

# Are State Owned Companies in Africa a lost cause?

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The reason for this question is that the majority of SOCs are failing or bankrupt. Why are they failing? Does it matter? If it does matter, can something be done about it?

We all depend on vital infrastructure services – such as electricity, telecommunications, refuse collection, housing, transport and the news – both for the quality of our lives and to grow the economy. Most of these services are provided by State Owned Companies (SOCs), and the very fabric of our lives depends on how successfully they are governed.

African countries are among emerging markets driven to compete for trade and investment in a highly competitive, volatile world economy. Unless they have healthy and reliable infrastructures, they will be left behind.

The problem is that time is running out. .

## What is the state of SOCs?

Six years ago I ran a series of colloquia for business leaders about corporate governance – organised for the Centre of Corporate Governance in Africa at the University of Stellenbosch. The two main issues proved to be similar: lack of competent people to govern and run companies, and the impact of growing corruption.

Two years ago with Nozizwe Madlala Routledge, a former S.A. Government Deputy Minister, I modified a ratings matrix to apply to State Owned Entities. Key SOEs were then rated according to publicly available information, but we discovered that there was not enough information to understand what was really happening. Even some of the companies

that scored highly, were facing charges for bribery, corruption and inaccurate figures. We also realized that to understand the corporate governance of SOEs and SOCs, we needed to have a better grasp of the relationship between Government and the organisations.

SOCs are different from the private sector because their main shareholder is Government, which has a semi-hands-on relationship with companies in terms of funding, auditing and selection of board members and CEO. SOCs often have an additional political mandate to contribute to the social development of the country. Boards of SOCs have slightly different roles, as they are not as autonomous but still expected to contribute strategic direction, ensure conformance with regulatory requirements and make sure that the CEO runs the SOC well and delivers financial and other targets on time.

Since these projects, I have run workshops where I met a number of Chairpeople, CEOs and directors from other African countries and found that the patterns are similar: successful companies are in the minority, and failing companies are in the majority.

### **Common indicators of successful SOCs**

- Promised targets delivered on time – eg services/products, financial results etc.
- A company in good legal and economic standing, with sound basis for the future
- Happy stakeholders, and customers with few complaints
- Board, executive and company are well run, well trained and have good reputations
- Clean audits
- External investors prepared to pay up to 30% premium.

### **Common indicators of failing SOCs**

- Failure to deliver targets. Often bankrupt. Inaccurate or dishonest reports
- Crisis management. Unpleasant surprises. Short-termism
- Unhappy public. Signs of social unrest
- Scandals, court cases. Company, board or executives guilty of corruption
- Constant turnover of board members and directors. No continuity
- Lack of external funders, or investors withdrawing, because of lack of confidence

## **Why are so many SOCs failing?**

**“We are in danger of leaving a terrible legacy to future generations”** Kofi Annan

The same two key reasons continue to be cited:

- Growing corruption
- Too few people sufficiently competent to govern or run companies.

Because neither of the above has been resolved in the last five to ten years, I have added two more reasons:

- Many in power do not really care
- Those on the ground become accustomed to, and expect, sub-optimal standards.

For those who do care, it might be useful to reflect on the main problems before exploring possible solutions.

## **Flying a plane without qualified pilots and crew is highly dangerous**

Sound corporate governance ensures that all the checks and balances are in place for a company to: produce cost-effective services in accordance with the law; to maintain a good strategic future; and to remain financially healthy. Government departments need to be capable of signing off on sound financial plans and feasible budgets, and able to monitor financial performance. They must achieve all this on schedule, so companies can rely on the right funding to go forward.

This sounds obvious, but it only happens with efficient government where the departments work well together. Government committees are expected to nominate board members who can govern, and CEOs who can deliver. They need enough business and technical knowledge to select the right people, or they will foster inadequate boards that cannot make informed, independent and balanced decisions on time.

The degree to which many government officials or boards of companies actually understand the value and practice of corporate governance is, however, questionable. Too many CEOs are not properly monitored or supported to avoid such mistakes as: unreasonable and unpopular price hikes; confusion between bail-outs and profits; and mis-informed financial and company reports. Even while failing to deliver, they continue to receive huge salaries and bonuses. Their boards often lack the sound business judgement or regulatory expertise to monitor them, or to know when to intervene. All this can go hand in hand with endemic corruption.

## **Lack of moral norms breeds corruption**

More than \$148bn (£93bn) is lost to corruption in Africa every year, according to the African Union: much of it through public officials employed by ‘democratically’ elected governments. This was endorsed by Mr Nombembe, former South African Auditor General, who in 2013 said that over ZAR32 billion were “lost, wasted on unauthorized, irregular and fruitless expenditure...Due to the lack of public outcry and activism, the government was not dealing decisively with guilty parties...We should not have a situation whereby there is no knowledge of where money was spent by any government entity or departments.”

