

The Importance Of Corporate Ethics and Values: Building a Sustainable Strategy Model for Effective Implementation of Good Corporate Governance within a State-Owned Enterprise in South Africa.

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EXECUTIVE SUMMARY

The South African Government, through its Department of Public Enterprises, has made it clear that it expects state-owned enterprises (SOE's) to be run in line with strict corporate governance principles (Business Day, 2005).

There has been a lot of theory and information in the body of knowledge on the principles of good corporate governance. Many countries have developed guidelines, codes and legislation on good corporate governance. In addition, many corporate governance change programmes have been developed and used in the implementation of governance codes by many organizations and institutions. Regardless of all these corporate governance developments and implementation initiatives, many catastrophic corporate failures, caused by unethical individual behavior and weak corporate cultures, still continue to this day. These corporate failures have resulted in serious economic consequences with grave socio-economical implications of job losses, loss of revenue by inland revenue, erosion of pension reserves and loss of investor confidence, etc.

The real challenge and the question that remains is: Why have most, if not all, of these corporate governance developments and implementation efforts yielded little or no satisfactory results at all? What is the best corporate governance implementation model required to bring about not only effective but also sustainable corporate governance in organizations, whether they are private, public or state-owned?

The purpose of this research is to understand how Eskom, as the chosen South African state-owned enterprise, has evolved in its corporate governance environment for the past 10-year period from 1994 to 2004.

This study will attempt to understand the processes that this organization went through, challenges that it faced, and strategic interventions that it applied to overcome those challenges in ensuring a sustainable good governance environment.

Specifically, the research has the following three objectives:

- To identify the relationship between corporate ethics/values and the corporate culture and their influence on corporate governance environment.
- To identify the roles of leadership and the influence that they may have had in ensuring good corporate governance environment in Eskom. (Leadership here refers to the government, as a shareholder, the board of directors and management).
- To recommend a strategic model and approach in ensuring the effective implementation of sustainable good corporate governance in a state-owned enterprise in South Africa.

Therefore, the following is a high-level summary of the chapters making up this research report:

In chapter 1, the purpose was to give the reader some background information on the study and the background information on the company used for the research. The problem statement, that forms the basis of this study was identified, defined and explained. The chapter also detailed challenges and obstacles experienced in the process of completing this research.

Chapter 2 discussed the theories around corporate governance and various other subjects that are important in the successful implementation of corporate governance. Subjects such as corporate ethics and values, organizational culture,

leadership and strategy are also discussed in linking them with the main focus. Based on what the writer deemed relevant literature and the writer's view of the facts presented on the corporate governance study and other disciplines linked to the subject, the foundation was set as a basis for the research study.

Chapter 3 identified research methodology deemed relevant to be used in establishing how successful Eskom was at implementation of corporate governance, based on the foundation of formalized corporate ethics and values programmes. The chapter also presented the research methodology structure and process that has been followed by the researcher. Multiple methods of data collection were used, hence the combined method drawing on both qualitative and quantitative data-collection procedures (survey and in-depth interviews). The ethical challenges encountered with the company being researched were also highlighted in this chapter. Research instruments used in the research were in the form of interviews and questionnaires.

Chapter 4 summarized the overall findings emanating from all the data that was collected, summarized and interpreted. The summary of findings centered on how Eskom, the company that was the subject matter of this research, has evolved with its corporate governance programmes over the past 10 years, from 1994 to date.

Chapter 5 outlined the overall conclusions (refer paragraph 5.1 of this report), drawn by using a combination of deduction, induction and generalization. The basis for such conclusions flowed from having applied a hybrid method of qualitative and quantitative research approach. The emphasis of these overall conclusions was to address the specific research objectives, as identified in the introductory Chapter 1 of this report.

Finally, based on the overall findings as per paragraph 4.4 and issues identified per Table 9 of this report, recommendations specific to Eskom were made in paragraph 5.2 of this report. These recommendations are not prescriptive, however they are intended to be value-added inputs and suggestions as to what the company has to focus its attention on in an effort of ensuring continuous improvement in its corporate governance programmes and related milestones achieved to date.

CHAPTER 1

1. INTRODUCTION

The business environment has been bedeviled by many and enormous challenges in the area of corporate ethics and corporate governance.

The purpose of this chapter is to give the reader a general background to the problem statement as defined in section 1.4 of this chapter. This chapter therefore covers Eskom's background, being the company chosen for the purposes of this research study, Eskom's business conduct, purpose of research, the importance and benefits of the study, research propositions and hypothesis.

Due to the challenges encountered during the collection of data, an extensive explanation of the limitations of the study has been provided in section 1.7 of this chapter.

The thrust of this research was to obtain a theoretical and practical understanding of the importance of corporate ethics and values and how this may be used as a basis for building a sustainable strategy model for the effective implementation of sustainable good corporate governance within a state-owned enterprise in South Africa.

1.1 ESKOM'S COMPANY BACKGROUND

The supply of electricity in South Africa started with mining as catalyst for development – both with the discovery of the rich diamond fields in Kimberley in 1866 and the discovery of gold in what was then the province of Transvaal in 1886.

By the start of the 20th century there were four categories of electricity suppliers in South Africa, being local government, privately owned electricity companies, privately owned mining companies and the railways. In 1910 the Transvaal Power Act was passed, providing for government supervision of large power companies and establishing an advisory board – the Power Undertaking Board – to license public power undertaking.

In 1922, The Electricity Act of 1922 was passed creating the Electricity Supply Commission (Eskom) with the mandate to establish or acquire undertakings to ensure the efficient supply of electricity. The act also established the Electricity Control Board as the first regulator of the industry.

The passage of Eskom Act No.40 of 1987 and a separate Electricity Act No. 41 of 1987, resulted in the name of the utility being changed from the acronym “Eskom” to “Eskom”. The utility also embarked on a rapid commercialization.

The ‘new’ Eskom contributed more effectively to the development of South Africa. It took the supply of electricity in to certain black local authorities and, during the late 1980s, embarked on a mass electrification programme on a national scale. This became one of the key contributions by Eskom to the upliftment of the people of South Africa. Eskom was converted into a company in terms of the Eskom Conversion Act No. 13 of 2001, under the leadership of the then Minister of Public enterprises, Jeff T Radebe. A single board in terms of the current practices of good corporate governance replaced the two-tier governance model used initially.

Today Eskom Holdings Ltd is among the largest electricity companies in the world – ninth largest in terms of sales and eleventh in terms of generation capacity. Since 1991, it has demonstrated superior performance both technically and financially.

In keeping with Eskom's strategic intent to be "the pre-eminent African energy and related services business, of global stature", it has expanded its activities into the African continent (Khoza & Adam, 2005).

1.2 ESKOM'S BUSINESS CONDUCT POLICY

According to Khoza & Gcabashe (2003), through its employees, Eskom conducts its business on a daily basis with its customers, suppliers and communities as well as with the state and other authorities. To reflect and foster Eskom's national responsibilities and enhance reputation, employees have to be committed to maintaining the highest level of integrity and ethical conduct in their actions and relationships with all stakeholders in their business.

Workplace duties and relationships that are proper, fair and honest need to comply with all applicable national laws, and particularly with the provisions of the national Constitution.

Eskom's Strategic Intent, the Eskom Values, the Eskom Way and the applicable aspects of our nation's Constitution contain the broad basic values to which we aspire. Ethical principles and conduct are clearly established as fundamentals of Eskom's Business Conduct Policy. The ten ethical principles do not create new values or obligations and have always been the foundation upon which sound business should be based. The values are intended to serve as guidelines to assist Eskom, its subsidiaries and all employees in attaining and maintaining the highest ethical standards.

The guidelines on ethical business conduct mean little without a conscious personal commitment to live up to the values, act as a role model for fellow employees, and be an Eskom ambassador and representative in all relationships

with stakeholders. Standards and guidelines, no matter how comprehensive they may be, cannot anticipate every situation. They must make sure that all their business relationships reflect their personal integrity, respect for human dignity and the rights of others, together with honesty, and commitment to what is right, fair, reasonable, legal and just.

Eskom's Business Conduct Policy is based on the following ten ethical principles for all employees in all capacities, to serve as a basis on which to empower and to ensure ethical conduct in their relationships with their colleagues and with all Eskom's stakeholders with whom they do business on behalf of Eskom on a daily basis:

- i. Perform their duties with honesty, integrity and to the best of their ability. Do not allow anyone to be misled. Communicate openly and honestly, and demonstrate a sense of purpose and a commitment to achieving the optimum outcome, even under difficult circumstances.
- ii. Treat people with fairness, courtesy and sensitivity with respect to their rights. Have respect for diversity.
- iii. Accept accountability for their actions and decisions.
- iv. Behave in a way, which is above reproach.
- v. Comply with all the rules, procedures and regulations that apply to Eskom, its systems and the way Eskom conducts its business.
- vi. Use information obtained from Eskom only for the purpose for which it is intended.

- vii. Treat the assets and property of Eskom, its employees, its customers and its suppliers with the same respect as your personal property. Do not waste Eskom's resources including time.
- viii. Share and declare any information you may have about a possible conflict of interest. All declarations about possible conflicts must be made in writing.
- ix. Refuse any gift that could be regarded as an attempt to exert undue influence on you.
- x. Challenge others if they are acting in an unethical way, report behavior that is in conflicts with this code and do not tolerate any form of retribution against those who speak up.

1.3 PURPOSE OF THE RESEARCH

The purpose of this research is to understand the importance of corporate ethics and values and how these may be used as a basis for building a sustainable strategy model for the effective implementation of good corporate governance within a state-owned enterprise in South Africa. As part of this research, it was important to study and understand how Eskom, as the chosen South African state-owned enterprise, has evolved in its corporate governance environment for the past 10-year period from 1994 to date.

This study will attempt to understand the processes that this organization went through, challenges that it faced, and strategic interventions that it applied to overcome those challenges in ensuring a sustainable good governance environment.

In 2005 two well-known and respected business leaders within Eskom, being Mr. Khoza RJ and Adam M, published the book entitled " The Power of Governance: Enhancing the Performance of State-Owned Enterprises". This book sets a good case study foundation for my research in terms of my specific objectives to be achieved for this research. The roles played by these two leaders and various other leaders, will be included in the study in order to understand how they contributed to and influenced Eskom's corporate governance environment.

Specifically, the research has the following three objectives:

- To identify the relationship between corporate ethics/values and the corporate culture and their influence on corporate governance environment.
- To identify the roles of leadership and the influence that they may have had in ensuring good corporate governance environment in Eskom. (Leadership here refers to the government, as a shareholder, the board of directors and management).
- To recommend a strategic model and approach in ensuring the effective implementation of sustainable good corporate governance in a state-owned enterprise in South Africa.

To achieve the above stated objectives, it is necessary to review and evaluate the principles, policies and processes followed and applied by Eskom to its structures, systems and people as an integral part of the mechanism of doing business with all stakeholders. Therefore, this case study on Eskom will highlight and document the relationship between corporate ethics and values and corporate culture and how these may influence good corporate governance environment. At the same time, there's a need to describe the role of the organization's leadership and what influence it may have had in the implementation of good corporate governance.

Information for the purposes of the case study will be collected from:

- Primary data – interviews and questionnaires.
- Secondary data - non-proprietary company documents and newspaper articles.

Findings will also be documented as an addition to the body of theory on Corporate Ethics and Values and recommended strategic model for effective implementation of good corporate governance, specifically in state-owned enterprises and in other South African organizations.

1.4 PROBLEM STATEMENT

Over the past few years, the issue of corporate governance has become a major area of concern all over the world (Khoza & Adam, 2005). Societies, companies and countries all require rules in order for such entities to function and flourish. The plethora of financial scams worldwide has induced many governments to legislate corporate governance guidelines and rules in order that companies recognize and understand that they cannot act independently of society and environment in which they operate (Ernst & Young 1,2003:3)

According to Khoza and Adam (2005), since Enron and other subsequent corporate failures, governance has become the number one issue for all stakeholders in business organizations. With the spotlight firmly on boardroom behavior, companies in Europe and the US have begun to implement the recommendations of their various national reports (for example Higgs in the UK, Aldam in Spain, Tabaksblatt committee in The Netherlands, etc) and, where they are affected, the structures of the US Sarbanes-Oxley Act, drawing and implementing their own new corporate codes of practice (European Business forum, 2004). Similarly in South Africa, many private and public companies have followed suit by embarking on the journey of implementing the King II Code.

State-owned enterprises have also followed the same trend by initiating and embarking on corporate governance implementation programmes in order to observe and comply with the relevant provisions of King II, the requirements of the Protocol on Good Corporate Governance and lastly with the provisions of Public Finance and Management Act.

To date, many corporate governance change programmes seem to have yielded little or no satisfactory results at all, compared to the expected and/or desired outcomes of the same. Evidence to this is born in the numbers and severity of corporate governance scandals, lapses and incidences that have taken place in various organizations, both in South Africa and in many other countries. To this day, these corporate governance scandals, lapses and failures continue unabated with little or no sign of improvement. This presents itself as a major problem, especially in state-owned enterprises.

Peters (2004) pointed out that the real challenge is not the redrafting of corporate codes of conduct as such, but the effectiveness with which companies can cascade good governance down through the rank and file of the organization. Codes of governance must be embedded at every level of the business. Companies also need to be sensitive to employee attitudes to corporate ethics.

According to King II (2002), non-financial issues have significant financial implications for a company. This is particularly true with regard to ethical issues. Rossouw (2003) points out that unethical behavior by companies can harm their interest and that of many stakeholders in a variety of ways. This may include reputation damage, for example, which may affect the perceived value of the share and ultimately that of the company.

This aggravates the already identified general corporate governance problem and raises another major challenge in that, South African companies have been found wanting on the implementation of ethics policies. For example, Ethics Institute of South Africa's Business Ethics SA survey 2002 of listed companies found that:

- 24% of companies do not have a code of ethics – despite this being a JSE Securities Exchange listing requirement.
- Majority of companies do not yet meet international social responsibility standards.
- 25% of individuals responsible for managing ethics are unaware of this responsibility, or else do not know who is assigned the task.

Potts and Matuszewski (2004) concluded that it is essential that ethics are integral to the culture of the organization; a superficial grafting of an ethical code will not effect organizational change or encourage public trust.

Therefore, the main problem relates to the need for an across the board awareness and appreciation of the importance of corporate ethics and values, as an integral part of an organizational culture, in bringing about a conducive and a sustainable good corporate governance environment. This main problem creates the following sub problems:

- The need for clarification of leadership roles and the need for knowledge and understanding of how various leadership styles, under various situations, may influence corporate ethics and organizational culture and the consequent influence on corporate governance.
- Lastly, what is the recommended strategic model and approach to be followed in effectively implementing good corporate governance imperatives in the manner that ensures triple-bottom line performance, on a sustainable basis, to the satisfaction of all stakeholders?

1.5 IMPORTANCE AND BENEFITS OF STUDY

Whilst there is already a fair amount of literature on the general subject of good corporate governance, not much has been written about how corporate ethics and values, as an integral part of an organizational culture, can contribute towards improved corporate governance of SOEs and other South African organizations in general. This is in spite of the fact that South Africa and the world at large have suffered catastrophic corporate failures such as the Enron's, Parmalat, Regal, Leisurennet, etc as a result of unethical behavior, conduct and practices. This study hopes, therefore, to make a contribution towards the closing of this gap, especially with specific emphasis on SOEs.

There seems to be very little research done to date on the relationship between corporate ethics and values and organisational culture, the importance of various leadership roles and the effects of various leadership styles and the consequent influence of all these on the much needed good corporate governance in organisations, especially in SOEs. What seems to be currently lacking is the recommended strategic model for the effective implementation of corporate governance, which is premised on ethics and values as an integral part of an organisational culture.

Therefore, this study also hopes to contribute to the limited body of knowledge concerning the recommended strategic model/approach for implementing corporate governance change programme(s), based on corporate ethics and values as integral part of organizational culture, to bring about sustainable good corporate governance in State-owned enterprises in South Africa. This is crucial for the much required triple-bottom line performance of SOEs to the benefit of not only the government, as shareholder of SOEs, but to other various stakeholders and the South African economy as a whole

1.6 RESEARCH PROPOSITIONS AND HYPOTHESIS

1.6.1 Propositions

- 1.6.1.1 Proposition that corporate values and business ethics must be built into an organizational culture and discipline.
- 1.6.1.2 Proposition that clarification and the understanding of various respective leadership roles, is a prerequisite and key determinant in ensuring effective implementation of good corporate governance in a state-owned enterprise.
- 1.6.1.3 Proposition that the leadership styles in any organization, including an SOE, can make or break the success of corporate governance programmes.
- 1.6.1.4 Proposition that the recommended strategic model and approach to effectively implementing good corporate governance, requires an organization (SOEs in this case) that has a combination of well articulated and practiced ethics and values, which are an integral part of organizational culture, supported by clearly defined leadership roles with leadership that practice leadership styles that are appropriate for circumstances in which an SOE operates.

1.6.2 Hypothesis

- 1.6.2.1 Is there a link between corporate ethics and values and implementing a culture of good governance?

- 1.6.2.2 Does leadership have any influence on how well strategies (corporate governance culture) can be implemented?
- 1.6.2.3 Is there an agreement or disagreement between staff and management on how well has corporate governance has been implemented throughout the organization?
- 1.6.2.4 Do respondents/participants demonstrate awareness of the implemented corporate governance programme(s) and existence of organizational culture that is supported by formalized ethics and values of the company?

1.7 LIMITATIONS TO THE STUDY

At the theoretical level, there are several limitations to this study worth noting.

The first relates to the sources of data. Interviews have several limitations because they offer data that has been filtered through the interviewee (Creswell, 1994). People know they are taking part in a research study and thus are responding in the role of "professional respondents."

The second limitation relating to Corporate Ethics and Values studies is that ethics and values may differ from person to person, situation to situation, company to company and lastly from country to country based on religion, culture and nationality. For example, the practice of accepting favors may be acceptable in one country whilst it may not be so in another country. This implies that no two countries or companies may have exactly the same corporate ethics and values and corporate cultures and consequently corporate governance

environment. Further, leadership roles differ from company to company and from situation to situation and different individuals will have different leadership qualities and attributes with the result that leadership styles will also differ significantly. This is also made even more complex as different countries and nationalities have different cultures and life experiences that further induce differences in leadership styles.

The third limitation of this study relates to the bias of the researcher, the role of perception and memory to recreate history, and the fact that the findings in the qualitative research study cannot be generalized.

At the practical level, there were also numerous challenges that were encountered in the execution of this research study. Limitations were mainly experienced in the data collection stage of the research study and can be categorized as follows:

- ❑ Access to information.
- ❑ Commitment of chosen Company to Human Capital Development in South Africa.
- ❑ Severe delay in receiving formal response to conduct research study.
- ❑ Subsequent and ultimate late refusal by HR Function to conduct research study.
- ❑ Possession of substantial data collected without actual theoretical permission.

Access To Information and/or Participants

The sector and the company identified for the purpose of conducting the research study in the topic of interest chosen, happen to be not in the sector and the company in which I'm employed. This posed a potential challenge in that

there was more likelihood that access to information and /or participants may not go smooth.

Thorough consideration of this showed that this might prove to be a serious limitation. This was proactively managed by soliciting commitment for support from some key senior individuals within the company. The support to be given was going to be in the form of coordination and dissemination of questionnaires and provision/supply of non-proprietary information available to the general public.

Commitment of Chosen Company to Human Capital Development in South Africa

The company chosen is reputed to be a very socially responsible company and for being a good corporate citizen in the area of Human Capital development, amongst many others. It is well known and very well spoken about as having assisted students from all walks of life with their dissertations in various study fields. Therefore, no problem was anticipated at all that the company concerned might not grant the requisite permission to conduct the research study.

