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# Improving Corporate Governance of South African State Owned Companies (SOCs)

**A "think-piece" paper**
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# Executive Summary

This “think piece” looks at key interventions for improving the performance of State Owned Companies (SOC) in South Africa through improved corporate governance.

The paper is intended for Ministers, Director Generals (DGs) of government departments, board members and CEOs of SOCs, Members of Parliament, and those members of the business and international communities that wish to support South Africa’s continued development as a free, democratic, economically and socially healthy nation.

The paper provides an interpretation of the current state of SOCs and to some extent, SOEs. The main observation is that unless there are dedicated, committed collective political leaders at all levels focussed on building a sound sustainable infrastructure, many positive initiatives are likely to be ineffective. This includes motivating and inspiring people to think and work differently. Failing to do this will increase poor service delivery, company performance, lost revenue and a destructive culture of fear based on cover up and greed. In addition to political leadership, Ministers need to be more competent in directing and managing their DGs and their departments as well as the organisations that they govern.

Having said this, it is also important to acknowledge progress that has been made and to suggest ways of building on what has been achieved. Because effective implementation is always a concern, the following seven strategies are recommended that could radically improve the chances of successful implementation:

1. Creation of corporate governance model and implementation framework including both Government & SOCs
2. Feasible policies and strategies
3. A Central Cabinet function responsible for overall standards of corporate governance
4. Development of firm, decisive, inspirational consistent leadership
5. Principle based culture based on integrity and professionalism
6. Radical upgrading of standards of Ministers, DGs, Chairs and CEOs
7. More effective working relationships at all levels and between functions.

These strategies are raised for thought, discussion and hopefully, action – the intention being to help fine-tune strategy and make radical changes that are most likely to create the most successful results. Now is a time not only to learn from the past but also to make decisions about what needs to be unlearnt so that we can make the progress needed for this country to thrive.

Since this paper was written, we have had an election which means Ministerial changes. Hopefully however, resources will be wisely used to turn around a struggling economy.

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# Introduction

**The Hans Seidel Foundation and USB Ratings of State Owned Enterprises,**

Since 1994, the Hans Seidel Foundation has played an important part in supporting the South African government to develop capacity for the development of a sound democracy and economic and social development. The development and maintenance of a healthy infrastructure is to some extent dependent on key SOCs and entities to provide the necessary services.

A partnership was formed between the Hans Seidel Foundation and the Centre for Corporate Governance at the University of Stellenbosch Business School to modify a ratings matrix previously developed by USB and PIC (Public Investment Corporation) to make it more relevant for State Owned Entities (SOEs) including SOCs. The modification was executed by Lynn McGregor and Nozizwe Madlala Routledge – authors of this current paper – who provide combined expertise and experience in the areas of corporate governance and government.

The findings of the Ratings Project were published in September 2012. In general, SOEs did better in terms of diversity (proportion of black people and black women). They performed worse in terms of transparency, clean audits, board and committee selection (nominations committees), board functioning, remuneration, reporting, stakeholders and environmental records. The Report noted that it was extremely difficult to gain accurate information because of the low rates of disclosure and transparency. Very little was mentioned about charges of corruption, frequent board and CEO resignations or dismissals or dysfunctional working relationships.

Before working on the next stage of the ratings exercise, the authors (Lynn McGregor and Nozizwe Madlala Routledge) decided to complete some work started before the ratings project as they believed that the relationship between Government and SOCs is crucial to improving standards of corporate governance. In order to gain a deeper understanding they met Deputy President Kgalema Mothlanthe and had other meetings with some Ministers responsible for SOCs and some of their teams. These included Minister Collins Chabane (Dept. of Monitoring and Evaluating), Minster Malusi Gigaba (Dept. of Public Enterprises, Minister Yunus Carrim (Dept. of Communications) and Minister Ben Martins (Dept. of Energy). These meetings provided further insights into the challenges faced both by government and companies. In addition the authors attended a Government Round Table of the Presidential Review on State Owned Entities. The Ministers they met were frank, open and honest about the challenges they faced. Hopefully the resulting perspectives and suggestions will add value to work already in progress.

In this paper the greater focus is on the interface between Government and SOCs, rather than on SOCs themselves. This is based on the belief that, once government has further clarified its roles and position in relation to SOCs, it will be easier to find the levers for the better performance of company boards and senior executives.

## The social, economic and political role of South African SOCs

In South Africa an SOC, whether partially or wholly owned by the State, plays a vital role in government activities.

The government mandate for SOCs, as articulated in the National Development Plan and other policy statements, is to provide infrastructure services and to help improve social and economic conditions. As a key or sole shareholder in the SOC, government has a responsibility to ensure not only that they deliver on their central mandate of providing sound infrastructure for the country's economic and social needs, but also that they are well run and the investments yield the required results.

