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References
Chapter 1: Introduction

1.0 Background

At independence, Namibia like many newly independent countries embarked on a programme of nationalizing key and strategic industries in the country. The main purpose was for the government to have stronger regulatory powers in these sectors as well as to yield revenue from these industries that would be used in the advancement of the socio-political agenda of the day. The popular and broad-based government of post-independent Namibia had an imperative agenda of socially transforming the country from one that gave advantage to a minority, at the expense of the majority, to a country where national wealth is equitably distributed. In other words, the new government sought to usher in an era of equity, equality, and justice in the distribution of the nation’s wealth. It was the view of the new government that this noble task could only be achieved if strategic industries were privatized.

Prior to independence, several industries were owned and managed by giant transnational companies like Anglo American, De Beers, Shell, British Petroleum (BP), to name but a few. A group of researchers from the African Labour Research Network (ALRN), (2002) describe how most governments, after independence, regarded the establishment of public institutions as part and parcel of the independence process. This group of researchers observed that this is a strategy to secure and extend domestic, instead of foreign, ownership and control over the economy. The perception and expectation in post-colonial countries, Namibia not being an exception, was therefore that public enterprises have important development objectives to attain. The public enterprises are consequentially perceived as catalytic to the provision of public amenities such as education, health, transport, housing, water, electricity, and credit, as well as creating and sustaining employment to the impoverished citizens (Jauch, 2002).

Murray (2000) echoes similar sentiments by saying that this independence process alleviates social inequalities, high rates of poverty and unemployment which pose formidable challenges, while at the same time the governments seek to maintain
investor confidence and growth in the economy. The existence of public enterprises, according to Gcabashe (2005), plays a vital role by contributing to the reconstruction and transformation both of society and the economy. Public enterprises provide the state with the means to direct investment in order to redress past imbalances and to create the infrastructure required to stimulate economic growth. To achieve these objectives, public enterprises need to be efficient, governed well and in a position to deliver on government mandate.

It is argued here that the achievement of the above is not possible without good corporate governance. The Organisation for Economic Cooperation and Development (OECD), (2004), describes corporate governance as the system by which business organisations are directed and controlled. The different participants of corporate governance, that is, managers, the board of directors, shareowners and other stakeholders, are responsible for spelling out the rules and procedures and decision-making instruments on corporate affairs. Good governance, according to Khoza and Adam (2005), is not about being merely politically correct, as today public enterprises seem to be going about their business. Good governance is rather inextricably linked to the performance of a company. Not only does good governance enhance corporate performance, it reassures stakeholders that the company is being well-run.

The Namibian Government has a law which regulates the activities of public enterprises. This law is known as the State-owned Enterprises Act of Namibia. This Act is, however, not yet promulgated and does not only provide for the efficient governance of public enterprises and the monitoring of enterprises’ performance. It further provides for the restructuring of these public enterprises. In light of the above and in order to strengthen this study, the study touches on the various corporate governance codes in operation around the world which are designed to address specific circumstances in different countries. King (2006) reports that the principles of quality governance are expected to equally apply to all entities regardless of its type or where it exists. King’s statement therefore, is implies that different codes of corporate governance are expected to maintain similar principles and apply the same tone in all situations everywhere in the world.
Being aware of the failures in performance of many public entities and predicting the move the Namibian Government would take to remedy the situations (that of privatisation or commercialisation of public enterprises), the NUNW, was proactive and became involved with the government in seeking solutions to the crisis in public enterprises. This intervention was not only done for the protection of only union members but to make sure that Namibian public enterprises continue to deliver affordable services to the poor. According to the Labour Resource and Research Institute LaRRI (2003), the National Union of Namibian Workers (NUNW) presented a proposal to parliament on public sector restructuring, with the idea, that the government of Namibia establish a single controlling board for all State-owned Enterprises (SOEs). It would consist of representatives of all 'social partners' to formulate policies to regulate SOE’s, and to monitor and evaluate service delivery and performance. The body will broaden the participation of trade unions with regard to representation to all government-appointed committees dealing with SOEs, and will safeguard affordable services for the poor.

The NUNW proposed tariff ceilings to be set by the overall controlling board according to social goals so that the body can facilitate the improvement of, for example, public health services by recruiting more doctors from other countries. The body would facilitate the provision of training opportunities for Namibians in the field of medicine, and set up a board to control the fees private doctors can charge so that health care will not be the privilege of a few. It would also implement the principle of cross-subsidisation from the wealthy to the poor at all SOEs involved in service delivery and group State-owned enterprises into different categories according to the functions they perform and the services they provide. This, the NUNW in their proposal suggested enable the drafting of guiding policies for each group of SOEs in terms of regulation, performance monitoring and service delivery. This is essential for the controlling board to ensure that there is maximum public benefit from SOEs.

The proposal further suggested the revision of existing SOEs with regard to their assets and functions and also redirecting their activities according to public interests. Being aware the that private sector is profit motive driven, it would be self defeating that the government of Namibia allow privatisation of SOEs which provide essential services but agree to take such a stance on those SOEs which are continuously making
losses. However, the Union suggested that safety measures must be put in place for the workers concerned so that they do not become unemployed as a result of such moves. On management packages, the NUNW’s position is there be a review of the current management packages at SOEs which are out of proportion and unsustainable. They also stated that management packages need to be reduced, to be performance based and in line with the economic realities of the country, while the management structures need to be streamlined.

The NUNW’s proposal further stated that the SOE body should introduce transparency and accountability as basic principles according to which SOEs have to operate. Salary structures and financial reports of SOEs should be public documents and Namibia should avoid falling into the traps set by consultants, who believe in the inherent superiority of the private sector over the public sector. Instead of further reducing the developmental role of the State through privatising of SOEs, the NUNW proposed a thorough investigation to find out how the performance and efficiency of SOEs can be enhanced while retaining them under public ownership. That Namibia cannot afford to leave socio-economic development to the market alone and that it is government's responsibility to direct development activities in favour of the poor.

This proposal indicated that Namibian unions were not going to take privatisation lying down, echoed LaRRI (2003), although the NUNW initially might not have thought through the full implications of commercialisation and outsourcing which are almost the same as in the case of an outright transfer of ownership to the private sector. Opposing and halting the current privatisation initiatives is, however, an uphill battle. The Government's commercialisation policy gives greater decision-making autonomy to company boards and executive management who place commercial interests above social ones. The Namibian Government is also supportive of the concepts of outsourcing and public-private partnerships in municipal service provision. This suggests that unions will have to be particularly innovative and proactive in their anti-privatisation campaigns, building a common vision among the different unions and with other civil society organisations (such as NGOs) whose constituency will also be affected by the consequences of privatisation. These organisations may have to pressurise government not to renege on its fundamental obligations regarding service delivery, particularly of goods and services to satisfy
basic needs. It may also mean unions getting more involved in addressing the problems of inefficiency in government, suggesting alternative ways to reduce Government spending and increasing efficiency in the public sector.

LaRRI (2003) continues to state that in Zambia, for example, the Government and the World Bank presented the privatisation programme as a major success because it has reduced the government’s budget deficit and brought in foreign investment. However, the programme also had a devastating social impact in terms of growing unemployment and poverty. LaRRI (2003) concludes by sending a warning to Namibia to carefully assess which type of public sector reform will increase efficiency while at the same time safeguarding employment and affordable service delivery for the disadvantaged majority, and that indications are, however, that Namibia is likely to follow the same path as most of its neighbours.

1.1 State-owned Enterprises Governance Act No. 2, 2006

According to the report of The Namibian Government's Public Finance Management strategy (2008), the State-owned Enterprise Governance Act promulgated in 2006, following the publication of a report on “Governance Framework for State-owned Enterprises in Namibia” five years earlier, was establishment to set the parameters through which the SOEs will be governed. However, up-to-date, the State-owned enterprises governance Act is not fully functional. The Act stipulates, inter alia, that the Council is to establish generally accepted common principles of corporate governance and good practice governing State-Owned Enterprises. The Council further sets out to develop common policy frameworks for the operations of state-owned enterprises, including policy on issues relating to human resources and assets performance. To this end, criteria for the performance measurement and evaluation of SOEs are to be developed, as well as appropriate means for monitoring their performance. This means that as much as the State-owned enterprises Act, 2006 has been promulgated, there is slow process of good governance of the public enterprises as long as there are no rules and regulations put in place.
The State-Owned Enterprise Act went through the normal processes of being circulated among stakeholders and interested parties in September 2003 before it was passed in parliament. The essence of this law was being to pave the way for the sale of equity to the private sector as part of SOE restructuring (LaRRI, 2003). The State-owned Enterprises Governance Act, makes provision for the efficient governance of State-owned enterprises and the monitoring of their performances. The Act makes provision for the restructuring of State-owned enterprises and has established the State-owned enterprises Governance Council by defining its powers, duties and functions and to making provision for incidental matters, (Government gazette of the Republic of Namibia (2006).

The Act is divided into eight parts and has established a State-owned Enterprises Governance Council (SOGC), whose functions are to establish a generally accepted common principle of corporate governance and good governing of SOEs as well as common policy frameworks for the operations of public enterprises. This includes structuring of policy on issues relating to human resources, assets and finance. The Council is also responsible for determining the criteria for the performance measurement and evaluation of State-owned enterprises by developing appropriate means for monitoring public enterprises’ performance. The Council also should determine directives in relation to the governance agreements to be entered into by a portfolio Minister with the board of a State-owned enterprise.

The Act (2006) further states that the State-owned Governance Council is tasked with the setting up of the remuneration levels of board members, chief executive officers and other senior management staff of State-owned enterprises; and benefits for employees of State-owned enterprises generally. It determines the number of members to be appointed to the boards of State-owned enterprises and advises the portfolio Ministers on the appointment of such members in accordance with sections 14 and 15 of the Act. The Council is there to facilitate the provision of programs for the training and development of members of the board and management staff of State-owned enterprises on corporate governance and efficient management practices. It has to receive and consider, for approval, submissions made by State-owned enterprises on the annual distribution of profits and the declaration of dividends in terms of section 25 of the Act. Council will then submit to Cabinet, for decision any proposed
restructuring plan prepared and approved by the Council under Part VI in relation to any State-owned enterprise identified by Cabinet for restructuring; and to perform any other function entrusted to the Council by or under this Act or any other law.

However, the Ministry of Finance has developed a draft Dividend Policy Framework which is to be fine-tuned during the MTEF period. The Ministry has also conducted research into investment policies of critical state-owned enterprises and found a lack of control procedures to reduce settlement and liquidity risks that may arise from the beneficiary or creditors. The SOE Governance Act is to provide better checks and balances on public companies’ finances. Research has documented tell-tale signs of poor corporate performance. The national budget, for instance, has been used to bail some of these enterprises, yearly, due to failure to remain financially sustaining. Some of the indicators of poor corporate performance are: the continual financial subsidisation (due to recurring liquidity problems) of Air Namibia by the Government, an indication of the inevitable corporate lapse and poor customer satisfaction. The problem of poor corporate governance is influenced in a serious manner by the way the systems of corporate governance are implemented. The system of corporate governance is observed by how boards of directors are appointed, board structure (composition and size of the board), ownership structure, composition of the audit committee, compliance with laws and regulations and social responsibility. Boards of directors are supposed to supervise and control the process of corporate governance and oversee the performance of the enterprises, in accordance with the interest of shareholders.

Several aspects still remain such as, the relevant governance and management procedures and mechanisms that still need to be finalized. Therefore, until such time that the Act has been fully implemented, the line Ministers will remain responsible for the SOEs. The Act gives public enterprises guidelines and principles of corporate governance to develop a common policy framework for its operations and to determine criteria for the performance measurement and evaluation of these public enterprises.

In spite of the poor performance of public enterprises, the fact remains that Namibia’s public enterprises have done a great deal to uplift the standard of living of the citizens,
especially given the historical imbalances due to long years of colonial rule and apartheid. The creation of over fifty (50) public enterprises by the Government of the Republic of Namibia, since independence, was an imperative as it was desirable.

According LaRRI (2003), the Namibian Government set up public enterprises expecting them to be self-sustaining but many failed to live up to the Government's expectation and had to be bailed out repeatedly. LaRRI (2003) gives an example of Air Namibia, which received N$ 350 million (US $37 million) in 2001 to prevent bankruptcy. The management and boards of Air Namibia and TransNamib were consequently replaced in trying to find a lasting solution to the poor performance and incompetence of the parastatal. The other public entities, especially those that have a monopoly, are said to have achieved better financial results with exception that they ended up burdening consumers with enormous price increases. LaRRI (2003) gives an example of Namwater, being the sole provider of bulk water to municipalities and which increased water prices annually by 20% and have continued doing so for a period of 5 years. The article also points to Telecom Namibia, the provider of telecommunication services, which has increased the rates for local calls by 80% and the example of Nampost, the provider of postal services, which also increased its rates by over 40% in 2001.

Conversely, the widespread concern according to ALRN (2002) is that the output of publicly-funded or subsidised entities, in terms of productivity and service delivery, does not justify the amount of financial and human resources which the Government (as shareholder) invests into these entities.

However, there are very few empirical studies done to analyse how corporate governance has influenced the performance of public enterprises in Namibia. The current study is an attempt to look into the phenomenon of the relationship between corporate governance and the performance of public enterprises. The study seeks to establish whether or not there are statistically significant relationships between the dimensions of corporate governance such as ownership structure, manner of appointing board of directors, board structure (composition and size of the board), ownership structure, composition of the audit committee, compliance with laws and regulations as well as social responsibility and corporate performance indicators such
as liquidity, payment of dividends (frequency and how much), customer satisfaction and corporate lapse. This study is a qualitative research study focusing on two of Namibia’s public enterprises, namely, Air Namibia and Telecom Namibia.

1.2 Statement of the problem

The major problem and most pressing challenge is the government of Namibia directly investing huge sums of money into public enterprises with the hope of making a return on investment while most of the country’s public enterprises declare huge losses continuously. The Fiscus pours in substantial amounts of money into the corporation each year, but at the end of the financial year, the firm is well known for the wrong reasons. In the beginning of every financial year, the flagship gets a substantial budgetary vote from government coffers, prompting an outcry from the taxpayers.

Being aware of the failures in the performance of many public entities, it remains to be seen if this is a result of poor governance and the unwillingness of Boards to act decisively in the face of poor results and failures. The deafening silence of the Board of Directors in the midst of perpetual losses by the respective SOEs necessitated the research on how corporate governance may influence corporate performance of public enterprises in Namibia. Thus, the study is set to investigate the impact of corporate governance on corporate performance of Namibia’s public entities, with a view to find the impact of corporate governance on corporate performance of public enterprises in Namibia.

1.3 Research question

The main question that this study is attempting to answer is as follows:
How has corporate governance influenced the corporate performance of public enterprises in Namibia?
1.4 Research objectives

The broad objective of this study is to investigate the impact of corporate governance on the corporate performance of Namibia’s public entities. The specific objectives are:

- To determine **elements of corporate governance** that impact on corporate performance of public enterprises in Namibia;
- To determine corporate **performance measurement indicators** of public enterprises in Namibia;
- To **establish factors which limit corporate performance and recommend strategies** for the improvement of corporate performance in the public entities of Namibia.

1.5 Hypothesis

Corporate governance has a very strong influence on corporate performance in Namibia. There is a very significant, negative relationship between ownership concentration and economic performance. Insider ownership creates far higher performance than agency relationship does.

1.6 Significance of the study

It is critically important to know the reason why public enterprises were created by the Namibian Government. Soon after independence in 1990, the Government of Namibia embarked on a program of nationalizing key and strategic industries in manufacturing, trade, transport, telecommunications, fisheries, water, energy, and broadcasting. This was done as a strategy to secure and extend domestic control as opposed to foreign ownership and control of the nation’s wealth and economy. The perceived notion that public enterprises have important development objectives to attain is an indication that these entities have a wider responsibility than just narrowing it to profitability.
Hoffman, Hickson and Protacio (2001) state that while the private sector uses the traditional profit measure as the principal explicit gauge of performance success, the public sector entities require performance to be examined beyond profit as a single measurement. The Government of Namibia created over thirty (30) public enterprises because public enterprises are catalytic in the provision of public amenities such as education, health, transport, housing, water, electricity, and credit, as well as creating and sustaining employment for the impoverished citizens.

However, the hypothesis on the principal-agent relationship is not properly addressed in these public enterprises and hence remains problematic. There is a persistent and enduring conflict between the management of these entities and the owner. The bone of contention is on whose goals are being pursued overtly and/or covertly? Management’s most important goal is, for example, fat cheques and generous bonus payouts while those of the shareholders or financer of capital are maximizing shareholder’s wealth by declaring occasional dividends. Therefore, corporate governance systems and well-defined corporate performance measurement indicators as well as reporting standards in place in Namibia are aimed at ensuring that Namibia’s public entities are well-supervised and controlled by management, as far as is practicable, in alliance with the interests of shareholders (Parkinson, 1994).

In line with the above, the significance of this study, which is attempting to evaluate the relationship between corporate governance and corporate performance of Namibia’s public enterprises cannot be overemphasized. The findings of the study go a long way to establish whether or not public enterprises are meeting the set standards of good corporate performance as well as reveal the challenges and constraints which inhibit the public enterprises from being efficient and effective in their performance.

1.7 Scope of the Study

The question that the study is attempting to answer is what influence corporate governance has on the corporate performance of public enterprises in Namibia. Elements of corporate governance that impact on corporate performance of public enterprises in Namibia will be investigated to determine the impact corporate governance has on the corporate performance of public enterprises of Namibia.
Corporate performance measurement indicators of public enterprises in Namibia will be determined and the research will establish factors which limit corporate performance and recommend strategies for the improvement of corporate performance in the public entities of Namibia. The CACG (1988), OECD (2004) guidelines, The Good Governance Standard for Public Services (2004) as well as the King II Report on Corporate Governance are the tools used and the standard against which performance of these two public enterprises is measured.

1.8 Limitations and Delimitations of the Study

This research will not cover all the public enterprises in Namibia but will focus on two entities; a case study of two public enterprises; Air Namibia and Telecom Namibia. These two public enterprises were chosen on the basis that Telecom (based on its annual financial reports) is performing well while Air Namibia is continuously experiencing liquidity problems hence having to be bailed out by the Government on an annual basis. The study will only cover the relationship between corporate governance and corporate performance.

The challenge of this study is that there is not enough literature and research on Namibia to inform an academic study and make an intelligent observation on the performance of Namibia’s public enterprises. This fact emerges as a limitation of this study. The study is, therefore, not able to conduct a satisfactory and conclusive trend analysis of the performance of Namibia’s public enterprises over a longer period of time. However, past financial reports are used instead as a major literature source.

Information sensitivity

Other limitations are access to information and finance. Access to information for this study is a limitation due to the high sensitivity and confidentiality of the subject matter. Research participants may not have provided the desired data. For example, vital information for this study may not have been availed or may have been partially given due to confidentiality rules. The lack of funds on the part of the researcher means that this research is only confined to Windhoek participants and the activities
of these particular enterprises. If funds were available, the study would have been enriched by the inputs of participants from across the country where the researcher would have travelled to gather data on what is happening in the country as far as service delivery of the particular enterprises in question.
Chapter 2: Literature review

2.0 Introduction

This chapter on literature review first of all defines and discusses the concept of corporate governance. The chapter then delves into a discussion on theories of corporate governance such as the Principal Agency theory, Steward theory, Resource Dependency theory and Stakeholder theory.

2.1 Corporate governance defined

Solomon (2007) defines corporate governance as a process of supervision and control intended to ensure that the company’s management acts in accordance with the interest of shareholders. This definition is somehow very limited in that it caters only for the interest of shareholders. Corporate governance accrues benefits to multiple stakeholders. The King Report (2002) further makes an elaboration on its definition of corporate governance by describing corporate governance as a system that is concerned with holding the balance between economic and social goals and between individual and communal goals, the aim being to align as nearly as possible the interests of individuals, corporations and society. The King Report’s definition of corporate governance is widely encompassing. In the ultimate, the corporate governance framework is meant to encourage the efficient use of resources and equally to report accountability for the stewardship of those resources.

The King Committee on Corporate Governance (2002) points to several characteristics and elements of good corporate governance which are core determinants of corporate governance, with a profound impact on corporate performance of any enterprise. These are:

- Discipline being described as a commitment by a company’s senior management to adhere to behaviour that is universally recognised and accepted to be correct and proper;
- Transparency is explained as the ease with which an outsider is able to make meaningful analysis of a company’s actions, its economic fundamentals and what the non-financial aspects pertinent to that business are;
Independence is the existence of mechanisms which have been put in place to minimise or avoid potential conflicts of interest that may exist. How the entity is autonomous with a mechanism to be self-governing having a clear distinction between self and its owners;

Accountability is whereby individuals or groups in a company make decisions and take actions on specific issues and need to be accountable for their decisions and actions; being answerable and liable for its actions;

Responsibility, with regard to management, pertains to behaviour that allows for corrective action and for penalising mismanagement.

Fairness is when the systems that exist within the company must be balanced by taking into account all those that have an interest in the company and its future, especially the interests of the minority shareowners;

Social responsibility is when a well-managed company will be aware of and respond to social issues, placing a high priority on ethical standards.

According to Echanis (2002) corporate governance refers to both the structure and process by which the public corporations control agency problems. The exercise of this control entails addressing issues such as how suppliers of finance assure themselves of getting a return on their investment (Shleifer and Vishny, 1997); how to determine the various uses of organisational resources; and how to resolve conflicts among participants in organisations (Daily and Cannella, Jr., 2003). Another issue of importance is what mechanisms can be instated through which outside investors protect themselves against expropriation by the insiders (La Porta, 2000).

2.2 Theories of corporate governance

A corporation, state-owned or privately-owned, is an artificial being that is invisible and exists only in contemplation of the law (Mitchell L.E., Cunningham L.A., & Solomon L.D, 1996). It has a persona and identity. It is capable of suing and being sued. No two corporate entities are identical but the principles of governing them are universal. However, the peculiarities that exist due to different situations such as legal frameworks in each country allow customization of corporate governance approaches.
According to Cunningham & Solomon (1996), a corporation, being the mere creature of law, possesses only those properties which the charter of its creation confers upon it, either expressly, or as incidental to its very existence. These are best calculated to effect the object for which it was created, which enables a corporation to manage its own affairs, and to hold property, without the perplexing intricacies, the hazardous and endless necessity of perpetual conveyances for the purpose of transmitting it from hand to hand.

For Alchian & Demsetz (2002), the firm is an entity which brings together a team (people) which is more productive and working together than at arm’s length through the market. Informational problems associated with monitoring of effort Alchian & Demsetz’s (2002) analysis of team production in the activities of a corporation is an extension and clarification of earlier work by Coase (1937) that the firm emerges because extra output is provided by team production, but that the success of this depends on being able to manage the team to monitor problems. Such monitoring as is therefore necessary, however, can only be encouraged effectively if the monitor is the recipient of the activity’s residual income, otherwise the monitor him or herself would have to be monitored, ad infinitum. The objects for which a corporation is created are universally accepted such as the government’s wishes to promote. Cunningham & Solomon (1996) further state that most eleemosynary institutions, the objectives of running a corporation would be difficult, perhaps unattainable without the aid of a charter of incorporation. Charitable or public-spirited individuals, desirous of making permanent appropriations for charitable or other useful purposes, find it impossible to effect their design securely and certainly, without an incorporating act. They apply to the government, they state their beneficent object, and offer to advance the money necessary for its accomplishment, provided the government will confer on the instrument which is to execute their designs, the capacity to execute them. The proposition is then considered approved. The benefit to the public is considered as ample compensation for the faculty it confers when the corporation is created.

Furthermore Cunning & Solomon (1996) state that if the advantages to the public constitute a full compensation for the faculty it gives, there can be no reason for exacting further compensation, by claiming a right to exercise over this artificial being, a power which changes its nature, and touches the fund, for the security and
application of which it was created. There can be no reason for implying in the charter, given for a valuable consideration, a power which is not only expressed, but is in direct contradiction to its expressed stipulations.

In their conclusion, Cunning & Solomon (1996) did not mention that the incorporating Act gives nor prevents this control; that the incorporating Act changes the character of a private eleemosynary institution. On the other hand, economists have long been concerned with the incentive problems that arise when decision-making in firms is the province of managers who are not the firm’s security holders. One outcome has been the development of behaviour and managerial theories of the firm which reject the classical model of an entrepreneur, or owner-manager, who single-mindedly operates the firm to maximize profits, in favour of theories that focus on the motivations of a manager who controls but does not own and who has little resemblance to the classical economic man. In contrast, the striking insight is in viewing the firm as a set of contracts among factors of production. In effect, the firm is viewed as a team whose members act from self-interest but realize that their destinies depend, to some extent, on the survival of the team in its competition with other teams. This insight, however, is not carried far enough. In the classical theory, the agent who personifies the firm is the entrepreneur who is taken to be both manager and residual risk bearer.

Although his title sometimes changes, for example, Alchian & Demsetz (2002) call him “the employer”, the entrepreneur continues to play a central role in the firm of the property-rights literature. As a consequence, this literature fails to explain the large modern corporation in which control of the firm is in the hands of managers who are not owners but agents. This leads to the discussion on the principal agency theory.

2.2.1 Principal agency problem

It is important to note from the onset that the stewardship, stakeholder theory and agency theories are all essentially Eurocentric. Although the underlying ideological paradigms are seldom articulated, the essential ideas are derived from Western thought, with its perceptions and expectations of the respective roles of individual,
enterprise and the state and of the relationship between them. As a result, the universal applicability of these theories may be limited. For example, the theories may be irrelevant in a situation where there is a stronger employee or manager loyalty to the organization such as is the case with the Japanese employees and managers.

The aim of corporate governance is to align, as much as possible, the interests of individuals, corporations and society. Attempting to achieve that objective raises a conflict of interest within the relationships, among the different parties identified above. This conflict is known as the principal-agency problem. McGuigan et al. (2006) describe the principal-agency problem as a situation where there is conflict between the interest of the stockholders and that of management. The interest of shareholders is to maximise shareholder wealth as the primary goal of the corporations, however, not all management decisions are consistent with this objective. This creates the agency problem in the relationship between management and owners of the entity since the principals (shareholders) often delegate the decision-making authority to the agent (management).

There is a divergence between the shareholder wealth maximisation goal and the actual goals pursued by management. The primary reason for this divergence has been attributed to separation of ownership and control in a corporation. Separation of ownership and control has permitted managers to pursue goals more consistent with their own self interests as long as they satisfy shareholders sufficiently to maintain control of the corporation. Managers satisfy acceptable levels of performance, while maximizing their own wealth (McGuigan et al. 2006).

Bohren & Odegaard (2001) describe Jensen’s & Meckling’s (1976) article on the principal-agent problem as one which occurs when managers, with private information have incentives to pursue their own interests at the owners’ expense. While Tirole (2001) states that the principal-agent problem is one which manifests itself when managers exert insufficient effort by over-committing to external activities, accepting over-staffing, and by ignoring internal control while collecting excessive private benefits. This they do by building unprofitable empires, paying inflated transfer prices to affiliated entities and by over-consuming perks. Tirole (2001) further states that managers entrench themselves by investing in declining
industries because that is where their competence is, diversifying across product markets to reduce unsystematic risk and by resisting value-creating takeovers which threaten their positions.

The mechanism of corporate governance can be thought of as a system which reduces costs through minimization of value destruction caused by the agency problem. The challenge is to ensure that the firm is run by a competent management team which makes the same decisions that owners would have made themselves, (Bohren & Odegaard, 2001). The ways in which the suppliers of finance to corporations assure themselves of getting a return on their investment and ensuring managers return some of the profits to them is the question raised by Shleifer & Vinshny (1997). They further inquire, in their definition of corporate governance, how to assure that managers do not steal the capital owners’ supply or that managers do not invest in bad projects.

