used in this study is characterised as quantitative dominant mixed methods research, symbolized as QUAN-qual research (Johnson, Onwuegbuzie and Turner, 2007). The researcher believed that it was important to include qualitative research approaches into this otherwise quantitative research study. Johnson, Onwuegbuzie and Turner (2007, p. 124) define quantitative dominant mixed methods research as the type of mixed research in which one relies on a quantitative, post-positivist view of the research process, while concurrently recognising that the addition of qualitative data and approaches are likely to benefit most research studies. Dovona-Ope (2008, p. 60) describes this as a method that focuses on collecting, analysing and mixing both quantitative and qualitative data in a single study with a view to providing a better understanding of the research problem.

This study used the mixed research method which according to Bryman (2007, p. 21) is not necessarily just an exercise in testing findings against each other but is instead about forging an overall or negotiated account of the findings that brings together both components of the research. In the course of collecting and analysing data and writing up the findings, the researcher linked and integrated quantitative and qualitative research approaches so that the end product was more than the sum of the individual quantitative and qualitative parts.

Castellan (2010, p. 5) maintains that from a quantitative aspect, the goal of research is collecting facts of human behaviour which when accumulated will provide verification and elaboration on a theory that will allow researchers to state causes and predict human behaviour; while Yilmaz (2013, p. 313) states that quantitative methods and procedures allow the researchers to obtain a broad and general set of findings and present them succinctly and parsimoniously in a descriptive manner, whereas the descriptive research (Cooper and Schindler, 2003) is used to describe phenomena associated with a subject population or to estimate proportions of the population that have certain characteristics.

This researcher also used a qualitative research method in order to further understand how participants make meaning of a situation or phenomenon (Merriam, 2002), so as to understand other perspectives and worldviews of the people involved, through individual, specific and targeted interviews and analysis of documents, such as official Annual Reports that allowed the researcher to verify the information provided by respondents.

In this study, the researcher used the quantitative research method, to gather understanding about the internal and external factors of corporate governance practices amongst the target population, to establish the level of awareness and knowledge amongst key stakeholders, like the Board members, the executive Directors in the SOEs and those Managers that oversee these Entities, and the extent to which compliance to corporate governance exists amongst the target SOEs in different strata.

The questions in the questionnaires were structured in such a way that the responses would provide data that could be analysed and allow for recommendations to be drawn up from them. The qualitative research method was used to gather further information through interviews, provide opportunity for additional input and fill in gaps with regard to the three research questions, as outlined above. It was also used to provide input to strategies and approaches as it allowed respondents to provide any other additional opinions and perspectives.

Within the qualitative research approach, the researcher also analysed recent annual reports of the targeted SOEs to verify some of the information provided by the respondents and, for example, to confirm the level at which transparency to stakeholders was ensured through the existing corporate governance practices, confirm the existing corporate governance structures, the frequency of Board meetings and the content of the corporate governance information that is disclosed in those annual reports.

4.3 POPULATION AND SAMPLING PROCEDURE

This section described the population and the sampling techniques used to select the respondents and the key characteristics of the respondent samples. Cooper and Schindler (2003, p. 179) define a population as the total collection of elements about which the researcher wishes to make some inferences, and state that the idea of sampling is that by selecting some of the elements in a population, conclusions may be drawn about the entire population.

4.3.1 Target Population

The target population for this study was the Schedule Three SOEs that are based in KZN, falling under National and Provincial Government departments. The National Treasury (2013) list of 299 public Entities forms the entire population of SOEs in South Africa (Annexure A). This list is made up of the Schedules One, Two and Three SOEs located throughout the country. Phiyega (2013) indicates that there are about 600 SOEs when one includes subsidiaries that fall under those SOEs. However, this study will only focus on the SOEs and not their subsidiaries. Out of the 299 SOEs cited by National Treasury, 269 of these are Schedule Three's and 28 of them, which is 10% of the total number, are located in the Province of KZN, with the rest based in the other eight Provinces of South Africa.

4.3.2 Sampling method

According to Bless, Higson-Smith and Keege (2006), sampling theory distinguishes between probability or random sampling and non-probability sampling, where probability sampling selection is based on a true random procedure, while in non-probability sampling, the process of selection is not based on a random procedure. According to David and Sutton (2011), probability samples are based on each case in the population having an equal chance of being selected, whereas non-probability samples are used when it is difficult to identify all potential cases in the population. The sample of respondents was drawn randomly from Schedule Three SOEs in KZN, and the reason for using this method was because there was an adequate sampling frame available for the population, therefore probability sampling could be utilised.

To collect primary data by means of a quantitative research method, which forms part of the mixed method research used in this study, probability sampling method was applied in the form of stratified sampling to select respondents in this study. Table 4.1 indicates the pre-determined strata from which the respondents were selected. Because the population is already divided into the appropriate strata, the researcher then took a simple random sample within each stratum which was further classified into three sub-populations, i.e. the Board members within that stratum, Managers employed by SOEs within that stratum and Managers based in government departments that are tasked with overseeing for SOEs within that stratum. All were chosen

randomly but within each stratum. The use of three different sub-populations was to allow for diversified responses, to achieve a more comprehensive perspective to the research objectives.

Cooper and Schindler (2003, p. 194) state that there are three reasons why a researcher chooses stratified random sampling:

- To increase a sample's statistical efficiency
- To provide adequate data for analysing the various sub-populations
- To enable different research methods and procedures to be used in different strata

The researcher used stratified sampling because each stratum is homogenous internally e.g. Schedule Three Part A are all SOEs that are categorised as National Public Entities that are based in KZN. They differ from Schedule Three Part B Public Entities because those are all categorised as National Government Business Enterprises that are based in KZN, therefore all those SOEs in Schedule Three, Part A were deemed to be homogenous, but were heterogeneous when compared with other strata as in Parts A, B, C and D.

Table 4.1 illustrates the number of participants per category of respondents; more SOE Managers were targeted due to their availability as they work full-time at these Entities; whereas Board members were not readily available as they only come in for Board meetings, therefore accessing them was comparatively not easy. Fewer Government Department Managers were targeted, as the norm is that at least one or two Managers in a Government Department work closely with a particular Entity. The other Managers that are not in that line function do not normally interact with the Entities and hence were not in a position to provide information nor were able to respond with regard to the level of corporate governance in these Entities.

The following sample numbers were used for the quantitative data, taking into account that Babbie and Mouton (2001, p. 191) explain that stratified sampling ensures proper representation of the stratification variables to enhance representation of other variables related to them, as this is likely to be more representative on several variables than a simple random sampling.

Table 4.1 Samples illustrating the number of participants per category of respondents

Category of Schedule Three SOEs in KZN	Number of existing SOEs per stratum	Sample Population		
		Board Members	Managers in SOEs	Managers Overseers Government Departments
Part A	7	14	21	14
Part B	2	4	6	4
Part C	14	28	42	28

Part D	5	10	15	10
Total	28 SOEs	56 Board Members	84 SOE Managers	56 Government Department Managers

Table 4.2 below, illustrates numbers that were targeted for the qualitative part of the research where a total number of existing SOEs per category were taken into account; where there were more SOEs, as in Part C, more participants were targeted. Interviews targeted a total of 18 Board Members in SOEs and document analysis was performed on 11 Annual reports to verify data emerging from the quantitative research.

Table 4.2: illustrates numbers that were targeted for the qualitative part of the research

Category of Schedule Three SOEs in KZN	Number of existing SOEs per stratum	Board members	Annual Reports analysed
Part A	7	4	2
Part B	2	2	1
Part C	14	8	6
Part D	5	4	2

In this second part of the research, where the researcher uses the qualitative research method, purposive sampling approach was utilised. Merriam (2002, p. 12) states that, since qualitative enquiry seeks to understand the meaning of a phenomenon from the perspective of the participants, it is important to select a sample from which the most can be learned and this is called a purposive sample.

The researcher selected participants so that each category was represented and proportionally considered the total number of SOEs in each part of the four existing parts. The number of annual reports analysed also proportionally took into account the number of SOEs in each strata, e.g. where there are 14 Entities listed, 6 annual reports were analysed as there are more SOEs in Part C compared with others. The total number of interviewees averaged between 29% and 43% per category which was regarded as an adequate sample to allow for data to be acquired. The results of the quantitative research method determined what criteria were essential in choosing who was to be interviewed and what documents were analysed for the qualitative research part of the study, where the researcher wanted to verify information received.

4.3.3 Sample size

Bless, Higson-Smith and Keege (2006, p. 108) determine that a researcher's decision about the best sample size depends on the degree of accuracy required, the degree of variability or diversity in the population and the number of different variables examined simultaneously in data analysis. The researcher in this study ensured that the sample selected in each stratum was comprised of different respondents to allow for a thorough analysis. David and Sutton (2011, p. 234) add that this also depends on the purpose of the research and the level of analysis required by the research.

This study used a ratio of 2 SOE Managers versus 1 Board member versus 1 Manager employed by Government Departments as the researcher took into account the level of availability of the three types of respondents, the level of turnover of Board members and that the Managers who are tasked with overseeing for SOEs in Government Departments are not likely to be more than one per Department. The researcher also took into account the proportionate number of SOEs in each Part, i.e. A, B, C and D, and where there are more SOEs, a bigger sample of respondents was targeted. It is important for the sample to be made up of all three types of respondents in the quantitative research method to allow for different and diverse perspectives to be acquired from the respondents.

The number of participants in the sample population is depicted in Table 4.1, and this applies to the quantitative research part of the study, which is the main method used in this mixed research approach.

4.4 PHASES OF THE RESEARCH

The gathering of data took place in four phases. The table 4.3 below tabulates the various phases and methods that were used to gather the data, as well as the intended aim and objectives of the study.

Table 4.3: Phases of the Research.

Phases	Data Gathering Method	Target Group	Data Collection Method	Targeted Respondents	Objective
1	Quantitative	Executive Managers	Purposive sampling, hand-delivered self-completion questionnaires	5	Served as a pilot study to determine reliability and validity of the research instrument
2	Quantitative	Board members	Hand-delivered and emailed self-completion	196	To measure the awareness, knowledge and level of

		Executive Managers Government Managers	structured questionnaires		compliance to corporate governance practices, and identify internal and external factors affecting corporate governance practices
3	Qualitative	Board Members	In-depth questionnaire interviews	18	To determine the level of compliance to corporate governance practices, and identify strategies for improvement
4	Document analysis	Annual Reports	Analysis of documents	11	Verification of data provided by respondents, with regard to compliance requirements as specified in the Corporate governance Code of Principles

Phase 1 involved the gathering of quantitative data by means of questionnaires with about (n=5) purposely selected executive managers of either one of the participating SOEs. This served as a pilot study and provided important exploratory insight and conceptual understanding of respondents' perceptions with regard to the critical factors contributing to corporate governance practices in the SOEs.

Phase 2 of the research involved gathering of quantitative data through a self-completion structured questionnaire that was distributed to Board Members, Executive Managers and Government Department Managers within Schedule Three SOEs based in KZN and through a stratified random sampling method. Data was gathered at different intervals from 28 SOEs, which provided valuable insight into the respondents' individual awareness, knowledge and insight into corporate governance practices in their SOEs.

Phase 3 involved the gathering of qualitative data by means of questionnaire interviews with about 18 Board Members serving in Boards of Schedule Three SOEs in KZN. This phase of the research served to fill in gaps and provide further clarification regarding information that emerged from Phase 2. It also served to provide respondents with an opportunity to provide input into the strategies to improve corporate governance strategies in the SOEs.

Phase 4 involved document analysis of annual reports published by 11 SOEs that were part of the sample used in Phase 2. The analysis of annual reports was aimed at verifying information contained in the quantitative questionnaire responses, particularly with regard to corporate governance information that is shared with stakeholders through the annual reports. The researcher focused on the latest available annual reports for the last financial year.

4.5 DATA COLLECTION

Data collection is generally regarded as the precise and systemic gathering of both theoretical and empirical information relevant to the research problem, the research purpose and the specific objectives, the study's significance, as well as the pertinent research questions (Burns & Grove 2006, p40). In addition, the data collection process conforms to the research methodology of the study; in which case the research methodology then "focuses on the research process and the kind of tools and procedures to be used" (Babbie and Mouton 2001, p56). Since the study assumes the form of a quantitative, exploratory, descriptive and contextual research design, the researcher's understanding of the participants' perspectives and experiences during the data collection phase was greatly enhanced by this eclectic approach.

The data collection process in the study focused on both the theoretic and empirical/practical aspects of the research topic and all its attendant research variables; such as the research problem, the research objectives, the research questions, the motivation of the study, as well as the methods and procedures applied during the data collection processes. The above-mentioned considerations are in consonance with the maxim: "The worth of all scientific depends heavily on the manner in which the data was collected and analysed" (Babbie & Mouton 2001, p563).

Theoretical data collection

Theoretically-generated data collection processes relate to the secondary forms of evidence obtained by the researchers from written and electronically available (non-human) sources and artefacts (Babbie & Mouton, 563). In that regard, theoretic information was obtained mainly from the review of relevant literature on the research topic, including electronic databases and search engines. Data and information obtained thus relate to the input and contribution of other scholars and experts in the field of corporate governance in the context of SOEs. Furthermore, the theoretically generated data informed the researcher on contemporary and past theories, trends, and practices in the realm of the research topic; as well as the hiatus (if any) on existing SOE corporate governance knowledge, and future research intended to attenuate such identified gaps.

Document review

Literature review is utilised in the data collection process in order to support existing data where needed, and to confirm the researcher's interpretation of data with existing knowledge on the research subject. The findings of the study are then discussed in the light of relevant literature conducted by other researchers in this field of knowledge (SOE corporate governance). Babbie and Mouton (2001, p565) ascertain that there exists a distinction between literature review and scholarship review. Literature review focuses mainly on the bibliographic referencing of

consulted sources of data and information. This study, then, does not necessarily concern itself with the mere provision of a comprehensive bibliography of the relevant literature consulted for the entire study, which mainly locates the study "... in the context of the general body of scientific knowledge" (Babbie & Mouton 2001, p565). The secondary data was sourced from the line departments, Board members and executive members of the SOEs in the form of annual reports. As the term implies, secondary data is essentially 'second-hand'; however it is useful in complementing the limitations of the primary data. The annual reports enables the analysis of the board chairperson's report, corporate governance reports, auditor-general's reports and review how the individual boards are constituted.

Empirical data collection

The empirical phase of the study refers to 'the fieldwork' conducted 'outside' of the study's literature-based theoretic, abstract, or conceptual terrain. Accordingly, the empirical is concerned with the real-life, practical, or 'lived experiences' of the research subjects in the context of the phenomenon being studied. In such a situation, the *inductive* approach to data collection facilitated and enhanced the centrality of the targeted SOEs as points of reference from which generalizability or trend-centred characteristics could be inferred and translated to other public SOEs affected by the self-same corporate governance challenges (Babbie and Mouton 2001, p113). This inductive aspect of the empirical domain of local SOE trends was also valuable to the extent that it also served as a deductive basis for *comparability* with international trends and experiences insofar as SOE corporate governance is concerned. It is in this regard that the respondents (especially those meeting the selection/inclusion criteria for interview purposes) – in their respective capacities as practitioners in the 'field' – provided the human, personal, or emotional interactive side of the investigation; which could not have been easily established by means of the 'non-human' review of literature. The empirical component of data collection provided a continuum between the research problem and the research objectives on one hand, as well as the congenial data collection processes on the other (Holosko 2001, p 266).

The research methodology in this study focused on the actualization of data collection processes that accorded a pragmatic/practical and empirical premise to the investigation. Accordingly, the semi-structured interviews and the questionnaire administration constituted the two foremost empirical data collection instruments. The empirical phase of the study then, is a determinant of whether or not the means justify the end.

The Literature and prior research studies were used as the source of information to formulate the questions in the questionnaire. To compile the questions the researcher used standards of corporate governance practices that emerged from the literature review, together with factors that are key determinants in terms of local and international corporate governance trends.

Various data collection instruments are utilised in quantitative and qualitative research, which include questionnaires, interviews, observation, focus groups; and document analysis.

The researcher chose to use questionnaires (see Appendix C) as the research instrument that is best suited to conduct the quantitative part of this study. The questionnaires used for both quantitative and qualitative data collection consisted of close-ended questions and there was also additional provision made for inclusion of any other relevant information with regard to other questions. For qualitative data collection, research participants were provided an opportunity to contribute more information and express their opinions during follow-up questions and further probing.

The close-ended questions used to collect primary data in the quantitative research approach provided a number of alternative answers from which the respondent was instructed to choose and the interview guides were structured in such a way that ‘Yes/No’ answers could be recorded. Some questions were structured along the Likert rating scale as illustrated in Table 4.4. below:

Table 4.4: Example of a questionnaire in the quantitative research:

Question: The Entity ensures shareholder and stakeholder involvement in corporate governance through the following practices?

Statements	Strongly Disagree:1	Disagree: 2	Neutral: 3	Agree: 4	Strongly Agree: 5
Consultation of shareholders prior to finalization of the annual budget and corporate plan					
Consultation of stakeholders prior to finalization of the annual budget and corporate plan					
Timeous submission of budget and corporate plan to relevant Government Department before commencement of the financial year					
Timeous submission of annual financial statements as per PFMA timelines					
Timeous submission of annual report as per PFMA timelines					

Quarterly reporting to the relevant Government Department					
Timeously responding to queries from the relevant Government Department					
Timeous response to planned interface with Parliamentary Portfolio Committee					
Disclosure of CEO, CFO and other Executive Managers' terms of contract and notice terms					
Disclosure of non-compliance with PFMA and other pertinent Acts.					

The list of questions was designed to gain the most pertinent facts regarding corporate governance practices used by Schedule Three SOEs based in KZN. The questionnaires in the quantitative research contained all the questions for which data were required for the four objectives of the research. The first seven questions in Part 1 of the questionnaire were designed to gather general information about the respondents and in the first 5 questions in section 1.1, respondents were asked questions with regard to gender, race, personal profiles including age, qualification, job category and number of years of experience in current portfolio, major background experience and structured training in corporate governance. In the last 2 questions in this section, respondents had to provide information about the category of their Entity and their years of experience. The questions in sections 1.1 and 1.2 were linked to the sub-objective on factors contributing understanding of corporate governance practises.

In section 1.2, the first 7 questions required the respondent to give 'Yes/No' answers and/or tick the relevant box. This part of the questionnaire was designed to gather information about the functioning of Boards, how they are structured, the main decision-maker in the running of Boards and the frequency of meetings. The last 2 questions in section 1.2 required the respondents to provide information on the practices of Board Committees on a 5-point Likert scale. The scale for each of the items in these questions ranged from 1 (strongly disagree) to 5 (strongly agree). In Part 2 of the questionnaire, questions were designed to evaluate the level of awareness and knowledge about corporate governance practices in a 5-point Likert scale. Question 17 addressed the appointment of the Board of Directors and whether the level of knowledge and understanding of corporate governance was being taken into account. Question 18 addressed the performance of these Directors on the Board, assessing whether evaluation of performance of the Directors that serve on the Boards was being done. Question 19 addressed

the code of conduct and other corporate governance practices of individual Directors on the Board, in order to assess the level of compliance and the respondents' opinion on a broader aspect of such corporate governance practices.

The aim of Part 3 of the questionnaire was to examine the extent of compliance with provisions of corporate governance looking at different categories of the Schedule Three SOEs. The first 3 questions in this section required the respondent to provide "Most likely/ Not likely" responses with question 20 assessing the level of compliance with disclosure requirements. Question 21 assessed the composition of the Entity's corporate governance system and Question 22 assessed the availability of corporate governance key documents, programmes and plans in the Entity. The last question in this section, Question 23, evaluated shareholder and stakeholder involvement in corporate governance practiced by the Entity.

Part 4 of the questionnaire looked for the opinion of the respondents with regard to other strategies for improvement of corporate governance compliance of Entities. Question 24 and 27 were on a 5-point Likert scale and wanted the respondent's opinion on corporate governance and the Entity's performance and whether certain corporate governance practices could lead to improvement in SOEs. Question 25 required that the respondent rates particular corporate governance issues as "Major issue/ Minor issue". Question 26 asked the respondent to rate particular corporate governance strategies in improving corporate governance practices by providing "Less important/ More important" responses. The questions in Part 4 of the questionnaire were designed to allow the respondent to express their opinion on corporate governance approaches, issues, strategies and recommendations.

The qualitative part of this study was done after the quantitative part had been concluded and comprised of semi-structured questions. The semi-structured interviews (Merriam 2002) contain a mix of more or less structured questions and the interview is guided by a list of questions or issues to be explored. Neither the exact wording nor the order of the questions is determined ahead of time. Tashakorri and Creswell (2007, p. 210) state that the nature and form of research questions might be different in sequential, parallel or concurrent mixed methods studies. In parallel studies the component questions are framed from the start, in sequential studies the questions of a later strand emerge as a result of the findings of the earlier strand. Regardless of the variation, mixed methods studies benefit from a dynamic process in which the component or strand questions are re-examined and reframed as the two or more strands of the study progress.

The qualitative questions sought to delve deeper into understanding corporate governance practices in the targeted SOEs, and were used to achieve the three outcomes of cross-validation, complementarity and building on the information acquired during the quantitative research. Eight questions were used by the researcher to interview targeted participants and these were

determined after the data from the quantitative research had been analysed, and gaps and inconsistencies identified (See Appendix G). The respondents that participated in the qualitative research were carefully chosen based on the responses received in this first quantitative research part and were targeted according to information that was being sought. This allowed the researcher to fill the gaps created in constructing the quantitative research questionnaires and to establish the corporate governance status of Schedule Three SOEs in KZN, compared with information that had emerged during the literature review.

The second source of data used was the Entities' reporting documents which were mainly Annual Reports that contained the Corporate Governance Reports prepared and submitted by the Boards of SOEs. The researcher sourced all these documents from the different SOEs' websites and data collected was used to substantiate, verify and validate information emerging from the quantitative research. Effort was made to ensure that the latest Annual reports were used which reflected current information that was emanating from the last reported financial year.

4.5.1 Pilot Study

Subjects for the pilot study for all the questionnaires used were not selected at random but purposeful sampling was utilised instead. This was because the primary objectives of the pilot study were to reveal errors in the research design and methodology, to identify inadequate control over extraneous or environmental conditions and to refine the questionnaire prior to the main study. Cooper and Schindler (2003, p. 86) state that a pilot test is conducted to detect weaknesses in design and instrumentation and to provide proxy data for selection of a probability sample. For this reason, the researcher decided to conduct a pilot study.

When the research questionnaire was designed, the researcher took special care in ensuring that there were no ambiguous and vague items, double-barrelled questions and that the sequence of the questions was logical as described by Babbie and Mouton (2001).

A pilot test of the structured questionnaire was carried out amongst 5 respondents in December 2014. The 5 respondents were all Managers working in Schedule Three SOEs, and they were not included later on in the target sample. The respondents were all chosen on the basis of availability and accessibility for participation in the pilot study from some of the Entities that are not part of the study, but ensuring that the respondents were familiar with the corporate governance concept. The purpose of this was to evaluate the relevance of the statements and to establish whether the wording was clear and unambiguous.

David and Sutton (2011, p. 272) emphasise that the survey question should be piloted on a test group of cases from the target population and that it is important that this test group reflects the characteristics of the actual sample cases. The researcher was able to determine the suitability,

reliability and validity of the questionnaire. As a result of the pilot study, minor wording modifications were effected on some of the statements to improve clarity and after the pilot study was completed the questionnaire was presented to the supervisor for the final approval after which the questionnaires were then distributed to the target population, as per the sampling procedures.

4.5.2 Data collection instruments

The mixed methods used in this study include the collection and analysis of both quantitative and qualitative data in a single study in which, according to Bak (2011, p. 77) data is collected concurrently or sequentially and involves the integration of data at one or more stages in the process of the research. The integration of quantitative and qualitative methods allowed for the research questions to be answered from different angles and verified in the same context. This approach allowed for the creation of inferences and included diverse views that enhanced the understanding of the corporate governance practices in these SOEs.

This section describes the measuring instruments which were comprised of the questionnaires used in this study. According to Coughlan, Cronin and Ryan (2007, p. 662) any number of strategies in a quantitative study can be adopted when collecting data and these can include interviews, questionnaires, attitude scales or observational tools. Questionnaires, used in this quantitative research, are the most commonly used data-gathering instruments.

Bless, Higson-Smith and Kagee (2006, p. 114) state that the same method of collecting data can be used for different types of research and the same method of data-gathering can be adapted to different types of research; questionnaires can be used to explore or describe a situation. For the purpose of this study, the questionnaire was selected as the basic data collection instrument for the quantitative research part; and for the qualitative research part, individual interviews based on areas where the researcher wanted to fill the gaps, expand on areas where responses failed to provide substantive information and document analysis of Annual Reports including Corporate Governance reports were used.

4.5.3. Administration of the instrument

The questionnaire was used in this study to obtain data from 28 different SOEs classified as Schedule Three. The researcher considered particular key points (Babbie and Mouton 2001, p. 239) in constructing the research questionnaire:

- Questions may be open-ended or close-ended
- Short items in a questionnaire are better than long ones
- Negative items that could confuse the respondent should be avoided un a questionnaire
- Bias should be avoided as it encourages respondent to answer in a certain way

- Question wording and format of the questionnaire can influence quality of the data collected
- The order of items in the questionnaire can influence the responses given
- Clear instructions are important for getting appropriate responses in a questionnaire

The questionnaire made it easy for the researcher to access information from the respondents and the wording and sequence of questions provided ease to the respondents in giving answers. The questionnaires were emailed to all 28 SOEs in the sample. Each email had an introductory explanation with the informed consent document which outlined the study and provided the respondents with full information about the study, the title, the purpose, confidentiality measures as well as contact details for any further information that might be required. The questionnaires that were emailed to SOEs were intended for the attention of Board Members and Managers employed in those SOEs. Within each state owned Entity, the stratified sampling procedure used allowed for any of the Board Members and Managers to have an equal chance of being in the sample, as the instruction was that the questionnaire could be filled in by any three Managers and any two Board Members.

The questionnaire was also sent by email to each Government Department under which the SOEs fall, for the attention of Managers who are tasked with overseeing responsibility of the SOEs. To ensure that questionnaires reached the intended recipients, the Board secretaries in each state owned Entity were also briefed about the study, telephonically and by email, to seek their assistance as they knew how to reach Board members and assisted with distribution where necessary or provided contact details. Follow-up telephone calls and emails were sent to confirm receipt and to ensure that complete pages were received by each respondent. In addition to emailing, questionnaires were also hand-delivered to respondents to increase chances of receiving returns.

The questionnaires for the quantitative research were distributed from 13th March to 30th April 2014 and follow-ups were done two to three days after distribution. A second round of distribution happened from 10th September to the end of October after the researcher received a very poor response from the first attempt. In order to increase the respondents' ability to answer the questionnaire, a number of instructions were provided throughout the questionnaire, at the beginning of each part.

In the email, the researcher emphasized her availability to clarify any ambiguities and misunderstandings that the respondent might experience while answering any part of the questionnaire. The instructions were exactly the same on all questionnaires. To prevent inconsistency in coding, all questionnaires were pre-coded.

With qualitative research, the researcher identified the 18 Board Members and areas that needed to be substantiated, complemented and verified based on the gaps in the quantitative research results. Eight interviews' questions were in the questionnaires and interviews were conducted face-to-face and/or telephonically and by email.

4.6 DATA ANALYSIS

This study used sequential mixed research methods as a primary research method to collect and analyse data (QUAN-qual). Quantitative data was collected and analysed, followed by qualitative data which was collected and analysed using both descriptive and inferential statistics. The first analytical techniques used in this study were quantitative in nature, which included percentage analysis, frequency analysis and other statistical analysis.

A statistical analysis was carried out using the "Statistical Package for the Social Sciences" (SPSS) in order to examine the level of compliance of the Schedule Three SOEs with corporate governance practices. The questionnaire included 27 questions with 166 items which were used to collect primary information from 28 SOEs, targeting Board Members, Managers employed by the SOEs and Managers at overseeing departments. Data was summarised using basic descriptive statistics. Once data processing had been done, the data was entered into the computer according to question codes and was analysed using the SPSS version 2.1 statistical programme.

The first type of analysis looked at frequencies; i.e. the number of times a particular response was made and then the variables were screened. This process screened all variables and identified those variables that were highly influential on the dependent variables of the study. Finally, a number of analytical procedures were used. In order to test relationships, bivariate analysis was used in the form of cross-tabulations and approved inferential statistics were used to test relationships. Data was presented by means of bar graphs as well as tables to show the association between variables. This presentation format enabled the researcher to determine the relationship and association that led to findings, recommendations and conclusions that are made in chapter 6 and 7 of this study.

The second qualitative part of data collection and analysis adopted purposive selection to identify respondents who participated in in-depth interviews. This was deemed an important qualitative sampling method (Jogulu and Pansiri, 2011, p. 697), because the researcher decided which members of the target population were most likely to provide the answers to the research questions and then deliberately included them in the sample.

Prior to the interviews, quantitative data was analysed to determine themes which formed the basis of the interview questions. The interview schedule was structured based on the

quantitative themes to systematically explore and re-examine the data, interviews were taped and then transcribed. Data from the interviews was analysed using content analysis which involved identification of codes prior to searching for them in the data and systematically examining the content of communication.

Qualitative data derived from interviews was analysed using narrative analysis, a method (Jogulu and Pansiri, 2011, p. 697) that has been identified to help researchers to retain the integrity of the data collected, avoids fragmentation and as a result provides the analysis from the basis of the verbatim transcripts that are produced. The researcher also used the document analysis approach to analyse Annual Reports of Entities that were selected based on the quantitative data analysis outcomes. The use of the mixed research approach in collecting and then analysing data as also outlined by Bak (2011, p. 76) allowed the researcher to converge and integrate findings which enhanced and expanded the research. It also enabled shrinkage of other possible explanations for conclusions from the data and elucidating different aspects of the corporate governance practices of SOEs.

4.6.1 Frequencies

Frequencies were used to determine how often the respondent made a certain response to a particular question and to check the coding of data. David and Sutton (2011, p. 473) state that the starting point in the process of analysing categorical variables is to produce a frequency count of the number of cases that responded to the each of the variable categories. The information gathered from the frequencies allowed the researcher to be able to analyse the results and make conclusions of the study.

4.6.2 Percentages

According to David and Sutton (2011, p. 474), while a frequency count can tell the researcher how many of the respondents fall into each of the categories, it is limiting in that it will not allow you to make comparisons easily between different samples, but calculating a percentage for each of the categories will enable the researcher to make such comparisons. This approach was used in the quantitative data analysis process and was more relevant for research question 3 on comparing corporate governance practices in the different categories of Schedule Three SOEs, where the researcher was able to make such comparisons using percentages and to expand on the results produced through the frequency count.

4.6.3 Descriptive statistics

Descriptive statistics were used to help the researcher to describe and compare the main features of the collected data in quantitative terms. Babbie and Mouton (2001, p. 459) describe descriptive statistics as a method for presenting quantitative descriptions in a manageable form.

The responses related to research questions 1, 2 and 3 were best understood when presented in this descriptive statistics format, and allowed for easy interpretation when summarising findings.

4.6.4 Correlation

Correlation was used as a statistical technique in this study to measure the relationship between the corporate governance practices of SOEs in the different strata of Schedule Three, and assisted in providing responses towards research question 3 and 4 of this study. The data from both the quantitative and the qualitative research was useful in providing sufficient data to make recommendations regarding effectiveness of corporate governance practices in different categories of Schedule Three SOEs and regarding strategies and approaches to improve corporate governance in these SOEs.

4.6.5 Cross-tabulation

Cross-tabulation is a technique used (Cooper and Schindler 2003, p. 505) for comparing two classification variables which uses rows and columns that correspond to the levels of each variable's categories. This technique was used to analyse responses to research questions 1 and 2, with regard to levels of awareness and knowledge, and research question 3 that addressed the extent of compliance of the targeted Schedule Three SOEs that belong to different strata, making comparisons regarding their corporate governance practices based on the responses from those particular respondents.

4.7 RELIABILITY AND VALIDITY

Jogulu and Pansiri (2011, p. 689) argue that whilst validity and reliability are predominantly derived from quantitative research, qualitative studies provide meaningful in-depth insights through subjective interpretations of experiences that provide plausible answers in relation to social phenomena. The researcher ensured that consistency between the experiences of participants in relation to corporate governance practices, which are statistically described in questionnaires, is matched with their subjective interpretations and explanations of those experiences in interviews. The mixing of data collection techniques therefore further enhanced findings and allowed the researcher to make more reliable inferences.

4.7.1 Reliability

Bless, Higson-Smith and Kagee (2006, p. 150), Babbie and Mouton (2001, p. 119) and Cooper and Schindler (2003, p. 236) state that reliability is concerned with the consistency of measures, that it is a matter of whether a particular technique applied repeatedly to the same object will yield the same result each time, and hence the reliability of measurement is the degree to which

that instrument produces equivalent results for repeated trials. The greater the consistency of results, the greater is the reliability of the measuring procedure.

The researcher ensured that the research participants were familiar with the subject; as a result current Board Members in that Entity, Managers employed in the Entity and Managers in the Government Department tasked with overseeing responsibility over these particular SOEs were part of the targeted sample. The researcher did a pilot study to further test reliability of the research instrument. David and Sutton (2011, p. 268) also confirm that reliability can be improved by the careful construction and piloting of questions and that the reliability of the measuring instrument can then be judged by consistency in responses and the limitation of the error margin. The use of the mixed research method in this study ensured that the researcher produced results that have been cross-validated, checked for complementarity and was of a developmental nature. The reliability of the measuring procedures in the form of the questionnaires, interviews conducted and the documents analysed, can be confirmed.

4.7.2 Validity

The term validity (Babbie and Mouton 2001, p. 122) refers to the extent to which an empirical measure adequately reflects the real meaning of the concept under consideration. In constructing the questionnaire in this study, the researcher took into account three types of validity; criterion-validity, which refers to the extent to which one measure estimates or predicts the values of another measure or quality; content-validity; which refers to the degree to which a test appropriately represents the content domain it is intended to measure; and construct validity which is based on the logical relationship among variables because of the need to ensure that there is a close link between the instrument and the related theory.

According to Bless, Higson-Smith and Kagee (2006, p. 159), construct validity refers to the extent to which scores on an instrument reflect the desired construct rather than some other construct; David and Sutton (2011, p. 269) view construct validity as assessing how well the measurement conforms to the original theory.

Cooper and Schindler (2003, p. 231) also emphasized a need for the researcher to consider internal and external validity, where internal validity is the ability of the research instrument to measure what it is purported to measure and external validity of research findings refers to the data's ability to be generalised across persons, settings and times. In this study, the researcher used mixed methods which allowed qualitative findings to explain quantitative results (QUAN-qual), thereby enhancing the validity and reliability of the study. The potential limitation of one method was counterbalanced by the strength from the other method. Mixing the two methods allowed for deeper examination of the research problem because qualitative methods were used

to re-examine research questions, research objectives and the assumptions underlying each component proposed in the study.

Jogulu and Pansiri (2011, p. 691) state that the use of mixed methods will help achieve two major goals in a research study, which are theory verification and theory generation. Connelly (2009:31) concurs that the goal of mixed methods is to draw on the strengths and minimise weaknesses of both types of research. In this study the researcher managed to use the mixture of approaches best suited to answer the research questions. The study was mainly quantitative, supplemented by qualitative study to explore corporate governance practices in more depth; as a result the narrative data helped add meaning to numbers and produced more complete knowledge needed to inform the exploration of critical factors that contribute to corporate governance practice amongst SOEs.

4.8 ETHICAL CONSIDERATIONS

Bless, Higson-Smith and Kagee (2006:140) state that research ethics places an emphasis on the humane and sensitive treatment of research participants who may be placed at varying degrees of risk by research procedures.

In this research, each participant was provided with a copy of the informed consent form, as in Appendix B, as a covering letter which was comprised of:

- The purpose of the study
- An appeal for cooperation
- Protection of respondents with regard to confidentiality
- Availability of research results
- Expression of appreciation for respondent
- Contact details for the Research office at the University
- Details of the supervisor

Each participant was given an assurance that particular sensitive and personal information would be protected and not be made available to anyone including other researchers. As stated by David and Sutton (2011, p. 211), the researcher observed confidentiality by ensuring that no one outside the research team was able to identify the participants in the study and that responses of individuals were not directly repeated to others. Further anonymity was ensured by ascertaining that no one was able to identify the participants in the study. Information about participants and personal information that was received during the data collection process was recorded separately from the question responses. Also, the data collected from participants was at all times kept under secure conditions.

The researcher ensured that permission was sought from the relevant people in charge of the 28 SOEs, and they were all assured of the confidentiality of the information they would be providing. The researcher also ensured that the study meets the highest ethical standards in line with the submission and approval received from the Ethics committee. All these matters were dealt with before the researcher proceeded with the research project.

4.9 LIMITATIONS OF THE STUDY

The use of both the quantitative and qualitative methods allowed the researcher to address the research questions in this study and helped minimise possible limitations that could have impeded achievement of objectives. The only limitations experienced were with dormant SOEs, categorisation of SOEs, reluctance by participants to fully disclose level of compliance to corporate governance practices in their SOEs and acute lack of understanding by managers in overseeing departments of what goes on within SOEs.

4.9.1 Dormant SOEs

The list of the target population was sourced from the national Treasury website and was comprised of live and dormant SOEs. It was not easy to determine whether or not they were dormant and this could only be determined through the actual study. This is mainly due to the fact that SOEs are established based on a particular rationale and sometimes the objective may not be permanent due to serving a particular purpose or addressing a particular service delivery problem, but they do not get removed from the national Treasury list. The researcher found that some SOEs appeared twice in the list because they would re-register under a different name and had not removed their initial registration details, such as Mpendle-Ntambanana Agricultural Company (Pty) Ltd. which appears active on the Treasury list but discovered to be dormant during the survey.

4.9.2 Categorisation of SOEs

Amongst the targeted SOEs that are Schedule Three, some report to National departments and some report to Provincial departments. There were particular dynamics that exist between national and provincial departments that presented challenges for this study, as some of the participants in the target population were reluctant to participate in the research. These were mainly the SOEs that report to National departments while being based in KZN who do not regard themselves as belonging to the province and felt that they should not be included in this study. This could be because, as nationally-aligned SOEs, they regard themselves as superior to provincially-aligned SOEs and also because the title of the research said “Schedule Three SOEs

based in KZN”, which was interpreted as meaning that the target Entities were provincial Entities.

4.9.3 Disclosure by participants in the research

This research targeted three different types of participants as it intended to get comprehensive data that contributed towards the objectives of this research. These were Board Members, Managers in the SOEs and Managers in the overseeing departments. The envisaged limitation of the study arose from the fact that participants were reluctant about being totally honest with regard to the Entity’s corporate governance practices, for fear of reprisals, victimisation and being politically ostracised. The research design and ethical standards employed in this study took cognisance of this in an attempt to remove this possible reluctance on the side of participants.

4.9.4 Level of understanding amongst overseeing department participants

The Government departments that set up Entities are 100% shareholders of these SOEs. However, the Managers in these overseeing departments were completely ignorant about what went on in their SOEs and their level of comprehension and understanding of corporate governance practices was very limited. The perception of the arms- length approach amongst Government Departments’ officials was a limiting factor. The researcher however regarded this target group to be most suitable to provide data that is comprehensive enough to allow the researcher to gain an understanding of the critical factors affecting corporate governance amongst these SOEs, from the perspective of Government Departments as key stakeholders. It was important to determine the level at which the overseeing departments, that are also shareholders of these SOEs, are even aware of whether or not corporate governance is practiced, their level of involvement and the measure of compliance of the SOEs, seen from the perspective of overseeing departments that have established these SOEs.

4.9.5 Limitations with the Research Design

The population sample for this study was 196 respondents, and this was made up of three categories, which was the Board members, the Executive Managers and the Managers working within Government Departments, who are tasked with the responsibility of overseeing for the public Entities. This mixed sample proved to be a challenge, as access to Board Members was very difficult, Executive Managers and the Managers in Government were very reluctant to participate. Finding incentives that could entice them to participate was difficult. The commitment contained in the letter of intent, did not serve as motivation at all. Due to these challenges the time frames in the initial proposal could not be adhered to, as the researcher had to do continuous follow-ups to try and get the questionnaires answered and returned.

The questionnaire that was used under the quantitative research was too long, and although the researcher had put the 27 items in the questionnaire so as to get comprehensive answers that would provide responses to the research questions, this contributed to the reluctance by respondents to participate in the research. The structured questions followed a chronological order that were categorised according to the key principles that emerged in the literature review and it was necessary that all the items be included. However, this provided limitations during the actual survey.

The study focused on critical factors contributing to corporate governance practices amongst SOEs in KZN and it was limited to only those in Schedule Three. Therefore findings were limited to aspects influencing only those SOEs, without looking at other aspects and other SOEs that also service the same environment but are either schedule 1 or 2. Generalizing regarding corporate governance practices in SOEs should be carefully applied and therefore, further research is recommended.

The use of the mixed research in this study allowed the researcher to probe further and to use the results of the quantitative research to fill gaps that were created and to get clarity through interviews. The analysis of annual reports also assisted the researcher to confirm some of the responses provided by respondents who participated in the quantitative research. The challenge experienced here was with regard to the fact that respondents were anonymous and the confidentiality clause meant that the researcher could not determine specifically which SOEs responded. Therefore the sample used in the qualitative research was not necessarily made up of those that had participated in the quantitative research and the researcher could not use the results from the analysis of the documents to indicate whether or not it confirmed or verified the information provided by respondents in the quantitative research but could only generalise.

The SOEs in Schedule Three are divided into four different types and although all of them are KZN-based, they belong to different Government Departments, some Provincial Government Departments and some National Government Departments. This scenario limited the researcher as dynamics within the SOEs were greatly influenced by which Government Department established them. Some had been moved across different Government Departments frequently. When the research started in 2013, some of the SOEs were under a different Government Department. When the survey was conducted, which was in 2014 soon after a new administration term had started, the re-configuration of Government Departments had been done, which led to movements affecting certain SOEs.

4.10 CONCLUSION

This chapter described the research design, methods of data collection and analysis, triangulation, research limitations, trustworthiness, and ethical considerations. These variables were considered as they are appropriate and relevant for the mixed research approach. The researcher had established that the research questions could not be answered using one approach; the quantitative and qualitative approaches complemented and built on one another. Simpson (2011, p. 28) and Connelly (2009, p. 31) agree that the use of the mixed research methods provided a more layered, multi-pronged approach and that can add more richness to a study than only one type of data collection. In this study, the researcher used quantitative measures to collect data on internal and external factors contributing to corporate governance practices and to evaluate the level of awareness and knowledge thereof, and collected qualitative data to understand the extent to which corporate governance compliance is practiced but also helped verify the level of awareness and knowledge that respondents had, which allowed for substantial findings, recommendations and conclusions to be drawn for this study.

CHAPTER 5: DATA PRESENTATION AND ANALYSIS

5.1 INTRODUCTION

Data presentation and analysis is the crucial part of this research because it brings in the voices of the sampled portion of the target population, allowing them to enrich the study by sharing their experiences while supporting the researcher in attempts to satisfy the requirements of the research objectives and conclude the project. This chapter provides a detailed analysis of the findings and interpretation of the results. The purpose of the study was exploring critical factors for effective corporate governance practices of the Schedule Three SOEs in KwaZulu–Natal.

The objectives of the study were also outlined in order to cover some important aspects that might contribute to the understanding of corporate governance practices among SOEs in KZN. The analysis was based on the quantitative data, supported by the qualitative approach to allow respondents to express their feelings and explain other contributing factors that might affect corporate governance practices within their respective SOEs.

The analysis entails the use of descriptive statistics analysis in the form of frequencies and bivariate, providing an initial general overview of the results and illustrated by bar charts. Chi-Square tests analysis in the form of Chi-Square tests. The descriptive statistics (frequencies and percentages) were used to provide a more precise analysis of each objective. This section addresses each of the sub-objectives identified and is broken down into sub-topics. Each topic includes the analysis and results. Some information is presented in the form of graphs extracted from Microsoft Excel to clarify the findings.

Before any credibility can be assigned to the statistical analysis, one needs to first ascertain if the actual sample response rate is in accordance with the methodology as explained in Chapter 4 and that such samples are comparable from a demographic profile perspective. Once this has been ascertained, the study then seeks to confirm that the measuring instruments were both reliable and had validity, which would allow for credibility to be assigned to the results of the statistical analysis.

Further it is important to indicate that the research followed a sequential mixed analysis where the quantitative analysis component was conducted first, which then informed the subsequent qualitative analysis component. The quantitative analysis component was given significantly higher priority, as this was essentially a quantitative-dominant mixed analysis, wherein the researcher adopted a post-positivist stance, while believing simultaneously that the inclusion of qualitative data and analysis was likely to increase understanding of corporate governance as it

is practiced within SOEs. The rationale/purpose for mixing quantitative and qualitative analysis was complementarity and expansion.

5.2 SAMPLE OF RESPONDENTS

The survey was conducted among the Board Members, Executive Managers and Departmental Managers working in and with Schedule Three SOEs in KZN. All respondents were involved in the business activities of KZN-based National Public Entities, National Government Business Enterprises, Provincial Public Entities, and Provincial Government Business Enterprises and registered/ listed with the Department of National Treasury. The respondents contacted and visited were selected from all these Entities in an effort to get a representative sample from each of the four categories making up Schedule Three SOEs.

All 28 listed SOEs as per the listing schedule of the National Treasury website in 2013, excluding subsidiaries, were selected as the initial sample of the study. This translated to a total of 196 questionnaires distributed to 56 Board Members, 84 Executive Managers and 56 Departmental Managers. The questionnaires were emailed and hand-delivered to Board Secretaries of these SOEs, and to individual targets in terms of the three targeted samples explained above. Several approaches were adopted to improve the response rate. The questionnaire could be completed by the Board Member, Executive Manager and/or the Department Manager working for the shareholder of that SOE. Reminder letters were emailed approximately three weeks after the questionnaires were forwarded and followed up with telephone calls respectively. Further, assistance from Chief Executive Officers and Board Chairpersons were obtained to distribute questionnaires among Board Members and Executive Managers using their portfolio capacity in these Entities.

The survey method for data collection was implemented through a combination of quantitative and qualitative open-ended questionnaires that contained structured questions. Respondents did not have to answer questions in their own words or enter into lengthy discussion as is the case in a qualitative research. They simply had to select their responses from the structured response categories. Quantitative research allows responses to be qualified and presented in numbers and short sentences where comments are needed. The findings were to determine if there are any deficiencies in terms of corporate governance practices.

In this study, questionnaires were personally delivered to all respondents (see Appendix A). Instructions were provided for each question. This was due to the fact that respondents were not willing to be personally interviewed in their own time. Others also stated that they were too busy to be personally interviewed but were willing to complete the questionnaire on their own.

With some respondents, appointments were made before the questionnaire was delivered for completion, whereas some preferred a personal visit to explain and deliver the questionnaire.

The purpose of the study was explained to respondents during the first visit when the questionnaire was delivered. Respondents were asked when they could be visited again to find out if the questionnaires were ready for collection.

5.2.1 Survey Responses

Sixty-eight responses were received and out of these responses, 64 questionnaires were usable as they completed all the questions. Four respondents did not fill in their job category, but the responses were still usable. The response rate was 33%. Two respondents, one from a National Public Entity (Part A), and one from a National Government Business Enterprise (Part B), sent emails indicating that they did not answer the questionnaire because of their company's policy of non-participation in such surveys/ studies.

Table 5.1 provides summary information on each SOE category to which questionnaires were sent and the number of respondents that responded. It was important to ensure that the study was conducted on a knowledgeable person - one who understands the operations of the Entity, - hence targeting of more Executive Managers, than Board Members and Departmental Managers. It is inferred that most of the respondents have a full understanding of their Entity and their Board proceedings, which is the central focus of the research.

Table 5.1: Summary information on each SOE category to which questionnaires were sent

Schedule Three categories	Number of Schedule Three Entities per sub-category	Targeted Executive Managers	Responded	Targeted Board Members	Responded	Targeted Government Department Managers	Responded	Total number targeted per Strata	Responded	% surveyed
PART A	7	21	3	14	6	14	2	49	11	22%
PART B	2	6	0	4	0	4	0	14	0	0%
PART C	14	42	20	28	23	28	5	98	48+4	53%
PART D	5	15	0	10	2	10	0	35	2	6%
TOTAL	28	84	23	56	31	56	7	196	65	33%

5.2.2. Non-responding bias

The scope of this study is the corporate governance practices of listed Schedule Three SOEs in KZN. The entire population of listed Schedule Three SOEs on the National Treasury website were included in the initial sample. The overall response rate is 33%, but respondents differed systematically from non-respondents. For example, respondents where there is strong

compliance to corporate governance best practices are more likely to have responded to the survey. Armstrong and Overton (1977), state that several researchers have suggested that subjective estimates of non-response bias would be useful, and several approaches have been proposed. One approach is to determine socioeconomic differences between respondents and non-respondents. For example, respondents generally are better educated than non-respondents, and there may be differences in personality between respondents and non-respondents.

The “interest hypothesis” is another widely recommended basis for subjective estimates and it involves the assumption that people who are more interested in the subject of a questionnaire respond more readily, and that non-response bias occurs on items in which the subject’s answer is related to his interest in the questionnaire. Finally, Armstrong and Overton (1977), conclude from a review of the literature that people are more likely to respond to a questionnaire if they would make a favourable impression upon anyone who reads the responses. Despite the uncertainty about the use of subjective estimates, they are used. Furthermore, they have been shown to have some validity in, where the direction of bias was correctly predicted. According to Miller and Smith (1983), non-respondents tend to be similar to late respondents in responding to surveys. The researcher was able to use this theory to compare the early and late respondents groups, using two key variables: Their biographical details and other factors as indicated under Research objective number 1, in the questionnaire, including constitution of their boards and functioning of their board committees. The researcher found that there was no significant difference between the early and late respondents in as far as these variables were concerned, therefore statistically could conclude that non-respondents were perhaps similar to late respondents and thus was able to generalise the findings to the population.

Further, any existence of non-respondent bias was evaluated by comparing the 65 respondents with a sample from the non-responding Entities. Of the 131 non-respondents, a sample is matched with an equal number of responding SOEs. Though the sample of non-respondents is randomly selected, most non-respondents were from National Government Business Enterprises (2 SOEs) and the Provincial Government Business Enterprises (5 SOEs): that is where most non-responses came from.

In order to find out whether there is a significant difference between the two samples, a qualitative analysis was used to compare, using the following corporate governance variables:

- size of Boards
- whether the CEO is separate from the Chairperson
- percentage of non-executive Directors in the Boards
- number of Board meetings held per year

- number of Board Committees in the Entity

These were compared between the respondent SOEs and non-respondent SOEs and then averaged out. Data for comparing the governance variables was obtained from the annual reports of the SOEs in the sample and a document analysis approach was used. On the whole, the corporate governance characteristics of respondent and non-respondent SOEs were similar and closely resembled each other, as indicated in Table 5.2. These results suggest that there is non-responding bias in the survey and further suggest that the responses in this study can be regarded as a representative sample of the population. The sample used is regarded as reliable as it was a total of 6 SOEs against a total of 28 SOEs that are Schedule Three Entities in KZN. This translates to 21% of the total population.

Table 5.2: The corporate governance characteristics of respondent and non-respondent SOEs

	Respondent	Non-respondent	Variance
Number of SOEs compared	3 Trade and Investment KZN KZN Liquor Authority Ezemvelo KZN Wildlife	3 Isimangaliso Wetlands Park Umngeni water Ithala Development Finance Corporation Ltd	
Governance characteristics			
Average size of Boards	Ranging from 7 to 12 Board of Directors	Ranging from 10 to 12 Board of Directors	No variance
CEO separate from Chairperson	Separate	Separate	No variance
Percentage of non-executive in Board	Ranging from 8% - 14%	Ranging from 8% - 10%	No major variance
Number of Board meetings per year	Average of 4 Board meetings per year	Average of 4 – 5 Board meetings per year	No variance
Average number of Board Committees	Average of 4 Board Committees	Average of 4 Board Committees	No variance

5.2.3. Other Data Limitations

There are other data limitations owing to inherent deficiencies of this kind of questionnaire survey. Incomplete knowledge of respondents and self-reporting bias are generally considered as weaknesses of a questionnaire survey. If the respondents do not have proper knowledge about

the issues addressed in the questions, the responses may lead to a missing or “neutral” answer. Nevertheless, in this study all the survey questionnaires (except the four which were omitted from the analysis) were received without missing, incomplete or ambiguous answers. This is due to the respondents’ involvement in their Entity. Of 65 respondents, 31 are Board Members of respective SOEs, 23 are Executive Managers and 7 are Managers in respective shareholder departments; therefore incomplete knowledge of the respondents is assumed not to be a major issue in the survey.

However, whether the respondents have responded with bias cannot be assessed directly. This can only be measured using indirect measures such as the responses’ diversity, percentage of negative answers (especially in respect of legally obligatory practices or requirements) and annual report disclosures. The survey responses were largely varied across the SOEs, and a high percentage of negative answers, in respect of compliance to corporate governance best practices, were also found in the responses. This indicates that the bias is not severe, furthermore, responses for some governance variables can be confirmed using qualitative annual report data analysis. The random check was effected wherever possible, and showed no systematic differences between the sources.

5.3 FACTORS AFFECTING EFFECTIVENESS OF CORPORATE GOVERNANCE IN SOEs

This section presents in detail the biographical data of respondents, looking at their personal profiles, background experience, training including on corporate governance, number of boards they serve in, who determines policies, who appoints board members, type of representation in boards, number of meetings held per year, number of board committees; and looks in detail at how these board committees function. This information is important to determine whether SOEs and those that serve in them are able to practice effective corporate governance through those who drive them, and how they are constituted in line with King’s codes. A Board of Directors has an overseeing fiduciary role in all the Entities being studied to ensure compliance, good governance, sustainability of the Entity and to reduce the possibility of principal-agency problems. The actions of the Board should therefore be in accordance with the principles of good corporate governance. The Board should demonstrate responsibility, accountability and transparency in all its dealings.

5.3.1 Gender and Race

Figure 5.1 below indicates that the male respondents were almost double (66.0%) the number of the female respondents (34.0%) which is representative of the demographics at the SOEs used to collect data for this study.

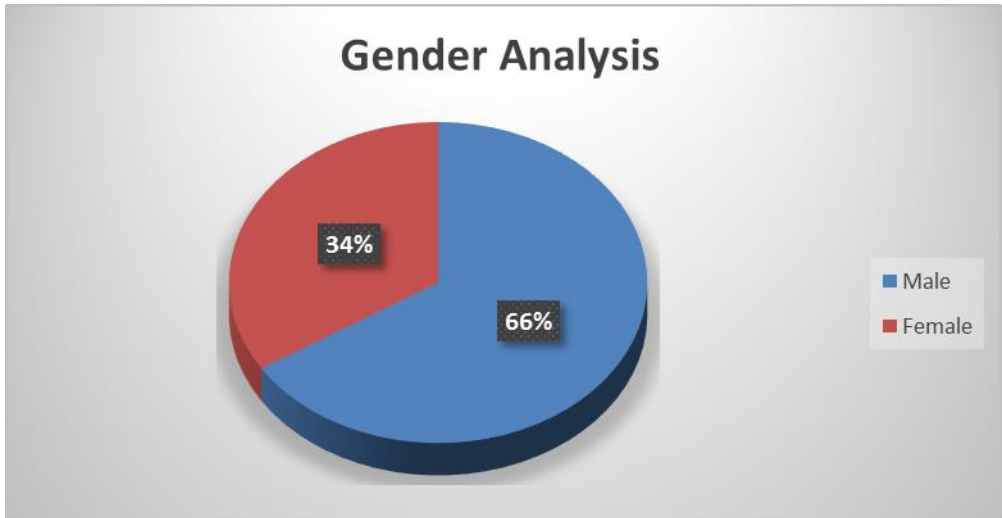


Figure 5.1 Gender analysis

Figure 5.2 below shows the distribution of the participants by race. The graph illustrates that 67.0% of the respondents were African, 17.0% White, 11.0% Indian, 2.5% Coloured and 3.0% other. This trend is not far removed from the demographics of the country which, according to the Commission for Employment Equity (2014), reflected as follows: Africans 59.2%, Whites 22%, Coloureds 11.3% and Indians 5.9%, Other or Foreign Nationals at 1.5%.

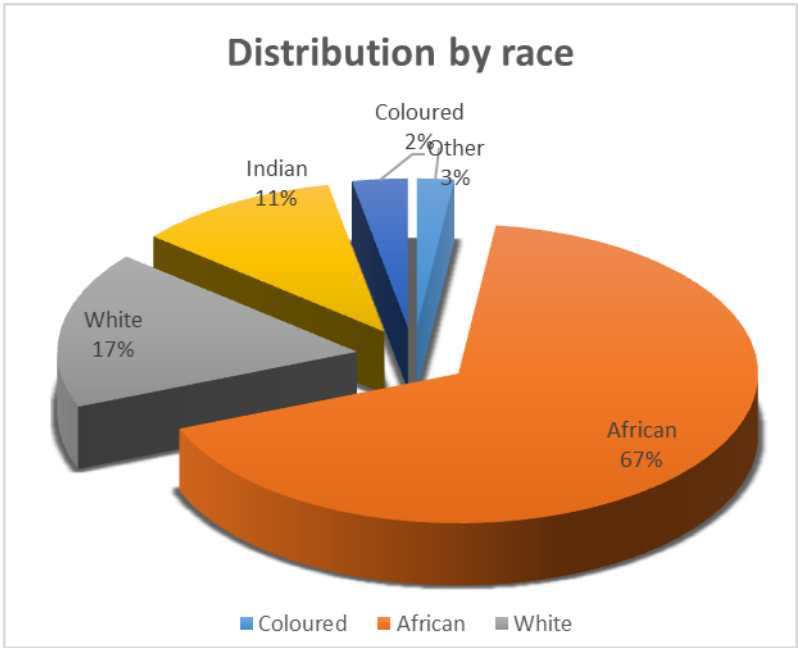


Figure 5.2 Distribution by race

5.3.2 Age and Qualifications

The majority of the respondents were between 41 and 50 years of age (36%), 13% were approaching retirement aged between 61 and 65, with only 3% aged between 20 and 30 years.

The rest of the respondents were aged between 31 and 40 years (22%), while ages 51-60 years accounted for 27%.

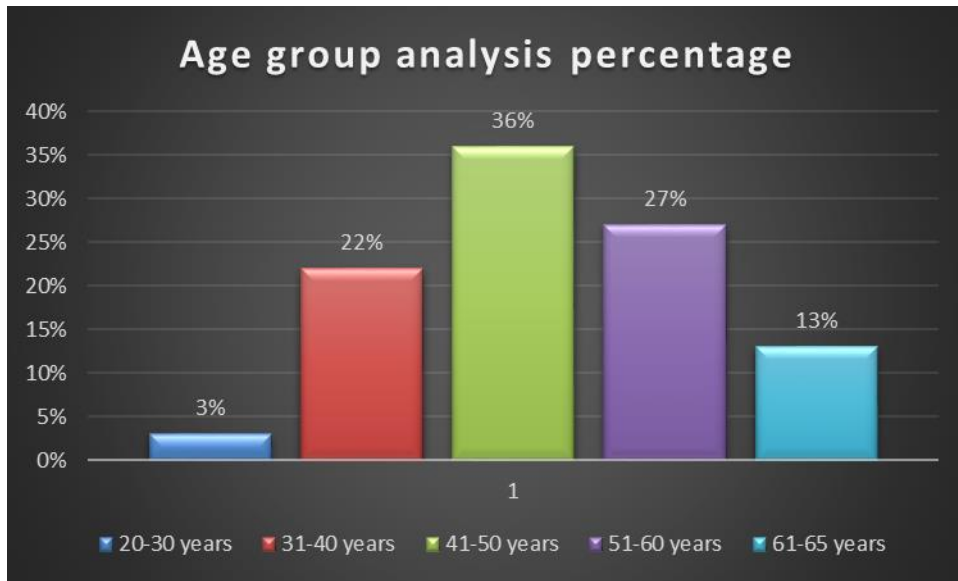


Figure 5.3 Age Group Analysis

Figure 5.4 below shows that only 7% of the respondents were in possession of doctoral degrees. About a third held masters' qualifications (32%), with the majority holding a postgraduate diploma (40%). A fifth (20%) possessed undergraduate qualifications. The qualifications scenario shows that it would be possible to develop capacity and monitor the implementation of the principles of corporate governance as the level of education was high.

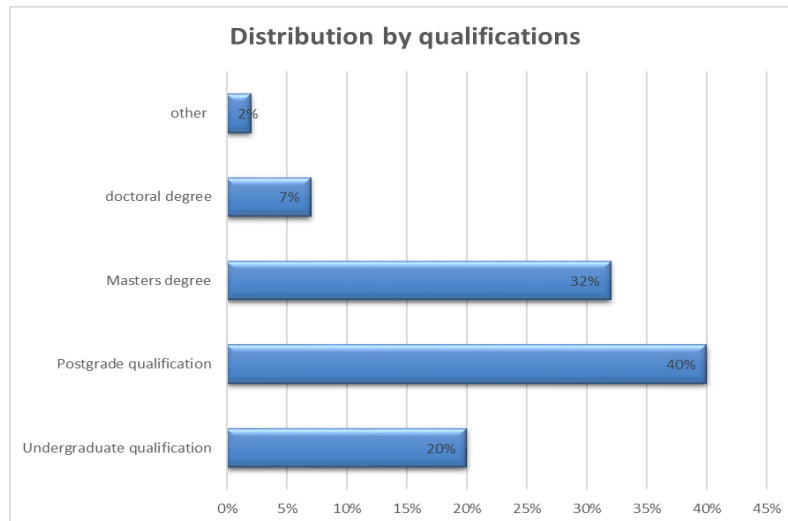


Figure 5.4 Distribution by qualifications

5.3.3 Job category

Figures 5.5 and 5.6 respectively deal with the job categories and years of experience in the current job. Corporate governance is primarily the responsibility of the top leadership of the organization, including the Board of Directors, which is the reason why the researcher focused on the management level in the SOEs being studied. Almost half of the respondents (48.0%) were Board Members, 39% were Executive Managers in Schedule Three SOEs and 11% were managers in Government departments.

