A new decade for social changes
Ethical leadership and public accountability: Problematiques of South Africa’s State-Owned Enterprises

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Abstract. This paper aims to explore the potency of ethical frameworks in the advent of a democratic dispensation in State-Owned Enterprises in an attempt to address conundrums of unethical leadership and devastating public accountability. This paper argues that South Africa is grappling with fitting in the notion of ethos and accountability. On the same line, the contestation about the impasse of the State-Owned Enterprises (SOEs) befits germane in the topical and constant political transformation in South Africa. SOEs endure eccentric to those serving it and those who benefit from it, leading to a lack of orthodoxy by public officials to ethical framework prescribed and contemplated in legislation for good conduct in public services. Ethical leadership and public accountability are two sides of the same coin; however, they serve as a nut and bolt of a well-functioning public administration. The two are inseparable. The paper is theoretical as such, and it is epistemologically juxtaposed and grounded or underpinned by agency theory and its ideals. Be that as it may, it further depends on literature base review for its premise, argument, crux, and purpose and drawing up results and conclusion. Thus, the paper gathers information regarding the various scholars’ notions on ethical leadership and public accountability from related articles, journals, and books. The paper reveals that the South African State-Owned Enterprises are antagonized and branded by unethical leaders and public accountability challenges. At this juncture, the SOEs are faced with poor fiscal coordination and management. The paper further reveals that the SOEs are swimming in the pool of debts. The conclusion that can be deduced from this paper is that it calls for strengthening and reforming all legislative prescripts that govern the State-Owned Enterprises. Public administrators must avoid incubating politicians as it creates the ground for corruption and various types of ethical dilemmas.

Keywords. Ethical Leadership, Public Accountability, State-Owned Enterprises, Public Administration, unethical conduct, and Corruption

Introduction

As a developmental state, South Africa (SA) works based on a mandate to direct reforms aimed at enhancing economic efficiency. In comparison, the free-market mechanism contributes to a necessary and productive consequence without any participation by the state. The South African Government applied New Public Management (NPM) in the post-Apartheid period to change public service through more engagement and acceptance of private sector practice (Matsiliza, 2017). The restructuring of the SA public sector by understanding and implementing corporate governance concepts is part of the State-Owned Enterprise (SOEs) mandate to increase their productivity and effectiveness in performance. There have been
proven major advantages for institutions and corporations in ethical leadership. Ethics has been extensively studied, but ethical leadership has been considerably less considered. Healthy, sound, ethical and transparent practices are important for handling public finances at state, public or public levels (Sebola, 2015). SOEs should enjoy the confidence and trust of the citizens. For the SOEs to be trusted, they should be accountable to the public. They need to apply effective governance processes that will benefit all the stakeholders, including employees, the community, and the government, which is the major shareholder.

“Scandals involving public officials regarding unethical conduct have recently earned the attention of governments around the world” (Zitha and Mathebula, 2015:16). The South African Government has adopted numerous pieces of legislation to encourage professional practices in the Public Sector. However, Sebola (2015) argues that the responsibility of officials and government agents in all areas of government has long been a big problem for public finances. Despite a sound and detailed legislative and policy mechanism for fighting graft, scholars and public opinion remain concerned about ethical behaviour in South Africa's general public sector (Manyaka & Sebola, 2013; Manyaka & Nkuna, 2014; Zitha & Mathebula, 2015). It is acknowledged that ethics and accountability issues are a major issue of debate in developing countries than in developed, but that does not mean that developed countries are not affected by problems of unethical conduct such as corruption (Sebola, 2014:298). Public accountability is imperative because it checks and balances the abuse of powers and authorities by public officials (Mulgan 2003; Mathebula, 2015). However, the South African government companies are distinguished by common accusations of non-ethical behaviour, which has contributed to a great deal of apprehension about successful public service delivery (Zitha and Mathebula, 2015). With particular regard to state-owned corporations, this article addresses the complexities of ethical leadership and inadequate public transparency.