When society colludes with corruption, there is less money to invest in infrastructure and SOCs become cash-cows to line the pockets of the few. Cronyism, fraud, illegal deals, bribery, blackmail and cover-ups – even death threats – lead to an atmosphere of elitism, distrust, secrecy and fear. Plots are hatched to get rid of directors that insist on honesty and the rule of law, and they are replaced by incompetent puppet directors serving those in power. Former Nigerian President Obasanjo warned that: “when the guard becomes the thief, nothing is safe, secure or protected.”

The symptoms of corruption in SOCs are clear: scandals and court cases outweigh good news; service delivery is poor and unreliable, for an insecure and angry population; corporations are fined for bullying and anti-competitive practices; morale is low with little hope for the future. Eventually services run dry and, in some cases, whole regions become destitute.

It is perhaps not surprising that corruption is so common when one considers the legacies of oppressive regimes, poverty and war. In 1962, Kenneth Kaunda, freedom fighter and first Zambian president, expressed this concern: “In short: do we hope to make a nation out of an utterly demoralized people?”

Over fifty years later, the situation is much better for millions, but not for all. Democratic government, social development programmes and better education mean that more enjoy the opportunity to thrive. However, the lack of moral sense that permits widespread corruption is still serious cause for concern. Hopefully, the words of the S.A. Deputy President, Mr Cyril Ramaphosa – “The country needs public servants who are not corrupt.” – will prove more than a mere wish.

Once any country develops a reputation for corruption, sound investors take their money elsewhere, leaving the nation’s public and private institutions up for grabs. On the other hand, in view of the potential in the African market, such investors are prepared to pay up to 30% premium for well-governed companies.

## **How much hope is there?**

There is much scope for pessimism, but also some for cautious optimism, and I still believe it is possible to create successful SOCs. Though less newsworthy, I have come across a significant number of competent individuals who really do care and are responsible for good progress in their countries and across Africa.

There are at least three main reasons for such optimism:

1. Government standards improving in some countries
2. Signs of greater competence in government and on boards
3. Some African nations seem ready to move to a higher stage of development

In terms of government: some African countries have improved their corporate governance, company legislation and codes of conduct. Some government departments have become more efficient and enjoy constructive working relationships with boards. Better board appointments are improving board and executive performance. As major shareholders, some government departments have developed successful working models that encourage these improved results.

In terms of greater competence: the more experienced Chairs, CEOs and directors play a mentoring role. Boards that act as a powerful, cohesive whole can resolve corporate governance issues through rigorous discussion and collective decision-making. They are better equipped to inform government before policy or strategic decisions are made. Fewer CEOs are making excuses for poor performance and talking more about improving results.

In addition, there is a growing number of experts and institutions that can provide corporate governance knowledge and skills training to upgrade performance. Some like myself have spent many years developing effective methodologies to improve thinking and effectiveness at board and executive levels.

As some African countries prepare to move to the next stage of development, I ask: what are the lessons of a post liberation government? How can African companies compete more successfully in a global context? How can accumulated knowledge be best utilised?

As members of the OAU are aware, there is now a considerable body of experience, expertise and learning to answer such questions – and a growing population of competent Ministers, DGs, Chairpersons and CEOs of SOCs, capable of leading the changes needed to accelerate competencies and to create an inspiring and motivating culture of integrity.

## **Inspired and competent leaders can move mountains**

*“Crucially, we have to have the confidence to expand much more rapidly in terms of what we have seen and know works.” Kofi Annan*

From my experience, improving the collective and individual quality of leadership is key to providing more successful SOCs. I suggest the first leadership group should comprise:

- The Minister of the Government Department responsible for the SOC
- The Director General or equivalent of the Government Department
- The Chair of the Nomination Committee
- The Company chairperson
- The CEO

These are the key roles that overview and supervise the processes that ensure effective corporate governance. When these five people work in separate silos, however, the process becomes fragmented, and working relationships strained. They can be far more effective working together, in the same direction, with the same basic understanding of corporate governance, and focussed on the same common goals.

## **To create desired results leaders need to change gear**

The starting point is to transform the quality of personal and collective leadership of these key corporate governance players. The leader’s spirit and quality provide the light that motivates others – mere talk will not make a difference. Significantly better results require inspirational and competent leaders, able to give and receive of their best.

In my experience, it is indeed possible to upgrade leadership by giving it priority and setting aside time and money to develop the basic qualities and skills necessary for effective 21<sup>st</sup> century leadership.

The secret is to work in a safe, reflective environment as far removed as possible from the bureaucracies of day-to-day business. I have found that best results come from standing back in order to gain perspective, simplicity, clarity, mutual understanding, intelligence, wisdom, creativity and genuine commitment.

Yes, it takes time to learn how to save time.

### **Advanced personal leadership qualities are essential**

Africa has produced many great leaders over the centuries. Jomo Kenyatta, freedom fighter and first Kenyan President remembers how, before Western colonisation, his tribe elected leaders on the strength of their character: "Elevation to high office was based entirely upon the behaviour of an individual to his group and to the community at large".

To lead successful change, it is necessary to go beyond pomp and circumstance and learn to harness the best in people. Self-awareness is a starting point, not just to optimise strengths, but to pay attention to weaknesses and flaws as Nelson Mandela said: "I wanted to be known as Mandela, a man with weaknesses, some of which are fundamental, and a man who is committed but, nevertheless, sometimes fails to live up to expectations."