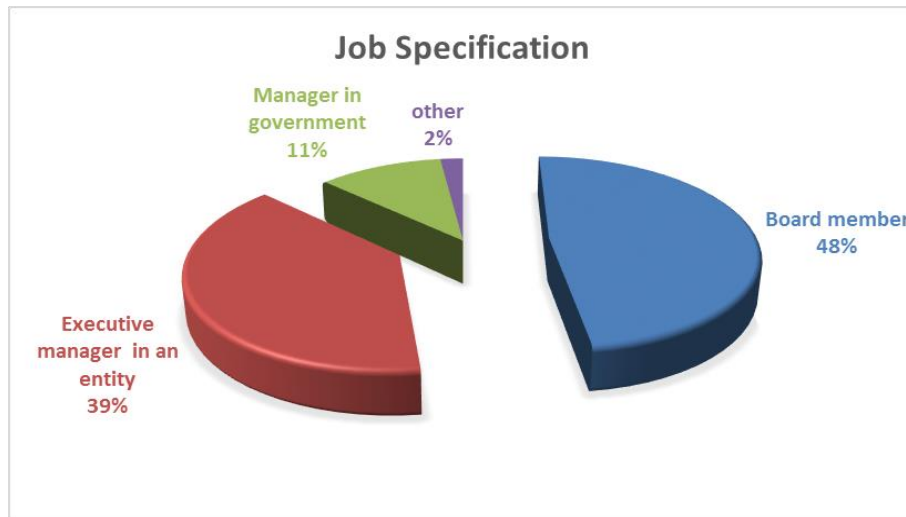


Figure 5.5 Job specification

More than half (54%) of the respondents were fairly new in their leadership positions (1-5 years). Figure 5.6 indicates that only 4.0% were seasoned in their portfolios with more than 16 years of experience. The other respondents (43%) had an experience ranging from 6-15 years in their current portfolio.

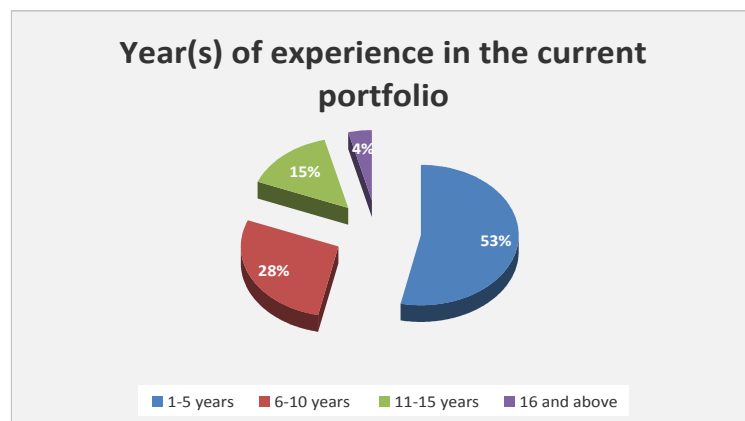


Figure 5.6: Years of experience in current portfolio

5.3.4 Years of experience in the current portfolio

The background experience of the respondents would give an indication of leadership and management exposure prior to the current positions that the respondent holds. More leadership and management experience would mean that they would have had some exposure to corporate

governance either ensuring compliance or implementation of the principles of corporate governance. Figure 5.7 shows that 41.0% of the respondents had the business executive background, 3.0% had the legal background and the remaining 57.0% had emerged from other professions.

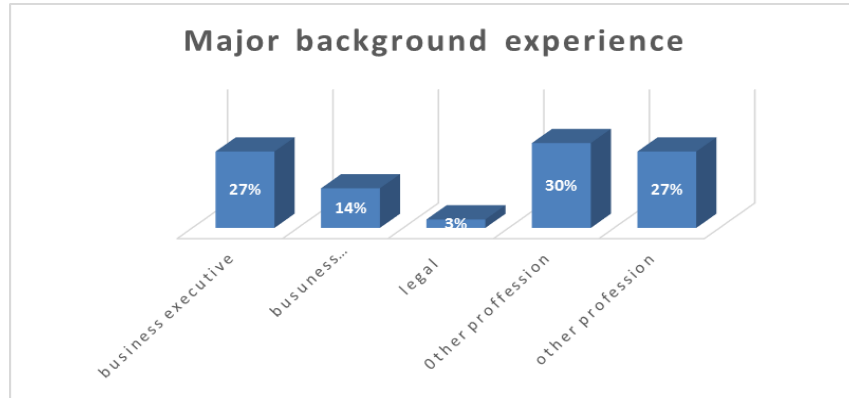


Figure 5.7: Background experience

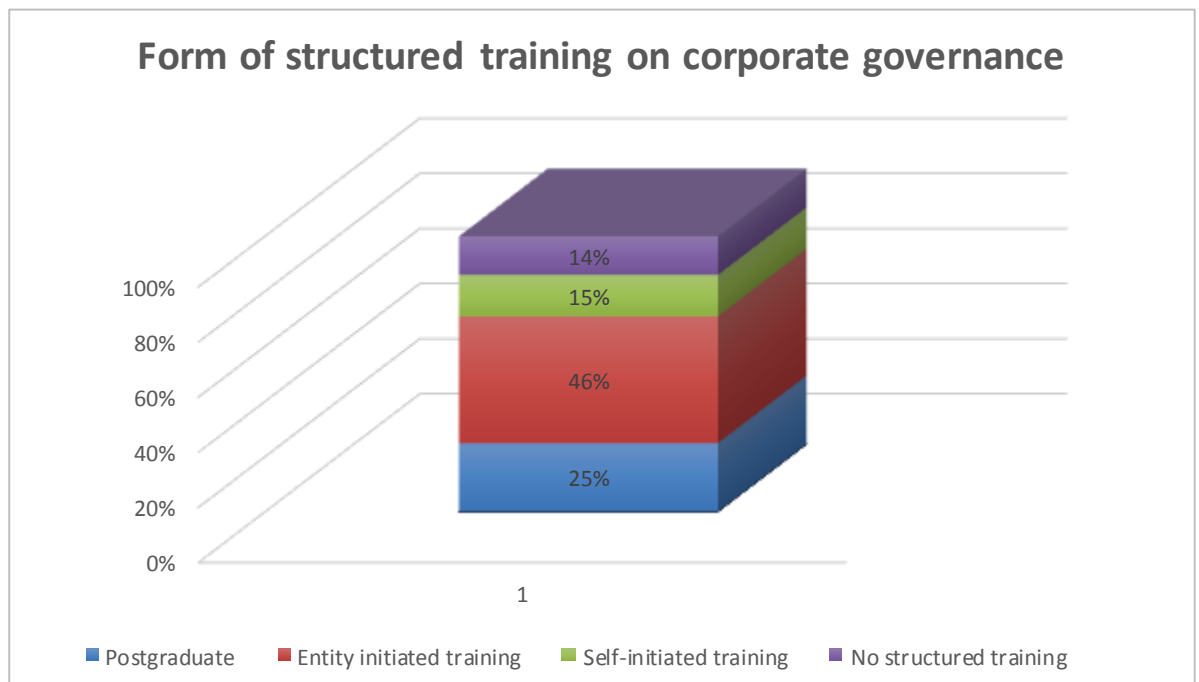


Figure 5.8 Structured Training

Clearly 44.0% of the respondents had an understanding of the importance of corporate governance even without training provided by the State Entities targeted for the study. There are no guarantees that the remaining 57.0% could have been exposed to corporate governance and the crucial role it plays in managing SOEs. Close to half (46%) of the respondents had received Entity-initiated structured training in corporate governance. About a quarter (25%) of them had

learnt about corporate governance in their postgraduate studies. The remaining 29% had either initiated their own learning and understanding (15%) or had had no structured training in corporate governance (14%).

5.3.5 Indicate your major background experience

Table 5.3 below is a cross tabulation of major background experience with the gender of the respondents. It reveals that of the 73.1% respondents who answered these questions, the majority with business executive experience were male at 22.2%, while the females with business executive experience only formed 4.8%. Only female respondents had legal background experience and 23.8% of the males had public service administration experience compared to only 4.8 females. More female respondents (11.1%) had accounting and financial professional background compared with only 3.2% male respondents.

Table 5.3: Gender and Major background experience

		Indicate your major background experience			
		Business executive	Accounting or Financial professional	Legal professional	Public service administration
Gender	Male	22.2%	3.2%		23.8%
	Female	4.8%	11.1%	3.2%	4.8%
Total		27%	14.3%	3.2%	28.6%

5.3.6 Indicate category of your Entity or Department

Figure 5.9 indicates that the majority of the respondents (75%) were in the service of the provincial public Entity, with only 14.0% employed by the national public Entity. The remaining 11% were in the service of the Provincial Government Business Enterprise (3%), National Government Department (3.0%) and Provincial Government Department (5%).

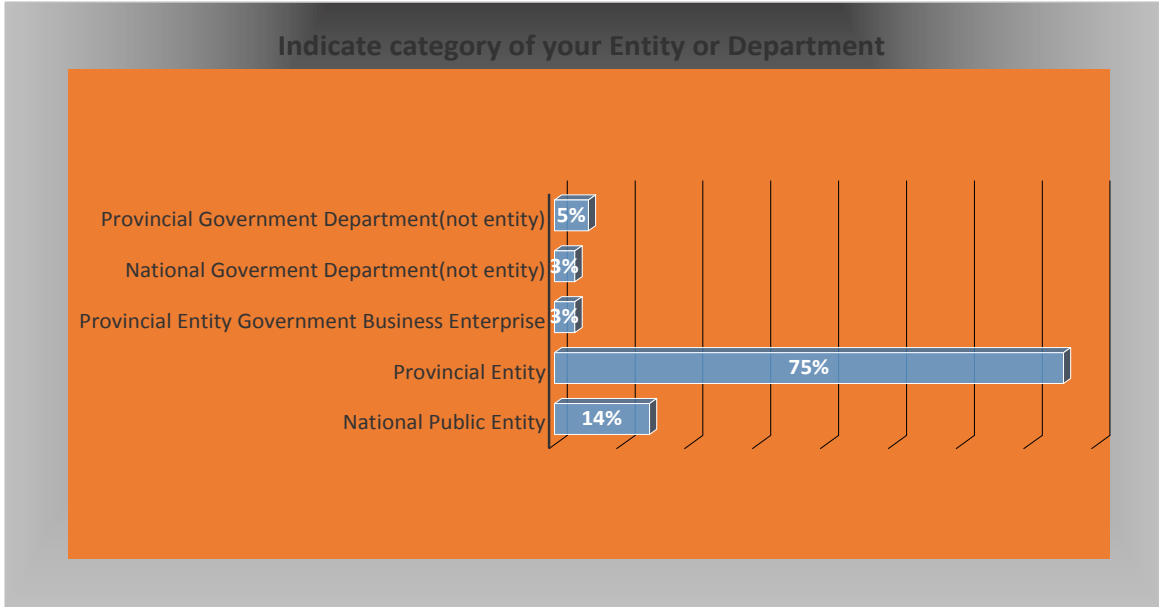


Figure 5.9 Category of the Entity or Department

5.3.7 Who has the greatest influence over the policies of your Entity?

The respondents were asked to give the researcher an indication of stakeholders that had the greatest influence over the policies of their Entities. An overwhelming majority (75%) revealed that the Board had the greatest influence over the policies of their Entities. The other 25% stated that the government department (11%) and the executive management (14%) had the greatest influence over the policies of their Entities.

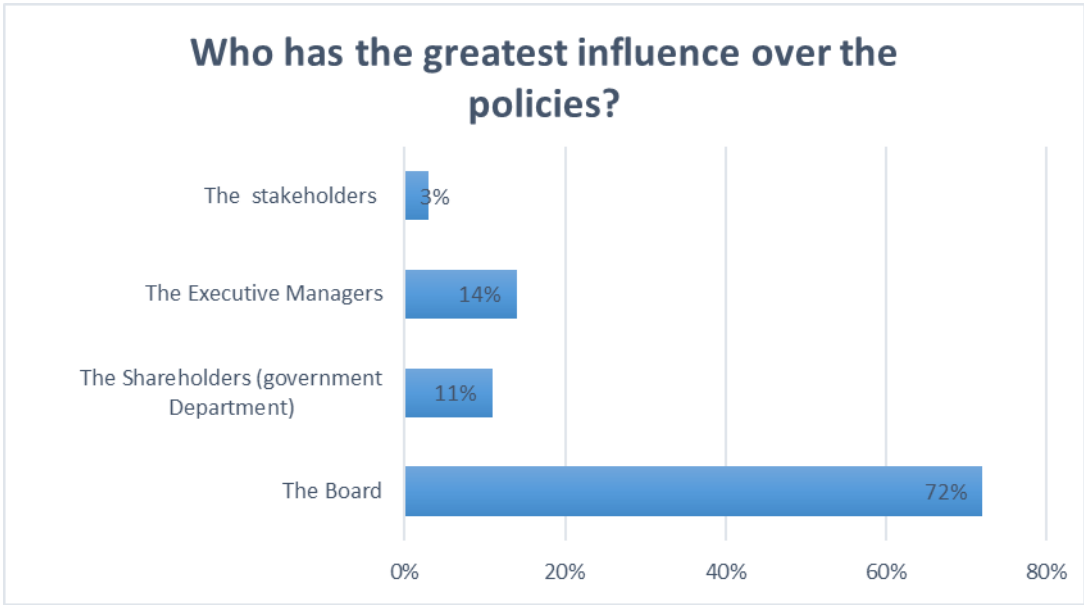


Figure 5.10 Greatest influence over policies in Entities

5.3.8 Indicate structured training on Corporate Governance experienced

The majority of the respondents (60.9%), females 18.8% and males 42.2% agreed that their Entities provide training opportunities for newly appointed Directors.

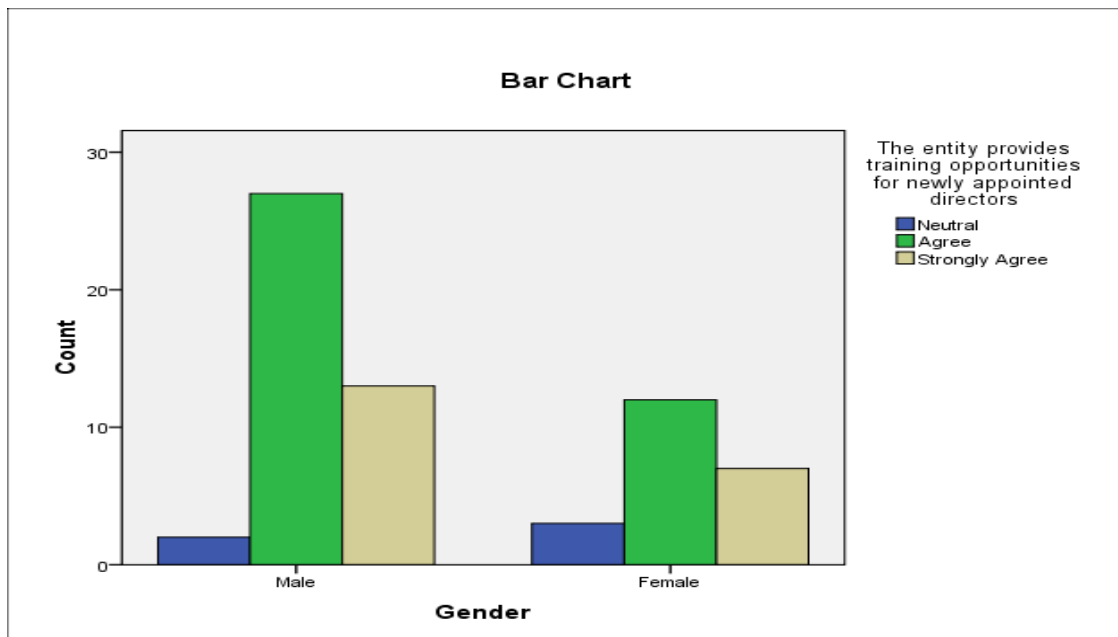


Figure 5.11 Structured training provided by the Entity by gender

However, 31.3% of the respondents strongly disagreed that their Entities provided training opportunities for newly appointed Directors.

5.3.9 Who has the strongest voice in the selection and appointment of Board Members?

The respondents were asked who had the strongest voice in the selection and appointment of Board members. A total of 71.9% of the respondents thought that the Board had the greatest influence over the policies in their Entities. There was a gender disagreement regarding the influence of the Executive Managers, as 10.9% of the males thought that the Executive Managers had the greatest influence, while only 3.1% of the women respondents regarded Executive Managers as influential over the policies of the Entity. The female respondents seemed to think that the shareholders had no influence over the policies of the Entity as none selected that option. The females formed 34.4% of the respondents to this question as compared with two-thirds male respondents. There is unanimous agreement among the respondents falling within all the portfolio experience categories that the Government Department had the strongest voice in the appointment of Board Members as the graph indicates.

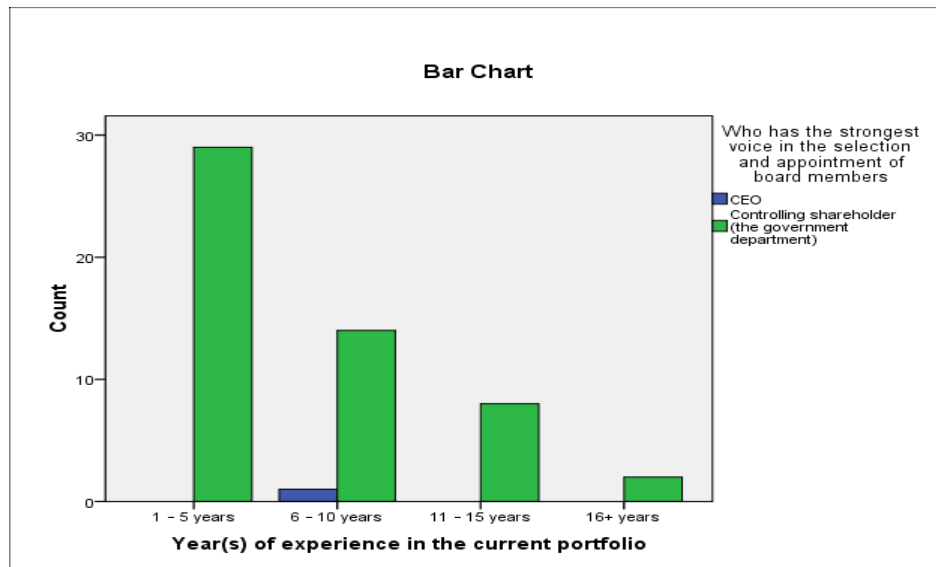


Figure 5.12: Strongest voice in appointment of Board Members by years of experience in current portfolio

5.3.10 Who has greatest influence over the policies of your Entity?

A total of 71.9% of the respondents thought that the Board had the greatest influence over the policies in their Entities. There seemed to be a gender disagreement regarding the influence of the Executive Managers as 10.9% of the males thought that the Executive Managers had the greatest influence, while only 3.1% of the women respondents regarded Executive Managers as influential over the policies of the Entity. The female respondents seemed to think that the shareholders had no influence over the policies of the Entity as none selected that option. The females formed 34.4% of the respondents to this question as compared to two-thirds male respondents.

Table 5.4: Greatest influence over the policies of your Entity by gender

		Greatest influence over the policies?				
		The Board	The shareholder, which is the Government Department	The Executive Managers	The stakeholders	Total
Gender	Male	40.6%	10.9%	10.9%	3.1%	65.6%
	Female	31.3%		3.1%		34.4%
Total		71.9%	10.9%	14.1%	3.1%	100%

Table 5.5: Number of companies serving as Board Member by gender

		Number of companies serving as a Board Member				Total
		One company; only this one	2 – 3 companies	4 – 5 companies	Over 8 companies	
Gender	Male	13.5%	24.3%	24.3%	5.4%	67.6%
	Female	8.1%	18.9%	5.4%		32.4%
	Total	21.6%	43.2%	29.7%	5.4%	100.0%

5.3.11 In how many companies do you currently serve as a Board Member?

Table 5.5 depicts that a total of 21.6% of respondents (13.5% male) and 8.1% female were serving as Board Members of only one company. However, the majority of the respondents (43.2%) were serving as Board members of 2-3 companies, 29.7% serving on 4-5 companies and the last 5.4% were serving in over 8 companies. Male respondents (54.0%) tended to serve as Board members of more than one company than female respondents at 24.3%.

5.3.12 The Board has a Director representing The Government department or the shareholder department.

The researcher wanted to know about shareholder representation on the Board. Therefore, the respondents were required to explain who represents which shareholder in their own Entities. Figure 5.13 shows that 83.3% of the respondents revealed that there was a Director representing the shareholder on the Board, with only 17.0% thinking that there was no Director representing shareholders on the Board. The majority (55.6%) of Africans responded that there was a Director representing shareholder on the Board. All the Colored, Whites and others responded positively to this question. Of 11.1% Indian respondents, 7.9% agreed that there was a Director representing the shareholder on the Board.

5.3.12.1 The Board has a Director representing: The shareholder

When this question was cross tabulated by race, the researcher found that of 68.3% of African respondents, 55.6% agreed that the Board had a Director representing the shareholder.

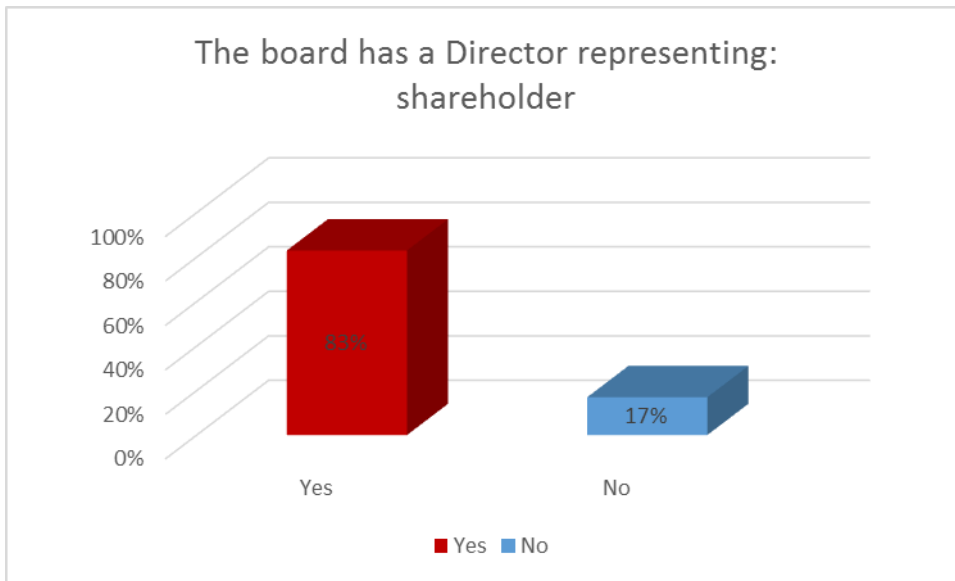


Figure 5.13: Shareholder representation in the Board

5.3.12.2 The Board has a Director representing: The sector or the industry

This question also drew positive responses from the majority (69%) of the respondents with only 31% who thought that there was no Director representing the sector or industry on the Board.

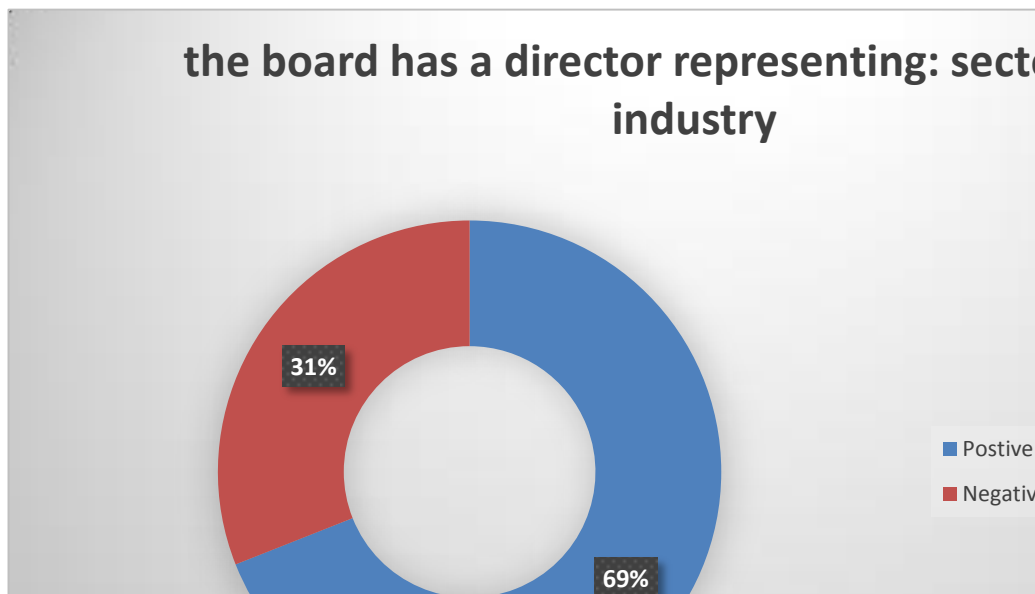


Figure 5.14: Sector or industry representation

5.3.12.3 *The Board has a Director representing: The employees of the Entity*

Just above half (57.0%) of the respondents shared that there was no Director representing employees on the Board and the other 43.0% thought that there was, as shown in figure 5.15.

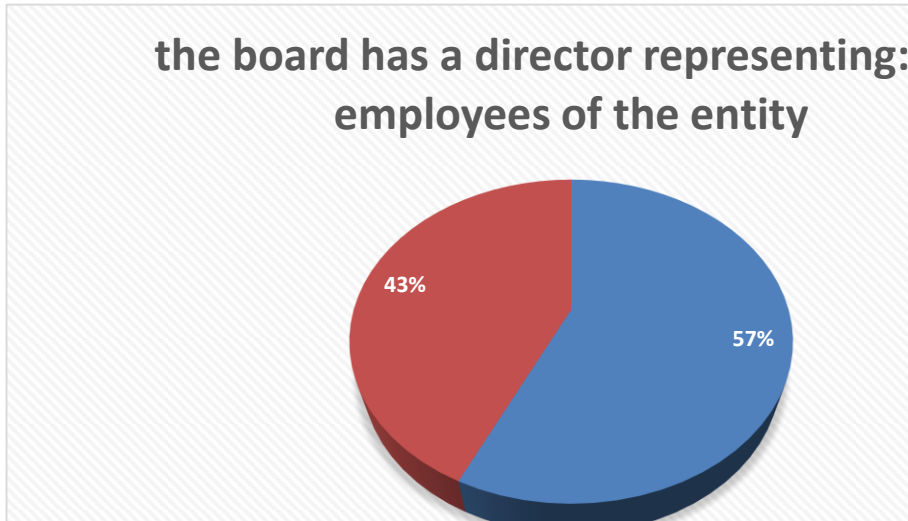


Figure 5.15: Employee representation

Also when cross-tabulation of employee representation by age was done, it showed that 57.1% of the respondents thought that the employees were not represented on the Board, with the age category 41-50 leading at 24.5%. The younger employees 20-30 years of age seemed to think that employees were represented on the Board (4.1%). All the elderly respondents forming 8.2% (age group 60-65) were of the idea that the employees were not represented by any Director on the Board.

5.3.12.4 *The Board has a Director representing: Any other constituency*

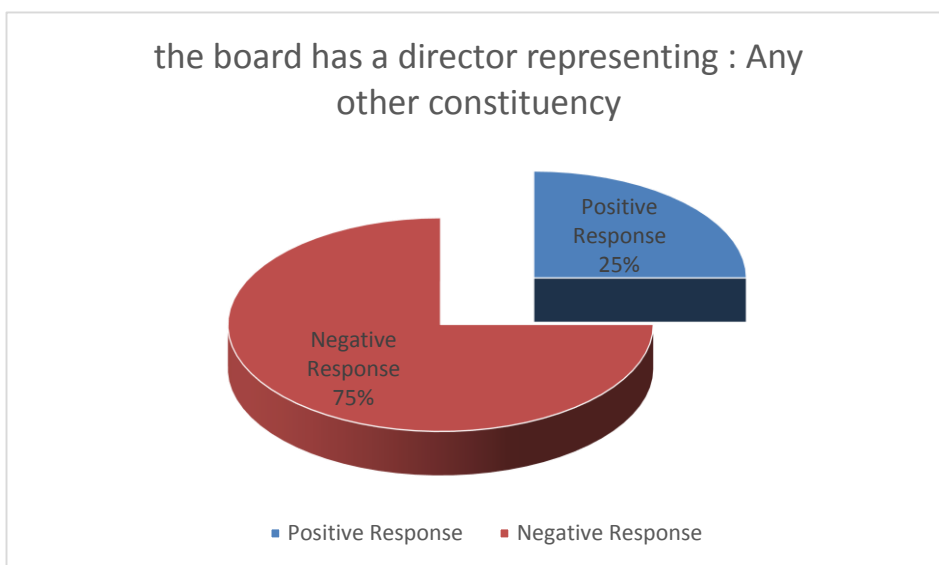


Figure 5.16: Representation of any other constituency

Figure 5.16 clearly indicates that most of the respondents (75.0%) believed that other constituencies were represented by a Director on the Board, while only 25.0% thought that they were not represented. Of the 75.0% none of the most senior respondents (60-65 years of age) thought that other constituencies were represented on the Board. All the other age groups (31-60 years) agreed that other constituencies were represented on the Board. The 25% who felt that there was no representation of other constituencies on the Board were obviously the most senior respondents.

5.3.13 How many Board meetings were held last financial year?

The Boards of the Entities involved in the study appeared to have an average of 4-6 meetings annually as indicated by the majority (89%) of the respondents in Figure 5.17. Figure 5.18 shows the responses regarding meeting attendance by age. All age groups seemed to concur that the Board had held 4-6 meetings in the previous financial year. Therefore, it could be concluded that the Board held an average of 5 meetings.

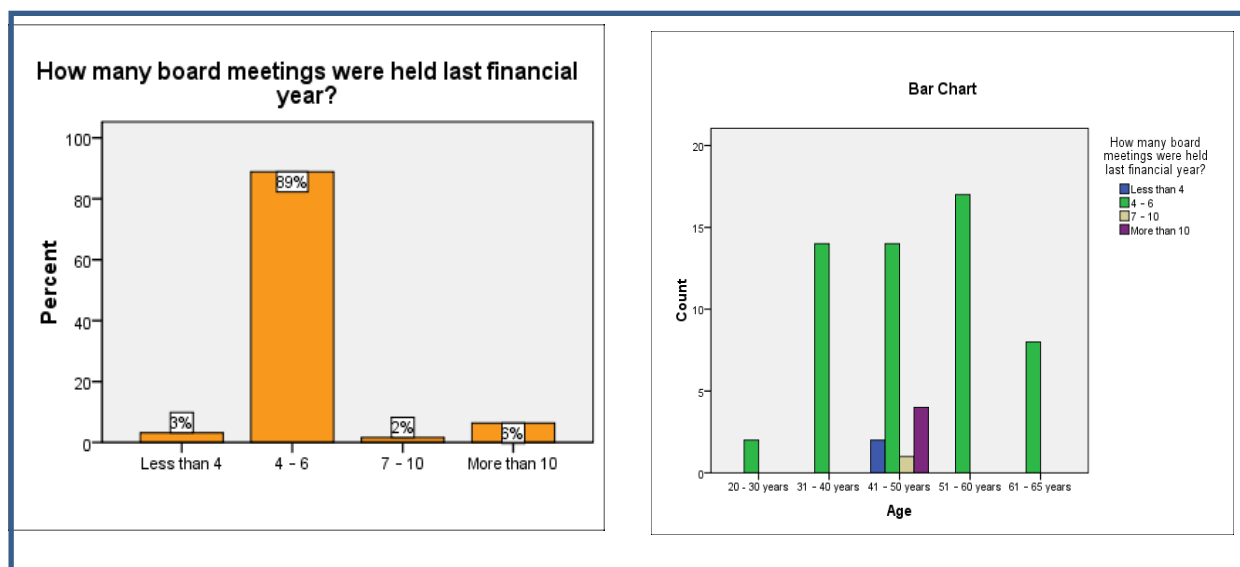


Figure 5.17: No. of Board Meetings

Figure 5.18: Number of meetings by age

This was also confirmed in the data analysis, done through document analysis, where reports indicated that 81.8% of the Published Annual reports contained information about the number of Board meetings and frequency thereof. 90.9% reported same on Board Committee meetings, as will be reported later on in this Chapter, in section 5.12.

5.3.14 On average, what was the attendance rate for the Board meetings?

The Board meetings did not seem to be attended well as 41% of the respondents indicated a 90 - 100% attendance, while the remaining 59% thought that the rate of attendance ranged between 71% and 89%. The cross graph between average attendance at Board meetings and race showed that the majority of respondents were Africans, followed by Whites and Indians.

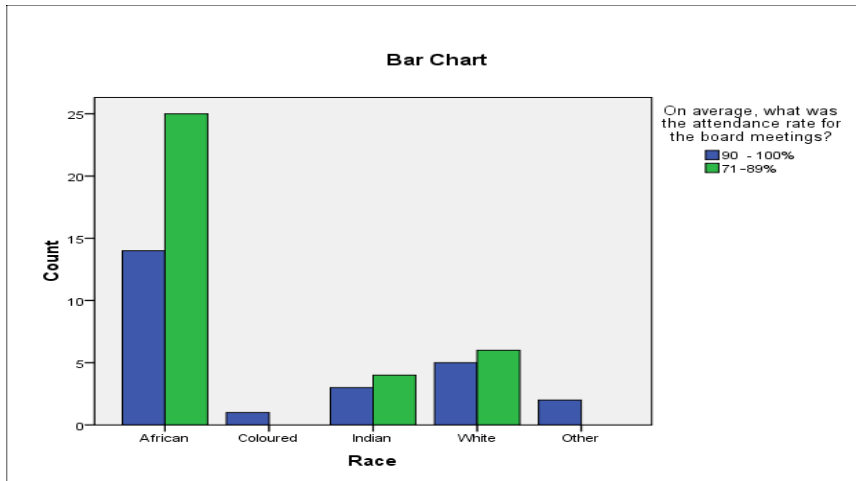


Figure 5.19: Average attendance by race

Of the 39 African respondents, 64.1% thought that the attendance rate was between 71% and 89%, while 35.9% thought that the attendance was good at 90-100%. The majority of African respondents seemed to think that the Board meetings were well attended with about 25 respondents thinking that the rate of attendance ranged from 90-100% and 14 responding that it ranged between 71% and 89%. The few Colored respondents also thought that the Board meetings were well attended. The majority of White and Indian respondents regarded the rate of attendance as good ranging between 71-100%.

The youngest respondents seemed to think that the Board meetings were well attended as all 3.3% of them stated that the rate of attendance ranged from 90% to 100%. The majority (23.3%) of the respondents from the groups ranging from 41-50 years and 51-60 years seemed to think that the attendance at Board meetings ranged from 71%-89%.

Table 5.6: Average attendance by age

		Average attendance rate		
		90 - 100%	71-89%	Total
Age	20 - 30 years	3.3%		3.3%
	31 - 40 years	13.3%	6.7%	20.0%
	41 - 50 years	11.7%	23.3%	35%

	51 – 60 years	5 %	23.3%	28.3%
	61 – 65 years	8.3%	5%	13.3%
	Total	41.7%	58.3%	100%

5.3.15 The Audit Committee

5.3.15.1 Does your Board have an audit committee?

As stated in the literature review, auditing is another very important requirement of good corporate governance because it limits the risk of the principal-agency problem by making sure that the actions and transactions of the Board are transparent as well as by holding the Board to account.

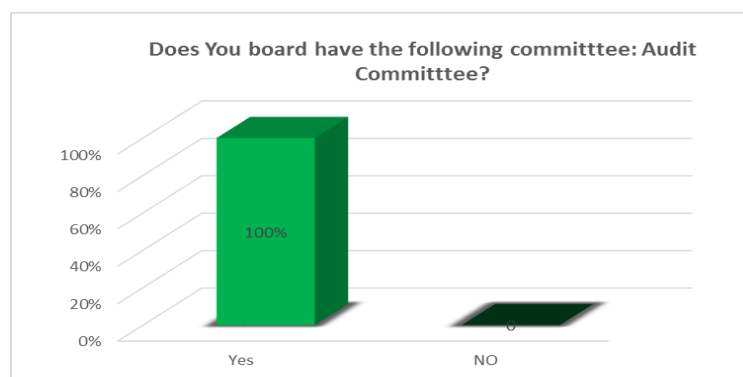


Figure 5.20: Audit Committee

Internal as well as external auditing play a very crucial role in this regard. The respondents had to share with the research information pertaining to the extent to which their Entities are compliant in this regards. The following questions were asked in order to collect data that would enable the researcher to come to some understanding and conclusion about auditing in the Entities selected for study. The question of whether the Board of different Entities included audit committees yielded the results shown in Figure 5.20. Clearly, 100% of the respondents thought that the Boards of their Entities included the audit committee.

Table 5.7: Availability of audit committee on Boards by years of experience in current portfolio

	No years	Audit Committee	
		Yes	Total
Year(s) of experience in the current portfolio	1 – 5 years	53.7%	53.7%
	6 – 10 years	27.8%	27.8%

	11 – 15 years	14.8%	14.8%
	16+ years	3.7%	3.7%
	Total	100%	100%

Even when the same question was cross tabulated by years of experience in the current portfolio the picture did not change as it still depicted 100% availability of audit committee on Boards of various Entities. Table 5.7 shows that the majority of the respondents fell in the least experienced portfolio category (1-5 years) forming 53.7% of the sample. It was good to note that 100% the respondents in the most experience portfolio category (16+ years) also thought that the Boards of their Entities included the audit committee.

5.3.15.2 The Audit Committee has written terms of reference specifying role and responsibilities of the committee

A few of the respondents (15%) did not think that there were terms of reference specifying the roles and responsibilities of the audit committee on their respective Boards. However, figure 5.23 illustrates that 85% of the respondents were positive that there were terms of reference specifying the roles and responsibilities of the audit committee with 60% feeling strong about it. Table 5.8 cross tabulates this question by the qualifications of the respondents. Apparently only 41.7% responded to this question and the other 58.3% did not respond.

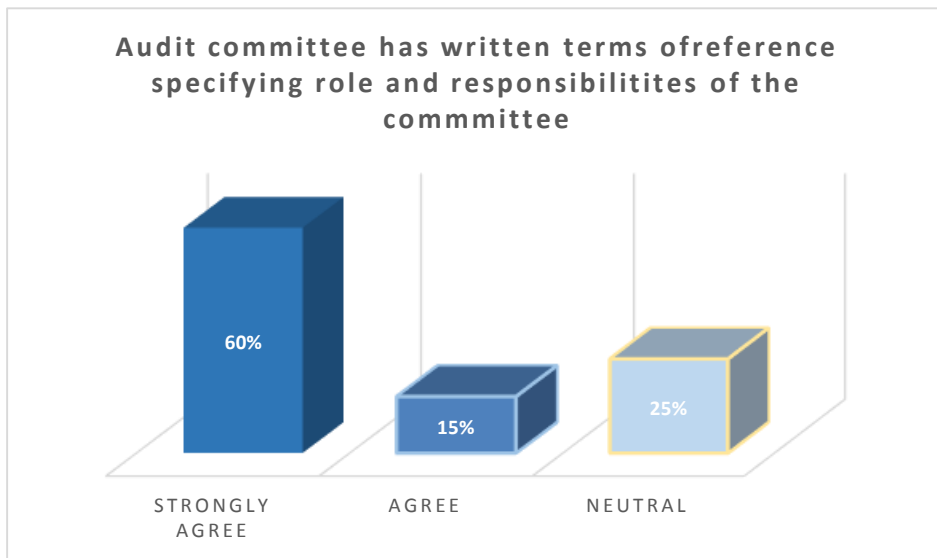


Figure 5.21: Terms of Reference of Audit Committee

Table 5.8: Terms of Reference of Audit Committee by Qualification

		Written terms of reference	
		Neutral	Agree
Qualification	Undergraduate qualification	6.7%	6.7%
	Postgraduate diploma	6.7%	15%
	Master's degree	3.3%	3.3%
Total		16.7%	25%

A quarter of those that responded felt that there were terms of reference specifying the roles and responsibilities of the audit committee on their respective Boards and the remaining 16.7% decided to be neutral on this matter. Half (3.3%) of the respondents who held a master's degree remained neutral while the other half (3.3%) responded that there were terms of reference. The majority (15.0% of 21.7%) of the respondents who held a post graduate diploma agreed that there were terms of reference specifying the roles and responsibilities of the audit committee on their respective Boards

5.3.15.3 The Audit Committee is comprised of a majority of non-executive Directors

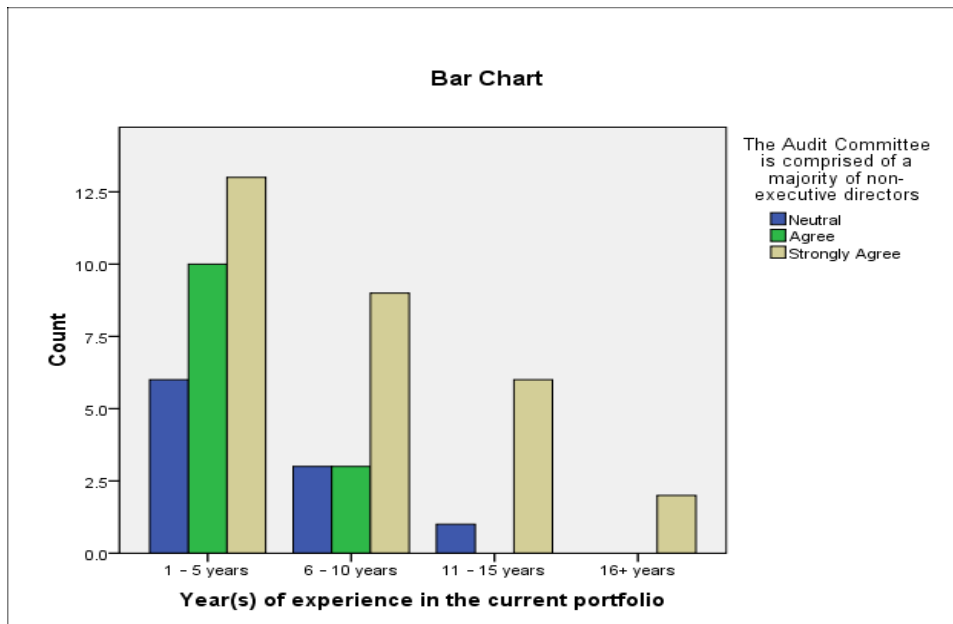


Figure 5.22: Composition of Audit Committee by Years of Experience in the Current Portfolio

All the respondents (100%) across experience groups strongly agreed that the audit committees of the Boards of their Entities comprised of a majority of non-executive Directors. All the respondents (100%) across different years of experience groups strongly agreed that the audit

committees of the Boards of their Entities comprised of a majority of non-executive Directors. Just below half (24.5%) of the responses were from the age group ranging from 1-5 years of experience in their current portfolio.

Some of the respondents in this experience category (10) agreed and the other 6 respondents chose to be neutral. Both the respondents (Figure 5.22) forming 3.8% in the most experienced portfolio category (16+) strongly agreed that the audit committees of the Boards of their Entities were comprised of a majority of non-executive Directors. The majority of the group which had experienced 11-15 years (11.3% of 13.2%) also believed that the audit committees of the Boards of their Entities were comprised of a majority of non-executive Directors.

5.3.15.4 The Chairperson is an independent non-executive Director and not Chairperson of the Board

On the issue of the Chairperson of the audit committee not being the Chairperson of the Board crossed by job category all Board Members, making 17.7% agreed. It is clear also that not all the respondents answered this question as responses from all job categories give a total of 45.2% and not 100%.

Table 5.9: Chairperson is an Independent Non-Executive Director and not Chairperson of the Board by Job Category

		An independent non-executive Director		
		Disagree	Neutral	Agree
Job category	Board member			17.7%
	Executive Manager in an Entity	6.5%	3.2%	8.1%
	Manager in a Government department	4.8%	3.2%	1.6%
	Total	11.3%	6.5%	27.4%

The majority of all those who responded to this question (27.4%) agreed that the Chairperson is an independent non-executive Director and not Chairperson of the Board while 11.3% (including Executive Managers and Managers in Government departments) thought that it was not the case. The other Executive Managers and Managers in Government Departments decided to be neutral on the issue.

5.3.15.5 The majority of the Audit Committee members are financially literate

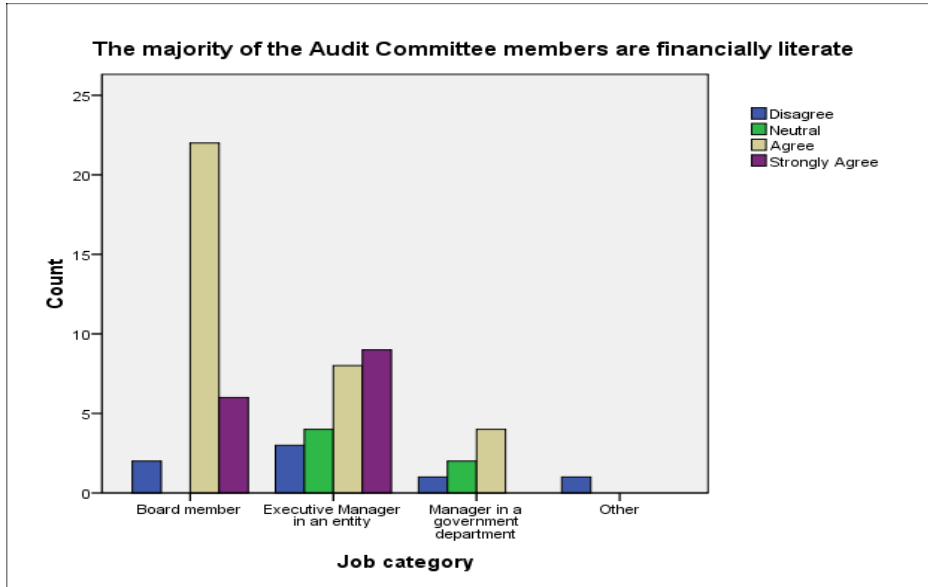


Figure 5.23: Financially Literacy of Audit Committee by Job Category

Figure 5.23 reveals that about 22 Board Members regarded the majority of the members of the Audit Committee to be financially literate, while only 2 thought that some of them were not. About 9 of the Executive Managers strongly agreed that the majority of the members of the Audit Committee were financially literate.

Table 5.10: The majority of the Audit Committee Members are Financially Literate by Years of Experience in Current Portfolio

		The majority financially literate		
		Disagree	Neutral	Agree
Year(s) of experience in the current portfolio	1 – 5 years	9.3%	7.4%	25.9%
	6 – 10 years	3.7%		11.1%
	11 – 15 years		3.7%	11.1%
	16+ years			3.7%
Total		13.0%	11.1%	51.9%

When cross tabulated by years of experience in current portfolio, the responses to this question revealed that 51.9% of the respondents thought that the majority of the members of the Audit Committee were financially literate, while 13% disagreed. About a quarter (25.9%) of the

experience group ranging from 1-5 years agreed and only 9.3% of them disagreed, with the remaining 7.4% staying neutral. All the most experienced respondents making 3.7% (16+ years in current portfolio) agreed that the majority of the members of the Audit Committee were financially literate. Table 5.10 shows that not all the respondents answered this question as the total is 76% and not 100%.

5.3.15.6 How many meetings were held last financial year for: Audit Committee?

The majority of the respondents, 92.0%, shared that the Audit Committee had held 4-6 meetings in the previous financial year. An insignificant 5% thought that the committee had held between two and three meetings while another 3% stated that the committee had held only one meeting in the previous financial year.

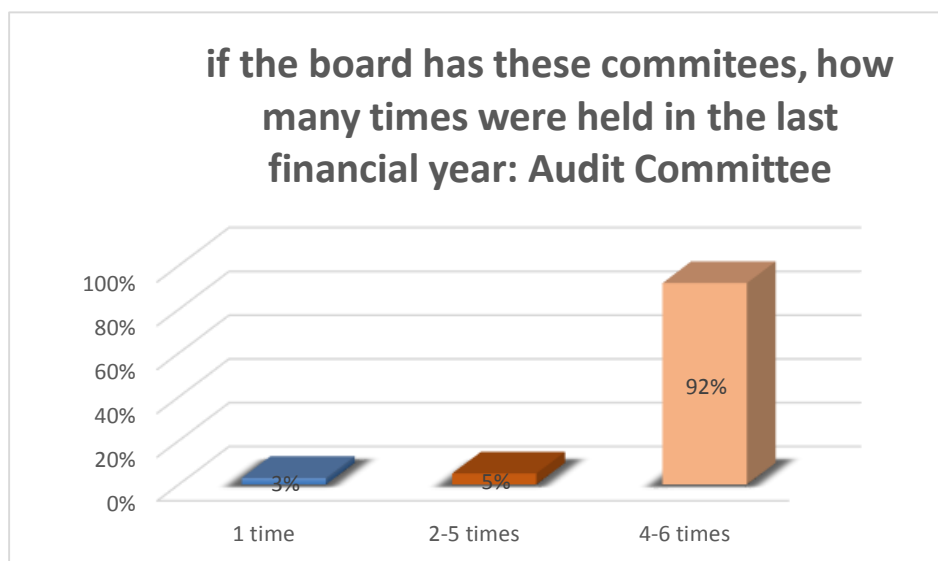


Figure 5.24: Number of Audit Committee Meetings in the Previous Financial Year

5.3.15.7 The CEO and CFO attend these Audit Committee meetings by job category

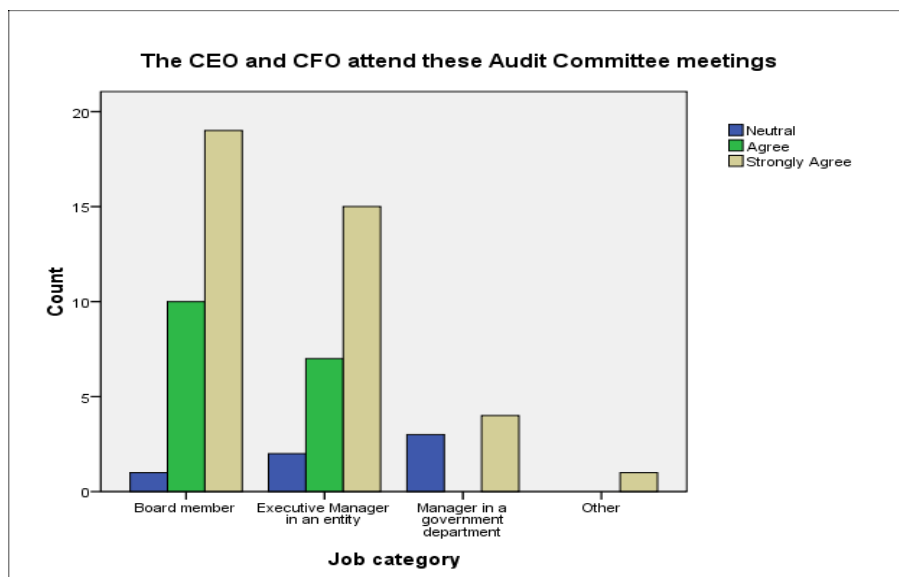


Figure 5.25: Attendance of CEO and CFO at Audit Committee Meetings by Job Category

The responses to the question of whether the CEO and CFO attended the meetings of the audit committee crossed by job category indicated that the majority (62.9%) of the respondents strongly agreed. The remaining 37.1% of the respondents either agreed or chose to be neutral on this matter. Table 5.11 shows that 62.9% of the respondents that strongly agreed that the CEO and CFO attended the meetings of the Audit Committee were made of 30.6% Board Members, 24.2% Executive Managers of Entities, 6.5% Managers in Government Departments and 1.6% other.

Table 5.11: Attendance of CEO and CFO at Audit Committee meetings by job category

Table 5.11: Attendance of CEO and CFO at Audit Committee meetings			
		Strongly Agree	Total
Job category	Board Member	30.6%	48.4%
	Executive Manager in an Entity	24.2%	38.7%
	Manager in a Government department	6.5%	11.3%
	Other	1.6%	1.6%
	Total	62.9%	100%

5.3.15.8 The Audit Committee holds meetings with the external auditor in the financial year

Table 5.12: The Audit Committee Holds Meetings with External Auditor by Job Category

		Meetings with the external auditor	
		Neutral	Agree
Job category	Board member	1.6%	17.7%
	Executive Manager in an Entity	3.2%	16.1%
	Manager in a Government Department	4.8%	1.6%
	Other		1.6%
	Total	9.7%	37.1%

The responses to the question of whether the Audit Committee held meetings with the external auditor in the previous financial year did not paint a good picture as less than half (46.8%) of the sample responded to the question. Of those that responded only 37.1% thought that it did. The rest of the respondents (9.7%) decided to remain neutral with more than half (53.2%) not responding to the question at all.

5.3.15.9 The Audit Committee recommendations are subjected to full Board review

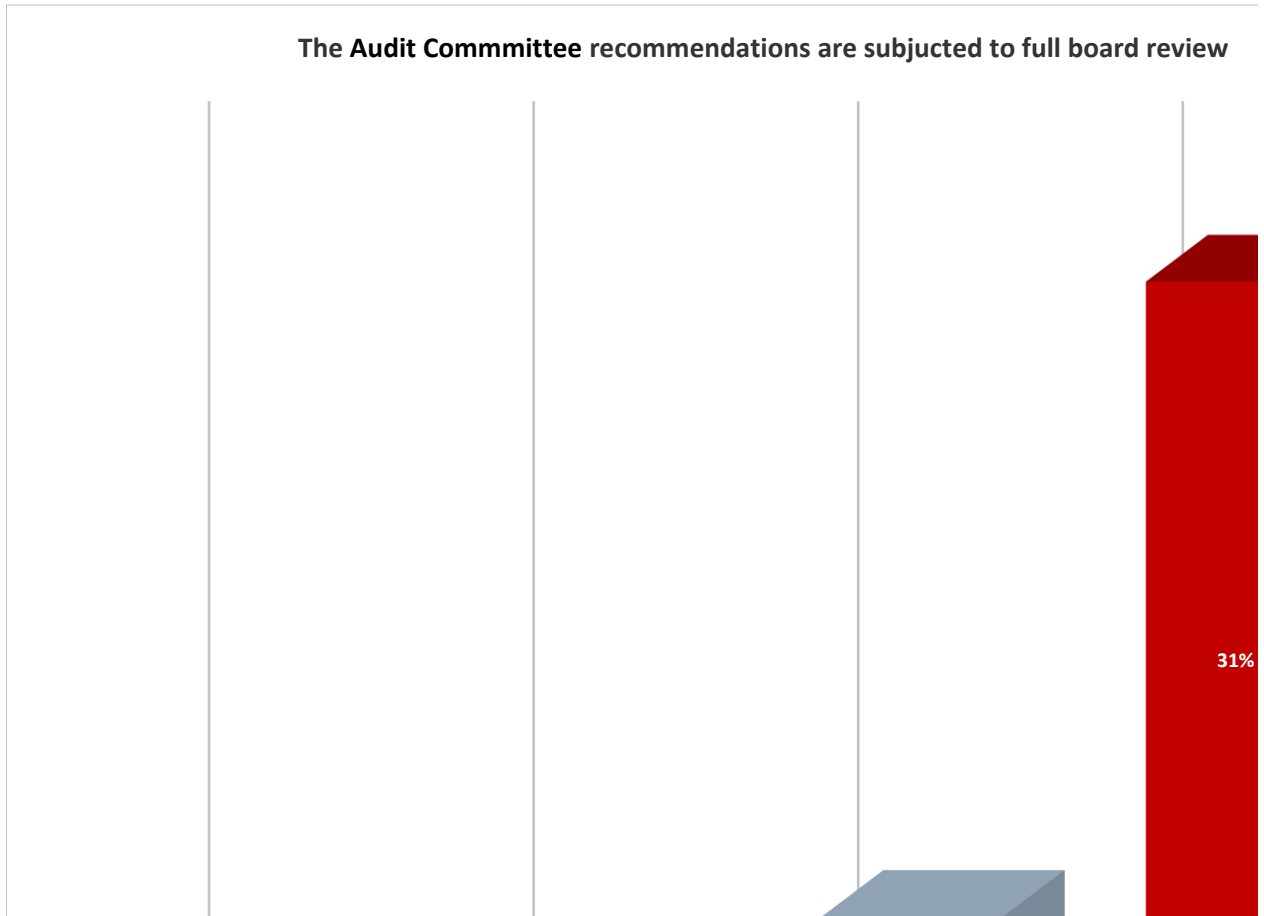


Figure 5.26: Subjections of Audit Committee Recommendations to Full Board Review

Only 33% of the respondents thought that the audit committee recommendations were subjected to full Board review. Of those respondents who agreed that the audit committee recommendations were subject to full Board review, almost two thirds (2%) were in strong agreement with the question. The rest strongly disagreed and the remaining 5% remained neutral.

5.3.16: HR and/or Remuneration Committee

5.3.16.1 Does your Board have the HR/Remuneration Committee?

Almost all the respondents (96.3%) shared that their Boards had HR/Remuneration Committees and the remaining 3.7% disagreed. The respondents that did not think that their Boards had HR/Remuneration Committees were all from the group with the years of experience in the current portfolio ranging from 1-5 years. All the other categories of years of experience in current portfolio thought that their Boards had HR/Remuneration Committees

Table 5.13: Does your Board have HR/Remuneration Committee by Years of Experience in Current Portfolio?

		HR and/or Remuneration Committee		Total
		Yes	No	
Year(s) of experience in the current portfolio	1 – 5 years	50%	3.7%	53.7%
	6 – 10 years	27.8%		27.8%
	11 – 15 years	14.8%		14.8%
	16+ years	3.7%		3.7%
	Total	96.3%	3.7%	100%

The researcher also wanted to know if the Boards of the Government Entities had HR/Remuneration Committees. This question was cross tabulated by the years of experience in current portfolio. As shown in Table 5.13, 53.7% of the respondents fell under the least experienced category and 50% of them (half of all the respondents) agreed that the Boards of Entities had HR/Remuneration Committees and only 3.7% thought that they did not. All the respondents in the 6-10 years' experience category (27.8%), 11-15 years' experience category (14.8%) and the most experienced category (3.7%) responded positively to the question. Clearly an overwhelming majority of the respondents (96.3%) responded positively to the question, with an insignificant 3.7% answering that their Board did not include the HR/Remuneration Committees.

5.3.16.2 There are written guidelines specifying the role and responsibilities of the Remuneration Committee

Figure 5.27 depicts the responses to the question of whether there were written guidelines specifying the roles and responsibilities of the Remuneration Committee crossed by years of experience in current portfolio. About 52 respondents answered this question. 27 of them were from 1-5 years of experience in current job category, 15 from 6-10 years of experience, 9 from 11-15 years' category and 2 from the most experienced group (16+ years of experience).

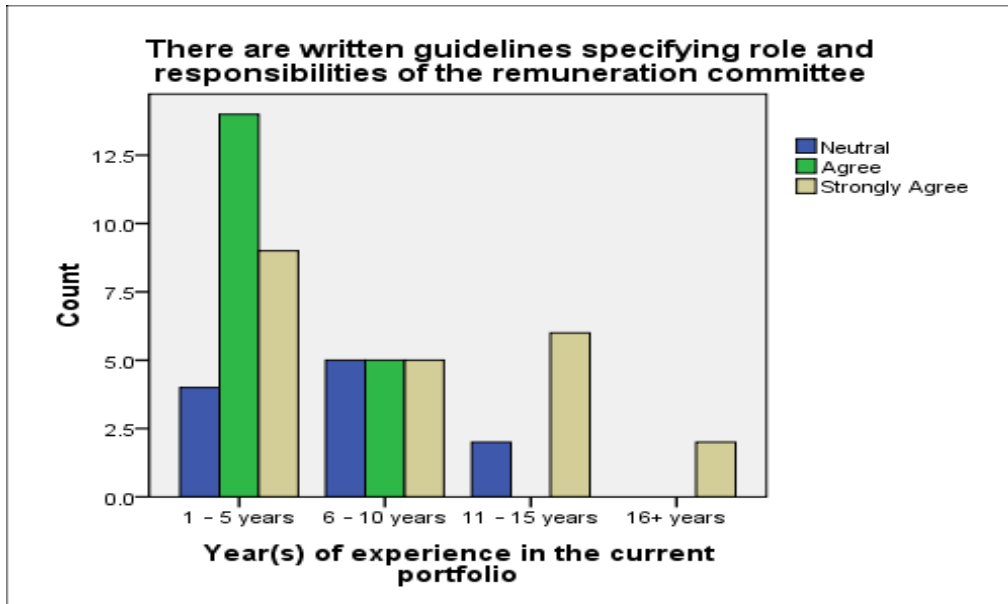


Figure 5.27: Written Guidelines of the Remuneration Committee

A third (33.3%) of the least experienced group strongly agreed that there were guidelines specifying the roles and responsibilities of the Remuneration Committee while 51.9% of this group agreed to this question. About 14.8% of the same group remained neutral on this issue. The experience group ranging from 6-10 years had a third (33.3%) strongly agreeing to the question, a third (33.3%) agreeing and another third (33.3%) remaining neutral. The majority (75%) of the respondents belonging to the years of experience group 11-15 felt strongly about the fact that there were guidelines specifying roles and responsibilities of the Remuneration Committee, with the remaining 25% choosing to be neutral. All the most experienced respondents strongly agreed that there were guidelines specifying roles and responsibilities of the Remuneration Committee.

