

Gordon Institute of Business Science

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The role of board of the directors in ensuring that the State-Owned Companies (SOCs) are sustainable in creating value to shareholders within the South African context

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A research project submitted to the Gordon Institute of Business Science, University of Pretoria in partial fulfilment of the requirement for the degree of Masters of Business Administration

Abstract

The research was undertaken to highlight the gaps which are systematic which most corporate governance fail to either adhere to or implement. The research will focus on the state-owned companies, these are the companies which were established to stimulate the economic growth with the country in order to be able to contribute to the shareholders and its primary stakeholders which is public through the creation of value that is sustainable.

The accountability does articulate the expectations between the shareholder and board members and eventually to the management of the organisation. The other mechanism that articulates what needs to happen in order to maintain good governance within the organisation is the corporate governance principles, the principles gave rise to the independent board of directors as well as their responsibilities. The corporate governance does direct the organisation in terms of how they are to be managed, controlled and directed.

A total of 12 interviews were conducted to establish the role played by the board of directors to create value to the shareholders. The board of directors of the state-owned companies who are reporting to the shareholder who is the cabinet minister in the national government were selected. The research methodology used to obtain the data was qualitative using inductive method.

Key Words

Corporate governance

Creating value,

Shareholders

State-Owned Companies

Board of Directors

Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

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1. Research problem and purpose

1.1. Introduction

In order to achieve the growth and sustainable economic development of any country, governance is crucial for the growth and prosperity, as accentuated by IoDSA (2016). Consequently, there should be processes that are set and developed as endorsed by the United Nations Development Goals, Africa 2063 and also mentioned in the South Africa National Development Plan 2030 (NDP).

Therefore, in order for the country to ensure that the United Nations Development and NDP Goals are achieved, both state owned companies, private and public companies should be sustainable in order to create value. Consequently, the country needs to have a sustainable economic growth and development in order to meet these NDP goals (National Planning Commission, 2011). Thus, the purpose of this research seeks to understand the role of the board of directors in ensuring that the state owned companies are sustainable in creating value within the South Africa context.

A state owned company (SOC) is a defined enterprise where the state has significant control in the ownership structure of that enterprise (PWC, 2015). The SOCs have a shareholder who is the principal that employs the agent to manage and direct the affairs of the SOCs, who are referred as the board of directors. According to the National Treasury (n.d), the board of directors is the governing body of a SOC who are employed to strategically guide the performance of the SOC and provide strategic direction. It further states that the mission of the board is to fulfill the mandate and strategic objectives of the government through the commercial activities. The National Treasury (n.d) stated that the board is accountable to the shareholders for the performance and affairs of the SOC. Therefore, the role of the board is critical in providing the strategic direction, and directing the activities of the SOCs in order to create value for the developmental objectives of the public.

Value creation is defined as the change in the total economic value created by an organisation measured from one period to the next; such value is distributed to the stakeholders of the organisation (Lieberman, Garcia-Castro and Balasubramania, 2016).

Lieberam *et al.* (2016) further stated that value is created if the organisation produces more output using the same amount of resources.

1.2. Research problem

The significance of the study is to highlight and/or address insignificant but key systematic gaps that most corporate governance fails to either follow or implement. The following chapters will allude to some governance systemic misconceptions and obliviousness that corporate governances are confined.

South African SOCs, such as Electricity Supply Commission (Eskom), Passenger Rail Agency of South Africa (PRASA), Aerospace and Defence technology conglomerate (Denel), etcetera, were created by government as the strategic vehicles to assist in delivering value to government and to assist with the service delivery that has an impact on the lives of citizens.

The shareholders (government) have instituted control mechanisms to address the agency related matters amongst other measures was the establishing of the board of directors to provide an oversight role to management of the SOCs through control measures. The purpose of the control is to mitigate the agency problems of management who sometimes want to fulfil their self-interests, which are not aligned with the shareholders, and are ethical issues hence devaluing the SOCs and their financial sustainability.

The agency problem between shareholder and the board of directors was recently in the media, where the board's interests were in conflict with the shareholder's. The case in point is a Passenger Rail Agency of South Africa (PRASA) shareholder gave notice to expel the board due to its failure to turn the company around and to meet their objectives and be financial sustainable.

The parliament ad-hoc committee had a commission of inquiry on the fitness of the board of the South African Broadcast Corporation (SABC) in discharging their fiduciary duties and the lapse of governance and management. Mutize and Gossel (2017) noted that the recent board and management scandals at PRASA, SABC, South African Airways (SAA) and Eskom indicate that there has been little commitment to improve governance and address operational deficiencies.

These agency related problems have resulted in the financial problems within most SOCs that require financial assistance, in the form of bail outs, and government grants has led to government to diversify funds to assist some of these ailing SOCs, such as the SABC, the Post Office and SAA. For example, SAA was given guarantees to the value of R14 billion in the last 15 years (IOL, 2016). The latter example is also indicated by Gossel and Mutize (2017), who state that the increasing inefficiency in State owned companies continues to put pressure on the country fiscus, which is unaffordable. Furthermore, they mentioned that this put a strain on the fiscus through the guarantees and bailouts, which amounted to R467 billion at the end of 2015/16 financial year.

Based on the above, it can be construed that because there are few studies that explore the institutional framework that governs the agency relationship between the board of directors and main shareholder (Government), that includes reporting mechanism within these SOCs, this research will elicit gaps to address such governance processes and systems in the South African constitutional context.

1.3. Problem purpose

Eisenhardt (1989) noted that researchers have identified governance mechanisms that limit the agent self-interest behaviour this include contractual relationship is outcome based and information system reports that are providing information to the principal. Following this, the aim of this study is to research whether the mechanisms put in place by organisations ensure that the self-interest behaviours between agent and principal is mitigated to ensure sustainability of the organisations. Therefore, the primary focus of this research project seeks to explore:

What role do the boards of directors of SOCs play in ensuring value is created for shareholders, within South African context?

1.4. Significance of the study

The study will contribute to the existing research(es) on corporate governance in developing countries especially in South Africa. It will assist with the governance framework in order to improve the management of the SOCs. The SOCs play a vital developmental role in South Africa. This is supported by PWC (2015), which mentioned that SOCs are likely to remain

an important instrument in any government’s toolbox for societal and public value creation given the right context, collaborating with other stakeholders for this purpose. Furthermore, Koch (2016) stated that the state-owned companies provide the backbone of an economy and can be expected to help spur economic growth and development and are thus an important sphere of government that can assist the government to achieve its goals.

A study conducted by PWC (2015), in the state owned enterprises, discovered that actively managed SOCs do deliver real value to the public. In addition, it noted that the societal value that is integrated provides the impact, which is holistic. Figure 1 depicts the strategic positioning of the SOC and the benefits of the value created to the public.

Figure 1 – Strategic Position for State-Owned Enterprises



The value created by the SOC does not focus purely on the financial performance of the company, but also on the achievement of the government objectives, including the developmental agenda of the public as a major stakeholder.

For the reasons emanating from the literature review, this proposed research will contribute to the body of knowledge on the latter argument and subject matter raised of corporate governance in order to mitigate or manage the related agency problem, which may result in

the organisation not being sustainable or able to create value to the shareholders and stakeholders.

The importance of knowing what is not known will contribute to the agency theory that relates to the board of directors, the shareholders and other relevant stakeholders. This will further assist the stakeholders and shareholders being aware of the effective role of board of directors' play in sustaining the organisation to create value.

1.5. Research questions

In order to address the above key research question, it is important that the following research questions for which this proposed investigation aims to find an answer are explicitly formulated as follows:

- 1.5.1. How does accountability of the board to the shareholder contribute to the creation of value?
- 1.5.2. Do SOC's board monitoring systems close the gap between board diversity and SOC's performance in ensuring sustainability?
- 1.5.3. What is the role of the board in ensuring proper disclosure while assisting to measure sustainability of the SOCs?

Therefore, the latter fundamental cores of this research study will be reviewed by the literature that follows hereafter. Moreover, these cores further focus on the study and determine the methodology and guide all stages of inquiry, analysis and reporting.

2. Literature review

2.1. Introduction

The following literature review that will be discussed will form the theoretical base to understand the role that the board should play in ensuring the sustainability of the organisations (SOC's). Hence the following components of literature will extensively be reviewed based on South African Context aligned with global aspects and dynamics affecting State Organs:

- 2.1.1. The institutional framework in which the board is governed in ensuring that there is no conflict of the role that they are expected to play with regard to the sustainability of the organisation.
- 2.1.2. The accountability of the board of directors as envisaged by the corporate governance in ensuring sustainability of the organisation.
- 2.1.3. The monitoring systems of the controls by the board.
- 2.1.4. Integrated reporting of the performance of the organisation.

2.2. Overview

Madhani (2016) defines corporate governance as an ethical process with the well-defined structure in which the objectives of the firm, inputs of attaining such objectives, and monitoring mechanisms of performance are also set. Following this, the structure of the board should ensure that the processes are established to ensure that the organisation is performing optimally and is able to meet its objectives which will ensure sustainability.

In addition to the latter, IoD SA (2016) has drafted the code to ensure that there is sustainable value creation to organisations that adopt the principles and objectives of promoting the corporate governance as an integral part of running a business and delivering benefits such as:

- Improved ethical culture within the organisation.
- Increasing the performance of the organisation to be sustainable, thus creating value.
- Enabling the board to exercise adequate and effective control.

- Building and protecting trust between organisation and stakeholders and its reputation and legitimacy.

However, the roles of the board of directors in ensuring the sustainability of the organisation in order to create value are normally faced with the risk of the agent theory. Eisenhardt (1989) described the agency theory as being concerned with resolving two problems that can occur in agency relationships.

The firstly, is the agency problem that arises when (a) the interest or objectives of the principal and agent conflict and (b) its difficulty in assessing and validating the output or outcomes of the agent. In support of the above, Bosse and Phillips (2016) state that the essential characteristics of the problem emanating from the agency are that the interests of the principal and agent are not aligned and the principal does not have clear information about the agent's contribution or results. Subsequently, this results in a problem that arises for the principal when the two parties have divergent interests and the agent has better information than the principal. Furthermore, Bosse and Phillips (2016) continued to state that this fundamental agency problem creates the possible risk that the agent will not act in the best interests of the principal; hence the principal will not derive the expected value from the agreement.

Hannafey and Vitulano (2012) further emphasized that the relationship between an agent and principal is based on the clear duty of the agent to serve the interests of the principal. These divergent interests, which were not properly managed previously, have resulted in various corporate scandals that resulted in organisations going bankrupt; such as, amongst others, Enron, WorldCom, Leisure Net and Regal Banks. More recently, the scandal engulfing SOCs such as SABC and Petro-SA, who were not able to meet their financial obligations. Even though IoD SA (2016) has bestowed four overarching responsibilities to the board of directors, the following responsibilities are neither properly followed nor implemented for the benefit of SOCs sustainability for creating value:

- Providing strategic direction and objectives.
- Approving the operational and tactical plans to affect strategy.
- Providing informed monitoring of the implementation plans and performance.
- Integrated reporting to the shareholders and stakeholder.

These responsibilities are neither properly followed nor implemented for the benefit of State-Owned Companies to create value to the shareholders.

2.3. Institutional context and accountability

Hannafey and Vitulano (2012) emphasised that the relation between an agent and principal involves the clear duty “to serve the interests of another.” Furthermore, Hannafey and Vitulano (2012) highlighted that agency theory, with the further understanding of the relationship between two parties, can provide a needed grounding and basis for moral thinking.

Therefore, the agency theory problems can be mitigated by models built by institutional arrangements that can influence certain aspects of Principal and Agent relations within the framework (Wiseman, Cuevas-Rodriguez & Gomez-Mejia, 2012). Wiseman *et al.* (2012) further stated that government is one of the institutions that prescribe practices and policies that must govern the relationship between principal and agent by focusing on their role of promoting economic exchanges. If the agency theory is left unmonitored and there are no control mechanisms put in place, it will result in the agent pursuing private interests which are in conflict with the principal.

The legal and institutional context provides the frame of reference for why the board is in existence and expectations are clearly articulated in terms of how they should conduct themselves for the broader benefit of the shareholders and other stakeholders, thus ensuring that value is created through sustainability.

There are mechanisms, like policies and legislation, put in place to ensure that they will make the companies more accountable to shareholders and the public (Keay & Loughrey, 2015). This becomes the frame of reference for the board in their conduct in discharging the responsibilities that are bestowed on them by the shareholders.

In order to mitigate the agency related problems with the shareholders and board of directors, Preston (1995) stated that boards are only one of the mechanisms involved in corporate governance, which included government policies which do provide legitimacy for corporate form. This is done by ensuring that the companies comply with the companies' registration requirements and laws like the Basic Conditions of Employment Act, which have

always been there to ensure that there is an increased likelihood that corporations will act in ways that are supportive of goals and norms of the society (Preston, 1995).

Most of South African organisations are governed by the Companies act of 2008, and, furthermore, SOCs are also governed by the Public Finance Management Act (PFMA) of 1999, and this legal prescript does address the agency related problems, in terms of the expectations, but does not provide details on how to manage the relationship with the shareholders.

Wiseman, Cuevas-Rodriguez and Gomez-Mejia (2011) concluded that the nature and design of internal corporate governance systems are confined to institutional context both within the country and across other countries. Agency theory provides tool of analyses of any situation involving delegation independent of particularistic institutional context.

