THE CORPORATE GOVERNANCE OF SOUTH AFRICAN STATE-OWNED ENTERPRISES (SOES): LEADERSHIP AND COMPLIANCE ISSUES

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Abstract:
The financial, operational, and business issues facing SOEs have reduced the trust investors and citizens have in the state's capacity to promote national economic growth effectively. Most countries, especially developing ones like South Africa, have been plagued by the issue of inadequate public service delivery. One key contributing factor to this problem has been identified as the poor governance practices of SOEs. The magnitude of these massive SOE business failures, which surpassed the failures of numerous other enterprises worldwide, drew attention to the urgent need for new corporate governance studies. The study explores the corporate governance of South African SOEs, with a focus on leadership and compliance. Two hundred eighty-eight internal audit specialists were selected as a sample, and quantitative data was collected via an online questionnaire. The data collected was then analyzed using SPSS software, and descriptive statistics were employed to present the findings. The study found that corporate governance malpractices are common in SOEs, which include hiring managers and executives who need more qualifications and experience, high tender irregularities, and understaffing critical duties. This study is unique in that it employs stakeholder theory in an innovative approach to explain the findings, notably on the leadership issue. Besides, it contains critical recommendations for SOE leadership and policymakers on how to improve the corporate governance of SOEs to help them achieve their strategic goals while also suggesting future study directions.

Keywords: SOEs, Corporate Governance, Leadership, Compliance, Stakeholder Theory

INTRODUCTION
The significant business collapses of Enron Corporation in the United States (U.S.) serve as evidence that effective corporate governance frameworks are crucial (Brown & Peterson, 2022). This scandal severely damaged the U.S. economy, and this has been affecting its operational and financial stability for several years (Sinclair, 2021). Similarly, poor corporate governance frameworks of local financial institutions were found to be a significant factor in the 2008 financial banking crisis that struck the United Kingdom (Arner et al., 2022). These significant global corporate failures, which outnumbered several other corporate failures globally, generated fresh awareness of the need for good corporate governance.

South African corporations encountered corporate crises, with noteworthy examples like the Fidentia Group and Leisurenet crises (Maroun & Cerbone, 2020) and, more recently, the Steinhoff scandal (Amede & Ilaboya, 2023). However, state-owned enterprises (SOEs) have been identified as the guiltiest organizations, exhibiting symptoms of enormous governance failings that have been blamed for their demise (Masianoga & Govender, 2023). The explicit fiscal, operational, and business woes of SOEs such as Eskom, Transnet, South African Airways (SAA), and Denel SOC Ltd. have severely eroded investor and citizen trust in the state's capacity to promote national economic
growth (Tjano, 2021) effectively. Furthermore, the major failures of these SOEs, particularly in the last ten years, have wrecked and nearly depleted the South African economy (Sutherland, 2020; Khambule, 2021). Kgobe and Chauke (2021) argued that a lack of accountability is at the root of these failures, which can be attributed to a failure to build robust corporate governance processes.

In South Africa, internal audit professionals review SOE governance systems and recommend improvements to help these enterprises reach their goals (Adebayo & Ackers, 2023). Despite this, most South African SOEs experience unfavorable events, including corruption and poor service delivery. This is substantiated by the Auditor General South Africa (AGSA) Report of 2017, which revealed that only 31 percent of public organizations received unqualified reports without any findings, 29 percent received unqualified reports with findings, 15 percent received qualified reports with findings, and 4 percent received disclaimed reports that had findings, with the remainder receiving outstanding audits (Petersen, 2019).

Corporate governance in SOEs is questioned due to the small percentage of unqualified audit reports obtained and the frequency of undesirable events. However, only some significant studies on the corporate governance of South African SOEs have been executed and made available, creating a knowledge gap in corporate governance in SOEs (Adebayo & Ackers, 2023). Using the King report, the current study examines South African SOE corporate governance to bridge this divide, focusing on compliance and leadership. The overall objective is to advance understanding of why South African SOEs struggle to meet their objectives and to make recommendations to policymakers and SOEs that could enhance the supply of public utilities, including energy, water, healthcare, sanitary facilities, and others, all of which have a significant economic influence on the country.