5.3.16.3 The Remuneration Committee is comprised exclusively of non-executive Directors.

Figure 5.28 shows that more than a third (38%) of the respondents strongly agreed that the remuneration committee was comprised exclusively of non-executive Directors, a quarter (25%) agreed. About a fifth (21%) were neutral on this question, 13% disagreed and the remaining 3% strongly disagreed that the Remuneration Committee was comprised exclusively of non-executive Directors.

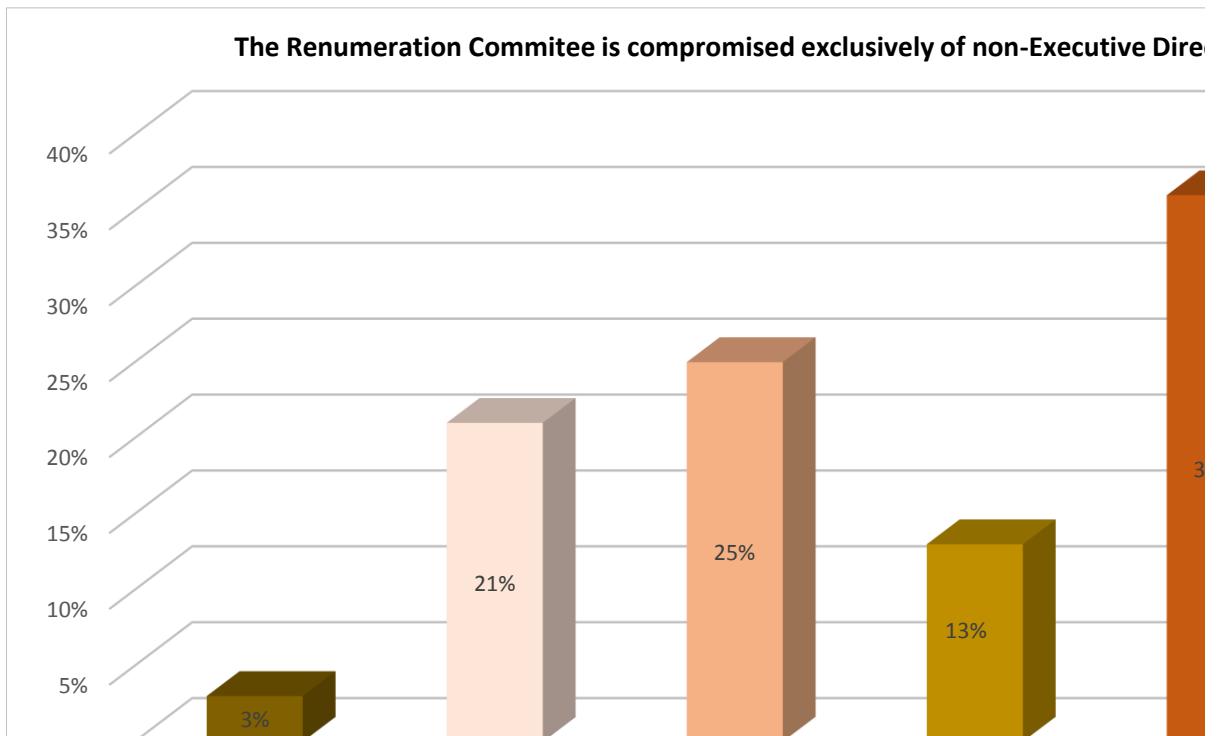


Figure 5.28: Composition of Remuneration Committee

5.3.16.4 The Remuneration Committee is chaired by a non-executive Director

As shown in figure 5.29, none of the respondents disagreed on this matter. A tenth (10%) of them were neutral, 41% agreed and almost half (49%) strongly agreed that the Remuneration Committee was chaired by a non-Executive Director.

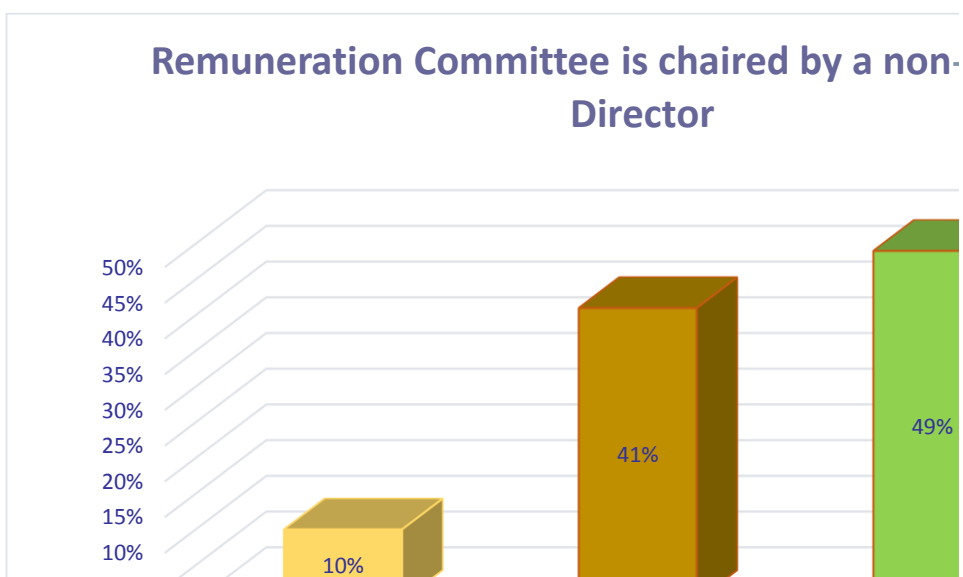


Figure 5.29: Chairing of Remuneration Committee

5.3.16.5 How many meetings were held last financial year for: HR and/ or Remuneration Committee?

Table 5.14: Number of meetings held by HR/Remuneration Committee in the previous year by years of experience in current portfolio

		Number of HR/Rem meetings held last financial year	
		2 – 3	4 – 6
Year(s) of experience in the current portfolio	1 – 5 years		52.1%
	6 – 10 years	4.2%	20.8%
	11 – 15 years		12.5%
	16+ years		4.2%
	Total	4.2%	89.6%

The majority of respondents (89.6%) across years of experience in current portfolio seemed to think that their HR/Remuneration Committees held 4-6 meetings in the previous financial year and only 4.2% responded that 2-3 meetings had been held in the previous financial year. The remaining 6.2% is not accounted for.

All the least experienced respondents (52.1%) thought that there had been 4-6 meetings in the previous financial year. Also all those respondents in 11-15 years' category (12.5%) and the most experienced at 16+ years (4.2%) shared that their HR/Remuneration Committees had held 4-6 meetings in the previous financial year. Only the years' experience category 6-10 had split views at 4-6 meetings (20.8%) and 2-3 meetings (4.2%)

5.3.16.6 Dissents are recorded in the committee minutes

The respondents were required to share with the researcher if the dissents were recorded in the committee minutes and figure 5.30 shows that about 60% of the respondents agreed that disagreements were recorded in the Committee Minutes. Just above a third of the respondents chose to be neutral and the remaining 5.0% disagreed that dissents were recorded in the Committee Minutes.

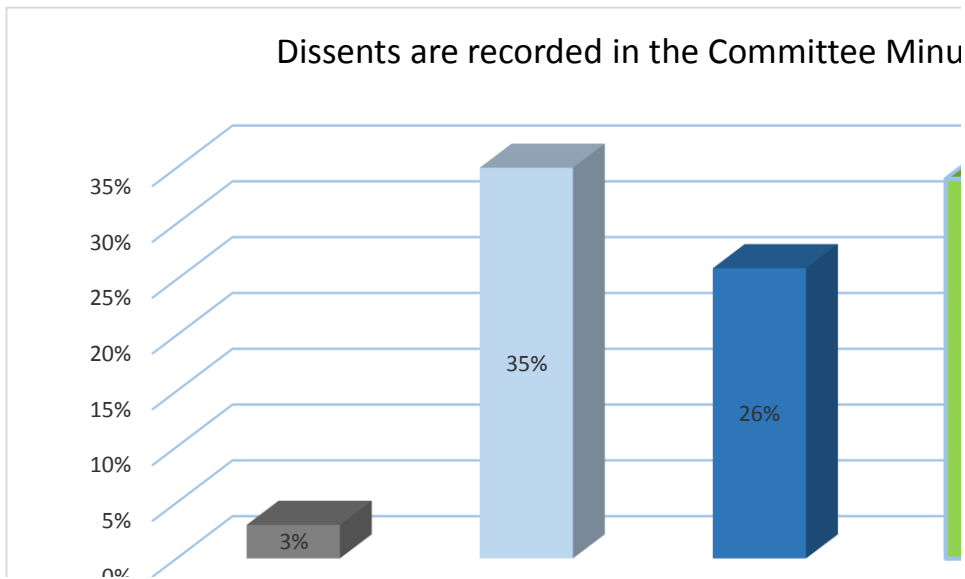


Figure 5.30: Dissents Recorded in Committee Minutes

5.3.16.7 The Remuneration Committee recommendations are subjected to full Board review

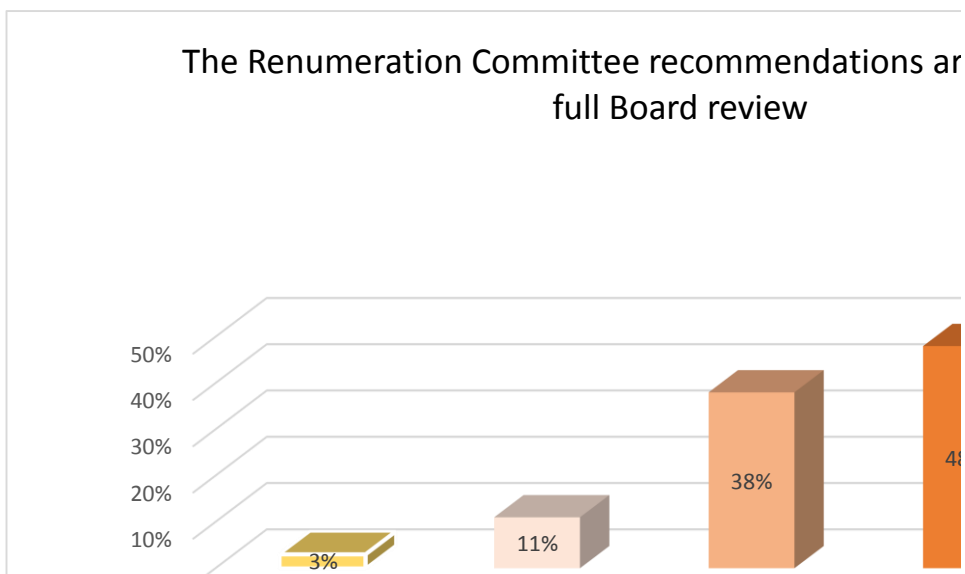


Figure 5.31: Subjection of Remuneration Committee Recommendations to Full Board Review

The majority of respondents (86%) agreed that the recommendations of the Remuneration Committee were subject to full Board view, 48% strongly agreeing and 38% just agreeing. An insignificant 3% strongly disagreed and the remaining 11% remained neutral regarding this issue.

5.3.17 Risk Committee

5.3.17.1 Does your Board have a Risk Committee?

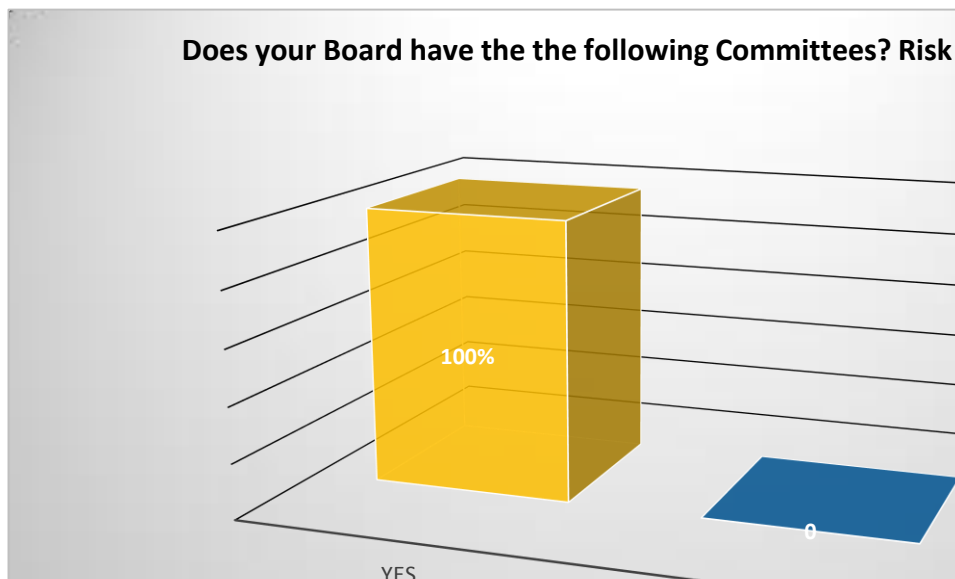


Figure 5.32: All Boards have the Risk Committees

Figure 5.32 clearly shows that all the Boards of the Entities sampled for the study had Risk Committees. All respondents (100%) gave positive answers to this question.

5.3.17.2 How many meetings were held last financial year for: Risk Committee?

A noteworthy 92% of the respondents answered that the Risk Committees of their Entities had held 4-6 meetings in the previous financial year. Only 3% responded that the Risk Committees of their Boards had held only 1 meeting in the previous financial years. The remaining 5% answered that they had held 2-3 meetings in the previous financial year.

When the research cross tabulated this question by years of experience in the current portfolio, statistics showed that actually 95.8% of the respondents thought that the Risk Committees of their Boards had held 4-6 meetings in the previous financial year. Of the 95.8%, 52.1% belonged to the category of 1-5 years of experience in the current portfolio. About 27.1% had been in their current portfolios for 6-10 years, 12.5% 11-15 years and the remaining 4.2% had been in the current portfolio for more than 16 years.

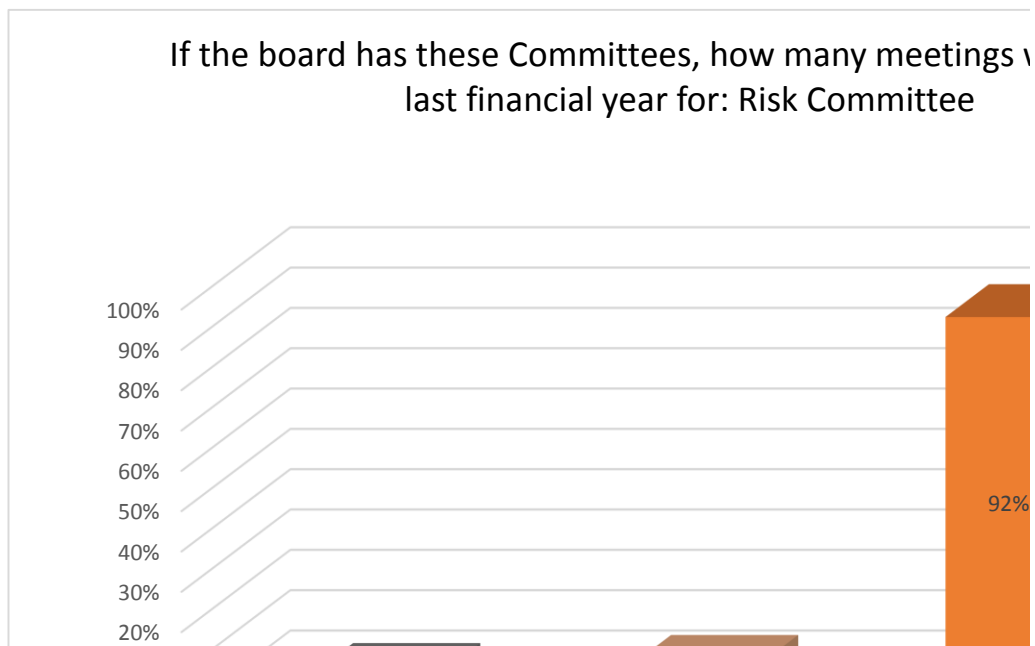


Figure 5.33: Number of Meetings Held by Risk Committee in the Previous Financial Year

5.4 LEVEL OF UNDERSTANDING AND AWARENESS OF CORPORATE GOVERNANCE PRINCIPLES

This Section deals with questions that aimed to establish level at which respondents understood and were aware of the corporate governance principles. The question looked at aspects related to appointment of directors or board members, in detail; the board members and their performance and code of conduct and practice of ethics

5.4.1 The Entity has formal and transparent procedures for the election of Directors

The cross-table on the formal and transparent procedures for the election of Directors by years of experience in the portfolio seems to indicate that the majority of the respondents had experience ranging from 1-5 years as there were more responses from this group. Figure 5.34 indicates that those respondents with portfolio experience ranging from 1-10 years tended to agree that transparent procedures were followed in the election of Directors, while the majority of the more experienced respondents (11-15 years) tended to disagree. All the most experienced respondents (16+ years) strongly agreed that transparent procedures were followed in the election of Directors. About a fifth (20.4%) of the respondents disagreed that transparent procedures were followed in the election of Directors. The other 18.5% decided to be neutral on this matter.

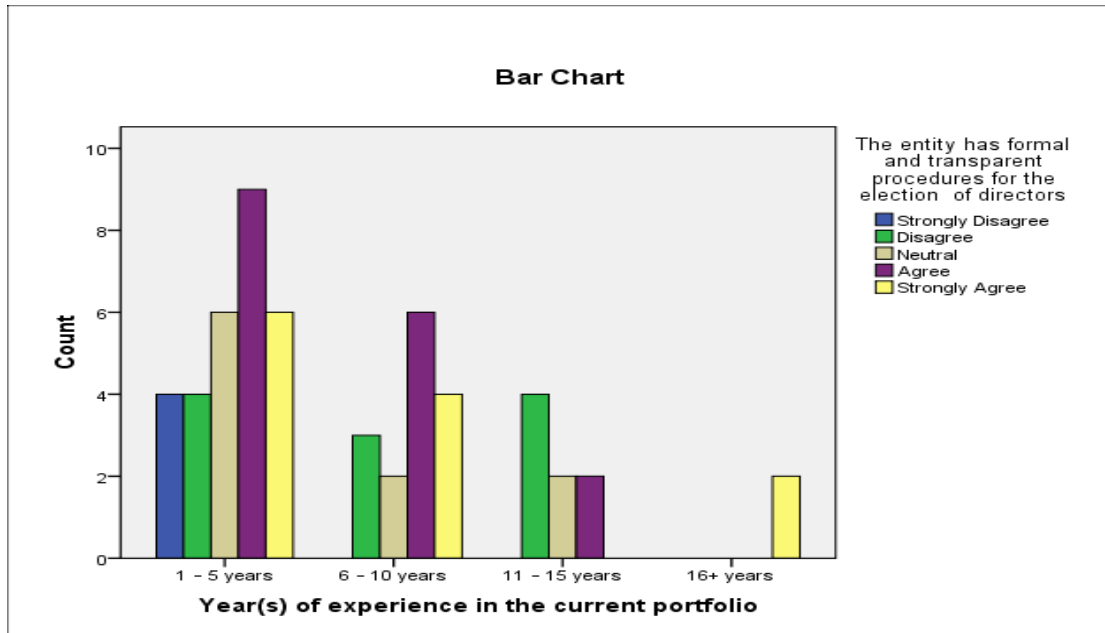


Figure 5.34: Entity has formal and transparent procedures for election of directors

5.4.2 The Entity has a written code of conduct and ethics for Directors by gender

About 3.1% of the female respondents strongly disagreed that their Entities had a code of conduct and ethics for the Directors. Almost of quarter of the respondents (mainly male) were neutral on this question. This meant that a total of about 26.5% of the respondents did not think that their Entities had a code of conduct and ethics for the Directors. About half of the respondents agreed that there was a code of conduct and ethics for the Directors of their Entities and the remaining 21.9% strongly agreed with the question. None of the female respondents strongly agreed that there was a code of conduct and ethics for the Directors of their Entities.

Table 5.15: Entity has written code of conduct and ethics for Directors by gender

		A written code of conduct and ethics for Directors				
		Strongly Disagree	Neutral	Agree	Strongly Agree	Total
Gender	Male		18.8%	25.0%	21.9%	65.6%
	Female	3.1%	4.7%	26.6%		34.4%
Total		3.1%	23.4%	51.6%	21.9%	100%

5.4.3 Board Directors are recruited based on their knowledge and understanding of corporate governance

A cross tabulation of the recruitment of Board Directors based on their knowledge and understanding of corporate governance with years of experience in the current portfolio yielded the results depicted in Table 5.6.

Table 5.16: Board of Directors recruited on knowledge and understanding

		Recruited based on their knowledge and understanding		
		Disagree	Neutral	Agree
Year(s) of experience in the current portfolio	1 – 5 years	11.1%	18.5%	16.7%
	6 – 10 years	3.7%	3.7%	20.4%
	11 – 15 years			11.1%
	16+ years			3.7%
	Total	14.8%	22.2%	51.9%

Again, there were more responses from the category with experience ranging from 1 - 5 years in the current portfolio which might indicate that the majority of the respondents were from this category. About 11.1% of the respondents in this category were not convinced that the directors were elected based on their knowledge and understanding of corporate governance, while 18.5% chose to be neutral on the matter. Only 16.7% in this group thought that directors were recruited based on their knowledge and understanding of corporate governance.

Just about half (51.9%) of all the respondents agreed that directors were recruited based on their knowledge and understanding of corporate governance. This is a cause of concern because by implication 48.1% of the respondents did not think that directors were recruited based on their knowledge and understanding of corporate governance.

5.4.4 Board Directors are recruited based on their knowledge and understanding of the sector under which the Entity falls

Sectorial knowledge and understanding is crucial for effective performance. The respondents were asked to share with the researcher their thoughts regarding the sectorial knowledge and understanding of the directors. The same picture as with their knowledge and understanding of corporate governance emerged as only 51.9% of all the respondents thought that this was the case. The other 48.1% were either neutral or in disagreement.

Table 5.17: Directors recruitment based knowledge and understanding of corporate governance by years of experience in current portfolio

		Recruited based on their knowledge and understanding of the sector		
		Disagree	Neutral	Agree
Year(s) of experience in the current portfolio	1 – 5 years	1.9%		27.8%
	6 – 10 years			20.4%
	11 – 15 years		11.1%	3.7%
	16+ years		3.7%	
Total		1.9%	14.8%	51.9%

5.4.5 Board Directors are subject to a limit on the number of simultaneous Directorships served in other companies

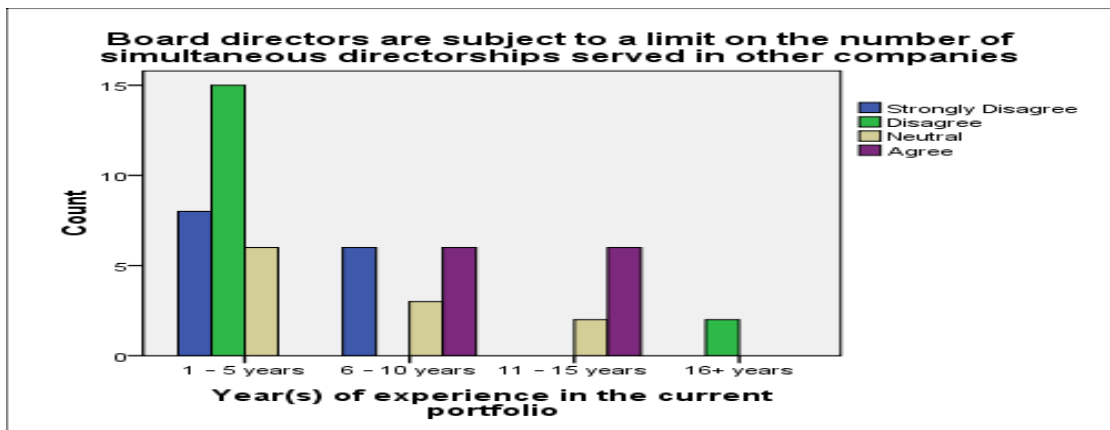


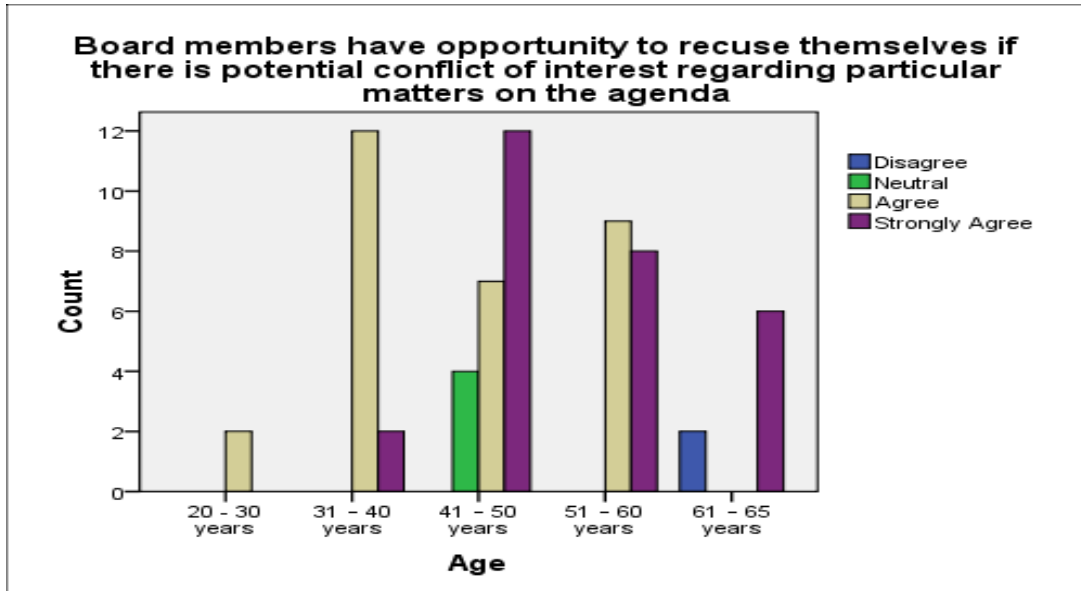
Figure 5.35: Limit on number of simultaneous Directorships by years of experience in current portfolio

On the issue of limiting the number of simultaneous Directorships served in other companies, the majority of the respondents, who are also the least experienced in their current portfolios, did not agree. Their responses (as indicated in Figure 5.35) ranged from strongly disagree to neutral with 27.8% indicating their disagreement. The 6-10-year portfolio experience group also did not think that there was a limit to the number of simultaneous Directorships allowed to the members of the Board as 11.1% strongly disagreed and 5.6% remained neutral. Only a third of the respondents seemed to agree.

5.4.6 Opportunity for Board Members to recuse themselves if there is conflict of interest.

The research cross tabulated the question of whether the Board members had an opportunity to recuse themselves if there was a potential conflict of interest regarding particular matters on the

agenda by age of the participants. All the respondents aged between 20 and 30 years agreed that there was such an opportunity. All of the respondents between 31 and 40 years of age thought that there was such an opportunity. About 17.4% of the respondents aged between 41 and 50 were neutral. The rest of them (82.6%) agreed that such an opportunity existed. About 22.2% of the most senior respondents (61-65 years) thought that there was not such an opportunity while



the majority at 77.8% strongly agreed that such an opportunity existed.

Figure 5.36: Recusing themselves if there is Conflict of Interest

5.4.7 Shareholder department evaluates performance of the Board annually

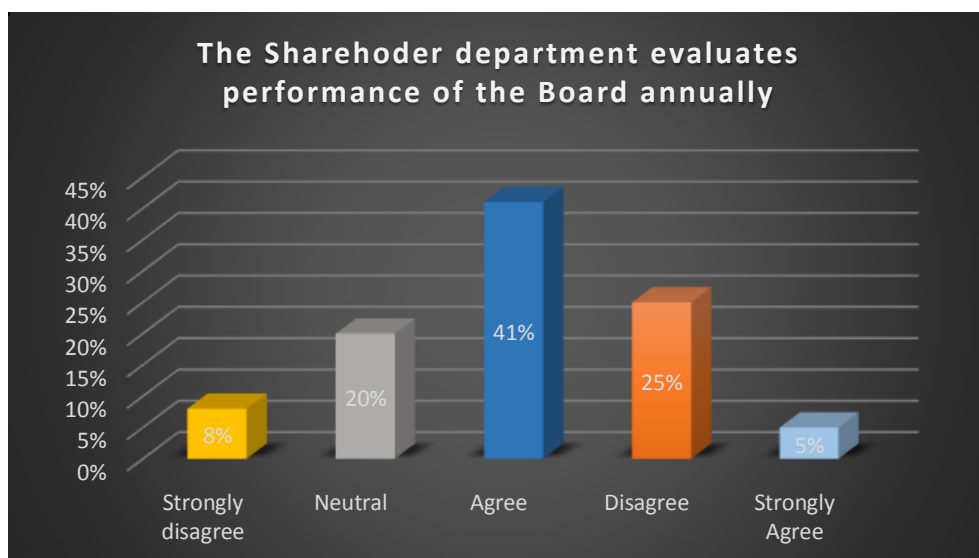


Figure 5.37: Annual Evaluation of Performance by Shareholder Department

Most of the respondents (47%) agreed that shareholder department evaluated the performance of the Board annually. About two fifths of these (41%) agreed and the other 6% strongly agreed. A fifth chose to be neutral, another quarter (25%) disagreed that shareholder department evaluated the performance of the Board annually and the remaining 8.0% strongly disagreed.

5.4.8 There is a set retirement age for non-executive Directors

Table 5.18: There is a Set Retirement Age for Non-Executive Directors

		Set retirement age for non-executives Directors				
		Strongly Disagree	Disagree	Neutral	Agree	Total
Age	20 - 30 years	3.2%				3.2%
	31 – 40 years	7.9%		14.3%		22.2%
	41 – 50 years	11.1%	6.3%	9.5%	7.9%	34.9%
	51 – 60 years		20.6%		6.3%	27%
	61 – 65 years	4.8%	4.8%		3.2%	12.7%
	Total	27%	31.7%	23.8%	17.5%	100%

Table 5.18 shows the responses on whether there was a set retirement age for non-executive Directors crossed by the age of the respondents. It was interesting to notice that more than a quarter across all age groups (except 51-60 years) strongly disagreed and another 31.7% disagreeing with the statement. A total of 58.7% of the respondents did not think that there was a set retirement age for the non-executive Directors. Nearly another quarter (23.8%) decided to be neutral and only 17.5% agreed that there was a set retirement age for the non-executive Directors. All the youngest respondents (20-30 years) disagreed and even the oldest respondents (61-65 years) were divided on this issue. About a tenth (9.6%) disagreed, and only 3.2% agreed.

5.5 COMPLIANCE WITH CORPORATE GOVERNANCE PROVISIONS IN SOEs

This section presents data pertaining to the research objective that wants to investigate extent to which SOEs comply with corporate governance provisions by looking at the level at which they disclose information for public consumption, their corporate governance systems , whether they

have key strategic documents, programmes and plans in place; and the level at which shareholder and stakeholder involvement is ensured.

5.5.1 Public disclosure of annual financial statements

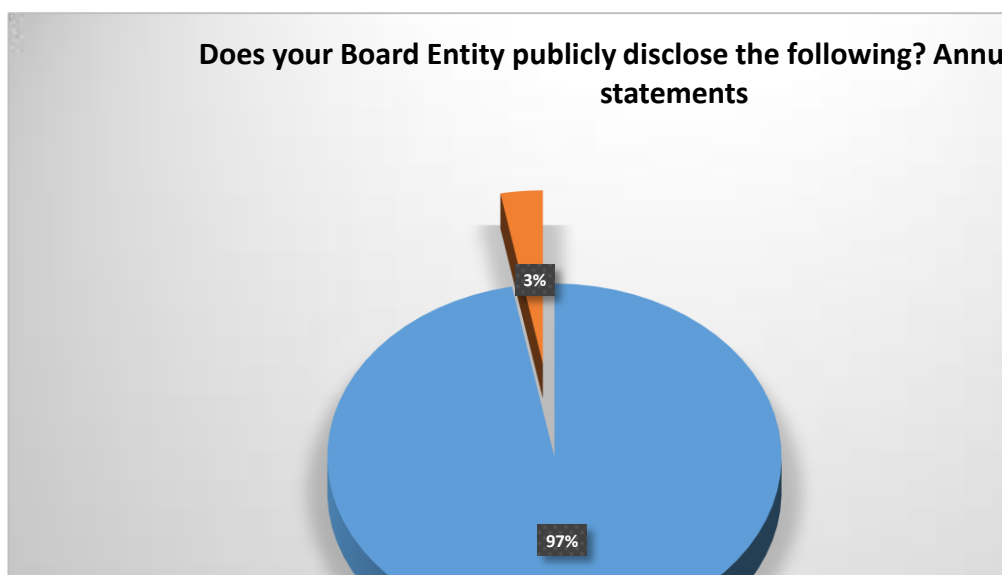


Figure 5.38: Public disclosure of annual financial statements

The majority (97%) of respondents responded that their Entities were most likely to publicly disclose annual financial statements for public consumption with only 3% thinking that their Entities were not likely to disclose annual financial statements for public consumption.

5.5.2 Annual Signing of Disclosure Forms by Board Members

Table 5.19: Board Members Sign Disclosure Forms Annually

		Disclosure forms annually		
		Agree	Strongly Agree	Total
Age	20 - 30 years		3.1%	3.1%
	31 – 40 years	15.6%	6.3%	21.9%
	41 – 50 years	10.9%	25%	35.9%
	51 – 60 years	17.2%	9.4%	26.6%
	61 – 65 years	3.1%	9.4%	12.5%

Total	46.9%	53.1%	100%
-------	-------	-------	------

This question was cross tabulated by the age of the respondents. Table 5.19 revealed that all the respondents (100%) across ages agreed that Board members signed disclosure forms annually. More than half (53.1%) of the respondents strongly agreed to the statement and the other 46.9% agreed.

5.5.3 Disclosure of Chairperson’s and Audit Committee Reports

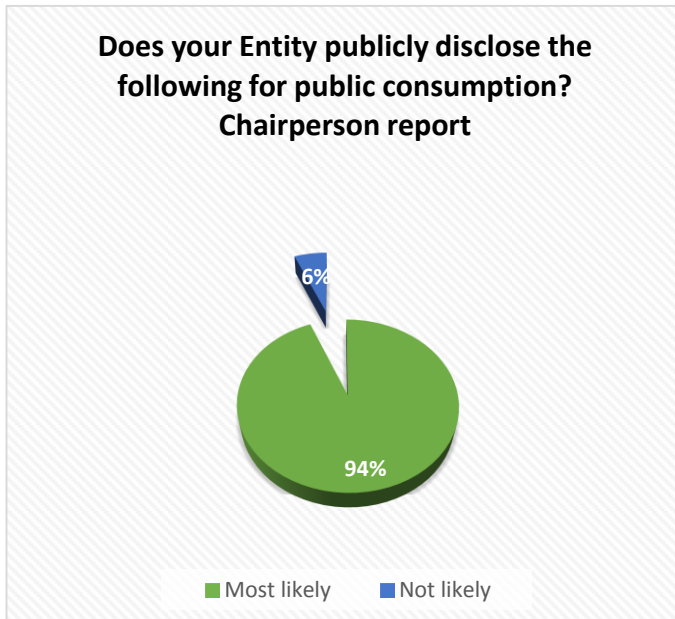


Figure 5.39 Public Disclosure of Chairperson’s Report:

Figure 5.39 is an illustration of the aggregate of the responses regarding disclosure of the chairperson’s report. The graph shows that an overwhelming majority (94%) of the respondents stated that their Entities were most likely to publicly disclose the chairperson’s report for public consumption. A very small number (6%) felt that their Entities were not likely to disclose the chairperson’s report for public consumption. Also responses regarding public disclosure of the audit committee report, were exactly the same as in the case of the chairperson’s report, with the majority (94.0%) vouching that their Entities were most likely to publicly disclose the audit committee report and an insignificant 6.0% arguing otherwise.

The document analysis done under the qualitative research, as will be discussed in section 5.12 of this chapter, further analyzed this aspect and looked at whether SOEs reported on and complied with the internal and external audit requirements.

5.5.4 Disclosure of Corporate Governance Report

As shown in Figure 5.40, most of the respondents (94%) felt that their Entities were most likely to disclose their corporate governance report for public consumption. Only 6% of the respondents thought that they were not likely to do so.

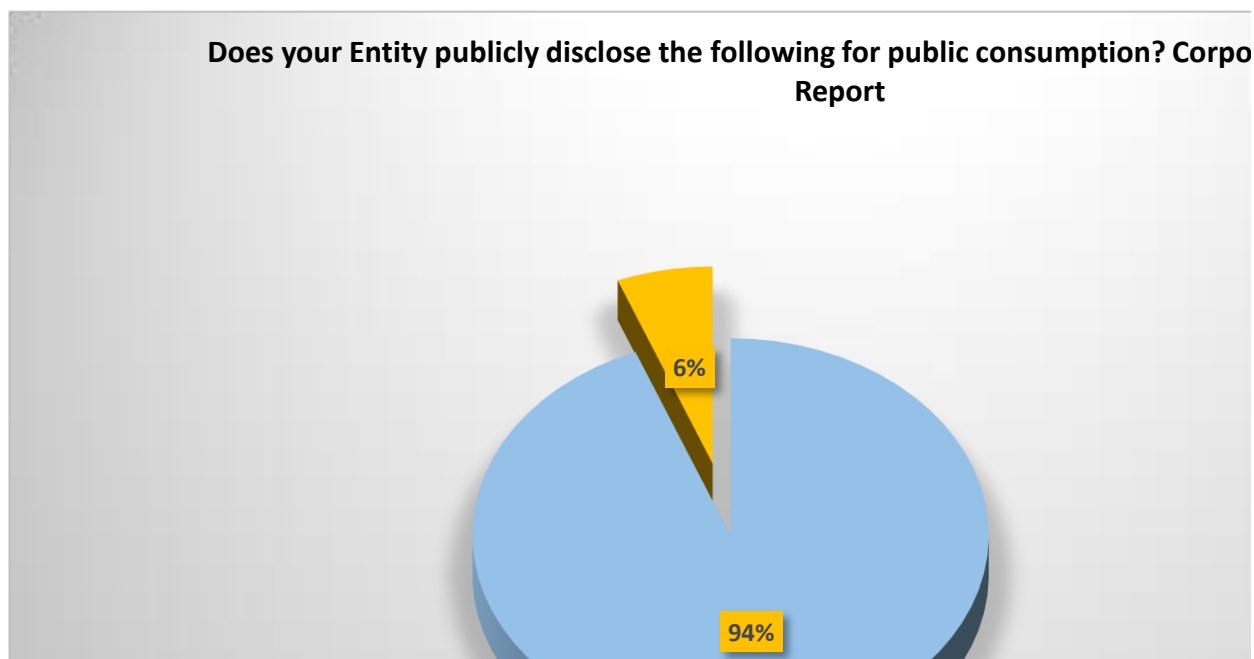


Figure 5.40: Public Disclosure of Corporate Governance Report

Also, the document analysis performed under the qualitative research of this study revealed that 10 out of the 11 SOEs who published their annual reports included the Corporate Governance report for public consumption. This is 90.9% of the sample, and will be discussed in further detail in section 5.12.

5.5.5 Disclosure of Audited Annual Reports

Almost all the respondents (97%) felt that their Entities were also most likely to publicly disclose their audited annual reports with a trivial 3% feeling that they were not likely to disclose their audited annual reports for public consumption.

5.5.6 Disclosure of non-compliance with PFMA and other pertinent acts

As shown in Figure 5.41, more than half of the respondents (57%) believed that their Entities would disclose non-compliance with PFMA and other pertinent acts and another 18% strongly agreed. A total of three quarters (75%) of the respondents concurred that their Entities would ensure shareholder and stakeholder involvement in corporate governance matters through disclosure of non-compliance with PFMA and other pertinent acts.

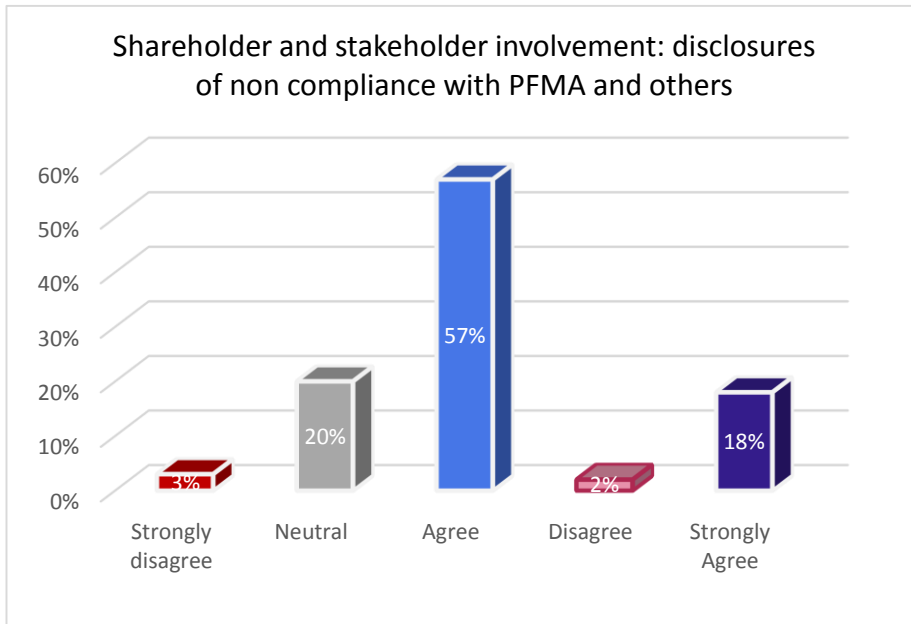


Figure 5.41: Public Disclosure of Non-Compliance with PFMA and Others

A further fifth (20%) chose to remain neutral and only 5% of the respondents disagreed (3%) strongly felt that their Entities did not involve shareholders and stakeholders in corporate governance matters through disclosure of non-compliance with PFMA and other pertinent acts.

5.5.7 Disclosure of CEO, CFO and other Executive Managers’ terms of contract and notice terms

Figure 5.42 deals with shareholder and stakeholder involvement in corporate governance matters of Entities through public disclosure of CEO’s, CFO’s and other Executive Managers’ terms of contract and notice terms. It clearly displays that a total of more than two thirds majority (67%) of the respondents agreed that that their Entities publicly disclosed CEO’s, CFO’s and other Executive Managers’ terms of contract and notice terms. A sizable 29% of the respondents remained neutral and only 3% thought that their Entities did not involve shareholders and stakeholders in corporate governance matters through public disclosure of CEO’s, CFO’s and other Executive Managers’ terms of contract and notice terms.

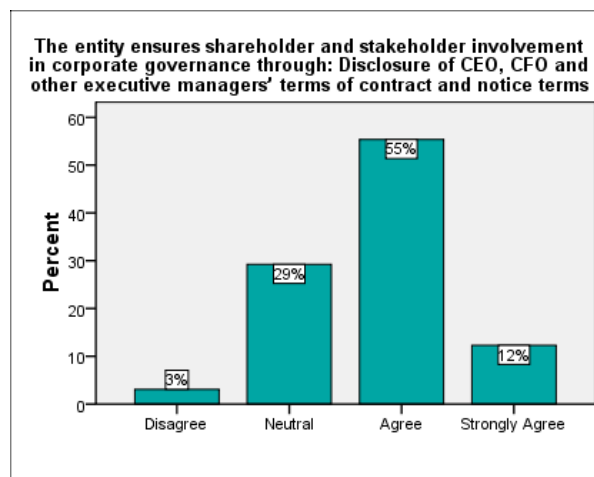


Figure 5.42: Public Disclosure of Executives' Contracts

5.5.8 The Entity's corporate governance system includes: The Internal Management regulations, policies and procedures

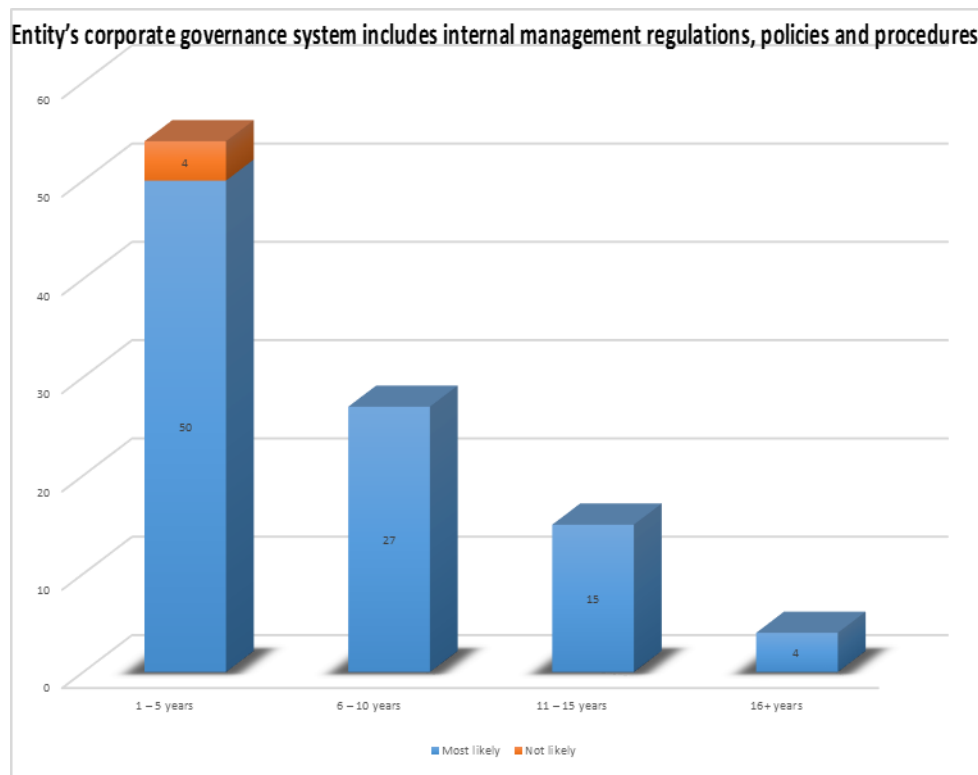


Figure 5.43: Corporate Governance System Includes Internal Management Regulations, Policies and Procedures

As shown in figure 5.43, only 37% of the respondents who were all from the years of experience category 1-5 years, thought that their Entities were not likely to include internal management regulations, policies and procedures. All the other respondents (96.3%) across all categories of years of experience, stated that the corporate governance systems of their Entities were most likely to include internal management regulations, policies and procedures.

5.5.9 The Entity's corporate governance system includes: The Corporate culture and value system

Table 5.20: Entity’s Corporate Governance System Includes Corporate Culture and Value System by Years of Experience in Current Portfolio.

		The Corporate culture and value system		Total
		Most likely	Not likely	
Year(s) of experience in the current portfolio	1 – 5 years	37%	16.7%	53.7%
	6 – 10 years	22.2%	5.6%	27.8%
	11 – 15 years	14.8%		14.8%
	16+ years	3.7%		3.7%
	Total	77.8%	22.2%	100%

The respondents were asked to share with the researcher if they thought that the corporate governance systems of their Entities included corporate culture and value systems. About 16.7% of the respondents in the experience category 1-5 years stated that they were not likely to include them, while 37% thought that they were. The respondents in the experience category 6-10 years were also split, as 22.2% believed that they were most likely to include them and the remaining 5.6% held that they were not likely to include corporate culture and value systems. All the more experienced respondents 11-16+ years in the current portfolio (18.5%) thought that the corporate governance systems of their Entities included them. As shown in Table 5.20, more than three quarters of the respondents (77.8%) alleged that the corporate governance systems of their Entities included corporate culture and value systems and the remaining sizable 22.2% said that they were not likely to include them.

5.5.10 The Entity’s corporate governance system includes: The Financial reporting framework

Table 5.21: Entity’s Corporate Governance System Includes Financial Reporting Framework by Years of Experience in Current Portfolio

		The Financial reporting framework		Total
		Most likely	Not likely	
Year(s) of experience in the current portfolio	1 – 5 years	51.9%	1.9%	53.7%
	6 – 10 years	27.8%		27.8%
	11 – 15 years	14.8%		14.8%

	16+ years	3.7%		3.7%
	Total	98.1%	1.9%	100%

Table 5.21 is the cross tabulation of whether the Entities' corporate governance systems included financial reporting framework by years of experience in current portfolio. It depicts that an overwhelming majority (98.1%) responded that they were most likely to and only a minor 1.9% stated that they were not likely. This 1.9% of 53.7% came from the current portfolio experience category 1-5 years. All the more experienced respondents (46.3%) reported that the corporate governance systems of their Entities included financial reporting framework.

5.5.11 The Entity's corporate governance system includes: The Regulatory framework including monitoring systems

It is very interesting to note that Table 5.22, which was intended to establish whether Entities' corporate governance system included the regulatory framework including monitoring systems, cross tabulated by years of experience in current portfolio, yielded exactly the same results as figure 5.44. It similarly depicts that an overwhelming majority (98.1%) responded that they were most likely to include them and only a minor 1.9% stated that they were not likely to do so. This 1.9% of 53.7% came from the current portfolio experience category 1-5 years. All the more experienced respondents (46.3%) reported that the corporate governance systems of their Entities included the regulatory framework including monitoring systems.

Table 5:22: Entity's corporate governance system includes the regulatory framework including monitoring systems by years of experience in current portfolio

		The Regulatory framework including monitoring systems		Total
		Most likely	Not likely	
Year(s) of experience in the current portfolio	1 – 5 years	51.9%	1.9%	53.7%
	6 – 10 years	27.8%		27.8%
	11 – 15 years	14.8%		14.8%
	16+ years	3.7%		3.7%
	Total	98.1%	1.9%	100%

5.5.12 The Entity ensures shareholder and stakeholder involvement in corporate governance through: Consultation of shareholders prior to finalization of the annual budget and corporate plan

Table 5.23: Entity ensures shareholder and stakeholder involvement in corporate governance through consultation of shareholders prior to finalization of the annual budget and corporate plan by qualification

		Consultation of shareholders re-annual budget and corporate plan		
		Disagree	Neutral	Agree
Qualification	Undergraduate qualification		1.7%	13.3%
	Postgraduate diploma	1.7%	5%	28.3%
	Master's degree		3.3%	15%
	Doctoral degree		3.3%	3.3%
	Other			1.7%
	Total	1.7%	13.3%	61.7%

The respondents were also asked to share their knowledge regarding shareholder and stakeholder involvement in corporate governance through consultation of shareholders prior to finalization of the annual budget and corporate plan. Table 5.23 is a cross tabulation of this question by the qualifications of the respondents. The majority of respondents across qualifications (61.7%) agreed, 13.3% did not want to commit themselves and a trivial 1.7% holding postgraduate diplomas disagreed. The majority of the respondents in the postgraduate diploma category (28.3% of 35%) thought that the shareholders and stakeholders were consulted prior to finalization of the annual budget and corporate plan. About 6.6% of the most highly qualified respondents (master's and doctoral degrees) were neutral and 18.3% of them agreed, but none disagreed.

5.5.13 The Entity ensures shareholder and stakeholder involvement in corporate governance through: Timely submission of budget and corporate plan to relevant Government department before commencement of the financial year

Table 5.24: Entity ensures shareholder and stakeholder involvement in corporate governance through: Timely submission of budget and corporate plan to relevant Government department before commencement of the financial year by qualification

		Timely submission of budget and corporate plan	
		Neutral	Agree

Qualification	Undergraduate qualification		15%
	Postgraduate diploma		30%
	Master's degree	3.3%	8.3%
	Doctoral degree		3.3%
	Other		1.7%
	Total	3.3%	58.3%

Table 5.24 displays the responses of the sampled people regarding whether their Entities ensured shareholder and stakeholder involvement in corporate governance through timely submission of budget and corporate plan to relevant Government department before commencement of the financial year, cross tabulated by qualification. The majority of those who responded to this question (58.3%) thought that they did. About 3.3% decided not to commit themselves making a total of 61.6% who responded. The remaining 38.4% of the respondents chose to ignore this question. All the less qualified respondents (undergraduate and postgraduate diploma) who responded to this question agreed (45%). Also all those with doctoral qualifications (3.3%) who responded to this question were positive.

5.5.14 The Entity ensures shareholder and stakeholder involvement in corporate governance through: Timely submission of annual financial statements as per PFMA timelines

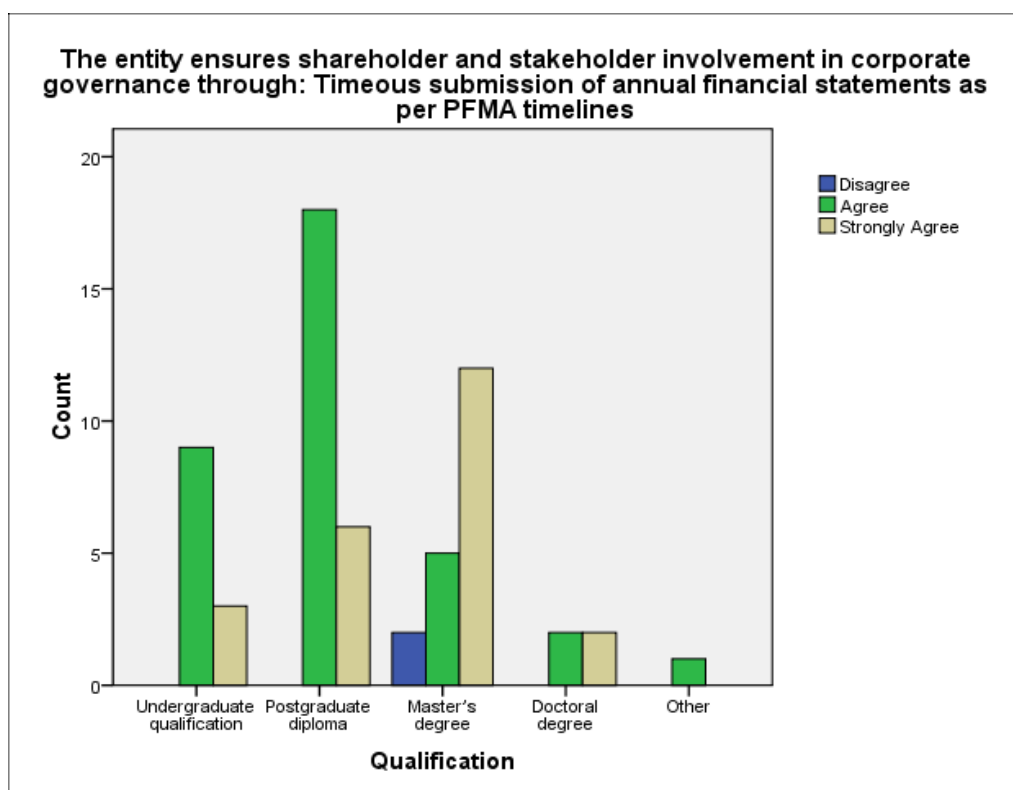


Figure 5.44: Submission of Annual Financial Statements as Per PFMA

Figure 5.44 displays the responses regarding whether the Entities involved in the study ensured shareholder and stakeholder involvement in corporate governance through timely submission of annual financial statements as per PFMA timelines cross tabulated by the qualifications of the respondents. It shows that only a few of those with master's qualifications disagreed. The rest of the respondents either agreed or strongly agreed. All the respondents with undergraduate qualifications and postgraduate diplomas agreed. Also, all those holding doctoral degrees agreed.

5.5.15 Does the Board have: A Strategic plan and Strategic Risk register for the Entity which was discussed and approved at Board meetings?

Table 5.25: Approval of strategic plan and risk register at Board meeting by years of experience in current portfolio

Table 5.25: Approval of strategic plan and risk register			
		Most likely	Total
Year(s) of experience in the current portfolio	1 – 5 years	53.7%	53.7%
	6 – 10 years	27.8%	27.8%
	11 – 15 years	14.8%	14.8%
	16+ years	3.7%	3.7%

Table 5.25 is a cross tabulation whether strategic plan and risk registers were approved at Board meetings by years of experience in current portfolio. It shows that all the respondents across years of experience in current portfolios felt that they were most likely to.

5.5.16 The Entity ensures shareholder and stakeholder involvement in corporate governance through: Disclosure of CEO, CFO and other Executive Managers' terms of contract and notice terms

It was important for the researcher to establish if the Entities ensured shareholder and stakeholder involvement in corporate governance through disclosure of CEO, CFO and other Executive Managers' terms of contract and notice terms. On cross tabulating this question by years of experience in current portfolio, data revealed that even though only 88.9% responded to the question, the majority (57.4%) agreed, 3.7% disagreed and a noteworthy 27.8% (more than a quarter) remained neutral.

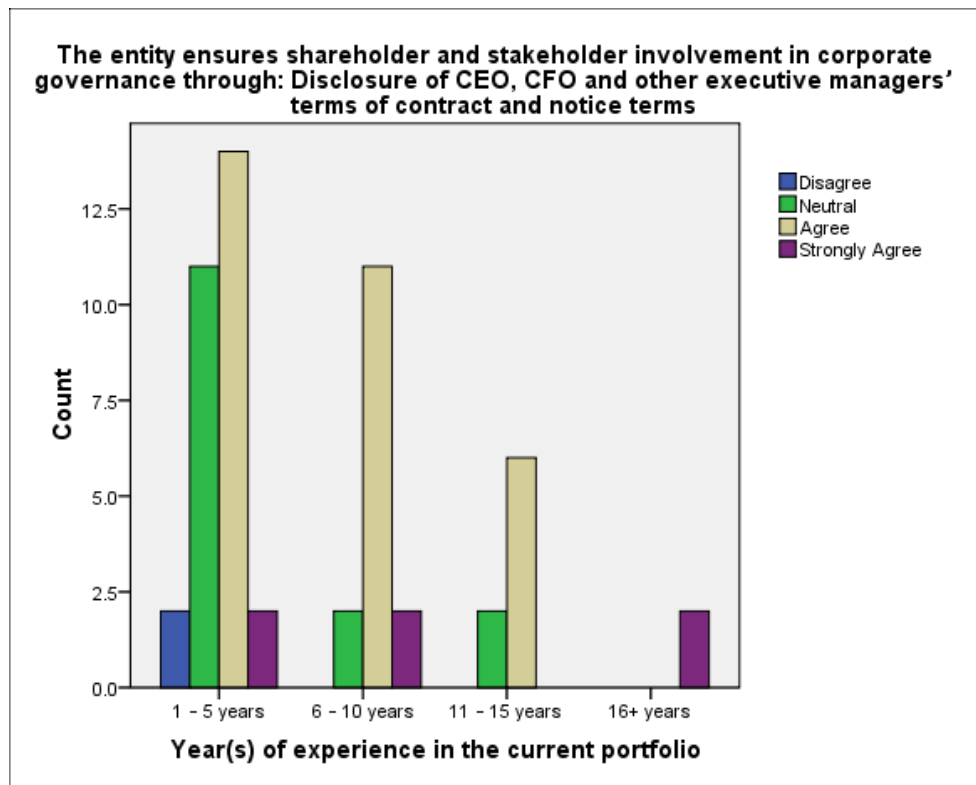


Figure 5.45: Disclosure of Executives' contracts by years of experience in current portfolio

All the respondents in the 6-10 and 11-15 years categories (7.4%) chose to be neutral and all the most experienced respondents (16+ years in current portfolio) strongly agreed.

Table 5.26: Disclosure of Executives' contracts by years of experience in current portfolio

		Disclosure of CEO, CFO and other Executive Managers' terms		
		Disagree	Neutral	Agree
Year(s) of experience in the current portfolio	1 – 5 years	3.7%	20.4%	25.9%
	6 – 10 years		3.7%	20.4%
	11 – 15 years		3.7%	11.1%
	Total	3.7%	27.8%	57.4%

Table 5.26 also shows that the least experienced category was of split minds with 3.7% thinking that it was not the case, 20.4% refusing to commit themselves and about a quarter sharing that their Entities ensured shareholder and stakeholder involvement in corporate governance through disclosure of CEO, CFO and other Executive Managers' terms of contract and notice terms.

5.5.17 The Entity ensures shareholder and stakeholder involvement in corporate governance through: Disclosure of non-compliance with PFMA and other pertinent Acts.

The question of whether the Entities ensured shareholder and stakeholder involvement in corporate governance through disclosure of non-compliance with PFMA and other pertinent acts was cross tabulated by years of experience in current portfolio. Figure 5.47 shows that all the most experienced respondents (16+) strongly agreed to the question. Those in the experience category 11-15 years either agreed, strongly agreed or strongly disagreed.

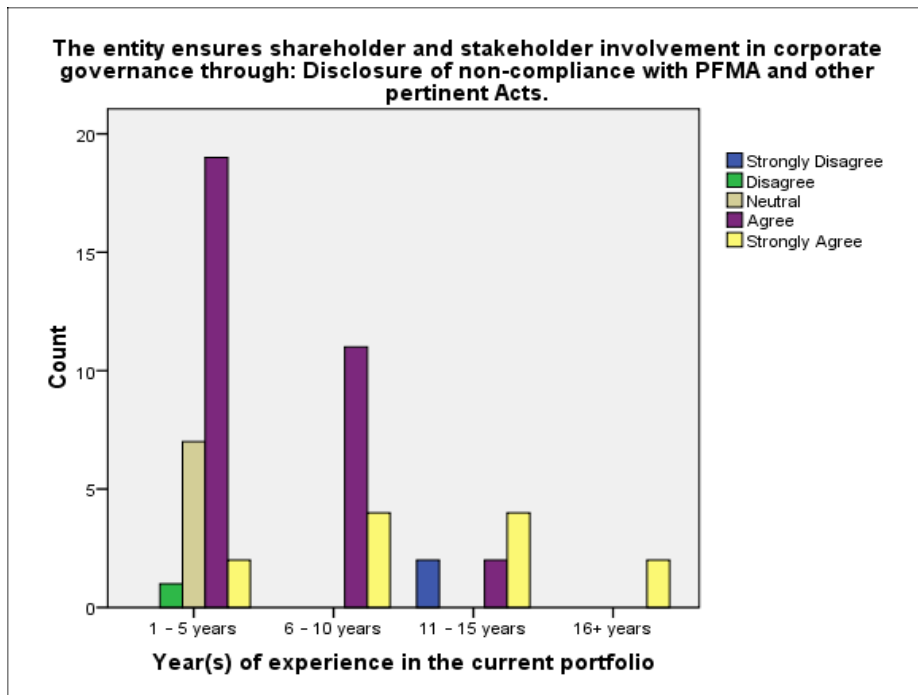


Figure 5.46: Shareholder and stakeholder involvement: Disclosure of non-compliance with PFMA and others.