At present, various government departments, either jointly or individually, are entrusted with the shareholder representation on behalf of the government, with oversight responsibility for the SOCs for which they are responsible.  The largest department is the Department of Public Enterprises (DPE) responsible for Energy and Mining, Manufacturing and Transport, together with the specific functional departments. There are other departments such as Communications, Defence, the DTI, and Agriculture, Forestry and Fisheries responsible for specific SOCs. The total structure of SOCs is under review and is undergoing considerable reform.

As shareholder representative, the departments have responsibility for providing strategic direction, the alignment of priorities to national growth and creating an efficient, competitive and responsive economic infrastructure network. Part of their role is to ensure that SOCs are implementing their mandates and are delivering the intended outputs. These include:

- Improving the delivery and maintenance of infrastructure
- Achieving policy and regulatory clarity
- Improving operational efficiencies of the SOCs
- Providing operational indicators of each of the required outputs.

Although the shareholder oversight role is well established, in terms of the regulatory framework for financial management and corporate governance, there is a recognized need for continued organizational and technical improvement, together with recruitment of additional skills to deepen strategic and technical capability.

To succeed, SOCs must attract private and foreign investment for, although government continues to invest heavily in SOCs, its resources are limited. Government funding alone cannot meet the twin demands of growing the economy and delivering basic services, so a major injection of private capital and investments is required. To attract these investments and meet the growing demands of the economy, however, the government needs to ensure that SOCs are run efficiently, deliver on their mandates, and are managed according to the best corporate governance standards.

As in government, good corporate governance standards demand leadership with integrity and authority working together at the highest levels to make successful decisions for the greater good. With SA's history of achieving the almost impossible, and given such vision and commitment, SA SOCs should rank with the best.

## Considerable progress in the last twenty years

Twenty years ago South Africa, emerging from an oppressive racist regime, was a bankrupt 'junk' economy still in danger of civil war, with a majority uneducated and in poverty. Thousands had sacrificed their lives to win democracy, and their courage and ideas inspired the world to offer support and celebrate the victory of the first democratic elections in South Africa with one of the best constitutions of the world. South Africa is now considered a leading African economy, especially in Sub Saharan Africa, and is a member of BRICS, the UN, the Commonwealth and many other prestigious institutions.

Since the democratic government came into power in 1994, serious attempts have been made to establish democracy and democratic practices. One example is the advisory and consultative process prior to policy formulation. At its best, the cabinet produces high level research, intellectual debate and conceptualization – some of it is outstanding and often undervalued. The Public Finance Management Act (updated 2010 and also applying to SOCs) is a thorough, well-constructed document that clearly lays out what is and what is not financially acceptable, and what is deemed as good conduct.

While regulatory foundations are established, there is constant reform, updates and improvement in different government areas. In relation to corporate governance, two major policy papers were produced in 2013, which are likely to improve the situation of SOCs. The first is the Advisory Council Report on Parliamentary Reform – relevant because one of its aims is to simplify and improve decision-making processes, including those relevant to SOCs. The second is the report of the Presidential Review Committee on SOEs, now going into its implementation phase, which is likely to precipitate radical reform of SOEs, including SOCs. At the same time Departments such as the DPE have made serious improvements in providing the kind of share-holder professionalism that will turn companies around.

While there is still a serious shortage of capacity, experience, expertise and skills, institutional memory of good practice has built up in some areas. In some departments, ministers and Director Generals are now more experienced, and the number of professionally qualified public servants has grown. The setting up of the new School of Government should help to accelerate this.

Departments of note, in this respect include: the Auditor General, Public Protector, the South African Revenue Service, the Department of Finance, the Department of Home Affairs, and the Department of Trade and Industry. To some extent also the Department of Public Enterprises has stabilized turnover of boards in SOCs, set up chairpersons' forums, evolved a shareholder function, and embarked on corporate governance reform that should already be making a positive difference. At Government level, the DTI has established an excellent reputation for its work and the DPE has formulated a comprehensive shareholder framework within which to ensure more effective corporate governance.

## Remaining areas for concern

In spite of the progress that has been made, there are also areas of serious concern, including:

- Frequent turnover of Chairs, CEOs, Ministers and DGs
- Lack of stability, continuity and institutional memory
- Dysfunctional working relationships at all levels
- Inappropriate interference from government
- Poor timing and lack of integration between government departments
- Too few competent directors and leaders
- Corrupt practices

After twenty years, several other key challenges are impeding successful implementation: the gap between rich and poor; corruption; bureaucratic strangulation; and the shortage of high-level skilled and experienced officers and leaders.

**Differential between rich and poor**

Like the rest of the world, the gulf between the rich and the poor, the elite and the common people, is greater than ever. This problem is not unique to South Africa, as President Obama said in a recent speech: "The dream of upward economic mobility is breaking down and that the growing income gap is a defining challenge of our time… The basic bargain at the heart of our economy has frayed… So it's not surprising that the American people's frustrations with Washington are at an all-time high." He pointed out that a child born into the bottom 20% of income levels in the USA has less than 5% chance of making it to the top income levels and is 10 times likelier to stay put. In South Africa the chances are even less likely, in spite of positive affirmation BEE and BBEE measures.

