

INSTITUTIONAL MECHANISMS AND GOOD GOVERNANCE: A PERSPECTIVE ON THE SOUTH AFRICAN PUBLIC SECTOR

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ABSTRACT

Good governance reflects effective management and effective stewardship of public resources in an ever-changing and competitive international environment. The manner in which departmental activities are conducted is the critical link between inputs and outputs, that is, the effective and efficient utilisation of resources. Maximisation of organisational performance in relation to good governance should focus on improving institutional mechanisms such as leadership, the setting of clear operating principles, the quality of control systems and accountability. This paper explains the role played by institutional mechanisms such as strategic and operational plans, budgeting, transversal systems and internal and external auditing in upholding good governance.

INTRODUCTION

Good governance is a term used in both the private and public sector. The term is sometimes applied out of context without a particular description of what it means in the given context. Hence, some authors and practitioners would prefer only to allocate meaning to the term within the various environments such as the political, economic, social or institutional environment where the term is to be applied. In the public sector, good governance can be defined as consisting of the various operational processes and systems which a public organisation requires to deliver services to the public.

The common thread in a multitude of definitions is that good governance in essence addresses the allocation and management of resources to respond to collective challenges such as fraud and corruption. Good governance also requires capacity, skills, knowledge and the resources to fight fraud and corruption. One of the key requirements that enable an entity to do so is the establishment and administering of sound institutional mechanisms.

GLOBALISATION AND GOOD GOVERNANCE

Cheema and Rondinelli (2007:5) maintain that globalisation has not only shaped concepts of economic growth, but has also determined perceptions of governance by the manner in which it defines the roles and functions government takes on as an enabler, facilitator and regulator. These authors identified seven forces of globalisation that are likely to shape service delivery in the 21st century:

- increased international trade and investment;
- rapid progress in information;
- changes in communications and transportation technology;
- mobility of production;
- rapid transmission of financial capital across borders;
- the emergence of knowledge economies and electronic commerce; and
- the worldwide expansion of markets for goods and services.

Each of these seven forces shapes political philosophy and has fundamental implications for the degree to which governments intervene in the economy, society and their relations regarding good governance (Bailey, 2004:10).

Globalisation deconcentrates economic activities (“globalisation” occurs) among and within countries, which increases pressure on governments to enhance the administrative and fiscal capacity of sub-national regions, urban, peri-urban and rural areas in order to facilitate the participation of individuals in a global market place (Cheema & Rondinelli, 2007:5) These changing competitive environments exert pressure on public sector managers to improve the performance of their respective delivery agencies in order to function more efficiently and effectively within global markets (Ashkenas, *et al.*, 2002:ix,120).

In response to globalisation and as part of economic integration into the world economy, governments are forced to re-examine the impact of their fiscal policies on the performance of their economies (Abedian & Biggs, 1998:21). Growing inequalities intensify demands on governments to become more responsive to social needs; at the same time, they also have a negative impact on governments’ ability to perform effectively as a trans-nationalised and independent economic world order. These conflicting scenarios are highlighted in global public policy frameworks where, in the international sphere, the quest for democratic practices has necessitated fundamental reforms and a restructuring of government institutions (Abedian & Biggs, 1998:22).

Worldwide, governments have become preoccupied with *implementation*, performance and how to apply good governance. Research has shown that governance is usually good only if government attains its ultimate goal of creating suitable conditions to ensure good or at least satisfactory quality of life for each citizen (Gildenhuis & Knipe, 2000:91). Theories of good governance contend that (good) governance and democracy are essential conditions for the development of societies. Embracing democracy is therefore considered to be a tool to achieve better governance. Hence, new standards of governance have emerged in line with the global extension of democratic norms. Public sector managers are expected to comply with the principles of political transparency, administrative and

managerial accountability which emphasise higher efficiency, efficacy and a customer orientation in public-sector delivery programmes (Abedian & Biggs, 1998:25). Thus, governance is fundamentally a political imperative and cannot be reduced to a purely public administrative function due to the conflation of the political-administrative roles that need to be fulfilled (Fourie, 2006:437).

The changing environment demands new skills and administrative systems, as public sector officials are constantly challenged to take advantage of technology and globalisation, and to combine these benefits with human capabilities (Ashkenas, *et al.*, 2002:xviii). Governments are compelled to reassess existing organisational and institutional structures to determine the capability of these structures to meet the demands posed by globalisation, growing customer expectations and increased fiscal demands which have moved government into a higher-level system of organisational and structural complexity.

