An Exploration of Corporate Governance and Performance of a State-Owned Enterprise: Case of Eskom

By

Hendry Bhazamusi Magagula

Student Number: 21 508 2207

Research Report submitted to the University of KwaZulu Natal in partial fulfilment of the requirements for the Master's Degree in Development Studies.

Supervisor: Professor Mtapuri

October 2016

ACKNOWLEDGEMENTS

Firstly, I wish to thank my Almighty Father in Heaven and the Lord Jesus Christ for being with me and granting me grace, guidance and strength throughout my studies.

I am greatly indebted to Professor Mtapuri, my supervisor for his intelligent guidance, encouragement, support and patience during all the stages of this study. Without his invaluable input, it would not have been possible for me to complete this study. A special mention goes to ………. (Research Coordinator), for his invaluable input throughout this research process.

I also wish to thank my family and friends for the financial support they rendered. Special mention and salutation also goes to my late brother Thembinkosi Thulane Magagula for his motivation and outstanding courage he demonstrated during my difficult times as I worked on this project.

I acknowledge my appreciation to the Eskom HR & Administration, for permitting me to conduct this research in the organisation.

Lastly, my special thanks goes to my cohort members who wished me all the best in my endeavours.

DECLARATION

I ………….. hereby declare that this dissertation is the result of my own investigation and research, and it has not been submitted in part or full for any other degree to any university, except to the extent indicated in the acknowledgements, references and comments included in the body of the report.

……………………………… ………………………………

Signature Date

ABSTRACT

The objectives of the study were to determine elements of corporate governance that impact on performance at Eskom; to evaluate the corporate governance process at Eskom and to establish governance factors that limit performance at Eskom. The data collection instrument used was the self-administered questionnaire, which was targeted at the board of directors, the shareholder and the executive management of Eskom. In-depth interviews were also conducted targeting the executive management. The research applied both qualitative and quantitative methods. The estimations and data analysis were done using the IBM 22 SPSS statistical software. The main tests that were used in the current study are the frequency tables and the one-way ANOVA test. The reliability and validity of the questionnaire/ instrument was tested using the Cronbach's Alpha coefficient. The quantitative data collected was organized and summarized using descriptive statistical methods such as averages, tables and percentages. In addition, qualitative data was interpreted and directly linked to the relevant research questions. The results obtained were compared with what theory says and some appropriate recommendations were made.

The findings reveal that while the board of directors of Eskom accepts the recommendations made by the executive management, it, however, does not implement them. The Eskom shareholders were found to be lacking commitment in the governance processes and the overall running of the business of Eskom. The study also found out that both insider and outside ownership including direct ownership matter for economic performance. It also found out that greater transparency and disclosure leads to a widened investor base and flexible access to capital. The study recommends the revamping of the whole corporate governance process and the recalibration of the balance of power, improving the structure and size of its board of directors as well as to improving the timely disclosure of company information especially financial reports.

Table of Contents

LIST OF FIGURE

LIST OF TABLES

CHAPTER 1

INTRODUCTION

1.1 Introduction

Major worldwide recorded accounting failures and financial crisis has negatively affected investor confidence and has raised a lot of questions on the effectiveness of a firm's internal control system and governance structures. Corporate governance is all about the way organisations are directed and that all corporate decisions are made effectively. Corporate governance is of paramount importance as owners are different from management or controllers, meaning ownership and control are separated. In the case of state owned entities like Eskom, the state owns the bulk of shares in such entities although it is run by executive officers who report to the minister responsible for the affairs of state owned entities. Corporate governance issues matter most to the shareholders as it is a shield against abuse of directors while improving access to capital for the company and instilling financial stability. This study aims to tap into the actual compliance with corporate governance provisions by state-owned entities and more importantly probe the relationship between corporate governance and organisational performance.

State owned entities of Eskom's nature have their performance measured by quality of service they offer to the citizens. Eskom needs to look for ways to ensure financial stability while meeting South Africa's energy demands and this cannot be achieved without effective and good governance which aligns its goals to performance. Eskom's Funding Report (2016) shows that the power utility would no longer constrain South Africa's economic growth after it secured 57% of the funding need for 2016/17 financial year. The funding requires good corporate governance to make it fulfil the purposes it was sourced for. Eskom Reports (2013 and 2014) showed that the entity has received such extent of funding in 2013 and 2014, but load shedding situations were common, due to various blamed factors.

1.1 Background to the Study

McNutt (2010) said corporate governance refers to the rules and regulations, and business procedures which can direct the relationship between stakeholders and managers. Oman (2001) noted the chief objective of corporate governance as to protect the rights of all stakeholders .Stakeholders' greater confidence in a company results in higher growth and profits. Parker (1996) stressed that the concept of corporate governance began to be applied and spoken about more commonly in the 1980s, but originated in the 19th Century when incorporation was being chosen as a way of limiting liability. Francis (2000) pointed out that the 1980s was the period characterised by stock market crashes and failure of some corporations like Enron in different parts of the world due to poor corporate governance. According to the United Nations report (1999) corporate collapse was the predominant driver for change to corporate governance codes. In UK, the governance of entities was regulated by custom and practice together with stock exchange requirements and some basic rules laid down by company law pertaining financial reporting, board of directors and audits before the introduction of the Cadbury Report in 1992.

Solomon and Solomon (2004) noted that countries that follow civil law like France, Germany, Italy and Netherlands developed their corporate governance frameworks that focused on stakeholders like employees, managers, creditors, suppliers, customers and the wider community. Solomon and Solomon added that countries like Australia, the United Kingdom and the United States of America that follow tradition of common law developed corporate governance structures that focus on shareholders' returns or interests. Shareholders held a firm's management responsible for attaining the firm's goals which include improved profitability.

Corporate governance is now an international topic due to globalisation of business. Developing countries like South Africa have adopted various corporate governance frameworks and regulations through institutions like the Johannesburg Stock Exchange. Davies and Schlitzer (2008) noted that corporate governance practices are not the same across nations. The Economic Cooperation and Development (1998) acknowledges the lack of a single model of corporate governance that is universal to all organisations in one country.

Gcabashe (2013) said that corporate performance is measured by market value to book value ratio, return on assets and sales to assets rations. Public enterprises are a category whose performance should be measured and challenges affecting their performance booked and resolved. Public enterprises are regarded as pivotal in the provision of public amenities like education, water, health, transport, electricity, housing and credit. Gcabashe (2013) noted that public enterprises contribute much to the government programmes in reconstruction and transformation of the nation if managed along proper corporate governance lines. Stakeholders in public corporations are of the motive to achieve desired objectives and gain investment.

There are several state owned entities in South Africa. Eskom specialises in the generation, transmission, distribution and sales of electricity as well as importing and exporting of electricity. It is a key player in the South African's economy and the SADC region. Eskom was established in 1920 and it is vertically integrated corporations which also sell bulk electricity to redistributors like municipalities. Klopper (2014) pointed out that Eskom generates 95% of electricity used in South Africa and 45% of the electricity used in Africa revealing it employees a lot of people. Eskom is therefore among key drivers of the South African economy and the Business Leadership South Africa (BLSA, 2015) warned that one of the great tasks the South African government has, is to make sure Eskom operations return to their profitable path and positive trend by recovery.

Eskom as a national entity financed by the taxpayers' funds should have the best command and accountability in its operations and reporting. McGregor (2014) stressed that Eskom was nominated the worst company in 2013 in terms of social responsibility. McGregor (2014) concluded that an organisation with good corporate governance is socially responsible. McGregor (2014) added that Eskom reported air pollution in 2014 at two thirds for its coal –fired stations. On this note Eskom cannot be left out amongst public enterprises that are speculated to be manned by poor corporate governance. Kloppers (2010) highlighted that a former Eskom Chief

Executive Officer fired for poor performance was awarded a bonus of R2.3 million. This incident left Eskom stakeholders with questions on accountability and adherence to corporate governance principles.

Cutting and Kouzim (2000) did not find any significant relationship between performance of firms and the governance practises of their boards. This research therefore seeks to explore the relationship between corporate governance and performance in state owned enterprises focusing on Eskom in South Africa.

1.3 Problem Statement

Good corporate governance provides the gateway to competitive advantage and is significant to economic and social progress if backed by adequate finance .Adequate finance will yield to success of a company if accountability and transparency are exercised in handling the finances of the company. The South African government is currently investing huge sums of money into public enterprises' capital projects and capital replacements with the obvious goal of making a justified and attractive return out of the investments. In diverging with the wishes of the government on their investments, most countries' public enterprises are declaring unbearable losses continuously. State owned enterprises receive significant budgetary votes from the government at the beginning of each year, resulting into outcry from taxpayers. Eskom Report (2015) showed that R12.8 billion was transferred to state owned enterprises, while parastatals received a budget of R10.7 billion for 2013 and 2014 financial period.

The Republic of South Africa (2013) reported that the financial performance of state owned corporations was a disappointment since 2012 with government expenditure and lending to public enterprises growing without any repayment. Minister of Finance (2013) stressed in a presentation to the nation that revenue performance of state owned enterprises was poor and needed improvement. Eskom Reports (2013 and 2014) reveal that South Africa has been affected by serious load shedding throughout the country. This inadequacy in performance by Eskom has been traced to various factors despite extended lines of credits to the entity. Poor corporate governance is speculated to be among these various factors causing Eskom to struggle in performance. Such a speculation motivated the researcher to embark on an exploration of corporate governance and corporate performance in South African state owned enterprises focusing on Eskom.

1.4 Research Objectives

The objectives of the study are:

i. To analyse and gauge the state of corporate governance practices in state-owned entities like Eskom.
ii. To assess corporate governance factors that impact on corporate performance at Eskom.
iii. To derive an overall relationship between corporate governance and organisational performance at Eskom.
iv. To recommend strategies for improving corporate governance and performance at Eskom.

1.5 Research Questions

The research questions which align to the objectives above are namely:

i. How is current corporate governance practice implemented at Eskom?
ii. To what extent are corporate governance factors impacting on corporate performance at Eskom?
iii. What is the overall relationship between corporate governance and organisational performance at Eskom?
iv. Do any intervention strategies exist to improve corporate governance and corporate performance at Eskom?

1.6 Delimitation /Limitations

Despite the fact that South Africa has many state owned enterprises in various ministries, this study focuses on Eskom as a case to study .The research was restricted to a sample of 40 participants comprising of management and owners of Eskom focusing on no any other issue of corporate governance besides the link between corporate governance and performance of the entity. Most researches done in corporate governance and corporate performances focused on entities in other countries but mostly non-state owned so there is inadequate literature for enquiry in South Africa relating to corporate governance and corporate performance in South African public enterprises.

1.7 Significance of the Study

Eskom provides energy services to the public; therefore it is a strategic entity which its performance will always on spotlight by the public. The recommendations of this study will draw the foundation on which the public may build confidence on pertaining improvement of corporate governance issues and corporate performance at Eskom. Improvement in performance at Eskom means less energy crisis and load shedding. The findings of this study will establish whether current corporate governance practices are adequate to meet standards required by the stock exchanges and statues on corporate governance .In addition, the study findings will expose challenges facing public enterprises from being efficient and effective in their performance. The state will in this case capture such challenges and start to work on them through the management controlling the affairs of these enterprises. The research will also guide the development of suitable and ideal intervention strategies to strengthen the governance model applied at Eskom. Problems affecting performance at public enterprises being caused by poor corporate governance in South Africa will be resolved. Future scholars may make reference to this study as it contributes to the body of literature on governance and performance of state owned enterprises.

1.8 Chapter Organisation

Chapter One: Introduction

Chapter one introduces the study by outlining the background to the study, describing the problem statement, mentioning the research objectives and questions, sating the delimitations and elaborating the significance of the study. The chapter summary concludes contents of the chapter and highlights the reader of the theme in the next chapter.

Chapter Two: Literature Review

Chapter two explores and analyses various literature through different themes reflected from the research questions to set a trend for the study and provide guidance to the subsequent chapters. Headings and sub-headings that provide a thorough account of theoretical knowledge of corporate governance and its impact on corporate performance punctuate the structure of this chapter. Theories discussed in this chapter include the Steward theory, Principal Agency theory, Stakeholder theory and Resource Dependency theory. A chapter summary rounds off discussions of the chapter and prepares the reader for the next chapter.

Chapter Three: Methodology

Chapter three comprises of the approach and methodology used in the research that includes research approach used and the data collection methods that include research design, sampling, data collection instruments, data analysis and ethical considerations. The chapter summary briefs the contents of the chapter and moves the reader to the next chapter.

Chapter Four: Results

Chapter four presents the results of the survey in form of tables, graphs and charts for the test items in the questionnaire. The validity and reliability of the results are discussed in this chapter. A chapter summary exists to round off the chapter and prepares the reader for the next chapter.

Chapter Five: Conclusions and Recommendations

Chapter five discusses the results presented in chapter four and link the findings to literature review in chapter two where applicable. The chapter further presents conclusions and recommendations drawn from the study findings, reviewing of research objectives and questions. The chapter also provides recommendations for action and further research.

1.9 Chapter Summary

This chapter introduced the research topic and tracked the background of corporate governance and how it affects performance both nationally and internationally. The research problem has been stated as poor financial performance at Eskom in South Africa, and research objectives have been established and relevant questions designed. The significance of the study in this chapter clearly shows how the research study is important to various stakeholders of the banking industry. The chapter also displays the significance of the study which indicated that corporate governance related to poor performance at Eskom can be resolved. The next chapter focuses on literature related to corporate governance and its impact on company performance at Eskom.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This chapter reviews the literature related to corporate governance and corporate performance as well as the impact of corporate governance on performance of state owned enterprises. The chapter covers the concepts of corporate governance, corporate performance, theories of corporate governance, measures of corporate performance and the impact corporate governance has on corporate performance.