Long Wait for Responses to Correspondence and Feedback

Generally, the waiting for responses to correspondence and/or communication (through written letters, e-mail correspondence, landline telephone and voicemail messages) with the company tended to be very long. This, ultimately resulted in almost a two months time lapse before the ultimate "in principle go ahead" was obtained for the research study. This "in principle go-ahead" was communicated telephonically and was supposed to have been followed by a written confirmation letter.

The telephonic “in principle go-ahead” was followed by an immediate dissemination of a number of questionnaires to various regions and provinces wherein the company’s operations are situated.

It was a day or two later, when I was contacted again and told that I should hold back the research data collection as certain issues needed to be cleared with the company’s HR Director/Function. This again took another week or two with the ultimate feedback being negative. The advice was that I should directly pursue this matter with the HR people, which I did.

Subsequent and Ultimate Late Refusal by HR Function to Conduct Research

Following my direct communication with the HR Director of the company, it took another almost 4 weeks for an ultimate refusal of permission to conduct research to be confirmed. This was after numerous messages, telephone calls and pleas. At one stage, a meeting with the company’s CEO was cancelled 15 minutes before the planned meeting time and only discovered a few days later that it was cancelled at the instance of the HR Function.

Reasons that were given for not granting permission varied from time to time and from person to person, some of which were stated as follows:

- “ I have to protect my company as it is being over-researched”. This was stated during a telephonic conversation.
- “The company has a policy not to assist outsiders with research studies”. This was in direct contradiction to an initial “in principle go ahead” given.
- “ This research study will take too much of our employees time and will affect our company’s productivity”
- “This research will take too much of our senior management time”. This was the latest and the last reason given for not granting permission.

It is important to indicate that the ultimate negative response from the company's HR was only communicated during the end of the 3rd week of September 2005. This was exactly a week before the first draft research report was due for submission.

In Possession of Actual Research Data Collected without the Company's Permission to Conduct research

During the whole lengthy process that transpired in the negotiations with the company in an attempt to obtain permission to conduct research in their company, research data was coming through from various participants who received the questionnaires distributed through to them shortly after the "in principle go-ahead" was received from the company secretary. A substantial amount of data had already been received by that time to facilitate the finalization of this research report. Some completed questionnaires were also still coming through in dribs and drabs during the first week of October. This posed a serious ethical challenge and needed some intervention to resolve this limitation, because of the following:

- A great deal of research work and writing of 3 chapters had already been done on the company, based on non-proprietary information available to the general public.
- Too much time had been lost as a result of delays experienced from company side and the incongruent messages from 2 senior officials of the company.
- The extent of research work done, time lost and the time of the year dictated that there was no way I could change that company to another one for the chosen research study as that was going to result in significant costs and pain on my side.

With this as a backdrop, there was more than adequate justification to pursue this matter and explore every possible avenue to resolve this matter with the company concerned in order to remove the limitation. The matter was then escalated to and taken up with the SBL for their intervention.

1.8 Chapter Conclusion

The purpose of this chapter was to give the reader some background information on the study and background information on the company used for the research. The problem statement, that forms the basis of this study was identified, defined and explained. The chapter also detailed challenges and obstacles experienced in the process of completing this research.

The following chapter will discuss the theories around corporate governance and various other subjects that are important in the successful implementation of corporate governance. Subjects such as corporate ethics and values, organizational culture, leadership and strategy are also discussed in linking them with the main focus.

CHAPTER 2

2. LITERATURE REVIEW

2.1 Corporate Governance

Corporate governance is about how companies are directed and controlled. "It is concerned with holding the balance between economic and social goals and between individual and communal goals. The aim is to align as nearly as possible the interests of individuals, corporations and society" (King, 2002).

It is becoming difficult for companies to account for profitability alone. In a report by an international institutional investor, while South Africa ranked among the top five 25 emerging markets in terms of corporate governance, it rated poorly in terms of disclosure and transparency. The minimalist approach to corporate governance adopted by many local companies needs to change. There is a move from the single to the triple-bottom-line, which embraces the economic, environmental and social aspects of a company's activities.

The King II Report on Corporate Governance, identifies what can be regarded as the seven characteristics of good corporate governance, viz:

- a. Discipline – being the commitment by a company's senior management to adhere to behaviour that is universally recognized and accepted to be correct and proper.

- b. Transparency – being the ease with which the outsider is able to make meaningful analysis of a company’s actions, its economic fundamentals and non-financial aspects pertinent to that business.
- c. Independence – the extent to which mechanisms have been put in place to minimize or avoid potential conflict of interest that may exist.
- d. Accountability – individuals or groups in a company, who make decisions and take actions on specific issues, need to be accountable for their decisions and actions.
- e. Responsibility – pertains to behavior that allows for corrective action and for penalizing mismanagement.
- f. Fairness – being a system within the company that allows for balance in taking into account all those that have an interest in the company and its future.
- g. Social Responsibility – being a well-managed company that will be aware of, and responds to, social issues, placing a high priority on ethical standards. It is a good corporate citizen who moves increasingly towards being non-discriminatory, non-exploitative, and responsible with regard to environmental and human rights issues.

According to the King Report, corporate governance is essentially about leadership that is characterized by and ensures the following:

- Efficiency – in order for companies to compete effectively in the global economy, and thereby create jobs.

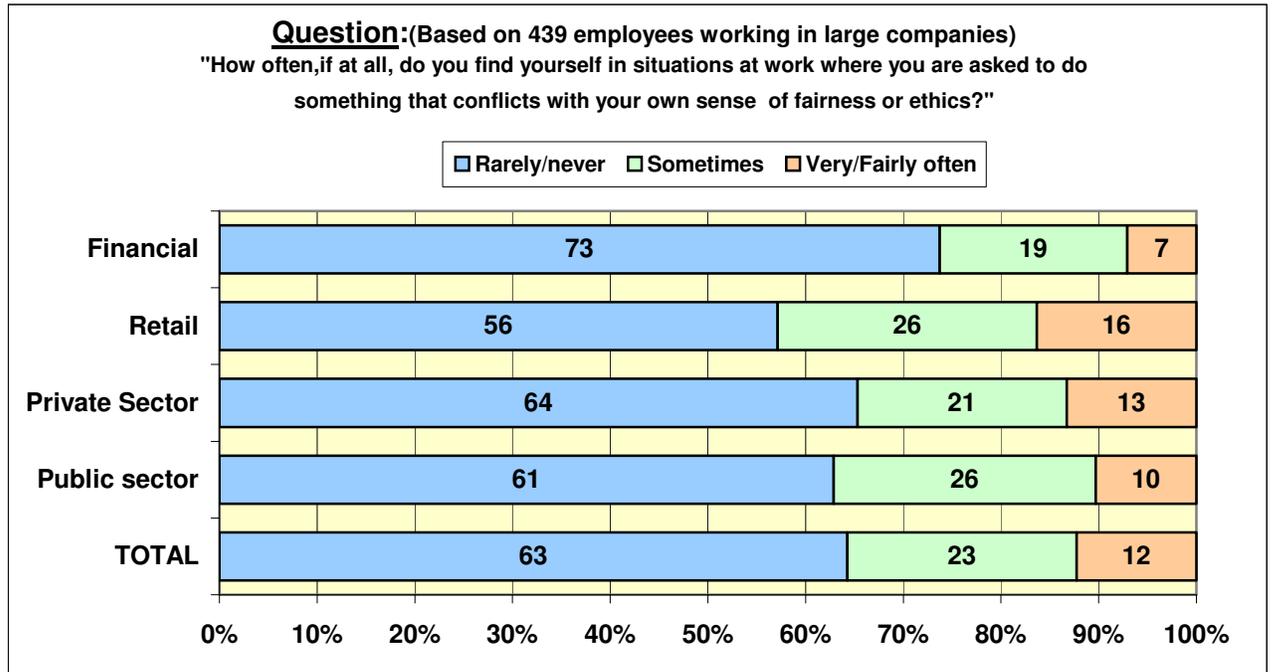
- Probity – because investors require confidence and assurance that management of a company will behave honestly and with integrity in regard to their shareowners and others.
- Responsibility – as companies are increasingly called upon to address legitimate social concerns relating to their activities.
- Transparency and accountability - because otherwise leaders will not be trusted.

The desired end-state of corporate governance climate of State Owned Enterprises like Eskom, is also governed by Protocol on Corporate Governance in the Public Sector and Public Finance and Management Act 1 of 1999, in addition to the King I and II code which are generally applicable to all companies.

The Protocol was first published in 1997 with the view to inculcating the principles of good corporate governance, in the State Owned Enterprises, as was contained in King Report I. The Protocol was later revised with the publication of King Report II, to reflect the government's intention that the principles of the protocol should apply to all public entities and their subsidiaries. The objectives of Public Finance and Management Act 1 of 1999 (as amended by Act 29 of 1999), was to secure transparency, accountability, sound management of revenue, expenditure, assets and liabilities of government entities.

According to Peters (2004), corporate governance comes down to relationships. It is about people interacting with other people. It is all about people interacting with products and technology and people interacting with systems. Governance at heart, is about human nature. The following figure shows the results of a survey conducted in the UK by PWC through MORI in 2004, in order to find out how employees feel about the way they work, what they are asked to do, and how their colleagues and bosses behave.

Figure 1. Conflicts with personal ethics is evenly spread



Source: European Business Forum, Issue 17, Spring (2004)

In essence, this survey unearthed seven myths of good governance, viz:

- ❑ We have an effective code of governance.
- ❑ We have an effective process of internal challenge.
- ❑ Anyone breaking our code of conduct is soon identified and dealt with.
- ❑ The majority plays by the rules.
- ❑ Lax ethical standards are prevalent in other business sectors – not ours.
- ❑ Compliance with the law equals job done.
- ❑ We understand what governance means.

Myth 1. "We have an effective code of governance"

Too many companies tout their governance codes as evidence that they are taking action, without attempting to measure either how well they are understood, or how effectively they have been implemented.

Myth2. “We have an effective process of internal change”

Many companies believe that a good governance system must be constructed around an appropriate level of challenge throughout an organization. Indeed, this ‘due process’ is often relied upon for effective risk management.

Myth 3. ‘Anyone breaking our code of conduct is soon identified and dealt with’

Many companies rely heavily on internal surveillance systems to identify wrongdoers – whether via the monitoring of e-mails, or through rigidly applied internal audit. Monitoring and enforcement account for by far the greatest proportion of rules and controls applied in respondents companies i.e. 45 % and 24% respectively.

Myth 4. ‘The majority play by the rules’

Notwithstanding the succession of high-profile examples to the contrary, companies still attempt to rescue themselves and their stakeholders with this fundamental belief in human nature. Touching as it may be, it ignores certain basic issues. How many employees have taken the time to investigate employee attitudes within the organization? Where does one draw the line between ethical and unethical behavior? And how institutionalized is wrongdoing – how many companies market their capabilities more liberally than they should and how many managers impose one rule on employees and another on themselves? The prognosis is clear – companies need to be much more rigorous about policing behavior within their organization and make sure that they are being seen to do so.

Myth 5. 'Lax ethical standards are prevalent in other business sectors – not ours'

Companies have a habit of pointing the finger elsewhere – claiming that, if problems do exist, they are unlikely to be in their own industry sector. Governance failures to date, however, have spanned a range of industries, from power to telecoms, and from financial services to foodstuffs.

Myth 6. 'Compliance with the law equals job done'

If company boardrooms are happy with their efforts, it appears that their employees are not. Ensuring that the code of conduct complies with mandatory regulation is important, but research shows that employees expect much more than that.

Myth 7. 'We understand what governance means'

Companies risk confusing compliance with good governance, and good governance with ethical behavior. To set boundaries for an organization, management has to understand what employees are comfortable and uncomfortable with in the course of their day-to-day duties. As already mentioned, around 35% of all employees sometimes find themselves in situations at work where they are expected to carry out duties that conflict with their sense of fair play. If employees think this is happening, it follows that management still has much to learn about governance.

European Business Forum (2004), points out that effective corporate governance programmes are generally underpinned by a combination of three mechanisms, which may vary from company to company. They are: enforcement, surveillance,

and advocacy. The **Figure 2** hereunder, provides a summary and an overview of these corporate governance mechanisms.

Figure 2. The Governance Framework

		Degrees of impropriety		
		Institutionalized Impropriety	Isolated Roguishness	Consistently Principled
Governance mechanisms	Advocacy	<ul style="list-style-type: none"> ▪ Encourage whistle-blowers 	<ul style="list-style-type: none"> ▪ Public Hangings for transgression ▪ Reward good behavior 	<ul style="list-style-type: none"> ▪ Clarify business case ▪ Communicate values ▪ Promote behaviors
	Monitoring	<ul style="list-style-type: none"> ▪ Monitor non-compliance ▪ Controls review 	<ul style="list-style-type: none"> ▪ Random deep-dive forensic investigation ▪ Monitor critical process 	<ul style="list-style-type: none"> ▪ Measurement ▪ Process improvement
	Enforcement	<ul style="list-style-type: none"> ▪ Penalize non-compliance ▪ Rigorous controls ▪ Segregation of duties 	<ul style="list-style-type: none"> ▪ Zero tolerance ▪ Independent auditing 	<ul style="list-style-type: none"> ▪ Self-verification ▪ Emphasize accountability

Source: European Business Forum, Issue 17, Spring (2004)

2.2 Corporate Ethics and Values and their Influence on Corporate Governance

Business ethics is concerned with good and bad or right and wrong behavior and practices that take place within the business context. Concepts of right and wrong are increasingly being interpreted today to include the more difficult and subtle questions of fairness, justice, and equity. Values are the individual's concepts of relative worth, utility, or importance of certain ideas. One's values, therefore, shapes one's ethics (Carroll & Buchholtz, 2003).

According to Joseph (2003), ethics – including business ethics – concern doing what is right and good, or a way of life that goes beyond the demands of the law and regulations. The role of ethics in public life is changing. In sectors of democratic society – the public sector, driven by the ballot; the private sector, driven by the market forces; and the nongovernmental sector, driven by voluntarism and the institution of civil society – ethics is assuming a new importance. Everywhere are signs of new moral consciousness, with people who strive to live morally insisting that their institutions do the same.

According to Landman (2002), Ethics are not an optional extra or a discretionary add-on to normal business. We do not first set up and manage a marketing function devoid of "ethics", only to consider adding "ethics" as an afterthought when we run into difficulties with misleading advertisements or irate customers. Another example is that we do not first develop a financial investment product and then ask whether it is ethical. The product itself, together with our disclosure or nondisclosure to the public, is in essence an ethical process. In short, ethics are woven into the fabric of the business. He identified five core concepts that capture the essence of ethics as:

- I. Values are standards for proper conduct. Whereas facts inform us about the way the world is, ethical values hold up ideals for our conduct – how our conduct should be. Basic ethical values are those of life, respect, integrity, honesty and truthfulness.
- II. Obligations – ethics concern discharging our duties and obligations to others. These may be specific because of relationships arrangements – for example, our specific obligations to identifiable others to honor promises or agreements, such as contracts. They may also be general because of considerations of well-being that apply to all – for example, our general ethical obligation not to harm others, whether customer or stranger.
- III. Rights – ethics involve rights that are claims or entitlements others hold in respect of something against us, and these may correspond with our obligations. If we contract to deliver a service, the client holds an ethical and legal right to that service against us.
- IV. Consequences – ethics are about making the world a better place through the consequences of our actions, practices and institutions. Business affects the well being of individuals and communities, and the ethics of consequences requires us to promote good consequences (benefit) and prevent, remove or reduce bad ones (harm).
- V. Character – we are not robots who mechanically or without emotion adopt values, discharge obligations, respect rights and promote good consequences. Being an ethical person means that what we do somehow matches who we are inside. Ideally, ethical actions flow from someone who is virtuous i.e. honorable and compassionate.

He continued to state that the above five concepts form the core of the “ethics of business”. They apply to all stakeholders, individually and collectively, from CEO to the most junior employee, as well as each business in all its functions and corporate SA.

2.3 Corporate Culture and its Influence on Corporate Governance

2.3.1 Corporate culture – what does it mean?

Thompson & Strickland (2003) argues that every company has a unique organizational culture. Each has its own business philosophy and principles, its own way of approaching problems and making decisions, its own work climate, its embedded patterns of “ how we do things around here”, its own lore (stories told over and over to illustrate company values and what they mean to stakeholders), its own taboo and political don’ts-in other words, its own ingrained beliefs, behavior and thought patterns, business practices, and personality that define its corporate culture. Yukl (2002) states that organizational culture is used to describe sacred values and beliefs of members about the activities of the organization and interpersonal relationships. Therefore, Corporate culture refers to a company’s values, beliefs, business principles, traditions, ways of operating, and internal work environment (Thompson & Strickland, 2003).

2.3.2 Where does corporate culture come from?

Thompson & Strickland (2003) stated that the taproot of corporate culture is the organization’s beliefs and philosophy about how its affairs ought to be conducted – the reasons why it does things the way it does. A company culture is manifested in:

- ❑ The values and the business principles that management preaches and practices;
- ❑ Its ethical standards and official policies;
- ❑ Its stakeholder relationships – being dealings with employees, unions, stockholders, vendors and the communities in which it operates;
- ❑ The traditions the company maintains;
- ❑ Its supervisory practices;
- ❑ Its employees' attitudes and behavior;
- ❑ The legends that people repeat about happenings in the organization;
- ❑ The peer pressures that exist;
- ❑ The organization's politics;
- ❑ And in the chemistry and the vibrations that permeate the work environment.

2.3.3 Strong versus Weak cultures

Thompson & Strickland (2003) mentioned that a company's culture can be strong and cohesive in the sense that the company conducts its business according to a clear and explicit set of principles and values, that management devotes considerable time to communicating these principles and values to organization members and explaining how they relate to its business environment, and that the values are shared widely across the company – by senior executives and rank-and-file employees alike. Strong cultured companies typically have creeds or values statements, and executives regularly stress the importance of using these values and principles as basis for decisions and actions taken throughout the organization.

The weak cultured company would do the exact opposite of a strong cultured company. A strong cultured company would be in a better position to effectively

implement good and sustainable corporate governance, mainly because of a conducive and well-cultured organizational environment.

2.3.4 Building Ethics into the Culture

Thompson & Strickland (2003) continued to argue that a strong corporate culture founded on ethical business principles and moral values is a vital driving force behind continued strategic success (e.g. implementation of a corporate governance programme). Many executives are convinced that a company must care about how it does its business, otherwise a company's reputation, and ultimately its performance, is put at risk.

They argue that corporate ethics and values programs are not window dressing, they are typically undertaken to create an environment of strongly held values and convictions and to make ethical conduct a way of life. Moral values and high ethical standards nurture the corporate culture in a very positive way – they connote integrity, “doing the right thing,” and genuine concern for stakeholders. Value statements serve as a cornerstone for culture building; a code of ethics serves as a cornerstone for developing a corporate conscience. Table 1 below, indicates the kinds of topics such statements cover.

Table 2. Topics Frequently Covered in Value Statements and Codes of Ethics

Topics covered in Values Statements	Topics covered in codes of Ethics
<ul style="list-style-type: none"> • Importance of customers and customer service. • Commitment to quality. • Commitment to innovation. • Respect for the individual employee and the duty the company has to employees. • Importance of honesty, Integrity, and ethical standards. • Duty to stockholders. • Duty to suppliers. • Corporate citizenship. • Importance of protecting the environment. 	<ul style="list-style-type: none"> • Honesty and observance of the law. • Conflict of interest. • Fairness in selling and marketing practices. • Using inside information and securities trading. • Supplier relationships and procurement practices. • Payments to obtain business/Foreign Corrupt Practices Act. • Acquiring and using information about others. • Political activities. • Use of company assets, resources, and property. • Protection of proprietary information. • Pricing, contracting, and billing.