PROMOTION OF EFFECTIVE GOVERNANCE IN THE SOUTH AFRICAN PUBLIC SERVICE

The diverse South African public service requires an applicable model of governance. It should be noted that there is a difference between the public and private sectors in the application of good governance. For the public sector, the political environment requires a different mode of governance – it focuses mostly on checks and balances and especially on value systems that emphasise the issues of ethics and codes of conduct. In the private sector, the notion of good governance focuses mainly on returns for a company's shareholders and the preservation of shareholders' value, while the public sector's role is to be cost-effective in the implementation of programmes, in accordance with legislation and policies.

For South Africa, the early 1990s was a period marked by political and social challenges, and it is against this background that the King Committee on Corporate Governance was established in 1992. The Committee published the *King Report on Corporate Governance* in 1994. The adoption of the *Constitution of the Republic of South Africa*, 1996, required the revision of the King Report and the "King II" report was published in 2002.

The main aim of the King reports was to promote the highest possible standards of corporate governance in South Africa. The second King Report (2002) applies only to certain categories of companies as listed on the Johannesburg Stock Exchange, banks, financial and insurance entities, public sector entities falling under the *Public Finance Management Act*, Act 1 of 1999 (PFMA), and the *Municipal Finance Management Act*, Act 56 of 2003 (MFMA), including any organ of the state acting in terms of the Constitution or aforementioned legislation. The second King Report (2002) identified the following seven primary characteristics of good governance:

- discipline, which means a commitment by the organisation's senior management to standards of correct and proper behaviour;
- transparency, where an outsider can meaningfully analyse the actions and performance of the organisation;
- independence, in which conflicts of interest are avoided;

- accountability, where communities' rights to receive information relating to the stewardship of the organisation's assets and performance are addressed;
- responsibility, where all the consequences of the organisation's behaviours and actions in relation to the commitment for improvements are accepted;
- fairness in terms of the acknowledgement of respect for and balance between the rights and interests of the various stakeholders of the organisation; and
- social responsibility, where the organisation demonstrates the commitment to ethical standards and its appreciation of the social, environment and economic impact of its activities on the society in which it functions.

The PFMA and the MFMA fulfil an important role in the regulation of good corporate governance practices. The PFMA and the MFMA aim to ensure transparency, accountability and sound management of revenue, expenditure, assets and liabilities of the institutions to which the PFMA and the MFMA apply.

In terms of governance, there is now a review process where governance is monitored by the legislature and its committees, and particularly by oversight bodies such as the Auditor-General, the Public Protector and the Public Service Commission, as well as via the activities of co-ordinating departments such as the Department of Public Service and Administration and the National Treasury. With reference to the improvement of service delivery, according to the PFMA, the public service is allowed to operate in a simplified and flexible manner, so that public sector managers have more flexibility and there is a greater devolution of authority. However, market trends and competition for resources will increasingly mean that public sector departments will be subjected to greater levels of scrutiny regarding their performance and effectiveness. In order to manage and administer the responses towards increased levels of public scrutiny and transformation, public sector departments will need to establish a culture of ongoing improvement, evaluation and assessment by using best practices, introducing this approach across the whole spectrum of public sector departments.

Against the background of transformation, the typical traditional and legislative accountability and responsibility of the head of a public sector department (accounting officer) are made more explicit in the PFMA. There is a growing need to examine ways and means to strengthen the structures within public sector departments that should support leadership and decision-making. A sound governance structure should provide a helpful structure to assist in the formulation of informed decisions with the assurance that effective control systems are in place and that the potential risks are well managed.

ORGANISATIONAL OPERATING PRINCIPLES

Corruption can be seen as the antithesis of good governance. It is a by-product of weak governance. It manifests itself in various forms (Fourie, 2007:741). According to the *Public Sector Anti-Corruption Strategy* issued by the Public Service Commission (2003), there are a number of preventative measures that public sector departments can employ to address corruption.

Effective governance requires the complete dedication and commitment of all the role-players involved in the management of each public sector department. Vigorous control mechanisms should be established to ensure effective service delivery, based on the departmental vision and mission. The following could be seen as operating principles to ensure good governance:

Leadership should be regarded as the basic operating principle – the head of the department, as the accounting officer, should fulfil a key role in good governance. An indication of a department's effectiveness is the manner in which the department operates as a unified unit under the leadership of the head of the department. A collective ability to provide leadership and mentorship and to communicate the approved departmental plans and objectives effectively are essential. Lastly, leadership should ensure the establishment and operation of checks and balances which effective governance requires in a transparent manner (Saul, 1991:5).

