

# CORPORATE GOVERNANCE OF THE STATE-OWNED ENTERPRISES IN AN EMERGING COUNTRY: RISK MANAGEMENT AND RELATED ISSUES

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## Abstract

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This article assesses the extent to which state owned enterprises (SOE) have complied with corporate governance codes, as recommended by King III in South Africa. Corporate governance in the post-apartheid era has changed irrevocably. The development path which is the agenda to transform state owned enterprises has been a trial and error (trend) in South Africa. This paper argues that the South African State Owned Enterprises (SOEs) have applied the King III principles of corporate governance, while grappling with structural changes that impact in their practice regarding their organisational performance on risk and corporate governance. Along with regulatory measures on corporate governance, the SOEs are looking at strategies to translate the concept of corporate governance into practical solutions that involve stakeholders and government support. Using a qualitative approach, this theoretical paper employed document analysis for data collection and analysis. This paper calls for more risk intelligent management of agencies so that future opportunities and threats are recognized and addressed promptly and effectively. The value of this paper is based on its contribution to the existing knowledge area on corporate governance and leadership.

**Keywords:** Corporate Governance, Risk Management, Parliamentary Oversight, Performance, Public Enterprises

## 1. INTRODUCTION

South Africa (SA) as a Developmental State operates under the premise that the state has a mandate to steer development initiatives that will improve the economy. The free market system is in contrast with such an idea, as their initiatives lead to bottom line and efficient outcomes with no state involvement. In the post-apartheid era, the South African government applied the New Public Management (NPM) to transform public service with more involvement and recognition of private sector practices. Part of the mandate to transform public sector in SA is to transform the SOEs to enhance efficiency and effectiveness of their performance by recognising and applying corporate governance principles (Gumede, Governder & Mosthidi, 2011:3). Moreover, corporate governance principles in SA have been applied to forcefully transform the clubby world of the parastatals and government public enterprises listed on Johannesburg Stock Exchange (JSE).

Forces of change and transformation can be recognised as emerging from market pressures, and has led to the dismantling of the legacy regime and influenced the recognition of private interests in SA. The PricewaterhouseCoopers (PWC) (2015:38) also notes the long existing strong alliance and partnerships between SOE's, government, private companies and non-governmental organisations. Within the alliance, the interests of each party are different from the others and there is sacrifice of values by government when government partners with the private sector. Moreover, it was not a surprise that privatisation was chosen as an approach that informed the restructuring and transformation of the state-owned enterprises (SOE). This study uses the case of South Africa's emerging economy due to its recent diversification of growing small and large enterprises, with diverse culture and population. Emerging economies have a chance to grow if they continue develop their economic and social infrastructure, invest on their people education they can also consolidate their economic powers by managing well their SOEs.

However, this study uses privatization and the agency theory to illustrate the failures and mistakes in government decisions for privatization. The government intention to privatize some of the SOEs was to provide efficiency and effectiveness in their core business; hence some SOEs sold their shares to the public. However, privatisation was not a far-fetched dream since the South African government and the other sectors adopted a mixed economic system with both public and private sector. Despite the existing developmental state, there is insufficient relationship between the market and the State. State owned enterprises (SOEs) are a living example where the state uses business principles of efficiency to provide goods and services to the public. The current SOEs in South Africa have been subjected to public scrutiny for failing to achieve their mandate to survive by maintaining its operations with enough revenue and services provided to its clients (Gumede, *et.al.*, 2011: 1). Government saw a need to assess the performance of the SOEs, hence concerns on corporate governance have resulted into several legislative documents to regulate state enterprises. The King 1, 11 & III and IV Reports unpack the reporting mechanisms where the board of directors should be at the center of the corporate governance using the adopted guide on the application of corporate governance principles.

Corporate governance is a revolving issue in South Africa, the practice of governance has been informed by King 1, II, III and now King IV. There are also other policies that must be considered such as the Affirmative Action, Broad Based Economic Empowerment (BEE) and the transformation agenda. South Africa is also following on the global trends like the OECD corporate governance and regulatory principles on good governance. Mohr and Wagner (2013:8) assert that the increasing popularity of regulatory governance is ascribed to financial liberalization and recent economic melt-down that have raised discussions on the appropriate regulatory framework for financial institutions and other regulatory agencies.