The role played by the board in ensuring that they discharge their duties, as outlined in the legal environment, thus has an impact on ensuring that they adhere to the systems that are designed to ensure that there is sustainability and creation of value to the shareholders and other stakeholders. Their actions are not motivated by their individual interests, but are designed to fulfil the objectives of the organisation. The legal prescripts within the South African context require the board to exercise their duty with utmost care and act in the best interest of the public entity.

The monitoring functions of the executives, with regards to discharging their responsibilities, are managing organisation assets. The duty of the board of directors is influenced by the company law, stock exchange regulations with regards to the public listed companies and PFMA in case of SOCs. Since the task of monitoring of the duty of care is higher in public listed companies, non-executive directors need to ensure that management is accountable (Deakin, 2010).

This legal prescript further provides the guide in terms of how the board of directors should conduct its affairs, in order to fulfil its fiduciary duties. According to Anglo-American law, the role of control is separated from ownership and, therefore, shareholders rely on the control of the board of directors to manage and direct the operations of the company and, subsequently, they rely on executive directors to manage the day to day operations; since shareholders are required by law to act in a fiduciary manner, which implies being loyal and

honest (Keay & Loughred, 2015). Improved corporate governance, which is achieved through adherence to rules, practices and incentives that are aligned to the interests of executive directors with shareholders have the economic benefit.

The focus on the non-executive directors is theoretically and practically required to take on an increasing role to improve governance (Gibbs, nd). Gibbs further stated that the board of directors are the controllers and they take responsibility for the interests of the company, whereas fiduciary control requires directors to be loyal to the interests of the company. The obligation of loyalty requires the suspension of self-interest, as indicated by the following traditional principles.

The three key orthodox fiduciary principles are:

1. That the duty of loyalty is strict.
2. That a breach is based on conflict between duty and interest.
3. The onus is on the fiduciary to show there was no conflict (Gibbs, nd).

The non-adherence to the rules that are meant to govern the relationship between the shareholders and the board of directors may result in conflicts or divergence of interests. The rules and contract may assist in the event of the agents having the desire to serve the principal, while others may seek to serve a principle or a practice from the institution that might be contrary to the principal (Wiseman *et al.*, 2011).

Stakeholders' interests do play an important role in board decisions and governance systems, since the board's role is to act in the best interest of shareholders, employees and important stakeholders of the organisation (Doscher & Friedl, 2011). Therefore, the stakeholder interests should be determined by the board, in order to ensure that there is alignment of their interests to the shareholders.

It is also important for the directors to act in the interest of the organisation to ensure that they are not held liable for actions that are contrary to the expectations of the shareholders and stakeholders.

2.4. Corporate governance

Keay and Loughrey (2015) defined corporate governance as a system by which organisations are managed, controlled and directed to ensure that they are accountable to shareholders and stakeholders. In South Africa, the King IV and Companies Act are two of the systems that are utilised or seen as instrument for ensuring that the board of directors are accountable to shareholders and stakeholders. The major focus of King IV is to ensure that corporate governance, as a holistic and integrated set of arrangements, and its applications of the recommended practice achieve the results in the realisation of the related governance outcome (IoD SA, 2016).

This is emphasised by Keay and Loughred (2015) who quoted the Cadbury report, which states that accountability is one pillar that strengthens the relationship between the board of directors and shareholders. Corporate governance is defined by Amba (2014) as a system of structuring, operating and controlling the organisation with the aim of achieving strategic objectives in order to satisfy shareholders and other stakeholders, including the regulations.

The key objective of the corporate governance is the enhancement of the shareholders' value (Amba, 2014). Furthermore, Morck (2014) stated that the social purpose of corporate governance regulations is to limit the capital market failures. Thus, the corporate governance system is designed to ensure that the value of the organisation is enhanced and preserved.

Corporate governance had both internal and external components. Internal governance includes mechanisms and procedures related to oversight of firm management by the corporate board of directors, whereas external governance focuses on statutory and corporate charter provisions that determine the costs to shareholders of challenging both management and the board (Baber, Kang, Liang Zhu, 2015).

Corporate governance involves a different set of relationships that governs the management of the organisation, the board, shareholders and stakeholders (Madhani, 2016). Furthermore, Madhani (2016) highlighted that it provides a process that is ethical and is supported by the defined structure through which the objectives of the firm and systems of monitoring are set. Keay and Loughred, (2015) refer to the Financial Reporting Council in definition of corporate governance as a system between the board, including management, as well as accountability from the board to shareholders. This is a control system that

governs how management accounts to the board and subsequently how the board accounts to shareholders and stakeholders. Therefore, accountability plays a crucial role in the corporate governance sphere.

Corporate governance means responsible business management geared towards long-term value creation and is a key driver of sustainable corporate growth and long term competitive advantage (Madhani, 2016). All the activities of the board should have the goal in mind of ensuring that the value is created that is sustainable for the SOCs.

Huse (2005) noted that there is a need for an explicit contract between the board and shareholders that details the clear expectations, reporting lines in terms, of organisational structure, consequences from the deviation from the expectations of the task and performance expected from the board by the shareholder.

Huse (2005) and Roberts, McNulty and Stiles (2005) also noted that accountability is influenced by the various actors, which include stakeholders, shareholders and board members; also taking into account the operating context, which can include culture, politics, the size of the organisation and the industry. In support of the above, Monks and Minow (2004) noted that the fiduciary duty of the board, in most legislation, is to conduct their duties in the best interest of the shareholders. Accountability does mitigate the agency problem and this was supported by Mero, Guidice and Werner (2014) when they stated that shareholders use monitoring tools to ensure that the behaviour is still consistent with organisational goals. Furthermore, Mero *et al.* (2014) stated that when individual board members believe that they are accountable for their behaviour, they are more motivated to achieve the objectives set by shareholders. Therefore, we can conclude that over and above the legislation, there are other factors that affect the organisation that should be considered when expectations are articulated by the shareholder.

Keay (2017) found that the accountability of the board is the foundation for success of all the principles of corporate governance, thus it is important for the board to operate within the meaningful and effective accountability framework. Roberts, McNulty and Stiles (2005) noted that there is a remote mechanism that accountability was maintained between the board and a shareholder that includes the routine reporting of the performance and potential threats faced by the organisation.

Therefore, understanding the role of the board and its accountability responsibilities does mitigate the agency related problems, since the expectations of the shareholders and other stakeholders is articulated in terms of what the responsibilities are. Mero *et al.* (2014) observed that the individuals who perceive themselves as accountable are more likely to conduct their affairs with the aim of achieving the objectives aligned to the shareholder. Therefore, setting the objectives and ensuring that the expectations are aligned does create value to the shareholder. This includes the monitoring aspects, which will be described below.

2.5. Strategy development and performance objectives

The strategy includes scanning the environment for both internal and external environments (Alnoukari & Hanano, 2017). This is supported by Rumelt (2011), who highlighted that good strategies emanate from the insight gained in understanding the strengths and weakness and assessing the opportunities and risks in order. Over and above the internal and external environment, risks associated the strategic objectives should be considered. This is supported by Pretovska (2017) who discovered that in an environment, linking of business strategy and risks enables the organisation to identify an ongoing management of the risks through risk mitigation strategies. Furthermore, Pretovska, (2017) indicated that strategic risk management creates a value that is sustainable.

The strategy formulation included developing the corporate vision and mission, corporate objectives, strategies and policies (Alnoukari & Hanano, 2017). Furthermore, Alnoukari and Hanano (2017) indicated that strategy implementation drives the strategy into performance, therefore, an evaluation of the performance is done to ensure that the levers are working as intended.

The corporate strategy is concerned with the organisation as a whole, with the focus on the resource allocation, portfolio and diversification (Hrebiniak, 2006). A strategy is defined as a coordination of actions, resources and policies to accomplish the objectives of the organisation (Rumelt, 2011).

Struwig and Smith (2002) indicated that the strategy formulation is an intense process that is the foundation for the strategic management process. Therefore, that is the reason that the board are required to take reasonable care when vetting the strategy in order to be able

to fulfil their fiduciary duties (Coyne, n.d). The role of the board, over and above the vetting of the strategy, is to advise on the formulation of the strategy. This is supported by Tuwey and Tarus (2016), who stated that the board plays a strategic role in the organisation, with regard to strategy formulation, choice and implementation. This was also highlighted by Stiles (2001), who said that the perception of non-executives is that the review of strategic initiatives is a central feature of their contribution. In addition to this, Amba (2015) stated that the advice given by the board does enhance the strategic discussions.

Alnoukari and Hanano (2017) noted that the company relies on setting general goals, approved by the board of directors, to construct its strategic objectives. The strategic objectives are linked to the corporate objectives that cascade down to departmental level, right to the employee (Alnoukari & Hanano, 2017).

The board's role in implementation is the monitoring of the execution of the strategic objectives. This is supported by Amba (2014), who stated that the primary role of management is to implement the strategy that was approved by the board. Thus, the performance management is considered as one of the strategic tools that includes measurement and analysis.

Post and Byron (2016) indicated that the board's involvement in the strategy indicates an extent of the engagement of the board in activities related to their strategic advising role and decision making about the direction to be taken by the organisation. This is supported by Tuwey and Tarus (2016), as they stated that the skills and knowledge of the board members do assist the organisation with strategic decision making, by offering a wide range of perspectives and strategic consideration of possible alternatives. The board's role in advising during the strategy formulation process and decision making after applying all the options is, therefore, providing the direction.

The board has the power to make decisions and devise strategy (Keay & Loghrey, 2015). The board's role in strategy is their involvement is the decision making process, which has an impact on the overall performance of the organisation (Rao & Tilt, 2016). Therefore, the strategy and decision taken by the board does play an important role in ensuring that value is created in a sustainable manner for the SOCs.

2.6. Monitoring and Assurance

In this section, the monitoring that is performed by the board of directors to ensure that the value is created in the sustainable manner as part of their role will be discussed.

Additionally, the assurance of the monitoring activities of the board will be discussed, which will be mainly on the role of management, compliance functions and external assurance providers.

2.6.1. Monitoring

Board monitoring can be described as the extent to which the board engages in the activities of the organisation, with the view of controlling and ensuring management interests align to the board and shareholders (Post and Byron, 2015). Monitoring is one of the roles that the board plays to ensure that management is accountable and their actions are aligned to the board and, eventually, the shareholder.

Keay and Loughrey (2015) mentioned that the board relies on management to effectively manage the daily operational activities of the organisation and, subsequently, the board has broad powers to make decisions and devising strategies that will make the organisation sustainable. Such responsibilities require the board to have necessary skills to be able to create value for the shareholders through the strategies that are designed and implemented by management (IoD SA (2016).

Corporate boards have two important functions; to serve as advisors to the organisation and to monitor the activities and controls instituted (Darrat, *et al.*, 2016). The role of the independent board of directors is to be the monitor and advisor to both the CEO and executive committee (EXCO). According to Baldenius, Melumad and Meng (2014), the primary task of monitoring is to interrogate and understand the information presented by the CEO and EXCO, and the role of advisors is to bring new information to the CEO and EXCO that will enhance the operations and perspective of the organisation. The board's role is dependent on the maturity of the organisation and the level of complexity of the agency problems. A board that is focused on monitoring is less likely to uncover new information that will result in delegating the decision making process to the CEO (Baldenius, Melumad & Meng, 2014).

Since the board of directors are charged with the responsibility of protecting the interests of shareholders, their primary role is to monitor the efficiency of executive directors in discharging their responsibilities and their behaviours (Hambrick, Misangyi & Park, 2015). In addition, Johl, Kaur and Cooper (2015) emphasised the importance of a corporate governance mechanism of the board in monitoring and advising the management in order to ensure that the interests of the shareholders are protected. The monitoring assists in terms of performing an assessment on whether the organisation is on track with the initiatives and operational plans to achieve the strategic objectives of creating value by being sustainable.

The board should ensure that compliance is understood, not primarily from responsibility that is created, but also on the rights and protection that it affords to the organisation, which is vital in the creation of shared value (IoD SA, 2016).

The legal prescripts that govern the relationship between the board and shareholders doesn't need to be seen as the burden to the creation of the value of the shareholders. In support of this, Keay and Loughrey (2015) stated that there is a need to ensure flexibility to run a business with a balance between power, authority and discretion that will result in the benefit of the stakeholders. It is important that shareholders maintain a balance between rigid legislation and flexibility to ensure that the creativity of the board in discharging their duties is not impaired.

The independent board of directors are in a better position to challenge the CEO than the non-independent board of directors, thus there is greater effectiveness of monitoring the performance of the CEO and the entire organisation (Guo and Masulis, 2015). This independence is further strengthened by the independence of nominating committee from the CEO. Guo and Masulis (2015) emphasised that the most important determining factor, with regard to the quality of the oversight and monitoring of the committee, is the involvement of the CEO in the nominating committee. Firms with independent nominating committees are intolerant of the poor performance and have an intense internal monitoring of the performance of the organisation. Liu, Miletkov, Wei & Yang (2015) concluded in their study, Board independence, that there is a positive relationship between board independence and an organisation controlled by government performance, thus reducing

the inherent inefficiencies. This is achieved through the expertise brought by the independent directors to the organisation.