2.2 Concept of Corporate governance

Khan (2011) regards corporate governance as a broad term which defines the methods, structure and processes of a company in which the business and company affairs are managed and directed. Solomon (2007:55) defines corporate governance as a supervision and control process aimed to ensure that the company's management acts in accordance with the interest of shareholders. Zingales (1998:39) asserts that corporate governance determines how the firm's top decision makers or executives actually manage the affairs of entities. Shleifer and Vishny (1997:737) define corporate governance as the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment. Organisation of Economic and Cooperation and Development (OECD, 1999) defined corporate governance as the system by which business corporations are directed and controlled.

2.3 Theories of Corporate governance

Theories on corporate governance to be discussed in this study include:

- Agency Theory
- Stewardship Theory
- Resource-Dependency Theory
- Stakeholder Theory
- Institutional Theory

2.3.1 Agency Theory

The theoretical base for extant research in corporate governance comes from the classic thesis, 'The Morden Corporation and Private Property' by Berle and Means (1932).The thesis outlines the fundamental agency problem in today's firms where separation of ownership and control exists. Jensen and Meckling (1976) defined agency relationship and identify agency costs which include monitoring expenditures by the principal like auditing, budgeting, control and compensation systems. The Agency Theory considers one party as the principal, that is, shareholders and the other being the agent, thus the principal engages the agent to perform tasks on their behalf. In this case conflict of interest may crop up between managers or controlling shareholders and minority shareholders as minorities may have less interest to pursue new profitability ventures. According to the theory, the objective of the firm is to maximise wealth of shareholders through allocative, productive and dynamic efficiency.

The criteria by which performance is measured in this theory is the market value which is the shareholder value of the firm. To increase firm's value, one should therefore reduce agency costs and this gives rise to the linkage between corporate governance and corporate performance. Fama (1980) concluded that the Agency Theory assumes that human behaviour is opportunistic and self-serving, thus it prescribes strong director and shareholder control. The theory set the fundamental function of the board of directors as to control managerial behaviour and ensure that managers act in the interests of shareholders. The criteria by which performance is judged in this theory can simply be taken as the market value (i.e. shareholder value) of the firm. As investors are worried about maximising shareholder value, managers may have diverging interests like maximising their salaries and market share growth.

2.3.2 Stewardship Theory

The Stewardship Theory assumes that the manager will make decisions in the best interest of the organisation by applying productive options that come in his/her way. This type of a person believes that benefits will come to him/her if the organisation achieves improved and better performance. Olson (2008) stressed that the steward manager maximises the performance of the organisation given that both the steward and the principal benefit from a vibrant organisation.

Hoskisson et al (2000) criticised the Agency Theory because it uses limited liability to explain sociological and psychological mechanisms inherent to the principal-agent interactions which borrow their origins from economics. Due to such critics, the Stewardship Theory has been proposed as an alternative perspective to the Agency Theory. Donaldson and Davis (1994) said the Stewardship Theory assumes that managers are good stewards of entities and they are trustworthy as well as working diligently to achieve the best corporate profit and shareholders' returns. The managers as stewards work closely with the principal to achieve a goal alignment. Tian and Lau (2001) noted that CEO duality that is roles of Chairman of the board and CEO by one person has been seen as a supporting attribute to the Steward Theory. Olson (2008) said the Steward Theory of management and the Agency Theory both focused on the leadership philosophies adopted by the owners of the organisations.

Table 2.1: Comparison of the Principal–Agency Theory and Stewardship Theory

	Principal-Agent Theory	**Stewardship Theory**
Owner	Principal	Principal
Managers are	Agents	Stewarts

Approach to governance	Economic	Sociological and physiological
Model of men’s behaviour	Individualistic Opportunistic Self-serving	Collectivists Pro-organisational Trustworthy
Mangers are motivated by	Own objectives	Principals’ objectives
Managers’ and principal’s interest	Diverge	Converge
Structure that	Monitor and Control	Facilitate and empower
Owner’s attitude	Risk averse	Risk propensity
Principal-Manager relationship based on	Control	Trust
Psychological mechanisms		
Motivation	Lower order Extrinsic needs	Higher order needs Intrinsic needs
Social comparison	Other managers	Principal
Identification	Little value commitment	Great value commitment
Power	Institutional	Personal
Situational mechanisms		
Management philosophy	Control oriented	Involvement oriented
How to deal with increasing uncertainty and risk	Greater controls More supervision	Training and empowering people. Redesign jobs to be more challenging and motivating.
Risk orientation	Control mechanisms	Trust
Time frame	Short term	Long term
Objective	Cost control	Performance enhancement
Cultural differences	Individualism Large power distance	Collectivism Small power distance

Source: Sanchez (2011) based on Davis, Schoorman and Donaldson (1997).

Table 2.1 above shows that the owner-manager relationship is determined by behaviour adopted by both owners and managers. Davis et al (2007) noted that managers act as agents or stewards basing on particular situations. Principals resort to choose a relationship of one type or the other basing on their views of the same situations.

The stakeholder view of a firm is different from that of management and principal owners. Stakeholders' view rests on the fact that investors, employees, suppliers, customers and other stakeholders in general are equal as they all contribute and receive benefits from the firm. Donaldson and Preston (2015) noted that various views on corporate governance can also be related to different cultural contexts, intellectual backgrounds and interests of scholars. Participants in corporate governance come from different academic disciplines and corporate governance is with no doubt a new discipline since it rarely overlaps with other disciplines.

2.3.3 The Resource-Dependency Theory

Pfeiffer (2009) said the Resource Dependence Theory (RDT) provides an alternative perspective to economic theories of mergers and board interlocks and it provides an understanding of the type of inter-organisation relations that are inked to recent market failures. The theory is based on the fact that management of organisations strive to ensure that the organisations survive and their own autonomy is enhanced at the same time maintaining stability in the organisation's exchange relations.

There are three main ideas of the RDT namely:

- The social context matters;
- The organisations having strategies to enhance their autonomy and pursuit of interests and
- The emphasis on power and authority as the main theme of the RDT that distinguishes it from other approaches such as cost economics.

Pfeiffer (2013) highlighted that the idea of exchange-based power in the RDT was borrowed from Emerson's 1962 parsimonious account that the power of Y over Z comes from the control of resources that Z values and that are not with anyone else. On this note, power and dependence becomes a face of each other, that Z is dependent on Y to the extent that Y has power over B and that power is not zero-sum as Y and Z can each have power over each other making them interdependent.

2.3.4 The Stakeholder Theory

Clarkson (2004) stressed that the Stakeholder Theory is founded on the idea that a firm is a system of stakeholders operating within the larger system of the main society that set necessary legal and market infrastructure for the firm's operations. In this theory corporate governance is primarily concerned with how effective various governance systems are in enhancing long-term investment and commitment amongst the various stakeholders. Solomon (2007) believed that the Stakeholder Theory developed gradually since 1970 and was presented by freeman (2014) in his general theory of firm, incorporating corporate accountability to different stakeholders. The main challenge with the traditional stakeholder model of the firm is that, it is difficult if not possible to ensure that corporations achieve their broad objectives. This theory is used to explain firm behaviour by comparing observed social performance and actual economic performance.

2.3.5 The Institutional theory

Scott (2011) noted the originality of the institutional theory as running through the formative years of social sciences with reference to scholars like Marx and Weber, Veblen and Commons. Institutional Theory takes into account the processes by which structures like schemes, rules, norms and routines are formulated as authoritative guidelines for social behaviour. The theory also enquires into how these elements are created, diffused, adopted and adapted over space and time and how they fall into decline and disuse. Alexander (2013:92) suggested that the theory is a snap shot of trends present in theorising about the social structure and action from the classical to contemporary theorists.

2.4 Elements of Corporate Governance

2.4.1 Leadership and Board Effectiveness

Brown and Caylor (2004) said several factors need consideration to explain board effectiveness. Empirical studies have aligned themselves to factors like board size and composition with size, independence and performance. Haniffa and Hudaib (20110 put forward that a small size board is expected to perform more than bigger ones due to better communication links and quicker decision making ,hence improve corporate performance. Brown and Caylor (2010), on the other hand found that bigger sized boards were achieving higher performance. Alexander (2013) argued that effectiveness of boards also depends on independence of the board and scholars like Haniffa and Hudaib (2011) noted that multiple directorship does not have positive impact on performance.

An effective governing board which has capabilities of running the affairs of the organisation is a necessity through the guidance of an effective framework which addresses a clear identification and articulation of responsibility, and appreciate various relationships between organisations and stakeholders. Boards that are effective are capable of providing leadership, coherent communication of set governance principles and ensure effective operation of internal controls to meet the demands of good governance. Loh (2012) documented that management should lead by example so as to enhance accountability and improved performance.

2.4.2 Accountability

Loh (2012) noted that accountability of professional management to the set board is of paramount importance in the quality of governance. The identification of responsibilities and relationships by establishing who is responsible for what, to whom, and by when is essential in achieving good governance. In addition, knowledge of relationship that exist between stakeholders and those entrusted to manage affairs of corporates need to be noted down for principles of good governance to prevail. The need for accountability provides a way forward to those, either in public or private sectors who find themselves in somewhat different relationships than they had previously exposed.

2.4.3 Directors' Remuneration

Directors’ remuneration is one the main elements of corporate governance mentioned in a number of previous large corporate failures. Conyon and Schwalbac (2010) pointed out that higher levels of managerial compensation are believed to encourage directors to exercise their role more efficiently than those poorly remunerated. Duffhues and Kabir (2008) argued that the positive link between directors’ compensation and corporate performance does not always hold correct in some other cases.

2.4.4 Audit Quality

An effective and higher quality audit resembles good corporate governance. Those charged with corporate governance like audit committees play a vital role in overseeing financial management of the company and, hence in improving the company’s performance. Ho (2015) stressed a positive link among audit quality, governance and financial performance, though Brown and Caylor (2014) concluded that a significant relationship lies between audit quality and dividend yield not with operating performance.

2.4.5 Transparency and Openness

Loh (2012) emphasised that transparency and disclosure of transactions and relationships with auditors should be enhanced for an organisation which aims to associate itself with good corporate governance. Company directors owe to the stakeholders the duty to provide confidence regarding the decision-making process. Openness through effective consultations with stakeholders and communication of complete, accurate and transparent information leads to quick adjustments whenever necessary. Public enterprises need to uphold transparency through fully accountable and become central to good governance so that the private sector follow suit. Reliable financial reports are a product of high transparency and sufficient disclosures as this closes the gap on information asymmetry, thus leading to higher quality of earnings. Loh (2012) added that a high degree of transparency increases management’s trustworthiness widens the investor base as they flock in and improves access to capital.

2.8.7 Integrity

Integrity is based on honesty and objectivity as well as high standards of professionalism. Awarding of public funds requires an entity to exercise high integrity in its operations and transactions. Effective control frame work and personal standards as well as professionalism of individuals within the organisation leads to high integrity. This is embedded in the organisation's decision-making practices and procedures as well as in the quality and credibility of its performance reporting.

2.4.7 Integration

Various elements of effective corporate governance need to be integrated into coherent corporate approach by individual requisitions which are well understood and applied throughout the organisation. A well implemented corporate governance framework should provide the integrated strategic management framework necessary to achieve, results of performance standards required to achieve organisational goals and objectives.

2.4.8 Commitment

In both public and private sectors focus has been placed on the form rather than the substance of corporate governance. Effective Corporate governance goes beyond setting structures such as committees and reporting frameworks to achieve required outcomes. All stakeholders are required to effectively implement all elements of corporate governance, since an effective framework is people oriented. An effective corporate governance framework places greater emphasis on corporate values and ethical conduct, risk management, relationships with clients and quality service delivery.

2.4.9 Social Responsibility

The growing interaction between various stakeholders and the society at large has led to the need of corporate social responsibility. Corporations' ethical behaviour in relation to the environment in which they operate sends a correct signal to various stakeholders also benefiting from the same environment and have impact on performance.

2.5 The Good Governance Standard for Public Services

The Good Governance Standard for Public Services was designed for use by all organisations and partnerships that work for the public and using public funds. The Office for Public Management and Chartered Institute of Public Finance and Accountancy, in partnership with Joseph Rowntree Foundation established the Independent Commission on Good Governance in Public Services (2014). The Commission is mandated to develop a common code and set of guides to good governance across public services in order to achieve good management, good performance, good stewardship of public funds and good public engagement. The commission requires governors of public enterprises to develop governance responsibility to the people through effective leading, directing and controlling the organisations they serve. The governors are also obliged to ensure that they address the purpose and objectives of public corporations in the interest of the public and bringing about positive outcomes for the people who use the services and tax payers at large. Governors of public corporations need to balance the public interest with accountability to government and ensure that appropriate executive leadership is in place.