South Africa requires effective and efficient board of directors that will manage these SOEs with visionary leadership. Ethical leaders are expected to induce economic growth and deliver on their promises (Matsiliza, 2015: 444). This article argues that the application of codes of governance in SOEs, on the premise of King III report; have opened a can of worms to the society, as a results government has embarked on a series of strategies and methods to enforce compliance to those who have bypassed and failed to maintain corporate governance principles. Some of the members of the board of directors from various SOEs have been subjected to an inquiry and investigation by the parliamentary committees on various portfolios which they serve. They are expected to serve not only the interest of the shareholders but also to take care of societal needs through social corporate responsibility.

There were more than 300 SOEs employing people in diverse industries in South Africa. Up to date, their number has been reduced due to their restructuring. This study analyses compliance with corporate governance as prescribed in the King III Report. References will be made on the transgressions of few SOEs like the South African

Broadcasting Corporation (SABC), Eskom and the South African Airways (SAA). This paper assumes that the board, shareholders, employees, clients and communities are all custodians of accountability and good governance. The author uses privatization and the agency theory is theoretical paper adopted a document analysis, where the data was mostly drawn from literature review, legislation and policy reports, annual and strategic reports and articles from accredited journals.

This study aim is to investigate on how the SOEs in South Africa have complied with the corporate governance principles, recommended by King III report. The main problem of the SOEs is the fact that they are grappling with the transformation challenges that impact on their corporate governance. The SOEs have been falling while the costs of their operations have been increasing; hence they failed to comply with the principles of corporate governance. This study intends to assess the extent of compliance while the SOEs and understand corporate governance through the application of the codes of governance recommended by King III report. The intention of this analysis is to recommend a workable strategy towards minimizing risk and improving governance while observing the corporate governance principles. This paper reflects mostly on the King III report on corporate governance; with major emphasis on leadership, sustainability, auditing, risk management, stakeholder's management and accountability.

## 2. THEORETICAL FRAMEWORK

### 2.1. Agency theory and Privatisation

It is appropriate to use the agency theory and privatisation as the theoretical lens to study the adoption of corporate governance practices by SA SOEs and the performance implications in this study. The adoption of a mixed economy in South Africa did not come as a surprise since there was already an existing protection of private interests through foreign investment and private sector. Global and national factors such as technological expansion of global markets augmented the scale and complexity of enterprises and rapidly forced them to collaborate and require more capital to survive and contribute to the national economy. Government had to bring on board strategies like privatisation to speed up development and transformation by inviting the private sector to invest and be a partner in development efforts especially transformation agenda. Regarding the state-owned enterprises, privatisation was adopted as the process of selling shares of the agency to private entities or individuals that jointly govern the SOEs with the government.

With the current trend toward economic liberalization, privatization of state-owned enterprises has become a global phenomenon. However, it should be noted that the SOEs are expected to devote their energies to supplying services and goods to their clients and customers, and they should reduce costs and maximise their earnings; and all this should, of course take place within the laws and rules/ regulations of the land.

Privatisation was copied from developed nations as an economic strategy that is designed to increase competitiveness. It is said to be aiming at eliminating the market imperfections by limiting the role of the state, and increase that of the private sector through ownership, control, and management of resources (PWC, 2015). Some developing nations like South Africa sought to improve government efficiency by borrowing private principles that include deregulation, outsourcing, contracting and outright sale of companies or assets. In the process of privatizing government agencies, the sale of government owned companies is carried out through tender processes, private replacement and fixed-price share sales. Dewenter and Mlalatesta (1997:1661) agree with the notion that privatisation can be carried out through franchise, outsourcing, grants and subsidies, deregulation, vouchers and managed competition.

There are diverse arguments in support of privatisation of SOEs. The main purpose of taking the privatisation route was for the government to organise a joint pool of capital to sustain operations in the big 5 enterprises such as Transnet, Telkom, Denel, Eskom and SABC. However, these enterprises are big employers in Southern Africa, which later can induce the economy since gold is no longer backing the economy. However, the justification of privatisation of SOEs does not hold a moral ground. Outsourcing and selling of SOEs' shares has further pushed several workers out of their jobs. Claessens and Yurtoglu (2013: 19) are of the view that transformation of SOEs' corporate governance in a market economy can yield a positive impact in improving the regulatory regime that is documented. In addition, Ndlovu (2009, 71) agrees with the fact that a free market system cannot backup corporate social responsibility in a developmental state.