The managerial environment requires a clear set of operating principles. It should include setting objectives and a workable ethical framework to ensure the protection of public interest and a clear understanding of the respective clients. To ensure transparency, the managerial environment requires a clear set of delegations, lines of reporting, responsibility and accountability. Finally, the implementation of operational plans and taking and managing risk requires the competent officials with the necessary skills to perform the work to be employed, to decide on the standards to be set and to undertake performance evaluation.

The quality of the control systems must be monitored over time and corrective action to improve the systems, must be identified. Systems that operate in a changing environment need to be monitored closely to ensure that the resources are used effectively and efficiently. Techniques such as quality assurance, benchmarking and other ongoing improvement of management techniques can be effectively used as a component of the monitoring process. Monitoring is an effective tool when it is applied during the course of normal activities, rather than focusing on the detection of problems after they have occurred (Bovaird & Loffler, 2003:5; Salamon & Elliot, 2002:24).

Accountability is crucial. The lines of accountability in the public sector are through the head of the department to the political head responsible and ultimately to Parliament. A stringent governance system has to rely on the existing accountability and reporting structures of each department. It should identify any anomalies, such as unclear lines of authority or too many layers of authority, reporting mechanisms that are too complex or too cumbersome, an excessive number of required objectives, which includes the policy or legal requirements, with no specific link to departmental or programme objectives (International Federation of Accountants, 2001:12).

INSTITUTIONAL MECHANISMS TO ENSURE GOOD GOVERNANCE

According to Shah (2005:154-156), there are a number of common governance and administrative weaknesses that could hamper effective governance. Low capacity (such as weak personnel and system capabilities) could be due to an inadequate skills base, low compensation and poor human resources and organisational policies. Organisational

centralisation and top-down governance may be another problem, where public sector agencies are based on strict hierarchical structures which enforce the centralisation of decision-making and follow a top-down managerial approach. In such a case, such structures emphasise excessive control in the governance process and require all role players to adhere to set procedures. This approach normally leads to a lack of innovation, entrenches unproductive and unresponsive service delivery processes and limits the potential for change.

In order to address some of these weaknesses, there are a number of issues that are critical for ensuring good institutional governance. For example, financial data is regarded as a leading indicator of performance. The inclusion of non-financial indicators produced on a regular basis is also critical. Non-financial indicators should be stipulated in the performance agreement between the accounting officer and the executive authority and endorsed by the portfolio committee in the legislature. The indicators and results appear in monthly reports, which are then consolidated and published in the national *Government Gazette*. Such reports furthermore facilitate the compilation of the year-end financial statements and the annual report. The annual report reviews the performance and achievements against the strategic plan and the budget approved by the legislature. The annual report includes the financial statements of the department, as well as the achievements against the service delivery indicators agreed upon during the preparation and approval of the budget. The report must also quote the *Audit opinion* of the Auditor-General, based on the external audit. Once the annual report is tabled, it is open for scrutiny by the Standing Committee on Public Accounts. The Committee analyses such reports to ensure that the accounting officers address any issues raised in the audit report or any recommendations raised, according to the *PFMA Guide for Accounting Officers* (National Treasury, 2000:11).

The following areas will ensure the realisation of good institutional governance:

- *Strategic planning and operational plans*

The planning process in the South African public service is centrally managed. Every year departments have to compile and submit their strategic plans, in which service delivery priorities are identified. In this case, managers have to identify key performance areas (KPAs), determine the priorities, and the funding needed/available. The strategic plan should contain measurable objectives with an indication of outputs/outcomes, indicators and targets, which means that the objective of a budget must be clear. To ensure that governance is supported, there should be a clear link between strategic planning, budgeting and service delivery plans in order for services to be delivered effectively and efficiently. It should also be noted that the strategic plan forms the basis for the annual reports of the accounting officers (National Treasury, 2005:15).

- *Budgeting*

Governance in relation to budgeting is vital, since it provides an understanding and course of action regarding public financial management, managing public finances and financial accountability. This means that departments should adhere to policies and procedures that relate to efficient and effective budgeting and financial management. If there is no clear link between the strategic plan and the budget, it could result in poor expenditure management and over-spending or under-spending in departments

(National Treasury, 2005:15). Budget transparency is one of the most critical areas where transparency can promote better governance. Citizens have the right to information about how budgets are compiled and spent. Without budget transparency, inefficiency, inequity and corruption go undetected.