The paper's remaining sections proceed in the following order: First, the literature on SOEs and the King Report is reviewed, and the SOE corporate governance malpractices are highlighted. After that, the literature review explores the critical theory applied to the study of SOE corporate governance. Second, the procedures for data gathering and analysis are discussed. Third, empirical statistics on SOE corporate governance are presented. Fourth, conclusions are reached, recommendations are made, and research implications are presented. Finally, limitations are identified, and new research directions are proposed.

**Definition and Significance of SOEs.** SOEs are government-created organizations that offer public services and commercial facilities on behalf of the government while simultaneously delivering on the government's pledge of a healthy economy with stable financial conditions (Lin et al., 2020). Similarly, in South Africa, SOEs are organizations administered by the government and owned by the state, such as SABC, SAA, Denel SOC Ltd., and Eskom (Sithomola, 2019). SOEs are vital in South Africa and the global community, contributing significantly to the Gross Domestic Product (GDP), creating employment, and providing citizens with fundamental amenities such as electricity, healthcare, water, transport, and education (Mubangizi, 2022). As a result, the effectiveness of SOEs directly affects people's daily lives and a nation's political, economic, and social growth. However, economies with poor SOE governance frequently experience low public service delivery, poverty, limited economic growth, and more chances for political favoritism and corruption (Biswas et al., 2019; Mutize & Tefera, 2020). In support, Foster and Rana (2019) note that one of the significant issues countries have in developing successful state ownership is ensuring effective corporate governance of SOEs.

Corporate governance is a framework used to steer and oversee the company's operations to foster corporate responsibility and business success, aiming to maximize shareholder returns while considering the interests of other stakeholders (Khatib et al., 2022). Good governance depends on SOEs' survival and profitability (Foster & Rana, 2019). As a result, SOEs can successfully manage and explain their social responsibilities and integrate them into strategic business and economic
goals by embracing and implementing sound governance principles (Wilcox et al., 2012). The King Report, discussed in the next section, is one of South African businesses’ most often consulted corporate governance reports.

**The King Reports.** First released in 1994, the King Reports are the frame of reference for corporate governance. Since then, there have been numerous revisions, and each version builds upon the previous one. So far, they have been published in four editions: King I, King II, King III, and finally, King IV, which was implemented on April 1, 2017 (Mullon & Ngoepe, 2019).

The King I Report suggested that the board of directors conduct rules for all businesses listed on the Johannesburg Stock Exchange (Martini et al., 2023). The second version (King II Report) was issued in 2002 with a novel section on sustainability that was also useful to government ministries and SOEs (Nel et al., 2022). The third version (King III Report) was released in 2009 and became effective in 2010, calling for conformity, rule compliance, and accountability (Nel et al., 2022). Finally, a fourth revision (King IV) was implemented in 2017, urging enterprises to progress beyond compliance and establish initiatives that are appropriate for their situation and will lead them nearer to achieving the aims articulated within its seventeen principles (Maroun, 2022).

King IV is the dominant model for corporate governance, and most SOE boards declare religious adherence to the prescribed practices (Ramfol, 2019). It enables enterprises that practice effective corporate governance to accomplish one or more outcomes: a values-driven culture, exceptional performance, efficient management, and credibility (Chauke, 2019). In South Africa, King IV is still the primary source of corporate governance, and many SOE boards claim that the suggested practices are applied religiously (Ramfol, 2019). Furthermore, King IV suggests that organizations that practice sound corporate governance may attain the following outcomes: credibility, outstanding performance, a moral culture, and effective control (Chauke, 2019). Despite the availability of the King report, South African SOEs are plagued by corporate governance violations, which are frequently reported by different print and electronic media, as highlighted in the following section.