To build on self-awareness, quality time is needed to develop leadership, as successful change requires commitment and courage to do things differently. The more effective each person becomes, the better they are able to contribute to the collective.



Queen Nzinga in 1622 knew that the Portuguese would try to humiliate her people by making them stand while they sat. The Queen's attendants responded by rolling out the royal carpet, and one knelt and offered himself as a human throne for her to sit on.

## **Collective leadership means much more than boring meetings**

This article began with the question: “Are State Owned Companies a lost cause?” The answer is that it is possible to turn underperforming companies around as long as people truly have the will to do it, and are prepared to take the lead to make it happen.

Collective leadership can be so powerful – for good or for evil – that the ground must be prepared, seeds planted and young growth carefully nurtured to ensure real, sustainable success. To make a positive difference in difficult circumstances, it is not enough just to do more of the same.

Only when the questions posed below have been asked and answered, is the group really ready to move forward – calling on the help of high level, inspirational facilitators to make sure that the process stays right on target.

### **1. Common understanding of the value and nature of corporate governance**

- What is the group’s corporate governance role?
- Does everyone understand the value and nature of corporate governance and how the parts work together?
- Why are key corporate governance principles important?
- What is needed for everyone to commit to them in practice?

### **2. Tap into deepest desires of what the group really wants to achieve**

In May 2002 Nelson Mandela said: "What counts in life is not the mere fact that we have lived. It is what difference we have made to the lives of others that will determine the significance of the life we lead." The impossible can only be achieved through stretching the realm of possibilities.

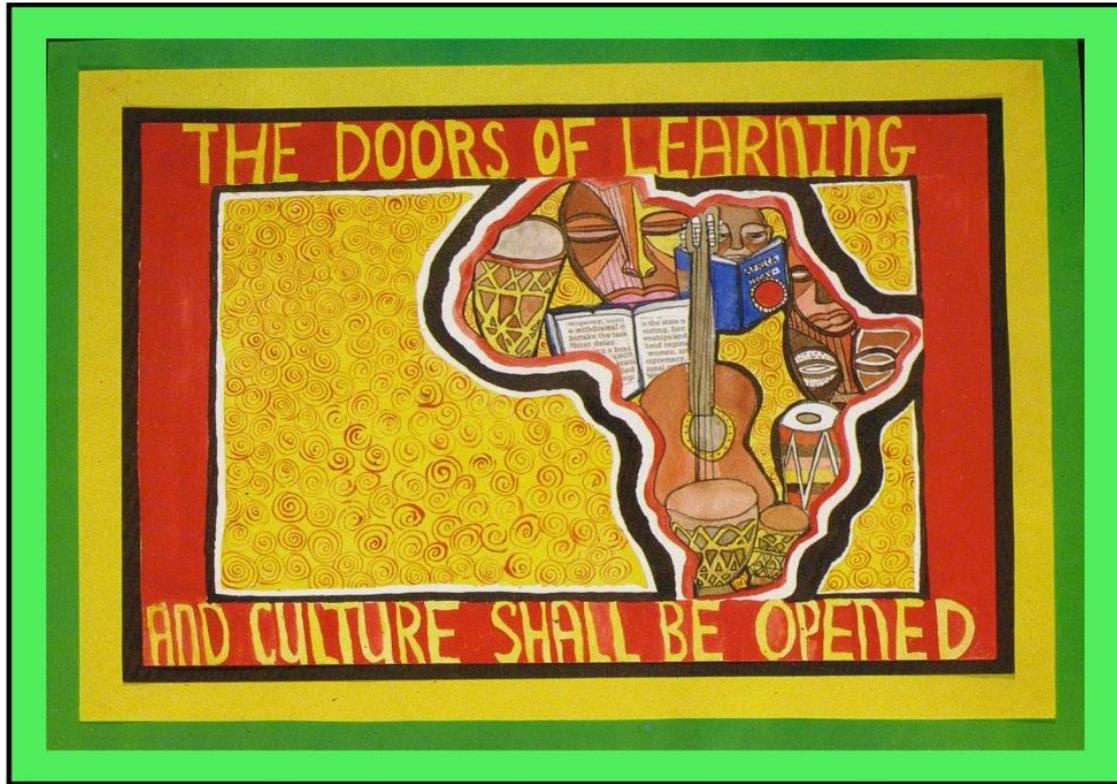
- What is our most inspiring vision of corporate governance at its very best?

### **3. Focus on what most needs to be done to make the biggest difference**

- What is really important?
- What takes up a lot of time but achieves very little?

### **4. Learn from successes and failures and celebrate successes**

- Celebrate just how much has already been achieved – and build on it



“In 1955, I went door to door with my parents, asking ordinary people what kind of country they wanted to live in. The Freedom Charter helped inspire the fight for freedom will never forget the wonderful spirit of the people.” Lynn Carneson. Poster by Ruth Carneson

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