An Empirical Study of Corporate Governance and Sustainability Reporting Practices in South African State-Owned Entities

by

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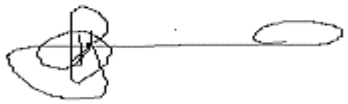
DECLARATION

I, Mr. Robert Nicky Tjano, with student number: **34727787** declared that "***An Empirical Study of Corporate Governance and Sustainability Reporting Practices in South African State-Owned Entities*** " is my own work. All sources consulted or quoted have been indicated and acknowledged through complete references.



RN Tjano

15 June 2021

Date

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ABSTRACT

There is a paucity of research on corporate governance (CG) in state-owned entities (SOEs), specifically with reference to disclosure practices in sustainability reporting (SR). Extant research mainly focused on private entities, and rarely used hybrid research approaches and methodologies, and sector-specific concepts, with a focus on theory- and framework development. Therefore, the current research was primarily aimed at exploring CG and SR disclosure practices of South African Schedule 2 SOEs. The main RO was to investigate the evidence of an association between selected CG variables and SR performance indicators of South African Schedule 2 SOEs. Supplementary to the main RO, the study also explored the nature and scope of the disclosure practices SOEs' in reporting on CG and sustainability, the extent of SOEs' adherence to performance standards, and possibility of a trend in the disclosure practices regarding CG and SR.

To address gaps in the knowledge of this context, the study followed a mixed-methods design in which association of multiple variables was investigated a 15-year time span (2005–2019). The results of multivariate regression analysis performed on the evidence of an association between selected CG variables and SR performance indicators were found to be inconclusive, except for board size (BS), which was found to be positively and significantly associated with the triple bottom line dimensions of SR. These results indicate the need for further research in this area. The findings of the textual content analysis revealed a fair degree of adherence to CG reporting standards by SOEs, whereas disclosure performance on SR indicators painted a dismal picture. With regard to trends in reporting, the study found a sporadic high degree of variations and fluctuations in SOEs' disclosure practices.

The main contribution of the study lies in an empirical investigation of the association of the less studied CG variables and SR performance indicators in the context of South African SOEs through unique, multiple dimensional approach – methodological, theoretical and periodical. Thus, this research has both policy and managerial implications as it provides useful insights for stakeholders within SOEs' arena. It's also a theoretical starting point for future research on governance–sustainability integration. Practitioners and policy-makers are encouraged to strengthen governance oversight on disclosure requirements, whilst investing in training and capacity development initiatives aimed at standardising disclosure practices. A disclosure and transparency compliance framework aimed at this purpose is thus proposed in this research.

Key words: *content analysis; corporate governance; corporate social responsibility; Global Reporting Initiative; King report; mixed-method design; multivariate regression analysis; state-owned entities; sustainability performance; sustainability reporting; triple bottom line*

SETSOPOLWA

Go na le dinyakišišo tše mmalwa ka ga bolaodi bja dikhamphani (CG) ka dihlongweng tša mmušo (di-SOE), kudukudu mabapi le ditiro tša go tsebagatša diphiri ka go fa dipego ka ga kamego ya khamphani go setšhaba le tikologo (SR). Dinyakišišo tša bjale di lebeletše kudu go dikhamphani tša phraebete, ebile ga se gantši di šomiša mekgwa le ditsela tša dinyakišišo tše di kopantšwego le mareo ao a amanago kudu le lefapheng le itšego, go lebeletšwe kudu teori le tlhabollo ya metheo. Ka fao, dinyakišišo tša bjale di ikemišeditše go utolla ditiro tša go tsebagatša tša CG le tša SR tša Šetule ya 2 ya Afrika Borwa ya di-SOE. Maikemišetšomagolo a dinyakišišo (RO) e bile go nyakišiša bohlatse bja kamano magareng ga diphapano tšeo di kgethilwego tša CG le tša go šoma ga SR tša Šetule ya 2 ya Afrika Borwa ya di-SOE. Go tlaleletša RO ye kgolo, dinyakišišo di lebeletše gape sebopego le bogolo bja ditiro tša go tsebagatša tša di-SOE ge di bega ka ga CG le go kamego ya khamphani go setšhaba le tikologo, bogolo bja go obamela ga di-SOE go melawana ya go phethagatša mošomo, le kgonagalo ya phetogo ka go ditiro tša go tsebagatša mabapi le CG le SR.

Go rarolla dikgoba tše di lego gona ka tsebong ya seemo se, dinyakišišo di latetše tlhamego ya mekgwa ye e kopantšwego yeo go yona kamano ya diphapano tše ntši mo lebakeng la mengwaga ye 15 (2005–2019) e nyakišišitšwego. Dipoelo tša tshekatsheko ya poelomorago ya makala a mantši yeo e dirilwego go bohlatse bja kamano magareng ga diphapano tša CG tšeo di kgethilwego le dilaetši tša go šoma ga SR di hweditšwe gore ga se tša felela, ka ntle le go bogolo bja boto (BS), bjo bo hweditšwego gore bo amana gabotse le kudu le mathoko a mararo a motheo a SR. Dipoelo tše di laetša gore go na le tlhokego ya dinyakišišo ka mo lekaleng le. Dikutollo tša tshekatsheko ya diteng tša dingwalwa e utollotše gore go na le bogolo bjo bo lekanego bja go obamela melawana ya go fa dipego ya CG ka di-SOE, mola e le gore go šoma ga go tsebagatša ka ga dilaetši tša SR di laeditše seemo sa go se kgahliše. Mabapi le diphetogo ka ga go fa dipego, dinyakišišo di hweditše seemo sa diphapano sa godimo ka fao go sa lekanego le go fetogafetoga ga ditiro tša go tsebagatša ka di-SOE.

Seabesegolo sa dinyakišišo tše se go dinyakišišo tšeo di nago le bohlatse tša kamano magareng ga diphapano tša go se nyakišišitšwe kudu tša CG le dilaetši tša go šoma ga SR ka seemong sa di-SOE tša Afrika Borwa SOE ka go diriša mokgwa wo o swanago o nnoši wa makala a mantši – wa mekgwa, diteori, le dinako tše di fapanego. Se se ra gore, dinyakišišo tše di na le bobedi diabe go melawana le go bolaodi ka ge di fana ka tsebo ye bohlokwa go batšeakarolo ka go lekala la di-SOE. Gape ke mathomomayo ya teri go dinyakišišo tša ka moso tša mabapi le kopanyo ya bolaodi le go kamego ya khamphani go setšhaba le tikologo. Bašomedi ba ka lekaleng le bahlami ba melawana ba hlohleletšwa go maatlafatša tekodišišo ya bolaodi mabapi le dinyakwa tša go tsebagatša, mola ka go le lengwe ba beeletša go

maitekelo a tlhahlo le a tlhabollo ya bokgoni tšeo di ikemišeditšego go swantšha ditiro tša go tsebagatša. Motheo wa go obamela go tsebagatša le wa go hloka sephiri wo o ikemišeditšego mabakeng a o a šišinywa ka mo dinyakišišoing tše.

Mantšu a bohlokwa: *tshekatsheko ya diteng; bolaodi bja dikhamphani; maikarabelo a dikhamphani setšhabeng; Maitekelo a Go bega Lefaseng ka Bophara; Pego ya King; tlhamego ya mekgwa ye e kopantšwego; tshekatsheko ya poelomorago ya makala a mantši; dihlongwa tša mmušo; go šoma ga kamego ya khamphani go setšhaba le tikologo; pego ka ga kamego ya khamphani go setšhaba le tikologo; mathoko a mararo a motheo*

ISIFINYEZO ESIQUKETHE UMONGO WOCWANINGO

Kukhona ukusweleka okukhulu kocwaningo ngokuphathwa kahle okwaziwa nge-corporate governance (CG) kwezinkampani ubunikazi bazo okuwumbuso ezaziwa njengama-state-owned entities (SOEs), ikakhulukazi mayelana nezinqubo zokudalula ngokusobala ekubikeni ngokuqhubekela phambili okwaziwa ngokuthi yi-sustainability reporting (SR). Ucwaningo olukhona manje lugxila kakhulu kwizinkampani zangasese, kanti futhi aluvamile ukusebenzisa izinqubo zocwaningo nama-methodoloji kanye nemiqondo eqondene nemikhakha ethize, ngokugxila kakhulu kwithiyori kanye nohlaka lwentuthuko. Ngakho-ke, ucwaningo lwamanje lwenziwe ngenhloso yokuphenya ngezinqubo ze-CG kanye ne-CR kwisheduli yeNingizimu Afrika eyaziwa ngelokuthi yi-South African Schedule 2 SOEs. Injongo enkulu yocwaningo eyaziwa ngelokuthi yi-research objective (RO) bekuwukuphenyisisa ngobufakazi obuhambisana nezinto ezithintana ne-CG kanye ne-SR nezinkomba zokusebenza ze-South African Schedule 2 SOEs. Ngokuhambisana nenjongo enkulu ye-RO, ucwaningo luphenye ngenhlobo kanye nobubanzi bezinqubo zokudalula ngokusobala ukubika kwama-SOE kwi-CG kanye nokuqhubekela phambili, indlela ama-SOE alandela ngayo amazinga okusebenza, kanye nokukhonakala kwenjwayelo yezinqubo zokudalula ngokusobala mayelana ne-CG kanye ne-SR.

Ukubhekana naleli gebe kulwazi lwalesi simo, ucwaningo lulandele idizayini yamamethodi axubene (mixed-methods design) lapho khona okube nokuhambisana kwezinto ngesikhathi seminyaka engu 15 ukusukela ngo (2005-2019) okwaphenyisiswa ngaso. Imiphumela yohlaziyo olwaziwa ngokuthi yi-multivariate regression analysis lwenziwe kubufakazi obuhambisana nobudlelwane phakathi kwama-variable e-CG kanye nezinkomba zokusebenza kwe-SR okutholakala kungenamphumela obambekayo (inconclusive), ngaphandle kosayizi noma ubungakanani bamabhodi (board size - BS), okutholakala kuhambisana kahle nangokubalulekile nalokho okubizwa nge-triple bottom line dimenstions alokho okuyi-SR. Le miphumela ikhombisa isidingo sokuthi kwenziwe ulunye ucwaningo kulo mkhakha. Okutholakele ngohlaziyo lwengqikithi yemibhalo olwaziwa nge-textual content analysis, kubonise ukunamathela ngokulingene ngamazinga okubika nge-CG okwenziwa ngama-SOEs, kanti izinkomba zokudalula ngokusobala kwe-SR zona zikhombise isithombe esibi kakhulu. Mayelana nenjwayelo kwezokubika, ucwaningo luthole ukuthi kukhona izinga eliphezulu lokushintshashintsha kwizinqubo zokudalula ngokusobala kwama-SOE.

Umthelela omkhulu wocwaningo usebufakazini bokuphenyisisa ngama-variable e-CG okungavamile ukuthi kucwaningwe ngawo kanye nezinkomba zokusebenza kwama-SR kwisimo saseNingizimu Afrika ngama-SOE ngokusebenzisa inhloso eyodwa yenqubo

ebonelela izinhlangothi ezehlukene – amamethodoloji, amathiyori kanye nezinkathi ezehlukene. Ngakho-ke, lolu cwaningo lunezinkomba zokumele kwenziwe kwezomgomo kanye nakwezokuphatha njengoba lunikeza ngemibono ewusizo kumkhakha wama-SOE. Lubuye futhi lube yisiqalo sethiyori yekusasa ngocwaningo mayelana nokuhlanganisa inqubo yokuphatha kanye nenqubekela phambili. Ama-practitioner kanye nabenzi bemigomo bakhuthazwa ukuqinisa inqubo yokuqapha kwezokuphatha kanye nezidingo zokudalula ngokusobala, kanti futhi kufakelwe izimali ekuqeqesheni kanye nasekuthuthukiseni amakhono anenhloso yokuqinisa amazinga okudalula ngokusobala. Ukudalula ngokusobala kanye nokulandela inqubo yohlaka lokusebenza ngendlela esobala ngale nhloso, yilokho okuphakanyiswayo kulolu cwaningo.

Amagama abalulekile: *uhlaziyo lwengqikithi, ukuphathwa kwenkampani; inqubo yokusebenzisana nemiphakathi eyaziwa ngokuthi yi-corporate social responsibility; i-Global Reporting Initiative; umbiko we-King; idizayini yamamethodi axubene; ukusebenza okuqhubekela phambili; ukubika ngokuqhubekela phambili; i-triple bottom line*

TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

ACRONYMS

AC	**:**	**audit committee**
AG	**:**	**Auditor General**
ASEAN	**:**	**Association of Southeast Asian Nations**
BA	**:**	**board activeness**
BoD	**:**	**board of directors**
BS	**:**	**board size**
BT	**:**	**board turnover**
CG	**:**	**corporate governance**
CLERP 9	**:**	**Corporate Law Economic Reform Program**
CMA	**:**	**Capital Market Authority**
CSR	**:**	**corporate social responsibility**
DBSA	**:**	**Development Bank of Southern Africa**
DPE	**:**	**Department of Public Enterprises**
EcoD	**:**	**economic dimension**
EnvD	**:**	**environmental dimension**
ESG&D	**:**	**Environmental, Social, Governance, and Data Stewardship**
FDI	**:**	**foreign direct investment**
GDP	**:**	**gross domestic product**
IEC	**:**	**Independent Electoral Commission**
IR	**:**	**integrated reporting**
JSE	**:**	**Johannesburg Stock Exchange**
LVG	**:**	**leverage**
NC	**:**	**nomination committee**
NEDs	**:**	**non-executive directors**
OECD	**:**	**Organisation for Economic Co-operation and Development**
OR	**:**	**outsider representation**
PFMA	**:**	**Public Finance Management Act**
PIC	**:**	**Public Investment Corporation**
PP	**:**	**Public Protector**
PRASA	**:**	**Passenger Rail Agency of South Africa**
PwC	**:**	**PricewaterhouseCoopers**
RBV	**:**	**Resource-Based view framework**

RC	**:**	**remuneration committee**
RO	**:**	**research objectives**
ROA	**:**	**return on assets**
ROE	**:**	**return on equity**
ROI	**:**	**return on investment**
RQ	**:**	**research question**
SA	**:**	**South Africa**
SAA	**:**	**South African Airways**
SABC	**:**	**South African Broadcasting Corporation**
SAHRC	**:**	**South African Human Rights Commission**
SC	**:**	**sustainability committee**
SD	**:**	**standard deviation**
SEBI	**:**	**Securities and Exchange Board of India**
SocD	**:**	**social dimension**
SOCs	**:**	**State-owned companies**
SOEs	**:**	**state-owned enterprises**
SOP	**:**	**Standard Operating Procedure**
SOX	**:**	**Sarbanes-Oxley Act**
SP	**:**	**sustainability performance**
SR	**:**	**sustainability reporting**
SSA	**:**	**Statistics South Africa**
TBL	**:**	**triple-bottom line**
UCT	**:**	**University of Cape Town**
UK	**:**	**United Kingdom**
UNCTAD	**:**	**United Nations Conference on Trade and Development**
UNISA	**:**	**University of South Africa**
US	**:**	**United States**
VBS	**:**	**Venda Building Society**
WB	**:**	**women representation on the board**

CHAPTER 1 – AN OVERVIEW AND BACKGROUND TO THE RESEARCH

1.1 Introduction and background

Good corporate governance (CG) and sustainable performance (SP) are central to the continued operation of corporate entities (Birindelli, Dell'Atti, Iannuzzi & Savioli, 2018; Aras & Crowther, 2009). CG refers to a broad term for processes, customs, policies, laws, and institutional frameworks that direct entities on how to act, administer, and control their economic activities (Khan, 2011), meanwhile SP on the other hand refers to entity's reporting performance on aspects of the triple bottom line (TBL) dimensions, i.e. social (SocD), economic (EcoD), and environmental (EnvD), as part of ensuring that resources are used sparingly for the benefit of future generations (Shrivastava & Addas, 2014). According to the Global Reporting Initiative (GRI) (2016), SP is measured from the three dimensions as described below:

- The SocD refers to an entity's performance on aspects relating to how it cares for the society through disclosure on social responsibility initiatives such as workforce data, labour practices, employment equity, human rights, training and education etc.

- EcoD refers to an entity's performance emanating from disclosure of competitive, market-based, and operational activities in pursuit of value-creating activities.

- EnvD refers to an entity's performance in aspects relating to disclosure on it cares for the environment from which resources needed to turn inputs into outputs in the form of products or services.

Disclosure is described as a voluntary (non-mandatory) or involuntary (mandatory) reporting of strategic information – (financial or non-financial) in the annual, integrated and/or sustainability reports by entities (Eng & Mak, 2003). For the purpose of this study, TBL is used to measure SP indicators. This approach draws from Elkington's (1994) coining of TBL, which the author describe as a mechanism people's lives and planet could be recognised as these matters in entities' profit motive. Since then, the concept has grown in popularity, from perspective of governance, finance and economics literature.

Both CG and SP concepts are contemporary and continue to grow in popularity in research, owing to the attention they draw from policymakers, academics, and practitioners (Mahmood *et al.,* 2018; Shrivastava & Addas, 2014; De la Cuesta & Valor, 2013). Hilton and Arkorful (2021) posit that the increased attention to good governance practices is attributable to much-publicised CG failures and scandalous activities in large entities worldwide. Entities such as Enron, World.com, AIG, Parmalat, HIH and Orelel, Lehman Brothers, Shell, and British Petroleum (BP), to name a few, are some of the global giants that have been entangled in corporate scandals. Likewise, entities in South Africa (SA), both private and public, are not immune, and have yielded their own share of corporate scandals. African Bank, McKinsey, KPMG, Steinhoff, Fedentia, Saambou, and, more recently, Venda Banking Society (VBS) are amongst the local sources of widely publicised private-sector scandals.

State-owned enterprises (SOEs), the unit of analysis for current study, have also been found guilty scandalous activities. SOEs are characteristically sizeable entities under ownership of — national, provincial or local government, operating in dominant sectors of the country's economy for economic development or control natural resources of a country (Shleifer, 1998). In a study by Thomas (2012) on corporate transgressions by strategic SOEs in SA, in which annual reports and newspaper citations were reviewed through content analysis against the framework of the Organisation for Economic Co-operation and Development (OECD) for best practices in governance, major SOEs were found to have engaged in unprincipled actions. Amongst those implicated were the South African Broadcasting Corporation (SABC), Eskom, Denel Pty Ltd., and Public Investment Corporation (PIC), to name a few.

In the study, Thomas (2012) found an alarming frequency of 18 033 media citations within two years that link SOEs to corruption, incompetence, fraud, and maladministration. Eskom, Telkom, Transnet, the SABC, and South African Airways (SAA) were the top five transgressors, with frequency of citations amongst them ranging between 1 089 and 6 269 citations. Along the same lines, McGregor (2014c), in a research on rating adherence to principles of CG by SOEs in SA, established that majority of the boards are non-compliant with CG provisions such as board independence and disclosure. Singling out some SOEs, McGregor (2014c) flagged

the SABC and Passenger Rail Agency of South Africa (PRASA) as amongst those who were found to be non-compliant with CG provisions. All these examples point to pure governance failures due poor CG practices. This occurs despite persistence calls to heed good governance practices as set out in regulatory and legislative frameworks such as South Africa's Treasury Regulations of 2001 issued in terms of the Public Finance Management Act (PFMA) 1 of 1999, the Municipal Finance Management Act (MFMA) 56 of 2003, the Companies Act 71 of 2008, and the Institute of Directors in Southern Africa's King codes on governance, amongst others (Kanyane & Sausi, 2015).

Poor CG practices have an adverse impact on SA's intend towards achieving growth and developmental objectives (Kanyane & Sausi, 2015). This is a concern, considering the strategic importance of SOEs as part of the SA government's vehicles towards achieving the developmental agenda, innovation policy, and infrastructure expansion (Peters, Ntaka & Ntshakala, 2017; Tonurist & Karo, 2016; Bruton, Peng, Ahlstrom, Stan & Xu, 2015; OECD, 2015b; Corrigan, 2014; Fourie, 2013). Therefore, given poor performance record with respect to adherence to good governance practices, credit agencies such as Moody's, Standard & Poor, and Fitch's are more likely downgrade these entities' credit ratings (Sadiki, 2015), thus affecting their ability to obtain financing from institutions such as the World Bank and the International Monetary Fund (IMF). This will consequently have an adverse effect on SOEs' balance sheet.

Principle of CG disclosure is one of the cores of good governance practices (Bhasin & Shaikh, 2013), and it is steadily receiving attention through intensified stakeholder activism, which is putting pressure on entities globally to be fair, accountable, and transparent in the manner in which they disclose information to stakeholders (Van Zyl & Mans-Kemp, 2020). Two of these constructs — transparency and disclosure form the cornerstone of the current research. The report by the United Nations Conference on Trade and Development (UNCTAD) (2006) titled *Guidance on good practices in corporate governance disclosure* recommends that material issues of disclosure with respect to CG need to be disclosed timeously, clearly, concisely, and precisely. The prelude of King IV, the latest governance report by the Institute of Directors in Southern Africa (IoDSA), the urges entities to embrace and start rethinking their position on corporate reporting, as we live in an era of radical transparency. King IV states that

there has been a shift from siloed to integrated reporting (IR) (IoDSA, 2016). IR is argued to resonates well with the principles of inclusivity and sustainability, thus suggesting a move towards integrated thinking. It is on this background that the IoDSA further states that the TBL is a crucial consideration in formulating corporate strategy, and also an aid to entities comprehending the needs and interests of wider stakeholder groups through sustainability reporting (SR). SR refers to entity's disclosure about its social, economic, and environmental impacts as a result of its everyday activities (GRI, 2016).

The previous section provided an overview and background to the study. Section 1.2 presents the research problem, followed by the primary research question (RQ) and the research objectives (ROs), followed by the research propositions in Section 1.3. Justification of the study follows in Section 1.4, explaining what necessitated this research, and Section 1.5 outlines the structure of the thesis according to the chapters. Section 1.6 completes the chapter with concluding remarks.

1.2 The research problem

Adherence to good CG practices, especially the principles of transparency and disclosure, has, in recent years, become one of the most topical issues in governance literature (UNCTAD, 2011). A proclamation of adhering to good governance by any entity is meant to convey the message that the entity is fostering a culture of SP, as measured through the TBL (Trireksani & Djajadikerta, 2016; Michelon & Parbonetti, 2012). This is where governance meets sustainability, often referred to as *governance–sustainability integration* (E-Vahdati, Zulkifli & Zakaria, 2019; Salvioni, Franzoni, Gennari, & Cassano, 2018). Salvioni, Gennari, and Bosetti (2016) call for such integration, and emphasise that sustainability disclosure and adherence to principles of good CG is vital for effective stakeholder engagement and thus regarded as a source of a competitive advantage (Salvioni *et al*., 2016).

Despite these developments, there is a paucity of research on the field of CG, with most of the literature devoted to private entities (Cucari, 2019; Hussain, Rigoni & Orij, 2018), and most of these studies are single-period and mono-method oriented (Daiser, Ysa & Schmitt, 2017). In SA, for example, only a few notable studies (Adebayo, 2020; Marimuthu, 2020; Bezuidenhout, Bussin & Coetzee, 2018; Surty, Yasseen & Padia,

2018; Mbele, 2016; Kanyane & Sausi, 2015; Mekwe, 2015; Ngwenya & Khumalo, 2012; Thomas, 2012) focused on SOEs. What is lacking in this line of research is a focus on multi-period, multi-variable, and multi-method research. Grossi, Papenfuss, and Tremblay (2015) note that knowledge on the role of CG in SOEs remains meagre, especially with regard to multi-period comparisons. Along the same line, Boyd, Gove, and Solarino (2017) affirm this statement, and also call for multi-variable comparisons. It is therefore clear that little is known about CG and SR performance practices of SOEs, which provided the rationale for conducting the current study in the context of South African Schedule 2 SOEs.

1.3 Research objectives (ROs) and hypotheses

The main purpose of this exploratory study is to explore CG and SR performance practices of South African Schedule 2 SOEs. From this purpose statement, the corresponding primary RQ is: *Do South African Schedule 2 SOEs exhibit good CG and SR performance practices*?". In an attempt to address this RQ, the following ROs are formulated:

1.3.1 ROs

- RO_1: To investigate the evidence of an association between selected corporate governance variables and sustainability reporting performance indicators of South African Schedule 2 SOEs.
- RO_2: To explore and compare the nature and scope of South African Schedule 2 SOEs' disclosure practices with regard to corporate governance and sustainability performance.
- RO_3: To explore the extent of South African Schedule 2 SOEs' adherence to King reports' and the Global Reporting Initiative's disclosure requirements.
- RO_4: To determine if there is a trend in disclosure practices of South African Schedule 2 SOEs' reporting on corporate governance and sustainability performance indicators.

1.3.2 Research propositions (hypotheses)

In the quantitative component of the research, the following nine research propositions taken from literature will be examined. The aim is to investigate the evidence of an association between selected CG variables and SR performance indicators:

Proposition 1: There is a positive association between board activeness (BA) and SR performance indicators

H_1a: BA is positively associated with SocD.

H_1b: BA is positively associated with EcoD.

H_1c: BA is positively associated with EnvD.

Proposition 2: There is a negative association between board turnover (BT) and SR performance indicators.

H_2a: BT is negatively associated with SocD

H_2b: BT is negatively associated with EcoD

H_2c: BT is negatively associated with EnvD

Proposition 3: There is a positive association between women's representation on the board (WB) and SR performance indicators.

H_3a: WB is positively associated with SocD.

H_3b: WB is positively associated with EcoD

H_3c: WB is positively associated with EnvD.

Proposition 4: There is a positive association between board size (BS) and SR performance indicators.

H_4a: BS is positively associated with SocD.

H_4b: BS is positively associated with EcoD.

H_4c: BS is positively associated with EnvD.

Proposition 5: There is a positive association between outsider representation (OR) on the board and SR performance indicators.

H_5a: OR is positively associated with SocD.

H_5b: OR is positively associated with EcoD.

H_5c: OR is positively associated with EnvD.

Proposition 6: There is a positive association between the presence of a nominations committee (NC) and SR performance indicators.

H_6a: NC is positively associated with SocD.

H_6b: NC is positively associated with EcoD.

H_6c: NC is positively associated with EnvD.

Proposition 7: There is positive association between the presence of a remuneration committee (RC) and SR performance indicators.

H_7a: RC is positively associated with SocD.

H_7b: RC is positively associated with EcoD.

H_7c: RC is positively associated with EnvD.

Proposition 8: There is positive association between composition of the audit committee (CAC) and SR performance indicators.

H_8a: CAC is positively associated with SocD.

H_8b: CAC is positively associated with EcoD.

H_8c: CAC is positively associated with EnvD.

Proposition 9: There is positive association between presence of a sustainability committee (SC) and SR performance indicators.

H_9a: SC is positively associated with SocD.