- *Transversal systems*

Good governance in the form of financial systems for government ensures accountability and transparency, and evaluates the performance of public sector departments. All the computerised systems are transversal and centralised and are overseen by the National Treasury. This enables the National Treasury to oversee and interact when a problem occurs between the systems and gives it access to financial data when needed. The purpose of the transversal system is that Parliament uses the same yardstick to evaluate all the different public sector departments. Currently, there are four transversal systems to ensure good governance (National Treasury, 2005): the Basic Accounting System (BAS), which is used to ensure financial control over expenditure and revenue;

- the Personnel and Salary System (PERSAL), which reflects the personnel expenditure on the BAS reports and keeps a record of and updates all personnel details online on PERSAL;
- the Logistical Management System (LOGIS), which reflects all expenditure regarding the procurement of goods and services on the BAS report and keeps detailed records of all suppliers from whom goods and services are sourced; and
- the Supply Chain Management system, which reflects all expenditure regarding the procurement of goods and services on the BAS report as prescribed by Supply Chain Management, while transactions are recorded on LOGIS.

- *The Early Warning System (EWS)*

This is a reporting mechanism whereby public sector departments report on a monthly basis on their expenditure and collection of revenue. The EWS functions online from the Financial Management System (FMS) which records spending on a continuous basis. It is from this system that the level of expenditure can immediately be recognised. The system provides a very strong management tool to ensure good governance and can help managers to make immediate decisions on the course of their spending.

- *Internal auditing*

Internal auditing is another institutional mechanism to enforce accountability and ensure good governance. It should be noted that internal auditing can only be used effectively if it has a properly structured mandate, is independent from those who are being audited, human and financial resources are available, and has the support of management for the implementation of its recommendations.

- *Internal and external reporting*

To obtain accountability and good governance internal reporting is an indispensable component to ensure organisational performance. Abedian, Strachan and Ajam

(1998:7) comment that accounting is the component of financial management that is concerned with the recording and reporting of financial information. Responsibility managers, who are responsible for the day-to-day operations in line functioning, have a duty to ensure that performance activities' outputs are clearly confirmed. In this process, effectiveness, efficiency and economical use of resources become fundamental in implementing internal programmes. External reporting ensures accountability and transparency. It is this form of reporting that mirrors the fit between strategic plans and the departmental budget and determines whether or not the services have been delivered not only in terms of policies but also in an effective and efficient manner.

- *Performance management*

Performance management is a set of techniques used by managers to plan, direct and improve the performance of subordinates in line with the achievement of the departmental goals and objectives (Spangenberg, 1994:14). It should be noted that performance management could only be used as a tool in measuring good governance where there are measurable objectives that have to be attained. Measurable objectives should be specific, quantifiable outcomes that can be achieved within a foreseeable period. They serve as a roadmap. It is the responsibility of every manager to ensure that subordinates enter into performance contracts that will guide them in discharging the functions assigned to them.

The success in the use of the above administrative and managerial tools in ensuring good governance will rely on the following:

- the management of information overload given the rapid development of information systems;
- the management of personal factors such as the individual's knowledge of and skills in using the respective systems available;
- motivation and commitment at all levels to ensure success;
- leadership quality, such as guidance and support provided by management and team leaders;
- the creation of institutional memory, since there is a tendency among public servants to *job hop*, thereby creating an ever-growing vacuum of skills and knowledge;
- the reliability of financial and non-financial data to be used as indicators to develop measurable indicators;
- the elimination of data fragmentation and duplication; and
- the conducting of continuous full inventory of management systems, sampling systems, case studies and surveys.

CONCLUSION

Public sector departments have to satisfy a number of complex political, economic and social aspirations of society. They operate according to a number of different sets of constraints and influences from the external environment. The accounting

office will increasingly need to determine ways to strengthen the internal mechanisms which support their leadership and decision-making in the quest for good and effective governance.

Governance includes the relevant administrative, managerial structures and processes of the organisation to direct and manage its operations towards effective service delivery. There are number of institutional mechanisms to consider in the realisation of good governance. These institutional mechanisms will depend on skilled and knowledgeable staff, the ability to manage the information overload, securing a motivated and commitment from all levels of staff. The reliability of financial and non-financial data to be used as indicators towards the development of measurable indicators is a vital component. It is critical that good governance should be based on the acceptance and ownership of everyone involved in the managerial functions, that the highest standards of ethical behaviour and integrity are expected of all and that all actions are exemplified by transparency and consistency.

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