The ANC government's macroeconomic policies were supported by the SOEs, and the support was induced by the greater international support of privatisation. Pillay (2013: 225) argues that challenges facing SOEs are like those facing large private firms. He further argues that they are both faced by 'agency problems' and 'principal agency' problem. In the expanding and complex need to realise a developmental state and the growth path, the state tends to manipulate the SOEs and bring on board partners to organise a joint pool of capital which later will influence the operation of those enterprises. The transformation of state-owned enterprises (SOEs) is expected to address the inherent inefficiencies of the state ownership as influenced by the market competition. However, the separation of ownership and control management transformation remain a subject of interest and a bone of contention in SOEs. Agency theory became the dominant force in the theoretical perspective of corporate governance in the 21st century (Clark, 2004).

Clarke (2004: 59) posits that an agency relationship is that of a prominent leader who will delegate authority to a business person to do some work for him, including delegating some decision-making authority to the agent. This also can go as far as appointment of high ministerial positions and political appointees by a powerful business person who has close ties with the top leaders and decision-makers in government. Agency theory operates with

a premise that man is routed on economic rationality with low value commitment. The theory of agency has a controversial connotation in South Africa, as it implies that the government and the SOEs must simply align themselves with resourceful private individuals from private sector to make decisions and work on their behalf. It is argued furthermore that agency theory assumes an opportunistic behaviour where resourceful individuals want to maximize their own expected interests which might not be in the interest of the stakeholders and clients (Chaghadari, Chaleshtori, 2011: 484). Therefore, there will be a conflict of interest between the board of directors (represented by managers) and stakeholders.

The system of patronage is an infamous example of a relationship between the SOEs, private individual and the government. Some private companies, including the prominent business people, may choose to assist managers who have strong ties with the government (State of Capture Report, 2016). This may lead to corporate forms of policy-making, where government invites major business owners to participate in policy decision-making. Private corporations are primarily accountable to their shareholders; corporate social responsibility is also honoured voluntarily. However, this again poses a problem of partiality and lack of external accountability based on their mixed interests as these organisations are not fully owned by government. It can be assumed that privatisation leads to minimal control of government with increasing involvement and participation of non-state agencies.

### 3. RESEARCH METHODOLOGY

This study adopted document analysis using mainly qualitative analysis for collecting data. The author decided to employ a qualitative approach by collecting non-numerical data that is mainly drawn from secondary instruments to understand social reality and to provide a rich description and account of what the data says and to construct new meaning. Bryman and Bell (2016:43) posit that qualitative research seeks to understand social reality on its own terms, and to provide a description of people in a natural setting. This study extracted data from relevant literature in the form of reviews and annual reports, auditor general's reports, strategic planning documents, over five years, consisting of organisational annual reports, strategic reports, audit reports, financial reports, internal controls, strategic planning reports, press statements, minutes of Cabinet and Parliamentary committees, books and articles from accredited journals in Risk and Governance, public administration, law and policy studies.

The author saw it fit to employ discourse and content analyses were used. Document analysis is a systematic procedure for the analysis, evaluating and reviewing documents to find new meaning to what the data say. This study adopted qualitative document analysis based on the premise that data collected as literature review is based on the studies conducted by various scholars and are interpreted to make various meanings and discourses (De Vos, Strydom, and Fouché & Delport, 2011:309). The author sought to use privatisation and agency theory

to understand the phenomenon (corporate governance) being examined, and to relate it with the operations of the South African State Owned Enterprises (which are units of analysis).

The limitation of the methodology used in this study is that the author had to collect a lot of documents to be analysed and critically scrutinized. Some of the reports are compiled and published by government and consultants. There are no available and reliable reports compiled by other stakeholders who represents the public. There is an assumption that the consultants and publishing companies like Waterhouse Price Coopers represents professional fraternity dealing with corporate governance. The other limitation in using document analysis is that it limits data collection to literature review, while in an empirical research data could have been collected data from other non-state members by conducting interviews and surveys.