Table 5.27 shows data that supports Figure 5.46. It shows that 81.5% responded positively to this question. The remaining 18.5% were either neutral or disagreed that their Entities ensured shareholder and stakeholder involvement in corporate governance through disclosure of non-compliance with PFMA and other pertinent acts.

Table 5.27: The Entity ensures shareholder and stakeholder involvement in corporate governance through: Disclosure of non-compliance with PFMA and other pertinent Acts.

Table 5.27: Disclosure of non-compliance with PFMA and other pertinent Acts.				
		Agree	Strongly Agree	Total
Year(s) of experience in	1 – 5 years	35.2%	3.7%	53.7%

the current portfolio	6 – 10 years	20.4%	7.4%	27.8%
	11 – 15 years	3.7%	7.4%	14.8%
	16+ years		3.7%	3.7%
	Total	59.3%	22.2%	100%

5.6 STRATEGIES TO IMPROVE CORPORATE GOVERNANCE IN SOEs

This section wanted to hear from respondents what they thought could improve corporate governance and what impact such measures would have on the company’s performance. Data collected from this exercise is presented in this section.

5.6.1 To what extent are the corporate governance issues in the Entity on: Lack of integrity and ethics among top management?

As figure 5.47 indicates, all the respondents seemed to think that there were issues of lack of integrity and ethics among the top management even though just above half of the respondents (52%) thought that they were minor and 48% felt that there were major corporate governance issues in this regard.

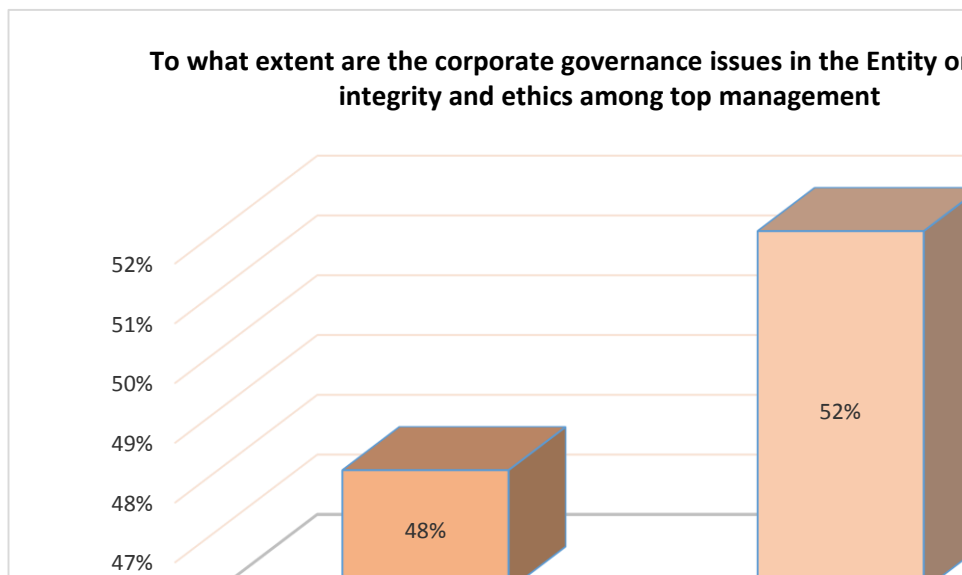


Figure 5.47: Lack of integrity and ethics among top management

The cross-table that follows was compiled to investigate corporate governance compliance by top management by job category. It was interesting to note that all the respondents thought that there were integrity and ethics among top management, with half (50%) of all the respondents regarding such issues as major. A fifth of the Executive Entity Managers felt that there were

major corporate governance issue regarding their own integrity and ethics, which was in agreement with the responses of the Managers in Government departments where 9.7% of 11.3% who responded shared with the researcher that there were major issues regarding lack of integrity and ethics among the top management of the Entities being studied.

Table 5.28: Lack of integrity and ethics among top management by job category

		Lack of integrity and ethics among top management		Total
		Major issue	Minor issue	
Job category	Board member	17.7%	30.6%	48.4%
	Executive Manager in an Entity	21%	17.7%	38.7%
	Manager in a Government department	9.7%	1.6%	11.3%
	Other	1.6%		1.6%
	Total	50%	50.0%	100%

5.6.2 To what extent are the corporate governance issues in the Entity on: Lack of transparency in financial reporting?

There seems to be as balance in the responses regarding lack of transparency in financial reporting with a slightly higher percentage 52% of the respondents sharing that there were major issues and 48% agreeing that there were issues although regarded as minor.

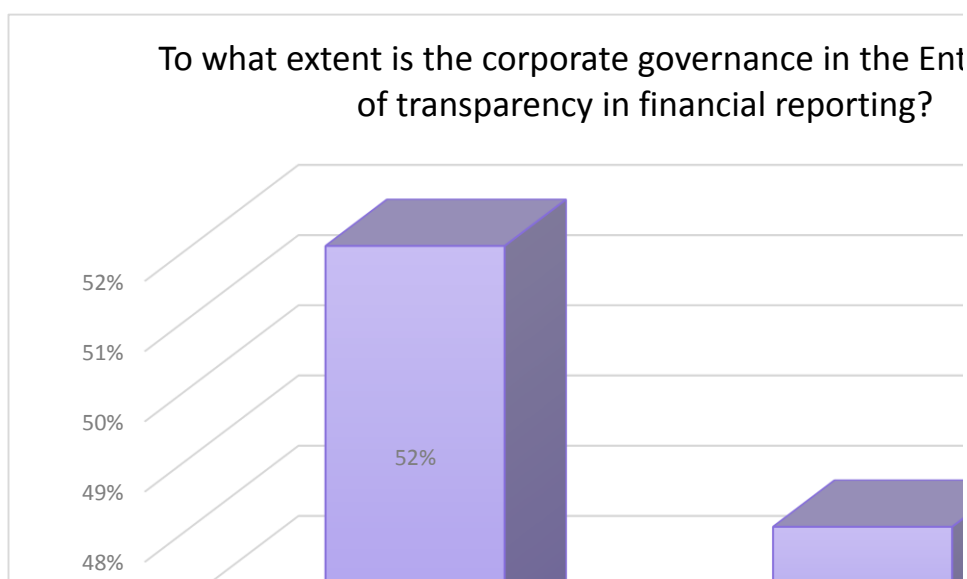


Figure 5.48 Lack of transparency in financial reporting

When the responses were cross tabulated by job category, a picture emerged that only the Board were in majority in thinking that the issues were minor. All the other job categories regarded the compliance issues pertaining to financial reporting as major (executive management of Entities at 22.6% major against 16.1% minor, Managers in Government department 9.7% major against 1.6% minor, and all others regarding the issues as major (1.6%).

Table 5.29: Extent to which corporate governance issues in the Entity are on lack transparency in financial reporting by job category

		Lack of transparency in financial reporting		
		Major issue	Minor issue	Total
Job category	Board member	19.4%	29%	48.4%
	Executive Manager in an Entity	22.6%	16.1%	38.7%
	Manager in a Government department	9.7%	1.6%	11.3%
	Other	1.6%		1.6%
Total		53.2%	46.8%	100%

5.6.3 To what extent are the corporate governance issues in the Entity on: Conflicts of interest of Directors?

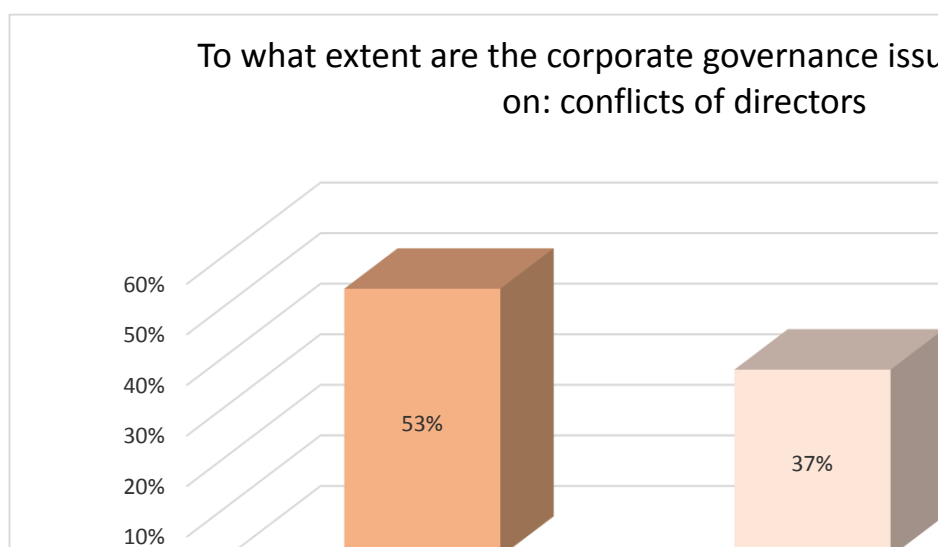


Figure 5.49: Conflict of interest of Directors

There appeared to be major compliance issues regarding conflict of interest of Directors in the Entities being studied as 63.0% of the respondents indicated so with only the remaining 37% thinking that such issues existed even though they were minor.

When this issue was cross tabulated with job category, it appeared that still two-thirds (61.3%) of the respondents regarded conflict of interest of interest of the Directors as a major corporate governance issue in these Entities. About a third (30.6%) of the members of Boards thought that there were major issues in this regard. Half (19.4%) of the executive management respondents regarded such issues as major and the other half (19.4%) argued that they were minor.

Table 5.30: Extent to which there is conflict of interest of Directors by job category

		Conflicts of interest of Directors		
		Major issue	Minor issue	Total
Job category	Board member	30.6%	17.7%	48.4%
	Executive Manager in an Entity	19.4%	19.4%	38.7%
	Manager in a Government department	9.7%	1.6%	11.3%
	Other	1.6%		1.6%

5.6.4 Risk management

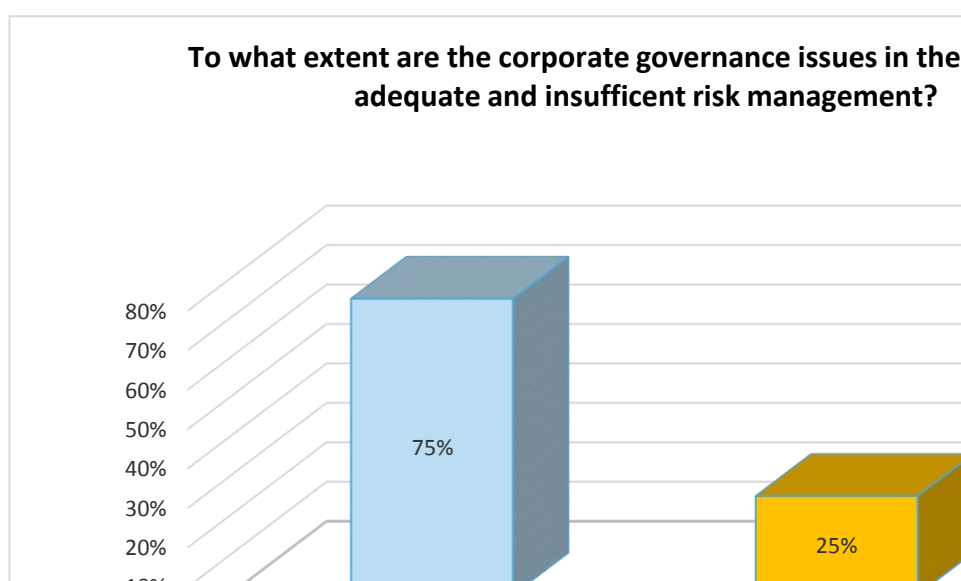


Figure 5.50: Inadequate and inefficient risk management

It seems that there were major corporate governance issues pertaining to inadequate and inefficient risk management in the Entities of the respondents. Three quarters of the respondents (75%) felt that there were major issues of inadequate and inefficient risk management in their Entities. Only a quarter of the respondents thought that these issues were minor.

Table 5.31: Extent to which there is inadequate and inefficient risk management by job category

		Inadequate and inefficient risk management?		
		Major issue	Minor issue	Total
Job category	Board member	32.3%	16.1%	48.4%
	Executive Manager in an Entity	29%	9.7%	38.7%
	Manager in a Government Department	11.3%		11.3%
	Other	1.6%		1.6%
Total		74.2%	25.8%	100%

When the same question was cross tabulated by job category, the researcher found that 32.3% of the respondents who were Board members regarded the issues as major with the other 16.1% thinking that they were minor. The majority of the Executive Managers of Entities (29.0%) also

thought that there were major issues pertaining to inadequate and inefficient risk management in their Entities and the other 9.7% regarded the issues as minor. All the Managers in a Government Department (11.3%) responded by saying that the issues were major.

5.6.5 To what extent are the corporate Government issues in the Entity on: Lack of transparency about Board Directors’ remuneration?

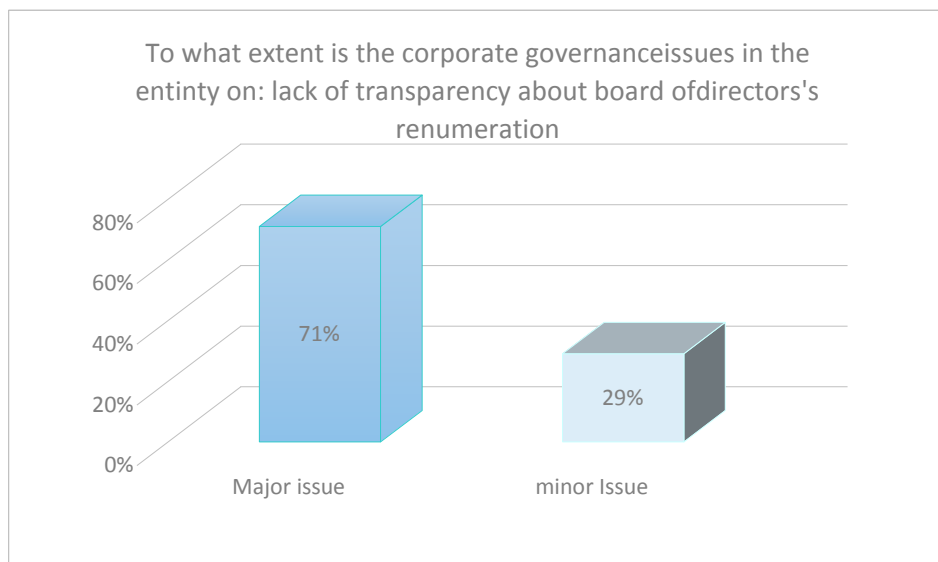


Figure 5.51: Lack of transparency about Board Directors’ remuneration

Figure 5.51 shows that there were issues of lack of transparency about the Board Directors’ remuneration even though 71% of the respondents thought that such issues were minor. The rest of the respondents (29%) regarded these issues as major. When this question was cross tabulated by the gender of the respondents, the male respondents formed 65.6% and the females formed the remaining 34.4%. The majority of those that regarded the issues as minor were male (45.3%) while the females formed a quarter at 25%.

5.6.6 Making the internal corporate governance mechanisms work better e.g. effective Board functions, active shareholders

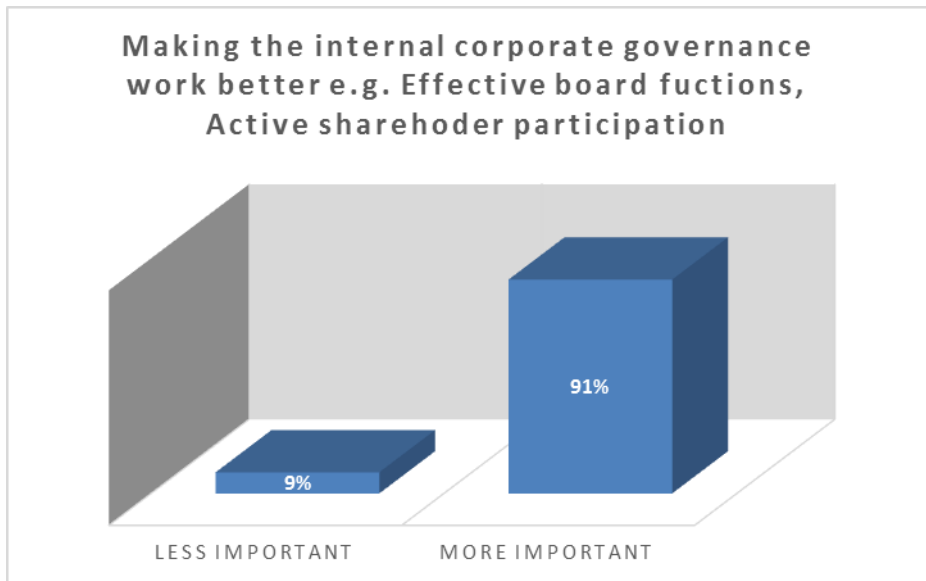


Figure 5.52: Effective Board functions, active shareholder participation

Figure 5.52 indicates that almost all the respondents (91%) regarded effective Board functions and active shareholder participation as important in improving corporate governance mechanism. Only 9% of the respondents thought that effective Board functions and active shareholder participation were less important to improving corporate governance mechanism.

This question was further cross tabulated by years of experience in current portfolio and the researcher found that the results reflected those shown by status quo answers. Less than one tenth (9.3%) of the respondents thought that effective Board functions and active shareholder participation were less important to improving corporate governance mechanism. The rest of the participants (90.7%) regarded them as important. It was also interesting to note that all (9.3%) the respondents who regarded effective Board functions and active shareholder participation as less important than improving corporate governance mechanism were in the experience category of 1-5 years in the current portfolio. All those who regarded effective Board functions and active shareholder participation as important to improving corporate governance mechanism respondents were between 6 and 16+ years of experience in their current portfolios.

5.6.7 Making the external corporate governance mechanisms work better (e.g. enact specific regulations, monitoring, stakeholder participation etc.)

Figure 5.53 clearly indicates that an overwhelming majority of respondents (86%) considered enacting regulations, monitoring and stakeholder participation as crucial to improving external corporate governance mechanisms within Government Entities. Only 14% of the respondents thought that they were less important.

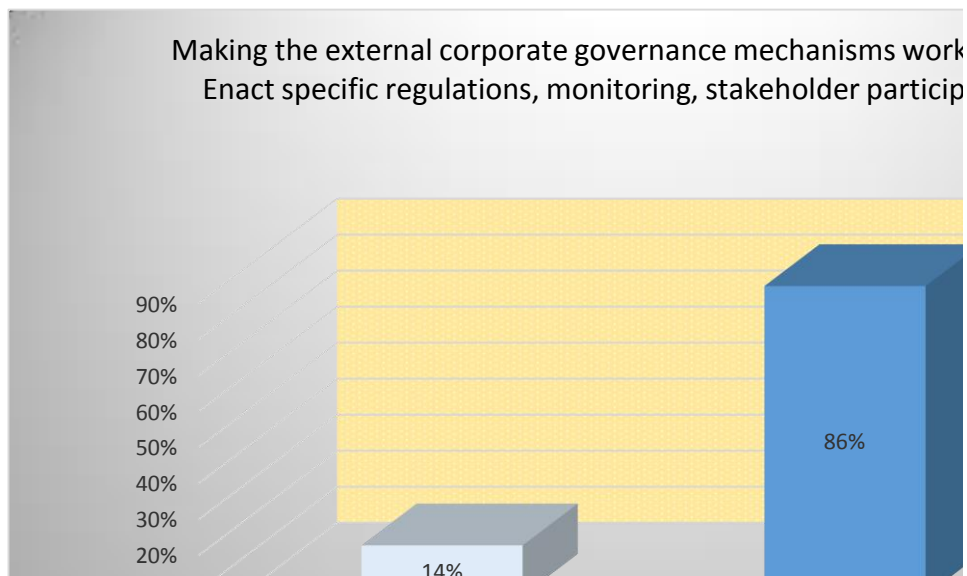


Figure 5.53: Enact specific regulations, monitoring, stakeholder participation

This question was further cross tabulated by years of experience in current portfolio and the responses showed that the more experienced the respondents, the more regard was given to enactment of specific regulations, monitoring, stakeholder participation than to roving external corporate governance mechanisms within Government Entities. All the most experienced respondents (11-16+ years of experience in current portfolio) answered that enactment of specific regulations, monitoring, stakeholder participation was important to improving external corporate governance mechanisms within Government Entities. These respondents formed a total of 18.5%. About 14.8% of the less experienced respondents (1-10 years' experience in current portfolio) regarded them as less important while 66.6% of them thought that they were more important.

5.6.8 Making the external corporate governance mechanisms work better (e.g. Enhancing the standard of accounting, audit and disclosures)

Figure 5.54 shows that almost three quarters (72%) of the respondents felt that enhancing the standards of accounting, audit and disclosures was more important, with just above a quarter (28%) thinking that it was less important.

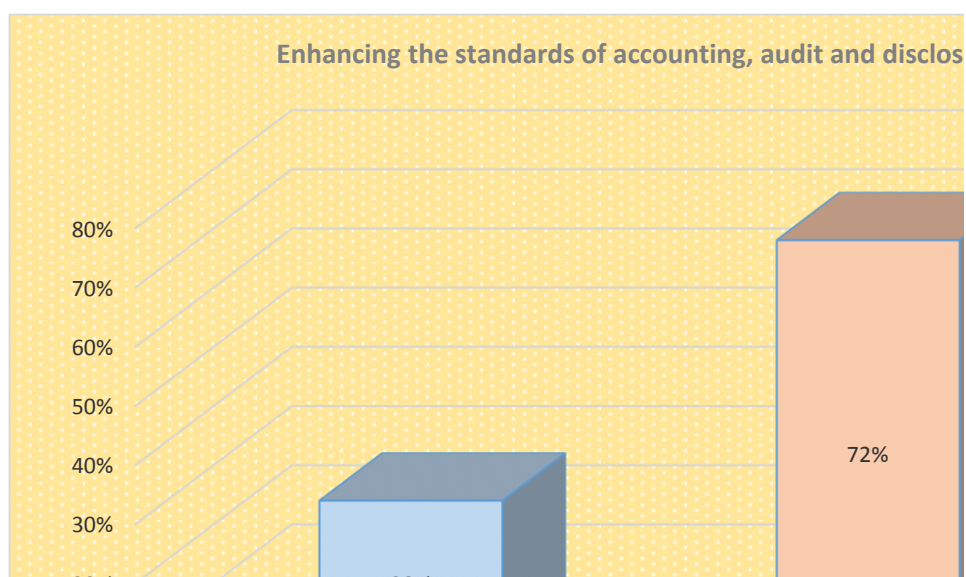


Figure 5.54 Enhancing the standard of accounting, audit and disclosures

On cross tabulating the same question by years of experience in current portfolio, the researcher found that only about a quarter (24.1%) of the least experienced respondents regarded them as less important. All the more experience respondents (6-16+ years' experience in current portfolio) who formed 46.3% of the total respondents regarded enhancing the standards of accounting, audit and disclosures as more important than improving corporate governance in their Entities.

Table 5.32: Enhancing the standards of accounting, audit and disclosures by years of experience in current portfolio

		Enhancing the standards of accounting, audit and disclosures		Total
		Less important	More important	
Year(s) of experience in the current portfolio	1 – 5 years	24.1%	29.6%	53.7%
	6 – 10 years		27.8%	27.8%
	11 – 15 years		14.8%	14.8%
	16+ years		3.7%	3.7%
	Total	24.1%	75.9%	100%

5.6.9 Conducting and publicizing corporate governance ratings of the Entity

The respondents were asked to share their thoughts on conducting and publicizing corporate governance ratings of the Entity, with the researcher. The study found that almost two-thirds (68.5%) of the respondents regarded it as more important and only 31.5% thought that it was less important.

Table 5.33: Conducting and publicizing corporate governance ratings of the Entity by years of experience in the current portfolio.

		Conducting and publicizing corporate governance ratings		Total
		Less important	More important	
Year(s) of experience in the current portfolio	1 – 5 years	24.1%	29.6%	53.7%
	6 – 10 years	3.7%	24.1%	27.8%
	11 – 15 years	3.7%	11.1%	14.8%
	16+ years		3.7%	3.7%
	Total	31.5%	68.5%	100%

All the most experienced respondents (3.7% who had 16+ years of experience in their current portfolio) thought that conducting and publicizing corporate governance ratings of the Entity was more important. The majority (11.1%) of the category of years of experience 11-15 also thought that it was more important with only 3.7% thinking that it was less important. Of the 27.8% of the respondents from the category 6-10 years, 24.1% regarded conducting and publicizing corporate governance ratings of the Entity as more important while the remaining 3.7% thought that it was less important. About 55.1% of those respondents with 1-5 years of experience in current portfolio regarded conducting and publicizing corporate governance ratings of the Entity as more important and the remaining 44.9% thought that it was less important.

5.6.10 Corporate governance of SOEs can be improved by adhering to: Giving the audit committee greater power to investigate financial reporting

About 83.0% of the respondents seemed to think that corporate governance adherence in SOEs could be improved by giving the audit committee greater power to investigate financial reporting. A small number 3.0% remained impartial and about 14.0% disagreed.

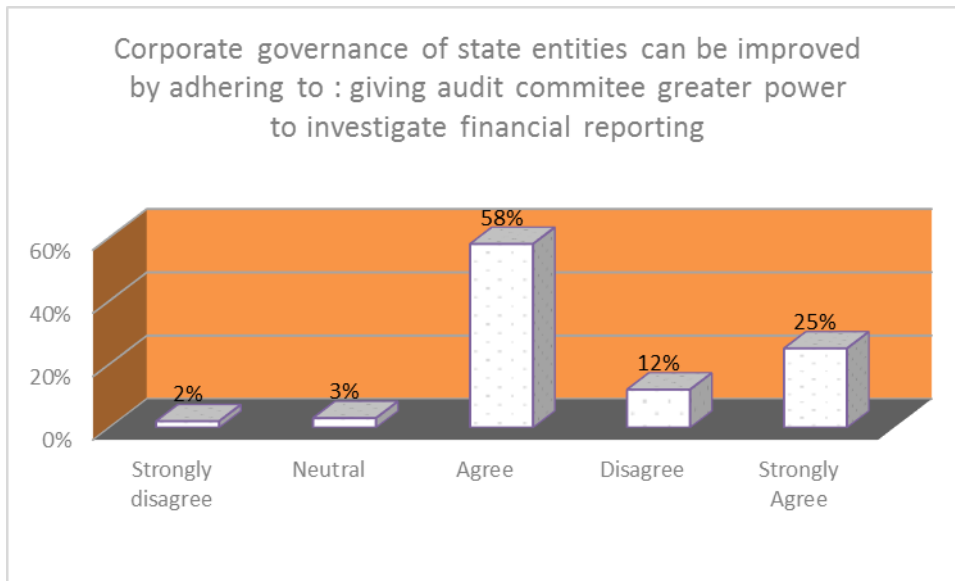


Figure 5.55: Greater power for audit committee to investigate financial reporting

This question was also cross tabulated by years of experience in current portfolio and the finding that 79.6% of the respondents seemed to agree that adherence to corporate governance in SOEs could be improved by giving the audit committee greater power to investigate financial reporting. The remaining 20.4% who are not accounted for are obviously those respondents who disagreed and remained neutral.

Table 5.34: Giving the audit committee greater power to investigate financial reporting by years of experience in current portfolio

		Agree	Strongly Agree	Total
Year(s) of experience in the current portfolio	1 – 5 years	31.5%	1.9%	53.7%
	6 – 10 years	16.7%	11.1%	27.8%
	11 – 15 years	7.4%	7.4%	14.8%
	16+ years	1.9%	1.9%	3.7%
	Total	57.4%	22.2%	100%

5.6.11 Corporate governance of SOEs can be improved by adhering to: Not obtaining audit and non-audit services from the same provider

Three quarters (75%) of the respondents agreed that if the SOEs refrained from obtaining audit and non-audit services from the same providers, adherence to corporate governance could improve.

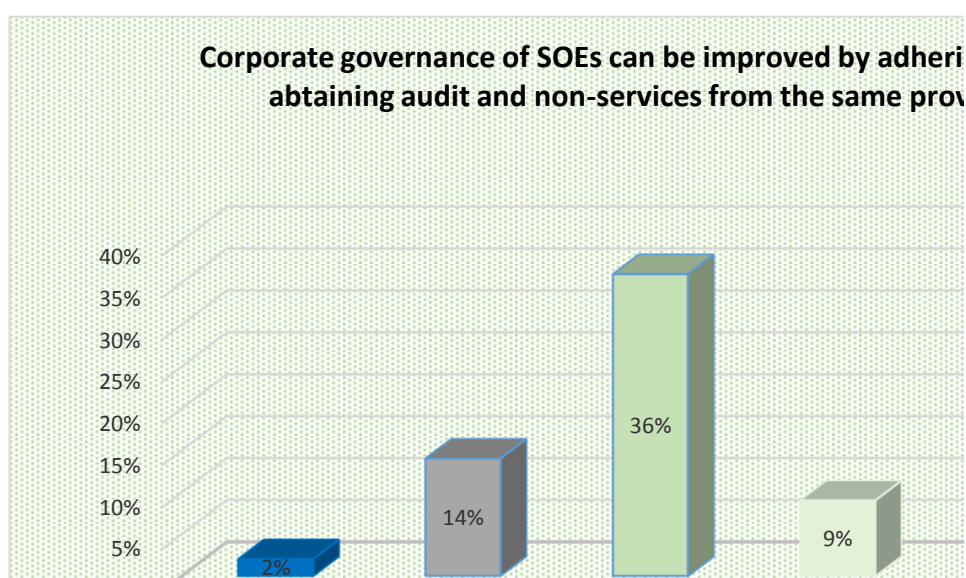


Figure 5.56: Audit and non-audit services from the same provider

Only 11% thought that obtaining audit and non-audit services from the same provider could not improve adherence to corporate governance in SOEs. As figure 5.56 indicates, another 14% of the respondents chose to be quiet on this issue.

Table 5.35: Audit and non-audit services from the same provider by years of experience in current portfolio

		Not obtaining audit and non-audit services from the same provider		
		Agree	Strongly Agree	Total
Year(s) of experience in the current portfolio	1 – 5 years	24.1%	9.3%	53.7%
	6 – 10 years	7.4%	14.8%	27.8%
	11 – 15 years	3.7%	11.1%	14.8%
	16+ years	1.9%	1.9%	3.7%

	Total	37%	37%	100%
--	-------	-----	-----	------

Table 5.35 shows the responses to the same question in relation to years of experience in the current portfolio. Apparently 74.0% responded positively to the question. Of these respondents 33.4% had current portfolio experience of 1-5 years with the remaining 20.3% either disagreeing or choosing to be impartial. About 22.2% were from the experience category of 6-10 years, 14.8% were between 11 and 15 years of experience and the remaining 3.8% were the most experienced at 16+ years.

5.6.12 Corporate governance of SOEs can be improved by adhering to: Remuneration packages for executive Directors being closely linked to performance

When the respondents were asked whether they thought that corporate governance in SOEs could be improved by remuneration packages for executive Directors being closely linked to performance a unanimous 86.0% shared that they thought that it could have a positive impact on corporate governance. About 47.0% of these agreed and the remaining 39.0% strongly agreed. Only 4.0% of the respondents thought that these two variables were unrelated and the rest (11.0%) were non-committal as figure 5.58 illustrates. The responses to this question were further cross tabulated by the qualifications of the respondents.

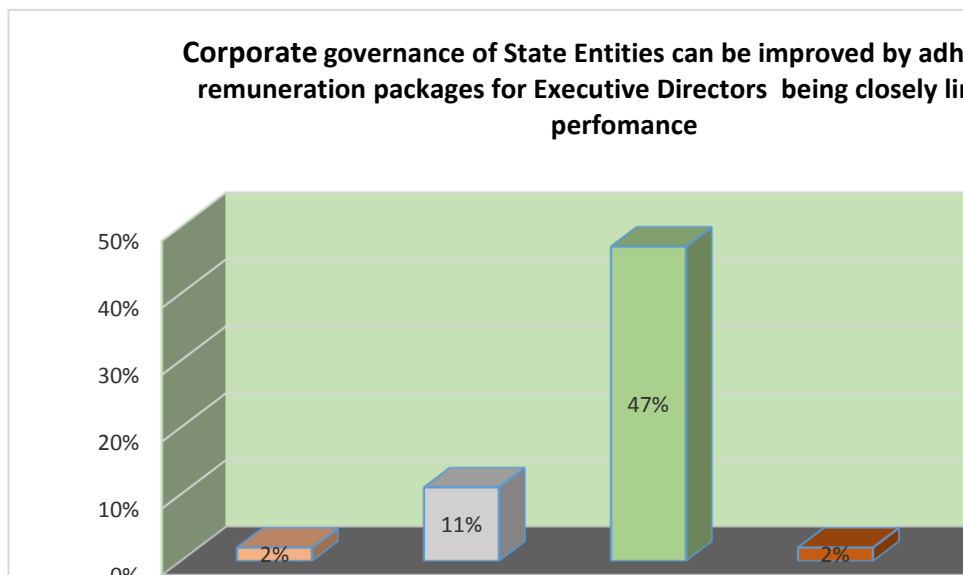


Figure 5.57: Linkage of remuneration packages for Executive Director to performance

This question was further cross tabulated by the qualifications of the respondents and the statistics showed that all (8.5%) the more qualified respondents (master’s and doctoral qualifications) agreed that the remuneration packages for executive Directors being closely linked to performance.

Table 5.36: Linkage of remuneration packages to performance by qualification

		Remuneration packages for executive Directors being closely linked to performance		
		Strongly Disagree	Neutral	Agree
Qualification	Undergraduate qualification		10.2%	8.5%
	Postgraduate diploma	1.7%	1.7%	27.1%
	Master's degree			3.4%
	Doctoral degree			5.1%
Total		1.7%	11.9%	44.1%

Only the least qualified respondents were neutral on this matter (11.9% with undergraduate and postgraduate diploma qualifications).

5.6.13 Corporate governance of SOEs can be improved by adhering to: Key Board committees are composed entirely of independent non-executive Directors

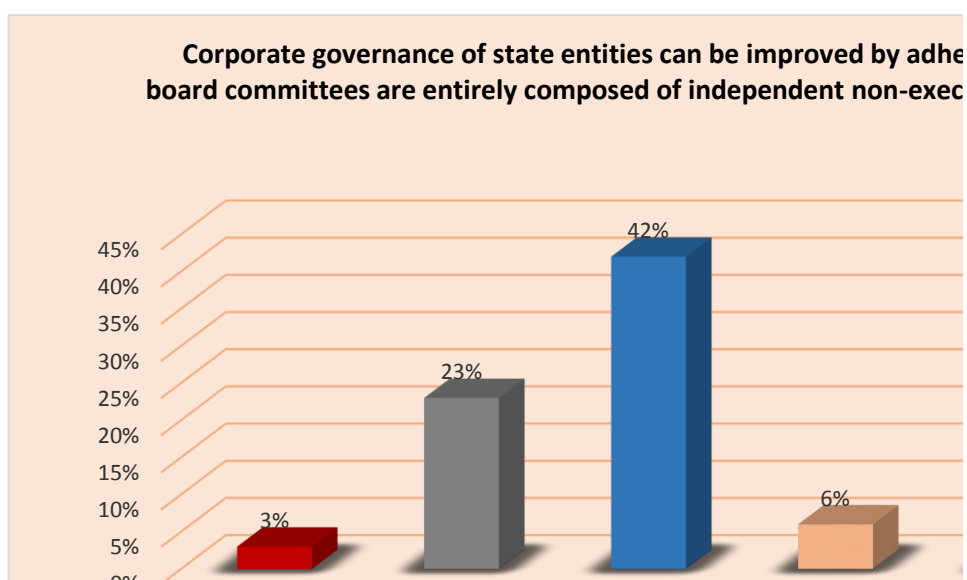


Figure 5.58: Composition of key Board committees

The majority of respondents (67%) seemed to think that corporate governance of SOEs could be improved by having key Board committees being composed entirely of independent non-executive Directors. A quarter of these respondents (25%) felt strongly about having key Board

committees being composed entirely of independent non-executive Directors and 42% agreed. Only 9% of the respondents thought that there was no correlation between improvement in adherence to corporate governance and having key Board committees being composed entirely of independent non-executive Directors. The other 23% decided not to commit themselves. See also Figure 5.58.

Table 5.37: Composition of key Board committees by qualification

		Key Board committees are composed entirely of independent non-executive Directors		
		Agree	Strongly Agree	Total
Qualification	Undergraduate qualification	10.2%		20.3%
	Postgraduate diploma	18.6%	6.8%	40.7%
	Master's degree	8.5%	18.6%	32.2%
	Doctoral degree	1.7%		5.1%
	Other		1.7%	1.7%
Total		39%	27.1%	100%

Table 5.37 deals with the same question as viewed by respondents across different qualifications. The majority of the respondents who agreed that corporate governance could be improved by having key Board committees being composed entirely of independent non-executive Directors, were those in possession of a post-graduate diploma (40.7%). About a third (32.2%) of the respondents who agreed, were in possession of a master's qualification. Only 33.3% of the total 5.1% of the respondents with doctorate degrees

5.6.14 Corporate governance of SOEs can be improved by adhering to: There should be an age limit for Directors

On the issue of the age limit for the Directors, a third (34%) of the respondents were silent, 28% thought that the age of the Directors had a relationship with the ability of SOEs to adhere to corporate governance, 13% strongly agreed and the remaining quarter (25%) responded that there was no correlation between adherence to corporate governance and the age of Directors. see also figure 5.60 below.

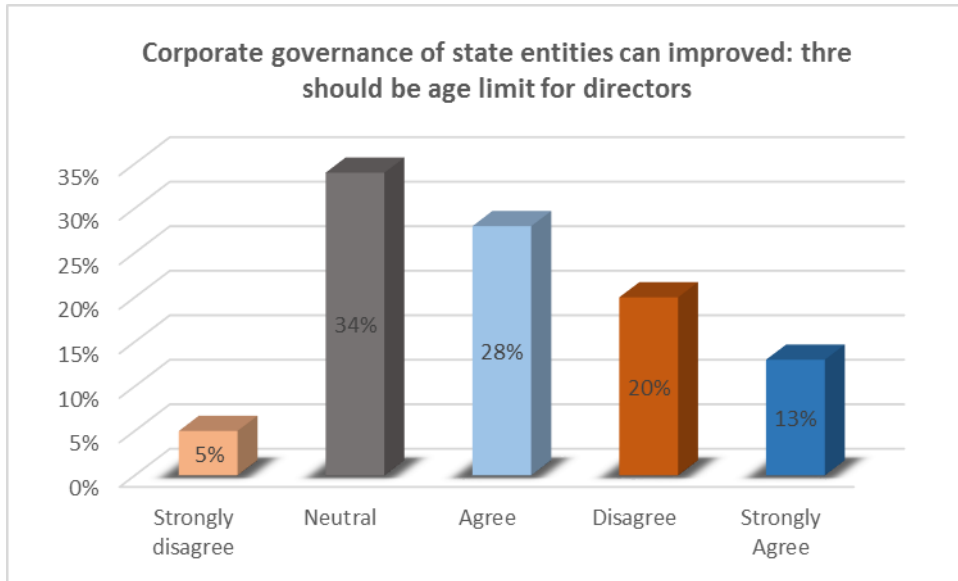


Figure 5.59: An age limit for Directors

Table 5.38 show a cross tabulation of the issue of the age limit of the Directors by job category. Almost half (47.5%) of the Board members seemed to think that there was a correlation between adherence to corporate governance and the age of the Directors. About 39.3% of the executive managers in Entities also agreed and 4.9% of managers in Government departments felt the same way.

Table 5.38: An age limit for Directors by job category

		An age limit for Directors		
		Agree	Strongly Agree	Total
Job category	Board member	11.5%	4.9%	47.5%
	Executive Manager in an Entity	11.5%	4.9%	39.3%
	Manager in a Government department	4.9%		11.5%
	Other			1.6%
Total		27.9%	9.8%	100%

5.6.15 Corporate governance of SOEs can be improved by adhering to: Full disclosure of the recruitment policy of new Board Directors

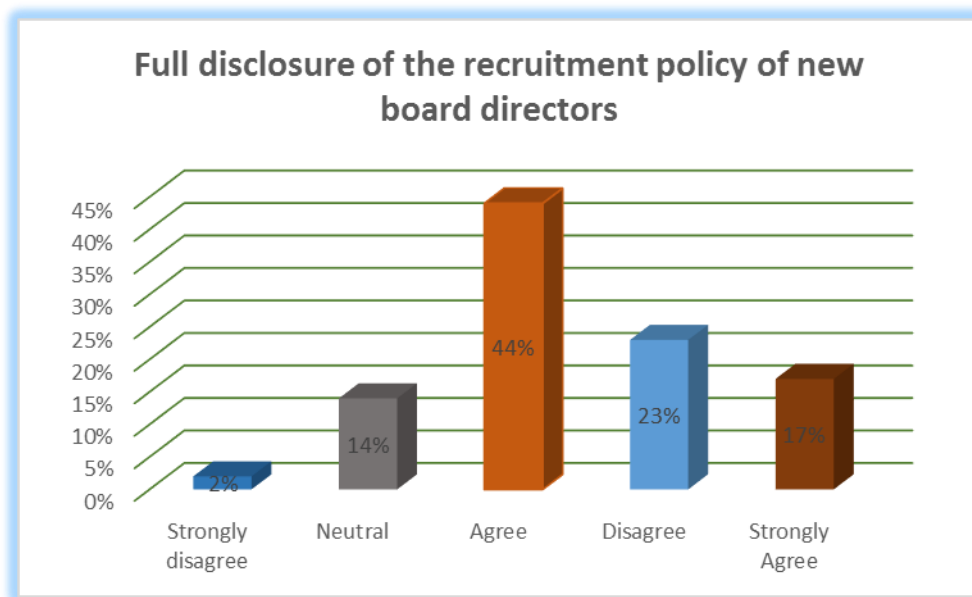


Figure 5.60 Full disclosure of the recruitment policy of new Board Directors

The respondents were also asked to share their views on full disclosure of the recruitment policy of new Board Directors as a mechanism to improve adherence to corporate governance in SOEs. Figure 5.61 shows that 17% of them strongly agreed and 44% agreed.

Table 5.39: Full disclosure of the recruitment policy of new Board Directors by job category

		Full disclosure of the recruitment policy of new Board Directors		
		Agree	Strongly Agree	Total
Job category	Board member	19.7%	4.9%	47.5%
	Executive Manager in an Entity	18%	6.6%	39.3%
	Manager in a Government department	3.3%	6.6%	11.5%
	Other			1.6%
Total		41%	18%	100%

A total of 61% of the respondents regarded full disclosure of the recruitment policy of new Board Directors as an important mechanism to improve adherence to corporate governance in SOEs. About 14% of the respondents chose not to commit themselves on this matter and the remaining quarter (25%) disagreed.

Table 5.39 is a cross tabulation of the same question by the job categories of the respondents. The table depicts that the neutral as well as negative responses came from all the job categories.

Of the total of 47.5% of the Board member respondents, only 24.6% agreed. Obviously the other 22.9% were somewhere between strongly disagree and neutral. Of the total of 39.3% of the Executive Managers in Entities, 24.6% agreed and the other 14.7% disagreeing of remaining neutral. The same applied to Managers in Government Departments. About 9.9% of the total of 11.5% agreed that full disclosure of the recruitment policy of new Board Directors was an important mechanism to improve adherence to corporate governance in SOEs. The remaining 1.6% either disagreed or chose not to respond to the question.

5.6.16 Corporate governance of SOEs can be improved by adhering to: The exact remuneration of each Board Director should be disclosed in the annual reports

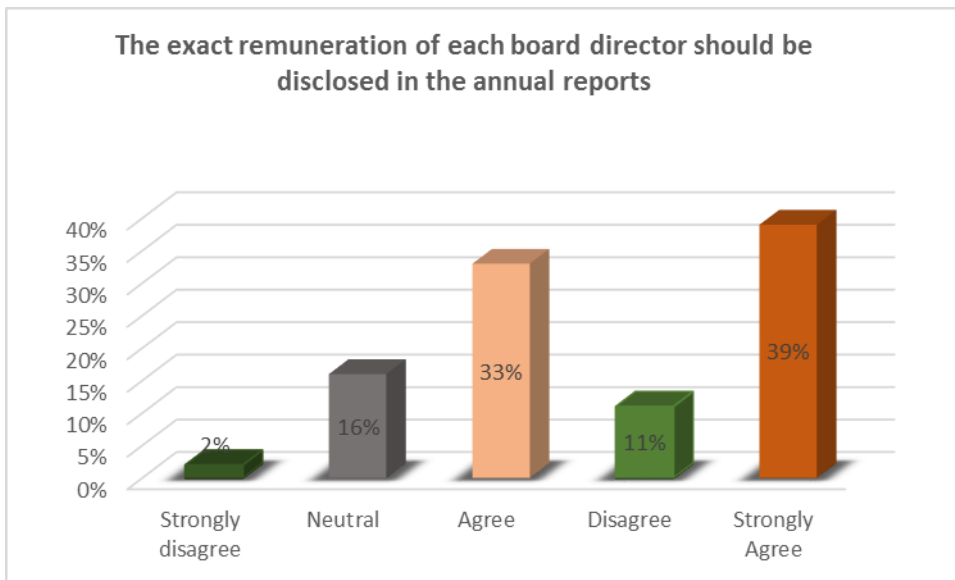


Figure 5.61: Disclosure of exact remuneration of each Board Director in annual reports

The respondents were asked to share their thoughts regarding the link between adherence to corporate governance in SOEs and disclosure of Directors’ remuneration in the annual report. Figure 5.61 shows that about 39% of them felt strongly that there was a relationship between adherence of corporate governance and disclosure of Directors’ remuneration in annual reports. About 33% agreed that disclosure of the Directors’ remuneration was an important factor in adherence to corporate governance. About 13% of the respondents did not seem to think that the two variables were related and the remaining 16% were neutral. The same question was cross tabulated by job category.

Table 5.40: The exact remuneration of each Board Director should be disclosed in the annual reports by job category

		The exact remuneration of each Board Director should be disclosed	
--	--	---	--

		in the annual reports		
		Agree	Strongly Agree	Total
Job category	Board member	14.8%	24.6%	47.5%
	Executive Manager in an Entity	13.1%	8.2%	39.3%
	Manager in a Government department	4.9%	4.9%	11.5%
	Other			1.6%
Total		32.8%	37.7%	100%

Table 5.40 shows that 47.5% of those respondents who agreed that corporate governance could be improved if the exact remuneration of the Directors were disclosed in the annual report were Board members. About 39.3% of them were executive managers of Entities and 11.5% were managers in Government departments.

5.6.17 Corporate governance of SOEs can be improved by adhering to: Imposed limitations on the number of Directorships held by a Board Director at one time

The researcher wanted to know the thoughts of the respondents regarding the effects of the number of Directorships held by Board Director at one time on adherence to corporate governance in SOEs.

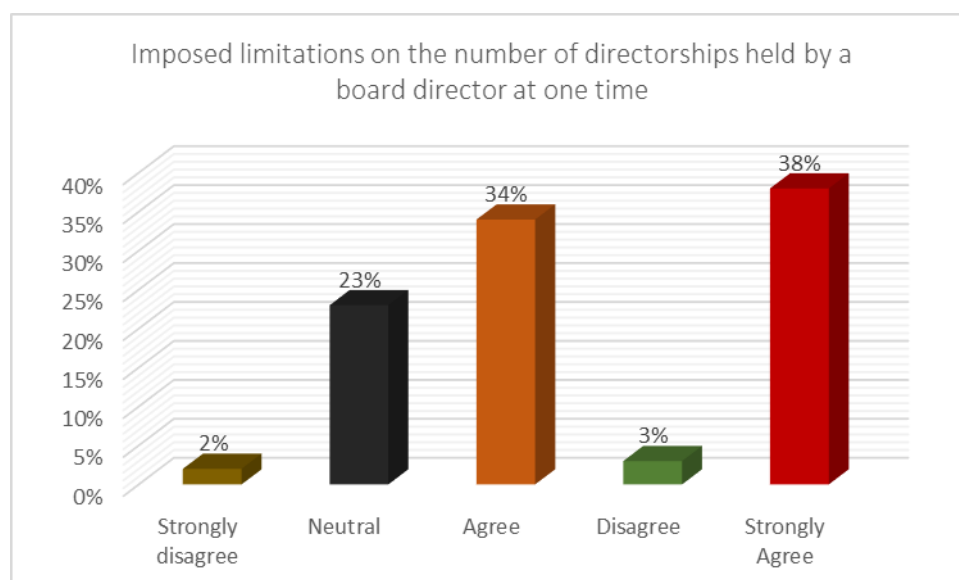


Figure 5.62: Imposed limitations on the number of directorships

More than a third of the respondents (38.0%) strongly agreed that there should be limits to the number of Directorships held by the Board Director at the same time. Another third (34.0%) agreed, a little more than a fifth (23.0%) were neutral and an un-noteworthy 5.0% disagreed.

Table 5.41: Imposed limitations on the number of Directorships by job category

		Imposed limitations on the number of Directorships held by a Board Director at one time		
		Agree	Strongly Agree	Total
Job category	Board member	16.4%	19.7%	47.5%
	Executive Manager in an Entity	13.1%	11.5%	39.3%
	Manager in a Government Department	4.9%	3.3%	11.5%
	Other		1.6%	1.6%
Total		34.4%	36.1%	100%

When this question was cross tabulated by the job categories of the respondents it was apparent that most of the respondent categories thought that corporate governance adherence in SOEs could be improved by limiting the number of Directorships that Board Directors held at the same time. All 47.5% Board members agreed, 39.3% executive managers agreed, 11.5% managers in Government departments agreed and 1.6% other respondents.

5.6.18 Corporate governance of SOEs can be improved by adhering to: Adoption of a code of conduct and ethics for all Board Directors, officers and employees

Figure 5.63 shows that more than half (52%) of the respondents regarded the adoption of a code of conduct and ethics for all Board members as one of the variables that could help improve adherence to corporate Government in SOEs with more than a third (38.8%) respondents strongly agreeing to the question. A total of 90.8% of the respondents agreed to the question. An insignificant 2% strongly disagreed and the remaining 9% chose to be neutral.

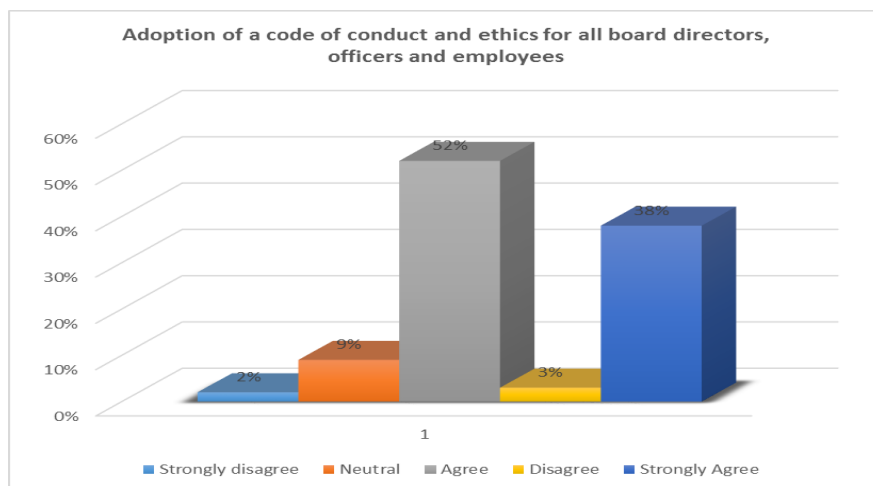


Figure 5.63: Adoption of a code of conduct and ethics

The researcher further cross tabulated this question by the job categories of the respondents. The results showed that the majority of the respondents who thought that the adoption of a code of conduct and ethics for all Board members as one of the variables that could help improve adherence to corporate Government in SOEs were Board members (19.7% of 23.0%), and executive managers in Entities (21.3% of 29.5%). All the managers in Government departments (6.6%) agreed to the question.

Table 5.42: Adoption of a code of conduct and ethics for all Board Directors, officers and employees by job category

		Adoption of a code of conduct and ethics for all Board Directors etc		
		Strongly Disagree	Neutral	Agree
Job category	Board member		3.3%	19.7%
	Executive Manager in an Entity	1.6%	6.6%	21.3%
	Manager in a Government department			6.6%
	Other			1.6%
Total		1.6%	9.8%	49.2%

5.7 QUALITATIVE DATA ANALYSIS: RESULTS OF INTERVIEWS

5.7.1 Introduction

The purpose of this section is to provide the analysis of the findings from the qualitative research that included targeting 18 Board members for interviews, purposely selected from a

sample of Schedule Three SOEs that are based in KZN and also the analysis of documents such as the published Annual Reports of about 11 SOEs that were also purposely selected within each cluster or category.

The interview was used to supplement and extend knowledge about individual(s) thoughts, feelings, meanings, interpretations, perception etc. The interviewer collected detailed personal information from individuals in one to one situations but also through telephonic interviews where participants were too busy for face-to-face interviews. Even though questions were pre-planned, the interviewer allowed questions to flow naturally based on information provided by the respondent.

Conducting qualitative interviews can often enhance the value of a research design that uses primarily quantitative measurement techniques. Qualitative data can provide information about the quality of standardised quantitative survey measures, as well as offer some insight into the meaning of particular fixed responses

The purpose of conducting the document analysis was to verify information provided by respondents in the quantitative research that was done through close ended questionnaires, to allow the researcher to gather additional information particularly in terms of what SOEs publish in their Annual Reports under the Corporate Governance section. This section addresses mainly Sub-Objective 2 and 3, where it verified level of understanding and awareness of corporate governance practices by probing further through interview questions, and as follow-up and to determine the extent to which different categories of Schedule Three SOEs comply with the provisions of Corporate Governance.

The quantitative approach answered the what, who and where (De Villiers and Fouche, 2015, p129) questions and provided a picture of the situation in pictures, maps, graphs and Tables. Qualitative data as presented and analysed in the section that follows answered the why and how (De Villiers and Fouche, 2015, p. 132) questions, contextual details, experiences, perceptions and expectations as expressed by the sample representing the whole population under investigation on the issue of corporate governance in SOEs. Data collection and analysis was triangulated in order to satisfy the requirements of the research objectives (Maree & van der Westhuizen, 2007, p. 5). Maree & van der Westhuizen (2007, p.5) and Olsen (2004: p. 1) argue that triangulation or crystallisation is crucial for the validation of research findings. In the case of this study data collection and analysis was triangulated in order to deepen and widen the understanding of the issues of corporate governance in SOEs. The sections that follow present data that was collected through interviews using attached interview schedule, as in Appendix G.

5.7.2 Thematic analysis of interview results

5.7.2.1 SOE currently being served by the respondents

Figure 5.64 indicates that over half (53%) of the respondents were working for provincial public Entities at the time of study, with 33% serving in national public Entities. The remaining 14% were in the employment of national Government business enterprises (7%) and provincial Government business enterprises (7%). This is in line with proportional number of SOEs in each category or part, as listed in the Treasury website, and attached as Appendix C.

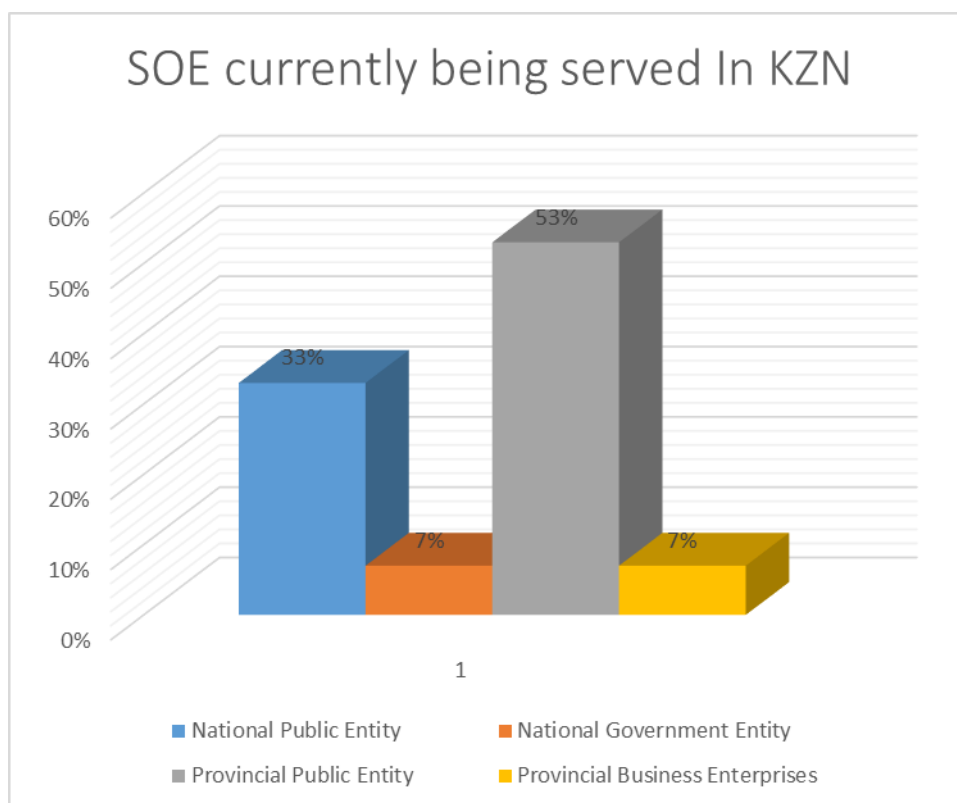


Figure 5.64 SOE currently being served in KZN, in Terms of Treasury Listing

5.7.2.2 Experience in years as a Board member

Sonnenfeld (2004, p.108) argues that the biggest problem that leads to corporate failures is that many Board members “get their jobs because they are famous, rich, well-connected – anything but financially literate”. He further stated that Fortune’s most and least admired companies had Board members with the training and experience to understand the kinds of risk that the companies are taking on. So, experience and training alone may not be enough to help corporations navigate their ways out of risky situations even though they are important. Figure 5.65 illustrates that the majority of Board members had experience between 5 and 10 years. The most experienced Board members had experience ranging from 20 to 25 years.

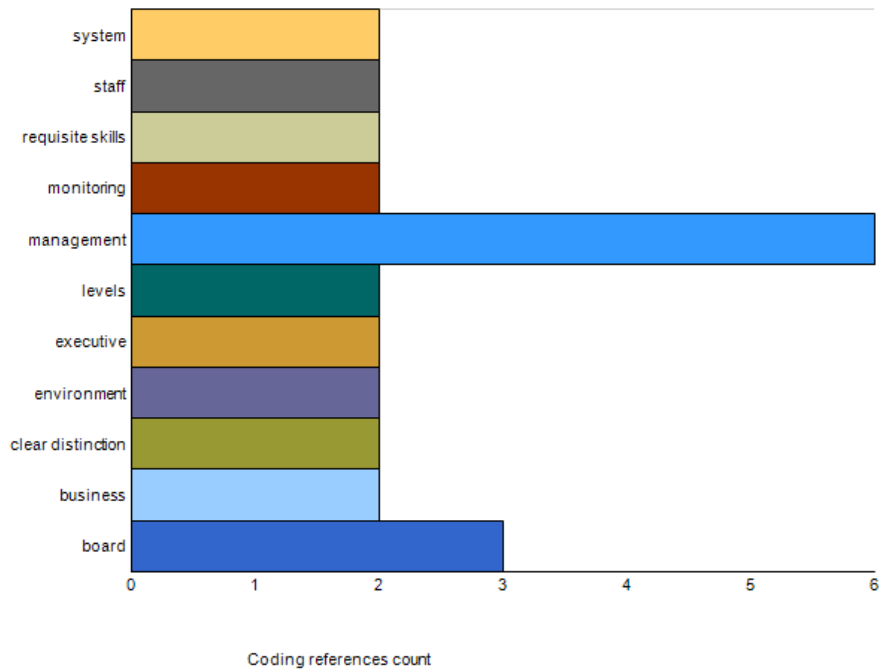


Figure 5.67 Critical factors for effective corporate governance of a SOE

The responses to the question were further illustrated in graph form in order to support data illustrated in Figure 5.66. Figure 5.67 shows that the majority of respondents regarded management as the biggest factor in effective corporate governance at 14.91%. Management was composed of the following six references:

- Good leadership at Board and management levels which received coverage of 2.25% in terms of importance.
- Board’s effectiveness in monitoring management on behalf of the shareholder receiving 3.64% coverage.
- Independence of Board members, managing conflict of interest, ensuring that Board members understand their responsibilities and liability linked to the decisions made by the Board. This sub-question got coverage of 3.06%.
- Reference 4 in this regards was sound financial management and reporting with a coverage of 1.43%
- Proper budgets, good risk management systems support from the shareholder was regarded as very important covering 3.76%.
- The last reference under management was competent management team. Amazingly this reference did not receive as much coverage (only 0.77%) as one would have expected.

The management aspects regarded as most important to the effectiveness of corporate governance by the respondents were proper budgets, good risk management systems and support from the shareholder which was regarded as very important covering 3.76% as well as Board's effectiveness in monitoring management on behalf of the shareholder receiving 3.64% coverage.

The Boards: As both Figures 5.66 and 5.67 show, the Boards came second as a critical factor for effective corporate governance of a State-Owned Entity receiving a total coverage of 4.76%. This question was composed of three references that are elaborated below.