**There are notable malpractices in SOEs.** As King III and IV stated, good governance pertains to effective leadership, which includes robust visionary thinking and moral behavior that positively impacts organizations (Price et al., 2010). Despite invaluable publications such as King III and IV, which provide corporate governance suggestions, SOEs still need to implement sufficient measures of proper accountability for their ongoing poor performance (Kgobe & Chauke, 2021). The past ten years have seen a rise in the number of failing SOEs, with inadequate corporate governance and an accountability deficit being the leading causes of these enterprises’ underperformance (Masianoga & Govender, 2023). Repeat violators, such as SABC, Denel SOC Ltd., and Eskom, have all been heavily criticized by the media due to their long-term dismal performance, with accusations of misconduct and nepotism (Tjano, 2021). These SOEs are unavoidably in the limelight because of the enormous effect their business underperformance could have on the economy.

Some researchers criticized the board of directors in certain SOEs for condoning political interference in critical decisions of their institutions (Adebayo, 2023; Apriliyanti, 2023; Thompson & Alleyne, 2023). The State Capture Report (2016) expresses similar concerns that SOEs are trapped between serving the general public's interest and the needs of influential political actors. In addition, Dubihlela and Petersen (2020) criticized SOEs for failing to follow corporate governance norms. One example is the appointment of the Chief Operations Officer (COO) for SABC in 2016, which was criticized for failing to conform to corporate governance rules. As a result, the opposition party filed a lawsuit alleging that the newly appointed COO needed to be qualified or able to head the SABC’s operational affairs (Govender & Swanepoel, 2020). This case appeared in three courts; the opposition
party was victorious in each, rendering the COO’s appointment unlawful and unreasonable (Govender & Swanepoel, 2020).

In another case in South Africa, News24 (2018) reported that Denel SOC Ltd.‘s Chief Executive Officer (CEO) irregularly granted the Northwest Premier’s son a bursary worth R1 million. After this incident, Denel SOC Ltd.‘s CEO, who had been with the enterprise for 20 years, stepped down immediately on May 15, 2018 (Dubihlela & Petersen, 2020). The Denel SOC Ltd. issue came to light after Pravin Gordhan, the new Public Enterprises Minister, replaced Denel SOC Ltd.‘s board of directors in early 2018 (Nendauni et al., 2021).

Besides the case of Denel SOC Ltd., SowanLive (2018) reported that the SABC was subjected to a special probe following the R185 million tender that Mafoko Security was given. The unsuccessful applicant challenged the tendering process, alleging that Mafoko Security was improperly granted the contract (Dubihlela & Petersen, 2020). The SABC temporary board chairperson and some SABC employees were implicated in the scandal (Petersen, 2019).

Of interest to also note is a corruption scandal that was reported by The Business Day (2018) involving the former Chief Financial Officer (CFO) of Eskom, who had allegedly consented to a dubious contract that paid a Chinese company R400 million in commission in exchange for obtaining a credit facility for Eskom in China. The BussinessDay (2018) further reported that the former CFO allegedly signed the deal in March 2017, which required Eskom, a financially troubled organization, to pay the Chinese company R400 million to secure a loan in China worth R2 billion.

Gaps in the literary body of research. Despite all the corporate governance failures by South African SOEs published in various media outlets, a few studies of substantial value on the corporate governance of SOEs were undertaken and are available (Sifiso & Pfano, 2022; Botlhale, 2021). Adebayo and Ackers (2023) express similar concerns when they claim that literature on the governance of SOEs in South Africa is scarce. Such a lack of available information harms academia since it results in a restricted understanding of the evolution and growth of SOEs. At the same time, inadequacies in corporate governance within SOEs still need to be addressed. This research aims to close this gap by conducting an empirical investigation to determine the present state of corporate governance in South African SOEs and suggesting practical approaches for enhancing corporate governance, ultimately enhancing the provision of social utility services.

Furthermore, it was discovered that the numerous studies conducted on South African SOEs, mainly in the domain of corporate governance of SOEs, needed a theoretical foundation. The few studies that have a theoretical foundation, such as Mbambo (2017), Mbele (2015), Magagula (2016), and others, need to be updated because they were done over five years ago. Considering this, applying theories like stakeholder theory to corporate governance research on South African SOEs is essential to better understanding corporate governance procedures in SOEs. The following section clarifies how stakeholder theory was applied to this study.