#### 4. LITERATURE REVIEW

State-owned Enterprises (SOEs) - refers to the agencies/ organizations that have most of their shares owned by the state, and are also controlled by government of the Republic of South Africa. The Public Financial Management Act, 1999 (PFMA) refers to these organisations as “the government business enterprises controlled by the national executive (the line minister), assigned financial and operational authority to carry on a business activity, as their principal business provides goods or services in accordance with ordinary business principles, and are financed fully or substantially from sources other than the National Revenue Fund or by way of tax, levy or other statutory money”. The State does not actively manage all aspects of the provision of public goods and services even where there is a legitimate reason, the State's involvement can be executed in various combinations such as active participation, agency arrangements and regulating the environment.

The SOES can also be referred to as the Government-owned corporations, with most of its monopolies and infrastructure such as strategic goods and services (mail, weapons), railways and telecommunications, natural resources and energy, demerit goods (alcohol), broadcasting, and merit goods (healthcare) are owned by the state. According to Gumede (2009), state owned enterprises are enterprises where the government owns more than 50% shares and is the majority shareholder. According to Waterhouse Price Coopers (PWC) (2015: 8), an existing broad type of SOEs in SA performs their operations with the understanding and knowledge of Public Administration. They also perform their functions with relations of state government departments at different spheres of governance with most common use of their functions as parastatals since they practice both private and public administration. Most of them account to government departments and parliament; with the Minister as a shareholder.

The concept of corporate governance advances on balancing the economic and social goals and between individuals and communal goal in an agency (Vernon, 2014). The King I Report recommended standards of conduct by board of directors for all companies listed in the

Johannesburg Stock Exchange (King I Report, 1994). In 2002, King II revised Report included a new section on sustainability which was also applicable to state owned enterprises and state departments. However, in South Africa, SOEs are governed through the application of King III, Company's Act, and other financial prescripts that are principle based. King III calls companies to comply and follow rules and account, whereas king IV assumes application of all principles, and requires the companies/ organisations to explain how they have applied the principles of corporate governance (King IV Report, 2016).

Lazenby (2014: 71) posits that 'corporate governance' refers to an approach on which an organisation is being directed, administered and governed to achieve its objectives. However, entities can also tailor the principles of the code as it fit to their size and culture, types and complexity of their organisation. Claassen, and Yurtoglu (2013:) posit that an improvement in corporate governance practices can increase firm share prices and ensure a better-governed organisation that can appear to enjoy a lower cost of capital. Corporate governance principles have been adopted differently worldwide with an understanding that the SOEs must take a path that has interests of both the state-ownership and non-state ownership. In addition to the King Reports, the SOEs are expected to comply with the Public Financial Management Act (PFMA) and the Companies Act.

King III & IV Reports are important and needed to harmonise the South African corporate governance and the international trends and ameliorate and eradicate negative practices in corporate governance in South Africa. There are several institutions that are rating corporate governance indices to advise the agencies to effectively implement corporate governance principles, internal controls and other related requirements for good governance. These institutions include the OECD, World Governance Indicators (WGI), Ibrahim Index of African Governance (IIAG) and the African Integrity Indicators (Global Integrity).

#### 5. CORPORATE GOVERNANCE PRACTICES IN THE SOEs

South Africa's developmental path was chosen in consideration of diverse strategies motivated by incentives and non-incentives economic models needed to boost the business confidence for the economy to grow. In the post-apartheid era proceeding from 1994, the government thought that choosing to avoid confiscation of property, while seeking growth, could lead to expansion of social services and creation of job opportunities. The government took the high road and focused on the macro-economic policies, with the hope that higher growth would increase mobilisation of both domestic and foreign capital, as well as using that capital more efficiently. Also, government needed to escalate the performance of the SOEs to improve capital market and private firms in the government's plans - and apply the marriage of convenience.