H_9b: SC is positively associated with EcoD.

H_9c: SC is positively associated with EnvD.

1.4 Justification and significance of the study

Building on the research problem, the current research narrow gaps identified in the governance literature. Hussain *et al.*, (2018) have expressed the concern that this research stream is fragmented and also plagued by methodological issues such as limited measurement variables, samples, industries, and time effects henceforth meagre empirical evidence on association. Furthermore, Madhani (2016) and Hussain *et al*., (2018) share same sentiments as the observe that few studies exist that examine the association between CG and the three dimensions of SP indicators. The identified gaps are summarised as follows:

(1) Much of the literature on governance focuses on private entities, while public entities, such as SOEs, which are involved in strategic sectors of many economies worldwide are largely ignored. This provides an opportunity to gain more insight into their governance practices and their approach to a SR culture.

(2) There seems to be consensus in governance- and sustainability literature that corporate entities need to consider and take responsibility for the effects of their activities on the environment and stakeholders (Hoffman & Bansal, 2012). The TBL approach emerged as a measuring tool to gauge efforts by entities towards sustainable performance (Savitz, 2013). The focus of most of the studies that are reviewed in this study was on social responsibility disclosure practices, which tend to focus on environmental and social consideration while ignoring

the economic dimension. This narrow focus restricts the application of the TBL approach, which is the foundation of SP. This study therefore attempt to bridge this gap by adopting 360^0 degree view of SR.

(3) Studies on the integration of governance and sustainability are few, and this line of research is yet to gain momentum. This approach does not regard governance and sustainability in isolation, but rather as complementary concepts. The literature argues that viewing the TBL in an integrated manner is a prerequisite for sustainability and good CG. Therefore, the current research examines the association between good governance and sustainability within the context of SOEs in South Africa.

In terms of the significance of the study, the theoretical, methodological, and empirical contributions and recommendations are explained in detail in Chapter 8, alongside implications for policy- and lawmakers, practitioners, and academia.

1.5 Structure of the thesis

Now that the preamble to the study has been presented, Table 1.1 illustrates how the rest of the thesis is structured:

Table 1-1: Layout of the research

Chapter 1: An overview and background to the research Chapter 1 provided background to the study, the problem of statement, research purpose, RQ, ROs, and research propositions. This was followed by a brief introduction to methodological procedures and approaches chosen for this research.
Chapter 2: Corporate governance of SOEs in South Africa This chapter provides an account of SOEs nature, characteristics, and role in the economy. This is followed by discussion on the evolution of CG codes and reforms from and international perspective. The last part of the chapter deals respectively with the legislative framework regulating SOEs and the CG practices of SOEs in SA.
Chapter 3: Corporate governance and sustainability of SOEs: A review of theoretical literature In this chapter, the theories of CG and SP are reviewed and discussed within the context of SOEs. The focus is on political theory of CG, agency, legitimacy and social contract theory, stakeholder theory, stewardship, and resource-dependency theories.

Chapter 4: Corporate governance and sustainability reporting performance indicators: A review of empirical literature The chapter provides a review and discussion of empirical literature on the association of selected CG variables and SR performance indicators. The research propositions outlined in Section 1.3 of Chapter 1 form part of this discussion.
Chapter 5: The research design and methodology The research design and methodology procedures and approaches followed in this study are dealt with extensively in this chapter. These include research methods, sampling, data capturing, cleaning and analysis procedures.
Chapter 6: Results and Discussions: Evidence of the association between CG variables and SP indicators The results of descriptive statistical and multivariate regression analyses of the quantitative phase of the research are presented, interpreted, and discussed in this chapter. This is an attempt to answer the RQ_1.
Chapter 7: Results and Discussions: CG and SR performance practices of the SOES The findings of the content analysis in exploring the CG and SR performance practices of the SOEs under study are presented and interpreted. The qualitative phase of the research was aimed at achieving the last three ROs of the study.
Chapter 8: Conclusions, contribution, and directions for future research This is the last chapter of the thesis, and it presents the summary, limitations, and contributions of the research. The chapter also presents a discussion of directions for future research through theoretical, methodological, and practical recommendations.

Source: Researcher's own compilation

1.6 Concluding remarks for the chapter

The main purpose of the current chapter was to present a brief overview and background to the research. The main RQ, preceding research purpose, ROs and research propositions were presented. This was then followed by a justification and significance of the study. The structure of this thesis through a chapter layout was also presented, followed by the definition of key terminology used in this research. The next chapter presents a discussion on the overview of CG of South African SOEs. In that

chapter, the nature, characteristics and role of the SOEs will be discussed as well as evolution of CG codes, where international comparison is made.

CHAPTER 2: CORPORATE GOVERNANCE OF SOEs IN SOUTH AFRICA

2.1 Introduction to the chapter

CG and its practices have been in existence for as long as corporate entities have existed (IoDSA, 2002). Its origins date to the era of William Shakespeare (Tricker, 2021; Mbele, 2016), when issues of ownership and control of an entity, as discussed in the work of Berle and Means (1932), paved the way. Kendall and Kendall (1998) note that, whenever there is a separation of ownership and management, issues of governance come into play. *Ownership* refers to property rights of the parties (principals, shareholders, and stakeholders), while *control* refers to rules or legislative framework that brings about balance of power between the parties (Shleifer & Vishny, 1986).

Although the State's ownership is defined, the principal shareholder's roles and degree of accountability to stakeholders of SOEs in SA are not clearly defined, and can be attributed to inconsistencies, contradictions, and fragmented legislative frameworks (Kanyane, 2018). Given the continuously changing business environment, these entities need consider issues affecting their operations. The IoDSA (2016), in King IV, acknowledges that entities globally operate within the triple context of economic, societal, and environmental challenges, and it is therefore imperative that governing bodies, that is, boards of directors (BoD) steer their entities towards sustainability.

This chapter presents a discussion of CG from the perspective of SOEs in SA. The rest of the chapter is structured as follows: Section 2.2 and 2.3 provide a discussion of the nature, characteristics, and role of South African SOEs. Section 2.4 focuses on the evolution of CG, codes, and reforms from an international perspective. An overview of SA's CG legislative framework follows in Section 2.5, and Section 2.6 provides concluding remarks for the chapter.

2.2 The Nature and Characteristics of South African SOEs

SOEs differ across countries, but all are established based on an economic and developmental mandate. SOEs are established as part of a government's political strategy to maximise its ownership of specific productive and efficient assets (Cuervo-Cazurra, Inkpen, Musacchio & Ramaswamy, 2014).

In SA, SOEs are sometimes referred to as *state-owned companies* (SOCs), which refer to those entities that, in theory, are fully corporatised with commercial (for-profit) and non-commercial (non-profit) purposes, and from legislative framework, these entities fall under the ambit of the PFMA (Robb, *n.d*). The position paper *Governance responsibility and accountability of SOEs* by PricewaterhouseCoopers (PwC) in partnership with the IoDSA and the Development Bank of Southern Africa (DBSA) (2011) defines SOEs as "those organisations under the ownership control of the government of the Republic of South Africa". Section 1 of the PFMA recognises these entities as government business entities.

According to the National Treasury database, there are approximately 300 SOEs in SA. The National Treasury groups these entities under three categories: Schedule 1, 2, and 3, a categorisation that is also spelled out in the PFMA. In Schedule 1, there are nine constitutional entities, known as "Chapter 9 institutions", such as the Independent Electoral commission (IEC), the Public Protector (PP), and the South African Human Rights Commission (SAHRC). Schedule 2, as shown in Table 2.1, consists of major public entities, in which the state is a major shareholder, which are used competitively for commercial purposes (Fourie, 2014). In Schedule 3, SOEs are categorised into four groups (A, B, C, and D) according to level — National public entities, National government business enterprises, Provincial public entities and Provincial government business enterprises.

Table 2.1: List of Schedule 2 SOEs

Company	Industry
Air Traffic and Navigation Services Company Limited	Aviation
Airports Company of South Africa Limited	Airline
Alexkor Limited	Mining
Armaments Corporation of South Africa Limited	Defense
Broadband Infrastructure Company (Pty) Ltd	Telecommunications
Central Energy Fund (Pty) Ltd (CEF)	Energy
DENEL (Pty) Ltd	Defense
Development Bank of Southern Africa (DBSA)	Development Finance
Eskom	Energy
Independent Development Trust (IDT)	Social Development
Industrial Development Corporation of South Africa Limited (IDC)	Development Finance

Land and Agricultural Development Bank of South Africa (LDBSA)	Development Finance
South African Airways (Pty) Ltd	Airline
South African Broadcasting Corporation Limited (SABC)	Information Services
South African Express (Pty) Airways	Airline
South African Forestry Company Limited (SAFCOL)	Forestry
South African Nuclear Energy Corporation Limited (NECSA)	Nuclear Energy
South African Post Office Limited (SAPO)	Postal Services
Telkom SA Limited	Telecommunications
Trans-Caledon Tunnel Authority (TCTA)	Water Infrastructure
Transnet Limited	Transport

Source: National Treasury (2018)

2.3 The role of SOEs in SA

Throughout the world, SOEs are reported to have significant economic impact, and are believed to be responsible for up to 10% of the global gross domestic product (GDP) (Peng *et al*., 2016; Bruton *et al*., 2015). SOEs are known to play a vital role in the economic development and growth of key industries in many countries (Bezuidenhout *et al*., 2018). Since the 20th century, SOEs in South Africa have played an instrumental role in shaping the economic landscape of the country (Cheteni & Khamfula, 2018; Madumi, 2016). Balbuena (2014) states that these entities are counted amongst the largest entities operating in strategic sectors of developing economies, such as electricity, water, and sanitation.

Shleifer (1998), corroborated by the Department of Public Enterprises (DPE) (2014), states that, in most cases, SOEs operate in strategic dominant sectors, and are geared towards economic development and control of country's natural resources. Owing to their strategic importance in furthering government's development agenda, SOEs are mandated to operate autonomously (OECD, 2011). Thabane and Snyman Van Deventer (2018) state that the strategic role of these entities is five-fold, namely the provision of public goods and services, limiting privatisation, generating public funds, increasing service delivery, and encouraging economic development and industrialisation.

In many parts of the world, e.g., Singapore, Malaysia, Brazil, India, and SA, SOEs play a key role in furthering governments' developmental strategies (OECD, 2015b). In most developing countries, including SA, SOEs are used as strategic vehicles for

furthering government's developmental agenda for economic transformation and development, social welfare, employment creation, stimulation of the economy, and increasing the GDP (Madumi, 2018; OECD, 2015b; Corrigan, 2014; Fourie, 2014; Thomas, 2012).

Madumi (2018) adds that SOEs are seen as instrumental to social transformation. The notion of the developmental role played by SOEs, especially in SA, is reiterated by Raseala and Mashamaite (2018), who state that SOEs' play an important role in the country's socio-economic development trajectory, and then make a call for a transparency and accountability in SOEs. Makuyana and Odhiambo (2016) posit that most South African SOEs have gone through reforms and restructuring to reposition them as the catalysts for economic growth through provision of infrastructure, addressing market failures, and employment creation.

The way in which SOEs are utilised to further a developmental agenda differs across countries. Singapore and some of its fellow Association of Southeast Asian Nations (ASEAN) countries are amongst those that are using SOEs proactively, with a focus on key entities to achieve their developmental goals. From this region, China and India have the largest SOE sectors, due to their previous economic models being respectively characterised by communism and mixed economic system. SA on the other hand, too with its mixed economic system endeavours to restructure and rebalance the objectives of its SOEs towards a developmental state (OECD, 2015b).

Major six SOEs in SA (Alexkor, Denel, Eskom, South African Express Airways, SAFCOL and Transnet) collectively have created up to 105 000 employment opportunities (Madumi, 2018), whilst their contribution to national GDP and overall FDI is estimated to be more than 8.5 and 19 percent respectively (Kikeri, 2018). As far as infrastructural development is concerned, SOEs contribute approximately 45% (Peters *et al*., 2017). With regard to revenue, the OECD's (2015a) policy brief on SOEs reports that these entities constitute vital government revenue streams, with the figure reported to be approximately 8.7% of SA's GDP. The transport sector is responsible for 28.8%, followed by energy and telecommunications at 27.3% and 16.2% respectively. The smallest contributors are those in the financial services and water industries, at 8.03% and 3.61% respectively (OECD, 2015b). According to Kikeri

(2018), the reported cumulative asset base value of all SOEs is in excess of R1 trillion, which is equivalent to approximately 27% of the country's GDP.

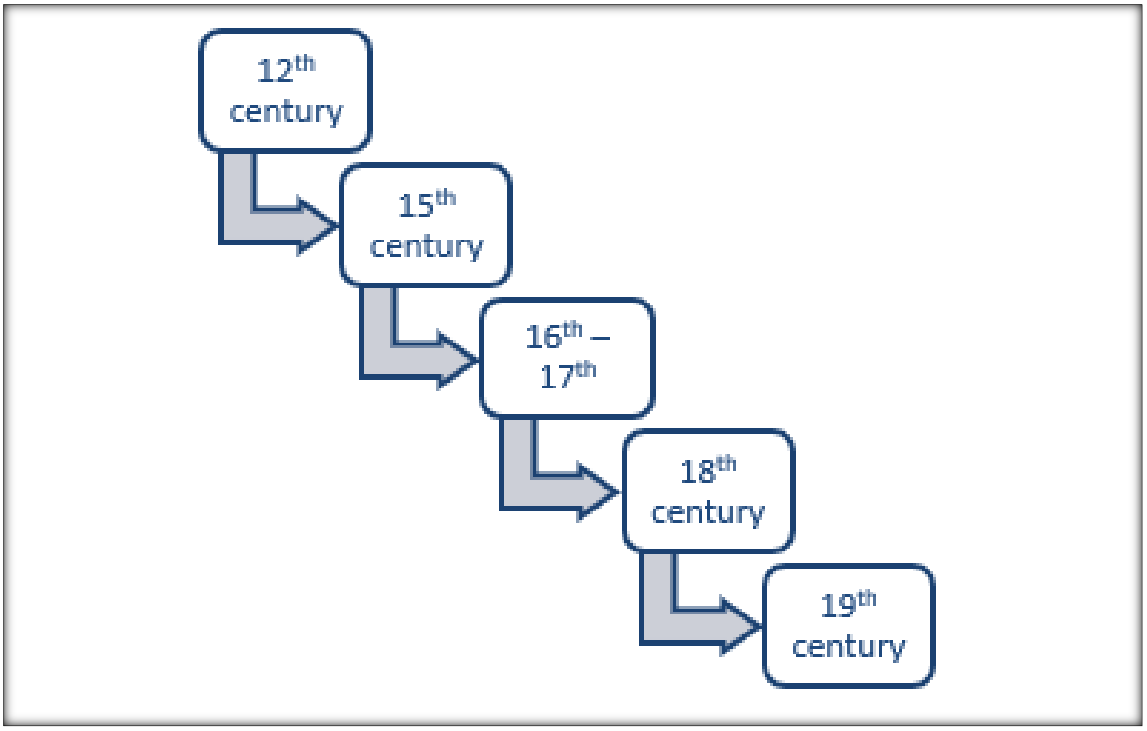
2.4 Evolution of CG — Codes and Reforms

CG has many meanings, and this can be attributed to varied origins. Matei and Drumasu (2015) suggest that the term gained prominence at an international level following increasing incidences of fraudulent activities, financial mismanagement, and corporate scandals since the 1980s, mainly in the United States of America (USA) and the United Kingdom (UK). These events led to the emergence of CG codes and reforms worldwide (Mallin, 2007).

According to Hendrikse and Hefer-Hendrikse (2012), the word *govern* was derived from the Latin words *gubernare* ("steering of a ship") and *gubernator* (captain of the ship). Today, *governance* means a state of good order. The word *corporation* is derivation of the Latin word *corpus* (body), which implies body of people. In ancient Rome, corporate entities, established by law, were described as *guilds* and *social clubs* (Baker & Quéré, 2014).

Literature conflicts regarding when CG started developing. Figure 2.1 attempts to depict lineage of this development. Some evidence shows the period to be between the 12th and 18th centuries, with the 19th century being the time with it became popular (McNeill, 1963; Lane, 1944). Other literature sources point to the concept dating back to Shakespearean times (i.e between 15th and 16th centuries) (Mbele, 2016; Tricker, 2009) yet others date it back to the 12th century (Davis, 2005), the 15th century, through the Venetian state's influence (Baker & Quéré, 2014; Lane, 1944), the 16th and 17th centuries, during era of Isaac Le Maire and colonial ventures of the Dutch Republic (Funnell & Robertson, 2013; Mueller, 2012) and the Dutch East India Company (De Jong, Gelderblom & Jonke, 2010; Frentrop, 2003). Baker and Quéré (2014) suggest that, during the 15th century, most European countries commissioned joint-stock entities to start colonial entities. In the book titled *The company: A short history of a revolutionary idea*, Micklethwait and Wooldridge (2003) state that these entities were implicit in the political and economic evolution of colonialism. Wright (2014), in his book *Corporation nation*, argues that it was in the 18th century that CG gained prominence, when in excess of 20 000 entities in the USA were governing themselves as republics.

Figure 2.1: Historical development of CG



Source: Researcher's own design

These entities were equipped with strict internal controls to curb fraudulent and unscrupulous activities by agents and shareholders.

The 19th century saw major developments in CG following the Gilded Age (an era of rapid economic growth) and Wall Street Crash in the USA, when fighting for ownership and control of these entities gained momentum (Berle & Means, 1932). In East Asia, the 1997 financial crisis, which was ascribed to poor CG, severely impacted the economies of Philipi, Indonesia, South Korea, Thailand, and Malaysia (Kawai, Newfarmer & Schmukler, 2005).

Due to the popularity of CG, many attempts to define the concept have subsequently emerged, leading to a variety of meanings and views (Mekwe, 2015). Sial, Shrivastava, and Mishra (2018) observe that some of these definitions are so intricate that it becomes difficult to comprehend their meaning This indicates the need for a generally accepted definition of the concept (Nix & Chen, 2013; Gillan, 2006).

Khan (2011) in a literature review paper on CG defines the concept as a broad term prescribing processes, customs, policies, laws, and institutional frameworks that direct entities on how to act, and how to administer and control their economic activities. In

line with Khan's view, the Cadbury Report (1992) defines it as the system by which businesses are directed and controlled. Ristovska (2008) defines it as structures, processes, and procedures entities adopt to facilitate their operations and decision-making.

Differing with these definitions, Hendrikse and Hefer-Hendrikse (2012) define CG as a force that controls and maintains the balance of interests of shareholders, stakeholders, and society. These definitions are more geared towards private entities. With regard to SOEs, the South African Protocol on CG in the Public Sector (2002) defines CG as:

> "…***the processes and systems by which corporate enterprises are directed, controlled and held to account".***

This begs the question of who should be responsible for CG in entities. Hendrikse and Hefer-Hendrikse (2012) note that both the leadership and the BoD should be accountable for good CG practices. The BoD plays a crucial role in steering the entity, management, and employees towards adherence. The OECD (2015a) guidelines state that SOEs' BoD should possess the necessary authority, competencies, and objectivity in discharging their fiduciary function to guide strategic activities and goals of the entity, and continuously monitor executives' performance.

There are tacit expectations from the public at large in that institutions and entities have '*checks and balances'* in place through proper governance mechanisms and regulatory frameworks to ensure compliance (Hendrikse & Hefer-Hendrikse, 2012). Rebeiz (2015) cites the board's structure, independence, diversity, and activity as factors that impact entities' performance. The next section presents a comparison of major CG codes and models from around the globe.

2.4.1 CG Codes: An International Perspective

It took worldwide bankruptcies and corporate malfeasance, both large and small scale to draw political interest in CG, to the extent that legislative frameworks were enacted through of various Acts, reforms, and CG codes (Kiranmai & Mishra, 2020; Kaplan, 2012). Tshipa (2017), corroborated by Hilton and Arkorful (2021), notes that, in the aftermath of various scandalous activities and the 2008 global financial crisis, academics and policy makers globally started to discuss to the effects of weak CG

mechanisms. Kiranmai and Mishra (2020) add that, with this growing attention paid to CG amid the 2008/09 global financial crisis and many corporate failures, various countries across the world started updating their CG codes and enacting new governance frameworks to protect the interests of shareholders.

There has been a significant improvement in governance codes, in both developed and developing economies (Kanyane and Sausi, 2015). International bodies such as the World Bank, the International Monetary Fund (IMF), and the OECD played a significant role in some countries, while countries such as the USA, the UK, Germany, Japan, China, and India introduced their own reforms. The role of selected international bodies is discussed in detail in Section 2.5. The following sections discuss the measures taken by individual countries.

Matei and Drumasu (2015) state that there are almost 410 developed codes, with the USA's Sarbanes-Oxley Act and the UK's Cadbury Code amongst the best-known. Both the USA and the UK influenced development and reforms of CG codes, as the majority of high-profile corporate scandals and governance failures occurred in global entities that originated from these countries (Arcot & Bruno, 2006). For example, Enron, World.com, Lehman Brothers, and AIG in the USA, and BP, Maxwell Communications, Bank of Credit and Commerce International (BCCI), and the Royal Bank of Scotland (RBS) Group in the UK were amongst some of the high-profile corporate scandals. Other countries also had their share of such scandals, such as Italy (Parmalat), Australia (One.Tel; Bankwest), Japan (Olympus; Toshiba), and Germany (Arcandor; Schecker). SA's scandals included Fidentia, KPMG, VBS, and allegations of state capture[1]. The former PP Advocate Thuli Madonsela recommended that a commission of inquiry investigate the allegations of state capture, which led to the establishment of the Zondo Commission, chaired by Deputy Chief Justice Raymond Zondo.

[1] The mandate of the commission is to investigate all allegations of state capture, fraud, corruption, and maladministration in the public sector, including the SOEs. Of particular interest to the current research was that most of the SOEs under study have been implicated into allegations of the state capture. Various persons of interest, including the President of the Republic, were invited to appear before the commission's chair to make their representations and have their version of events heard. At the time of writing this thesis, the commission was yet to complete its hearings.

The Cadbury Report (1992) implies that poor CG practices are the cause of these failures and scandals. Shrivastava and Addas (2014) and Reed (2002) observe that, when such transgressions occur, new legal frameworks and reforms with strengthened responsibilities on accountability, responsibility, and transparency are enacted in hopes of preventing future recurrences. Mekwe (2015) regards these developments as an opportunity for critical evaluation of existing governance systems and their value-adding process.

In the UK, corporate scandals and CG failures led to the establishment of the Cadbury Committee in 1992, chaired by Sir Adrian Cadbury, upon the request of the UK's Financial Reporting Council (FRC), the London Stocks Exchange, and the accounting fraternity (Arcot & Bruno, 2006). The Committee's mandate was to probe British CG systems and recommend improvement initiatives to restore confidence in these systems. It is from this committee's recommendations that the UK was dubbed a pioneer in CG regulation (Arcot & Bruno, 2006).

The findings of various commissions led to the formulation of the UK's 2003 combined code (Mallin, 2007). One key recommendation from these commissions was the establishment of a code of best practice, which later became the UK's CG Code, aimed at achieving high standards of corporate behaviour (Arcot & Bruno, 2006).

Subsequent to the Cadbury Report, the Ruttenman and Greenbury Reports were enacted in 1994 and 1995 respectively. These reports provided guidelines on how to strengthen internal controls and dealt with issues around executive remuneration respectively. Drawing from the Ruttenman Report and the Greenbury Report, the Hampel Report followed in 1998, in order to revise provisions that originated from the Cadbury Report, and was popular for its '*common sense*' approach. This report was followed by the Turnbull Report in 1999, which also focused on internal controls, specifically for listed companies. The last two reports were the Higgs Report and the Smith Report, both in 2003. Higgs looked at the responsibility of executive directors and the role of the audit committee (AC), while the Smith Report was more concerned with issues around independent auditors following the aftermath of the Arthur Andersen and Enron scandals.

The UK Directors' Remuneration Report Regulations were issued in 2002, urging entities to publish their directors' remuneration in their annual reports. In 2005, the Turnbull Report was revised, resulting in the Revised Turnbull Guidelines, followed by the Company Law Reform Bill in November of the same year. The latter focused on encouraging shareholder engagement and a sustainable investment culture (Mallin, 2007).

With regard to the financial aspects of CG, the Cadbury Report introduced three governance principles, namely openness, integrity, and accountability. The report followed the '*comply or explain'* approach, which was also adopted in SA's King II Report. However, the Cadbury Report was criticised for its lack of prescriptive action with regard to '*comply or explain*', with critics noting that adhering to best governance practices remained voluntary.

In the UK, between 2008 and 2018, revisions were made to the Governance Code, such as the addition of principles, such as board diversity and the presence of an (AC). During these developments, Stewardship Codes aimed at enhancing engagements between investors and entities within a responsible governance environment were also enacted. In addition, the FRC published guidelines to aid boards in applying these principles and codes. It should, however, be noted that this legislative framework was more applicable to private entities, such that the UK's Chartered Institute for Public Finance and Accounting (CIPFA) subsequently developed its first CG framework for the public sector. The framework includes, among other principles, the following:

- proper organisational processes and structures;
- controls and financial reporting; and
- behavioural standards of directors.

Similar to the UK's governance reform, the US Congress passed the Sarbanes-Oxley Act in 2002, also called the *SOX Act*, following a series of governance failures. The Act lists a series of requirements that shaped the country's CG landscape, including:

- the board has to be responsible for an oversight role;

- the chief executive officer (CEO) and chief financial officer (CFO) have to certify the accuracy and appropriateness of their entity's financial statements, internal accounting and disclosure adequately controls and procedures;
- independence of board ACs and rotation of external audit entities (SOX Act, 2002).

Unlike in the US, where governance codes were criticised for being largely prescriptive, Australian codes are a mixture of prescriptive and voluntary principles. The introduction of the Corporate Law Economic Reform Program (CLERP 9) led to the Audit Reform and Corporate Disclosure Act 2004, regarded as corporate legislation in Australia, was then promulgated to regulate corporate behaviour (Goergen, 2012).

In Saudi Arabia, the Capital Market Authority (CMA) made sure the country's CG code was issued in Arabic (Al-Hussain, 2009). Al-Hussain and Johnson (2009) praise Saudi Arabia's progress in the introduction and implementation of viable and cultural-relevant CG codes and mechanisms. In India, the emergence of CG is evident in the introduction of various codes, guidelines, and Acts between 1998 and 2018, following serious corporate scandals in the aftermath of economic liberation in 1991. One of these scandals is the Satyam scandal, which, according to Sial *et al*., (2018), is India's own Enron. In this scandal, it was discovered that securities to the value of over 35 billion Indian Rupees had been unethically and unlawfully diverted from the banking system to stock brokers, to finance their own operations. Following the discovery, there was an increasing need to enact CG policies in the country (Sial *et al*., 2018). As a result, the Parliament of India introduced CG legislation that put various executives, stock brokers, and politicians put under scrutiny (Goswami, 2003). Kiranmai and Mishra (2020) document these codes and legislative frameworks as follows:

- Confederation of Indian Industry (CII) Code on CG, 1998
- National Code on CG, 1999
- Securities and Exchange Board of India (SEBI) Listing Clause 49, 2000
- Chandra Committee on Auditing and Governance, 2002
- OECD Principles, 2002

- Voluntary Guidelines on CG, 2009
- DPE Guidelines on CG, 2010
- Companies Bill, 2012
- Companies Act, 2013
- SEBI — Listing Obligations and Disclosure Requirement Regulation, 2016, 2018.