Effective monitoring by the board is often limited due to the inadequate amount of time provided to the board to assess the reliability of the firm-specific information. The more time spent assessing the information will increase the directors' fees. The board of directors they had do not have unfettered access to the organisation, since their interaction with CEO and EXCO occurred on a quarterly basis (Krause, Bruton and Yat-sen, 2014). There is a disadvantage noted in the effective monitoring of the activities of the organisation, since the CEO and EXCO have better information on the operations and organisation-specific expertise, whereas the independent board might have the generic knowledge and expertise (Liu, Miletkov, Wei & Yang, 2015).

This is supported by Rashid *et al.*, who argue that the lack of day-to-day inside operational knowledge may reduce the effective monitoring control role of the board (2010). Hambrick *et al.* (2015) found that to be an effective monitor, you need to have the in-depth knowledge and understanding of the organisation that is monitored. In order for the board to mitigate against the information asymmetry, they need to spend more time acquiring and understanding the organisation's operations and, where necessary, get the firm specific training to be able to be on par with management. This is further supported by Johl, Kaur and Cooper, (2015) who found that the attendance of the meeting assists with obtaining the information that makes it easier to monitor the activities of the organisation (2015). The board of directors should keep abreast of the operations of the organisation, in order to be knowledgeable and become effective monitors.

Hambrick, Misangyi and Park (2015) stated that effective monitoring does reduce the governance failures, but does not guarantee complete elimination. Furthermore, Hambrick *et al.* (2015) highlighted some of the domains for the board to monitor for potential problems emanating from the following areas:

- Financial misrepresentation.
- Uneconomical acquisitions.
- Aggressive business strategies.
- Risk exposures that are not aligned to risk appetite.

- Noncompliance to regulations.

Field, Lowry and Mkrtyan (2013) noted that busy boards may not effectively monitor management, due to the limited time spent at the board meetings. The demands for monitoring on the organisation depend on the level of maturity of the organisation, thus the more mature the organisation, the more advice from the board is required. Field, Lowry and Mkrtyan (2013) further concluded that a busy board does provide the necessary experience and connection that makes them better advisors, however, this makes them poor monitors, due to time constraints. Therefore, organisations should be able to assess the level of commitment of the board as well as the maturity level of the organisation when appointing the individuals to the board.

Board members in ensuring the fiduciary duties are properly discharged with regard to monitoring and there should be mitigation strategies to close the information asymmetry gap. The board relies on the combined assurance model that includes management and internal and external assurance providers to assist them as the second pair of eyes in their monitoring activities.

2.6.2. Combined assurance model

Combined assurance is based on the identified risk that may have an impact on the achievement of the objectives and how those risks are managed by various stakeholders, ranging from management, internal and external assurance providers, and reported to the board, through the audit committee (PWC, 2010).

One of the benefits of combined assurance is the detailed monitoring of the remedial actions that will ensure there is control and that weaknesses are improved through the recommendations (PWC, 2010).

Combined assurance is depicted in figure 2 below and indicates how the coordination is managed in order to ensure that all the risks faced are properly managed and communicated to the board. This does assist the board in fulfilling their duties of monitoring and advising, based on mitigation strategies implemented by the management and board in order to achieve the strategic objectives of the organisation.

Figure 2- Combined Assurance Model

Combined assurance model ²



The management is primary responsible for ensuring that the controls and operationalizing strategy and other governance processes. Therefore management is regarded as the primary line of defence with regard to controls. From the figure 2 above the role of management is to provide oversight which includes strategy implementation, performance measurement, risk management, internal control, company control; and other control and governance processes, including control self-assessment, and continuous monitoring mechanisms and systems (PWC,2015).

The study of PWC (2015) noted that the enterprise risk management which operate a formal, robust and effective risk management framework within which the entity's policies and minimum standards are set. Furthermore they stated that the objective of risk management is to provide an oversight and ongoing challenge of risk management performance and reporting thus ensuring that the objectives are achieved. Legal, compliance, health and safety, and quality assurance are often included in this line of defence as part of the internal assurance providers.

Independent and objective assurance of the overall adequacy and effectiveness of risk management, governance, and internal control within the entity as established by the first

and second lines of defence. This is predominately the role of the audit committee, supported by an internal audit, external audit and other credible assurance providers.

2.6.3. Internal auditing

Raiborn *et al.* 2017) described the nature of activities of internal audit as an advocate for good corporate governance within the organisation and are independent from the operations of the organisation and are able to conduct their work freely without interference. The board of directors are charged with the responsibility of ensuring that there is effectiveness of the organisation internal control systems. In order to promote good corporate governance, this is discharged through the assistance of an internal audit function.

The role of an internal audit in assisting the board in discharging its governance responsibilities, includes the following, as mentioned by Florea and Florea (2013):

- Review of the organisation culture; starting from senior management and including the board.
- Evaluating risk and internal controls designed by management.
- Systematic analysis of the business processes and key controls.
- Review of operation and financial performance.
- Recommendation of effective and efficient use of organisational resources.
- Assessment of the accomplishments of corporate goals and objectives.

An internal audit provides benefits to senior management and the board by performing assurance and consulting activities that help an organisation to achieve its compliance, financial, operational and strategic objectives. In support of the above roles, Lenz and Hahn (2015) noted that effective internal auditing is expected to review major risks in order to contribute to the achievement of the strategic objectives, thus positively influencing corporate governance. Regoliosi and d'Eri (2012) found out that the internal audit function granted the task of assessing the compliance aspects, as well as performance related aspects of the internal control systems of the organisation.

Assurance activities are directed towards maintaining strong corporate governance processes, including control evaluations, risk assessment and compliance. An internal

audit's role is to provide the assessment of the controls, risk management and governance processes that are independent to management. Therefore, it can be perceived as the trusted partner by the board in assisting them in discharging their responsibilities of monitoring.

An internal audit improves governance through supporting ethical tone at the top, preventing and detecting fraud, improving internal controls over financial reporting and helping firms manage their risks (Raiborn *et al.*, 2017).

In order to mitigate the information asymmetry of the board, internal audit reports and meetings with the board provide comfort to the board in terms of the operations of the organisations (Lenz and Hahn, 2015). Meeting the expectations of the stakeholders is perceived as a measure of effectiveness of the internal audit function, mainly from the board (Raiborn *et al.*, 2017). Furthermore, internal audits are being described a centralised tools of accountability and control since their function is designed to provide accurate and true state of affairs of the organisation (Schillemans & van Twist, 2016). Since the board places reliance on the work performed by the internal audit, there is an expectation that all the activities of the organisation will be reported in an accurate and true manner.

Members of the internal audit function provide important insights into the reality of executives and beyond (Boyle, Wilbanks and Hermanson, 2012). The internal audit function is regarded as a valuable, effective and proactive approach to increase reliability of financial reporting and all other types of information transference between organisational stakeholders (Reinstein, Cefaratti and Churyk, 2015). The internal audit function does plays an important role within the governance processes to ensure that the management, the board and shareholders' interests are aligned, thus mitigating the agency problem.

2.7. Performance and reporting

Members of the board of directors are entrusted with the responsibilities of appointing the external auditors, ensuring quality of the external reporting, effective internal controls and corporate performance. Hence this research proposal leads to the study to be undertaken with further focus on monitoring and reporting aspects of the board of directors.

Baber *et al.* (2015) characterises external governance in terms of the extent that statutory requirements and corporate policy provisions permit shareholders to intervene in the decision making process and governance processes. The policy should provide clear guidance when the shareholders can intervene, in order to ensure that the value of the company is protected.

The primary role of corporate governance, as described by Raiborn, Butler, Martin and Pizzini (2017), is to ensure that there are accurate financial reports that represent the organisation position and are issued timely. Doscher and Friedl (2010) stated that one of the roles of the board is to reduce the information inaccuracies between shareholders and CEO, this does assist the shareholders in making proper decisions with regard to the contracting with the CEO. However, within the SOC context, the board recommends to the shareholder the hiring and contracting of the CEO. Furthermore, they stated that if board members sit on compensation and audit committee, there is a degree of influence of the intensity of the committee in monitoring the accounting process, as well as paying for performance sensitivity of the CEO and its executive compensation. Madhani (2016) emphasised the importance of disclosure, since it allows the stakeholders to monitor performance of the organisation with the view of assessing whether the shared value is created.

Amba (2014) stated that the importance of the board of directors is maintaining integrity and quality of corporate reporting process that will satisfy both internal and external users of financial statements. Furthermore, Siagian and Tresnaningsih (2011) highlighted that since the board are independent from management and are not conflicted, it is expected that they should improve the quality of reporting systems through their monitoring and advisory roles. Therefore, the board should establish processes that will ensure quality and integrity of the integrated reporting.

In order for the board to be able to provide the oversight with regards to financial reporting, they should have the understanding of accounting principles and reporting (Johl, Kaur & Cooper, 2015). Johl *et al.* (2015) mentioned the results conducted by Conger and Ready, (2004) which found that the board of directors, who have financial backgrounds, were more effective in providing internal control systems in order to control the firm performance. It was also noted that the understanding of accounting principles does assist in reducing the financial misrepresentation on the integrated report.

The board provides a narrative of how the organisation is creating value through the integrated reporting. IoD SA (2016) describes integrated reporting as the overall presentation of company performance, in terms of both finances and non-financial information, with the view of depicting a picture of how the shared value is being created. Integrated reporting is the corporate reporting norm that aims to enhance accountability and stewardship within organisations. It provides insight on actions taken by the board in making strategic decisions and monitoring the way risks are managed and how ethical issues are addressed (International Integrated Reporting Council, 2013). One of the board functions is to provide feedback to shareholders and stakeholders on how the actions taken by management increased the shared value of the organisations. In support of the above, Liu *et al.*(2015) found that the presence of a board does alleviate the inherent inefficient associated with state ownership of the organisations. Thus, it can be concluded that the role played by the board in monitoring and advising the organisation does improve the efficiencies within the SOCs.

According to Wiseman, Cuevas-Rodriquez and Gomez-Meija (2012), agency theory builds from two axioms: individuals have unique goals and interests; and principals and agents and the information between two parties is not complete This anomaly can only be understood through the social context surrounding the party and agent' relations. Thus, the information systems and reporting do close the gap of the imperfect information that will reduce the agency-related problem and improve reporting of the progress of the organisation to be sustainable.

The feedback provided by the board of directors may be misleading or may disclose inaccurate information if the monitoring control mechanisms are not implemented properly and effectively. Baber *et al.* (2015) are in support of the above, and noted that there is a relationship between financial misreporting and external governance, which is based on the management incentive to manipulate financial information and financial reporting oversight provided by the monitoring mechanism of the board, through the internal control system. The performance targets set by the board, to the management, do have an impact on the level of financial misreporting. If the targets are set high and the remuneration is linked to the achievement of the targets, management will be inclined to misstate the financial information. When the incentive as a motivator dominates the accounting, restatements are less likely when the external governance is strong and there is an expectation that financial

misstatements are more likely when external corporate governance are weak (Baber *et al.*, 2015). Therefore, the risks of misreporting can be mitigated when there is active participation of the board in policy making process and setting of the performance objectives.

Corporate governance factors reflect the framework in which the organisation operates in, whereas the financial ratios reflect the performance, and, in the long run, strong corporate attributes ensure sustainability (Darrat *et al.*, 2016). Therefore, strong external governance and internal control reporting assist the organisation to be sustainable in the long run.

On the other hand, when organisations do not disclose governance practices, stakeholders cannot understand the performance landscape and this may decrease the effectiveness of the governance codes and also the stakeholders and cannot make the board and management account due to lack or inadequate information disclosed (Cuomo, Mallin and Zattoni, 2016). It is important that organisations provide detailed information that will enable the stakeholders to understand how the organisation is creating shared value and what its challenges are.

Ghafran and Sullivan (2013) referred to Engel, Hayes and Wang (2010), states that post SOX, total board fees, including cash retainers paid to audit committees, are positively correlated with audit fees which suggests a positive correlation between audit committee compensation and demand for monitoring the financial reporting process.

The correlation is supported by Sharma and Kuang (2013), who suggested the majority and greater percentage of independent directors on the audit committee are associated with a lower likelihood of aggressive earnings management that are determined for the incentives pay-out or where the incentives is linked to the high turnover in the organisation or whereas both majority and greater percentage of non-executive directors on the audit committee are associated with a higher likelihood of aggressive earnings management.

In support of the above, Bierstaker, Cohen; DeZoort and Hermanson (2012), indicated that the long term incentive of the board members who serve on the audit is consistent with the long-term value creation, which means minimal financial misstatements. Bierstaker *et al.* (2012) further state that if members emphasize outcome fairness to shareholders when evaluating an auditor-management disagreement, they provide credibility to financial reporting.

Disclosure by organisations can be classified as mandatory disclosure and voluntary disclosure (Madhani, 2016). Hence disclosure in the integrated report is an important component of corporate governance, since it provides an opportunity for all stakeholders of firms to monitor the performance of the firm. Therefore, the crux of the agent theory is the trade-off between the cost of measuring behaviour and results and transferring the risk to the agent through institutional frameworks that governs the relationship (Eisenhardt, 1989). The results that are supposed to be delivered by the agent are as a result of expectations from the principal in employing the agent to create value for the organisation (Bosse & Phillips, 2016).