It is necessary to guide the oversight of SOE by means of corporate monitoring and decision-making, to capacitate and enable SOEs to contribute

to government strategic objectives. This paper provides an analysis on how the SOEs are observing and applying the King III principles of corporate governance, and how they add value to the society. Notably, the ownership reform of the state enterprise is to seek clarity between the State as the owner, reduce the fragmentation of ownership responsibility across multiple institutions and enhance accountability (World Bank Group, 2014: 3). To monitor corporate governance, a revised King III Code and Report on Governance in South Africa which was launched in September 2009 and came into effect on 1st March 2010 is used in this article about the following principles:

### 5.1. Leadership and the Board of directors

There is a relation between ethical leadership and corporate governance because each needs the other to be relevant. Due to the demand and complex corporate environment, organisations need ethical leadership to survive and prosper (King IV Report, 2016). The board of directors has a major responsibility to govern, make decisions and delegate authority to board committees to obtain information. The board of directors is expected to provide ethical leadership, with a positive mindset and well considered decisions that will not have an adverse impact on the well-being of the SOEs. However, some of the committees appointed by the board include audit, remuneration, nomination, sustainability and risk committees. Through these committees, the board should direct the SOEs to be responsible, responsive to their clients, and comply with principles of good practice.

It can be argued that not all SOEs are inherently corrupt; rather there is political interplay with structures and activities shaped by the private sector, that recognise more interests that outplay economic or social rationale. It has appeared that the board's decision-making has been criticised for being biased on the appointments of senior executive managers of the corporation (State Capture Report, 2016). Some scholars blamed the board of directors in some SOEs for allowing political interference in major decisions of their organisations (Khanyane & Sausi, 2015:32). Thus, this has affected the stability of some SOEs in South Africa. Currently, there is a conflict of interest in the appointment of the members of the board of directors, their remunerations and bonuses, and how they are required to perform in as far as corporate governance.

Armstrong (2015:1), also note the Existing political meddling which muddle and strike the SOEs to struggle to reach optimal balance between social and commercial. SOEs may have been created to contribute to the economic development of the country. According to the Public Protector, while the SOEs have progresses and offered jobs to the million South Africans, they are caught up between the public interest and the interest of the investors and influential political leaders (The State Capture Report, 2016).

As noted in the King III, good governance is about effective leadership, with strong visionary thinking and ethical behaviour that have a positive influence on the organisation (Price Waterhouse Coopers, 2010). A case in point is the appointment

of an executive manager in the South African Broadcasting Corporation, where the SABC board has been criticised for failing to conform to the King III recommendations on its functions by failing to obey the rule of law. The opposition party in South Africa filed a case against the appointment of the COO in South Africa, complaining that he is not qualified and competent enough to lead the SABC as the public broadcaster's Group Executive for Corporate Affairs. The Supreme Court of Appeal upheld a high court ruling that the appointment of the COO was invalid and irrational. The South African Cabinet issued a statement indicating that the SABC board's decision to re-appoint the COO of SABC the Head of Corporate Affairs shows the public broadcaster has disrespected the rule of law. There is a wide criticism and dissatisfaction regarding the performance of the board members and CEOs in some of the SOEs such as the South African Airways, Eskom's and SABC. These organisations have failed to comply with principles on corporate governance, the Companies Act, the PFMA (Public Finance Management Act, (No 1 of 1999), Company's Act (No 71 of 2008) and Treasury regulations.

### 5.2. Sustainability

King III recommends an integrated reporting of financial information and issues of social and economic environmental impact, and recommends that the audit committee involves an external service provider to acquire the material aspects of the sustainable reporting. Wang, Wart and Lebrede (2014:362) suggest that leaders for sustainability must promote a range of economic, environmental, and social practices, over a period specified by actors including members of the board, shareholders, legislators and the public who have interest in the welfare of the society. However, it can be argued that there is uncertainty in balancing financial earnings and profits with sustainability.

According to the SABC (2015/2016 Financial Year Report), there is under-performance of SABC in profitability and liquidity, the corporation's revenue streams down due to restrictive economic conditions and cut backs by advertising clients in the third and fourth quarters. Also, the broadcaster has experienced an increase in cost for expenditure items relating to mandate delivery and broadcasting events of national interest because they have been more concerned about increasing public value more than making profits. It is noted that from various strategic documents, SOEs display a sense of responsibility and commitment to sustainability, with less action taken to live up to the expectation of the shareholders and the public. Several transgressions reported to have been observed from these entities indicate that some of them are not financially viable and stable.