The fraudulent practices that deprive people of access to public services are a significant ethical issue in the public sector (Sebola, 2014). Accountability and ethical leadership are also beneficial for shareholders and taxpayers, and other interested parties who access services from SOEs (Allini, Manes Rossi, & Hussainey, 2017). The 1996 South African Constitution defines the ideals and standards that direct the country's public administration. Section 195 of the South Africa Constitution notes that the fundamental ideals and principles enshrined in it are the prerogative of the public administration. A responsible public administration is one of the values. Seem to be reluctance and lacklustre when it comes to disclosure by officials in the SOEs, with their diverse set of interests and objectives (Allini et al., 2016). SOE restructuring is one of the "enabling benchmarks" for developing an ethical, competent, and established state under the National Development Plan 2030. (Tsheola, Ledwaba & Maphatane, 2013). Therefore, a significant concern for policymakers and growth professional (Heo, 2018) remains to boost the efficiency of state-owned companies. Recently, attempts to enhance corporate governance have gained international traction to boost government corporations’ efficiency (Heo, 2018).

**Theoretical Underpinnings – Agency Theory**

Corporate governance is an essential part of SOEs (Chauke & Motubatse). It has become critical in past decades in South Africa and internationally to follow corporate governance precepts. It is also central for the success of any organisation in the implementation of strategic framework and control systems (Chauke & Motubatse). To understand corporate Governance, there is a need to explore the various theories that provide guidelines and ideologies on how SOE is administered. In an attempt to understand the complexity in SOEs' operation, the Agency
theory will be used. It questions the vigilance of directing and overseeing SOEs by board members who are not in the ownership of the SOEs (Matsiliza, 2017).

According to Maher and Andersson (1999:12 -17), conflict occurs when the interests and objectives of the managers or agent and the investors (shareholders) or principal differ when there is the separation of ownership and control. Since the boards are not the firm owners, they do not bear the full costs or reap the full benefits of their actions (Chilenga, 2016). Mbele (2015) states that though investors are interested in maximising shareholder value, managers may have different objectives such as maximising salaries, growth of market share, or an attachment to a certain investment project.

The Agency theory acknowledges that the conflict is the relationship between two parties: the agent and the principal, with their different interests (Maher & Andersson, 1999:12 -17). However, the Companies Act (Act 71 of 2008) states that directors have a duty not to set themselves in a position of conflict between their interests and those of the company; therefore, they are expected to disclose personal interests. The directors also have a judicial responsibility to the company that they are appointed, including SOEs; these duties are based on the concept of good faith and are owed to the company as a result of the control and power that directors exercise over the particular company (King IV, 2016).

Directors also have the duty not to exceed their powers, and they may not perform beyond their capacity, which means that they are expected to exercise power for the proper purpose (Maher & Andersson, 1999:12 -17). According to King IV (2016), members of a governing body, whether executive, non-executive or independent, are expected by law to act with the independence of mind in the best interests of the company. Also, these governing members can be sent to prison if found not to be acting in the best interests of an organisation and performing activities of an illegal nature (Chilenga, 2016). The agency dilemma occurs when the directors, who are the institution's agents, seek to maximise their benefits through actions beneficial to themselves but damaging to the interests of shareholders (Maher & Andersson, 1999:12 -17; Mbele, 2015).

**Conceptualising ethical leadership and public accountability**

“When leaders stick closely to their priorities and principles during decision-making, workers can quickly recognise and resolve the ethical concerns in line with the defined ethics framework” (Kolthoff, Erakovich & Lasthuizen 2010:600). This leadership requires traditional values such as integrity and liberty. It also requires hard work to avoid and deter ethical actions and preserve a healthy space to expose misconduct (Van Wart, 2013; Erakovich & Kolthoff, 2016). Brown, Trevino, and Harrison (2005); Cheteni and Shindika (2017) characterise the demonstration of correct behaviour through personal acts and relationships to followers through two-way contact, affirmation and decision-making; and encouragement for certain behaviours to followers (Cheteni & Shindika, 2017). Ethical leadership Commentators, including Brown et al. (2005), De Hough and Den Hartog (2008), conceptualise ethics leadership as a whole rather than rely exclusively on other leadership types' ethical components.