2.2.2 Stewardship theory

Davis, Schoorman & Donaldson (1997) developed the stewardship theory of management as a counter strategy to the agency theory. According to Olson (2008), the stewardship theory of management and the agency theory have both focused on the leadership philosophies adopted by the owners of an organization. He states that in nearly all organizations, an owner or principal runs and manages the business and eventually passes responsibility of the organization to a manager or agent who looks after and runs the organization. Olson (2008), points out to a critical decision the owner has to make as to how much authority and control he/she gives to the managers. The agency and stewardship theory of management explore this decision and examines the set of assumptions that the owner has regarding the manager, as well as, the effect those assumptions have on their decision making.

Olson (2008), Hendry (2002) highlighted the lack of focus on the competence of the manager in the agency theory and the need to invest in training and coaching to improve the skills set of the manager. While the agency theory has its origins in economics, the stewardship theory has emerged from the fields of psychology and sociology. The stewardship theory is based upon the assumption that the manager will
make decisions in the best interest of the organization, putting collectivist options above self-servicing options. This type of person is motivated by doing what’s right for the organization because he/she believes that he/she will ultimately benefit when the organization thrives. The stewardship theory attests to the fact that the steward manager maximizes the performance of the organization, working under the premise that both the steward and the principal benefit from a strong organization. (Osln, 2008).

According to Osln (2008), Argyris, (1964), in contrast to the controls put in place through the agency theory, the principal who espouses the stewardship theory will empower the steward with the information, the tools and the authority to make good decisions for the organization. The principal will fully enable the steward to act in the best interest of the organization, trusting that the steward will make choices that maximize the long-term return for the organization. In fact, putting control structures on stewards will significantly de-motivate the steward and be counter-productive for both the steward and for the organization. Given this potential of the stewardship theory, the reason why owners have not applied the stewardship theory approach is due to the risk tolerance and the typical assumptions of the principal. In the short run, it’s safer and quicker for a principal to assume the agency theory and to not invest the time and energy required to build the requisite trusting relationship with the manager. The principal must be able to overcome this inherent fear before he is willing to place full authority for the business in the hands of the steward (Osln, 2008).

Schoorman & Donaldson (1997), defined a series of factors that describe the management philosophy of stewardship and they include: trust, open communication, empowerment, long-term orientation and performance enhancement. The dimension of trust is essential to building the type of relationships necessary to make stewardship work and is consistent with the work done by Mayer (1992).
2.2.3 Comparison between Principal-agency theory and Stewardship theory

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Source: Alfonso Vargas Sanchez (2001), based on Davis, Schoorman and Donaldson (1997).

According to Schoorman & Donaldson (1997), the owner-manager relationship depends on the behaviour adopted respectively by both the owners and the managers. Often than not, managers choose to act as agents or as stewards in accordance with
certain personal characteristics and their own perceptions of particular situational factors. Principals choose to create a relationship of one type or the other depending on their perceptions of the same situational factors and of their manager’s psychological mechanisms.

The stakeholder view of a firm, on the other hand, is different from that of management and principal owners. The stakeholders’ view is that investors, employees, suppliers, customers and stakeholder in general all contribute and receive benefits from a firm. In addition, other parties may be involved in relationships such as unions, trade associations, government and even political groups (Donaldson & Preston 1995). The various views on corporate governance can also be related to different cultural contexts, intellectual backgrounds and interests of scholars.

Workers in the field or participants in corporate governance come from different academic disciplines. There is often little, or incomplete, integration between the various disciplines. Corporate governance is a relatively new discipline. This, in a way, explains the rarely articulated overlap between corporate governance and other disciplines. In some cases, the overlap is completely not recognized. To indicate how different viewpoints arise, and to provide an overview of the topic, some examples are considered.

The rules and incentives in the finance model refer to those established by the firm rather than to the legal/political/regulatory system and culture of the host economy or the nature of the owners. The finance view represents a sub-section of the political model of corporate governance. The political model interacts with the cultural, power and cybernetic models which are addressed in this study.

2.2.4 Resource Dependence Theory

According to Pfeffer, (2003), the Resource Dependence Theory (RDT) was originally developed to provide an alternative perspective to economic theories of mergers and board interlocks, and to understand precisely the type of inter-organizational relations that have played such a large role in recent ‘market failures’. The motivation of those running the organization was to ensure the organization’s survival and to enhance
their own autonomy, while also maintaining stability in the organization’s exchange relations. These were the drivers behind many of the organization’s observed actions.

There are three core ideas of the RDT: (1) the social context matters, (2) the organizations having strategies to enhance their autonomy and pursue interests, and (3) the emphasis on power as a hallmark of the resource dependence theory that distinguishes it from other approaches, such as transaction cost economics. Pfeiffer (2003) points out that the basic story of exchange-based power in the theory was derived from Emerson’s (1962) parsimonious account, that the power of A over B comes from the control of resources that B values and that are not available elsewhere. In this account, power and dependence are simply the face of each other; that B is dependent on A to the degree that A has power over B and that power is not zero-sum, as A and B can each have power over each other, making them interdependent. Chin & Robert (2006) point out that RDT has its origins in the open system theory, as such organisations have varying degrees of dependence on the external environment, particularly for the resources they require to operate. Therefore, they argue that it poses a problem of the organisation facing uncertainty in resource acquisition (Aldrich, 1999; Ulrich & Barney, 1984) and raises the issue of the firm’s dependency on the environment for critical resources (Dwyer et al., 1987; Grewal & Dharwadkar, 2002; Pfeffer & Salancik, 1978). Often, the external control of these resources may reduce managerial discretion, interfere with the achievement of organisational goals, and ultimately threaten the existence of the focal organisation (Scott, 1998). Confronted with the costly situation of this nature, management actively directs the organisation to manage the external dependence to its advantage.

An organisation can manage increasing dependency by adapting to or avoiding external demands, by executing the following RDT strategies: the first being altering organizational interdependence through integration, merger and diversification; by secondly establishing collective structures to form a negotiated environment; and using legal, political or social action to form a created environment (Pfeffer & Salancik, 1978). Much of RDT is fixed upon Emerson’s (1962) insight that power and dependency are intimately related as, Pfeffer & Salancik (1978) suggested and argued for specific sets of strategies to manage the external environment and discuss the conditions under which they are appropriate.
Young, Ahlstrom, Bruton, Chan (2001) pointed out that the first function of boards is often referred to as the resource dependence function which was first developed in the seminal works of Pfeffer (1972, 1973) & Pfeffer & Salancik (1978). The resource dependence perspective views boards as an instrument for sourcing critical resources and information (Dalton and Daily, 1999). Although the resource dependence perspective first became popular in the 1970s, it received renewed attention in the 1990s as many scholars began emphasizing the role of unique resources in creating sustainable competitive advantage (Conner; Young et al 2001 & Prahalad, 1996). The valuable, rare, and socially complex connections developed by board members are difficult for other firms to imitate, and thus may be a potential source of competitive advantage (Barney, 1991). As evidence of the resource dependence function, Boyd (1990) also discovered that boards play a role in managing environmental uncertainty. He found that boards tended to be smaller, with a larger number of interlocks in more uncertain environments, and that this relationship was stronger in high-performing firms.

The second function of the board of directors is referred to as the service function. Board members commonly provide advice and counsel to the CEO (Dalton & Daily, 1999; Lorsch, 1995; Westphal, 1999). Lorsch & MacIver’s (1989) interview-based study found that directors’ advisory roles dominated their board activities. Emphasizing the service role of the board, Dalton & Daily (1999:30) stated “the expertise/counsel role of board service suggests that directors may provide a quality of service to the CEO that would otherwise be largely unavailable.” Board members may have expertise in a particular area, and thus can provide valuable advice in strategy formulation (Fama & Jensen, 1983). Judge & Dobbins (1995) found that profitability is higher when board members are aware of the CEO’s decision style because, in such cases, board members are more likely to offer advice and counsel to the CEO. The service function is likely to be more prevalent in firms where there are strong alternative monitoring forces, such as highly competitive product markets and managerial labour markets (Johnson et al., 1996).

Former theorists had argued for the relevance of inter-organizational power to strategy and structure (e.g., Thompson, 1967), but the resource dependence theory
added an elaborate catalogue of organizational responses to interdependence that could inform empirical work. The basic theory might be summarized by a piece of advice to top managers: “Choose the least-constraining device to govern relations with your exchange partners that will allow you to minimize uncertainty and dependence and maximize your autonomy.” The array of tactics described by the theory forms a continuum from least- to most-constraining. If dependence comes from relying on a sole-source supplier, then an obvious solution is to find and maintain alternatives.

A riskier strategy for managing dependence is to co-opt it. Selznick (1949) suggests that an organization can manage uncertainty by inviting a representative of the source of constraint onto its governing board, thus trading sovereignty for support. Firms might invite executives of constraining suppliers or major customers onto their board to gain their support, or start ups might add a venture capitalist to the board to maintain sources of funding, or corporations reliant on government contracts might invite former senators and cabinet members to join the board to gain contacts and signal legitimacy. The expectation is that having a representative serving on the board provides the source of constraint with a vested interest in the dependent organization’s survival. For the first several years, board ties were probably “the most empirically examined form of inter-corporate relation” from a resource dependence perspective (Pfeffer, 1987: 42), although the literature on alliances undoubtedly dwarfs all other domains at this point. The evidence on board ties, like that on joint ventures, primarily came from industry-level correlations showing that the prevalence of ties to competitors was related to the level of industry concentration (Pfeffer & Salancik, 1978), while inter-industry ties mapped onto the level of exchange-based constraint between the industries (Burt, 1983).

The most constraining method of managing dependence is to incorporate it within the organization’s boundary through mergers and acquisitions. The prescription to absorb uncertainty that cannot otherwise be managed dates back to Thompson (1967), but Pfeffer was undoubtedly the person that pursued this idea most vigorously with empirical data. Mergers take three general forms: vertical (buying suppliers or buyers), horizontal (buying competitors), and diversifying or conglomerate mergers (buying organizations in a different domain). External Control argued that mergers
seen by those with an efficiency orientation as a means of reducing transaction costs, to the ultimate benefit of consumers—were actually a means of managing interdependence, and may provide little benefit to either consumers or shareholders. “We argue that vertical integration represents a method of extending organizational control over exchanges vital to its operation; that horizontal expansion represents a method for attaining dominance to increase the organization’s power in exchange relationships and to reduce uncertainty generated from competition; and that diversification represents a method for decreasing the organization’s dependence on other, dominant organizations” (Pfeffer & Salancik, 1978: 114).

The sheer volume and diversity of empirical analyses summarized in External Control is surely an important reason for the resource dependence theory’s continuing influence. It is hard to disagree with the basic notion that organizational strategies are often driven as much by power dynamics and managerial exaggeration as by profit or shareholder value, in light of the various financial scandals of the past decade. On the other hand, the evidence behind some of the specific claims of the resource dependence theory is not always perfect. In particular, as an alternative perspective to economic theories of mergers and board interlocks, the resource dependence theory faces two limitations.

First, the analyses of mergers and interlocks were done at the industry level rather than the organizational level, which leaves their results susceptible to claims of an ecological fallacy. A second limitation to the empirical findings in External Control is the obverse of one of the theory’s strengths. The reported empirical results documented that a parsimonious theory of power predicted a wide range of specific organizational actions, from who was put on the board to what kinds of acquisitions an organization engaged in. But organizational repertoires have evolved enormously, along with their environments. Organizations that diversified in the 1960s and 1970s were highly likely to be taken over and perhaps split up during the 1980s, as happened to nearly one-third of the 1980 Fortune 500 companies. Relatively few firms diversified outside of a small set of industries (notably finance and media), and by the 1990s layoffs, spinoffs, and outsourcing had replaced growth and diversification as dominant organizational strategies (Davis et al., 1994). By the 1990s, evidence suggested that board interlocks never occurred within an industry, and were quite rare
among major buyers and suppliers, or between corporations and their bankers—executives tended to find the idea of co-opting a supplier through a board seat to be a bad idea, given the board’s legal duty of loyalty (Davis, 1996).

The ability to manage the environment to its advantage is sought because of the power and control possibilities inherent in the state of dependency and uncertainty (Jap & Ganesan, 2000; Stump & Heide, 1996). In addition a lack of self-sufficiency of required resources creates potential dependence on other parties and it introduces uncertainty into a firm’s decision-making since the resource flows are not subject to the firm’s control and hence may not be predicted accurately. The firms seek to manage their environment to ensure long-term survival by minimising dependency and reducing uncertainty in its resource acquisition through formal or informal links with other firms (Heide, 1994). A variety of research in organisational behaviour, and marketing (Stern et al., 1996; Weitz, 1981) also further supports the view that the context has an important effect on the nature and functioning of inter-firm relationships.

With this, Jap et al. (2000) hypothesize the following: H1: The greater the dependency, the greater the controlling orientation. H2: The greater the uncertainty, the greater the controlling orientation. It is proposed that high firm power will moderate the relationship between controlling orientation (CO) and outcomes. A long-standing principle in buyer-seller research maintains that firms with a power advantage can influence its exchange partner to fulfil its wishes (e.g. Frazier, 1991; Stern & Reve, 1980) and hence improve its own financial performance (Noordewier et al., 1990). Though previous studies have investigated the financial outcomes under an uncertain environment, e.g., Noordewier et al. (1990) used transaction cost agency (TCA) and relational elements to examine financial outcomes such as inventory turnover of relationships under uncertain environments and found that performance in terms of resource acquisition costs is improved when firms introduce more relational elements into their purchasing arrangement. The focus is to examine the buyer’s performance defined in terms of efficiency; (vis à vis RDT’s focus on effectiveness) and furthermore the dependency variable (firm power) was positioned as a control variable instead of a moderator.
It was further pointed out that the proponents of RDT suggest that firms should tackle the aspect of increasing dependency and uncertainty by developing dependencies and expand power to its advantage (Clark et al., 1994; Pfeffer & Salancik, 1978; Zeithaml & Zeithaml, 1984) thus enabling the firm to embark on a redistribution of wealth to its gain (McAlister et al., 1986; Wathne & Heide, 2000) and thereby ensure its constant supply of resources. Following this reasoning, it is expected that the greater the CO of an organisation, the better will be its financial performance as firm power increases. Therefore, the following hypothesis is put forward. H3: The greater the extent of firm power, the greater the positive relationship of CO-financial outcomes.

Previous research found that higher total interdependence has a positive effect on relationship quality (Kumar et al., 1995a) and performance (Buchanan, 1992) because both parties justify the need for one to meet the other’s objectives in a collective manner because of commonality of interest and thereby goal congruence. Thus, this serves as a disincentive to engage in hostility and encourages the investment of more time and resources in developing a good working relationship (Hibbard et al., 2001). When asymmetric interdependence exists, researchers found that relatively dependent parties feel greater hostility and develop a greater sense of dissatisfaction with the relationship because the dependent party perceives that its concerns have not occupied a fair share of the more powerful firm’s attention (Anderson and Weitz, 1992) and its actions are perceived as unfair (Kumar et al., 1995b). Furthermore, from the perception of the more powerful firm, relative dependent parties are often viewed as ineffective; as such, power advantage firms tend to attribute success to themselves (Lusch and Brown, 1996).

The literature on RDT makes little mention of customer satisfaction and value. We predict that organisations adopting CO will channel more of their attention to managing their external dependencies especially to resources that are critical to their achievement of the organisational objective. By exploiting power asymmetries to their advantage such as obtaining some kind of decision control (Lusch & Brown, 1996) or dictate prices, quality and delivery standards (Rokkan & Haugland, 2002) rather than devote effort in incorporating customer satisfaction and value as they are viewed as competitors of organisation wealth, not sources of it (Porter, 1980).
2.2.5 Institutional Theory

According to Scott (2001), the roots of institutional theory run richly through the formative years of the social sciences, enlisting and incorporating the creative insights of scholars ranging from Marx & Weber, Cooley & Mead, to Veblen & Commons. Much of this work, carried out at the end of the nineteenth and beginning of the twentieth century, was submerged under the onslaught of neoclassical theory in economics, behaviorism in political science, and positivism in sociology, but has experienced a remarkable renaissance in our own time. Institutional theory attends to the deeper and more resilient aspects of social structure. It considers the processes by which structures, including schemas, rules, norms, and routines, become established as authoritative guidelines for social behavior. It inquires into how these elements are created, diffused, adopted, and adapted over space and time; and how they fall into decline and disuse. Although the ostensible subject is stability and order in social life, students of institutions must perforce attend not just to consensus and conformity but to conflict and change in social structures (Scott 2004b). Although the presence of institutional scholars in many disciplines provides important opportunities for exchange and cross-fertilization, an astonishing variety of approaches and sometimes conflicting assumptions limit scholarly discourse.

Scott (2004) recognizes that institutional environment is not monolithic, but often varied and conflicted. Authoritative bodies may diverge—indeed, in liberal states, they are often designed to do so, providing “checks and balances”—and schemas and models may compete. According to Friedland & Alford (1991); Sewell (1992), the elements of institution which are regulative, normative, cultural-cognitive may not be aligned, and one may undermine the effects of the other. The boundaries of organizational fields are often vague or weak, allowing alternative types of logic to penetrate and support divergent models of behavior. Suppressed groups and interests may mobilize and successfully promote new models of structure and repertoires of acting. Some of the most interesting work of the past two decades has helped to unpack the multiplicity of institutional arrangements, both between and within a given field, examining the intersection of structures, and documenting the transpose-ability of schemas, as actors and ideas flow across field boundaries. The empirical studies of these processes range from examining the effects of the fragmentation of U.S. state
structures (Meyer, Scott & Strang 1987; Abzug & Mezias 1993); to competition among alternative professional models (DiMaggio 1991); to conflicts between faltering and emergent regimes, for example, the rise of market models in socialist states, (Campbell & Pedersen 1996; Stark 1996). Clearly, competing rules or schema open up possibilities for choice and bargaining among subordinate actors.

While recognizing that actors are institutionally constructed, it is essential to affirm their varying potential for reconstructing the rules, norms and beliefs that guide. Barley’s (1986) influential study of the variable response of actors in hospitals to the introduction of technologies, helped to open the door for the consideration of power exercised by subjects, and was reinforced by DiMaggio’s (1988) essay calling for the reintroduction of agency. Gradually, the language began to shift from discussions of institutional effects to institutional processes; and theorists began to craft recursive models, recognizing bottom-up modes of influence to supplement or replace prevailing top-down models (Scott 1995; 2001).

The introduction of agent-actors was required at multiple levels, rather than positing the presence of widely shared belief systems or norms. Similarly, as noted, analysts needed to recognize that actors subject to institutional influences are capable of responding in a variety of ways. The latter effort was reinforced and advanced by Oliver (1991), who recognized the value of linking resource-dependence arguments with institutional models. She suggested that organizations, and their leaders, might not simply respond to institutional demands with passive compliance but could employ a range of strategic response reactions that included acquiesce, as well as compromise, avoidance, defiance, and manipulation. Amidst the rush by analysts to embrace strategic arguments, Goodrick & Salancik (1996), introduced an appropriate, cautionary note to the effect that well-established beliefs and standards do not countenance strategic responses. Still, a probably salutary effect of Oliver’s initiative was to help restore institutional arguments to favor within professional schools. A more conflicted or ambiguous environment allows for greater opportunity for strategic and agent-behavior. In addition, recognition of agency at multiple levels encourages attention to the variety of interactive processes at work between actors within organizational fields as they engage in interpretation, sense-making, translation, and negotiation activities (Edelman 1992; Dobbin et al., 1993, Weick 1995).
In these developments, institutional theory mirrors trends generally present in theorizing about social structure and action from the classical to contemporary theorists (Alexander 1983). Interactive and recursive models increasingly have replaced one-way, determinist arguments. In my view, the work of Giddens (1979; 1984) has been particularly helpful to latter-day social scientists in developing a more balanced conception of the relation between freedom and order. The Stanford camp’s initial theoretical formulation proposed that the formal structures produced in response to institutional demands are routinely decoupled from technical work processes (Meyer & Rowan, 1977; Meyer, Scott & Deal 1981). While the notion of “loose coupling” among structural elements has a long and rich history in organization studies (Weick 1976; Scott 2003b: 88-89), decoupling carried stronger intellectual and affective baggage, striking many critics as connoting deception, duplicity, and merely ceremonial conformity (Perrow 1985; Hall, 1992). An enduring truth associated with the original argument is that modern organization structures are a product not only of coordinative demands imposed by complex technologies but also of rationalized norms legitimizing adoption of appropriate structural models. Indeed, these can be viewed as two quasi-independent sources of structures, in the absence of which, organizing efforts are crippled (Scott & Meyer 1983). Additionally, each source is associated with a different layer of structure. Parsons (1960) & Thompson (1967/2003) argued that technical forces primarily shape the “core” functions, including work units and coordinative arrangements, while institutional forces shape the more peripheral structures, such as managerial and governance systems (Scott 1981b: 2003).

Organizations reflect, and their participants must work to reconcile, two somewhat independent sources of structuring. While organizations can and do decouple work activities from accounting, control, and other review systems, the extent to which this occurs varies greatly, both over time and among organizations. Some institutional requirements are strongly backed by authoritative agents or by effective surveillance systems and sanctions. Others receive sympathetic responses from organizational participants in positions to implement them. Indeed, some tap into and/or construct the basic premises and organizing logic employed by key organizational players. Response will also vary depending on which elements are predominant: regulative systems, that depend more on external controls—surveillance and sanctioning—are
more likely to elicit strategic responses. Indeed, research has shown that compliance
to regulations varies as a function of the resources devoted to enforcement (Mezias
1995).

Normative elements, which rely more on internalization processes, are less likely to
induce only lip service or resistant responses; and as for cultural-cognitive elements,
which rest on more deeply set beliefs and assumptions, strategic responses are, for
many, literally unthinkable. In this vein, for many institutional theorists, to be
institutional, structure must generate action (Tolbert & Zucker 1996: 179). Westphal
and Zajac (1994) conducted a model empirical investigation examining not only the
extent, but the causes, of decoupling in organizations. They studied the behavior of
570 of the largest U.S. corporations over two decades during the period when many
such firms were adopting long-term incentive plans, attempting to better align
incentives for executives with stockholders’ interests. Following the lead of many
earlier studies of the diffusion of structural models and procedures, they sought to
identify organizational characteristics associated with adoption, both early and late,
and non-adoption. However, rather than assuming decoupling, they assessed the
extent to which organizations actually implemented changes in executive
compensation programs. Finding such variation, they sought to examine which
organizational characteristics predicted the extent of implementation observed.

Decoupling was not treated as a (likely) response to pressures from the institutional
environment. Rather, it was treated as a variable response that differed among
organizations and that, in turn, was in need of being explained. They found both
similar and divergent factors to account for adoption and implementation: for
example, CEO influence was positively associated both with adoption and with non-
implementation; while firm performance was negatively associated with adoption but
not correlated with implementation.

A broader, and more satisfactory, interpretation of the relation between rational and
institutional forces began to appear during the 1990s, as the ideas of a number of
scholars independently converged toward a new formulation. A conception emerged
of the role of institutional arrangements in constructing rationality, not just in the
absence of effective instrumentalities, but as a framework for defining and supporting
the full range of means-ends chains. A concern with effectiveness, efficiency and other types of performance measures does not exist in a vacuum but requires the creation of distinctions, criteria, common definitions and understandings—all institutional constructions. The broader cultural-cognitive, normative and regulatory aspects of institutions shape the nature of competition and of markets, as well as the meanings of effective performance and efficient operation (Fligstein 1990; Orrù, Biggart & Hamilton 1991; Powell, 1991; Whitley 1992). Institutional frameworks bound and defined rational arguments and approaches. It remains true, however, that within these broader frameworks, other types of institutional provisions may support the creation of structures that are more attuned to insuring accountability, gaining legitimacy, and securing social fitness than to directly improving the quality or quantity of products and services. Such requirements, while not directly related to core technologies, can nevertheless make important contributions to organizations adopting them, increasing recognizability, acceptability, and reputation. Institutions are varied in their effects as well as in the levels at which they operate.

In addition, to reorient the relation between rational and institutional arguments, many contemporary scholars are working to broaden the conception of rationality. To supplement and amend narrow utilitarian arguments, they propose to recognize the rationality that resides in rule-following, procedural, and normatively-oriented behavior (Langlois, 1986; March & Olsen 1989; DiMaggio & Powell 1991; Scott 2001). Much wisdom is contained in conventions, habits, and rules. Instrumental logic must be supplemented with social intelligence. The problems posed by the persistence of errors associated with the founding period of an intellectual perspective are not unique to institutional theory. It is all too common that errors present at the origins prove difficult to correct. They seem to be built-in into the fabric of the enterprise. It takes considerable energy, and even courage to confront them. When predictions are confounded by findings, it suggests the need to reexamine premises and assumptions, as well as propositions and logic. Empirical research does not just test arguments; it provides the bases for reformulating them, sometimes in quite basic ways.
2.2.6 Stakeholder Theory

Freeman (1984, p. 46) defined a stakeholder as any group or individual who can affect or is affected by the achievement of an organization's objectives. Specifically, Freeman suggested that firms should identify their direct and indirect stakeholders. This vocabulary has been replaced in the literature by primary and secondary stakeholders (Carroll, 1989; Wood, 1993). Like earlier works, he created a boundary on business's obligations to external social actors. He also suggested that firms do a value analysis as part of this process and that a firm should look for congruency or fit between the firm and its stakeholders. In order to do this, a firm should know what it stands for (Freeman, 1984, p. 83). His value analysis is not about identifying ethics in a traditional sense. Key (1999) concludes on this that it is part of an overall management strategy that has no particular value at its heart.

According to Solomon (2007), the Stakeholder theory has developed gradually since 1970 and was presented by Freeman (1984) who proposed a general theory of the firm, incorporating corporate accountability to a broad range of stakeholders. This theory would explain firm behaviour by integrating observed social performance with observed economic performance. The economic model uses a subset of the contract and agency theory to explain and predict firm behaviour, managers act as agents for stockholders/principals. Brenner and Cochran (1991) have suggested that a stakeholder model might be the appropriate rival paradigm to the economic model. However, as it is currently conceptualized from Freeman's (1984) original work, the stakeholder model does not meet the requirements of the theory (Donaldson & Preston, 1995; Jones, 1995; Mitchell et al., 1997; Mitnick, 1993; Rowley, 1997, 1998; Wood, 1991). Parson (1951) stated that in the economic theory of the firm similar challenges have been faced in attempts to model the social structure, particularly the elements of human activity which constitute economic activity (Williamson, 1963; Jones, 1995).

Current conceptualizations of the stakeholder theory do not meet the requirements of scientific theory. According to Friedman (1962), the causal explanation for this model is market forces and rationality underlying them; that economic values guide choice, and choices are rational and utility maximizing. In the neoclassical theory, the goal of
Smith's economic man is to maximize the wealth of the firm and is based on contractual duties owed to owners (Brenner & Cochran, 1991). Thus, the neoclassical theory of the firm assumes that the firm has external responsibilities of disclosing financial reports and these duties are owed to the owners, which in the case of modern corporations are stockholders (Brenner & Cochran, 1991). Mills (1959) suggested that values are an inherent part of theory building, and that problem formation requires that the values involved and the threat to those values be identified.

