THE MISFORTUNES OF STATE-OWNED COMPANIES: A CASE OF THE DEVELOPING MARKET

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Abstract

Over decades ago, the state-owned companies (SOCs) in South Africa were the most efficient and high-performing firms that were the center of employment epitome and contributed to increasing the country's economy. SOCs play a critical role in the South African communities, industrialization, and the economic growth of the country through effective service delivery, governing fiscus public funds, reducing the unemployment rate, controlling the domestic economy limiting privatization and foreign transactions (Thabane & Snyman-van Deventer, 2018). However, corruption, politics, maladministration, and poor corporate governance in these sectors have brought the SOCs into near collapse resulting in the majority being placed under business rescue (Nyatsumba, 2021). For example, South African Airways (SAA) which was once a world-class airline has been undergoing a business rescue process since December 2019 (Ward, 2021). This abstract highlights the impact of maladministration, corruption, and political involvement in SOCs' corporate governance and firm performance then concludes with the key insights and critical lessons to be learned by all organizations to ensure financial sustainability and sound corporate governance.

Moletsane (2023) investigated the financial performance of the SOCs and discovered that the SAA has not been performing since 2010

and the firm started reporting constant financial losses between 2010 and 2019. According to Nyatsumba (2021), the government is to blame for the firm performance because of poor management. The poor management and chronic leadership at SAA are evident in the failure to implement the turnaround strategy successfully as the firm has been involved in four turnaround strategies since 2004 (Nyatsumba & Pooe, 2023). This abstract used a systematic literature review (SLR) methodology to synthesize the misfortunes of the South African SOCs. This approach was excellent in providing the critical lessons to be learned by all companies whether it be private or public in ensuring sound and effective corporate governance that will guarantee sustainable firm performance. Szarzec et al. (2021) suggest that the SOC's performance is dependent on the country's economic growth. In contrast, the narrative is completely different in South Africa. For example, the state-capture revelation uncovered by the Zondo Commission revealed that politics and corruption are the root cause of the SOC collapse (Nyatsumba, 2021). SAA had 14 chief executive officers (CEOs) between 1994 and 2020 of which half of the CEOs were in an acting position (Nyatsumba & Pooe, 2023). The evidence of chronic leadership instability further manifested in financial performance as the organization reported a R 26,9 billion loss between 2007 and 2019 (Vermooten, 2020).

SAA is not the only challenged SOC that the Minister of the Department of Public Enterprises is trying to resuscitate to save thousands of jobs currently, South Africa has the highest unemployment rate within the Southern African region as the rate is around 30% (Ward, 2021; Galal, 2023). However, other entities such as the Post Office, Eskom, Passenger Rail Agency of South Africa (PRASA), South African Broadcasting Corporation (SABC), and Transnet are also on the verge of collapse as they are experiencing poor management, poor corporate governance, poor performance, poor supply chain management resulting to fraud and corruption, maladministration, bankruptcy, and financial instability.

Political interference resulting in a conflict of interest and corruption, lack of management skills resulting in poor decision-making, and unhealthy and incompetent board dynamics are the root causes of poor corporate governance and financial instability in SOCs (Thabane & Snyman-van Deventer, 2018; Moletsane, 2023; Nyatsumba & Pooe, 2023). Therefore, the researcher highly recommends the appointment of board members be strictly based on competencies, skills, talent, and experience in the field, not political alliances. Furthermore, the organization must have and implement a combined assurance framework and ensure the independence of each line of defense when providing the assurance function. For example, Internal Audit, Compliance, Revenue Assurance, and Fraud Management teams must not report to the same executive as Ethics, Forensic, And Whistleblowing teams. Even though these functions support the executive committees such as the Audit, Risk, and Compliance Committee and Ethics Committee, however, there must be a clear segregation of duties to ensure accountability and prevent conflict of interest. Lastly, adhering to governance codes, and standards such as King IV to ensure leadership stability, accountability, and consequence management are key to ensuring good corporate governance and successful firm performance that will yield shareholder value.

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