Cheteni & Shindika (2018) address ethical leadership as a burden on government officials to choose between right and wrong, known as an altruistic and selfish incentive, as well as Kanungo (2001) and Turner, Barling, Epitropaki and Butcher and Milner (2002). Subordinates must consider themselves appealing, trustworthy, and legitimate leaders to be seen as ethical leaders and affect ethical outputs (Cheteni & Shindika, 2017). Odugbemi (2008); Gberevbie, Joshúa, Excellence-Oluye, and Oyeyemi (2017) argued that transparency is in line with the public administration literature to help the public, civil, and private sectors to control public agencies and officials to keep them accountable. Therefore, a society in which politicians
are not responsible is likely to suffer maladministration of public services, demonstrate fraudulent patterns, and face growth challenges (Gberevbie, Joshua, Excellence-Oluye, and Oyeyemi, 2017).

**State-Owned Enterprises**

In key economic sectors such as utilities, finance, or natural resources, the SOEs are often essential to delivering vital public services to residents. Magang and Kube (2018) posited that state-owned enterprises (SOEs) are semi-self-governing firms through legislative actions. State-owned firms are an important economic development source and a 'golden goose' for governing political parties from South Africa to East Europe (Volintru, Toma, & Damian, 2018). They are attorneys who work in relatively the same way as private corporations (Bozec, 2005:1922; Magang & Magang, 2016; Magang & Kube, 2017). SOE thus plays an important role in the country's socio-economic growth and is responsible for the pursuit of public policies and is thus expected to encourage them with financial assistance to prevent the inability to provide services to the public (Magang & Kube, 2018).

Bruton, Peng, Ahlstrom, Stan & Xu (2015:94) said that while SOEs are gradually investigated, analysis on this matter is still in short supply. State-owned corporations in developed mixed societies and developing countries have been significant social and economic management vehicles (Adebayo, 2020). SOEs are of interest, and there are repercussions of these confrontations, on the one hand, with certain corporations and private businesses and, on the other hand, with government and other controllers. A government agency that provides public goods and services is a state-owned corporation.

The SOEs typically dominate services (electricity, natural gas, water, and transport) and communications (rail, airlines, and buses) (telephone, telegraph, and postal services). In sectors like agriculture, manufacturing, finance and even large-scale development, the contribution is also visible (Nafziger, 1997: 576). In this article, the SOE is presumed to be a company where the government is the main owner, or the State can appoint or dismiss the CEO. In addition, an SOE manufactures or sells to the public or other firms’ products or services where income is related to costs. In particular state limits, SOEs that do not optimize profitability will continue to be liable for profit. The reasons for the establishment of SOE are significant, for instance, social viability, above and beyond financial profitability. This notion helps public spending to generate external savings, promote business convergence, deliver social goods, and create new employment. SOEs, therefore, need to meet their mandates and their operational effectiveness comprehensively and efficiently (Adebayo, 2020).

According to Adebayo (2020), political intervention, competing agendas, incompetence, free rider, soft budget limits and the agency represent problems of the SOEs. The economic production and provision of basic public services like medicine, education, water, and electricity are significant aspects of state-owned enterprises (Heo, 2018). Given the above, SOEs begin to be weakly regulated, unable to deliver on their public mission and contribute to exhausting national resources. Researchers have been especially attentive to the problems surrounding the relationship between politicians and SOEs. SOEs generally control management appointments politically. It is evident that political connection constitutes various things to SOEs (Adebayo, 2020: 68).

**State of affairs in the State-Owned Enterprises**

However, SOEs also face major obstacles for financial and service delivery. Some SOE's underperformance will impair productivity and growth, resulting in a fiscal burden and a source of fiscal risk to the state. In essence, public services will become private resources for
ruling politicians (Volintru et al., 2018). The Checkpoint of the democratic state, Tsheola et al. (2013) postulate, has recently fought to control "personal authority and reputation" efforts. Their finances function mostly as "postelection gifts" to party allies, upsetting voting cycles and hindering a central democratic structure prerequisite - transparency (Volintru et al., 2018). The ills tend to be associated with the State's administration of South African Airways (SAA), Transnet, Denel and Broadband Infrac, and structuring of hybrid complexities among "global chip writers," such as Eskom, PetroSA, Sentach, the Post Office, Telkom (Tsheola et al., 2013).

