Corporate Governance by South African State-Owned Entities (SOEs) – Contributing to Achieving Agenda 2063

Barry Ackers*

Abstract
Following centuries of institutional colonization, Africa remains in dire need of development and has failed to realize its potential to drive sustainable economic growth and prosperity. Despite the residual contribution of Africa’s colonial legacy to this malaise, it is suggested that African states should stop blaming coloniality for their failure to develop and accept responsibility for their own socioeconomic development. To arrest the downward spiral and provide the platform necessary to drive sustainable development across the African continent, the African Union launched Agenda 2063. To claim its rightful place in the global economy with a renewed focus on accountability, African states must change their development trajectory and address the economic, environmental, social, and governance interests of their legitimate stakeholders as they strive for sustainable development and their beneficiaries with added value. African states can no longer afford to remain passive participants in the process, providing raw materials for beneficiation by the Global North. The findings of this paper are based on the assertion that effectively governed state-owned entities (SOEs) represent vehicles available to states to leverage their drive for socioeconomic development in their respective countries, thereby contributing to achieving the Agenda 2063 goals. Despite relying on quantitative data to inform a corporate governance conformance matrix, purposively developed from the OECD Guidelines, World Bank Toolkit, and Agenda 2063, the study adopts an interpretative approach to thematically analyze the content of the published annual reports of South African SOEs. While the relatively high conformance scores achieved by the South African SOEs appear to suggest conformance with strong corporate governance practices. It belies the fact that several of these highly compliant SOEs are currently under investigation in relation to numerous instances of serious fraud and corruption. The incongruence of these public disclosures with the de facto situation implies that they do not represent a meaningful attempt by SOEs to discharge their governance obligations effectively. Instead, they may simply be an attempt to placate stakeholders that these SOEs were being effectively governed rather than to account to stakeholders meaningfully. The study concludes that merely imposing a regulatory, corporate governance framework will not be sufficient to ensure the effectiveness of governance in SOEs, but rather that effective processes must be established to monitor and enforce compliance with these frameworks, together with effective consequence management for non-compliance.

Keywords: African Union Agenda 2063, Corruption, Corporate Governance, Socioeconomic Development, State-Owned Enterprises (SOEs)

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Introduction

The African continent remains in dire need of development, compounded by the residual effects of colonialism (Ackers, 2018), widespread corruption (Hope, 2020), population growth, globalization, and, more recently, the impact of the COVID-19 pandemic (Yaya, Otu & Labonté, 2020). Metcalfe and Valeri (2019) identify a need for significant investment in infrastructure across seven specific dimensions. These are power and energy, water and sanitation, roads and highways, railways, other transport (such as air and sea), ICT, and core public service infrastructure (such as hospitals and schools). Addressing these infrastructure needs, priority should be given to leveraging strategic infrastructure development and maintenance to enhance service delivery (Metcalfe & Valeri, 2019).

Post-colonial development in Africa has been hamstrung by a combination of socio-political agendas (Mlambo, 2020) and politico-economic factors, such as colonial legacy and foreign corporate interests, economic reconstruction, foreign aid, and structural adjustment (Sebola, 2019). Acknowledging legacy constraints and a real need for development, African leaders formulated Agenda 2063 in 2013 as a robust 50-year plan to achieve Africa’s development agenda (Aniche, 2020). It is pertinent to note that any references to 'corporate governance' throughout this paper apply equally to public sector organizations (Grosman, Okhmatovskiy & Wright, 2016).

Governments frequently establish state-owned enterprises (SOEs) as mechanisms to drive their country’s developmental agenda through policy coordination, utilization, fiscal responsibility, and surplus maximization (Aharoni, 1981; Bernier, 2011; Thynne, 2011; Tõnurist, 2015). However, despite their potential contribution, SOEs often face complex corporate governance and accountability problems (Shaoul, Strafford & Stapleton, 2012), which may be ameliorated through implementing global corporate governance practices, facilitating their ability to deliver on their respective mandates, and improving accountability. Since SOEs around the world typically use taxpayers’ funds to deliver their state-mandated responsibilities, it is argued that SOEs should account to taxpayers about how the resources entrusted to them have been deployed to provide public goods and services on behalf of the state.

Acknowledging that governments often use SOEs to achieve their developmental objectives (Bernier, 2011; Thynne, 2011; Tõnurist, 2015), this paper postulates that SOEs are mechanisms...
that African states should use to aid their development efforts in order to contribute to Africa achieving the Agenda 2063 goals collectively. However, to achieve these objectives cost-effectively, SOEs should be correctly structured, organized, and governed while consistently applying sound corporate governance practices (McDonald, 2020; Parker, 2020). SOEs that implement recognized corporate governance practices are more likely to deliver goods and services efficiently, effectively, and economically on behalf of their states. These corporate governance practices include both voluntary and mandatory frameworks, as well as disclosure mechanisms, such as corporate governance codes, the Global Reporting Initiative (GRI), the United Nations (UN) Sustainable Development Goals (SDGs), and, more recently, Integrated Reporting (<IR>). Therefore, based on the thesis that effectively governed SOEs can contribute to sustainable socioeconomic development, this paper accordingly examined the corporate governance practices disclosed by South African SOEs to assess conformance with established global corporate governance principles.

This archival study considers two primary perspectives on SOE corporate governance. The first, adopting an agency theory, shareholder primacy perspective, posits that SOEs are accountable to their owners, with ownership extended to include the public (as taxpayers) as the real owners of SOEs, with the state’s role being relegated to agents of the public. The second, acknowledging stakeholder theory, asserts that since SOEs provide their mandated responsibilities to public beneficiaries on behalf of the state, they are obliged to account to the public. The study's primary objective is to investigate how South African SOEs have adopted recognized corporate governance practices to account for their stakeholders. A secondary objective is to explore the contribution of South African SOEs to achieving Agenda 2063. Arguing that SOEs should account for their stakeholders, this study analyzes South African SOEs' most recent publicly available annual reports. The identified corporate practice disclosures are compared with the provisions of globally recognized corporate governance codes and international reporting standards to establish the extent of conformance of SOE corporate governance disclosures (Warwick & Osherson, 1973; Whetten, 2009).