The stakeholder theory. He, Gan, and Zhong (2022) state that stakeholders include workers, clients, vendors, shareholders, lenders, public officials, suppliers, activists, and community members. The stakeholder theory postulates that an organization must consider the interests of its shareholders and any third parties that depend on it somehow (Shah & Guild, 2022; Mhlanga, 2022). Following the stakeholder theory logically, SOEs must consider the interests of citizens who rely on them for public service delivery, not only the government or certain politicians. With the challenges that SOEs face, stakeholders (mainly citizens) demand to know why service delivery is inadequate, and this study aims to answer that question by investigating corporate governance in South African SOEs. The stakeholder theory was integrated into this study to explain the findings and gain more insight into how SOEs are governed in South Africa.
METHODS

The data for this empirical study was collected quantitatively to investigate the corporate governance of SOEs. The study's sampling frame consisted of internal audit professionals affiliated with the Institute of Internal Auditors South Africa (IIASA) and working for South African SOEs. Internal audit professionals were chosen because one of their roles in SOEs is to evaluate the governance procedures of SOEs independently and can thus provide credible and impartial opinions on the current state of the corporate governance of these enterprises (Shiburi et al., 2022). However, the population size needs to be clarified due to the need for a comprehensive record of all internal audit professionals employed in South African SOEs.

Essential to collecting quantitative data for this study was creating an online questionnaire, which the researchers designed using the Lime Survey application. The questionnaire had diverse questions about the corporate governance of SOEs, including leadership and compliance.

As part of the questionnaire distribution procedure, the researchers agreed with IIASA, which agreed to include the questionnaire link in their monthly newsletters disseminated to internal audit professionals. Accordingly, this study adopted the purposive sampling strategy because the online questionnaire was purposely sent to internal audit professionals working in South African SOEs at the time of distribution.

A total of 288 sample respondents completed the questionnaire. Of these, 112 completed the questionnaire, while 176 only completed selected questions. The numerical data was then analyzed with the Statistical Packages for Social Sciences (SPSS) software, and descriptive statistics were employed to present the results.

Results AND DISCUSSION

Two themes—board leadership and compliance—are the foundation for the results discussion. Section 4.1 will provide and analyze the aggregate statistics for each theme. Then, sections 4.2 and 4.3 will present and analyze the findings for elements in each theme for further analysis.

<table>
<thead>
<tr>
<th>Table 1. Each theme's aggregate descriptive statistics</th>
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<tbody>
<tr>
<td>Minimum</td>
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<tr>
<td>Board leadership</td>
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<tr>
<td>Compliance irregularities</td>
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</tbody>
</table>

Aggregate descriptive statistical data. According to Table 1, the compliance irregularities theme has the highest mean result (3.77). It may point to a significant area of difficulty for SOEs. Previous research, print, and online media publications have also expressed similar concerns about SOE compliance issues (The State Capture Report, 2016; Dubihlela & Petersen, 2020; SowanLive, 2018; BussinessDay, 2018; News24, 2018). Public service provision will likely be better and more effective because of the numerous compliance irregularities found in SOEs.

Furthermore, the compliance irregularities theme has the most significant standard deviation of 1.041. The differences among the respondents on this theme were more significant than on the leadership theme. It indicates that compliance is the area in SOEs that presents the most significant challenge compared to leadership.

The board leadership theme has the lowest mean result (2.72). It implies that respondents could be more confident about the board and the leadership it offers. It could also imply that the board’s selection process and the leadership it offers need to be compliant with the corporate governance principles and ethical standards outlined in the King Report. It aligns with the concerns raised by the State Capture Report (2016) and Dubihlela and Petersen (2020) regarding potential
political influence in SOE executive and director selection. These concerns include the possibility of selections depending on political party membership rather than experience, skills, and competencies. Furthermore, the results of this study demonstrate that SOEs do not align with the stakeholder theory, which asserts that businesses should consider the interests of all parties that rely on them, not just their shareholders. It implies that SOEs must consider the interests of all citizens who depend on them for public services, not just those of the government or politicians.