- The material prepared for board meetings, referred to as board members' packs have to be studied in detail and consulted upon where required to ensure that the board members make informed decisions and advise executives accordingly. This reference of the Board got coverage of 2.62% becoming the most important factor with regards to the Board.
- Another reference to the question of the importance of the Board for effective corporate governance was the effectiveness of the Board of Directors, receiving coverage of 1.01% becoming the least important reference.
- Strong and diverse Board of Directors became the second most important reference in support of effectiveness of the Boards. This reference received a coverage of 1.13% of the total of 4.76%

Figure 5.67 depicts the rest of the factors as equal in terms of coverage. However, a closer look at them reveals that this was not the case. The business model accounted for the total coverage of 5.1% composed of two references.

- Business model, strategy, business plans and budgets had a coverage of 3.22%
- A good business model and skills set acquired coverage of 1.88%

Clear distinction between roles: Clear distinction was another factor contributing to good corporate governance in SOEs.

- Of the two references mentioned for this factor, clear distinction between the role of executives versus that of Board members accounted for the most coverage at 4.06%
- Clear distinction between Board and executive authority with defined delegations of authority to ensure that the Board remains as overseeing at all times came second covering 2.59%

The business environment: The business environment was considered to be another factor contributing to good corporate governance. This factor was composed of two references,

namely: Well defined policies and procedures tailor-made for that particular environment and caring, rewarding and fulfilling work environment.

- Reference 1 Well defined policies and procedures tailor-made for that particular environment became the most important with coverage of 2.57%
- Reference 2 Caring, rewarding and fulfilling work environment came second with coverage of 1.46%

The executive staff: The executive staff was regarded as another factor in effective corporate governance.

- Of the two references under this factor, clear distinction between Board and executive authority with defined delegations of authority to ensure that the Board remains as overseer at all times came first, covering 2.59%
- Effectiveness of the executive staff was second with a coverage of 0.91%

The levels of management: The levels of management and criteria used during appointment to top positions also received some attention.

- Reference 1 was good leadership at Board and management levels accounting for 2.25% coverage.
- Reference 2 was high level criteria for appointment to top positions coming first with 2.48% coverage.

Monitoring: The respondents also thought that monitoring was an important factor in good corporate governance.

- Board's effectiveness in monitoring management on behalf of the shareholder was regarded highly with 3.64% coverage
- This was followed by consistent monitoring and evaluation covering 1.10%.

Requisite skills: Requisite skills are important in effective execution of duties. This factor was composed of the following two references:

- The need for a balance of requisite skills which covered 2.11%
- Requisite skills of Board members that will enable them to direct the Entities to achieve their objectives. This reference received coverage of 4.07%

5.7.2.4 Understanding of Corporate Governance in South Africa

Figure 5.68 depicts that all (100%) the respondents understood corporate governance in South Africa as guided by King III Code of Governance Principles. Sonnenfeld (2002) argues that in most meltdown cases all the Board systems were in place. By implication understanding of corporate governance in South Africa as depicted in figure 5.68 below is no guarantee that corporations will perform well.

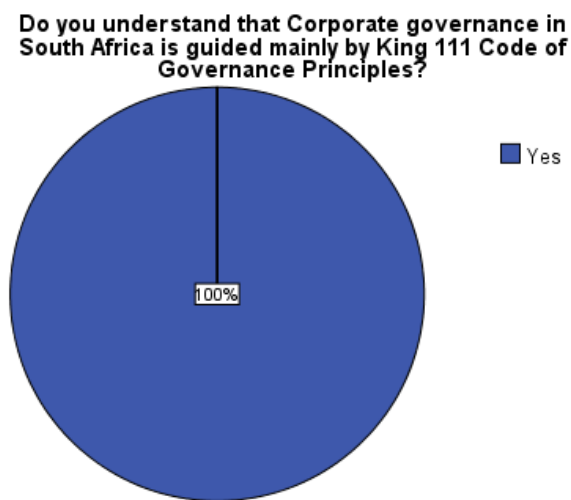


Figure 5.68 Understanding of Corporate Governance in South Africa

5.7.2.5 Positive contributing factors to effective corporate governance in SOEs

The results of the interviews gave indication to what the interviewees regard as main positive factors contributing to effective corporate governance in SOEs. The most important factors were highlighted as, governance principles, issues, Entities, needs, governance and others. Among the least important ones were contradiction, argument, BBBEE, alignment and others. Governance principles were regarded as important, as they gave specific guidance to Entities (8.33%), acted as a management tool for Entities' Board executives (1.03%) and they arm the Board members and management with best practices (2.14%).

Figure 5.69 was used to illustrate positive contributing factors to effective corporate governance in SOEs in detail. Governance was selected four times making it the most important factor contributing positively to corporate governance in SOEs.

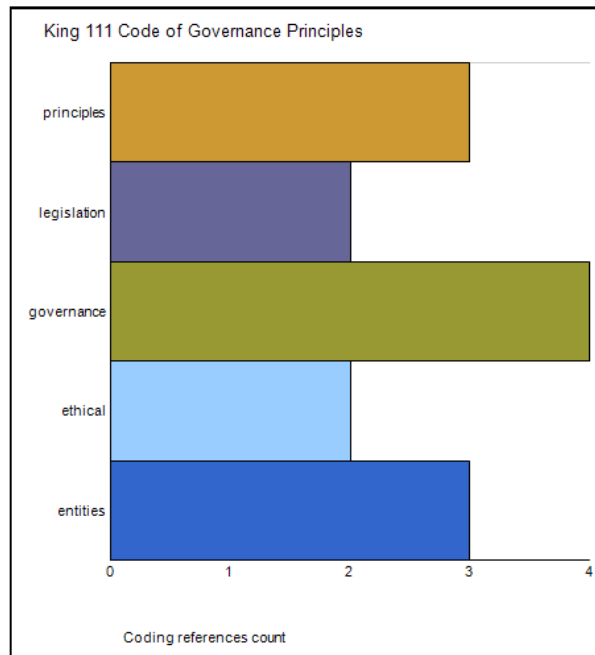


Figure 5.69 Positive contributing factors

Ethical factors composed of the following two references totaling to 9.89%.

- Yes, they do incorporate ethics but they approach ethical behaviour from a point of view of disclosures covering 1.56%.
- To some extent I do agree. However, it would be useful to provide specific guidance to Entities of various sizes where the requirements may be too strenuous, for example, for the setting up of ethics committees for small public Entities, with the coverage of 8.33%.

Governance: Governance was the main factor cited as contributing to effective corporate governance in SOEs. This factor was composed of corporate governance and King III principles. Corporate governance accounted for 1.76% of the total of 7.7%. The remaining 5.95% centered around King III principles.

- Corporate Governance was one of the elements that make the regulatory environment of a business to be well executed (1.76%).
- About 2.63 of the respondents thought that King III Principles were merely guideline provisions and not prescriptive for corporate governance matters.
- About 2.17% of the respondents regarded Fairness, Accountability, Responsibility and Transparency as King 111 principles of corporate governance.
- The last point of reference of the issue of governance was that the King III principles were diverse and complex, dynamic and they evolve, with coverage of 1.14%.

Legislation: Legislation was another positive factor to corporate governance in SOEs.

Legislation as a factor was made of the following two reference points. The respondents felt that it was important for the SOEs to comply with the principles of corporate governance and adopt King Code to improve corporate governance in their Entities.

- A greater alignment required between the King III guiding principles and prevailing legislation and regulations got 2.99% coverage
- About 3% (2.96%) responded that King committee and King code had become a word rename brand and 56 countries in the commonwealth including South Africa had opted for a code of principles and practices on a “comply or explain basis” especially on a non-legislated issue.

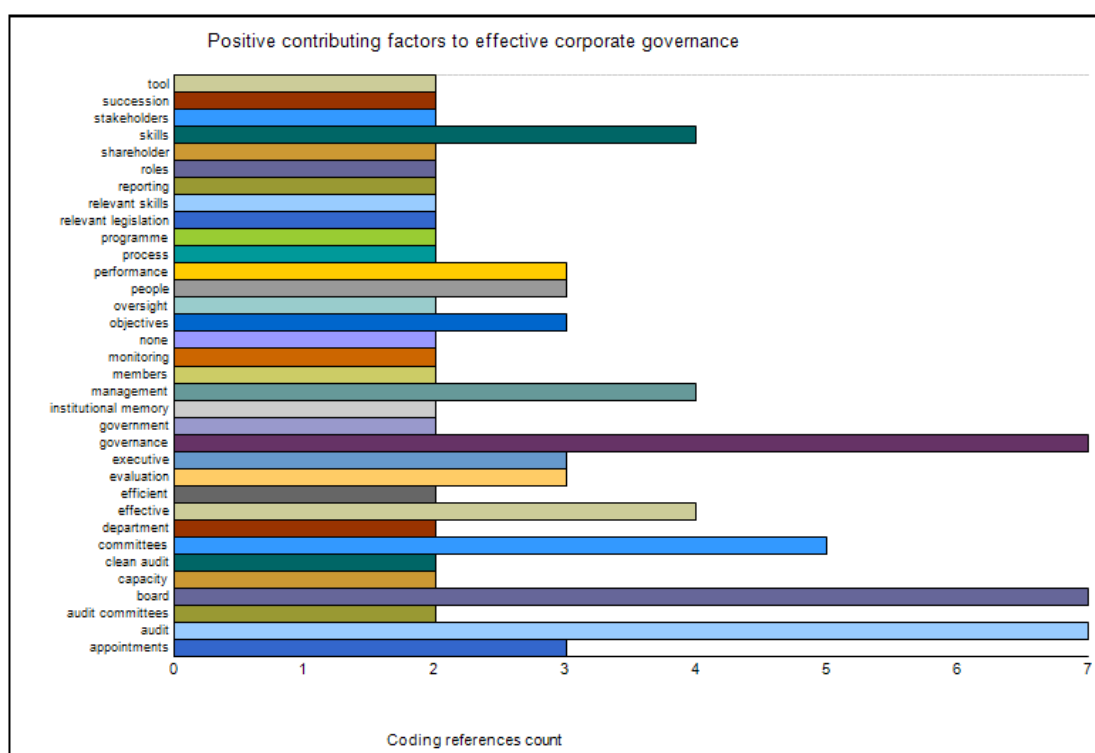


Figure 5.70 Positive contributing factors to effective corporate governance in SOEs

Figure 5.70 delves further into the positive factors that contribute to effective corporate governance in order to provide finer details. Evidently governance, the Board and audit topped all the factors, each rating 7.

Governance: Governance was composed of seven references whose coverage was as follows:

- Board members must be continuously trained on corporate governance with coverage of 0.40%.
- The second reference was compulsory training for all Board members on corporate governance with 0.71% coverage.

- The Entity complies with corporate governance and has established the sub-comrades as per the King III process. This reference had coverage of 0.81%.
- Yes I do by appointing competent, experienced CEO's and the entire executive for SOE who are well versed in corporate governance. This reference received coverage of 0.81%, tying in with the reference to sub-comrades.
- When applying for Board of Directors they should be exposed or trained on corporate governance because they will be using the principles of corporate governance as their management tool or a blueprint in receiving the Board's SOEs. This reference was regarded as the second most important for governance, with 1.27% coverage.
- The sixth reference was: the Boards I served in show serious commitment to good governance if people understand and share the vision there is no possibility of people losing principles and acting illegally which came as one of the two most important references of governance with positive effects on corporate governance in SOEs and had a coverage of 2.08%.
- Similarly, the sixth reference, entrenching the King principles of good corporate governance and ensuring that the organizational efficiency is not compromised by unnecessary conflicts and interference, came top with a coverage of 2.08%.

The Board: The Board, its composition and processes was one of the elements that could have positive effects on corporate governance in SOEs. This element was made up of the following seven references:

- With coverage of 1.03% was reference 1: Provincial Government and respective departments to adopt a long term and integrated approach in Board appointments.
- Power & politics vs. Board performance came first with coverage of 2.08%. This means that power and politics, especially in SOEs, play a crucial role in the formulation of the Board and its processes.
- Consideration of international Board practices and regulations was another important reference of the Board important to ensure positive effects of the Boards in SOEs. This reference acquired coverage of 1.40%.
- Regulation of Board evaluation got coverage of 0.66% making it not so important in ensuring the effectiveness of the Board when it comes to good corporate governance.
- With coverage of 1.13% was the issue of responsibilities being given to Entities without adequate funding and this compromises the executive and Board team to deliver on their mandate and existing Annual Performance Plan (APP). This highlights the importance of adequate resources to enable the Boards to effectively execute their duties.
- Reference 6 which was: the Entity has effective Board and directing effective executive

(Sound leadership is in place) received coverage of 0.70%. This could mean that even though sound leadership was in place, it was not considered very crucial in ensuring effective corporate governance or that the respondents were not convinced that sound leadership was in place.

- The last reference was: when applying Board of Directors, they should be exposed or trained on corporate governance because they will be using the principles of corporate governance as their management tool or a blueprint in receiving the Board's SOE's. This reference was considered as being important to ensuring the effectiveness of the Boards with regards to good corporate governance with 1.27% coverage.

Auditing: Also with seven references was Auditing. Auditing is a requirement of King II and III. Auditing aids the principles of discipline, accountability and transparency. It was regarded by the researcher as one of the factors that facilitate effective corporate governance in SOEs.

- Their internal monitoring and evaluation is non-existent, which is why internal audits normally have findings received coverage of 0.60% from the respondents.
- Successive clean/unqualified audits were regarded as another requirement of good corporate governance with 0.65% coverage.
- Limited expertise available for audit committees. This reference received coverage of 0.75% either implying that it was of least importance or that the audit committees had enough required expertise.
- Focus on nomination and appointment of audit committee members had 0.56% coverage.
- Ineffective financial and auditing management acquired only 0.37% coverage which could mean that the respondents did not think that it was an important issue in the case of their Entities, or that they did not regard it as a positive factor of corporate governance.
- Reference 6: we have failed to attain a clean audit due to failure to achieve performance targets. Management and assets received high coverage from the respondents at 2.08% making it one of the two highly ranking factors of auditing. Reference 7 - 2.08% coverage.
- Also ranking high with regards to auditing was reference 7. Judging by the clean audit opinion sustained since 2000, I would say this is one fair and objective tester of where things are at in this particular Entity. This was, however, conflicting with reference 6 which stated that the sampled Entities had failed to attain a clean audit due to failure to achieve performance targets and management of assets.

The Committees: Committees rank as a second most important factor after governance, the Board and Auditing all receiving a high rating.

- Reference 1 in the case of committees was: limited expertise available for Audit Committees. As in the case of Auditing, this reference received coverage of 0.75% either implying that it was of least importance or that the Audit Committees had enough required expertise.
- Focus on nomination and appointment of Audit Committee members had 0.56% coverage in the case of committees just as it was in the case of the Audit Committee.
- The question of whether all relevant overseeing committees were in place received coverage of 0.65% as a factor for effective corporate governance in SOEs.
- Reference 4 was the issue of clearly defined charters and terms of reference for the Board and its committees. Delegation of authority is in place, independent members are appointed to strengthen skills of relevant sub-committees of the Board, declarations of interest are submitted and conflicts are managed well, clearly defined reporting lines and the Board remains independent of administrative matters. This reference ranked second with a coverage of 1.72% as a factor of effective corporate governance in the case of committees.
- The highest ranking reference in the case of committees was lack of understanding and appreciation of different roles between shareholders, Board of Directors and its various committees and management team. By implication this means that this was a hindrance to effective corporate governance and it needed urgent attention.

Management: Management is an important factor in ensuring practices of good corporate governance in SOEs. Figure 5.70 illustrates that management is one of the highest ranking factors of effective corporate governance in SOEs with a scoring of 4. This factor was made of the following references:

- With the lowest coverage of 0.37% was ineffective financial and auditing management. This could mean that the respondents did not regard this point as important to effective corporate governance by management or the Entities of the respondents did not have issues regarding ineffective financial and auditing management.
- Reference 2, when applying Board of Directors, they should be exposed to or trained on corporate governance because they will be using the principles of corporate governance as their management tool or a blueprint in receiving the Board's SOE's, was the highest ranking reference with coverage of 1.27%. The issue of training in corporate governance was regarded as crucial to management being able to adhere to the King

Code.

- Financial management and legal aspect of management acquired coverage of 0.61% making it the second least important of all the four references of management in ensuring good corporate governance in SOEs.
- The last point of management reference was appropriate skills or risk management frameworks which received coverage of 0.74% making it the second important management factor for effective corporate governance in SOEs.

Effectiveness: Effectiveness of the Boards, executives and employees was also measured as a factor of good corporate governance in SOEs.

- The Entity has effective Board and directing effective executive (Sound leadership is in place). These two references were considered second in importance with coverage of 0.70% as factors of effectiveness of the Boards, executives and employees.
- The respondents seemed to think that three year appointments were too short to really effect change as they did not allow enough time for them to see plans to execution and evaluation. This reference received the higher coverage of 2.08% where effectiveness was concerned.
- The reference of non-effective employees as a factor affecting corporate governance in SOEs was regarded as least important by the respondents with the coverage of 0.29% of the total of 3.07% for this factor.

Skills: Skills, with a total coverage of 4.94% were a positive factor contributing towards effective corporate governance in SOEs. This aspect was composed of the following four points of reference:

- Diversity in terms of relevant skills, independence of the Board and influence was the first and most highly ranking reference with a total coverage of 3.53%. The respondents seemed to think their independence was curbed by lack of relevant skills as well as political interference.
- The third and fourth references also related the appointment of people without relevant skills including risk management skills. These two points of reference together had coverage of 1.40%.

Clearly defined objectives: With coverage of 0.87% were complaints regarding unavailability of clearly defined strategic objectives. The respondents (0.26%) seemed to think that setting measurable strategic objectives would be a positive influence of corporate governance in SOEs. The biggest number of respondents (2.08%) thought that objective tester would help towards

effective corporate governance in SOEs.

Board Evaluation: With a total coverage of 1.65% of the positive factors for effective corporate governance in SOEs, was evaluation. This aspect did not seem to receive much attention as a factor of effective corporate governance. It was composed of three points of reference, the first two addressing the issue of regulation of Board evaluation (0.66% coverage) and the non-evaluation of Boards (0.2% coverage). The last reference with coverage of 0.79% was the importance of regular performance evaluation.

Executive appointments and effectiveness: This aspect of effective corporate governance addressed executive appointments as well as effectiveness of the executives. The respondents felt that reduction of political interference in terms of executive appointments and Board appointments which do not add value to service delivery, as well as appointment of competent and experienced CEOs and the entire executive of SOEs who are well versed in corporate governance, would have a positive influence on corporate governance in SOEs. These points of reference received 0.76% and 0.81% respectively. The last point of reference with regard to executives was the issue of ensuring that sound leadership was in place, with a coverage of 0.7%.

Performance: Performance with three points of reference was as a positive factor to corporate governance. Two issues came out strongly as affecting performance. The respondents felt that power & politics versus Board performance were making it hard for the Boards to perform optimally (2.08% coverage) resulting in some Boards failing to attain a clean audit due to failure in achieving performance targets, management and assets (2.08% coverage). The respondents also mentioned the importance of regular performance evaluations as one of the factors that would enhance performance (0.79% coverage).

Board Appointments: Under appointments as a positive factor of corporate governance, the respondents stated that three-year appointment contracts were impacting negatively on performance (2.08% coverage). With coverage of 1.03% was the importance of Provincial Government and respective departments adopting a long term and integrated approach in Board appointments. The last and least covered reference (0.76%) was the issue of political interference in terms of executive appointments and Board appointments which do not add value to service delivery.

Competent People: With coverage of 1.24% was the matter of independence which they thought would be aided by appointing competent people who understand the task at hand. Appointment of competent people at all levels would result in the upgrading of leadership (0.55% coverage). The respondents (0.92%) also touched on the remuneration of Board members which they felt did not match the skills and expertise that are required for the job. As a

result, it is difficult to retain highly qualified and experienced people.

Succession Planning: Concern over lack of succession policies leading to inadequate succession planning had a low coverage of 0.35%. The respondents seemed to think that if succession policies were in place they would facilitate succession planning which would in turn have positive effects on corporate governance.

Shareholder: The shareholder aspect of effective corporate governance had two references which were both accorded equal coverage of 0.81%. The respondents seemed to think that overlapping functions and objectives of shareholder department and political interference by the shareholders' representatives (MEC) were impacting negatively on corporate governance in SOEs. If these issues were addressed corporate governance in SOEs would improve.

Department/ Government: The respondents felt that corporate governance would improve if Provincial Government and respective departments adopted a long term and integrated approach in Board appointments (1.03% coverage). Sorting out the problem of overlapping functions and objectives of shareholder departments (0.81% coverage) could also turn this problem into a positive factor of good corporate governance.

Stakeholders: Just like institutional memory, this aspect of positive influence on corporate governance did not receive much coverage at a total of 1.47%. Bigger coverage of 0.91% went to mandate not sufficiently understood by external stakeholders (industry) and the remaining 0.56% coverage was accorded to Entities working closely with the stakeholder as per the stakeholder contract.

Processes of the Board: The processes of the Boards with respect to corporate governance got a total coverage of 1.32% with compulsory Board evaluations, more efficient process in removing and appointment of Board members getting more coverage of 1.05%. The remaining coverage of 0.27% went to lack of dispute resolution process. Apparently the processes of the Board left much to be desired and needed improvement.

Reporting lines: Clearly defined charters and terms of reference for Board and its committees, delegation of authority are in place, independent members are appointed to strengthen skills of relevant sub committees of the Board, declaration of interest are submitted and conflicts are managed well, clearly defined reporting lines and the Board remains independent of administrative matters as a reference of reporting, received coverage of 1.72%, topping poor sustainability and reporting by 1.33% at 0.39% coverage.

Institutional Memory: This aspect of positive influence on corporate governance did not receive much coverage at a total of 1.00%. The respondents did not seem to think that it had a big positive influence on corporate governance. The importance of institutional memory as crucial to sustainability got coverage of 0.34% and the remaining 0.66% was accorded to the

loss of institutional memory as impacting negatively on corporate governance.

Clarity of Roles: Clarity of roles also plays an important role in positive corporate governance. With coverage of 2.08% lack of understanding and appreciation of different roles between shareholders, Board of Directors and its various committees and management team was cited at reducing effectiveness. The respondents also thought that the Boards were active in playing the overseeing role (0.75% coverage).

Monitoring: Surprisingly, monitoring did not receive much coverage at 1.37%. Of this total coverage, non- existence of internal monitoring and evaluation received 0.66% and the suggestion that constant monitoring would help improve corporate governance had 0.77% coverage.

Capacity: The issue of training programmes to provide Board members with required capacity has been covered adequately in other aspects. Capacity as an aspect of positive corporate governance received coverage of 1.23% split between the two references as follows:

- All Directors provided capacity through the Institute of Directors had 0.76% coverage.
- The remaining 0.47% coverage went towards a structured capacity building programme for Directors.

Overseeing role: The overseeing role, when it comes to corporate governance matters, is played by the Board as already stated. On its own merit, this aspect of positive corporate governance had an overall coverage of 1.4% with the Board playing an overseeing role getting just 0.1% above availability of all overseeing committees at 0.65% coverage.

Relevant Legislation: Availability and strength of relevant legislation would be a positive factor in effective corporate governance. However, this aspect did not receive much coverage at 1.93%. Training for Board members received the lion's share of 1.27% coverage and the remaining 0.66% went towards the SOE being compliant with all relevant legislation.

Relevant Skills: Relevant skills as a positive factor to corporate governance received a total of 2.74% made up of the importance of diversity in terms of relevant skills and its impact on the independence of the Board at 2.08% coverage and appointment of people with relevant skills getting 0.66% coverage.

Independent Members: The reference of clearly defined charters and terms of reference for Board and its committees, delegation of authority are in place, independent members are appointed to strengthen skills of relevant sub committees of the Board, declarations of interest are submitted and conflicts are managed well, clearly defined reporting lines and the Board remains independent of administrative matters had a coverage of 1.72%, topping focus on nomination and appointment of audit committee members by 1.16% coverage.

Audit Committees: Audit committees are crucial for transparency and accountability. It was surprising that this aspect of corporate governance did not receive much coverage at only 1.31%. The respondents thought that limited expertise of audit committees did not have a great negative impact on corporate governance. They also accorded minimal coverage (0.56%) to nomination and appointment of Audit Committee members.

Clean Audit: The respondents shared that they had failed to attain a clean audit due to failure to achieve performance targets, management and assets (2.08% coverage), which conflicted with the second reference (also at 2.08% coverage), that the Entities or at least some of the Entities had achieved clean audit opinion sustained since 2000.

Training Programme and Tools: Training and capacity building programmes for Directors would be a positive factor to corporate governance. This aspect received a total coverage of 2.55%. Corporate governance training for Board Directors was deemed an important tool for improvement (1.27% coverage). The respondents (0.84% coverage) also complained that there were not enough tools in place to facilitate good corporate governance.

Efficiency: Efficiency as an aspect of positive impact on corporate governance was composed of two references, namely: Entrenchment of the King principles of good corporate governance and ensure that the organizational efficiency is not compromised by unnecessary conflicts and interference (2.08% coverage). With 1.05% coverage there was a suggestion that there should be compulsory Board evaluations and more efficient processes in appointing and removing Board members.

5.7.2.6 Negative factors to effective corporate governance in SOEs

The respondents were also asked to comment on factors that they regarded as having negative impact on corporate governance in SOEs. Several important factors emerged such as concerns about the Board itself, skills, support, the executives, and effectiveness of the board, and others that can impact negatively on corporate governance in SOEs.

5.7.2.7 Corporate Governance Compliance

Figure 5.71 is an illustration of the responses regarding the respondents' ratings of corporate governance compliance in their KZN-based SOE.

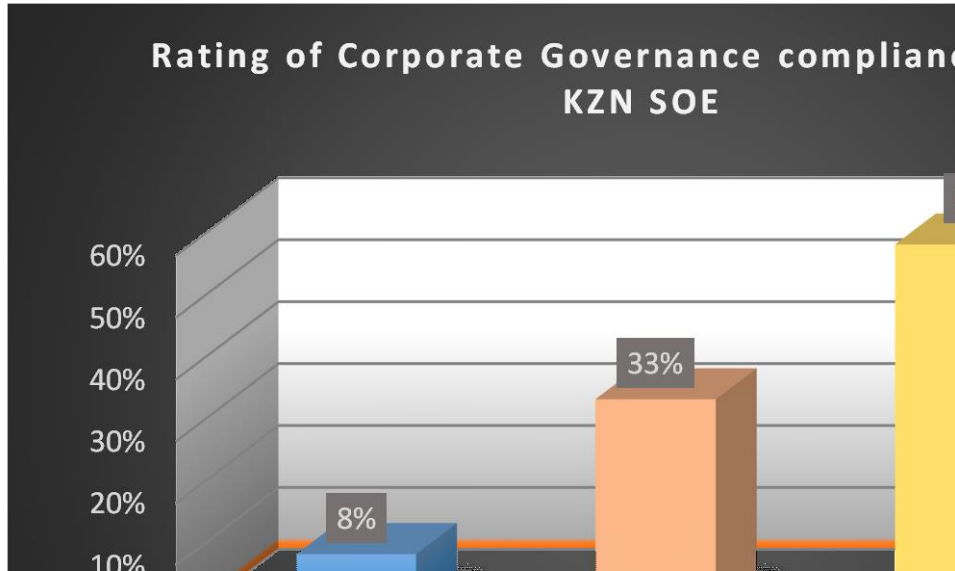


Figure 5.71: Ratings of corporate governance compliance in KZN-based SOE.

The majority of the respondents (58.0%) thought that their Entities were highly compliant at 80% – 100%. About a third of the respondents (33%) ranked the compliance of their Entities as moderate (between 50% and 79%). The remaining 9% of the respondents thought that their Entities were low in corporate governance compliance rating less than 49%.

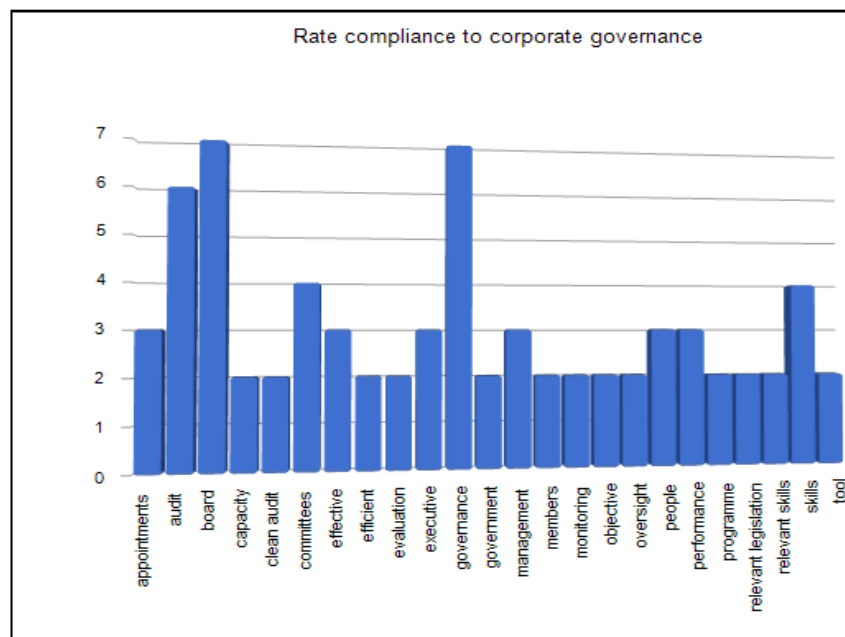


Figure 5.72 Rating of Corporate Governance compliance in own KZN SOE

Figure 5.72 is an illustration of the respondents' rating of their Entities compliance with corporate governance. It shows that the respondents thought that their Entities were highly compliant regarding the Board and governance, as they appeared 7 times. These two were closely followed by auditing which appeared 6 times. There was moderate compliance with regards to committees, skills, performance, people, management, executives, effectiveness and appointments. The remaining areas of compliance (capacity, clean audit, efficiency, evaluation, Government, members, monitoring, objectives, overseeing, programme, relevant legislation, relevant skills and tools) were reported as weak, having appeared twice only. The following subsections are used to elaborate further on the ratings of compliance with corporate governance.

Management skills amongst Board members: This factor of compliance was made up of the following references:

- Reference 2, when applying Board of Directors they should be exposed or trained on corporate governance because they will be using the principles of corporate governance as their management tool or a blueprint in receiving the Board's SOE's, was the highest ranking reference with a coverage of 1.69%. The issue of training in corporate governance was regarded as crucial to management being able to comply with the King Code.
- Appropriate skills or risk management frameworks which received a coverage of 0.98% making it the second important compliance point of reference under the factor of management.
- Financial management and legal aspect of management acquired a coverage of 0.82% making it the second least important of all the three references of management as a compliance factor.

Monitoring: As it was in the case of positive factors for effective corporate governance, monitoring did not receive much coverage at 1.83%. Of this total coverage, non-existent internal monitoring and evaluation received 0.8% and the suggestion that constant monitoring would help improve corporate governance had a higher 1.03% coverage.

Objective: With coverage of 0.34% were complaints regarding unavailability of clearly defined strategic objectives. The respondents (2.78%) seemed to think that setting measurable strategic objectives would be a positive influence of corporate governance in SOEs. Some respondents seemed to think that clear and measurable strategic objectives had helped their Entities get clean audit since 2000.

Overseeing role: On its own merit, this aspect of corporate governance compliance received

an overall coverage of 1.85%. The bigger coverage of 0.99% went to the Board playing an overseeing role and the remaining 0.86% coverage was accorded availability of all overseeing committees.

Competent People: Appointment of competent people at all levels would result in the upgrading of leadership (2.39% coverage). The respondents (1.23%) also touched on remuneration of Board members which they felt did not match the skills and expertise that are required for the job. As a result it is difficult to retain highly qualified and experienced people.

Performance: With three points of reference was performance as a positive factor to corporate governance. Two issues came out strongly as affecting performance. The respondents felt that power and politics versus Board performance were making it hard for the Boards to perform optimally (2.78% coverage), resulting in some Boards failing to attain a clean audit due to failure to achieve performance targets, management and assets (2.78% coverage). The respondents also mentioned the importance of regular performance evaluations as one of the factors that would enhance performance (1.05% coverage).

Training and capacity building, programmes and tools: Training and capacity building programmes for Directors were also seen as an important compliance factor. This aspect received total coverage of 3.41% coverage. Of this total average, training and mentorship came top with 2.78% coverage and structure capacity building for Directors came second with a minimal 0.63% coverage. With a coverage of 1.69%, corporate governance training for Board Directors was deemed an important tool for improvement. As already stated, respondents (1.11% coverage) further complained about the shortage of tools to facilitate good corporate governance.

Relevant legislation: Relevant legislation was not deemed very important with a total coverage of 2.75% as important, as expected. The respondents from TKZN accorded importance of legislation to compliance coverage of 0.88% and the rest of the respondents thought that their Entities were 1.69% compliant with training of Board members on relevant legislation.

Skills: With the total coverage of 4.94% were skills a positive factor contributing towards effective corporate governance in SOEs. This aspect was composed of the following four points of reference:

- Diversity in terms of relevant skills, independence of the Board and influence, were the first and most highly ranking reference with a total coverage of 4.72%. The respondents seemed to think their independence was curbed by lack of relevant skills as well as political interference.
- Appointment of people without relevant skills, including risk management skills together had coverage of 1.86%.

5.7.2.8 Challenges faced by Boards of SOEs concerning corporate governance

SOEs just like all other organisations do have challenges that they face especially caused by the volatility of the environments in which they operate. The respondents were asked to mention challenges that the SOEs that they serve were facing. Factors like the Board itself, executives, lack of resources, political interference, management, appointments, mandates and shareholders were among the biggest challenges faced by Boards in SOEs concerning corporate governance.

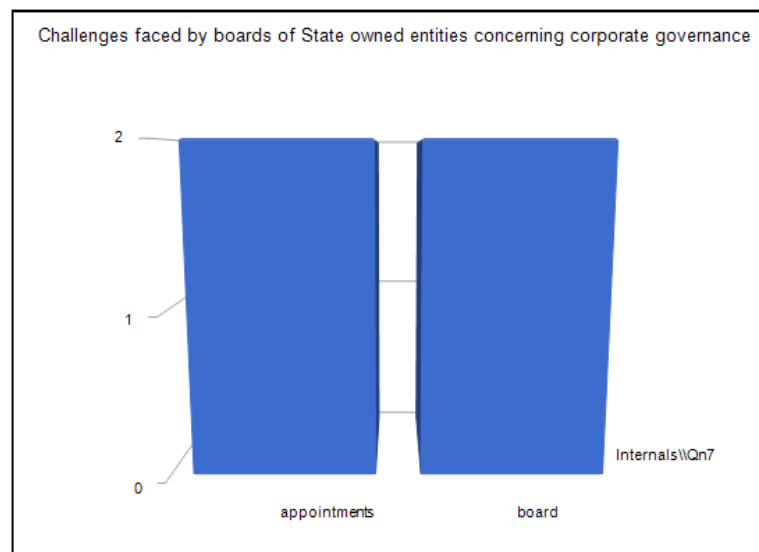


Figure 5.73 Challenges faced by Boards of SOEs

Figure 5.73 highlights main themes emerging as Board appointments and Boards' performance as two of the biggest challenges. These two challenges were accorded almost equal weighting of 11.35% and 12.84% respectively.

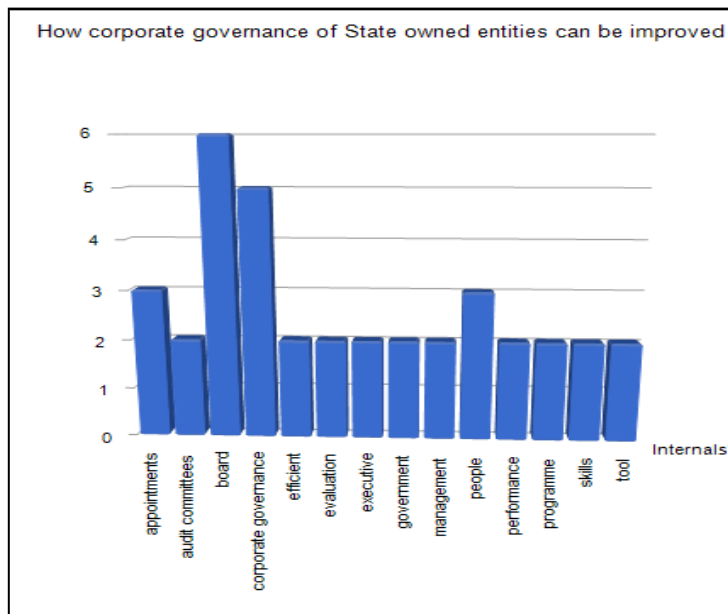
Board appointments: Appointments were composed of two references that have been discussed before. That of the shortage of the three-year contracts given to Board members to be able to effect change (8.33% coverage) and political interference in the appointment of executives and Board members who do not add value to service delivery (3.02% coverage).

Boards' performance: The question of the Boards as adding to the challenges in SOEs was again made of Power and Politics vs. Board performance with coverage of 8.33% and instances where responsibilities are given to Boards and Entities, inadequate funding which compromised the Executive and Board team's ability to deliver on their mandate and existing annual performance plans.

5.11.2.7 How corporate governance in SOEs can be improved

Improvement is part of growth in learning organisations. It is an ideal for all organisations that want to create and sustain a competitive advantage. The researcher wanted to establish from the respondents their thoughts about what could be done to improve corporate governance in SOEs. Figure 5.74 reflects their responses and the weighting awarded to each through the number of respondents that mentioned these factors.

Figure 5.74 How Corporate Governance in SOEs can be improved



The functioning of the Board: The Board came first as a statute that could improve corporate governance in SOEs with the total of six mentions by the respondents. The Board as an aspect that could facilitate improvement of corporate governance was composed of the following six references:

- With the highest coverage of 4.17% was Power and politics vs. Board performance. The respondents seemed to believe that limits to political interference could help improve Board performance.
- The second most important reference cited by the respondents was consideration of international Board practices and regulations which received coverage of 2.79%.
- With the coverage of 2.07% was reference 1, Provincial Government and respective departments to adopt a long term and integrated approach in Board appointments. This means that the respondents believed that corporate governance could be improved if provincial Governments came up with long term integrated approaches to the appointment of Board members.
- The respondents also seemed to think that regulation of Board evaluation could help

improve corporate governance in SOEs. This reference even though not ranking high, received a significant coverage of 1.33%.

- Training and development of Board Directors was also cited by the respondents as another factor that could help improve the performance of the Board in matters of corporate governance. This reference received coverage of 2.54% from the respondents. They felt that exposing Board of Directors to be trained on corporate governance and its principles would serve as a blueprint for Boards in SOEs.
- The last aspect of the Board that could improve corporate governance was the issue of Entities being given responsibilities without adequate funding and this compromises the executive and Board team to deliver on their mandate and existing annual performance plan. This reference received significant coverage of 2.25%.

Understanding of Corporate Governance: Corporate governance itself was also cited as another aspect of improving corporate governance in SOEs. This aspect of improvement was composed of the following five references:

- Highest on the list of references to improvement of corporate governance in SOEs was the issue of entrenching the King principles of good corporate governance and ensuring that the organizational efficiency is not compromised by unnecessary conflicts and interference. This reference received the coverage of 4.17%.
- Coming second in order of importance with regards to improving corporate governance was the exposure on appointment of Board Directors to training in corporate governance because they will be using the principles of corporate governance as their management tool or a blueprint in receiving the Boards in SOEs. This reference received coverage of 2.54%.
- Reference 3 addressed the issue of appointment of competent and experience CEO's and the entire executive for SOE who are well vested with corporate governance important to improving corporate governance in SOEs. This reference got coverage of 1.62% falling third as important aspect of improving corporate governance.
- Compulsory training for all Board members on corporate governance received coverage of 1.41% becoming the second least important aspect of improvement with regards to corporate governance itself.
- With coverage of 0.80% the issue of Board members receiving continuous training in corporate governance seemed to be the least important of all the references. There is no need for continuous training of practitioners if there are no new additions to corporate governance.

Competent people/employees: People were also regarded as crucial to improvement of corporate governance in SOEs. People in this case referred to employees. This aspect of improvement of corporate governance was made of the following three references:

- With the lowest coverage of 1.09% was the issue of appointment of competent people at all levels, which would result in the upgrading of leadership. This reference received some measure of importance, but not as much as the following two references.
- The respondents felt that the remuneration of Boards does not match the skills and expertise that are required for the job and as a result it is difficult to retain highly qualified and experienced people. This reference had a coverage of 1.85%, ranking as second after the appointment of competent people.
- The respondents felt that independence as a principle of corporate governance could be enhanced by competence and understanding of the job at hand. This reference received the highest attention of the respondents at 2.49% coverage.

Appointment of Board members: This aspect of corporate governance improvement was composed of the following three references:

- Rated highest with coverage of 4.17% was the fact that three-year appointment contracts were too short to really effect change.
- This second reference of appointments was the need for Provincial Government and respective departments to adopt a long term and integrated approach in Board appointments. This reference of appointments had 2.07% coverage coming second after short three-year contracts.
- The reference of appointments that received the lowest coverage of 1.52% was the issue of political interference in terms of executive appointments and Board appointments which do not add value to service delivery.

Audit Committees: The respondents did not seem to think that there were major issues regarding the Audit Committees of the sampled SOEs. This aspect of improvement of corporate governance was composed of two references. The first reference related to limited expertise of the Audit Committees with 1.49% coverage and the second reference with a coverage of 1.12% pertained to nominations and appointments of Audit Committee members.

Organizational Efficiency: The respondents seemed to think that entrenching the King principles of good corporate governance and ensuring that the organizational efficiency is not compromised by unnecessary conflicts and interference would help facilitate efficiency and improve corporate governance. This reference received coverage of 4.17% making it the most important reference of efficiency in SOEs. Coming second and last with coverage of 2.09% was

the importance of compulsory Board evaluations and efficiency in processes of appointment and removal of Board members.

Performance and Board Evaluation: Regular performance evaluations were awarded total coverage of 2.91% making them less important to improvement of corporate governance in the opinions of the respondents. Performance is very important in SOEs because it is linked to service delivery as well as compliance with rules, regulations and policies. The respondents seemed to think that performance of Boards of SOEs with regards to corporate governance could be improved by reduction of power and political interference. This reference received coverage of 4.17% making it one of the most notorious stumbling blocks to performance and improvement of corporate governance in SOEs. The respondents also felt that regular performance evaluation (with coverage of 1.58%) could help improve corporate governance in SOEs.

Executive competency: The issue of executives did not get much coverage with the total of 3.13%. Complaints about political interference in appointment of Board members who do not add value to service delivery surfaced with coverage of 1.51%. The respondents also thought that corporate governance could be improved by appointing competent, experienced CEOs and the entire executive for SOE who are well vested with corporate governance. This reference of executives as important to improvement of corporate governance in SOEs received coverage of 1.62%.

Role of Government: Government plays a crucial role in improvement of corporate governance in SOEs. The respondents seemed to think that Provincial Government and respective departments should adopt a long term and integrated approach in Board appointments (2.07% coverage), and that Government tends to keep more employees than needed due to the dire needs for job creation (2.48% coverage).

Management skills of Board members: Management as important in improving corporate governance in SOEs received a total coverage of 4.01% split between training of Directors in corporate governance, because they would be using the principles of corporate governance as their management tool or a blueprint in receiving the Boards' SOEs (2.54%) and acquisition of appropriate risk management skills at 1.47% coverage.

Skills and training Programme: With two references, programmes of training and development received coverage of 3.11% making it an important aspect of corporate governance improvement in SOEs. The respondents felt that corporate governance in SOEs could be improved by exposing Directors to its training, because they would be using the principles of corporate governance as their management tool or a blueprint in receiving the Board's SOEs. This reference received coverage of 4.21% making it the only and most highly

ranked reference under tools for improvement of corporate governance. Appropriate skills were regarded as important with coverage of 2.79%. The respondents also felt that the skills of the Boards, management and people should include Risk Management skills.

5.8 DATA ANALYSIS: DOCUMENT ANALYSIS

The following Table 5.43 provides an outline of the Schedule Three SOEs whose Annual Reports were analysed for verification and further clarification of matters that emerged from the quantitative data analysis.

Table 5.43: SOEs whose Annual Reports were analysed

NAME OF THE SOE	CATEGORY/ CLASSIFICATION OF THE SOE (as listed in Treasury website)	PERIOD OF THE ANNUAL REPORTS ANALYSED (latest available online)
Isimangaliso Wetland Park	Part A: National Public Entities	2013/2014
Ingonyama Trust Board	Part A: National Public Entities	2013/2014
Umgeni Water	Part B: National Government Business Enterprises	2013/2014
Dube Trade Port Corporation	Part C: Provincial Public Entities	2013/2014
Amafa KwaZulu-Natal/ Heritage KZN	Part C: Provincial Public Entities	2012/2013
KZN Sharks Board	Part C: Provincial Public Entities	2012/2013
Trade and Investment KZN	Part C: Provincial Public Entities	2013/2014
KZN Tourism Authority	Part C: Provincial Public Entities	2013/2014
KZN Nature Conservation Board (trading as Ezemvelo KZN Wildlife)	Part C: Provincial Public Entities	2012/2013
Ithala Development Finance Corporation	Part D: Provincial Government Business Enterprises	2012/2013
Richards Bay Industrial Development Zone Company SOC Ltd	Part D: Provincial Government Business Enterprises	2013/2014

The research had determined that there were 28 SOEs in KZN that are categorised as Scheduled 3 SOEs, therefore targeting 11 SOEs on which to conduct Document Analysis would translate to 39% of the total targeted population. The researcher ensured that there is an adequate spread across the different classifications of these Schedule Three SOEs, taking into account the number of SOEs in each cluster/ classification, as described in Chapter 1. The researcher also ensured that all categories /parts were represented given that other targeted participants, e.g. Part A SOEs, had not responded to the quantitative survey; therefore the researcher ensured that these were included amongst SOEs whose published Annual Reports were analysed.

The following Table 5.44 presents a synopsis of what emerged in the analysis of the Governance Report section that was analysed and compared with other SOEs within the same Cluster or Classification. This was aimed at providing responses to the Research Question 3: What is the extent to which effective corporate governance is practiced amongst the different categories of the Schedule Three SOEs? As stated above, focus was mainly on the Corporate Governance Reports as published by each of the SOEs that were part of the sample. The generic areas covered in analysing each of the reports are as per Appendix H:

Table 5.44: Summarised Results from the Document analysis (Details in Appendix I)

See Abbreviated results below

	IWB	ITB	UWB	DT Po	A-KZN	KZN SB	TIB KZN	KZN TA	KZN EZ	Ithala	RB ZONE
Is the Corporate Governance Report included in the Annual report	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
Board Responsibilities	Yes	No	Yes	Yes	No	Yes	Yes	No	Yes	Yes	Yes
Chairperson's responsibilities	No	No	No	Yes	No	Yes	No	No	No	Yes	No
CEO's responsibilities	Yes	No	No	Yes	No	No	No	No	No	No	No
Company Secretary	No	No	Yes	Yes	No	No	Yes	No	No	Yes	Yes
Delegations of Authority	No	No	Yes	Yes	No	Yes	No	No	No	No	No
Board Evaluations	No	No	No	Yes	No	No	No	No	No	Yes	No
Declarations of Interest	No	No	No	Yes	No	No	No	No	No	Yes	Yes
Attendance at Board Meetings and/or frequency	No	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
Attendance at Board Committee meetings	Yes, Audit Committee	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
Internal Control	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Internal Audit	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes
External Audit and Compliance	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Risk Management	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Sustainability Reporting	Yes	No	Yes	No	No	No	Yes	No	Yes	Yes	Yes
Disclosure of Board Remuneration	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
TOTAL AREAS OF COMPLIANCE	9	8	12	15	5	10	11	8	10	14	12

The above analysis indicates the level of compliance to corporate governance by the SOEs, as analysed using their published Annual Reports

Corporate Governance Report inclusion in the Annual Report: 10 out of 11 Companies included the Corporate Governance Report in the Annual Reporting, which formed 90.9% of the total sample analysed. Level of compliance was found to be high in all categories from Parts A to D.

Board Responsibilities: 8 out of 11 Entities outlined the responsibilities of the Board in their Annual Reporting, which made up 72.7% of the total sample analysed. Level of compliance was found to be high in all categories from Parts A to D.

Chairperson’s Responsibilities: 3 out of 11 Entities provided the responsibilities of the Board Chairperson, which formed 27.3% of the sample analysed. Two of the SOEs that complied were in Part C, and the other one was in Part D. None of the SOEs in Parts A and B complied.

CEO’s Responsibilities: 2 out of 11 Entities provided the responsibilities of the CEO, which is 18.2% of the sample analysed. One SOE in Part A and one in Part C complied but none in Parts B and D complied.

Details regarding Company Secretary: 5 out of 11 Entities provided details regarding their Company Secretary, which makes up 45.5% of the sample analysed. One SOE in Part B, two in Part C and two in Part D complied but none complied in Part A.

Delegations of Authority: 3 out of 11 Entities provided information on their Delegations of Authority in the Annual Report, which forms 27.3% of the analysed sample. One SOE in Part B and two in Part C complied. None in Parts A and D complied.

Board Evaluations: 2 out of 11 Entities provided information in the Annual report of whether Boards have gone through evaluations, which makes up 18% of the sample. One SOE in Part C and one in Part D complied but none in Parts A and B complied.

Declarations of interest: 3 out of 11 Entities provided information on declaration of interest by the Board of Directors, which makes up 27.3% of the sample. One SOE in Part C and two in Part D complied, whereas none in Part A and B complied.

Attendance of Board meetings and frequency thereof: 9 out of 11 Entities provided information on attendance of Board meetings and the frequency thereof, which makes up 81.8% of the sample analysed. Level of compliance was high in all categories from Parts A to D. One non-compliance each was in Parts A and C.

Attendance of Board Committee meetings: 10 out of 11 Entities reported on attendance of Board Committee meetings; which make up 90.9% of the sample analysed. Level of compliance was high in all categories from Parts A to D and one non-compliance was in Part A.

Internal Control: 10 out of 11 Entities reported on Internal Control mechanisms that they have in place, which makes up 90.9% of the sample analysed. Level of compliance was high across all categories from Parts A to D; the one non-compliance was in Part A.

Internal Audit: 10 out of 11 Entities reported on Internal Audit undertaken within the Entity, which made up 90.9% of the sample analysed. Level of compliance was high in all categories from Parts A to D; the one non-compliance was in Part C.

External Audit and Compliance: 11 out of 11 Entities reported on external audit conducted in the Entity, which makes up 100% of the sample analysed. All SOEs in all categories complied with this corporate governance requirement.

Risk Management: 11 out of 11 Entities reported on risk management conducted in the Entity, which made up 100% of the sample analysed. All SOEs in all categories complied with this corporate governance requirement.

Sustainability Reporting: 6 out of 11 Entities provided the sustainability report, reflecting environmental, social and economic issues affecting or that have implications on the Entity, and how they deal with those factors, which makes up 54.5% of the sample analysed. Non-compliance was in one Part A SOE, and four Part C SOEs.

Disclosure of Board remuneration: 11 out of 11 Entities disclosed information on Board remuneration, which came as part of the Annual Financial Statement. This made up 100% of the sample analysed. All SOEs complied with this corporate governance requirement.

5.8.1 Compliance per Category: Parts A – D SOEs

This data analysis looked at whether SOEs publicly disclosed required corporate governance information when they published their Annual Reports. 2 SOEs from Category A, 1 from Category B, 6 from Category C and 2 from Category D were analysed and a comparison of responses did not seem to be related to which category the SOE belonged. Also, the level of compliance did not seem to be dependent on the category under which an SOE is classified, in terms of these areas:

- Inclusion of the corporate governance in the Annual Report
- Board responsibilities
- Attendance of Board meetings and frequency thereof
- Attendance of Board Committee meetings
- Internal Control
- External audit and compliance
- Risk management and sustainability reporting
- Disclosure of Board remuneration

The level of compliance with the provisions of corporate governance, as tested in the sample, ranged from compliance with a minimum of 5 to a maximum of 15 out of 16 areas analysed. The average level of compliance calculated, based on the total number of areas of compliance for all 11 SOEs that were part of the sample, was found to be 10.4, which translates to 65% average level of compliance.

The findings indicated the following areas of concern with regard to the corporate governance compliance requirements:

- Chairperson's responsibilities where Parts A and B SOEs analyzed did not comply. Chairperson has specific responsibilities to lead the Board and failure to comply in terms of reporting is an area of concern.
- CEO's responsibilities where Parts B and D SOEs analyzed did not comply, but also SOEs in Part C, had a very low level of compliance.
- Details regarding company secretary, where Part A SOEs analyzed did not comply with this requirement, but also there was a low level of compliance in Part C SOEs.
- Delegations of Authority, where Parts A and D SOEs analyzed did not comply with the requirements, but also there was a low level of compliance in Part C SOEs.
- Board Evaluations, where Parts A and B SOEs analyzed did not comply with the requirement, but also there was a low level of compliance in Part C SOEs.
- Declaration of interest, where none of the SOEs that were analyzed from Parts A and B complied, but also there was a low level of compliance in Part C SOEs.

5.9 CONCLUSION

Data collected from the respondents who formed the sample of the study was presented in this chapter using quantitative tools such as Tables and graphs. Data was, however, analyzed but not interpreted as the title of the chapter suggests. There were many cases where the researcher used cross-tabulation, as it was relevant to the research objectives, and gave better context to the responses provided by the respondents. The researcher will use Chapter Six for interpretation

and analysis also using quantitative tools and techniques. As stated during the data presentation, in certain cases there were no responses and in the chapter that follows, the researcher will be able to analyze and interpret statistics that are available. The researcher also included data from the results of the qualitative research that was conducted using interviews and also document analysis based on officially published Annual Reports where corporate governance compliance was reported by the SOEs. The results of the quantitative research conducted through questionnaires indicated a high level of compliance, whereas from the analysis of Annual reports, the level of compliance seemed to be lower in some of the required corporate governance areas.

CHAPTER 6: DATA ANALYSIS AND INTERPRETATION

6.1 INTRODUCTION

This chapter is aimed at making an assessment about the consistency of data collected during the study and the literature that was consulted to contextualize the study. The researcher will use this chapter to assess the findings against set research objectives aimed at satisfying the requirements of the research questions and addressing the research problem. As is expected this chapter builds from Chapter 5, which was used to present quantitative and qualitative data collected for this study. Inferential statistics seek to establish general patterns, correlations, deviations and explain regressions about the population by studying and explaining the results obtained from the selected sample. The researcher will then use information to determine if it supports the research questions and if it correlates to literature reviewed.

As stated in Chapter 1, this study was aimed at exploring critical factors that contribute to effective corporate governance practiced by the Schedule Three SOEs in KZN, in order to establish an understanding of and recommend strategies to improve corporate governance of these Schedule Three SOEs in KZN. This research used the following objectives to steer the study towards the attainment of this main aim:

- To identify internal and external factors contributing to the understanding of corporate governance practice of Schedule Three SOEs.
- To evaluate the level of awareness and knowledge about corporate governance practices among the different categories of Schedule Three SOEs.
- To examine the extent to which the different categories of Schedule Three SOEs comply with the provisions for corporate governance.
- To recommend strategies for improvement of corporate governance practices within Schedule Three SOEs in KZN.

Chapter 6 follows the same format as Chapter 5 for consistency purposes and to aid understanding and avoid confusion.

6.2 FACTORS AFFECTING EFFECTIVE CORPORATE GOVERNANCE PRACTICES

This section further analyses in detail the biographical data of respondents, looking at their personal profiles, background experience, training including on corporate governance, number of boards they serve in, who determines policies, who appoints board members, type of representation in boards, number of meetings held per year, number of board committees; and looks in detail at how these board committees function. This information is important to determine whether SOEs and those that serve in them are able to practice effective corporate governance through those who drive them, and how they are constituted in line with King's codes. It was important to establish the demographics of the participants in order to determine representivity as well as develop an understanding of the majority views of the participants from which data was collected and whose responses were used to arrive at the conclusions regarding the objectives of the study.

As stated in Chapter 5, the board of directors has an overseeing fiduciary role in all the entities being studied to ensure compliance, good governance, sustainability of the Entity and to reduce the possibility of principal-agency problems. Gumede (2012, p10) posits that the boards are “at the heart of corporate governance” in both private and State-owned enterprises. The actions of the board should therefore be in accordance with the principles of good corporate governance. The board should demonstrate responsibility, accountability and transparency in all its dealings. The study used the questions that follow to establish if the activities of the board were compliant. Uhrig (2003, p27), as cited in Chapter 2, states that the board is accountable to the shareholders, while the Business RoundTable (2012, p.5) emphasizes the importance of clear understanding of the roles and responsibilities of the Board in order for any Entity to be effective in matters of corporate governance compliance. The duties and responsibilities of the Board were outlined in chapter 2. In this section, the researcher wanted to verify actual performance in comparison with expectations.

6.2.1 Gender and Race

As shown in Chapter 5, the majority of the respondents was male and only about a third was female. It was noted that there were less females serving as Board members; sitting at 34%. This could be indicative of the challenge that South Africa, as a country, has faced for decades, where most of the jobs and especially senior positions in Government were occupied by males. Further analysis indicated that 19% of these females serve in 2 – 3 different companies, as board members.

The situation has changed dramatically with regard to race because the researcher found that more than two-thirds of respondents were Africans, with White respondents accounting for only about a one-sixth. The other demographic groups were indicative of the demographics of the country.

6.2.2 Age and Qualifications

It was of concern that 40% of the respondents were aging Board members or employees between 51 and 65 years of age, with only 3.0% between 20 and 30 years. It seems that the Entities were not doing enough to introduce the youth into leadership. With regards to qualifications, the researcher found that the situation was acceptable with only a fifth of the respondents possessing undergraduate qualifications. This means that the level of education in all the Entities was good. If the level of education is good, the implication is that the Board members or employees will be in a position to understand the policies in general and corporate governance in particular.

It however was noted that more females, 11%, had an Accounting or Finance profession, compared to 3% of the males. This is important especially because it has been noted that females serving as board members, form a smaller percentage when compared to males.

6.2.3 Job category

Almost all the respondents at 98% were in positions of responsibility (Board members, Executive Managers of Entities and Managers in Government departments), which means that they were in a better position to give the responses that the researcher needed in order to satisfy the objectives of the study. The majority of these respondents (54%) were, however, least experienced (1-5 years of experience in their current portfolios), which meant that it was impossible for them to give comparative data and that their level of confidence in executing their duties may not have been advanced. Only about a fifth of them were seasoned in their current portfolios (with over 11 years of experience).

6.2.4 Background experience and training in corporate governance

The background experience of the respondents would give an indication of leadership and management exposure prior to the current positions that the respondent holds. More leadership and management experience would mean that they would have had some exposure to corporate governance, either ensuring compliance or implementation of the principles of corporate governance. Almost half of the respondents (44%) had business executive and legal backgrounds and the majority of them (71%) had received training in corporate governance either at university (25%) or when they entered their current portfolios (46%). As advised by King (2009, p.5) in Chapter 2, this proportion of the respondents had a good understanding of

the importance of compliance and possible sanctions for non-compliance. The researcher found it concerning that a significant 29% had received no formally structured training in corporate governance.

6.2.5 Indicate your major background experience

When the researcher cross-tabulated the major background experience by the gender of the respondents, it was clear that the executive positions in South Africa were still in the hands of men, as women accounted for only 4.8% as opposed to 22.2% men. It was interesting though to note that all the respondents with legal background (3.2%) were women.

6.2.6 Indicate category of your Entity or department

The researcher also noted with interest that all the respondents working for National Government departments and Provincial Government departments were men and that the majority of respondents working for National Public Entities and Provincial Public Entities were also men at 60.9% as opposed to 34.4% women, as indicated in Table 5.4 of chapter 5.

6.2.7 Who has the greatest influence over the policies of your Entity?

It was not surprising that an overwhelming majority (72.0%) revealed that the Board had the greatest influence over the policies of their Entities because the development of policies and adherence to the principles of corporate governance are mainly the function of the Board, as stated by Uhrig (2003, p27) and Business RoundTable (2012, p.6) in Chapter 2 of this study.

Table 6.1: Who has the greatest influence over the policies of your Entity?

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	21.178 ^a	9	.012
Likelihood Ratio	21.534	9	.010
Linear-by-Linear Association	.395	1	.530
No. of Valid Cases	54		

a. 13 cells (81.3%) have expected count less than 5. The minimum expected count is .07.

The researcher expected that some of the respondents (28%) would not have a clear understanding in this regard especially because of their level of training and years of experience in their current Entities. The two variables used in this case as shown in Table 6.1 were “who

has the greatest influence over the policies of your Entity, by years of experience in the current portfolio”. The researcher wanted to test if there was a significant association between these two variables. The reason for using these two variables was that the more experienced the respondents, the better the knowledge and understanding of policies and processes. The Pearson value of 0.012 is less than the significant level of correlation (0.07), which then means that there is was no significant relationship between the years of experience in the current portfolio and the answers of the respondents regarding who has the greatest influence over the policies of their Entities.

6.2.8 Indicate what form of structured training on Corporate Governance you have had.

As indicated in Figure 5.11 of Chapter 5, 92.2% of the respondents stated that their Entities provided structured corporate governance training opportunities for newly appointed Directors, with another 7.8% choosing not to commit themselves either because they were not sure or they did not think that such opportunities were provided by their Entities.

The researcher decided to use linear-by-linear association (Cohen, 2008) in this case to test for the trend of the respondents regarding the form of structured training received in corporate governance crossed by years of experience in current portfolio. In this case, as illustrated in Table 6.2, the observed frequency was 0.07 which was less than the expected frequency 0.26. The researcher can then conclude that there was a significant relationship between the responses of the sample regarding the formal training in corporate governance and years of experience in current portfolio.