These CG prescripts were declared in 2009 and are applicable to all listed companies in India. To illustrate how reforms and codes shaped CG practices, the following section presents a comparison of recognised CG models, including that of SA.

2.4.2 Various CG Models

There are three CG models, namely the Anglo-Saxon model (the dominant model, applied in the USA, Australia, and Great Britain), the German model, and the Japanese model (Matei & Drumasu, 2015; Ghita, 2008; West, 2012). Compliance levels vary from one country to another, illustrated in Table 2.2. The distinction between these models is shaped by the dominance between of the Anglo-Saxon system and the two competing models, that is, the Continental Europe and Japanese models (West, 2012). Mbele (2016) points out three distinct and significant developments that seem to have shaped the CG field: the principle of independent directors and an audit committee (AC) in the US, the European system of a two-tier board, and the principle of stakeholder orientation.

Various authors use a variety of features to distinguish between CG models. For example, Douma and Schreuder (2013) use the analogy of market-orientation and network-orientation, Weimer and Pape (1999) use the taxonomy of CG, and Meier and Meier (2013) use a variety of features to compare US and European governance models. The market-oriented model, also referred to as *stock-market capitalism*, shares traits with the Anglo-Saxon system, which leans towards outsider systems where ownership is dispersed (Douma & Schreuder, 2013).

The network-oriented models are known as *relational-insider systems*, where ownership is rather concentrated (Tshipa & Mokoaleli-Mokoteli, 2015). In ethics- and management literature, the common distinguishing feature of CG models is orientation, whether it is stakeholder-oriented or shareholder-oriented (West, 2012).

Table 2.2 : Comparison between various CG models

Model of CG	South African	Anglo-Saxon	German	UK	Japanese
Orientation (insider/outsider)	Market-oriented	Market-oriented	Network-oriented	Market-oriented	Network-oriented
Key interested parties	Stakeholders	Shareholders	Stakeholders	Shareholders	Stakeholders
Enforcement approach	apply and explain	Compulsory	Compulsory	Comply or explain	Comply or explain
Structure of board	One-tier	One-tier	Two-tiers	One-tier	One-tier
Dual roles (CEO)	May be allowed in private entities	Allowed	Not allowed	Not allowed	Not allowed
Length of economic relationships	Long-term focus	Short-term focus	Long-term focus	Long-term focus	Long-term focus
Performance-driven remuneration	High	High	Low	High	Low
External market control	Present	Present	Not present	Present	Not present
Significance of stock market in the country's economy	High	High	Moderate-High	High	High

Compiled from: Meier and Meier (2013:10); Weimer & Pape (1999:154)

Networked-orientated systems are usually practised in the German and Japanese CG models. Distinctive features include key orientation (stakeholders vs shareholders), length of economic relationships, a performance–remuneration nexus, external market control, significance of stock market in the country's economy, and active external market for corporate control. Aguilera and Cuervo-Cazurra (2009) and Mallin (2007) indicate that there are models that are characterised by dispersed ownership and control of the corporation (e.g., the Anglo-Saxon system, including that of SA) and those with concentrated ownership of the corporation (German, Japanese, and South American CG systems).

The OECD's (2005a) guidelines on SOEs encourage separation of powers between the chairman of the board and the CEO, to avoid conflicts of interests, amongst other issues. In the USA, the practice of the CEO and the chair of the board being the same person is common, despite it being criticised for being a source of conflicts of interests (Bowen, 2008). Tribbett (2012) posits that the practice is declining because of shareholder activism. In the UK, Germany, and SA, separation of these roles is the norm. Arun and Turner (2009) state that compliance in the form of rules or codes is a reflection of the country's state of mind from a cultural standpoint, which is a function of how compliance is embedded, from the government to corporate sector.

The USA and Germany use their legislative frameworks to make compliance compulsory, while the UK follow the *comply or explain* approach (Meier & Meier, 2013). SA, through King IV, places even greater emphasis on stakeholders' interests and the TBL. In terms of compliance, the enforcement in King IV moved from *comply* ***or*** *explain* to *apply* ***and*** *explain* (IoDSA, 2016).

The Japanese Stewardship Code, based on the UK's *comply or explain* approach was formally approved in 2014 (Goto, 2018).

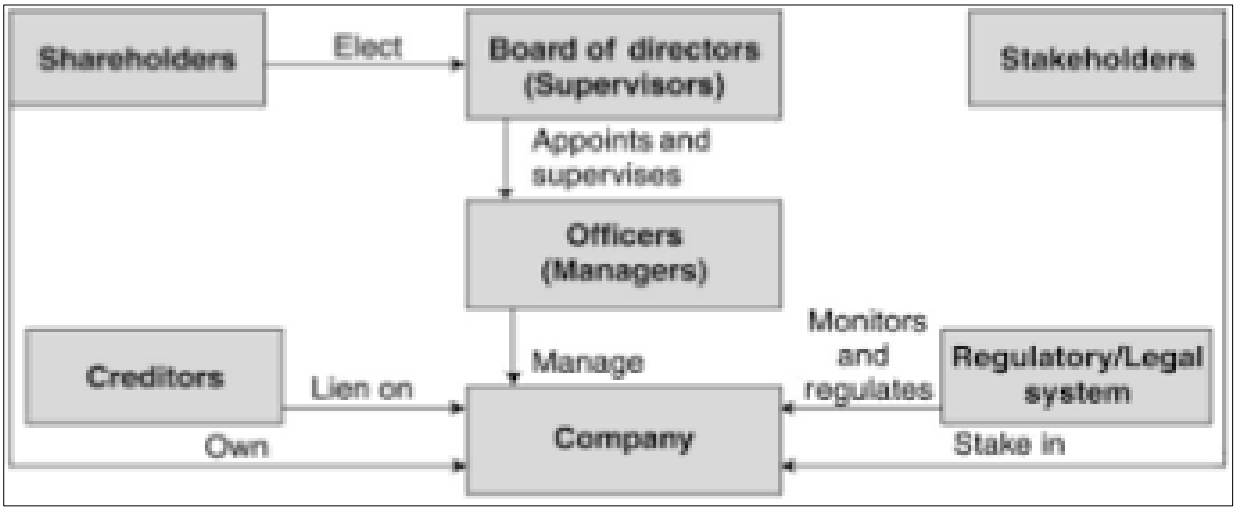
In terms of board structure, the Anglo-Saxon model is based on the practice of a single-tier board system made up of non-executive directors (NED) appointed by shareholders (Meier & Meier, 2013). Weimer and Pape (1999), however, indicate that, within the USA's one-tier system, there are inside and outside members of the board, where the former represent "the executive" and the latter are NEDs who possess expertise to advise the executive and are accountable to shareholders. Each of the

three major CG models (US, German, and Japanese) is discussed in the next subsections; the South African model is discussed last.

2.4.2.1 The American Model

The American model of CG also known as Anglo-Saxon model is shown in Figure 2.2. This model is widely followed in the USA, Canada, New Zealand, and most Commonwealth countries including Australia, the UK, and SA (Ahmad & Omar, 2016). The American model of CG is characterised by a unitary board system, also known as a one-tier board system, with more outsiders (independent directors) on the board than in the other models (Matei & Drumasu, 2015; Mallin, 2007). Creditors as providers of finance, lien on the company and as such, they have legal right or claim against the company in event of default. On the other hand, stakeholders rely on existing regulatory or legal framework for monitoring and regulation purposes.

Figure 2.2: The American model of CG



Adapted from: Shekhar (2018)

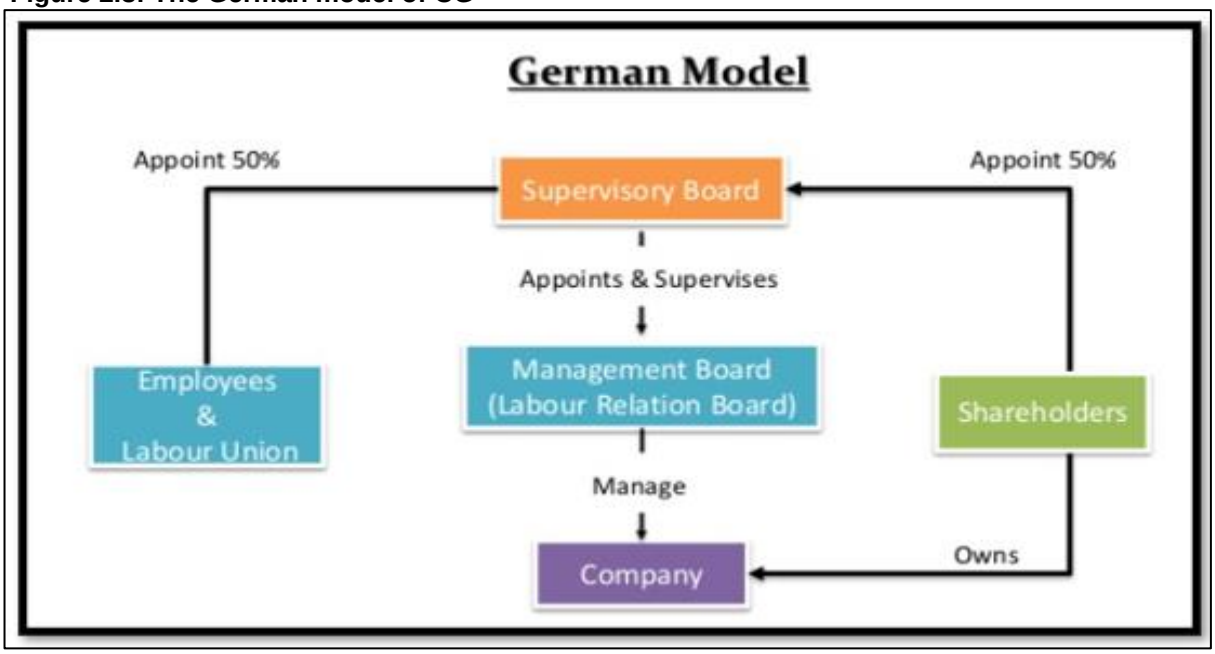
The unitary system of governance implies that the board's duties about monitoring and management are combined. With regard to the principle of separation of powers, in the USA, the CEO is also the chairman of the board (Nana Yaw Simpson, 2014), while, in the UK and Germany, the roles are separated (Bowen, 2008). It has often been inferred that governance failures of the likes of WorldCom, Enron, and News Corp can be attributed to a failure to split the roles of chairman and CEO, as that undermined independence, which is one of the key principles of CG (Tribbett, 2012). Stewardship theory supports unifying the role of CEO and chairman in order to reduce agency

costs. In their empirical study, Donaldson and Davis (1991) found that the company's return on investment (ROI) tends to improve when these roles are combined.

2.4.2.2 The German Model

The German model of CG, shown in Figure 2.3, is an example of a network-oriented system that is characterised by a two-tier board structure (Tricker, 2009). Top management and the supervisory board (council) are strictly separated (Weimer & Pape, 1999). According to Millet-Reyes and Zhao (2010), the two-tier system is made up of the management board and the supervisory board (council). The supervisory board consists of NEDs charged with the responsibility of advancing shareholders' interests, appointing and firing executives, determining executives' remuneration, and reviewing major business decision (Hopt, 2013).

Figure 2.3: The German model of CG



Source: Shekhar (2018

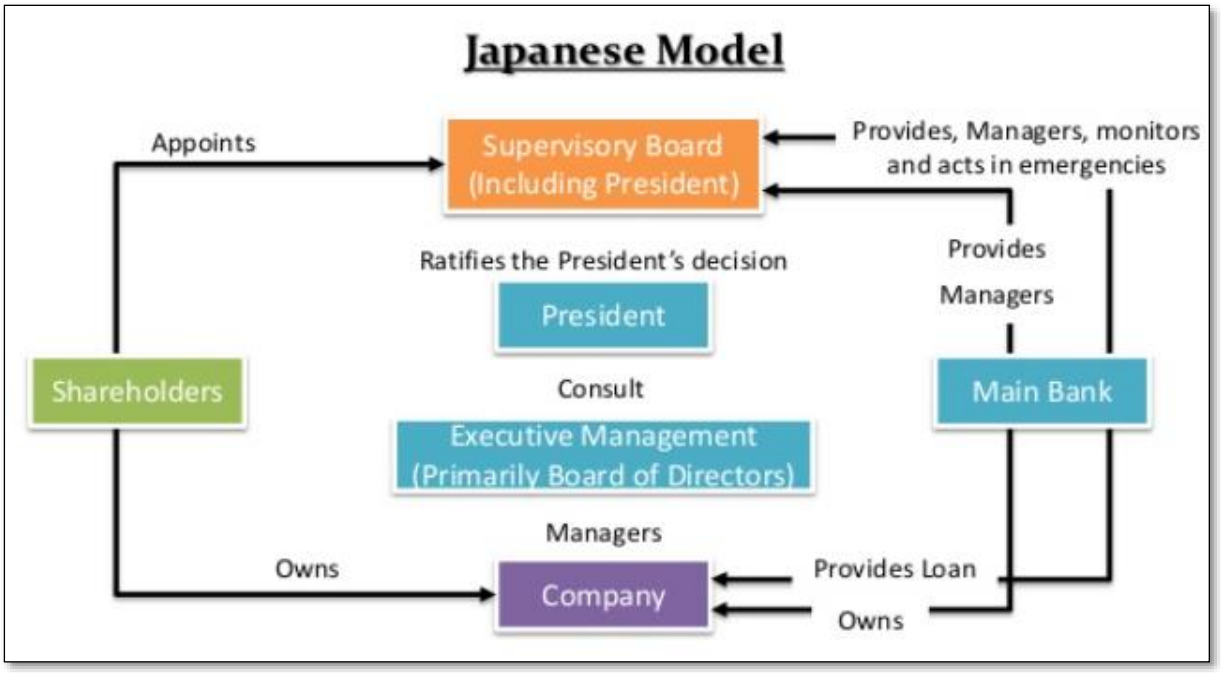
The executive board is involved in the day-to-day operational activities of the entity. Aoki (1995) and Du Plessis *et al*., (2017) note that the supervisory council also has the power to monitor the financial records of the entity. The German model has a high majority of insider board members (Matei & Drumasu, 2015). However, the model is criticised for lack of distance between owners and shareholders (Shleifer & Vishny, 1997).

The model was made popular by Germany, and some European countries, such as Austria and the Netherlands, later started to implement it, to the extent that came to be referred to as the *Continental Europe two-tier board system*. An interesting feature of the German model is co-determination, which is legislated by the German Codetermination Act of 1976 and Germany's CG code, whereby employees are allowed to serve on the board as stakeholders (Meier & Meier, 2013; Mallin, 2007). Industrial banks are also part of the group of stakeholders in this model (Weimer & Pape, 1999).

2.4.2.3 The Japanese Model

Similar to the German model, the Japanese model, shown in Figure 2.4, is also classified as a network-oriented system of CG. It is a one-tier board system, which is usually made up of the BoD, representative directors, and auditors.

Figure 2.4: The Japanese model of CG



Source: Shekhar (2018)

Notwithstanding some similarities, Japan has a unique system, and, as such, it is regarded an outlier to the Anglo-Saxon and German models, with city banks, financial institutions, and workers, rather than institutional investors, dominating ownership Weimer & Pape, 1999). Whilst the Anglo-American system is known to lean towards favouring shareholders, the Japanese Model considers a wider range of stakeholders,

which include employees, clients, the community, managers, and suppliers, which is why it is referred to as the *multi-stakeholder CG model* or *multi-stakeholder initiatives* (Schleifer, 2019; Fuchs, Kalfagianni & Havinga, 2011). Fransen (2011) regards this multi-stakeholder system of CG as an indicator of legitimacy.

2.4.2.4 South African Model

SA historically followed a one-tier board system, also referred to as a *unitary board system*. This board structure has been criticised for excluding the wider stakeholder groups in strategic decision-making, as only one body is entrusted with taking decisions for the entire entity. The argument against this type of board structure is that it fails to take into account the inherent conflict of interests between employees and shareholders (Spisto, 2005; Wei, 2003). This points to the agency problem in agency theory, discussed in detail in Chapter 3, Section 3.2.2.

The reforms in the country's CG framework started to shift the orientation towards stakeholders, evident in the King codes on CG. For example, King II and III advocate responsible corporate citizenship, built on ethical conduct and a relationship between the entity and society (IoDSA, 2009). Furthermore, the reports state that entities have moral and legal obligations to protect, enhance and invest in the well-being of the economy, society, and the environment.

Section 2.5 provides a detailed discussion of the legislative framework governing SA SOEs. In line with the focus of the current study, selected CG provisions (codes and guidelines) applicable to SOEs of international bodies are presented in the next section. These bodies were chosen because they are influential due to their role as watchdogs over practices of CG and compliance by various countries and their respective entities.

2.4.3 International Organisations' CG Codes and Guidelines

There are variety of CG codes, guidelines and principles developed in various countries across the globe, from private and public entities, commissions, institutes, securities exchanges to professional bodies. Usually, the provisions in these codes are just recommendations and are therefore not mandatory (voluntary). However, in some countries they are made involuntary.

2.4.3.1 The World Bank

The mandates of the World Bank's International Finance Corporation (IFC) and Financial Markets Integrity Group (FMIG) revolve around issues of CG. The FMIG is tasked with the responsibility of playing an advisory role on policy issues relating to CG. The FMIG has a CG sub-group with a mandate to improve CG in emerging countries through diagnostic, improvement, and support reforms. Below are four areas on which the FMIG focuses:

- develop a legal and regulatory foundation for CG of entities (both listed and unlisted);
- improve the governance of state-owned banks (development and commercial banks);
- improve the governance of micro-finance institutions and financial co-operatives' governance; and
- strengthening the capacity of regulators and supervisors in implementing and enforcing reforms.

2.4.3.2 The OECD's guidelines on CG

The OECD's set of CG principles were originally released in 1999 in the form of guidelines and later revised, in 2004. Member countries of the OECD were part of the development and endorsement process. The key principles include an effective framework for CG, shareholders' rights and equal treatment, stakeholders' role in shaping CG, issues of transparency and disclosure, and boards' responsibilities (OECD, 1999). In 2015, the G20/OECD Principles of CG guidelines were published following G20 Finance Ministers and Central Bank Governors' meeting in Fukuoka, Japan. Complementing the G20/OECD Principles was a subsequent release of the OECD's 2015 Guidelines on CG of SOEs. Between 2010 and 2017, a series of publications related to CG of SOEs was released, listed in Table 2.3. In addition to these publications, the OECD also produced a review of the CG of SOEs by country, including Latvia, Colombia, China, Ukraine, Argentina, and Lithuania, amongst others. The latest development was the adoption of the anti-corruption and integrity guidelines for SOEs during annual Ministerial Council Meeting in May 2019.

Table 2.3: Series of OECD's publications on CG

Publication	Year
Accountability and transparency: A guide for state ownership	2010
State-owned enterprise governance reform: An inventory of recent change	2011
Competitive neutrality: Maintaining a level playing field between public and private business	2012
Balancing commercial and non-commercial priorities of state-owned enterprises	2013
Boards of directors of state-owned enterprises: An overview of national practices	
State-owned enterprises - Trade effects and policy implications	
Financing state-owned enterprises: An overview of national practices	2014
State-invested enterprises in the global marketplace: Implications for a level playing field	
State-owned enterprise governance: A stocktaking of government rationales for enterprise ownership	2015
International trade and investment by state enterprises	
Stocktaking of anti-corruption and business integrity measures for Southern African SOEs	
State-owned enterprises in the development process	
State-owned enterprises: Good governance as a facilitator for development	
Broadening the ownership of SOEs - A comparison of governance practices.	2016
Risk management by state-owned enterprises and their ownership	
SOEs in Asia: National practices for performance evaluation and management	
State-owned enterprises as global competitors - A challenge or an opportunity?	
Ownership and governance of state-owned enterprises: A compendium of national practices	2017
The size and sectoral distribution of SOEs	
International trade and investment by state enterprises national practices	2018
State-owned enterprises and corruption: What are the risks and what can be done?	
Professionalising boards of directors of state-owned enterprises: Stocktaking of national practices	
A Policy Maker's Guide to Privatisation.	2019
Anti-corruption and integrity guidelines for SOEs	

Source: Compiled from OECD publications

In addition to these publications, OECD also produced a review of CG of SOEs by country, from Latvia, Colombia, China, Ukraine, Argentina and Lithuania, amongst others. The latest development was the adoption of the anti-corruption and integrity guidelines for SOEs during annual Ministerial Council Meeting in May 2019.

2.4.3.3 The IMF

According to the IMF, poor CG practices are a breeding ground for corruption, hence the institution is clear on its intention to promote good governance behaviour, to be achieved by advising member countries on policy and providing financial and technical support services (IMF, 2019). This according to the IMF is done along two lines:

- proposing public sector reforms to manage public resources; and
- developing and maintaining transparency and stability of economic and regulatory environments that are favourable to the private sector.

In 1997, the IMF adopted a policy on addressing economic governance, by promoting transparent practices as a way to guard against recurrence of corrupt practices. The Guiding Note titled: *The role of IMF in governance issues* paved a way for this policy. Two decades later, a new framework aimed at strengthening the implementation of the policy was enacted, with the primary aim of promoting a systematic, effective, candid, and active engagement with member countries on governance issues threating their macroeconomic objectives.

The IMF has several initiatives to help improve governance of the member countries, from encouraging improvement in accountability in disclosure through transparency, working in partnership with the World Bank to assess compliance with international transparency standards, to emphasising the need for adequate public financial management.

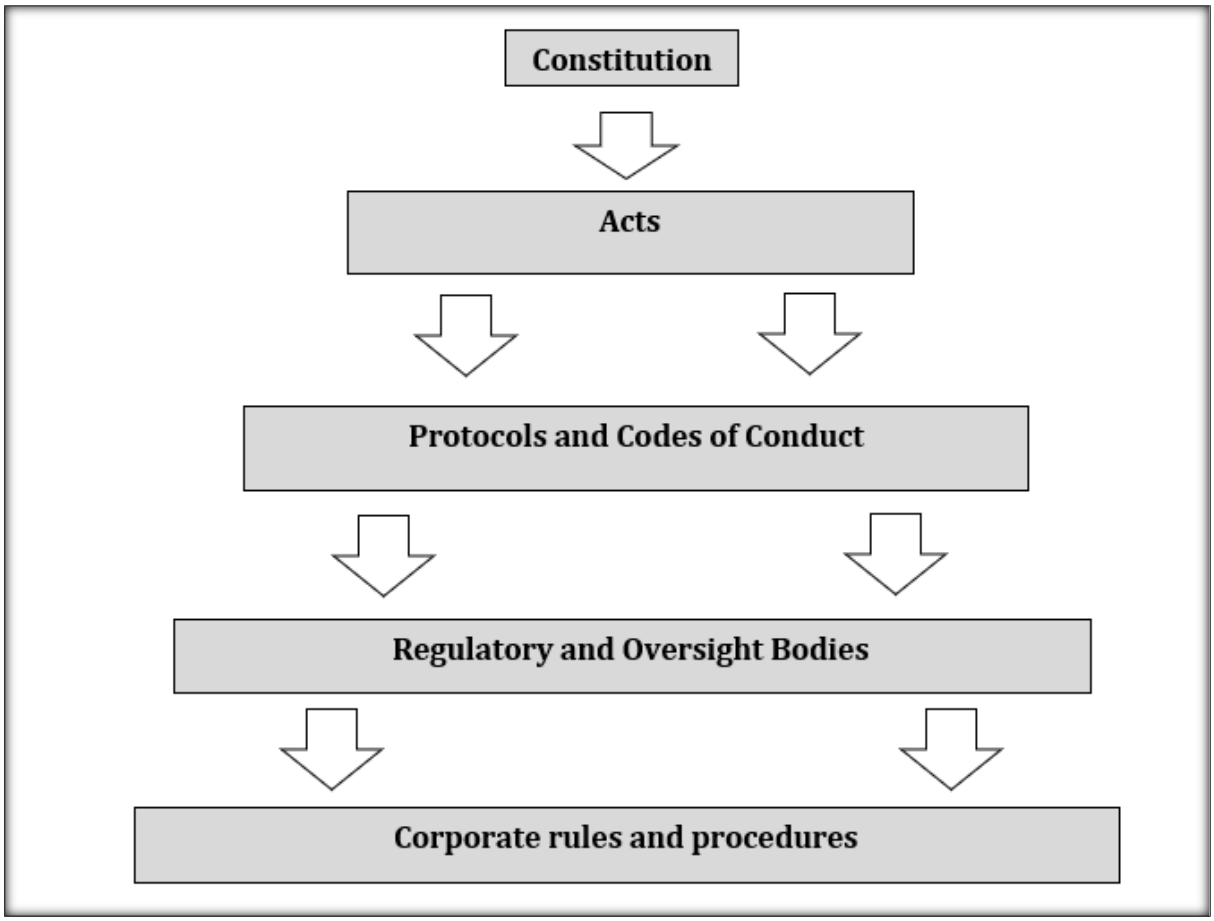
SA too, as a member country, need to adhere to the IMF's principles. In June 2019, an IMF delegation visited the country to discuss developments in the economy and the projected outlook. Amongst issues highlighted in the discussions were slow economic growth, the fiscal deficit, public debt, policy to strengthen governance, encouraging competition, labour market flexibility, and the cost of doing business in the country (IMF, 2019).

Now that an international perspective on CG has been provided, the next section discusses SA's legislative governance of its SOEs.

2.5 An Overview of South Africa's legislative framework governing SOEs

Governance frameworks according to country's political and economic systems (Munduga, 2014), and every country has each share of governance challenges in their SOEs (OECD, 2015b). As already mentioned, the CG legislative framework in South Africa resembles that of Anglo-Saxon countries, in that it favours the interests of shareholders (West, 2009). Figure 2.5 illustrates the structure of this legislative framework, with specific legislation discussed in subsections to follow.

Figure 2.5: The South African legislative framework for CG



Adapted from Hendrikse and Hefer-Hendrikse (2012:105)

Drawing from these frameworks, SOEs are therefore expected to deliver on their mandate and according to Rabilall (2017), the expectations are as follows:

- SOEs have a mandate to drive economic development and improve service delivery to citizens.