This paper contributes to the discourse on public sector accountability by developing a corporate governance conformance matrix to assess the extent to which South African SOEs conform to
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global corporate governance practices. Although South Africa has the most SOEs on the African continent (approximately 700 SOEs) in key sectors such as electricity, transport, and telecommunications (USA, 2020), the observations of this study are confined to the 21 major public entities listed in Schedule 2 of the PFMA (South Africa, 1999). The number of SOEs, together with the perception that South Africa is acknowledged as having strong corporate governance practices (Atkins, Solomon, Norton & Joseph, 2015), makes it a suitable country for examining the corporate governance practices of SOEs established to facilitate socioeconomic development. Therefore, despite the study’s South African orientation, as an AU member state, the observations could assist other African states in achieving their Agenda 2063 aspirations.

**Literature Review**

Confirming that Agenda 2063 does not comprise standalone goals, the AU attempts to align Agenda 2063 to the UN’s SDGs (AU, 2015) by building on recognized global corporate governance frameworks. Constructively and sustainably contributing to Agenda 2063 requires enhanced SOE transparency and accountability, incorporating the principles espoused in sound corporate governance frameworks underpinned by strong legal and regulatory frameworks. The consistent application of corporate governance frameworks based on global best practices should augment the ability of SOEs to optimally fulfill their mandates responsibly and sustainably, improving perceptions about their stewardship of the resources entrusted to them. Although corporate governance frameworks are usually developed to satisfy the specific needs of particular stakeholders, the various framework components often overlap (Koerber, 2009).

**Theoretical Underpinning**

The interrelated tripartite relationship amongst SOEs, government, and stakeholders necessitates adopting a multi-theoretical research approach (Fernando & Lawrence, 2014; Hussain, Rigoni & Orij, 2018). This paper, therefore, adopts a wider theoretical lens, positioning public sector accountability within two primary theories – shareholder primacy and stakeholder theory. Agency, accountability, and signaling theories are components of shareholder primacy, while institutional and instrumental theories are aligned with stakeholder theory.

The fundamental premise of shareholder primacy is that organizations exist to maximize shareholder value (Mudawi & Timan, 2018; Styhre, 2018). Agency theory, in turn, refers to the separation of ownership and control between owners as principals and managers as agents...
(Jensen & Meckling, 1976). The activities and performance of agents must be closely monitored to ensure alignment between the respective goals of principals and agents, reducing the impact of information asymmetry, opportunistic agent behavior, and conflicts of interest (Hassan, Aziz, & Shah, 2016). Although the state may be the notional shareholders of SOEs, and accordingly are obliged to account. Rooted in agency theory, accountability theory requires agents to account for their principles in their performance (Ştefănescu, Oprisor & Sîntejudeanu, 2016). The agency theory introduces conflict amongst multiple stakeholder groups that may require competing information, usually driven by their respective interests and priorities (Cordery & Sim, 2018). Signaling theory suggests that agents use the disclosures in organizational reports to send specific signals to potential report users, partially mitigating information asymmetry (Kiliç & Kuzey, 2018).

Conversely, stakeholder theory requires organizations to consider the diverse perspectives and expectations of various constituents legitimately interested in their performance beyond the providers of financial capital (Ferrero-Ferrero, Fernández-Izquierdo, Muñoz-Torres & Bellés-Colomer, 2018). An organization's stakeholders, therefore, include any party affected by, or able to affect, its ability to achieve its objectives (Freeman & McVea, 2001). From a stakeholder perspective, accountability theory suggests that organizations should also account for their legitimate stakeholders. The institutional theory suggests that organizations achieve legitimacy by responding to normative societal expectations about their operational impacts (Ferrero-Ferrero et al., 2018). In contrast, instrumental theory (Balakrishnan, Malhotra & Falkenberg, 2017) cynically suggests that organizations may only accommodate stakeholder interests to the extent that it may be in their own interest to do so (Jones, Harrison & Felps, 2018). This introduces the risk that unscrupulous organizations may generically exaggerate positive performance while simultaneously omitting or ‘spinning’ poor performance (Haji and Anifowose, 2016).

Therefore, while shareholder primacy (Friedman, 1970) dictates that the sole purpose of business is to create value for the owners (Low, 2006), other theoretical frameworks, such as stakeholder
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(Freeman, 1984) or instrumental theories (Ackers & Eccles, 2015) also apply.

**The African Union and Agenda 2063**

*The Organization for African Unity (OAU)* was established in 1963 after several African states gained independence following centuries of oppressive colonialism. *The African Union (AU)*, a continental body consisting of 55 African member states, succeeded the OAU in 2002. The AU aims to integrate continental practices, enable Africa to contribute to global economic activity meaningfully, and address critical social, economic, and political challenges. Although the AU identifies 17 specific but intrinsically interrelated objectives, this paper focuses on the role of SOEs in sustainable socioeconomic development, concerning the following five specific goals:

- Political and socioeconomic integration.
- Contributing to global economic and international negotiations.
- Sustainable economic, social and cultural development.
- Coordinating and harmonizing Regional Economic Community (REC) policies to achieve AU objectives.
- Developing and promoting common trade, defense, and foreign relations policies.