Freeman in his 1984 work, “Strategic Management: A Stakeholder Approach”, laid the groundwork for the development of stakeholder theory as a theory. The phenomenon that Freeman attempts to explain is the relationship of the firm to its external environment, and its behaviour within this environment. While Freeman (1984) limited his claim to providing a generalizable/ testable approach to managerial strategic decision-making, the stakeholder theory should and could ideally provide a new theory of the firm. Business and Society scholars that have looked at the relationship between a firm and its external environment have produced a stream of literature in the area of corporate social responsibility (CSR). These theoretical streams have continued to focus on the nature of the relationship between business and society, and the system of business within society. In contrast, the stakeholder theory focuses primarily on the actors in the environment, and less directly on the process of corporate social engagement. Additionally, CSR conceptualizations have often been prescriptive while the stakeholder theory is descriptive. Freeman (1984) was the first scholar to present a ``theory'' assessing the role of actors in the firm's environment. His work carried on a stream of work that suggested that other internal and external actors impacted firm behaviour besides stockholders as the economic model suggests. Adam Smith's (1937) identification of external interests to the firm may be viewed as an early recognition of stakeholders, consumers being external members who were affected by and had an interest in the firm. Barnard (1938) suggested that employees were an important factor in a firm's success and, as such their interests should be carefully assessed. Management executives turned CSR advocates, such as Frank Abrams & Richard Eells, argued that the corporation was accountable to many different sectors of society (Eells, 1960, p. 55). Abrams (1951) specifically identified four corporate claimants: employees, stockholders, customers, and the public, including government.
While Preston and Post's model (1975) creates areas of primary and secondary involvement in an attempt to limit business's responsibility for the widening circle of social concerns, they acknowledge responsibility to external others at the point of interpenetration. However, it was Freeman (1984) who most clearly and graphically modelled the concept of stakeholders as impacting actors on the firm and on whom the firm impacts. While organizational behavioural theorists (Lawrence & Lorsch, 1967; Thompson, 1967), institutional theorists (DiMaggio & Powell, 1983) and population ecologists (Hannan & Freeman, 1977) had investigated the impact of the firm's external environment on the firm's structure, success and survival, Freeman's stakeholder map provided a way for organizations to strategically assess these effects via stakeholder identification. Resource dependency theorists (Pfeffer & Salancik, 1978) also analyzed both the impact of the processes identified by organizational environmental theorists and focussed on the role of the external and internal actors involved in this process.

The basis of managing stakeholder relationships once identified and analyzed is utilitarianism. That is, a firm must make trade-offs between its goals and the goals of its stakeholders. One way of assessing these trade-offs is to identify the type of effects that stakeholders have on the firm or that the firm has on stakeholders. Freeman (1984) categorizes these effects as economic, technological, social, political, and managerial. He delineates the stake that stakeholders have in the firm as equity, economic or influencer, and the power that they wield as formal, voting, economic or political power. These categories open the door to providing motivating principles or a theory logic to stakeholder analysis, though Freeman does not himself provide these.

According to Key (1999), Freeman's theory, as presented, can be criticized in four ways: 1) inadequate explanation of process, 2) incomplete linkage of internal and external variables, 3) insufficient attention to the system within which business operates and the levels of analysis within the system, and 4) inadequate environmental assessment. Stakeholder theory provides an inadequate explanation of the firm's behaviour within its environment. The key to theory development is providing an explanatory logic for the relationships under observation. Beyond the concept of affect/affected by', Freeman's work does not sufficiently address the dynamics which link the firm to the stakeholders which are identified. While it may be correct to
suggest that the firm's survival be linked to external others as other theorists have done, (e.g. resource dependency and population ecology theory), the motivating description of this linkage needs to be more clearly addressed. His categorization involving power and stake or interest lay the ground work for way that this might be achieved.

However, other motivating principles might work just as well, such as legitimacy as suggested by Davis's iron law of responsibility (1973) & Wood's (1991) corporate social performance model. Another underlying logic that links the firm to internal and external others may be supplied. Mills (1959) and Hosseini & Brenner (1992) have suggested that values be part of the process explanation. Freeman (1984) does discuss the concept of congruent values between the firm and stakeholders but it is in the context of identifying alliances versus conflict, not as a way of elucidating the process involved in the stakeholder/firm relationships. Thus, while Freeman has offered a new framework, without a developed logic or causality that links the variables, it provides neither a way to test or predict either firm behaviour or the behaviour of external actors. The first steps toward identifying this logic have been made by Donaldson & Dundee (1994) and Jones (1995). They have suggested that the contract theory is the basis for stakeholder relationships, similar to the logic that explains the relationship of managers and stockholders in economic theory. Freeman presents an incomplete linkage between actors, and between internalities and externalities.

Despite these criticisms, the stakeholder theory has not surprisingly been seized upon by business and society scholars as a tangible way to organize, assess and research issues in the field. Other areas of management, especially strategy, have also found it to be a useful addition as a research tool. However, for scholars of business and society, it represented a concrete alternative to the amorphous and seemingly indefinable concept of corporate social performance and corporate social responsibility.

As discussed earlier, more recent work has begun to try to attach theory to the stakeholder framework (Donaldson & Preston, 1995; Jones, 1995; Mitchell et al.,
Donaldson & Preston (1995) suggest that the stakeholder theory is normative, based in part on theory of property rights while Hosseini & Brenner (1992) describe these property interests as stakeholder "values". Jones (1995) explicitly suggests that it is indeed the property right of contracts which is at the heart of the stakeholder theory. Subsequent works build on this notion of relational responsibilities but do not address the mechanism that influences and enacts this relationship (Mitchell et al., 1997; Rowley, 1997; Wood and Jones, 1995). Thus, the stakeholder theory has provided scholars with a clearer tool for knowing, and thus fulfilled one requirement of theory (Kuhn, 1962). It has brought greater credibility and acceptance to the tenet of corporate social performance that business is embedded in a system of social relationships and that it affects and is affected by. As suggested earlier what it has not done is explain the liability or the causal laws of these relationships. The stakeholder theory has held the promise of becoming the theoretical centrepiece toward a new theory of the firm: a critique of stakeholder "theory".

As the stakeholder theory has been conceived to date, it continues to suggest that the corporation is at the centre of the system and as such is the controller of its domain despite other theoretical work to the contrary (Hannan & Freeman, 1977; DiMaggio & Powell, 1983; Pfeffer & Salancik, 1978; Rowley, 1998). From this vantage point, Freeman has suggested that stakeholder values must match corporate values. Thus, there is no real assessment of values or realignment of corporate values suggested in this model even in the face of incongruent societal values. Attempts to develop a model of corporate social responsibility have also tried to provide a new theory of the firm. CSR and stakeholder theories have partially been attempts to "add" deontology onto the economic model of the firm. Much of this work has been confined to the area described as social issues in management or public policy. These grafts have not been successful in creating a richer theory of the firm that truly incorporates and explains the observable firm behaviour. They have failed primarily because they do not provide an adequate value base or causal logic to link economics and deontology (Swanson, 1995).

Goodpasture (1991) has called for the introduction of ethical values to the use of stakeholder analysis by management. This would help to provide an underlying logic to the stakeholder process but it may still not adequately address the need for a logic
to explain firm behaviour. It may produce instead another normative theory like many of the existing theories in the CSR literature that is prescriptive but not predictive. Brenner & Cochran (1991) have also suggested that for the stakeholder theory to be a theory of the firm which could replace a neoclassical theory, it needs to include values as part of a behavioural analysis of the firm and stakeholder groups. They suggest that this would lead to a theory that could be the canter-piece for the field of business and society.

2.3 Summary

The literature reviewed identified the different theories of corporate governance such as the Principal Agency theory, Steward theory, Resource Dependency theory and Stakeholder theory. It points to the interests of a wide range of stakeholders regarding not only the fundamental and social principles of good financial practices but including the ethical and environmental practices as well. In so doing, there is an emphasis on the public enterprises’ need to recognise that they no longer act independently from the societies and the environment in which they operate. In fact, public entities are an embodiment and an object of citizens’ hopes, expectations and aspirations. This is so because they are founded on, if not continue to be funded by, the citizens’ taxes and as such they owe their existence to the citizens and society at large.

While striving to achieve excellence, public enterprises are often hindered by such challenges as finding a balance between the responsibility of the state for actively exercising its ownership functions, such as the nomination election of the boards of directors. At the same time they have to refrain from imposing undue political interference in the management of the entity and ensure that there is a level playing field in markets where private sector companies can compete with state-owned enterprises and that the government does not distort competition in the way they use their regulatory or supervisory powers.
Chapter 3: CORPORATE GOVERNANCE FRAMEWORK

3.0 Introduction

This chapter deals with the corporate governance mechanisms and the components of performance measurements and reporting systems that are being practised across the world. There are different codes of corporate governance in operation in the whole world. This study considers four codes of corporate governance. These are: the King II Report, the Commonwealth Association for Corporate Governance (CACG) Guidelines, the Organization for Economic Development (OECD) Guidelines and the Good Governance Standard for Public Services (2004). The chapter touches on, among other sub-topics, the responsibilities of boards of directors of state-owned enterprises by making reference to the Enron failure and corporate governance in China. Finally, the chapter concludes with a discussion on the problems and challenges faced by boards of directors as they strive to achieve excellence in corporate governance.

3.1.1 King II Report

The King Committee on Corporate Governance (1992) was formed under the auspices of the Institute of Directors in South Africa to consider corporate governance’s increasing interest around the world. Unlike its counterparts in other countries at the time, the King Report (2002) goes beyond the financial and regulatory aspects of corporate governance in advocating an integrated approach to good governance in the interests of a wide range of stakeholders. The King Report attaches great importance to the fundamental principles of good financial, social, ethical and environmental practice. In adopting a participative corporate governance system of enterprises, the King Committee in 1994 successfully formalized the need for companies to recognize that they no longer act independently from the societies and the environments in which they operate (King Report, 2002). Namibia being inextricably linked (historically, geographically and economically) with South Africa and further due to the fact that the Namibian dollar (NAD) is pegged to the South African rand, the King
II Report and the associated South African Guidelines on Corporate Governance are very relevant, if not binding to the Namibian public sector manner of operating.

The following are some of the characteristics of the King II Report, (2002):

(i) Boards and Directors

The King committee described the board as the focal point of the corporate governance system which is ultimately accountable and responsible for the performance and affairs of the company. The board delegates authority to board committees or management and does not in any way mitigate or dissipate the discharge by the board and its directors of their duties and responsibilities. The committee goes on to state that the board must give strategic direction to the company, appoint the chief executive officer and ensure that succession is planned. But the committee warns that as much as the board is to delegate authority, it must retain full and effective control over the company, and monitor management in implementing board plans and strategies. This the board can do, by ensuring that the company complies with all relevant laws, regulations and codes of business practice, and should go further by communicating with its shareowners and relevant stakeholders both internal and external openly and promptly and with substance prevailing over form.

The King II report (2002) mentions that the board should define levels of materiality, reserving specific power to itself and delegating other matters with the necessary written authority to management and take a further step of ensuring that these matters are monitored and evaluated on a regular basis. The board should have unrestricted access to all company information, records, documents and property. The information needs of the board should be well-defined and regularly monitored. The board should consider developing a corporate code of conduct that addresses conflicts of interest, particularly relating to directors and management, which should be regularly reviewed and updated as necessary.

On the size of the board, the State-owned enterprises governance Act No. 2, (2006) of Namibia section 14(1) paragraph (a) states that it is the function of the State-owned
enterprises governance council to determine the number of board members to be appointed within the limits of 5 to 7 persons. The case where a larger number is required, the Council will decide what the council may consider appropriate in a particular case, but with due regard to any stipulation regarding the composition of a board provided for in establishing Act or constituent document or memorandum of association and article of association of a State-owned enterprise. King II concurs with the State-owned enterprises governance Act No. 2, 2006 on that by pointing out that every board should consider whether or not its size, diversity and demographics makes it effective. It further that the board must identify key risk areas and key performance indicators of the business enterprise. These should be regularly monitored, with particular attention given to technology and systems.

Section 14(1) paragraph (b) of the State-owned Enterprises Governance Act No. 2, (2006), points out that the Council should further determine the requisite qualifications, experience or skills of persons to be eligible for appointment as members of the board. Section 15(1) of Act No.2, 2006 states that whenever it is necessary to appoint members of the board of a State-owned enterprise, either upon a first constitution or a new term of the board, or for filling a vacancy, the head of the secretariat must, after consultation with the portfolio Minister and with due regard to section 14(2), make a report to the Council containing paragraph (c) in relation to the persons recommended under paragraph (b), particulars of; (i) their personal details; (ii) their knowledge, experience and skills concerning issues relevant to the functions of the State-owned enterprise concerned.

The board should identify and monitor the non-financial aspects relevant to the business of the company as well as record the facts and assumptions on which it relies to conclude that the business will continue as a going concern in the financial year ahead or why it will not, and in that case, what steps the board is taking to remedy the situation. The report further states that the board should ensure that each item of special business included in the notice of the annual general meeting, or any other shareowners’ meeting, is accompanied by a full explanation of the effects of any proposed resolutions. The board should encourage shareowners to attend annual general meetings and other company meetings at which the directors should be present. More particularly, the chairpersons of each of the board’s committees,
especially the audit and the remuneration committees, should be present at the annual general meeting. (King, 2002)

The King II report (2002) further encourages that every board should have a charter setting out its responsibilities, which should be disclosed in its annual report. At a minimum, the charter should confirm the board’s responsibility for the adoption of strategic plans, monitoring of operational performance and management, determination of policy and processes to ensure the integrity of the company’s risk management and internal controls, communications policy, and director selection, orientation and evaluation. The board must find the correct balance between conforming to governance constraints and performing in an entrepreneurial way.

(ii) Board Composition

The King II Report (2000) advises that companies should be headed by an effective board that can both lead and control the company, a board which comprises a balance of executive and non-executive directors, preferably with a majority of non-executive directors, of whom a sufficient number should be independent of management so that shareholder interests, including minority interests, can be protected. On procedures for appointments to the board, the report suggests that the appointment of board members should be formal and transparent, and a matter for the board as a whole, assisted where appropriate by a nomination committee. This committee should constitute only non-executive directors, of whom the majority should be independent, and be chaired by the board chairperson.

(iii) Board Chairperson and Chief Executive Officer

The King II Report (2002) encourages a clearly accepted division of responsibilities at the head of the company to ensure a balance of power and authority, such that no one individual has unfettered powers of decision-making. The chairperson should preferably be an independent non-executive director. Given the strategic operational role of the chief executive officer, this function should be separate from that of the chairperson. Where the roles of the chairperson and chief executive officer are combined, there should be either an independent non-executive director serving as
deputy chairperson or a strong independent non-executive director element on the board. Any such decision to combine roles should be justified each year in the company’s annual report.

The Report goes further to mention that the board should appraise performance of the chairperson on a regular basis as the board may determine. If the roles of chairperson and chief executive officer are combined, then the independent deputy chairperson should play a leading part in the evaluation process. The chairperson, or a sub-committee appointed by the board, should appraise the performance of the chief executive officer. The board should satisfy itself that an appraisal of the chief executive officer is performed at least annually. The results of such appraisal should also be considered by the Remuneration Committee to guide it in its evaluation of the performance and remuneration of the chief executive officer.

(iv) Directors

The board should ensure that there is an appropriate balance of power and authority on the board, such that no one individual or block of individuals can dominate the board’s decision-taking. Non-executive directors should be individuals of calibre and credibility, and have the necessary skill and experience to bring judgment to bear, independent of management, on issues of strategy, performance, resources, transformation, diversity and employment equity, standards of conduct and evaluation of performance. Executive directors should be encouraged to hold other non-executive directorships only to the extent that these do not interfere with their immediate management responsibilities.

In reference to the non-executive directors, the Report states that they should carefully consider the number of appointments they take in that capacity so as to ensure that the companies on which they serve enjoy the full benefit of their expertise, experience and knowledge. The board should establish a formal orientation programme to familiarise incoming directors with the company’s operations, senior management and its business environment, and to induct them in their fiduciary duties and responsibilities. Directors should receive further briefings from time to time on relevant new laws and regulations as well as on changing commercial risks. New
directors with no or limited board experience should receive development and education to inform them of their duties, responsibilities, powers and potential liabilities. Boards should ascertain whether potential new directors are fit and proper and are not disqualified from being directors. Prior to their appointment, their backgrounds should be investigated along the lines of the approach required for listed companies by the JSE and under the Banks Act.

(v) Remuneration

Levels of remuneration should be sufficient to attract, retain and motivate executives of the quality required by the board. Companies should appoint a remuneration committee or such other appropriate board committee, consisting entirely or mainly of independent non-executive directors, to make recommendations to the board within agreed terms of reference on the company’s framework of executive remuneration and to determine specific remuneration packages for each of the executive directors. This is, ultimately, the responsibility of the board. This committee must be chaired by an independent non-executive director.

In order to obtain his or her input on the remuneration of the other executives, the King II (2002) reports that the committee should consult the chief executive officer, who may attend meetings by invitation. However, a chief executive should play no part in decisions regarding his/her own remuneration. Membership of the remuneration committee or board committee that considers executive remunerations, must be disclosed in the annual report and the chairperson of such a committee should attend annual general meetings to answer any questions from shareowners. Companies should provide full disclosure of director remuneration on an individual basis, giving details of earnings, share options, restraint payments and all other benefits. Performance-related elements of remuneration should constitute a substantial portion of the total remuneration package of executives in order to align their interests with those of the shareowners, and should be designed to provide incentives to perform at the highest operational standards.

On performance agreements with board members individually, the State-owned Enterprises Governance Act, (2006), section 18 (1) states that the portfolio Minister,
must, within one month of appointing a person as a member of a board, enter into a
performance agreement with such a member, with due regard to any directives laid
down by the Council under section 4. On remuneration of board members and
management staff of State-owned Enterprises, the Act on section 22 (1) states that
remuneration and allowances payable to the members or alternate members of a board
of a State-owned enterprise must be determined by the portfolio Minister with the
concurrence of the Minister of Finance and with due regard to any directives laid
down by the Council under section 4. Subsection (2) of the Act states that no
remuneration is payable to a member of a board who is in the full time service of the
State and subsection (3) states that the remuneration and other service benefits of the
chief executive officer and other management staff of a State-owned enterprise must
be determined by the board of the State-owned enterprise with the concurrence of the
portfolio Minister, with due regard to any directives laid down by the Council under
section 4.

(vi) Board Meetings

The board should meet regularly, at least once a quarter if not more frequently as
circumstances require, and should disclose in the annual report the number of board
and committee meetings held in the year and the details of attendance of each
director. Efficient and timely methods should be determined for informing and
briefing board members prior to meetings while each board member is responsible for
being satisfied that, objectively, they have been furnished with all the relevant
information and facts before making a decision. Non-executive directors should have
access to management and may even meet separately with management, without the
attendance of executive directors. This should, however, be agreed collectively by the
board, usually facilitated by the non-executive chairperson or lead independent non-
executive director. The board should regularly review processes and procedures to
ensure the effectiveness of the company’s internal systems of control, so that its
decision-making capability and the accuracy of its reporting are maintained at a high
level at all times. The board should ensure that it receives relevant non-financial
information going beyond assessing the financial and quantitative performance of the
company, and should look at other qualitative performance factors that involve
broader stakeholder interests.
(vii) Board Committees

Board committees are an aid to assist the board and its directors in discharging their duties and responsibilities, and boards cannot hide behind these committees. There should be a formal procedure for certain functions of the board to be delegated, describing the extent of such delegation, to enable the board to properly discharge its duties and responsibilities and to effectively fulfil its decision-taking process. Board committees with formally determined terms of reference, life span, role and function constitute an important element of the process and should be established with clearly agreed upon reporting procedures and written scope of authority.

As a general principle, there should be transparency and full disclosure from the board committee to the board, except where the committee has been mandated otherwise by the board. At a minimum, each board should have an audit and a remuneration committee. Industry and company-specific issues will dictate the requirement for the committees. Non-executive directors must play an important role in board committees. All board committees should preferably be chaired by an independent non-executive director, whether this is the board chairperson or some other appropriate individual. Exceptions should be a board committee fulfilling an executive function. Board committees should be free to take independent outside professional advice as and when necessary. Committee composition, a brief description of its remit, the number of meetings held and other relevant information should be disclosed in the annual report. The chairpersons of the board committees, particularly those in respect of audit, remuneration and nomination, should attend the company’s annual general meeting. Board committees should be subject to regular evaluation by the board to ascertain their performance and effectiveness.

(viii) Board and Director Evaluation

The board, through its nomination committee or similar board committee, should regularly review its required mix of skills and experience and other qualities such as its demographics and diversity in order to assess the effectiveness of the board. This should be by means of a self-evaluation of the board as a whole, its committees and
the contribution of each individual director. 2.8.2. The evaluations in 2.8.1 should be conducted at least annually.

(ix) Risk Management

According to Jackson and Stein (2007), every company faces risks, some greater than others, and of a huge diversity and it is the responsibility of the Board to identify the risks faced by the company. The Board should also measure the risk’s potential impact on the company, decide on the level of risk which can be tolerated by the company, put in place measures, processes and procedures to address and control the risk and communicate the risk management policy to all employees.

The board is responsible for the total process of risk management, as well as for forming its own opinion on the effectiveness of the process. Management is accountable to the board for designing, implementing and monitoring the process of risk management and integrating it into the day-to-day activities of the company. The board should set the risk strategy policies in liaison with the executive directors and senior management. These policies should be clearly communicated to all employees to ensure that the risk strategy is incorporated into the language and culture of the company. The board must decide the company’s appetite or tolerance for risk – those risks it will take and those it will not take in the pursuit of its goals and objectives. The board has the responsibility to ensure that the company has implemented an effective ongoing process to identify risk, to measure its potential impact against a broad set of assumptions, and then to activate what is necessary to proactively manage these risks.

The board should make use of generally-recognised risk management and internal control models and frameworks in order to maintain a sound system of risk management and internal control to provide reasonable assurance regarding the achievement of organisational objectives with respect to: effectiveness and efficiency of operations; safeguarding of the company’s assets (including information); compliance with applicable laws, regulations and supervisory requirements; supporting business sustainability under normal as well as adverse operating conditions; reliability of reporting; and behaving responsibly towards all stakeholders.
The board is responsible for ensuring that a systematic, documented assessment of the processes and outcomes surrounding key risks is undertaken, at least annually, for the purpose of making its public statement on risk management. It should, at appropriately considered intervals, receive and review reports on the risk management process in the company. This risk assessment should address the company’s exposure to at least the following: physical and operational risks; human resource risks; technology risks; business continuity and disaster recovery; credit and market risks; and compliance risks. A board committee, either a dedicated committee or one with other responsibilities, should be appointed to assist the board in reviewing the risk management process and the significant risks facing the company. In addition to the company’s other compliance and enforcement activities, the board should consider the need for a confidential reporting process (whistle blowing) covering fraud and other risks.

(x) Application and Reporting

A comprehensive system of control should be established by the board to ensure that risks are mitigated and that the company’s objectives are attained. The control environment should also set the tone of the company and cover ethical values, management’s philosophy and the competence of employees. Risks should be assessed on an on-going basis and control activities should be designed to respond to risks throughout the company. Pertinent information arising from the risk assessment, and relating to control activities should be identified, captured and communicated in a form and timeframe that enables employees to carry out their responsibilities properly. These controls should be monitored by both line management and assurance providers. Companies should develop a system of risk management and internal control that builds more robust business operations.

The systems should demonstrate that the company’s key risks are being managed in a way that enhances shareowners’ and relevant stakeholders’ interests. The system should incorporate mechanisms to deliver: a demonstrable system of dynamic risk identification; a commitment by management to the process; a demonstrable system of risk mitigation activities; a system of documented risk communications; a system of documenting the costs of non-compliance and losses; a documented system of
internal control and risk management; an alignment of assurance of efforts to the risk profile; and a register of key risks that could affect shareowner and relevant stakeholder interests. The board must identify key risk areas and key performance indicators of the company, and monitor these factors as part of a regular review of processes and procedures to ensure the effectiveness of its internal systems of control, so that its decision-making and the accuracy of its reporting are maintained at a high level at all times. Reports from management to the board should provide a balanced assessment of significant risks and the effectiveness of the system of internal control in managing those risks.

Any significant control failings or weaknesses identified should be covered in the reports, including the impact that they have had, or may have had, on the company and the actions being taken to rectify them. The board is responsible for disclosures in relation to risk management and should, at a minimum disclose: that it is accountable for the process of risk management and the system of internal control, which is regularly reviewed for effectiveness and for establishing appropriate risk and control policies and communicating these throughout the company; that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the company, that has been in place for the year under review and up to the date of approval of the annual report and financial statements; that there is an adequate system of internal control in place to mitigate the significant risks faced by the company to an acceptable level. Such a system is designed to manage, rather than eliminate the risk of failure or maximise opportunities to achieve business objectives.

This can only provide reasonable, but not absolute, assurance; that there is a documented and tested process in place that will allow the company to continue its critical business processes in the event of a disastrous incident impacting on its activities, where material joint ventures and associates have not been dealt with as part of the group for the purposes of applying these recommendations. Alternative sources of risk management and internal control assurance applied to these activities should be disclosed, where these exist; that any additional information in the annual report to assist in the understanding of the company’s risk management processes and system of internal control should be provided as appropriate; and where the board cannot make any of the disclosures set out above, it should state this fact and provide
a suitable explanation. Risk should not only be viewed from a negative perspective. The review process may identify areas of opportunity, such as where effective risk management can be turned to competitive advantage.

In the annual report of State-owned enterprises section 26 subsection (1) it states that the board of a State-owned enterprise must as soon as possible, not later than six months after the end of each financial year of the State-owned enterprise, submit an annual report on the operations of the State-owned enterprises in that year concurrently to the portfolio Minister and to the Council. That, in subsection (2), the annual report of a State-owned enterprise must include the following:

(a) the audited financial statements of the State-owned enterprise;
(b) the auditor’s report on those financial statements;
(c) a statement on the extent to which the State-owned enterprise has met its objectives for the financial year;
(d) quantitative information in respect of the performance of the State-owned enterprise, including its wholly-owned subsidiaries, if any, relative to the State-owned enterprise’s objective; and
(e) such other information in respect of the financial affairs of the State-owned enterprise as is required by the portfolio Minister to be included therein.

3.1.2 Commonwealth Association for Corporate Governance (CACG) – Guideline.

The Commonwealth Association for Corporate Governance (CACG), (1988) is a voluntary association of 53 independent countries, co-operating and consulting in the common interests of their people. Its 1.8 billion people make up around 30% of the world's population. The Commonwealth includes some of the world's largest and smallest countries, developing and developed, spread across six continents and representing many different cultures, faiths and traditions.

The Commonwealth's fundamental values are set out in the Harare Declaration of 1991 which states the need to recognize the importance and urgency of economic and social development. This enables satisfaction of basic needs and aspirations of the vast majority of the peoples of the world, and seeks the progressive removal of the
wide disparities in living standards amongst its members. Namibia, being a member of the Commonwealth, is obliged to adhere to the Commonwealth Association for Corporate Governance (CACG) guidelines.

The CACG guidelines have 15 principles of corporate governance. These principles are primarily at boards of directors of business enterprises, be they public, private, family-owned or state-owned. Ten of these principles and objectives are referred to in this study and are:

- Exercise leadership and integrity in judgement when directing the corporation to achieve continuing prosperity for the corporation;
- Ensure that through managed and effective processes, board appointments are made that provide a mix of proficient directors who are able to add value and bring independent judgement to bear on the decision-making processes;
- Determine the corporation’s purpose and values and determine the strategy for it to achieve its purpose and to implement its values in order to ensure that it survives and thrives;
- Ensure that procedures and practices are in place to protect the corporation’s assets and reputation. To monitor and evaluate the implementation of strategies, policies, management performance criteria and business plans;
- Ensure that the corporation complies with all relevant laws, regulations and codes of best business practice;
- Ensure that the corporation communicates with shareowners and other stakeholders effectively. Serve the legitimate interests of the shareowners of the corporation and account to them fully;
- Identify the corporation’s internal and external stakeholders and agree on policies on how the corporation should relate to them. Ensure that no one person has unfettered power and that there exists an appropriate balance of power of authority on the board;
- Regularly review processes and procedures to ensure the effectiveness of the corporation’s internal systems of control, so that its decision-making capability and the accuracy of its reporting and financial results are maintained at a high level at all times;
- Regularly assess its performance and effectiveness as a whole and that of individual directors;
• Appoint the CEO and at least participate in the appointment of senior management; ensure the motivation and protection of intellectual capital intrinsic to the corporation; ensure that there is adequate training in the corporation for management and employees and a succession plan for senior management.