- SOEs' boards of directors need to have the necessary authority, competencies, and objectivity to execute their strategic guidance and monitoring roles.
- The boards should always act with integrity and accountability.
- The composition of the boards should ensure competence, objectivity, and independence.

2.5.1 The Constitution of Republic of South Africa, 1996

SA's legislative and regulatory framework provides the minimum requirements for compliance (Hendrikse & Hefer-Hendrikse, 2012). The Constitution of the Republic of SA, the supreme law of the country, was gazetted as Act 108 of 1996. According to the National Treasury (2018), the Constitution accord the National Assembly and provincial legislators the authority to execute their oversight role. As it is virtually impossible for the National Assembly to oversee all the national departments and over 300 SOEs, this responsibility is delegated to parliamentary portfolio committees. Table 2.5 presents various roles of these committees.

Section 195 of the Constitution speaks to governance and public administration, and thereby stipulating nine principles and basic democratic values applicable to administrative entities in all spheres of government, organs of state, and public entities, including SOEs. These principles cover:

- promotion of high standards of professional ethics;
- efficiency and effectiveness in the use and allocation of resources;
- development-oriented public administration;
- impartial, fair, equitable, and unbiased service provision;
- responsiveness to needs of the citizens and promotion of public participation in policy-making;
- accountability and transparency;
- efficient utilisation of human resources; and
- representativeness the country's population.

Principles such as ethics, accountability, transparency, efficiency, and effectiveness are similarly addressed in legislation, such as Acts, and other regulatory frameworks such protocols, and governance codes, which are discussed in the following subsections.

2.5.2 Acts as legislative framework

Acts are statutory legal provisions enacted and legislated by parliament. For the most part, the PFMA and the Companies Act 71 of 2008, which was amended in March 2017, are common legislative and regulatory frameworks governing SOEs' operating environment. In addition to these two pieces of legislation, there are Treasury regulations and policy guidelines; SOEs' enabling legislation pertaining to particular SOEs, such as Eskom's Convention Act 13 of 2001, Development Bank of Southern Africa Act 13 of 1997, and the Industrial Development Corporation Act 22 of 1940, as amended; and sector-specific legislation e.g., the Electricity Act 4 of 2006 regulating Eskom and the Electronic Communications Act 36 of 2005 regulating both the SABC and Telkom; the Public Audit Act 25 of 2004, and other general pieces of legislation.

The Treasury regulations build on and complement existing legislation in detailing the contents of the Corporate Plan (National Treasury, 2006). McGregor (2014c) emphasises the importance of adhering to these legal provisions through compliance, and to leverage on the outcomes of good governance practices. In the current study, the focus is on three Acts: the PFMA, the Companies Act, and the Public Audit Act.

2.5.2.1 The Public Finance Management Act 1 of 1999 (PFMA)

The PFMA is an important piece of legislation, as it is regarded as the first line of defence in the regulation of financial activities of entities and holding office bearers (public servants) accountable (Constantatos & Sankar, 2018). The primary objective with the Act was to enforce sound management, including transparent and accountable behaviour with regard to revenue, expenses, assets, and liabilities by those leading public entities, be it at national, provincial, or local level (PFMA, Schedule 2).

Section 3 of the Act stipulates that it is applicable to national departments, public entities, and institutions listed under Schedules 1, 2, and 3 of the Act. However, not all provisions are applicable to all SOEs; Thabane and Snyman van Deventer (2018) caution that SOEs are legal creatures and, as such, some fall within the jurisdiction of the PFMA others under the Companies Act, depending on their ownership structure.

Balbuena (2014) explains that there are various types of entities (with commercial and non-commercial objectives) listed in Chapter 12 of the Act and categorised under

various schedules. For example, following government's SOEs reform in 2012, one of the listed public entities, Telkom, no longer fell under the jurisdiction of the PFMA, but rather the Companies Act. In addition to the provisions of the PFMA, SOEs are afforded operational and managerial autonomy through the framework for financial, accountability, and reporting mechanisms through shareholder compacts to direct their strategic thinking (Kikeri, 2018; Balbuena, 2014).

The PMFA prescribes that the accounting authority (the board of directors) has to be transparent and disclose any direct or indirect personal or private business interests that a member or close a relative has with the entity. Since its inception, the Act has not been effectively used to hold accountable those responsible for deviations from the provisions against financial mismanagement. Constantatos and Sankar (2018) attribute this to lack of political will of those in authority, who perpetuate a culture of impunity. This is evident in SOEs being endlessly marred by corporate scandals and governance failures.

Chapter 10 of the PFMA discusses financial misconduct, with disciplinary and criminal proceedings discussed in Parts 1 and 2 respectively. Section 83(2) of the same Act stipulates that the BoD, as the accounting authority of the entity, may be held individually or collectively liable for any financial misconduct by the board. The board is thus considered the first line of defence of the governance principles accountability, honesty, and transparency, which are regarded as the 'hallmarks' of good CG practices (McGregor, 2014c).

2.5.2.2 The Companies Act 71 of 2008

SA is commended globally for its highly developed and advanced corporate laws, with the Companies Act being the prime legislative and governance framework in this domain (Oxford Business Group, 2016). The primary aim with the Act is to regulate the incorporation, registration, operation, and governance of entities, as well as remedial actions and protection of shareholders.

SOEs that are incorporated (listed) fall under the jurisdiction of the Companies Act (Thabane & Snyman van Deventer, 2018). These entities are referred to in the Act as *state-owned corporations* (SOCs). Section 66(*1)(2*) of the Companies Act compels SOEs under its jurisdiction to have a functioning board of directors to discharge all

powers in executing the mandate of the entity, except where there are limitations inherent in the Act or the memorandum of incorporation.

The Companies Act further stipulates the number of provisions relating to board structure (composition), minimum threshold for directors, independence, and behavioural criteria such as:

- degree of care, skill, and due diligence that may justifiably be anticipated of a person who carries out the same tasks as a director of the entity; and
- acting in good faith and for proper purpose in the best interests of the SOE.

The Companies Act also compels SOEs and public entities to appoint auditors and have their financial statements audited on an annual basis (Oxford Business Group, 2016). The Minister of Finance may order the establishment of a social and ethics committee, also referred to as a *sustainability committee* in literature (Hussain *et al*., 2018). This will, per the provisions of the Companies Act, depend on whether it is deemed necessary and in the public interest.

Despite the praise for the efficacy of the Companies Act in promoting and enforcing good CG practices, it has been criticised. Kikeri (2018) notes that, despite the Companies Act's applicability to SOEs (incorporated), it fails to account for major variations between incorporated SOEs and private companies. Kikeri (2018) also states that the Companies Act does not specify the manner of execution of the developmental and social mandates of the SOEs. There is a need for a higher degree of accountability of SOEs; to explain the role of shareholders (owners) in guiding the strategic objectives of the SOEs; and SOEs being able to divest their shares.

2.5.2.3 The Public Audit Act 25 of 2004

The Public Audit Act gives effect to the provisions of the Constitution by establishing and assigning functions and powers to the Auditor General (AG). The aim is to allow the AG to execute his or her auditing functions independently and impartially. Furthermore, the Public Audit Act makes provision for the AG's mandate to exercise accountability on public institutions to ensure prudent and efficient utilisation of public funds.

The AG acts according to the office's enabling legislation — the Auditor-General Act No. 12 of 1995. The AG is also recognised by the Constitution as a key institution of the state with regard to audit functions. Section 3(a) of the Act specifies that SOEs are to be subjected to the scrutiny of the AG with regard to their accounts, financial statements, how they discharge their financial management functions.

In 2018, President Cyril Ramaphosa signed the Public Audit Amendment Act 5 of 2018, which strengthened the powers of the AG. The amended Act allows the AG to refer suspicious materials or irregularities revealed by audits for further investigation (Sicetsha, 2018). The next subsection discusses various protocols and codes on CG regulating SOEs.

2.5.3 CG Protocols and Codes of Conduct for SOEs

Since SA became a democracy, there have been two CG protocols. The first protocol was issued in 1997, and the second in 2002. The earlier version was only applicable to SOEs under the auspices of the DPE, with the primary aim of inculcating the principles of good CG (DPE, 2002). The 2002 version is applicable to all SOEs listed in the PFMA schedules (Kikeri, 2018).

The enaction of the protocols were inspired by the fact that, despite SOEs being vital to furthering the state's developmental agenda, there were no standardised principles or regulations for the functioning these entities (DPE, 2002). Du Toit (2005) indicates that, although not legislated, the protocol urges all public entities to monitor their compliance with its principles. According to the National Treasury (2018), the protocols recommend parallel oversight, in line with the suggestions of the King Reports, which are discussed next.

2.5.4 King Reports

The IoDSA, as the holder of the copyrights, is the custodian of the King Reports. In 1993, the institute requested Mervin King, a retired judge, to chair a commission on CG. The King Committee's 1994 report was first of its kind to shape the governance landscape of South Africa (Hendrikse & Hefer-Hendrikse, 2012). Since then, there have been three revisions, namely King II in 2002, King III in 2009, and King IV in 2016. The revisions built on the previous editions, with the aim of addressing the shortcomings of earlier editions, and also to stay abreast of global developments that

pose challenges to leaders. The key expectations and CG principles for managers noted in the King Reports include being a disciplined, transparent, accountable, independent, and ethical leader. These expectations are similar to provisions and requirements of legislation such as the PFMA, the Companies Act, and the Public Audit Act, as discussed in Section 2.5.5.

The latest Report (King IV) makes provision for a diverse governing body (the board) through an appropriate mix of skills, experience, knowledge, races, ages, cultures, and genders. The board's structure should have minimum race- and gender representation targets (IoDSA, 2016). The King IV Code also advocates cognisance of the wider needs of stakeholders, necessitated by increased shareholder activism and increasing numbers of Millennials who are more aware of global environmental issues (IoDSA, 2016).

The key differences between King IV and the previous three Codes is that the *apply **or** explain* principle was replaced by the *apply **and** explain* principle. The former approach was a common practice for most Commonwealth countries and was criticised for simply being a tick-box approach. According to the South African Institute of Chartered Accountants (*n.d.),* the board could then simply explain why a particular CG measure was not adopted. In other words, the onus was on the entity or accounting authority to detail the extent of compliance and explain non-compliance.

The United Nations (UN) CG Code on CG relies on the *adopt **or** explain* principle. Similar to the USA's SOX Act, the Companies Act follows a bit stringent approach which enforces the *comply **or** else* principle, compelling entities to comply or face a punitive fee.

The other major change brought about by King IV is the reduction of governance principles from 75 (in King III) to 17. In SA, the last two King Reports (III and IV) and the PFMA make provision for the BoD of public entities to delegate certain responsibilities through the establishment of various committees to assist in executing oversight roles (IoDSA, 2016; PFMA, 1999, s77). Table 2.4 provides a comparison of the differences in principles and provisions in the Companies Act and King I to King IV.

Table 2.4: Comparison between King reports I, II, III and IV on CG and Companies Act 71 of 2008

Principle	King I	King II	King III	King IV	Companies Act 71 of 2008
Chair of the board	Independent NED	Independent NED	Independent NED	Unchanged	No prescription; CEO may also be the chairman
Compliance	Voluntary	Voluntary	Voluntary	Voluntary	Mandatory
Enforcement approach	Comply or explain	Comply or explain	Apply or explain	Apply and explain	Comply or else
Board performance review	Annual	Annual	Annual	Annual	Not specified
Board composition and diversity	Unitary, independent, and adequately diversified	Unitary, independent, and adequately diversified	Unitary, independent, and adequately diversified to reflect appropriate mix of skills, knowledge, and experience	Unchanged; however, the board should set targets for race and gender representation in its membership	At least one director for a private entity and three directors for a public entity; Shareholders elect at least 50% of directors and another 50% of alternate directors in terms of memorandum of incorporation
Establishment and independence of board committees: Remuneration, audit, social and ethics (sustainability), and nominations committees	AC, RC and SC may be established	AC, RC and SC may be established	Committees should comprise a minimum of three members; Chair may not be a member of the AC; Chair may be a member of the RC, but not chair it; Chair may be a member of the NC;	Unchanged on audit, remuneration, and nominations committees; Establishment of a SC is encouraged; Chair may be a member of the SC, but not chair it; Committee to review remuneration of executive and NED	AC is mandatory to public and SOEs, and if the chair does not meet the set criteria he cannot be a member. No prescription on NC. Minister may request the entity to establish social and ethics committee it this is deemed to be in the interest of the public. Each committee must comprise minimum three

			No provision for sustainability (social and ethics) committee	annually, according to remuneration policy and implementation report; Minimum voting threshold: 25% of shareholders	directors or prescribed officers for independence; Remuneration to be approved by shareholders within previous two years
Rotation of board directors	Staggered rotation	Staggered rotation, except for auditors, who need to be changed	At least one third of NEDs at every annual general meeting (AGM)	Regularly (less prescriptive; decision is up to the board)	No set requirements, except for auditors (maximum five years)
Board independence (% of external, non-executive directors)	Two	Majority	An independent director must be an NED; Minimum two executive directors (CEO and CFO) and majority external non-executive directors	Unchanged	No general requirement or test for independence of directors other than in the context of the AC
Board activeness (meetings)	Regularly	Quarterly	Quarterly	Regularly	Any time

Compiled from Cliffe Dekker Hofmeyr (2019) and Tshipa (2017)

Despite the provisions for the establishment of committees, the BoD is still held accountable for discharging its responsibilities. Committees that could be established include nomination (NC), remuneration (RC), audit (AC), risk governance, ethics and social (sustainability).

A further recommendation is that these committees be chaired by an independent NED, to uphold a high degree of independence (IoDSA, 2016). This recommendation, according to law firm Cliffe Dekker Hofmeyr (2019), indicates that drafters of King Reports realised that, when a director is a representative of a substantial shareholder, the director is inherently in conflicting relationships, and may fail to act impartially.

The third difference of note is the explicit applicability of King principles to SOEs, to which Part 6.6 in King IV is dedicated. The introduction of King Report has been lauded as one of the most effective codes when it comes to best international good CG practices (Banhegyi *et al*., 2007). Although adherence to the King Code is mandatory for entities listed on the Johannesburg Stock Exchange (JSE), compliance by SOEs and public entities is voluntary. However, there are legal precedents in which these principles were binding, for example, *The Minister of Water Affairs and Forestry vs Stilfontein Gold Mining Company (2006)* and *SABC v Mpofu (2009)*, in which the principles were used to evaluate the conduct of directors of public entities in executing their fiduciary duties and responsibilities (Cliffe Dekker Hofmyer, 2019).

2.5.5 Regulatory and oversight bodies

SOEs are publicly funded institutions established through an Act of Parliament (Balbuena, 2014). The Parliament (the National Assembly) is the custodian of legislative oversight over SOEs and fulfils this role through enactment of statutory legislation in the form of the Constitution, over and above various Acts (National Treasury, 2005). Constantatos and Sankar (2018) add that the executive authority, made up of the National Treasury and the DPE, fulfils the roles of policy ministries through financial oversight and policy implementation respectively. Table 2.5 summarises the roles of the various constitutional bodies that play regulatory and oversight roles with regard to SOEs.

Table 2.5: Regulatory and oversight roles of various constitutional bodies

Institution (Constitutional body)	Role
Parliament (National Assembly)	Oversight, in line with the Constitution, of all activities of SOEs, including financial reporting and governance mechanisms
The Presidency	Appointing the executive (ministers) and ensuring that they function effectively
Companies and Intellectual Property Commission (CIPC), a subsidiary of the Department of Trade and Industry (DTI), empowered by Sections 185 and 187 of the Companies Act	Monitor compliance of SOEs
BoD (accounting authority of the entity)	Discharge fiduciary responsibilities as provided for in the PFMA and the Companies Act in order to achieve above-average returns and a sustained competitive advantage
Standing Committee on Public Accounts (SCOPA)	Primarily financial oversight to address issues and audit outcomes raised in the AG's reports; Monitor compliance with the PFMA, Treasury Regulations, the audit committee and management report of the accounting officer
Parliamentary portfolio committees	Oversight to evaluate whether government departments are delivering according to expectations and that there is due diligence in utilisation of public funds
AG of South Africa	Perform audits and report on the financial statements, financial management, and accounts of all national and provincial state departments, including SOEs
Public Protector	One of six independent state institutions set up by the country's Constitution to support and defend democracy
Government minister as a shareholder	Report to parliament on the performance of a particular SOE, per the provisions of the PFMA. As the executive authority, responsible for ensuring that a particular SOE is sustainable in terms of returns on investments

Compiled from: (Presidential Review Committee, 2013; National Treasury, 2006; 2005).

2.6 Concluding remarks for the chapter

The origins and practices of CG have been in existence for as back as Shakespearean times, although there are conflicting views in the literature on the exact timeframes. Nonetheless, large body of work points to the 12th century, whereby issues of separation of ownership and management are intertwined.

From the perspective of the SOEs in SA, there is a very thin line between ownership and management separation. This is because the role and the degree of accountability by the State as the principal shareholder to stakeholders is not clearly defined, and can be attributed to inconsistencies, contradictions, and fragmented legislative frameworks. This situation is worsened by the number of SOEs the country has. According to the National treasury database, there are approximately 300 SOEs in SA, which are categorised under Schedule 1, 2, and 3 of the PFMA.

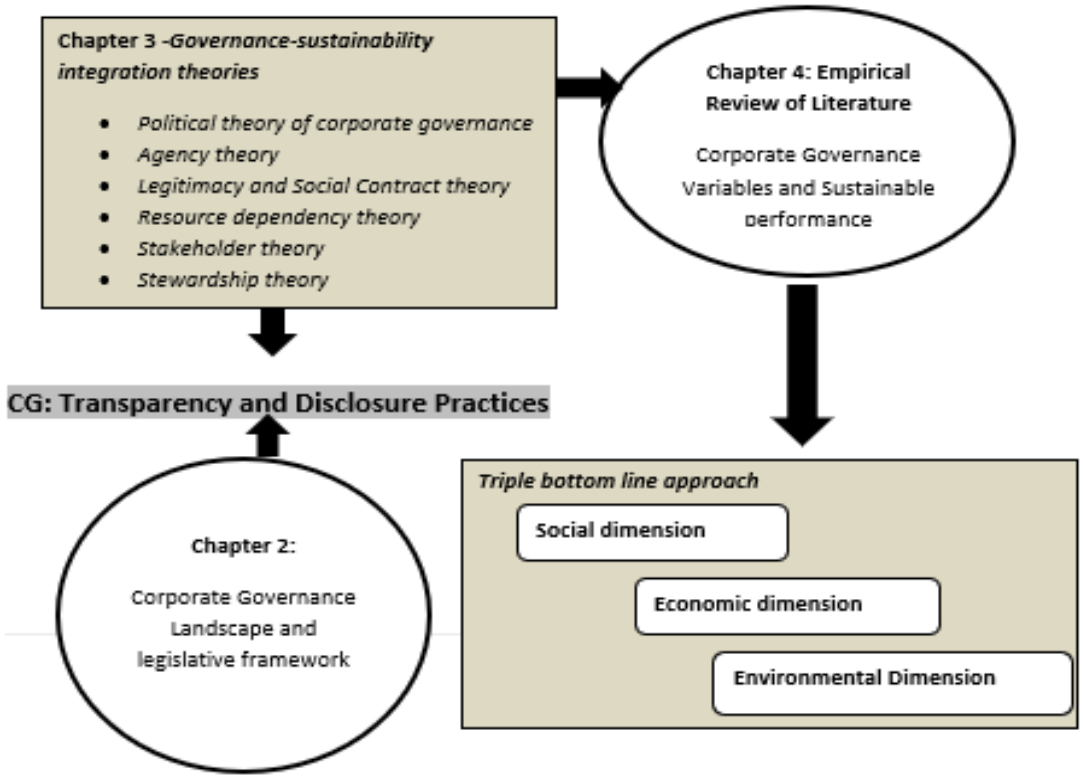
This chapter reviewed the nature, characteristics, and roles of SOEs, with particular attention paid to the South African context and these were respectively covered in sections 2.2 and 2.3. This was followed by a discussion of various major CG models, to provide an international comparison in sections 2.4 and 2.5 respectively. CG codes and guidelines International organisations from institutions such as OECD, the World Bank, the IMF were reviewed in comparison with SA's CG and the legislative framework. It is clear from literature that a major challenge affecting the operating environment of SOEs is fragmented and multiple legislative frameworks. The next chapter provides a theoretical review of literature on theories of CG and sustainability.

CHAPTER 3 – CORPORATE GOVERNANCE AND SUSTAINABILITY OF THE SOES: A REVIEW OF THEORETICAL LITERATURE

3.1 Introduction to the chapter

This chapter provides a review of theoretical literature underpinning the current research. These theories formed the basis for the empirical review of literature on transparency and disclosure practices of SOEs, as well as the association between CG variables and SR performance indicators with a focus on the triple bottom line (TBL). Creswell (2009) states that the aim in using a framework of theory is to provide context to the literature under review in examining the research phenomenon. Figure 3.1 provides an illustration of the present study's framework of theory underpinning the study.

Figure 3.1: Framework of the theory underpinning the study



Source: Researcher's own design

Theories provide a framework that guides the research journey, creating an opportunity to advance knowledge (Inglis & Maclean, 2005). Therefore, the relevance of a particular theory to a research project is as essential as the research itself (Babbie & Mouton, 2012).

The current chapter provides an account of the developments in theoretical literature in the field of CG–sustainability research. The rest of the chapter is structured as follows: Section 3.2, which follows next, presents a discussion on the theoretical perspectives of CG–sustainability research with regard to SOEs, in which six theories are reviewed. This is followed by a discussion on the applicability of in the theory relevant to the current study, in Section 3.3, and Section 3.4 contains the concluding remarks.

3.2 Theoretical perspectives of CG–Sustainability research. A view from SOEs

Theoretical literature on the CG–sustainability nexus positions it as a contemporary management phenomenon. Abdullah and Valentine (2009) are of the opinion that the evolution of CG theories dates back to the emergence of agency theory. Later, the field saw developments of other theories, such as the theories of stakeholder, stewardship, resource dependency, transaction costs, political, and business ethics (Lau, Lu & Liang, 2016; Tonurist & Karo, 2016; Michelon & Parbonetti, 2012; Abdullah & Valentine, 2009). However, stakeholder theory and agency theory seem to be the main paradigms in CG–sustainability research (Hussain *et al*., 2018).

However, there is never a perfect, single theory relevant to a research phenomenon, which is why a multi-theory approach to research is recommended (Hussain *et al*., 2018; Abdullah & Valentine, 2009). Walls *et al*., (2012) add to the criticism of a single-theory approach by stating in that it is inadequate to fully explain research phenomena and account for hypothesised associations. Drawing from the shortcomings of dominant CG theories and the growing prominence of CG–sustainability integration research (Vahdati *et al*., 2019; Salvioni *et al*., 2018; Ferrero *et al*., 2015), a multi-theory framework was applied in the current research.

The World Economic Forum's (WEF) White Paper on Integrated CG reports that entities around the world are responding to the paradigm shift from shareholder value maximisation towards stakeholder capitalism through integrated CG. This development is the result of an increase in corporate scandals, the prominence of the TBL, and the importance of environmental, social, governance, and data stewardship (ESG&D), with the latter being the essence of sustainability (Samans & Nelson, 2020; Hoffman & Bansal,

2012). Affirming this view, Savitz and Weber (2006) assert that financial performance (profit) of corporate entities is no longer the only requirement; these entities also need to also need to prioritise and achieve non-financial goals. Relating this development to research on SOEs, Peng *et al*., (2016) indicate that only a handful of theories, such as property rights theory and transaction cost theory, have started to emerge and complement dominant theories in literature (Limbo, 2019; De Avila Monteiro & Zylversztajn, 2012).

Peng *et al*., (2016) note that the geographical origin of a theory influences its dominance, hence the need to consider whether a theory applies to the context under study. Those employed as agents of SOEs need to ensure that they prioritise the needs of stakeholders, which is aligned with stakeholder theory. Proponents of stewardship theory posit that agents need to be stewards in order to serve the interests of stakeholders ahead of their own.

The evolution of CG and the attention it receives from a variety of other disciplines makes it a multidisciplinary and versatile field. CG is relevant in many fields, including politics, economics, finance, law, sociology, and management literature, amongst others (Ferraro, 2019). Due to its growing popularity and its versatility, the field is expected to continue presenting a number of challenges, such as reaching consensus on a definition (as explained in Chapter 1) and the theories that shape the field.

Building on this background, and in line with context-specific approach, the following sections discuss the theories that are relevant to the current study.

3.2.1 Political theory of CG and SOEs

Armstrong *et al*., (2015) and Chen *et al*., (2015) note the influence of politics on CG. Political theory of CG (Roe, 2006) posits that, in the pursuit of objectives, corporate entities and society interact and connect with each other, thus creating grounds for a relationship (Ferraro, 2019). Inherent in this relationship is the expectation that the entity recognises its responsibility towards society. This is in line with stakeholder theory, which emphasises the principle of public responsibility principle and the need to integrate expectations of different interest groups (Freeman, 2015; Garriga & Melé, 2004). The

interaction between the role players in this relationship manifests in the form of power play in political battles. Roe and Vatiero (2018) indicate that, in the modern era, politics drives the governance, ownership, authority, and power distribution of corporate entities.

Political influence is a major cause of CG challenges, which is why Scherer and Palazzo (2011) recommend that corporate entities, especially large ones, take cognisance of this factor, as they are exceptionally vulnerable to politics, due to globalisation having diluted states' power over the regulation and provision of public goods. According to Ferraro (2019), globalisation fuels politics in organisations, leading to the power of state regulation gravitating towards the private sector, creating fertile ground for CG challenges. Ferraro (2019) identifies additional factors, such as climate change, rising social inequalities, and fast-moving digitalisation (artificial intelligence and the Fourth Industrial Revolution). Therefore, examining politics will aid understanding of how modern entities operate and are managed, including CG practices.