The goal of Agenda 2063 is to achieve the “*Pan African vision of an integrated, prosperous and peaceful Africa, driven by its own citizens, representing a dynamic force in the international arena*” (AU, 2015). Despite developmental efforts spanning more than 60 years, and notwithstanding the developmental objectives of Agenda 2063, development on the African continent continues to be plagued by issues of poor corporate governance, reporting and accountability, impeding its ability to achieve the Agenda 2063 objectives (Sebola, 2019; Zadawa & Omran, 2020). Africa’s ability to achieve its development agenda is contingent upon ongoing structural transformation, increased peace and reduced conflicts, renewed economic growth and social progress, people-centered development, gender equality, and youth empowerment, changing global contexts, increased African unity, increased African commodity beneficiation, as well as being perceived as a global power supporting its own common agenda, and capitalizing on emerging development and investment opportunities in areas such as agribusiness, infrastructure development, health and education (AU, 2015). Agenda 2063, therefore, addresses the following African aspirations:

i) A prosperous Africa based on inclusive growth and sustainable development.

ii) An integrated continent politically united and based on Pan-African ideals and the vision
of an African Renaissance.

iii) An Africa adhering to the fundamental principles of good governance, democracy, respect for human rights, justice, and the rule of law.

iv) A peaceful and secure Africa.

v) An Africa with a strong cultural identity, common heritage, shared values, and ethics.

vi) An Africa whose development is people-driven, relying on the potential of African people, especially its women and youth, and caring for children.

vii) Africa as a strong, united, and influential global player and partner.

Agenda 2063 requires the prioritization of 16 specific objectives and identifies eight critical enablers for African transformation. These audacious objectives and critical enablers collectively provide the roadmap for achieving the Pan-African vision by 2063. Agenda 2063, therefore, encapsulates Africa's aspirations for the future while identifying key flagship programs to accelerate socioeconomic growth and development and facilitating the necessary transformation of Africa (AU, 2015). This paper positions SOEs as mechanisms through which states can achieve their Agenda 2063 goals, especially those related to sustainable socioeconomic development. It is submitted that effectively governed SOEs have the potential to facilitate structural transformation, infrastructure development, health, education, and increased African commodity beneficiation while capitalizing on emerging development and investment opportunities.

State-Owned Enterprises (SOEs)

Notwithstanding the longstanding privatization versus nationalization debate, many countries consider SOEs and related enterprises as socioeconomic instruments to assist in delivering their socioeconomic mandates (Bernier, 2014; Florio, 2013; Hayashi, 2010), growing their economies through effective and appropriate performance management and SOE corporate governance (Tsheola, Ledwaba & Nembambula, 2013). The significance of SOEs is illustrated by SOEs currently accounting for over one-fifth of the world's largest enterprises (OECD, 2018). However, some SOEs are dismal failures, plagued by debilitating corporate governance, accountability and corruption issues (Hope, 2020), a lack of competition and incentives, principal-agent problems, soft budget constraints, pursuing multiple objectives, succumbing to political pressure, bureaucracy, punitive labor legislation and regulations, strong trade unions,
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and an innate inability to reduce costs and promote innovation (Szarzec & Nowara, 2017). Therefore, as a mechanism frequently used to deliver public goods and services, it is necessary for SOEs to operate in a sound competitive and regulatory environment, according to the highest standards of corporate governance and accountability.

Effective SOE corporate governance is imperative for effective public sector management (Domokos, Várpalotai, Jakovác, Németh, Makkai & Horváth, 2016), making it disconcerting that corporate governance failures are amongst the most problematic issues facing SOEs (Aharoni, 1981), which Subramanian (2015) attributes to SOE corporate governance guidelines being based on private sector organizations. Since SOEs combine commercial and social objectives, they should account for their financial and social performance, ensuring that these dual objectives complement and do not contradict each other. Several countries are consequently adapting their legal and regulatory frameworks to address SOE needs (Vijayakumar & Nagaraja, 2012), with reforms being rooted in corporate accountability, governance, and transparency, which should impact the ability of SOEs to achieve their mandates (Florio, 2014).

**Public Sector Corporate Governance and Accountability**

Effective corporate governance practices can significantly impact socioeconomic development by enhancing public sector performance (Spanos, 2005). Corporate governance in the public sector typically entails balancing the dual objectives of profit (or surplus) generation while providing public goods and services, which are traditionally addressed by separating business and public service goals (Ebrahim, Battilana & Mair, 2014; Klijn, 2008). Accountability, involving being answerable for decisions or actions taken, and preventing the abuse of power, is crucial for good corporate governance (Devaney, 2016; Mark, 2010), with transparency being an important indicator of corporate governance and accountability (Agyei-Mensah, 2017). Accountability, therefore, represents a tool to enhance the state and its organs' ability to effectively, efficiently, and economically provide public goods and services (Demirag & Khadaroo, 2011). However, mere disclosure will not improve accountability unless these disclosures contain useful forward-looking information that enables users to assess an organization's current performance and prospects (Agyei-Mensah, 2017).

Notwithstanding frequently being loss-making and requiring substantial state bailouts, SOEs are ostensibly established according to commercial principles and expected to be profitable, or at
least break even, while serving the public interest (Mansi, Pandey, and Ghauri, 2017). This requires SOEs to prioritize their corporate governance and accountability practices to address their social mandates (Almquist, Grossi, van Helden & Reichard, 2013). Therefore, public sector accountability comprises state-centered and social accountability (Brinkenhoff & Watterberg, 2015). State-centered accountability refers to the institutions established by the state to monitor SOE performance and compliance and to control abuse. Social accountability involves more direct participation by citizens to monitor SOE performance, requiring mechanisms to hold the states to account for their use of taxpayers' funds and resources (Hassan et al., 2016). SOE reforms should therefore focus on improving corporate governance practices by adopting internationally recognized corporate governance practices (Aharoni, 1981), such as corporate governance codes, the Global Reporting Initiative (GRI), the United Nations (UN) Sustainable Development Goals (SDGs) and integrated reporting (< IR>).