**Endemic corrupt practices and corruption**

Again, this is not unique to South Africa. President of the World Bank, Jim Yong Kim stated: "Every dollar that a corrupt official or a corrupt business person puts in their pocket is a dollar stolen from a pregnant woman who needs health care… In the developing world, corruption is public enemy No. 1."

Corruption is also condemned by Pope Francis, saying: "Christians who lead 'a double life' by giving money to the Church while stealing from the state are sinners who deserve to be punished… Those who take kickbacks have lost their dignity and give their children dirty bread… We might start with a small bribe, but it's like a drug," he added. These strong words might not be taken seriously, were it not for the fact that the Pope is leader of 1.24 billion Catholics, 17.5% of the world population, and 16% of those are spread across Africa with numbers growing.

An example of the extent of corruption in South Africa is the Auditor General's Consolidated Report (2012-2013) on the financial controls of 450 Public Entities. The outgoing Auditor General, Mr Terence Nombembe reported that R 30.8 billion was "wasted on unauthorized, irregular and fruitless expenditure". The situation had deteriorated: "The amount for irregular and unauthorized expenditure increased by 33% for public entities". 126 departments and 169 public entities had financial indicators that were of concern. Five key risk areas were identified: the quality of submitted financial statements, supply-chain management, human resources management, information technology, and financial health.

According to Mr Nombembe, one of the problems was the high level of tolerance for audit disclaimers issued by the Auditor General against most municipalities and some government departments. Due to the lack of public outcry and activism, the government was not dealing decisively with guilty parties. "When we make a disclaimer it means there was insufficient information for auditors to audit the finances of a municipality or a government institution, and this is where there is a high potential of illegal expenditure or attempts to hide illegal activities with government resources… We should not have a situation whereby there is no knowledge of where money was spent by any government entity or departments."

A typical example of corrupt practice is the way some Ministers use tactics to prevent certain information coming out in the open. For example, Thuli Madonsela, Public Protector, complained that ministers tried to prevent her from releasing her draft report on public expenditure at Nkandla, the President's private home: "At a critical stage of the investigation into the Nkandla project, I regret to say that my office and its investigating team were frustrated, and in many instances obstructed in our efforts. These include only being given sight of certain documents for short periods, and in the presence of government officials and key members of the investigating team being excluded from important meetings."

Transparency International's *Corruption Perception Index for 2013* showed that out of 177 countries South Africa is still losing rank – from 64$^{th}$ in 2011 to 71$^{st}$ in 2013. In *Transparency International Barometer 2013* 83% of participants in South Africa felt the police were corrupt, 77% felt political parties were corrupt, 70% that Parliament and the legislature were corrupt, and 74% felt that public officials and civil servants were corrupt. Of those questioned, 39% said they had given bribes to public servants. One might question their methodology, but even so the figures indicate that most South Africans do not feel that they live in an honest society.

The effect of corruption on SOCs is serious. If resources needed to deliver services are missing, can targets be met? If corruption is not strictly penalized, it sends an unacceptable message that fosters a culture of greed, bribery and cover-ups – intimidating or dismissing those who object, so that misdeeds remain hidden – with resulting paranoia and obsessive secrecy. Ministers may be so busy fighting fires, dealing with hostile media, cleaning up after the last minister or sorting the Department that they are unaware of the reputational damage done by corruption. This means that, even if they have the best intentions, they may still face suspicions that they had “turned a blind eye”. The development of any wide-spread culture of corruption is potentially the single biggest factor in causing financial losses and poor delivery.

The greatest legacy any President could leave would be to transform the culture of this country – and that includes SOCs.

**Bureaucratic strangulation**

One of the reasons why implementation so seldom happens is that there are so many rules and bureaucratic procedures that people do not know where to start. Once started, it takes so long to get through bureaucratic hurdles that many people give up: paper work is not handed in on time, or simply not submitted; meetings are set up but never take place or take place too late. Complexity and bureaucracy are then used as excuses for not getting things done or for holding things up.

The mind-set and language needed for implementation requires different knowledge, skills and expertise from the work of legislature and politics. Government is about the ‘what’, implementation is about the ‘how’. Implementation addresses different questions:

- Is the overall strategy right, and is it feasible?
- What policies do we have to follow and what do they mean in practice?
- What specific service, social and financial targets do we have to deliver?
- How can we deliver these targets efficiently, cost effectively and on time?

Complexity of rules and bureaucratization makes decision-making and performance difficult. It can also mean that basic principles – such as transparency, accountability, efficiency and effectiveness – can be overlooked.

**Lack of high-level capacity**

A ‘culture of entitlement’ means that many people at all levels expect to receive grants and privileges without working for them, nor are they motivated to acquire the necessary skills to do a job well or foster the greater good.