2.8. Summary of literature review

The aim of this chapter was to provide a global and local overview of the role board members in SOCs when executing their roles and responsibilities. This was based on an examination of the literature of different authors in defining and supporting the following concepts and theories as extensively explained above:

The Institutional Context and Accountability which was contrasted with the agency theory. The accountability theory indicated that it does mitigate the agency theory problems. The accountability does articulate the expectations between the shareholder and board members and eventually to the management of the organisation.

The other mechanism that articulates what needs to happen in order to maintain good governance within the organisation is the corporate governance principles, the principles gave rise to the independent board of directors as well as their responsibilities. The corporate governance does direct the organisation in terms of how they are to be managed, controlled and directed.

The management and controlled for the board of directors include the roles they played in the organisations. The roles primarily played by the board involved the setting of the strategy and management of its implementation. The second role is to monitor the performance of the organisation in terms of the commitments in terms of deliverables that forms part of strategy implementation. The other role which is equally important is to institute control measures and monitor their compliance with regard to financial reporting process in order

to produce the integrated reports that is accurate and reliable for the shareholders and stakeholders who rely on the information to make decisions.

The next chapter will then describe the research questions that will assist in understanding the role of board in ensuring that the value is created for the shareholders.

3. Research questions

This research sought to understand whether the expectation gap between the shareholders and the board is bridged. Huse (2005) stated that the core notions of accountability is the role that is expected from the board, task performance, interaction with the shareholder and the decision making process. The matter is further explored by Keay and Loughrey (2014) in terms of how does accountability-strengthened governance between the board and shareholders in ensuring that the expectations of the shareholder are understood by the board.

Research question 1: How does accountability of the board to the shareholder contribute to the creation of value?

This question seek to respond to matter of the board of directors of whether does it improve the organisation through monitoring. On the other hand, it is further noted that there is a correlation of independence of the board, disclosure and organisation value, and this becomes effective in order to improve organisation performance (Ararat, Aksu & Cetin, 2015).

Research question 2: Does a SOCs board's monitoring system ensure that SOC's performance in ensuring that value is created in a sustainable manner?

The latter question tries to explore the governance mechanism to ensure the integrated reports are accurate and reliable. Effectiveness of the governance mechanism instituted by the organisation does have an impact on financial reports (Baber, Kang, Liang & Zhu, 2015). The governance mechanisms will be researched in order to ascertain mechanism put in place to ensure accurate and reliable disclosure of the integrated reporting.

Research question 3: What is the role of the board in ensuring proper disclosure while assisting to measure sustainability of the SOCs?

The methodology of obtaining the response to the research questions are discussed in the following chapter.

4. Proposed research methodology and design

4.1. Introduction

This chapter describes the design and methods utilised in this study. The research design is meant to provide a sense of how different aspects such as the sample, and the treatment were handled to answer the question raised in this study. In elaborating on the design, firstly the paradigms in the respect qualitative aspects of the study are described. This is followed by an exposition of the research methods that were utilised here. In this regard, issues relating to sample, the instrument, data collation, data analysis, the trustworthy instruments of the research study and ethical considerations are explained.

4.2. Research Design

Research design may be described as a plan according to which the specification or framework of the procedures to be implemented to establish valid conclusions about variables (dependent and independent). It may be thought of as a plan and structure of the investigation used to obtain evidence to answer research questions (McMillan & Schumacher, 1993; Trochim, 2000; Welman & Kruger, 2002) in fact the research design provides a set of guidelines including the aim of the study, the selection and design of a particular method (Mouton, 2006).

Further this also involves considerations of reliability and validity of scores obtained from the sample group (participants). Therefore, a good design should answer questions like "... what steps should be taken in order to demonstrate that a particular hypothesis is true and that all other possible hypotheses are false?" (Bless & Higson-Smith, 1995, p.63).

In taking a decision about which research design to use, the researcher has to consider a number of factors. These include the focus of the research study (conditions, orientations or actions), the unit analysis (the person or object of data collection) and the time dimension (Bless & Higson-Smith, 1995). However, the type of research conducted is a critical denominator of the design the researcher eventually adopts. In a nut shell, a research design

is a set of instructions that a researcher follows to gather and analyse data (Leedy, 1997). In this particular study, qualitative methods were utilised as described beneath.

4.3. Qualitative method

A qualitative study is often based on a constructivist or interpretivist paradigm, indicating that there are multiple constructed realities bound to context, time and culture that can be studied by examining people's experiences and what is going on in societal situations (Johnson and Ownuegbuzie, 2004). The research philosophy for this proposed research was interpretivist, which is designed to understand what is going in a work organisation amongst its "social actors" (Saunders and Lewis, 2012).

4.3.1. Sampling and data collection

The social actors in this regard were independent Board of directors of South Africa's State Owned Companies (SOC's) based in South Africa particularly in Gauteng province. This assisted us to understand and interpret the results of the interviews conducted to determine what is the role the board play in ensuring that organisations are sustainable in creating value. The semi-structured interviews were conducted with the independent board of directors of State Owned Companies. Consequently, natural techniques were used in gathering data which is described by Akhavan and Dehghani (2015) as method used where the experts are familiar with as part of their area of expertise, and that include interviews. Hence structured open-ended questions on interviews will then clear any ambiguity and will enable to link the social aspect to research questions.

The structured interviews assisted us to extract information that will enable us in understanding role that is played by the board and other information that will assist in addressing the research problem.

4.4. Approach

Since this study is conducted in a qualitative research methodology therefore an inductive approach was used. According to Cresswell (2007) this approach employed an inductive approach and fundamentally different role of the research and interpretation of finding. The

findings will therefore be interpreted from the semi- structured interviews conducted with the boards of SOC's. Furthermore, Johnson (2015) stated that the researcher should have an active role in both generation and interpretation of insight, and a more subjective perspective on the nature of reality will be embraced.

The interviews provided the insight of the role played by board members in fulfilling the roles that create value for the shareholders. Furthermore, the interviews provided an insight from the perspective of the board of directors, since they shared their experience and helped establishing the role they play in deriving the value for shareholders.

This approach assisted with the understanding and providing insight into how the accountability, monitoring and reporting of performance of the board in fulfilling their roles mitigates the risk of agency, thus ensuring that organisations perform optimally to remain sustainable in order to create value. The common themes emerging from the structured interviews will be analysed to ensure that the evidence obtained supports the research problem.

The primary purpose of the inductive approach allowed research findings to emerge from the frequent, dominant or significant themes inherent in raw data, without the restraints imposed by structured methodologies (Thomas, 2006).

4.5. Choices

Harrison (2013) references Cresswell and Clark (2011) who said that exploratory designs are the most common type of design method used for exploring relationships when study variables are unknown. As mentioned by the above authors, the research study will use qualitative research to obtain insights into what the board's role is in ensuring that the organisations, in which the responsibility is entrusted, create value in a sustainable manner.

4.6. Time horizon

The data will be collected as a once off event, which is described by Saunders (2012) as the cross sectional research method. The semi-structured interviews were conducted during the second part of 2017.

4.7. Population

The population for this research was current serving independent boards of directors of South African SOCs located in the Gauteng province. The data was collected using the structured interviews as indicated, with lee-way of open-ended questions. Usually minimum samples are used in qualitative research since the information provides useful information for understanding the complexity, depth, variation or context surrounding a phenomenon, rather than to represent populations, as in quantitative research (Gentles, Charles, Ploeg & McKiibbon, 2015). The smaller population, which does not exceed 12 directors of SOCs, will be used in gathering the data to understand the complexity and unique challenges faced by the board in performing their duties of ensuring that the organisations are sustainable and submerging their interest for the bigger benefit of the shareholders and stakeholders.

4.8. Unit of analysis

Qualitative analysis assists with the understanding of the SOC's context, board members' roles and interaction of various factors affecting SOCs. Therefore, the unit of analysis will be the perceptions and insights obtained from the interviews with the individual board of directors of SOCs based in the Gauteng province in South Africa. The interview results were coded using Atlas Ti software and categorised in order to analyse information properly. The interview results assisted in understanding what is considered by the board of directors in ensuring that the organisations are sustainable and create value to the shareholders and other stakeholders.

All the interviews were electronically recorded and transcribed using a service provider. The transcripts were checked against the recording to ensure accuracy of the transcribing. The transcripts formatted into word document in order to ensure consistency and ease of coding using the software.

4.9. Sampling method and analysis

As indicated in before that the semi-structured interviews were used to collect data, therefore the structured interview described by Saunders and Lewis (2012) as a method used of data collecting using a questionnaire in which each person is asked the same set of questions in

the same order and responses were recorded. This approach will assist in identifying the common themes and threads emanating from the interviews.

The purposive sampling will be used for this proposed research since it rests on the researcher judgment in selecting the sample population based on various reasons and premises (Saunders & Lewis, 2012). The data to be analysed using the qualitative analysis techniques will be non-probability sampling technique. Saunders and Lewis (2012) described non-probability sampling as a sample technique you use when there is no complete list of the population. Thus, it becomes possible to know the chance of each board member to be selected, since there is no definite numbers of board members of Gauteng-based SOC's. . Therefore, the table below depicts the data collection method, sampling techniques and sample size

Table 1

Aim	Data collection method	Sampling technique	Sample size
Face to face interview with board of directors of the SOC's in establishing their role of ensuring that SOC's are sustainable.	Semi Structured Interview	Purposive	12

4.9.1. Analysis

Singh (2006) stated that the analysis of data means to give raw data meaning or draw some results from the data after proper treatment. The analysis made it possible for the data to be interpreted and identified the common themes emanating from the data collected and analysed. Another benefit was to convert the data into more meaningful information that can be understood. Data is grouped in terms of the common themes that appear on the interviewees responses. The themes will be able to identify areas of concerns and what is required for the board.

4.10. Measurement Instrument

The measurement instrument utilised in this research study was semi-structured interviews using questionnaires. These questionnaires were used consistently to try to answer the research questions listed in paragraph 1.4 and chapter 3. This assists in having standard responses. The research questions were designed with the sole purpose of gathering information on the research objectives.

4.11. Data gathering process

The data gathering method was in the form of structured, one on one interviews with the individual board of directors of SOCs. The interviews were recorded and later transcribed in order to properly perform data analysis. Frels and Onwuegbuzie (2013) reference (Roulston,2010) in saying that interviews represent one of the most common ways of collecting data in qualitative research, since it allows the researcher to collect rich and meaningful data.

4.12. Analysis approach

Notwithstanding the fact that the inductive approach in this qualitative research was used, however the deductive approach will be implemented in this research because research questions were used to group data in order to find similarities and/or differences unlike the latter where this research is not used as major design of the enquiry. Therefore, the analysis approach for this research was to convert the data into more meaningful information that can be understood. Data was grouped in terms of the common themes that appear in the interviewees responses. Comparisons were performed to highlight the variances or the common threads.

The approach is to create key summary data themes in order to reduce the volume of data, thus ensuring that the results are meaningful and easily understandable to users that will enable the presentation of results being user friendly. The summary of the themes will be linked to the proposition as alluded under paragraph 2.1 above; which are context, accountability of the board, monitoring and reporting of the performance of the board. The

theme will provide an understanding in terms of how the board responds to each theme and their role in ensuring the sustainability of the organisation.

4.13. Limitations

The qualitative research is said to have numerous strengths when properly conducted. The following are then the limitations during the proposed research:

- Inaccessibility of the board of directors for the schedule interviews.
- Interviewees may not be objective in answering the questions or they might not be comfortable answering all the interview questions accurately.
- The population used will be from a non-probability sample, which may not be a true representative of the entire population of SOCs boards of directors based in Gauteng.
- The size of the sample population is small (Gauteng province), as SOCs are legislated in *National Gazettes* and not provincial legislations.

4.14. Consistency matrix

Table 2: the role of board of directors in ensuring that the SOCs are sustainable in creating value

Research question (Hypothesis)	Literature review	Data collection tool	Analysis
<u>Research question 1</u> How does accountability of directors contributes to the creating value?	(Keay & Loughrey, 2014)	Interviews	Relationships of accountability with the creation of value
<u>Research question 2</u> Does board monitoring close the gap between board diversity and SOCs performance?	Ararat, Aksu and Cetin (2015); (Doscher & Friedl, 2011) (Darrat, Gray, Park & Wu, 2016).	Interviews	Factors of monitoring used to ensure that there is sustainability

Research question (Hypothesis)	Literature review	Data collection tool	Analysis
<p>Research question 3</p> <p>How does the disclosure assist in measure the sustainability of the SOCs?</p>	<p>(Madhani ,2016) (Corbella et al., 2015); (Cuomo, Mallin and Zatonni, 2016)</p>	<p>Interviews</p>	<p>Disclosure instruments to evaluate the sustainability of the SOCs</p>

4.15. Summary

In this chapter the research design used in order to find solutions to questions this study set out to investigate was outlined. This was done by explaining several pertinent research issues ranging from the sampling of participants to data analysis. Also, a comprehensive explanation of the questionnaire used in this study was explained. Issues of limitations and consistency matrix were also addressed to ensure that the findings reported in the next chapter bear credence. Therefore, this chapter provided different steps followed in this particular study in order to reach the reporting of the results advanced here, the conclusion reached, and therefore the basis for recommendations and suggestions for further research.

5. Research findings

5.1. Introduction

Boards of directors of various SOCs within South Africa, based in Gauteng, were interviewed. The total number of people on boards of directors interviewed was 12. The board members represented various state owned companies; from energy, mining, transport and human Settlements.