**Corporate Governance Codes**

Corporate governance codes embody standards of good governance, which should also apply to state-owned and partially state-owned organizations (Grosman et al., 2016). Corporate governance codes are originally based on voluntary adherence to international soft law instruments and are usually voluntary mechanisms (Eijsbouts, 2017). They aimed at preventing opportunistic agent behavior, thereby assisting organizations to improve their performance and achieve their objectives while protecting shareholder interests (Grosman et al., 2016). Corporate governance codes, increasingly considered co-regulatory instruments, have become an integral component throughout the corporate sector, both as a mechanism for control and risk management, as well as an intervention for embedding values and establishing a desired ethical corporate culture. Eijsbouts (2017) cautions that the principle of voluntarism no longer accurately depicts reality. Good corporate governance has evolved to require many organizations to formally develop corporate governance codes, often supported by specific hard laws. Well-designed, properly embedded, and effectively enforced corporate governance codes, which should apply equally to public sector organizations, are increasingly crucial for inclusive and effective governance (Eijsbouts, 2017). Corporate governance codes typically address issues such as board composition, board development, remuneration, accountability, corporate social
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responsibility (CSR), audit, and shareholder relations (Eijsbouts, 2017; OECD, 2015; World Bank, 2014).

The King Codes on Corporate Governance iterations significantly contributed to the evolution of South African corporate governance practices aimed at fostering a responsible, sustainable development culture (Mersham & Skinner, 2016; Solomon & Maroun, 2012). Confirming the importance of SOE corporate governance practices, the most recent iteration, King IV, released in 2016, includes a specific SOE supplement (IoDSA, 2016), requiring SOEs to ensure that their reports improve the ability of stakeholders to make informed assessments about their performance. Although there is no specific legal or regulatory requirement for SOEs to account to the public as taxpayers, it is pertinent to note that the King IV SOE Supplement states explicitly that since taxpayers contribute to the funding of SOEs, that SOEs are accountable to those citizens, as well as to the state organs representing those citizens (IoDSA, 2016, p.113). Despite King IV being a voluntary governance code, the King IV SOE Supplement introduces a quasi-mandatory requirement for SOEs to account to the public as taxpayers (van Helden & Uddin, 2016). Similarly, despite not being prescribed, the Protocol on Corporate Governance (PRC) in the Public Sector (South Africa, 2002) adopts the principles contained in the various iterations of the King Code. The PRC confirms the applicability of the King Code for SOEs, irrespective of whether or not they have a commercial orientation (South Africa, 2013), extending accountability beyond shareholders by advocating a more stakeholder-inclusive approach.

Notwithstanding the existence of numerous tools to enhance corporate governance practices, the fact that the World Bank (2014) Toolkit for SOE corporate governance and the Organization for Economic Co-operation and Development (OECD) (2015) Guidelines on SOE corporate governance have been specifically developed for SOEs, makes them particularly relevant to this study. The World Bank (2014) Toolkit identifies eight corporate governance areas: legal and regulatory frameworks; ownership and organizing models; performance monitoring; financial and fiscal discipline; boards of directors; transparency, disclosure, and controls; mixed-ownership; and implementing reforms. Similarly, the OECD (2015) Guidelines include six items: legal and regulatory frameworks; the role of the state as owner; equitable shareholder treatment; stakeholder relations; transparency and disclosure; and the responsibilities of SOE boards. Despite collectively providing SOE-specific guidelines, many countries have not adopted
either the World Bank or the OECD frameworks for their SOEs. For example, many do not require the boards of directors of their SOEs to comprise both public and private sector role players to provide a balance between social and commercial objectives (USA, 2020). Similarly, despite normatively expecting SOEs to acknowledge their responsibilities to stakeholders by reporting on their stakeholder relations, in many countries, SOEs fail to produce annual reports that are publicly available. Those that do often fail to disclose their stakeholder engagement (USA, 2020). Aligned to the AU’s goal of sustainable development, the provisions of the OECD and World Bank SOE frameworks, the SDGs and Agenda 2063 goals, and international reporting standards such as the GRI and <IR> should be incorporated into SOE corporate governance codes, to improve stakeholder accountability.

**Sustainable Development**

The Brundtland Commission defines sustainable development as *development that meets the needs of the present without compromising the ability of future generations to meet their own needs* (United Nations, 1987, p.16). The contemporary discourse on sustainable development identifies trade-offs favoring the economy but detrimental to social and environmental issues as being commonplace (Gupta & Vegelin, 2016; Lorek & Spangenberg, 2014). The SDGs emerged from the UN’s 2030 Agenda for Sustainable Development (Gupta & Vegelin, 2016; Háč, Janoušková & Moldan, 2016; UN, 2014) as a mechanism to address these difficult trade-offs and to assist organizations to contribute in achieving the global sustainable development agenda. This UN intervention, underpinned by five pillars – people, planet, prosperity, peace, and partnership – incorporates 17 SDGs and targets to *“stimulate action over the next 15 years in areas of critical importance for humanity and the planet”* (UN, 2014, p.3). The SDGs, representing intergovernmental commitments, are rapidly gaining traction amongst public policy bodies, NGOs, as well as public and private sector organizations (Bebbington & Unerman, 2018), including the AU, which specifically linked Agenda 2063 to the SDGs (AU, 2015).

Sustainable development refers to the normative expectation that organizations should avoid environmental degradation and contribute to improving social welfare while equitably and sustainably creating long-term stakeholder value (Mohammad & Wasiuzzaman, 2021). Despite fragmented findings, Friede, Busch & Bassen's (2015) meta-analysis of more than 2,200
individual studies found that the business case for CSR interventions was empirically sound. Organizations with strong CSR performance had a lower cost of capital, higher valuation, and reduced exposure to risk and performed better, with higher levels of stakeholder satisfaction (Weston & Nnadi, 2021).