Source: Thompson & Strickland (2003)

Companies establish values and ethical standards in a number of different ways. Tradition-steeped companies with a rich folklore rely heavily on word-of-mouth indoctrination and the power of tradition to instill values and enforce ethical conduct. But many companies today convey their values and codes of ethics to stakeholders and interested parties in/on:

- Their annual reports;
- Their websites;

- ❑ Documents provided to all employees.
- ❑ Orientation courses for employees, and;
- ❑ Refresher courses for managers.

The trend of making stakeholders aware of a company's commitment to ethical business conduct is partly attributable to greater management understanding of the role these statements play in culture building and partly attributable to a growing trend by consumers to search out "ethical" products, a greater emphasis on corporate social responsibilities by large investors, and increasing political and legal pressures on companies to behave ethically.

Thompson & Strickland (2003) contend that there is a considerable difference between saying the right things, through having well articulated corporate value statement or code of ethics, and truly managing a company in an ethical and socially responsible way. Companies that are truly committed to ethical conduct make ethical behavior a fundamental component of their corporate culture. They put a stake in the ground, explicitly stating what the company intends and expects. Values statements and codes of ethical conduct are used as benchmarks for judging both company policies and individual conduct. For example, the company's CEO as "the unifying force for our corporation" referred to Johnson & Johnson's Credo, one of the most publicized and celebrated codes of ethics among U.S. companies.

They point out that once values and ethical standards have been formally set forth, they must be institutionalized and ingrained in the company's policies, practices, and actual conduct. Implementing the values and codes of ethics entails several actions:

- ❑ Incorporating the statement of values and code of ethics into employee training and educational programmes.

- ❑ Explicit attention to values and ethics in recruiting and hiring to screen out applicants who do not exhibit compatible character traits.
- ❑ Communication of values and ethics code to all employees and explaining compliance procedures.
- ❑ Management involvement and oversight, from CEO down to first-line supervisors.
- ❑ Strong endorsement by CEO.
- ❑ Word-of-mouth indoctrination.

They conclude that in the case of codes of ethics, special attention must be given to sections of the company that are particularly vulnerable—procurement, sales, and political lobbying. Employees who deal with external parties are in ethically sensitive positions and often are drawn into compromising situations.

2.3.5 Structuring the Ethics Enforcement Process

Thompson & Strickland (2003) stated that procedures for enforcing ethical standards and handling potential violations have to be developed. The compliance effort must permeate the company, extending into every organizational unit. The attitudes, character, and work history of prospective employees must be scrutinized. Every employee must receive adequate training. Line managers at all levels must give serious and continuous attention to the task of explaining how the values and code apply in their areas. In addition, they must insist that the company values and ethical standards become the way of life. In general, instilling values and insisting on ethical conduct must be looked on as a continuous culture building and culture nurturing exercise. Whether the effort succeeds or fails depends largely on how well corporate values and ethical standards are visibly integrated into company policies, managerial practices, and actions at all levels.

2.4 The leadership and its Influence on Corporate Governance in State-Owned Enterprises

In any organization, good corporate governance is ultimately about effective leadership. An organization depends on its board to provide it with direction, and the directors need to understand what their leadership role entails. Furthermore, a great deal depends on the appropriate demarcation of the respective roles of the shareholder, the board and management (Khoza & Adam, 2005).

However, Khoza and Adam (2005) states that the concept of leadership is not always understood. It is not uncommon for leaders to think that they are leading, whilst they are actually managing. This results not only in ineffective leadership, but also in the disempowerment of managers. In the case of state-owned enterprises, this problem may be magnified: here one needs to consider the respective roles not only of the board and management, but also the role of government as shareholder. It is critical that there is an understanding by government, in its capacity as a shareholder, of its leadership role in directing and guiding the state-owned enterprise. The concept of a shareholder performance agreement can assist in clarifying the respective roles of the board and shareholder. However, the shareholder performance agreement must be informed by a framework or set of principles that guide the demarcation of the respective roles.

2.4.1 What is leadership?

Burns (2003) expressed his belief that leadership must meet certain standards. These include virtues (e.g. norms of sobriety, ethics, integrity and values), which encompass principles such as liberty and equality. Khoza & Adam (2005) state that if this analysis is taken to its logical conclusion, leadership must be

measured against the purpose, integrity and values of the vision or objective that is set by the leader. Furthermore, it should be sustainable. This means that the vision should be in the interests of the organization or community, ethical in intention and implementation, and developed in a consultative and transparent manner. This kind of leadership takes effort and genuine commitment. However, it is consistent with the principles of sustainability and corporate responsibility and is definitely the right kind of leadership for today.

Charlton (2002) quoted Richard Pascale and Sir Richard Simon – Chairman of British Petroleum in defining leadership, the definitions are as follows: “Leadership is making happen what wouldn’t happen anyway. This always entails working at the edge of what is acceptable” Richard Pascale. “The leadership involves both vision and current reality, identifying real strengths and weaknesses to determine present capacity and not rely on our illusions. Strategy should be simple, not easy.” Sir Richard Simon – Chairman of British Petroleum.

John Kotter, from Harvard Business School, points out that leadership can be learnt – if people are willing to pay the price of change. People tend to confuse leadership and management, hence Kotter points out to the difference in focus between leadership and management and the importance of the process of establishing direction, aligning people and continually motivating and inspiring people to implement strategy.

Khoza & Adam (2005) contend that, based on the above basis one would not say that the board of Enron demonstrated any significant sense of leadership in that company, perhaps ‘mislead’ is more appropriate. They argue that this is because the first essential ingredient for effective leadership is that it must be anchored in a framework of values underpinned by sustainability and accountability.

2.4.2 Leadership Styles

However, within the concept of leadership, Burns (2003:23) draws a distinction between transactional and transformational leadership.

He argues that transactional leadership is a feature of those leaders who are efficient at giving people something in return for their support or work. Transformational leadership characterizes those leaders who have vision and are able to take people along with them to achieve these ends. Not all leaders may be transformational leaders, but this does not mean that they cannot be successful. The circumstances in which they operate may require a transactional approach. The distinction between transformational and transactional leadership merely serves to highlight the fact that leaders need to use different types of leadership to achieve different goals. Covey (1992) has studied the habits, learned behaviors, values and attitudes of highly successful people through the centuries, which include: be proactive; begin with an end in mind; put first things first; think win/win; seek first to understand; then to be understood; synergize and sharpen the saw.

According to Khoza & Adam (2005), it is generally accepted that different leadership qualities and styles are informed by cultural and geographic differences. It is also clear that certain leadership characteristics are more common in certain parts of the world than in others. It is not unusual, therefore, to talk about a 'Western' or 'Japanese' leadership style, and to associate certain leadership qualities with a particular region or culture. In African communities and families, for example, leadership is underpinned by a value system based on interdependence and inclusivity. Because the corporate 'club' of South Africa could not see this type of leadership as being relevant to the cut and thrust of the corporate world, black South Africans entering corporate positions prior to

1990 had to conform to the prevailing approach. They were not given an opportunity to contribute their own experience of effective leadership.

They point out that today, however, good corporate governance practices all over the world recognize those very qualities of interdependence and exclusivity as being indispensable to effective leadership. Companies are encouraged to interact with all stakeholders, to be inclusive in their decision-making process, and to focus on issues that extend beyond financial performance. In recognizing the need for organizational sustainability, companies have realized that sustainability depends on economic, social and environmental performance – the triple bottom line, which is premised on a greater degree of interaction and communication with stakeholders, and the recognition of interdependence.

They conclude that a set of universal principles for effective leadership seems to be emerging in the corporate world that draws from the good qualities of all leadership of all leadership styles and is not confined to a particular region or culture. The steady march of globalization seems to support the objective of a universally accepted set of criteria and principles for leadership. However, national and regional differences cannot be ignored. They provide the context in which principles of universal leadership are applied.

2.4.3 Leadership Roles and their Influence on Corporate Governance of State-Owned Enterprises

The critical question here is what is the role to be played by various leaders in implementing good corporate governance in state-owned enterprises? The roles in question here is that of the government, as a shareholder, and that of the board of directors of a state-owned enterprise.

According to Khoza & Adam (2005) good corporate governance includes measures that enhance organizational integrity, transparency, and sustainable performance. If effective leadership underpins effective governance, it is imperative that the respective leadership roles required by the organization be understood so that they can be appropriately fulfilled.

They contend that one of the unique challenges facing state-owned enterprises is the clarification of the role of government as shareholder and the role of the board. This in turn needs to cascade down into the organization in order to achieving greater clarity with regard to the roles of the board in relation to the roles of management.

According to Yudelowitz (Business Day, 2005), Parastatal boards usually consist of those with a political agenda and businessmen as well as some technocrats. Each advocates a governance approach emanating from his own background, personal beliefs and style. In successful parastatals the players – the minister, the director-general, chairman and CEO – understand these complex dynamics and work with them while remaining conscious of their commercial, technical, social and political mandates.

To promote this the board must be a leadership team in its own right, tasked with integrating apparently different points of view, providing coherence and making judicious trade-offs. It must also provide a context and perspective of other key stakeholder interest, for example the voting public, who are indirectly the owners of the parastatal. It must integrate the defined mandate of the executive committee (often focused on managing the balance sheet and competing commercially) with all other stakeholder interests and hence must take responsibility for its own leadership. This is true of all boards but especially so of parastatals because of multitude of complex variables at play.

2.5 Strategic Management Approach in the Implementation of Corporate Governance Programmes

Thompson & Strickland (2003) pointed out that a company's strategy consists of the combination of competitive moves and business approaches that managers employ to please customers, compete successfully and achieve organizational goals. In relation to good corporate governance, the relevance of strategy would answer the question as to what the game plan is that has been adopted by the organizational leadership to stake out its position in the society, to conduct its business on the day-to-day basis, to compete successfully and to achieve the broader organizational goals in line with the triple-bottom line concept.

Thompson & Strickland (2003) state that crafting, implementing, and executing a strategy are top-priority managerial tasks for two of the following very big reasons:

First, there is a compelling need for managers to proactively shape how the company's business will be conducted. Without a strategy, managers have no prescription for doing business, no road map to competitive advantage, no game plan for pleasing customers or achieving good performance. Lack of consciously shaped strategy is a surefire for organizational drift, competitive mediocrity, internal wheel-spinning and lackluster results.

In order for good corporate governance climate to prevail on a sustainable basis in environment, it requires a conscious crafting of a strategy as to how it will be implemented in a way that is effective and that will affect the organization as a whole in terms of how it goes about doing its business and interacting and effecting all its stakeholders in a way that demonstrate good performance from triple-bottom line performance.

Second, there is an equally compelling need to mould the efforts and decisions of different divisions, departments, managers, and groups into a coordinated, compatible whole. All the actions taken in different parts of the business need to be mutually supportive.

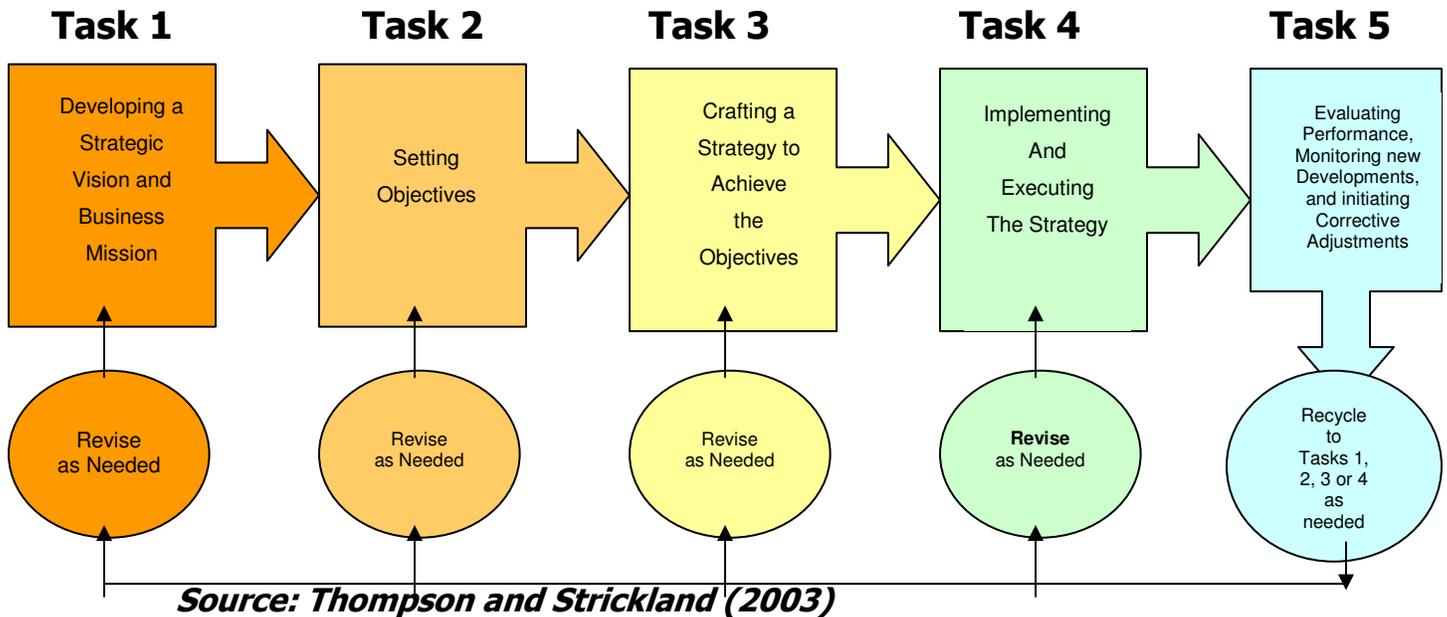
Good strategy and good strategy execution are the most trustworthy signs of good management. In the same breath, good management and/or leadership in a state-owned cannot be judged only on the basis of well designed corporate governance programme(s), a combination of well a designed governance programme and the effective implementation thereof can be said to be the most trustworthy measure of performance. The standards of good management rest to a very large extent on how well conceived the company's strategy is and how competently it is executed (Thompson & Strickland, 2003).

They pointed out that the strategy-making/strategy-implementing process consists of five interrelated managerial tasks:

- I. Forming a strategic vision of where the organization is headed – so as to provide long-term direction, delineate what kind of enterprise the company is trying to become, and infuse into the organization a sense of purposeful action.
- II. Setting objectives – converting the strategic vision into specific performance outcomes for the company to achieve.
- III. Crafting the strategy to achieve the desired outcomes.
- IV. Implementing and executing the chosen strategy efficiently and effectively.
- V. Evaluating performance and initiating corrective adjustments in vision, long-term direction

The above five tasks of strategic management can be summarized and depicted pictorially in diagram below:

Figure 3: The Five Tasks of Strategic Management



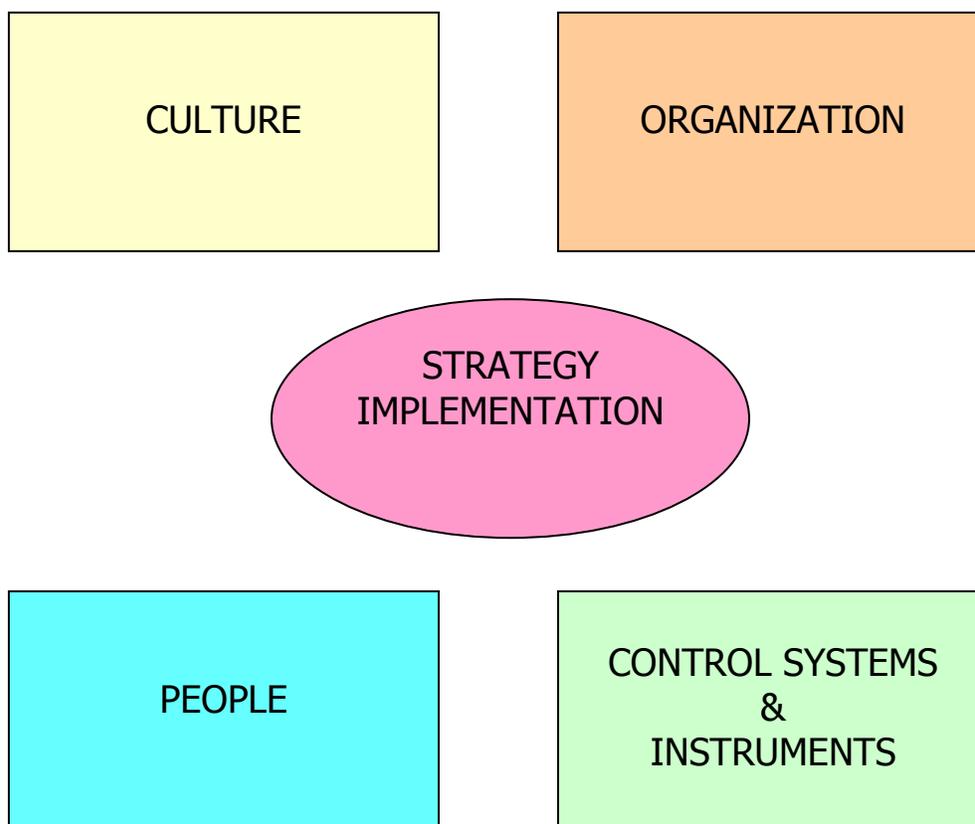
Based on **Figure 3**, the strategy-making/strategy –implementation process for bringing about a good corporate environment in a state-owned enterprise should also entail similar interrelated managerial tasks, namely:

- I. Definition of what type of an organization it wants to be in terms of corporate ethics, values and culture – all of which will in turn infuse the whole organization with a sense of purposeful actions.
- II. Translating its desired end-state into simple but meaningful performance outcomes for the company to achieve and to use as key performance indicators.

- III. Development of corporate governance programme(s) and relevant structures.
- IV. Implementation of corporate governance programme(s) and requisite structure for sustainability.
- V. Evaluating the adequacy and effectiveness of corporate governance programmes and related structures

2.6 Implementing Strategy

Figure 4: Traditional Strategy Implementation Concepts



Source: Strategic Management, Raps (2004)

Traditional strategy implementation concepts over-emphasize structural aspects, reducing the whole effort to an organizational exercise. Ideally, an implementation effort is a “no boundaries” set of activities that doesn’t concentrate on implications of only one component, such as the organizational structure. When implementing a new strategy, it’s dangerous to ignore the other components because strategy implementation requires an integrative point of view. You need to consider not only the organizational structure, but the soft facts as well – the cultural aspects and human resources perspective. Taking into account both the soft and hard facts (like turnover, operating profit, profitability ratios) ensures that cultural aspects and human resources perspective receive at least the same status as organizational aspects. Altogether, this integrative interpretation allows you to develop implementation activities that are realistic.

It might seem like strategy implementation is an insurmountable obstacle. It isn’t. But you should concentrate on four key success factors, which Figure 1 illustrates: culture, organization, people and control systems and instruments.

Each organization possesses its own culture, i.e., a system of shared beliefs and values. The corporate culture creates and, in turn, is created by the quality of the internal environment. Consequently, culture determines the extent of cooperation, degree of dedication, and depth of strategic thinking within an organization. An important element in this context is the motivation of the employees, which determines the potential and force for a significant change within the corporation’s system. Before change can occur, the organization and its cultural values have to be “unfrozen” to understand why dramatic change is even necessary. While the need for change may be apparent to the top executives, it isn’t always obvious to the rest of the organization.

Top management's principal challenge in the cultural context is to set the culture's tone, pace, and character – to see that it's conducive to the strategic changes that the executives are charged with implementing. When implementing strategy, the most important facet is top management's commitment to the strategic direction. In fact, this commitment is a prerequisite for strategy implementation, so top managers have to show their dedication to the effort. At the same time, this shows a positive sign for all affected employees.