The findings for elements in each theme were presented and analyzed in sections 4.2 and 4.3 for further analysis.

<table>
<thead>
<tr>
<th>Table 2. Board leadership</th>
<th>Number</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The SOE corporate governance practices have improved over the past five years</td>
<td>146</td>
<td>1</td>
<td>5</td>
<td>2.74</td>
<td>7.04</td>
</tr>
<tr>
<td>The directors provide an unambiguous plan of action for the SOE to fulfill its goals</td>
<td>145</td>
<td>1</td>
<td>5</td>
<td>2.53</td>
<td>1.158</td>
</tr>
<tr>
<td>The directors put in place a policy of no tolerance for misconduct in its SOE</td>
<td>145</td>
<td>1</td>
<td>5</td>
<td>2.81</td>
<td>1.167</td>
</tr>
<tr>
<td>The directors put in place a policy of no tolerance for fraudulent and corrupt practices in its SOE</td>
<td>145</td>
<td>1</td>
<td>5</td>
<td>2.61</td>
<td>1.276</td>
</tr>
<tr>
<td>The directors understand the ideal environment for the Internal Audit Function to prosper</td>
<td>134</td>
<td>1</td>
<td>5</td>
<td>2.66</td>
<td>1.249</td>
</tr>
<tr>
<td>The directors affirm the ideal environment for the Internal Audit Function to prosper</td>
<td>134</td>
<td>1</td>
<td>5</td>
<td>2.92</td>
<td>1.097</td>
</tr>
</tbody>
</table>

**Board leadership and the internal audit environment.** As revealed in Table 2, respondents believe that the directors understand the ideal environment for the Internal Audit Function to prosper, which amounts to the highest mean result of 2.92. Although this result is higher than the minimum of 1 and the midpoint (2.5), it is crucial to note that the average result can suggest that SOE directors need additional training to improve their understanding of the ideal environment for the internal audit function to succeed. Another concern concerns perceptions that governance systems in the SOE have become better during the past five years, which has received a minor mean result of 2.53. This low mean result is concerning because it may suggest that corporate governance in SOEs is slightly above 50%, which must be appropriate.

Furthermore, this could suggest that SOEs' corporate governance practices have changed over the past five years while remaining the same. It also points to the reason why the SOEs are struggling to meet their goal of providing quality utility services to citizens. These findings correspond with Tjano's (2021) findings, which indicate that SOEs have a history of poor performance due to a failure to enhance corporate governance.

Upon closer examination of the mean results, it can be seen that the respondents were inclined closer to being indecisive for the following elements: the directors establish a policy of no tolerance for misconduct in the SOE (mean is 2.61), establish a policy of no tolerance for fraudulent and corrupt practices in its SOE (mean is 2.66), and provide an unambiguous plan of action for the SOE to fulfill its goals (mean is 2.81). As a result, it is still being determined if the boards of directors provide SOEs with competent leadership that can help the SOE accomplish its strategic goals.

The element regarding directors having a policy of no tolerance for misconduct in the SOE had the highest standard deviation result (1.276). Respondents provided a wide range of answers on this
element, indicating disagreement. The differences in responses could be a sign that the directors have a policy of no tolerance for misconduct in the SOE, to a lesser extent. It could explain why most SOEs are plagued by fraud and corruption scandals (BussinessDay, 2018; SowanLive, 2018; Tjano, 2021). The final two elements in this theme have minor standard deviation results of 1.097, suggesting that more respondents agree with these two elements than with the other elements of board leadership.