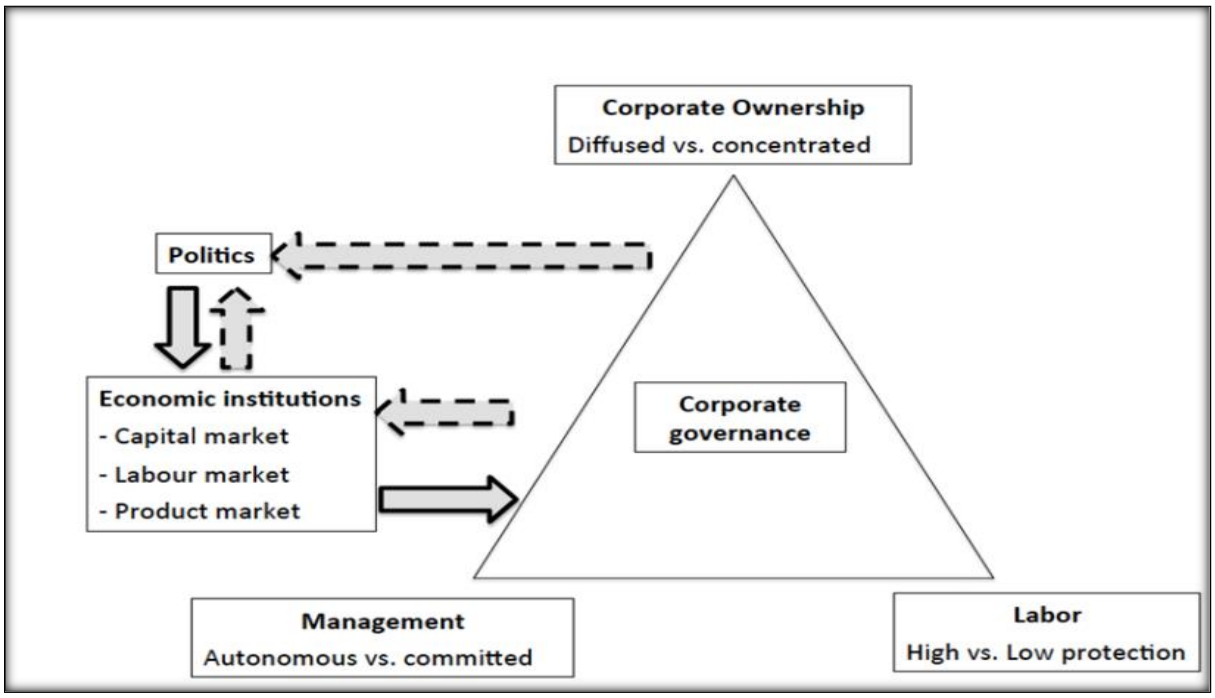
Corporate entities encounter challenges in considering the needs and interests of stakeholders and, by extension, engaging with them. In this regard, agency theory posits that needs and interests of shareholders take precedence over those of stakeholders. North (1990) observes that, when private regulation has more power than state regulation, corporate entities tend to disregard social needs and efficiency in trying to please their principals. However, Acemoglu (2003) argues that where there are competing interests, social efficiency is disregarded, and the result is political power play, which tend to yield inefficient results. This then poses a serious CG challenge, attributable to the financial power principals amass, which allows them to devise and dictate the rules of the game in managing competing interests.

According to Roe and Vatiero (2018), it is from this perspective the influence of politics takes precedence, as interest groups want to further their own interests until they are satisfied. Given the magnitude of SOEs and their exposure to politics, political theory is useful in explaining the operating environment of these institutions.

Roe and Vatiero (2018) are of the opinion that the flow and organisation of capital and the ownership structure of large corporate entities, SOEs included, create a base for

political power play in the allocation of resources. In his earlier work, Roe (2006) submits that an entity is embedded in three markets (capital, labour and product) that shape the structure of the entity. Politics then affect CG practices of the entity, either directly or indirectly, through these markets as shown in Figure 3.2.

Figure 3.2: Influence of politics on CG



Source: Roe and Vatiero (2018)

Role players such as principals, agents, and employees may also use the power at their disposal to further their own political strategy. This relates to contestation between the needs and expectations of various interest groups as defined in agency theory; principals desire greater returns on their investments, while agents prefer autonomy. Employees, on the other hand, value job security. Although CG is at the centre of the interaction between various role players, politics is one such mechanism to achieve influence in these interactions. Therefore, the influence of politics on how transactions between the three markets has a bearing on the entity's CG practices. Political theory of CG fills the gap of agency theory failing to account for this influence of politics on the CG of entities. Masahiko (1984) is one of the pioneers of research on the interactions between owners

and agents (managers). However, Roe and Vatiero (2018) highlight that Masahiko's work does not consider the influence of politics.

Notwithstanding the shortcomings of the agency theory and extension Masahiko's work, both have contributed to the understanding of the interaction between an entity's various interest groups. Likewise, agency theory has been lauded in business, economics, and finance literature as a pioneer theory in understanding conflicts of interests and agency costs between agents and principals (Colli & Colpan, 2016).

Political theory also has weaknesses, especially with regard to its applicability to SOEs. First, while it is necessary to analyse the influence of politics on CG, it is not easy to determine the specifics of the influence, more so that politics through political interferences, interventions or connections are known to be prevalent in SOEs (Menozzi *et al*., 2011). Politics brings about a variety of intertwined and complicated challenges to CG. Second, opening the process of stakeholder engagement to as many groups of stakeholders as possible to ensure fair representation is ideal. The downside of this process is that those with influence, experience, and power over resources may dictate actions to suit their own needs. Roe and Vatiero (2018) posits that this necessitates ensuring a balance between the diverse views of the various stakeholder interest groups.

3.2.2 Agency theory and SOEs

Since Jensen and Meckling's (1976) seminal article, which proposed the theory of firm, developments in agency theory and governance literature have attracted keen interest from fields such as behavioural finance, business economics, and law (Bonazzi & Islam, 2007). To date, agency theory is still the most widely used in explaining the relationship between principals and their agents (Barako, Hancock & Izan, 2006). Agency theory holds that there are competing interests between agents and principals, which may lead to poor governance (Eisenhardt, 1989; Fama & Jensen, 1983a). Jensen and Meckling (1976) explain that these competing interests lead to conflict because of the incongruent priorities of the parties. Shareholders (principals) will usually put value maximisation first when instructing managers (their agents), who may have different goals. This separation of ownership and control causes the agency problem, which, according to Rodriguez-

Fernandez, Fernandez-Alonso, and Rodriguez-Rodriguez (2014), can be addressed by having an independent board of directors and additional monitoring mechanisms to guard against management deviating from the principal's interests.

In support of monitoring mechanisms, Shin-Ping and Tsung-Hsien (2009) suggest that their presence makes management inclined to work harder. The BoD protects the interests of the shareholders by monitoring and reviewing management's performance. It is for this reason that the board is regarded a key feature of good CG.

According to Bellavitis *et al*., (2017), scholars have established that the agency relationship is threatened by agency risks, such that contractual inefficiencies are likely to emerge. Agents lead entities and give account to principals, which signals an agreement between the two parties. This is referred to as the *agency relationship* (Jensen & Meckling, 1976). In this relationship, agents are expected to act in the best interests of their principals. Principals delegated authority to agents, being convinced that the latter will deliver accordingly. This implies trust between principal and agent. The outcome of this trust, according to Bonazzi and Islam (2007), is the creation of unintended agency costs, borne by the principal, because agents tend to put their own interests ahead of those of their principals.

Baysinger and Hoskisson (1990) provide a similar perspective, referring to agents as 'satisfiers', in that they would prefer the safer approach of pursuing moderate growth to prolong their stay in the company, instead of maximising value for the firm. Hussain *et al*., (2018) characterise the behaviour of agents as opportunistic. Halme and Huse (1997) recommend that agents be closely monitored to ensure that there is alignment between the principal's and the agent's goals. The authors argue that this will minimise conflict while at the same time maximising shareholders value. Haniffa and Cooke (2002) propose effective and strong internal CG controls as mechanism to address agency conflicts. These monitoring controls have inherent costs, such as the cost of audits, contract drafting, and security, referred to as *monitoring costs* (McColgan, 2001). McColgan (2001) goes further to note that, although the principal is usually the bearer of monitoring costs, agents may institute some controls to ensure they act in the best

interests of the principal and may be liable to pay compensation to the principal if they fail to do so.

With regard to the government sector, Zouari and Taktak (2014) observe that public entities require increased ability to monitor management. In SOEs, CEOs are usually the agents, while government, through minister's office, is the principal (De Wet, 2012). This relationship is complex due to overlaps in the roles, unlike in privately owned entities, where the relationship is clearer.

In addition, government is accountable to the public (society), who put the government in power through the electoral process; however, this is not the case in practice (Mengistae & Colin Xu, 2004). Instead, the government is acting as a shareholder on behalf of the citizens. Another contribution to this complexity, according to Mbo and Adjasi (2013), is that the majority political party will have more influence in the strategic decision-making of SOEs.

Kanyane and Sausi (2015) note that, due to the dynamic and complex nature of SOEs' operating environment, management and control of SOEs is complex. The authors suggest that the origin of the agency problems in SOEs is due to multiple interests of and expectations held by the principal (government). Agency theory is relevant to SOEs, as these entities are led by people (management) representing the interests of a principal — government, which is a shareholder. In this regard, Mbele (2016) notes that it is important that researchers consider the impact of the agency relationship on the viability and sustainability of SOEs.

SOEs tend to disregard the principle of the independence of CG as noted in King's IV governance framework (Thomas, 2012; Toninelli, 2000). Kanyane (2018) cites the multiple interests and expectations of stakeholders as a source of agency problems in SOEs, ultimately leading to their poor performance.

Much as the agency theory is widely used to examine conflicts of interests, it is not without critics. Behavioural theorists (Martin, Gomez-Mejia & Wiseman, 2013; Gore & Pepper, 2012) contest the applicability of agency theory with respect to the link between conflict and risk behaviour in the context of CG on two grounds. First, agency theory is limited

with regard to how to treat risk behaviours of entities. Agency theory follows a restricted definition of risk by assuming that principals are always risk-neutral, and agents are always risk-averse, thus ignoring the relevance of risk-seeking behaviour, that is risk tolerant behaviour. Second, agency theory wrongfully assumes that risk orientations of principals and agents stabilise over time. Hence, behavioural theorists argue for a contingency-based view of risk in addressing conflicts of interests (Kumeto, 2017; Woodman, 2017).

Behavioural agency theory was an attempt to bridge this gap (Kumeto, 2017), as it views the relationship between parties from a behavioural perspective. However, both theories falls short in accounting for an important party in this relationship, namely stakeholders. The next section presents a discussion on stakeholder theory and its relevance to SOEs.

3.2.3 Stakeholder theory

Stakeholders (as representatives of various interest groups) and corporate entities are important to each other, as their co-existence depends on one another. On the one hand, without the support of their stakeholders, entities may not exist and survive in the long run. On the other, the livelihood of the stakeholders is dependent on the activities the entities undertake in their endeavour to make a profit. Freeman (2015:49) defines stakeholders as “any group or individual who can or is affected by achievement of organisation’s objectives”.

The OECD (2015a) warns that organisations that lack good governance practices are prone to financial collapse. Singh *et al*., (2010) caution that this holds unfavourable implications for stakeholders. Therefore, how these institutions conduct their business- and economic activities will have an effect on stakeholders, whether directly or indirectly. Huse and Rindova (2001) note that stakeholders as important interest groups may have a legitimate claim on the activities of an entity. It can therefore be argued that stakeholder theory is relevant to the governance structures of entities, including SOEs.

Since the late 1960s, pressure from stakeholder groups increasingly gained momentum (Hussain *et al*., 2018; Shrivastava & Addas, 2014; Chen & Wang, 2011; Aras & Crowther, 2008). Bhasin and Shaikh (2013) caution that entities should never underestimate

stakeholder activism, as it has a bearing on their survival and sustainability. In the 1970s, the management discipline started to appreciate the strength of this movement, with Freeman proposing stakeholder theory in 1984. Literature on the business ethics embraced stakeholder theory on the basis of corporate entities' social obligation and moral duty to consider the wider interests of stakeholders, rather than only those of shareholders (Grayson & Hodges, 2004). Stakeholder theory challenged Friedman's (1970) view that the responsibility of the corporation is to use its resources optimally by engaging in activities aimed at maximising profit. Friedman posited that entities engaging in activities such as social responsibility initiatives is akin to violating the private property rights of the corporation. Poter (1980) stated that turbulent forces in the external and internal environment have brought about significant changes and influences that a simple model of the entity, such as just a resource converter, is invalid and unsuitable to the modern economy. Sun and Stuebs (2015) describe Friedman's (1970) view as inward-looking and note that entities need to consider external factors such as stakeholders' needs. The shortcoming in viewing CG through a stakeholder theory lens is the degree to which legitimacy is exercised, responsible behaviour by entities, and the impact thereof on entities' sustainability. The next section discusses the legitimacy theory and social contract theory in detail.

3.2.4 Legitimacy and social contract theory

Effective CG holds two benefits for organisations. First, it enhances the legitimacy of the entity (Michelon & Parbonetti, 2012) and, secondly, it may lead to improved financial performance (Jo & Harjoto, 2011). Legitimacy helps the entity to forge favourable relationships with stakeholders. At the centre of legitimate actions is the role played by the leaders (agents or managers) of the entities. Mitchell *et al*., (1997) state that mutual leadership and active consideration of the interests of stakeholders (including their risks and morality of claims) are factors that may have a positive influence on the entity's legitimacy. However, Mitchell *et al*., (1997) caution is that culture and a lack of commitment by leaders of entities may defeat such initiatives.

Legitimacy theory (Dowling & Pfeffer, 1975) is widely applied in governance literature, and was therefore considered relevant to the present study. Dowling and Pfeffer (1975)

describe legitimacy as a condition in which an entity's value system is aligned to the wider societal system of which the entity is a part. Legitimacy theory is considered amongst the key theories that shaped governance–sustainability literature. Campbell, Craven, and Shrives (2003) explain that the theory is widely regarded as a theoretical lens with which to explain reasons for entities' social and environmental practices. Burlea and Popa (2013) qualifies suitability of the legitimacy theory to explain behaviour of entities in their practice of social and environmental information disclosure.

Dowling and Pfeffer (1975) regarded an entity's legitimacy as a valuable resource that determines its chances of survival. Gray, Kouhy, and Lavers (1995) note the advantage of legitimacy theory over other theories by it making provision to test empirically entities' reasons for existence and strategies of disclosure. According to Mobus (2005) and Tilling and Tilt (2010), entities adopt voluntary disclosure of their social and environmental activities while cognisant of the expected societal norms and values. These expectations point to the notion that most entities aim to ensure that their operational activities meet expectations of the society in which they operate (Guthrie, Cuganesan & Ward, 2006).

Deegan (2002) concurs, stating that, when an entity adopts a legitimacy perspective, it simply intends to report activities that are deemed socially acceptable within the community in which it operates. For activities of the organisation to be considered legitimate, at least from society's point of view, there must be congruency between society's expectations and the organisation's activities. Alignment implies that the entity has entered into a social contract with the society, and failure to honour the society's expectations will result in a legitimacy gap (Guthrie *et al*., 2006).

Hybels (1995) asserts that the ultimate aim of the legitimacy theory is to ensure that there is a balance between society's legitimate interests and expectations and those of the organisation. An imbalance may lead to the society sanctioning the entity, thus threatening the longevity and sustainability of the organisation (Dowling & Pfeffer, 1975). According to Lindblom (1994), a legitimacy gap is the difference between society's expectations of how the corporation ought to act and how it acts in practice. Campbell *et al.,* (2003) observe that entities may use voluntary disclosure as a mitigating tool to lessen

the legitimacy gap. Gray *et al*., (1995) identify four strategies and four conditions that entities could resort to when their legitimacy is threatened, shown in Table 3.1.

Table 3.1: Strategies to protect legitimacy of the organisation

Strategy	Condition (when is it applied)
Education and information	Admission that legitimacy gap resulted from entity's failure to perform
Change perceptions	When the public has misperceptions about the entity
Manipulate perception	When facing legitimacy threats, to deflect attention from issue(s) at hand
Alter external expectations	When the interest group(s) have unrealistic and incorrect expectations of the entity's boundaries in terms of responsibilities

Source: Research own compilation

Educating and informing the public about the entity's activities can be part of stakeholder engagement practices. Guthrie *et al*., (2006) support consumer education as a way in which an entity can engage its clients about the potential negative impact of its products, thus raising public awareness. The choice of the entity's legitimation strategies and public disclosure practices will vary depending on the goal of the entity and characteristics of the response (O'Donovan, 2002; Suchman, 1995). Guthrie *et al*., (2006) refer to these tactics as disclosure-related reactions to gain, maintain, or repair broken legitimacy, which inform the entity's choice of strategy.

Legitimacy theory is not without limitations. The social contract between the entity and the expectations of various interest groups are difficult to define and measure. This is because what is considered to be legitimate is perceptual, both from a managerial and a stakeholder perspective (Cormier & Gordon, 2001). Dowling and Pfeffer (1975) explain that, in cases where management perceives that a corporation is facing a legitimacy threat (there is misalignment between expectations), it may take remedial actions to legitimise activities.

According to Deegan (2002), the nature of expectations being implicit and explicit makes it difficult to arrive at a precise explanation from both parties. Although legal provisions may indicate explicit conditions of the contract, it is still not clear how both parties may understand non-legal expectations. This suggest that society may have implicit

expectations that could worsen the legitimacy gap, creating problems for the entity. Another challenge in legitimacy theory is that society's expectations are not stable, and can change over time (Guthrie *et al*., 2006). This will affect conditions in the social contract, which has implications for the entity's reactive strategies or remedial actions. In other words, the entity should ensure that it uses disclosures to indicate to the society that it moves with change, an activity somewhat difficult to achieve.

Despite these limitations, legitimacy theory was deemed suitable for the purposes of the current study, for it accounts for paying attention to wider stakeholders' needs. Notwithstanding its limitations, the relevancy of the legitimacy theory and social contract theory complement stakeholder, resources-based theory, and institutional (agency) theory in explaining social and environmental actions of organisations' activities in dealing with stakeholders. Legitimacy theory is relevant to explaining the legitimacy concerns of stakeholders within the context of SOEs, considering that these entities have a mandate to serve the needs of society (the public). For example, in SA, Eskom has to ensure that it delivers electricity to all citizens of the country, without any interruptions while Transnet has to offer reliable rail services. Various interest groups, such as customers, suppliers, and the community, to mention the few, are likely to be adversely affected if these SOEs do not deliver on their mandate. These SOEs would then have breached the social contract. Interest groups may then use avenues such as protests as a way to sanction the SOE that fails to deliver on its mandate.

To enhance legitimacy, Lindblom (1994) recommends that frameworks be put in place to deal with matters of disclosure and drive a culture of voluntary actions amongst entities. This will help restore the legitimacy of the corporation in the eyes of stakeholders. This view is aligned with stakeholder theory. The next section discusses stewardship theory.

3.2.5 Stewardship theory

Stewardship theory suggests that management (agents) is inherently motivated and geared towards being good citizens (i.e. stewards), to align their personal needs with those of the entity and society. Hernandez (2008), in Contrafatto (2014), defines stewardship behaviour as "attitudes and behaviours that place the long-term best

interests of group ahead of personal goals that serve an individual's self-interests". This definition resonates with the view of a pro-organisational and collectivistic mentality as described by Van Puyvelde et al. (2012). Caldwell, Hayes, Karri, and Bernal (2008) link stewardship behaviour to sustainability practices, pointing out that agents need to integrate various interests of stakeholders with the hope of generating long-term benefits, both economic and social. This then presents an opportunity for society to benefit from scarce resources of the corporation (economic, social, and environmental).

Contrafatto (2014:186) states that "stewards usually aim to integrate varied needs of stakeholders in order to generate long term social and economic benefits". This statement makes a distinction between shareholders and stakeholders, in that shareholders as the principals of the corporations amass financial means to further their own interests. Stakeholders, on the other hand, are affected by actions of corporations in their pursuit of economic objectives, and this influence may lead to externalities (either positive or negative). Management has to represent principals' interests while at the same time trying to appease interests of other groups, including employees (Letza, Sun & Kirkbride, 2004). It is necessary to create a balance, which is addressed by political theory of governance.

Clarke (2004) states that, as much as governance structures are vital in guiding the behaviour of role players (agents and principals) in governance relationships, these are not always clear. As such, those at the centre of these structures could play a crucial role in steering their corporation in the right direction. Given the criticism of agency theory, stewardship theory presents an alternative approach to CG. Stewardship theory originated from organisational sociology and psychology, in which agents are assumed to be intrinsically motivated by a need to achieve, and therefore act as stewards of the corporation (Donaldson & Davis, 1991).

Abdullah and Valentine (2009) argue that, by acting as stewards, they will maximise their utility. Donaldson and Davis (1991) opine that, according to assumptions of this theory, top management (agents) usually derive satisfaction and motivation from their corporations succeeding in meeting intended goals; thus, there seems to be a fit between personal and organisational goals. In this way, agents' self-interest is likely to benefit the

entity, since they feel that their future fortunes depend on their current performance. This is in contrast to agency theory, which holds that monitoring and other agency costs increase as agents' self-interested behaviour increases.

Daily *et al*., (2003) share similar sentiments, stating that agents are more likely to fulfil a stewardship role by furthering interests of the corporation, as this will also enhance their reputation as decision makers. Abdullah and Valentine (2009) corroborate Fama's (1980) postulation that there is a link between entity's performance and perceptions of individual agents' performance. As such these agents are more inclined to protect their careers in order to be regarded as effective stewards of the corporation.

Declaring satisfactory financial returns to shareholders is another way of establishing a good reputation and earning the trust of prospective investors (Shleifer & Vishny, 1997). However, to achieve this, stewards need autonomy in performing their duties, and they have to be trustworthy partners (Donaldson & Davis, 1997; Tõnurist & Karo, 2016). Managers of SOEs with a mandate to further the developmental state agenda in most the developing countries, including SA, ought to exemplify stewardship behaviour and principles (OECD, 2015b; Corrigan, 2014). However, in practice, in SA, that has not been the case, evident in many incidents of maladministration, non-compliance, corruption, and poor performance reported in the media (for examples, see Bezuidenhout *et al*., 2018; Kanyane, 2018; Balbuena, 2014; Thomas, 2012). This unfortunately nullifies the basic assumption of stewardship theory, that agents are stewards of corporations and are self-motivated to achieve organisational success.

This necessitates an in-depth examination of governance practices in public entities from a theory perspective, considering the impact these institutions have on the political and economic stability of the country (Mbele, 2016). This issue is addressed by means of the primary research question of the current study.

Drawing from principles of good citizenship, Botha *et al*., (2016) state that entities have a duty to citizens to fulfil their role in the administration of citizenship rights (i.e. social, civil, and political rights). This view ties well with basic tenets of stewardship theory. Contrafatto (2014), drawing on the work of McCuddy and Pirie (2007), notes that this entails actions

to benefit both current and future generations. McCuddy and Pirie (2007) further state that stewardship behaviour revolves around service to humankind, whereby actions of steward agents benefit all human beings (other people and ourselves). To achieve this, managers of public, non-governmental, and private entities need to exhibit stewardship behaviour. The next section examines this issue of scarce resources using resource-dependence theory from a CG perspective.

3.2.6 Resources-dependence theory

Resource-dependence theory is popular in business- and management science literature and is also referred to as Resource-based View (RBV) Framework. Hillman, Withers and Collins (2009) observe that the agency theory than the resources-dependence theory is a popular theoretical lens within governance literature used to study governance practices, in particular BoD. However, the authors argue that the latter is more successful theoretical lens to understand boards' governance behaviour.

Literature on SOEs suggests that these entities are endowed with abundance of strategic resources (Peng *et al*., 2016; Bruton *et al*., 2015). Dolmans *et al*., (2014) use the continuum of resource availability on one hand, and resource constraints on the other to explain perceived resource positions of corporations and how this influence decision-making.

Furthermore, resource position, coupled with individual and temporal dynamics, affect decision-making process, which, in turn, influence organisational creativity (Dolmans *et al*., 2014). Availability of resources is significant to current and future decision-making of the corporations. Pfeffer and Salancik (2003) indicate that resources are a necessity for corporations to survive. Resource availability supports growth and a sustainable competitive advantage (Barney, 1991), while resource constraints limit growth potential and chances of survival, given continuously changing operating environments (Musso & Schiavo, 2008). Moreau and Dahl (2005) hold the view that it is during times of resource constraints that corporations and managers can be pressured to think creatively to avoid future consequences of the constraints. Therefore, resource constraints can be viewed positively, as corporations are forced to find solutions that will satisfy the interests and

demands of stakeholders, thereby ensuring sustainability of the corporation. This point links well with the tenets of RBV theoretical framework, which posits that resources are strategic tools for attaining a sustainable competitive advantage (Prahalad & Hamel, 1994; Barney, 1991).

Despite SA SOEs' mandate to deliver on government's development agenda, these entities have been plagued by inefficiencies in recent years (Kanyane, 2018; Thabane & Van Deventer, 2018; Mbele, 2016), which ultimately affect the stakeholders. Balbuena (2014) postulates that the strategic importance of many SOEs, especially those in the Southern African region, lies in their involvement in strategic sectors. They are also biggest contributors to employment creation (OECD, 2015a). SOEs in SA operate in industries such as energy, transport (rail and rail), telecommunications, water, gas, railways, air travel, defence (Balbuena, 2014).

McGregor's (2012b) in a working paper titled *Corporate governance in South African state-owned enterprises*, reports that SA SOEs are faced with serious budgetary and human resource-related constraints. With regard to their governance, it is recommended that adequate resources be made available to bolster the sustainability and integrity of these entities. Donaldson and Davis (1991) suggest that corporate actions should be aimed at addressing the wider needs of stakeholders, rather than benefitting only shareholders (principals). With regard to legitimacy and the TBL view, the concerns of stakeholders pressurise SOEs to use resources thoughtfully and in a sustainable manner. This background indicates the relevance of resource-dependence theory in explaining how the resource endowment of SOEs has implications for governance-related issues, and how stakeholders are affected by resource endowment.

3.3 The multi-theory approach of the study

Following increased pressure from stakeholder interest groups in the context of depleting natural resources, pollution, and globalisation, the sustainability of entities is vital (Shrivastava & Addas, 2014; Aras & Crowther, 2008). Haniffa and Cooke (2005) ascribe the increased pressure to the availability and accessibility of information. Therefore,

proper governance is necessary to ensure that corporations are acting in a sustainable manner.

Stakeholder literature has advanced the debate on the needs of stakeholders, suggesting that social and environmental issues have surpassed the economic variables of the TBL as contemporary issues receiving attention. This therefore places a moral duty on management of corporations to ensure proper governance that takes into account sustainability (E-Vahdati *et al*., 2019).

Michelon and Parbonetti (2012) regard both governance and sustainability as balancing instruments for better stakeholder management. At the heart of good governance practices is the protection of the needs of stakeholders and being sustainable. Carroll and Buchholtz (2000) note that it is important to establish connections and create balanced stakeholder management practices and corporation goals. Literature reveals that there is a link between good governance practices and stakeholder theory. Iqbal and Javed (2017) are of the opinion that an entity's position on corporate social responsibility (CSR) practices is dependent on its governance structure and practices. Stakeholder theory is built on this notion. Both agency theory and stakeholder theory are dominant theoretical lenses used to explain the conflict between agents and stakeholders, taking into account information asymmetry and agents' opportunistic behaviour (Michelon & Parbonetti, 2012).

While agency theory assists in explaining conflict between agents and principals, it fails to distinguish between various stakeholder groups. Stakeholder theory fills this gap by advocating for attending to the needs of various stakeholder groups in a conflict-free manner (Hussain *et al*., 2018; Donaldson & Preston, 1995).