One reason why strategy implementation processes frequently result in problems or even fail is that the assignments of responsibilities are unclear. Who's responsible for what? To add to this problem, responsibilities are diffused through numerous organizational units that tend to think in only their own department structures. That's why cross-functional relations are critical to an implementation effort. Bureaucracy makes this situation even more challenging and can make the whole implementation a disaster.

To avoid power struggles between departments and within hierarchies, you should create a plan with clear assignments of responsibilities regarding detailed implementation activities. Through this approach, responsibilities become evident, and you can avoid potential problems before they arise.

Human resources represent a valuable intangible asset, and recent research indicates that it is progressively becoming the key success factor within strategy implementation projects. In the past, one of the major reasons why strategy implementation efforts failed was that people were conspicuously absent from strategic planning. This just doesn't work. Employees have to be considered part of strategy implementation in general. Implementing strategic change requires the confidence, cooperation, and competencies of the organization's

technical and managerial people, so the continual development of a company's vital asset – human resources – is a very high priority.

Another priority is managing change. It's a great challenge to deal with potential barriers to change because implementation efforts often fail when you underestimate these barriers. Experience shows that barriers against the implementation of the strategy can lead to a complete breakdown of the strategy.

These barriers are psychological issues, ranging from delay to outright rejection, and companies need to pay more attention to them. After all, strategy implementation consists mostly of psychological aspects, so by changing the way employees view and practice strategy implementation, senior executives can effectively transform change barriers into gateways for a successful execution.

Since change is part of the daily life within an organization, you need to emphasize communication regarding the changes to push the implementation process forward.

An essential question for managers is how to assess performance during and after the implementation. This assessment or control function is a key aspect of the implementation processes.

In order to provide top management with reasonable assurance that strategic initiatives can be executed and are, indeed, being implemented as intended, a control system is required to develop and provide the necessary information. Such a control system focuses on critical issues.

To facilitate the implementation in general, you should use tools to support the processes adequately. There are two implementation instruments that can help here: the balanced scorecard (BSC) and supportive software solutions.

A popular and prevalent management system, the BSC considers financial as well as non-financial measure to translate a company's strategic objectives into a coherent set of performance measures. When it comes to meeting the criteria of a strategy-implementation instrument, it is an excellent fit. The individual character of each balanced scorecard ensures that the company's strategic objectives are linked to adequate operative measures. As a consequence, it provides even more than a controlling instrument for the implementation process – it offers a comprehensive management system that supports the steering of the process.

A strategic planning system can't achieve its full potential until it's integrated with other control systems like budgets, information, and reward systems. The balanced scorecard provides a frame to integrate the pieces of the strategic planning initiative and meets the requirements that the strategic planning system itself can display. It is worth the effort.

An efficient strategy implementation has an enormous impact on a company's success. Basically, a well-formulated strategy can only generate a sustainable added value for the company if it is implemented successfully, so regardless of the intrinsic merit of a particular strategy, it can't succeed if an effective implementation procedure is missing. Therefore, the four key success factors can serve as a guide, namely:

- Culture;
- Organization;
- People;
- Control systems and instruments.

2.7 Linking Strategy with Ethics and Social Responsibility

Strategy ought to be ethical. It should involve rightful actions, not wrongful ones otherwise it won't pass the test of moral scrutiny. This means more than conforming to what is legal. Ethical and moral standards go beyond the law and the language of "thou shall not". They address the issue of duty and the language of "should do and should not do." Ethics concern duty and the principles upon which duty rests. Every business has an ethical duty to each of the five constituencies: owners/shareholders, employees, customers, suppliers, and the community at large. Each of these constituencies affects the organization and is affected by it, as follows:

- A company has a duty to owners/shareholders, who rightly expect a return on their investment. Even though investors may individually differ in their preferences for profits now versus profits later, their tolerances for greater risk, and their enthusiasm for exercising social responsibility, business executives have a moral duty to pursue profitable management of the owners' investment. Hence, shareholder activism is gaining momentum in the business world today.
- A company's duty to employees arises out of respect for the worth and dignity of individuals who devote their energies to the business and who depend on the business for their economic well being. Principled strategy making requires that employee –related decisions be made equitably and compassionately, with concern for due process and for impact that strategic change has on employees' lives. At best, the chosen strategy promote employee interests as concerns compensation, career opportunities, job security, and overall working conditions. At worst, the chosen strategy should not disadvantage employees.

- The duty to the customer arises out of expectations that attend to the purchasing of a good or service. Inadequate appreciation of this duty leads to product liability laws and a host of regulatory agencies to protect consumers.

- A company's ethical duty to suppliers arises out of the market relationship that exists between them. They are both partners and adversaries. They are partners in the sense that quality of suppliers affects the quality of a firm's own product and in the sense that their business are connected. They are adversaries in the sense that the supplier wants the highest price and profit he can get while the buyer wants a cheaper price, better quality, and speedier service.

- A company's ethical duty to the community at large stems from its status as a member of the community and as an institution of the society. Communities and society are reasonable in expecting business to be good citizens – to pay their fair share of taxes for fire and police protection, waste removal, streets and highways, and so on, and to exercise care in the impact their activities have on the environment, on society, and on communities in which they operate.

2.8 Chapter Conclusion

Based on what the writer deemed relevant literature and the writer's view of the facts presented on the corporate governance study and other disciplines linked to the subject, the foundation of the research has been set.

The following chapter will identify relevant research methodology to be used in establishing how successful Eskom was in the implementation of corporate governance based on the foundation of formalized corporate ethics and values programmes.

CHAPTER 3

3. RESEARCH METHODOLOGY

The research will be conducted at various geographical and regional locations where Eskom operates. The reason why this organization was chosen is because it has gone through various processes and interventions of corporate governance implementation based on the foundation of formalized corporate ethics and values programmes that spanned across various structures and levels of the organization.

Research Design

Strauss and Corbin (1990) defined qualitative research as any kind of research that produces findings not arrived at by means of statistical procedures or other means of quantification. In addition, the authors indicated that the analysis in this type of research is a qualitative one that involves a nonmathematical analytic procedure that results in findings derived from data gathered by a variety of means. Qualitative research assumes that there are multiple realities that the world is not an objective thing out there but a function of personal interaction and perception. It is a highly subjective phenomenon in need of interpreting rather than measuring. Beliefs rather than facts form the basis of perception. Research is exploratory, inductive, and emphasizes processes rather than ends.

According to Creswell (1994), the quantitative research approach takes scientific explanation to be nomothetic (i.e. based on universal laws). Its main aims are to

objectively measure the social world, to test hypothesis and to predict and control human behavior.

A qualitative study is therefore defined as an enquiry into social problems based on testing a theory composed of variables, measured with numbers and analyzed with statistical procedures in order to determine whether the predictive generalization of the theory holds true. Data are obtained in a systematic manner. Results appear in a numeric form and are eventually reported in statistical language. The methods utilize deductive logic.

In the light of the above therefore, the design of this study will be a combination of qualitative and quantitative research in nature. The data collection will be multifaceted using archival, secondary materials, interviews (telephonic and/or face-to-face) with and through dissemination of questionnaires to key leaders, followers and various other stakeholders. The questionnaires will be designed such that the information gathered will open a window of the company's corporate governance experiences as a case study over a 10-year period, from 1994 to 2004, focusing on critical incidents and turning points. According to Creswell (1998), a case study can be regarded as an exploration or in-depth analysis of a "bounded system" or a single or multiple cases, over a period of time.

Sample Selection

Sarantakos (2000:139) states "the major reason for sampling is feasibility". A complete coverage of the total population is seldom possible, and all the members of the population interest cannot possible be reached. If it was theoretically possible to identify contact and study the entire relevant population,

time and cost considerations usually make this prohibitive undertaking. Newman (2003) cite the following factors which influence the size of the sample:

- Heterogeneity of the population;
- The desired degree of accuracy;
- The type of sample;
- The availability of resources; and
- The number of variables in which the data is grouped.

For the purpose of this study, a purposive sample of 15 participants will be randomly selected. This will be made up of 5 special participants (**Category A**) made up of a representative of the Department of Public Enterprises (DPE), Chairman of the Board, Group CEO, company Secretary and Senior Union representative. The remaining balance of 10 participants (**Category B**) will be randomly selected from various levels of management, being executive, senior and middle managers. This research design will also employ the technique of interviewing a convenience sample of 20 randomly selected employees, ranging from general to supervisory level workers.

Research Instruments

Individuals will be interviewed for the qualitative section of the study to substantiate the findings obtained from the secondary data. Interviews will be based on a formulated standard questionnaire, per attached **Annexure A and B**, which will be used as follows:

- **Annexure A**, being an open-ended questionnaire - to be used to collect data from a **purposive sample Category A**. The targeted participants here being a representative from Department of Public Enterprises, Chairman of the Board, Group CEO, Company secretary a Senior Union representative.

- **Annexure B**, being an open-ended questionnaire – to be used to collect data from a **purposive sample Category B**. The targeted participants here being Senior to Executive management employees.

Questionnaires will be e-mailed for the quantitative section of the study to cover the broad geographical and regional centers of Eskom. These questionnaires, per **Annexure C**, are structured closed-ended questions that will be used to collect data from a randomly selected convenience sample. The targeted participants here are company's employees spanning across general workers, technical, engineering, professional and up to middle management level staff cutting across various functional areas and geographical locations of the company's operations.

Data Collection/Generation

Straus & Corbin (1990:23) stated that: "Consistent with the principles of grounded theory development, theory will be discovered, developed, and provisionally verified through systematic data collection pertaining to the phenomenon". Various methods of data collection will be used, such as case study research, life history, and open-ended and guided interviews, open-ended and closed-ended questionnaires. A multiple longitudinal case research design will be used to collect data at the organizational level (Yin, 1989; Eisenhardt, 1989). Case studies are the preferred strategy because the key research questions of the study are the "what" and "how" of leadership and organizational change pertaining to corporate governance in South African SOE. Furthermore, Yin (1989) argues that the case method is appropriate when the investigator has little control over events, and when the focus is on a contemporary phenomenon within some real-life context.

The data collection for the case will follow the traditional approach using archival material, materials from media, documents, and artifacts. The key goal is to capture corporate governance changes that occurred, change processes that were followed, and how those corporate governance changes impacted on the organization. While source materials for the case will provide essential facts and information about the organization, it may not provide in-depth information on the corporate governance, change processes and the role and actions of leadership, both at management and at board of directors level. This information will be augmented by semi-structured interviews with the relevant role-players, especially those affected by the changes (i.e. multiple informants). The preferred notion is that of the fact that leadership does not exist separate to follower perceptions. Thus, it will be important to include the perceptions of employees, across the spectrum.

Secondary data will also be used and this will be sourced from the organization's archives e.g. written documents such as books, notices, correspondence, published documents and annual reports. External sources such as the Internet and Indexes will also be used in explaining the process of Eskom's organizational ethics programme and corporate governance implementation process. The accuracy of the documents will be substantiated when primary data is obtained through interviews.

Ethical Issues

At A Theoretical Level

Social research constitutes an intrusion into people's or organizational lives. Certain research requires that people or organizations reveal personal or privileged information that is unknown to their friends and associates and/or the general public. This is the case with this study to be conducted and the level of

confidentiality needs to be maintained. These confidentiality issues may serve as an obstacle to solving the research problem, because to do this requires that as much as possible information be disclosed. The researcher would therefore have to guarantee the protection of information of all individuals who will participate in the study while ensuring that enough information is exposed to enable resolution of research phenomena.

To ensure that ethical aspects are not violated, the following was done at two levels:

- **At Eskom company level** – written request will be forwarded to the company secretary in order to obtain informed consent to conduct the research study in the company. The letter will provide an overview of the purpose of the study and research methodology (**see Annexure E**). Copies of all questionnaires will also be annexed to the letter for information purposes.

- **At individual participant level** – written information about the research will be given to participants in order to obtain informed consent. The informed consent will be based on having provided a full explanation about the research and the confirmation that the anonymity and confidentiality of participants will be preserved.

At A Practical Level

A major ethical dilemma and glitch was encountered when, whilst I was already in possession of substantial research data collected on the company, the company's HR Function communicated an ultimate refusal not to use their company for research study purposes. This decision was contrary to a prior "in principle go-ahead" decision given by the company secretary.

This dilemma was discussed with an outgoing chairperson of the company who advised that the Business School formally take up the matter with the company. The dilemma was also discussed with my research study supervisor for assistance and guidance. He then advised me to go ahead with the data analysis and interpretation, on the assumption that the matter will be resolved. The matter was then escalated to the business school in order to be taken up at a different level with Eskom.

Chapter Conclusion

This chapter presented the research methodology structure and process that has been followed by the researcher. Multiple methods of data collection were used, hence the combined method drawing on both qualitative and quantitative data-collection procedures (survey and in-depth interviews).

The ethical challenges encountered with the company being researched were also highlighted in this chapter. Research instruments used in the research were in the form of interviews and questionnaires.

The following chapter will investigate, analyze and interpret the results.

CHAPTER 4

4. RESEARCH RESULTS AND ANALYSIS

DATA GATHERED AND CODING

After data (obtained through interviews, informal conversations, interviewer's observation and reflective notes) has been gathered, it will be coded using and conclusions will be drawn through noting patterns and themes and making comparison and contrasts. The product from this research will be a comprehensive case study of corporate ethics and values programme and corporate governance implementation process in Eskom. In addition to a theoretical understanding of the importance of corporate ethics and values and their linkage and importance to good corporate governance, the resulting comprehensive case study can be used for educational purposes especially in the areas of leadership development and change management.

PRINCIPLES IN DATA ANALYSIS

Unlike statistical analyses of questionnaire data, there are few mathematical formulas or cookbook recipes to guide the analysis of complex case study. The ultimate goal is to treat the data fairly, to produce compelling analytic conclusions, and to rule out alternate interpretations. The overall data analysis approach will be dynamic and not static.

The analytical methodology will focus on two approaches of analyzing data,
Which approaches are

Qualitative Analysis

The responses from the Purposive Samples Category A and B participants will be categorized into different themes. The general themes have been identified as follows:

- The importance of corporate ethics and values on corporate governance.
- The importance of organizational culture on corporate governance.
- The leadership role in the implementation of corporate governance process.
- The importance of employees' behaviors and attitudes in the implementation of corporate governance.
- The importance of a strategic approach in the implementation of corporate governance.

Quantitative Analysis

The mathematical and statistical measurement will be used to identify and test the hypotheses as identified in chapter 1 (1.7)

The analytical methodology applicable to both methods will be iterative, replicative, and triangular. In this study, data collection will be an incremental process. Hence, there will be alternation between data collection, preliminary theorizing, and follow-up with new lines of questioning in various stages of the research. All of the interview data (including the life history interviews) will be tape recorded and transcribed with the consent of the interviewees. The outcome of this process will be a detailed case study of the changes in Corporate Governance climate as result of the Ethics and Values Programme(s) initiated by Eskom from 1994 to date.

DATA COLLECTED, ANALYSIS AND INTERPRETATION

The table below presents a snapshot analysis of the nature and the extent of responses per sample categories and overall sample size of participants. The consolidated response rate from participants is as follows:

Table 3.: ANALYSIS OF PARTICIPANTS' RESPONSES

Sample Description	Target sample size	No of Questionnaires Sent out	ANALYSIS OF PARTICIPANTS RESPONSES				Total of actual Participation	Actual Participation as % of Target Sample
			Questionnaire Responses	Personal Interview	Telephone Interview	News Paper Article		
Category A Purposive Sample	5	5	1	1	1	1	4	80%
Category B Purposive Sample	10	10	5	-	-	-	5	50%
Convenience Sample	20	35	25	-	-	-	25	125%
Total	35	45	31	1	1	1	34	97%

Interpretation: Analysis Of Participants' Responses

Purposive Sample

- Category A – The actual participation of 4 against the sample targeted participants of 5, resulting in 80% response rate in this category.
- Category B – The actual participation of 5 against the sample targeted participants of 10, resulting in 50% response rate in this category.

Convenience Sample

- Category C – The actual participation of 25 against the sample targeted participation of 20, resulting in 125% participation.

Overall Participation

The overall actual participation is 34 against the overall sample size targeted participation of 35, translating into 97% overall participation. The researcher deems this outcome satisfactory for the purposes of this research study.

4.3.1 Data Gathered From A Purposive Sample (Category A Participants)

This data has been collected through an open-ended questionnaire marked as **Annexure A**. This was the case with three respondents out of the four indicated below. Data from the fourth respondent was collected through a newspaper article. There, the four respondents identified below have been code named as follows:

- Representative from the Department of Public Enterprises responsible for governance of SOE's = **Respondent X1**
- Outgoing Chairman of Eskom Board and co-author of Book, The Power of Governance by Khoza & Adam = **Respondent X2**
- Chief Executive Officer = **Respondent X3**
- Mr. Mohamed Adam, co-author of the book, The Power of Governance by Khoza & Adam = **Respondent X4**

Respondent X1.

- 1. How would you describe the leadership roles and possible influence thereof on corporate governance of state-owned enterprise of the:**

- 1.1 Shareholder (DPE)**

The role of the shareholder is that of oversight over the affairs of the SOE and to ensure proper governance.

- 1.2 Board of Directors**

No comment.

- 1.3 Management**

No comment.

- 2. From a strategic leadership and management perspective, what would you say are the most important considerations for SOEs that would ensure effective implementation and sustainable corporate governance?**

- Compliance with legislation and corporate governance guidelines.
- Certainty on what the shareholder's expectations are of SOE's.

General Comments

The role of the shareholder is somewhat different from the role of the conventional shareholders within the private sector in that government would like to see SOE's playing a defined developmental and economic role in the country.

Respondent X2.

Data from this respondent was collected through a face-to-face interview, which was also tape recorded and is available on request.

1. How would you describe the leadership roles and possible influence thereof on corporate governance of state-owned enterprise of the:

1.1 Shareholder (DPE)

The role of the government, as a shareholder, is not like that of a typical shareholder in a private company. Whilst a typical shareholder is only concerned within their own self-interest on one hand, the state has to satisfy a number of stakeholders on the other hand. The state has to make sure that:

- Employees are happy
- Consumers are happy
- Historically polarized are happy
- Previously disadvantaged are happy
- And the fears of those that are previously advantaged are catered for

The government has to make sure that the conflict interest and aspirations of various stakeholders are balanced and reasonably catered for, for socio-economical and developmental purposes.

1.2 Board of Directors

The role of the board is compounded by many other conflicting demands in the form of King II, Company's Act, PFMA and various other applicable Acts. The board has to make sure that:

- The dictates of various acts are complied with.
- Corporate governance codes and principles are upheld.

- Requirements and/or expectations of government as government are met/fulfilled.
- Requirements and/or expectations of government, as government and not as shareholder, are met/fulfilled.

The board is supposed to be exemplary in their leadership role as far as the manner in which an SOE is directed and controlled. The board has to provide direction and leadership in the SOE, fulfilling the social developmental responsibility on behalf of the government. In the case of Eskom, this social development role is put simply as "thou shall electrify as soon as possible". This then is some form of "social tax" over and above the "normal tax" on profit generated.

The board has the role of balancing the conflicting demands by gaining comprehensive and balanced understanding of the macro environmental issues to be balanced to micro environmental issues of the enterprise. It has to tug the war between the privileged and the historically excluded without making the one group happy at the expense of the other.

The board also has a major role of providing the transformational leadership by doing the following:

- Development of the clear vision of the organization
- Define reason for the organization's existence (i.e. purpose in life). For example, Eskom's purpose is to provide electricity – which is an activity. The real purpose of purpose of Eskom is to catalyze social-economical development.

1.3 **Management**

The role of management is a simple one. It follows from the board having set a direction and destination for the SOE, then management has to:

- Come up with a strategic plan as to how the company is going to get to the

set destination.