Table 3. Compliance Irregularities

<table>
<thead>
<tr>
<th>Number</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1</td>
<td>5</td>
<td>3.77</td>
<td>6.22</td>
</tr>
<tr>
<td>Employing incompetent and unqualified CEOs and other executives</td>
<td>112</td>
<td>1</td>
<td>5</td>
<td>3.81</td>
</tr>
<tr>
<td>Managers not making well-informed decisions</td>
<td>112</td>
<td>1</td>
<td>5</td>
<td>3.69</td>
</tr>
<tr>
<td>Irregular staff recruitment and selection</td>
<td>112</td>
<td>1</td>
<td>5</td>
<td>3.65</td>
</tr>
<tr>
<td>An inadequate staff complement to carry out critical activities</td>
<td>112</td>
<td>1</td>
<td>5</td>
<td>3.50</td>
</tr>
<tr>
<td>Tender irregularities</td>
<td>112</td>
<td>1</td>
<td>5</td>
<td>4.21</td>
</tr>
</tbody>
</table>

The measure of compliance irregularities in SOEs. Table 3 indicates that respondents consider tender irregularities massive in SOEs, as indicated by the highest mean result of 4.21. This reveals unequivocally that supply chain management in SOEs is flawed and that more assurance and monitoring are required. It also reflects an area where SOEs could be losing funds and where unethical practices must be addressed urgently.

The SOE's lack of staff complements required to carry out essential tasks receives a minor mean of 3.50. As a result, respondents have raised the possibility of an insufficient personnel complement in SOEs, which ensures that SOEs operate at maximum efficiency across the board. For example, it could improve the supply of public utilities, including energy, water, healthcare, sanitary facilities, and others, impacting the South African economy.

The element regarding employing incompetent and unqualified CEOs and other executives scored the highest standard deviation of 1.339, meaning respondents provided a wide range of answers on this element, indicating disagreement. The differences in responses could indicate that SOEs are hiring managers and executives who need more qualifications and skills. Its finding is not surprising, as earlier research by Govender and Swanepoel (2020) raised similar concerns about hiring incompetent people for critical roles like CEO and COO within SOEs. On the other hand, the element of tender irregularities continued to have the most minor standard deviation result (1.132). It shows respondents agreed more with irregularities in the tender process than with employing incompetent and unqualified CEOs and other executives. It suggests that respondents considered anomalies in tenders to be one of the most significant difficulties confronting SOEs.

CONCLUSION

The research was inspired by the quest to understand why the inefficient supply of public utilities, including transport, energy, water, healthcare, and others, exists in SOEs and remains an issue. The study found that corporate governance malpractices are common in SOEs, which include hiring managers and executives who need more qualifications and experience, high tender irregularities, and understaffing critical duties. As a result, this study concludes that the lapses in SOE corporate governance are to blame for poor and inefficient public utility service delivery. As
such, this study recommends that South African laws include rules of conduct that SOEs and other public bodies must abide by, like the King Report on corporate governance. By making the King Report guidelines lawful, it will be possible to hold SOE management accountable and emphasize the consequences for individuals who engage in illicit business conduct. First, a statute outlining corporate governance norms by which all public officials must abide should be presented to parliament and passed.

The results of this study and the literature analysis also suggested that political affiliation may have a role in the selection of board members, which might not consistently be in the best interests of the SOE. As a result, the study recommends that only ethical individuals be recruited to positions of authority within SOEs by matching the recruiting process with corporate governance norms outlined in the King Reports. Furthermore, prior to the appointment of directors to run SOEs, thorough lifestyle scrutiny of the candidate must be undertaken. It serves as an instrument that might be implemented to help the SOE’s recruiting procedures be handled morally in compliance with the King Report on corporate governance.

Additionally, the study found that significant tender anomalies and poor leadership are examples of common corporate governance malpractices that prevail in SOEs. As a result, this study suggests decentralizing SOEs, which may result in provincial micromanagement of these enterprises, which is desperately required if the bad publicity and poor performance of SOEs, specifically tender anomalies and poor leadership, are to be addressed. Even though political meddling might still occur, decentralizing SOEs could be an excellent place to start to ensure that higher moral standards are implemented, upheld, and sufficiently maintained within SOEs.

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