The Good Governance Standard for Public Services comprises of principles of good governance which include:

- Ensuring that taxpayers receive value for money;
- Ensuring that users receive high quality service;
- Focusing on organisation's core purpose and outcomes for citizens and service users;
- Performing effectively in clearly defined functions and roles;
- Designing clear outlines of the governing board's responsibilities;
- Being clear about relationships between governors and the public;
- Making sure responsibilities of executive and non-executive directors are known and clearly demarcated;
- Developing the capacity and capability of the governing body to be effective;
- Putting organisational values into practice;
- Instituting behaviour that upholds and exemplifies effective governance;

- Promoting values for the whole organisation and demonstrating the values of good governance through behaviour;
- Putting organisational values into practice,
- Considering informed, transparent decisions and managing risk;
- Exercising firmness and transparency on how decisions are taken and
- Establishing effective risk management systems.

2.6 The King Report and Corporate governance

The King Report (2002) came into existence after The King Committee on Corporate Governance was formed under the initiatives of the Institute of Directors in South Africa to consider corporate governance's increasing interest around the world. The report stretches to focus on an integrated approach to good governance in the interests of a wide range of stakeholders. The King Report attached considerable focus on fundamental principles of good financial, social, ethical and environmental practice. The King Committee in 1994 formalised the need for corporates to recognise the relationships they have with the society and environments in which they operate from.

The King Report (2002) defines corporate governance by describing corporate governance as a system that holds balance between economic and social goals, and between communal and individual goals with an aim of aligning as nearly as possible the interests of individuals, corporations and the society. The Report stresses on the efficient use of resources and accountability for the stewardship and organisational resources.

Elements and features of good governance in the King ll Report (2002) which are prescribed to be core determinants of corporate governance with a significant impact on corporate performance of any enterprise are as below:

2.6.1Transparency

It is considered to be the ease with which an outsider is able to make a meaningful analysis of a company's activities and non-financial aspects which impact business performance.

2.6.2 Independence

It is the existence of guidelines which minimises or avoids potential conflict of interests. Independence enhances objectivity and the entity should be autonomous with a frame work of self-governing which clearly distinct the entity and its owners. High levels of independence lead to high quality audits.

2.6.3 Discipline

Discipline is seen as the commitment by a company's senior management to adhere to behaviour that is universally recognised and accepted to be correct and proper. Directors who are financially disciplined instil confidence to providers of finance and are associated with positive corporate performance.

2.6.4 Accountability

It is whereby individuals or groups in a company make decisions and take direction on particular issues and need to be answerable and liable for their actions and decisions. Effective accountability reduces incidences of maladministration and hence abuse of office.

2.6.5 Responsibility

It is regarded as managerial behaviour that allows for corrective action and for penalising mismanagement.

2.6.6 Social responsibility

Social responsibility is that awareness a company needs to have on how it will impact on the immediate environment it is operating in.It its responds to social issues and its priority on ethical standards. Firms that are socially responsible tend to have larger customer bases.

2.6.7 Fairness

Fairness is achieved when systems in a company are balanced by taking into account all those having an interest in the company and its future. All groups of stakeholders of a specific company expect fair treatment.

The King II Report (2002) documented the elements and features of good corporate governance are associated with components and systems of good governance which include the boards of directors, the designed procedures and reporting.

2.6.8 Boards and Directors

The board is accountable and responsible for the performance and running the affairs of the company, therefore is the central point of corporate governance system. The board establishes the board committees which it delegates authority in handling various issues in different departments of the organisation.

2.6.8.1 Board Composition

The King II Report (2002) encourages companies to establish an effective board comprised of balanced number of executive and non-executive directors. The number of non-executive directors is taken important here as it determines the extent to which minority interests are protected.

2.6.8.2 Board Meetings

The board should meet regularly ,at least once a quarter if not more frequently as circumstances require .The annual report should disclose the number of the board and committee meetings held in that particular year and show attendance details of each director.

2.6.8.3 Board Committees

The board committees are set to assist the board and its directors in discharging their duties and responsibilities, and are supervised by the board.

2.6.8.4 Board and Director Evaluation

The board through its nomination committee should regularly review its required mix of skills, experience and gender characteristics in order to assess its effectiveness.

2.6.8.5 Board Chairperson and Chief Executive Office

The King II Report (2002) emphasises a clearly accepted division of responsibilities at the head of the company to achieve balanced power and authority in decision making. The power for the board chairperson and chief executive officer being vested in one person gives rise to problems in achieving good corporate governance since everything becomes centralised.

2.6.8.6 Directors

Non-executive directors should show high credibility with necessary skill and experience to exercise fair judgement, and independent decisions on issues of strategy and standards of conduct. Non-executive directors should also bring judgement to bear on the evaluation of the firm’s performance, issues pertaining resource allocations and employment equity. Executive directors should be advised to hold other non-executive directorships only to the extent that these do not collide with their immediate management responsibilities.

2.6.8.7 Remuneration

Levels of remuneration should be pegged in such a way that they attract, retain and motivate executives of the quality required by the board.

2.6.8.8 Risk Management

Risk management involves identification of the risk, assessing the risk and finding solutions to reduce the risk, and these are responsibility of the board. The board needs to decide the tolerance level for risks and put in place measures to address and control the risks. The risk management policy established should be communicated to all employees by the board. Low levels of risks enhance attainment of better corporate performance.

2.6.8.9 Reporting

An effective system of control should be established by the board to ensure that risks are reduced and company targets achieved. Any control failures should be detailed in reports including their impacts on the company's timetables, operations schedules and performance with remedial actions noted.

2.7 Commonwealth Association for Corporate Governance (CACG) - Guideline

The CACG (2010) is a voluntary association of 53 independent countries with Common Wealth's fundamental values in the Harare Declaration of 1991 which attaches great importance to economic and social development. The association seeks to satisfy basic needs and aspirations of the vast majority. South Africa is a member of the Commonwealth and is mandatory required to adhere to the CACG guidelines.

The fifteen principles and objectives contained in the CACG guidelines focus on boards of directors in public enterprises, private enterprises, family-owned firms and state-owned firms. Among the principles and objectives contained in the guidelines are to:

- Determine the entity's purpose, values and strategy for it to fulfil its purpose, and to implement its values in order to ensure that it achieves competitive advantage.
- Ensure that the entity complies with all relevant laws, codes of best practice and regulations.
- Make sure leadership and integrity are exercised when directing the corporation to achieve continuing prosperity for the corporation.
- Ensure that board appointments are made that provide a mix of proficient directors who adds value and bring independent judgement to bear on decision making process through effective processes and methods.
- Make sure effective procedures and practices are in place to protect the corporation's assets and reputation. Monitor and evaluate the implementation of designed strategies, policies, plans and management performance yardsticks.

- Ensure the corporation communicates effectively with shareowners and other stakeholders as well as serving the genuine interests of share owners of the corporation.
- Identify the corporation's internal and external stakeholders and agree on policies on how the corporate should relate to them, and ensure balanced power of authority on board.
- Review processes and procedures regularly to ensure the effectiveness of the corporation's internal systems of control. Enhance high levels of accuracy reporting and decision making capabilities.
- Regularly assess the corporation's performance and effectiveness as whole and that of individual directors.
- Appoint the CEO, ensure motivation and adequate training in the corporation for management and employees .Ensure the existence of a succession plan for senior management.

2.8 Organisation for Economic Cooperation and Development (OECD)

OECD (1999) outlined five good corporate governance principles to be observed by firms. These principles include:

- Protection of shareholders' rights;
- Equitable treatment of all shareholders;
- Recognition of the rights of stakeholders;
- Timely and accurate disclosure of all matters that regarded as material which may include financial performance , ownership and governance issues and
- Effective monitoring of management and accountability.

.

2.9 Sate Owned Enterprises (SOEs) as Corporate Organisations

Mitchell, Cunningham and Solomon (2006) considered state owned corporations as artificial beings which exist only in contemplation of law or statutes in form of by-laws. Governance of state owned enterprises differ from one country to the other due to differing legal frameworks allowing customised corporate governance approaches being sued. No two corporate entities are identical, but the principles of governing them are universal. However, the peculiarities that exists due to different situations such as legal frameworks in each country allowing for customization of corporate governance approaches. Mitchell et al (2006) said that state owned corporations are obliged to exercise their powers and transactions in guidance with the charters and by-laws which created them.

Mitchell et al (2006) stated that it would be difficult to run the affairs of a corporation without the reference of a charter of incorporation. Alchian and Demsetz (2012) argued that a corporation is an entity which brings together a team of human beings who are productive to work together for a result to achieve (performance). The benefit to the public is considered a value in sectors in which the state owned enterprises are created, it might be water, health, electricity of education. In the classical theory, the agent who personifies the corporation is the entrepreneur who is considered to be the manager and also the residual risk bearer.

2.10 Corporate Performance and Corporate Performance Measures

2.10.1 Concept of Corporate Performance

Claessens (2006) defined corporate performance as the final result or outcome which corporations reap after some efforts and injection of inputs in their operations. Data on corporate performance is provided by financial reports (balance sheet and income statement), production schedules, market information (stock price, stock returns and market capitalisation) and other sources.

Corporate governance may have an impact on different aspects of firm performance which include:

i. Operating performance which include measuring profitability using measures like return on assets and return on equity
ii. Market value which include market capitalization relative to book value as measures.
iii. Stock returns which is relative change in stock price over time measured by a return on investment.

2.10.2 Corporate Performance Measurements

Managers are directly responsible for the operations of businesses through effective and efficient utilisation of the firms' assets. Performance measuring is done as part of budgetary control in order to achieve and foster control as well correct any unfavourable variances. Kaplan and Atkinson (2008) suggested that control refers to the tools and methods that organisations employ to keep on track in terms of achieving their objectives. Harrington (1991) noted that in existence are financial and non-financial measurements which are fundamental tools of control and management.

Financial measurements involve the use of accounting ratios like profitability, liquidity, asset utilisation, gearing and shareholder or investment ratios. Profitability ratios include return on capital employed, return on assets and return on equity. The return on assets is net income before interest expense divided by total assets for the same period. The return on assets ratio motivates and ensures efficient management of the firm and through it providers of finance will be able to assess how efficient a firm's corporate governance mechanism is in that firm. Epps and Cereola (2008) defined return on equity as a measure which shows an investor how much profit was generated by his investment in the company. It is measured by saying income before interest expense divided by total shareholders' equity for the same period.

Economic Value Added (EVA) is an alternative to purely accounting –based methods used to determine shareholder value. EVA evaluates the profitability of a firm after the total cost of capital, both debt and equity taken into consideration. Other measures of financial performance are capital adequacy, asset quality, earnings and cash operating cycle. The growing reputation of a corporation is a good measure of its performance as well as its position in the market. Well performing businesses are associated with large customer base and better market share unless if they are monopolists.

Brown and Caylor (2005) used return on equity and return on assets as their two operating performance measures while Klein (2008) used return on assets only. Epps and Cereola (2008) suggested that we can measure operating performance of an entity through return on assets ratio which reveals amount of earnings generated from investing capital.

Corporations exist to maximise profits by generating high levels of income for the benefit of stakeholders; therefore, both the return on assets and return on equity can be reliable measures of Eskom financial performance. Poor performance at Eskom means poor provision of public services therefore contradicts the purpose the state mandated it carry.

2.11 Related researches on corporate governance and financial performance

Empirical researches done on the relationship between corporate governance and corporate performance used either market-based measures or accounting-based measures. In corporations where managers neglect to invest in those projects that add value to the firm and its shareholders, but divert recourses to their own benefit, the financial markets act to restore good governance. Senior managers have been leaving poor performing companies as they try to link their compensation to performance by demanding cash payments in form debt service including equity and options. One of the earliest studies of the relationship of governance and performance is by Black (2001) who studied 21 large scale firms in Russia. Despite the use of a small sample, Black (2001) found a strong correlation between firm valuation and the quality of their corporate governance.

Lapper and Love (2014) found a high positive relationship between better governance and operating performance using firm level data of 14 emerging stock markets with return on assets as a proxy for operating performance .Selvaggi and Upton (2008) found that good corporate governance leads to better firm performance in United. Brown and Caylor (2014) claimed a positive relationship between the quality of corporate governance and their measures of profitability.

Rogers (2006) explored the relationship between core principles of corporate governance and financial performance in commercial banks of Uganda .Rogers (2006) found that corporate governance predicts 34.5% of the variation in the general financial performance of commercial banks in Uganda. Noted significant drivers on financial performance were the two elements of corporate governance which are reliability and openness. However the significant contributors on financial performance included openness and reliability.

Bocean and Barbu (2007) conducted a study to develop an understanding of corporate governance and its effects on corporate and economic performance. They stretched their study to examine some of the economic implications associated with various corporate governance systems. The study found that corporate governance can affect corporate performance. The study concludes that corporate governance insider ownership, outside ownership concentration and direct ownership are significant as far as economic performance is concerned.

Chiang (2015) explored the relationship among indicators of corporate governance, including transparency and operating performance. The study results revealed that corporate transparency had a significant positive relationship with operating performance and was one of the most critical indicators for evaluating corporate performance. It was concluded that companies with good corporate governance had a strong positive relationship with operating performance.

A growing number of studies questions the positive relationship between governance and performance and argue that it is not robust. Core *et al* (2006) argued that some findings by Gompers *et al* (2003) are driven by the impact of technology firms on disparities in stock prices in the 1990s.Yen (2005) points out that the positive correlation found by Gompers *et al* (2003) is partly account for by penny stocks and outliers.