Stakeholder theory has implications for the governance structures of SOEs, especially as these entities globally are strategic resource centres used by governments to deliver services to the citizens. The BoD is regarded as a key stakeholder of the business, tasked with the responsibility of aligning the needs of the entity with those of stakeholders (Hill & Jones, 1992; Jensen & Meckling, 1976). Mbele (2016) cites the composition of the BoD of the SOE as another aspect that must be in line with the tenets of the stakeholder theory.

Keasey, Thompson, and Wright (2005) qualify this expectation through a call for involvement of stakeholders. Wright *et al*., (2003) describe this process as stakeholder governance aimed at accommodating the legitimate needs of stakeholders and involvement of stakeholders in decision-making. Mbele (2016) agrees that stakeholder involvement in key decision-making processes and other governance structures. Broader consideration of stakeholders' interests is akin to direct acknowledgement that narrower view of stakeholder, usually followed in the Anglo-American model of governance seem to be inefficient in addressing wider needs of stakeholders (Grayson & Hodges, 2004). Sundaramurthy and Lewis (2003) posit that the narrower view is built on agency theory and individualism, while the broader view is aligned with stakeholder theory and stewardship theory, which focus on befitting the collective.

In inter-disciplinary research on CG, stakeholder management is considered vital in helping entities achieve their goals in an ethical and objective way. It simultaneously helps entities to protect their long-term interests, as satisfied stakeholders are likely to ensure survival of the entity in the long run (Carroll & Buchholtz, 2000). In stakeholder management theory, stakeholder identification is a more popular management activity than stakeholder engagement. Therefore, corporate entities are now pressurised to also consider the needs and expectations of external interest groups.

The stewardship-infused model of governance (Van Puyvelde *et al*., 2012) can assist in exploring the behaviour of stewards in pursuing long-term interests of both the entity and its stakeholders. Stakeholder engagement is starting to be appreciated as one of the principles of good governance. Stewardship behaviour needs managers as agents to avoid acting for themselves, but for the benefit of wider stakeholder groups. The active consideration and involvement of interest groups in issues affecting them is regarded as a good governance practice. Herold *et al*., (2008) refer to this behaviour as ethical stewardship, which holds that creating long-term wealth needs active consideration of employees, stakeholders, and society.

According to resource-dependency theory, scarce resources ought to be utilised optimally and effectively for the long-term sustainability of the entity. The above notions indicate

the multi-facet nature of governance and sustainability, hence a need to consider multiple theories in such research.

3.4 Concluding remarks for the chapter

The increase in corporate scandals, governance failures, and volatile financial markets necessitates practising good governance in both private- and public-sector entities. The mechanisms of good CG take the form of surveillance by financial institutions, prudent market controls, executive remuneration, and effective boards of directors. There is ongoing debate in the literature as to whether or not actions of agents are congruent with those of principals (Bellavitis *et al*., 2017; Martin *et al*., 2016).

The last point relates to the failure of agency theory and the importance of stakeholder theory and stewardship theory. The debates in literature suggest that stakeholders may have legitimate concerns (social and environmental) regarding the actions of corporations, in pursuit of profits. Therefore, legitimacy theory was also considered pertinent to the present study. Berrone *et al.*, (2012) strongly advise entities to do whatever it takes to put the interests of their stakeholders ahead. This call is in line with both the stewardship and stakeholder theories. When firms do this, they become good corporate citizens, which is aligned with stewardship theory (Donaldson & Davis, 1989).

Agency theory has been instrumental in laying foundations regarding understanding of the sources of agency problems, and the deficiencies of the theory can be overcome by incorporation of governance- and sustainability theories. Stewardship theory resonates better with the stakeholder theory in that they both recognise needs of stakeholders. Nonetheless, there is some misalignment between the two theories. This then supports adopting a multi-theory approach in research, as a single theory is inadequate in explaining the research phenomenon (Hussain *et al*., 2018).

In conclusion, the literature on CG–sustainability research is vast but disintegrated. This chapter reviewed various theories underpinning this study. Gaps in and potential of the theories were discussed in line with the objectives of the study. The next chapter presents an empirical review of literature, together with a discussion of research proposition related to RO_1.

CHAPTER 4: CORPORATE GOVERNANCE AND SUSTAINABILITY REPORTING PERFORMANCE INDICATORS: AN EMPIRICAL REVIEW OF LITERATURE

4.1 Introduction to the chapter

The previous chapter presented a review of theoretical literature. This chapter presents an empirical review of literature. The focus is on CG disclosure practices and the evidence of the association with SR performance indicators through the TBL approach. Previous empirical research was sourced for information, guided by its relevance and suitability to the ROs of the current research. In line with this criterion, journal articles, working papers, and academic books were used in this review, with the aim of identifying and presenting debates in the literature. From this discussion, research gaps in relation to ROs were identified, which informed the choice of methodology and procedures followed in this research. The first section discusses the role of the board, followed by hypotheses development in section 4.3. Section 4.4 as the last one for the chapter focuses on concluding remarks.

4.2 The role of the board as CG mechanism towards SP

The BoD has a crucial role to play in most of the entities (Menozzi, Gutie´rrez Urtiaga & Vannoni, 2011). Kang, Cheng and Gray (2007) corroborated by Ferreira (2009), the BoD is regarded as the most important internal governance measure and decision-making body through which the needs of stakeholders and that of agents can be aligned. From the perspective of the SOEs, the DPE (2014) views the BoD as the cornerstone of good governance practices. This view has theoretical underpinnings, pointing to stakeholder, resource dependency, agency and legitimacy theories, which were discussed in Chapter 3. Hillman and Dalziel (2003) suggest that the theoretical foundations of the function of the board is in its monitoring role, which points to the agency theory. The resource-dependency view on the other hand, recognises the association between board capital and resource provision (Hillman & Dalziel, 2003). Meanwhile from the perspectives of the stakeholder theory, both Ntim, Opong, and Danbolt (2012) and Andreasson (2011) purport the act of putting stakeholders' interest first as embodying the act of embracing sustainability performance lies with the board of directors. Harjoto, Laksmana and Lee (2015) go further to add that the more diverse the board is, the greater probability of

increase in investment in social responsibility programmes. Integrating the relevancy of both the legitimacy and stakeholder theories, Fourie (2014) put forward that one vital way of legitimising and supporting the needs of the stakeholders is through inclusion of stakeholders on the BoD, a view supported by Oosthuizen and Lahner (2016) as well as Ayuso and Argandona (2007). Serretta, Bendixen and Sutherland (2009) in a study of core dilemmas facing boards in SA, suggest one of the key challenges facing boards in the country is to balance between needs of wide variety of stakeholders and the needs of entities they lead. This wide consideration of the needs of all stakeholders implies acting sustainably (Ntim, *et al.,* 2012). In the words of Fourie (2013), *"sustainability performance is a matter of corporate governance*". Leblanc and Gillies (2005) extend this responsibility to the role played by the board and they argue that good decision making by the board lead to prosperity of the entity and ultimately the nation.

According to the OECD (2015a) and Heo (2018), one way to enhance operational efficiency (performance) is through good CG practices. Heo (2018) cites CG dimensions in the form of board characteristics as a measure of performance and these include CEO-duality, independence of the board, size of the board, committees, ownership structure, transparency and disclosure. The interest in researching governance of SOEs is growing, however there are few empirical studies exploring into CG-Sustainability association. From SP dimension, EcoD is usually measured from financial performance perspective while ignoring value-added economic activities of the entity. Furthermore, majority of studies gave attention to private entities. In cases where SOE-oriented research in this line was undertaken, the battle was limited availability of required data (Heo, 2018; Grossi *et al.,* 2015).

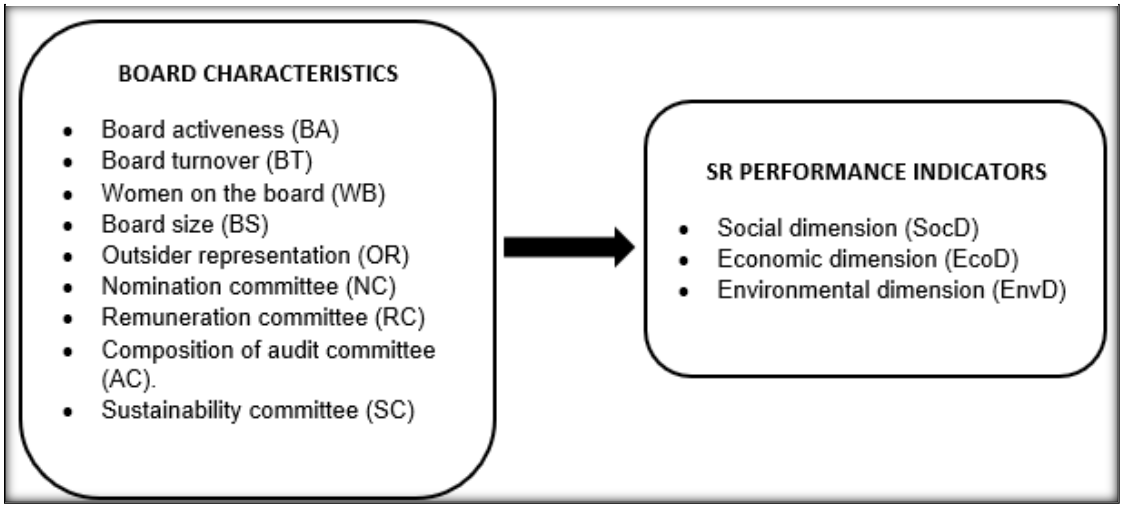
There are features of CG practices that are country-specific and as such, there is a need for deep analysis of these practices against performance of entities . Hussain *et al.,* (2018) emphasise that performance need to be broad to include other dimensions such as social and environmental dimensions. It is on this premise that the current study aims to explore the evidence of governance-sustainability association in line with approach followed by Hussain *et al.,* (2018). However, as confirmed by Aras and Crowther (2008), Love (2011),

Jo and Harjoto (2012), Jitmaneeroj (2016) and Heo (2018), the research on CG-Sustainability association remain silent, fragmented and unclear.

4.3 Board characteristics and SR performance indicators: hypotheses development

This section presents a review of literature on empirical evidence of the association between selected board characteristics (as independent variables) and SR performance indicators (as dependent variables). It is from this review that research propositions (hypotheses) were formulated. Figure 4.1 illustrates the hypothetical structure of the association between board characteristics (as predictors) and SR performance indicators. Board characteristics are represented by the following CG variables: board activeness (BA), board turnover (BT), board size (BS), outsider representation (OR), women on the board (WB), sustainability committee (SC), remuneration committee (RC), nomination committee (NC), and composition of audit committee (AC). SR performance indicators are a proxy for TBL, represented by the social (SocD), economic (EcoD), and environmental (EnvD) dimensions.

Figure 4.1: The hypothetical structure of the association between selected CG variables and triple bottom line dimensions of SR performance indicators



Source: Researcher's own design

The choice of predictors in the current research was motivated by a variety of considerations. First, the association between board characteristics and SR performance

indicators remains inconclusive, as studies continue to yield inconsistent and mixed results (Endrikat *et al*., 2020; Oosthuizen & Lahner, 2016). Second, the selected predictors are rarely studied together in a single study, thus confirming the fragmented nature of the literature (Hussain *et al*., 2018). Third, most of the studies in which these variables and board characteristics were studied did not consider the TBL approach. These studies were, by and large, conducted within the context of private entities, with only a handful having focused on SOEs. The following are notable studies that adopted the TBL approach, but not in the context of SOEs: Shrivastava and Addas (2014), Ho and Taylor (2013), and Aras and Crowther (2008).

With regard to the gap in research on SOEs, Kumar et al. (2018) note that, while research on boards is evolving and maturing, there is a need for further exploration within the context of various forms of businesses, such as family businesses, co-operatives, and credit unions, to name the few. Kuzman, Talavera, and Bellos (2018) also affirm that further research on the role of the board and how it affects the performance of SOEs is needed. Menozzi *et al*., (2011) suggest that board composition has received much attention in the literature; however, this was in the context of private entities, and that much more research on SOEs is needed. Against this background, the following section presents a discussion of empirical literature on the association between the variables and the research proposition.

4.3.1 Board activeness (BA) and SR performance indicators

Harvey Pamburai, Chamisa, Abdulla, and Smith (2015:123) define board activity as “the frequency of the board meetings in a year”. Board meetings are regarded as a procedural aspect of the board, aimed at improving board effectiveness, and are used as a proxy to measure BA (Van den Berghe & Levrau, 2004). The number of board meetings (i.e. frequency) reflects the ‘activeness’ or ‘passiveness’ of a board (Tshipa *et al*., 2018b), and is usually a sign of good CG practices (Paul, 2017; Conger, Finegolda & Lawler, 1998), quality of the board’s processes (D’Souza, Simkins & Simpson, 2010), board diligence (Laksmana, 2008), and a strong internal administrative board structure (De Andres,

Azofra, & Lopez, 2005). From a CG perspective, Paul (2017) indicates that measuring board activeness is useful in monitoring board activities.

An impressive empirical body of literature is available on BA and its association with various variables. There are conflicting views in the literature regarding the effectiveness of frequent meetings. Khanchel (2007) warns that the costs and benefits of such frequency should be balanced. Those in the favour cite an opportunity to recover and save the entity from poor performance and financial distress (Vafeas, 1999). From the agency and stakeholder perspectives, it is seen as a supervision and control mechanism to reduce agency problems, and thus paying attention to the stakeholders' needs and expectations in ensuring the board's compliance with regulations dealing with sustainability risks (Birindelli *et al*., 2018; Hussain *et al*., 2018; Shivdasani & Zenner, 2004).

There are different proxies for board activeness; however, it was not within the scope of this research to delve into this area of research. Therefore, BA was measured as the number of meetings held per reporting period (cf. Tshipa *et al*., 2018b). King IV recommends, as a good governance practice, that, during a reporting period, there should be disclosure by the board of the number of meetings held and the level of attendance (IoDSA, 2016). King III recommended one meeting per quarter; however, it also offered flexibility, in that the entity was allowed to follow its own policy regarding the reasons for and frequency and duration of such meetings.

From empirical governance literature, evidence suggests opposing findings on the association between BA and SR performance (Birindelli *et al*., 2018; Hussain *et al*., 2018). With regard to the dimensions of SR performance, there is a positive association between the economic performance variable and BA. Ntim and Osei (2013) are amongst those who confirm a positive association. Their study focused on 169 JSE-listed entities over a period of five years and found that the more frequent the board met, the more likely it was that this will have a positive influence on the economic performance of the entity.

Using ROA as a proxy for economic performance, Paul (2017), in the context of Indian entities, also establishes a positive association with BA. Brick and Chidambaran (2010) used 5 228 firm observations and revealed a positive association between BA and firm value. Similarly, Agyemang, Aboagye, Antwi, and Frimpong (2014), in studying banking institutions listed on the Ghana Stock Exchange found a positive association, however, other studies found no relationship between BA and SR performance indicators (e.g., Hussain *et al*., 2018; Tshipa & Mokoaleli-Mokoteli, 2015; Khanchel El Mehdi, 2007). Interestingly, those who do not support the association include researchers such as Vafeas (1999) and Ma and Tian (2014). Vafeas (1999) infers that directors would be reactionary in attempting to avert poor performance and financial distress. Ma and Tian (2014) found that firm value is positively associated with frequency of shareholder meetings, instead of the frequency of board meetings.

Using critical mass theory, Birindelli *et al*., (2018) examined the relationship between selected board characteristics (independence, size, frequency of meetings) and the CSR performance of 108 European and US banks for the period 2011 to 2016. For the US sample, a negative association was established, while, for the European sample, a positive association was revealed. Research on the relationship between board meetings and environmental transparency has also produced mixed results. Frias-Aceitun, Rodriguez-Ariza, and Garcia-Sanchez (2013) and Prado-Lorenzo and Garcia-Sanchez (2010) are some of the authors who report a negative association between frequency of board meetings and environmental transparency. Chariri, Januarti, Yuyetta (2017) looked at BA from the perspective of AC meetings, and established that the more frequent the committee meets, the more positive influence is exerted on the organisation's environmental performance. The implication of these results is that, when the AC meets more often, it is better able to monitor policies of the entity on issues related to environment.

Relevant to the current study with regard to CG variables, Hussain *et al*., (2018) revealed a positive association with SocD, while a negative association was found with EcoD and EnvD. These findings suggest an inconclusive association between BA and SP. Much of

the prior research discussed above focused on private entities, while very little is known about this association with regard to SOEs. The assumption in the current research was that, given the size and operational mandate of SOEs, these entities are likely to have more committees than private entities, which increases the chances of frequent board committee meetings. Against this background, the first research proposition was as follows:

Proposition 1: There is a positive association between BA and SR performance indicators.

H_1a: BA is positively associated with SocD.

H_1b: BA is positively associated with EcoD.

H_1c: BA is positively associated with EnvD.

4.3.2 Board turnover (BT) and SR performance indicators

There are variety of reasons for BT, either voluntary or involuntary (McDonnell, 2020). With the former, directors exit on their own accord, due to resignation or retirement. On the other hand, involuntary exit from the board is when directors are pressured to leave, through dismissal, termination of services, or death. Cowen and Marcel (2011) add that with involuntary exit, directors would be blamed for under-performance or a crisis, and be replaced.

With regard to SocD, a recent study by Orij, Rehman, Khan, and Khan (2021) revealed a negative association between CEO turnover and CSR performance. Interestingly, a negative association was more prevalent in organisations with a high CSR ranking. Although not entirely an issue of BT, CEO turnover signal changes in the board composition, as CEOs steer the strategic agenda of the entity. Therefore, their exit is believed to hold consequences for the entity. Wong *et al*., (2021) confirm this view, stating that a powerful CEO has the potential to influence an entity's performance, as well as the selection and recruitment of directors.

Wong *et al*., (2021), in a study of non-profit entities, found a non-linear association between BT and financial performance. This association was found to start positive and,

over time, turn negative. Key to their results was that BT impacts the board's performance and its ability to execute its governance responsibilities efficiently. With regard to family businesses, Gonzalez *et al*., (2019) also found a negative association between BT and firm performance, as board stability and reduced turnover were not found to be affected by financial performance. The authors attribute these findings to agency conflicts between family ownership and minority shareholders.

With regard to the EnvD, Vasi and King (2012) established that BT can be as a result of boycotts, and, as explained by McDonnell and Cobb (2020), this could, in turn, imply a high level of environmental risks. McDonnell and Cobb (2020) regard boycotts as negative events, expected to increase BT.

There is dearth of empirical studies on the association between BT and SR performance indicators. This, according to An (2019), is cause for concern, as Wong *et al*., (2021) indicate that a change in board members is believed to cause instability in entity's performance, as new members may need time to acclimatise to the environment, while exiting members may leave business matters unfinished. However, some authors argue that BT is not necessarily negative. If well managed, BT can improve performance and rid the entity of inefficiency through new insights, innovative ideas, and management thinking (Wynen *et al*., 2019; Meier & Hicklin, 2008; Sorensen & Stuart, 2000). Given paucity of research from the perspective of the TBL, and in line with arguments in literature that BT is likely to have negative consequences, the second research proposition of the present study was as follows:

Proposition 2: There is a negative association between board turnover (BT) and SR performance indicators.

H_2a: BT is negatively associated with SocD.

H_2b: BT is negatively associated with EcoD.

H_2c: BT is negatively associated with EnvD.

4.3.3 Women's representation on the board (WB) and SR performance indicators

The issue of gender diversity is receiving attention not only from academia, but also from legislators, due to persistent pressure from interest groups (social activism) and institutional investors (Orij *et al*., 2021; Schmidt, 2019; García-Izquierdo, Fernández-Méndez & Arrondo-García, 2018). This development has caused a shift towards gender-sensitive board composition, with increasing numbers of women being appointed to the boards of corporations (Tshipa & Mokoaleli-Mokoteli, 2015). However, Kirsch (2018), in a review of gender board composition, notes that women are still underrepresented. In favour of gender-diverse boards, García-Izquierdo *et al*., (2018) argue that women are perceived to play a valuable role in designing executive remuneration packages in line with social sensitiveness. Orij *et al*., (2021), on the other hand, posit that, in line with critical mass arguments, gender diverse boards are more likely to moderate an entity's negative social performance.

The G20/OECD principles on CG suggest that mechanisms such as disclosure requirements, compulsory boardroom composition targets, and voluntary quotas can assist in enhancing the board's gender diversity towards fair representation. How these mechanisms are implemented may be informed the country's legislative framework. The OECD's CG Factbook (2019) reported that, since 2017, the number of women on boards has slowly improved in many countries. However, only Norway had surpassed 40% representation, followed by Sweden and Italy at 36.3% and 33.6% respectively, while SA is sitting at 21.6%. For SOEs, the compulsory quota of women on the board is 30% for SA. Spain and Norway have the highest compulsory threshold of 40%. Israel and New Zealand have a 50% target, which is voluntary in both countries.

Research on gender diversity of boards is increasing (Li & Chen, 2018). However, there is a paucity of such research on SOEs. According to the OECD (2019), the contemporary CG reforms towards flexibility and gender proportionality necessitate research in this field. Observations in the literature on WB suggest that economic performance seems to be a dominant dependent variable, while the other indicators of SP (i.e. the social and environmental dimensions) are not receiving the required attention. In support of gender-

diverse boards, Gul, Srinidhi, and Ng (2011), supported by Nguyen, Locke, and Reddy (2015), assert that entities with weak governance can benefit from having more women on the board. More women on the board, according to Hussain *et al*., (2018), is associated with an increased orientation towards social responsibility. Galbreath (2011) puts forward that this is because women are more likely to consider a variety of stakeholders' needs, thus proving to be more socially responsive than men.

These findings corroborate those of Webb's (2004) study, in which a sample of 394 entities was examined to compare board structures of entities that were socially responsible and not socially responsible. It was established that socially responsible entities have a higher number of women on their board than their counterparts. This seems aligned with the arguments of stakeholder theory with regard to promoting and protecting stakeholders' interests. Although Williams (2003) concurs with this view, the author cautions that the influence may vary according to type of CSR initiative. Furthermore, boards with a high representation of women tend to make large investments in CSR initiatives relating to community service and arts. No influence was established with regard to supporting education-related and public policy initiatives (Williams, 2003).

Moving away from SocD to more inclusive SP, there seem to be mixed results on the association with WB (Charles, Dang & Redor, 2018; Bao & Lu, 2019; Liu, Wei & Xie, 2014). In a 12-year panel study of more than 2 000 Chinese listed entities, Liu et al. (2014) found that companies with more women on the board tend to perform better than those with few women on the board. Still within the Chinese context, Li and Chen (2018) found a positive association between representation of women on the board and CSR. In the earlier research by Isidro and Sobral (2015), within the context of EU entities, similar results to those of Li and Chen (2018) were found.

In a study of public listed entities in Australia, Galbreath (2011) established a three-dimensional influence of gender representation on SP. In that study, it was revealed that WB is positively associated with both EcoD and SocD, while no significant association is established with EnvD. Holding the same view on SocD, Harjoto *et al*., (2015) found gender diversity to be the driver of CSR activities, which then improve the CSR

performance of entities, especially those manufacturing customer-oriented goods and those operating in highly competitive industries. These results are in line with those of Baron, Harjoto, and Jo's (2011) study, who found that the type of products being produced and industry in which the entity operates influence the association between CSR and the value of the entity. Drawing from the above literature discussion, the third research proposition was as follows:

Proposition 3: There is a positive association between WB and SR performance indicators.

H_3a: WB is positively associated with SocD.

H_3b: WB is positively associated with EcoD.

H_3c: WB is positively associated with EnvD.

4.3.4 Board size (BS) and SR performance indicators

The association between BS and SP was found to be inconclusive, with competing views as to whether larger or smaller boards are more efficient (Hussain *et al*., 2018). Different theoretical lenses, such as agency, stakeholder, stewardship, or resource-dependency theories are often used in these arguments. The criticism from the proponents of agency theory favour a smaller BS, citing the governance inefficiency associated with a larger BS (Amran, Lee & Devi, 2014; Prado-Lorenzo & Garcia-Sanchez, 2010; Dey, 2008). De Andres, Azofra, and Lopez (2005) add that, as the size of the board increases, optimal monitoring of the governance of the entity will be difficult to achieve. Also arguing for a smaller BS, Kyereboah-Coleman and Biekpe (2007) mention that free-riding by individual executive directors is limited, and, at the same time, decision-making is faster than in larger boards. This view is supported by empirical research (see Kyereboah-Coleman & Biekpe, 2006; Mak & Yuanto, 2003; Yermack, 1996).

Other arguments from stakeholder- and stewardship perspectives in favour of larger BS are that resource capacity may play a crucial role. From the resource-dependency perspective, entities with scarce resources are more likely to have smaller boards, which may affect their effectiveness. Larger boards have more board sub-committees, which will efficiently pay attention to the interests of stakeholders, especially if the entity is large

and serving wider stakeholder groups (Allegrini & Greco, 2013). This may imply that larger boards may be better able than smaller board to put ahead the interests of stakeholders. The importance of board sub-committees is emphasised by Carter *et al*., (2010) and Dalton *et al*., (1999), who state that it is in these committees that important decisions are taken that have an impact on the sustainable development and performance of the entity.

Despite a large body of governance research on BS, there is still a fragmentation in the literature about its association with SP (Hussain *et al*., 2018). On the association between BS and SocD, a positive association was established by the following authors: Jizi *et al.,* (2014), Htay, Rashid, Adnan, and Meera (2012), Akhtaruddin, Hossain, Hossain, and Yao (2009), Said, Zainuddin, and Haron (2009), and Cheng and Courtenay (2006), while no association was established by authors such as Frias-Aceituno et al. (2014), Giannarakis (2014a), Allegrini and Greco (2013), Galbreath (2011), and Arcay and Vazquez (2005). Webb (2004) found that larger board sizes, alongside independence of the board and more women on the board, are positively associated with socially responsible firms.

The association between BS and EcoD appears to be inconclusive (Johl, Kaur & Cooper, 2015). Kyereboah-Coleman and Biekpe (2007), in a study of listed Ghanaian entities, found that BS is positively related to EcoD when Tobin's Q and Return on Assets (ROA) are used as proxies. However, in the same study, the authors reveal that, when the rate of sales growth is used as a proxy, the association becomes negative. In a study of the Taiwanese hotel industry, on the other hand, Wang, Chen, Fang, and Tian (2018) established an inverted U-shape association. In that study, Tobin's Q was a proxy for EcoD, and the authors argued that, as BS increases, financial performance starts to deteriorate, thus suggesting a negative association. Some studies found a positive association between BS and EcoD (Arora & Sharma, 2016; Zakaria, Purhanudin & Palanimally, 2014), others found a negative relationship (Garanina & Kaikova, 2016; Samuel, 2013), and others found no association (Wintoki, Linck & Netter, 2012).