The board members interviewed were all serving at SOCs that report to the shareholders, who are at the national government level. Therefore, the shareholder is the duly appointed minister responsible for the national department in which the board of directors interviewed report to in terms of the companies they represent.

Table 3 provides the details of the board members and their respective organisations which they represent.

Table 3

Number	Gender	Sector
1.	Male	Forestry
2.	Female	Energy
3.	Male	Arts
4.	Male	Energy
5	Male	Energy
6.	Female	Arts
7.	Male	Human Settlement
8.	Female	Transport
9.	Male	Minerals
10.	Male	Trade and Industry
11.	Male	Telecommunication
12.	Male	Transport

This chapter discusses the results from the exploratory research questions that were used to collect data from the participants. The interview questions were mapped to the overarching research questions and, therefore, links were created between the primary and secondary questions. The results structured in the format of the sub-questions from the overarching research questions as indicated in chapter 3. The data was obtained through the semi-structured interviews conducted with 12 board members of the state owned companies and analysed in order to derive at the findings.

Each questions aimed at gaining a better understanding, knowledge and insights on the research topic.

The interviews were recorded electronically through the use of the recorder and, thereafter, transcribed and coded. The coding was done using the various keywords on the interview schedule. The findings will be as per questions that were asked to various board members.

Quotations used in the following paragraphs are verbatim.

5.1.1. How does accountability of the board to the shareholders contribute to the creation of the value?

The question was asked with the aim of answering the overarching question in terms of the accountability of the board in ensuring that they contribute to the creation of the value for the SOCs. The objective was to establish the legal instruments in which the members of the board operate under in order to ensure that they remain accountable to the shareholders of the various SOEs they are representing. This was achieved through four interview questions.

5.1.2. Legislations governing the relationship between board members and shareholder

The first interview sought to understand what governs the relationship between board members and the shareholders. The respondents were asked to name the legislations that governs their relationship with the shareholder.

The number of respondents mentioned that they are governed by their company's specific Act, which does articulate the powers and responsibilities of their relationship with the shareholder.

"We've got the [REDACTED] act, the [REDACTED] act, it actually makes provisions for the minister, to appoint board members, and there's also the PFM act, which makes provision for who should basically be regarded as an accounting officer, an accounting authority, or executive authority." (Board Member #2)

"In our case the legislation will first be your primary legislation that governs the entity that you are serving on. In this case, it will be the [REDACTED] Act." (Board #6)

"We have other entities that were established through proclamation by the president. Now, for those that have been established by the Act or enabling legislation, like in the case of [REDACTED], I think it is called mineral and petroleum act." (Board #9)

Furthermore, the majority of the respondents mentioned the other acts that does governs their relationships, which are being perceived as important but secondary in nature. The prevalent ones were Public Financial Management Act and Companies Act.

"I think for us there is a [REDACTED] Act which spells out obviously how [REDACTED] is supposed to be instituted. Obviously you have got PFMA which governs how the finances of state owned entities, you have got the Companies Act which you need to comply with it." (Board #11)

"The second one will be our PFMA if you talk legislation that governs the way we do things in terms of governments and then you have all your other prescripts like your standards goals, regulations that come from Treasury". (Board #6)

5.1.3. Shareholders compact

The second interview question requested the respondent to indicate whether they do have the shareholders compact that is approved by the shareholder with performance measures and objectives. The aim of the question was to establish whether the expectations of the

shareholders and board are clearly articulated and that both parties agree to its contents. This includes interaction of the members of the board and its shareholder.

The majority of the respondents indicated that they do sign the shareholders compact with their respective shareholder stating the performance objectives and measures.

“The compact is actually designed between the company and the shareholder. The shareholder actually give the targets and we agree the targets. Let me say that the targets are agreed between the shareholder and the organisation, and then both parties sign, agreeing that this is what we’ve agreed upon, and then they are assessed and monitored by the shareholder, as and when... on a quarterly basis they report back to the shareholder.”
(Board #1)

“Yes, actually the shareholder’s compact is entered into between the board as a whole. For the board, it’s signed by the chairperson of the board, and from the shareholder, it is signed by the minister of ██████ in this particular instance. Part of the attachments that go hand in hand with the shareholders agreement, the extracts from the annual performance plan. So, the annual performance plan is like a strategy plan for government, it actually indicates what we are supposed to be doing for the next year, or in the particular year, what targets we are expected to meet, the standard of performance, like your key performance indicators, as well as due dates that certain targets have to be met by board.” (Board #2)

“Yes, it is for the company’s performance and not for the individual directors. There are objectives that we need to meet that is set by the shareholders, which the company must meet and which the directors are responsible for. The shareholders set the objectives and targets for the entity, but the entity must meet the target but the full accountability is for the directors.” (Board #5)

5.1.4. Intervention of the shareholder

This interview question posed to respondents was trying to establish whether there are any policies that articulate what processes are followed by the shareholder when the perceived value of the organisation is destroyed. The aim of the question was to find out whether there

is a common understanding between the shareholder and board members when the value of the company is destroyed or there is a perception.

An overwhelming number of respondents mentioned that there is no policy that is specific to when does the shareholder intervene when the value of the company is destroyed.

“Well, we don’t have policies that govern that. But we’ve got, sort of, directives from the National Treasury. The National Treasury then from time to time, would issue directives guiding the executive authorities, the accounting authorities, accounting officers and so on, in terms of what they should be doing, who is responsible for what, and we also provide reports, not only to the shareholder on a quarterly basis, but also to the National Treasury.”
(Board #2)

“There is no policy per say, but the add provides for the powers given to the minister as and when she feels there is a governance problem.” (Board #7)

“It is not only in [REDACTED] but in all the state-owned entities. The government, the minister [even as a shareholder/government representative] has what we call step in rights. It is within his prerogative, so he is fully empowered to step in when things are not according to plan.”
(Board #9)

Other respondents believed that the shareholders compact, companies act and other legal instruments provide the shareholder enough powers to be able to intervene when the value is destroyed at the company, therefore, there is no need for a separate policy.

“I do not think it is as explicit as that I think we will be guided pretty much by the companies act. I think in terms of this is what a shareholder would look into and PFMA obviously if the finances of the company governs collapses the shareholder does have the right. I really do not think we need a policy in my view per say I think the PFMA and the companies act even if you just read in terms of how corporate government is supposed to work (Board #11)

I really do not think we need a policy in my view per say I think the PFMA and the companies act even if you just read in terms of how corporate government is supposed to work.” (Board #8)

5.1.5. Evaluation of compliance with the prescripts

Board members of the SOCs were questioned on how they ensure compliance with the legislation and policies that governs their relationship with the shareholder. The purpose was to find out if there is any monitoring mechanism that is employed to ensure that they are still within their mandate and expectation of the shareholders.

The majority of the respondents mentioned that they rely on the internal control mechanism of the companies, which mainly comprises of the internal auditing function and company secretary.

“So, the internal audit function will be fully mandated and empowered to check all the compliance issues. You have also got compliance officers, so your risk management committee, your audit and risk committees will provide oversight on compliance legislation and other regulatory things.” (Board #9)

“The company secretary is a compliance officer and then the next level is you have your audit committee, isn't it when they audit they also check on compliance. Then you have your auditor general who will also be auditing.” (Board #8)

“So through policies, charters and all of that and also we have got internal auditors and risk and compliance division that monitors compliance with everything.” (Board #11)

The respondents who are using the self-assessment tools were five from the interviews conducted over and above the assurance provided by management and other assurance providers within the companies.

“We have the annual board evaluation, that is required from the shareholder. Then the other evaluation that we do is the audit committee that is prescribed by the companies act. Those are the two evaluation that we do. If a person is not on the audit committee he does not have to fill that in, but he has to fill in the other evaluation, the annual board performance. That is usually done independently.” (Board #6)

“Well, we do internally. We do our own assessment, self-assessment, where we have appointed an independent service provider at the Institute of Directors. We've got a three-year contract with them to come in on an annual basis, help us to help each individual

director with their own self-assessment, and also the assessment of the board as a whole. And thirdly, the assessment of each committee. Because we've got various committees that help the energy regulator, from the department side, the department also has their own assessment tool. They basically send us, on an annual basis, a detailed 360-degree assessment too, where each director is expected to assess himself, in terms of achieving or performing according to the required standard. It highlights the overall assessment, it highlights the key strengths where we've scored the highest, and then it looks at the issues where we might have scored the lowest. It then provides, sort of, suggested plans of action after each assessment we arrange a special workshop, where the IOD presents the report, we interact with it, so that if there are issues that were maybe misunderstood, those are clarified. We then come up with a plan of action.” (Board Member #2)

5.2. Board monitoring systems

The respondents were questioned on the monitoring system employed in their various boards. The purpose of the research question was to understand how does the board set and monitor the performance of the organisation. The primary objective is to discharge their corporate governance responsibilities to the shareholder, based on the agreed performance objectives on the shareholder's compact.

5.2.1. Monitoring instruments

The interview question that was asked to the respondents was “what performance instruments are used to monitor performance of the organisation?” The aim of the question was to establish whether there is a standard way of measuring the performance of the organisation that is used by the board.

The respondents stated that they are monitoring the performance of the organisation on a quarterly basis using the performance measuring instruments. All the respondents mentioned that they use the Annual Performance Plan (APP) which has the Key Performance Indicator (KPI).

“We basically rely on that APP. Remember I said we have an annual performance plan, so every quarter, each committee, obviously the committee is made up of members of the

board, as well as staff members, each committee will have to look at their key deliverables that they have to consider as part of their own charter. After we've analysed their plans, obviously at the end of the year, we have an annual assessment, and that annual assessment of performance is performed by the Auditor General of South Africa.” (Board #2)

“It is called performance objectives and the targets. On a quarterly basis we go through the targets received, has the entity met the targets set out on an annual basis. We have internally process to compile the information and internal auditors play a role in terms of where we find the evidence from, when it comes to the board level. First comes the audit committee, we monitor if they met the requirements or not, and then we take this to the board.” (Board #5)

“We prepare a corporate plan which covers three years and in that corporate plan we set out key strategic objectives and at least 10 KPI's that we track and a financial plan.” (Board #11)

5.2.2. Performance measures

Interview questions sought to understand the establishment of the performance measures and the monitoring thereof. This provided an insight in terms of processes being followed in setting the performance objectives for the organisation as well as the monitoring of the achievement of the set targets.

All the respondents mentioned that the performance objectives are set based on what was agreed on the shareholders compact, what is the government priority and strategic outcomes which translate into APP. Therefore, the performance objectives are derived from the shareholder. The monitoring of the achievement of the performance objectives is monitored on the quarterly basis. These are some of the responses.

“We have a strategy session and then we determine what the performance targets for the year would be and we set those targets. We take cognisance of the fact that there is a baseline which is the last year's targets. We use that as a benchmark and thereafter we set up the targets where we feel necessary.” (Board #5)

“Through the shareholder compact. So, the minister, at the beginning of each year, he/she will set targets or what we call a strategically intense statement to say this is where we are going for this year and this is what I want you to achieve. That will be supported by the State of the nation address (SONA) that will be supported by the minister of finance’s’ budget speech, and your minister’s budget speech.” (Board #9)

“There is a five year strategy plan, broken down into annual basis, and each year there is an agreement between the minister and the board regarding the expectation of the minister from the entity that is now [REDACTED], At the most minimum, what is it that is expected from [REDACTED] to achieve.” (Board #10)

5.2.3. Non achievement of performance objectives

The interview question aimed to understand the process followed by the board in the event of deviation or non-achievement of the set performance objectives. The respondents were asked how they deal with the non-achievement or deviation from the performance objectives. The majority of the respondents indicated that their reports are interrogated and in the event of deviations or non-achievement, the reasons are sought through root cause analysis from the management team with the action plans.

“Well, when we can check what was actually the cause of the challenge, and see where are there no mitigations that we can actually bring in place to try and change the situation.” (Board #1)

“Those are monitored where managers, or whoever is in charge, has to come up with a plan of action. Reasons why there was a deviation. Did we over-budget, for example? Or have circumstances changed, compared to our assumptions? So, we interrogate what causes the deviation, we then look at the committee level, as well as at board level. And then, what plan of action do we then have, to ensure that we meet the targets.” (Board #2)

“The management will have to make a submission on what the cause of the deviation was. If the deviation is a result of external forces then it must be managed in that way, because if the clients cannot meet our targets, remember we have targets that reflect growth, but if the economy is lacking and is not producing so many films and we can only then classify

three instead of ten. So, they would submit and it will be recoded if we don't do it in that way, we will have an audit finding.” (Board #6)

“If you did not achieve, you need to go back and establish the root cause for the failure (non-achievement). What was the reason for this non-achievement. You might find that its due to the economic conditions, which are out of your control. But the fact is you did not achieve, you are not going to tick it as achieved just because it was out of your control.” (Board # 9)

5.2.4. Communication of performance objectives

The respondents were interviewed with the aim of ascertaining how the performance of objectives are communicated to the board. This was aimed at establishing the communicating and reporting mechanisms used by management to communicate with the board the results of the organisation performance.

All 12 respondents indicated that the results of the performance of the organisation are communicated through the quarterly reports, which are presented to the respective boards on a quarterly basis and recommended by the sub-committees of the board before approval. The reports are shared with the shareholders once approved.