2.12 Conceptual model of the study

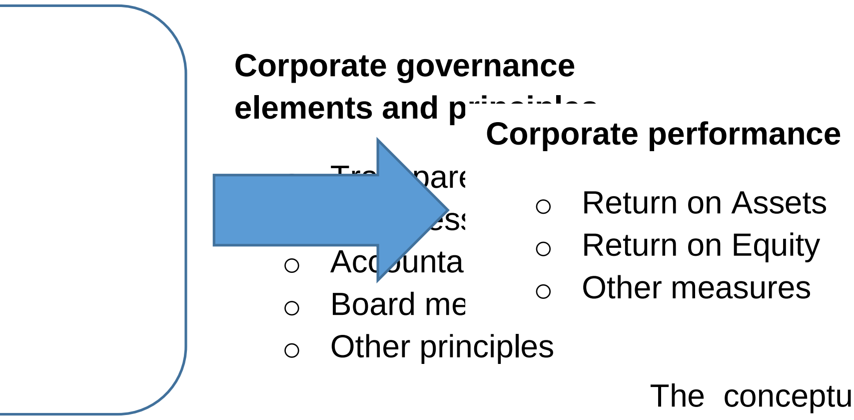


Figure 2.1: Conceptualisation of key terms

The conceptualisation of key terms in Figure 2.1 above shows that state owned enterprises meant to provide strategic services that require them to do it while observing the principles and elements of good corporate governance. Adherence to the principles of good corporate governance by state owned corporations is reflected in its performance by indicators which include return on assets, return on equity and other measures. Black (2011) argued that if the board of Directors performs its duties effectively by the virtue of adhering to principles of good governance, the value of the firms is expected to increase reflecting better performance. On this note, it is the scope of this study to explore the relationship between corporate governance and corporate performance in state owned enterprises in South Africa.

2.12 Chapter Summary

This chapter reviewed literature related to corporate governance, corporate performance and the impact of corporate governance on corporate performance in state owned enterprises. The chapter covered the concepts of corporate governance and corporate performance and discussed theories on corporate governance and elements of good corporate governance. Previous researches that have been done show a link between corporate governance and corporate performance in different industrial settings. The next chapter focuses on research methodology.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter deals with the methodology used in the study which includes; the research approach, research methods and the research process. Common philosophical assumptions observed to facilitate progress in the study were reviewed. The study adopted the pragmatism paradigm to guide it at a broader philosophical level. In addition, the chapter discusses the research design used in the study as well as research strategies, instruments and data analysis methods used. Data collection methods used were discussed while an explanation to the stages and processes involved in the study was given.

3.2 Research Design

The study used both qualitative and quantitative (mixed) methods which explored the impact of corporate governance on corporate performance of state owned enterprises in South Africa.

To put more emphasis on the quantitative approach a non-experimental research design was also incorporated into the study. Maree (2007:152) states that non-experimental designs are mainly used in descriptive studies in which the units that have been selected to take part in the research are measured on all the relevant variables. Akpo (2006) also stated that a qualitative research focuses on the meaning, experience and understanding and gives the researcher an opportunity to interact with respondents whose experiences the researcher wants to understand.

The data interpretive research strategy used was descriptive qualitative approach .Myers (2009) argued that the promise of interpretive research is that it has access to reality (whether given or socially constructed) is only through social constructions such as language, consciousness and shared meanings. The interpretive paradigm is underpinned by observation and interpretation, to observe is to collect information about events, whereas to interpret is to make a meaning of that information by drawing inferences the match between the information and some abstract pattern. Leedy and Ormrod (2010:136) argue that the interpretive research strategy ensures the researcher gains new ideas about a particular theme and also discover problems that exist with the phenomenon. In this case the phenomenon is the impact corporate governance has on corporate performance in state owned enterprises in South Africa.

A positivist philosophical approach was used to suit the use of the quantitative research. According to Philosopher, observation and reason are the best means of understandings human behaviour, and true information can be obtained by observation and experiment. Positivistic thinkers adopt scientific methods and systemise the knowledge generation processes with the help of quantification to ensure precision in description parameters and the relationship among them. Henning, Van Rensburg and Smit (2004) said that positivism is concerned with uncovering truth and Positivism is concerned with uncovering truth and presenting it empirically. Walsham (1995b) documented that if the research study consists of a stable and unchanging reality, then the researcher can adopt an ‘objectivist’ perspective, that is, a belief in objective and the reality.

The use of a descriptive strategy was opted to so as to describe and interpret the characteristics of existing corporate governance framework. The researcher sought to discover answers to questions relating to the fundamental characteristics that define the research subject of corporate governance and its impact on corporate performance. The justification of a descriptive research is that it portrays an accurate profile of persons, events or situation.

Collins and Hussey (2003: 113) defined research design as a science or art of planning procedures for conducting studies so as to get most reliable findings. Akpo (2006:113) states that the research design provides answers to the research questions and spells out the type of the research that would be suitable as well as how to collect and analyse the data. Leedy and Ormrod (2010:137) identified five common qualitative research designs, namely case study, ethnography, phenomenological study, grounded theory study and content analysis. A case study was used focusing on Eskom for the purpose of exploring corporate governance and its impact on corporate performance. The case study looked in depth at one organisation which is Eskom, a state owned enterprise in South Africa.

3.3 Population and Sample

3.3.1 Population

Blanche et al (2006) noted that the targeted population for a study should be those subjects or items or people who are affected by the stated research problem and to whom the research question applies. In this study, the targeted population comprised of all members of the board of directors, all executive management members and owners of Eskom (Government of South Africa. The targeted estimated population is estimated to be around sixty executive members. Among all state owned enterprises in South Africa Eskom was chosen as it is experiencing unending internal problems which are always exposed in the local media. The study explored the relationship that existed between corporate governance and performance.

3.3.2 Sampling and sample size

Bless *et al* (2006) defined a sample as a subset of the whole population which is actually investigated by the researcher and whose characteristic is inferred to the entire population. Apko (1988) considered a sample as a selected group of elements to which data is known of its reliability and validity. However, there are no fast numbers that represent the correct sample size in a qualitative study. Gay et al (2009:139) suggested that qualitative studies can be carried out with a single participant or when studying multiple concepts, may be as many as 40 or 50 participants. Gay et al documented the determinants of a sample size as representatives and redundancy of information. Redundancy of information can be only depicted at the data analysis stage.

The simple random sampling approach was used based on the notation aired by Kang'ahi et al (2012) that all cases or elements in the defined population are given equal chance of being selected for the study participation. The sampling technique has been considered on appropriate due to the absence of bias in selection of cases. Sampling leads to much better control over data collection and it minimises costs and time allocation to the study compared to a census. A sample frame which is a true representative of the whole population was selected using the convenience sampling technique.

The sample size chosen was forty (40) being comprised of board members, executive management and owners all from .This sample was made up of members who had significant influence on the corporate governance process at Eskom. All randomly selected participants took part in both the questionnaire and interviews for the purpose of gathering in-depth and detailed data.

3.4 Research instrument

One-on-one interviews were conducted using the designed interview schedule alongside a survey questionnaire focusing on perceptions and views of participants regarding corporate governance at Eskom. Interviews were first booked and confirmed a day before for all participants. The questionnaire was administered in the form of an interview in cases where participants were not at ease to respond in the presence of the researcher. The questionnaire contained personal details section and was designed in such a manner that it incorporated most key aspects of corporate governance and performance. A total of 40 questionnaires were administered through the use of questionnaires using emails and skype. Detailed sets of questionnaires used are attached as an appendix in this research.

3.5 Data collection methods

3.5.1 Primary data

Primary data was collected from executives at Eskom responsible for corporate governance who include members of the board and executive management team at

Eskom. A structured questionnaire in the form of a survey was used and face-to-face interviews were conducted through a guide to collect reliable primary data.

According to Dane (2000:23), questionnaires permit a respondent sufficient time to consider answers before responding, preclude possible interviewer bias and are affordable in terms of cost, time and resources required. The interviews were used for cross validation and overcoming the major weaknesses of the questionnaires, that is, low response rate. Walsh (2001) points out that one- on- one interviews give more information as the interviewees can elaborate more issues asked, though in some cases some respondents may be sensitive and emotional

3.5.2 Secondary data

Malhotra (2007) documented that secondary data is data collected for some purpose other than the problem at hand or the same problem but in the previous periods**.** Secondary data was collected from financial statements, minutes of board meetings, management circulars and annual reports which provided year's activities. An outlook for future at Eskom was also used as a reference as stated by (Rice, 2009:72) .The researcher also analysed the audited Annual Reports for the 5 year period of (2011 – 2015) through the use of various statistical analyses.

3.6 Data validity

Saunders *et al* (2000) stressed that validity of the research instrument refers to the extent to which it measures what it was actually supposed to measure. Validity explores the research instrument's fitness for the intended purpose. Types of validity tested in this study include internal, face and content validity.

3.6.1 Internal validity

Internal validity measures the extent to which a study has been conducted in respect of the operational definitions of the dimensions and questionnaire items used. Internal validity was tested using an examination of responses from a pilot study of 6 respondents who were not included in the study. The pilot study was done to determine the participants' understanding of the concepts used in the study and enhanced adjustments to the questionnaire and interview questions.

3.6.2 Face validity

Face validity in this study included checks performed to explore the translation of questionnaire dimensions. This validity test was conducted to find out the degree to which conclusions about the relations of the questionnaire dimensions were likely to be true in conjunction with measures used, research setting and design.

3.6.3 Content validity

Content validity measures the scores of the research instrument and enables the examination of the operationalisation of items under each construct. The questionnaire items were systematically analysed to establish whether questions were adequate and was done using a panel of experts to review the test specifications. Comments were provided on whether items were adequate to provide answers to the particular theme in question.

3.6.4 Structural validity

Keiser Meyer Olkin – Measure of Sampling Adequacy (KMO-MAS) analysis was used to measure structural validity through determining the suitability of the size of sampling for factor analysis.

3.7 Reliability of items

Burns and Groove (1998) defined data reliability as the degree to which an instrument can constantly measure what it is supposed to measure. A reliable survey responses vary because respondents have different opinions not because the questionnaire items are confusing or ambiguous.Cronbach's alpha was used to determine the extent to which the chosen set of items will measure a single unidimensional latent construct, internal consistency (scale reliability) of questionnaire items.

Data triangulation approach was undertaken to enhance reliability of data collected through examining whether test scores are accurate, consistent and stable. The scale reliability of items was undertaken to examine the homogeneity of internal consistency of the underlying constructs of the study as pointed out by Cooper and Schindler (2006).For a qualitative research approach, one should be more concerned with issues of trustworthiness, dependability, conformability and credibility associated with the collected data.

3.8 Data analysis

Haralambos (1996) said that data analysis comprises of facts and figures put together with the view of analyzing. The qualitative data was organised and summarised by using content analysis with the aim to provide detailed information on the responses extracted from the participants. The Statistical Package for the Social Sciences (SPSS) software was used to report on descriptive statistics of the data in terms of means, ranges and cumulative percentages.

3.9 Ethical considerations

The collection of data from research participants raises ethical concerns that need to be observed with a high degree of diplomacy. Sekaran (2003:90) listed these concerns to include avoidance of harm to participants, observing due respect for participants' privacy and respecting participants. When people are involved as key subjects, participants in a given study, the researcher should specify how participants' human and civil rights were protected with reference to obtain informed voluntary consent and ensuring legal rights and cognitive competency.

All participants were informed prior to commencement with the distribution of the questionnaire. All participants were briefed clearly on the purpose of the research prior to conducting the actual data gathering. This was done to enhance reporting of results in a truthful manner.

Participants were informed of their right to choose whether or not to participate in the study and to complete the questionnaire. The study participants will be kept confidential. Mouton (2003:243) encouraged the use of codes instead of participants' names, a method which the researcher adopted to ensure safety and confidentiality.

In addition, participants were given an informed consent from explaining the details of the study after adequate, truthful and accurate information about the study. Interpretation was provided in situations where participants require it. All participants were fairly treated without discrimination and the upholding of the participants' rights was accounted for by the researcher.

3.10 Chapter Summary

This chapter discussed the research methodology used by the researcher in the study. The research approach, method and research process were described and explained. Primary and secondary sources of data were discussed. The chapter discussed the selection of the sample using simple random sampling. The methods of collecting by means of questionnaire and interview guide have been explained. Finally, the need for ethical consideration when collecting data has also been explained. Data results presentation is the main focus for chapter four.

CHAPTER 4
DATA PRESENTATION

4.1 Introduction

This study focused on the impact of corporate governance on corporate performance at Eskom. The study established key variables that are shown in Appendix 1 which are; board of directors, procedures and practices, regular performance assessment, timely and accurate disclosure (openness) and effective performance management system. The variables have an impact on corporate governance processes at Eskom and are discussed in Chapter 5.

This chapter focuses on the presentation of findings basing on the data collected. Primary data was collected to establish the respondents' views on the impact of corporate governance weaknesses in Eskom. The gathered data was used to determine trends and draw conclusions about the impact of corporate governance on Eskom. The Statistical Package for the Social Sciences (SPSS) was used to capture and consolidate the data for analysis. The Likert-scale type of questions was used as the basis of responses which were coded as below:

- Strongly Agree 4
- Agree 3
- Disagree 2
- Strongly Agree 1

Questions with Yes and No were coded I and 2 respectively were factored in.

4.2 Primary Data Presentation

Primary data was presented to draw conclusions to determine the effects of poor corporate governance at Eskom. Tables, graphs and charts were used to present the collected data.

4.2.1 Response Rate

The follow-up exercise on respondents was thorough and frequent and a response rate of 100% was achieved. Telephone calls made before the dispatch of the questionnaires also contributed a lot to such a high response rate. The covering letter accompanying the questionnaires assisted in explaining that the study was not only beneficial to the academic requirements of the researcher only, but that recommendations from the study may assist Eskom in their strategies to achieve effective corporate governance processes.