The problem of public servants' transparency and dishonest conduct by SOE officials (Gberevbie et al., 2017). State-owned corporations often use the money to finance political parties or election campaigns (Volintru et al., 2018). Politicians and SOEs executives and managers often abuse government ownership of SOEs to use the firms for personal enrichment rather than development objectives (Gumede, 2016:71). The loss of state-owned firms will pose substantial challenges to national development and prosperity and place the government at fiscal risk (Heo, 2018). In 2015, almost ten per cent of the annual spending was spent on debt servicing and payment to fighting SOEs (Coetzee & Bezuidenhout, 2019). Therefore, an important concern for policymakers and development professionals remains to boost the efficiency of state-owned corporations. Recent work has gained international momentum to boost state-owned corporations' efficiency by improving corporate governance. The billions of rand losses incurred by these firms in past years have also been due to corruption and mismanagement (Mutiso, 2016; Coetzee & Bezuidenhout, 2019).

The efficacy of the SOE reform was weakened by ideological differences inside and outside the ruling ANC tripartite coalition. It was formed by local commercial interests and civil society organisations regarding the principles, substance, and beneficiaries (Gumede, 2016). In reality, SOEs in the private sector are vulnerable to lose and non-compliance with laws (Corrigan, 2014). Gumede (2016) claims that workers are usually secured, and that incompetent staff and supervisors are not often dismissed in the public sector, particularly in SOEs. This quasi-monopoly affects SOEs considerably and renders them profitable outlets for sponsorship (Corrigan, 2014). Matsiliza (2017) argues that, under the assumption of the King III report, the introduction of governance codes in SOE has opened a box of worms to society as an outcome government has introduced a varied range of policies and procedures to ensure enforcement by citizens whose corporate governance values have been circumvented and not upheld. While SOEs recognize the importance of corporate governance in Africa, it remains an incomplete initiative and much more in this area. Strong corporate governance must be used by governments and SOEs rather than an asset to their service (Corrigan, 2014).

The latest scandals of corruption have drawn attention to the role of government firms in corruption (Bach and Helgesen, 2017). The inadequate reporting and control of the SOE cost system would not permit transparency and accountability. It does not lead to disclosing that SOEs can be funded or under-supported, and it ultimately defends against public expenditure abuse, waste, and the exposure of inefficiencies (Balbuena, 2014). SOEs is partially underfunded because they did not collect services. SOEs rely on debt and finance to fund basic activities but do not sufficiently finance capital-intensive projects in the utility market, particularly reconstruction and infrastructure development (Balbuena, 2014). The SOE's in South Africa have been publicly scrutinized for failing to meet their survival mandate, sustaining its companies with adequate revenue and services to clients (Matsiliza, 2017).

Looking at SOEs in South Africa's general position, it seems to be that SOEs are not standard set. In recent months, the South African administration was encouraged to sell some SOEs to
boost its poor economy (Chilenga, 2016). The key and most demanding facets of SOE governance are higher accountability, disclosure, and obligations (Balbuena, 2014).

**Legislative prescripts governing the state-owned enterprises**

The public undertakings work in a strictly regulated setting, whereby officials shall conform to high ethical standards. This section reflects only on the legal process that regulates the ethical actions of officials of state-owned undertakings.

**The King Reports of Corporate Governance**

King I was written in 1997 as the first protocol for corporate governance. In 2002, the second King’s report on Corporate Governance (King II) followed, and the third King’s (King III) report was released in 2009. In 2017, King IV was released. In the reports, the boards and directors of the listed businesses, the banks, certain governmental bodies, and other corporate, private, and unrecovered organizations were prescribed behaviour codes. It covered financial and regulatory elements and promoted an interconnected strategy covering all players, including businesses involved. The goal was to include guidance for corporate governance and suggest that SOEs adhere to a clear norm. Although the King's findings have little legislative weight, they nevertheless apply a protocol to enhance corporate and public governance.

**The Constitution**

The Constitution of the Republic of South Africa (1996) enshrines the rights of all South Africans to equality and makes provision for specific measures that can be taken to redress the imbalances of the past. The laws and prescribed policies address this constitutional imperative (Bronstein & Olivier, 2011: 196). The Constitution of South Africa is aimed at dismantling the machinery of apartheid and transform the society in the areas of education, arts, healthcare and justice system. The key values and principles found in the Constitution have given rise to policies of affirmative action, black economic empowerment, gender equity and environmental policy (Kanyane and Sausi, 2015). The principles and values have an inherent influence on legislation and policies that impact SOEs.