On the association between BS and EnvD, Arena *et al*., (2015), Htay *et al*., (2012), Rao *et al*., (2012), and Halme and Huse (1997) found a positive association, while Walls et al. (2012) revealed a negative relationship. Interestingly, Lenciu *et al*., (2012), Michelon and

Parbonetti, (2012), and Galbreath (2011) found no association. In addition to this observation and mixed results, conflicting views are related to the theoretical governance lens applied. Agency theory presupposes a negative relationship, while stakeholder theory predicts a positive association. Drawing from these arguments and context of SOEs' mandate and size, the fourth research proposition of the present was in line with stakeholder theory:

Proposition 4: There is a positive association between board size (BS) and SR performance indicators.

H_4a: BS is positively associated with SocD.

H_4b: BS is positively associated with EcoD.

H_4c: BS is positively associated with the EnvD.

4.3.5 Outsider representation (OR) and SR performance indicators

Board independence, which is also referred to in this research as OR, is amongst few widely researched board's characteristics (Heo, 2018; Shamil, 2014; Prado-Lorenzo & Garcia-Sanchez, 2010; Vagliasindi, 2008). De Masi and Paci (2014:3) define independent directors as: "those directors that do not have affiliation to the entity either through employment or any business relationship". In favour of independent directors, Duchin, Matsusaka, and Ozbas (2010) opine that these directors are more likely to withstand external pressure than internal directors; and are more eager to advocate meeting the needs of stakeholders.

With increasing CG scandals in the wake of the 2008/9 global financial crisis, the focus turned to governance reforms, with an even greater focus on boards and their composition (De Masi & Paci, 2014). There is much support in literature for more active and oversight roles by boards, which can be achieved through, amongst others, board independence (Adams & Ferreira, 2009). According to De Masi and Paci (2014), the board independence seems to be more critical in public utilities than in other organisations. Corroborating the significance of the board, Tricker (2012) indicates that the success or failure of the entity lies in the hands of the board, due to its roles of monitoring the behaviour of agents and formulating strategy Much of the theoretical focus

on OR points to agency theory (Fama & Jensen, 1983b), although there is some evidence relating to stakeholder theory (Hussain *et al*., 2018; Jizi *et al*., 2014).

Recent empirical results on board independence are somewhat mixed, and the debate still continues (Tulung & Ramdani, 2018). Similarly, the debate on the association between OR and SP is also inconclusive (Hussain *et al*., 2018). In some literature, the association of OR with the SocD is reported to be positive (Jizi *et al*., 2014; Htay *et al*., 2012; Galbreath, 2011; Post *et al*., 2011; Dunn & Sainty, 2009; Lim *et al*., 2007; Cheng & Courtenay, 2006; Arcay & Vazquez, 2005; Johnson & Greening, 1999). Those who reported a negative association included Eng and Mak (2003), amongst others.

Literature is ambiguous regarding the association of OR with EcoD (Kumar & Zattoni, 2018; Zattoni *et al*., 2017; De Masi & Paci, 2014). However, Mbo and Adjasi (2013) establish a strong association between board's strength, financial performance and OR, Studies that found positive association between board independence and financial performance include those of Black, Kim, Jang, and Park (2015) and Kyereboah-Coleman and Biekpe (2006).

With regard to the EnvD, a study in the oil and gas industry of the USA by Post, Rahman, and McQuillen (2015) found a positive association with OR, where sustainability-themed alliance was used as a moderating variable. Worth noting on the association between OR and SP, with the latter proxied by sustainability initiatives, is that a stream of research revealed insignificant results on the association (see Allegrini & Greco, 2013; Michelon & Parbonetti, 2012; Cormier, Ledoux & Magnan, 2011; Said *et al*., 2009; Huafang & Jianguo, 2007; Ghazali & Weetman, 2006; McKendall, Sanchez & Sicilian, 1999). These mixed results were found in studies on private entities, outside the context of SA. It is on the basis of these competing results that this association is worth further investigation within the context of SA SOEs. Therefore, the fifth proposition of the study was as follows:

Proposition 5: There is a positive association between outsider representation (OR) on the board and SR performance indicators.

H_5a: OR is positively associated with SocD.

H_5b: OR is associated positively associated with EcoD.

H_5c: OR is positively associated with EnvD.

4.3.6 Nomination Committee (NC) and SR performance indicators

The presence of a board nomination committee is a relatively new area of research (Ruigrok *et al*., 2006) and it's a sub-committee of BoD. Board appointments were historically the responsibility of the main board and, in some cases, the remuneration committee (RC). Due to issues relating to conflict of interests, more independence was therefore necessary. Part 6 of King IV deals with SOEs, and principle 7 recommend that NC play a key role in the appointment of board members (IoDSA, 2016). With regard to transparency, King IV also recommends that these committees be free from conflicts of interests and act with impartiality. Therefore, such a committee should consist of NEDs and preferably be chaired by an independent NED, with members of executive management barred from serving on the committee (IoDSA, 2016). According to Du Toit (2005), DPE's (2002) protocol on CG in the public sector recommends that the NC, alongside the AC, RC and risk management committees, assist the board in oversight of governance issues of SOEs.

As with other board characteristics, the research on NC and SP remains inconclusive and is worth investigating, especially in the context of SOEs. Cerbioni and Parbonetti (2007) established a positive association between NC on forward-looking social disclosures. Other studies that found a positive association with the SocD include those of Ajinkya *et al*., (2005) and Karamanou and Vafeas (2005). In an empirical study on the influence of board committees and corporate financial performance of listed entities, Puni (2015) found no statistically significant effect. Specifically, the NC was found to have regressed negatively on corporate financial performance. Pavlopoulos *et al*., (2017), Allegrini and Greco (2013), and Jo and Harjoto (2011) also established negative results. Based on these mixed results, the sixth proposition of the study was as follows:

Proposition 6: There is a positive association between the presence of a nominations committee (NC) and SR performance indicators.

H_6a: NC is positively associated with SocD.

H_6b: NC is positively associated with EcoD.

H_6c: NC is positively associated with EnvD.

4.3.7 Remuneration committee (RC) and SR performance indicators

Research on CEO remuneration has advanced significantly over the past three decades (Ngwenya, 2016). The issue of excessive executive remuneration and organisations' financial performance has been a matter of public, political, and academic concern for some time. Bussin and Ncube (2017) note that SA is considered to be amongst those countries with the highest pay gaps between the highest and lowest-paid employees across the globe. Theunissen (2010), in a paper titled: "*Is executive remuneration out of control*?", reveals that almost 80% of CEOs' monthly salary is higher than the annual pay of the lowest-paid employee.

In 2008, the then Minister of Finance, Trevor Manuel, when interviewed by the *Financial Mail*, also raised concerns about exorbitant salaries, given rising unemployment and inequality, especially when there is no link between CEOs' remuneration and company performance. Mr Manuel said: "In a country with the inequality and unemployment that we have, some of these exorbitant salaries are simply repulsive." Ngwenya (2016) states that the remuneration gap between the executive and other employees makes CEO's remuneration a controversial issue. Bezuidenhout *et al*., (2018), within the context of SA SOEs, question the appropriateness of high remuneration packages of executives when their organisations are performing poorly, coupled with malfeasance and poor governance practices. The OECD's guidelines on CG of SOEs (2014) advocates alignment between executive remuneration and the performance of the entity.

In SA, the DPE (2007), as the main shareholder of large Schedule 2 SOEs, issued guidelines on remuneration, outlining responsibilities, composition, and policies. The Presidential Review Committee on SOEs noted that most of these entities seem to ignore the guidelines. This may be attributed to lack of proper oversight by the boards of these entities (PRC, 2013). The committee recommended, among other suggestions, overhaul of the governance of SOEs, their financing strategy, and executive pay. The PRC also

called for a government advisory committee on SOEs' remuneration policies and periodic review of relevance of executive remuneration beyond the total package.

There is a paucity of research on RC and entity's performance within SOEs context, as domination of related research tend to focus more on CEO remuneration and performance. Drawing on this observation, Bezuidenhout *et al*., (2018) recommend that RC take into consideration the liquidity of the entity, turnover, operating profit, as well as irregular and fruitless expenditure when determining CEOs' remuneration since that affect entity's performance.

The BoD as monitoring mechanism should assess the performance of the executives and determine remuneration and incentives (Menozzi *et al*., 2012). The RC should assist the BoD in overseeing the remuneration of the board (Zakaria, 2018). Vafeas (2003a), on the role of RC posits that there is a weak relationship between the economic performance of an entity and CEO remuneration when insiders are opportunistic.

Newman and Mozes (1999) found the association between CEO compensation and organisational performance to be in favour of the CEO's remuneration when there are more insiders on the RC. This may suggest lack of independence of the committee and conflicts of interests. These results corroborate earlier results of Main and Johnston (1993) from the perspective of British boardrooms. Appiah, Chizema, and Arthur (2015) note that inefficacy of RC is responsible for corporate failures. Zakaria (2018) examined the extent of RC's influence on the EcoD and found no significant influence. These results are consistent with those of Situmorang and Sudana (2015), who posit that the RC is responsible for ensuring adherence to remuneration guidelines.

However, Bussin and Ncube (2017) found a positive association between both CEO and CFO remuneration and the economic performance of the SOEs in SA and call for RC to balance financial and non-financial issues in determining remuneration package for executives. Notwithstanding the inconclusiveness of these results, García-Izquierdo *et al*., (2018), in the context of Spain, examined gender representation in RC. The authors revealed that, when women are present, CEO remuneration growth is moderated, which

can be seen as act of good governance that improves the social performance of the entity. This implies that having women in the RC may help influence the entity to be socially considerate. This evidence suggests that composition and diversity of the RC may influence the entity's social performance.

From an environmental perspective, Shahgholian (2017) studied the impact of board roles, one of which is RC, on the environmental governance of 267 US entities using insights gained from resource-dependence theory and concluded that boards with rich resources have effective monitoring systems, with various board committees responsible for various activities. Shahgholian (2017) further notes that one of these responsibilities is monitoring various environmental initiatives and appropriately aligning incentives with these initiatives. This ties well with the tenets of stakeholder theory, whereby it is expected of the board to protect the interests of stakeholders.

Maas (2015) is of the opinion that RCs may also concede pressure from external stakeholders such as environmental and social activists, especially when the remuneration of the CEO is too high. Maas (2015) advises that, to avert this pressure, the remuneration could consider integrating social and sustainability targets when remunerating the CEO. Al-Shaer and Zaman (2017) reveal that, when RC takes into consideration the CEOs' involvement in sustainable strategies and initiatives and link these to their remuneration, CEOs are more inclined to improve their organisation's SP, thus reducing pressure to enhance short-term performance at the expense of long-term performance.

Velte (2016) studied the effect of sustainable compensation systems on ESG performance in the context of Germany and found a positive association. In a study of commitment of entities to environmental sustainability, Francoeur, Melis, Gaia, and Aresu (2017) established that CEOs in environmentally friendly entities earn less total remuneration, and do not rely heavily on incentive-based remuneration than their competitors. Therefore, Francoeur *et al*., (2017) recommend that RC take into consideration psychological and institutional issues at hand when designing CEOs' total remuneration. This is likely to portray as socially considerate of sustainability. From a

theoretical perspective, Francoeur *et al*., (2017) note that this positive outcome plays a crucial role in CG by improving decision-making, thus lowering the potential for stakeholder–agent conflict. Therefore, developing a good environmental profile of the entity furthering and improving environmental agenda of the entity could be a measure of how the board, through establishment of RC, for example, is committed to improving environmental performance of the entity and furthering the interests of stakeholders (De Villiers *et al*., 2011; Berrone & Gomez-Mejia, 2009). Based on the above, the seventh proposition of the present study was as follows:

Proposition 7: There is positive association between the presence of a remuneration committee and SR performance indicators.

H_7a: RC is positively associated with SocD.

H_7b: RC is positively associated with EcoD.

H_7c: RC is positively associated with EnvD.

4.3.8 Independence of Audit committee (AC) and SR performance indicators

As a modern form of a control- and governance mechanism, the benefits associated with the composition and independence of an audit committee (AC) include, amongst others, avoiding corporate failure (Fairchild, Gwilliam & Marnet, 2019), improved profitability (Oroud, 2019), enhanced productivity (Zakaria, 2018), assurance for financial accountability (Van der Nest, 2008), minimised chances of fraud relating to financial reports (Klein, 2002), adherence to principles of CG (Sommer, 1991). These benefits are unlikely to be achieved if the independence and efficacy of the AC is compromised (Sommer, 1991).

In the present research, the presence of a financial director (expert) on the AC is used as a proxy for composition of the AC. This decision was guided by the associated benefits mentioned above, the UK's Combined Code on CG, and the SOX Act (2002). Both legislative frameworks strongly recommend having a financial expert on the AC as a mechanism to strengthen monitoring and ensure efficacy of the AC (Financial Reporting Council, 2010).

Based on agency theory, Khanchel (2007) posits that independence of the board committee can improve monitoring and control, while from a stakeholder worldview, Jizi *et al*., (2014) associate committee's independence with being transparent. Hussain *et al*., (2018) assert that independence is likely to improve the SP of an entity. Ayuso and Argandona (2007) and Hillman (2015) approve the blended approach for board composition, whereby independent directors who function beyond legal governance are able to consider the social and natural environmental surroundings in which the entity operates.

Sharing similar sentiments, De Andres and Vallelado (2008) are of the opinion that creating a balance between executive- and NEDs creates efficiency than a one-sided board, as the latter ignores diversity of views and lack the ability to adjust to social norms (Adams, De Haan, Terjesen & Van Ees, 2015; Zhu, Shen & Hillman, 2014).

Chan and Li (2008) posit that a finance director on the AC positively influences the entity's economic performance. Supporting this view empirically, Oroud (2019), based on a study involving 255 firm-year observations, note that size, financial expertise, board meetings, and an independent AC have significant impact on organisations' economic performance. Tornyeva and Wereko (2012) studied entities listed on the Ghana Stock Exchange and found significant positive association between size of the AC and economic performance. In line with Chan and Li (2008), Tornyeva and Wereko (2012) argue that members of the AC with financial expertise are likely to positively influence the economic performance of an entity. This line of research upholds prior literature from Shaukat *et al*. (2016), Aldamen *et al*., (2012), and Amar (2014) also note the importance of the education, skills, and experience of AC members.

In contrast, Ghabayen (2012), in a study of non-financial listed entities in the context of Saudi Arabia, found no evidence of a relationship between the structure (composition) of the AC and the EcoD of SR performance indicators. Using financial performance as a proxy for net profit margin (NPM) and ROA, Lestari (2015) and Yunizar and Rahardjo (2014) revealed no significant influence of the existence of AC on EcoD. Rimardhani *et al.,* (2016) also found no significant influence, and argue that the mere presence of AC is

not sufficient to guarantee supervision of an entity's financial performance. In support of this view, Zakaria (2018) notes that AC function seem to be solely to conduct a historic review of financial information, and that such committees are not directly involved in resolving the financial problems of entities. These findings are in contrast with those Arslan *et al*., (2014), who found that ROE and NPM are positively correlated with the presence of AC.

With regard to association between composition of AC with SocD and EnvD, Shaukat *et al*., (2016) found a positive association but raise concerns regarding endogeneity problems associated with such association. Khan, Muttakin, and Siddiqui (2013) state that the presence of an AC impact positively on social responsibility disclosure of entities. Freedman and Patten (2004) put forward that presence of financial experts on the AC can assist the entity in aligning its social responsibility strategy, thereby minimising financial and regulatory risks. Furthermore, the authors experience of these experts may enhance the entity's compliance in financial and non-financial reporting on adherence to the social and environment standards such as the GRI standards. In this way, this can help them to attain external audit assurance on their sustainability reporting. Lee and Hutchison (2005) suggest that investors have high regard for external audits confirming that entities' social responsibility disclosures are credible.

Chariri, Januarti, and Yuyetta (2018), in the context of Indonesia, found a positive association between the expertise of the AC and frequency of board meetings and environmental performance. In a study of 58 manufacturing entities listed on JSE, Chariri *et al*., (2017) established that expertise in the AC is associated with quality integrated reporting and disclosure. In contrast, Madi, Ishak, and Manaf (2014), in a study on Malaysian listed entities, found the frequency of board meetings the and financial expertise of AC to have no significant influence on voluntary corporate disclosure on financial and non-financial matters. Shaukat *et al*., (2016) call for further research in this area, suggesting that there is scarcity of literature exploring EnvD performance, which often leads to incomplete conceptual analysis. This claim has been raised by Al-Tuwaijri, Christensen, and Hughes (2004) and Clarkson, Richardson, and Vasvari (2011).

While most of the literature posits a positive association between the structure of board committees (AC, NC, RC) and firm performance (Fauzi & Locke, 2012; Klein, 1998), there is still a strand of literature, although small, that found a negative association (Vefeas, 1999). A recent study within a context of Indian SOEs found a significant positive association between the structures of these committees and financial performance (Kiranmai & Mishra, 2020); however, Hussain *et al*., (2018) stress that this association is yet to gain the necessary momentum from a SP perspective (i.e. TBL dimensions), and that further research may reveal interesting results. Therefore, the eighth proposition of the study was as follows:

Proposition 8: There is positive association between independence of the audit committee (AC) and SR performance indicators.

H_8a: AC is positively associated with SocD.

H_8b: AC is positively associated with EcoD.

H_8c: AC is positively associated with EnvD.

4.3.9 Sustainability committee (SC) and SR performance indicators

According to the California Environmental Resources Evaluation System (2018), only 13% of Forbes 500 entities adhere to meaningful governance oversight and sustainability practices. Such adherence requires either a dedicated committee, or incorporation of sustainability into the charter of the board committee. Eccles, Loannou, and Serafeim (2014) note that high-sustainability entities are more likely to have a separate and independent SC. Birindelli *et al*., (2018) indicate that in the literature, the terms *ESG*, *sustainability*, and *CSR* are used interchangeably, and Hussain *et al*., (2018) note that *CSR* committee is also used to refer to *SC*.

Berrone and Gomez-Mejia (2009) advocate implementation of a board-level SC as a monitoring and guiding mechanism for reward sustainable actions. Through the IR Framework, King IV recommends that the board, as the governing body, should ensure that sustainability reports, alongside ethics and SC reports, be issued and made widely accessible (IoDSA, 2016). Birindelli *et al*., (2018) posit that the board should possess

skills and knowledge with regard to sustainability, and that establishment of a SC could assist in this regard.

Hussain *et al*., (2018) and Ricart *et al*., (2005) signify the importance of a SC and submit that it is a mechanism through which the BoD can show its commitment and orientation towards SP. Cucari *et al*., (2018) stress that SC can also mitigate risks and promote an ethical organisational culture through stakeholder participation. Liao, Luo and Tang (2015) suggest that SC assist in the systematic planning, implementation, and review of sustainability policies.

From a theoretical perspective, proponents of stakeholder- and resources-dependence theories see establishment of a SC as an efficient way of allocating productive resources towards better stakeholder management (Ricart *et al.,* 2005). From the legitimacy- and agency theory perspectives, SC is associated with achieving sustainability goals and attaining legitimacy, respectively, and enhanced monitoring and control mechanisms (Hussain *et al*., 2018).

There is little empirical literature on an association between a SC and environmental and social performance (Burke, Hoitash, & Hoitash, 2019; Orazalin, 2019; Biswas *et al*., 2018; Helfaya & Moussa, 2017). Dixon-Fowler, Ellstrand, and Johnson (2017) call for further exploration in this area of research. Notwithstanding this paucity, there is evidence of a positive association between certain aspects of SP and the presence of a social committee (Birindelli *et al*., 2018; Amran *et al*., 2014; Walls, Phan & Berrone, 2012), in some cases measured by ESG (Cucari *et al*., 2018; Velte, 2016).

According to Birindelli *et al*., (2018), research is emerging that argues in favour of a positive association between an entity's SP and a long-running competitive advantage. In a study of Italian entities, Cucari *et al.,* (2018) found that ESG disclosure improves when a board has a SC. Helfaya and Moussa (2017), Liao *et al*., (2015), and Adnan, Van Staden, and Hay (2010) suggest that the existence of an SC is positively associated with environmental performance. With regard to SC's association with the SocD, Spitzeck (2009) found positive results. This view is supported by Biswas *et al*., (2018) of Australian

listed entities for a 12-year period, which found that entities with higher gender diversity in their boards, greater OR are more likely to perform better on the SocD and EnvD.

However, contradictory results are also found in the literature. For example, in a longitudinal examination of 469 US firms, Berrone and Gomez-Mejia (2009) could not establish a significant association between the presence of a SC (measured by *environmental committee* and environmental performance). Similar results were also established in the studies by McKendall, Sanchez, and Sicilian (1999) and Rodrigue, Michelon and Parbonetti (2012); Rupley, Brown and Marshall (2012). Velte (2016) found a positive association between the presence of sustainability experts on the SC and ESG performance. Hussain *et al*., (2018) highlight this lack of consensus in empirical evidence in this domain. Therefore, the ninth proposition of the current study was as follows:

Proposition 9: There is positive association between the presence of a sustainability committee and SR performance indicators.

H_9a: SC is positively associated with SocD.

H_9b: SC is positively associated with EcoD.

H_9c: SC is positively associated with EnvD.

4.4 Concluding remarks for the chapter

This chapter presented an empirical review of extant literature in this field. The discussion included the role of the board as part of a governance mechanism to achieve SP. It is evident that boards play a crucial role in steering the entity towards the desired SP, and as such they should be held accountable for entity's in that regard. With the move towards sustainability gaining momentum, it is boards' responsibility to ensure entity's adherence to and compliance with GC provisions and TBL reporting requirements. Section 4.3 focused on the discussion of hypotheses development as a result of gaps identified in the empirical literature. At an overview level, the literature is fragmented on the association of CG variables and SR performance indicators.

The review of the empirical literature reveal that some of CG variables such as the BA, BT, NC, RC, independence of the AC and SC are less studied compared to the BS, WB

and board independence, which is proxied by OR, henceforth the current research aimed at contributing to this gap. Furthermore, it's also revealed that there is over reliance on prominent theoretical framework such as the agency and stakeholder theories to explain this association. The legitimacy and social contract, stewardship and resource-dependency theories are less studied within the realm of this association, more especially from the perspective of the SOEs.

From the methodological perspective, most of the studies adopted mono-method, with few studies adopting mixed-method research. Furthermore, the other gap identified in the literature is research lacking multi-variable and multi-period approaches. This proved another case for the methodological gap, which the current research also aim to fill by following pragmatic research philosophy executed over multiple periods. This philosophical lens alongside other methodological processes and procedures are discussed in detail in the next chapter.

CHAPTER 5: RESEARCH DESIGN AND METHODOLOGY

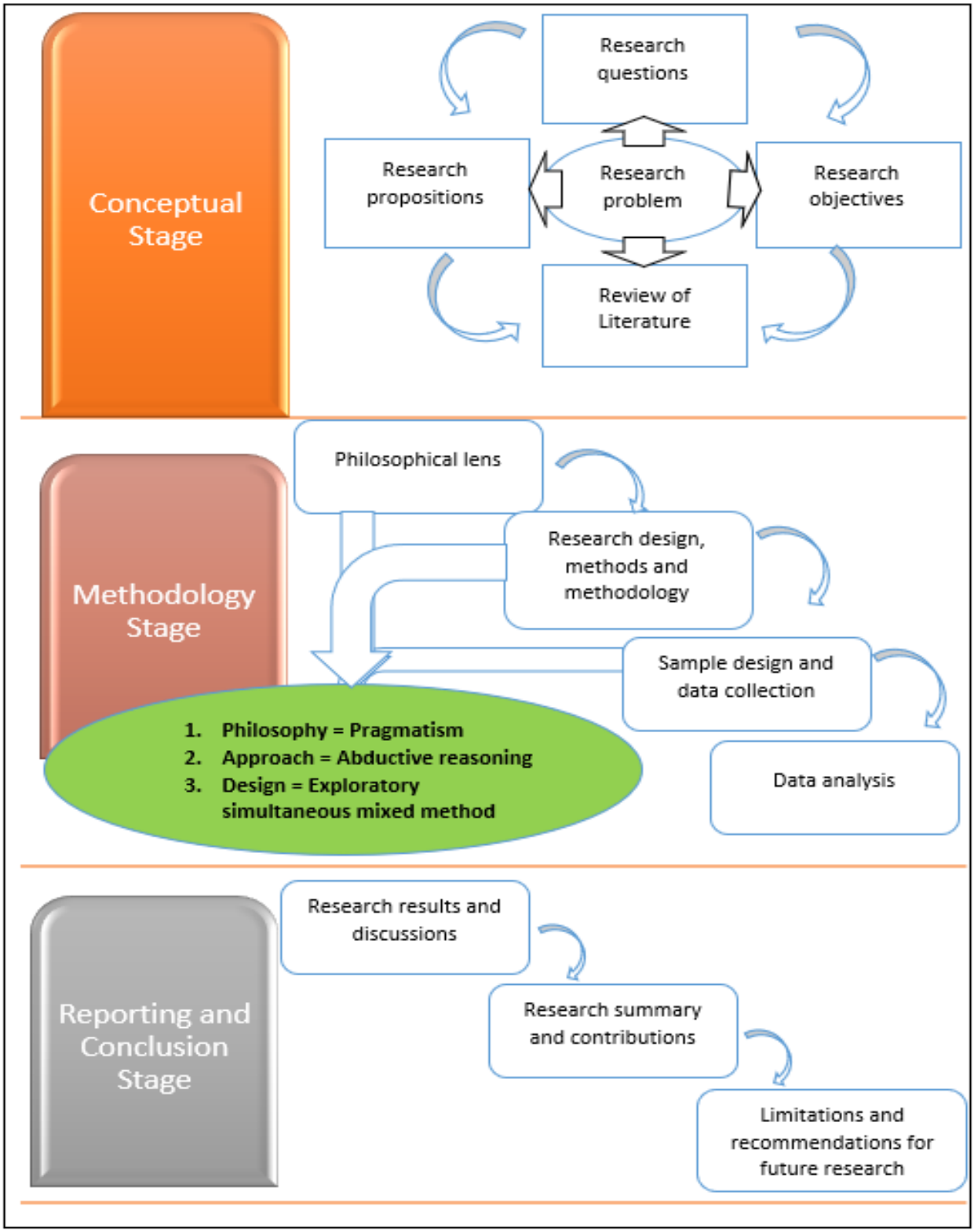
5.1. Introduction to the chapter

As stated in Chapter 1, the main objective this research was to explore CG and SR disclosure practices of South African Schedule 2 State-owned entities (SOEs). The corresponding primary RQ was as follows: *Do South African Schedule 2 SOEs exhibit good CG and SR disclosure performance practices*?