Capacity is increasing, but neither in government or SOCs has it reached the required levels. There are still too few competent ministers, DGs or company directors serving too many companies. Parliamentarians are politicians; as such they are not necessarily knowledgeable about what is required for effective implementation.

A senior member of Cabinet told the authors that one of the key challenges is to build a bridge between high-level policies and implications for implementation. Lack of specific skills combined with general incompetence frequently means that things fail to happen.
An implementation framework might help Ministers and DGs check whether key aspects are taken into account.

# The current state of SOCs in South Africa

The authors are aware that they are relatively ignorant of detailed information because it has been difficult so far to access the information. What they are presenting are perspectives.

Even studying annual reports does not make it easy to assess overall and individual performances, and the quality of corporate governance of SOCs. Although many appear to be "making the right noises" and are getting glossier, it is difficult to divine their real issues, or the extent to which serious problems are being successfully resolved. There is criticism from Ministers that the Media sometimes misreports information and makes Government look bad. Even so, it would be better if there was more overall public trust.

Nevertheless, it would be surprising if overall progress is not being made. There are clues that good and improving practices are increasing, and these could serve as models for other SOCs.

## Poor track record of some South African SOCs in the last five years

The following are a few examples of evidence suggesting that significant improvements are needed for the SOCs to function successfully. The most recent are Sasol, PIC and GEPF.

**Sasol**

- charged R 534 fine for charging over high prices for key chemical ingredients(polypropylene) between 2004 and 2007

**PIC – Investments of R1.6 trillion.** Unexpected resignation of CEO Elias Masilela

- Reputed to have resigned on 6th June over after he had already recorded his concerns about a deal done with the ailing oil company, Camac.
- PIC's first payment in Feb allegedly staved off Camacs possible liquidation and enforced the perception that the decision was guided by political considerations rather than by the interests of public servants
- Second payment made in Oct when economic viability of deal was in question and board was not in full possession of full facts e.g. purchase of Oyo Fields not finalised; Prelim drilling of Oyo 7 not completed. Last two wells not viable
- PIC already making a loss. On 4$^{th}$ June, CAMAC's 0.61 share price close valued PIC's stake at \$228mil or \$42mil below what the PIC paid

GEPF – Public Pension fund of R1 trillion.

- CEO, John Oliphant suspended on 25$^{th}$ Oct 2015 pending disciplinary hearing re alleged unauthorised signing of a contract with a Communications Company. Previously unblemished reputation and track record.
- Board not independent. Mostly politically appointments. 8 by Finance Minister, 6 nominated through the public sector bargaining process. Chaired by ANC MP

**Telkom** – publicly listed with government as main shareholder

- Fined R449m by Competition Tribunal for bullying, anti-competitive practices
- Share price fell 41% - 4% fewer. 45% earnings drop forecast
- Five CEOs and four Chairs in seven years
- Only three independent directors
- Minister Pule (Former minister of Communications) suspended proxy at AGM to vote off Board Members without consultation. The same Minister found guilty of lying to Parliament by the Ethics Committee and suspended for a month. A new Minister of Communications was appointed in 2013.

**Eskom**

- Profit down from R12.8bn to R12.6 bn in 6 months to September while revenue up 14.7%
- Nominated in 2013 for worst company in the world in terms of social responsibility Including: bid to exempt two-thirds of its coal-fired power stations from air pollution, despite exceeding official levels; and having to apologise for spying on environmental bodies at Medupi Power Station
- Revenue requirement greater than R1trillion. Capital Expenditure greater than R337bn because of primary energy hike (14.3% to R25bil) and OpEx (24.1% to R26.9)
- 16% p.a. price hike requested for five years but refused. Electricity and gas among the most expensive in world.

**SAA**

- Eight of 14 board members resigned citing “Difficult working relationship with DPE”
- Financial plans not signed off – “R5bil of R6bil requested came too late”
- Mr Kona appointed as Chair and CEO. Board complained of insufficient consultation
- Reputation of appointed CEO in question – axed in 2005. Sued SAA for failing to pay full termination contract. Trustee of Company making R1mil unauthorised loan

**Denel**

- Government bailout cited as profit
- Costly legal battle in India – accused of bribe to get deal claimed
- However, shows signs of turn around

**Post Office**

- Resignation of Minister of Communications left the Department of Communications under investigation and a number of companies in difficulties with large-scale board resignations, thus considerably setting back the progress of these companies.

## Comments and suggestions

Factors that consistently set back chances of success need to be addressed.

1. Considerable amounts of taxpayers’ money have been misused, wasted or stolen because of incompetence, corrupt practices or corruption. Recommendations - zero tolerance for corrupt practices and better overall standards of financial management.