To meaningfully account for difficult trade-offs between financial and non-financial factors, organizations should provide comprehensive non-financial disclosures (Ackers & Eccles, 2015), leading to the emergence of the GRI and <IR>. The GRI, which has pioneered CSR reporting since 1997, emerged as the world’s most widely-used framework to voluntarily report CSR performance (De Villiers & Alexander, 2014; Marimon, Alonso-Almeida, Rodriguez, Aimer & Alejandro, 2012; Roca & Searcy, 2012). The GRI’s foundational elements encompass economic, environmental, and social dimensions (Manetti, 2011), aimed at providing harmonized, standardized, understandable, objective, and comparable reports applicable to all organizations, worldwide (Prado-Lorenzo, Gallego-Alvarez & García-Sanchez, 2009).

Realizing that the traditional business model, based on profit-maximization, does not effectively address the legitimate interests and concerns of employees, the environment, and society (Ivan, 2019), organizations have been disclosing CSR and intellectual capital information for several years (Bovens, 2007). These are often included in sections of the annual report or as standalone reports (Liu, Jubb & Abhayawansa, 2019), containing non-financial disclosures about the organization’s socioeconomic fundamentals (Schneider & Meins, 2012). More recently, <IR> emerged to further improve organizational reporting by improving the alignment between financial and non-financial information, addressing the information needs of stakeholders, and enhancing their understanding of an organization's value-creation narrative and potential (Rowbottom & Locke, 2016; Stubbs & Higgins, 2018). Furthermore, <IR> provides insights into the organization's material sustainability and ethical and transparency issues (Almășan, Circa, Dumitru, Gușe & Mangiuc, 2019). <IR> advocates clearly articulating the interrelationships between an organization's material economic, environmental, social, corporate governance, and financial information in a single report (Ackers & Grobbelaar, 2021), holistically contextualizing how organizations create and sustain value (Liu et al., 2019) while promoting interactive dialogue and engagement between organizations and their stakeholders (Sierra-García, Zorio-Grima, and García-Benau, 2015).
Corruption

Although corruption is a global phenomenon applicable to both the private and public sectors, it is impossible to deliberate on Africa’s development without considering the debilitating impact of corruption. Within a public sector context, Nye's (1967, p.419) definition of corruption as behavior that deviates from the formal duties of a public role because of private, pecuniary, or status gains; or violates rules against the exercise of certain types of influence, is particularly appropriate. Corruption essentially involves the abuse of public office for personal gain (Kaufman, 1997) through bribery, nepotism, and misappropriation (Masenya, 2017). While some may argue that corruption is an efficient way of ‘greasing-the-wheels’, avoiding cumbersome regulations and ineffective legal systems, the opposite may apply, fuelling excessive regulation, stimulating anti-competitiveness, poor prioritization of scarce resources, ultimately constituting a ‘theft of public resources, impairing service delivery and socioeconomic development (Kaufman, 1997). Despite arguable short-term benefits, the long-term negative consequences of corruption substantially outweigh any positive aspects, especially from a socioeconomic developmental perspective (Fayed, 2018). Sound corporate governance practices provide one of the strongest mechanisms to reduce corruption (Agyei-Mensah, 2017).

Confirming the pervasiveness of African corruption, it is disconcerting that Transparency International’s 2020 corruption perceptions index (CPI) reveals that only 18% of the fifty-four included African states achieved scores above the CPI mean of 43.34, with only 28% achieving scores above the CPI median of 40 for the 180 countries included. South Africa’s score of 44 places it marginally above the CPI mean and the joint 69th least corrupt, or 107th most corrupt country.

Research Methodology

The study adopts an interpretative mixed methods approach to thematically analyze pertinent corporate governance disclosures contained in the annual reports of South African SOEs. To evaluate the extent to which South African SOEs have adopted global corporate governance practices, the observations emerging from the content analysis were coded and scored on a purposely developed disclosure matrix. Similar studies into governance frameworks have either
used disclosure indices (Abhishek & Divyashree, 2019; Kiliç & Kuzey, 2018; Liu, Jubb & Abhayawansa, 2019; Rivera-Arrubla, Zorio-Grima & García-Benau, 2017) or scoring systems (Eccles, Krzus & Solano, 2019; Ghani, Jamal, Puspitasari & Gunardi, 2018; Pistoni, Songini & Bavagnoli, 2018; Ruiz-Lozano & Tirado-Valencia, 2016).

Pertinent corporate governance codes, legal and regulatory frameworks, as well as other reporting and accountability mechanisms applicable to South African SOEs, were examined to develop a matrix for evaluating the corporate governance practices disclosed by South African SOEs. Since the PFMA makes it mandatory for all SOEs to submit annual reports, the study population included all South African SOEs listed in the Public Finance Management Act (PFMA) (South Africa, 1999). However, since South Africa has over 700 SOEs the study observations are confined to the SOEs, classified as Major Public Entities in Schedule 2 of the PFMA. The units of analysis are the most recent annual reports of all 21 PFMA Schedule 2 SOEs.

A scoring system based on identified corporate governance practices is used to code and categorize the observations emerging from the content analysis. Semantic content analysis was deployed, where the perceived meaning of the content was considered more important than the mere occurrence of specific words or images (Liu et al., 2019). The thematic content analysis observations were coded and categorized according to seven pillars developed from the OECD (2015) Guidelines, the World Bank Toolkit (2014), and the Agenda 2063 (AU, 2015). Whereas the first two pillars assess the extent to which SOEs comply with mandatory and voluntary governance frameworks, the third to seventh pillars evaluate the quality of disclosures related to the investigated dimensions.

- The first assesses compliance with legal and regulatory frameworks
- The second assesses conformance with recognized ESG frameworks
- The third assesses board practices
- The fourth assesses performance monitoring
- The fifth assesses controls, transparency, and disclosures

8 Available at: https://www.state.gov/reports/2021-investment-climate-statements/south-africa/ [accessed on 4 July 2022]
The sixth assesses stakeholder orientation

The seventh assesses sustainable development disclosures.