3.1.3 Organisation for Economic Cooperation and Development (OECD) Guidelines

Corporate governance of public enterprises is a major challenge in many economies. As a consequence, there has not been an international benchmark to help governments assess and improve the way they exercise ownership of these entities which often constitutes a significant share of the economy (OECD, 2005). The OECD guidelines’ reports on the shared experience of countries that have started to reform corporate governance of state-owned enterprises observe that corporate governance is an important but also a complex undertaking. For example, there are two major challenges faced in the implementation of corporate governance. First, the difficulty of finding a balance between the responsibilities of the state for actively exercising its ownership functions, such as the nomination and election of the boards of directors while at the same time refraining from imposing undue political interference in the management of the entity.

However, the OECD guidelines (2005) point out that state-owned enterprises may suffer just as much from undue hands-on and politically motivated ownership interference as from totally passive or distant ownership by the state. The guidelines also warn that the undue hands-on may cause dilution of accountability, as state-owned enterprises are often protected from major threats that are essential for policing management in private sector corporations in cases of takeover and bankruptcy. The source of difficulties of accountability were pointed out in the OECD Guidelines as derived from the fact that the accountability for the performance of the state-owned enterprises involves a complex chain of agents. This chain consists of management, the boards of directors, ownership entities, ministries, and then the government. This chain is complex in that it is not easily identifiable and has remote principals. The second challenge faced by the state is to ensure that there is a level playing field in
markets where private sector companies can compete with state-owned enterprises and that the government does not distort competition in the way they use their regulatory or supervisory powers.

The OECD Guidelines (2005) have formed the basis for corporate governance initiative in both OECD and non-OECD countries, alike. Furthermore, the guidelines have formed the basis of the corporate governance component of the World Bank/IMF Reports. The OECD Guidelines are therefore intended to assist any government in their efforts to evaluate and improve the legal, institutional and regulatory framework for the proper and efficient governance of public entities in the respective countries. In the Guidelines, the term “SOEs” refers to enterprises where the state has significant control, through full, majority or significant minority ownership. The term “board” is meant to embrace the different national models of board structures found in OECD and non-OECD countries. Boards also refer to supervisory board while “key executive” refers to the management board.

The guidelines further state that there should be a clear separation between the state’s ownership function and other state functions that may influence the conditions for state-owned enterprises with particular regard to market regulation. The government should also strive to simplify and streamline the operational practices and legal form which state-owned enterprises operates. Their legal form should allow creditors to press their claim and to initiate insolvency procedures.

Furthermore, the guidelines make an elaboration by stating that any obligation and responsibilities that any state-owned enterprise is required to undertake in terms of public service beyond the generally accepted norm should be clearly mandated by laws or regulation. State-owned enterprises should also not be exempt from the application of general laws and regulations. Stakeholders, including competitors should have access to efficient redress and even handed ruling when they consider that their rights. Lastly on this guideline, the OECD Guidelines (2005) conclude by stating that state-owned enterprises should face competitive conditions regarding access to finance. Their relations with state-owned banks, state-owned financial institutions and other state-owned entities should be based on purely commercial grounds.
Accordingly, the state should act as an informed and active owner and establish a clear and consistent ownership policy, ensuring that the governance of state-owned enterprises is carried out in a transparent and accountable manner with the necessary degree of professionalism and effectiveness. This implies that the government should develop and issue an ownership policy and define the overall objectives of state ownership, the state’s role in the corporate governance of state-owned enterprises, and how it will implement its ownership policy.

However, the OECD Guidelines (2005) discourage the government from being involved in the day-to-day management of state-owned enterprises allowing management full operational autonomy to achieve their defined objectives. The state should let the state-owned enterprises boards exercise their responsibilities and respect their independence. The state should clearly identify the exercise of ownership right, which will be held accountable to Parliament and have clearly defined relationships with relevant public bodies, including the state supreme audit institutions. The state should also establish well-structured and transparent board nomination processes in fully or majority owned state-owned enterprises, and actively participate in the nomination of all state-owned enterprises’ boards. It should set up reporting systems allowing regular monitoring and assessment of state-owned enterprises’ performance.

Pertaining to the legal system and the state’s level of ownership, this guideline states that the state should maintain continuous dialogue with external auditors and specific state-control organs. The guideline concludes by stating that the remuneration schemes for state-owned enterprises board members foster the long term interest of the company and can attract and motivate qualified professionals.

The state and the state-owned enterprises should recognize the rights of all shareholders, and in accordance with the OECD Principles of Corporate Governance ensure their equitable treatment and equal access to corporate information. The guideline recommends that there be a coordinating entity, and state-owned enterprises should ensure that all shareholders are treated equitably. State-owned enterprises should also observe a high degree of transparency towards all shareholders and
develop an active policy of communication and consultation will all shareholders. The guideline concludes on this by stating that the participation of minority shareholders in shareholder meetings should be facilitated in order to allow them to take part in fundamental corporate decisions such as board election.

The state-ownership policy should fully recognize the state-owned enterprises’ responsibilities toward stakeholders and request that they report on their relations with stakeholders. The government, the coordinating or ownership entity and state-owned enterprises themselves should recognize and respect stakeholder’s rights established by law or through mutual agreements and refer to the OECD Principles of Corporate Governance in this regard. Public entities, as well as state-owned enterprises pursuing important public policy objectives should report on stakeholder relations. The board of state-owned enterprises should be required to develop, implement and communicate compliance programs for internal codes of ethics. These codes of ethics should be based on country norms, in conformity with international commitments, and apply to the company and its subsidiaries.

On this, the OECD (2004) says state-owned enterprises should observe high standards of transparency in accordance with the OECD Principles of corporate governance. The coordinating, or ownership entity should develop consistent and aggregate reporting on state-owned enterprises and publish, annually, an aggregate report on state-owned enterprises. The entities should develop efficient internal audit procedures and establish an internal audit function that is monitored by and reports directly to the board and to the audit committee or the equivalent company organ.

3.1.4 The Good Governance Standard for Public Services

According to Langlands (2005), Chair of the Independent Commission on Good Governance in Public Services, the intention is for the Good Governance Standard for Public Services to be a guide to help everyone concerned with the governance of public services, not only to understand and apply common principles of good governance, but also to assess the strengths and weaknesses of current governance practice and improve it. The commission also hopes that the Standard will be useful to
governors who are striving to do a difficult job better, and to individuals and groups who have an interest in scrutinizing the effectiveness of governance. The commission further states that the Standard focuses on the ways different functions of governance can support each other; that governance is dynamic, and that good governance encourages the public trust and participation that enables services to improve. The Commission points out that bad governance fosters low morale and adversarial relationships that lead to poor performance or even, ultimately, to dysfunctional organizations.

The Independent Commission on Good Governance in Public Services (2004) was established by the Office for Public Management and the Chartered Institute of Public Finance and Accountancy, in partnership with the Joseph Rowntree Foundation, in London. The role of the Commission is to develop a common code and set of principles for good governance across public services which should lead to good management, good performance, good stewardship of public money, good public engagement and, ultimately, good outcomes. The commission further states that the governors of public entities are challenged immensely and that these public enterprises have people responsible for governance through leading, directing and controlling the organisations they serve. Their responsibility is to ensure that they address the purpose and objectives of these organisations in the public interest and bring about positive outcomes for the people who use the services, as well as providing good value for the taxpayers who fund these services. They have to balance the public interest with their accountability to government and ensure that good executive leadership is in place.

**Scope of the Standard**

The Good Governance Standard for Public Services is intended for use by all organisations and partnerships that work for the public, using public money. Most of them are being public sector organisations whose services are used directly by members of the public or who are responsible for less visible activities, such as regulation and policy development. However, the use of public money to provide public services is not limited to the public sector. The public also has an interest in the
governance of non-public sector organisations that spend public money, and the standard is designed for such entities as well.

Relationship with other codes and guidance

According to the Commission (2004), the Standard has a wide scope but does not seek to duplicate the codes and guidance that already exist for some specific types of organisation. The principles form a universal standard of good governance and the commission encourages all organisations to show that they are putting it into practice in a way that reflects their structure and is proportionate to their size. The commission also recognises that not all parts of the Standard will appear to be directly applicable to all types and the different sizes of organisations. There are many types of organisations to which the Standard applies - central government and local service providers, and public sector and independent organisations have a wide range of governance structures; for example, some governing bodies will be elected and some appointed. On this, the commission pleads with organisations to demonstrate the spirit and ethos of good governance, which the Standard aims to capture and which cannot be achieved by rules and procedures alone. Even though the Standard is designed for western countries, the Namibian public entities can benefit immensely by applying the guidelines of the Standard in their governance of these entities. The Standard comprises six core principles of good governance, each with its supporting principles.

Principles of good governance

*Good governance means focusing on the organisation’s purpose and on outcomes for citizens and service users*

The function of governance is to ensure that an organisation or partnership fulfils its overall purpose, achieves its intended outcomes for citizens and service users, and operates in an effective, efficient and ethical manner. This principle guides all governance activity because each organisation has its own purpose. There are also some general purposes that are fundamental to all public governance, including providing good quality services and achieving value for money. The concept of public
value can be helpful when thinking about the unique purpose of public services and, therefore, of their governance. Public value refers to the things that public services produce, either directly or indirectly, using public money. Public value includes: outcomes such as improved health and improved safety; services such as primary care services and policing and trust in public governance; being clear about the organisation’s purpose and its intended outcomes for citizens and service users.

Having a clear organisational purpose and set of objectives is a hallmark of good governance. If this purpose is communicated effectively, it can guide people’s actions and decisions at all levels in an organisation. For many organisations, central government plays a major role in determining policy and resources and in setting or agreeing to objectives. In these circumstances, it is critically important that there is a common view of the organisation’s purposes and its intended outcomes. The governing body should make sure that there is a clear statement of the organisation’s purpose and that it uses this as a basis for its planning. It should constantly review the decisions it takes, making sure that they further the organisation’s purpose and contribute to the intended outcomes for citizens and users of services.

*Making sure that users receive a high quality service*

All public service organisations provide a service to other people and/or organisations, although not all provide services directly to members of the public. The quality of service is an important measure of how effective an organisation is, and so it is particularly important in governance. Users of public services, unlike consumers in the private sector, usually have little or no option to go elsewhere for services or to withdraw payment. Providers of public services have fewer direct financial incentives than private companies to improve consumer satisfaction. Organisations that provide public services, therefore, need to take additional steps to ensure that services are of a high quality.
Making sure that taxpayers receive value for money

All organisations that spend public money, either in commissioning services or providing them directly, have a duty to strive for economy, efficiency and effectiveness in their work. Citizens and taxpayers have an important and legitimate interest in the value for money provided by organisations that use public money. The governing body should decide how the quality of service for users is to be measured and make sure that it has the information it needs to review service quality effectively and regularly. As part of this, it should ensure that it has processes in place to hear the views of users and non-users from all backgrounds and communities about their needs, and the views of service users from all backgrounds about the suitability and quality of services. The governing body should use this information when making decisions about service planning and improvement.

The governing body should decide how value for money is measured and make sure that it has the information it needs to review value for money effectively, including information about similar organisations, for comparison. It should use this information when planning and reviewing the work of the organisation. Good practice examples are: focusing on the organisation’s purpose and on outcomes for citizens and service users; comparing information about the efficiency, effectiveness and quality of service provided by similar organisations; analysing why levels of efficiency, effectiveness and quality are different elsewhere; giving non-executive directors a specific responsibility to ensure that information about users’ experiences is collected, brought to the attention of the governing body and used in its decision making. Government policy is to increase choice in public services; nevertheless, consumer choice is either not available or limited in most areas of public services.

Good governance means performing effectively in clearly defined functions and roles

Good governance requires all concerned to be clear about the functions of governance and their own roles and responsibilities and those of others, and to behave in ways that are consistent with those roles. Being clear about one’s own role, and how it relates to that of others, increases the chance of performing the role well. Clarity
about roles also helps all stakeholders to understand how the governance system works and who is accountable for what.

_Being clear about the functions of the governing body_

Members of governing bodies are elected or appointed to direct and control public service organisations in the public interest. The primary functions of the governing body are to; establish the organisation’s strategic direction and aims, in conjunction with the executive; to ensure accountability to the public for the organisation’s performance; to assure that the organisation is managed with probity and integrity. In order to direct strategy and ensure that this is implemented and that the organisation achieves its goals, the governing body has to: allocate resources and monitor organisational and executive performance; to delegate to management and to oversee the appointment and contractual arrangements for senior executives, and make sure that effective management arrangements are in place and to understand and manage risk. Ways of achieving these primary functions include: to constructively challenging and scrutinising the executive; to ensuring that the voice of the public is heard in decision-making; to forge strategic partnerships with other organisations. Governors of charities (trustees) have an overriding duty to act in the interests of their charity and its beneficiaries, who are defined as part of its registration as a charity. Industrial and provident societies (mutual) may be either for the mutual benefit of their members or of the community, depending on their form of registration. Throughout, the term ‘executive’ is used to refer to the senior members of the organisation’s paid staff.

_Being clear about the responsibilities of non-executives and the executive, and make sure that those responsibilities are carried out._

Different public services have different types of governing body. In some cases, executive directors are members of the governing body; in other cases the governing body is made up entirely of non-executives. For example, NHS trusts have ‘unified boards’ that usually comprise five executive directors, five non-executive directors and the non-executive chair. In contrast, police authorities and some national public bodies have a ‘supervisory body’ made up entirely of non-executives. Government
departments and non-departmental public bodies have accounting officers (usually the permanent secretary of a government department and the chief executive of an NDPB who have personal responsibility to Parliament for the use of public funds. In all cases, the governors take collective responsibility for the governing body’s decisions. In both unified and supervisory arrangements, non-executives have specific responsibilities in relation to the executive. The non-executive role is to: u contribute to strategy: non-executives bring a range of perspectives to strategy development and decision-making, to make sure that effective management arrangements and an effective team are in place at the top level of the organisation, to delegate: non-executives help to clarify which decisions are reserved for the governing body, and then clearly delegate the rest, to hold the executive to account: the governing body delegates responsibilities to the executive. Non-executives have a vital role in holding the executive to account for its performance in fulfilling those responsibilities, including through purposeful challenge and scrutiny, to be extremely discriminating about getting involved in matters of operational detail for which responsibility is delegated to the executive.

Application

The governing body should set out clearly, in a public document, its approach to performing each of the functions of governance. This should include a process, agreed with the executive, for holding the executive to account for achieving agreed objectives and implementing strategy. The governors should explain how and why their approach to each function is appropriate for the size and complexity of the organisation. The chief executive’s are to lead the organisation in implementing strategy and managing the delivery of services. A good working relationship between the two can make a significant contribution to effective governance. The deputy chair’s role includes supporting the chair in his or her role, and, on occasion, informing the chair of any concerns that governors have about the conduct of the governing body.
Governors and governing bodies need to be clear about the nature of their relationship with the public. The governing body’s role is to direct and control the organisation in the public interest (see 2.1) and to ensure accountability to the public (see 6.2). Being clear about this increases the chances that governors and others will understand the governors’ responsibilities to the public and be aware of the limitations of what they can be expected to do. Public service governors are either elected directly by the public or appointed by governing bodies and/or government. All governors share collective responsibility and accountability for the governing body’s decisions. This includes the governing body of a partnership, whose members may come from a range of organisations. As governors of the partnership, they are responsible for taking decisions that support the partnership’s purpose, not simply the interests of their ‘parent’ organisation. The different routes to becoming a governor mean that elected and appointed governors have different types of relationship with the public.

Application

The governing body should clarify that all its members have collective responsibility for its decisions and have equal status in discussions. The chair and other governors should challenge individual governors if they do not respect constructive challenge by others or if they do not support this collective responsibility for fulfilling the organisation’s purpose and for working towards intended outcomes for citizens and users of services. The governing body should set out a clear statement of the respective roles and responsibilities of the non-executives and the executive and its approach to putting this into practice. The roles of chair and chief executive should be separate and provide a check and balance for each other’s authority. The chair and the chief executive should negotiate their respective roles early in the relationship (within a framework in which the chair leads the governing body and the chief executive leads and manages the organisation) and should explain these clearly to the governing body and the organisation as a whole. Some charity trustees or governors of other independent not-for-profit organisations, such as housing associations, are appointed by a wider voting membership or by other external bodies. Organisations in which political parties are prominent, for example, local authorities, may by convention
operate a system of collective responsibility within the controlling party or alliance, rather than within the governing body as a whole.

The electoral process provides an additional accountability mechanism for elected governors and they can be said to represent the public, in the democratic sense of ‘represent’. Appointed governors’ backgrounds and experience are often factors in their appointment. This means that they bring particular perspectives or expertise, but their views cannot be expected to be ‘representative’ or typical of others with similar backgrounds. It is very important that a wide range of experiences and perspectives inform governance decisions. This is enhanced by the participation of a cross-section of the public in governance decision-making.

Application

Governors should recognise their collective responsibility for the governing body’s decisions and strive to make decisions that further the organisation’s purpose, rather than the interests of any specific group or organisation with which they are associated. The governing body should value the perspectives which governors appointed from different backgrounds bring, but should make clear that these appointed governors are not expected to provide the only source of information about the specific groups whose background or experiences they share. Where appointed, governors are asked to provide authoritative information about the views and experiences of such groups; they should have access to systems for collecting this information.

The governing body, whether elected or appointed (or made up of both elected and appointed governors) should ensure that the organisation engages effectively with the public and service users to understand their views, and that the governing body has access to reliable information about the range of public opinions and the satisfaction of all groups of users of services. In developing and pursuing the organisation’s strategic direction, the governing body is advised to make judgements about, and help to regulate the scale and pace of change that the organisation can handle successfully. In appointing and remunerating the top team, it is good practice to establish a remuneration and appointments committee, made up of governors who are free of vested interests, to make recommendations to the governing body.
descriptions for the chair, deputy chair and chief executive can help others to know what to expect. Even for small organisations or partnerships with limited resources, separation of the chair and the executive role are advisable, with the executive being responsible for putting decisions into practice.

*Good governance means promoting values for the whole organisation and demonstrating the values of good governance through behaviour*

Good governance flows from a shared ethos or culture, as well as from systems and structures. It cannot be reduced to a set of rules, or achieved fully by compliance with a set of requirements. This spirit or ethos of good governance can be expressed as values and demonstrated in behaviour. Good governance builds on the seven principles for the conduct of people in public life that were established by the Committee on Standards in Public Life. Known as the Nolan principles, these are: selflessness, integrity, objectivity, accountability, openness, honesty and leadership.

*Putting organisational values into practice*

A hallmark of good governance is the development of shared values, which become part of the organisation’s culture, underpinning policy and behaviour throughout the organisation, from the governing body to all staff. These are in addition to compliance with legal requirements on, for example, equal opportunities and anti-discrimination.

*Application*

The governing body should take the lead in establishing and promoting values for the organisation and its staff. These values should be over and above legal requirements for example, anti-discrimination, equal opportunities and freedom of information and should build on the Nolan principles. They should reflect public expectations about the conduct and behaviour of individuals and groups who control public services. The governing body should keep these values at the forefront of its own thinking and use them to guide its decision-making.
Individual governors behaving in ways that uphold and exemplify effective governance

Individual behaviour is a major factor in the effectiveness of the governing body, and also has an influence on the reputation of the organisation, the confidence and trust members of the public have in it and the working relationships and morale within it. Conflicts, real or perceived, can arise between the organisations’ interests and those of individual governors. Public trust can then be damaged unless the organisation implements clear procedures to deal with these conflicts.

Application

Governors should live up to the Nolan principles and to any approved codes or guides to ethical conduct for their organisation or sector. They should also demonstrate, through their behaviour, that they are focusing on their responsibilities to the organisation and its stakeholders. Good practice examples are: promoting values for the whole organisation and demonstrating the values of good governance through behaviour; the governing body promotes and upholds values for the organisation. These may include responding to a diverse public and striving to reduce inequality among service users, committing to openness and transparency in decisions and the use of resources, striving for public good and ignoring personal interests, promoting good relationships within the organisation, with the public and service users and with other organisations.

The governing body makes clear the standards of behaviour that it expects from governor and staff. Good practice in the behaviour of individual governors may include: attending regularly and being actively involved in decision making, informing oneself and preparing for decision-making; making contact with other organisations, and forging and maintaining links with the world outside the organisation, engaging willingly and actively with the public, service users and staff, within an agreed communication framework.

Good governance means taking informed, transparent decisions and managing risk
Decision-making in governance is complex and challenging. It must further the organisation’s purpose and strategic direction and be robust in the medium and longer-terms. To make such decisions, governors must be well-informed. Governors making decisions need the support of appropriate systems to help ensure that decisions are implemented and that resources are used legally and efficiently. A governing body may, for example, adopt the discipline of formally reviewing implementation of a new policy after a defined initial period, to see whether it is working as intended. Risk management is important to the successful delivery of public services. An effective risk management system identifies and assesses risks, decides on appropriate responses and then provides assurance that the chosen responses are effective.

**Being rigorous and transparent about how decisions are taken**

Different types of organisations have different statutory requirements for the publication of their decisions. Over and above these requirements, transparent decisions that are clearly explained are more likely to be understood by staff, the public and other stakeholders and to be implemented effectively. It is also easier to evaluate the impact of decisions that are transparent, and, therefore, to have evidence on which to draw in making future decisions. A hallmark of good governance is a clearly defined level of delegation by the governing body to the executive for decision making. The governing body sets policies as parameters within which the executive works on behalf of the governing body. For this to work well, it is important that governors do not concern themselves with levels of detail that are inappropriate for their role, while ensuring that they are not too far removed to provide effective oversight and scrutiny.

**Application**

The governing body should draw up a formal statement that specifies the types of decisions that are delegated to the executive and those that are reserved for the governing body. Governing bodies should state clear objectives for their decisions. In their public record of decisions and in explaining them to stakeholders, they should be explicit about the criteria, rationale and considerations on which decisions are based,
and, in due course, about the impact and consequences of decisions. There are also statutory requirements for the types of decisions and information that can or must be excluded from the public domain, for example information about individuals.

Conflicts can arise between the personal interests of individuals involved in making decisions and decisions that the governing body needs to make in the public interest. To ensure probity and to avoid public concern or loss of confidence, governing bodies have to take steps to avoid any such conflicts of interest, whether real or perceived. Having and using good quality information, advice and support good quality information and clear, objective advice can significantly reduce the risk of taking decisions that fail to achieve their objectives or have serious unintended consequences. Governors need to receive rigorous analyses of comprehensive background information and evidence, and of the options for action. As governance decisions are complex and can have significant consequences, governors also need professional advice. This includes advice on, for example, legal and financial matters and governance procedures. Such professional advice is also needed at other levels in the organisation where decisions are taken.

*Making sure that an effective risk management system is in operation*

Public service organisations face a wide range of strategic, operational and financial risks, from both internal and external factors, which may prevent them from achieving their objectives. Risk management is a planned and systematic approach to identifying, evaluating and responding to risks and providing assurance that responses are effective. A risk management system should consider the full range of the organisation’s activities and responsibilities, and continuously check that various good management disciplines are in place, including:

*Application*

The governing body should ensure that it is provided with information that is fit for a purpose. It should be tailored to the functions of the governing body and not to detailed operational or management issues, with which the governing body should not, in general, be concerned. Information should provide a robust analysis and not
obscure the key information by including too much detail. The governing body should ensure that information is directly relevant to the decisions it has to take; is timely; is objective; and gives clear explanations of technical issues and their implications. The governing body should also ensure that professional advice on legal and financial matters is available and used appropriately in its own decision-making and elsewhere throughout the organisation when decisions that have significant legal or financial implications are taken. The governing body should not be reluctant to use the organisation’s resources to provide the information and advice that is needed for good governance. However, it should not make disproportionate demands on the executive by asking for information that is not necessary or appropriate for the governing body’s role.

The governing body should arrive at a judgement about its information needs in discussion with the executive. Strategies and policies are put into practice in all relevant parts of the organisation, well-designed and regularly reviewed, with high quality services and delivered efficiently and effectively, performance is regularly and rigorously monitored and effective measures are put in place to tackle poor performance. Laws and regulations are complied, information used by the organisation is relevant, accurate, up-to-date, timely and reliable, financial statements and other information published by the organisation are accurate and reliable, financial resources are managed efficiently and effectively and are safeguarded human and other resources are appropriately managed and safeguarded. A risk management system also supports the annual statement on internal control that many public service organisations now have to produce. Appropriate responses to risk will include implementing internal controls, insuring against the risk, terminating the activity that is causing the risk, modifying the risk or, in some circumstances, accepting the risk.

Application

The governing body should ensure that the organisation operates an effective system of risk management. This should include: identifying key strategic, operational and financial risks; assessing the possible effects that the identified risks could have on the organisation; agreeing on and implementing appropriate responses to the identified
risks (internal control, insure, terminate, modify, and accept); putting in place a framework of assurance from different sources, to show that risk management processes, including responses, are working effectively; reporting publicly on the effectiveness of the risk management system through, for example, an annual statement on internal control, including, where necessary, an action plan to tackle any significant issues, making it clear that the governing body carries ultimate responsibility for the risk management system.

Good practice examples: taking informed, transparent decisions and managing risk

It is helpful to draw on the support of an officer or independent adviser who can advise on legal issues and procedure, and who has the authority and status to challenge governance practice, if necessary. This works best where there are safeguards and reporting relationships in place to make sure that advice is not easily ignored. A register of governors’ and executives’ interests will make governing bodies and others aware of any real or perceived conflicts of interest and facilitate the exclusion of people with personal interests in a decision from influencing or taking part in that decision. Documenting all risks in a risk register, together with the risk ‘score’ and the job title of the person responsible for ensuring that the risk is managed, will help with risk management. The highest risks in the register can be given priority in review procedures to provide assurance on the effectiveness of risk responses. Gaining assurance that risk management arrangements are working effectively can be delegated to an audit committee or equivalent body, where the size of the organisation makes this practical. Relevant work of internal audit, external audit, review agencies and inspectorates can be drawn on to provide assurance on the effectiveness of risk management. From time to time, governing bodies may decide to commission information from independent sources, outside the executive, in order to supplement or validate information from the executive.

Good governance means developing the capacity and capability of the governing body to be effective

Public service organisations need people with the right skills to direct and control them effectively. Governing bodies should consider the skills that they need for their
particular situation. To increase their chances of finding these people – and to enrich governance deliberations by bringing together a group of people with different backgrounds – governing bodies need to recruit governors from different parts of society. Public trust and confidence in governance will increase if governance is not only done well, but is done by a diverse group of people who reflect the community. Governance is also likely to be more effective and dynamic if new people with new ideas are appointed regularly, but this needs to be balanced with the need for stability to provide continuity of knowledge and relationships.

Making sure that appointed and elected governors have the skills, knowledge and experience they need to perform well

According to the State-owned enterprises Act, (2006), one of the functions of the State-owned enterprises governance council under section 4(1) (e) in relation to the board of a State-owned enterprise, includes the power to determine the requisite qualifications, experience or skills of persons to be eligible for appointment as members of the board. Governance roles and responsibilities are challenging and demanding, and governors need the right skills for their roles. In addition, governance is strengthened by the participation of people with many different types of knowledge and experience.

Good governance means drawing on the largest possible pool of potential governors to recruit people with the necessary skills. Encouraging a wide range of people to apply for appointed positions or to stand for election will develop a membership that has a greater range of experience and knowledge. It will also help to increase the diversity of governors in terms of age, ethnic background, social class and life experiences, gender and disability. Paying governors for their time may make participation in governance a practical option for more people and encourage a wider range of people to take part; it can also be a way of publicly recognising the seriousness of governance responsibilities.

Developing the capability of people with governance responsibilities and evaluating their performance, as individuals and as a group
Governors need both skills and knowledge to do their jobs well. Skills need to be developed continually to improve performance in the functions of the governing body. According to the State-owned enterprises governance Act (2006), it is the function of the governance Council to determine criteria for the performance measurement and evaluation of State-owned enterprises, and develop appropriate means for monitoring their performance by laying down directives in relation to the performance agreements to be entered into between a portfolio Minister and the individual members of a board of a State-owned enterprise and between such a board, and its chief executive officer and other senior management staff.