“We have board meetings and we have different committees. For example, if it is finance related, with risk and compliance, it will have to go to your audit and risk committee. The audit and risk committee will provide oversight and will analyse that report before it gets to the board.” (Board #9)

“The responsible executive will always have to come to the board and get it to present the report.” (Board #12)

5.3. Reporting of the integrated performance

This research question aimed to establish the role of the board in reporting of the integrated report to ensure assist with measuring the value created and sustainability of the organisation. This was performed through the understanding of the role of the board in setting the strategy and its role in the financial processes that lead to the reporting. This was achieved through the four interview questions which were asked to the respondents.

5.3.1. Role of setting performance standards

The respondents were questioned on their role in setting the performance standards and objectives. The aim was to get an insight in terms of what does the board do to ensure that the performance standards are set for the organisations.

All the respondents indicated that they are involved in advising and approving the strategy after the engagement with management, in order to ensure overall strategy is aligned to the expectations from shareholders.

“Look, we get management to set them. We then get involved in reviewing them and agreeing with them, so they basically then get the buy-in from us. They then my input and then talked to them, they must have finished that plan for 2017/2018, then we have a special board meeting, a one day workshop, to understand the document, before we can sign-off on it.” (Board #4)

“The role of the board is providing oversight. The board formulate the strategic thrust, informed by the national imperative issues for the national department for Human Settlement. The board makes sure that they agreed to a thrust and then engage the respective management in terms of how they can achieve those goals. Within the formulation of the goals, it is important that one knows that the part of the role of the board is to make sure that you identify risk for each and every strategic objective.” (Board # 7)

“...the creation of a strategy document is a domain of the board. I’m saying it is the board that gives strategy direction.” (Board #12)

5.3.2. Controls mechanisms

The respondents were interviewed on the measures put in place to ensure that the integrated report presented by management is accurate and reliable. This was aimed at understanding the checks and balances employed by the board to ensure that the information presented by management is free of material errors.

Majority of the respondents indicated that they rely on the skills within the various subcommittees of the board and the assurance function performed by the internal audit and external audit processes.

“The information is audited by our internal auditors. We actually have put in place a mechanism to say, before we submit to the Minister, and obviously before it comes to the board, the internal audit would have verified the information So, on a quarterly basis, the internal audit actually quality assures, from an independent perspective, internal audit is not responsible for any of the key functions. It will go in, it will verify, it will check and then it will say yes, I confirm.” (Board #2)

“All the information – all the corporate reports must be assessed by your internal auditors. First and foremost, your financial information must be audit audited information, so even when the external auditors come on board, at least the internal auditors would have made a verification to check the validity of the information and the accuracy.” (Board #7)

“The board must have certain skills in certain areas, finance, legal etc. So that you do not solely rely on what the executives say to you. But secondly what we have at the cross border is that boardroom.” (Board #8)

“...that we have committees with people who are experts, because a board is a combination of various skill sets, so you will have someone, like me – a legal person – I will bring in the legal expertise. And then you have someone who is a CA, who bring in the financial knowledge. The information goes through our internal audit, so the internal audit will audit the information. Our audit and risk committee as well will go through that. We have also got external auditors, so the board engages with these auditors, so the external auditors will audit that report and tell us whether that information is accurate or not.” (Board #9)

5.3.3. Performance standards

The respondents were questioned on which factors they take into account when the performance objectives are set. This provided an understanding of the factors considered by the board in developing the performance objectives of the organisation.

The majority of the respondents mentioned that they do take into account the external factors that might have an impact on the achievement of their objectives, as well as the internal environment. External environments also include the political and economic conditions in which the organisation operates. Internal looks at the resources internal to fulfil the objectives.

“We take into account the legislation, we take into account the requirement from our Minister, we take into account what we’ve been doing in the past. For example, if our standards, or, let’s say our licensing requirements, where so many would try to say, let’s try to simplify them, to address some of the issues that we might have experienced in the past, or if our licensing requirements are not in such a manner that would help us achieve our targets, that’s when we start looking at these things.” (Board #2)

“You are a business, it is your PESTELs, your SWOT analysis. You have got to engage your internal and external environments.” (Board #6)

“We look at both internal and external context. Internal context will be the capabilities of [REDACTED], benchmarked against the past performances, how has it performed, we look at the available resources and, of course, the budget allocations, all of those are internal context.” (Board #10)

The risk management does assist management and the board to be aware of the threats and opportunities of pursuing certain strategies. Therefore it becomes a management tool that can be a great value to the organisation in order to be able to create value. Four Respondents over and above the internal and external context that is considered mentioned that they also considered the associated risks linked to the performance objective. The following are some of the quotations:

“In our strategy sessions we look at the risks - saying [REDACTED] and to see in terms of the risks, is the risk mitigated by certain controls and if it is not, what is the action plan. We will consider those risks in terms of setting the performance targets.” (Board #5)

“We decided to embed risk management into planning a strategy session, where at the strategy planning session we also identify risks that somehow will have an effect on the strategy that we set for ourselves.” (Board #10)

“When we put a corporate plan we also do a risk assessment as well. To say what are risks associated with the achievement of this? And we decide on tolerance level and say is the KPI still achievable, if we say yes. Then we say how will we manage the risks. So we must first agree because putting a KPI but the risk is just residually read from the word go.” (Board #11)

Respondent (Board #5) mentioned, in addition to the factors discussed above, that it is important to ensure that the objectives are aligned to the overall strategy of the organisation.

5.3.4. Financial policies

The respondents were interviewed on the role that they play in setting the financial policies and monitoring their compliance. The purpose of the question was to investigate the governance processes and involvement of the respondents in designing and ensuring that there are financial policies that will ensure that the integrity of the financial integrity of the reporting is maintained, thus having accurate and reliable reports.

All the respondents confirmed that they do play a role in assessing the adequacy of the financial policies and approving them. This is performed through various subcommittees, but the audit committee play the most important role in the assessment, prior to the board approval of the policies. There is an expectation for management to implement the policies once they have been approved.

“The role of the board is there to approve those policies. Discuss and approve adherence to the policies, we tend to rely on oversight committees.” (Board #3)

“That is done by the committee, all financial policies, accounting funds policies have to be agreed by the audit committee. For the period and every year it is up for review accordingly. Changes in the accounting policy will come to the audit committee and approve that accounting policy. Supply chain is the biggest one that is always on the move and that will

be reviewed quite regularly. One that we have done is an entire audit in all the supply chain processes.” (Board #4)

“The board approves the policies. The policies will be compiled by management and brought to the board for approval and the implementation of the policies. So, once we approve the policy, we expect management to implement the policies.” (Board #5)

The respondent (Board #3) mentioned that all the policies of the organisation are delegated to the respondents for approval by the shareholders with the exception of the policies that affect the respondents as board members. The policies are approved by the shareholder.

“There was an exception from one respondent who mentioned that their review of the policies is aligned to their tenure as board members. The policies are reviewed every three years, which means a board is appointed for a three-year term. In that term, you ought to have reviewed all the policies, including your financial policies. Now, that also gives you an opportunity to plan, coupled with that is the fact that you have your risk management, your various committees, also various subcommittees within the organisation and the audited risk which also provides oversight on your financial management.” (Board #9)

In terms of the monitoring of the compliance to the financial policies of the organisation, the respondents indicated that they primarily rely on the assessment performed by the internal auditors as well as audit committee.

“...through our various engagements that we have. We try not to be too operational so all council members serve on committees, so all the work gets done on a committee level. So, we monitor on a committee level, internal or external audit will be our controls once again and our reporting on matters that are deviating.” (Board #6)

“Monitoring and internal audit. Our internal audit will monitor that, will audit compliance with those legislations. Our external auditors will audit as well and then report goes to audit and risk, they will then say where we are, whether we are complying or not.” (Board #9)

“The monitoring is done internally within finance we have got all internal finance

processes we have got a delegating authority and we have got internal auditors that audit.”
(Board #11)

“If you look at our audit committee as well, they look at compliance generally. They’ve got a compliance universe, where internal audit also comes in, just to verify whether there is a level of compliance.” (Board #2)

5.4. Summary

In summary, the findings obtained through the semi structured in-depth interviews of the board of directors for the SOCs with the aim of understanding their role in ensuring that the organisation they represent create sustainable value to its shareholders.

The respondents in the majority have all indicated that the relationship with the shareholders is governed through an act that is linked to the organisation in which they are members of the board as directors. The relationship is articulated in the legislation that gives existence to the organisation, as a whole, including the powers and responsibilities. This was common amongst all the respondents interviewed. The respondents mentioned secondary legislation such as the Public Finance Management Act, which also articulates what is required from the board, in terms of the finances and other requirements. The respondents agreed that they are also being governed by this act. Furthermore, four respondents indicated that three companies’ act does also feature as one of the governance instruments that regulates the relationship between the shareholder and respondents. Only two respondents mentioned that there is board charter that also articulates what is required, in terms of the relationship between shareholder and board members.

The other common theme that emerged during the interviews is the shareholders compact. All the respondents indicated that there is an approved shareholder’s compact that articulates what the performance targets are that to be met by the board and how the results will be communicated to the shareholder. The shareholders compact does give rise to the accountability of the performance targets as agreed with the shareholder, therefore this give rise to the value creation that is expected.

Evaluation of the compliance with the prescripts governing the relationships with the shareholders, five respondents mentioned that there is self-assessment of the compliance over and above the assessment conducted by the assurance providers.

The policies that described the shareholder involvement when the value is destroyed, respondents mentioned that there are no policies articulating the processes of the involvement of the shareholder. Without a policy, shareholders may intervene without any process and interpretation of the value destroyed may be different between both parties since there are no documented guidelines.

The monitoring system used to ensure performance is aligned to the performance measures in order to create value to the organisation is one of the key roles of the respondents in discharging fiduciary duties. A common theme of the annual performance plan (APP), a measuring instrument mentioned by the respondents, is derived from the strategic plan and shareholders compact signed with the shareholder. Therefore, there is alignment of the APP with the expectations of the shareholder that will enable the value to be created by the organisation.

Non-achievement or deviations from the set performance standards are interrogated by the majority of respondents and root cause analysis is performed. The action plan is required from management that will assist in closing the performance gap.

In the role of the setting of the performance standards and objectives, all the respondents indicated that they do interrogate and approve the performance objectives and standards that are part of the strategic development and implementation of the organisations.

Majority of respondents indicated that they do consider the external and internal context when setting the performance objectives for the management. Minority of the respondents indicated that they also considered the level of risks associated with the objectives organisation wish to pursue. This does assist board and management in managing their environment properly, thus ensuring that the objectives are met. The non-achievement, or when the value is not realised, the organisation will be in a better position to mitigate the risks or threats if they embed the risk management practices in their strategic planning processes.

The majority of the respondents indicated that the approval of the financial policies are conducted as part of their role as members of the board in order to ensure that the controls are maintained that will ensure the integrity of the integrated report. Over and above, there are control mechanisms employed by the respondents that ensure the integrated report is accurate and reliable, such measures include the review by the management, board and independent review by internal auditors and external auditors.

The majority of respondents performed their role in a manner that will create value of the SOCs they represent.

6. Discussion of findings

In this chapter, the interview results are discussed in detail. The results discussed in chapter 5 interpreted applying the literature reviewed in chapter 2. The data analysis for each respondent interviewed provided insights on the role of the board in creating value for the state owned companies to ensure that is sustainable.

In the ensuing paragraphs, the three research questions was asked by analysing the findings of the respondent's answers that support, complement or contrast with the supporting literature.

6.1. Research Question 1: How does accountability of the board to the shareholder contribute to the creation of value that is sustainable?

The research question was trying to understand the legal instruments that govern the relationship between the shareholders and board of directors. In order for the value to be created in a sustainable manner, there should be alignment of the interests between shareholder, board of directors and management. This is achieved through the establishment of the control mechanisms regulating the relationships between shareholder and the board of directors.

During the interviews, majority did indicate that there is a regulation that governs the relationship between shareholder and them. It was noted that there are various acts that give rise to the relationship between the shareholder and the board. In most cases, it is the act that governs the operations of a particular institution that the participants represent.

The respondent's assertion there is a fundamental legislation that governs their relationship is in agreement with the literature. In support of the respondents, Keay and Loughrey (2015) mentioned that there are policies and legislation which mitigate the agency theory, thus ensuring that the board of directors act in a fiduciary manner that is loyal and honest. In support of the above Wiseman, Cuevars-Rodriguez and Gomez Meija (2012) mentioned that government is one of the institutions with prescribed practices and policies that govern the relationship between shareholder and board of directors of the SOCs. The legislation mentioned by the respondents does provide the framework in which the accountability of

both parties is articulated and established. Therefore, with the accountability established, the problem stated by Bosse and Phillips (2016) of the divergent interests which may destroy the value of the organisations that are mitigated. The accountability of the board, as stated by Keay (2017), is the foundation for the successful corporate governance resulting in a creation of value.

Furthermore, in regards to the legislation that governs the relationship between the shareholder and board members, the respondents mentioned that there are secondary legislations that governs the relationship between shareholders and board members, other legislation mentioned was the Public Finance Management Act and Companies Act.