A disappointing progress can be noted as emerging from the financial performance of South African Broadcasting Corporation (SABC), SAA and Eskom. The SABC has experienced financial instability and failing to grow in the past few years (SABC Annual Financial Report, 2015/ 2016). The SABC released financial report indicated increasing losses from R395 million to R411 million. It also indicated that the corporation is struggling with

document management while it happened that it received a third consecutive qualified audit from the Auditor-General for the reported year of 2015/2016. The acting CEO of the SABC is now seeking and calling on a private company to assist them with document management. The SABC justified its failure for financial growth by indicating that their mission is not profit-making, but to address their clients' needs, hence they spent millions on the social responsibility function by broadcasting the un-intended events and activities that caught the attention of the SA nation.

Another disappointing experience can be noted from the financial performance of the South African Airways (SAA). The mission of the SAA is to strive for a commercially sustainable world-class air passenger and aviation services in South Africa, on the African continent and for the country's tourism and trading partners. The SAA's financial performance is not pleasing its stakeholders in the sense that the airline loss is 1,5 billion Rand, not far from the budgeted 1.4 billion rand, despite the volatility of the markets and the weak state of the SA currency (Rand), and despite the loss of R45 billion rand in the previous year (SAA, 2015/2016 Financial Report).

The SOEs were also scared by the investment grade credit rating affirmation marks for SA that was conducted on 8 March 2016 by Moody. The country's ratings under review faced possible downgrade by Moody in 2016 since there were several offsets in the SOEs governance and within the country's political instability within the ANC as a ruling party (National Treasury Media Statement, 2016: 1). However, Moody affirmed SA status as Baa2 - a rating that is two notches above sub-investment grade, which is not a downgrade that leads to a junk status. The SA government reaction on that was positive; as a matter of fact, government promised to continue to collaborate with other parties such as labour, business, and the civil society to restore confidence in the economy and address the structural constraints to economic growth. According to the National Treasury (2016:2), they saw it fit to revisit the National Development Plan which remains the catalyst for inducing economic growth and the 9 Point Plan will also ensure that major prioritised milestones are achievable such as:

- Promoting a stable and cooperative labour relations environment;
- Encouraging development of energy-efficient, job-creating industries;
- Leverage on business costs, unblocking regulatory constraints and deal with policy uncertainty;
- Enhance investment through launching Invest SA; and
- Continue to execute state-owned companies/enterprises reforms suitable for a financially sound SOE, operate efficiently and well-manage and properly govern them.

### 5.3. Stakeholders inclusive model

The stakeholders are an important part of motivation for enterprises to adopt corporate governance practices. As noted in the stakeholder theory, it is imperative to analyze the behaviour of an enterprise towards its identified stakeholders and

its corresponding action in order to understand corporate governance (Zhua, Liub and Laic, 2016:418). King III Report affirms that it is crucial that stakeholders' interests and needs should be acknowledged and recognised, especially when major decisions affecting them are made. The SABC is much sensitive to the stakeholders' involvements. However, lately they have been criticised for failing to recognise the interests of their stakeholders in their decision not to broadcast the videos sensitive to their viewers during the social protest of the dissatisfied residents who were burning schools in Limpopo province. Reported transgressions by the SOEs and failure to be accountable and be transparent to the viewers spoiled the relationship between the SOEs and the stakeholders with no effective corporate governance, pivots on the co-operation between the shareholders. However, it should also be indicated that the social responsibility that is offered by these organisations to the society bears much credibility to these institutions and comes at a price whereas there is no revenue recovered from the clients.

Moreover, each SOE sets its own targets for corporate governance, which are continuously monitored and revised periodically. The recent changes in the policy and regulation affecting SABC raised the bar on the stakeholders' satisfaction. The SABC increased the local content on quotas for TVs and Radios up to 90%. This decision was lauded by artists and the department of Arts and Culture since their music and stories broadcast on radios and TVs will increase their royalties instead of increasing the royalties of the foreign artists.