Table 4.1: Gender

	Frequency	Percent	Valid Percent	Cumulative Percent
Male	22	55.0	55.0	55.0
Female	18	45.0	45.0	100.0
Total	40	100.0	100.0	

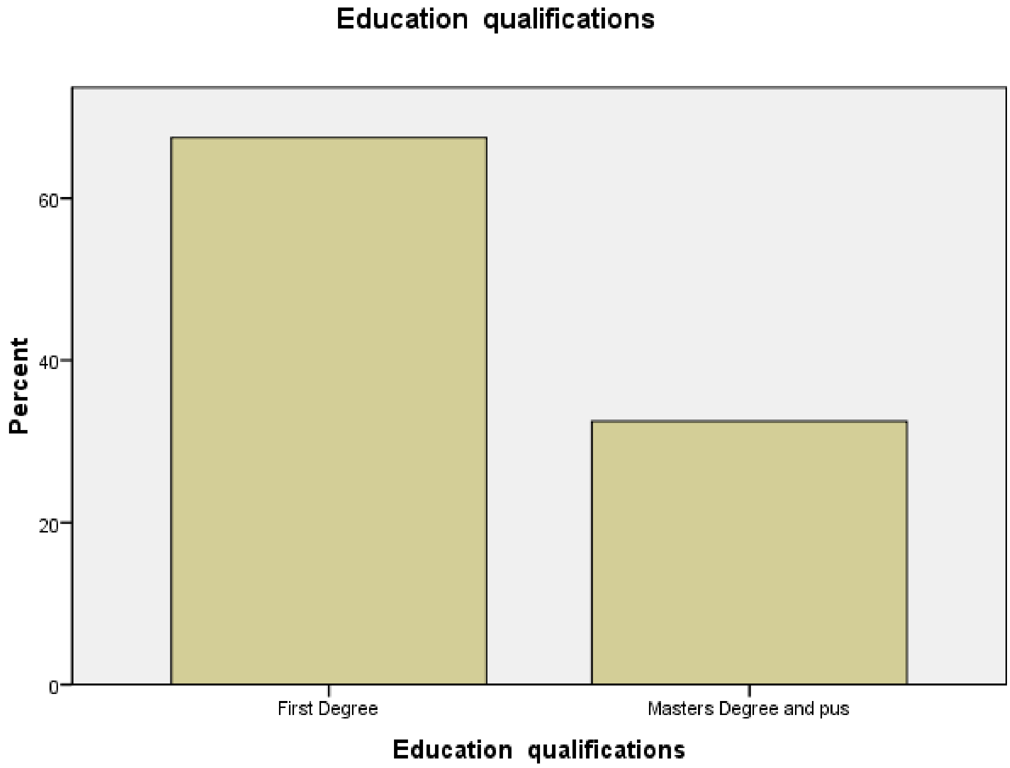
Table 4.1 above shows that 55% of those who participated in the survey were male, while 45% were female, representing a 100% response rate. There is a difference of 4 respondents which constitutes10% difference between the two sexes. Table 4.1 shows fair gender parity in the distribution of the questionnaire though a bit skewed towards males.

Table4. 2: Age

	Frequency	Percent	Valid Percent	Cumulative Percent
Less than 30 years	9	22.5	22.5	22.5
30- 40 years	10	25.0	25.0	47.5
41 - 50 years	14	35.0	35.0	82.5
50 and above years	7	17.5	17.5	100.0
Total	40	100.0	100.0	

Table 4.2 shows that the majority of employees in the management team at Eskom are aged between 30 and 50.The results in Table 4.2 shows that out of the 40 participants who participated in the study, 35% are between the ages of 41-50, 22.5% are of the age less than 30, 25% are between the ages 30-40 and 17.5% are of the age above 50. This means more than 50% of the respondents are over 40 years old. Generally the data obtained can be relied on since it was collected from mature and mentally energetic people. Nevertheless all age groups were fairly represented and the topic was relevant to all working ages.

Figure 4.1: Educational Qualifications



The responses in Figure 4.1 reveal that 67.5% of the respondents possess a first degree. The research shows that 32.5% possesses a master's degree or master's degree plus other higher qualifications. Therefore management employees at Eskom are sufficiently educated to give valid and rational responses in questionnaires and interviews. The results reflecting a well-balanced and educated workforce, therefore the data collected could be really trusted, was above average quality and be made use of in this study.

.

Table 4.3: Employee category

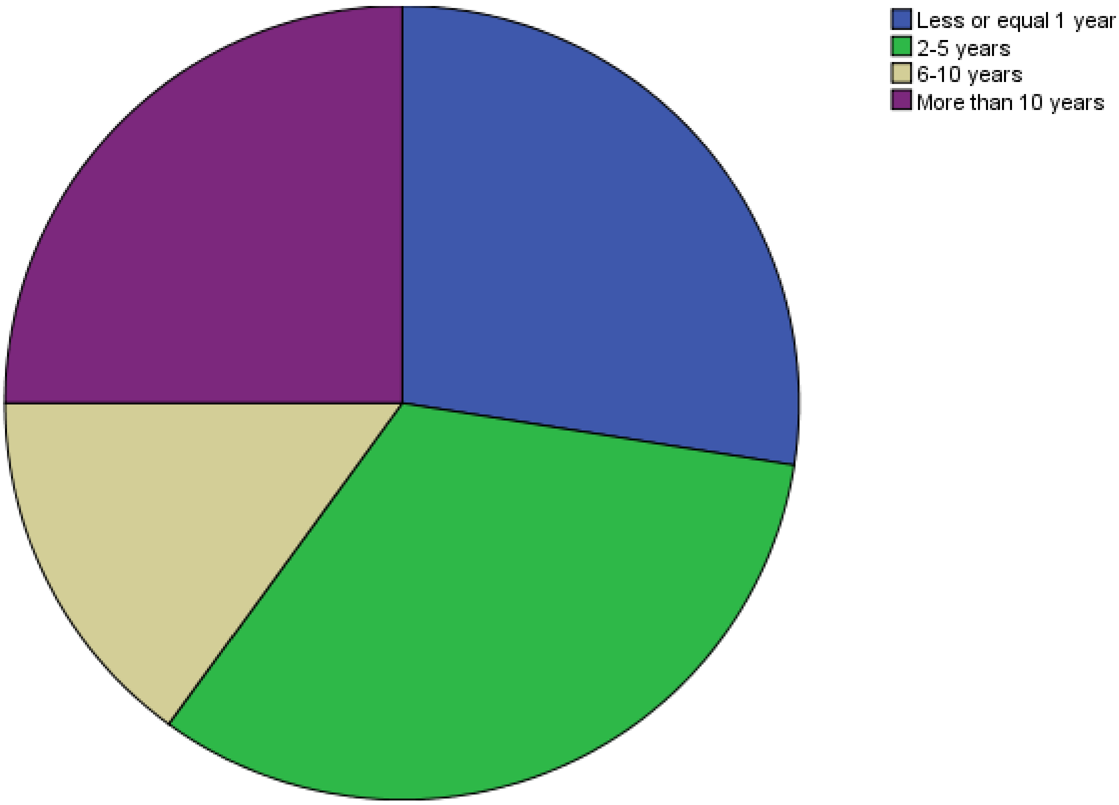
Respondent Category

	Frequency	Percent	Valid Percent	Cumulative Percent
Manager	8	20.0	20.0	20.0
General Worker	4	10.0	10.0	30.0
Skilled Worker	14	35.0	35.0	65.0
Supervisor	11	27.5	27.5	92.5
Other	3	7.5	7.5	100.0
Total	40	100.0	100.0	

Table 4.3 results indicate that Eskom has top-heavy structure characterised by skilled workers and management. The results also reflect a remarkably lean bottom structure with a minimum number of general workers. Managers and skilled employees at Eskom account for 55% of the respondents and these are the ones playing a major role in implementing corporate governance so the results of the study are reliable. The Table 4.3 shows that 20% of the respondents who participated in this research are managers, 35% are skilled workers and 45% fall in other category.

Figure 4.2: Period of Employment

Period of Employment



The results shown in Figure 4.2 shows that Eskom has young workforce and this reflects its possibility of a high rate of labour turnover. A total of 27.5% of the respondents have less than one year of serving the company, while 32.5% have between 2-5 years. This is a serious weakness when it comes to strong corporate culture and may explain the reasons why the company is not performing well. In addition, 25% of the work force has over 10 years working experience at Eskom. The other 15% have between 6 -10 years working experience with Eskom.

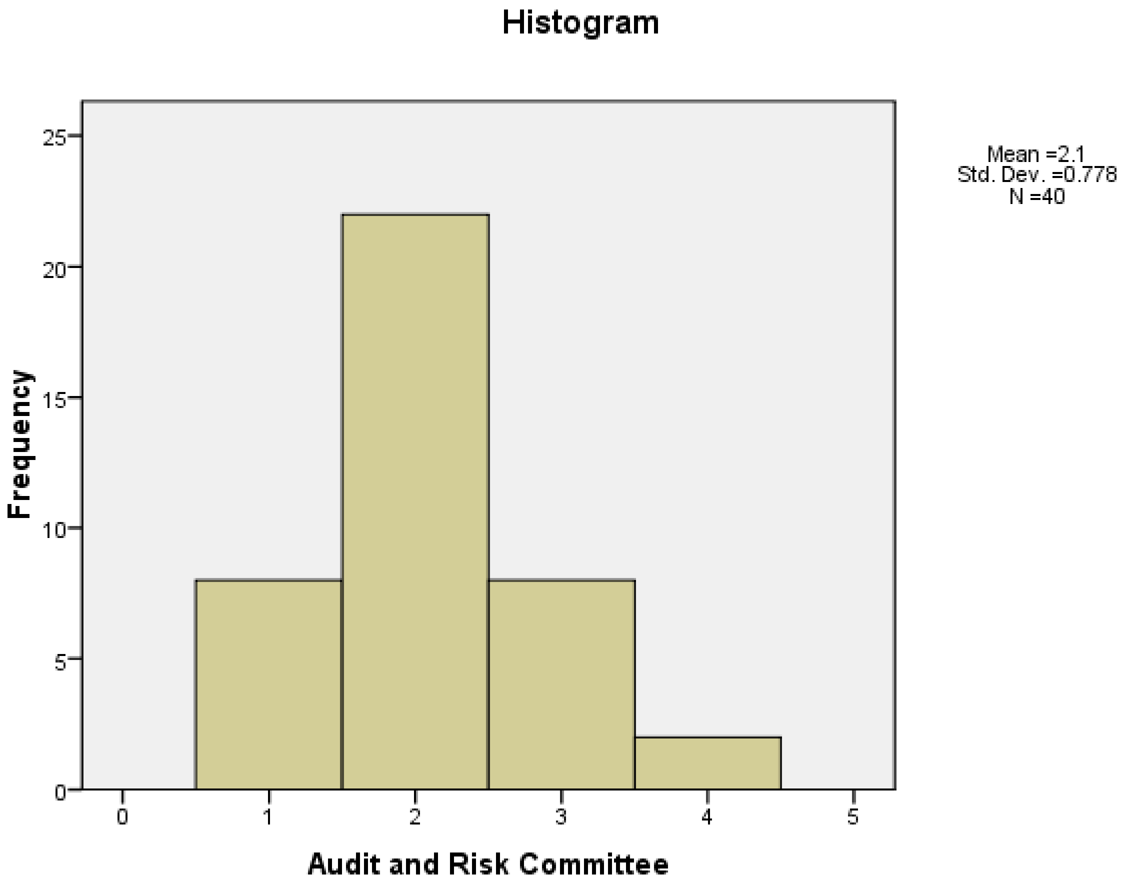
4.2.2 Corporate governance elements

Table 4.4: Communication Process

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	7	17.5	17.5	17.5
Disagree	9	22.5	22.5	40.0
Agree	18	45	45.0	85.0
Strongly Agree	6	17,5	15.0	100.0
Total	40	100.0		

Table 4.4 reveals that 15% of the respondents strongly agree that there is effective communication between Eskom and its shareholders and a total of 45% of the respondents just agree. Only 22.5% of the respondents disagree that there is effective communication between Eskom and its shareholders. This view (disagree) was supported by 17.5% of the respondents who strongly disagree that Eskom has an effective communication between Eskom and its shareholders. Corporate governance requires timely corporate disclosure therefore the survey results show Eskom is achieving this.

Figure 4.3: Audit and Risk Committee



It is a shame to discover that 55% and 20% of the respondents disagree and strongly disagree respectively that Eskom has an Audit and Risk Committee. Only 5% and 20% strongly agree and agree respectively that the Audit and Risk Committee exist at Eskom. This is a critical issue since risk and fraud affect corporate performance. The findings reveal that the company has a poor performance management system and does not provide performance timely financial reports to shareholders thereby compromise corporate governance in the company.

Table 4.5: Complying with relevant laws

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	2	5.0	5.0	5.0
Disagree	15	37.5	37.5	42.5
Agree	19	47.5	47.5	90.0
Strongly Agree	4	10.0	10.0	100.0
Total	40	100.0	100.0	

Though corporate governance is not law, Eskom is trying its best in complying with relevant laws as reflected by 10% and 47.5% of the respondents who strongly agree and agree respectively. On the other hand, 37.5% of the respondents disagreed that Eskom is observing the relevant laws, whilst 5% of the respondents strongly disagree.