- Provide the transactional leadership in ensuring implementation of strategic imperatives. This will entail adherence to the imperatives of running a good business.
- Ensure that “quid-pro-quo” principles are lived up to and practiced throughout the organization.
 - Rewards for good performance
 - Consequences for non-performance

2. From a strategic leadership and management perspective, what would you say are the most important considerations for SOEs that would ensure effective implementation and sustainable corporate governance?

Effective implementation of a corporate governance regime that is sustainable can be attained in a SOE, by following a strategic leadership that ensures the following:

- Balancing the views of the various forces and their conflicting demands.
- Organization to develop a clear vision.
- To always engage various stakeholders and to obtain their buy-in on various initiatives towards attainment of goals and objectives.
- To define the organization’s reason for existence (i.e. purpose in life). For example using Eskom as an example, “supplying electricity” could be seen as just an activity whilst the real purpose could be “to catalyze development”.
- To come up with a plan towards achieving the real purpose.
- To adhere to the imperatives of running a good business.

In conclusion, the combined role of the government (shareholder), the board and management is to ensure that the SOE is “living both the current and the prospective life”.

Respondent X3.

Data was gathered per newspaper article dated 1 May 2005, refer to **Annexure D**, due to a limitation of not being able to access this respondent.

According to Gcabashe, for most state-owned enterprises, there is a challenge to manage the complex relationship between government as a shareholder and the board of directors of the enterprise. There has to be a balance between Government's need to pursue critical public interest programmes and the business imperative to achieve excellent performance within such an enterprise.

1. How would you describe the leadership roles and possible influence thereof on corporate governance of state-owned enterprise of the:

1.1 Shareholder (DPE)

The role of the shareholder, being the government of South Africa, is to ensure that state-owned enterprises are efficient, well run and in a position to deliver on government's mandate. The governments' mandate, amongst many other key issues, is to:

- Ensure reconstruction and transformation of South Africa
- Ensure economic development of South Africa
- Direct investment in order to create a more equitable society
- Provide the infrastructure required to stimulate economic growth
- To provide and articulate a clear written mandate (shareholder's compact) that sets out expected deliverables with clear targets.

1.2 Board of Directors

According to Gcabashe, corporate governance is not a “magic wand” that will solve all problems. That is more so if there is no clear objective and mandate. The board therefore has to ensure that:

- An SOE is properly directed and controlled by management.
- Management is provided with good leadership and support.
- The desired standards, goals are set and access to new possibilities is provided.

1.3 Management

- The challenge is to establish good corporate governance that is transparent, devoid of corruption and that is in line with the globalizing environment.
- To have a benchmark of standards against which its company would measure itself.
- To improve efficiencies.
- To meet public mandate on behalf of the shareholder as the government.
- To contribute towards the reconstruction, transformation and development of both the society and the economy.

To manage the complex relationship between government as the shareholder and the board of directors of the enterprise.

2. From a strategic leadership and management perspective, what would you say are the most important considerations for SOE's that would ensure effective implementation and sustainable corporate governance?

For most state-owned enterprises there is a challenge to manage the complex relationship between Government as a shareholder and the board of directors of the enterprise. There has to be a balance between the Government's need to pursue

critical public interest programmes and the business imperative to achieve excellent performance within such enterprises. At an interval level, the challenge is to establish good corporate governance that is transparent, devoid of corruption and that is in line with the globalizing environment.

Of course, good leadership is critical in this environment, particularly with all the new developments that are in progress on our continent and the challenges we face on our path. But such good leadership has to be complemented by an enabling environment that sets desired standards, goals and access to new possibilities.

Respondent X4.

This respondent was telephonically interviewed on 10 October 2005 as face-to-face interview was not feasible due to his extremely tight schedule. Whilst this respondent is an employee the company which was the subject matter of this research study, the respondent was however interviewed in his capacity as the an authoritative figure and an author of the book in the subject of corporate governance in the SOE's.

- 1. How would you describe the leadership roles and possible influence thereof on corporate governance of state-owned enterprise of the:**

1.1 **Shareholder (DPE)**

This shareholder, being the government at the same time, is a very unique shareholder. This is so in that, unlike the typical and traditional shareholder in the private sector scenario, it is interested in a broad range of issues over and above the bottom line. This is achieved in the following manner:

- It would like to always direct where the organization is going.
- Provide the mandate, the shareholder compact, for the SOE.
- Allows the Board of Directors to do its job without interfering or impeding its ability to lead.

1.2 **Board of Directors**

The foundation of the leadership role of the BOD, is based on the defined mandate given by the shareholder. The BOD's role evolves around the following:

- To ensure that the SOE is run effectively, efficiently and economically in meeting shareholder set and agreed upon objectives.
- To act in best interest of the SOE, taking into account the interest of the shareholder and the government.
- To exercise leadership, unlike the BOD in the private sector, in the way that views and ideas can be shared and consulted to inform the strategies and objectives of the SOE.

1.3 **Management**

The role of management is mainly to implement the objectives set and agreed to by the BOD and the shareholder. This is to be achieved through effective and efficient running of the SOE. Management plays an important day-to-day support and leadership role, on behalf of the BOD, in seeing to it that the organization is steered towards the set goals and objectives.

2. From a strategic leadership and management perspective, what would you say are the most important considerations for SOEs that would ensure effective implementation and sustainable corporate governance?

- I. Effective leadership, through the following:
 - ❑ Clear mandate to the BOD and clarity of roles
 - ❑ Allow management to exercise their leadership role in working out and achieving the mandate.
- II. Effective implementation of the Institutional Framework that avoids the creation of erratic leadership dynamics and unstable leadership space. This means that the Institutional framework must be very stable and consistent wherein the BOD and even management are empowered to deal with issues without interference.
- III. Implementation of King II by management, in the following manner:
 - ❑ Making it a priority for the organization and setting the right tone at the top (i.e. leading by example by all at leadership positions)
 - ❑ Communicating how and why it is important all the time so that this becomes the vocabulary of the organization.
 - ❑ Setting out corporate governance systems and mechanisms that are simple and that continuously monitor and review the environment and climate.
 - ❑ Organization to see how transgressions are dealt with.

Interpretation and Consolidation of Findings from Respondents X1 to X4

The data collected, principles and views articulated by respondents X1 to X4, nicely fit in a value chain strategic frame and model. Therefore, using the value

chain model, the findings can be summarized as reflected in Figure 5 shown below.

In summary, the result of putting together all the respondents' views is a corporate governance value chain model. This model is premised on the importance of the leadership roles of the government, as shareholder, and the Board of Directors. These two roles are crucial at the input point of the value chain. They are ingredients that will have a "make or break effect" at the process stage of the value chain wherein managements role is to ensure smooth, efficient and effective blending of all other corporate governance ingredients. These are just add-ons to what the supposedly good frame already determined by the government and the Board.

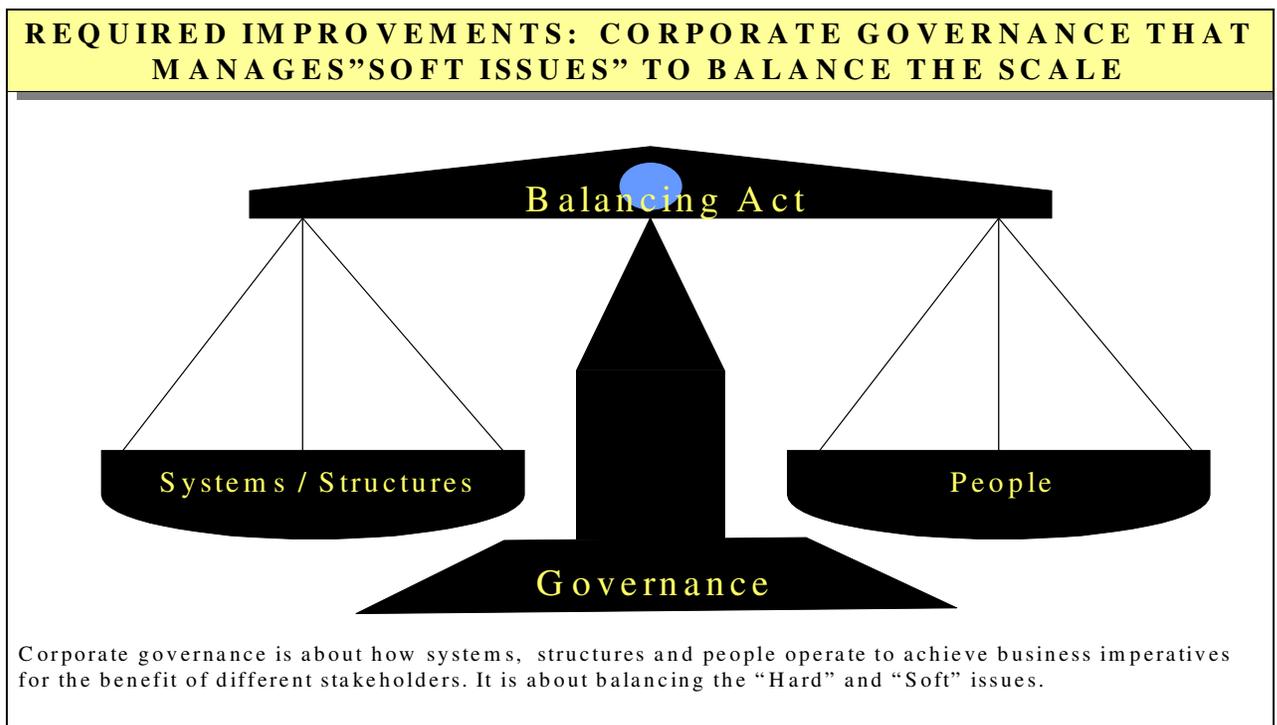
The concept and the principle of "garbage-in and out-out" applies to all the ingredients fed into the value chain at the input stage (by government and the BOD) and what is added at the process stage by management. Management's role is crucial and challenging in not only dealing with the "hard issues" of systems, policies, processes and procedures, etc but even more so in addressing the "soft issues" – see **Figure 5** below. Soft issues are more difficult to deal with as they are intangible and have no physical substance. These issues are determined largely by the organizational culture, which as has been established through theory and feedback from various participants, is determined by corporate ethics and values. Thus, this seems to provide a basis to deduce that implementation of effective corporate governance is highly dependent on the state of company's corporate ethics and values upon which organizational culture is also dependent.

therefore, the quality of output or value package at the end point, is a function of effective corporate governance which is a direct result of the state of "practiced and lived" corporate ethics and values.

One of the respondents emphasized the challenge of establishing good corporate governance that is transparent, devoid of corruption and which is in line with the globalizing environment. The measure of transparency is based on the accuracy and timely manner in which the information at hand is available. The practice of transparency in a company makes it easier for stakeholders to trust accuracy of the company's reports and to accept management's view of the company's future prospects. Transparency heightens confidence in organizations and builds trust. The corporate governance transparency, it indeed helps counter unethical practices and behaviour.

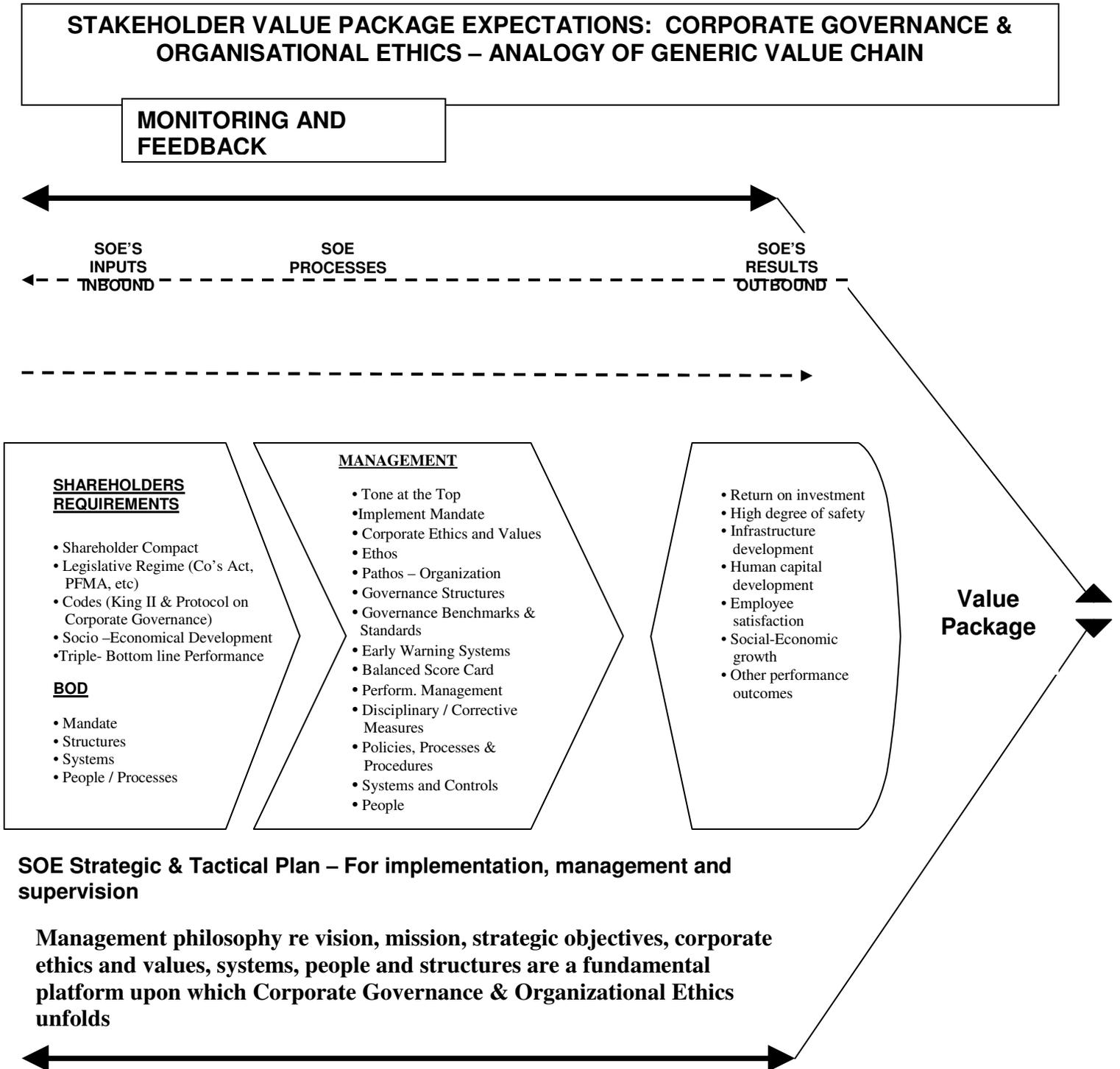
The common factor in the corporate governance value chain is leadership. Thus, It can be deduced that, the poorer the quality of leadership, the poorer the corporate governance value chain.

Figure 5: Corporate Governance - Balancing "Hard Issues" and "Soft Issues"



Source: Developed by Bonga Mokoena (Transnet, 2003)

Figure 6: Corporate Governance Value Chain



Source: Grant (2001) modified by Bonga Mokoena (2005)

4.3.2 Data Gathered from Purposive Sample (Category B Participants)

This data has been collected through the open-ended questionnaire marked as **Annexure B**. Question number 1. to question number 9., will be abbreviated and coded as **Q1** to **Q9**. The following respondents will be code named as follows:

- **R1** = Respondent number1
- **R2** = Respondent number2
- **R3** = Respondent number3
- **R4** = Respondent number4
- **R5** = Respondent number5

Data collected from Respondent number1 (R1)

Question 1.

Eskom supported both King Reports and is committed to good corporate governance practices. Eskom subscribes to the King Report recommendations. Compliance with legislation is a minimum ethical requirement of our organization. Eskom has ensured that all employees are trained on the PFMA and that all reporting requirements are complied with. Eskom does take action against any contravention of the PFMA and other legislation.

Question 2.

Eskom subscribes to both the King Report recommendations and the protocol on corporate governance. All recommendations and requirements are incorporate within our business structures and activities. For detailed answers, please contact corporate secretariat, or refer to Mr. Mohamed Adams' response.

Question 3.

Ethics and ethical values are imperative to guide employee conduct in Eskom. Eskom has demonstrated its commitment to a high standard of ethical conduct in all activities by establishing an ethics office, developing and implementing a code of conduct, implementing and maintaining an ethics management programme, and practicing good corporate governance. It is important to Eskom to have an ethical corporate culture.

Question 4.

Eskom complies because it is important to address the ethical aspects in business. Eskom's organizational culture supports a commitment to good governance practices. Eskom is concerned about the environment, and social aspects of business, whilst maintaining a positive bottom line. This is the way Eskom conducts its business, thus, there is no conflict and I would say that our organizational culture supports good governance.

Question 5.

5.1 Role of the Shareholder (DPE)

My Perception: Focused on corporate governance and expects the same from Eskom.

5.2 Role of the Board of Directors

Set the tone for good governance practices and ethical conduct.

5.3 Role of Management

Really committed to good governance practices. Supports the role of the ethics office and ethics management programme.

Question 6.

Personal experience, culture, values and education play an important role in the workplace. One has to recognize and appreciate diverse cultures and values, etc. in the workplace. The challenge is to reach consensus amongst a diverse group on what is best for the organization and work towards a common goal. That is why ethics is my passion. My experience and knowledge has provided an opportunity to assist Eskom in the change process with a specific focus on developing and implementing an ethics management programme for the organization. Eskom's ethics management programme is in line with the King report recommendations and addresses the governance of ethics (Organizational Integrity as per the King Report).

Question 7.

There are many. I am involved in ethics management, which I believe is a milestone as only a few organizations in South Africa have Ethics Offices. Also, Eskom is a leader in the field of integrated risk management. Eskom has also done a lot in terms of corporate social responsibility, Black economic empowerment, environmental protection and HIV/AIDS. Eskom's Annual Report for 2004/2005 is testimony to all that is happening within the organization.

Question 8.

It is a combination of everybody's efforts within the organization. Commitment by all employees is essential.

Question 9.

Understand that good corporate governance is about the ethics of governance and the governance of ethics. In other words, understand ethics. Ethics is about doing what is good for the organization and all of its stakeholders. That is what

good governance practices are all about. The organization is no longer only concerned about profit but also about the environment, and the interests of its other stakeholders, for example, the interests of the community within which the organization operates.

Secondly, the organisation's commitment to ethical practices and good governance is reflected in the actions of its employees. To ensure that employees are committed to good governance practices and ethical conduct, the organization has to focus on ethics awareness and training within the workplace. This is done through the establishment of an ethics office and implementation of an effective ethics management programme (the governance of ethics within the organization).

Thirdly, there are many role-players involved in ensuring a commitment to good governance practices. It is imperative that these role players understand the King Report, are able to implement the King report recommendations, and work together to ensure that the organization addresses all aspects of good corporate governance.

Data collected from respondent number2 (R2)

Question 1.

Eskom is in the forefront in applying Corporate Governance. King I and subsequently King II have been adopted. PFMA applies to all the parastatals like Eskom. Eskom's approach to good governance is underpinned by its view that corporate governance is an essential part of outstanding performance. The achievement of good corporate governance is therefore a function effective strategy and leadership, which in turn translates into integrated economic, social and environmental performance.

Question 2.

Corporate Governance is important for listed and public companies as they manage shareholders or public funds. These shareholders are not part of management of the company. Hence, mechanisms should be in place to ensure that their investment is protected and well managed. Eskom is one of the leading companies to ensure that sound corporate governance is implemented; examples: the chairman is non-executive, independent and separate from the CE. The Board of directors consist mainly non-executive directors, divisions consists of divisional Boards that ensure institutions are in place to promote corporate governance, etc.

Induction training for new employees includes training on PFMA and Ethics. Staff is required on a yearly basis to declare their private interests in terms of the ethics requirements.