2. The key risk areas mentioned by the Auditor General apply to many SOCs and SOEs.
    - The quality of submitted financial statements
    - High levels of tolerance for audit disclaimers
    - Financial health
    - Supply-chain management, including contracts and tenders
    - Human resources management
    - Information technology
3. Many boards and top executives are incompetent: for example requesting price hikes because of price fluctuations that that should have been anticipated.
4. Some poor performance comes from lack of understanding about the nature of Corporate Governance. Unless principles of Corporate Governance are honoured consistently by both Government and SOCs, Corporate Governance will never be effective.
5. The selection process for board members and senior executives followed by poor board performance is one of the major causes of failure. Cronyism and lack of appropriate business knowledge are major problems. It is not enough to go through the motions of advertising, short listing etc.: the Nominations Committee needs to be screened in terms of members' experience and expertise. Ministers could be better briefed on the criteria used for selecting chairpeople and directors. In addition the board itself is sometimes apparently not consulted, causing even more problems and resentment.
6. There is also conflict concerning the roles of directors who have been political appointments and have little or no experience or knowledge of board functions.
7. Director's remuneration and various deals appear to exceed what is delivered.
8. The overall role of government as shareholder is complex and sometimes confuses companies. Shareholder activism could be more professional and effective.
9. Timing and working relationships between different departments can mean that deadlines are missed and funding not given, to the detriment of the SOC.
10. Not all Ministers have the same knowledge, integrity, expertise or abilities. The same applies to Director Generals and their departments. Rather than being left to their own resources, they should be adequately trained concerning standards required of them. This is best done at senior Cabinet level i.e. the office of the Deputy President and not delegated to HR or training institutions.

    Retention of institutional memory crucial for the administration of SOCs as DGs often changes with each change of Minister. Related to this is the issue of proper induction of each Minister and Deputy Minister and cluster of Ministers and DGs responsible for SOCs.
11. Working relationships need to be more effective. At government level, poor relationships between ministers, deputy ministers, DGs and between departments impede smooth running and focus on achievement of desired results is often lost. This also applies in when relationships between government and SOC boards are antagonistic. This in turn is often used by the media which in turn has a damaging reputational effect.

Hopefully the above suggestions can be used as reference points to check that important factors have not been overlooked in terms of advancing the overall progress of SOCs.

# The Presidential Review of State Owned Entities May 2013

*This section is related to work already being done by the SOE Inter-Ministerial Committee established to implement recommendations made by the Presidential Review of State Owned Entities, including SOCs. The Presidential Review recommends radical reforms likely to make significant improvements in a number of areas. The authors have looked at the key tasks given for SOEs and suggested how they could be applied to SOCs, particularly in terms of improving corporate governance.*

SOCs fall under the general heading of SOEs and have many features in common with them in the sense that different companies fall under different ministerial departments but also connect with other departments depending on their functions. Seven hundred and fifteen entities with 'various degrees of efficiency, efficacy and purpose' were inherited from the former government. Like other SOEs, SOCs are financially regulated by The Public Finance Management Act, audited by the Auditor General as well as coming under a variety of Acts according to the industry they serve. It currently highly complicated and fragmented.

The 2-year Presidential Review based on a macro study of SOEs has found that: "while SOEs have an indispensable role to play in service delivery and have crucial performance and transformation potential, they are nevertheless faced with significant weaknesses and threats that might become grave impediments to their optimum contribution. The SOE Inter-Ministerial committee was formed to guide the implementation of the recommendations subject to consultation with the President and the Cabinet. This involves major restructuring, rationalisation; modernisation and a better institutional fit with strategic direction – at present, the National Development Plan".

**The following key tasks are also relevant for SOCs:**

- Clearly define and communicate a consistent strategy for SOCs
- Ensure that governance policies and practices are in place
- Ensure that effective contacts between regulators, agencies, government and SOCs are maintained.
- Define the purpose of SOCs.
- Adopt standardised monitoring and evaluation criteria modelled on best practice
- Enable high operational performance of SOCs, so that they are able to meet economic and developmental objectives in a cost effective manner.
- Development of a consolidated funding model for commercial SOCs and Developmental Finance institutions (DFIs).
- Institutional structures and systems

## Implementation for SOCs

The first and most important ingredient for effective implementation is the quality of individual and collective leadership, both political and functional.

## Upgrading the quality of leadership – Political and functional

### Political leadership

This does not refer to any one political party but to democratic principles and practices. Chances of successful implementation are greater if our leaders have a common understanding of and are seriously and consistently committed to common values, purpose, vision and behaviours. In terms of SOCs, this relates both to democracy and to corporate governance.

It is highly recommended that enough time is taken at every level to ensure that this is the case. Strategies and policies should be in place with clear practical guidance in terms of what is expected. There are numerous tried and tested ways of achieving successful implementation. The best ways forward are to fully involve and consult those doing the work. This applies to the cabinet, inter-ministerial committees, ministers, DGs and their teams, the Chairperson and board and the CEO.

The subject of leadership in the context of the corporate governance of SOCs is highly complex. As a starting point, addressing the following questions might help shift the quality of leadership to another level. .