Figure 4.4: Timely Disclosure of Financial Performance

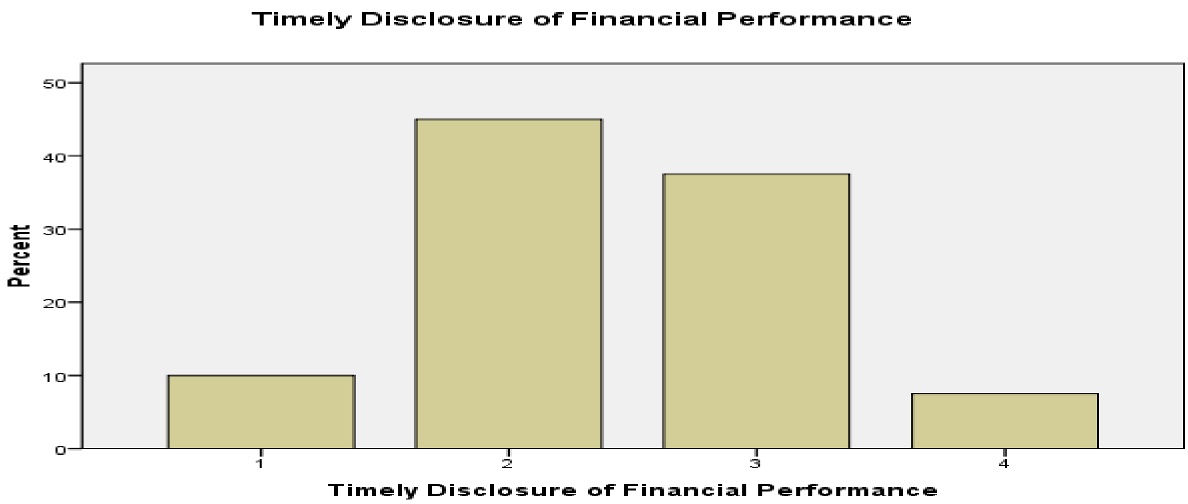


Figure 4.4 shows that 45% of the respondents disagree that Eskom is timely disclosing its financial performance, while 10% of the respondents strongly disagree. A total of

37.5% agreed that there is timely financial disclosure, whereas 7.5% of the respondents strongly agree. Timely disclosure of financial performance of the company means high degree of transparency. Transparency is one of the pillars of effective corporate governance in a system. The results show that there is lack of transparency at Eskom though sometimes implemented here and there.

Table 4.6: Balance of Power in Eskom

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	8	20.0	20.0	20.0
Disagree	17	42.5	42.5	62.5
Agree	13	32.5	32.5	95.0
Strongly Agree	2	5.0	5.0	100.0
Total	40	100.0	100.0	

A total of 32.5% of the respondents agreed that there is balance of power in Eskom. This opinion was supported by 37.5% of the respondents who strongly agreed that there is balance of power at Eskom. However 42.5% of the respondents disagreed that there is balance of power at Eskom. This position was supported by 20% of the respondents who strongly disagree that there is a balance of power in Eskom. The results seem to point out that there is concentration of power in Eskom since its sole shareholder is the government. Ownership concentrations have tendencies of compromising the balance of power where they exist, hence corporate governance. This is a serious weakness in Eskom owners are free to make whatever decision they wish.

4.2.3 Corporate governance processes

Table 4.7: Effectiveness of Internal Control Systems

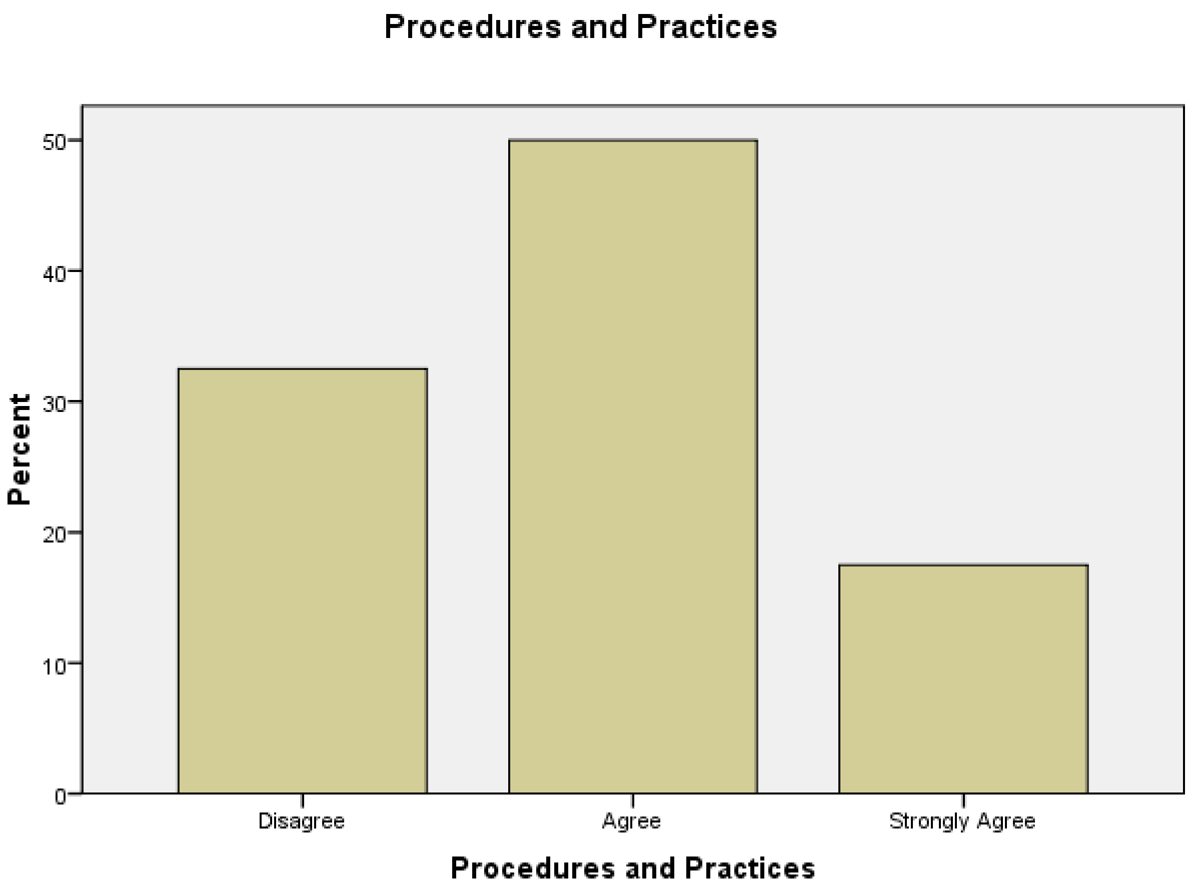
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	9	22.5	22.5	22.5
	Disagree	18	45.0	45.0	67.5
	Agree	13	32.5	32.5	100.0
Total		40	100.0		

A total of 45% of the respondents disagreed that effective internal controls exist at Eskom. This view was supported by 22.5% of the respondents who strongly disagreed about the existence of effective internal controls at Eskom. The results show that none of the respondents strongly agree that there are effective internal controls at Eskom. However, a total of 32.5% agreed that there are effective controls at Eskom. Effective internal control in a company enhances improved performance results and reduces corruption and misuse of funds. The results generally reflect that corporate governance is extremely weak as it is compromised.

Figure 4.5: Implementation of Corporate values

Figure 4.5 show that 40% of the respondents strongly disagree that Eskom implements corporate values for survival. A total of 25% of the respondents backed the opinion by disagreeing that corporate values are implemented at Eskom. However 7.5% and 35% of the respondents strongly agree and agree respectively that Eskom implements its corporate values. Corporate values are key in building a strong corporate culture and foundation in an organisation.

Figure 4.6: Procedures and Practice



None of the respondents strongly disagree that Eskom has effected procedures that protect company assets and reputation, though 32.5% of the respondents just agreed. Half of the respondents agreed that Eskom has put procedures that protect company assets and reputation. The opinion was supported by 17.5% of the respondents who strongly agreed that Eskom has put procedures which protect company assets and its position in the market. This implies that procedures and practices at Eskom designed to protect company assets are good though they need some little improvements to be best.

Table 4.8 Regular performance assessment

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	16	40.0	40.0	40.0
	Disagree	10	25.0	25.0	65.0
	Agree	9	22.5	22.5	87.5
	Strongly Agree	5	12.5	12.5	100.0
	Total	40	100.0	100.0	

Table 4.8 shows that 40% of the respondents strongly disagreed that there is continuous assessment of workers' performance at Eskom. This opinion was supported by 25% of the participants who just disagreed that there is regular assessment of performance at Eskom. On the other hand, 12.5% strongly agreed that regular assessments are done at Eskom, where as 22.5% of the respondents agreed with the sentiment. The results generally shows that executive at Eskom are ineffective when it comes to the assessment of employee performance, and this is a worrying situation for such a strategic company in South Africa.

4.2.4 Factors that influence corporate governance

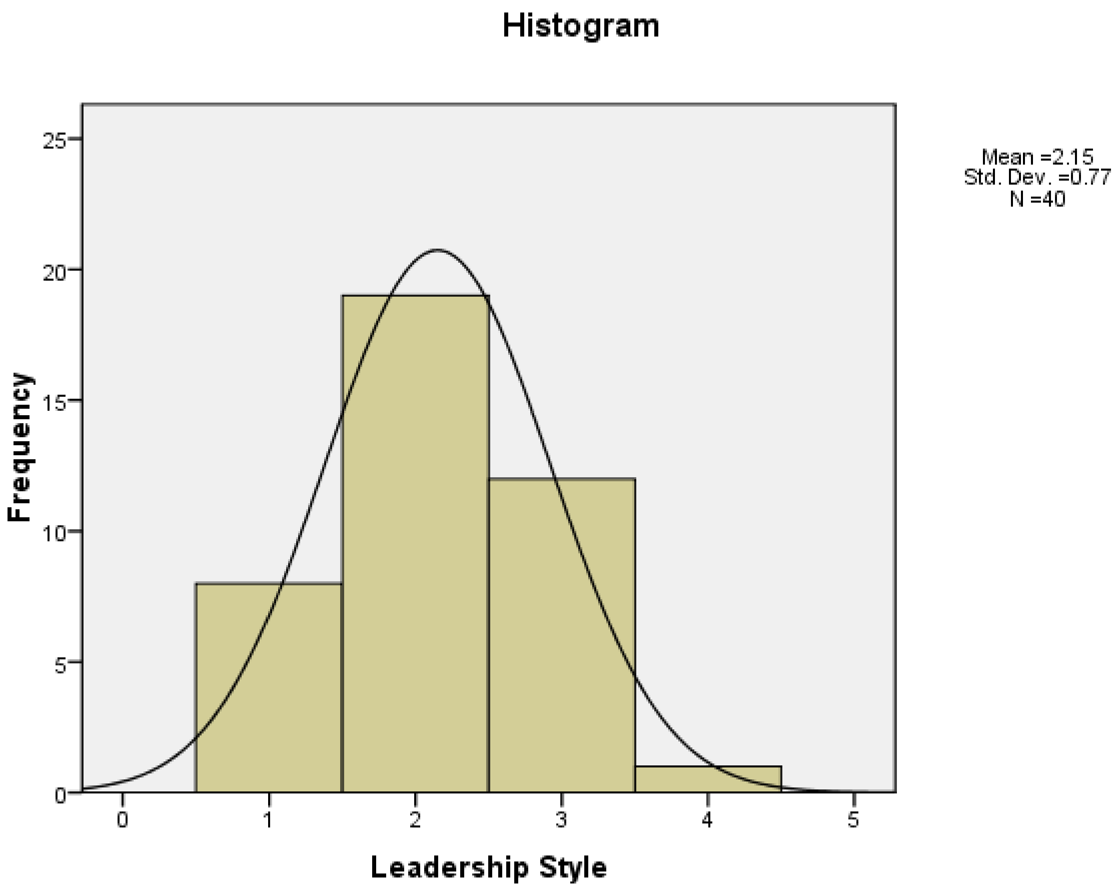
Table 4. 9: **Board of Directors**

Board of Directors

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	3	7.5	7.5	7.5
Disagree	8	20.0	20.0	27.5
Agree	23	57.5	57.5	85.0
Strongly Agree	6	15.0	15.0	100.0
Total	40	100.0	100.0	

The majority of the respondents (57.5%) agreed with the importance of the board of directors in providing direction and sustainability of the company. This was supported by 15% of the respondents who strongly agreed that the board of directors provide value to the company. However 20% of the respondents disagreed with the notion that the board of directors is crucial to the affairs of Eskom, whilst 7.5% of the respondents strongly disagreed. Generally the respondents are aware of the importance of board of directors in corporate governance and corporate performance.

Figure 4.7 : Leadership Style



A total of 2,5% of the respondents strongly agree that the quality of leadership style is not efficient, while 30% of the respondents just agreed. The majority shown by 47.5% of the respondents said the leadership style at Eskom is inefficient. A total of 20% of the respondents supported the opinion by strongly disagreeing with the fact that leadership style at Eskom is the proper one. Literature reviewed showed that leadership plays a prominent role in providing direction to an organisation.