**Public Finance Management Act**

The PFMA offers a financial management and transparency system and contributes to SOE uniformity (Kikeri, 2018). The PFMA defines the fiduciary obligations and ultimate roles and allows for personal responsibility in the event of a possible violation of legal duties of regulatory bodies, chairs of committees, commissions, financial officers, board managers and staff or accounting authorities. The PFMA aims to regulate financial management in government and its entities which include SOEs; to ensure the there is efficient and effective management of the revenue, expenditure, assets, and liabilities of the government and to provide for the responsibilities on the persons who are entrusted with financial management (PFMA, 1999:1). Yet, there are substantial differences (Kikeri, 2018). The SOE Founding Acts do not cover the other main issues: set up SOEs; recruitment of board of management and CEOs; selection of government officials on the boards; and managing growth mandates and targets (Kikeri, 2018). The Act aims to ensure openness, responsibility, and sound control of the entities of which the Act relates income, investments, assets, and liabilities (Kanyane and Sausi, 2015). Acquisitions, budgeting, and financial plans guarantees and shares and the allocation of powers and duties of authorities other than directors are protected by the Act (Kikeri, 2018).
A shift towards corporate governance reforms

Corporate governance in South Africa is a rotating question, with King I, II, III and now King IV advising governance practices. The reforms in corporate governance have become more and more important means for improving the performance of SOEs. There must be a straightforward, consistent, and implementable legislative and regulatory system. This includes thorough analysis, consulting, and continual system review. The passing of dedicated 'SOE Acts' should be considered. In particular to the councils, appointments must be focused on competence, and policymaking must be avoided, whether moral or patronage. Along with broader developments in international corporate governance, SOEs must consider and fight the urge to see them individually as embodied by government, their obligations to all stakeholders. SOEs should coordinate their processes based on sound corporate governance concepts and evolving thoughts on the issue (Corrigan, 2014).

Existing SOE Rules in Southern Africa often usually apply to ethics as the basis for good governance (Balbuena, 2014). The SOE's cost structure is completely transparent, and the State outlines its objectives/expectations for the business explicitly if the success contracts are successful. This guarantees that the board (or SOE management, as the case may be) shall be responsible for concrete priorities and performance targets that every member of the board contributes to (Balbuena, 2014). This paper suggests that South African State-Owned Enterprises (SOEs) have used the King III corporate governance principles while discussing systemic shifts that affect their corporate risk and governance practice (Matsiliza, 2017). South Africa requires an effective and efficient board of directors or the governing body with the responsibility to manage the SOEs with visionary and capable leadership. “Ethical leaders are expected to induce economic growth and deliver on their promises” (Matsiliza, 2015: 444, Matsiliza, 2017:36). Corporate governance increases the efficiency of companies and guarantees their adherence (Kāhala and Akinboade, 2003).

Conclusion

From the discussion above, it is evident that the SOEs fulfil three board roles, namely, a social role, an economic role and an internalisation role. SOEs aim to address the socioeconomic needs, including, but not limited to, bridging the gap between the rich and the poor and then planning and implementing the macro and microeconomic policies that will help grow the economy. This is evident from this study that for the SOEs to achieve these goals, they need to remain ethical and understand the level of accountability expected. It has been noted that most SOEs directly impact the lives of citizens through the services they provide. Poor governance, mismanagement, fraud, corruption, political allegiance, and lack of financial sustainability at the SOEs negatively impact their performance.

It is evident that due to the heavy dependence on decisions by the State when it comes to SOEs, many enterprises have become so chaotic in the process of implementing their enterprise economic goals that they give up to serving a certain political point of view of a shareholder being the governing party. However, SOEs' SOEs are appointed by the state. They have a period of service as regulated, which influences how they deal with politicians, which has far-reaching implications on their ethics. It can be concluded that for the board in the SOEs to operate ethically and being accountable to the public, there is a need to adopt earnestly the requirement of King IV and Companies Act (Act 71 of 2008) and the required ethical leadership as required. The strengthening and reforming of all legislative prescripts that govern the State-Owned Enterprises will go a long way in resolving and minimising ethical deficiency currently prevalent in SOEs. The public administrators should also avoid incubating politicians in its ranks as that creates the ground for corruption and varied types of ethical dilemmas.
References