- Is there common understanding and commitment in terms of what democracy mens and how it applies in practice in relation to SOCs?
- How well understood is the value, meaning and purpose of corporate governance?
- How does it apply at different levels in government and companies?
- How can zero tolerance of corruption be applied across the board?
- How much clarity is there concerning authority, accountability, roles and functions?
- Is there a common vision, ownership and commitment?
- Do our leaders command respect? Can they win hearts and minds and inspire others to be empowered to do their best?
- How is the abuse of power dealt with?

### Functional leadership

Functional leadership refers to the different roles relating to how government and companies practice corporate governance. The ability of a Minister to lead and manage a Departmental

Director General or for a Chairperson of a company to relate to different government departments is different from Political Leadership. The same applies to the working relationship between the Board, whose job it is to govern and the CEO whose job it is to produce concrete results. Political leadership sets the norms and National Goals. Functional leadership refers to the actual process of Corporate Governance.

- Is there common understanding and commitment to achieving agreed targets – short, medium and long term?
- If there are conflicts of interests, can they be effectively and quickly diagnosed and resolved?
- Is the difference between the nature of corporate governance and executive responsibilities clear? Where is the line drawn?
- What type of leadership, knowledge and expertise is required at different levels?
- How well can a leader encourage better individual or collective participation to ensure more effective implementation? Are meetings successful?
- Does the leader explain what standards of performance are expected? Is adequate support and encouragement given?
- What strategies and contingencies are in place to deal with risks, blockages and limitations?
- How well is money, time and energy spent or wasted?

The quality of leadership and working relationship between the different parties will determine how well and quickly any initiatives are likely to succeed. They will determine the nature of the impact of the work of the Presidential Committee on SOEs including SOCs.

The following comments specifically refer to the implementation of the strategic decisions of the Presidential Committee as described earlier in this paper.

## Implementation with regards to the Presidential Committee on SOEs

It is suggested that these also apply to SOCs

**Defining and communicating a consistent overarching strategy for SOCs**

The Government strategy for SOCs as related to the National Development plan states policies concerning the purpose of SOCs in relation to social development and meeting financial and service targets. Each SOC will also have its own requirements that need to fit into the national plan. It is recommended that there should be an inspirational vision that integrates SOCs with the overall purpose to build and maintain national infrastructure and to encourage a common sense of purpose.

During the restructuring of SOCs, and the establishment of new structures/mergers and the disestablishment of SOEs, choices should be made in terms of the value these companies have for ensuring a healthy short, medium and long term infrastructure. There is considerable concern that they are being or might be milked for the benefit of individuals or consortiums rather than providing a worthwhile public service.

The advantages and disadvantages of different options need to be weighed before choices are made. This requires input from experienced experts and the ability of ministers to understand and make high-level decisions about SOCs and their future. In some cases, companies or groups of companies need conceptual changes rather than trying to repeat the past.

The quality of information, thinking, discussing and decision-making is a key component. Ad hoc, poorly attended and badly chaired meetings will not produce good strategy.

Each SOC requires a sound business case and evidence of viability and sustainability. Ministers need to understand the difference between a good and a poor business case.

SOCs are special kinds of hybrid businesses. Their individual strategies need to be understandable and feasible. Trade-offs between social and business needs need to be debated, understood and resolved.

When specifically discussing implementation the committee is recommended to ask the following simple questions:

- In terms of strategy, are we asking the right questions?
- Are our assumptions sound?
- What are we trying to achieve and by when?
- How are we best going to achieve successful results?
- How do we measure and celebrate success in simple and motivational terms?
- How do we move on from the lessons of the past?

**Ensuring feasible governance policies and practices are in place**

These include legal and regulatory policies; ownership and the governance and oversight of SOCs.

**Importance of policy formulation and how policies can be applied in practice**

The foundation of effective implementation of SOCs starts with the establishment of clear workable policies that are based on sound, generally applicable principles regardless of what government is in place. Such policies are necessary for laying down institutional memory of good practice that will stand the test of time.

The formulation of policies could benefit from the following:

- **Creation of a SOC Corporate Governance Model** and **Implementation Framework** that is an integration of the duties of government and the boards and executives of companies and seen as a continuous process
- **Various government and board roles should be clarified** and explained in simple terms
- **Policies should be based on corporate governance principles** such as accountability, transparency, integrity, fairness, sound business knowledge, wisdom and practice, no conflicts of interest and responsibility to shareholders, stakeholders and the environment. If these principles were described in terms of what they mean in practice, it would be easier for key players to be committed to living by them. Also if ways could be found to impose penalties as quickly and visibly as possible, there would be less incentive for misconduct.