The procedure for the appointment of board members according to the Act (2006) is by getting the member’s knowledge, experience and skills concerning issues relevant to the functions of the State-owned enterprise concerned. The Act further state that the Council should also establish the member’s commitment, if any, in relation to positions held on boards of other State-owned enterprises and interests held in private undertakings. The necessary skills include the ability to scrutinise and challenge information received from the executive, including skills in financial management and the ability to recognise when outside expert advice is needed. Knowledge also needs to be updated regularly to equip governors for changing circumstances. An appraisal and performance review of individual governors demonstrates that their role and contribution is important and valued and provides an opportunity for them to take stock of their own development needs. The governing body can improve its collective performance by taking the time to step back and consider its own effectiveness.

*Application*

The governing body should assess the skills that appointed governors need to fulfil their functions. It should appoint governors who have these skills, using an open and skills-based recruitment process. A governing body, with elected members, should commit itself to developing the skills that it has decided its members need, so that they can carry out their roles more effectively. Where governing bodies are responsible for their own recruitment processes, they should establish an appointments committee and ensure that their recruitment processes can identify and attract the types of people they want. Where an outside body makes appointments, it
should consult the governing body about the skills and experience it considers to be necessary or desirable in the new appointee. In these cases, the process should include an independent assessor – a person from outside the organisation who can advise on the suitability of candidates. Where other organisations nominate people to become governors, the governing body should set out clearly to the nominating body the set of skills and perspectives that would be most helpful. The governing body should decide how to encourage more people, from a wider cross section of society, to come forward as potential governors. This includes reviewing the governor’s role to make sure that: it is fulfilling and coherent; it is feasible to do within the time and with the support available; and it is sufficiently well understood by potential governors. The search for a more diverse membership of the governing body should not be at the expense of a membership that has the necessary skills.

*Striking a balance, in the membership of the governing body, between continuity and renewal*

All governing bodies need continuity in their membership, so that they can make the most of the pool of knowledge and understanding and the relationships that have been formed both inside and outside the organisation. It is also important that governing bodies are stimulated by fresh thinking and challenge and that they avoid lapsing into familiar patterns of thinking and behaviour that may not best serve the organisation’s purpose. However, turnover in membership that is too extensive or too frequent can mean that the organisation loses the benefit of longer-serving members’ learning and experience.

*Application*

New governors should receive a thorough induction that is tailored to their role in the organisation. All governors should have opportunities to develop further skills and to update their knowledge throughout their period of membership of the governing body, and should take seriously their responsibilities to identify and address their development needs. Individual governors should be held to account for their contribution through regular performance reviews. These should include an assessment of any training or development needs. The governing body should
regularly review its performance as a whole. The review should involve assessing its ways of working and achievements and agreeing an action plan to put in place any necessary improvements.

The governing body should decide how to strike the necessary balance, in its appointed membership, between continuity in knowledge and relationships on the one hand and renewal of thinking on the other. It should explain the reasons for its policy. Where an outside body appoints governors, the governing body should explain its preferred approach to continuity and renewal. Options include fixed terms of membership or limits on the number of terms a governor can serve. Another option is to assess individual governors for their continuing objectivity every time they are being considered for reappointment; independence of mind and the ability to take new approaches are enduring characteristics of some individuals.

Good practice examples are: developing the capacity and capability of the governing body to be effective. Bodies that nominate governors for other organisations are advised to present more than one nominee for interview. People appointing governors to public service organisations could consider what they might do to develop further the pool of people interested in public service governance, and to develop the capability of potential governors who do not yet have the skills needed for the role.

*Good governance means engaging stakeholders and making accountability real*

Governing bodies of public services have multiple accountabilities to the public (citizens) and to those who have the authority, and responsibility to hold them to account on the public’s behalf. These include: commissioners of services, Parliament, ministers, government departments and regulators. Real accountability requires a relationship and a dialogue. The Public Services Productivity Panel said that accountability involves an agreed process for both giving an account of your actions and being held to account; a systematic approach to put that process into operation; and a focus on explicit results or outcomes. Real accountability is concerned not only with reporting on or discussing actions already completed, but also with engaging with stakeholders to understand and respond to their views as the organisation plans and carries out its activities.
Understanding formal and informal accountability relationships

The range and strength of different accountability relationships varies for different types of governing bodies. For any governing body, some relationships will be, or will feel more formal and possibly more important than others. For example, the board of a non-departmental public body is likely to have a closer and more direct relationship with a minister than a school would have. However, the large majority of governing bodies need to be particularly active in developing and maintaining a dialogue with the public. Governing bodies that are elected by the public (such as local councils) have accountability relationships with central government that are less direct and less powerful than, for example, the relationships that non-departmental public bodies have with central government. But even elected bodies are held to account by central government and regulators for some responsibilities. This is why it is important for central government and regulators to facilitate good governance in the organisations they direct or hold to account.

Application

The governing body should make clear, to itself and to staff, to whom it is accountable and for what. It should assess the extent to which each relationship serves its purpose, including whether any relationships need to be strengthened and whether any dominate to the detriment of serving the purpose of the organisation and being accountable to other stakeholders. If so, the governing body should discuss those tensions and work to fill any gaps in its accountability. It should also raise any concerns with those organisations to which it is formally accountable and, where possible, try to negotiate a more balanced position. Outside the public sector, accountability is not to citizens but to their own stakeholders and to regulators acting in the public interest.

Taking an active and planned approach to dialogue with accountability to the public

For elected governors, the manifesto and the ballot box are the foundation of the accountability relationship; but good governance also requires an ongoing dialogue between them and their electorate. Appointed governing bodies also have to develop
an accountability relationship through dialogue. The fuel of this dialogue is interest and confidence. If dialogue is to develop and continue, organisations need to encourage and maintain the interest and confidence of the public and service users. Although these two groups overlap to a large extent in their relationship with public service organisations, the relationship with the public is one of accountability, whereas the relationship with service users is one of consultation and responsiveness. Both groups are diverse, consisting of people with different characteristics and experiences and from many different backgrounds. Approaches to developing a dialogue have to recognise these differences, so that the views of a full range of people are heard. Confidence and interest can both be damaged easily, especially when things go wrong. The organisation’s ability to respond to such circumstances is also an important demonstration of its accountability.

_Taking an active and planned approach to responsibility to staff_

Staff are accountable to the governing body, but the governing body also has serious responsibilities, as an employer, to the staff. Recruiting, motivating and keeping staff are vital issues if public services are to be effective? The governing body needs to provide an environment in which staff can perform well and deliver effective services, by creating a culture that welcomes ideas and suggestions and responds to staff views.

_Application_

The governing body should make it clear that the organisation as a whole seeks and welcomes feedback, and ensure that it responds quickly and responsibly to comment. Complaints are a vital and necessary part of feedback, and there should be clear leadership within the governing body on handling and resolving them, and ensuring the lessons learnt are used to improve the service. The governing body should ensure that the organisation has a clear policy on the types of issues on which it will consult or engage the public and service users. This policy should clearly explain how the organisation will use this input in decision-making and how it will feed these decisions back to the public and to service users. The policy should make sure that the organisation hears the views and experiences of people of all backgrounds. Each year, the governing body should publish the organisation’s purpose, strategy, plans and
financial statements, as well as information about the organisation’s outcomes, achievements, the satisfaction of service users in the previous period, and explain decisions. The governing body is itself the last point of appeal for staff with complaints or concerns that they have not been able to deal with through the organisation’s management structures.

*Engaging effectively with institutional stakeholders*

Institutional stakeholders are other organisations with which the organisation needs to work for formal accountability or to improve services and outcomes. Public services have a complex network of governance relationships involving lateral relationships between partners and hierarchical relationships between Parliament, central government and local organisations. Some of these are accountability relationships, while others are to do with working together to achieve better outcomes. Few public service organisations can achieve their intended outcomes through their own efforts alone. Relationships with other organisations are important, especially if they provide similar or related services or serve the same users or communities. Developing formal and informal partnerships may mean that organisations can use their resources more effectively or offer their services in a different and, for service users, more beneficial way.

*Application*

The governing body should have a clear policy on when and how it consults and involves staff and their representatives in decision-making. The governing body should make sure that effective systems are in place to protect the rights of staff. It should make sure that policies for whistle blowing, and support for whistle blowers, are in place. The governing body should take the lead in forming and maintaining relationships with the leaders of other organisations, as a foundation for effective working relationships at operational levels.
3.2 Corporate governance mechanisms

There are different corporate governance mechanisms that have been identified. Some of these are discussed in this paper. Bohren (2001) identifies market competition, concentrated ownership, owner types, insider ownership, and boards of directors’ characteristics, security design and financial policy as corporate governance mechanisms.

3.2.1 Market competition

Market competition detects that the stronger the competition in the firm’s output market, the less room managers have for wasting corporate resources. The product market may act as a discipline device which reduces agency costs. According to Bohren (2001), in the case of management issues, talent plays a correspondent role, as the manager’s reputation for value-maximizing abilities may influence the access to attractive jobs in the future as well, as the market competition may be a threat to management displacement in hostile takeovers (Fama, 1980, Fama & Jensen, 1985, Stulz, 1988). This argument is based on competition which is not there for the public enterprise; there are monopolies and hence the competition mechanism may not be effective.

3.2.2 Ownership concentration

Ownership concentration is the second corporate governance mechanism under consideration here. Jensen & Meckling (1976) argue that when ownership is separated from control, the monitoring of management is weak and that corporate value can be destroyed. They maintain that for an owner to have economic incentives to monitor costs and have the power to monitor effectively, the owner must hold a sufficiently large equity stake in the firm. According to Shleifer (1986), if monitoring by the owner improves the quality of managerial decisions, without having any other effects of ownership concentration, performance and concentration will be positively correlated.

Besides personal and financial institutions owners, the state and international owners deserve special attention. The corporate governance mechanism used by the state owners is what is referred to as the owner type mechanism. The state is represented at
stockholder or board meetings by agents with negligible cash flow rights relative to the voting rights they exercise. Bohren (2001) observes that the negative effect of misaligned incentives is reinforced by the competence problem that states that bureaucrats may lack experience with private business in general, and corporate governance processes in particular. A state owner may also be inclined to ask the private firm to abstain from equity value-maximisation in order to achieve certain social goals such as higher local employment and reduced pollution. In most cases, relative to private owners, high state ownership has a negative effect on the performance of the firm.

3.2.3 Owner type

The other mechanism of corporate governance is owner type mechanism. Besides personal and financial institutions owners, the state and international owners deserve special attention. The state is represented at stockholder or board meetings by agents with negligible cash flow rights relative to the voting rights they exercise. Bohren (2001) further states that this negative effect of misaligned incentives is reinforced by the competence problem that states that bureaucrats may lack experience with private business in general and corporate governance processes in particular. A state owner may also be inclined to ask the private firm to abstain from equity value-maximisation in order to achieve certain social goals such as higher local employment and reduced pollution. They conclude by stating that relative to private owners, high state ownership has a negative effect on firm performance.

3.2.4 In-side ownership

According to Jensen (1976), inside ownership brings about the convergence-of-interest hypothesis which eliminates the problem of the principal-agency problem. As insiders are owners, they influence the agency problem in fundamentally different ways through their involvement in the daily management of the firm. The agency logic states that the governance function of an outsider owner is to monitor the management team, giving incentives to have the work done on their behalf. In contrast, increased insider stakes reduce the need for outside monitoring.
3.2.5 Sharing of control

According to Watson (2004), governments must pursue excellence in leadership in every area over which it has control. This includes ensuring that public sector corporations have the tools they need to capitalize on opportunities to create wealth, provide necessary social services and improve overall quality of life. Sharing of control is another corporate governance mechanism which Gomes & Novaes (2001) describe as a mechanism which occurs when a single shareholder cannot make unilateral decisions in the firm. This type of corporate mechanism is mentioned as the security design mechanism by Bohren (2001). Equity securities are said to come in different formats, such as equity with full ownership rights (A shares), and restricted voting rights (B shares), preferred stock, warrants and stock options. It was further elaborated that the non-voting (B) shares have a deviation from the one-share-one-vote principle which allows investors to separate voting rights from cash flow rights by holding unequal proportions of A and B shares. Their conclusion on this is that the existence of equity securities with unequal ownership rights may influence the firm’s value, in that most common theories of pricing differences between A and B shares assume a potential extraction of private rents for voting owners.

Gomes & Novaes (2001) concur with Bohren (2001) by giving a focus on another angle of the share control, that multiple controlling shareholders can veto majority corporation decisions which will create a scope of disagreements; also that these bargaining problems do not prevent decisions-making that ends up harming minority shareholders, the problems may block efficient decisions from being made. The argument that part of a firm’s value consists of benefits of control that are not enjoyed by outside investors are given as examples; a controlling group of the ability to appropriate corporate assets for personal use and empire building motives in the selection of projects, (Bohren ,2001; Grossman & Hart 1986).

3.2.6 Financial policy

Finally, the financial policy mechanism is the choice the enterprise makes in the capital structure and dividend pay-out which has a potential to influence its agency costs. The idea is that management discretion is restricted if the firm finances with
debt rather than equity and pays earnings out as dividends rather than retains them (Jensen, 1986). Bohren (2001) supports that notion stating that debt ensures that most of the firm’s cash flow is used to honour contracts with creditors who can enforce bankruptcy if their claim is not met. Similarly, high dividend pay-out ensures that most of the cash flow is handed over to owner, leaving correspondingly less resources for management discretion to finance value-reducing investments.

3.2.7 Board of directors

The board of directors is elected at the board meeting by stakeholders. The board becomes the formal vehicle for observing and influencing the quality of the management team. The characteristic of the board is its independence, size and composition. Its primary function is to monitor or exercise oversight functions over the management team. The board has to be independent of management in order for the entity to increase performance but more importantly to avoid a situation of conflict of interest. However, Bhagat & Black (1998) hold the view that there is a need for the board of directors to supplement the management team on strategic issues.

While it is ultimately the government's responsibility to appoint directors, the board should be satisfied that the appointee has the skills and knowledge to enhance the effectiveness of the board and will be a good fit with the board culture. According to Watson (2004), the goal of appointment of the directors of the board is to identify as many potential candidates as possible that have the required competencies and are expected to contribute effectively to the board. For specific vacancies, the authors mention that the boards of directors are encouraged to identify potential candidates and that all candidates are assessed against the vacancy skills profile and those candidates having the required skills and qualifications are invited to submit to a due diligence process.

The due diligence process for each candidate includes a review of the candidate's probity, identification of potential conflicts of interest, and a declaration by the candidate accepting his or her fiduciary and other responsibilities to the corporation. Watson mentions how the formal due diligence process has been particularly helpful
in identifying potential conflicts of interest, in that in a number of cases, people have either withdrawn their candidacy or have not been appointed, based on concerns arising out of the process.

A diversity of professional skills, experience and approaches to problem-solving is stated as a critical point in the achievement of an effective board performance. In addition, there is a feeling that the membership of public-sector boards should reflect the cultural and geographical makeup of the population. The challenge is, according to the author of this article, to make sure that token or unqualified appointments are not made simply for reasons of gender, culture or geography. Rather, the recruitment process should be undertaken in such a way that it facilitates the consideration of people from these minority populations, based on the particular skill sets sought.

A good board of directors is a board with a mixture of seasoned directors and others who are very senior and skilled in their professions but may not have had extensive board experience, (Watson, 2004). The intention is to build a talent pool for the next generation of private and continuity public sector directors for the nation. However, the author agrees that in the end, politicians remain responsible for public sector board appointments. Therefore, a change to a competencies-based process can only be implemented with their support and leadership. A key challenge is to recognize the pressures on politicians to continue the old way of making appointments and assist them to deal with the change.

She continues by advising that politicians need to be better informed about the role of boards and the value they can and should provide. They also need to understand best practices in corporate governance, why they are important, and the role appointments play in creating highly effective boards. In addition to politicians, the many public servants who have day-to-day dealings with boards and are often asked to participate in the appointment process must also be educated about the role of public sector boards, the importance of corporate governance and the requirement to recruit directors based on required competencies.

Individuals who serve on public-sector boards must understand the responsibilities and expectations of directorship and be educated about the unique aspects of serving
in the public sector. Finally, there must be excellent communication and trust among the politicians, public servants, and boards so that they can effectively carry out their respective roles in governing the organization and in the appointment process (Watson (2004). The due diligence process helps set the tone for the appointment. People understand the responsibilities of the appointment when they are asked to consider conflicts and personal probity and declare their commitment to board responsibilities.

Another significant key to the continued success of the new appointment process is the on-going commitment to best practices in corporate governance. Appointments are viewed as an integral part of the overall objective of creating a highly effective board. Benefits of the competency-based process bring results. By recruiting highly effective boards, government obtains much-needed leadership and decision-making skills to enhance the performance of public-sector corporations and ensure appropriate oversight and accountability.

There is generally a relationship between board size and performance. Although structure and process are necessary elements of effective governance, most experts agree that the key to improving corporate governance in organisations by selecting the right people to serve on the board of directors; appointing directors who have the competencies and personal attributes to effectively drive corporate performance and ensure integrity and accountability. According to the Auditor General of the British Columbia Report (2008/2009), while much of the debate about corporate governance has focused on publicly-traded entities, the principles are just as important, if not more so, in the public sector. Every day, public sector corporations make decisions that significantly impact economics, social and cultural well-being. Public sector manages billions of dollars in assets and liabilities and oversees the delivery of critical services such as health care, education and public utilities. This means that the appointment of unqualified directors, through patronage or not, is no longer acceptable, the report emphasised. Public sector jurisdictions must reform their appointment practices to ensure that directors are selected for their competencies and commitment to effective governance.
The Board of directors is elected at the board meeting by stakeholders. The board becomes the formal vehicle for observing and influencing the quality of the management team. The characteristic of the board is its independence, and size and its primary function is to monitor management. The board has to be independent of management in order for the entity to increase performance. There is, however, the need for the board to supplement the management team on strategic issues, (Bhagat & Black, 1998).

According to Watson (2004), in the history of public sector performance in most jurisdictions in Canada and throughout the Commonwealth, there is no systematic process for recruiting directors to public corporations. Appointments are made or recommended by ministers on an ad hoc basis depending on that minister's understanding of the role of directors. Often, these decisions are based solely on whether nominees are affiliated to the party in power or political factors such as gender, geographical or cultural representation on the board. The common complaint is that patronage appointments do not provide public-sector organizations with appropriate leadership.

In her article, Watson (2004) further defines patronage as an individual who is not qualified for the job but who is nevertheless appointed based on political considerations rather than the knowledge, skills and experience required. The author points out how the United Kingdom has mitigated this problem of patronage by having an independent Commissioner for Public Appointments whose job is to ensure that appointees selected reflect the criteria established for the position. While this office can monitor the process and may help eliminate patronage, it cannot ensure that there will be an appropriate mix of competencies and behaviours on a board.

However, Watson (2004) warns that eliminating patronage does not mean prohibiting the appointments of those who publicly support the government. Rather, it means establishing an appointment process that is driven by the recruitment of those individuals who have the competencies required to build an effective board. A legitimate consideration in the director appointment process is an individual's commitment to the government's general policy direction for the corporation. A risk inherent in the patronage appointment process is the perceived lack of credibility. If
qualified individuals are appointed as a result of a transparent competencies-based process, then political affiliation will be a secondary consideration in the minds of the public, even if the appointee is politically affiliated to the government. However, if the same people are appointed under a patronage-based system, and the individuals do not have significant credibility in the area in their own right, the public will likely dismiss the legitimacy of the appointments and the credibility of the decisions they will make.

The system should show a clear cause and effect control loop to provide accountability and usefulness to the measures and outcomes. In addition, it is very critical that strategic corporate, business unit and individual plans and measures should be translated and communicated internally both horizontally and vertically. The third stage of the matrix of components of the performance measurement system by Hoffman et al (2001) is that measures should be prioritized and short listed as well as comprise a balanced set of components. In addition, measures should also fulfil best practices having targets in place to measure progress against stated action plans in order to achieve goals and to sustain the target levels. Apart from that, Hoffman et al (2001) goes on to emphasize that the performance measurement system should be continuously reviewed, modified, evolved and implemented at every planning period. After which this results should be benchmarked against industry-related corporations both in the private and public sectors. The review should be done in the analysis, implementation and implementation stages.

The final stage of the performance reporting and accountability’s key components is that performance goals, measures, targets, actions and outcomes should regularly be reported in an integrated simplified format, compared to the dashboard or brochure. The results thus obtained should also be regularly reported to the board of directors and used to monitor the corporation’s performance. The results should further be reported, on a regular basis, to the line minister and the legislative assembly with proper feedback provided in order to complete the communication loop. Hoffman (2001) adds that the results should also be regularly reported to the public.

An effective performance measurement system should fully complement and be integrated as a key part of the larger strategic and business planning function of a
corporation (Hoffman, 2001). If performance measurement initiatives are not linked to the strategic plan, to take the intended direction, business plan and the budget allocation processes, then the performance measurement system may not be as effective or worse may not be measuring what it ought to measure. It is, therefore critically important to create these linkages. Failure to do so may limit the value of performance measurement by the employees and customers who are affected by it, to the extent that a fully integrated strategic management framework directs the company on a consistent mission and identical aspirations and makes the system internally coherent. The performance measurement system is accepted as a value-added management tool.

This is contrary to the restricted conventional view of a punitive reward punishment system. This, if adhered to, satisfactorily fulfils the purpose of an effective measurement system which is to improve organisational and stakeholder value. In conclusion, attaching value to a performance measurement system should be done meaningfully as a way to provide information as a management tool and not a means to compile numbers and data. A performance measurement system should have a relation with strategy so that it describes organisational performance and accomplishments. The system should have a clear and conceivable cause and effect linkage.

3.3 Financial and non-financial performance measures

According to Harrington (1991), financial and non-financial measurements are fundamental tools of control and management. If management cannot measure it, management would not be able to control it and if it cannot control it, then management cannot manage it. If management cannot manage, then it is impossible for management to improve anything. An organization’s measurement system strongly affects the behaviour of people both inside and outside an organization. Therefore, if companies are to survive and prosper in the information cut-throat competition age, they must use measurement systems derived from their strategic plans and capabilities (Kaplan, 1996). List (2000) refers to the shortcomings of the performance measurement systems by pointing out that business processes are not measured systematically and that business process performance measurements are
often neglected. Where such is done, performance measurements take place at department or business unit levels and not at the level of all processes in the entire organization.

According to List (2000), the traditional performance measurement, that is, the financial performance measurement has been criticized by a number of authors. There are two major limitations of the financial performance measurement. First, is that it does not include the quality oriented performance measures such as business processes and qualitative customer orientation aspects. Second, the basis of financial performance measures is historical. According to List (2000), the regular management reports and financial figures are the consequences of yesterday’s decisions and not the indicators of tomorrow’s performance. In modern organizations, data warehouse systems (DWS) are facilitated for performance measurement. Today, building a data warehouse is still very much driven by technology and does not yet offer well-established strategies and techniques for the development process. Nonetheless, data warehouse systems, (DWS) though still representing mainly the traditional way of performance measurement, are slowly assuming a focus on customer relationship management (List, 2000). Customer relationship management (CRM) entails focusing data warehouse systems on customer satisfaction, customer retention, new customer acquisition, customer profitability, market and account share, and financial measures like turnover, cost, and margin.

Performance measures help in achieving and fostering controls. According to Kaplan & Atkinson (1998), control refers to the tools and methods that organisations use to keep on track in terms of achieving their objectives. The process of control involves setting a performance target, measuring performance, comparing performance against that target, computing the difference (variance) between measured performance and the target, and taking action in response to the variance. There are two main reasons for the widespread use of financial performance measure as a tool to measure performance. The first reason is profit, because profit articulates directly with the organisation’s long-term objectives which are almost always purely financial. The second reason is that properly chosen financial performance measures provide an aggregate view of an organisation’s performance.
Hoffman et al (2001) observes that in private sector organizations, the principal measure of successful performance is profit. In contrast, in the public agencies, the measure of performance is not limited to profit but extends to the achievement of social objectives. As such, there is no universally and widely accepted performance measure of success in public sector entities. In other words, for public sector organisations performance must be judged against the goals of their programs and whether or not the intended results and outcomes have been achieved.

The ideal situation, therefore, is for all entities (private and public) to not only measure their performance through profit making but also measure performance through other non-financial indicators. One of the non-financial performance measurements an entity may use is the quality of its product. This measurement has two advantages. First, it provides an explanation of the current sales. Second, it serves as a potential predictor of future sales levels.

### 3.4 Reporting of Financial and Non-financial Information

According to the King II Report (2002), the audit committee should consider whether or not an interim report should be subject to an independent review by the external auditor. In the case of an independent review, the audit committee’s report commenting on an interim report and the auditors’ review report should be tabled at the board meeting held to adopt the interim report. Where an independent review was not conducted, the audit committee should table the reasons at the board meeting. The board should minute the facts and assumptions used in the assessment of the going concern status of the company at year end.

At the interim reporting stage, the directors should consider their assessment at the previous year end of the company’s ability to continue as a going concern. They should determine whether or not any of the significant factors in the assessment have changed to such an extent that the appropriateness of the going concern at the interim reporting stage has been affected. The board should minute the conclusion reached by the directors at the interim reporting stage. Where non-financial aspects of reporting
have been subject to external validation, this fact be stated and details provided in the annual report. Companies should make every effort to ensure that information is distributed via a broad range of communication channels, including the Internet, having regard for its security and integrity while bearing in mind the need that critical financial information reaches all shareowners simultaneously (King II Report, 2002).

According to the publication by the Auditor General Report (2008/2009), the importance of quality of its financial and performance reporting in the public sector governance, placed integrity above all other values. The report further mentions that stewardship, being the act of looking after something on behalf of others to protect and improve its sustainability in the public sector, relates to the way public officials exercise their powers on behalf of the public they serve. The resources that public employees use are held in trust, resources are not privately owned. Therefore, a public sector organization demonstrates stewardship by maintaining or improving its capacity to serve government and the public interest over time. This applies to ensuring financial sustainability and the efficient and effective management of resources, as well as maintaining the trust placed in the organization.

The Auditor General Report (2008/2009) describes transparency as an exercise which is achieved when an organization’s actions are open to scrutiny. It means stakeholders, the public and employees have access to full, accurate and clear information about the organization’s decisions. Good governance requires transparency so that all players can have confidence in the decision-making processes and actions of public sector organizations. The Auditor General Report (2008/2009) further states that its study did not find a generally accepted set of governance principles for the public sector, but set out to write good practice principles to assist all public sector organizations, regardless of sector, size or structure, in developing and applying governance effectively.

The report also researched what other political jurisdictions and organizations around the world have done in governance work. Many common principles and themes are said to have emerged from that finding, and from that, it developed guidelines appropriate to the environment in British Columbia but not necessarily tailored to specific sectors or organizations.
3.5 **Shortcomings of performance measurement systems**

The main objective of a performance measurement system is to provide comprehensive and timely information on the performance of a business. The information can be used to communicate goals and the current performance of a business process or business unit directly to improve the allocation of resources and the resultant outputs in terms of quality and quantity. Performance measurement gives early warning signals on the current performance status of an entity. This is so that the entity can make a diagnosis of the weaknesses of a business, and decide whether corrective actions are needed, as well as to give an assessment of the impact of corrective actions taken up on the whole business processes (Keung, 2001).