Question 3.

Eskom's values are integrity, customer satisfaction, excellence and innovation. Corporate ethics are a pivotal part of the values of the company.

Question 4.

The culture of the company is underpinned by the values of the company, which embrace sound corporate governance.

Question 5.

5.1 Role of the Shareholder (DPE)

Recommend that the company adopts a sound corporate and reporting structures. Separate the role of the CE and the Chairman.

Legislative mechanisms are in place like PFMA to ensure that sound corporate governance and reporting is in place.

In terms of the treasury regulations issued in accordance with PFMA, Eskom must, in consultation with its executive authority (DPE), annually agree on the key performance objectives, measures and indicators to be attained by Eskom.

5.2 Role of the Board of Directors

The directors of Eskom are unreservedly committed to ensuring that good governance is maintained so that the company remains a sustainable business of global stature.

Eskom has a unitary board structure comprising 13 non-executive directors and two executive directors. The majority of the non-executive directors are independent.

5.3 Role of Management

The Exco (executive management committee) comprises the CE, the FD and the MD's of the various divisions. The CE chairs the committee. Exco assist the CE in guiding and controlling the overall direction of the business and in exercising executive control and is responsible for ensuring the effective management of the day to day operations of the business.

Eskom has various board committees or institutions to promote corporate governance and manage the operations effectively like Corporate Audit, Audit Committee, Risk Management Committee, Investment and Finance Committee, Tender Committee, Human Resource, Remuneration and Ethics Committee and Sustainable Committee.

Question 6.

My culture and values are similar to those of Eskom, hence, I fit in perfectly.

Question 7.

Compliance, not only with the letter but also with the spirit of relevant governance codes by the company. Compliance with King II report as well as the protocol on corporate governance in public sector 2002.

Key initiatives are, regular review of the terms of references of the board committees.

Question 8.

Compliance, not only with the letter but also with the spirit of relevant governance codes by the company.

The Board Committees are effective and are respected by the organization.

Question 9.

Compliance with sound corporate governance.

PFMA applies to all the parastatals.

Data collected from respondent number 3 (R3)

Question 1.

Eskom has made every endeavor to ensure conformance.

Question 2.

Protocol/ corporate governance is fundamental in the conducting of business activities.

Question 3.

This is entrenched in the values that Eskom subscribes to, hence the organizational culture is channeled in this particular direction.

Question 4.

Created greater awareness in respect of corporate governance.

Question 5.

5.1 Role of the Shareholder (DPE)

From a governance perspective, it is prescriptive.

5.2 Role of the Board of Directors

As above.

5.3 Role of Management

As above.

Question 6.

My personal attributes are very much aligned with the ethics stance of the organization.

Question 7.

The chairman is an independent non-executive director.
The CEO and Chairman are separate individuals.
Fair balance between executive and non-executive directors.

Question 8.

The Stakeholders, Board of Directors and Management's endeavor to ensure adherence to corporate governance.

Question 9.

Buy-in of stakeholders, BOD and management in respect of the rollout and implementation of effective corporate governance.

Data collected from respondent number 4 (R4)

Question 1.

Response was positive. Eskom is the custodian of both King I and II. Eskom has championed the PFMA course.

Question 2.

We are state-owned as Eskom and we adhere to corporate governance protocol from both sides. This means that we cannot just approach government without prior notification of senior authorities and vice versa. The Government cannot approach us without following channels. We are very clear on that within Eskom.

Question 3.

I'm not sure on this one. I have not observed closely.

Question 4.

Not clear again.

Question 5.

5.1 Role of the Shareholder (DPE)

Good, it sets target of performance and waits for results. It does not interfere with the running of the organization.

5.2 Role of the Board of Directors

Similarly, Eskom is clear on these issues and everything turns to run smoothly.

5.3 Role of Management

Management exercises their duties accordingly, adhere to good code of conduct. Eskom financial results tell it all, good achieved results.

Question 6.

Not sure, was not within Eskom for some time, was with the subsidiary.

Question 7.

Directors reporting, accountability clear. Leadership without interference from the government.

Question 8.

Excellent performance and staff motivation.

Question 9.

Employing right people in right positions who know what is expected of them.

Training employees in corporate governance, and making them live the corporate governance way of life. Creating employee-awareness of corporate governance every now and then.

Data collected from respondent number 5. (R5)

Question 1.

- The immediate implementations of the recommendations.
- Gave impetus by creating a position in Corporate Finance that works independently in the compliance, reporting and training thereof.
- Awareness campaigns held through all the divisions whereby pledges to Management and workers ceremoniously signed compliance.
- Made training in the requirements (reporting, behavior, etc.) compulsory at all levels of the work force.
- Web page set up and examples of any deviations reported
- Continuous communication around PFMA on the web, information boards, Eskom newspapers, etc.

Question 2.

- It gives strategic direction in terms of corporate governance, service delivery framework, sustainability and economic growth in SOE's.
- Eskom appointed a champion for Corporate Governance and implemented the requirements using the principles of project management.
- Development of Key Performance Indicators to measure the success of the compliance.
- Integrate the reporting of Corporate Governance issues with any other reports
- Continuous awareness campaigns.

Question 3.

- It creates manageable consistence through Eskom with the understanding that it will be used as a common base at all times when dealing with issues.
- The values become a confluence of ethical behavior in achieving our goals.
- It becomes a common understanding of Eskom's behaviors and attitudes - a platform or foundation for the existence of any culture.
- It regulates behavior among its employees, towards customers and achieving of goals.
- Policies and procedures become fortuitous to ethical behavior.

Question 4.

- I think it is more an issue whereby corporate governance is influencing organizational culture.
- Any company's organizational culture will determine the success of compliance and acceptance of corporate governance.
- Eskom's culture of doing business is informed by its policies and procedures.
- It was always a situation of the hand meeting the glove.
- Eskom is one SOE that has never had issues around bad management, etc. thus it was never going to be a situation of "culture shock", rather minor adjustments (reporting, changing to two tiers structure, etc.).

Question 5.

5.1 Role of the Shareholder (DPE)

- DPE led by developing the blue print on corporate governance for SOE's (Protocol), thus it goes without saying that it is a priority to them.
- DPE contract or job compact with Eskom includes compliance with corporate governance.
- DPE themselves never prompted any deviation but rather reinforced any requirements.

5.2 Role of the Board of Directors

- Signed a pledge to comply with or adhere to corporate governance requirements.
- Job Compact with management includes adherence to corporate governance.
- Developed tools to measure adherence
- Any deviation is reported to and discussed by them.

5.3 Role of Management

- Signed a pledge to comply with or adhere to corporate governance requirements.
- Job Compact includes adherence to corporate governance.
- Do not tolerate any deviation (it is reported to the Board).
- Ensure all subordinates attend training on all matters around corporate governance.

Question 6.

- Leadership style must be seen to embrace values that uphold corporate governance – it motivates or creates compliance without “threats”.
- The culture preached enshrines corporate governance as part of Eskom’s “life-style”.
- It becomes a point of reference for any decision or action.
- The book for declaring interest must be visible and accessible to all of them.
- At all costs avoid any culture clash... actions speak louder than words!!!

Question 7.

- Implementation of the two tiers (Board & management).
- Independent audit and remuneration committees.
- Developing of key performance indicators to monitor compliance.
- >80% of employees trained on the issues around corporate governance.
- Continuous awareness campaigns and examples reported of employees that have breached any compliance requirements.
- Contravention of any requirement is deemed to be very serious (all employees are aware of that fact).
- Reports on issues of corporate governance form part of any decision making body or committee.

Question 8.

- The support is received from Board and Management.
- The KPI's that is not less important than any other KPI in Eskom.
- It forms part of all employees' daily vocabulary.
- The monthly reporting of any contravention.

Question 9.

- Appoint a Champion to will be the custodian of corporate governance.
- Treat the implementation as a project and not a "wishy-washy" thing.
- Consider the current culture and financial reporting framework.
- It should be a top down approach whereby subordinates see the support given by management to the implementation and adherence.
- The develop tools to measure compliance during and after implementation.
- It should be integral to the day-to-day running and not stay a separate "item".

General Comments

- Corporate governance will be a "swear" word if not forming integral part of the day-to-day running of the business.
- Subordinates should not view it as another tool from management for disciplinary actions but seen as a culture of good governance applicable to all.
- You cannot measure the success of anything in life without KPI's, thus it is important to agree upfront on it.
- Must be part of the vision, for any utility or value should be a confluent of the good corporate governance.

**Table 4.: Summary and Analysis of Data Collected
(Category Sample B)**

Question Code	Narrative Analysis of themes, principles and/or key words from respondents' answers to the questions as shown per Question code.				
	R1	R2	R3	R4	R5
Q1.	Compliance with all relevant legislation is minimum requirement. Full subscription and commitment to King II. Full adoption of PFMA. Training of all staff. Taking of action against contraventions. At forefront in applying good governance codes, this being seen as essential part of outstanding performance, function of strategic leadership. Championing the course of good governance as SOE. Awareness campaigns through all divisions and pledges to compliance ceremoniously signed. Continuous communication on web pages, notice boards and company newsletter.				
Q2.	Fundamental and good guideline in conducting the business of SOEs. Serves as one of the mechanisms for protection of shareholder and public. Provides strategic direction as far as corporate governance is concerned. Helps in the development of KPIs to measure compliance performance with good governance.				
Q3	Important to guide employee conduct in the company. They serve as a direction in which the company's culture is channeled. Create manageable common base from which various issues are dealt with. Platform or foundation for existence of any culture. Regulate behaviors of all stakeholders. Policies and procedures become fortuitous.				
Q4	Company organizational culture supports attainment of good governance. Culture underpins good governance. Culture determines the extent of acceptance and compliance with good governance.				

Q5	<p>5.1 Shareholder: Give direction/focus on governance. Provide legislative framework. Develop blueprint for governance (e.g. Protocol). To set target for good governance performance, this is part of shareholder compact.</p> <p>5.2 BOD: Set the tone for ethical conduct and good governance. To set up proper governance structures. To create clarity on governance issues and to demand performance and set the relevant measurement tools. To sign a pledge and Job Compact on good governance.</p> <p>5.3 Management: Really committed to good governance. To promote governance and manage operations accordingly. To ensure performance on governance matters. Not to tolerate any deviation. Ensure all employees are trained on governance. To sign a pledge and Job Compact to ensure compliance and adherence.</p>
Q6	<p>All played an important role in recognizing and appreciating diverse cultures and values in the work place. Personal knowledge and experience provided an opportunity to assist the company in developing and implementing organizational ethics management programme. Perfect fit with organizational culture. Alignment with the ethics stance of the company. Practice of leadership style that motivates compliance without “threats”. Avoided culture clash at all costs and ensured that “actions speak louder than words”.</p>
Q7	<p>Implementation of a unitary board system with and all relevant sub-committees. Development of KPI to measure governance performance. More than 80% employees already trained on issues around good governance. Continuous communication through various methods. Reporting of governance issues at every decision-making forum and various committees. Fair balance between executives and non-executive directors. Improved level of compliance, not only with the letter but also spirit of relevant governance codes. Establishment of a fully functional and well-respected and supported ethics office. Excellent performance by the company in all aspects of triple-bottom line.</p>

Q8	<p>Combination of everybody's effort within the organization and commitment by all employees. All stakeholders' endeavor to ensure adherence to corporate governance. Excellent performance and staff motivation. Support from Board and management. Corporate governance that are not lesser than any other KPIs in the organization. Corporate governance is employees' daily vocabulary. Monthly reporting of contraventions.</p>
Q9	<ul style="list-style-type: none"> • Create understanding that "governance is about the ethics of governance and the governance of ethics". • Deliberately create organizational commitment to ethical practices and good governance by all employees and all other stakeholders. • Focus on awareness and training within the work place • Appoint Champion to be a custodian of corporate governance. • Establishment of an ethics office and the implementation of an effective ethics management programme. • Treat implementation as a project. • Consider (modify) current culture and reporting framework • Implement corporate governance following a top-down approach • Develop tools to measure performance during and after implementation. • Corporate governance should be integral in day to day running of business. • Employing right people in right positions. • Continuous awareness and communication. • Ongoing training of employees • Solicit buy-in of all stakeholders in respect of rollout and implementation of effective corporate governance.
General Comments	<p>Corporate governance must be part of the Vision of any entity. Values should be a confluent of the corporate governance.</p>

4.3.3 Data Gathered from a Convenience Sample

The following variables, see Data Code sheet per Table 3. below, have been identified for analysis purposes:

Table 5.: Data Code Sheet

Variable	Labels	Measurement Level
1. Refnum	Reference number of each questionnaire/respondent	N/A
2. Type of answer	Y = Yes N = No DN = Don't Know	
3. Gender of Respondent	M = Male F = Female	
4. Demographics	W = white B = Black	
5. Occupation	<ul style="list-style-type: none"> • PM = Projects Management • IA = Internal Audit • AC = Administration & Clerical • E = Engineering • TS = Treasury Specialist • T = Technician (energy/electrical) • CSS = Customer Service Specialist • A = Analyst in various specialized fields • SS = Sales Specialist • PR = Public Relations Specialist • FA = Financial Accountant • MA = Management Accountant 	
6. Geographical Area	<ul style="list-style-type: none"> • CHO = Corporate Head Office • JHB = Johannesburg (various) • SWT = Soweto • WTB = Witbank 	

	<ul style="list-style-type: none"> • PE = Port Elizabeth • TWN = Tshwane • PLK = Polokwane • ARN = Arnot • BMF = Braamfontein 	
7. Functional Area/Department	<ul style="list-style-type: none"> • PRJ = Projects • ICA = Internal Controls Assurance • CPD = Capital Programmes Dept. • F = Finance • SM = Sales & Marketing • THVP = Transmission High Voltage Plant • MT = Maintenance • EDM = Electricity Delivery Management • ET = Energy Trading • RP = Reticulation Plant • CS = Customer Service • RTU = Regional Transformation Unit • BI = Business Improvement • BASC = Business Application & Solutions Centre • ARPS = Arnot Power Station 	

The data has been collected through closed-ended questionnaire marked as **Annexure C**. Whilst a convenience sample size of 20 was decided upon, as outlined under research methodology, the actual number of respondents turned out to be 24. The actual number of respondents was therefore used for data coding, entry, analysis and interpretation. Questions numbered 1. to 12., have been abbreviated and identified and coded as **Q1** to **Q12**. Participants to the research have been identified and referenced as **Refnum 1. up to 24**.

Table 6.: Data Entry Spreadsheet

Refnum	Type of Answer			Gender	Demographics	Occupation	Geographical Area	Functional Area/Dept.
	Y	N	DN					
1.	8	2	2	M	W	PM	TWN	PRJ
2.	7	2	3	F	W	IA	PLK	ICA
3.	11	1		M	W	IA	WTB	ICA
4.	2	6	4	F	B	AC	CHO	CPD
5.	11		1	F	B	TS	TWN	F
6.	7	1	4	F	B	PM	CHO	CPD
7.	9	1	2	F	B	PR	TWN	SM
8.	10	2		M	B	T	JHB	THVP
9.	11	1		M	B	T	JHB	MT
10.	6	1	5	M	B	PM	CHO	PRJ
11.	2	3	7	F	B	CSS	SWT	SM
12.	9	2	1	M	B	E	SWT	EDM
13.	10	1	1	F	B	SS	TWN	SM
14.	9		3	M	B	A	CHO	ET
15.	11	1		M	B	A	TWN	RP
16.	8	2	2	M	B	SS	TWN	SM
17.	10	2		F	B	CSS	SWT	CS
18.	8	4		F	W	A	BMF	BI
19.	6	3	3	M	B	FA	CHO	F
20.	7	5		F	B	FA	BMF	F
21.	12			M	B	MA	ARN	F
22.	12			F	B	MA	PE	F
23	8	2	2	M	B	FA	ARN	F
24	11		1	F	B	A	PE	BASC
25	8	3	1	M	B	E	ARN	ARPS
Total	213	45	42					

Summary Of General Comments (per Table 6 above)

- Refnum 4.: I'm not sure of any values that are prevailing in my company. I think every manager does as he/she pleases. Maybe it is because of cultural diversity. We still have a long way to incorporate all cultures that we are born with into one unique strong ethical culture and values.
- Refnum 9.: To ensure that ethics and values are in place, several workshops were conducted so that the whole work force is aware and sensitized over this issue.
- Refnum 10.: I have not yet had a chance to familiarize myself (i.e. to trained) with ethics and values. This is mainly as a result of staff shortages, which resulted in me being thrown immediately on a major project on my return from one of the subsidiaries.
- Refnum 11.: This questionnaire has been an eye opener to me as I have not been trained in our company's ethics and values. All we hear is when someone has done something wrong, that is not in line with unknown or undisclosed ethics. Managers keep on saying "that is unethical", to me this is an insult because we must be made aware of those existing ethics and policies.
- Refnum 13.: The development of ethics policies allowed for consultation and inputs from all stakeholders that includes customers, government, employees and unions. Every employee has to sign for a code of conduct and also ethics training is part of every employee's job compact.

- Refnum 17.: My Company's values and ethics are understood, quite reasonable and easy to do. Most managers in different positions, not all of course, do practice ethics and values in favour of customers more than they do for their own employees.
- Refnum 18.: Communication is the key in enhancing the company's performance and helping people to understand their roles.
- Refnum 20.: As an employee I'm proud of my company's values and ethics, but not proud of how these values and ethics are practiced. I have a feeling that most seniors do live by the values of the company. We would like to see our seniors being examples to junior staff. Changes must be accepted from all levels of employees (grades).

Deductions from above General Comments (Per Table 6)

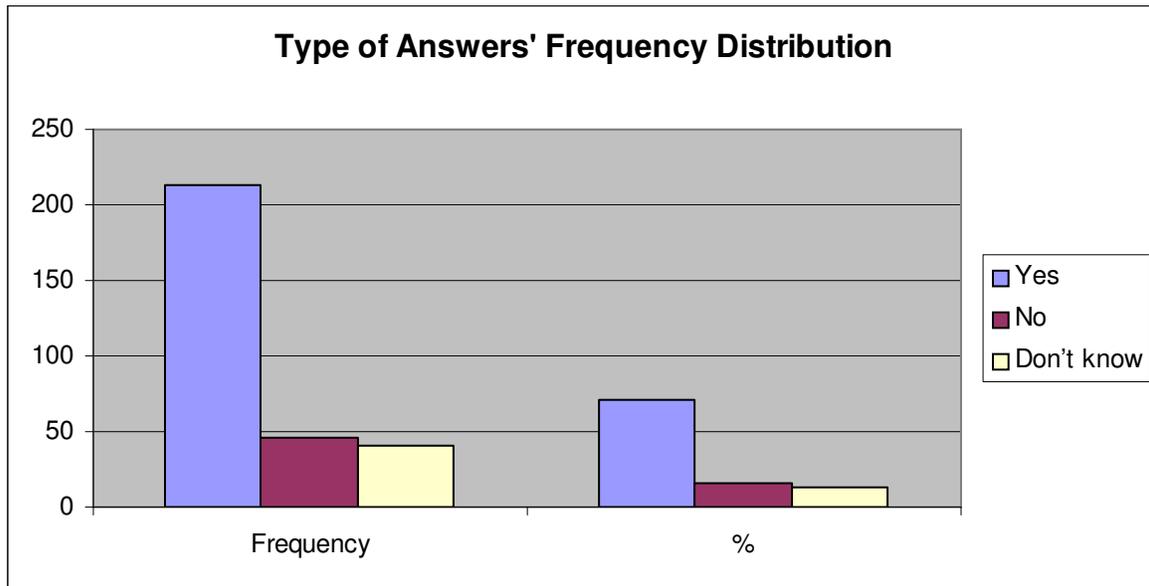
From all of the above general comments collected from the participants, the following can be deduced to be the main key areas that require improvements from the company:

- Some staff members have not yet undergone the corporate values and ethics training mainly due to staff changes/shortages and the consequent pressures that made it impossible for them to go for training.
- Some managers are perceived or seen not to be "walking the talk" of corporate ethics and values

The challenge areas identified above, are not out of the ordinary and do not appear to be severe. In general, it would appear from the participants' responses that the company's corporate governance programme(s) are effective.