- **For boards** – Clarification of the following would help set a firm basis for performance:- Principles of corporate governance; roles of board members and the CEO; policies related to board composition, remuneration and compensation; performance related reward system and retention or dismissal of board members and CEOs. If board members and senior executives really understand and are committed to achieving what is expected of them, they are more likely to be successful.
- **In terms of government,** policies concerning the following: -
    - Government accountability for decisions made relating to SOCs and their boards – assuming that government is accountable to the voting public during their term in office and not just during elections.
    - Competence levels expected of ministers
    - Policies relating to anti-corruption measures
    - Policies about whether government does or does not intervene in SOCs
- **Government as pro-active shareholder**
    - What are the political implications of the share-holder model?
    - Will the model help South Africa be internationally competitive and at the same time create social and economic growth and stability?
    - How are inherent conflicts resolved and justified? E.g. costs of improving employment and at the same time growing a successful company?

### Ensuring effective contact between regulators, agencies, Government and SOCs

Meeting the scheduled annual programme of activities on time is a key challenge for SOCs. Among many reasons why they are missed is a failure to meet deadlines, which often require submissions to returned back because they fail to meet required standards. If this were improved it would make a significant difference.

### Adopt standardised monitoring & evaluation criteria, modelled on best practice

A detailed monitoring process, although necessary for auditing, can slow down the drive for accelerated and effective implementation. Critical performance evaluation criteria could be more effective in the short term. Once senior officers really understand what is expected and the standards they need to achieve, and why, they are likely to be more motivated to do their best. In the experience of the writers, being at the top is a lonely job and even Ministers and Chairs benefit from receiving feedback that they are on the right path.

In parallel with formal financial and regulatory requirements, qualitative standards of high-level thinking and behaviour are key to the effective implementation of corporate governance. While Ministers, DGs, Chairpeople, Board Directors, the CEO and Executive have specific standards that need to be met, other standards are universal for any officers operating at high levels:

- **Corporate Governance** – Shared meaning, purpose and practice of corporate governance. Key players to have or acquire appropriate knowledge, expertise and skills such as financial knowledge, or strategic thinking
- **Advanced decision making skills –** quality of listening, reading, thinking, chairing or participating in meetings. Preparing and delivering good quality reports and papers on time.
- **Leadership qualities and skills**

- **Effective management of time, talent and energy – both personally and collectively.** Burn-out is a common source of poor performance and expensive mistakes.
- **Understanding components necessary for effective implementation and ability to plan best ways of achieving results.**

**Develop a consolidated funding model for SOCs and DFIs (Developmental Finance institutions**

Any model developed should be fully tested for relevance, efficiency and to be seen to be serving the public, not individual or group interests in conflict with public interests.

**Institutional structures and systems**

The Government is already considering how institutional structures and systems can be improved to support implementation. However, there is a danger that they are based on inherited, unwieldy dinosaurs rather than what is currently needed. The part that IT plays here is crucial.

Also suggested is a rethink about policies about what is and what not appropriate confidentiality is. The time, expense and effort spent on maintaining unnecessary secrecy gives the impression that more effort is spent on cover-up than achieving successful results.

It is recommended that full consultation take place before establishing expensive institutions that fail to deliver. It is important to review who sits on their boards or committees, as too often the same incompetent or corrupt people are recycled onto new boards and committees with the same disappointing results.

While a special Inter-Ministerial Committee is essential for policy and strategy formulation, in itself, it is unlikely to ensure effective corporate governance and implementation. A separate function set up in the office of the Deputy President would be able to provide overall leadership, co-ordinate, oversee, lead and facilitate the whole system until it becomes established practice. Given the dysfunctionality of some key working relationships, it also needs authority at the highest level to sort out conflicts before they become an expensive time and cost consuming problem.

This function would work more effectively if a Corporate Governance Model and an Implementation Framework was used. If the implementation framework was backed up by a follow-up process, it would help ensure that results are achieved. One of the most difficult challenges is to establish and then maintain higher standards until they are firmly established. Left to themselves, they tend to break down after the first flush of enthusiasm. Such follow-up is one of the most overlooked essentials of effective implementation.

## Summary and conclusions

Hopefully this think piece has provoked thinking about ways of improving standards of the corporate governance of SOCs. It has been suggested that for a win-win solution, the best of government thinking and activities should be joined with greater knowledge about how companies work and how targets are implemented. From the point of view of companies, more insight into the workings of government would enable them to more effectively influence key government decisions.

Effective and successful corporate governance is highly possible but will only work if corruption or corrupt practices are no longer tolerated. In addition, the authors believe that if there is time for reflection to build on successes, learn from mistakes and take responsibility for insisting on achieving standards of competence based on worldwide best practice, it is possible for South African SOCs to be among the best in the world.

A starting point would be to prioritise initiatives that would make the biggest difference. The challenge is so large and complex that it works best if simple initiatives are taken that have the greatest effect and are seen to be successful. We suggest that the following proposed measures are seriously considered:-

1. Decisive, motivational leadership from Ministers, DGs, Chairs and CEOs
2. Creation of a Central SOE/SOC function under the Deputy President
3. Before policies are agreed, they be checked for feasibility
4. Creation of a co-operative learning culture based on integrity and professionalism
5. Improving the quality of written and spoken communication at all levels
6. Publically celebrating successful results when they occur

## Key Recommendations for next steps

It is suggested that the following recommendations would help improve the quality of corporate governance between SOCs and Government. I understand that some of the suggestions are already in line with of government thinking. Hopefully this paper will help to endorse what has already been initiated and provide one or two extra ideas.