### 5.4. Risk management

Risk management failures in some of the SOEs have captured the headlines in South Africa in the past few years. Thus, corporate governance must be able to address agency problems and control risks within the SOEs. However, SOEs have motivating and controlling mechanisms of risk. Motivate mechanisms are related to the executives and their compensation, whereas the control mechanisms are based on the role of shareholders and board of directors. In the case of the SA SOEs assessment of risk is focused more on the individual risk rather than the interaction among risks. There are risk occurrences that are interdependent to corporate governance like the financial credit rating, liquidity, interest rates, remuneration of executives, assets management and resource management (The State Capture Report). The state can minimise risk by taking good decisions when appointing board members and executives. Some risky SOEs will continue appointing insiders as CEO because she/he has an understanding of how the organisation operates and they can think that person can save it rather than appointing an outsider. It has come into the light of the public that the remuneration of executives in some of the SOEs do not relate to their specialisation and credentials/ qualifications to do the job.

The board is expected to provide assurance that the company practice existing internal control procedures and auditing standards in a reliable and valid manner. It is important for them to be prepared timeously for the purposes of monitoring

and evaluating the entities' performance (King III, 2002).

Noted by the King III Report (2009), risk is referred to as any factor that indicates uncertain future events that could cause or influence the achievement of the organisation's mission (Lazenby, 2014:71). The first task is to understand enterprise-wide risk strategy and objectives, to understand failures that arguably cost the organisation and resulted to a loss. Therefore, it's a need for entities to restrict excessive risk taking, and have a responsible risk manager who will profile risk and audit the entire agency. The risk manager and the board need to assure the investors and shareholders of optimal risk profile (unobserved to empiricists) that maximizes shareholders' value.

The SABC, SAA and Eskom strategy on risk management is mainly to identify risk factors and manage them after the incidents have occurred instead of avoiding them. However, the SOEs in SA have progressed in the development of risk profiling and they have also hired risk managers to maintain efficient, effective and transparent system of Risk Management and internal controls. According to the SABC financial Report (2015/2017), the final review of the policies as part of risk management is therefore in progress. The internal control project received priority and some of the feedback needed to be incorporated into the policies. A case in point is that of Eskom's failed implementation of strategic risk assurance, by not providing a long-term solution for the shortages of energy/ electricity that is provided for national use by industries and domestic use by citizens. If there was a feasibility study on risk analysis, Eskom would have known that South Africans use more energy than any country in Africa, and energy saving should have been prioritised long time ago to avoid the crisis of electricity shortages.

### 5.5. Internal audit and audit committees

Companies are expected to perform an audit function that provides assurance on its governance, risk management and internal controls. Internal auditing is required to provide a written report on an assessment of the systems of internal controls and risk management. The audit opinion for the SOEs have been unstable, they should be able to move from a disclaimer into a qualified audit over a specific period of years. Even though SOEs made remarkable progress in clearing their qualification issues from the Auditing disclaimer status to sound auditing, they are still struggling to do away with remaining qualification on Irregular Fruitless and Wasteful Expenditure. They should remain committed to resolving the remaining qualification paragraph in the next financial year by building on the work performed in the 2015/16 financial year, to effectively manage its expenditure as well as improve the revenue collection model across all revenue streams.

### 5.6. Transparency, Disclosure and Accountability

Good governance is a predicate of transparency and accountability in the SOEs and other areas of economic and social life governed by the state. King III Report recommends that companies and state

agencies' access to information is central to public policy making, including the administration of tax systems, delivery of public services, and regulation of organisational activities that affect economic life and social welfare. Consequently, the lack of transparency in public administration is a debilitating constraint on policy implementation and its economic and social outcomes and its own right of importance to welfare and development (World Bank, 2001). Currently, the SOEs are put on the spotlight as government is geared more toward good governance. Wan Abdullah a, Percy & Stewart (2015: 265) argue that the analytical disclosure literature indicates that a full disclosure does not exist in an equilibrium, while strengthening stakeholders' confidence in relation to corporate governance compliance is important to an organisation.

According to the public protector, the effectiveness of control and management exercised over executive remuneration (bonuses) of board members and the quality of financial statements and information disclosed by SOEs have raised concerns and have led to proposals for the reform of corporate governance (State Capture Report, 2016). Therefore, SOEs can also advance in transparency and accountability through timely reliable reporting, and quality auditing of SOE performance. This should go beyond financial reporting to integrated reporting, with SOEs being role models for good reporting practices. This can also advance in building trust and integrity between the government and the broader society (including shareholders).