Table 7. : Type of Answers' Frequency Distribution

Type of Answer	Frequency	%
Yes	213	71.00
No	46	15.33
Don't know	41	13.67
Total	300	100



Interpretation of the outcome per Table 7

71% of the participants were positive which indicates that the model followed by the company is being effective in achieving the intended objectives of creating an sustainable good corporate governance on the basis of clearly defined , articulated and practiced organizational ethics and values that forms a conducive organizational culture. The 15.33% "No" and 13.67% "Don't know" answers are indicative of the prevalence of some interventions requiring more focus and attention on bringing about the improvements. This outcome more than demonstrates the importance of corporate values, ethics and organization in setting the right tone for sustainable good corporate governance.

Table 8. : Analysis of Type of Answer Per Questions

Question Number	Yes	No	Don't Know	Total
Q1	25	0	0	25
Frequency	100%			100%
Q2	21	4	0	25
Frequency	84%	16%		100%
Q3	20	3	2	25
Frequency	80%	12%	8%	100%
Q4	19	4	2	25
Frequency	76%	16%	8%	100%
Q5	13	4	8	25
Frequency	52%	16%	32%	100%
Q6	14	6	5	25
Frequency	56%	24%	20%	100%
Q7	20	2	3	25
Frequency	80%	8%	12%	100%
Q8	9	11	5	25
Frequency	36%	44%	20%	100%
Q9	14	5	6	25
Frequency	56%	20%	24%	100%
Q10	12	6	7	25
Frequency	48%	24%	28%	100%
Q11	24	0	1	25
Frequency	96%		4%	100%
Q12	22	0	3	25
Frequency	88%		12%	100%
Control total	213	45	42	300

Interpretation of Responses from participants (Per Table 8)

The outcome from participants' responses, as analyzed and summarized per Table 6 above, can be interpreted as follows:

- **Q1:** 100% of the participants indicated that they are aware that their company has corporate ethics and values policy. This may mean that the company's awareness campaigns are succeeding in creating the much-needed awareness of the company's ethics and values. It does therefore appear that the company's awareness campaigns and programmes are achieving the desired results.
- **Q2:** 84% of the participants have been trained on the company's ethics and values. This would be exceptionally good if it were to be a reflection of the company wide phenomenon, however it is not possible to conclude as such as this is just a qualitative study. It is proper, however, to deduce that it does seem that a pretty good effort and attention has been invested in training staff on corporate ethics and values as part of the implementation of corporate governance intervention on the part of the company. It appears that 16% of the participants have not yet been trained for various practical reasons. This is interpreted to be normal and should be seen as an area that requires improvement in the company's governance programmes.
- **Q3:** 80% of the participants say that the company's organizational culture is aligned to company's values and ethics and only 12% answered in the negative. The balance said they do not know. This also implies a reasonably large degree of success in the importance of corporate ethics shaping the organizational culture.

- **Q4:** 76% of respondents indicate they clearly understand and know what behaviors are expected from them based on the organizational values. Only 16% of them said “No” and 8% gave a “do not know” answer.
- **Q5:** Only 52% of the participants indicated that they were consulted in the process used to define values, 32% were unaware and 16% answered in the negative. On the face of this outcome, one may say it is a bad outcome. However, viewed from a practical perspective of a company with over 80 000 employees it is not possible or necessary for the company to consult every single employee of the company. In fact, viewed from the meaning of consultation, the envisaged consultation is the one that says the company needs to engage in consultation process with an adequate and reasonable number representative of all stakeholders. The specific general comments on this aspect by respondent **Refnum 13**, say *"The development of ethics policies allowed for consultation and inputs from all stakeholders that includes customers, government, employees and unions. Every employee has to sign for a code of conduct and also ethics training is part of every employee's job compact"*. There it can be deduced that the company has more than sufficiently engaged all its stakeholders to define and develop company's values.
- **Q6:** 56% of participants are generally confident and agree that corporate ethics and values contribute to the success of the company. 24% of the participants have a different view to this whilst 20% of them do not know. Based on the 56% positive response, it can be deduced that corporate ethics and values, if they are clearly known, understood, appreciated and practiced by leadership at all levels, increases the chances of a company's performance and success.

- **Q7:** 80% of respondents cited that the company's policies, programmes and procedures are aligned to company's values. Only a small percentage of 8% answered in the negative and the balance of 12% said they did not know. This implies that corporate governance is also about balancing the "hard issues with people issues".
- **Q8:** Only 36% of the participants agreed that their performance is rated lower because of behaviors that are inconsistent with company values. 44% of the participants said that this was not the case and 20% said they did not know. In this particular case it can be deduced that 64% participants are not being measured on their performance on company values. It may therefore be deduced that this may possibly be one area where there company has room for improvement. This is crucial as "what gets measured gets done". Whilst it cannot be said that this is indicative of the true picture in the whole organization, this may be a red flag that requires more attention and focus with the "continuous improvement" as a notion in mind.
- **Q9:** 56% of the participants say that they are productive and proud of their values and their work. 20% of them said "No" whilst the remaining 24 % said they did not know. The 56% positive response does establish a good base to deduce that there seems to exist some sort of a link between corporate values, employee morale and productivity.
- **Q10:** 48% of the participants agree that the leadership of the company practice and live by the values and the ethics of the company most/all of the times. 24% of the participants disagree whilst 28% say they don't know. Whilst a large proportion of senior leadership is seen to be exemplary, the remaining small proportion may overshadow the positive

influence of the former group of leadership. This does imply an existence of increase in the alignment of the leadership influence on the company's values and consequently good corporate governance.

- **Q11:** An overwhelming 96% of the participants agreed that their individual roles and contributions are important in making sure that corporate ethics and values are practiced. They agree also that the company's ethics and values that are practiced are a good reflection of the company's organizational culture. It can be deduced from this that the role of leadership and every one in the organization is crucial in "preaching and practicing" corporate ethics and values which have a significant effect on the corporate governance climate that will prevail in an organization at any given point in time.
- **Q12:** 88% of the participants answered in the affirmative, as opposed to 12% that said they did not know, that corporate ethics, values and organizational culture are all important determinants of how their company is directed and controlled and the success that is achieved. It is also very interesting that none of the 25 participant answered this question in the negative.

Table 9. Questions Analysis: Areas Requiring Improvements

Closed Ended Question (Refer Annexure B)	Outcome Analysis per Table 5. Above			Notes and/or comments on required future actions
	Yes	No	Don't Know	
1. Do you know whether your company (Eskom) has a corporate ethics and values policy?	100%	-	-	Effect of awareness campaigns very good. Sustain interventions.
2. Were you trained on your company's values and ethics policy?	84%	16%	-	Effect of ethics and values training very well. Sustain interventions.
3. Current organizational culture is aligned to company's values and ethics underpin the way our organization wants to do business?	80%	12%	8%	Organizational culture alignment to ethics and values. Maintain status quo.
4. Current organizational values are specific and clear enough so that people understand which individual behaviors are expected?	76%	16%	32%	Clarity of ethics and values good. No action needed.
5. The process used to define the values was very comprehensive in that it allowed for adequate consultation and inputs from all the organization's stakeholders?	52%	16%	32%	More than 50% of all stakeholders consulted. Deemed to be good from a practical point of view.
6. Employees are very confident that the values have real meaning and contribute to the success of the organization?	56%	24%	20%	Good staff morale. Continuously monitor, measure and improve morale boosting interventions to sustain good governance.
7. Internal organizational policies, programmes and procedures are aligned with values?	80%	8%	12%	Alignment with processes, policies and procedures good.

8. Employees' performance is rated lower because of behaviors inconsistent with values?	36%	44%	20%	Standardize the process and enforce and maintain throughout the organization.
9. Employees are productive and proud of the values and their work?	56%	20%	24%	Values and ethics contribute to productivity.
10. Our senior leaders do practice and live by the values and ethics of our company most/all of the times.	48%	24%	28%	Area requires focus and effort by management all levels.
11. My individual role, as an employee, is important to making sure that ethics and values are practiced and that is a good reflection of our organizational culture.	96%	4%	-	Good appreciation and acceptance of individual contribution towards organizational ethics, values and culture
12. Our corporate values, ethics and organizational culture are important determinants of how our company is run today (directed and controlled) and the success that is achieved.	88%	-	12%	Great importance placed on values, ethics and organizational culture in determining the company's corporate governance environment and its ultimate success

Summary on Areas Requiring Improvements (Per Table 9)

Based on the above Table 9 analysis, it can be deduced that it does appear that the following areas (all highlighted in red per table 9) require the company's focus and attention for future continuous improvements and to sustain the effectiveness of its good corporate governance environment:

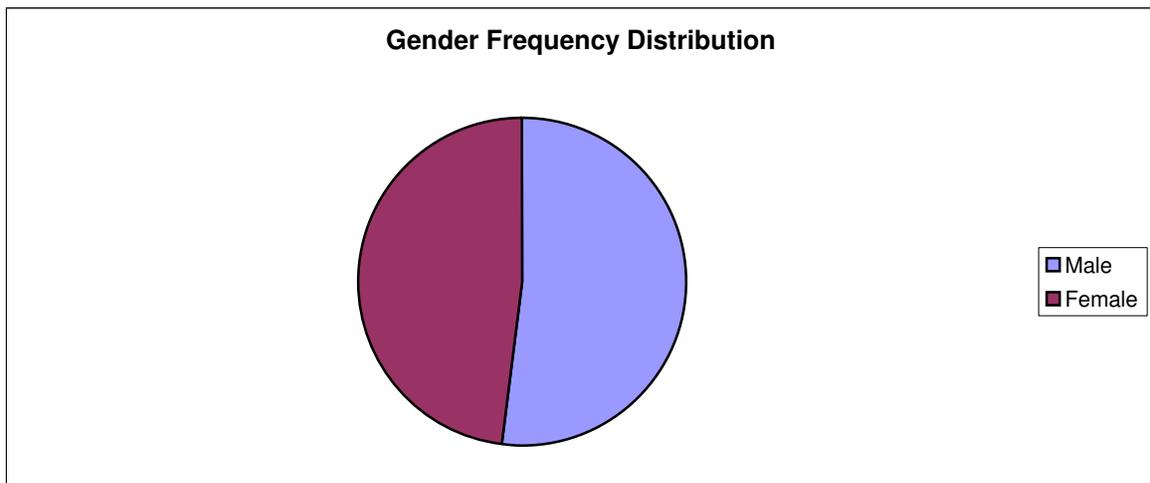
- Whilst there seems to be good staff morale prevailing within the organization, there seems to be a need for the organization to closely monitor, measure and embark on interventions to improve this soft people

aspect as one of the ways of sustaining the effectiveness of the company's corporate governance climate.

- There appears to be a need for the company to standardize, enforce and monitor closely the consistent performance measurement of all employees on corporate ethics and values throughout the whole organization.
- It does appear that it is correct to deduce that the importance of leadership style and its potential impact in making or breaking the effectiveness and sustainability of the company's corporate governance programmes, cannot be over emphasized. Based on the analysis of the outcome in this area, it does appear that this is one particular area that the company will need to give adequate focus to in order to ensure a sustainable good corporate governance climate.

Table 10. : Gender Frequency Distribution

Gender	Frequency	%
Male	13	52
Female	12	48
Total	25	100

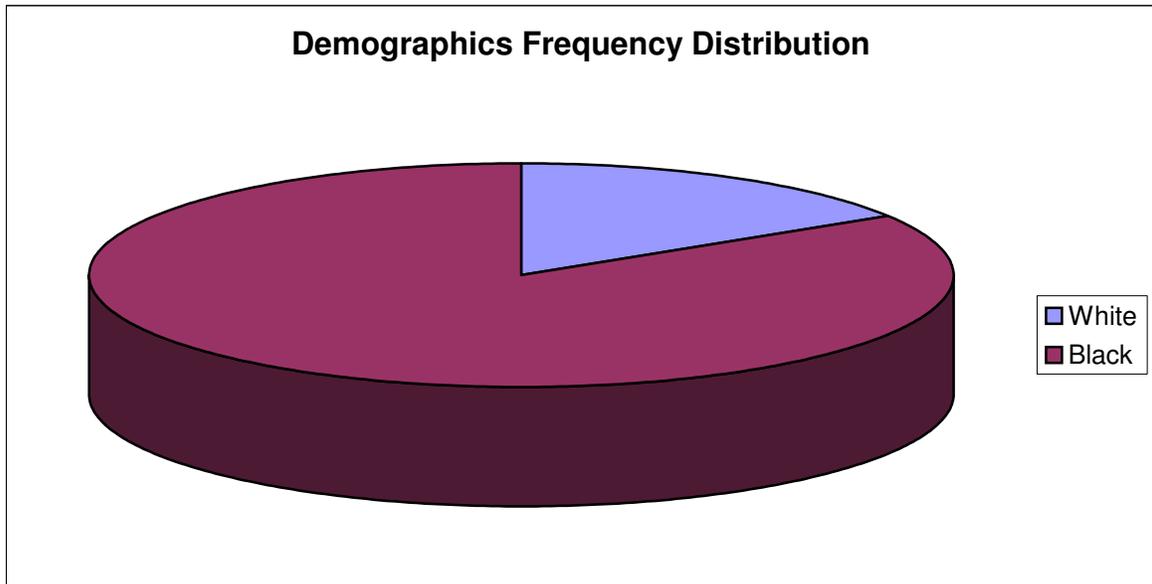


Analysis and Interpretation (Table 10)

The gender distribution between men and women is almost balanced. Therefore it can be deduced that the views and findings are a good, reasonable and balanced across the gender lines.

Table 11. : Demographics Frequency Distribution

Demographics	Frequency	%
White	4	16
Black	21	84
Total	25	100

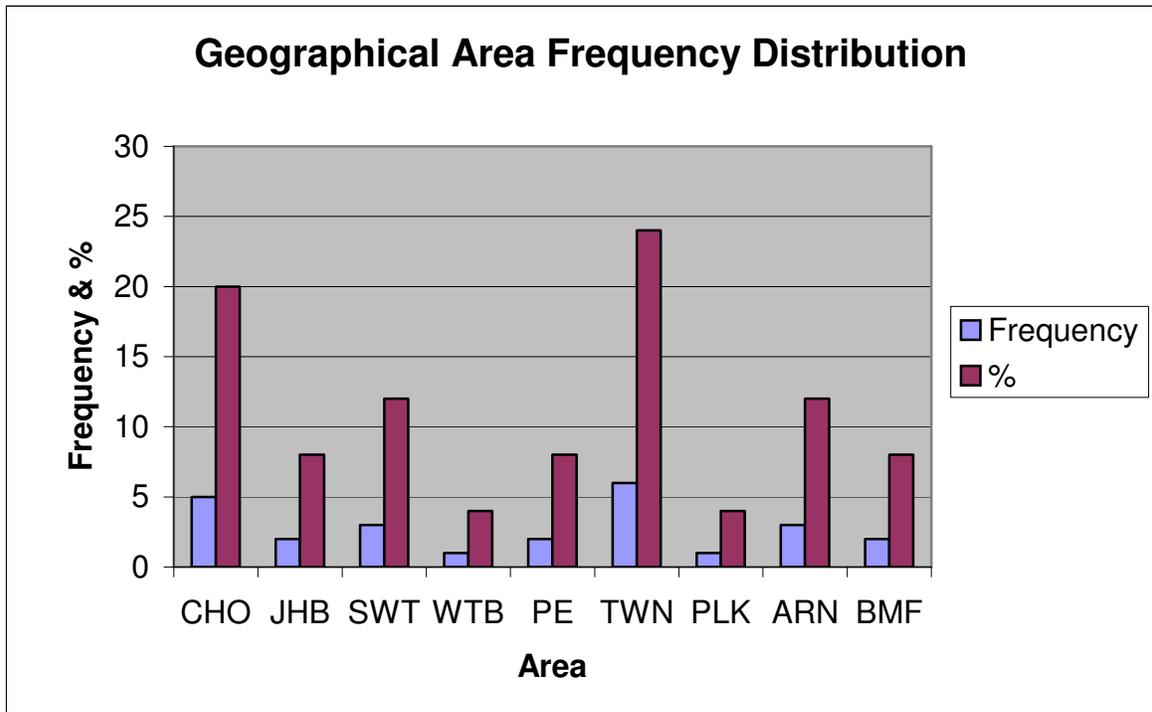


Analysis and Interpretation (Table 11)

84% of the participants are black whilst 16 % are white. This is in line with the company's work force, which is largely black with a very small proportion being white.

Table 12. : Geographical Area Frequency Distribution

Geographical Area	Frequency	%
CHO	5	20
JHB	2	8
SWT	3	12
WTB	1	4
PE	2	8
TWN	6	24
PLK	1	4
ARN	3	12
BMF	2	8
Total	25	100



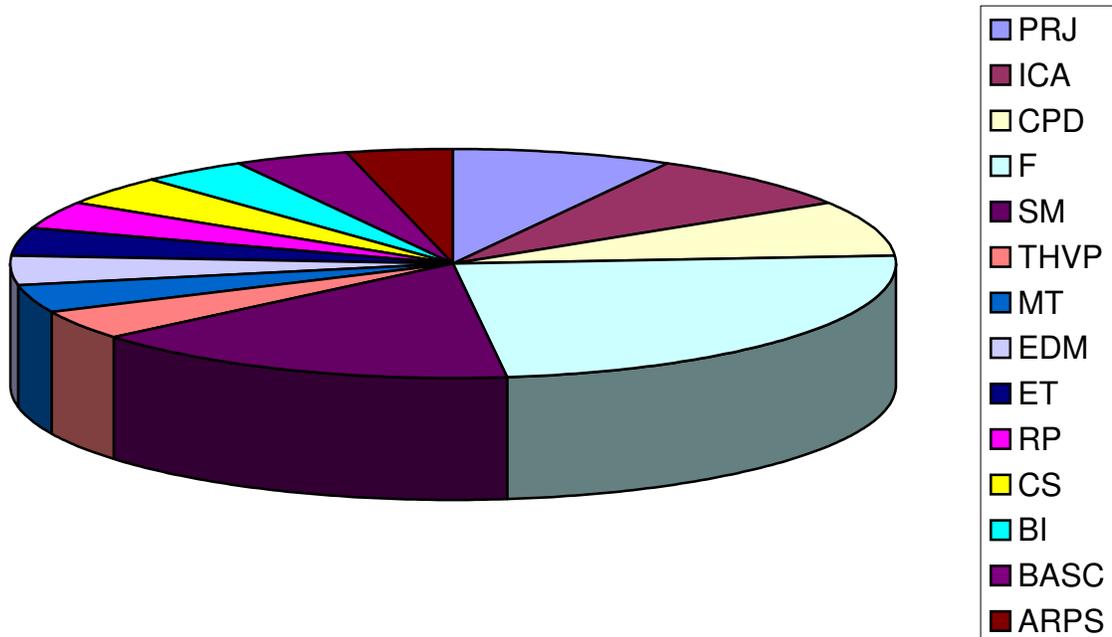
Analysis and Interpretation (Table 12)

The geographical frequency distribution shows a very good spread across the various regions located in various provinces of South Africa. The provinces represented by participants are Mpumalanga, Eastern Cape, Gauteng and Limpopo.