This is contrary to the literature, where Keay and Loughrey 2015 stated that in order to maximise the accountability measures to promote accountability, must be clear and conflicts within the regulatory instruments should be avoided. The risks mentioned by Keay and Loughrey (2015), with regard to multiple regulations, are that one legislation may be inappropriately prioritized or another one is ignored.

The board of directors may have a different interpretation of their role and mandate from the shareholder. This may create conflict and agency problems resulting in the value of the organisation not being realised or by being destroyed. In order for the expectations between shareholder and the board of directors to be aligned, Huse (2005) observed that there should be an explicit contract between the board and shareholder articulating clearly the expectations, structure, reporting lines and performance targets. This is further supported by Mero, Guidice and Werner (2014) with the observation that when the targets and expectations are clearly stated, the board members become motivated to achieve the set objectives which align to the shareholder.

The respondents agreed with the literature that the expectations articulated in the shareholders compact. The respondents stated that the shareholders compact is the agreement between the shareholder and board whereby both parties agree on the targets to be achieved and it articulates how the performance will be assessed and monitored. It also indicated the communication channels to be utilised by both parties in providing feedback. The respondents also mentioned that the performance targets are agreed between parties but the board is ultimately accountable for the achievement of the

performance objectives. In addition, the performance targets are cascaded to management to operationalise the targets.

According to Madhani (2016) this defined structure, in which objectives are communicated and monitored, provides the ethical process. Therefore, the transparent process mentioned by the respondents, in terms of agreeing to the performance objectives and communicating, creates a level of accountability that may serve as the motivator to meet the targets. Furthermore, this makes the respondents act in the best interest of the shareholder.

The fundamental problem exists when the perceived value expected by the shareholder does not materialised or gets destroyed due to the divergent interest between the board and shareholder. The respondents were questioned whether there are policies that articulate the processes to be followed when the perceived value is destroyed or the expectations of the shareholder are not met.

The majority of the respondent mentioned that there are no policies that clearly articulate when the shareholder get involved when the perceived value is destroyed. Some of the respondents stated that it is the shareholders prerogative of when to intervene.

The theory mentioned that there should be an understanding of the relationship between the agent and principal provides a needed grounding of the sad relationship (Hannafey and Vitulano, 2012). This is further supported by Wiseman, Cuevas-Rodriguez and Gomez-Mejia, (2012) who stated that government prescribes the practices and policies that govern the relationship between board and shareholders. Baber, Kang, Liang and Zhu (2015) mentioned that the external governance is characterised by policy provisions that permit shareholders to intervene in the decision making and governance processes. Therefore, the shareholder, as the representative of the government, should formulate the policy that will assist in mitigating the agency problems that may influence the relationship between two parties. Mechanisms, like policies and legislation, increase the accountability of the board to the shareholders (Keay and Loughrey, 2015) hence there is a need to have the policies that will cover all the aspects of the relationship, including the conditions that will allow the shareholder to step in, in the event that the value is destroyed. The respondent's assertion with the policy of the shareholder stepping in was not inconsistent with the theory from chapter 2.

The evaluation of compliance with the legislation that governs the relationships between the shareholders and board of directors was discussed with the respondents with the view of establishing how the compliance is reviewed. The majority of respondents mentioned that the compliance to the legislation that governs the relationship with the shareholders is through the compliance provided by the assurance providers being internal auditors and company secretaries. Few respondents mentioned that they perform the self-assessment to ensure that they comply with the legislation that governs them with the shareholder. The compliance aspects are communicated through quarterly reports to the shareholder.

The board of directors are accountable to their shareholders, this is performed through the quality of reports that are shared with the shareholder and, subsequently, the shareholders have to review and provide inputs to the reports provided by the board (Keay & Loughrey, 2015). This is supported by Madhani (2016), who mentioned that governance does provide a structure where the system of monitoring is set and communicated. Furthermore, IoDSA (2016) mentioned that compliance should be understood with its rights and obligations in order to create shared value. The respondents and literature are in agreement that the compliance should be evaluated to ensure compliance and improve accountability, thus being able to create value to the shareholder.

The accountability of the board to the shareholder is to establish that the value is created through the performance measures, as well as the shareholders compact that outlines the expectations and evaluation of the performance of the board members. There are areas that are not supported by the literature that are around the policy provisions of the shareholder intervention when the perceived value is destroyed under the watch of the board members. There are multiple regulations that govern the relationship between the board and shareholders.

6.2. Research Question 2: Does a SOC board's monitoring system close the gap between board, management and shareholders and ensuring performance that is sustainable?

The strategy development includes understanding the environment the organisation that operate in it. Alnoukari and Hanano (2017) indicated that the strategy included the scanning of both the external and internal environment. This was further supported by Rumelt (2011), who mentioned that good strategies emanate from the insight gained in understanding the strengths and weakness and assessing that the opportunities and risks are in order.

Therefore, in order to play a significant role in the strategy development, understanding the context is important so that you can be able to react or properly assess the direction to be undertaken by organisation.

Respondents were questioned in terms of considerations taken into account when the strategy and objectives are developed. Some of the respondent's mentioned they take into account the legislation imperative', and also the governments' imperatives for a particular year. Respondents said that some of the strategic inputs are obtained through the government plans as articulated in the State of the Nation Address (SONA) and the budget statement from the ministry of finance. Another consideration, indicated by the respondents, is the external environment, which includes the economic conditions of the country. The considerations with the internal context included the assessment of the current capabilities including resource limitations and using the previous year's performance as the benchmark. The respondents' role in the development of the strategy and its objectives is consistent with the theory mentioned in Chapter 2.

Over and above the considerations indicated by the respondents below, four respondent's further stated that they include risk management practices in their strategic planning development. They indicated that "...we decided to embed risk management into planning a strategy session, where at the strategy planning session we also identify risks that somehow will have an effect on the strategy that we set for ourselves". The risk management does play a crucial role in the development of the strategy since it serves as the sounding board in terms of ensuring all the risks are properly mitigated or the strategy is within risk tolerance levels.

The embedding of risk management practices within the strategy development is one of the key strategic monitoring tools. Pretovska (2017) discovered that linking of business strategy and risks does create a sustainable value. Theory does support the role indicated by the respondents with regard to the role of risk management within strategic development. However not all respondents indicated that they take into account the strategic risks in order to manage the risks through mitigation strategies and evaluate the impact of the risks on the continuous basis to ensure that the strategic objectives is achieved.

The fundamental role of the board within the organisation is the involvement in the strategy. This is supported by Post and Byron (2016) who stated that the role of the board is advising and decision making with regard to the strategic direction of the organisation. Due to the skills and knowledge possessed, the board is able to advise on strategic considerations and options (Tuwey and Tarus, 2016). The board should advise and assess the strategy before the decision making, taking into account various options. The alternatives opted by the board should be aligned with the overall objective of creating value to the shareholders. Stiles (2001) noted that the review of strategic initiatives was a central feature to the contribution of the board of directors.

During the interviews with the board of directors, the role of the board with regard to strategy and strategic objectives was asked. The majority of the board members indicated that they are involved in the strategic development. The management develop the strategy and the board interrogates the strategy document, mainly through a strategy workshop session. The management will factor into account the inputs of the board prior to the final approval of the strategy document by the board. The approved corporate strategy is communicated to the shareholder. The involvement of the board of directors includes the decision making of the strategy direction to be pursued by the organisation. The role played by the board of directors is consistent with the literature that was discussed in chapter 2.

The strategic objectives of the organisation play a vital role in ensuring that the value is created by the organisation since it becomes the blueprint of the direction the organisation is taking, based on the approved strategy. In addition, Alnoukari and Hanano (2017) noted that the organisation set the strategic objectives after the approval of the strategy by the board. Alnoukari and Hanano, 2017 further mentioned that the strategic objectives are further cascaded down to departments until the individual employees. The strategic objectives, therefore, form part of the overall performance management system within the organisation. Once the strategy is approved by the board, Amba (2014) indicated that it is the expectation of the board for the management to implement the strategy.

The strategic objectives of the organisations emanate from approved strategic plans as indicated by the board members interviewed. The strategic plan is broken down to the various activities which can be achieved within the financial year. This is further broken down into quarterly targets. One of the respondents indicated that,

“The role of the board is providing oversight. The board formulates the strategic thrust, informed by the national imperative issues for the national department for Human Settlement. The board makes sure that they agreed to a thrust and then engage the respective management in terms of how they can achieve those goals. Within the formulation of the goals, it is important that one knows that the part of the role of the board is to make sure that you identify risk for each and every strategic objective.” They further indicated that the progress of the implementation of the strategic objectives are monitored and interrogated on a quarterly basis by the board members.

The role of the board is dual; to monitor and advise the management of the operations and strategic directions of the organisation. The primary task of the board, as far as monitoring, is articulated by Badenius, Melumad and Meng (2014) who highlighted that it is to interrogate and understand the information that is presented to them. In addition, Hambrick, Misangyi and Park (2015), mentioned that the role is to assess the efficiency of management in discharging their duties to ensure that the shareholder’s value is enhanced and protected. Thus, the monitoring assesses whether management has achieved the strategic initiatives and targets are on track by management. This is further supported by Guo and Masulis (2015) who stated that efficiency is realised if it is conducted by the board through monitoring activities.

During the interviews conducted with the respondents, they indicated that they do perform monitoring as part of their fiduciary duties. All the respondents indicated that they interrogate the quarterly reports submitted by management on a quarterly basis through the subcommittee meetings. The performance reports are shared by management on a quarterly basis, which indicates the performance against the set targets. The deviations or non-achievement to the set performance targets is being properly evaluated with its reasons. One of the respondents stated that they “interrogate what causes the deviation, we then look at the committee level, as well as at board level. And then, what plan of action do we then have, to ensure that we meet the target?” Majority of the respondents agreed with the above-mentioned respondent that action plans are requested as well as the root cause analysis in order to assess the severity of the non-achievement of the target. It should be noted that the monitoring mechanism employed by the board is supported by the literature.

Lenz and Hahn (2015) noted that the effective internal auditing is expected to review major risks faced by the organisation with regard to its operations thus to assist with the achieving of the strategic objectives. The role played by internal audit is to provide assurance that the risk management strategies are working as intended. The other role is to ensure that the organisation comply with the established regulations and policies. This is attested by Regoliosi and d'Eri (2012) when they mention that the internal audit function is granted the task of assessing the compliance aspects as well as performance related aspects of the internal control systems of the organisation. The function of Internal audit is intended to provide accurate and true state of affairs of the organisation (Schillemans, van Twist, 2016).

During the interview with the board of directors, the common theme that emerged was the board of the directors reliance on internal audit function. The board mentioned that they rely on the internal audit with regard to compliance issues with the organisation. A respondent mentioned the following “ ..we have got internal auditors and risk and compliance division that monitors compliance with everything”. The quarterly reports submitted to board, the information has to be vetted prior to the submission to the board. Any other information that is presented to the board, internal audit does play the role in terms of assessing the correctness of the information prior to the information being presented to the board. The role played by the internal audit function does assist the board in closing the information gap between them and management. The information gap is caused by the board not being involved with the daily operations of the organisation.

6.3. Research Question 3: What is the role of the board in ensuring proper disclosure while assisting to measure sustainability of the SOC's?

The primary role of the board of directors is to ensure that accurate financial reports that represent the state of affairs of the organisation is presented timely and accurately (Rainborn, Butler, Martin and Pizzini (2017). This is further emphasised by Doscher and Friedl (2010) who mentioned that the role of the board is to reduce the information inaccuracies. It is an important aspect of the board to ensure that the information presented to shareholders and other stakeholders is free from material errors. Amba (2014) mentioned that the integrity of the integrated reports does satisfy shareholders and other stakeholders. The users of the financial statements and integrated report use the information to make decisions, it is important that the accuracy and reliability is maintained in order for the

decision makers can make the informed decisions without being misled. Furthermore the members of the board are skilled and have the indepth understanding of the accounting process. This is supported by Johl, Kaur and Cooper (2015) when they stated that a board who is tasked with providing financial oversight should have the understanding of the accounting principles.

The respondents indicated that there are control mechanisms instituted to ensure that the integrated report is accurate and reliable. There are skilled individual board members in the area of finances who are able to review the accuracy of the financial information. Therefore, the financial and non-financial information is reviewed by the audit committee and various subcommittees of the board. In view of the above literature, which supports the results of the interviews, it can be concluded that the level of skills within the board does contribute to the level of accuracy and reliability of the integrated reporting processes.

Baber *et al.* (2015) noted that the board provides monitoring through the internal control system which include the policies and procedures relating to financial statements and integrated reporting presentation. Internal controls include all the management measures put in place to prevent or deter the errors from occurring. The internal governance is defined as including mechanism and procedures related to the effective oversight of the board in ensuring that the processes and policies that are aligned to best practices are implemented and practiced by management.

During the interviews, the respondents were asked on their role with regard to financial policies, thus ensuring that they comply with the general accounting practices. The respondents indicated that they do play a role in approval of the financial policies after they have been interrogated and provided with inputs. Furthermore, an audit committee plays a measurable role in recommending the policies for board approval. Majority of the respondents indicated that the review of the financial policies is performed once in a year. With the exception of one respondent, who mentioned that the policies are reviewed once every three years. The literature review supports the oversight monitoring performed by board in the review of the financial policies of the organisation to ensure that internal processes that produce the annual integrated report are adequate and effective. This does assist in ensuring errors and misstatement of the financial and non-financial information is minimised.