Table 6.2: Indicate what form of structured training on Corporate Governance you have had

Chi-Square Tests			
	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	17.154 ^a	9	.046
Likelihood Ratio	20.372	9	.016
Linear-by-Linear Association	3.281	1	.070
No. of Valid Cases	54		
a. 12 cells (75.0%) have expected count less than 5. The minimum expected count is .26.			

6.2.9 Who has the strongest voice in the selection and appointment of Board members?

There was unanimous agreement among the respondents falling within all the portfolio of experience categories that the Government department had the strongest voice in the appointment of Board members. Witherell (2005, p.90), in Chapter 2, warns against lack of transparency and political interference in Board nomination processes as they lead to weaker and ineffective Boards. *King III* Principle 2.19 states that the composition of the Board is the responsibility of the shareholders who have to ensure that their interests are in the hands of skilled and ethical Board members (Deloitte 2013, p16). Data collected for this study seems to indicate that the Government department had the strongest voice in the appointment of Board members in SOEs.

Table 6.3: Who has the strongest voice in the selection and appointment of Board members

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	2.649 ^a	3	.449
Likelihood Ratio	2.611	3	.455
Linear-by-Linear Association	.135	1	.713
No. of Valid Cases	54		
a. 5 cells (62.5%) have expected count less than 5. The minimum expected count is .04.			

Using the likelihood ratio of the responses regarding the question of who has the strongest voice in the selection and appointment of Board members crossed by years of experience in current portfolio in Table 6.3, the researcher found that 0.455 (observed frequency) was greater than 0.04 (expected frequency). This means that H₀ of “there is no significant relationship between the responses of the participants regarding who has the strongest voice in the selection and appointment of Board members and by years of experience in current portfolio”, can be rejected as this test proved that there was a significant relationship.

6.2.10 Who has greatest influence over the policies of your Entity?

This is to be expected as literature states that compliance is supposed to take place and facilitated within the “context of leadership and sound governance principles” and that the

Board is tasked with the responsibility to ensure that the company complies with “applicable laws and rules” (PWC, 2012, p.3).

Table 6.4: Who has the greatest influence over the policies of your Entity?

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	21.178 ^a	9	.012
Likelihood Ratio	21.534	9	.010
Linear-by-Linear Association	.395	1	.530
No. of Valid Cases	54		
a. 13 cells (81.3%) have expected count less than 5. The minimum expected count is .07.			

6.2.10 Audit Committee

As stated in the literature review, auditing is another very important requirement of good corporate governance because it limits the risk of the principle-agency problem by making sure that the actions and transactions of the Board are transparent and also by holding the Board to account. All of the respondents agreed that the Boards of their Entities included the Audit Committee. The linear-by-linear association as shown in Table 6.5 is 0.609 is above the expected value of 0.37. Based on this, the researcher can reject H₀ and accept the alternative hypothesis that the Audit Committee has written terms of reference specifying roles and responsibilities of the committee. However, in terms of the chi-square value which is 0.068 and below the expected value, the null hypothesis can be accepted that the Audit Committee does not have written terms of reference specifying the roles and responsibilities of the audit committee.

Table 6.5 The Audit Committee has written terms of reference

Chi-Square Tests			
	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	11.722 ^a	6	.068
Likelihood Ratio	14.718	6	.023
Linear-by-Linear Association	.262	1	.609

No. of Valid Cases	54		
a. 7 cells (58.3%) have expected count less than 5. The minimum expected count is .37.			

Regarding the questions of whether the Audit Committees had written terms of reference specifying the role and responsibilities of the committee, the majority (85%) of the respondents concurred, which to the research was a good indication because the Audit Committees have a role of holding the Board to account regarding issues of corporate governance. It was pleasing to find that all the respondents (100%) across experienced groups strongly agreed that the Audit Committees of the Boards of their Entities were comprised of a majority of non-executive Directors. The implication was that the Boards tried hard to adhere to the stipulations of the code of conduct and principles of corporate governance.

The majority (82.3%) of the respondents remained non-committal on the question of whether the chairpersons of the Audit Committees were independent non-executive Directors and not chairpersons of the Board. This was not a good indicator, because by implication the majority of the respondents did not agree, which could mean that it was not the case. Thus, while the Boards were trying to adhere to the code of practice in some areas of their responsibility, they seemed to be failing in other areas. Clearly, all the members of the Audit Committee have to be financially literate. It was concerning that only about half (51.9%) of the respondents thought that the members of the Audit Committee were financially literate with the rest deciding to be silent or refute the statement.

Table 6.6 Financial literacy of the Audit Committee members

Chi-Square Tests			
	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	13.097 ^a	9	.158
Likelihood Ratio	17.328	9	.044
Linear-by-Linear Association	.418	1	.518
No. of Valid Cases	54		
a. 13 cells (81.3%) have expected count less than 5. The minimum expected count is .22.			

In this regard the observed value of the chi-square at 0.158 was lower than the expected value of 0.22 as illustrated in Table 6.6. Obviously, an Audit Committee that is not financially literate would not be effective in executing its job especially since Leblanc (2007) argues that members of the Audit Committee should understand management's choices and the implications for financial manipulation. The Audit Committees seemed to be adhering to holding regular meetings as most of the respondents (92.0%) stated that they had held between 4 and 6 meetings in the previous financial year, which according to Lvov (2009, p.9) seems to be the norm.

The researcher also wanted to know if the Audit Committee recommendations were subjected to full Board review. It would have been good to get all the respondents agreeing to this question. However, 93% was still a good outcome. Lvov (2009, p.2) argues that while it is important that the Audit Committee maintains its independence, its activities should be coordinated with those of other committees as well as the Board's and that it has a mandatory duty to report to the Board.

6.2.11 HR and/or Remuneration Committee

The HR/Remuneration Committee is another very important committee of the Board. According to Coffey Corporate Services (2014), this committee should be in place to establish and implement the HR strategy, undertake performance management, ensure effective succession plans and provide effective and efficient remuneration policies.

Table 6.7 **Written guidelines of the Remuneration Committee**

Chi-Square Tests			
	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	11.867 ^a	6	.065
Likelihood Ratio	14.884	6	.021
Linear-by-Linear Association	1.638	1	.201
No. of Valid Cases	52		
a. 7 cells (58.3%) have expected count less than 5. The minimum expected count is .42.			

Table 6.7 addresses the question of whether there were written guidelines specifying the roles and responsibilities of the Remuneration Committee cross tabulated by years of experience in the current portfolios.

According to Tencent Holdings (2012), the HR/Remuneration Committee should be composed of about three members, two of whom should be independent non-executive Directors. About two-thirds of the respondents (63.0%) agreed that the Remuneration Committee was comprised exclusively of non-executive Directors and 90% thought that they were chaired by a non-executive Directors. This was indicative of compliance with the principles of good corporate governance. It seems that the majority (83%) of the respondents thought that there are written guidelines specifying the roles and responsibilities of the remuneration committee. None of the respondents disagreed, and the remaining 17% remained neutral on this matter.

Table 6.8 How many meetings were held last financial year for Remuneration committee?

Chi-Square Tests			
	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	12.279 ^a	6	.056
Likelihood Ratio	12.982	6	.043
Linear-by-Linear Association	.027	1	.870
No. of Valid Cases	48		

a. 9 cells (75.0%) have expected count less than 5. The minimum expected count is .08.

The HR/Remuneration Committees had held a fair number of meetings in the previous financial year as 89.6% of the respondents across years of experience in current portfolio seemed to think that their HR/remuneration committees had held 4-6 meetings. Table 6.8 illustrates an observed linear-by-linear association of 0.870 which far exceeds the expected count of 0.08. Thus using this measurement, the researcher can conclude that the HR/Remuneration Committees of the sampled Entities held a good number of meetings in the previous financial year.

According to the Coffey Corporate Services (2014), it is one of the responsibilities of the HR/Remuneration Committee to recommend its report to the Board for inclusion in the integrated report. To the question of whether the HR/Remuneration report was subjected to the

full view of the Board, an overwhelming majority of the respondents (86%) agreed, with 11% refusing to commit themselves and the remaining 3% thinking that that was not the case.

Table 6.9 Dissents are recorded in the committee minutes

Chi-Square Tests			
	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	15.142 ^a	9	.087
Likelihood Ratio	17.375	9	.043
Linear-by-Linear Association	.620	1	.431
No. of Valid Cases	51		
a. 11 cells (68.8%) have expected count less than 5. The minimum expected count is .12.			

Table 6.9 shows a chi-square value of 0.087 is lower than the expected value of 0.12, which implies that the value of the respondents who thought that disagreements were recorded in the committee minutes was less than expected. Even though dissents were recorded, not all the respondents agreed and were satisfied with the way this particular requirement of corporate governance was handled by their Entities.

6.2.12 Risk Committee

This subcommittee of the Board is responsible for internal controls, risk management and risk disclosure (Solomon, Solomon, Norton & Joseph, 2000). According to Tonello (2012), this committee has a risk overseeing function in the Board as it has to be “alert to organizational dysfunctional behaviour” that can lead to risk and be able to timely caution the Board to avert possible organizational risk. All the respondents (100%) agreed that their Boards have separate Risk Committees. They also shared with the researcher that their Risk Committees had held in the average of 4-6 meetings in the previous financial year (92%) which is above the norm as suggested in Chapter 2.

Table 6.10 How many meetings were held last financial year for risk committee?

Chi-Square Tests			
	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	4.591 ^a	3	.204

Likelihood Ratio	4.847	3	.183
Linear-by-Linear Association	.279	1	.597
No. of Valid Cases	48		
a. 5 cells (62.5%) have expected count less than 5. The minimum expected count is .08.			

On the issue of the number of meetings held by the Risk Committee in the previous year, the results showed a linear-by-linear association of 0.507, likelihood ratio of 0.183 and chi square value of 0.204, all exceeding the expected count of 0.08. By implication, the Risk Committee held more than the minimum expected number of meetings and the majority of the respondents concurred.

The verification of this information, conducted through the qualitative analysis of published annual reports, confirmed that Boards have set up Board committees dealing with Audit, Risk and HR/Remuneration matters, and these committees were reported to be meeting at a frequency of 4 to 6 times per year. The analysis also revealed that most Boards had internal audit, external audit and risk management functions in place, as reported in the sample of analyzed published annual reports.

6.3 LEVEL OF UNDERSTANDING AND AWARENESS OF CORPORATE GOVERNANCE PRINCIPLES

This Section deals with questions that aimed to establish level at which respondents understood and were aware of the corporate governance principles. The question looked at aspects related to appointment of directors or board members, in detail; the board members and their performance and code of conduct and practice of ethics. This section analyses the data in more detail.

6.3.1 The Entity has formal and transparent procedures for the election of Directors

As stated in Chapter 2 and highlighted in the *Three Pillars of SOE Reform*, transparency is one of the principles of good corporate governance. It was therefore crucial for this study to determine the thoughts of the respondents regarding the level of transparency during the election of the Directors.

Table 6.11 shows that observed linear-by-linear association of 0.618 was greater than the expected value of 0.15. The researcher therefore concludes that there was a significant association between the responses of the sample regarding whether their Entities had formal

and transparent procedures for the election of Directors and years of experience in the current portfolio.

Table 6.11: The Entity has formal and transparent procedures for the election of Directors

Chi-Square Tests			
	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	17.234 ^a	12	.141
Likelihood Ratio	18.456	12	.103
Linear-by-Linear Association	.248	1	.618
No. of Valid Cases	54		
a. 16 cells (80.0%) have expected count less than 5. The minimum expected count is .15.			

6.3.2 The Entity has a written code of conduct & ethics for Directors by gender

Data collected was purely quantitative, so the researcher could not determine the reasons for differing responses. The code of ethics outlines the values that the Board will uphold and adherence to the code boosts ‘public confidence in the integrity’ of the SOE in question (Government of Western Australia, 2015).

6.3.3 Board Directors are recruited based on their knowledge and understanding of corporate governance

Even though Entities are expected to provide structured training to bring the Board up to speed with matters of corporate governance and compliance, it is important that members who get recruited to the Board have some prior understanding and experience of the applications of corporate governance to enable them to run (Gumede, 2012, p.1) “well-managed and efficient SOEs that deliver on their developmental mandates...”.

Table 6.12 Board Directors are recruited based on their knowledge and understanding of corporate governance

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	15.842 ^a	9	.070
Likelihood Ratio	20.747	9	.014

Linear-by-Linear Association	5.568	1	.018
No. of Valid Cases	54		
a. 13 cells (81.3%) have expected count less than 5. The minimum expected count is .22.			

As illustrated in Table 6.12, the observed chi-square value is lower than the expected 0.22 at 0.07 meaning that the null hypothesis H0: “there is no significant relationship between the responses on the question of whether the Board Directors are recruited on their knowledge and understanding of corporate governance and years of experience in the current portfolio” would have to be rejected because the observed value is lower than the expected value.

6.3.4 Board Directors are recruited based on their knowledge and understanding of the sector under which the Entity falls

Sectoral knowledge and understanding is crucial for effective performance and service delivery. Vagliasindi (2008, p.1) points to the challenges associated with SOE Boards being populated mainly by people nominated because of their political allegiance possessing no business and sectoral skills and experience. He further cautions that such members dilute the capability of the Entity to promote productivity and service delivery, as these members are put in positions to protect the interests of the Government. The respondents were asked to share with the researcher their thoughts regarding the sectoral knowledge and understanding of the Directors.

The same picture, with their knowledge and understanding of corporate governance, emerged as only 51.9% of all the respondents thought that this was the case and the other 48.1% were either neutral or in disagreement. This was a cause of concern for the research because 48.1% is almost half of the respondents and as stated earlier, sectoral knowledge enhances the effectiveness of the Board in appropriate decision-making. Deloitte (2013, p.7) states that it is important for Directors to have “rudimentary understanding of the business corporation ... and the fundamentals of the business in which the corporation is engaged”. Deloitte further argues that the Board would be enriched by individuals that can contribute knowledge of the industry when it comes to decision-making.

6.3.5 Board Directors are subject to a limit on the number of simultaneous Directorships served in other companies

Directors are allowed to hold more than one Directorship at the same time. In high impact-designated organisations, Directors are allowed to hold up to five non-financial Directorships at the same time (Central Bank of Ireland, 2014:19). On the issue of limit on the number of simultaneous Directorships served in other companies, 27.8% indicated their disagreement.

Table 6.13 displays the results of the chi-square tests where the respondents had to share their knowledge regarding whether there was a limit on the number of simultaneous Directorships served in other companies by Board of Directors, crossed by years of experience in their current portfolios. The minimum expected count is shown as 0.41 and the chi-square at 0.000, likelihood ratio at 0.000 and linear-by-linear association at 0.001, are all below the expected count. This means that the researcher can accept the null hypothesis that there is no limit to the number of simultaneous Directorships in other companies that can be held by the members of the Board. This was backed up by the actual number of companies that the respondents were serving in where only one-fifth responded that they were serving in only one company and the remaining 78.4% serving as Board members of 2-8 companies.

Table 6.13 Limit on the number of simultaneous Directorships served in other companies

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	37.311 ^a	9	.000
Likelihood Ratio	48.262	9	.000
Linear-by-Linear Association	10.541	1	.001
No. of Valid Cases	54		
a. 12 cells (75.0%) have expected count less than 5. The minimum expected count is .41.			

6.3.6 The Board has a Director representing: The Government department or the shareholder department

The World Bank (2014) decries the lack of transparency in the composition of many Boards, with many Board members acting as ‘rubber stamps’ for Government decision-making but who exercise no authority over the executive management of the Entity. The World Bank (2014) further notes that some of the representatives are Government employees with political mandates and possess no experience in managing companies. The researcher wanted to know about stakeholder representation on the Board. Thus, the respondents were required to explain who represents which stakeholders in their own Entities. The majority of respondents agreed that stakeholders were represented on their Boards by Directors. As to whether such Directors were effective in furthering the interests of the stakeholders, was another story altogether. Data collected from the respondents showed that the sector or industry was also represented by a Director on their Boards, as 69.0% of the respondents concurred. On the question of whether the employees were represented on the Board, more than half of the respondents (57%) thought that

they were not represented. Ayuso & Argandona, (2007, p.8) argue that even though most sources talk about stakeholder representation on the Board, the interests of non-shareholders are rarely given attention. They further refer to the agency theory which does not argue in favour of representation of non-shareholders on the Board.

6.3.7 The Entity has a written code of conduct & ethics for Directors by gender

According to Dean (1992) the code of ethics describes the highest moral value that the Directors of an organisation aspire to uphold in all the operations of the company and is aimed at sound management and leadership. If a quarter of the respondents choose to be quiet on whether the Directors are operating according to a developed code of conduct and ethics, it raises questions about their observable conduct. The availability of a code of conduct and ethics within the organisation also does not necessarily mean that the Directors were conducting themselves accordingly. Other constituencies had a Director representing them on the Board because three-quarters of the respondents responded positively to this question, even though another quarter thought that other constituencies were not represented on the Board. A resounding majority of the respondents (73.5%) shared with the researcher that their Entities had a code of conduct and ethics for the Directors. Even though 73.5% made almost three quarters of the respondents, there was still another quarter that remained silent on this question, while 3.1% were adamant that there was no code of conduct and ethics for the Directors.

6.3.8 How many Board meetings were held last financial year?

Board meetings are important to ensure that the Board remains strategy-aligned and that their activities are strategy-impacting. Without regular meetings, the Board members may lose sight and focus, and eventually derail the organization. For Boards to be effective, regular meetings such as once or twice a quarter are crucial. The Boards of the Entities involved in the study appeared to have an average of 4-6 meetings annually (amounting to 1-2 meetings a quarter) as indicated by the majority (89%) of the respondents in figure 5.19. So, it could be concluded that the Boards held an average of 5 meetings per annum. These Board meetings seemed to be well-attended as Table 6.14 shows a linear-by-linear association of 0.65 and a likelihood ratio of 0.049 of the expected value of 0.04.

Table 6.14 How many Board meetings were held last financial year?

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	23.603 ^a	9	.005

Likelihood Ratio	17.001	9	.049
Linear-by-Linear Association	3.393	1	.065
No. of Valid Cases	52		
a. 13 cells (81.3%) have expected count less than 5. The minimum expected count is .04.			

The above was also confirmed in the data analysis that was conducted on published Annual Reports where frequency of Board meetings was reported.

6.4. COMPLIANCE WITH CORPORATE GOVERNANCE PROVISIONS IN SOEs

This section analyses data pertaining to the research objective that wants to investigate extent to which SOEs comply with corporate governance provisions by looking at the level at which they disclose information for public consumption, their corporate governance systems, whether they have key strategic documents, programmes and plans in place; and the level at which shareholder and stakeholder involvement is ensured. Compliance with the principles of corporate governance was investigated using cross tabulation of job category with the questionnaire items as well status responses from all the respondents. In chapter 2, Patmore (2014) highlights different types of ineffective Boards that fail to hold the management of Entities to account. The researcher felt that this section needed attention in order to enable the study to determine issues that make Boards of SOEs effective or ineffective using the sampled ones. Data collected from this exercise is presented in this section.

6.4.1 Does the Board have: A Board Charter and Board Committee Charter which are reviewed annually?

A Board charter sets the parameters within which the Board operates as well as minimum acceptable standards of operation. This is an important document because it also outlines the roles and responsibilities of the Board (SABC, 2006). ANZ (2014:2) states that the Board charter specifies the powers of the Board and outlines the remuneration policy.

Table 6.15 Board Charter and Board Committee Charter are reviewed annually

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	1.056 ^a	3	.788

Likelihood Ratio	1.258	3	.739
Linear-by-Linear Association	.053	1	.818
No. of Valid Cases	54		
a. 5 cells (62.5%) have expected count less than 5. The minimum expected count is .30.			

Table 6.15 is an illustration of the chi square values of the question of whether the Boards of sampled Entities had a charter and Board committee charter which were reviewed annually crossed by years of experience in current portfolio. The expected count was 0.30 and the observed counts were much beyond the expected count at chi square 0.788, likelihood ratio 0.739 and linear-by-linear association at 0.818. The researcher can therefore reject the null hypothesis H0: “The Boards of sampled Entities and their Board committees do not have charters that are reviewed annually.”

6.4.2 Does the Board have: A Shareholder Compact signed with its Government department

According to the National Treasury (2002, p2), the shareholders’ compact is a document representing “the agreement between the executive authority and the accounting authority”. It outlines the expectations of each party to the compact and it is expressed in the form of outcomes and expected outputs.

Table 6.16 A Shareholder Compact signed with the Government department

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	5.030 ^a	3	.170
Likelihood Ratio	5.863	3	.118
Linear-by-Linear Association	4.827	1	.028
No. of Valid Cases	53		
a. 4 cells (50.0%) have expected count less than 5. The minimum expected count is .72.			

Table 6.16 shows disappointing results as the observed counts fall far below the expected count of 0.72. The chi square count was 0.170, likelihood ration 0.118 and linear-by-linear association

falling even further below at 0.028. By implication the Boards of sampled Entities did not have shareholder compact signed with its Government department.

6.4.3 Does the Board have: A succession plan for the executive management?

Succession planning is crucial for the success of any organization. It is a process of identifying and developing capacity through training, development and mentorship to ensure that no vacuum is left due to staff turnover and natural attrition.

Table 6.17: A succession plan for the executive management

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	3.473 ^a	3	.324
Likelihood Ratio	4.073	3	.254
Linear-by-Linear Association	.115	1	.735
No. of Valid Cases	53		
a. 4 cells (50.0%) have expected count less than 5. The minimum expected count is .75.			

The expected count for this question was 0.75 and the observed counts fall below at 0.324 for chi square, 0.254 for likelihood ratio and 0.735 for linear-by-linear association. This means that even though certain respondents gave positive answers to the question, quite a large number by years of experience in current portfolio responded negatively or did not want to commit themselves by responding.

6.4.4 Does the Board have: An appropriately qualified company secretary?

According to Dekker (2002, p.8), a secretary of the Board has to be appointed in terms of Section 268a of the *Companies Act*. It is the responsibility of the Board to appoint a qualified and empowered secretary who is able to carry the duties out effectively and efficiently. The researcher wanted to ensure that the sampled SOEs were compliant in this regard by asking the respondents this question.

Table 6.18 An appropriately qualified company secretary

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	7.429 ^a	3	.059

Likelihood Ratio	8.768	3	.033
Linear-by-Linear Association	1.213	1	.271
No. of Valid Cases	54		
a. 4 cells (50.0%) have expected count less than 5. The minimum expected count is 1.00.			

Table 6.18 shows that the expected count for this question was 1.00. The chi square test results fell disappointingly below at chi square 0.059, likelihood ratio 0.033 and linear-by-linear association at 0.271. H0: “The Boards of sampled Entities do not have appropriately qualified secretaries”, can then be accepted. It is however not clear if the Boards did not have the secretaries at all or the secretaries were not appropriately qualified. The verification of this information, which was conducted through the qualitative research and analysis done on annual reports, revealed that only 5 out of 11 SOEs provided details regarding the status of their company secretaries.

6.4.5 There is a set retirement age for non-executives Directors

The majority at 58.7% thought that there was not a set retirement age for Board members, which is in line with PwC (2012) silence on the retirement age for the non-executive Directors. PwC (2012) merely compared the ages of non-executive Directors in different countries. The likelihood ratio (Table 6.19) of there being a set retirement age for non-executive Directors was 0.183 of the expected count of 0.26. Obviously, the observed value in this regard was less than the expected value, which by implication means that most of the respondents did not concur that there was a set retirement age for the non-executive Directors of their Entities.

Table 6.19 There is a set retirement age for non-executives Directors

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	11.750 ^a	9	.228
Likelihood Ratio	12.561	9	.183
Linear-by-Linear Association	.337	1	.562
No. of Valid Cases	53		
a. 13 cells (81.3%) have expected count less than 5. The			

minimum expected count is .26.

6.4.6 Does the Board have: A clear and comprehensive delegation of authority to executive management?

On the question of whether the Boards of sampled Entities had clear and comprehensive plans for delegation of authority, the expected count as shown in Table 6.20 was 0.15. Linear-by-linear association was the only count that was below the expected at 0.100. The chi square was above the expected count at 0.293. This could mean that even though some respondents shared that their Board had clear and comprehensive plans for delegation of authority, the scores were above the desired level of positive responses. H0: “The Boards of sampled Entities did not have clear and comprehensive plans for delegation of authority” was therefore rejected.

Table 6.20 A clear and comprehensive delegation of authority

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	3.724 ^a	3	.293
Likelihood Ratio	5.249	3	.154
Linear-by-Linear Association	2.711	1	.100
No. of Valid Cases	54		
a. 5 cells (62.5%) have expected count less than 5. The minimum expected count is .15.			

6.4.7 Board members have opportunity to recuse themselves if there is potential conflict of interest regarding particular matters on the agenda

Declaration of potential conflict of interest is an ethical issue in terms of corporate governance. Conflict of interest occurs when “a Director’s direct or indirect personal interest interferes in any way ...with the interests of the company as a whole” (PHX, 2013, p.2). PHX(2013) highlights the issue of “hidden bias or self interest in activity being undertaken” which may result in fraudulent activity. Shah further states that fraudulent activities resulting from conflict of interest can be prevented through disclosure, a register of contracts in which Directors have potential interest, and others.

Table 6.21 is an illustration of the chi square counts based on the question of whether the Board members of sampled Entities had an opportunity to recuse themselves if there is potential conflict of interest regarding matters on the agenda crossed by years of experience in current portfolio. The observed chi square count fell far below (0.003) the expected count of 0.07. The

likelihood ratio was also disappointingly low at 0.002, while linear-by-linear association remained above the expected count at 0.119.

Table 6.21 Opportunity to recuse themselves if there is potential conflict of interest

Chi-Square Tests			
	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	25.037 ^a	9	.003
Likelihood Ratio	26.111	9	.002
Linear-by-Linear Association	2.428	1	.119
No. of Valid Cases	54		
a. 12 cells (75.0%) have expected count less than 5. The minimum expected count is .07.			

6.4.8 The shareholder department evaluates performance of the Board annually

Evaluation helps identify areas that need improvement and facilitate performance and compliance. It was important for the study to find out if the Entities were being evaluated by shareholder departments. Table 6.22 shows observed counts of 0.052 (chi square) and 0.029 (likelihood ratio). These counts were below the expected count of 0.11, which means that there were concerns among the respondents regarding the evaluation of the Entities by shareholder departments. The researcher was consequently not convinced that the Entities were evaluated by shareholder departments on an annual basis.

Without evaluation, it is not easy for the Boards, managers and employees to improve performance and ensure that investors and clients are getting value for money.

Table 6.22 The shareholder department evaluates performance of the Board annually

Chi-Square Tests			
*2q3	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	20.922 ^a	12	.052
Likelihood Ratio	22.862	12	.029

Linear-by-Linear Association	1.664	1	.197
No. of Valid Cases	53		
a. 17 cells (85.0%) have expected count less than 5. The minimum expected count is .11.			

6.4.9 Does the Board have: A Transfer Payment Agreement signed with the shareholder department based on budget received?

“Transfers are an important part of the inter-Governmental system” (National Treasury, 2000, p.5), where Entities transfer funds to subsidiaries either upstream or downstream. Section 9 of the PFMA provides conditions for these transfers. Table 6.23 shows the observed chi square (0.081) and likelihood counts (0.020) that are less than the expected count of 0.41. H0: “The Boards do not have a transfer payment agreement signed with the shareholder departments based on budget received”, was therefore accepted, based on this evidence.

Table 6.23 A Transfer Payment Agreement signed with the shareholder department

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	6.727 ^a	3	.081
Likelihood Ratio	9.846	3	.020
Linear-by-Linear Association	.361	1	.548
No. of Valid Cases	54		
a. 4 cells (50%) have expected count less than 5. The minimum expected count is .41.			

6.4.10 Does the Board have: A development programme for its members?

Capacity building is crucial for learning organisations that want to keep improving their processes and the level of service provided to the customers. The Boards that are developed are confident in carrying out their duties. They also understand their roles and the importance of compliance with regulations. Development also ensures that new Board members are brought up to speed with developments in their respective portfolios. This study also wanted to establish if the Boards of the sampled Entities had development programmes in place for their members.

Table 6.24 shows the expected count to be 1.00 and the observed chi square results (0.124), likelihood ratio (0.084) and linear-by-linear association (0.018) are below the expected count. H0: “The Boards do not have development programmes for their members” was thus accepted.

Table 6.24 A development programme for their members

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	5.756 ^a	3	.124
Likelihood Ratio	6.639	3	.084
Linear-by-Linear Association	5.570	1	.018
No. of Valid Cases	54		
a. 4 cells (50%) have expected count less than 5. The minimum expected count is 1.00.			

6.4.11 Public disclosure of annual financial statements

As part of accountability and transparency, the Board has to publish annual integrated reports including the triple bottom line (people, earth and money) for the public to read. According to Ernest & Young (2015, p.1) public companies are obliged to disclose their financial statements more than private companies. The International Public Sector Accounting Standards Board (2006) sets the standards for preparing, presenting and disclosure of financial information General Government Sector.

The respondents were asked if their Entities disclose annual financial statements for public consumption. The minimum expected count as shown in Table 6.25 was 0.03 and the likelihood ratio proved to be 0.396, much more than the expected minimum count. The researcher can then conclude that the sampled Entities were very likely to disclose their annual financial statements for public consumption.

Table 6.25 Public disclosure of Annual financial statements

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	2.204 ^a	3	.531
Likelihood Ratio	2.975	3	.396
Linear-by-Linear	1.627	1	.202

Association			
No. of Valid Cases	62		
a. 5 cells (62.5%) have expected count less than 5. The minimum expected count is .03.			

6.4.12 Annual signing of disclosure forms by Board members

Declaration of other interests is a very important aspect of transparency aimed at ensuring that decisions made by Board members and their actions do not result in a conflict of interests. The study revealed that all the respondents (100%) across ages agreed that Board members signed disclosure forms annually. In agreement, the observed likelihood ratio of Board members signing disclosure forms annually as shown in Table 6.26 has a value of 0.100 which is higher than the expected value of 0.96.

This result was also verified through the data analysis conducted on published annual reports, where only 3 out of 11 SOEs provided actual information on declaration of interest by the Board member. This confirmed the quantitative research results, as it showed a very low level of compliance.

Table 6.26 Board members sign disclosure forms annually

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	5.395 ^a	3	.145
Likelihood Ratio	6.262	3	.100
Linear-by-Linear Association	3.793	1	.051
No. of Valid Cases	54		
a. 4 cells (50%) have expected count less than 5. The minimum expected count is .96.			

6.4.12 Disclosure of audit committee reports

Barako (2007, p113) posits that the level of voluntary disclosure is a critical part of boosting investor confidence for countries that still want to build their economies. This study revealed

that the Boards of sampled Entities were most likely to publicly disclose the chairperson's report for public consumption as shown by an overwhelming majority (94%) of the respondents affirming this statement.

Table 6.27: Public disclosure of the Audit Committee report

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	.695 ^a	3	.874
Likelihood Ratio	1.199	3	.753
Linear-by-Linear Association	.200	1	.655
No. of Valid Cases	62		
a. 5 cells (62.5%) have expected count less than 5. The minimum expected count is .06.			

6.4.13 Disclosure of corporate governance report

Witherall (2005) posits that the compliance and reporting issues in SOEs is drawing a lot of public attention and criticism due to a number of inherent problems such as political interference, passivity of Boards, lack of transparency and a number of other concerns regarding governance in SOEs. Witherall (2005, p.58) notes that the status and quality of corporate governance reporting in SOEs is showing marked improvement. This is evidenced by the majority of the respondents of the study (88%) felt that their Entities were most likely to disclose their corporate governance report for public consumption and only 12% of the respondents thought that they were not likely to do so.

Table 6.28 Public disclosure of the Corporate Governance report

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	5.348 ^a	3	.148
Likelihood Ratio	5.995	3	.112
Linear-by-Linear Association	.130	1	.718

No. of Valid Cases	62		
a. 5 cells (62.5%) have expected count less than 5. The minimum expected count is .13			

When the respondents were asked if their Entities disclosed their corporate governance reports, by job category, the likelihood of their responses showed a value of 1.199. All the observed values were higher than the expected minimum value of 0.06. The researcher can thus safely conclude that the sampled Entities were likely to disclose their corporate governance reports (Table 6.28). The data analysis conducted on published annual reports confirmed this, as 10 out of 11 SOEs sampled had included their corporate governance report in the annual reports that were analysed.

6.4.14 Disclosure of chairperson’s report

Annual reports serve the role of formal communication between the Entity and the public in the case of publicly listed organizations. Chatterjee and Mir (2007) argue that public disclosure has been at the centre of scrutiny due to the fact that it presents means by which the corporations convey important information to shareholders and other key stakeholders. This investigation discovered that the sampled Entities tended to have their chairpersons disclosing their reports for public consumption. Table 6.29 shows the observed counts that are far higher than the expected count of 0.06. The researcher then rejected the null hypothesis that “The sampled Entities do not publicly disclose their chairpersons” report.

Table 6.29 Public disclosure of the Chairperson’s report

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	.695 ^a	3	.874
Likelihood Ratio	1.199	3	.753
Linear-by-Linear Association	.200	1	.655
No. of Valid Cases	62		
a. 5 cells (62.5%) have expected count less than 5. The minimum expected count is .06.			

6.4.15 Disclosure of audited annual reports

According to UNICEF (2012), public disclosure of audited annual reports is the function of the office of internal auditing after first submitting it to the concerned ministry in the case of South Africa. PwC (2012) concurs that it is the duty of the Audit Committee to ensure the integrity of public reporting and financial internal controls. Almost all the respondents (97%) felt that their Entities were most likely to publicly disclose their audited annual reports with a trivial 3% feeling that they were not likely to disclose their audited annual reports for public consumption. By implication this means that the SOEs sampled for the study had reached a certain level of conformance with the stipulations of corporate governance.

Table 6.30 Does your Entity publicly disclose the following for public consumption: Audited Annual reports -Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	1.790 ^a	3	.617
Likelihood Ratio	2.553	3	.466
Linear-by-Linear Association	1.303	1	.254
N of Valid Cases	54		
a. 5 cells (62.5%) have expected count less than 5. The minimum expected count is .07.			

Table 6.30 shows the expected count regarding the question of whether the sampled Entities disclose audited annual reports for public consumption to be 0.07. It was noteworthy that all chi-square, likelihood ratio and linear-by-linear association were above the expected count at 0.617, 0.466 and 0.254 respectively.

6.4.16 Disclosure of non-compliance with PFMA and other pertinent acts

The Public Finance Management Act as discussed in the literature review chapter is aimed at introducing and maintaining rigorous and high standards of accounting and reporting regarding the management of public finances. SOEs operating within the framework of this and other acts, have to improve continuously from being compliant to performing within such given frameworks. Failure to comply with these pieces of legislation calls for explanation, disclosure and documentation of discrepancies on the side of the Boards of SOEs. The respondents were asked to give their views the extent to which their Entities disclosed non-compliance with

PFMA and other pertinent acts. Section 16 of the guidelines on irregular expenditure (National Treasury, 2014, p.3) states that all Government components are required to “comply with Generally Recognized Accounting Practices (GRAP), Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS)”, which are all general acceptable standards to which all SOEs must adhere. Details of failure to comply and steps taken should be recorded and disclosed. Section 52 of the PFMA states that disclosure of failure to comply with the requirements of the PFMA is more a legal requirement than an accounting one.

6.4.17 Disclosure of CEO, CFO and other Executive Managers’ terms of contract and notice terms

The terms of contract of the CEO and CFO have to be public knowledge. The World Bank (2014, p.87); OECD (2015) state that various Governments reserve the right to appoint, remove and set contractual terms for the CEOs in SOEs. OECD further elaborates that the Board has an obligation to follow rules and procedures when appointing the CEO, a process which should be transparent and carried out in an accountable manner.

When the question of whether the Entities ensured public disclosure of CEO, CFO and other Executive Managers’ terms of contract and notice terms was crossed by job category, Table 6.31 revealed expected values of 0.03 while the observed likelihood value was a satisfactory 0.165. The sampled Entities were therefore likely to disclose the terms of contract of both the CEOs and CFOs.

Table 6.31 Disclosure of Executives’ contracts and notice terms

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	34.383 ^a	9	.000
Likelihood Ratio	12.940	9	.165
Linear-by-Linear Association	.067	1	.796
No. of Valid Cases	62		
a. 12 cells (75%) have expected count less than 5. The minimum expected count is .03.			

6.4.18 The entity's corporate governance system includes the following:

6.4.18.1 The internal management regulations, policies and procedures

The core of corporate governance is rules, regulations and procedures that facilitate compliance, responsibility, accountability, transparency and other principles of good governance. Regulations, policies and procedures are crucial to good corporate governance as the members of the Board, management and employees have to be guided by and comply with them. The majority of respondents (96.3%) across all years of experience categories stated that the corporate governance systems of their Entities were most likely to include internal management regulations, policies and procedures.

Table 6.32 show the results of the chi square tests as indicating observed counts more than the expected 0.07. The chi square count was 0.617, likelihood count 0.466 and the linear-by-linear association was 0.254. The researcher can therefore reject H0 stating that Entities corporate governance system of the sampled Entities did not include regulations, policies and procedures.

Table 6.32: The internal management regulations, policies and procedures

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	1.790 ^a	3	.617
Likelihood Ratio	2.553	3	.466
Linear-by-Linear Association	1.303	1	.254
No. of Valid Cases	54		

a. 5 cells (62.5%) have expected count less than 5. The minimum expected count is .07.

6.4.18.2 The Corporate culture and value system

According to Investopedia (2016), corporate culture refers to organizational belief system and it is the foundation for the manner in which the organization relates to all stakeholders. Corporate culture is often implied and it influences and gets influenced by the vision, mission goals and strategies of the organization. Coleman (2013) states that the company's value system is core to its corporate culture. Coleman further argues that narratives, practices, people and place are central to the culture of the organization. The minimum expected count was 0.20, all scores were above that, which meant that all SOEs sampled complied with this corporate governance requirement.

6.4.18.3 The Financial reporting framework

Table 6.33 is the cross tabulation of whether the Entities' corporate governance systems included financial reporting framework by years of experience in current portfolio. It depicts that an overwhelming majority (98.1%) responded that their Entities were most likely to include financial reporting framework in their corporate governance system. The expected count for this question was 0.04 and the observed chi square, likelihood ratio and linear-by-linear association counts surpass the expected count at 0.831, 0.739 and 0.424 respectively. It can therefore be concluded that the corporate governance systems of sampled SOEs included financial reporting framework as expected.

Table 6.33 The Financial reporting framework

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	.878 ^a	3	.831
Likelihood Ratio	1.260	3	.739
Linear-by-Linear Association	.639	1	.424
No. of Valid Cases	54		
a. 5 cells (62.5%) have expected count less than 5. The minimum expected count is .04.			

6.4.18.4 The Regulatory framework including monitoring systems

The researcher also wanted to know from the respondents if the corporate governance systems of their Entities included the regulatory framework including monitoring systems. Again, the chi square test results exceeded the expected count of 0.04 as Table 6.34 shows the chi square count of 0.831, likelihood ratio of 0.739 and linear-by-linear association of 0.424. It is thus safe to conclude that the Boards of sampled Entities' corporate governance system included the regulatory framework including monitoring systems.

Table 6.34 The Regulatory framework including monitoring systems

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	.878 ^a	3	.831

Likelihood Ratio	1.260	3	.739
Linear-by-Linear Association	.639	1	.424
No. of Valid Cases	54		
a. 5 cells (62.5%) have expected count less than 5. The minimum expected count is .04.			

6.4.19 The Entity ensures shareholder and stakeholder involvement in corporate governance through the following practices:

6.4.19.1 Consultation of shareholders prior to finalization of the annual budget and corporate plan

The respondents were also asked to share their knowledge regarding shareholder and stakeholder involvement in corporate governance through consultation with shareholders prior to finalization of the annual budget and corporate plan.

The observed chi square test results as shown in Table 6.35 are positive at 0.210 compared with the expected count of 0.04. The researcher can thus conclude that the sampled Entities ensured shareholder and stakeholder involvement in corporate governance through consultation by shareholders prior to finalization of the annual budget and corporate plan.

Table 6.35: Consultation by shareholders prior to finalisation of the annual budget and corporate plan

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	12.064 ^a	9	.210
Likelihood Ratio	13.161	9	.155
Linear-by-Linear Association	9.143	1	.002
No. of Valid Cases	54		
a. 13 cells (81.3%) have expected count less than 5. The minimum expected count is .04.			

6.4.19.2 The timely submission of budget and corporate plan to relevant Government department before commencement of the financial year

Table 6.36 shows the expected count of 0.07 and that the observed counts were below at chi square 0.010, likelihood ratio at 0.032 and only linear-by-linear association was above at 0.515. since the chi square count fell below the expected, the research can accept H0: “The Entities did not ensure shareholder and stakeholder involvement in corporate governance through timely submission of budget and corporate plan to relevant department before commencement of the financial year.”

Table 6.36 Timely submission of budget and corporate plan

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	16.700 ^a	6	.010
Likelihood Ratio	13.771	6	.032
Linear-by-Linear Association	.425	1	.515
No. of Valid Cases	54		
. 8 cells (66.7%) have expected count less than 5. The minimum expected count is .07.			

6.4.19.3 The timely submission of annual financial statements as per PFMA timelines

Just like the case of timeous submission of budgets and corporate plans, the Entities were found wanting when it came to shareholder and stakeholder involvement through timely submission of annual financial statements as per PFMA timelines. The expected count was 0.07 as shown in Table 6.37, and the observed chi square count was 0.010. The null hypothesis that “The Entities did not ensure shareholder and stakeholder involvement in corporate governance through timely submission of annual financial statements as per PFMA timelines” was thus accepted. It seemed that the sampled Entities were not very compliant with policy in this regard.

Table 6.37 Timely submission of annual financial statements as per PFMA timelines

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	16.700 ^a	6	.010
Likelihood Ratio	13.771	6	.032

Linear-by-Linear Association	.006	1	.937
No. of Valid Cases	54		
a. 8 cells (66.7%) have expected count less than 5. The minimum expected count is .07.			

6.4.19.4 The disclosure of CEO, CFO and other Executive Managers' terms of contract and notice terms

Transparency and disclosure are two very important components of good corporate governance crucial for the protection of investors and other stakeholders of an organisation. The researcher wanted to know if the sampled Entities ensured shareholder and stakeholder involvement in corporate governance through disclosure of CEO, CFO and other Executive Managers' terms of contract and notice terms. Table 6.38 indicates the expected chi square count to be 0.07 and that the observed chi square count fell short of this expectation at 0.007. The observed likelihood ratio in this regards as well as the linear-by-linear association were also below the expectation at 0.044 and 0.013 respectively. H0: "The sampled Entities do not ensure shareholder and stakeholder involvement in corporate governance through disclosure of CEO, CFO and other Executive Managers' terms of contract and notice terms", was thus accepted.

Table 6.38 Disclosure of CEO, CFO and other Executive Managers' terms of contract

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	22.810 ^a	9	.007
Likelihood Ratio	17.337	9	.044
Linear-by-Linear Association	6.147	1	.013
No. of Valid Cases	54		
a. 13 cells (81.3%) have expected count less than 5. The minimum expected count is .07.			

6.4.19.5 The disclosure of non-compliance with PFMA and other pertinent Acts.

Disclosure of non-compliance with PFMA and other pertinent acts is a question of responsibility, accountability and transparency. Non-compliance is a risk issue that needs to be declared and corrected. Section 9 of the PFMA elaborates of the role of the accounting officer in

cases of unauthorized, irregular, fruitless and wasteful expenditure. Section 9.1.5 of the PFMA clearly states that “the amount of the unauthorized, irregular, fruitless and wasteful expenditure must be disclosed as a note to the annual financial statements of the institution.” (National Treasury, 2001, p.5).

Table 6.39: Shareholder and stakeholder involvement in corporate governance through: Disclosure of non-compliance with PFMA and other pertinent Acts.

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	33.280 ^a	12	.001
Likelihood Ratio	31.918	12	.001
Linear-by-Linear Association	2.124	1	.145
No. of Valid Cases	54		
a. 17 cells (85%) have expected count less than 5. The minimum expected count is .04.			

The expected count for the question of whether the sampled Entities ensured shareholder and stakeholder involvement in corporate governance through disclosure of non-compliance with PFMA and other pertinent acts was 0.04. The observed chi square count was 0.001 and the likelihood ratio was also 0.001. Based on these observed counts, the researcher accepted H₀: “The sampled Entities did not ensure shareholder and stakeholder involvement in corporate governance through disclosure of non-compliance with PFMA and other pertinent acts.”

6.4.20 Does the Board have: A Strategic plan and Strategic Risk register for the Entity which was discussed and approved at Board meetings?

Table 5.25 in chapter five showed that all the respondents across years of experience in current portfolios felt that their Entities were most likely to have a strategic plan and strategic risk registers that were discussed and approved at Board meetings. These registers are a record of the comments and feedback from the public of the proposed strategic plan and strategic risk for the organisation (USA Strategic Plan 2016-2020). The researcher established that an overwhelming 100% indicated that the Board has a Strategic Plan and Strategic Risk Register for the SOE, which was discussed and approved at Board meetings.

6.5 STRATEGIES TO IMPROVE CORPORATE GOVERNANCE IN SOEs

This section analyses data collected wherein respondents provided their thoughts on strategies that could improve corporate governance amongst SOEs. The answers to quantitative research were triangulated with those from the qualitative research, that is the literature review and the interviews, to provide more information on what respondents said regarding how to improve corporate governance systems, what issues they deem to be major or minor, and whether or not corporate governance within SOEs can be improved through adherence to particular practices. Totten (2013, p.1) points out that continuous improvement should permeate all the aspects of organizations and performance evaluation strategies and techniques have become “integrated routine leadership and management practices”. The researcher used the following points to determine continuous improvement plans and possibilities for the Boards and subcommittees of the SOEs sampled for the study.

6.5.1 To what extent are the corporate Government issues in the Entity on: Lack of integrity and ethics among top management?

Corruption of whatever form compromises the integrity of the Board and the SOE for which the Board is responsible. Corporate governance is actually aimed at dealing with corruption that arises due to the principal-agency nature of running corporations. In the literature review chapter, Keightley (2011) was cited stating that corporate governance is the most fundamental mechanism aimed at preventing corruption and corporate scandals.

Table 6.40: Lack of integrity and ethics among top management

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	4.899 ^a	3	.179
Likelihood Ratio	5.686	3	.128
Linear-by-Linear Association	4.625	1	.032
No. of Valid Cases	54		
a. 4 cells (50%) have expected count less than 5. The minimum expected count is .85.			

The results of this study indicated that all the respondents seemed to think that there were issues of lack of integrity and ethics among the top management even though just above half of the respondents (52%) thought that they were minor and 48% felt that there were major corporate governance issues in this regard. Table 6.40 shows the chi square observed values above the expected count of 0.85. All the chi square, likelihood and linear-by-linear association values were above. Even though only about half of the respondents felt that there were major integrity and ethics issues among top management, 48% felt that there were such issues even though they were not major.

6.5.2 To what extent are the corporate Government issues in the Entity on: Lack of transparency in financial reporting?

The literature review in Chapter 3 indicated that performance, adherence standards and transparency are still challenges in SOEs in the Southern African regions. This could be due to insufficient knowledge and skills among others.

Table 6.41 Lack of transparency in financial reporting

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	3.192 ^a	3	.363
Likelihood Ratio	3.910	3	.271
Linear-by-Linear Association	3.025	1	.082
No. of Valid Cases	54		
a. 4 cells (50%) have expected count less than 5. The minimum expected count is .78.			

This is evidenced by the responses given on the issue by the respondents of sampled SOEs where 52% of the respondents felt that there were major issues of transparency in financial reporting and 48% agreeing that there were issues, though regarded as minor. This is a crucial part of good corporate governance which Ntim, Opong & Danbolt (2012, p.01) associate with the value of the Entity. The expected chi square value was 0.78 and the observed chi square, likelihood and linear-by-linear association values were below the expected value. Conclusively, the respondents felt that the transparency in financial reporting in their Entities was not a major issue.

6.5.3 To what extent are the corporate Government issues in the Entity on: Conflicts of interest of Directors?

Even though all the respondents stated that the Directors of the Boards of their Entities were likely to complete disclosure forms annually, they seemed to think that there are major compliance issues regarding conflict of interest of Directors in the Entities being studied as 63% of the respondents indicated this with only the remaining 37.0% thinking that such issues existed even though they were minor.

Table 6.42 Conflicts of interest of Directors

Chi-Square Tests			
	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	12.076 ^a	3	.007
Likelihood Ratio	16.465	3	.001
Linear-by-Linear Association	5.756	1	.016
No. of Valid Cases	54		
a. 4 cells (50%) have expected count less than 5. The minimum expected count is .59.			

This means that the completion of the disclosure forms does not amount to complete declaration of interest and rooting out of corruption in this respect. Table 6.42 shows chi square counts that are below the expected count at 0.59, it could be concluded that conflict of interest is not such a major corporate governance issue in the sampled Entities in the eyes of the respondents by years of experience in current portfolio.

6.5.4 To what extent are the corporate Government issues in the Entity on: Drain off of funds through associate or subsidiary companies?

The expected count for this question bearing the number of valid cases (53) was 0.68. It was encouraging to notice that the observed chi square counts were all far below the expected count (ranging from 0.000 – 0.001). This implies that the respondents felt that there was not a major issue of drain of funds through the use of subsidiary companies in their Entities.

Table 6.43: Drain off of funds through associate or subsidiary companies?

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	15.650 ^a	3	.001
Likelihood Ratio	16.535	3	.001
Linear-by-Linear Association	15.333	1	.000
No. of Valid Cases	53		
a. 4 cells (50%) have expected count less than 5. The minimum expected count is .68.			

6.5.5 To what extent are the corporate Government issues in the Entity on: Inadequate and inefficient risk management?

Risk refers to the probability of losing value within the corporation. It includes internal and external factors that make the organisation vulnerable to loss. PwC (2014, p.6) states that risk overseeing is the priority of the Board of Directors. The Board has to identify potential risk areas and be proactive in trying to avert them or minimizing the impact on the organisation. It seems that there were no major corporate governance issues pertaining to inadequate and inefficient risk management in the Entities of the respondents, based on the analysis shown below.

Table 6.44: Inadequate and inefficient risk management?

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	6.065 ^a	3	.108
Likelihood Ratio	8.065	3	.045
Linear-by-Linear Association	5.545	1	.019
No. of Valid Cases	54		
a. 4 cells (50%) have expected count less than 5. The minimum expected count is .44.			

Table 6.44 on the question of the extent to which inadequate and inefficient risk management was impacting on corporate governance, all the observed counts proved to be below the expected count of 0.44 (ranging from 0.019 – 0.108). By implication the sampled Entities did

not have major corporate governance issues based on inadequate and inefficient risk management.

6.5.6 To what extent are the corporate Government issues in the Entity on: Lack of transparency about Board Directors’ remuneration?

According to SOE Remuneration Guidelines (2007) the Boards have to adopt remuneration policies and procedures which are in accordance with the guidelines set in King II and the remuneration model set by the Department of Public Enterprises.

As shown in Table 6.45 the sampled SOEs did not have corporate governance problems based on the lack of transparency about Board Directors’ remuneration. Of the expected count of 0.63, all the observed chi square results were 0.000. Conclusively, transparency regarding Directors’ remuneration was either not an issue or it was not seen to be related to experienced corporate governance problems.

The verification of this information conducted through the analysis of qualitative data on published annual reports indicated that 11 out of 11 SOEs sampled had disclosed information on their Board’s remuneration, therefore confirming full compliance with this corporate governance requirement.

Table 6.45: Lack of transparency about Board Directors’ remuneration

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	19.406 ^a	3	.000
Likelihood Ratio	21.437	3	.000
Linear-by-Linear Association	14.789	1	.000
No. of Valid Cases	54		
a. 4 cells (50%) have expected count less than 5. The minimum expected count is .63.			

6.5.7 Corporate governance of SOEs can be improved by adhering to: Giving the audit committee greater power to investigate financial reporting

According to the report prepared by KPMG (2009, p.1), the roles and responsibilities of the Audit Committee have increased in scope in order to cater for the stringent regulations and

higher financial reporting requirements of the shareholders. KPMG believes that the success of corporations depends on Audit Committees not only understanding their roles and responsibilities, but also being able to fulfill them with the blessing of the shareholders, Board and other committees. Of the expected count of 0.02, two of the chi square results were below the expected minimum count, except for the linear association which came out at 0.923, indicating association between qualification of respondents and the responses. Respondents did not think giving the Audit Committee more power to investigate financial reporting can improve corporate governance of SOEs.

6.5.8 Making the internal corporate governance mechanisms work better e.g. effective Board functions, active shareholder participation etc.:

Maseko (2015, p.2) states that “shareholders have rights under both common and corporate law to participate in key corporate governance decisions, including the right to nominate, appoint and remove Directors and external auditors, and the right to approve major corporate governance decisions”. This assertion is supported by the World Bank (2014, p.51) when stating that many SOEs encourage shareholders to participate in “their annual meetings” and that “prominent SOEs have thousands of shareholders participating ... active corporate cultures and stringer corporate governance ... have more active participation”. In support, Brown argues that “firms with stronger shareholder rights had higher firm value, higher profits, higher sales growth, lower capital expenditures and made fewer corporate acquisitions”.

6.5.9 Enhancing the standards of accounting, audit and disclosures

According to Pellisserry (2012), financial accounting and disclosure are crucial for the performance of public firms as they are mechanisms used to enhance management performance and provide crucial information to the investors to limit the principal-agency problem. Accountability and transparency, as stated earlier, are two of the most important principles of good corporate governance. Imhoff (2003) stated that the accounting, auditing and corporate governance structures of corporations are essential to the flow of much needed information to the capital market participants. If the standards of accounting, auditing and disclosure are enhanced, SOEs could be able to improve their compliance with principles of good corporate governance.

6.5.10 Conducting and publicizing corporate governance ratings of the Entity:

Ertugrul & Hegde (2009) posit that corporate governance is an important tool for assessing corporate performance, while Brown notes that companies and their Boards keep searching for “bragging rights to good, better or best corporate governance practices”. A study conducted by

Renders, Gaeremynck and Sercu (2010) revealed that there is a significant relationship between corporate governance ratings and company performance, meaning that the more compliant the organisation, the better the economic performance.

6.5.11 Corporate governance of SOEs can be improved by adhering to: Giving the Audit Committee greater power to investigate financial reporting

According to PwC (2016) audit committees should be independent and should be allowed greater power to exercise financial control and identify and manage risk. The Board should also give committees enough resources and power to review internal financial controls.

Table 6.46 Giving the audit committee greater power to investigate financial reporting

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	19.809 ^a	12	.071
Likelihood Ratio	25.238	12	.014
Linear-by-Linear Association	13.410	1	.000
No. of Valid Cases	54		
a. 17 cells (85%) have expected count less than 5. The minimum expected count is .04.			

The minimum expected chi square count was 0.04 and the observed value was 0.071. the implication is that the majority of the respondents felt that giving the audit committee greater power to investigate financial reporting would help improve corporate governance in their Entities.

6.5.12 Corporate governance of SOEs can be improved by adhering to: Not obtaining audit and non-audit services from the same provider

ICAEW (2016): “The use of the same service provider for audit and non-audit purposes should be prohibited because it compromises the auditing firms’ independence through ‘familiarity’”. Obviously if the same service providers are used for audit and non-audit services their judgment would be compromised and the audit reports that they give would be skewed in order to earn more favour from the Board. Three quarters (75%) of the respondents agreed that if the SOEs

refrained from obtaining audit and non-audit services from the same providers, adherence to corporate governance could improve.

Table 6.47 Not obtaining audit and non-audit services from the same provider

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	16.581 ^a	12	.166
Likelihood Ratio	20.421	12	.060
Linear-by-Linear Association	10.187	1	.001
No. of Valid Cases	54		
a. 16 cells (80%) have expected count less than 5. The minimum expected count is .04.			

The observed likelihood ratio was 0.060, while the expected count was 0.04. With the observed likelihood ratio being more than the expected count, the research concluded that the majority of the respondents felt that corporate governance in SOEs could be improved by their not obtaining audit and non-audit services from the same service provider.

6.5.13 Corporate governance of SOEs can be improved by adhering to remuneration packages for Executive Directors being closely linked to performance

Payment for performance and not mere attendance is an important element of good management. Heskett (2007) argues that people should be remunerated for the value they add to the organisation. When the respondents were asked whether they thought that corporate governance in SOEs could be improve by remuneration packages for Executive Directors being closely linked to performance, a unanimous 86% stated that they thought linking remuneration packages of executive Directors to performance could have a positive impact on corporate governance.

6.5.14 Corporate governance of SOEs can be improved by adhering to: Key Board committees are composed entirely of independent non-executive Directors

Medtronic Plc (2015) wants the majority of the Board members to be independent with “no more than two Directors who are employed by the company serving on the Board at any time”.

Table 6.48 Key Board committees are composed entirely of independent non-executive Directors

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	29.597 ^a	12	.003
Likelihood Ratio	23.033	12	.027
Linear-by-Linear Association	.177	1	.674
No. of Valid Cases	53		
a. 17 cells (80%) have expected count less than 5. The minimum expected count is .08.			

For Ingersoll Rand (2016) the Board is also composed of “a substantial majority of independent, non-executive Directors”. The respondents were asked to share their thoughts regarding the Boards of SOEs being composed of entirely independent non-executive Directors. As can be observed in Table 6.48, the linear-by-linear association was 0.674 of the expected count of 0.08. The observed value was much higher than the expected value. The researcher can therefore conclude that based on the years of experience in the current portfolio, the respondents felt that corporate governance in SOEs could be improved by the Board committees being composed of entirely non-executive Directors.

6.5.15 Corporate governance of SOEs can be improved by adhering to an age limit for Directors

Lublin (2011) argues that the retirement age for Board members of the biggest businesses is set at 75 years. Katz, Lipton & Rosen (2014); Cloyd (2013) argue that a mandatory retirement age for Directors is typically between 72 and 75 years, even though some industries would go beyond this age. A minimum age prescription could be used to ensure that the Directors have had enough corporate exposure to be able to understand and comply with the principles of corporate governance. As stated in chapter 2 the common retirement age for Board Directors ranges from 72 to 75. However, in South Africa there seems to be no set age limit for Board Directors due to the shortage of expertise.

6.5.16 Corporate governance of SOEs can be improved by adhering to full disclosure of the recruitment policy of new Board Directors

Gumede (2012, p.8) states that for SOEs the State has a greater say in the nomination of Board members as opposed to Johannesburg Stock Exchange listed organisations. Gumede further argues that for SOEs, transparency regarding the nomination of Board members is not easy as there tends to be substantial political interference, so the process is prone to be “often opaque and not transparent”.

Table 6.49 Full disclosure of the recruitment policy of new Board Directors

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	42.195 ^a	12	.000
Likelihood Ratio	35.386	12	.000
Linear-by-Linear Association	3.914	1	.048
No. of Valid Cases	53		
a. 16 cells (80%) have expected count less than 5. The minimum expected count is .04.			

The expected minimum count was 0.04 and both the observed chi square and likelihood ratio were far below at 0.000. The researcher can therefore conclude that the respondents did not particularly agree that corporate governance in SOEs could be improved through full disclosure of the recruitment policy of new Directors. Even though the observed linear-by-linear association was slightly higher than the expected count by 0.008, this was hardly significant.

6.5.17 Corporate governance of SOEs can be improved by adhering to the disclosure of exact remuneration of each Board Director in the annual reports

According to the Companies Act (2013) any Director can hold up to a maximum of ten simultaneous Directorships in public companies, which implies that the sampled Boards were compliant in this regard.

The Organisation for Economic Development (OECD) (2013) developed internationally acceptable standards for improvement of corporate governance globally. This can be achieved through adherence by Board members to a sound code of ethics which, according to Stryker (2016), is aimed at deterring wrongdoing while promoting ethical, honest conduct and proper disclosure of information.

Table 6.50 Disclosure of the exact remuneration of each Board Director in the annual reports

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	24.752 ^a	12	.016
Likelihood Ratio	30.368	12	.002
Linear-by-Linear Association	11.474	1	.001
No. of Valid Cases	53		
a. 16 cells (80% have expected count less than 5. The minimum expected count is .04.			

All the observed counts (chi square, likelihood ratio and linear-by-linear association) were below the expected count of 0.04. The conclusion that can be drawn is that the respondents by years of experience in current portfolio did not think that corporate governance in SOEs could be improved through the disclosure of the exact remuneration of each Board Director in the annual reports.

6.5.18 Corporate governance of SOEs can be improved by adhering to adoption of a code of conduct and ethics for all Board Directors, officers and employees

The code of ethics is normally adopted to “deter wrongdoing and promote honest and ethical conduct, proper disclosure of financial information...” (Stryker, 2016). Makita (2009) states that the code provides a standard for communicating internal controls, responding to accounting queries, and measures for providing auditing information. On the question of whether corporate governance in SOEs could be improved through the adoption of a code of conduct and ethics for all Board members, officials and employees, Table 6.51 shows the expected count of 0.04 and the observed values (chi square, likelihood ratio and linear-by-linear association) which can be seen below. It can thus be concluded that the respondents by years of experience in current portfolio did not think that the adoption of the code of conduct and ethics for all Directors, officials and employees would have a significant influence on the improvement of corporate governance.

Table 6.51 Adoption of a code of conduct and ethics for all Board Directors, officers and employees

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)

Pearson Chi-Square	22.587 ^a	9	.007
Likelihood Ratio	27.293	9	.001
Linear-by-Linear Association	12.756	1	.000
No. of Valid Cases	53		
a. 12 cells (75%) have expected count less than 5. The minimum expected count is .04.			