Table 13. : Functional Area Frequency Distribution

Type of Answer	Frequency	%
PRJ	2	8
ICA	2	8
CPD	2	8
F	6	24
SM	4	16
THVP	1	4
MT	1	4
EDM	1	4
ET	1	4
RP	1	4
CS	1	4
BI	1	4
BASC	1	4
ARPS	1	4
Total	25	100%

Functiona Area Frequency Distribution



Interpretation of Data Analyzed per table 13

The 24% participants from the finance environment, whilst being bigger in comparisons to participants from other departments, are relatively speaking very small compared to participation by finance sections from other research studies in this field. The 16% participation from the Sales and Marketing area is positive, as this is one of the areas not adequately considered for participation in such studies. The participants in the study are spread widely across various functional areas of the company. This is a positive outcome in giving a general view, as a dipstick, of the perceptions and feelings of employees. This in turn points towards a generally very successfully and effectively implemented corporate governance environment within this company.

4.4 SUMMARY OF OVERALL FINDINGS

Based on all the data collected, the following is a summary of the findings:

- Eskom has demonstrated its full commitment to good corporate governance by its adoption of King I, King II, Protocol on Corporate Governance and PFMA principles and precepts.
- Eskom has developed the Business Conduct Policy and Ethics and Values Code on a stakeholder consultation basis.
- Eskom incorporated its ethics and values into its organizational culture. This was done through rolling out sustained ethics and values programmes/interventions throughout the whole organizations.
- Eskom embarked on sustained communication, awareness campaigns and training interventions.
- Eskom aligned its policies, processes, procedures and systems with the values and ethics. For example systems to sustain the corporate values were established in the form of the Ethics Office manned by a full-time Senior Ethics Officer. It must be stated that Eskom is the only SOE in South Africa that has established such an office. Further, continuous ethics audits are conducted by an independent audit function and this process is ongoing.
- More than 50% of its leadership, across various levels, continuously “talk the talk” and “walk the walk”. This has a very positive reinforcing effect across the whole organization.

- The company has adopted a strategic approach to dealing with corporate governance. Corporate governance is an inherent part of its strategy. Therefore, it can be deduced that its strategy is “ethical”.
- The company continuously reviews its corporate governance environment in a manner that resembles “The Five Tasks of Strategic Management” (Thompson & Strickland) **refer to figure 3** of this report.

There are only two main areas that have been identified in Eskom as requiring focus for sustained continuous improvement. These are:

- The area relating to the fact that not all its employees have the corporate ethics and values being incorporated in their performance contracts. There seems to be non-alignment to performance contracts amongst various functional areas, regions and leaders.
- The other area relating to the fact that those individuals who are in leadership roles and are not living the company values, actual or perceivable, do create feelings and an environment that is not in line with a generally very positive and enthusiastic morale. These are the areas that will require specific attention by the company whilst sustaining all the excellent strides achieved through its corporate governance interventions and crusade.

4.5 Chapter Conclusion

This chapter consolidated all the data collected, which was then extensively analyzed, summarized and interpreted. Overall findings were then summarized for the purposes of drawing conclusions in the next chapter 5.

CHAPTER 5

5. CONCLUSION AND RECOMMENDATIONS

Seeing that a hybrid of qualitative and quantitative research methodology and approach was followed, conclusions with reference to propositions (for qualitative part of the study) and hypothesis (for quantitative part of the study) were drawn from findings using a combination of deduction, induction and generalization.

Conclusions

The required strategic approach to implementing sustainable good corporate governance in a state-owned enterprise must first be founded on the paradigm that says corporate governance is an essential part of good performance.

The achievement of good corporate governance is therefore a function of effective strategy and leadership, which in turn translates into integrated economic, social and environmental performance (Eskom, Annual report 2005).

The strategic model required in SOEs, for the effective implementation of sustainable good corporate governance is the one that adopts the value chain model to dealing strategically with corporate governance. The combined leadership roles of Government, as a shareholder, the Board of Directors and Management are crucial in the input and the process stage of the corporate governance value chain (see **Figure 5**) and can “make or break” the expected triple bottom line outputs expected as “Value Package”.

In summary, the following conclusions have been drawn and are hereby highlighted for noting by SOEs:

An SOE leadership must be trained and/or ready to practice both transformational and transactional leadership styles in different times and in different situations within an SOE.

An SOE must build ethics and values into its organizational culture.

An SOE has to overcome the 7 myths of corporate governance that normally create complacency about the importance of adopting a strategic approach to dealing with corporate governance.

An SOE has to adopt a particular governance framework. The “consistently principled” is the most effective one and leads to sustainable corporate governance environment (refer to **Figure2** in this report)

An SOE has to embark on various governance programmes/interventions, based on recommended project management approach, applying “The five tasks of strategic Management” model (See Figure 3)

In implementing the corporate governance strategy, an SOE has to tap into the power of four key factors to realize sustainable effective corporate governance success. This requires an SOE to put together the organization, the culture, systems and controls and last but not least, the people (refer to **Figure 4** of this report)

Recommendations

Based on the overall findings as per paragraph 4.4 above and issues identified per Table 9 above, the company has to focus its attention and effort on addressing and bringing about improvements in the following areas:

- Continuously create a sense of confidence and sustained assurance that every employee's role, in living and practicing the company's ethics and values, contribute to the success of the company.
- Build mechanism of ensuring that corporate ethics and values are incorporated in the performance contract of every employee, regardless of their position in the company.
- Design appropriate leadership training interventions for all employees at various leadership levels (i.e. from supervisory level upwards). The aim must be to equip and empower all leaders, across various levels within the organization, in the importance of leadership and its influence on the organizational behavior and culture. The ultimate end objective will be to equip and up-skill leaders in the art of managing "soft people issues" and the "invisible spirit within the organization" – refer to **Figure 5** of this report. This does not necessarily mean a "one glove fits all" approach needs be taken in this regard. This means that the interventions required, and necessary, to address the leadership developmental needs of each and every individual in a leadership position in Eskom, must be determined on some systematic and scientific basis.

Other than the identified areas of improvements explained above, it must be emphasized that it can be deduced from the gathered data that Eskom has

achieved incredible corporate governance milestones based on its strategic approach to corporate ethics and values. The company should do everything in its power to maintain its application of corporate governance underpinned by an approach that is socially responsible, sustainable into the future and that strives to minimize negative impact on the environment and the society.

5.3 Chapter Conclusion

In this chapter, conclusions were drawn using deduction, induction and generalization based on the overall findings flowing from the data collected using the hybrid method of qualitative and quantitative research study.

The conclusions reached by the researcher also emphasized what was established to be , based on research study's results, the recommended sustainable strategic model for effective implementation of good corporate governance that is premised on corporate ethics and values.

In order for the study to add value to Eskom, as an SOE used as a subject of this research exercise, recommendations have been made relating to identified areas requiring improvements. Whilst these recommendations are specific to Eskom, it is the researcher's view that they may applied in any corporate or organization, whether in public or private sector. The same is true also, as far as the principles and learning points relating to the importance of corporate ethics and values, leadership styles and the need for strategic approach to dealing with the challenges of good corporate governance in any organizational environment.

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Annexure A

OPEN-ENDED QUESTIONNAIRE NO. 1

1. How would you describe the leadership roles and possible influence thereof on corporate governance of state-owned enterprise of the:

1.1 Shareholder (DPE)

1.2 Board of Directors

1.3 Management

2. From a strategic leadership and management perspective, what would you say are the most important considerations for SOEs that would ensure effective implementation and sustainable corporate governance?

Annexure B

OPEN-ENDED RESEARCH QUESTIONNAIRE NO. 2

COMPLETED BY: _____

DESIGNATION: _____

DATE: _____

Provide a brief overview of the history of Eskom's corporate governance environment/climate from the period 1994 to 2004 by answering the following questions:

1. What was Eskom's response to the publication and institutionalization of both King I and II and the subsequent enactment of PFMA?

2. What would you say is the importance of Protocol on Corporate Governance and how did you, as an organization, respond to it?

3. What would you say was the role of and/or importance of corporate ethics and values in creating or influencing Eskom's organizational culture?

4. What influence did Eskom's organizational culture have on its corporate governance environment?

5. How would you describe the leadership roles of the following, and any influence this may have had on the corporate governance environment of Eskom:

5.1 Shareholder (DPE)

5.2 Board of Directors

5.3 Management

6. As one of the senior role-players/leaders in Eskom, what influence may have been played by your values, cultural identities and life experiences on how you led and/or contributed to the whole corporate governance change process in Eskom?

7. What would you say are the major corporate governance milestones achieved by Eskom to date, since 1994?

8. What would you say is the thing or things that make Eskom's corporate governance tick?

9. From a strategic leadership and/or management perspective, what would you say are the most important considerations for SOEs that would ensure effective implementation of sustainable good corporate governance?

General Comments

ANNEXURE C

CLOSED-ENDED RESEARCH QUESTIONNAIRE No. 3

COMPLETED

BY: _____

DESIGNATION: _____

DEPARTMENT: _____

DATE: _____

QUESTIONS	YES	NO	Do not Know
1. Do you know whether your company (Eskom) has a corporate ethics and values policy?			
2. Were you trained on your company's values and ethics policy?			
3. Current organizational culture is aligned to company's values and ethics underpin the way our organization wants to do business?			
4. Current organizational values are specific and clear enough so that people understand which individual behaviors are expected?			
5. The process used to define the values was very comprehensive in that it allowed for adequate consultation and inputs from all the organization's stakeholders?			
6. Employees are very confident that the values have real meaning and contribute to the success of the organization?			

7. Internal organizational policies, programmes and procedures are aligned with values?			
8. Employees' performance is rated lower because of behaviors inconsistent with values?			
9. Employees are productive and proud of the values and their work?			
10. Our senior leaders do practice and live by the values and ethics of our company most/all of the times.			
11. My individual role, as an employee, is important to making sure that ethics and values are practiced and that is a good reflection of our organizational culture.			
12. Our corporate values, ethics and organizational culture are important determinants of how our company is run today (directed and controlled) and the success that is achieved.			

GENERAL COMMENTS

ANNEXURE D

BusinessTimes 15

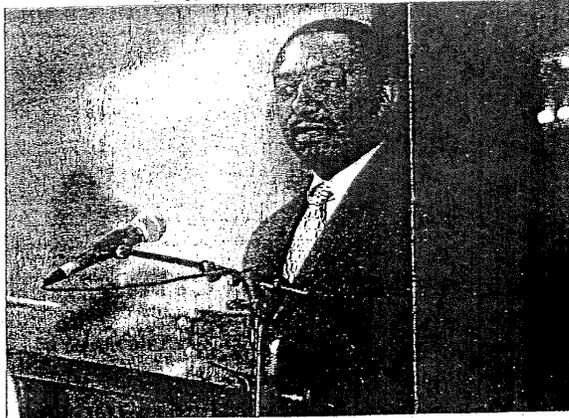
040 19 011115 May 1 2005
ESKOM Advertising Feature

Turning Corporate Governance into Valuable Energy

Over the past two years, a lot of emphasis has been placed on the need for state owned enterprises to become efficient and profitable. In a number of cases, the insistence on good corporate governance has led to fierce boardroom battles. With an increasing intensity, the South African Government, through its department of Public Enterprises, has made it clear that it expects state-owned enterprises to be run in line with strict corporate governance principles.

Eskom, as one of the key state owned enterprises, is at the forefront of the quest for corporate fitness. On the basis of research that had been carried out internally and in other organisations, Eskom developed a bedrock of key business principles based on Corporate Governance. On top of its own principles and ethics, Eskom took into consideration prevailing company law in South Africa. The Public Finance Management Act (PFMA) is one of the key pillars of public sector governance in South Africa. While its emphasis is largely on sound financial management, the Act also takes good governance into account and is a stringent code aimed at ensuring that public enterprises retain transparency and are accountable to the nation as opposed to a limited number of shareholders.

Thulani Gcabashe, Eskom's Chief Executive, says state owned enterprises have special reasons for achieving a high level of corporate fitness, particularly in developing economies. For one thing, they can play a major role in contributing to economic development. Eskom is a classic case in point, with the roll-out of electricity to communities throughout the country, even in the most remote rural areas, changing the standard of life among many South Africans. In this way, a state owned enterprise such as Eskom provides the state with the means to direct investment in order to create a more equitable society. At the same time, such enterprises provide the infrastructure required to



Thulani Gcabashe, Chief Executive, Eskom Holdings

stimulate economic growth. Gcabashe emphasised that corporate fitness is a key factor in meeting these demands.

"State-owned enterprises need to be efficient, well-run and in a position to deliver on the Government's mandate. This is South African context, considering that state-owned enterprises make a vital contribution to the reconstruction and transformation of both society and the economy.

For most state-owned enterprises, there is a challenge to manage the complex relationship between Government as the shareholder and the board of directors of the enterprise. There has to be a balance between the Government's need to pursue critical public interest programmes and the business imperative to achieve excellent performance within such enterprises. At an internal level, the challenge is to establish good corporate governance that is transparent, devoid of corruption and that is in line with the globalising environment."

Gcabashe added that within Eskom, the project of pursuing good governance started with

positioning of Eskom as a pre-eminent African Energy Sources Corporation of global stature. For the organisation to be taken seriously on the continent and globally, it had to have a benchmark of standards against which it could measure itself in the drive to improve efficiencies, pursue excellent financial performance, pay dividends and taxes while continuing to meet the public mandate for rolling out electricity and contributing to developing the country.

"Using such benchmarking standards, we introduced a business approach to ensure that there is a focus on efficiency and the bottom line. We have outsourced a number of our services, thereby creating employment opportunities outside the mainstream business environment and providing support to the Black Economic Empowerment programme."

Gcabashe says Eskom's relationship with Government had been clearly defined, helping it meet its targets. "In direct terms, we report to the Department of Public Enterprises and they set our mandate. However, we are also responsible

to the Department of Minerals and Energy, which is the Ministry that sets out our energy policy."

Escom's mandate is accompanied by clear targets that have to be met in terms of rolling out electricity to all sections of the South African population. The roll-out was not something that could be done at the whim of the Eskom management. It had become a national issue. We have an agreement that we sign at a particular point at the beginning of the year and it gets reviewed at the end of the year. In assessing

the performance of the board, the shareholder would be able to point to a given locality and call for accountability as to whether connections were made, whether the needs of the target communities were met. In this way it becomes possible to measure the performance of the board against the benefits that are reaped by the general populace. It is not the choice of the organisation whether or not to meet those demands; it is an agreement that was reached upfront with the shareholder. It was in view of all these challenges that we had to establish firm benchmarks and standards in the thrust towards greater efficiency and corporate accountability."

The search for new benchmarks and standards led to several new

developments, including a research project and a book.

The research project was largely focused on the development of African leadership models. The key was to find ways of creating pathways for Africans to find their leadership rhythm based on the challenges that face people in positions of leadership in the continent's context. Eskom commissioned an extensive research programme on the subject. One of the key areas was finding the "x" factor of leadership. This means the key to outstanding leadership which is not only effective in itself, but is grounded in social systems that enable it to flourish.

The results of the research project were published in 2005. The research has led to a new way of approaching the subject, with a new emphasis on fashioning leadership pathways that take into consideration African norms, culture and collective personality. Eskom has been a keen champion of the approach, taking it to Nepal business forums and other continental corporate platforms.

The book that was twinned with Eskom's corporate governance thrust was co-written by the company's Chairman, Reuel Khoza, and Mohamed Adam, Eskom's Corporate Counsel and Company Secretary. The work, titled "The Power of Governance", will be launched on 12 May and carries a preface by Thulani Gcabashe, the organisation's Chief Executive.

"The Power of Governance opens a window into Eskom's experiences in developing good governance guidelines, principles and values and tells a story of how we charted our path in that direction. It sets out the issues and challenges in relation to corporate governance in state owned enterprises. I think it challenges others in the state enterprise sector and in the private sector, both in South Africa and in other countries, to look at how they can tackle this issue in a fashion that will yield positive results.

"I have worked closely with both authors in addressing the challenges of corporate governance and they are well qualified to put across Eskom's experience in this area. They have reflected on our successes as well as areas that require improvement. I have no doubt that the publication will make a valuable contribution to good governance in state-owned enterprises. It will also serve as a useful and practical reference for ministers, government officials, other boards, directors and chief executives."

With the focus on putting flesh to the principles outlined by Napad in relation to Africa's economic development, Gcabashe pointed out that within the electricity sector, much has been done at a continental level to establish relationships, work together on projects and outline policy. Within the SADC region, the first step was to put protocols in place, a process that was started in the early 90s. This gave birth to the Southern African Power Pool, an organisation that governs the sector in the region. The SAPP was formally put in place in 1998 and was based on inter-governmental agreements and protocols. These cascaded into the utilities, providing for common corporate vision and trade.

"The role of governance in that situation has been to try and ensure that the utilities work as proper entities and that between them and the governments they represent there are clear protocols. Interestingly, other parts of the continent are starting to establish power pools using our experience as a model to follow. There is a drive to open trade between the power pools. There are interconnectors that are almost complete linking the SADC region to East Africa. The pool opens a pathway for sectoral development and growth. We are working to put flesh on plans to set up interconnectors all the way up through Algeria to Europe. In order for all these things to be done in an efficient and profitable manner, there has to be a set of values that govern how all the role players relate to each other, their responsibilities to each other and their responsibilities to their shareholders."

"It is important to emphasise that corporate governance is not a magic wand that will solve all problems. That is all the more so if there is no clear objective and mandate. An organisation that is not properly directed by a board may start to develop interests that go beyond its mandate. From our experience we have learned that improvement in governance enables an organisation to become more focused. Of course, good leadership is critical in this environment, particularly with all the new developments that are coming up on our continent and the challenges we face in our path. But such good leadership has to be complemented by an enabling environment that sets desired standards, goals and access to new possibilities."

ANNEXURE E

20 July 2005
766 Montrose Avenue
Little Falls
1735

Group Company Secretary
Eskom Holdings Ltd
Megawatt Park
Maxwell Drive
Sunninghill
Sandton

ATT: Mr. Mohamed Adam

Dear Sir,

Research Study on Corporate Governance – Request for your Support and Approval to use Eskom Holdings Ltd as a Case Study for purposes of this Research

I am Mr. L.D. Mokoena, a final year Master of Business Leadership (MBL) student at the Graduate School of Business Leadership. I'm expected to do a Research Report, on a topic in a particular field of study that will add value to the existing body of knowledge, as part of the requirements of obtaining the MBL postgraduate degree.

I have chosen to do research in the area of corporate governance within a state-owned enterprise in South Africa. The topic of my research is "**The Importance of Corporate Ethics and Values: Building a Sustainable Strategy Model for Effective Implementation of Good Corporate Governance within a State-Owned Enterprise in South Africa**"

I hereby would like to request for your support and approval that your company, Eskom Holdings Ltd, be used for the purposes of the above stated research study.

Detailed below in **Annexure A**, which forms part of this letter, is **an overview of the pertinent aspects of my intended research study** to be performed using your organization

(Eskom) as a case study. All information contained in Annexure A is aimed at providing a high level understanding of the intended study, with the hope that this will facilitate the informed response from your organization on my above request and for your support. The **research study's time-lines** have been provided in **paragraph 7 of annexure A** below for your information.

Attached to this letter also, is a letter from Unisa Graduate School of Business Leadership which confirms that I'm the student of the same institution and that all the necessary confidentiality requirements from Eskom Holdings Ltd will be observed and complied with. I would like to believe that, based on all the information and assurances provided, my request to be allowed to use your organization (Eskom) for purposes of my research study and for your support will be favorably considered.

Thanking you in anticipation and hoping to hear from you soon.

Yours sincerely,

Mr. L.D. Mokoena (called Bonga)

MBL Student - Unisa Graduate School of Business Leadership

Cell: 082 466 6896

Work Tel: (011) 217 1146

Fax No: (011) 217 1152

CC: Ms Laetitia Vermeulen – Eskom's Senior Consultant (Ethics Office)