According to List (2000) and Keung (2000), (1998), a performance measurement system should meet various requirements. One of the requirements is that the system must be capable of tracking both financial and non-financial performance indicators; that one which is not comprehensive in tracking both financial and non-financial performance indicators would not be able to reflect the true performance status of an entity. The system must be able to introduce performance indicators that are needed to assess a company according to the four perspectives of the balanced scorecard, which are: The other requirement is that of using a broad set of performance indicators. This entails the inclusion of both the company’s internal and external indicators. The gathering of data from various sources is a major precedent for this type of performance measurement indicator. The relevant performance data collected must be stored on a non-volatile media and relational database so that the data can be analysed over a long period of time. Performance data which is stored in a performance measurement system must be accessed by different levels of staff such as process owners or general managers. Various authors mention that in order to lower the barriers of usage, the system must be equipped with a user friendly interface that supports an easy data selection mechanism giving free choice of data aggregation levels and a selection of attributes to enable comparisons. In conclusion, the performance measurement system must take into consideration not only the level of current performance but also the target values for each performance indicator.
3.6 Public sector governance in Namibia

Namibia’s public sector consists of central government, regional and local governments, public enterprises and public financial institutions, as well as a number of accounts and funds under the control of the state. Public enterprises in Namibia form an integral part of the economy and are owned by the state rather than by private individuals. Many governments in developing countries face the challenge of delivering a wide range of services essential for development. These services range from infrastructure to social services, including the proper functioning of the legal system and the enforcement of property rights. All these converge to pose a mammoth challenge of how to get governance right.

According to The World Bank (2005), governments in the developing countries have recorded varying degrees of success. On the one hand, there are extremely few countries where governments and their leaders are doing well by most development measures. On the other end of the spectrum are the failed states, where governments barely exist; and where they do, they provide hardly any services. In between are weak or predatory states that consume the surplus they extract. They encourage private actors to shift from productive to unproductive rent-seeking activities and fail to provide collective goods. Research has shown that corruption which is both a symptom and cause of bad governance – discourages private investment and, more generally that the quality of governance institutions has a significant impact on economic growth. Further, the research provides evidence that corruption distorts the allocation of resources in ways that hurt the poor. Combined with urbanization and the spread of democracy, as well as the extensive public awareness efforts of international organizations such as Transparency International and the World Bank, the empirical research gave rise to governance reforms in developing countries. These ranged from much focused technical reforms of budgetary and civil service systems to more encompassing efforts such as decentralization and the overhaul of legal and judicial systems (Rodrik & Subramanian, 2003).

Public sector governance refers also to how the state acquires and exercises the authority to provide and manage public goods and services. The quality of
governance, and thus the nature and extent of corruption depends fundamentally on the quality of state institutions. “Fundamentally, public sector governance is about the nature and quality of three principal relationships between citizens and politicians; between politicians, as policy makers, and the bureaucracy; and between the bureaucracy, as delivery agents, and the citizenry as clients” (North, 1990). Further, North (1990) articulates that in an ideal world, citizens can hold politicians accountable for their actions and for policy outcomes, both through election and through checks and balances on the abuse of power. Periodic elections provide the basic means through which citizens can hold politicians’ feet to the fire. Restraints in the form of court adjudication of disputes among contracting parties, especially between government and the citizenry and legislative oversight of executive or ruling party decisions and actions, foster accountability between elections.

The World Development Report (2004) maintains that the relationship between citizens and politicians is typically governed by weak institutions whether political institutions or institutions of restraint. “Courts are easily swayed by influential politicians and the legislature rubber stamps the narrowly focused special interest initiatives of the executive. High ranking officials abuse their authority for private gain and enforcement agencies prey on the citizenry. In other words, the rule of law is weak and when the rule of law is weak, the risk of state capture is high. State capture, referring to actions of individual groups, or firms in the public and/or private sector, influences the formation of laws, regulations, decrees and other government policies to their advantage, through the illicit and non-transparent provision of private benefits to politicians and/or civil servants” (World Bank, 2000, 64). Kaufmann, Kraay, & Zoido-Lobaton (1999) concurred by pointing to the seriousness of that problem which is practiced in many developing countries. When pervasive, this problem becomes the principal stumbling block for efforts to reform governance institutions.

In the case of Namibia, state governance is premised on three pillars of the state, namely: the judiciary, the legislature, and the executive (government). Namibia is a democratic state where these features are embodied in the constitution. The State promotes the rule of law; everyone, politicians included, behave in accordance with agreed rules as embodied in the legislative framework and associated regulations.
No individual or institution is above the law, including the Supreme Court itself. However, even though Namibia is a democratic country, the ideal hardly obtains on the ground. Oftentimes, the conditions needed to make democracy function well are not sufficiently met. In many countries, Namibia included, the formal trappings of democracy do not translate into accountable decision-making for a variety of reasons. The reasons range from the lack of a truly independent parliament or judiciary to electoral market imbalances and imperfections. Even in countries with regular competitive elections among multi-political parties, elections often do not yield the desired effect, so that politicians often and easily renege on campaign promises and responsibilities (World Development Report, 2004).

The most evident manner in which governance is manifested is through the Fiscus. According to Nepru (1999), the economic approach to tax borrowing and expenditure involves assessing the costs and benefits associated with each tax, borrowing and spending option and choosing those options where the benefits clearly outweigh the costs. Since every state expenditure requires either additional taxation, borrowing, expenditure cuts, and since there are many possible expenditure options, any spending decision can only be regarded as good if its benefits outweigh the negative tax or borrowing effects on the economy plus the benefits of alternative expenditure decisions. Weighing up costs and benefits is not an easy task but it is unlikely that the right decisions will be made simply by political judgement, without proper economic analysis.

The role of the public sector in Namibia is firstly minimalist by nature, that is, the public sector activities are confined to addressing clear cases of market failure in the most effective way possible (Nepru, 1999). In this model, the public sector exists only to deliver a service to the rest of the population much like any other enterprise. The second role is the redistribution by nature. In other words, this is the transfer model which is an extension of the first but incorporates a higher degree of redistribution, as well as providing essential services. The public sector distributes wealth from the better off parts of the population to the worse off. The third role is the political interest-based model which downplays the economic role of the public sector and emphasizes its use to satisfy the interest of important political constituencies. In this model, the public sector exists as a source of income and
favours are to be dispensed to the few who are fortunate enough to benefit from political patronage.

Nepru (1999) maintains that the political reality in Namibia dictates that most public sector enterprises combine features of all three models. The long-term economic growth and poverty reduction inevitably depend on the effectiveness with which essential services are provided to the economy, without jeopardizing the political stability upon which the economy rests. The difficult task facing politicians committed to long-term development is to steer economic policy as closely as possible towards the first or the second model. The model induces two of the main trade-offs in the public sector given that the budget imposes a constraint on overall spending. That is to say, the greater the number of public sector workers employed, the less they can be paid. A low paid public sector leads to an exodus of talent, low morale, corruption and eventually a less effective public sector. The more that is spent on public sector employment, the less there is available for cash transfers to the very poor, and the less there is available for essential goods and services, maintenance of existing infrastructure, and new public investment. Both trade-offs have been well-documented by economists in Africa and elsewhere. Ultimately, where any country strikes the balance will determine the extent to which short-term employment in the public sector takes priority over long-term private sector jobs.

In view of that, Namibia is in danger of heading down the least economically attractive route in spite of attempted reforms. Since independence, economic observers and government itself has expressed concern at the size and effectiveness of Namibia’s public sector. This concern is based on the arguments that large public sectors are vulnerable to economic shocks and the falls in revenue they give rise to. These temporary and permanent shocks are seen around the world and have commonly led to unsustainable indebtedness, inflationary money creation and severe fiscal and political crises. The challenge with a large public sector is that it takes resources from the rest of the economy where they can often be more efficiently used. Size is often a manifestation of poor management and poor service delivery and a dominant public sector leads to dangerously high levels of political patronage over the economy, encourage the belief that government can solve more problems than it can, and stifle civil society (Nepru, 1999). Contrary to the Namibian government’s
primary intentions, the public sector has continued to absorb more resources. Government statistics show revenue and expenditure at all time highs, public sector employment increasing, and personnel costs starting to squeeze other essential expenditures such as school materials and medicines. The real value of the state pension, a good measure of the degree to which government pursues the second model, has fallen by a fifth (Nepru, 1999).

Predicting the future is always difficult but three things appear certain, Southern African Customs Union (SACU) revenues are likely to decline over the next five years as import tariffs fall and free trade agreements are implemented. Namibia’s corporate tax rate is already higher than international averages. Although tax rates are not the main factor in determining investment, tax competition is a fact of life. Namibia will not be able to raise its corporate tax rate without damaging investment and growth. The uncomfortable reality is that reforms are seldom undertaken because they are good ideas that have been shown to work elsewhere. Because reforms create short-term losers and winners, government generally acts only when forced by a severe economic crisis, an external threat, the threat of being left behind by more successful neighbours, or when ruling parties are replaced by one less susceptible to entrenched interests. Like so many other countries around the world, Namibia can wait for a crisis or slow decline before it decides to act. Alternatively, it can decide to act decisively and lead the process of public sector reform without rushing into costly crisis-induced mistakes.

Namibia should first have a clear view on which economic model it wants to adopt (Nepru, 1999). The economic case for a smaller, more professional, more effective public sector that concentrates on addressing the most important market failures is clear and has largely been accepted by government. Government needs to do less but do it better. In Namibia’s case, however, poverty is so widespread that there is a powerful economic case for the public provision of meaningful cash transfer from rich to poor. Namibia should pursue the second economic model by creating a smaller, professional, effective public service providing macroeconomic policy, national security, law and order, public infrastructure, needed regulation, primary education and health and social safety net and a meaningful cash transfer as the best way of tackling poverty in the short-term in the fairest way possible. Economics give good
guidance on where reforms should lead but it is not very good at saying how best to get there. Well-intentioned reforms have often derailed because the costs of transition were too high. Economists can give advice on how transitional costs can be minimized. However, at the end of the day, it will be down to Namibia’s politicians to sell the right policies to the people and thus determine to what extent longer-term economic benefits can be achieved in spite of short-term costs. Politicians, therefore, need to take the lead and establish a national consensus on the broad direction of reform involving existing powerful interest groups such as trade unions, business and the main political parties (Nepru, 1999).

As to what kind of reforms Namibia should undertake, Nepru (1999) advises that Namibian government should not limit itself to the policies it already has. There is a wealth of proven ideas around the world Namibia can adapt to its own circumstances in a number of critical areas: tax reform, privatisation, outsourcing, economic policy making, institutional reform, and public sector employment. The tax system should be simplified, tax collection outsourced, and tax policy should take greater account of the poor. Namibia’s tax system is characterized by a high corporate tax rate, which encourages evasion and discourages the formalization of informal business, high trade taxes which hit poor consumers and reduce the competitiveness of exporters, an inaccessible system of tax incentives and subsidies for manufacturers which has failed to bring the hoped for benefits, a complex and inefficient system of sales taxes, little encouragement for new and small business, and a bias against business capable of only gradually entering export markets. The government is committed to replacing the present system of sales taxes with a VAT and has announced its intention to undertake an overhaul of the tax system. International experience has shown that co-ordinated wide-ranging tax reforms are better than piecemeal reforms because individual tax changes will be consistent with the central objectives.

According to Dierk (2000), there are four ideas within the field of institutional development which were identified after the Namibian Independence and which were realised. The first idea being to commercialise a feature of the present arrangements in Namibia, and probably in several other countries in Africa as well, is that the Ministry of Works, Transport and Communication is responsible for many different activities. The Ministry is not only responsible for policy formulation, regulatory affairs,
monitoring, etc., but it is also involved in operational aspects on a significant scale. It is thus a producer of, for example, postal and telecommunications services, airport services, road maintenance, maintenance services of government buildings and maintenance services of vehicles and heavy plant and machinery used for construction activities. There is a world-wide trend away from such a way of running things, either through the creation of autonomous authorities through incorporation or through an outright sale of certain components to private investors. The purpose of these reforms is to separate operational activities from the other normal functions of government. Indeed, the Namibian Government has already completed the commercialisation of the former Department of Posts and Telecommunications into Telecom Namibia Limited Management Structure of Telecom Namibia and Namibia Post Limited on 1 August 1992. Both state-owned companies are profitable undertakings and are paying. This, of course, does not mean that the new telecom and postal corporations will neglect its social obligation to provide services to every community, but that a longer-term financial strategy can be pursued which was not possible under the past Government budgeting system.

Today, nearly two years later, the fruits of this far-reaching decision are beginning to appear. Both, Telecom Namibia and Namibia Post have already concluded much of the preliminary spadework in the complex restructuring exercise. Serving the changing needs of all Namibian communities will ensure steadily growing income for the two corporations, without any cross-subsidisation. Expansion plans can be kept on target and out-dated equipment can be replaced on an on-going basis.

The Second Idea: Cost-Effective Administration  institutional reform does not just mean delegation and the separation of operational functions from other functions, such as policy making and regulation. There is a potential for changing the way things are done in respect of the conventional government functions as well. This applies in particular, to small countries like Namibia, which must at all times consider how to establish a cost-effective administration.

Institutional reform implies decentralisation. It does, however, not necessarily mean that the Government should completely give up its say. There are still problems to be concerned with regarding a suitable way of regulating the natural monopolies such as
ports, railways and telecommunications. This is a very important consideration because it has to be ascertained that new regulatory instruments and arrangements are not counter-productive, but rather support the intention of institutional reforms.

The Third Idea is that of management of regulatory controls. Assistance in the field of design and management of regulatory controls is the third idea under the heading Institutional Development. This is a project concept that could be expanded into a competition policy as well, although this is an area which is not a concern for communications alone. The understanding of the issues involved and of the proper approach to the formulation and implementation of a competition policy has to be developed.

Fourth Idea: Policy Formulation - the impression is evident that there is no other continent where communication issues are debated as intensively as in Africa, and with the advent of the "Regional African Satellite Communications Organisation", (RASCOM) there is the wind of change also blowing in this regard. When the "integration package on the communication sectors" is designed and compiled, attention should be given to whether there is a need to supplement those activities that are already ongoing in this area to make sure that all reasonable efforts are being made to develop Africa.

The fourth idea is assessment of the new policy concept for Telecom Namibia. This with the realisation of commercialisation of Telecom Services in Namibia, this will be dealt with in more detail in order to assess our first experiences and the actors and variables that play an important role in this process. It is interesting to note that the major players in this important policy decision were not different interest groups in Namibia like business pressure groups, the trade unions or any international institutions and investors. It was rather a principal decision by the first independent Government of Namibia to optimise the scarce national resources after a long history of colonial oppression and exploitation in order to initiate national development, eradicate poverty and create a new "post-Apartheid Namibia" by bridging the "first world" and the "third world" Namibia.
In conclusion, Namibia should make use of this overhaul to prepare for the future, aiming to get better at collecting revenue while at the same time minimizing the negative impact of taxation on the economy (Nepru, 1999). In line with international practice, a fundamental tax review should concentrate on achieving realistic tax objectives. The elimination of costly incentives and a general lowering of the corporate tax rate will do more than anything else to reduce evasion, encourage formalization and new business growth, support local and foreign business growth based on economic fundamentals and encourage transfer pricing in Namibia’s favour. Self-employed people running their own businesses would also be at the same rate.

Namibia should establish an independent revenue service along the lines of the South African Revenue Service which, after just three years, is already proving its worth, having netted an estimated R13,4bn in extra revenues, allowing government to reduce personal and corporate tax rates. The Government should commit itself to producing a public analysis on any future tax changes on the poor.

3.7 Privatised and assets redistributed of public enterprises

International experience has shown that, by introducing competitive pressures, a hard budget constraint, and reducing political interference, privatization of certain state-owned enterprises can bring benefits to society as a whole through improvements in services, increased investment, lower prices for consumers, and a reduction of the drain on the government’s budget. However, achieving these benefits depends on how privatization is undertaken. Namibia should privatise the natural monopolies of Telecom, Nampost, Namwater, the National Airports Company as well as Air Namibia and TransNamib within the framework of a clear privatization policy. Namibia can choose the way it privatises these state assets. It can auction them off to the highest bidder and maximize the revenue accruing to the state. Alternatively, it can structure the sales in a way that allocates shares to a particular group and strategic equity partners.

The most important thing is that the process is transparent and the objectives are clearly defined. Prior to privatization, Namibia should advertise internationally for the best managers, with the relevant experience to ensure state assets are sold at the most
favourable prices. The selected candidates would work alongside a Namibian counterpart. Privatised natural monopolies should enter into performance contracts with government which would address the issue of service delivery which is not commercially viable. The company would be free to maximize profitability subject to the terms of the contract. A small regulation authority should be established, independent of government to ensure natural monopolies achieve the targets set out for them by government and that prices do not rise above economically efficient levels.

**Non-score government functions should be outsourced to promote black business growth**

Central government still carries out many functions which are not core functions and which could be better provided by private businesses. These include cleaning, maintenance, and security activities. These functions should be contracted out to private businesses but this process should be used to stimulate the growth of new black businesses. This should lead to cost savings for the public purse, boost business ownership by disadvantaged sections of the population, and promote a culture of entrepreneurship. However, three key conditions must be met for this outsourcing programme to be successful. The process must be transparent and clearly beneficial to genuinely disadvantaged members.

**Wide monitoring and evaluation**

The Government of Namibia needs to have a continuous managerial function that aims to provide managers, decision-makers and main stakeholders with regular feedback and early indications of progress or lack thereof in the achievement of intended results and the attainment of goals and objectives. This monitoring should involve reporting on actual performance against what was planned or expected according to predetermined standards, involving the collecting and analysing of data on implementation processes, strategies and results, and recommending corrective measures. Air Namibia has not published any Annual reports since 2004 and the question is how does the government of Namibia monitor performance of the national airline while it continues to pump money into the entity?
This evaluation is a time-bound exercise which is systematic and objectively assesses the relevance, performance, challenges and successes of programmes and projects. Evaluation can also address outcomes or other development issues and it’s an attempt to answer specific questions to guide decision-makers or programme managers. It should advice whether underlying theories and assumptions were valid, what worked, what did not and why aim to determine relevance, efficiency, effectiveness, impact and sustainability.

All public sector organisations whether statutory authorities, government agencies, corporations or local authorities are required to be transparent, responsive and accountable for their activities. Citizens are entitled to know whether public resources are being properly used what is being achieved with them. Consistent, clear reports of performance and publication of results are important to record progress and exert pressure for improvement. Such transparency is essential to help ensure that public bodies are fully accountable and central to good governance. Good governance, in many instances, has evolved in the nature of that accountability with the greater involvement of the private sector in the provision of services to, and in particular, for the public sector.

According to Barret (2001), the fundamental role of Auditors-General remains substantially the same: to provide the elected representatives of the community, which is the parliament, with an independent, apolitical and objective assessment of the way the government of the day is administering its electoral mandate and using resources approved by democratic processes. The role of the Auditor-General is more important to effective, accountable and democratic governance today than at any other time in the past. This is because public audit plays an essential role in maintaining confidence in the stewardship of public funds and in those to whom the responsibility of stewardship is entrusted. Public auditors are themselves accountable for their performance and are duty-bound to undertake their work in a professional, objective and cost effective manner and with due regard to the needs of the organisations they audit.
The challenge of sound corporate governance is not simply to define but to ensure that all the elements of good corporate governance are effectively integrated into a coherent corporate approach by individual organisations and are well-understood and applied throughout those organisations. If implemented appropriately, such an approach should provide the integrated strategic management framework necessary to achieve the output and outcome performance required to fulfil organisational goals and objectives. This framework also assists agencies to discharge their accountability obligations with greater confidence and both internal and external credibility. (Barret, 2005)

Looking at the case of Air Namibia, the corporation has not released its Annual Reports to the public since 2004 and on enquiry with the office of the Auditor-General, they too do not have financial reports from the corporation. It is difficult to know what the intentions of the government are in this case. Concern has been expressed in the public sectors that there has been more emphasis on the form rather than the substance of good corporate governance. Boards are charged with conformance rather than performance and their predisposition to be risk averse. The critical issue for establishing a sound corporate governance framework is not just about creating appropriate Board and committee structures or determining the way in which they work. The challenge is also not simply to ensure that all the elements of corporate governance are effectively in place but that its purpose is fully understood and integrated as a coherent and comprehensive organizational strategy focused on being accountable for agency and entity conduct and results.
3.8 The fall of Enron

The importance of corporate governance for corporate success as well as for social welfare cannot be overstated. Examples of massive corporate collapses resulting from weak systems of corporate governance have highlighted the need to improve and reform corporate governance at all levels. Enron’s fall is a salient case of corporate governance failure which led to the collapse of one of the most successful companies in the world.

Enron was founded in 1985 through the merger of Houston Natural Gas and Intermonth, a natural gas company based in Nebraska, USA, which quickly became the major energy petrochemical commodities trader under its leadership, Kenneth Lay. Enron reported revenues, according to Roberts (2002) and Munzig (2003), of U$80 billion and profits of U$1 billion and was for six consecutive years lauded as America’s most innovative company (Hogan 2002). However, Enron collapsed into a smoking ruin in 2001; its stock becoming worthless, is an indication that something went very badly wrong and left lessons to be learnt.

In the wake of the demise of Enron, corporate governance has come to the forefront of economic discussion. The fall of Enron was a direct result of failed corporate governance and consequently has led to a complete reevaluation of corporate governance practices all over the world.

3.9 Corporate governance and China

Corporate governance has received much attention in China in recent years. At the core of such attention is the debate about how China can develop an effective corporate governance system to improve its listed companies’ performance and protect the minority shareholders. The Chinese stock market was officially born in the late 1990s. In fewer than fifteen years, it has grown to become the eighth largest in the world.

A still small but burgeoning literature has been to studying the corporate governance issues in China. The research so far can be divided into two streams. The first line of
research is concerned with how to come up with a set of quantified indicators to describe the Chinese firms’ corporate governance practices, and then examine how these quantified variables affect the listed companies’ accounting and market performance as well as other various corporate policies. The second strand focuses on understanding what institutional factors determine the Chinese firms’ corporate governance system and how the system can be improved (Qiao, 2005).

3.10 Problems and challenges faced by public enterprises in striving for excellence

Challenge is always associated with some kind of objective or goal and challenge does not probably exist in the absence of a goal. If we wish to understand the challenges public enterprises are facing, we need to first be able to appreciate the goals or objectives that a Public Enterprise is trying to achieve. The corporate governance challenge according to Khoza & Ahmad (2005) which has confronted public enterprises has to do with the challenge of creating a balance between the government of the country’s inclination to control public enterprises, and the business imperative to want to flex its muscles in trying to achieve excellence by being effective and efficient in its corporate activities.

An inherent characteristic of corporations’ activity is risk, and enterprises must manage risks and opportunities in order for performance to flourish. Business activities in both the public and private sectors are characterized by what King (2006) refers to as ‘The Corporate Sins’. Corporate failures during recent years have resulted from self interest, self concern, and conformance overriding performance, pride and arrogance. ‘Sin interest’ is described as a deadly corporate sin, which is when a director fails to exercise his duty of good faith to act in the interests of the incapacitated company he represents and pursues his own interest. King (2006) supports this notion using the Enron case as an example where the sin of self interest was committed.

King (2006) further elaborates that the sin of conformance results in a director being merely administrative rather than focus on the Public Enterprise’s side of making directors and managers slothful. The corporate sin of pride occurs when having made
a business judgment call that turns out to have been wrong, a board takes too long to correct that wrong. Failure to act fast because of damaged pride is not acting in the best interest of the incapacitated company. Arrogance is when directors believe they have outwitted their competitors and that almost nothing will go wrong. King (2006) concludes by stating that the belief by directors that they have outwitted their competitors and that almost nothing will go wrong is false because something will always go wrong.

If the main objective of public enterprises is to make profits and maximize pecuniary wealth, then the primary focus of this paper will be to research the challenges that may prevent business enterprises from meeting this objective, and research on what challenges public enterprises face in performance during service delivery.

3.11 Summary

These constraints often inhibit good corporate governance practices. In other words, while striving to achieve excellence, public enterprises are often hindered by such challenges as finding a balance between the responsibility of the state for actively exercising its ownership functions, such as the nomination and election of the boards of directors while at the same time refraining from imposing undue political interference in the management of the entity and ensuring that there is a level playing field in markets where private sector companies can compete with state-owned enterprises and that the government does not distort competition in the way they use their regulatory or supervisory powers.
Chapter 4: Research Design and Methodology

4.0 Introduction

This chapter describes the research method used, the selection of the sample, data collection and data analysis, reporting methods and ethical considerations for this study. The purpose of the study is to investigate the impact of corporate governance on corporate performance of sample units, both of which are public entities.

The time series analysis is useful when we want to extract information over a period of time, discover the characteristics of a physical system that generates the time series, predict the changes of a time series, or improve control over the physical system. The objectives of the time series analysis, according to the Lab View Toolkit (2008), are description and explanation. The time series analysis method is used to obtain descriptive or statistical measures of a time series. To measure the symmetry of a time-series amplitude distribution, one can examine a histogram of the amplitude of a time series. The second one is the explanation that one can use to observe the variation of a time series and to explain the variation of a related time series, which can help to understand the nature of the relationship between the two signals. In addition, the researcher used a mix of both qualitative and quantitative research designs to deal with a variety of data collected through questionnaires.

4.1 Research design

The research design used in this research was a comparative case study between the two public entities, Air Namibia and Telecom Namibia to portray the issues of corporate governance in the thesis. The population covers the chairpersons of the board of directors of the corporations, who are the drivers of the enterprises and the board of directors who are accountable to the owners for performance of the enterprises, the top management, middle management and the staff in general.

A case study, according to Harling & Laurie (2002), is a holistic inquiry that investigates a contemporary phenomenon within its natural setting. It should be noted
that case studies seldom produce entirely new understanding but rather modify grand
generalisations which may be further modified with additional case studies (Stake
1995). Yin (1989) describes case studies as being concerned with how and why
things happen, allowing the investigation of contextual realities and the differences
between what was planned and what actually occurred.

The primary advantage of a case study, according to Neale, Thapa & Boyce (2006) is
that it provides much more detailed information than what is available through other
methods, such as surveys that allow presentation of data from multiple methods
(surveys, interviews, document review and observation) providing the complete story.
A case study was chosen because the problem to research on is the evaluation of the
corporate governance of public enterprises by those charged with governance and
management of these enterprises. However, the problem could not be considered
without the context in a case study form, hence Air Namibia and Telecom Namibia
were selected. This comparative case study of the two enterprises was not intended
to study the entire organizations, but was rather to focus on particular issues of corporate
governance where data of the two enterprises is compared and used to generate
understanding in greater depth. The researcher attempted to measure the differences
in performance between the two public enterprises, using a time series analysis of
their annual performance.

4.2 Case selection

The research did not cover all the public enterprises but only two were selected for the
case study, Air Namibia and Telecom Namibia. These two public enterprises were
chosen on the basis that Telecom (based on its annual financial reports) is performing
well while Air Namibia is continuously experiencing liquidity problems hence having
to be bailed out by the government on an annual basis. This was done to see how one
public entity seems to be performing well while the other is not. The study only
covered the relationship between corporate governance and corporate performance.

The research made use of multiple data sources to enhance data credibility. These
were the entities’ documentation, annual reports, and questionnaires. Research was
done using the time series regression analysis which is a statistical tool for the
investigation of relationships between variables over time. For the two public enterprises, time series regression models for revenue and expenditure were developed and predictions made based on the models. Model adequacy was also assessed. Multiple line graphs for the comparison of revenue and expenditure were plotted together. The research also assessed the statistical significance of the estimated model relationships, that is, the degree of confidence that the true relationship is close to the estimated relationship. The time series analysis has long been central to the field of cross-sectional research design which will allow comparison of data over space and time for the net profit or loss.

4.3 Data collection procedure

4.3.1 Primary data: Questionnaire

The data collection was done through completion of questionnaires by the sample respondents. A questionnaire is an instrument delivered to a number of people in order to collect statistical information (Cooper & Schindler, 2006). The questionnaire addressed compliance issues of the public entities with the CACG principles (1988), the OECD guidelines (2005) as well as the King II Report (1992) on Corporate Governance. A questionnaire designed to address these variables focusing on the OECD guidelines was used, which range from rights of shareowners, role of stakeholders to the responsibilities of the board. The CACG (1988) principles covered issues of integrity in directing the corporation, processes used in the appointment of directors and monitoring and evaluation of the implementation of strategies. The questions addressed issues of transparency and accountability of the board of directors to strategic direction, regular comprehensive review of adequacy of controls and to ensure that there is compliance with the Code, law and regulations.