6.6 CRITICAL FACTORS AND CHALLENGES IN THE CORPORATE GOVERNANCE OF SOEs

Results from the interviews conducted during qualitative data analysis revealed that respondents felt that the following factors were critical for effective corporate governance:

- The Board and how it conducts its work is critical to corporate governance improvement
- Entrenchment and understanding the corporate governance principles, which included training of Board members to ensure that their competence in as far as corporate governance knowledge and understanding, is ensured
- Appointment of competent people/ employees who understand the job at hand
- The Board members' term of office, and the process involved when they are appointed was highlighted as an important factor, including perceived political interference during appointments
- Ensuring that organizational efficiency and unnecessary conflicts and interference did not compromise corporate governance
- Adoption of a long term, integrated approach in Board appointments, by Government
- Reduction of power and political interference, coupled with regular performance evaluation of Boards
- Appropriate requisite skills amongst Board members; and continuous training and development
- Clear distinction between the role of executives and Board members
- Ensuring that a conducive business environment is created, with clear policies and procedures
- Monitoring and overseeing role should be played by the Board on behalf of the shareholder

This is in line with the challenges cited by Oso and Semui (2012) in Chapter 3, where they discussed the various challenges in the process of implementation of the various governance codes and cited that these are evident worldwide and that they cut across different sectors which include, amongst others, technical incompetence of Board and management, ineffective integration of Entities, inadequate management capacity, insider-related abuse, ineffective Board / statutory Audit Committee.

Witherell (2005) also alluded to the fact that corporate governance difficulties may also derive from the fact that in the case of SOEs there is often no clear owner but competing owners with widely different objectives. The Bangladesh Enterprise Institute (2004), also in Chapter 3, pointed out that as a result of political turmoil and vested interest in SOEs, the process of good corporate governance framework in Bangladesh is greatly hindered and the main issues as described in Figure 3.7, are with regard to the Board of Directors, accountability and monitoring.

What came out of the responses from the interviewees conducted during the qualitative research, confirmed statements from Schulschenk (2012) and Uhrig (2003) who alluded to South Africa's real challenge: corruption and credibility issues, which throw doubt into whether one can apply corporate governance principles in an environment which is largely perceived as corrupt, with tendencies to have Boards with compromised reporting lines and less than full governing powers.

Respondents cited two main challenges faced by Boards of SOEs concerning corporate governance:

- Political interference in the appointment of executives and Board members who do not add value to service delivery
- Power and politics versus Board performance, citing instances where responsibilities are given to Boards which compromised the Executive Team ability to deliver on their mandate and existing annual performance plans.

6.7 CONCLUSION

According to Bischoff & Rädler (2011, p.2) research objectives help by stating what the researcher wants to achieve through the study because they address the important aspects of the research problem and assist in delimiting it, providing the framework for the written project. As stated at the beginning of the chapter, the study was driven to satisfy the following objectives which would help the researcher address the research problem and satisfy the aim of the study.

To identify internal and external factors contributing to the understanding of corporate governance practice of Schedule Three SOEs: Some of the respondents had received formal training in corporate governance at university. Some workshops were organised but there was no formal plan for staff development. Most respondents had under- or post-graduate qualifications which enabled their understanding of their fiduciary responsibilities

To evaluate the level of awareness and knowledge about corporate governance practices among the different categories of Schedule Three SOEs: The study discovered that some of the respondents had not received formal training in corporate governance and that the Entities tended not to have formal development programmes in this regard.

To examine the extent to which the different categories of Schedule Three SOEs comply with the provisions for corporate governance: Gumede (2012) argued that for SOEs, transparency regarding the nomination of Board members is not easy, as there tends to be substantial political interference. The process is therefore often prone to be “opaque and not transparent”. The research found that there was a measure of compliance with the provisions for corporate governance. However, in some cases the respondents tended to differ or refuse to commit themselves. Document analysis indicated that the level of compliance differed in some of the corporate governance areas, across different categories of Schedule Three SOEs, however the analysis of the results of the interviewees confirmed Gumede (2012)’s assertion.

To recommend strategies for improvement of corporate governance practices within Schedule Three SOEs in KZN: The majority (86%) of the respondents thought that enacting regulations, monitoring and stakeholder consultation and participation would make the external corporate governance mechanisms work better. A number of recommendations were forwarded in this chapter and the respondents seemed to think that some of them could help improve corporate governance in their Entities.

The qualitative data analysis identified other challenges and strategies to improve corporate governance, which will be discussed in further detail under Chapter 7. Mostly issues raised by different authors in the literature review were in line with responses received during the interviews in the qualitative research part of the QUAN-qual research method used in this study.

CHAPTER 7: RECOMMENDATIONS AND CONCLUSIONS

7.1 INTRODUCTION

Literature review showed that SOEs remain an important part of economic life in many countries. This study suggests that where SOEs face competition from other companies and where their advantages provided from the State are minimal, the corporate governance of such SOEs tends to be stronger than in situations in which SOEs face competition and behave as much as possible like private companies, such as in Norway and New Zealand (Frederick 2011). SOE corporate governance seems to be better when there is more accountability.

There is more accountability when SOE governance statutes reflect those of private companies. However, the nature of challenges experienced internationally seem to be common, as Armstrong, Segal and Davis (2005, p. 33) argued in Chapter 3 that while the policy-makers and regulators can take the formal requirements of corporate governance to a certain point, it still devolves on the Boards of companies in the private and public sectors to ensure that corporate governance, as a guide to actual practice, remains a priority issue.

Findings in Chapter 5 and 6, pertaining to each research objective assisted in crystallising the deeper understanding of the complex nature of the SOE environment. For example, the issue and findings on legislation and regulation highlighted the implications of compliance in the context of convoluted legislation and regulation. Similarly, the interface between boards and management echoed similar views by highlighting issues such as extensive mandates, multiple reporting and accountability, political interference, a creeping culture of fear, and the trust deficit between management and Boards.

This study set out to conclude by harnessing different sections of the study to establish better understanding of reasons associated with the challenges of corporate governance in the SOE sector. Discussions and activities in each chapter contributed towards the understanding of the study's purpose, research methods, data analysis and interpretation and basis for conclusion

This chapter will focus on the summary of the findings, conclusions about objectives, implications, summary of the practical, theoretical contributions of the thesis, implications of corporate governance practice, limitations, recommendations based on the results of the study, recommendations for further research, value contribution of the research study and conclusions of this study. The following conclusions are made based on: the analysis of relevant literature, the results of questionnaire surveys on levels of compliance, the stakeholders' opinions on corporate governance practices, complemented by the results of the qualitative research

interviews, the analysis of documents (annual reports) and findings about the impact of ownership on Entity performance in the form of answers to stated research questions.

7.2 REVIEW OF THE STUDY

Studies which examine the suitability of prevailing corporate governance best practices around the world have increased considerably and has been made more so, by the increased focus on improving global corporate governance trends. Corporate governance is particularly important for emerging markets like South Africa to secure economic development and to avoid economic crisis.

It has emerged during this research that corporate governance, as described by Rajendran (2012), is generally understood to mean the system that defines the distribution of rights and responsibilities among different participants in the corporation, such as the Board, managers, shareholders and other stakeholders, and spells out rules and procedures for making decisions in corporate affairs. The literature review as a result reviewed the roles and responsibilities of these players in the corporate governance of the SOEs.

Studies investigating the suitability of existing corporate governance practices for emerging markets were found to be relatively few compared to those conducted on developed markets. South Africa, being an emerging market, is not an exception, its corporate governance practices being largely influenced by corporate governance codes developed in the United Kingdom and other developed economies. The suitability of these corporate governance practices developed in Anglo-Saxon countries and exported to South African companies is questionable, as no systematic research has been done to examine their validity in an emerging market context. Therefore, an objective of this study was to fill this gap by examining the critical factors affecting compliance to corporate governance by South African SOEs and the effectiveness thereof.

The best practice reviewed, suggested by various codes including the *King III's Code of Governance Principles*, emphasised separate roles of CEO and Chairman of the Board, having a balanced Board both in terms of skills and competencies, as well as in terms of inside/outside representation, having defined criteria for Director independence, establishing Audit and other committees such as the Remuneration, Risk, Nomination committees, having robust and transparent processes for Director of the Board appointment, carrying-out effective performance evaluations, linking rewards with performance and communicating adequately and openly with stakeholders including the public. All of these, according to Heracleous (2001, p.66), are essentially aimed at improving Board independence, transparency and accountability to the

company's shareholders and other stakeholders, and its effectiveness in fulfilling both its conformance and performance functions.

Heracleous (2001) explains that the effectiveness of Boards of Directors (or lack thereof) has become a global concern, with corporate collapses, fraud cases, shareholder suits or questionable strategic decisions that attract attention to the top decision-making body of the Entity, the Board of Directors. This was evident in the situational analysis of SOE corporate governance in South Africa, where African Bank, South African Airways (SAA), South African Broadcasting Corporation (SABC) and Eskom were cited. In an attempt to raise the standards of the corporate governance process, 'codes of best practices' have been drawn up by several countries. The adverse publicity as mentioned above, is created for companies with what are seen as ineffective governance systems.

7.2.1 Summary of the sequence of chapters of the study

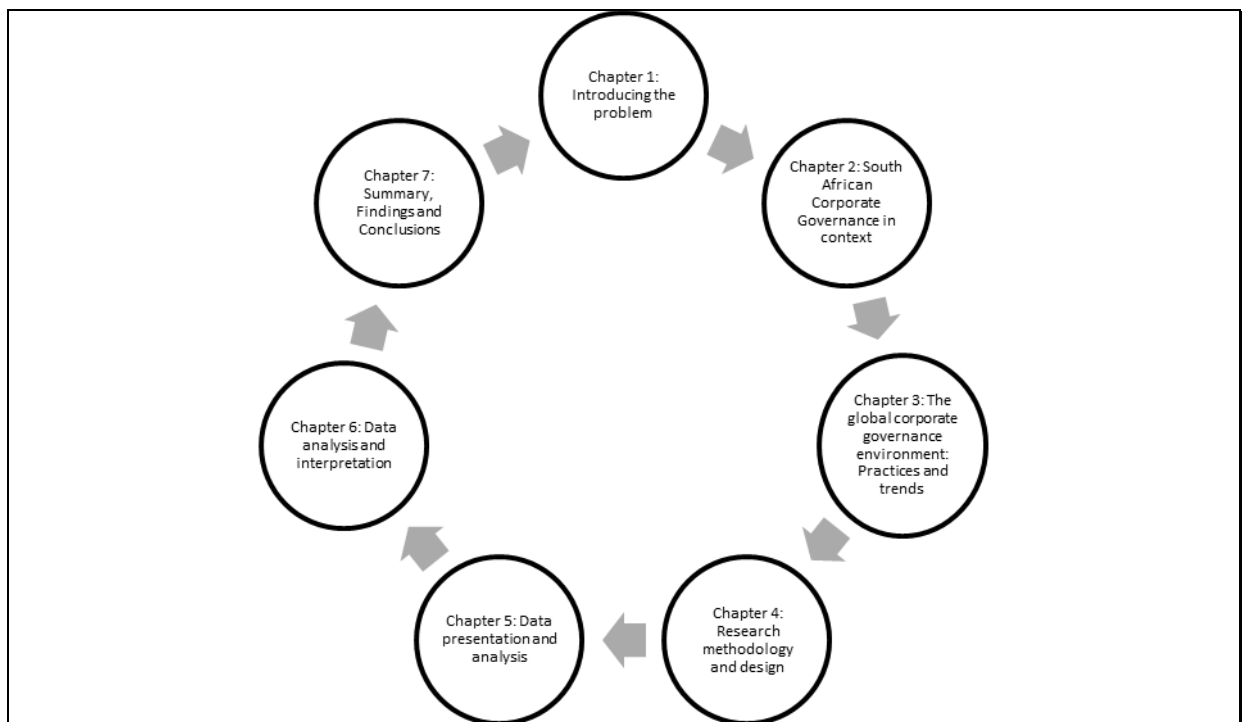


Fig: 7.1 Summary of the chapters of the study

In summary, as illustrated in Figure 7.1, this study contributes a comprehensive literature review on corporate governance giving an insight into previously identified corporate governance issues of both developed and emerging markets. **Chapters 2 and 3** were devoted to a comprehensive review of the literature related to the study, including the theoretical framework that has informed the study, as well as expanding and further elucidating key concepts. There was a review of key concepts on corporate governance in SOEs, together with underlying theories and empirical findings.

While **Chapter 2** focused on corporate governance within the South African context, where the historical developments of corporate governance in South Africa, together with its legal and institutional framework were discussed placing this study in the South African context, **Chapter 3** looked at international trends and general principles governing corporate governance. As mentioned earlier, the key to the discussion in this chapter was to analyse trends that have been adopted by other countries and to understand the roles and responsibilities of different corporate governance players within the SOEs. Also the value, benefits and challenges discussed in Chapter 3, indicated that corporate governance concerns are generic and not unique to South Africa.

The research design and the methods adopted in empirical examinations were discussed in Chapter 4, which was comprised of a detailed description of the mixed research methodology used in the study. The research design was specified, methods of data collection described and data analysis procedures outlined, including a detailed description of the population of the study and the sampling procedures. Chapter 5 covered the comprehensive presentation of the research findings and analysis thereof. The data obtained by means of the self-completion questionnaire, in-depth interviews and document analysis was presented and statistically analysed, including the narrative analysis.

The chapter described how the data would be processed into results that were then interpreted in Chapter 6. Here there was focus on the interpretation of the results for the study, based on the findings that emerged from the literature review. On the basis of data obtained from the quantitative and qualitative survey, Chapter 6 provided an analysis of compliance to corporate governance best practices by South African SOEs. Chapter 7 discussed the findings of various aspects of corporate governance as analysed in the previous chapters and presented the conclusions of this study. On the basis of these findings and the conclusions, this chapter also makes recommendations for the improvement of corporate governance practices in South African SOEs.

The SOEs operate within a private sector environment, while by virtue of their constitutions, they are public Entities. **Chapter 3** highlighted the aim of corporate governance, and confirmed what Rajendran (2012: 31) also summarised, in that corporate governance aims to bring harmonization into the management of Entities by ensuring that there is a balance between economic and social goals and between individual and commercial goals by:

- Ensuring efficient use of resources and accountability for the stewardship of those resources
- Aligning the interest of individuals, corporations and society

- Helping corporations and those who own and manage them, to adopt internationally acceptable governance standards which will assist them to achieve their corporate aims and gain investor confidence
- Encouraging and strengthening the economy and discouraging fraud, corruption and mismanagement
- Ensuring openness and disclosure and thereby enhancing public confidence

The literature review on corporate governance covered a variety of these aspects. Important among them was protection of shareholders' rights and values. Board issues including its composition and role, disclosure requirements, the integrity of accounting practices, the control systems, in particular the internal and external control systems, the structures of governance that have been set-up; and decision making processes, were covered in the survey. These factors can however be broadly classified under two different perspectives, namely: Corporation's perspective and Public policy's perspective.

This approach was described by Frederick (2011, p.13) in chapter 3, where he cited that conformance emanates from a view that the role of the Board is to prevent corporate excesses and political embarrassment emanating from misuse of public funds and that within the Board, a compliance mentality often manifests itself through a preoccupation with the budget-setting process and monitoring variations from budgets and plans, often at the expense of larger issues such as effectiveness of the overall business strategy. However, he further cited that focusing excessively on conformance can give Boards and owners a false sense that they are fulfilling their fiduciary functions. This compliance was evident during the survey, whereas analysis done during qualitative research indicated that there was a great deal of effort to conform by tick-boxing, as will be discussed in the next section.

7.3 SUMMARY OF FINDINGS PER RESEARCH OBJECTIVES

In summary, when broadly assessing the corporate governance performance of these SOEs, it emerges that there is compliance with the "structure" of corporate governance in that committee structures have been established, communication with shareholders, mainly in the form of audited financial statements and annual reports, is undertaken and some form of identification of risk is included in such statements and reports. Haque, Jalil and Naz (2007) differentiate between two schools of thought that describe corporate governance as "structures and processes for decision making, accountability, control and behaviour of the governing body", while the other view describes corporate governance as being about "finding ways to ensure effective

decision making”, most SOEs surveyed seem to comply with the first school of thought in terms of putting structures and processes for decision-making in place, but compliance with the aspects of accountability, control and ethics were not visible.

It appears that the level of corporate governance becomes blurred when noting the incidences of governance transgressions recorded, indicating poor governance controls by the Boards and by the executive management of the SOEs. Such an omission is further compounded by the finding that Government appears to interfere in the direct running of the SOEs, thus usurping the authority of the Boards. However, where it should legitimately exert control, through the Boards, to ensure sound governance, it appears not to be doing so.

Corporate governance transgressions were identified amongst all eleven SOEs, as evidenced by gaps in their annual reports. While Dube Tradeport Corporation and Ithala Development Finance Corporation appear to display better compliance with corporate governance practices than Amafa KZN, Heritage KZN and Ingonyama Trust Board (from data in the annual reports). Because they had slightly lower incidences of non-compliances, it nevertheless remains as non-compliance. These non-compliances were noted across a number of criteria with all eleven SOEs. The frequency of incidents cited for these governance transgressions (Table 5.45) serve to highlight the possible reputational risk that these SOEs could suffer. It is unlikely that an unprotected private business would remain unscathed by shareholder action if, for example, a high percentage of media reported details of governance transgressions.

Somewhat in contrast, however, is what was discussed in section 4 of Chapter 2, that single transgressions, such as the Boardroom feud between the CEO and Chairman at SAA, can create substantial “noise” in the media that perhaps magnifies the incident to such proportions that, in the public mind, there appears to be more transgressions committed by that SOE than is actually the case. However, such occurrence serves also to highlight the potential reputational risk that corporate governance transgressions hold for SOEs. The picture that emerges overall is that these SOEs are abusing, in some form, their monopolistic positions in the country and public opinion is being strongly voiced about such abuse. The danger exists that the protectionism afforded SOEs from insolvency and bankruptcy (Michael 2013) poses a real threat to efficient service delivery and the imperative to address effective corporate governance (OECD, 2005).

These findings echo those relating to monopolistic practices by SOEs in other BRIC(S) countries i.e. Brazil, Russia, India and China, (Thomas, 2012) and the resultant Government intervention that often promotes inefficiencies. This principle advocates the sound overseeing of SOEs by Government as a sole or major shareholder. In this regard, evidence exists that, to some degree, political interference in the operational running of all surveyed SOEs occurred

during the period under review, a finding noted to be common practice at SOEs by respondents to the qualitative research interviews that were conducted.

7.3.1 Objective 1: To identify internal and external factors contributing to the understanding of corporate governance practices of Schedule Three SOEs in KZN.

The assertion by McGregor (2007: 17) that because South Africa is a very young country that has inherited both good and bad habits, the importance of sound good quality corporate governance is not fully understood by many Boards and Board members, many of whom are inexperienced and not well educated or trained, has been found to be untrue. In fact, the majority of Board members were found to be well educated, with post-graduate qualifications.

All respondents were qualified ranging from undergraduate to post graduate qualifications, with 79% having post-graduate qualifications and almost 50% of the respondents having more than five years' experience in their current portfolios. The respondents also had a range of background experience as business executives, legal professionals and other categories stated as marketing, administration, engineering, economic research, academic professionals, science, anthropology, tourism and lecturing.

- The Board and shareholders play a bigger role in developing policies of Entities, with less input coming from stakeholders.
- No structured training was provided by SOEs for newly appointed Directors, according to 31% of the respondents.
- The shareholder has the sole authority in the selection and appointment of Board members, with a few respondents saying that the CEO has the authority. 50% of the respondents who have 1 – 15 years' experience indicated that there is no formal and transparent procedure for the selection of Board members.
- Although 74% of the respondents stated that their Entities had a code of conduct, the 26% who disagreed were the main concern, as the existence of this code also resonates with the issue of ethics in the corporate governance role of Boards.
- 48% of respondents did not think that recruitment was based on knowledge and understanding of corporate governance and neither was it based on knowledge and understanding of the sector where the Entity belongs.
- There are no limits to the number of years that Board members should serve, as discussed in the literature review. The survey found that, except for 21.6% of the respondents, all of them served in more than 2 companies as Board members, with about 5.4% serving in 8 companies.

- There are Directors representing shareholders, stakeholders, sectors and employees. There was however, less representation of constituencies and employees compared to those representing shareholders, stakeholders and sectors.
- The Code of Principles recommends at least 4 meetings for Board and Board committees, per year, and there was almost full compliance in this respect and also regarding attendance rate. The document analysis conducted showed that there is a lot of focus on reporting attendance of Board and Board Committee meetings, where 9 out of 11 SOEs and 10 out of 11 SOEs respectively, provided information on the number of meetings held per year.
- Research looked at three main Board Committees which were Audit Committee, Risk Committee and Remuneration Committee, and found that all surveyed SOEs had these in place, with most of them having terms of reference for these committees in place, the majority members therein being non-executive Directors who were financially literate.
- The area of concern that emerged from the survey, regarding the Audit Committee, was that this committee did not prioritise meetings with external auditors, which is an important factor that should be enabling them to perform their overseeing role more efficiently. However, in the document analysis conducted, all 11 SOEs surveyed, reported on the external audit conducted in the Entity through their annual reports.

When conducting the qualitative research interviews, the feedback received provided further insight into this objective, in that respondents indicated that good leadership at Board and management levels was critical for good corporate governance practices, in addition to the other key factors as follows:

- Clear distinction between the role of Board and Executives
- Creation of a conducive environment that enables ease of work
- Requisite skills amongst Board members.

7.3.2 Objective 2: To evaluate the level of awareness and knowledge about corporate governance practices among the different categories of Schedule Three SOEs in KZN.

- There is no retirement age stipulated in any of the legislation reviewed but in the King III's Code of Governance Principles, however, respondents were split 59%:41% about whether there is a retirement age for Board members, with a majority saying there is no limit.
- None of the views discussed under the literature, particularly key considerations in the corporate governance best practices, emphasized performance review of Boards. However, Ilyas and Rafiq (2012) indicated that accountability is a corporate governance element which can enhance good corporate governance. In the survey, 47% of the

respondents agreed that the shareholder evaluates performance of the Board annually, whilst 66% indicated that the Board formally evaluates its own performance annually.

- 73% of the respondents indicated that they have a code of conduct and ethics for their Board members.
- All respondents indicated that they sign disclosure forms annually.
- Respondents to the qualitative research interviews indicated 100% understanding of King Code of Governance Principles. They cited the following as contributing factors to effective corporate governance in SOEs:
 - Entrenching the Code of Governance Principles and emphasis on training of Board members (compulsory and continuous training were the terms used)
 - Aspects related to Board composition, Board appointment, evaluation of Board performance were regarded as key factors contributing to effective corporate governance.
- Respondents were concerned that power and politics play a crucial role in the formulation of the Board and in its processes
- Consideration of international Board practices and regulations to ensure positive effects of Boards in SOEs.
- Ensuring that auditing of SOEs is defined, disciplined, accountable and transparent and that Audit Committee members have expertise
- Ensuring that all relevant overseeing Board committees were in place, with clearly defined terms of reference, delegation of authority, independent members with skills and clearly defined reporting lines

Other positive factors cited during the analysis of the results from the qualitative research interviews, contributing to effective corporate governance practices, mentioned by respondents were:

- Effectiveness of Boards
- Skilled, independent Boards (trained Board members with capacity)
- Setting measurable strategic objectives for SOEs
- Regular performance evaluation or regulation of Board evaluation (compulsory)
- Appointment of competent and experienced CEOs
- Adoption of long term and integrated approach in Board appointments
- Clarity of roles

As regards more efficient processes in removing and appointing Board members the following were cited as negative practices amongst SOEs that negate corporate governance:

- Ineffective financial and auditing management

- Three year term of office cited as being very short to allow for implementation of SOE objectives
- Shortage of specific skills
- Lack of clearly defined strategic objectives
- Non-evaluation of Boards
- Political interference in appointment of CEOs and other Executives
- Inadequate succession plan
- Political interference by shareholder MECs
- Problem of overlapping functions and objectives between SOEs and shareholder departments
- Mandate not clearly understood by external stakeholders
- Lack of dispute resolution processes, when there is a dispute amongst Board members
- Poor sustainability and accountability reporting
- Loss of institutional memory

In the survey done through document analysis of annual reports, 8 out of 11 SOEs surveyed reported on the Board's responsibilities, 3 out of 11 SOEs reported on the Chairpersons of the Board's responsibilities, 2 out of 11 SOEs reported on the CEO's responsibilities and 3 out of 11 SOEs provided information on delegations of authority. The annual report is the one key tool through which SOEs provide information about their performance to the public, shareholders and stakeholders so that failure to provide this information made it difficult for the researcher to assess the level at which Boards comply with their expected responsibilities.

Ensuring that SOEs have qualified Boards is a critical task and a priority for ownership Entities in many OECD countries. In practice, the nomination of SOE Boards is sometimes complex and may also lack transparency. The ownership Entities are not always the main decision-making bodies on the nomination of SOE Board members, and, more particularly, the nomination of State representatives to SOE Boards. Many different ministries or other Government organs may be involved, especially where the dual model of ownership is used, and strong political influence is frequent (Nevondwe, Odeku and Tshoose, 2014; Bronstein and Olivier, 2014). Very few countries have set up clearly defined processes for the nomination of SOE Boards.

7.3.3 Objective 3: To examine the extent to which the different categories of Schedule Three SOEs comply with provisions of corporate governance.

With regard to external looking compliance requirements, there is a high level of compliance (97-100%), according to respondents, with regard to disclosure of Annual Finance Statements, Audited Annual Reports, Audit Committee Reports, with slightly less percentage (88%) compared with public disclosures of corporate governance reports.

Less compliance to disclosure of corporate governance reports was confirmed in the document analysis. There were varying responses regarding what makes up the Corporate Governance System of each Entity, as follows:

Inclusion of

- Internal management regulations, policies and procedures: 96,3%
- The regulatory framework including monitoring systems: 98,1%
- Financial reporting framework: 98%
- Code of best practices of corporate governance: 88%
- Corporate culture and value system: 82%
- Relationship management system of stakeholders: 74%

The above shows the same trend as indicated previously where corporate governance issues, including culture, ethics, best practices, values and relationship management are regarded as less of a priority. When the survey analysed responses pertaining to available key documents and such requirements, the following were the results, listed according to the level at which they were regarded as important by respondents:

- Strategic Plan and Risk register: 100%
- Delegations of Authority: 94%
- Board Charter and Board Committee Charter: 85%
- Transfer payment agreement with shareholder: 80%
- Signed shareholder compact: 69%
- Qualified company secretary: 58%
- Development programme for Board members: 51%
- Succession plan for Executive management: 40%

The research also covered the assessment of the level at which shareholders and stakeholders were involved in corporate governance through:

- Timely submission of budget and corporate plan before commencement of the financial year: 97%
- Timely submission of annual financial statements as per PFMA timelines: 97%
- Timely submission of annual report as per PFMA timelines: 94%
- Quarterly reporting to relevant Government department: 90%
- Consultation of shareholder prior to finalisation of annual budget and the corporate plans: 84%
- Disclosure of non-compliance with PFMA and other pertinent Acts: 75%
- Timely response to planned interface with Parliamentary Portfolio Committee: 75%

- CEO/ CFO and other Executive Managers' terms of contracts and notice terms: 67%
- Consultation of stakeholder prior to finalisation of annual budget and corporate plans: 57%
- 58% of the respondents to the qualitative research interviews indicated the level of compliance in their Entity: 5%
- Timely response to queries from relevant Government department: 69%

Disclosure of Entities ranges between 80 – 100%, while 33% indicated that the level of compliance ranges between 50 – 79%. When asked what challenges were mostly faced by their Boards, the following were highlighted:

- Board appointments: Political interference in terms of executive and Board appointments, which as a result did not add value to ability to deliver on service, and they also felt that the three year term for Boards was too short to effect any change.
- Power and Politics versus Board performance
- Responsibilities given to Boards and their Entities without adequate funding as these compromised the Executive and the Board on their ability to meet their mandate and existing annual performance plan.

The document analysis conducted on annual reports revealed that only Amafa KZN/ Heritage KZN out of the 11 SOEs surveyed did not include their corporate governance report in the annual report. From this analysis it also emerged that only 3 out of 11 SOEs surveyed provided information on Board evaluations. This area was also less prioritised by respondents in both the quantitative and qualitative research interviews. 3 out of 11 SOEs provided information on declarations of interest by Board members, while all 11 SOEs disclosed information on Board remuneration.

There are glaring inconsistencies in reporting by SOEs, which leaves the stakeholders in the dark with regard to corporate governance practices of SOEs, as evidenced from those that were part of this survey.

Under this summary of findings, with respect to Objective 3, both positive and negative features are identified based on the nature of compliance of corporate governance best practices by sample SOEs. The 'positive features' represent the items of best practice with which the majority of sample SOEs have complied, and non-compliance items are represented in 'negative features'.

The positive features are as follows: the availability of a clear role for the Board to play as there is a formal schedule of matters reserved for its decision making, adequate representation of non-executive Directors on the Board, the term of office of Board of Directors, holding of regular Board and Board committee meetings, the availability of

Directors with financial acumen on the Board, the succession planning of Directors and senior management, the existence of an Audit Committee and Remuneration Committee, the formulation of terms of reference for Board committees, the appointment of an Audit Committee and its membership consisting of non-executive Directors with necessary financial expertise and experience, the availability of a clearly defined role, responsibility and authority of the Audit Committee, regular conduct of Audit Committee meetings, the self-evaluation of non-executive Directors' performance annually, the provision of information to shareholder for decision making in a timely manner, review of audit recommendations by the Board.

The negative features are as follows: a lack of independent non-executive Directors on Boards, insufficient representation of stakeholders on Boards, the appointment of Board members by controlling shareholders, insufficient performance evaluation of Directors by the shareholder, not limiting the number of directorships that can be held by a Director, the failure to conduct annual performance evaluations of Boards, a lack of attention paid to maintaining written codes of conduct and ethics for Directors, insufficient attention paid to the professional development of Directors, insufficient training provided to newly appointed Directors, a lack of voluntary disclosures or declarations of interest on annual reports; lack of succession plan for executive managers and general disregard of accountability to stakeholders, which in the case of SOEs, is the general public.

7.3.4 Objective 4: To recommend strategies for improvement of corporate governance practices with Schedule Three SOEs in KZN.

This section sought to understand what respondents needed to be done to improve corporate governance practices in their Entities, by focusing on corporate governance issues and practices, and as a result determining what respondents thought are the major issues regarding their Entities. This survey derived the following results:

- Inadequate/ inefficient risk management: 75%
- Ineffective connectivity between Board and executive management: 65%
- Conflict of interest of Directors: 63%
- Lack of integrity and ethics among top management: 52%
- Lack of transparency in financial reporting: 52%

Respondents thought that factors like conflict of interest of Board members, inadequate risk management and ineffective connectivity between Board and executive management were issues of major concern regarding corporate governance in their Entities. This has to be read against what was discussed under Objective 3, with respect to what SOEs report in their annual reports.

When asked about on what strategies they place more importance, regarding improving the corporate governance practices in the Entity, the respondents highlighted as follows:

- Making internal corporate governance mechanisms work better: 91%
- Making external corporate governance mechanisms work better: 86%
- Enhancing standards of accounting, audit and disclosures: 72%
- Conducting and publicizing corporate governance ratings of the Entity: 63%

From the above results, internal corporate governance matters such as effective Board functioning, such as number of meetings held, number of committees, active shareholder participation; are given more priority than external corporate governance matters such as monitoring, performance evaluation and stakeholder participation. Of least importance to respondents are matters such as publicizing corporate governance ratings.

The respondents were also asked how corporate governance of SOEs can be improved, and prioritised the suggested strategies as follows:

- By adopting a code of conduct and ethics for all Board members, officers and employees: 90%
- By linking remuneration packages of executive Directors to performance: 86%
- By giving the Audit Committee greater power to investigate and monitor financial reporting: 83%
- By not obtaining audit and non-audit services from same service provider: 75%
- By disclosing exact remuneration of each Board member in the annual report: 72%
- By imposing limitations on number of Directorships held by a Board member at one time: 72%
- By ensuring that key Board committees are composed mainly of independent non-executive Directors: 67%
- By fully disclosing remuneration policy of new Board members: 61%

This objective was intended to determine what respondents thought were strategies that could improve corporate governance practices and it allowed the researcher to compare responses with the views of various authors in the literature review section of this thesis.

The qualitative research interviews which were conducted helped to complement the information received and to fill gaps. Here the respondents mostly repeated what respondents in the quantitative survey had cited already in the other sections, or re-emphasized some points. They were of the view that the following strategies would improve corporate governance practices amongst SOEs:

- Limiting political interference

- Consider international Board practices and regulations
- Adopt a long term and integrated approach in Board appointments
- Regulation of Board evaluations
- Compulsory and continuous training and development of Board members in the area of corporate governance
- Entrenching King's Code of Governance Principles
- Appointment of competent and experienced CEOs and executives
- Matching remuneration of Boards to skills and expertise required
- Compulsory Board evaluation
- Efficiency in processes of appointment and removal of Board members
- Acquisition of appropriate risk management skills

7.4 RECOMMENDATIONS BASED ON THE RESULTS OF THE STUDY

The main factors that emerged from the survey results and the analysis can be categorised into four key areas, as follows:

- Board independence
- Board accountability
- Board quality
- a guiding corporate governance framework that recognises the uniqueness of SOEs.

It emerged during the research that several authors were concerned by what they view as the possibility of excessive regulation in corporate governance that is restrictive and of limited practical use, especially if it follows the one-size-fits-all approach.

In this view, research results are inconsistent because a particular Board attribute or structure might be appropriate for one type of organisation, but inappropriate or even detrimental in another. While companies such as Dube Trade-Port Corporation, Ithala Development Finance Corporation and Umngeni Water have largely paid much attention to aligning their corporate governance processes to suggested best practices, publishing extensive details on their web sites, and being seen to fully comply with corporate governance requirements, others, especially Amafa, a KZN/Heritage KZN, Ingonyama Trust Board and KZN Tourism Authority, did not cover most of the suggested best corporate governance practices, as seen in the analysis of their Annual reports.

7.4.1 Board Independence

Governance transgressions, however minimal, are unacceptable in any organization, and particularly in SOEs which are organizations mandated to promote social, economic and

transformational agendas, especially in developing countries such as South Africa. If mismanagement of resources and governance transgressions prevail, it is highly unlikely that SOEs will effectively be able to execute their mandate to promote economic development in the country (Malherbe and Segal 2001).

Elimination of political interference: Accordingly, it is recommended that the Government assume, as a priority, the overseeing of such corporate governance practices through the SOE Boards of Directors, to ensure that SOEs operate beyond probity. Such action will require the Government to recognize that its prime function is to perform this overseeing role and not that of interfering in operational running or the entrenching of monopolistic practices which fly in the face of its own recommendations (Department of Public Enterprises, 2002). Such separation of roles will ensure, as advocated by Msweli and Singh (2014) that SOEs are not used to promote political goals but are strengthened to perform their legitimate functions in a developing country. The clarification of the role of the Government, it is suggested, will also assist in reducing boardroom conflict as emerged in the literature review, which has largely been fuelled by political interference.

Stringent penalties for breaches: It is important to improve the quality of internal corporate governance of SOEs. Governance is more opaque and less responsive to shareholders of SOEs than of publicly trading companies. There should be greater penalties for a fiduciary breach on the part of the SOE Board. This should include steep financial penalties for managers and Directors that breach their duties.

Governments should strive to increase the use of non-Governmental appointed Directors on the Board of SOEs. The state should reduce the number of political appointments on SOE Boards and increase the number of Directors who have previous business experience that would be useful in running a company. There might be some informal norms such as naming and shaming that might improve corporate governance. For naming and shaming sanctions to be successful, there needs to be enough transparency for information about bad corporate governance of SOEs as they emerge and a sense given that the lack of accountability is something for which one should be ashamed.

Independent structured Board nomination process: The main way of restricting Governmental or political interference in the nomination of SOE Boards and to increase their independence and professionalism is to put in place a structured nomination process, making sure that the ultimate selection criteria is competency. Moreover, focusing upon setting up structured nomination processes allows ownership Entities to perform their nomination role with a limited administrative capacity.

Ethical character as criteria for Board appointment: The present study also highlighted that compliance to sound corporate governance controls appears to exist in those practices that are externally determined but is less evident in practices that demand an internal responsibility for governance and Board overseeing. Accordingly, Government should ensure that Boards are comprised of members who operate from their own ethical frameworks and who, collectively, guarantee that the operations of SOEs are beyond probity. It is one step to have rules in place; the challenge exists to create the economic, social and cultural environments that ensure that such rules are actually evident in reality.

The Board takes ultimate responsibility for the SOE as a juristic body which needs to be accountable. The Board needs to understand its obligations with regard to ethical character and culture as those obligations cannot be delegated. The Board assumes ultimate responsibility for this obligation and has to embed this ethical character and culture in all the strategies, plans, processes and performance of the Entity.

7.4.2 Board accountability

There is a need for a more refined focus in terms of obligation of the Entity, as well as the accountability of the SOE as a broader stakeholder within the broader society.

Independent and objective assessment of Board performance: Relying only upon organizational annual reports does not provide the full picture of corporate governance practices; a deeper interrogation is required that goes beyond any “window dressing” or public relations exercise. Similarly, the objective assessment of corporate governance within SOEs should take cognisance of the “noise” that is created around specific incidents in the media. While such publicity can provide a broad measure of reputational damage, nonetheless it is not an accurate measure of true governance transgressions. Determining a methodology that can accurately track corporate governance transgressions at SOEs is a recommended area of future research later on in this chapter.

Governance challenges that require further scrutiny reside in the realm of those areas that defy a “tick box” approach. Organizing annual reporting to shareholders and regular external audits are tasks that are relatively easily accomplished. What is more difficult is to ensure that Board members and executives, in their roles as stewards, operate from a basis of integrity, the heart of corporate governance practice. Therefore, it is necessary to evaluate the culture of the entire organization to capture its “moral fibre”. In this regard, the appointment of Board members should not only include an assessment of the expertise, technical knowledge and the skills that they bring to bear in their contribution to the SOE, but due regard

should be given to their “ethical reputations” and the contribution which they will make to developing and consolidating sound governance practices.

Independent auditing of the Board performance: Other types of overseeing include mandating accounting of SOEs by private auditing firms rather than by another part of the Government, as it is with the Auditor-General which is also classified as a Schedule 1 SOE. This would reduce the possibility of the Government self-dealing that might limit a full discovery of the condition of SOEs in auditing results. Part of an improvement in overseeing would include an increase in effective penalties for poor overseeing and management, particularly when SOEs engage in non-compliances, as evident in the results of this survey. There is a need for personal sanctions for bad behaviour on the part of SOE managers such as the loss of job for SOE executives and barring work from other parts of Government for a set time period after they are fired from SOE management.

Streamlined reporting on corporate governance: In the use of the King Code of Principles (OECD, 2005), there appear to be certain omissions with regard to its applicability, in totality to a developing context and, in this case, to South Africa as a developing country. While these guidelines and the principles contained therein provide a useful framework to promote corporate governance in developing countries, some have questioned whether the guidelines, originally based on principles devised for developed countries, are, in fact, practical for use in countries with weak institutional frameworks.

Arguably, a focus on such issues could be contained within the principle of responsibilities of the Board of Directors where overseeing of governance transgressions could also include overseeing of omissions such as the failure to address transformational practices. Further, in order to promote the relationship between SOEs and their broad stakeholder groupings, this researcher advocates for regular reporting on stakeholder relationships and the development of an internal code of ethics that specifically ensures the protection of stakeholder rights. It can be argued that adherence to the practices incorporated under this principle goes to the heart of the governance.

7.4.3 Board quality

Although the value of inclusion of independent Directors on the Board is widely recognised and practised, in terms of the results of the survey, the concern is that

the over-emphasis on independence may lead to the under-valuation of industry skill and experience, as these concepts may be regarded as mutually exclusive.

Competency profile of the Board: The composition of the Board should reflect a balance of required skills, experience, diversity, independence and knowledge of the company. Independence, though important, is but one consideration. All these factors, including independence, should collectively yield a balanced Board where all Directors, including the independent Board members, should have a comprehensive understanding of the industry within and the business of the companies that they serve. A Board member should not have an interest, relationship, association or position which may lead to biased decision-making.

SOE management and Directors may be mandated to have specific skills and/or experience. Creating a competency profile provides a set of standards by which Government can require effective corporate governance. Policy targets, including financial goals, would create quantifiable targets for the SOE to meet. The failure to meet such targets could lead to the ouster of SOE leadership.

Compulsory Board induction: Internationally there is recognition of the importance of the induction process of SOE Directors as well as the need for Board Directors to have a combination of skills, experience and knowledge to perform effectively. In most countries there is a standard template for induction of SOE Boards that is used in most of the spheres of Government (Stuckey and Errity 2012).

Continuous training and education: There is also a focus on continuous improvement of the Board in general and of individual Directors. In addition to an effective induction programme for Directors, there is also the recognition of the need for continuous education. Beyond induction there also appear to be inconsistencies as far as ongoing and further training for Board members is concerned, and this must be standardised such that there are minimum competencies that Board members should meet.

7.4.4 Recommended SOE specific Corporate Governance Framework

The method and the effectiveness with which SOEs are directed, controlled and held to account are of particular importance to all stakeholders. SOEs seem to operate under a governance structure that is quite complex, involving relationships between the Legislature, MEC, Government departments, Boards and CEOs or the Executive Directors. The complexity of relationships and interdependence invariably results in confusion over the allocation of responsibilities and the

accountability for results. Under these circumstances, effective corporate governance is vital for ensuring stakeholder confidence in the management of SOEs.

In addition, the importance of corporate governance generally for companies, whether private or State-owned has been underscored by a myriad of problems discussed in Chapter 2. It has been noted that South Africa has no consolidated framework for SOE corporate governance. In South Africa, structures, systems, processes, procedures and controls for corporate governance of SOEs are set out in a variety of different laws. These include the founding legislation of specific SOEs, the PFMA, MFMA, the Municipal Systems Act, the Companies Act, Protocol on Corporate Governance in the Public Sector that is directly applicable to SOEs under the control of the Department of Public Enterprises and the King III Report on Corporate Governance.

The frameworks are very similar to those of other countries such as Australia and New Zealand, as seen in the literature review. However, other countries have, in addition to similar frameworks, an SOE ownership policy as well as an SOE Act. The ownership policy, for instance, defines “the overall objectives of State ownership, the State’s role in the corporate governance of SOEs, and how it will implement its ownership policy.” (OECD, 2005) Such a framework combines all the elements that are essential for the successful implementation of corporate governance processes and practices.

The roles, rules and responsibilities between owner/shareholder and the SOE Boards, who are responsible for Board and executive recruitment and appointments, is not explicitly codified and legislated. This undermines the operational effectiveness of SOEs because in such instances there is no formal framework that holds SOEs accountable. This opens the space for political and self-interested meddling in the appointment and recruitment of Boards and executives. In other instances, it often appears to be a case of rules and legislative dictates in place, but little monitoring by the executive authority or other overseeing bodies and stakeholders. If discrepancies are found, there appears to be little accountability.

Outcome-based Corporate Governance Code: *King III* was issued in 2009; and there is a need for a more practical, principle-based approach to good corporate governance that incorporates both global public sentiment and international regulatory change. It is important for SOEs to have a corporate governance code

that follows an outcome-based, rather than rule-based, approach. This is more in line with international developments which, as discussed under the literature review, promotes greater accountability and transparency and contributes to the performance and sustainability of the Entity. Different types of organisations require different Board practices, not the “one-size fits all” currently in existence in South Africa.

While being sensitive to the impact on global competitiveness from a cost perspective, it is fitting for South Africa to aspire to an internationally leading corporate governance code, to compensate for other geo-political sentiments impacting on investor confidence. Codes should establish a balance between conformance and performance as described by Frederick (2011). The recent corporate failures amongst some of the major SOEs, discussed in Chapter 2, are an indication that there is a need to reinforce corporate governance as a holistic set of arrangements that concerns itself with ethical leadership, attitude, mind-set and behaviour.

Apply and explain approach: The approach (Hendricks and Wyngaard 2010, p.14, Schulschenk 2012, p.14) of “apply or explain” (*King III*), needs to be reviewed to “apply and explain” where Entities ensure application of all principles and they should explain the practices that have been implemented to give effect to each principle. In other words, there is a need to move away from the tick-box approach and consolidation of the 75 *King III’s* Code of Governance Principles, where each is linked to distinct outcomes. The application of principles should achieve specifically identified outcomes.

The existing corporate governance codes do not have a legal status but are a set of voluntary principles and good practices. If there is conflict between the law and the codes, the law prevails, therefore the suggested language of “apply and explain”, more appropriately conveys the intent rather than “comply or explain”.

7.4.4.1 Key elements of the recommended framework

- The Government should develop a framework for the appointment of SOE Boards. The framework should be set out in a Handbook on Board Appointments, which should define the rules for the selection of candidates. The rules should clarify the roles for the Executive Authority, the Entity Board and the CEO, the role of the Minister in relation to Cabinet and to Parliament and should also clarify the Board appointment process. Provisions for Board appointment should take into account elements such as ensuring a transparent and merit-based recruitment and appointment process, transparent determination of Board fees/remuneration, confirmation of the term of office for Board members, stipulation of the number of Boards on which a member should serve, clear

articulation of performance indicators in writing, for which there should be mandatory annual evaluations, Board training and development programmes (both induction and further ongoing development), building succession planning for new Directors and preparing next generation Directors.

- The Corporate Governance Framework for SOEs should contain the agreement and signed-off statements of strategic intent, as well as corporate performance plans which should be made mandatory for every executive overseeing authority. These should be developed within a specified time-line, with shareholder and stakeholder involvement.
- There should be a focus on a dedicated, deliberate training and development programme for the Shareholder, the Board and the Executive Management of the SOE. In addition, strong sanctions and accountability measures should be in place to deal with noncompliance and ensure accountability and productivity. The Government should build its capacity to develop and implement an overarching strategy for SOEs.
- The Government should develop an integrated reporting, monitoring and evaluation capacity for SOEs across all spheres of Government. Adopting a compliance approach to governance essentially entails “ticking the boxes”, and it is suggested that sound governance which involves Board monitoring to ensure that management and operations are above probity, is a more difficult challenge. Vig (2012) notes how good governance is determined by the culture at the top and since the Board is the most senior body within SOEs, it is reasonable to expect that it is there that the responsibility for the tone of sound governance should be set.

A carefully developed and well-designed SOE legal framework is essential to ensure the viability and efficiency of the SOE sector. The SOE legislative environment in South Africa is characterised by a myriad of legislation that is overlapping, conflicting and fraught with duplicated provisions that lead to confusion in interpretation and application. The laws and other instruments arising from the legislation that apply across all SOEs including some of those discussed in the literature review, for an example: the Companies Act 2008 and the Public Finance Management Act (PFMA).

The PFMA is a financial tool for management and promotes the objective of good financial management in order to maximise service delivery through the effective and efficient use of limited resources at national and provincial level. In particular, the PFMA does not foster uniformity in the establishment of SOEs, appointment of the Board of an SOE, its committees and the CEO, determination of Government officials to sit on the Boards and developmental matters.

It needs to be highlighted that there may be some aspects of SOE activity, structure or governance that are dictated by the Constitution (unlike in the private sector). The Government

is the majority or sole owner of almost all SOEs, and as such is responsible for ensuring that frameworks exist that set out the corporate governance of these Entities. The State's ownership interest in SOEs is represented by Government through different institutions: Shareholder Ministers/members of Executive Committees and municipalities. Within the national and provincial Government spheres the Government is, in most cases, represented by the Minister at National level and the MEC at Provincial level.

The study has identified the following core issues and challenges with existing legislations and regulations:

- The absence of a single, overarching SOE law
- The adverse effect of the multiplicity of laws governing SOEs
- The burden of compliance with existing sometimes conflicting SOE legislation (whether perceived or real)

The single Corporate Governance Framework for all SOEs is necessary in the light of prevailing confusion in legislation governing SOEs, characterised by the duplication, conflicting provisions, different founding legislations and sometimes serious omissions. This should embrace the developmental State agenda that South Africa has adopted and the unique positioning of SOEs. It should encompass principles of ethical leadership, transformative corporate citizenship, service delivery, viability and sustainability and outline principles of collaboration among SOEs.

Fig 7.2 below provides an outline of the key elements that will make up the recommended Corporate Governance Framework for SOEs, in South Africa:



Fig 7.2: Recommended key elements in the SOE Corporate Governance Framework

7.5 LIMITATIONS OF THE RESEARCH STUDY

The present study served to identify corporate governance challenges at the 28 Schedule Three SOEs based in KZN. In this regard, the governance practices of the remaining 241 SOEs in the same Schedule Three category were not investigated and the generalization of findings must be undertaken with caution. While the methodology adopted for the present study could not encompass inclusion of all 241 SOEs (in the main they evidenced relatively few media reports), the enlargement of the present study to encompass all 241 SOEs, through a different methodology, would enrich the understanding of governance in this sector. This point is especially important when recognizing that SOEs are not uniform and may require different solutions to their governance challenges (Phiyega, 2013).

The lesser numbers of media reports for this category of SOEs could also indicate that there were relatively fewer governance problems or that they were not serious enough to reach the media, further illustrating the caution with which any generalization of findings from the present study to the entire SOE population must be undertaken.

Other limitations that emerged during the study were:

- The questionnaire survey was used as the primary method of data collection in the

study, therefore the limitations commonly applicable to questionnaire surveys were equally applicable to this study.

- The scope of the study of the corporate governance survey was also limited to Schedule Three SOEs listed on the National Treasury list. Due to practical reasons, no attempt was made to include SOEs in other schedules and also those based in other provinces. The result of the study would have been different if the sample had extended to include these categories. This limitation may restrict the generalizability of the findings only to listed SOEs.
- Corporate governance is very important for any country's economic outlook and for investor confidence. The level of compliance to corporate governance practices by SOEs and privately owned enterprises in South Africa cannot be comprehended by analysing the results of this study, due to differences in applicable laws and regulations. Therefore, there is a need to increase the coverage of similar surveys to obtain a more comprehensive picture of corporate governance in South Africa.
- As with any study that involves a qualitative judgment, human error can prevail. The development of criteria to rate governance practices gleaned from annual reports as well as the documenting of the incidences of transgressions from the print media were open to human error, although it could be argued that such error applied across the entire sample. However, it is apparent from Table 5.45, that annual reports, in spite of being a main source of communication to stakeholders and the public, do not provide the full picture of corporate governance practices of SOEs.
- The analysis of the corporate governance survey is limited to 28 SOEs listed by National Treasury, as mentioned in the first paragraph, due also to data collection limitations. Although the sample is small, it represents all Schedule Three SOEs based in KZN, which represents 10% of the total population of Schedule Three SOEs in the country. However, the small size of the sample restricts in-depth statistical analysis such as regression analysis to find out the causal relationships between the variables. Although a 33% overall response rate that was received is acceptable for survey research, it would have provided more comprehensive insights into the compliance of corporate governance practices in the South African context if a higher response rate was achieved in the survey.
- The questionnaire used in this study was based on the codes of best practice, King III's Code of Governance Principles, that were developed in line with the Anglo-Saxon model on which the King I and II reports were based. However, the practices developed in the Anglo-Saxon model may not fully address the

requirements of South African companies, even though the King III report tried to bring a balance between international development and African peculiarities. Therefore, benchmarking governance practices of local companies with this model may not fully reflect the exact status of their governance.

- The exclusion of individual pieces of legislation governing different SOEs and their effects on corporate governance is a possible limitation. This exclusion leaves the ability to predict effectiveness of corporate governance practices incomplete.

7.6 RECOMMENDATIONS FOR FUTURE RESEARCH

This study has provided some interesting insights into the three aspects of corporate governance amongst SOEs in South Africa. First, the corporate governance survey provides the nature and level of compliance with corporate governance best practices by National Treasury listed Schedule Three SOEs. Secondly, it provides the analysis of critical factors and the present status of corporate governance in South Africa, as no prior research has been made to examine specifically Schedule Three SOEs in South Africa and most of the focus has been on Schedules One and Two which are the major SOEs, whereas all SOEs are created by the State for purposes of enhancing service delivery to the public. Thirdly, the implications of the role of the shareholder and the Board in corporate governance provide an in-depth understanding of the nature and implications of the state as the shareholder in South African SOEs. Thus, the combined outcome of these examinations provides a broader framework for future research in this area. Mentioned below are some aspects that deserve future research.

The current research could be extended to include the interface between shareholders and boards. This interface can shed light on how the shareholder engages the boards on areas such as the shareholder compact, performance monitoring and evaluation. This area of the institutional arrangement is an exciting area of research and will contribute to the overall improvement of oversight and performance monitoring of the boards. These contradictions manifest in a wide range of strategic and operational dimensions which ultimately render the organisations ineffective. Decisive leadership on the part of line function Department coupled with coherent legislative framework is needed as the current environment breeds culture of mistrust and fragmentation in approaches which affect corporate governance. Despite the need for a coherent legislative and regulatory environment, sound institutional arrangement between line function department, must be looked into as information asymmetry undermines planning, execution and accountability corporate governance.

Authors such as Khoza and Adam (2007), maintain that in any organisation, good corporate governance is ultimately about effective leadership. The weaknesses in the Board performance

assessment highlight the importance of the enabling corporate governance model or framework. As the shareholders are not part of the day-to-day organisational management, access to correct and reliable information becomes valuable currency. The extent to which this enabling corporate governance model or framework is concerned with the gap between governance and management justifies the Board's monitoring. This orientation assumes executives and Board member are inherently self-serving, hence the need to institute monitoring.

This study raises an important issue to consider in future research, by exploring how a model originating from developed countries can be readily and effectively transposed into a developing country like South Africa. Also, the sample of SOEs was limited to KZN based SOEs. However, the public Entities and government business enterprises based within the provinces are of vital importance to the economic development of the country. Therefore, an attempt could be made to focus on these Entities in future studies.

It is recommended to also explore whether South African listed companies are adopting any indigenous governance practices, how these practices differ from the best practices recommended in the governance codes and their impacts on the performance of companies. As it is vital to examine corporate governance practices more closely, the case study approach can be applied to carry out a comprehensive analysis of publicly owned companies or groups of companies.

The next stage in research in the area of corporate governance of SOEs is to undertake a full cross-country comparison and to do so across a number of different types of SOEs. This analysis would examine all cases and determine how the law in practice matches the law on the books for both corporate and state owned companies. The Government's approach in overseeing SOEs varies both across and within countries. In some countries there are sector regulators or multiple regulators to overview the SOEs as it emerged in the literature review, while in other countries there is a general SOE law (Appendix D). With the creation of such a database, it would be possible to undertake cross country quantitative analysis to learn more about some dynamics of SOEs.

Furthermore, future research can expand to cover a specific stakeholder group on a particular aspect of corporate governance to get in-depth understanding on the issue examined. Conducting a study of non-executive Directors' perception on compliance with corporate governance practices or the effectiveness of Board sub-committees in their respective companies, is one such example. This will enable discovery of the practical nature of compliance from differing points of view.

An annual performance review beyond annual reports may be necessary to encourage good corporate governance of SOEs. This would benchmark the SOE relative to other SOEs in the same sector in other countries and establish how well the corporation is meeting its target relative to similar Entities elsewhere. The benchmarking would include specific metrics to measure financial, management and service aspects of the SOE relative to other SOEs. Benchmarking across countries is made difficult by the various goals that SOEs might have in different countries.

From the comments of Monks and Minnow (2011) in Chapter 1 and others, it appears that SOEs in China are changing from “dying dinosaurs” into “dynamic dynamos” and perhaps herein lies lessons for SOEs in other BRICS countries that could be explored further. Also given the emphasis upon such issues, such as that of corporate social responsibility contained in the recent King Code (IoD, 2009) within the ambit of corporate citizenship, it is recommended that further research be undertaken to identify where the OECD (2005) Guidelines may require supplementation with regard to detail for a developing country such as South Africa as well as for the other BRICS countries with their own country-distinctive practices.

7.7 THE VALUE CONTRIBUTION OF THE RESEARCH STUDY

The research findings have several theoretical, regulatory/policy and practical/managerial and societal implications. Each of these implications is meant to assist different aspects of the SOEs’ strategic and operational requirements. Notwithstanding its contributions, the complex nature of the SOE environment suggests that more work is needed to further understand the SOEs. The study made significant theoretical contribution in the case of the effectiveness of the corporate governance questionnaire, because the instrument constructed for this study was statistically proven to be reliable and valid. The external validity of the findings was established by the fact that this study was conducted across different organisations in similar contexts.

Corporate governance transgressions at SOEs in South Africa have been extensively reported in the popular press yet little research exists to describe the specific nature of such transgressions beyond public rhetoric. The present study attempted to identify the critical factors that define effective corporate governance for SOEs in South Africa. This identification could serve as a point of departure to inform Government of the nature of the action that should be pursued to ensure that SOEs are well governed in order to fulfil their mandate in driving economic and social development in the country.

At the policy level, this study highlighted many policies and procedures which have a bearing on the delivery of SOEs. Equally, policy levels must be translated into practice by the boards and management. These implications represent the contributions of the study which are expected to benefit the existing body of knowledge within the policy and management field.

7.7.1 Theoretical/conceptual significance

The separation of ownership and control of the SOEs is underpinned by a complex institutional arrangement and a series of legislation and regulations designed to align the interest of the shareholder and those of entities. This outlook has a number of theoretical implications which contribute to the existing body of knowledge on corporate governance for SOEs. The study serves as a starting point for a comparative study to identify common governance challenges at SOEs in the other four BRICS countries with the aim of alerting Governments to similar key challenges that warrant attention. Yong (2012) said that the Chinese Government and academia believe that as the largest economy in Africa, South Africa's membership of the BRICS since 2011 has made the BRICS a more powerful and representative voice to speak for developing countries, therefore South Africa's inclusion in the BRICS is based on its own advantages, with its domestic and international achievements.

As a representative of African countries, South Africa can not only play a "bridging" role between the BRICS countries and Africa but can also contribute to building a closer relationship among the BRICS countries and thus enhance the role of emerging powers. Yong (2012) stated that South Africa is in a position to make unique contributions, particularly in terms of development of the BRICS Africa agenda, promoting global economic governance reforms and institution building of the BRICS as a credible international organisation.

Although practices of corporate governance at SOEs in fellow BRICS countries was not fully explored, from the literature certain governance challenges appear to be similar to those currently encountered amongst the SOEs investigated in the present study. As the economies of the BRICS countries have been identified as ones evidencing rapid growth with strong potential for international economic contribution and, given the growing evidence of the link between sound governance and economic growth (Thomas, 2012), it could be valuable to use this study to undertake a five-country comparative study of SOEs in the BRICS bloc to identify the common governance challenges that they all face.

7.7.2 Practical and managerial significance

Legislation and regulations are meant to guide boards and management vis-à-vis the interest of the shareholder. This scenario has the following governance and management permutations. Firstly, boards and management interface regularly, which means decision making processes can be expedited. However, when it comes to the endorsement of boards' decisions by

parliament or amendment legislation, it takes longer for determination - changes to legislation are subject to bureaucratic processes, which by their nature are slow. For example the process of appointment of the CEO take months to finalise as such appointments are done by the shareholder minister or MEC, in consultation with the board; this creates instability within the organisation. The level of influence which the ministers or MECs have on the appointment of senior executives further creates leadership instability. The leadership vacuum at management level “operationalize” the boards as decisions which ordinarily fall within management competence are escalated to boards. The role of the board is to develop policy and provide oversight consistent with legislation and regulations.

Secondly, the research made reference to a convoluted legislative environment with competing priorities. Boards and management at the SOEs are required to report and account to different oversight structures. The nature of questions which management is expected to respond to by parliament or the AG is detailed and vary. This means a substantial amount of time is needed to prepare these reports – which compliance is required, much legislation makes performance difficult to achieve, given resource constraints.

The manner in which SOEs are conceptualised, finds expression in legislative and regulatory frameworks. Funding of the SOEs is legislated, which means inconsistencies noted at the SOEs cannot be addressed by the boards alone. For example, a delay in the appointment of the CEO or the board affects the efficiency and effectiveness of any strategy execution. Such delays also affect reporting and accountability – in the context of a leaderless organisation, decision making is delayed and this affects delivery.

7.7.3 Societal significance

The study has shown the complex nature of the SOE environment which means a pure economic approach is not enough to explain certain behavioural and cultural inclinations of either boards or executive managements. Social and political variables are forces to reckon with when it comes to the SOE environment. This means operations of the SOEs cannot be divorced from the social and political imperatives which manifest in the institutional arrangement between line function departments, boards and regulatory bodies. Through the primary and secondary reviews, the research brought about a deeper understanding in terms of the complex nature of the SOEs’ governance and management arrangements and how these impact on the corporate body. Through the conceptual framework, the thesis was able to highlight governance and management challenges borne out of the separation of ownership and control at SOEs. As part of the findings, the implications are packaged along themes which formed the bedrock of the conceptual framework namely; the interface between boards and management, the

legislative and regulatory framework, boards' performance monitoring and funding arrangements for SOEs.

7.7.4 Regulatory and policy significance

The King I and II reports that established corporate governance in South Africa were based on the Anglo-Saxon Model. This was improved and a great deal of effort went into improving and aligning this to the South African environment, which ultimately became the *King III* report and that gave rise to the Code of Governance Principles, but still based on the original corporate governance approach adopted by developed countries.

This implies that a hybrid corporate governance system which has the characteristics of both the Anglo-Saxon model and inside systems of corporate governance is in operation in South Africa. South Africa's inclination towards the Anglo-Saxon model stems primarily from the development of South African Company Law and governance codes based on British counterparts due to the colonial influence. Thus, the policy makers on corporate governance need to do more research on the suitability of the Anglo-Saxon model in formulating corporate governance standards for South African State-owned companies.

There is a need for properly articulated regulatory and institutional framework for corporate governance in South Africa. The corporate governance requirements of South African State-owned companies have been strongly influenced by the Anglo-Saxon model of corporate governance. This is because codes of best practices, company law and other regulations have been developed in line with this model, owing to colonial influences. Although constancy in the legal, accounting and corporate governance systems is a legacy of a colonial past, which is common to many emerging countries, findings of this study concur with previous studies in expressing concern as to the appropriateness of such systems for the local environment.