The extent to which SOEs conform to each pillar is subjectively assessed, using ordinal measures, according to the following four-point scale.

- 0 – No relevant disclosures or non-adoption;
- 1 – Perfunctory disclosures, or low adoption;
- 2 – Satisfactory disclosures or adequate adoption; and
- 3 – Excellent disclosures or full adoption.

The respective scores of each SOE for the seven pillars are plotted on the disclosure matrix and evaluated against a calculated mean score for each pillar. All the SOEs included in the study are subject to the mandatory provisions of the Companies Act and the PFMA. Since the Public Audit Act obliges the Auditor General of South Africa (AGSA)\(^9\) to audit public sector entities, the relative scores achieved by the SOEs for the seven pillars are evaluated with reference to the AGSA’s findings in her 2020 PFMA audit report for SOEs.

**Analysis, Interpretation, and Discussion of Results**

Conformance with global practices should reduce corporate governance problems in SOEs, enhancing their accountability. The observations from the publicly available annual reports of South African SOEs are evaluated to identify, analyze and compare the extent to which global corporate governance practices, *inter alia* reflected in the World Bank and OECD frameworks, have been adopted.

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\(^9\) The AGSA is the statutory auditor for the South African public sector (South Africa, 2004).
# Table 1: SOE ESG conformance matrix

<table>
<thead>
<tr>
<th>SOE</th>
<th>Year ended</th>
<th>Profitability</th>
<th>Audit opinion</th>
<th>Pillars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air Traffic &amp; Navigation Services (ATNS)</td>
<td>2020</td>
<td>Yes</td>
<td>Unqualified</td>
<td>3</td>
</tr>
<tr>
<td>Airports Company (ACSA)</td>
<td>2020</td>
<td>Yes</td>
<td>Unqualified</td>
<td>3</td>
</tr>
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<td>Alexcor (ALEXCOR)</td>
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<td>No</td>
<td>Disclaimer</td>
<td>3</td>
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<td>Armaments Corporation (ARSMCOR)</td>
<td>2020</td>
<td>Yes</td>
<td>Unqualified</td>
<td>3</td>
</tr>
<tr>
<td>Broadband Infrastructure Company (INFRACO)</td>
<td>2020</td>
<td>No</td>
<td>Unqualified</td>
<td>3</td>
</tr>
<tr>
<td>Central Energy Fund (CEF)</td>
<td>2019</td>
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<td>Unqualified</td>
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<td>Denel (DENEL)</td>
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<td>Development Bank (DBSA)</td>
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<td>Unqualified</td>
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<td>Eskom (ESKOM)</td>
<td>2020</td>
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<td>Qualified</td>
<td>3</td>
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<tr>
<td>Independent Development Trust (IDT)</td>
<td>2019</td>
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<td>Qualified</td>
<td>3</td>
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<tr>
<td>Industrial Development Corporation (IDC)</td>
<td>2020</td>
<td>No</td>
<td>Unqualified</td>
<td>3</td>
</tr>
<tr>
<td>Land &amp; Agricultural Development Bank (LANDBANK)</td>
<td>2020</td>
<td>No</td>
<td>Disclaimer</td>
<td>3</td>
</tr>
<tr>
<td>South African Airways (SAA)</td>
<td>2017</td>
<td>No</td>
<td>Qualified</td>
<td>3</td>
</tr>
<tr>
<td>South African Broadcasting Corporation (SABC)</td>
<td>2020</td>
<td>No</td>
<td>Qualified</td>
<td>3</td>
</tr>
<tr>
<td>South African Express (SAX)</td>
<td>2016</td>
<td>Yes</td>
<td>Qualified</td>
<td>3</td>
</tr>
<tr>
<td>South African Forestry Company (SAFCOL)</td>
<td>2020</td>
<td>No</td>
<td>Unqualified</td>
<td>3</td>
</tr>
<tr>
<td>South African Nuclear Energy Corporation (NECSA)</td>
<td>2020</td>
<td>No</td>
<td>Disclaimer</td>
<td>3</td>
</tr>
<tr>
<td>South African Post Office (SAPO)</td>
<td>2020</td>
<td>No</td>
<td>Disclaimer</td>
<td>3</td>
</tr>
</tbody>
</table>
Although SOEs are required to submit their annual reports within five months of the financial year end (i.e., by 31 August of each year) (South Africa, 1999), it is disconcerting that by 17 June 2021 (almost ten months later), the annual reports of four SOEs were still not available for the financial year ended 31 March 2020. However, since the PFMA does not explicitly stipulate that these reports must be publicly available, it does not necessarily mean that they are not prepared and submitted directly to the relevant ministry.

A deeper search into the ‘missing reports’, revealed that both SAX and SAA were placed under business rescue (a form of judicial administration), with SAX subsequently going into provisional liquidation. In the 2020 PFMA report, the AGSA reported that “The audits of South African Airways and South African Express Airways have not commenced as [we] have not received financial statements for auditing” and that the audit of IDT was still in progress (AGSA, 2020, p.107). However, despite reporting that the IDT audit was still in progress and that CEF had provided “poor financial statements every year for the past five years, but obtained unqualified opinions every year because they corrected their misstatements” (AGSA, 2020, p.54), the reports of neither, were available by 30 June 2021. Since the King IV SOE Supplement introduces a quasi-mandatory requirement for South African SOEs to account to the taxpaying public, it may be argued that the non-availability of the 2020 reports may in itself point to poor corporate governance, especially since these SOEs may not acknowledge the fundamental need to timeously account to the public. Therefore, attempting to ensure completeness of the SOE corporate governance disclosures, the most recently available reports of all SOEs relating to different reporting periods were thematically analyzed according to this study’s seven corporate governance pillars.