## CONCLUSION AND RECOMMENDATIONS

This paper assessed how the SOEs have complied with the King III principles of corporate governance in their operations, using the case of the SA SOEs. The SOEs still rely on King II, instead of focusing more on King III and King IV. There is a general limitation of accountability and transparency in the SOEs, like SAA, SABC and the declining of Eskom's earnings, and their cost of operations are in a risky state that resulted in government financial bail-out and political interference. There is a need to steer the transformation of the SOEs in SA to a direction driven by broad transformation goals for restructuring the public enterprises with no political interference. Even though SA copied from the worldwide diffusion of codes that are impressive, they need to focus on a more detailed explanation of the creation of codes in SA and how they can be tailored for each SOE in South Africa.

It has emerged that some few SOEs failed to comply with and practice corporate governance principles. That's why these institutions must be transformed in a manner that will shift them from a controlling interest in their large investments to a more indirect monitoring governance and performance role. Even though the SOEs are facing challenges, they can be regarded as catalysts for developing SA. Findings from this review revealed that the state has achieved remarkable success signals in the governance field with supporting legislation and policies on corporate governance, with less execution of sound principles of corporate governance. It has emerged from the literature that when the government transforms the SOEs, it steers them in a direction that later questions the

efficiency and performance demands by non-state owners. The author's findings support the assumptions that privatisation in the SOE decreased state control in South Africa and advances the involvement of non-state actors and private agencies in decision-making regarding the operations of these enterprises.

Another interesting account found in this study is the fact the SOEs have complied with sustainability and integrative reporting in their own business context. However, for them to demonstrate that they have integrated sustainable business practices, it must address and embrace the three pillars of the triple bottom-line; the environment, state and society. However, the SOEs can also be regarded as advancing in compliance with other policy instruments such as the new Companies Act, the (PFMA) and (King III) which are all applicable to state-owned companies. They share many principles of good governance, of which their alignment might not fit with their operations, but desirable in the spirit of good governance principles such as accountability, fairness, transparency and responsibility. Sometimes they attempt to resolve areas of conflict between the Companies Act and the PFMA, the PFMA which might have irreconcilable differences. It is recommended that process of risk management and the results of risk assessments in the SOEs should be appropriately disclosed. The state as a shareholder should assist by making sure that these organisations see-through trade secrets, the board must also account by communicating the market material risk factors in a transparent manner.

It is recommended that government, through the parliamentary committee on communication, should monitor the performance of the CEOs, Chairs and the members of the boards to minimise the risk and loss of investments and finances in these organisations. It is obvious that the monitoring structures are reactive instead of being proactive in assessing and monitoring the performance of the SOEs in SA. The SOEs should be geared towards adding more value to South African broader society by becoming catalysts for South Africa, to position itself better in global economy given increased global competition for finance, talent, and resources. It is not easy for the SOEs to strike an internal-external balance to maximise efficiency while observing sustainability. It should advance in leverage of technological and service innovations to deliver products and services, which meet user needs within constrained budgets (doing "better for less"), as well as achieve desired sustainable outcomes economically, socially and ecologically. There is still much work to be done by SOEs by co-creating value with stakeholders in society and driving good growth, linked to its purpose, mission and strategic objectives.

The interference of the Communication Parliamentary Adhoc Committee, by investigating the SABC's board members' performance and appointments, is a good move on the governance side. Governance changes must begin with a more considered process around the selection of suitable qualified directors and their chairs. Leadership and executives in the SOEs must possess required skills and competencies to run these agencies. South Africa must benchmark from other international

countries like in Hungary and the Czech Republic, where board of directors of SOEs have relevant professional degrees in Economics, Finance, Law and Governance with relevant experience. This can yield a sustainable future that will benefit the broader society.

However, board members with little or no preparation on how to run the SOEs are often appointed to their positions. Too often, it is assumed that the skills and experience brought by these members with no education are enough without competent university qualifications. Training must be continuously conducted to keep the chairman and the board members well-informed on current developments and to motivate them to be competent at their work. Screening of executives and non-executive members is important to avoid hiring members with false qualifications and fewer skills to do their jobs. Since professionals have little desire to step back into the classroom, private service providers and the National School of Government can be brought on board to train them for induction and for skill development purposes. There is a need for additional research that goes deeper into the evolving content of the codes and analyses differences across issues, including international ones, to better understand how codes can help corporate governance practices become more effective in South Africa and around the world.

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