Further to the above, respondents indicated that they do rely on other assurance to provide a level of assurance with regard to the control measures put in place for ensuring that the integrated reports are accurate and there is adherence to the approved financial policies. One of the respondent mentioned that

“Monitoring and internal audit. Our internal audit will monitor that, and will audit compliance with those legislations. Our external auditors will audit as well and then the report goes to audit and risk, they will then say where we are, whether we are complying or not”.

The main assurance is provided by internal auditors as well as external auditors, prior to the last line being the audit committee.

There was literature that supported the levels of assurance that serves as other control mechanisms that are provided by both internal auditors and external auditors, which was noted in Chapter 2. Florea and Florea (2013) noted that other roles played by internal auditors is the analysis of the business process and review of financial and non-financial performance of the organisation. Rainborn, Butler, Martin and Pizzini (2017), added that the other role of the internal audit is the review of the internal controls over reporting, thus assisting the board and management in mitigating the risk of misrepresentation and inaccuracies.

An internal audit does assist in ensuring that the controls and report being presented to the board by management are accurate and reliable, thus having a ripple effect by assuring the shareholders and stakeholders that the report is free of material errors. Over and above the integrated report, the internal audit is required to review the compliance aspects of the internal control system of the organisation (Regolios and d’Eri, 2012).

The external auditors are primarily concerned with whether the organisation’s integrated report is presented in accordance to the generally accepted accounting principles, as noted by Rainborn *et al.* (2017). Therefore, the disclosure requirements and ensuring that all the account balances in the report are some of the responsibilities of external auditors. Board members utilise both external and internal auditors as part of their oversight to the financial reporting process and compliance with the policies.

Combined assurance is based on the identified risks that may have an impact on the achievement of the objectives and how those risks are managed by various stakeholders, ranging from management, internal and external assurance providers, and reported to the board, through the audit committee (PWC, 2010).

The literature does support the assertion from the respondents who indicated that they rely on management first and foremost to produce accurate and reliable information. The risk management is part of the management function which is designed manage the mitigation strategies and continuous evaluation of the risks. The second assurance that is provided to the board with regard to the performance of the organisation to ensure that is aligned to the achievement of the strategic objectives is Internal audit who is tasked with appraising the board of the operational activities within the organisation which include amongst others its performance, compliance with rules and regulations and reliability and accuracy of the financial information.

6.4. Summary of findings

The summary of findings between the literature review and the interview results of the respondents are tabulated in the table below:

Figure 3 – Summary of findings

Principle	Supported by Literature	Respondents Assertion
Primary legislation governing the relationship between shareholder and board of directors	Yes	Yes
Secondary legislation	No	Yes
Shareholders compact	Yes	Yes
Policies and regulations articulating the intervention of shareholder when value is destroyed	Yes	No

Principle	Supported by Literature	Respondents Assertion
Evaluation for compliance with legislation	Yes	Yes
Monitoring instruments for performance	Yes	Yes
Performance measures establishment and monitoring	Yes	Yes
Communication of performance results	Yes	Yes
Role of board in setting the strategic objectives	Yes	Yes
Consideration of risk management	Yes	Partially, most respondents did not mention the strategic risk management
Control Mechanisms employed to ensure accurate and reliable reporting	Yes	Yes
Role of setting financial policies and monitoring of adherence to the policies	Yes	Yes
Combined assurance	Yes	Yes

7. Conclusion

The research into the role of the board of directors in ensuring that they create sustainable value to the shareholders of the state owned companies will be discussed, where some of the findings are supported by the literature and those that are not are supported with recommendations.

The findings and insights that were discovered in chapter 5 and 6 will be discussed and areas for future research.

Furthermore Koch (2016) stated that the state-owned companies provide the backbone of an economy can be expected to help spur economic growth and development thus is the important sphere of government that can assist the government to achieve its goals. This is further articulated in the study conducted by PWC (2015) that the actively managed State Owned Companies does deliver the real value to the public.

7.1. Principal findings

7.1.1. Legislations

It was noted that there is not standard legislation that governs the relationship between the shareholder and the board within the SOC. The various legislations are linked to the companies in which the respondents serve as board of directors. This may result in lack of uniformity within South African corporations. The primary focus of the state owned companies is to deliver value to the public.

Furthermore, board members mentioned that there is secondary legislation that governs their relationship with the shareholder. The legislation mentioned include the Companies Act, which is predominately for private and public listed companies. This implies that the various legislations mentioned by the respondents, within their respective companies, is not sufficient to deal with all the governance matters faced by the state owned companies that will enable the board to be able to fulfil their fiduciary duties of creating value to the shareholders. The multiple legislation that governs the relationship between the board members and shareholder may weakened the board accountability since one legislation

maybe prioritised over another or alternatively ignored completely (Keay and Loughrey, 2015)

The process that describes when the shareholder intervenes in the affairs of the state owned company is not clearly regulated. This may result in unnecessary interferences from the shareholder or there cannot be uniformity in the way shareholders intervene. Baber, Kang, Liang and Zhu (2015), they asserted that the external governance is characterised by policy provisions that permit shareholders to intervene in the decision making and governance processes. The lack of clarity with regard to when does the shareholder intervene has resulted in the South Africa Incorporated suffered a strain on the fiscus through the guarantees and bailouts, which amounted to R467 billion at the end of 2015/16 financial year (Mutize and Gossel (2017). Furthermore with regard to SABC after the sustained financial losses it took Parliament to institute an Ad-Hoc Committee enquiry into the affairs of the SABC as a whole since the shareholder failed to intervene.

The accountability theory is aligned to the role that was mentioned by the board as ascribing to their principles and ensuring adherence to it. This include the signing of the shareholders compact on the yearly basis that clearly articulates the performance objectives to be achieved. The objectives articulated are to ensure that the value created which will benefit the public at large.

Eisenhardt (1989) noted that researchers have identified governance mechanisms that limit the agent self-interest behaviour this include contractual relationship is outcome based and information system reports that are providing information to the principal.

The board of directors in fulfilling their role in the strategy development of the respective organisations they take into account the external and internal environment in pursuit of the strategic intent. Within the external context the state of economy as well as the strategic intention of South Africa Incorporated as articulated during the presidential address in the state of the nation address is taken into account. The insight will enable the board to comprehend the required objectives as well as being able to advise management with regard to the strategic direction. This was supported Rumelt (2011) when stated that the good strategies emanates from the insight gained by the board.

The embedding of risk management practices is an area that needs the board to take into consideration, about 33% indicated that they consider and link the risks to the strategy objectives. The board and management should use the risk management practices as part of their strategic tool to monitor and assess in order to ensure the value is created that is sustainable. Pretovska (2017) mentioned that strategic risk management create a sustainable value to the organization.

The monitoring role played by the board members does measure the performance of the organisation to ensure that its value is created and sustained. This is further supported by the active involvement of the board members in reviewing the financial policies that are a foundation for the integrated report. The control activities does promote the achievement of the strategic objectives as well as ensuring that there is comfort provided to stakeholders due to the a system of control implemented (Amba, 2014)

The board of directors in discharging their fiduciary duties and monitoring role with regard to the financial reporting and adherence to the financial policies. The reliance is place on the internal auditors to assess and recommend the processes that will improve the internal control with regard to the financial reporting. The second reliance is placed with the external auditors who is mainly concern with the reporting which is in accordance to general accepted accounting practices. The last reliance is placed on the audit committee which is the subcommittee to the board who have members that are skilled in the accounting processes and reporting .

The board does provide the monitoring as required by the theory found on the role of the board in monitoring as part of their fiduciary duties. The role of the board with regarding advising the organisation is not clearly captured. Apart from the advising management on the strategic directions there is no advisory role noted.

The role of both internal and external auditors plays a crucial role in providing accurate information to the board since the board places reliance on this two functions to assist in discharging their fiduciary duties. Furthermore the assurance providers serve as the control measure to mitigate the information asymmetry due to board members not being fully involved in the operations of the organisation.

7.1.2. Reporting

The role of the board with regard to the ensuring that there are proper disclosure with regard to the financial and non-financial information is a performed through the oversight role. The oversight role includes the assessment and approval of the financial policies on a yearly basis. This is further supported by the Baber et al. (2015), when they indicated that board provide an oversight through monitoring of the internal control systems which includes the policies that result in the reporting of the financial and non-financial position of the organisation. The role of the board is to ensure that there are effective controls that will form a basis for the reliable and accurate reporting. The board primarily relies on internal audit to assist by providing assurance on the internal control through their independent review of the control instituted by management including the recommendation for additional controls. The second control mechanism employed by the board of directors is the independent review of the integrated report in which the external auditors does provide a reasonable assurance that the transactions and report was consistently prepared using the generally accepted accounting principles. The last control mechanism employed by the board is to have members within their board through audit committee who are skilled in the financial controls and reporting, this allows the board members to provide their input on the overall opinion on the financial control and reliability of the integrated report. An additional control is that board does provide the oversight role to both internal and external auditors mainly to ensure that they maintain independency.

7.2. Implication for management

Koch (2016) stated that the state-owned companies provide the backbone of an economy can be expected to help ignite economic growth and development thus is the important sphere of government that can assist the government to achieve its goals of development of the public. The findings can assist with some of the recommendations that assist in managing the state owned companies to deliver value to public (2015).

7.2.1. Legislation

The legislation that governs the relationship between the shareholders and board of the directors for the state owned companies can be consolidated into one act including the

salient features from the secondary legislation. This will ensure that there is consistency application of the rules or provisions of the act. Currently this is subject to different interpretation based on the founding legislation that governs a particular state owned company. Even-though there are similarities between the respondents with regard to how they are governed to ensure accountability that will result in the creation of value for the shareholders there are few areas that can be aligned like the evaluation of compliance with legislation.

The management and the board during their strategic planning process should link the objectives to the risk management practices. This should include assessment of the risks and developing risk mitigation plans that will assist with the effective management of risks. The management of strategic risks, does increase the value of the organisation since its management assist in achieving the strategic objectives. This is emphasised by Rumelt (2001) that the risks should be assessed as well as the opportunities during strategic planning.

7.3. Limitation of the research

The current research was designed for the evaluate the role of the board at the state owned entities that report directly to the national government departments. There was an exclusion of the board of directors of Sector Education and Training Authorities (SETA's), Provincial and Local Government state owned entities. It would have been interesting to understand the role played by the board of directors in the excluded state owned companies of ensuring that the entities create value in the sustainable manner.

Furthermore the current research only interviewed the board of directors who resides in Gauteng only. It would have been interesting to understand the thinking and the role of the board from other provinces.

The value derived from the SOC's is for the benefit of the public as the primary stakeholders through the developmental agenda and stimulation of growth. There actual value derived was not measured in this research except for the building blocks which will ensure that the sustainable value is created for the benefit of the public in general was discussed at length during this research study. The future studies that will measure the actual value derived after

all the controls and processes have been implemented to ensure the accountability and monitoring is performed in an effective manner.

The research was limited to the board of directors, the shareholders were not part of the research subjects. We could have got a view from the shareholders in terms of what is perceived as the role of the board and whether they are fulfilling their fiduciary duties furthermore do they meet the expectations of the shareholders.

7.4. Suggestion for future research

The instruments used measure value for the state owned companies is one area that needs to be explored further. This can be utilised to measure value consistently by the shareholders and government to evaluate whether the SOC's overall mandate of development of the public.

The implication of the proposed state-owned companies rationalisation project which is looking at the efficiencies within the SOC and how can they work better to create value for the shareholder.

The maturity assessment of the governance of the state-owned companies, whether the organisation needs more monitoring or advisory role from the board of directors depending on the maturity levels.

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Appendices

Appendix: 1 Ethical Clearance

Gordon Institute of Business Science

University
of Pretoria

17 August 2017

Sandy Makola

Dear Sandy,

Please be advised that your application for Ethical Clearance has been approved.

You are therefore allowed to continue collecting your data.

We wish you everything of the best for the rest of the project.

Kind Regards

GIBS MBA Research Ethical Clearance Committee

Appendix 3: Interview Guides

1. Interview Questionnaires

1. **Research question 1:** How does accountability of the board to the shareholder contributes to the creation of value?
 - a) What legislation(s) governs the relationship of the SOC's boards and their respective shareholders?
 - b) Is the shareholders compact approved by the Shareholders with the performance objectives and measures for board of director?
 - c) Are there any policies that the organisation has that describes when does the shareholder intervene when the value is being destroyed?
 - d) What kind of evaluation is performed for verification of compliance with the prescripts?

2. **Research question 2:** Does SOC's board monitoring of performance in ensuring creation of value?
 - a) What measurements instruments are used by the board to monitor the performance of the organisation?
 - b) How does the performance measures are established and monitored?
 - c) How does deviations or non-achievement from the set performance standards are dealt with?
 - d) How does the monitoring of the performance measures get shared with board members to ensure that all the measures?

3. **Research question 3:** What is the role of the board in ensuring proper disclosure while assisting to measure sustainability of the SOC's?
 - a) What are the roles of the board in setting of the strategic objectives ?
 - b) What control mechanisms are employed by the board to ensure that the integrated report is accurate and reliable?
 - c) What considerations are made by the board in setting of the performance standards?
 - d) How is the board involved in setting the financial policies and monitoring the adherence thereof?