<table>
<thead>
<tr>
<th>SOE Name</th>
<th>Year</th>
<th>Compliance</th>
<th>Report Status</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>Avg</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telkom (TELKOM)</td>
<td>2020</td>
<td>Yes</td>
<td>Unqualified</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3.00</td>
</tr>
<tr>
<td>Trans-Caledon Tunnel Authority (TCTA)</td>
<td>2020</td>
<td>Yes</td>
<td>Unqualified</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>2.86</td>
</tr>
<tr>
<td>Transnet (TRANSNET)</td>
<td>2020</td>
<td>Yes</td>
<td>Unqualified</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3.00</td>
</tr>
<tr>
<td><strong>Mean</strong></td>
<td></td>
<td></td>
<td></td>
<td>3.0</td>
<td>2.52</td>
<td>2.95</td>
<td>3.00</td>
<td>2.81</td>
<td>2.90</td>
<td>2.71</td>
<td>2.84</td>
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<tr>
<td><strong>STDEV.P</strong></td>
<td></td>
<td></td>
<td></td>
<td>0</td>
<td>0.50</td>
<td>0.21</td>
<td>0</td>
<td>0.39</td>
<td>0.29</td>
<td>0.45</td>
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</table>
The aggregate scores of the SOEs were consistently high across all seven dimensions evaluated, which may be attributed to compliance with mandatory or quasi-mandatory requirements. Pillars 1 (legal and regulatory frameworks) and 4 (performance monitoring) had the highest mean conformance scores of 3.0 (STDEV.P=0), with all 21 SOEs complying with the prescribed legal and regulatory frameworks, as well as the specific requirement of PFMA paragraph 40(3) for annual reports to disclose “performance against predetermined objectives.” The next highest mean conformance score was for Pillar 3 (board practices), with a mean score of 2.95 (STDEV.P=0.21). From a legal and regulatory perspective, the reports of all SOEs referred to the Companies Act, with only TELKOM not referencing the PFMA and neither TELKOM nor ACSA referencing the Treasury Regulations. Instead, TELKOM, which is listed on the Johannesburg Stock Exchange (JSE) with only 40.5% state-ownership, disclosed its compliance with the JSE listing requirements, while ACSA referred to the National Treasury's Framework for Managing Program Performance, National Treasury’s Framework for Infrastructure Delivery and Procurement Management and National Treasury’s Standard for Infrastructure Procurement and Delivery. In addition to compliance with the PFMA and Treasury Regulations, several SOEs also referred to their enabling legislation or other applicable regulations (such as the ICAO Regulations, ATNS Act, Armaments Corporation Act, DBSA Act, etc.).

Although most SOEs appear to have adopted global corporate governance practices, achieving a mean score of 2.52 (STDEV.P=0.50) for the second pillar (ESG best practice), the voluntary nature of some corporate governance practices may have contributed to the large variance, when compared to the mandatory legal and regulatory frameworks. In addition to all SOEs adopting the principles of the King Code, other ESG frameworks referenced include GRI, SDGs, FTSE4Good, UNEP-FI Principles for Responsible Banking, International Labour Organisation Protocol on decent work and working conditions, Forest Stewardship Council Certification, Committee of Sponsoring Organisations (COSO), AA1000, Generally Recognised Accounting Practice (GRAP), International Financial Reporting Standards (IFRS) and International Public Sector Accounting Standards (IPSAS). Interestingly, while eight of the twenty-one SOEs referenced the voluntary Protocol on Corporate Governance in the Public Sector (South Africa, 2002), which provides the public sector with corporate governance guidelines, it is noteworthy that this protocol is underpinned by the King Code (the cornerstone of South African corporate
governance practices), which all SOEs conformed with. It is therefore unsurprising that all SOEs have broadly conformed with global corporate governance practices and appear to acknowledge the need for responsible corporate citizenship (Camilleri, 2017), both for their stewardship of the resources entrusted to them, as well as service delivery in respect of their state-mandated responsibilities, albeit possibly only for instrumental reasons (Balakrishnan et al., 2017; Jones et al., 2018). Although not included in the scope of the study, the pervasive impact of COVID-19 on South Africa was highlighted in the reports of all SOEs that provided reports for 2020 (the period in which the phenomenon first emerged).

With reference to the individual SOEs, nine achieved full scores of three across all seven dimensions evaluated (a mean of 3.00), five achieved scores of three for six and two for one of the dimensions ($\bar{x}=2.86$), four achieved scores of three for five and two for two of the dimensions ($\bar{x}=2.71$), two achieved scores of three for four and two for three of the dimensions ($\bar{x}=2.57$), and one achieved a score of three for two and two for five dimensions. Since compliance with the prescribed legislation and regulations, including the Companies Act, PFMA, as well as their respective enabling legislation, is mandatory for all SOEs, the observation that all SOEs achieved maximum scores for legal and regulatory compliance was not unexpected.

Aligned to the observation that all SOEs complied with the prescribed legislation and regulations, it implies that they also adequately disclosed performance monitoring, which is a specific PFMA requirement. Apart from IDT, the remaining SOEs appear to have adopted acceptable board practices (pillar 3). The comment by the Minister of Public Works and Infrastructure included in the IDT’s 2019 Annual report that “poor performance and corruption [are] systemic”, as well as the observation that the board of trustees was replaced with an ‘interim board’ suggests that IDT’s board could be described as being perfunctory. Except for IDT and SAX, the remaining SOE stakeholder-related disclosures point to a strong stakeholder orientation, as envisaged by King IV. Notwithstanding the high corporate governance compliance scores, the finding that CEF, IDT, SAA, and SAX failed to ensure that their 2020 reports were publicly available, raises doubt about their commitment to accountability and to

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10 Apart from SAX that referred to King III, all the remaining SOEs referenced King IV, which only became effective in 2017 (i.e., after the most recent SAX report dated 2016).