In conclusion, this survey has provided vital information for policy makers, corporate governance monitoring agencies and company Directors who are ultimately responsible for implementing best practices in their companies, as no prior research had made any attempt to examine the perceptions of different role players on corporate governance in South Africa. Therefore, this research is a stepping stone for future research in this area. This research can be extended to cover broader aspects of corporate governance with a larger sample of stakeholders, to further explore the high impact findings discovered through this study and ultimately to build world confidence on the level of corporate governance in South Africa, therefore bringing about positive economic growth and social transformation.

REFERENCES

- African Peer Review Mechanism. 2014. *Third report on the implementation of South Africa's APRM Programme of Action*. DPSA APRM Report.
- ANZ. 2014. ANZ Board Committee Standing Rules [online]. Available: <http://anz.com/resources> (Accessed 10 March 2016).
- Armstrong, P., Segal, N. and Davis, B. 2005. *Corporate Governance South Africa, a Pioneer in Africa. Global Best Practice Report No 1*. The South African Institute of International Affairs.
- Armstrong, J. Scott, and Terry S. Overton. "Estimating Nonresponse Bias in Mail Surveys." *Journal of Marketing Research*, vol. 14, no. 3, 1977, pp. 396–402. *JSTOR*, Available: www.jstor.org/stable/3150783.
- Ayuso, S. and Argandano, A. 2007. Responsible Corporate Governance: Towards a stakeholder board of directors, IESE, Business School, University of Navarra.
- Babbie, E. and Mouton, J. 2001. *The Practice of Social Research*. Cape Town: Oxford University Press.
- Bak, O. 2011. The role of qualitative research in a mixed methods study. *Qualitative Research Journal*, 11 (2): 76-84.
- Bangladesh Enterprise Institute. 2004. *Study Report on Corporate Governance in Bangladesh: How best to institutionalize it, critical practices and procedures*. Available: <http://www.dhakachamber.com/cipe/EPPs> (Accessed 20th October 2013).
- Barako, D. 2007. Determinants of voluntary disclosures in Kenyan companies annual reports. *African Journal of applied Business research*, 1(5): 113-128.
- Bischoff, S. and Radler, T. 2011. *What is the significance of the research question?* Doctoral seminar: Research Methodology. November 3rd 2011.
- Bless, C., Higson-Smith, C. and Kagee, A. 2006. *Fundamentals of Social Research Methods- An African Perspective*. 4th ed. Cape Town: Juta and Company Ltd.
- Bronstein, V. and Olivier, M. 2014. An evaluation of the Regulatory Framework Governing State-owned Enterprises (SOEs) in the Republic of South Africa. Unpublished research paper. HSRC SOEs Research project.
- Bryman, A. 2007. Integrating quantitative and qualitative study. *Journal of Mixed Methods Research*. 1 (1): 8-22.

- Busari, O. and Ngonini, X. 2012. Mapping out key performance indicators in a State-owned Entity: A South African example. *The international Journal of Knowledge, Culture and Change Management*, 11(6): 267-280.
- Business Roundtable. 2012. *Principles of corporate governance* [Online]. Available: <http://www.businessroundtable.org/default/files> (Accessed 15th November 2015).
- Calkoen, W.J.L. ed. 2013. *The corporate governance review*. 3rd ed. Law Business Research. Available: <http://www.werksmans.com> (Accessed 24 July 2014).
- Caruth, G.D. 2013. Demystifying Mixed Methods Research Design: A Review of the Literature. *Mevlana International Journal of Education*. 3(2): 112-122.
- Castellan, C.M. 2010. Quantitative and Qualitative Research: A view for clarity. *International Journal of Education*. 2(2): 2-7.
- Central Bank of Ireland. 2014. *Central Bank of Ireland Annual Report* [Online]. Available: <http://www.centralbank.ie/Documents> (Accessed 12 August 2016).
- Chatterjee, B. and Mir, M.Z. 2008. • The current status of environmental reporting by Indian Companies. *Managerial Auditing Journal*. 23(6): 609 - 629.
- Clarke, L. 2015. Can Big Ben get Eskom running like clockwork? *Sunday Tribune*. 5 April: 19.
- Cloyd, M.A. 2013. *Shareholder activism: Are you prepared to respond?* [Online]. Available: <http://CorpGovernment.law.harvard.edu/mary-a> (Accessed 10 November 2015).
- Coffey Corporate Services Pty Ltd. 2016. Human Resource and Remuneration Committee Charter [online]. Available: <http://www.coffey.com> (Accessed 30 November 2015).
- Cohen, E. 2008. Chi-Square Analysis [Online]. Available: www.sjsu.edu/edward.cohen/courses (Accessed 20 August 2016).
- Coleman, J. 2013. Six components of a great corporate culture. *Harvard Business Review* [online]. Available: <https://hbr.org/2013/05/six-components-of-culture> (Accessed 23 December 2015).
- Colley, J.L., Doyle J.L., Logan, G.W. and Stettinius, W. 2005. *What is Corporate Governance?* 1st ed. USA: McGraw-Hill.
- Companies Act, 2013. *Ministry of Law and Justice: Legislative Department* [Online]. Available: <http://www.mca.gov.in/Ministry/pdf/Com> (Accessed 2 September 2016).
- Connelly, M.N. 2009. Mixed Methods Studies. *MEDSURG Nursing*, 18 (1): 31-32.
- Cooper, D.R. and Schindler, P.S. 2003. *Business Research Methods*. 8th edition. New York: McGraw-Hill/Irwin.

- Copley, N. 2012. *Guide for application of King III for NPO* [online]. Available: <https://c.ymcdn.com/sites/iodsa-site-ym.com> (accessed 14th November 2014).
- Coughlan, M. Cronin, P. and Ryan, F. 2007. Step by step guide to critiquing research: Part 1: Quantitative research. *British Journal of Nursing*, 16 (11): 656-658.
- Crotty, A. 2012. SOEs. *Business Day*. (online). Available: <http://www.bdlive.co.za/business> (accessed 25 May 2014).
- David, M. and Sutton, C.D. 2011. *Social Research*. 2nd ed. London: Sage Publications Ltd.
- Dean, P.J. 1992. Making codes of ethics real. *Journal of Business Ethics*, 11: 285-90.
- De Beer, E., Steyn, B. & Rensburg, R. (2013). The Pretoria School of Thought: From strategy to governance and sustainability. In K. Sriramesh, A. Zerfass, & J.N. Kim (Eds.). *Public relations and communication management: Current trends and emerging topics*. New York/London: Routledge.
- Dekker, C. 2002. King report on corporate governance for South Africa [online]. Available: <http://www.mervynking.co.za/downloads> (Accessed 15 March 2016).
- Dellaportas, S., Gibson, K., Alagiah, R., Hutchinson, M., Leung, P. and Van Homrigh, D. 2005. *Ethics, Governance and Accountability: A professional perspective*. Australia: John Wiley and Sons Ltd.
- Deloitte. 2013. *Framing the future of corporate governance: Deloitte Governance Framework* [Online]. Available: <http://www2.deloitte.com/Deloitte/risk> (Accessed 16th November 2015).
- De Villiers, R.R. and Fouche, J.P. 2015. Philosophical paradigm and other underpinnings of the qualitative and quantitative research methods: An Accounting Education Perspective. *J Soc Sci*, 43(2): 125 -142.
- Diamond, G. and Price, G. 2014. The political economy of corporate governance reform in South Africa. *South African Journal of Business Management*, 43(1): 57-65.
- Dovona-Ope, D.R. 2008. A rationale for employing mixed methods design in doctoral research about female students' academic achievement in secondary schools in Papua New Guinea. *International Journal of Pedagogies and Learning*, 4(2): 59-67.
- Du Toit, H. 2005. *Governance Overseeing Role over SOEs* [online]. Available: <http://www.treasury.gov.za/publications/other/soe/governance%20overseeing> (Accessed 12 May 2013).
- Ernst and Young. 2015. Financial Report of 30 June 2015 [online]. Available: <http://www.ey.com/publication/vwLUAssets> (Accessed 10 April 2016).

- Ertugrul, M. and Hedge, S. 2009. *Corporate Governance Ratings and Firm Performance*. Financial Management, 139-160
- Esser, I. and Dekker, A. 2008. The dynamics of corporate governance in South Africa: Broad Based Black Economic Empowerment and the Enhancement of Good Corporate Governance Principles. *Journal of International Commercial Law and Technology*, 3(3): 157-169.
- Frederick, W. R. 2011. *Enhancing the role of the Boards of Directors of State-owned Enterprises*. *OECD Corporate Governance Working Papers No 2*, OECD Publishing. Available: <http://dx.doi.org/10.1787/5kg9xf6n4wj-en> (Accessed 25 November 2013).
- Fin24. 2016. *SOE Reform* [online]. Available: <http://www.fin24.com/economy/SOE-reform-central-to-economic-growth-for-brics> (Accessed 2 August 2016).
- Garcia-Castro, R., Aguilera, R.V. and Arino, M.A. 2013. *Bundles of firm corporate governance practices: A fuzzy set analysis*. *Corporate Governance International Review* [online]. Available: http://www.business.illinois.edu/aguilera/pdf/garcia-castro_aguilera_arino_2013_cgir_pdf (Accessed 10th October 2016).
- Gibbons, C. 2013. *South African Express: A cautionary tale for Directors Directorship*. Future Publishing Pty Ltd. Rivonia.
- Government of Western Australia. 2015. *State of the WA public sector 2015 - Creating opportunities* [Online]. Available: <http://publicsector.wa.gov.au/state-sect> (Accessed 10 August 2016).
- OECD. n.d. Governance of SOEs in Southern Africa. *Organisation for Economic Cooperation and Development*. Available: <http://www.oecd.org/daf/ca/soe-africa.htm> (Accessed 12 November 2013).
- Gstraunthaler, T. 2010. Corporate Governance in South Africa: The introduction of King 111 and Reporting practices at the JSE Alt-X. *Corporate Ownership of Control*, 7(3): 146-154.
- Gumede, W. 2012. South African State-owned Enterprises: Boards, Executives and Recruitment. Wits P&DM SOEs Boards, Executives and Recruitment PRC [Online]. Available: www.thepresidency.gov.za/volume (Accessed 10 November 2015).
- Gurria, S, 2008. *Using the OECD Principles for Corporate Governance. A Boardroom Perspective*. OECD Publications. France.
- Harding, J. 2006. Stratified sampling. In Jupp, V. ed. *The SAGE Dictionary of Social Research methods* [Online]. Available: <http://www.srmo.sagepub.com.ezproxy>. (Accessed 07 August 2013).

- Harper P. 2015. Dube TradePort back on track. *City Press* [online], December 29. Available: <http://www.city-press.news24.com/business/dube-tradeport-back-on-track> (Accessed 29th December 2015)
- Hart, C. 1998. Doing a literature review. London: Sage.
- Haque, A.K.E., Jalil, M.B. and Naz, F. 2007. *State of corporate governance in Bangladesh - Analysis of Public Limited Companies- Financial, Non-Financial Institutions and State-owned Enterprises*. East West University Centre for Research and Training.
- Heracleous L. 2001. What is the Impact of Corporate Governance on Organisational Performance. *3rd International Conference on Corporate Governance and Direction*. Centre for Board Effectiveness. Henley Management College. Volume 9(3). July 2001. Blackwell Publishers Ltd. USA.
- Heskett, J. 2007. How Should Pay Be Linked to Performance? Unpublished research paper. Harvard Business School.
- Hirigoyen, G. and Laouer, R. 2013. *Convergence of Corporate and Public Governance: Insight from Board Process review*. [online]. Available: <http://journals.sagepub.com/doi/pdf> (Accessed 10th October 2016).
- Holosko, M.J. 2001. Overview of qualitative research methods. In: Thyer, B.A. (ed). *The handbook of social work research methods* (pp. 263-272). Thousand Oaks, CA: Sage Publications, Inc.
- ICAEW. 2016. Provision of non-audit services to audit clients [online]. Available: <http://www.icaew.com/en/products/audit-and-assurance> (Accessed 10 August 2016).
- IFAC. 2013. Good Governance in the Public Sector- Consultation Draft for an International Framework [online]. Available: <http://www.ifac.org> (Accessed 2 November 2014).
- Ilyas, M. and Rafiq, M. 2012. Impact of Corporate Governance on Perceived Organisational Success. *International Journal of Business and Social Science*, 3(13).
- Imhoff, E.A. Jr. 2003. Accounting, quality, auditing and corporate governance [Online]. Available: <http://www.bus.iastate.edu/aclem> (Accessed 10 September 2016)
- Ingersoll Rand, 2016. *Corporate Governance Board of Directors* [Online]. Available: <http://company.ingersollrand.com>> discover-us (Accessed 15 July 2015).
- International Public Sector Accounting Standards Board. 2006. International Financial Reporting Standards. New York [online]. Available: <http://www.ipsasb.org> (Accessed 10 March 2016)

- Investopedia. 2016. What makes a great workplace [online]. Available: <http://www.investopedia.com/financial-edge> (Accessed 30 July 2016)
- Jansen van Vuuren, C and Schulschenk, J. 2013. *Perceptions and Practice of King III in South African Companies*. Joint publication of the Institute of Directors in Southern Africa and the Albert Luthuli Centre for Responsible Leadership, University of Pretoria.
- Johnson, R.B., Onwuegbuzie, A.J. and Turner, L.A. 2007. Towards a definition of mixed methods research. *Sage Publication*, 1(2):112-133.
- Jogulu, U.D. and Pansiri, J. 2011. Mixed methods: a research design for management doctoral dissertations. *Management Research Review*, 34 (6): 687-707.
- Johnston, D. 2005. *OECD Guidelines on Corporate Governance of State-owned Enterprises* [online]. Available: <http://www.oecd.org/sothafrika/SOE-africa-htm> (Accessed 10 May 2013).
- Katz, S. A.; Lipton, M. and Rosen, R. 2014. *Current and former SEC Commissioners question legality of Harvard Declassification Proposal* [Online]. Available: <http://corgov.law.harvard.edu/tag> (Accessed 10 July 2016).
- Keightley, R. 2011. Fat Cats, Slim Pickings: An examination of corporate corruption and the efficacy of existing countermeasures in South Africa. *Journal of Corporate Law Studies*, 11(2): 343-368.
- Khoisan, Z. 2015. Better planning, effective management on cards. *Sunday Tribune*. 5 April: 19.
- Khoisan, Z. 2015. New Regulations for state Entities. *Sunday Tribune*, 5 April: 10.
- Khoza, R.J. and Adam, M. 2007. *The Power of Governance- Enhancing the Performance of State-owned Enterprises*. Hampshire: Palgrave MacMillan.
- King, M.E. 2009. *King Code of Governance Principles for South Africa*. Institute of Directors Southern Africa. Available: <http://www.iodsa.co.za> (Accessed 12 May 2013).
- KPMG. 2009. Audit Committee Quarterly [online]. Available: <https://assets.kpmg.com/content/dam/kpmg> (Accessed 10 November 2015).
- Leblanc. 2007. Ten ways to enhance effectiveness of the audit committee [online]. Available: <http://iveybusinessjournal.com/publication> (Accessed 12 November 2015).
- Liblin, J.S. 2011. *Boardrooms remain old school* [Online]. Available: <http://www.wsj.com/articles> (Accessed 10 July 2016).
- Lopez-Fernandez, O. and Molina-Azorin, J.F. 2008. *The use of mixed methods research in the field of behavioural sciences*. Spain: University of Barcelona.

- Ludvigsen, S. 2010. *State ownership and corporate governance: Empirical evidence from Norway and Sweden*. PhD degree, BI Norwegian School of Management. Department of Public Governance.
- Lvov, B. 2009. The audit committee as an oversight body [online]. Available: <http://origin.astraeus.kpmg.com/RU/en/topic> (Accessed 5 November 2015)
- Lynne Browne. 2014. Minister of Public Enterprises. Budget Vote Speech. Available: <http://www.ujuh.co.za> (Accessed 23 July 2014).
- Maggs, J. ed. 2013. *Corporate Governance and Ownership- A BRICS comparison Directorship*. Future Publishing Pty Ltd. Rivonia.
- Makita. 2009. *Corporate Governance and Code of Ethics - Makita Corporation Code of Ethics* [Online]. Available: www.makita.biz/governance02 (Accessed 2 July 2015).
- Malherbe, S and Segal, N. 2001. *Corporate Governance in South Africa. Trade and industry policy strategies*. 2001 Annual Forum, Misty Hills, Muldersdrift.
- Maree, K. & Van der Westhuizen, C. 2007. Planning a research proposal. In *First steps in research*, ed. K Maree, 23-45. Pretoria: Van Schaik.
- Marcus, G. 2014. The outlook for the South African economy in a challenging global environment. Address as Governor of the South African Reserve Bank. *The Distinguished Speakers Seminar*. European Economics and Financial Centre, London.
- Maseko, N. 2015. Participation of shareholders in corporate governance [online]. Available: <https://www.researchgate.net/profile/Nelson-Maseko> (Accessed 10 August 2016).
- Mbo, M. and Adjasi, C. 2013. Drivers of Organisational performance: A State-owned Enterprise Perspective. *The Biennial Conference of the Economic Society of South Africa*. University of Free State.
- McGregor, S. 2007. South Africa in the context of global emerging market trends [online]. Available: <http://www.alangray.co.za/globalassets/documents-repository> (Accessed 30th November 2015).
- Medtronic PLC. 2015. Medtronic PLC principles of corporate governance [online]. Available: <http://www.medtronic.com/us-en/about/corporate-governance> (Accessed 10 August 2016).
- Merriam, S.B. 2002. *Qualitative research in practice: examples for discussion and analysis*. 1st ed. San Francisco: Jossey-Bass, A Wiley Company.
- Michael, N. 2013. *Response to Minister of Public Enterprises Budget Vote Speech*. National Parliament. [online]. Available: <http://www.pmg.org.za> (Accessed 23 July 2014).

- Miller L. E., & Smith, K. (1983). Handling non-response issues. *Journal of Extension* On-line, 21(5). Available at: <http://www.joe.org/joe/1983september/83-5-a7.pdf>
- Monks, R.A.G. and Minow, N. 2011. *Corporate Governance*. 5th Ed. United Kingdom: John Wiley & Sons Ltd.
- Morgan, D.L. 2008. Stratified sampling. In: Given, L.M. ed. *Encyclopaedia of Qualitative Research Methods*. [online]. Available: http://www.srmo.sagepub.com.ezproxy_ (Accessed 07 August 2013).
- Mouton, J. 2014. Corporate Governance in SOEs. *Sunday Times* [online], October 19. Available: <http://www.timeslive.co.za/sundaytimes> (Accessed 19th October 2014).
- Msweli, P. and Singh, S. 2014. An analysis of Board attributes that contribute to decision quality in state owned companies in South Africa. *Problems and Perspectives in Management*, 12(2): 86-93.
- Mwaura, K. 2007. The Failure of Corporate Governance in State-owned Enterprises and the need for restructured governance in fully and partially privatized enterprises: the Case of Kenya. *Fordham International Law Journal*. 31(1): Article 1.
- Natesan, P and Dixon, T. 2013. *South African Boards show steady performance improvement*. IoDSA Study Publication.
- Ndenze, B. 2015. Minister denies interfering with SABC Board. *The Mercury*, 14 January: 2.
- Nedelchev, M. 2013. Good practices in Corporate Governance: One size fits all vs Comply or explain. *International Journal of Business Administration*, 4(6): 75-81
- NEPAD. 2013. African Peer Review Mechanism. *Third Report on the Implementation of South Africa's APRM Programme of Action*. The New Partnership for Africa's Development (NEPAD)
- Neuman, W.L. 2000. *Social research methods: Qualitative and quantitative approaches* (4th ed). Boston: Allyn and Bacon.
- Nevondwe, L., Odeku, K.O. and Tshoose, C.L. 2014. Promoting the application of corporate governance in the South African Public sector. *Journal in Social Science*, 40(2): 261-275.
- Ntim, C.G., Opong, K.K. and Danbolt, J. 2012. The relative value relevance of shareholder versus stakeholder corporate governance disclosure policy reforms in South Africa. *Corporate Governance: An International Review*, 20 (1): 84-105.
- Ntim, C.G. and Osei, K.A. 2011. The impact of corporate Board meetings on corporate performance in South Africa. *African Review of Economics and Finance*, 2 (2): 83-103.

- OECD Membership. 2003. [online]. Available:<http://www.oecd.org/about/membersandpartners>. (Accessed 2 November 2013).
- OECD. 2005. OECD guidelines on corporate governance of state-owned enterprises. Paris: OECD Publishing.
- Olsen, W. 2004. *Triangulation in Social Research: Qualitative and Quantitative methods can really be mixed* [online]. Available; <http://ejournal.narotama.ac.id> (Accessed 22nd November 2015).
- Onwuegbuzie, A.J. and Combs, J.P. 2011. Data analysis in Mixed research: A Primer. *Journal of Education*, 3(1): 13.
- Oso, L. and Semiu, B. 2012. The Concept and Practice of Corporate Governance in Nigeria: The need for Public Relations and Effective Corporate Communications. *J Communication*, 3(1): 1-16.
- Patmore R. 2014. *Being a Director- Increasing Board effectiveness and adding value*. The Institute of Directors in Southern Africa. IODSA Programme.
- Pellissery, F. 2012. Disclosure of financial information and corporate governance [online]. Available: <https://osrn.com/abstract=2006798> (Accessed 20 September 2016).
- Phiyega, R. Chairperson. 2013. *Presidential Review Committee on SOEs. Executive Summary Report. Vol 1 and 2*. [Online]. Available: <http://www.npconline.co.za> (Accessed 29 May 2013).
- PHX. 2013. Conflict of interest guidelines for directors/directors' code of conduct [online]. Available: <http://www.phx.corporate-ir.net> (Accessed 20 March 2016).
- Politics today. *The year of Mass mobilisations to build a caring society* [Online]. 2008. Available: <http://www.pbf.org.za/docs/politicstoday/2008/no02y.pdf> (Accessed 5 December 2016).
- Price-Waterhouse-Coopers. 2011. *State-owned Enterprises: Governance, Responsibility and accountability. Public Sector Working Group. Position Paper 3*. Institute of Directors in Southern Africa. Available: <http://www.pwc.com/za> (Accessed 29 May 2013).
- Price Waterhouse-Coopers. 2012. *State-owned companies: The new Companies Act, PFMA and King III in perspective* [Online]: Available: <http://www.pwc.co.za/assets/pdf/Co...> (Accessed 28 November 2015).
- Ramalho, A. 2014. Promoting good corporate governance in the Ethekwini Municipality. *The EMARAS Seminar*. (IOD-SA). Durban.
- Rajendran, V. 2012, Corporate Governance Practices- Emerging Trends. *Trans Asian Journal of Marketing and Management Research*, 1(1).

- Renders, A., Gaeremynck, A. and Sercu, P. 2010. Corporate governance ratings and company performance: A cross-European study [online]. Available: <http://www.onlinelibrary.wiley.com> (Accessed 13th December 2015).
- Robinett, D., Eskinazi, D. and Berg, A. 2009. *Report on the observance of Standards and Codes (ROSC) - Corporate Governance*. Corporate Governance Country Assessment, Bangladesh. The World Bank.
- Robinett, D. 2006. *Held by the Visible Hand: The Challenge of SOE Corporate Governance for Emerging Markets*. The World Bank Corporate Governance. Available: <http://www.worldbank.org/documents/other/corpgovsoes.pdf> (Accessed 10 June 2013).
- SABC. 2006. Board charter [online]. Available: <http://www.sabc.co.za/wps/wcm/connect> (Accessed 5 March 2016).
- Schulschenk, J. 2012. Interview Summary Report-Corporate Governance Research Programme. University of Pretoria: Albert Luthuli Centre for Responsible Leadership.
- Shoba, S and Mokone, T. 2015. Minister tells of Zuma's 'love' for SABC's Hlaudi- But Motsoeneng denies close ties with the president. *Sunday Times*. 22 March: 12.
- Simpson, S.H. 2011. Demystifying the research process: Mixed methods. *Pediatric Nursing*, 37(1): 28-30.
- Solomon, J. F., Solomon, A., Norton, S. D., & Joseph, N. L. 2000. A conceptual framework for corporate risk disclosure emerging from the agenda for corporate governance reform. *The British Accounting Review*, 32(4): 447-478.
- Sonnenfeld, J. 2004. *Good governance and the misleading myths*. Academy of Management Executive. Vol 18(1). Available: <http://www.sec.gov/spotlight/dir-nominations> (Accessed 24 November 2015).
- South Africa. 1996. *The Constitution of the Republic of South Africa No 108 of 1996* (online). Available: <http://www.gov.za> (Accessed 07 August 2014).
- South Africa. 2012. *The place of SOEs in a development state* (online). Available: http://www.thepresidency.gov.za/electronicreport/download/volume3/development_and_transformation (Accessed 07 August 2014).
- South Africa. 2008. *The New Companies Act No 71 of 2008* [online]. Available: <http://www.gov.za> (Accessed 07 August 2014)
- South Africa. 1996. *The Public Finance Management Act No 1 of 1999* [online]. Available: <http://www.gov.za> (Accessed 07 August 2014).

- South Africa. Department of Public Enterprises. 2002. *Protocol on Corporate Governance in the Public sector*. Available: <http://www.dpe.gov.za> (Accessed 02 May 2013).
- South Africa. Department of Public Enterprises. 2007. *State Owned Enterprises Remuneration Guidelines*. Available: <http://www.dpe.gov.za> (Accessed 03 November 2015).
- South Africa. Department of Public Enterprises. 2010. *Remuneration and benefits review of State-owned Enterprises*. Available: <http://www.dpe.gov.za> (Accessed 02 May 2013).
- South Africa. National Treasury. 2013. *Listed Public Entities*. [Online]. Available: <http://www.treasury.gov.za> (Accessed 05 June 2013).
- South Africa. 1999. *Public Finance Management Act No 1 of 1999* [Online]. Available: <http://www.treasury.gov.za> (Accessed 05 June 2013).
- Steger, U. and Amann, W. 2008. *Corporate Governance: How to add value*. England: John Wiley and Sons Ltd.
- Stuckey, D.C. and Errity, M.P. 2012. *2012 Board Practices Report- Providing insight into the shape of things to come*. Deloitte: A Society of Corporate Secretaries and Governance Professionals.
- Stryker. 2016. *Corporate Governance - Code of Conduct: Stryker* [Online]. Available: www.stryker.com/en-us/Forinvestors (Accessed 5 November 2015).
- Sultan, B. S. 2014. *State-owned Enterprises in Southern Africa: A stocktaking of reforms and challenges*. OECD Corporate Governance Working Papers, No 13. OECD Publishing. Available: <http://www.doi.org/10.1787/5jzb5zntk5r8-en>. (Accessed on 14 December 2014).
- Tashakorri, A. and Creswell, J.W. 2007. Exploring the nature of research questions in mixed methods research. *Journal of Mixed Methods Research*, 1 (3): 207-211.
- Tencent Holdings Ltd. 2012. *Terms of Reference of Remuneration Committee* [online]. Available: <http://www.tencent.com/en-us/content/ir/attachment> (Accessed 30 November 2015).
- Terblanche, S. 2012. *State-owned Enterprises*. [Online]. Available: <http://www.leadershiponline.co.za> (Accessed 06 June 2013).
- Thomas, A. 2012. Governance of South African State-owned Enterprises. *What do annual reports and the print media tell us?* Vol 8(4) 2012. [Online]. Available: <http://www.emeraldinsight.com/journals.htm?articleid=17050700> (Accessed 14 May 2013).
- Thomas, R.M. 2003. *Blending Qualitative and Quantitative Methods in Theses and Dissertations*. [Online]. Available: <http://www.sagepub.com/books/book222072>. (Accessed 02 July 2013).

- Tonello, M. 2012. Should your board have a separate risk committee [online]. Available: <http://corp.gov.law.harvard.edu> (Accessed 4 March 2016).
- Tong-Mongalo Corporate Services cc. 2012. *Integrated Report on Governance and Ownership. SOE Legislative Frameworks, SOE Subsidiaries; SOE Governance Framework, and SOE Ownership and Overseeing*. Available: <http://www.npconline.co.za> (Accessed 29 May 2013).
- Totten, M.K. 2013. A unique approach to assessing board committee effectiveness [online]. Available; <http://www.greatboards.org/newsletter/2013> (Accessed 22 November 2015)
- Tukuta, M., Moretime, N. and Rozariwo, E. 2012. *The paper on Good Corporate Governance: the Key success factor for entrepreneurial development in Africa*. Chinhoyi University of Technology.
- Uhrig, J. 2003. *Review of the corporate governance of statutory authorities and office holders*. Commonwealth of Australia [Online]. Available: http://www.dcita.gov.au/ccca_(Accessed 24 September 2015).
- UNICEF. 2012. Notes on steps for achieving full public disclosure of internal audit reports [online]. Available: <http://www.unicef.org/about/execboard/files> (Accessed 10 November 2015)
- University of Stellenbosch Business School. 2012. *Rating Corporate Governance of State-owned enterprises- Moving towards improved performance*. Centre for Corporate Governance in Africa. Available: <http://www.governance.usb.ac.za/pdfs> (Accessed 08 May 2013).
- USA Strategic Plan 2016-2010.[online]. Available: <https://www.copyright.gov/reports/strategic-plan> (Accessed 10 November 2016)
- Vagliasindi, M. 2008. The effectiveness of Boards of Directors of State-owned Enterprises in Developing Countries [Online]. Available: documents.worldbank.org/wps4579 (Accessed 25 September 2015).
- Van den Heever, J. 2013. Is King 111 Working? We ask the Questions. *Directorship Magazine*. April/May/June: 6.
- Vig, S. 2012. Ensuring better corporate governance through e-governance. *International Journal of Marketing, Financial Services and Management Research*, 1(9): 189-195.
- Walker, D. and Meiring, I. 2010. *King Code and developments in corporate governance*. Legal brief. Werkmans Attorneys.
- Walker, D. Ramashia, M. and Rambau, F. 2013. Corporate Governance Review: South Africa. [online]. Available: <http://www.werkmans.com/wp-content/uploads/2013/04/Law-Business-Research-Corporate-Governance-Review> (Accessed 15th November 2015).

- Wicaksono, A. 2009. *Corporate Governance of State-owned Enterprises: Investment Holding Structure of Government-Linked companies in Singapore and Malaysia and Applicability for Indonesian State-owned Enterprises*. Doctor Oeconomiae, University of St Gallen, Indonesia.
- Witherell, 2005. *OECD comparative report on corporate governance of State-owned Enterprises*. Available: www.oecd.org/daf/ca (Accessed 2 November 2013).
- Wyngaard, R.G. and Hendricks, P.S.A. 2010. South Africa's King 111: A commercial governance code determining standards of conduct for civil society organisations. *International Journal of Not-for-Profit Law*, 12(2): 104-109.
- World Bank. 2006. Held by the visible hand: The challenge of SOE corporate governance for emerging markets. *Journal of General Management*, 28: 1-28.
- World bank. 2014. Corporate governance of state owned enterprises [online]. Available: <http://elibrary.worldbank.org/doi/abs> (Accessed 10 November 2015).
- Yardley, L and Bishop, F. 2008. Mixing qualitative and quantitative methods. In: Willig, C and Stainton-Rogers, W. ed. *The SAGE Handbook of Qualitative Research in Psychology*. [Online]. Available: <http://www.srmo.sagepub.com.ezproxy>. (Accessed 07 August 2013).
- Yilmaz, K. 2013. Comparison of Quantitative and Qualitative Research Traditions: epistemological, theoretical, and methodological differences. *European Journal of Education*, 48(2).
- Yong W. 2012. South Africa's role in the BRICS and the G-20: China's view. Occasional Paper no 127. Economic Diplomacy Programme. South African Institute of International Affairs. Available: <http://www.saiia.org.za> (Accessed 5th July 2016).

Appendix A: Letter of request to conduct a study

Date:

**TO: the Chief Executive Officer/ the Chairperson of the board/ the Head of
department/ the Director-general**

Dear Sir/ Madam

RE: REQUEST TO UNDERTAKE A RESEARCH AT YOUR COMPANY

I am a student registered with the University of KwaZulu Natal, studying towards a Doctoral Degree in Business Administration (DBA). The purpose of my study is to establish factors contributing to an understanding of corporate governance of state owned entities (SOEs) and to recommend strategies to improve corporate governance of SOEs, focusing on Schedule 3 entities based in KwaZulu Natal.

This letter serves as a request for permission to carry out this research at your company. I am looking for about 196 respondents, and your company/department will therefore form part of 28 companies participating in this study. This will mean that a total of three executive managers in your entity; two board members and/or two managers in your government department will be required to participate in the study. I will discuss all logistical and practical requirements, for the successful execution of this task, face to face with you, at a time most convenient to you.

Data gathered in this survey will be treated with the *strictest confidentiality* and presented only in a summarised form, without the name or affiliation of the respondent being mentioned. I intend to start with data collection as soon as I have received your permission to do so. I wish to express my gratitude for your support and cooperation, and it is my intention to make the final results of my study available to all participating companies, with the reporting on the results not being company specific, but general in nature.

It will be highly appreciated if my request can receive your favourable response, and I will be more than willing to clarify and answer any questions you might have.

Yours faithfully

Cynthia Ntombifuthi Khumalo

Tel: 031-3020638

Email address: Stella.khumalo@kznlqa.co.za

Cellphone number: 0833078802

Appendix B: Consent form and Permission from the Department in KZN

CONSENT FORM

I....., agree out of my free will to participate in this research topic, which focuses on analyzing corporate governance practices of schedule three state owned entities; that are based in KwaZulu-Natal.

I understand that the information that I will share will be used for research purposes only and that nowhere will my identity be made known in any research report/publication. I am also aware of the fact that I can withdraw at any time during the study without incurring any penalty.

.....

Signature of research participant

.....

Date

Enquiries: Mr B Shezi

Date: 2014 / 01 / 07

TO : **WHOM IT MAY CONCERN
KZN LIQUOR AUTHORITY**

SUBJECT : **PERMISSION TO CONDUCT RESEARCH AMONGST SCHEDULE THREE
STATE OWNED COMPANIES IN KZN.**

The above matter refers:

Ms Stella Khumalo (CEO : KZN Liquor Authority) is hereby granted permission to conduct research, as part of her Doctorate studies, as per the topic "*Analysis of corporate governance practices amongst Schedule 3 state owned entities in KwaZulu – Natal*".

Such permission is also granted with a request from the Department that she will also request the University to allow her final research paper to be used by the Department to improve service delivery amongst state owned entities in KwaZulu-Natal, especially those state owned entities reporting to the Department of Economic Development and Tourism. It is believed that this thesis will help contribute significantly to the Department especially within the newly established Public Entity Oversight Unit.

The Department will also be available to provide any information that will be required as part of the research.

The Department wishes her success in her studies.



Mr. Bongani Shezi
Acting Head of Department
KwaZulu-Natal Department of Economic Development and Tourism

Date : 06 JANUARY 2014

Appendix C: Listed Schedule 3 KZN-based State owned entities (as of 15 March 2013) and Schedule 1 and 2 SOEs (listed 15th March 2013)

Part A: National Public Entities

- Ingonyama Trust Board
- Isimangaliso Wetlands Park
- KwaZulu-Natal Museum
- Luthuli Museum
- Ports Regulator of South Africa
- The Playhouse Company
- UMsunduzi Museum

Part B: National Government Business Enterprises

- Mhlathuze Water
- Umgeni Water

Part C: Provincial Public Entities

- Agri-Business Development Agency
- Amafa AkwaZulu Natal
- Dube TradePort Corporation
- Ezemvelo KwaZulu-Natal Wildlife
- KwaZulu-Natal Gambling Board
- KwaZulu-Natal Gaming and Betting Board
- KwaZulu-Natal House of Traditional Leaders
- KwaZulu-Natal Liquor Authority
- KwaZulu-Natal Provincial Planning and Development Commission
- KwaZulu-Natal Tourism Authority
- Natal Sharks Board
- Royal Household Trust
- Trade and Investment KwaZulu-Natal
- Umsekeli Municipal Support Services

Part D: Provincial Government Business Enterprises

- Cowslip Investments (Pty) Ltd
- Ithala Development Finance Corporation
- Mjindi Farming (Pty) Ltd
- Mpindle-Ntambanana Agricultural Company (Pty) Ltd
- Richards Bay Industrial Development Zone



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

**PUBLIC INSTITUTIONS LISTED IN
PFMA SCHEDULE 1, 2, 3A, 3B, 3C AND 3D
AS AT 15 MARCH 2013**

SCHEDULE 1

CONSTITUTIONAL INSTITUTIONS

1. The Commission for the Promotion and Protection of the Rights of Cultural, Religious and Linguistic Communities
2. The Commission on Gender Equality
3. The Financial and Fiscal Commission
4. The Independent Communications Authority of South Africa
5. The Independent Electoral Commission
6. The Municipal Demarcation Board
7. The Pan South African Language Board
8. The Public Protector of South Africa
9. The South African Human Rights Commission

SCHEDULE 2

MAJOR PUBLIC ENTITIES

1. Air Traffic and Navigation Services Company Limited
2. Airports Company of South Africa Limited
3. Alexkor Limited
4. Armaments Corporation of South Africa Limited
5. Broadband Infrastructure Company (Pty) Ltd
6. CEF (Pty) Ltd

Appendix D: Status of Legal and Regulatory Framework for SOEs in the Southern Africa Region

Countries	Statutory Legislation	Non-commercial entities/ Regulatory bodies/ Boards/ Authorities	Overall ownership policy	National SOE guideline or code	Ownership function separate from regulatory functions	Categorisation of commercial and non-commercial entities	Challenges
Angola	✓	No	✓	No	✓	No	<ul style="list-style-type: none"> - Consistent monitoring and evaluation of SOE performance - Cost and asset identification including accounting for public assets - SOE board practices
Botswana	✓	✓	In progress	No	No	No	<ul style="list-style-type: none"> - Application of consistent ownership policy - Adoption of best practices framework - Restrictive legislative frameworks
DR Congo	✓	✓	No	✓	In Progress	✓	<ul style="list-style-type: none"> - Social costs of restructuring - Identifying costs, contingent liabilities and current debt structures of SOEs <p>Inadequate investment in SOEs</p>
Lesotho	✓	No	No	No	In progress	No	<ul style="list-style-type: none"> - A lack of commercially driven performance of SOEs - Managing political interference in SOE operations - Improving accountability and reporting mechanisms
Malawi	✓	No	✓	✓	✓	No	<ul style="list-style-type: none"> - Non-adequate compensation of special obligations

							<ul style="list-style-type: none"> and responsibilities mandated to SOEs - Inconsistencies and incoherence in the current legal framework for SOEs - High turnover on boards
Mauritius	✓	✓	No	✓	✓	In progress	<ul style="list-style-type: none"> - SOEs pose a financial strain on public sector investments - Opaque demarcation between ownership and oversight function, therefore taking away transparency and accountability - No consequences for SOEs where there is non-compliance e.g. annual reporting
Mozambique	✓	✓	✓	✓	✓	No	<ul style="list-style-type: none"> - SOE board practices still not in line with standards promoted there - Inconsistencies with regard to SOE's corporate governance models - Current legal and regulatory framework not easy to adapt for commercial and non-commercial entities
Namibia	✓	✓	No	No	No	No	<ul style="list-style-type: none"> - Structure of the ownership function poses a challenge - The SOE Governance Council operates within clear legislative mandate, and not able to retain skilled persons

							<ul style="list-style-type: none"> - Lack of compliance with existing corporate rules and guidelines are lacking
Seychelles	✓	✓	No	No	In progress	In progress	<ul style="list-style-type: none"> - Ensuring proper oversight of SOEs - Braid remuneration practices, especially for employees of government on boards - Board duties and responsibilities
South Africa	✓	✓	✓	✓	✓	In progress	<ul style="list-style-type: none"> - Multiple and competing objectives for SOEs hindering optimal performance - Financial management within SOEs, and the inability to meet reporting standards - Proliferation and/or duplicative regulation and statutory obligations - Board and management remuneration and incentive practices are complex and contentious issues
Swaziland	✓	✓	No	No	In progress	No	<ul style="list-style-type: none"> - Board appointment, remuneration and composition is a challenge - SOEs perceive government policy measures as interference in their operations - Reigning in the activities of SOEs which are not optimally performing
Tanzania	✓	✓	No	No	No	No	<ul style="list-style-type: none"> - Scope of competition

							<p>authority limited</p> <ul style="list-style-type: none"> - Dependence on government subsidisation to deliver on non-commercial obligations
Zambia	✓	✓	No	No	✓	No	<ul style="list-style-type: none"> - SOEs subject to multiple and often competing objectives, and political decisions made by elected authorities - Political interference in the operation of companies - Supervision on loss-making SOEs is lacking
Zimbabwe	✓	✓	No	✓	In progress	No	<ul style="list-style-type: none"> - Lack of clearly defined lines of responsibility and coordination among the multitude of institutions involved in SOE policy formulation - Political interference - Performance management inadequacies - Governance challenges, including lack of separation from the regulatory and commercial functions

Appendix E: A Detailed Outline of the 76 King Code III Principles

- The Board should provide effective leadership based on an ethical foundation
- The Board should ensure that the company is and is seen to be a responsible corporate citizen'
- The Board should ensure that the company's ethics are managed effectively.
- The board should act as the focal point for and custodian of corporate governance.
- The Board should appreciate that strategy, risk, performance and sustainability are inseparable
- The board should provide effective leadership based on ethical foundation.
- The board should ensure that the company is and is seen to be a responsible corporate citizen.
- The board should ensure that the company's ethics are managed effectively.
- The board should ensure that the company has an effective and independent audit committee.
- The board should be responsible for the governance of risk
- The board should be responsible for information technology governance
- The board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards.
- The board should ensure that there is an effective risk based internal audit.
- The board should appreciate that stakeholders' perceptions affect the company's reputation.
- The board should ensure the integrity of the company's integrated report.
- The board should report on the effectiveness of the company's system of internal controls.
- The board and its directors should act in the best interests of the company
- The board should consider business rescue proceedings or other turnaround mechanisms as soon as the company is financially distressed as defined in the Act
- The board should elect a chairman of the board who is an independent non-executive director. The CEO of the company should not also fulfil the role of the chairman of the board.
- The Board should appoint the CEO and establish a framework for the delegation of authority.
- The board should comprise a balance of power, with a majority of non-executive directors. The majority of non-executive directors should be independent.
- Directors should be appointed through a formal process.
- The induction of and ongoing training and development of directors should be conducted through formal processes.
- The board should be assisted by a competent, suitably qualified and experienced company secretary.
- The evaluation of the board; its committees and the individual directors should be performed every year.
- A governance framework should be agreed between the group and its subsidiary boards.
- The board should delegate certain functions to well-structured committees but without abdicating its own responsibilities.
- Companies should remunerate directors and executives fairly and responsibly.
- Companies should disclose the remuneration of each individual director and certain senior executives.

- Shareholders should approve the company's remuneration policy.
- The board should ensure that the company has an effective and independent audit committee
- Audit committee members should be suitably skilled and experienced independent non-executive directors.
- The audit committee should be chaired by an independent non-executive director.
- The audit committee should oversee integrated reporting;
- The board should ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities
- And satisfy itself of the expertise, resources and experience of the company's finance function.
- The audit committee (AC) should be responsible for recommending the appointment of the external auditor and overseeing the external audit process;
- The AC reports to the board and shareholders on how it has discharged its duties.
- The board should be responsible for governance of risk and should determine the levels of risk tolerance
- The risk committee or audit committee should assist the board in carrying out its risk responsibilities.
- The board should delegate to management the responsibility to design, implement and monitor the risk management plan.
- The board should ensure that risk assessments are performed on a continual basis
- The board should ensure that frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks.
- The board should ensure that management considers and implements appropriate risk responses.
- The board should ensure continuous risk monitoring by management.
- The board should receive assurance regarding the effectiveness of the risk management process.
- The board should ensure that there are processes in place enabling complete, timely, relevant, accurate and accessible risk disclosure to stakeholders.
- The board should be responsible for IT governance.
- IT should be aligned with the performance and sustainability objectives of the company.
- The board should delegate to management the responsibility for the implementation of an IT governance framework.
- The board should monitor and evaluate significant IT investments and expenditure.
- IT should form an integral part of the company's risk management.
- The board should ensure that information assets are managed effectively.
- A risk committee should assist the board in carrying out its IT responsibilities
- The board should ensure that the company complies with applicable laws and considers adherence to non-binding rules; codes and standards.
- The board and each individual director should have a working understanding of the effect of the applicable laws, rules, codes and standards on the company and its business.
- Compliance risk should form an integral part of the company's risk management process.

- The board should delegate to management the implementation of an effective compliance framework and processes.
- The board should ensure that there is an effective risk-based internal audit
- Internal audit should follow a risk-based approach to its plan.
- Internal audit should provide a written assessment of the effectiveness of the company's system of internal controls and risk management.
- The audit committee should be responsible for overseeing internal audit.
- Internal audit should be strategically positioned to achieve its objectives.
- The board should appreciate that stakeholders' perceptions affect a company's reputation.
- Delegate to management proactively deal with stakeholder relationships.
- Strive to achieve the appropriate balance between its various stakeholder groupings, in the best interests of the company.
- Companies should ensure equitable treatment of shareholders.
- Transparent and effective communication with stakeholders is essential for building and maintaining their trust and confidence.
- The board should ensure that disputes are resolved as effectively, efficiently and expeditiously as possible.
- The board should ensure the integrity of the company's integrated report.
- Sustainability reporting and disclosure should be integrated with the company's financial reporting.

Appendix F: Study on Corporate Governance Practices of Schedule three State owned entities in KwaZulu-Natal

Instructions: Please complete the questionnaire by answering questions in each section, Please do not write your name or that of your entity.

PART 1: FACTORS CONTRIBUTING UNDERSTANDING OF CORPORATE GOVERNANCE PRACTICES:

1.1. BIOGRAPHICAL DETAILS

Please tick (√) the appropriate box for the given statements

1. Gender

Male	1
Female	2

2. Race

African	1
Coloured	2
Indian	3
White	4
Other (specify).....	5

3. Personal profile

Age		Qualification		Job category		Year(s) Experience in current portfolio	
20 - 30 years	1	High school level and below	1	Board member	1	Less than a year	1
31 – 40 years	2	Undergraduate qualification	2	Executive Manager in an entity	2	1 – 5 years	2
41 – 50 years	3	Postgraduate diploma	3	Manager in a government department	3	6 – 10 years	3
51 – 60 years	4	Master’s degree	4	Other (specify).....	4	11 – 15 years	4
61 – 65 years	5	Doctoral degree	5			16 years and above	5
66 and above	6	Other (specify).....	6				

4. Indicate your major background experience (You may choose more than one if applicable)

Business executive	1
Accounting or Financial professional	2
Legal professional	3
Public service administration	4
Other professional (please specify).....	5

5. Indicate what form of structured training on Corporate Governance; you have had

Undergraduate studies	1
Postgraduate studies	2
Entity initiated training	3
Self-initiated training	4
No structured training exposure	5

6. Indicate category of your entity or department

National Public entity	1
National Government Business Enterprise	2
Provincial Public entity	3
Provincial Government Business Enterprise	4
National Government Department (not an entity)	5
Provincial Government Department (not an entity)	6

7. Please respond to the following question; only if you are a Board member at this entity, if not; please pass on to Question 7: In how many companies do you currently serve as a board member?

One company; only this one	1
2 – 3 companies	2
4 – 5 companies	3
6 – 7 companies	4
Over 8 companies	5

1.2: OTHER FACTORS

Please tick (√) the appropriate box for the given statements; or answer YES or NO; where relevant:

8. Who has the greatest influence over the policies of your entity? (Please tick ONE box ONLY)

The Board	1
The shareholder, which is the government department	2
The Executive Managers	3
The stakeholders	4
Others (please specify)-----	5

9. The board has a director representing: PLEASE ANSWER YES OR NO in each box

	YES or NO
The government department or the shareholder department	1
The stakeholders	2
The sector or the industry	3
The employees of the entity	4
Any other constituency (Please specify)-----	5

10. Who has the strongest voice in the selection and appointment of board members? (Please tick ONE box ONLY)

Board or its nomination committee (autonomously)	1
The CEO	2
Controlling shareholder (the government department)	3
The stakeholders	4
Other (please specify)	5

11. How many board meetings were held last financial year? (Please tick ONE box ONLY)

Less than 4	1
4 – 6	2
7 – 10	3
More than 10	4

12. On average, what was the attendance rate for the board meetings? (Please tick ONE box ONLY)

90 - 100%	1
71 – 89%	2
50 – 70%	3
50 or less	4

13. Does your board have the following committees? Please answer YES or NO; in each box

Audit Committee	1
HR and/or Remuneration Committee	2
Risk Committee	3
Other Committee(s) (specify).....	4

14. If the board has these committees, how many meetings were held last financial year? Please tick

	1	2 - 3	4 - 6	Over 7
Audit Committee				
HR and/ or Remuneration Committee				
Risk Committee				
Other Committee (specify)				

For the following Questions; Please tick on a scale from 1 - 5 to indicate the extent of your agreement with the given statements: Strongly agree: 5, Agree: 4, Neutral: 3, Disagree: 2, Strongly disagree:1

15. Please give your responses to the following if your board has an Audit Committee (AC); if not please move on to the next question.

Statements	Strongly Disagree:1	Disagree:2	Neutral:3	Agree:4	Strongly Agree:5
The AC has written terms of reference specifying role and responsibilities of the committee					
The majority of the Audit Committee members are financially literate					
The AC is comprised of a majority of non-executive directors					
The Chairperson is an independent non-executive director and not Chairperson of the Board					
The CEO and CFO attend these meetings					
The AC holds meetings with the external auditor in the financial year					
The AC recommendations are subjected to full board review					

16. Please give your responses to the following if your board has a Remuneration Committee (RC);

if not please move on to the next question

Statements	Strongly Disagree:1	Disagree:2	Neutral:3	Agree:4	Strongly Agree:5
There are written guidelines specifying role and responsibilities of the remuneration committee					
The RC is comprised exclusively of non-executive directors					
The RC is chaired by a non-executive director					
Dissents are recorded in the committee minutes					
The RC recommendations are subjected to full board review					

PART 11: LEVEL OF AWARENESS AND KNOWLEDGE ABOUT CORPORATE GOVERNANCE PRACTICES

17. Appointment of directors of the Board

Statements	Strongly Disagree:1	Disagree:2	Neutral:3	Agree:4	Strongly Agree:5
The entity has formal and transparent procedures for the election of directors					
Board directors are recruited based on their knowledge and understanding of corporate governance					
Board directors are recruited based on their knowledge and understanding of the sector under which the entity falls					
Board directors are subject to a limit on the number of simultaneous directorships served in other companies					

18. Board Directors and their performance

Statements	Strongly Disagree:1	Disagree:2	Neutral:3	Agree:4	Strongly Agree:5
The board formally evaluates the performance of non-executive directors annually					
There is a set retirement age for non-executives directors					
The shareholder department evaluates performance of the board annually					

19. Code of conduct and other assistance

Statements	Strongly Disagree:1	Disagree:2	Neutral:3	Agree:4	Strongly Agree:5
The entity has a written code of conduct & ethics for directors					
The entity provides training opportunities for newly appointed directors					
Board members sign disclosure forms annually					
Board members have opportunity to recuse themselves; if there is potential for conflict of interest regarding particular matters on the agenda					

PART 11: EXTENT OF COMPLIANCE WITH PROVISIONS OF CORPORATE GOVERNANCE

PLEASE ANSWER MOST LIKELY OR NOT LIKELY; FOR QUESTIONS 20 - 22:

20. Does your entity publicly disclose the following for public consumption?

Statements	MOST LIKELY	NOT

		LIKELY
Annual financial statements		
Audited Annual reports		
Chairperson's report		
Corporate Governance report		
Audit Committee report		

21. The entity's corporate governance system includes the following:

Statements	MOST LIKELY	NOT LIKELY
The internal management structure and the board		
The internal management regulations, policies and procedures		
The Regulatory framework including monitoring systems		
The Financial reporting framework		
The Code of best practices of corporate governance		
The Corporate culture and value system		
The Relationship management system of core stakeholders		

22. Does the board have the following in place?

Statements	MOST LIKELY	NOT LIKELY
A Strategic plan and Strategic Risk register for the entity which was discussed and approved at board meetings.		
A Board Charter and Board Committee Charter which are reviewed annually.		
A clear and comprehensive delegation of authority to executive management.		
A development programme for their members		
An appropriately qualified company secretary.		
A succession plan for the executive management.		
A Shareholder Compact signed with its government department		
A Transfer Payment Agreement signed with the shareholder department based on budget received.		

23. The entity ensures shareholder and stakeholder involvement in corporate governance through the following practices?

Statements	Strongly Disagree:1	Disagree:2	Neutral:3	Agree:4	Strongly Agree:5
Consultation of shareholders prior to finalisation of the annual budget and corporate plan					
Consultation of stakeholders prior to finalisation of the annual budget and corporate plan					
Timeous submission of budget and corporate plan to relevant government department before commencement of the financial year					
Timeous submission of annual financial statements as per PFMA timelines					
Timeous submission of annual report as per					

PFMA timelines					
Quarterly reporting to the relevant government department					
Timeously responding to queries from the relevant government department					
Timeous response to planned interface with Parliamentary Portfolio Committee					
Disclosure of CEO, CFO and other executive managers' terms of contract and notice terms					
Disclosure of non-compliance with PFMA and other pertinent Acts.					

PART 1V: STRATEGIES FOR IMPROVEMENT OF CORPORATE GOVERNANCE COMPLIANCE

Please tick on a scale from 1 - 5 to indicate the extent of your agreement with the given statements:
Strongly agree: 5, Agree: 4, Neutral: 3, Disagree: 2, Strongly disagree:1

24. Can better corporate governance have the following impact on a company's performance?

Statements	Strongly Disagree:1	Disagree:2	Neutral:3	Agree:4	Strongly Agree:5
Improve financial performance					
Improve responsibility and accountability of the entity					
Reduce political or regulatory intervention					
Reduce cost of capital					
Improve access to capital					
Improve operational performance					
Strengthen transparency					

25. Indicate to what extent you regard the following corporate governance issues as either major or minor issues in the entity? Please TICK appropriate box.

Statements	MAJOR ISSUE	MINOR ISSUE
Lack of integrity and ethics among top management		
Lack of transparency in financial reporting		
Conflicts of interest of directors		
Drain off of funds through associate or subsidiary companies		
Inadequate and inefficient risk management		
Lack of transparency about board directors' remuneration		
Lack of proper balance between executive and non-executive directors in the board		
Ineffective connectivity between board and executive management		

26. Indicate the importance you place on the following corporate governance strategies in improving corporate governance practices in the entity.

Statements	LESS IMPORTANT	MORE IMPORTANT

Making the internal corporate governance mechanisms work better e.g. effective board functions, active shareholder participation etc.		
Making the external corporate governance mechanisms work better (E.g. enact specific regulations, monitoring, stakeholder participation etc.)		
Enhancing the standards of accounting, audit and disclosures		
Conducting and publicizing corporate governance ratings of the entity		

27. Can corporate governance of state owned entities be improved by adhering to following practices?

Statements	Strongly Disagree:1	Disagree:2	Neutral:3	Strongly Agree:4	Agree:5
Giving the audit committee greater power to investigate financial reporting					
Not obtaining audit and non-audit services from the same provider					
Remuneration packages for executive directors being closely linked to performance					
Key board committees are composed entirely of independent non-executive directors					
There should be an age limit for directors					
Full disclosure of the recruitment policy of new board directors					
The exact remuneration of each board director should be disclosed in the annual reports					
Imposed limitations on the number of directorships held by a board director at one time					
Adoption of a code of conduct and ethics for all board directors, officers and employees					

THANK YOU FOR PARTICIPATING IN THIS STUDY.

Appendix G: Interview schedule: Qualitative research

YOUR POSITION IN THE BOARD:

What is your number of experience serving as a board member in a KZN based State Owned Entity (collectively if you have served in more than one)

Please indicate category of the State Owned Entity (in KZN) where you serve in currently, in terms of National Treasury listing (if you serve in more than one, tick more than one area):

PART A: National Public entity _____

PART B: National Government Business Enterprise _____

PART C: Provincial Public Entity _____

PART D: Provincial Government Business Enterprise _____

What in your view are critical factors for effective corporate governance of a State Owned Entity

Research suggests that corporate governance in South Africa is guided mainly by King 111 Code of Governance Principles

- a. Do you understand these Principles: YES _____ NO _____
- b. If YES, Do you think that they are sufficient to provide guidance on how corporate governance should be practiced, please expand on your response

Based on your experience as a board member, what do you believe:

- c. Are positive contributing factors to effective corporate governance in State Owned entities
- d. Are negative contributing factors to effective corporate governance in State owned entities

How would you rate compliance to corporate governance in your KZN based State Owned entity, mentioned in Question 2 above (Please tick appropriate box)

HIGH (80% - 100%) _____

MODERATE (50% - 79%) _____

LOW (Less than 49%) _____

Please provide motivation for your response above:

Generally what challenges do you believe are faced by boards of State owned entities, with respect to matters of corporate governance?

How do you believe corporate governance of State owned entities can be improved?

THANK YOU FOR YOUR PARTICIPATION IN THIS STUDY

Appendix H: Questions used to analyse the published SOE Annual Reports

- Board responsibilities: Are the responsibilities of the Board clearly stipulated in terms of corporate governance?
- Responsibilities of the Chairperson: Are the responsibilities of the Chairperson clearly stipulated?
- Responsibilities of the Chief Executive Officer: Are the responsibilities of the CEO clearly stipulated?
- Company Secretary: Has the Company Secretary been appointed and her responsibilities indicated in terms of the Companies Act?
- Delegations of Authority: Is there a Delegations of Authority indicated in the Governance Report?
- Board Evaluation: Does the Board conduct Board Evaluation and how often, or when last?
- Declarations of Interests: Do Board members complete Declarations of interest annually?
- Attendance of Board meetings: Is there information provided that indicates names of Board members, and whether they attend meetings, or how often they have attended?
- Membership and Attendance of Board Committee meetings: Is there information provided that indicates names of Board Committee members and whether they attend Board Committee meetings and how often they have attended?
- Internal Control: Does the report indicate how Internal Control is exercised in the entity?
- Internal Audit: Does the report indicate how the function of internal audit is exercised?
- External audit and compliance: Does the report indicate involvement of external audit in the entity's oversight function?
- Risk Management: Does the report indicate how the function of risk management is exercised in the entity?
- Sustainability reporting: Has the entity moved to sustainable/ integrated reporting?
- Disclosure of Board fees and/or remuneration: Does the report disclose how much Board members were remunerated during the reporting period

Appendix I: Detailed results of the Document analysis conducted on Annual Reports

Questions as per Appendix J	Isimangaliso Wetland Park	Ingonyama Trust Board	Umgeni Water	Dube Trade Port Corporation	Amafa KwaZulu Natal/Heritage KZN	KZN Sharks Board	Trade and Investment KwaZulu-Natal	KZN Tourism Authority	Ezemvelo KZN Wildlife	Ithala Development Finance Corporation	Richards Bay Industrial Development Zone Company SOC Ltd
1.	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
2.	Yes	No	Yes	Yes	No	Yes	Yes	No	Yes	Yes	Yes
3.	No	No	No	Yes	No	Yes	No	No	No	Yes	No
4.	Yes	No	No	Yes	No	No	No	No	No	No	No
5.	No	No	Yes	Yes	No	No	Yes	No	No	Yes	Yes
6.	No	No	Yes	Yes	No	Yes	No	No	No	No	No
7.	No	No	No	Yes	No	No	No	No	No	Yes	No
8.	No	No	No	Yes	No	No	No	No	No	Yes	Yes
9.	No	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
10.	Yes, Audit Committee	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
11.	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
12.	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes
13.	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

14.	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
15.	Yes	No	Yes	No	No	No	Yes	No	Yes	Yes	Yes
15.	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
TOTAL AREAS OF COMPLIA NCE	9	8	12	15	5	10	11	8	10	14	12

Appendix J: Approval from Ethics Committee of UKZN



11 October 2017

Mrs CN Khumalo (201509825)

Graduate School of Business & Leadership

Westville Campus

Dear Mrs Khumalo,

Protocol reference number: HSS/0039/014D

Project title: Exploring critical factors for effective corporate governance practices of the Schedule 3 State owned entities in KZN

Approval Notification — Amendment Application

This letter serves to notify you that your application and request for an amendment received on 12 September 2017 has now been approved as follows:

- Change in Title

Any alterations to the approved research protocol i.e. Questionnaire/interview Schedule, Informed Consent Form; Title of the Project, Location of the Study must be reviewed and approved through an amendment /modification prior to its implementation. In case you have further queries, please quote the above reference number.

PLEASE NOTE: Research data should be securely stored in the discipline/department for a period of 5 years.

The ethical clearance certificate is only valid for period of 3 years from the date of original issue. Thereafter Recertification must be applied for on an annual basis.

Best wishes for the successful completion of your research protocol.

Yours faithfully

.....
Dr Shenuka Singh (Chair)

/ms

cc Supervisor: Dr Sylvia Blanche Kaye

cc Academic leader Research: Dr Muhammad Hoque

cc School administrator: Ms Zarina Bullyraj

Humanities & Social Sciences Research Ethics Committee

Dr Shenuka Singh (Chair)

Westville Campus, Govan Mbeki Building

Postal Address: Private Bag X54001, Durban 4000

Telephone: +27 (0) 31 260 3587/8350/4557 Facsimile: +27 (0) 31 260 4609 Email: ximbap@ukzn.ac.za / snymanm@ukzn.ac.za / mohunp@ukzn.ac.za Website: www.ukzn.ac.za

1910 • 2010

YEARS OF ACADEMIC EXCELLENCE