Table 4.10: Effectiveness of tools of performance management at Eskom

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	12	30.0	30.0	30.0
Disagree	21	52.5	52.5	82.5
Agree	7	17.5	17.5	100.0
Total	40	100.0	100.0	

A total of 52.5% of the respondents disagreed that there are effective tools of measuring performance at Eskom, whilst 30% of the respondents strongly disagree. However, none of the respondents strongly agree that effective tools of measuring performance exist at Eskom. In addition, 17.5% just agreed that Eskom has effective tools of its performance and performance of its employees. If a company cannot effectively measure its performance then it cannot locate its direction of progress. With this trend, usually quality of services suffers and this is a common characteristic of the operations of Eskom.

Table 4.11: Clear financial reporting procedures

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	9	22.5	22.5	22.5
Disagree	13	32.5	32.5	55.0
Agree	10	25.0	25.0	80.0
Strongly Agree	8	20.0	20.0	100.0
Total	40	100.0	100.0	

Table 4.11 depicts that 32.5% of the respondents disagree that there are adequate financial reporting procedures at Eskom. This was supported by 22.5% of the respondents who strongly disagree that the company follows the proper financial reports preparation procedures. However, 25% of the participants agree that clear procedures in financial reports preparation are followed, whilst 20% of the respondents supported this view by strongly disagreeing. Basing on the results, the company does not follow clear procedures in the preparation of financial statements.

Figure 4.8: Resolving internal audit issues

A total of 32.5% disagreed that Eskom resolves its audit related issues and this is supported by an earlier view that the existence of an audit and risk committee at Eskom is highly questionable. This opinion was supported by 30% of the respondents who strongly disagreed with the sentiments.

4.3: Corporate Governance

The descriptive statistics presented in this section gives insights into collected data to test the understanding of both managers and auditors in terms of corporate governance related issues at Eskom. A total of 20 managers and 24 auditors were interviewed as respondents.

With reference to the mean statistics in Table 4.20 below , the majority of the management respondents suggested that 80% of the characteristics as being vital in bringing good corporate governance in Eskom. Discipline (mean=3.10), responsibility (mean=2.55), Fairness (mean=2.25), transparency (mean = 2.75), and independence (mean=2.25).The highest mean score recorded was on Accountability (mean=3.5) and the lowest mean score was social responsibility (mean = 1.70) which is even below 50%.

Table4. 12: **Understanding governance-Management**

	N	Minimum	Maximum	Mean	Std. Deviation
Understanding governance	20	2	4	3.20	.696
Discipline	20	2	4	3.10	.912
Accountability	20	1	4	3.50	.761
Independency	20	1	4	2.25	1.020
Responsibility	20	1	4	2.55	1.234
Fairness	20	2	4	2.25	.550
Transparency	20	1	4	2.75	1.251
Social Responsibility	20	1	4	1.70	1.031

Table4. 13: **Understanding governance-Auditors**

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Understanding governance	24	2	4	3.62	.711
Discipline	24	1	4	3.08	1.176
Accountability	24	3	4	3.33	.482
Independency	24	1	4	2.54	1.141
Responsibility	24	1	4	3.00	1.180
Fairness	24	2	4	2.50	.780
Transparency	24	1	4	2.96	1.233
Social Responsibility	24	1	4	2.17	1.239

The understanding of corporate governance factors shows that all auditors indicated that 91% of the auditors confirmed the characteristics as vital in bringing good corporate governance at Eskom. The highest factor Understanding good governance (mean =3.62) and Accountability had a mean =3.33) .The lowest factor social responsibility had a (mean =2.17).

Both managers and auditors confirmed that all factors included in analysis above as being key factors in terms of understanding corporate governance in Eskom. The respective mean score for auditors and management are 3.62 and 3.20. Auditors have a higher mean score than management as auditors tend to possess more valid information on good corporate governance.

Table 4.14: Internal audit value addition- Managers

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Regulation and governance	20	2	3	2.25	.444
Operations	20	1	4	2.20	1.508
Information technology	20	2	4	3.05	.759
Finance	20	3	4	3.45	.510
Governance process	20	1	4	2.70	1.302
Strategy	20	3	4	3.60	.503
Assurance	20	1	4	2.75	1.118
Internal Audit Governance Roles	20	2	4	3.10	.852

Table 4.14 above gives the mean statistics of all the factors that add value to the internal audit activity at Eskom focusing on managers. The Strategy had the highest mean score of 3.60, followed by Finance and then Internal Audit and Governance Roles with a mean score of 3.10. The Operations Factor had the lowest mean score.

Table 4.15: Internal audit value addition – Auditors

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Regulation and governance	24	2	4	2.50	.722
Operations	24	1	4	2.50	1.532
Information technology	24	2	4	3.21	.779
Finance	24	3	4	3.54	.509
Governance process	24	1	4	2.92	1.283
Strategy	24	3	4	3.67	.482
Assurance	24	1	4	2.96	1.122
Internal Audit Governance Roles	24	2	4	3.22	.850

On the other hand, auditors showed relative agreement that internal governance roles cover internal audit governance role, finance, strategy and assurance as these had mean scores above 3.The highest factor agreed on by auditors to the highest mean score is strategy with 3.67, whilst lowest mean score had been shown on regulation and governance, and operations. Both managers and auditors agree that strategy and finance are the most crucial in internal audit value addition.

Table 4. 16: **Management-Internal audit skills and competency assessment**

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Internal Audit Effectiveness	20	1	4	2.95	.826
Internal Audit Industry Understanding	20	1	4	2.90	1.119
Confidence in Internal Audit Skills and Competency	20	2	4	2.90	.718

Overall mean statistics of all internal audit skills and competency assessment reflect management on average agrees (mean=2.90) that internal audit activity is competent and have skills and the competency to execute their duties. Management places more emphasis on the Internal Audit effectiveness with a means score of 2.95.

Table 4. 17: **Auditors-Internal audit skills and competency assessment**

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Internal Audit Effectiveness	24	1	4	3.12	.850
Internal Audit Industry Understanding	24	1	4	3.08	1.100
Confidence in Internal Audit Skills and Competency	24	1	4	2.62	1.013

Based on the results in Table 4.17 by auditors, the order of competency and skilfulness , the internal audit function shows such in the following, internal audit effectiveness (mean score =3.12), internal audit industry understanding (mean score = 3.08) and audit skills and competency (mean score = 2.62).

Both managers and auditors on average agreed that internal audit effectiveness is important to enhance good corporate governance and performance improvement.

Table 4.18: Internal audit communication and reporting effectiveness-Management.

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Communication	20	2	4	3.10	.788
Responsiveness Audit Communication Special Investigations	20	1	4	3.25	.910
Meeting preparation level	20	1	4	2.85	1.226
Quality reports	20	1	4	2.90	1.071
Handling issues	20	1	4	2.70	1.081

Basing on the facts shown in Table 4.18 regarding internal audit communication and reporting effectiveness from managers' perspective, the mean statistic indicated that responsiveness audit communication special investigations (mean=3.25), meeting preparation level (mean =2.85) and quality of reports(2.90) are provide effectively at Eskom, while handling issues (mean =2.70) is an activity less communicated at Eskom.

Table 4.19: Internal audit communication and report effectiveness- Auditors.

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Communication	24	1	4	3.08	.974
Responsiveness Audit Communication Special Investigations	24	1	4	3.38	.875
Meeting preparation level	24	1	4	2.58	.881
Quality reports	24	1	4	3.08	1.060
Handling issues	24	1	4	2.92	1.100

Table 4.19 shows that from auditors' view of internal audit communication and report effectiveness, responsiveness audit communication special investigations (mean =3.38) indicated that the internal audit function effectively communicates reports. Quality reports (mean =3.08) and handling issues (mean = 2.92) reflect that internal audit function is partially effective in communication and reporting.

In conclusion, both auditors and managers agreed responsiveness of the audit communication special investigations as an activity which strongly indicates the audit function is effective in communication and reporting.

Table 4.20: Internal audit plan quality assessment- Management

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Scope of plan	20	2	4	3.15	.875
Coverage of risk areas	20	1	4	3.05	1.234
Testing control framework	20	3	4	3.20	.410
Adapting to changing environment	20	1	4	2.10	1.071

Managers agreed that the testing of control framework (mean =3.20) and scope of audit plan (mean=3.15) as shown in Table 4.20 reflects goodness of the quality of internal audit plan and implementation. Adapting to changing environment (mean =2.10) was considered to be the least, though moderate in influencing the audit plan quality assessment. Coverage of risk (mean =3.05) indicated a relatively good quality of the audit plan and implementation activity.

Table 4.21: Internal audit plan quality assessment – Auditors

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Scope of plan	24	2	4	3.21	.932
Coverage of risk areas	24	1	4	3.12	1.296
Testing control framework	24	3	4	3.33	.482
Adapting to changing environment	24	1	4	2.33	1.204

Table 4.21 shows that the mean statistics of the auditors who were interviewed, reflect that, the scope of plan (mean=3.21), the coverage of risk areas (mean =3.12) and testing control framework all depicted a good quality audit plan. Adapting to changing was ranked as the least factor in audit quality plans by both managers and auditors. Managers put the highest emphasis on testing control framework (mean =3.20), while auditors put much emphasis on testing control framework (mean=3.33) for quality of internal audit plans and implementation.

Table 4.22 : Internal audit support from management –Management

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Management Support Feedback	20	1	3	2.50	.607
Relationship Management	20	3	4	3.65	.489
Recommendation Implementation	20	1	4	2.50	.761
Interference with audit work	20	1	3	2.35	.745

Table 4.22 shows that on average mean statistics of all management support offered to the internal audit department (mean=2.50) as above moderately strong. Relationship managements was perceived by managers to be most strong factor with mean score of 3.65 .Management interference with audit work was considered moderately strong with mean score of 2.35.

.

Table 4.23: Auditors- Internal audit support from management

	N	Minimum	Maximum	Mean	Std. Deviation
Management Support Feedback	24	1	3	2.50	.722
Relationship Management	24	1	4	3.04	.806
Recommendation Implementation	24	1	4	2.75	.897
Interference with audit work	24	1	4	2.63	.924

Based on the results in Table 4.23, the order of importance had been, relationship management (mean score=3.04), Recommendation implementation (mean =2.75), Interference with audit work (mean = 2.63) and management support feedback (mean =2.50). Relationship management was agreed to the strongest by auditors towards explaining the support provided by management to internal audit function.

Both management and auditors place emphasis on the relationship management plays the most pivotal role than management support feedback in supporting the internal auditors. The weakest management support as reflected by both management and auditors was viewed to be sourced from management interference with audit work (mean=2.35) for auditors and (mean= 2.50) for managers.

4.4 Chapter Summary

This chapter summarised the findings of the study basing on primary data collected. Statistical analysis was conducted to measure the understanding of corporate governance and the effectiveness of internal audit. Under the assessment of the effectiveness of the internal audit function, questions focusing on effective communication, management support and internal audit quality plan were examined.

The next chapter focuses on summary, conclusion and recommendations. Analysis of the findings is discussed in chapter five.

CHAPTER 5

SUMMARY, CONCLUSION

AND RECOMMENDATIONS

5.1 Introduction

This chapter summarises the major findings and draws a conclusion in relation to the research objectives which were investigated. The chapter also presents the researcher's recommendations on how Eskom can best deal with poor corporate governance induced by poor performance. Recommendations will be concerned with the reform strategies applicable to Eskom based on the research findings.

In carrying out the study, the simple random sampling technique was used to come up with a sample for the study. Forty (40) participants were chosen to participate in the questionnaire survey. Questionnaires were distributed to Eskom employees and interviews were conducted to gather as much relevant data as possible from the respondents.

Existing related literature was reviewed by the researcher to identify the following elements that have a bearing on corporate governance at Eskom:

- Procedures and practices;
- Timely and accurate disclosure;
- Board of Directors;
- Regular performance assessment and
- Effective performance management system;

The elements listed above reflect the one-way Anova factor analysis conducted for the study.

Key elements of the study were identified and discussed above. The researcher answered the objectives of the study.

5.2 Discussion of the findings

5.2.1 Value addition by the board of directors

A total of 57.5% of the respondents suggested that the board of directors is important in providing direction to the company. This was supposed by 15% of the respondents who strongly agree that board of directors bring value to the company. The One-way Anova results also support these results being: Sum of Squares 13.56, degrees of freedom =2, Mean square being 6.78, F Value =4.63 and p=0.0296.

According to King ll Report (2002), characteristics of good corporate governance include the following:

- The board is ultimately accountable and responsible for the performance and running of the company. The board should assess the performance of the board committees it delegated power to act on its behalf.
- The report advises that companies should be headed by an effective board which consists of a balance between number of executive and non-executive directors. Non –executive directors are important in that they are independent in decision making.
- There must be a clear separation of responsibilities at the head of the company to ensure balance of power and authority. It is bad practice to have the board chairperson being the CEO.
- Levels of remuneration should be based on performance and being sufficient to attract, retain and motivate executives of the quality required by the board.
- The board is encouraged to meet at least once a quarter if not frequently depending on the situation at the company and should disclose the number of meetings held in its annual report.
- The nomination committee should effectively review the required mix of skills and experience regularly required for board members.

5.2.2 Current procedures and practices

A total of 50% of the respondents agreed that Eskom has put in place procedures and practices that protect the company’s assets and reputation. This was supported by 17.5% of the respondents who strongly agree that Eskom has current functioning procedures and practices. Effective procedures and practices protect the company's market share and enhance improved growth. The One-way Anova statistical results also support the findings being: Mean Square Sum =10.78, degrees of freedom =2, Mean Square=5.39, F Value 4.456 and P Value=0.036.