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responsible corporate governance practices, especially since the King IV SOE supplement makes accounting to the public, a quasi-mandatory requirement. Moreover, the AGSA’s (2020, p.65) finding that not only did several SOEs incur losses, but the uncertainty of the ‘going concern’ status of many SOEs is also grounds for further concern. Moreover, since 30% of the annual financial statements of SOEs were qualified, 11% had performance-related findings, 70% had legislative compliance findings, 40% had material supply chain management findings, and SOEs collectively incurred ZAR 68 billion in irregular and ZAR 2.5 billion in fruitless and wasteful expenditure during the 2020 financial year (AGSA, 2020, p.107), is consistent with the assertion that the high levels of SOE corporate governance compliance may represent ‘tick-box’ governance (Janse van Vuuren, 2020), and not necessarily that SOEs have effectively adopted good corporate governance practices.

Since the primary thesis advanced by this paper is that African states should establish and leverage SOEs to facilitate sustainable socioeconomic development in their countries, thereby contributing to achieving the AU’s goals encapsulated in the Agenda 2063 aspirations, it is pertinent to note that the reports of only three SOEs (CEF, DBSA, and IDC) referenced Agenda 2063, with DBSA, also referring to Southern African Development Community’s (SADC) Vision 2027. Apart from these three SOEs, the remaining SOEs' failure to mention Agenda 2063, maybe due to an internal (South African-centric) focus, without an externally oriented or ‘bigger picture’ mandate, as well as not acknowledging that they are socioeconomic instruments of the South African government, which in turn has committed to achieving Agenda 2063.

Notwithstanding the relatively high SOE scores achieved by SOEs for the corporate governance pillars, the observation that numerous large South African SOEs (such as TRANSNET, ESKOM, SAA, SAX, DENEL, IDC, SABC and SAFCOL) are currently embroiled in extensive allegations of corruption (Mahlaka, Davis and Payne, 2021), compounded by adverse audit reports for many SOEs (AGSA, 2020), supports the assertion that these publicly available disclosures may not necessarily be indicative of transparency, accountability or good governance, but may be a deliberate intention to deceive stakeholders (including the state), by concealing the real corporate governance climate at these SOEs. It is, therefore, disconcerting that DENEL, ESKOM, IDC, and TRANSNET, each of which has been racked by allegations of corruption, all achieved perfect corporate governance conformance matrix scores. This ‘smoke and mirrors’ raises questions about whether SOEs intend to account to their stakeholders meaningfully or
whether these public disclosures simply represent a public relations tool to instrumentally divert attention away from their culpability and unwillingness to be held to account.

Conclusion

Despite the African continent's desperate need for socioeconomic development and African countries' unanimous endorsement of Agenda 2063, sustainable socioeconomic development on the continent remains hamstrung by coloniality. On the assumption that governments establish SOEs to assist in the delivery of public goods and services on their behalf and that effectively governed SOEs contribute to socioeconomic development in their countries, this paper explores the extent to which the annual reports of South African SOEs disclose their corporate governance practices, indicating their conformance with recognized corporate governance practices.

The conformance indicators used to evaluate the corporate governance practices disclosed by the respective SOEs in their publicly available annual reports reflect the extent to which SOEs account to the public, both as taxpayers and the beneficiaries of the public goods and services. Since the PFMA obliges all SOEs to provide annual reports within a prescribed period, and the King IV SOE Supplement requires SOEs to account for both citizens and relevant state organs, the observation that the recent reports of the SOEs were not always publicly available, may suggest that those charged with governance at these SOEs, do not consider it necessary to account to the public. Since the annual reports of only three of the 21 SOEs (14.3%) referenced Agenda 2063 suggest that SOEs may have a myopic view of their mandates and operations, which may stem from their owning governments failing to prioritize and communicate the need of SOEs to contribute to the bigger picture, as envisaged by Agenda 2063.

Although the study was confined to annual report disclosures and despite acknowledging that not all the most recent SOE annual reports were available or complete, the study observations reveal that despite all SOEs appearing to adhere to established good corporate governance practices, as evidenced by the relatively high conformance scores achieved, the AGSA’s adverse audit findings as well as the pervasiveness of fraud and corruption at these ostensibly well governed SOEs, point to the disclosures being instrumentally used for impression management and to maintain organizational legitimacy. This paradox suggests the emergence of a ‘tick-box’
compliance orientation that lacks substance. To holistically embrace the fundamental principles of good governance requires a paradigm shift from doing ‘things right’ to doing the ‘right things.

To counter the agency problem and ensure that SOEs act in the best interests of all legitimate stakeholders requires adopting, monitoring, and enforcing a combination of voluntary and mandatory laws, regulations, and frameworks. However, the insidious pervasiveness of corruption in the public sector may mean that the responsible enforcement authorities could be complicit in the corruption net, disillusioned, or cannot simply do what is necessary (Sundström, 2015). Effective oversight bodies should therefore be established, not only over the activities of SOEs but also over the authorities responsible for enforcing regulations, including institutions such as Parliament, the AGSA, Public Protector, National Prosecuting Authority, as well as the judiciary. The first step in fostering an appropriate culture conducive to sustainable socioeconomic development is ensuring that all parties implicated in corrupt activities, or the concealment thereof, are prosecuted without fear or favor. This will ensure that all parties are aware of the severe consequences of being involved in corrupt practices (Kaufman, 1997), countering the recurring argument that 'corruption greases the wheels. The combination of a strong regulatory framework and effective enforcement would ensure that scarce resources are not diverted for the self-serving interests of corrupt officials, allowing for the accomplishment of national, regional, and continent-wide socioeconomic objectives, including those of Agenda 2063. Ultimately, civil society should hold SOEs and their owning states to account for corruption and sub-optimal service delivery.

References


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