The questionnaire was designed for key informants from the enterprises on areas not adequately addressed by other data sources. These were designed to collect data from the Chief Executive Officers of Air Namibia and Telecom Namibia, their board of directors, and key management personnel. There are 10 active respondents from each entity who participated in this research. Due to the sensitivity of the kind of
information sought from these entities, there was a low response rate (40%) from respondents. There was no response from the CEOs, and securing appointment with them proved futile. However, other participants were key management personnel.

The questionnaires addressed issues of how they rate themselves with respect to organisational performance criteria according to the King II Report as well as the International Guidelines, and addressing the questions on their awareness of any of those principles and guidelines. It also addressed the challenges they are facing, and if there are any objectives and targets they failed to meet in the previous years. If there were targets, which the corporations found difficult to meet, the questionnaire requested reasons to be provided. The questionnaire asked the participants to give suggested solutions to the problems their corporations may be facing.

4.3.2 Secondary data: Annual Reports

As much as annual reports are limited in that they are secondary data, their purpose of providing audited information about a company’s business and financial operations makes annual reports a reliable research tool. It provides the year’s activities, financial statement and an outlook for the future (Rice, 2009). A good annual report can be a powerful way to give an account of how resources and powers were used and what was achieved in comparison to what was planned, and to promote better understanding and debate on how to improve future performance. By doing so, it has the potential to create greater public trust and confidence in the work of an entity (Treasury, 2008).

The researcher analysed audited Annual Reports for the period of 2001 – 2007 for each of the Public Enterprises, being watchful for trends and several other concerns raised above. Annual Reports provide information on the financial performance of the enterprise as well as their position. It also discloses how an entity is governed. The findings of this thesis also looked on what the enterprise reported about itself through its website apart from the Annual Reports. Journal articles were used and secondary data was collected by extensive review from the library books. It was noted that Air Namibia has not produced any Annual Reports for the financial years 2003/2004, 2005/2006, 2006/2007, 2007/2008. A prediction model for calculating
the missing figures for Air Namibia for both revenue and expenditure was used to fill in the missing figures in years 2006 and 2007.

### 4.4 Data analysis & discussion tools

Data was fed into the Excel Spread sheet (2007) and summarized in the form of tables and graphs. Descriptive data statistics, a measure used to depict the centre, spread, and shape of distributions of the findings, was used. Time series regression models were fitted to key financial performance indicators. The research measured the performance of the two public enterprises by assessing the elements of corporate governance and impact of those elements on corporate performance. These elements which were measured are elements of good corporate governance which are core determinants of corporate governance, with a profound impact on corporate performance of any enterprise.

They are a form of discipline which is described as a commitment by a company’s senior management to adhere to behaviour that is universally recognised and accepted to be correct and proper. Transparency is explained as the ease with which an outsider is able to make a meaningful analysis of a company’s actions, its economic fundamentals and what the non-financial aspects pertinent to that business are. Independence is the existence of mechanisms which have been put in place to minimise or avoid potential conflicts of interest that may exist, how the entity is autonomous with a mechanism to be self-governing and having a clear distinction between self and its owners. Accountability is whereby individuals or groups in a company make decisions and take actions on specific issues and need to be accountable for their decisions and actions. Responsibility, with regard to management, pertains to behaviour that allows for corrective action and for penalising mismanagement. Fairness is when the systems that exist within the company must be balanced by taking into account all those that have an interest in the company and its future, especially the interests of the minority shareowners. Social responsibility is when a well-managed company is aware of and responds to social issues, placing a high priority on ethical standards.
4.5 Limitations of research methods:

This research covered only two out of Namibia’s forty public enterprises: Air Namibia and Telecom Namibia, to elaborate on the objectives of the study. These two enterprises were chosen on the basis that Telecom (based on its annual financial reports) is performing well while Air Namibia is continuously experiencing liquidity problems, hence having to be bailed out by the government on an annual basis. According to Lincoln (2000), even if it were possible, it is not necessary to collect data from all public enterprises to get valid findings, that is qualitative research; only a sample of a population is selected for any given study.

The challenge experienced in this study was lack of enough literature on corporate governance on Namibia’s public enterprises to inform an academic study and make an intelligent observation on the performance of Namibia’s public enterprises. This fact emerges as a limitation of this study. The study is therefore not able to conduct a satisfactory and conclusive trend analysis of the performance of Namibia’s public enterprises over a longer period of time. However, Annual reports were used instead as a major literature source.

Other limitations are access to information and financing for the research. This is due to the high sensitivity and confidentiality of the subject matter. Research participants may not have provided the desired data. For example, vital information for this study may not have been availed or may have been partially given due to confidentiality rules. The lack of funds on the part of the researcher means that this research is only confined to Windhoek participants and activities of these particular enterprises. If funds were available, the study would have been enriched by the inputs of participants from across the country where the researcher would have travelled to gather data on what is happening in the country as far as service delivery of the particular enterprises in question.

According to Milne (1999), there is a limitation on the use of questionnaires as opposed to interviews. Questionnaires as an evaluation method occur after the event and so participants may forget important issues. Questionnaires are standardised and
so it is not possible to explain any points in the questions that participants might misinterpret. Also that, even when the questionnaires are anonymous, participants may not be willing to answer the questions and may not wish to reveal the information which may lead to dishonest responses. Researching on these two public enterprises proved lengthy which may be difficult to hold the reader’s interest due. The challenge was to provide the rich information in a digestive manner. The other limitation according to Robert (2005), is that case studies in the evaluation and research fields have been viewed as less rigorous than surveys or other methods. The reasons for this are that qualitative research in general is still considered unscientific, that case studies researchers have not been systematic in their data collection or allowed bias in their findings. In this thesis, the researcher has used care in being systematic in data collection and took steps to ensure validity and reliability in the study.

According to Yin (2003), case studies are difficult to generalize from one case to another since case studies are also prone to overgeneralisation. This is true, especially when selecting a few examples and assuming without evidence that they are representative of the population. Financial information has historical information and as much as it may attempt to give a positive outlook for the future, circumstances may detect otherwise; this brings about the limitation of annual reports.

4.6 Summary
The research method used in the study was a comparative case study between Air Namibia and Telecom Namibia, to show the relationship between corporate governance and performance of Namibia’s public entities. This comparative case study was not intended to study the entire organizations, but rather to focus on particular issues of corporate governance where data of the two enterprises is compared and used to generate understanding in greater depth. The research did not cover all the public enterprises but took a sample of a population for the study. A questionnaire was used for collecting primary data. Annual reports of sample companies were used for collecting and gathering of secondary data. Other sources such as journal articles, books and internet search were also used for gathering appropriate secondary data.
Chapter 5: Findings & Discussions of the Study

5.0 Introduction

This chapter basically deals with the statement of the findings and discussion of the results of the study. Data is presented in descriptive narrations. Mainly, the results reveal the general administrative issues surrounding the case studies of the two public enterprises namely: Telecom Namibia and Air Namibia, with special reference to the Khomas Region of Namibia. The researcher made an attempt to ensure that all the findings are relevant to the topic under discussion and research objectives were realized.

5.1 Findings and discussions

Questionnaires were administered to carefully selected key informants, including the Chief Executive Officer, board members and three key management personnel and employees. Appointments were made a month in advance and the questionnaires were administered to the workplace for the respondents to answer the questions. This chapter presents the results from the respondents.

5.2 AIR NAMIBIA

5.2.1 Profile of respondents

The 10 respondents consisted of one above and the others between 31 and 40 years of age. They both all positions in Management and one was a “P.A to the GM – Commercial” and the others held a supervisory role. One had served for about 2 years in the organization and the others, more than 5 years.

5.2.2 Ratings on Administrative Issues for Air Namibia

Question 5: How do you rate leadership in terms of acting in the best interest of the firm?

All the ten respondents indicated that the management of the firm acted in the best interest of the firm. Therefore, the study results show a hundred percent (100%)
indication that the leadership of the company is acting in good faith, putting the interests of the parastatal first, above all other things. The principal-agency problem by McGuigan et al. (2006) is described as a situation where there is conflict between the interest of the stockholders and that of management. The aim of corporate governance is to align, as much as possible, the interest of individuals, corporations and society. Attempting to achieve that objective raises a conflict of interest within the relationships among the different parties identified above. The interest of shareholders is to maximise shareholder wealth as the primary goal of the corporations, however, not all management decisions are consistent with this objective. This creates the agency problem in the relationship between management and owners of the entity since the principals (shareholders) often delegate the decision making authority to the agent (management). The leadership at Air Namibia are acting in the best interest of the firm.

There is a divergence between the shareholder wealth maximisation goal and the actual goals pursued by management. The primary reason for this divergence has been attributed to separation of ownership and control in corporations. Separation of ownership and control has permitted managers to pursue goals more consistent with their own self-interests as long as they satisfy shareholders sufficiently to maintain control of the corporation. Managers satisfy acceptable levels of performance, while maximizing their own wealth (McGuigan et al. 2006).

Question 6: How much value does the board of directors bring towards independent judgement to the decision-making process?

Five (5) participants said that the influence of board on decision-making is good and the other five (5) were of the opinion that board influence is not good. The results show a tie in terms of rating board influence on company affairs. Thus, the Board of Directors of Air Namibia has a fifty-percent (50%) score based on the results of the study. The King Committee, on Corporate Governance (2002), refers to the independence of members of the board as one of the core determinants of corporate governance which has a profound impact on corporate performance of any enterprise. It states that independence is the existence of mechanisms which have been put in place to minimise or avoid potential conflicts of interest that may exist and how the
entity is autonomous, with a mechanisms to be self-governing and having a clear distinction between self and its owners. Fifty percent of the results showed that board influence is good and the remaining 50% indicated that board influence is bad.

Question 7: How do you rate effectiveness of company strategy in achieving and implementing the firm’s values for survival and competitiveness?

Again, the results were tied at 50%. This indicates that the firm’s strategy has scored an average mark in terms of effectiveness in achieving and implementing the company values for global competitiveness. This can be a pointer to the fact that the corporate strategy for Air Namibia is not quite comprehensive and may leave a lot to be desired. This can be one of the reasons why the corporation is perennially loss-making and is currently at the crossroads. Servicing the same routes as South African Airways (SAA), Air Namibia made heavy losses in the period under review and at the same time SAA was highly profitable in the same business and same routes, both regional and international, recording N$9 billion profit before tax, when at the same time Air Namibia was deep in the red. As this study reveals, it is not surprising that Air Namibia’s strategy is somewhat problematic.

Question 8: How do you rate the effectiveness of the procedures and practices of the corporation in the protection of the corporation’s assets and reputation?

There was a hundred percent score in the affirmative by the respondents acknowledging that Air Namibia’s procedures and practices are effective towards the protection of the corporation’s assets and reputation. This is in line with the Commonwealth Association for Corporate Governance (CACG) Guidelines that the board of directors of business enterprises, be they public, private, family-owned or state-owned must exercise leadership and integrity in judgement when directing the corporation to achieve continuity and prosperity for the corporation.

Question 9: How do you rate the way the corporation complies with all the relevant laws, regulations and codes of best business practice?
The ten respondents all affirmed that the corporation is not compliant with the laws and regulations and codes of best business practise. Even though Air Namibia has a board of directors in place, has appointed board committees, it does not comply with the reporting of finances as mandated by the Act. According to the Namibia State-owned Enterprises Act (2006) section 26 subsection (1), it requires the board of a State-owned enterprise to submit an annual report on the operations of the enterprise, as soon as possible and not later than six months in its year of operations. The Act further states that the annual report of a State-owned enterprise must include the audited financial statements and the auditor’s report on those financial statements. The lack of Annual reporting by the corporation is in direct contrast with the Board Chairman’s Annual Report (2002/2003), which indicated that “…Air Namibia was in compliance with the recommendation of the King II Report on corporate governance as an ongoing process and that management is steadily working towards its appropriate implementation. The safeguarding of the business and ethical standards as well as the transparency is also regarded as key for the future success and welfare of the national airline”. Despite that, the chairperson is of the opinion that Air Namibia is complies with corporate governance.

Question 10: How do you rate the effectiveness of the communication between the corporation and its shareholders?

Communication between the corporation and its shareholders was affirmed positive by all respondents and this is a hundred percent indication that there is effective communication between the corporation and its shareholders. However, the airline is doing so badly such that the sole shareholder, the government of Namibia continuously bails the airline out; even in the current national budget 2009/2010, Air Namibia managed to get another N$100 million. This raises a lot of questions as to whether the shareholder is monitoring performance of the Air liner through evaluations of the Air line’s strategic plans. Is the government sincerely hoping for a turn around in the performance of the Airline or has it pledged to pump funding into the airline regardless of poor performance? According to the chairperson’s report (2004/2005), the government of the Republic of Namibia is currently the sole shareholder of the company and committed capital to the amount of N$366 million to the company in the year in question. However, Air Namibia has not published its Annual report for the past four years and again it is questionable to conclude that the
corporation is in communication with its shareholders without the publishing of such a vital piece of document for such a long time.

Question 11: How do you rate the balance of power and authority on the board?

All respondents agreed that there is a balance of power and authority among Air Namibia’s board of directors. On directorship, the King II Report (2002) mentions that the board should ensure that there is an appropriate balance of power and authority on the board, such that no one individual or block of individuals can dominate the board’s decision-taking. Non-executive directors should be individuals of calibre and credibility, and have the necessary skills and experience to bring judgment to bear on the independence of management on issues of strategy, performance, resources, transformation, diversity and employment equity, standards of conduct and evaluation of performance.

Question 12: How do you rate the effectiveness of internal systems of control?

The effectiveness of internal controls was rated by all the respondents as being in existence and good. The Airline needs equally to have a demonstrable system of risk mitigation activities as well as a system of documented risk communications and an alignment of assurance of efforts to the risk profile; and a register of key risks that could affect shareholder and relevant stakeholder interests.

According to the King II Report (2002), any significant control failings or weaknesses identified should be covered in the reports, including the impact that they have had, or may have had on the company and the actions being taken to rectify them. The Air Namibia board is responsible for disclosures in relation to risk management and should, at a minimum, disclose that it is accountable for the process of risk management and the system of internal control, which is regularly reviewed for effectiveness and for establishing appropriate risk and control policies and communicating these throughout the company. The absence of Annual Reporting by the Airliner does not give assurance in the effectiveness of the internal system controls of Air Namibia.
Question 13: How do you rate the effectiveness of the corporation’s tools of assessment of its performance as a whole?

Fifty percent of the respondents stated that the corporation’s tools of assessment of its performance were good and effective while the other half indicated that they were not good. Thus, the effectiveness of the corporation’s tools of assessment of its performance as a whole has a fifty-percent (50%), score based on the results of the study. Financial ratios are applied in the available Annual Reports and other information from Air Namibia’s Balance Scorecard. The continuous absence of Annual reporting nullifies the effectiveness of the rest of Air Namibia’s tools of assessment of its performance as a whole. The Balance Scorecard being a tool which enables a company to mobilize and exploit its intangible assets has become more decisive than investing in and managing physical tangible assets. The physical assets enable Air Namibia to: develop customer relationships that retain the loyalty of existing customers and enable new customer segments and market areas to be served effectively and efficiently; introduce innovative produce and services desired by the targeted customer segments, produce customised high-quality products and services at low cost and with short lead times; mobilize employee skills and motivation for continuous improvements in process capabilities, quality and response times and deploy information technology data bases and systems.

Question 14: Is there regular assessment of performance and effectiveness of the individual directors, management, including the CEO?

On this question, 5 respondents showed that the performance and effectiveness of the individual directors, management including the CEO was done regularly while the other five indicated that there was no regular assessment done. Thus, the existence of regular assessment of performance and effectiveness of individual directors, management including the CEO has a fifty-percent (50%) score, based on the results of the study. The absence of regular assessment of performance and effectiveness by the board is in violation of the State-owned Enterprises Governance Act (2002) which requires that the individual directors should sign an agreement contract with the line ministry and have a regular assessment of performance and effectiveness in his or her execution of duty.
Question 15:  How do you rate the corporation’s assurance for a going concern for its next fiscal year?

There was a 100% response in the negative on how the respondents perceive the corporation’s assurance for a going concern in its next fiscal year. In the 2004/2005 annual report, the managing director, Mr KH Egumbo acknowledged that as directors, they are responsible for monitoring the preparation and the integrity of the financial statements-related information included in the Annual Report. He stated that in order for the board to discharge its responsibility, management should develop and continue to maintain a system of internal control by reviewing its operations. The performance of the corporation, even then, was very bad and the corporation could not have been described as a going concern. In the conclusion of his report, Mr Egumbo stated that the directors believe that the group part of the airline would be a going concern in the year ahead (which is 2006/2007) and for that reason they continue to adopt the going concern basis in preparing the group annual financial statements. These financial statements were audited by KPMG Chartered accountants (Namibia) Auditors (2005). He had this to say on this annual report’s audit opinion:

“In our opinion, the financial statements fairly present, in all material respects, the financial position of the company and of the group at 31 March 2005 and the results of their operations and cash flows for the year then ended in accordance with Namibian Statements of Generally Accepted Accounting Practices and in the manner required by the Namibian Companies Act. That without qualifying our opinion above, we draw you attention to the note on going concern in the directors’ report.” (page25)

It is indeed questionable how a reputable audit company like KPGM would certify the enterprise as a going concern looking at the figures.

Question 16:  How do you rate the corporation’s assurance of timely and accurate disclosure of all material matters regarding the corporation, including its financial situation, performance, ownership and governance?

There was a 100% response in the positive that the corporation has a timely and accurate disclosure of all material matters regarding its financial situation, performance, ownership and governance. This again is not accurate information and
according to the State-owned Enterprise Governance Act (2002) section 26 subsection (1) the board of the State-owned enterprises must as soon as possible, but not later than six months after the end of each financial year, submit an annual report on the operations of the State-owned enterprises in that year. Air Namibia has not complied with this mandate which led to a Presidential Commission Inquiry and effected the appointment of a new board of directors and management which were to steer the new airline into a new era, according to the Annual Report of 2002/2003.

Question 17: How do you rate this organisation in respect to organisational performance?

There was a 100% response in the negative in respect to organisational performance. This is in agreement with the Chairperson’s 2004/2005 Annual Report in which Mr K Egumbo stated that the continued shareholder support and assistance was crucial for the successful turn around of the company. He also indicated that the financial performance of the national airline over the past five years has been very marginal as manifested by the continued growth in demand for its services in total passengers carried; yet it continued to record operational deficit due to the heavy cost structure which is the key challenge facing the airline industry globally. The State-owned Enterprises Act (2002), subsection (2), states that the annual report must include the audited financial statements of the State-owned enterprises; the auditor’s report on those financial statements; a statement on the extent to which the State-owned enterprise has met its objectives for the financial year; quantitative information in respect of the performance of the State-owned enterprises, including its wholly-owned subsidiaries, if any, relative to the State-owned enterprise’s objective; and such other information in respect of the financial affairs of the State-owned enterprises as is required by the portfolio Minister to be included therein. It is in these Annual reports that all the corporation’s assurance of timely and accurate disclosure of all material matters regarding the corporation, including its financial situation, performance, ownership and governance is reported.

Question 23: How do you rate the systems and procedures followed by the organisation in the preparation of financial reports to the shareholders?
(i) Effective

There was a 50% response on the financial reports to the shareholders being effective while another 50% perceived the financial reports to be ineffective. Therefore, the effectiveness of the systems and procedures followed by the organisation in the preparation of financial reports to the shareholders has a fifty-percent (50%) score based on the results of the study.

(ii) Reliable

Fifty percent (50%) of the participants said that the systems and procedures followed by the organisation in preparing financial reports for the shareholders were reliable while the other half thought they were reliable. Therefore, the reliability of the corporation’s systems and procedures followed by the organisation in preparation of financial reports to the shareholders has a fifty-percent (50%) score based on the results of the study.

(iii) Sufficiently detailed to ensure reasonably accurate information.

Fifty percent (50%) of the participants said that the systems and procedures followed by the organisation in preparing financial reports for the shareholders were sufficiently detailed to ensure reasonably accurate information while the other half thought they were inaccurate. Therefore the reliability of the corporation’s systems and procedures followed by the organisation in preparation of financial reports to the shareholders has a fifty-percent (50%) score based on the results of the study.

(iv) Adhered to by personnel responsible for generating the information?

A hundred percent (100%) response in the affirmative was pointed out by the participants on the financial reports to the shareholders as adhered to by personnel responsible for generating the information. Therefore the effectiveness of the corporation’s systems and procedures followed by the organisation in preparation of financial reports for the shareholders has a hundred percent (100%) score based on the results of the study.
(v) Are the disclosures complete?

Fifty percent (50%) of the participants said that the systems and procedures followed by the organisation in preparing financial reports for the shareholders were disclosed completely while the other half did not think they were. Therefore the complete disclosures of the corporation’s systems and procedures followed by the organisation in preparation of financial reports to the shareholders has a fifty-percent (50%) score based on the results of the study.

Question 24: Does the board have an Audit & Risk Committee?

All the 10 participants stated that the Air Namibia board of directors has an Audit & Risk Committee. This is in compliance with the State-owned Enterprises Governance Act (2002) of Namibia.

Question 25: Is one of the Audit & Risk Committee members technically proficient and able to assess the company’s compliance with the latest standards?

All the 10 participants affirmed that the Audit & Risk Committee has a member who is technically proficient and able to assess the company’s compliance with the latest standards. This is in compliance with the State-owned Enterprises Governance Act (2002) of Namibia.

Question 26: Is there adequate documentation on internal controls?

All the 10 participants affirmed that there is adequate documentation on internal controls at the corporation. This is in compliance with the State-owned Enterprises Governance Act (2002) of Namibia.

Question 27: Is anyone responsible for the performance of a rolling review of the internal controls in key areas?

All the 10 participants affirmed that the Airliner has someone who is responsible for the performance of a rolling review of the internal controls in key areas. Therefore, the question has a hundred percent (100%) score based on the results of the study.
Question 28: Are there any procedures to detect and highlight unusual payments for management’s attention?

All the 10 participants affirmed that Air Namibia has procedures to detect and highlight unusual payments for management’s attention. Therefore, the question has a hundred percent (100%) score based on the results of the study.

Question 29: Does the internal audit department have a charter or other written terms of reference?

All the 10 participants affirmed that the internal audit department has a charter or other written terms of reference. The question has a hundred percent score based on the results of the study.

Question 30: How often does the internal audit department liaise with external auditors?

Five (5) participants said that the internal audit department liaises with external auditors bi-annually while the other five (5) stated that they meet annually. The scope of the Internal Audit function includes the review of all activities of an organization which is to re-examine the adequacy of risk monitoring systems and reliability and integrity of financial and other operating information. It also reviews the adequacy and effectiveness of systems and controls and compliance with policies, plans, procedures, laws and regulations. The internal audit function safeguards assets and has an oversight of the economic and efficient use of resources, and its effectiveness of functions against stated objectives and strategies. Every company should have an audit charter which stipulates (among other things) the objective of the Internal Audit function which is to independently examine and evaluate activities and assist management in discharging their responsibilities, as a service to the Audit Committee. The Internal Audit Department liaises with the external auditors as often as is recommended by the Audit Charter. In this case, the response to the question is an indication that the respondents are not aware of the correct times the internal audit department meets with the external auditors.
Question 31: Were there major issues raised by the internal audit department during the most recent review?

All the 10 participants affirmed that there were major issues raised by the internal audit department during the most recent review? The question has a hundred percent score based on the results of the study.

Question 34: Is the corporation able to resolve issues raised in by the internal audit?

All the 10 participants affirmed that there were major issues raised by the internal audit department during the most recent review and that the corporation has the ability to resolve issues raised. The question has a hundred percent score based on the results of the study.

5.2.3 General Comments

Question 35: Opportunities for the corporation

Air Namibia had opportunities during the 2010 world cup, in South Africa, to have more frequent flights with its neighbours and other African countries. The opportunities cited were “increased frequencies to Frankfurt, Luanda and domestic routes.”

Question 36: Challenges faced by the corporation, causes and proposed solutions

On the challenge of the economic crisis which was caused by the collapse of banks, the solution given was of revaluations of business plans. The challenge of delivery of service on time by the Airline was said to be caused by the disruptions and delays of scheduling timetabling. The solution identified was for the Airline to lease its fleets.

Question 37: How do you rate the way the corporation is being governed?
Fifty percent (50%) of the participants rated the corporation as being governed very well, while the other half did not think so. The governance of the corporation has a fifty-percent (50%) score based on the results of the study.

Question 38: How do you rate the overall performance of the corporation? Fifty percent (50%) of the participants rated the overall performance of the corporation as being very good, while the other fifty percent rated the overall performance of the corporation as being good. The overall performance of the corporation has a fifty-percent (50%) score based on the results of the study.

5.3 TELECOM NAMIBIA

5.3.1 Profile of the respondents

The 12 respondents consisted of a mix of both male and female of which three are above 50 and the rest between 31 and 40 years of age. The portfolio of the participants varied from two from administration, to two who held positions in Management the rest being in Finance with a minimum of 5 years experience.

5.3.2 Ratings on Administrative Issues for Telecom Namibia

Question 5: How do you rate the corporation’s exercising of leadership in terms of acting in the best interest of the business enterprise?

All the 12 respondents indicated that the management of the firm act in the best interest of the firm. Therefore, the study results show a hundred percent (100%) indication that the leadership of the company is acting in good faith, putting the interests of the public entity first, above all other things.

Question 6: How much value does board of directors bring towards independent judgement to the decision-making process?

The results on this question show a tie in terms of rating board influence on company affairs. Thus, the Board of Directors of Telecom Namibia has a fifty-percent (50%) score based on the results of the study. The King Committee, on Corporate Governance (2002), points at the independence of members of the board as one of the core determinants of corporate governance which has a profound impact on corporate
performance of any enterprise. Independence is the existence of mechanisms which have been put in place to minimise or avoid potential conflicts of interest that may exist and how the entity is autonomous with a mechanism to be self-governing and having a clear distinction between self and its owners. Fifty percent of the results showed that board influence is good and the rest (50%) indicated that board influence is bad.

Question 7: How do you rate the effectiveness of the corporation’s strategy in achieving and implementing its values for corporate survival and thriving?

Again, the result was a tie, with 6 respondents stating that the corporate strategy is effective in achieving and implementing values for corporate survival and thriving while the other 6 did not think so. This indicates that the firm’s strategy has scored an average mark in terms of effectiveness in achieving and implementing company values for global competitiveness. This can be a pointer to the fact that the corporate strategy for Telecom Namibia is not quite comprehensive and may leave a lot to be desired.

Question 8: How do you rate the procedures and practices in place that protect the corporation’s assets and reputation.

There was a 100% score in the affirmative by the respondents acknowledging that the entity’s procedures and practices are effective towards the protection of the corporation’s assets and reputation. This is in line with the Commonwealth Association for Corporate Governance (CACG) Guidelines that the board of directors of business enterprises, be they public, private, family-owned or state-owned, must exercise leadership and integrity in judgement when directing the corporation to achieve continuity and prosperity for the corporation.

Question 9: How do you rate the way the corporation complies with all the relevant laws, regulations and codes of best business practice?

All the 12 respondents indicated that the corporation complies with the relevant laws, regulations and codes of best business practice. Therefore, the study results show a hundred percent (100%) indication that the company is compliant with relevant laws, regulations and codes of business practice according to the result of the study.
Question 10: How do you rate the effectiveness of the communication between the corporation with its shareholders?

All the 12 respondents indicated that the corporation has an effective communication with the shareholders. This again is confirmed by the company’s ability to produce Annual Reports since its inception, complying with the laws, and the State-owned Enterprises Governance Act (2002). Therefore, the study results show a 100% indication that the company has an effective communication system with its shareholders, according to the result of the study.