1. This paper could be used as a discussion document for the Inter-ministerial SOE Committee and relevant Ministers DGs, Boards and other corporate governing Bodies:-
   - A presentation or one day workshop be given to the Inter-ministerial Committee
   - A series of workshop/seminars be organised to explore practical ways to implement the recommendations, either at Ministerial/departmental levels or for boards or senior executives

2. The paper could be circulated and discussed at the SOEs /SOC Inter-ministerial Committee

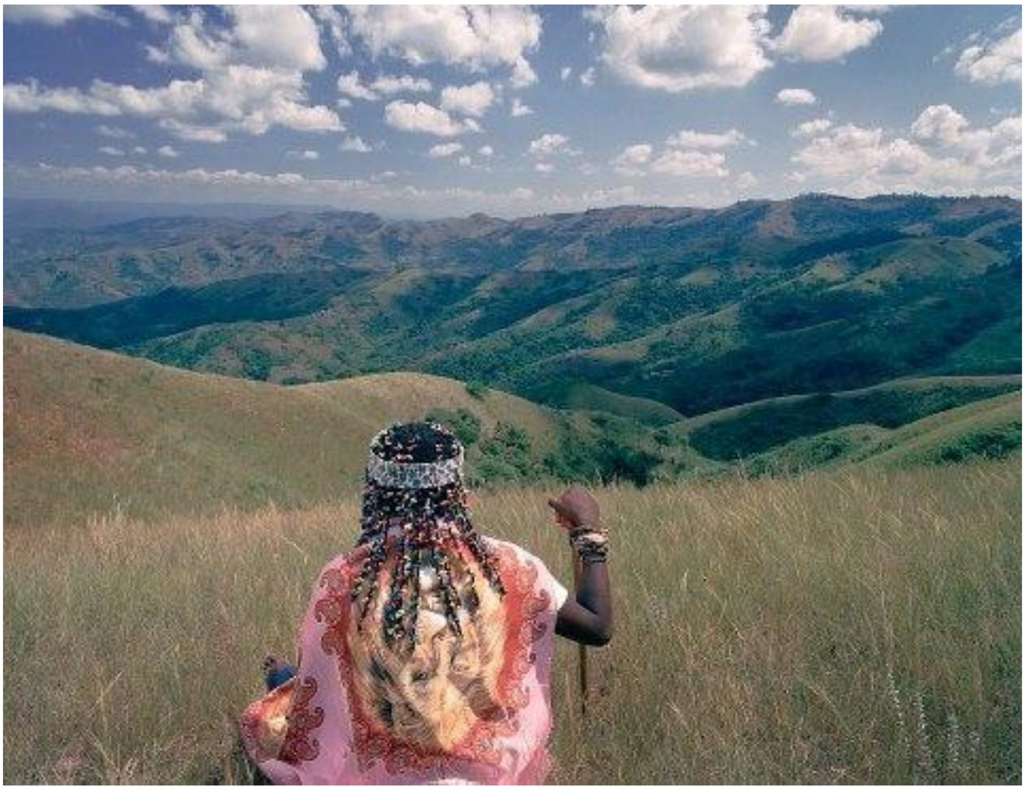
3 A single Corporate Governance function/department at Cabinet/Deputy Presidential level.
This could bring together and ensure implementation of common policies and practices based on good corporate governance.
   - Establishment of culture based on integrity and decisive leadership
   - Development of standards expected of Minister, Deputy Ministers and DGs
   - Encourage and share good practice.

4 Creation of the following models/frameworks
   - Integrated Corporate Governance Model and Implementation Framework
   - Shareholder Activist Model for Government Departments best suited to S.A.

5. Building and maintenance of public trust. A statement from the top about zero tolerance of corruption and corrupt practices that is carried out in practice.

6. A participative and motivational project resulting in Written Guidelines based on best national and international best practice.

## A time for reflection, consolidation and learning the lessons of the recent past



Nelson Mandela wrote that it was ‘a long walk to Freedom’, meaning freedom from oppression. Twenty years later, it is still a long walk to attaining the kind of freedom those fighting for democracy dreamt about. A lot has been achieved, but there is a long way to go.

Twenty years on, the next general elections in 2014 are highly significant. We are seeing a number of new opposition parties and the emergence of public discussions of key issues that need to be resolved. The first substantial set of educated ‘born free’ voters is about to make their marks. This is the generation fully equipped to take their place in a global and highly technological fast moving environment.

Twenty years on it is now time for reflection on lessons learnt and what needs to be unlearnt. This is particularly relevant to considering ways in which corporate governance in South African SOCs can be improved. We have the potential to be amongst the best. What is needed is ability and motivation.

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