5.2.3 Regular performance assessment

One-way Anova statistical result supports the importance of carrying out a regular performance assessment in Eskom: Sum of Squares = 13.410, Degrees of Freedom = 2, Mean Square = 6.705, F Value = 3.985, p-value =.047. The results of the study shows that 40% of the respondents disagreed that Eskom carries out regular assessment of employees' performance and this was supported by 25% of respondents who also strongly disagreed. A total of 22.5% of the respondents agreed that Eskom assess the performance of its employees regularly. The One-way Anova statistical result supports the importance of carrying out performance at Eskom with: Sum of Squares =13.58, Mean Square =6.79, F Value =3.998, p-value=0.045.The results show that both the board and CEO are ineffective in terms of assessing employee performance.

Kaplan and Atkinson (1998), said control refers to the tools and methods that organisations use to keep on track in terms of achieving their objectives. These tools may include financial and non-financial measurements which are fundamental tools of control and management (Harrington, 1991).

5.2.4 Corporate governance and financial performance: Empirical results

Empirical researches done on the relationship between corporate governance and corporate performance used either market-based measures or accounting-based measures. In corporations where managers neglect to invest in those projects that add value to the firm and its shareholders, but divert recourses to their own benefit, the financial markets act to restore good governance. Senior managers have been leaving poor performing companies as they try to link their compensation to performance by demanding cash payments in form of debt service including equity and options. One of the earliest studies of the relationship of governance and performance is by Black

(2001) who studied 21 large scale firms in Russia. Despite the use of a small sample, Black (2001) found a strong correlation between firm valuation and the quality of their corporate governance.

Lapper and Love (2014) found a high positive relationship between better governance and operating performance using firm level data of 14 emerging stock markets with return on assets as a proxy for operating performance .Selvaggi and Upton (2008) found that good corporate governance leads to better firm performance in United. Brown and Caylor (2014) claimed a positive relationship between the quality of corporate governance and their measures of profitability.

Rogers (2006) explored the relationship between core principles of corporate governance and financial performance in commercial banks of Uganda. Rogers (2006) found that corporate governance predicts 34.5% of the variation in the general financial performance of commercial banks in Uganda. Noted significant drivers on financial performance were the two elements of corporate governance which are reliability and openness. However the significant contributors on financial performance included openness and reliability.

Bocean and Barbu (2007) conducted a study to develop an understanding of corporate governance and its effects on corporate and economic performance. They stretched their study to examine some of the economic implications associated with various corporate governance systems. The study found that corporate governance can affect corporate performance. The study concludes that corporate governance insider ownership, outside ownership concentration and direct ownership are significant as far as economic performance is concerned.

Chiang (2015) explored the relationship among indicators of corporate governance, including transparency and operating performance. The study results revealed that corporate transparency had a significant positive relationship with operating performance and was one of the most critical indicators for evaluating corporate performance. It was concluded that companies with good corporate governance had a strong positive relationship with operating performance.

A growing number of studies questions the positive relationship between governance and performance and argue that it is not robust. Core *et al* (2006) argued that some findings by Gompers *et al* (2003) are driven by the impact of technology firms on disparities in stock prices in the 1990s.Yen (2005) points out that the positive correlation found by Gompers *et al* (2003) is partly accounted for by penny stocks and outliers.

The study provides a framework for understanding how poor corporate governance affects corporate performance. According to the study, insider ownership, outside ownership and direct ownership matter as far as economic performance is concerned.

5.2.5 Assurance of timely, accurate disclosure

A total of 37.5% of the respondents agreed that there is timely and accurate disclosure of corporate information at Eskom and this was supported by 7.5% of the respondents who strongly agreed. However, 45% of the respondents (majority) disagreed that timely and accurate disclosure of company information is achieved at Eskom. Absence of timely disclosure of important information at Eskom means there is no transparency in the company, yet transparency is the pillar of effective corporate governance.

Harvey (1995) documented that the administration of entities relies on openness and transparency in relations with stakeholders and members. It is the duty of the company directors to provide stakeholders with complete confidence pertaining to decision making process. Openness at Eskom can be enhanced by having consultations with stakeholders. Transparency is also important to ensure that public enterprises are fully accountable. .Loh (2012) said that the reliability of financial information reported is enhanced by greater disclosure and transparency. Therefore, greater transparency and disclosure leads to a widened investor base and flexible access to capital.

5.2.6 Understanding corporate governance processes in Eskom

The results from the interviews suggest that:

- The board of directors at Eskom accepts recommendations made by the executive management, but does not implement recommendations.

- The board is influenced by the owner meaning to say there is performance compromised for years since the owners had a choice on which strategy to implement.
- There is a great disagreement between the chairperson of the board and the executive management regarding communication. The respondent suggested that communication was at its lowest level between the board of directors and the shareholders.
- The shareholders lack commitment in the governance process and the running of the business.

5.3 Conclusion

The concussions based on this study are that:

- Eskom must put in place a well-balanced, diverse and appropriate size which is able to drive direct the company in achieving its long-term objectives as suggested by the majority of those who participated in the survey.
- Eskom should effect improvements in its procedures and practices for the timely disclosure of the company's vital information as suggested by the respondents.
- The company should make sure they effect proper performance assessment model and groom professionals who are able to carry out the review regularly as suggested by literature reviewed.
- Disclosure of company performance in the form of timely financial reports in line with the rights of shareholders. The board and CEOs have the fiduciary duty entrusted in them to oversee the running of companies as reflected by literature reviewed. Eskom should ensure the implementation of proper strategies that improve timely and accurate disclosure if vital company information to shareholders and all stakeholders.
- Performance management system is key to the building of cohesiveness within a company. Well planned performance management system adds value to shareholders. From the survey, 65% of the respondents suggested that Eskom should improve its performance management system.

5.4 Recommendations

The major recommendation of this research is to:

- Encourage Eskom to revise the whole corporate governance process of the entity and work on the established variables that are statistically significant to this research. In this context, Eskom need to concentre on variables including, balance of power, improving structure and size of its board of directors.
- Quickly focus on improving performance management system as highlighted by 65% of the respondents.
- Improve timely disclosure of company information, particularly the financial reports in order to create value for its shareholders. Poor disclosure of timely company information breeds corruption, poor accountability and manipulation of figures.

In addition, other recommended strategies based on the findings of the study should include The Commonwealth Association for Corporate Governance (CACG, 1988) provides 15 principles of corporate governance. Basing on these principles, Eskom should implement ten of these principles which are as follows:

- Exercise leadership and integrity in judgement when directing the corporation to achieve continuing prosperity for the corporation;
- Make sure the board appointments are done in a way that provide a mix of viable directors with high proficient who add value and ensure independent judgement in decision making process;
- Establish the corporate's purpose and values and find out the solution to achieve this purpose and to implement its values to thrive for survival;
- Ensure procedures and practices are effectively implemented to protect the corporate's assets and firm by monitoring and evaluating the implementation of effective strategies and policies;
- Improve compliance with all relevant laws, regulations and codes of best business conduct;
- Implement effective communication with shareholders and other stakeholders effectively through serving their legitimate interest;

- Agreeing on policies on how the entity should relate to both internal and external stakeholders and ensure balance of power among those in the board of directors;
- Ensure processes and procedures are regularly reviewed to ensure the effectiveness of the entity’s internal systems of control to achieve quality reporting;
- Assess performance and effectiveness of individual directors in terms of their contribution to the board;
- Ensure that there is continuous training and capacity building in the organisation for management and employees as well as drafting an effective succession plan for senior management. Appoint the CEO who ensures motivation among employees and protection of intellectual capital of the entity.

The above principles are the ones which can transform Eskom into a viable organisation in South Africa.

5.5 Areas for Future research

This research recommends further studies to be undertaken to determine other variables not covered in this study in line with the research objectives.

A further study may be conducted with a change in research methodology and larger sample size focusing on Eskom. In addition, more than one state owned enterprises may be used in further studies to enhance understanding of corporate governance and performance of state owned enterprises at a wider scale.

It is also speculated that poor performance in state owned enterprises is not only caused by poor corporate governance. Further research in the area of performance challenges faced by state owned enterprise is required.

REFERENCES

Alexander, J. C. (1983). Theoretical logic in sociology (vols. 1-4). Berkeley: University of California Press.

Black, B. (2001), The corporate governance behavior and market value of Russian firms. Emerging Markets Review 2, 89-108.

Bocean, C., & Barbu, C. M. (2007). Corporate governance and firm performance. Management and Marketing Journal, 5(1), 125-131.

Brown, L. D., & Caylor, M. L. (2004). Corporate governance study: The correlation between corporate governance and company performance. Retrieved from www.stybelpeabody.com/issscoresandshareholdervalue.pdf

Chiang, H. (2005). An empirical study of corporate governance and corporate performance. Journal of Law and Economics, 31(1), 122-140.

Collis, J., & Hussey, R. (2003). Business research: A practical guide for undergraduate students (2nd ed.). New York, NY: Pelgrave-Mcmillan.

Conyon, M. J., & Schwalbach, J. (2000). Executive compensation: Evidence from the UK and Germany. Long Range Planning, 33(4), 504-526.

Davis, J. H., Schoorman, F. D., & Donaldson, L. (1997). Toward a stewardship theory of management. The Academy of Management Review. 22(1), 20-47.

Dierks, K. (2006). Strategy paper on the turnaround of TransNamib Holdings Limited. Retrieved from http://www.klausdierks.com/Namibia_Rail/transnamib.htm

Duffhues, P., & Kabir, R. (2008). Is the pay-performance relationship always positive?:Evidence from the Netherlands. Journal of Multinational Financial Management,18(1), 45-60.

Gcabashe, T. (Ed.). (2005). The power of governance: Enhancing the performance of state-owned enterprises. Johannesburg, South Africa: Pan Macmillan.

Haniffa, R., & Hudaib, M. (2006). Corporate governance structure and performance of Malaysian listed companies. Journal of Business Finance & Accounting, 33(7-8), 1034-1062.

Ho, C. K. (2005). Corporate governance and corporate competitiveness: An international analysis. Corporate Governance: An International Review.

13(2), 211-253.

Jauch, H. (2002). Privatization - African experiences. Windhoek, Namibia: Labour Resource and Research Institute (LaRRI).

Klapper, L., & Love, I. (2004). Corporate governance, investor protection and performance in emerging markets. Journal of Corporate Finance, 10, 287- 322.

Klein, P., Shapiro, D., & Young, J. (2005). Corporate governance, family ownership and firm value: The Canadian evidence. Corporate Governance: An International Review, 13(6), 769-784.

Kosnik. R. D. (1990). Effects of board demography and director's incentives on corporate greenmail decisions. Academy of Management journal, 33(1),

129-150.

Kothari, C.R., (2011), Research methodology: Methods and techniques. New Delhi, India:New Age International.

Labour Resource and Research Institute (LaRRI). (2003). Namibia: Labour market and socio economic indicators. Windhoek, Namibia: Author.

Leedy, P. D., & Ormrod, J. E. (2010). Practical research: Planning and design. (9^{th} ed.). Hoboken, NJ: Pearson.

Maree, K. (2007). First steps in research. Pretoria, South Africa: Van Schaik.

McGuigan, J. R,, Kretlow, W. J., & Moyer, C. R. (2006). Contemporary financial management (10th ed.). Pyrmont, New South Wales, Australia: Thomson.

Mitchell, L. E., Cunningham, L. A., & Solomon, L. D. (1996). Corporate finance and governance. USA: Durham, NC: Carolina Academic Press.

Murray, A. (2000). Public sector restructuring in Namibia: Commercialization, privatization and outsourcing. Windhoek, Namibia: LaRRI.

Organization for Economic Co-operation and Development. (OECD) (2004). Principles of corporate governance. Retrieved from www.oecd.org/dataoecd/32/18/31557724.pdf

Oslon. (2008). Integrating the individual and the organization. New York, NY: Wiley.

Pfeffer, J. (2003). Introduction to the classic edition. In J. Pfeffer, & G. R. Salancik

(Eds.), The external control of organizations: A resource dependence perspective (classic ed.). CA: Stanford University Press.

Rice, G. (2009). Purpose of annual reports. Retrieved from http://www.ehow.com/facts_5801430_purpose-annual-reports.html

Rogers, M. (2006). Corporate governance and financial performance of selected commercial banks in Uganda. Kampala, Uganda: Marketers University Business School, Faculty of Commerce.

Scott, W. R. (2001). Institutions and organizations (2nd ed.). Thousand Oaks, CA: Sage.

Saunders, M., Lewis, P., & Thornhill, A. (2003). Research methods for business students (3rd ed.). Edinburgh, Scotland: Pearson Education.

Sekaran, U. (2003). Research methods for business: A skill-building approach (4th ed.). New York, NY: John Wiley.

Solomon, J. (2007). Corporate governance and accountability. West Sussex, England: John Wiley.

SOEs gobbled up N$15bln since 2001. (2012, June 14). Eskom. Retrieved from http://www.namibian.com.na/index.php?. State-owned Enterprises Governance Act, 2 (2006).

Eskom. (2004). Eskom background. Retrieved from http://www.transnamib.com.na/background.html.

Eskom. (2008). Eskom annual report 2008. Retrieved from http://www.Eskom.com.na/files/Eskom-annual-report-finalsmallest- file-size.pdf.

Welman, P., Kruger, F., & Mitchell, B. (2005). Research methodology (3rd ed.). Cape Town, South Africa: Oxford University Press