Question 11: How do you rate the balance of power and authority on the board?

The balance of power and authority on the board is good, according to all the respondents. Therefore, the study results show a 100% indication that the company has a balance of power and authority on the board, according to the result of the study.

Question 12: How do you rate the effectiveness of internal systems of control?

The internal systems of control at the Telecom Namibia are good according to the result of the study. There was a 100% indication in the positive that the corporation has effective internal systems of control.

Question 13: How do you rate the effectiveness of the corporation’s tools of assessment of its performance as a whole?

50% of the participants rated the effectiveness of the corporation’s tools of assessment of its performance as good while the other half rated them as not effective. The effectiveness of the corporation’s tools of assessment of the corporation’s performance has a 50% score based on the results of the study.

Question 14: Is there regular assessment of performance and effectiveness of the individual directors, and management including the CEO?

50% of the respondents indicated that the assessment of the performance and effectiveness of the individual directors, and management including the CEO was done regularly while the other 6 indicated that there was no regular assessment done.
Thus, the existence of a regular assessment of performance and effectiveness of individual directors, and management including the CEO has a 50% score based on the results of the study. The absence of regular assessment of performance and effectiveness by the board is in violation of the State-owned Enterprises Governance Act (2002) which requires that the member should at all times exercise a reasonable degree of care and diligence in the performance of his or her functions.

Question 15: How do you rate the corporation’s assurance for a going concern for its next fiscal year?

All the 12 respondents rated the corporation’s assurance for a going concern for its next fiscal year as not good. The study result shows a 100% indication that the company has assurance for a going concern for its next fiscal year. Telecom, according to the Annual Report, performs better than Air Namibia and it is this financial indicator that determines the going concern of an entity.

Question 16: How do you rate the corporation’s assurance of timely and accurate disclosure of all material matters regarding the corporation, including its financial situation, performance, ownership and governance?

A 100% of the respondents rated the corporation’s assurance of timely and accurate disclosure of all material matters regarding the corporation, including its financial situation, performance, ownership and governance as not good. Therefore, the study results show a 100% indication that the corporation is not doing well in disclosure of all material matters according to the result of the study.

Question 17: How do you rate this organisation in respect to organisational performance?

A 100% of the respondents rated the corporation’s organisational performance as not good. Therefore, the study results show a 100% indication that the corporation is not doing good as far as organisational performance is concerned, according to the result of the study.

Question 23: How do you rate the systems and procedures followed by the organisation in preparation of financial reports to the shareholders?
(i) Effective
There was a 50% response on the financial reports to the shareholders being effective while another 50% perceive the financial reports not to be effective. Therefore, the effectiveness of the corporation’s systems and procedures, followed by the organisation in the preparation of financial reports to the shareholders has a 50% score based on the results of the study.

(ii) Reliable
A 50% of the participants said that the systems and procedures followed by the organisation in preparing financial reports for the shareholders were reliable while the other half said they were unreliable. Therefore, the reliability of the corporation’s systems and procedures followed by the organisation in the preparation of financial reports to the shareholders has a 50% score based on the results of the study.

(iii) Sufficiently detailed to ensure reasonably accurate information.
A 50% of the participants said that the systems and procedures followed by the organisation in preparing financial reports for the shareholders were sufficiently detailed to ensure reasonably accurate information while the other half did not think they were accurate. Therefore, the reliability of the corporation’s systems and procedures followed by the organisation in the preparation of financial reports for the shareholders has a 50% score based on the results of the study.

(iv) Adhered to by personnel responsible for generating the information?
A 100% response in the affirmative was pointed out by the participants on the financial reports to the shareholders as adhered to by personnel responsible for generating the information. Therefore, the effectiveness of the corporation’s systems and procedures followed by the organisation in preparation of financial reports for the shareholders has a 100% score based on the results of the study.

(v) Are the disclosures complete?
50% of the participants said that the systems and procedures followed by the organisation in preparing financial reports for the shareholders were disclosed completely while the other half did not think they were. Therefore, the complete
disclosures of the corporation’s systems and procedures followed by the organisation in the preparation of financial reports for the shareholders has a fifty-percent (50%) score based on the results of the study.

Question 24: Does the board have an Audit & Risk Committee?

All the 12 participants stated that the corporation’s board of directors has an Audit & Risk Committee. This is in compliance with the State-owned Enterprises Governance Act (2002) of Namibia.

Question 25: Is one of the Audit & Risk Committee members technically proficient and able to assess the company’s compliance with the latest standards?

All the 12 participants affirmed that the Audit & Risk Committee has a member who is technically proficient and able to assess the company’s compliance with the latest standards. This is in compliance with the State-owned Enterprises Governance Act (2002) of Namibia.

Question 26: Is there adequate documentation of internal controls?

All the 12 participants affirmed that there is adequate documentation on internal controls at the corporation. This is in compliance with the State-owned Enterprises Governance Act (2002) of Namibia.

Question 27: Is anyone responsible for the performance of a rolling review of the internal controls in key areas?

All the 12 participants affirmed that Telecom Namibia has someone who is responsible for the performance of a rolling review of the internal controls in key areas. Therefore, the question has a hundred percent (100%) score based on the results of the study.

Question 28: Are there any procedures to detect and highlight unusual payments for management’s attention?
All the 12 participants affirmed that Telecom has procedures to detect and highlight unusual payments for management’s attention. Therefore, the question has a 100% score based on the results of the study.

Question 29: Does the internal audit department have a charter or other written terms of reference?

All the 12 participants affirmed that the internal audit department has a charter or other written terms of reference. The question has a 100% score based on the results of the study.

Question 30: How often does the internal audit department liaise with external auditors?

50% of the respondents stated that the internal audit department liaises with external auditors bi-annually while the other 50% stated that they meet annually.

Question 31: Were there major issues raised by the internal audit department during the most recent review?

All the 12 participants affirmed that there were major issues raised by the internal audit department during the most recent review? The question has a hundred percent score based on the results of the study.

Question 34: Is the corporation able to resolve issues raised by the internal audit?

All the 12 participants affirmed that there were major issues raised by the internal audit department during the most recent review and that the corporation has the ability to resolve issues raised. The question has a 100% score based on the results of the study.

5.3.3 General Comments

Question 35: Opportunities for the corporation

Opportunities identified by the respondents are that of going into the mobile service and providing more data-related services such as Internet Protocol Television (IPTV). IPTV delivers scheduled TV programmes and video-on-demand (VOD) via the IP
protocol and digital streaming techniques used to watch video on the Internet. IPTV enables a data-voice-video "triple play" service to be based entirely on IP because Internet access, voice over IP (VoIP) and IPTV all use the same IP packet format. To compete with cable TV, the telephone companies have taken the lead with IPTV over DSL lines. Rather than tune into one of many video channels being transmitted simultaneously over cable TV, IPTV users request a particular channel, which is routed to the user just like every other data resource on the Internet. The other opportunity for Telecom is to become a high demand service provider in the market.

Question 36: Challenges faced by the corporation, causes and proposed solutions

The challenges identified are that of lack of skilled manpower at the corporation. Stiff competition was also identified as a challenge for the corporation. The suggested solutions were for the entity to improve on its incentives to attract skilled manpower in the corporation. The skilled manpower would also solve the challenges of stiff competition to keep the entity above water.

Question 37: How do you rate the way the corporation is being governed?

50% of the participants rated the corporation as being governed very well, while the other half did not think so. The governance of the corporation has a 50% score based on the results of the study.

Question 38: How do you rate the overall performance of the corporation?

50% of the participants rated the overall performance of the corporation as being very good, while the other 50% rated the overall performance of the corporation as not being good. The overall performance of the corporation has a 50% score based on the results of the study.
5.4 Summary

This chapter basically relooked into the hypotheses which have been confirmed by the findings of the study done. The chapter also dealt with the statement of the findings and discussion of the results of the study. Data was presented in descriptive narrations. In most cases, the results revealed that there was a lack of full assurance that both corporations, Air Namibia and Telecom Namibia where fully compliant with the relevant law, the State-owned Enterprises Governance Act or the regulations thereof or the corporate governance codes. The researcher made an attempt to ensure that all the findings are relevant to the topic under discussion and commensurate with the views discussed in the theoretical framework and literature review.
Chapter 6: Hypotheses Result, Conclusions & Recommendations

6.0 Introduction

This chapter presents a summary of the findings, conclusions and recommendations made in line with observations made in this study. Firstly, the researcher presented the hypotheses result and the findings before outlining the conclusions and recommendations. At the end, recommendations for further research were made, giving pointers to future research perspectives in the same field of study within the same region and beyond. The results were linked to the literature review using the critical analytical and regression approach where the findings were critically justified, supported and contradicted during the analytical process. The researcher made an attempt to ensure that all the conclusions and recommendations were commensurate with the research objectives and the topic under discussion.

6.1 Hypothesis result

Corporate governance has a very strong influence on corporate performance in Namibia. There is also a very significant, negative relationship between ownership concentration and economic performance. Insider ownership creates far higher performance than agency relationship does. The findings below have confirmed, therefore, the hypotheses that corporate governance has a very strong influence on the corporate performance of Namibia’s public enterprises and that there is a negative relationship between ownership concentration and economic performance. The enterprises studied lack complete compliance with the corporate governance rules and regulations and hence the poor performance.

6.2 FINDINGS

Air Namibia

1. There was a serious indication that the management team of Air Namibia acts in the best interest of the firm. This is in contradiction with the frequency in which the board of directors has changed hands since its inception. In his report, the Chairman, Advocate V. Rukoro addressed the challenges the corporation has, pointing to the series of serious deficiencies identified by the
Presidential Commission of Inquiry of 2005. Air Namibia’s poor financial performance (Figure 2) pointed out by these enquiries into Air Namibia operations effected the appointment of a new board of directors and management which were to “steer the airline into a new era” (Annual Report, 2002/2003).

2. 50% of the participants indicated that the influence of the board on decision-making is good and the other fifty (50%) were of the opinion that the board influence is not good.

3. It was discovered that the corporate strategy for Air Namibia was not quite comprehensive and may leave a lot to be desired (Figure 2).

Figure 2: Air Namibia: Revenue, expenditure and net loss graph

Source: Annual Reports 2004/2005

According to the Managing Director’s Report, Mr K Egumbo (2004/2005), the new strategies were aimed at enhancing the revenue stream, improving processes, reviewing and re-negotiating major contracts, using technological advancements to improve efficiencies and reduce costs, eliminating leakages, identifying new opportunities and managing performance. Indeed the
strategies were to reduce expenditure but according to the figures in the Annual report, Air Namibia’s expenditures continued to grow from N$549 454 in 2000/2001 to N$712 274 in 2004/2005, while the revenue lagged behind leading to the continuous losses.

4. It was noticed that Air Namibia does not comply with all the relevant laws, regulations and codes of best business practice. The 2002/2003 Annual Report assured shareholders that the company continues to operate as a going concern, despite the fact that Air Namibia was and is still not self-sustainable. The Airline has also not been able to produce Annual Reports for the years 2004/2005, 2005/2006, 2006/2007, 2007/2008. This is failure on its part to comply with the State-owned Enterprises Governance Act (2006) mandate. Therefore a prediction model (Figure 3 & 4) was done to calculate the missing figures for revenue and expenses and for the researcher to be able to draw conclusions.

<table>
<thead>
<tr>
<th>Descriptive statistics</th>
<th>Revenue</th>
<th>Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>476 258.20</td>
<td>648 236.60</td>
</tr>
<tr>
<td>Standard deviation</td>
<td>62 406.66</td>
<td>62 341</td>
</tr>
<tr>
<td>Minimum</td>
<td>377 102</td>
<td>549 454</td>
</tr>
<tr>
<td>Maximum</td>
<td>536 767</td>
<td>712 274</td>
</tr>
</tbody>
</table>

Air Namibia Revenue Model used to predict the missing figures in years 2006 and 2007.
Figure 3: Predicted Revenue for Air Namibia

Source: Air Namibia revenue model used to predict the missing figures 2006 and 2007.

Results:

Predicting for 2006 and 2007 we would expect the following;
Revenue = N$37 158 + N$34 891 multiplying by the year.

Figure 4: Predicted Expenditure for Air Namibia

Source: Air Namibia expenditure model used to predict the missing figures for 2006 and 2007.
Results:

Predicting for 2006 and 2007 we would expect the following figures of expenditure of Air Namibia = N$37 629 + N$53 534 multiplying by the year. 

5. A hundred percent (100%) of the participants indicated that there was no effective communication between the corporation and its shareholders.

6. Also hundred percent (100) of the participants rated the corporation’s assurance for a non-going concern for its next fiscal year as non-existence (Figure 5). According to the available information, the ratio of debt to equity for Air Namibia has gone from -164% in 2002 to as bad as -250% in 2003 and this situation has proved beyond any shadow of doubt that Air Namibia has failed to sustain itself financially and that it has poor performance.

7. Hundred percent (100%) of the participants indicated that the organisational performance was not good.

Figure 5: Air Namibia: Debt & Equity Graph

![Air Namibia: Debt & Equity Graph](source: Annual Reports 2002/2003)

However, the figure indicates that as from the 2004/2005 financial period, the airline was rising from the financial hole as the debt amount was reducing
with a fraction of -7% in 2005 and slightly increasing to -17% in 2006. But with the missing information, it becomes very difficult to predict a turn about in the performance of the public entity during this period. Looking at Figure 2 shows that the continuity of the Airliner is still in question.

The airline has a perpetual poor performance which the government of Namibia continuously bails out to date. This raises a lot of questions as to whether there are strategies in place into the future of the airline to work on this continuous poor performance. Is the government sincerely hoping for a turn-about in the performance of the Airline or has it pledged to pump funding into the airline regardless of poor performance? The national airline has struggled to remain on its feet since its inception. According to the Annual Report 2004/2005, its operation loss for the 2000/2001 financial period was N$172 352 and since then, Air Namibia has continued to increase its losses. The revenue has barely increased from N$377000 in 2000/2001 to, N$512 000 in the 2004/2005 financial period, and during the five year period reported.

**Telecom Namibia**

1. Telecom Namibia was also gave an indication in this study that its leadership is good in terms of acting in the best interest of the business. According to the 2001/2002 Annual report, Telecom Namibia welcomed the introduction of the newly-created Corporate Governance Agency and the appointment of its CEO in view of the huge repeated financial losses of some State-owned Enterprises. It agreed that there is a need for that faltering and ailing entities to restore their financial viability, and that the new Agency will succeed in its efforts to eradicate mismanagement and the misuse of public funds. The ethical behaviour, integrity and accountability are business values that the board of directors were not going to compromise on.

2. However, fifty percent (50%) of the participant indicated that the board of directors does bring independent judgement to the decision-making process while the other fifty percent indicated that the board of directors does not. The King Committee on Corporate Governance (2002), points to the independence of members of the board as one of the core determinants of corporate
governance which has a profound impact on corporate performance of any enterprise. Independence is the existence of mechanisms which have been put in place to minimise or avoid potential conflicts of interest that may exist and how the entity is autonomous, with a mechanism to be self-governing and having a clear distinction between self and its owners.

**Figure 6: Telecom Namibia Revenue Graph (N$, 000)**


Telecom Namibia’s revenue had an incremental effect on the performance of the enterprise from the time of its inception to the year 2003. From 2003 to date, revenue at Telecom Namibia (according to the graph above) has just been stable.
While on the other hand, looking at the graph above (Figure 8), expenditure has equally increased. From 2006 to date, expenditure at the enterprise indicates a persistent increase which if not curbed could lead to losses.

3. It was discovered that the corporation does not comply with all relevant laws, regulations and codes of best business practices despite the vow in the Annual Report (2001/2002) that Telecom Namibia would remain committed to the achievement of financial prudence and adherence to corporate governance principles.

4. It was discovered that the corporation is in good communication with its stakeholders.

5. Fifty percent (50%) of the participant rated the effectiveness of the corporation’s tools of assessment of its performance as not good while the other fifty thought it was good. This was acknowledged by the 2006/2007 Annual Report in which the Managing Director, Mr Frans Ndoroma mentioned that the key measures on which Telecom would be judged will be on financial performance. He pointed out the following:
• Turnover for the year remained relatively constant at just over N$1 billion and that post-paid call revenues decreased from N$300 million in 2005 to N$290 million in 2007. Prepaid revenues also declined from N$65 million to N$54 million.

• Earnings, before tax, decreased marginally from N$174 million in the previous financial year to N$54 million for the year ended 30 September 2007.

• Net profits, after tax, for the company for the 2006/2007 year at N$25 million represents a decrease of 78% in comparison to the previous financial year.

• The results of the regional investment in Angola and South Africa, which are at roll-out stages made operating losses in the 2006/2007 financial year.

• Telecom Namibia still faces challenges of defending its market share in the face of ever-increasing competition whilst simultaneously decreasing its cost structure base to maintain profitability.

• The company’s cash resources decreased by 86% from N$213 million as at 30 September 2006 to N$30 million at the end of 2007 financial year mainly as a result of funding capital projects and payments made towards the regional ventures.

6. A hundred percent (100%) of the participants did not think the corporation has an assurance about its timely and accurate disclosure of all material matters. Any significant control failings or weaknesses identified should be disclosed in the Annual Reports (King II Report (2002), including the impact that they have had, or may have had, on the company and the actions being taken to rectify them. The Telecom Namibia board is responsible for disclosures in relation to risk management and should, at a minimum, disclose that it is accountable for the process of risk management and the system of internal control, which is regularly reviewed for effectiveness and for establishing appropriate risk and control policies and communicating these throughout the company. There is an on-going process for identifying, evaluating and managing the significant risks faced by the company that has been in place for the year under review and up to the date of approval of the annual report and financial statements; that there is an adequate system of internal control in place to mitigate the significant risks faced by the company to an acceptable
level. Such a system is designed to manage, rather than eliminate, the risk of failure or maximise opportunities to achieve business objectives.

7. A hundred percent (100%) of the participants rate Telecom Namibia’s organisation performance as not good. Even though Telecom Namibia is perceived to be doing well by the public through the media, the figures are telling a different story, that performance is not at its best.

**Figure 8: Telecom Namibia: Net profit/loss Graph (N$, 000)**

Telecom Namibia began its operations with losses, according to the financial reports of 1998 and 1999. The enterprise, however, improved its performance in 1999 and gained some stability in the market till it eventually increased in profits in the 2003 and 2004 financial years. However in 2004 and 2005, the corporation had a slump in its profits and made losses in the year 2006 to 2007.
According to the Managing Director, Mr Frans Ndoroma (2001/2002 Annual Report), Telecom Namibia had an exceptional financial performance and had action plans to reduce debt, manage costs and enhance Telecom Namibia’s ability to serve its customers even more effectively; that its operating net profit increased after tax also increased by 78.4%. Telecom Namibia performed better in its revenue than Air Namibia since they are both natural monopolistic entities.
The graphs above reflect how Telecom began its operation with a loss in 1998 of N$202 000 and has slightly climbed across from loss making just barely marginalising its profits throughout the ten (10) years. According to the Chairman’s review, Mr Titus T Haimbili in the 2001/2002 Annual Report, the global and regional economic environment had a direct bearing on the economic performance of the company, in particular, and on the rest of the Namibian economy. Besides that, regional developments also impacted forcefully on performance, particularly because of Namibia’s close monetary and trade links with South Africa. In the Annual Report 2006/2007 which was the Company’s 15th anniversary as a commercialised entity, the Managing Director, Mr Frans Ndoroma, pointed out that fifteen years ago, Telecom embarked on a journey to deliver more choices and innovation for customers and continuing good returns to its shareholder, the Government of the Republic of Namibia. He acknowledged that Telecom had made significant progress towards developing an entity that is positioned to take full advantage of the growth of the ICT business in Namibia.

6.3 COMPARISON IN PERFORMANCE OF THE TWO ENTREPRISES.

Figure 11: Revenue Bar graph for Air Namibia and Telecom Namibia
Comparing the performance of Air Namibia to that of Telecom Namibia, clearly reflects how Air Namibia is lagging behind in revenue even though the two entities cannot be fairly comparable due to their differences in the services they provide. The reasons why Air Namibia is low in revenue has been alluded to volatile economic environment and sharply increasing fuel prices, currency fluctuations and increased competition with resulting downward pressure on the yields.

**Figure 12; Air Namibia & Telecom: Profitability Comparison Graph**

![Profitability comparison - N$, 000](source: Annual reports 1998 - 2007)

While Telecom Namibia has proved to be performing better in comparison to the performance of Air Namibia in all the years, the figures above indicate loss-making at Telecom Namibia. Air Namibia is sinking deeper into losses and only time will tell how long the Government of Namibia will continue bailing it out of the losses each financial year. The Annual Report (2006/2007) shows Telecom Namibia in a loss, truly refuting the saying that ‘the grass is greener on the other side’.

### 6.4 CONCLUSIONS

The elements of the corporate governance, leadership and integrity in judgment, when directing the corporation to achieve continuing prosperity for the corporation, are a needed ingredient in public entities for good corporate governance. Even though
it was confirmed by the drivers of public entities that through managed and effective processes, board appointments are made that provide a mix of proficient directors who are able to add value and bring independent judgment to bear on the decision-making processes, it could not be proved that the Air Namibia board of directors meet the requirement due to the sensitivity of this material. Telecom Namibia, ensures that procedures and practices are in place to protect the corporation’s assets and reputation, Monitors and evaluates the implementation of strategies, policies, management performance criteria and business plans. It also ensures that the corporation complies with all relevant laws, regulations and codes of best business practice, while it could not be ascertained at Air Namibia. Again, at Telecom Namibia, it was confirmed that entities communicate with shareowners and other stakeholders but with the absence of the Annual Report at Air Namibia, it could not be ascertained if that happens. Again, in both entities, it could not be ascertained that no one person has unfettered power; that there exists an appropriate balance of power of authority on the board and that the CEO participates in the appointment of senior management, ensures the motivation and protection of intellectual capital intrinsic to the corporation, ensures that there is adequate training in the corporation for management and employees and a succession plan for senior management. The above confirms that there is a relationship between good corporate governance and corporate performance of Public Enterprises in Namibia.

The following are the specific conclusions that were reached in this research study for each particular entity, confirming why Telecom Namibia is performing better than Air Namibia.
6.4.1 AIR NAMIBIA

1. Even though the study showed (100%) that the leadership of the company was acting in good faith, putting the interests of the company first above all other things, the main shareholder, the government of Namibia, through its actions, did not think so. The frequency with which the board of directors has changed hands, since its inception, is a pointer on itself to the underlying brewing issues of the Principal-agency theory. The Principal Agency Theory is a situation where there is conflict between the interest of the stockholders and that of management.

2. The Air Namibia’s board of directors’ influence on the corporation is not complete. Even though the membership size on the board of directors is not in question nor its components, the board needs to address the hypothesis on the Principal-agent relationship properly in this enterprise; hence it remains problematic. There is a persistent and enduring conflict between the management of these entities and the owner. The bone of contention is on whose goals are being pursued overtly and/or covertly.

3. Air Namibia has no viable comprehensive corporate strategy. Air Namibia’s leadership was tasked with providing policy directives to a new team of management and for the total revamping of the company’s technical, commercial and financial operations and with the inculcation of a new corporate culture.

4. Air Namibia does not comply with all the relevant laws, regulations and codes of best business practice.

5. There is no effective communication between Air Namibia and its shareholders; the absence of Annual Reports over such a long period, on its own indicates poor or lack of communication between Air Namibia and its shareholders.
6.4.2 TELECOM NAMIBIA

1. Telecom Namibia has leadership in place which acts in good faith. From the performance of the corporation, it could not be established whether management’s most important goal is in the interest of the corporation or self, for example, fat cheques and generous bonus pay-outs while those of the shareholders or financer of capital is maximizing shareholder’s wealth by declaring occasional dividends.

2. The Board of Directors of Telecom Namibia does not have good influence on the performance of the corporation.

3. Telecom Namibia has no viable comprehensive corporate strategy.

4. The study showed that Telecom Namibia does comply with all the relevant laws, regulations and codes of best business practice.

5. Telecom Namibia, however, has an effective communication with its shareholders.

6. It could not be established if Telecom Namibia has an effective tools of assessment of its performance.

7. Telecom Namibia has a lack of assurance of a going concern as a corporation.

8. The corporation has no assurance of timely and accurate disclosure of all material matters regarding the corporation, including all its financial situations, performance, ownership and governance.

9. The overall performance of the corporation is not good.

10. The corporation’s systems and procedures, followed in the preparation of financial reports to the shareholders, is not satisfactory.

6.5 Recommendations

After the deliberations, in view of the findings, conclusions and the discussions, the following are some of the recommendations that were reached in this research study:

1. The board being the focal point of the corporate governance system, the public entities should appoint board members who meet the requisite qualifications, experience or skills of persons to be eligible for appointment as members of the board, according to the requirements of the State-owned Enterprises
Governance Act No. 2, (2006). The Act’s Council, section 15(1) states that it is necessary to appoint members of the board of a State-owned enterprise, whose knowledge, experience and skills are relevant to the functions of the State-owned enterprise concerned.

2. The board must give strategic direction to the company, appoint the chief executive officer and ensure that succession is planned. As much as the board is to delegate authority, it must retain full and effective control over the company, and monitor management in implementing board plans and strategies.

3. These enterprises should demonstrate that the company’s key risks are being managed in a way that enhances shareowners’ and relevant stakeholders’ interests. This they should do by incorporating mechanisms to deliver a demonstrable system of dynamic risk identification, demonstrating a commitment by management to the process because just simply summing up that the strategies were aimed at improving efficiencies and reducing costs, without identifying what costs need to be reduced, may not be a complete strategy. The operational cost of the Airline is escalating and needs to be curbed strategically.

4. The boards of directors should ensure that the company complies with all relevant laws, regulations and codes of business practice, and should go further to communicate with its shareowners and relevant stakeholders, both internally and externally, openly and promptly and with substance prevailing over form.

5. The boards should define levels of materiality, reserving specific power to itself and delegating other matters with the necessary written authority to management and take a further step of ensuring that these matters are monitored and evaluated on a regular basis.

6. The boards should have unrestricted access to all company information, records, documents and property. The information needs of the board should be well-defined and regularly monitored.

7. The boards should consider developing a corporate code of conduct that addresses conflicts of interest, particularly relating to directors and management, which should be regularly reviewed and updated as necessary.
8. Further, that the boards must identify key risk areas and key performance indicators of the business enterprise. These should be regularly monitored, with particular attention given to technology and systems.

6.6 Recommendations for further research

The researcher has discovered that research work is a laborious task and may need wide range experience for one to become a skilful practitioner. Therefore, it is imperative that further research be undertaken in the same area with a larger population, over a longer period of time so that the results can be generalised and applicable to other regions and countries.

The sample needs to be made larger and a more rigorous, in-depth research undertaken by more qualified researchers, with more testing and verification of data and research findings.

6.7 Summary

In conclusion, this chapter presented a summary of the findings, conclusions and recommendations made in line with observations made in this study. The researcher started off by presenting the findings, the conclusions and recommendations of the research study. Before closing, recommendations for further research were made, giving pointers to future research perspectives in the same field of study, within the same firms, under the same topic.

There is no doubt that the on-going poor performance of the public enterprises has become unsustainable. Describing Air Namibia as a disaster case, Jauch (2002) however, argues that the poor performance of public enterprises does not justify propagating privatization as the solution to Namibia’s public enterprises. Privatizing of public enterprises will not necessarily solve the problem of poor performance which needs to be addressed separately by government finding ways of appointing people that are competent in running the entities efficiently.
The research has also shown that openness and financial performance among public enterprises is lacking because, in the case of Air Namibia, there is no producing of reports and audited financial statements regularly. Due to the sensitivity of the financial information, these public enterprises are not open for public scrutiny and yet they are often spending monies which they do not have by consistently spending more than their income. As a result, the Namibia Government is pumping money into these institutions with no hope of them getting independent financially.
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