Therefore, a point of departure for the current chapter is a discussion on research design and the methodologies followed in answering the RQ and achieving the associated ROs. Owing to pragmatic nature of the study, a simultaneous mixed-method research design was deemed suitable to address the research problem. In the first phase, a quantitative empirical investigation was undertaken through multivariate regression analysis to prove evidence of the association between disclosed CG variables and the TBL dimensions of SR performance (i.e. social, economic, and environmental). In the second phase, a qualitative approach a two-stage content analysis was undertaken to explore and compare the nature and scope of SOEs' disclosure practices, adherence performance, and trends in these practices.

The rest of the chapter is structured as follows. Section 5.2 presents an overview of previous methodological research in the CG domain. This presentation is followed by a discussion of philosophical lens of the research, in Section 5.3, and the sampling strategy, in Section 5.4. Data collection, capturing and analysis are discussed in Section 5.5, and ethical issues are dealt with in detail in Section 5.6. Section 5.7, the last in the chapter, provides account on concluding remarks. A schematic presentation of the research process followed in this study is illustrated in Figure 5.1, illustrating the conceptual, methodological, reporting, and conclusion stages. As shown in the figure, during conceptual stage, the RQs, ROs, research propositions, and the review of literature (both theoretical and empirical) were conceptualised as necessitated by the research problem. This stage provides guidance as to how gaps from the literature informed the need for the current research and the choice on methodological design and procedures. The latter are explained in detail at methodology stage. These involve philosophical lens of the study,

Figure 5.1: The research process followed in this study



Source: Author own design

research design, methods and methodologies, sample design and data collection as well as data analysis procedures. In reporting and conclusion stage, research results and discussions followed by research summary and contributions are presented. These are also presented alongside limitations and recommendations for future research.

5.2. Previously research methodologies: an overview

The field of CG is plagued by a paucity of studies examining CG practices, especially with regard to sustainability. Heo (2018) and Hussain *et al*., (2018) corroborate Gali *et al*., (2016) in indicate that limited research has focused on the influence of CG elements on the three dimensions of SP. Furthermore, Hussain *et al*., (2018) expressed the concern that this research stream remains fragmented, particularly with regard to methodological issues, such as variables, samples, industry focus, and time-effect issues. Research on SOEs has lacked methodological rigour and governance-related research (Ramantsi, 2018). Sharing similar sentiments, Daiser *et al*., (2017) highlight that much of governance-related research has focused on private entities, while SOEs have not received the required attention. Furthermore, the authors claim that, within the CG research field, insufficiency still exists in terms of research approaches and methodologies, sector-specific concepts, theory, and framework development.

Despite the advances in studying the influence of CG variables on SP, more is still needed to advance this field (Hussain *et al*., 2018; Walls *et al*., 2012) and gain better insight in this association. This view is affirmed by Kumar and Zattoni (2018), who state that there is a need for research on CG, in particular the role of board characteristics. Love (2011), in a literature study on the CG–performance nexus, found a positive relationship. *Performance*, in this instance, refers to economic performance, with operating performance, Tobin's Q, and ROE used as proxies. The author further notes that there are two types of literature on corporate the governance–performance nexus. The first tries to establish if there is correlation between the two variables, while the second attempts to study the nature of causal association. The implications from Love's (2011) study is that a causal association is still difficult to establish, for two reasons. First, endogeneity

problems continue to plague this line of research. Second, some firm-specific characteristics may influence this relationship.

In a panel examination of extensive data from 2 952 US entities through 12 527 firm-year observations, Jo and Harjoto (2012) investigated the causal association between CG and CSR and revealed mixed results. Relying on a fixed-effect model, one-year lagged CG variables revealed a positive association with CSR engagement. On the other hand, the same one-year lagging of CSR did not affect corporate governance. Two procedures to address the problem of endogeneity were applied, namely treatment effect on Tobin's Q and the instrumental variable method.

In a study on the association between Ungerer (2013) used a descriptive research design to study sustainability disclosure practices of 30 entities listed on the JSE, focusing on SP and board characteristics. The sample was divided into sustainable and non-sustainable entities. Board structure and board composition were used as a proxy for CG, and analyses were done on periods with three-year intervals: 2004, 2007, and 2010. Using comparative trend analysis, Ungerer (2013) found that board diversity through increased WB, especially minority groups, was evident in sustainable entities. Due to descriptive nature of the study, a quantitative association between the CG proxies and SP could not be established.

Similar to Ungerer's (2013) comparative trend analysis, Oosthuizen and Lahner (2016) conducted an exploratory study of 30 entities for the years 2004, 2007, and 2010. The authors acknowledged that the comparative analysis used was too simplistic to establish a robust association between board diversity and SP and recommended more longitudinal research in this area. Bezuidenhout *et al*., (2018) in a study covering a nine-year period, looked at the relationship between executive remuneration as a proxy of CG and the performance of South African Schedule 2 SOEs; the study yielded mixed results. Age, gender, race, education, and tenure were used as demographic variables, while turnover, operating profit, net profit, liquidity ratio, solvency ratio, return on capital employed (ROCE), ROE, irregular, fruitless and wasteful expenditure, and audit opinion were used as a proxy for performance. Hussain *et al*., (2018) examined the CG–

sustainability association within the context of 100 US-based entities using the 2013 Global Fortune database. Content analysis of 152 annual reports yielded mixed results between the variables. Fixed effect was found to be appropriate for EcoD and EnvD, while random effect was more suitable for SocD. No significant relationship was established for any of the six hypothesised association between CG variables and EcoD. However, most of these CG variables were significantly associated with SocD and EnvD. The authors suggested that, due to these fragmented results, more research is needed, especially taking into account issues relating to methodology (endogeneity, multicollinearity, and variable omission), size of the sample, country, and time effect.

Drawing from the above discussion, the current research was designed around three strategies identified based on shortcomings in extant research. First, Surty *et al*., (2018) examined levels of disclosure for three years (2013–2015). The current study examined levels of disclosure over a 15-year period, which, according to Ungerer (2013), is long enough to gauge stability and identify changes between reporting periods.

Second, Hussain *et al*., (2018) examined SP using the TBL over a five-year period, and their focus was on US private entities, whereas the current research focused on SOEs. Furthermore, relatively understudied CG elements (board characteristics) were added to a quantitative model investigating the association between CG–sustainability.

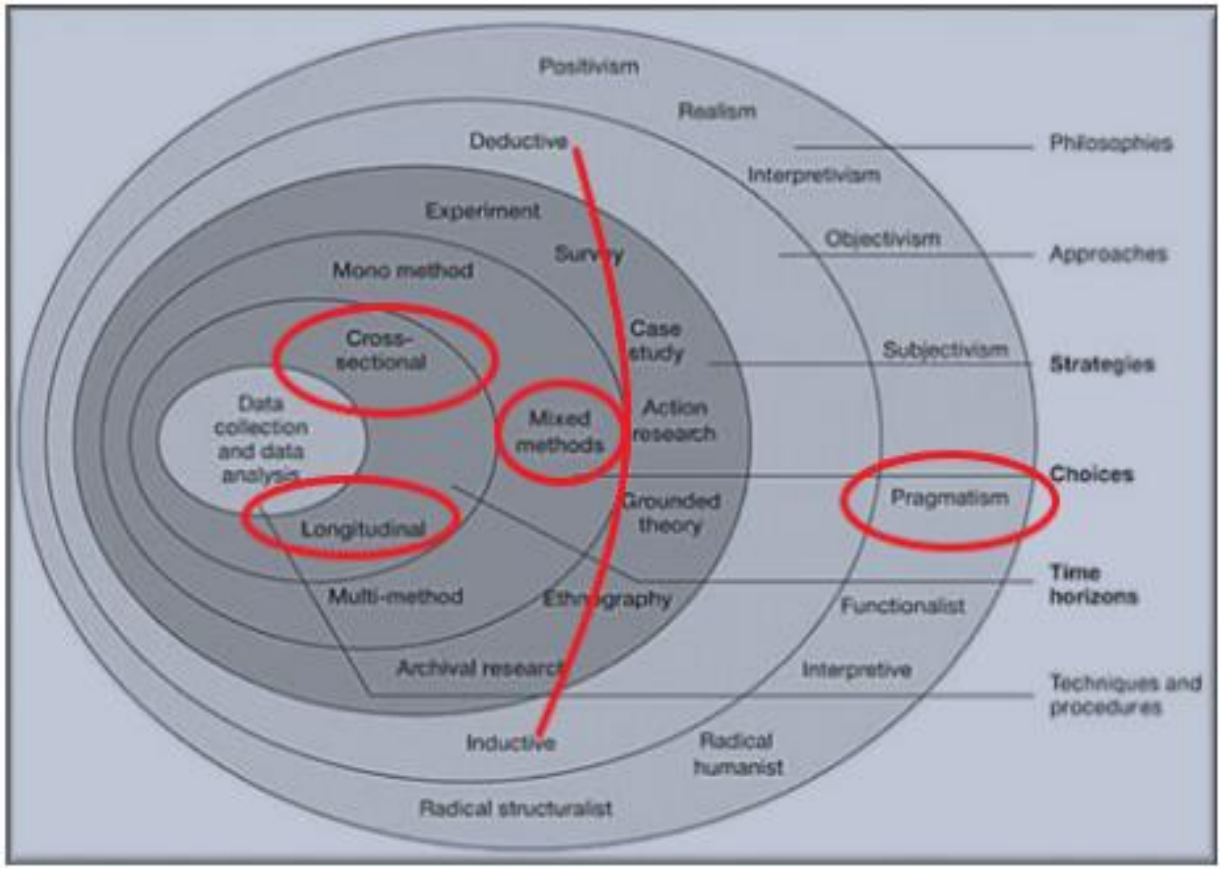
Third, the current study was an attempt to address the paucity of mixed-method research in CG literature (Tshipa *et al*., 2018b; Daiser *et al*., 2017; Grossi *et al*., 2015), with the researcher having noted the call for multi-variable, multi-period, and multi-method CG research. Now that an overview of previous research methodologies within this line of research has been presented, the next section provides a discussion on the philosophical lens that guided this research.

5.3. Philosophical lens of the current study

Figure 5.2 illustrates the distinction between research philosophy, approach, strategies, and methods of research. The scientific use of theory remains an ongoing debate in knowledge production, and the literature is rich with a variety of approaches in the form

of conceptual and theoretical frameworks, research paradigms, and epistemologies (Collins & Stockton, 2018). It is therefore important that the philosophical assumptions, approaches, or underpinnings of each study are acknowledged and distinguished. Mertens (2010) suggests that failure to acknowledge the philosophical underpinnings of a study is an indication that the researcher might be operating with unexamined assumptions.

Figure 5.2: A schematic representation of research onion



Source: Adapted from Saunders *et al*., (2015)

Bawden (2006) cautions against the dangers of holding unexamined assumptions or positions in research, as this may amount to gross negligence. Saunders, Lewis, Thornhill, and Bristow (2015) regard a research philosophy as an architectural plan or blueprint of a research project, requiring a conceptual framework and a comprehensive specification of procedures to be followed, prior the start of the research. Saunders et al. (2015) illustrate research using an onion, as shown in Figure 5.2. Philosophies or

paradigms range from positivism, realism, and interpretivism to pragmatism, while approaches are deductive or inductive (Saunders et al., 2015). Each of these philosophies describes the worldview of the researchers and leans towards a qualitative or a quantitative methodology, or both — a mixed methods approach. Drawing from this advice, Table 5.1 illustrates the differences between the major research philosophies.

Table 5.1: Differences between major research philosophies

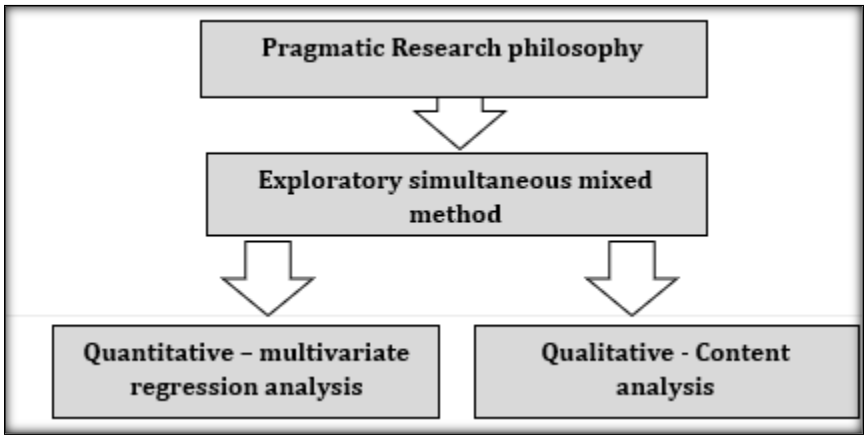
Dimensions	Pragmatism	Positivism	Interpretivism
Rationale	Dialectic	Verify or predict	Understand and interpret
Reality — ontology	Realism — constructed on the world we live in	Objective findings	Subjective findings
Truth — epistemology	Objective and subjective viewpoints	Scientific knowledge is truth	Multiple realities and truth are co-created
Research strategy (methodological approach) — examining what is real	Multiple methodologies — hybrid of qualitative and quantitative	Leans towards quantitative methods	Leans towards qualitative methods
Sample size	Mixed or multiple	Large	Small
Data type	Mixed or multiple	Highly structured	Less structured

Sources: Dudovskiy (2018); Creswell (2003)

Dudovskiy (2018) advises that, in social sciences, particularly in business and economics, discussion of research philosophies in great depth is not necessary. However, the author advises that it is important that researchers justify their choice of a particular philosophy and its implications.

For the purpose of this study, a pragmatic research philosophy was adopted as the paradigm to explain underlying assumptions of the research. Figure 5.3 illustrates the architectural design of the study and how this philosophy and its associated research approaches were followed. This choice was informed by the pragmatic nature of the research problem and the concomitant main RQ, which required both qualitative and quantitative data.

Figure 5.3: Architectural design of the study



Source: Researcher's own design

Saunders *et al*., (2015) state that, within a pragmatic world view, the most important determinant of the choice of philosophy or paradigm is the RQ. Furthermore, an overarching advantage of pragmatic philosophy is researchers' ability to view the world through diverse lenses, at the same time acknowledging that there are multiple realities to a problem, and that no single viewpoint is sufficient to reflect a complete picture.

On research approaches, Babbie and Mouton (2012), supported by Persaud and Salkind (2012), distinguish between deductive and inductive. Deductive researchers are narrow-focused and are usually concerned with testing theory with the aim of expressing a view of social reality. De Vos, Strydom, Fouché, and Delport (2011) note that, with deductive research, the aim is to discover the cause–effect relationship behind a social reality, rather than testing theory or hypotheses.

Inductive researchers, on the other hand, focus on generating theory using a bottom-up approach, and, due to their broad perspective, use grounded theory to formulate broader themes (Mertens, 2010; Ivankova, Creswell & Plano Clark, 2007). Both deductive and inductive research approaches are used in quantitative and qualitative research. However, neither was aligned with philosophical lens chosen for this study. For this reason, an abductive research approach, in line with the pragmatic nature of the study, was adopted. Bryman and Bell (2018) describe this approach as a set of abductive

reasoning with the lens of a pragmatic research paradigm, aimed at addressing shortcomings of both the inductive and the deductive research approach.

From a methodological perspective, this implies that abductive research approach has both features of inductive and deductive reasonings. This falls within the realm of a mixed-methods research design, which, in the present study, took the form of exploratory simultaneous mixed-methods research. The research design was as follows: **QUANT ↔ QUAL** design, whereby the quantitative research phase paves the way for the qualitative phase. The choice of this type of research design is informed by two factors. Firstly, the complex nature of the problem under study (i.e. poor CG of South African SOEs), which requires a multiple view. Secondly, CG research is lacking from needs mixed-method designs (Daiser *et al*., 2017; Gross *et al*., 2015).

Plano, Clark, and Ivankova (2018) used the notation system to provide different notations or permutations for combining qualitative and quantitative methods. From these notations, a researcher can employ a research design that is suitable to the chosen research philosophy.

Exploratory research design, unlike causal and descriptive designs, is usually preferred when little is known about research phenomenon, and also helps to clarify an ambiguous situation. Data or information collected in this type of design are often informal and unstructured (Zikmund, Carr & Griffin, 2013; Burns & Bush, 2010). Causal research design, on other hand, is followed when a researcher is primarily concerned with investigating a cause-and-effect relationship between the variables under study (Churchill & Iacobucci, 2006), while, according to Neergaard, Olesen, Andersen, and Sondergaard (2009), a descriptive research design is concerned with providing a detailed and rich description of or perspective on a specific research phenomenon. Ritchie, Lewis and Ormston's (2013) view is that mixed-methods research questions deal with unknown aspects of a phenomenon, and both numerical and narrative data are used to answer these research questions. The authors further state that the uniqueness of a mixed-method design is that there must be a quantitative RQ and a qualitative RQ. The sampling design and strategy are presented in the next sections.

5.4. Sample design, strategy, and methods

Tustin *et al*., (2005) describe a sample design as an overall procedure dealing with defining the population, sampling frame, sampling methods, and the sample. The sampling strategy is a plan followed by a researcher in selecting a sample that is representative of the population. Bless, Higson-Smith, and Sithole (2013), corroborated by Babbie and Mouton (2012), mention that the ability of the researcher to secure a representative sample of the population is the most prominent issue in the sampling procedure (Salkind, 2014). According to Saunders *et al*., (2015), selecting a sample size from a sample population is important in research, and is a matter of calculation and judgement. Bless *et al*., (2013) describe a sample as a sub-group or sub-unit of a larger population. According to central limit theory, where a larger size of the sample is used proportional to the entire population, its distribution is likely to be closer to normal distribution (Saunders *et al*., 2015).

The population and sampling frame for the current research comprised of 21 Schedule 2 SOEs listed in the PFMA and National Treasury databases. The list of these SOEs and their categorisation according to various economic industries is shown in Table 2.1.

Non-probability sampling in the form of purposive sampling was followed to study their CG and SR disclosure practices, because they are regarded as independent entities of which the state has partial or full ownership. The significance of these SOEs is that the National Treasury regards these as major public entities, and they play a crucial role in advancing the country's developmental agenda and socio-economic goals through their dual commercial and developmental mandate (National Treasury, 2018; Fourie, 2013).

The financial impact of these entities is significant, and their sustainable performance has a direct impact on the livelihood of the country's citizens, based on the type of industry they operate in, the type of service they render, and the amount of infrastructure they possess (Madumi, 2018; OECD, 2015b; Corrigan, 2014; Fourie, 2013; Thomas, 2012). The choice of purposive sampling was based on Leedy and Ormrod's (2005) advice that, in cases where the population size is below 100, the entire population can be considered

for a study. Table 5.2 shows the total population of Schedule 2 SOEs by industry against sampled population.

Table 5.2: Total population versus sample population

Total population			Sample population	
Industry Name	No per SOEs	Distribution across sectors (%)	No per SOEs	Distribution across sectors (%)
Airline	3	14.5	2	18.18
Aviation	1	4.7	1	9.1
Defense	2	9.6	1	9.
Development Finance	3	14.5	0	0
Energy	2	9.6	2	18.18
Forestry	1	4.7	0	0
Information Services	1	4.7	1	9.1
Mining	1	4.7	1	9.1
Nuclear Energy	1	4.7	0	0
Postal Services	1	4.7	0	0
Social Development	1	4.7	0	0
Telecommunications	2	9.6	1	9.1
Rail Transport	1	4.7	1	9.1
Water Infrastructure	1	4.7	1	9.1
Total	21	100	11	100

Source: Researcher's own compilation

The chosen sampling strategy was appropriate for the study, and, in terms of inclusion, the focus was on SOEs that met the following criteria:

- The SOE is listed under Schedule 2 of the PFMA.
- The SOE's annual reports for 2005–2019 are published and accessible.
- The annual reports are guided by the provisions on sustainability and integrated reporting in the King Codes on CG.
- The annual reports are prepared according to the Global Reporting Initiative's (GRI) sustainability reporting guidelines, also referred to as *G3 guidelines*.
- The reports are available in English.

5.5. Data collection, capturing and analysis

In this section process and procedures relating to how data was collected, captured and analysed are explained. Secondary data was preferred data for this study following Burns and Bush's (2010) guidance that the most popular technique when following exploratory research design is the use and analysis of secondary data. This type of data according to Tustin *et al.,* (2005) does not involve physical interaction with human beings as primary source of information. Further to these benefits, this method of sourcing data is associated with these benefits:

- ease-of-access owing to justly less bureaucratic process as reports can be easily downloaded from entities' websites or obtainable from their libraries;
- cost-effectiveness in accessing publicly available data compared to accessing private data in that with the latter, access can be restrictive due to fee access;
- allowance for longitudinal analysis given limitless amount of data that can be collected; and lastly
- ability to generate and draw new insights from that data

5.5.1. Data collection procedures

Data were collected from published annual and integrated reports of Schedule 2 SOEs. The focus was on disclosure of CG provisions and TBL standards in these reports. The choice of these provisions and standards was due to two reasons. First, the IoDSA (2016) regards a BoD as a responsible and accountable body that has to play an oversight role in monitoring the performances of their entities. Part 3 of King IV deals with CG disclosures, while Part 6.6 contains supplements for SOEs, suggesting the extent to which SOEs are expected to adhere to these disclosure requirements.

The GRI's standards recommend an increased move towards SR, which is described by the GRI (2016) as reporting by an entity about its social, economic, and environmental impact through its day-to-day, operational activities. This approach is related to the TBL, which fit well with the objective of investigating evidence of an association between CG and SR performance. Appendix C lists the disclosure elements for both CG and GRI

standards. To guard against potential data loss, the downloaded material was also stored on a cloud (Microsoft's OneDrive), and was password-protected. Where annual reports were not available on the entity's website, the library information officers of the SOE were contacted. However, not all annual reports could be sourced.

Some of the SOEs' annual and integrated reports had missing data, and only 11 SOEs had reports that were accessible within the time frame of the research. These were considered for analysis. Data were captured from a total of 165 annual reports. The other 11 SOEs were left out of the study because they did not have at least 70% of the annual reports required for the sample period (2005–2019) published or available on their website. The researcher made efforts to contact each of these entities, to no avail.

Public libraries were also approached for assistance, and reference was made to these entities' websites or own libraries. Therefore, a two-year moving average approach, in line with procedures recommended by Stepanova and Kokoreva (2018), was employed in dealing with missing data for the sampled SOEs. With this approach, data for the previous two years were summed and then divided by 2 to obtain the data value for the current year. The intention was to smooth the data so that the current value better reflected the average trend of the data (Tham, 2009).

5.5.2. Data capturing procedures

The text of the reports was analysed and then manually coded and captured in the Microsoft Excel software program by the lead researcher and two research assistants. The two research assistants were thoroughly trained by the lead researcher on how items from the annual reports should be captured, to prevent inconsistencies in text analysis, interpretation, and data capturing.

The categorisation framework comprised 10 890 entries (captured), derived from 66 indicators × 15 years × 11 SOEs. There were 34 indicators that represented disclosure of CG variables, categorised under board performance (10) and board composition (24). These elements were identified based on the provisions in King II, III, and IV on CG, which were suitable for the period of the study, because the reports were released between

2002 and 2016. The disclosure performance of each SOE on CG indicators was assessed using content analysis. Assessment of disclosure of CG variables was done using a binary scale, in line with previous research (Hussain *et al*., 2018; Muzata, 2018; Surty *et al*., 2018; Ungerer, 2013), where a value of 1 represents disclosure and 0 represents non-disclosure.

SR performance indicators were assessed through sentiment analysis, using performance rating to score how each SOE performed. Rocca, Giacomini, and Zola (2020) used this approach in their study of local government organisations' utilisation of social media to disclose their environmental activities, information, or strategies. It is a useful tool to give a '*photograph view*' of stakeholders' sentiments. The authors note that sentiment analysis is a suitable tool to support, develop, and improve environmental reporting and disclosure.

SR disclosure performance was measured by 32 indicators (19 for SocD, 5 for EcoD, and 8 for EnvD), in line with the GRI SR framework (G3 guidelines). Each of these indicators had sub-items that were allocated a disclosure score ranging from 0 to 5 (procedure modified from Surty *et al*., 2018; Pivac *et al*., 2017). The possible disclosure scores ranged from *No disclosure* to *High-quality disclosure* for each of the sub-items of the three dimensions, as shown in Table 5.3.

Table 5.3: Disclosure rating scale for the three dimensions of SR performance

Dimension	No disclosure	Poor-quality disclosure	Low-quality disclosure	Average-quality disclosure	Good-quality disclosure	High-quality disclosure
Scale	0	1	2	3	4	5

Source: Adapted from Pivac *et al*., (2017)

Likewise, if there is no disclosure at all or poor quality disclosure is observed for a particular sub-item, respective scores of 0 and 1 are allocated, whereas low- and average-quality disclosures respectively qualified for scores of 2 and 3. The good- and high-quality disclosures respectively qualified for scores of 4 and 5. For example, the first item of SocD is *employment*, which has three sub-items. If the researcher was of the

opinion (use of sentiments) that the disclosure of these three sub-items was of a high quality, a score of 5 was allocated for each sub-item. Therefore, high-quality disclosure of the *employment* item will amount to a cumulative score of 15 (i.e. 3 x 5). Scores of each item were then added together to arrive at a cumulative composite index of each dimension (i.e. all 19 items of SocD were added to arrive at a cumulative composite index of that dimension for that particular year). The same procedure was followed in determining the cumulative composite disclosure index of the other two dimensions (i.e. EcoD and EnvD). Thereafter, the cumulative disclosure index for each dimension of SP was constructed according to the following formula, which was also applied by Hussain *et al*., (2018):

$$\boldsymbol{Disclosure\ index} = \sum_{j=1} \frac{rj}{n}$$

where:

- *rj* = 1 if the item is disclosed (number of items disclosed on the dimension)
- 0 = if the item *j* is undisclosed
- *n* = total number of items on each dimension

5.5.3. Data cleaning, preparation, and validation procedures

Owing to the manual nature of data capturing, this proved to be a tedious process, and, as such, was susceptible to validity and reliability threats, which needed to be addressed prior to analysis. This stage involved the procedure followed by the researcher in organising and cleaning the data in order to ensure that captured data were accurate and transformed correctly. The cleaning process involved inspecting the captured data for any unwanted foreign values.

In preparation for quantitative analysis, the data were transformed by logging variables (ROE, ROA, and Leverage) to avert the possibility of data skewed towards larger values, and also to deal with the degree of elasticity. This procedure was based Cleveland's (1994) advice that, given an interchange of top and bottom axes, using logarithms will ensure that data values are spread evenly, thus smoothing skewness of data to larger values.

In validating the data to ensure that reliability was not compromised during capturing and coding, and because this was a manual process, an intercoder reliability calculator (ReCal3) developed by Freelon (2013) was used. This was part of the quality assurance process to ensure that all possible gaps and loopholes emanating from data coding and capturing were addressed. The aim, as recommended by Neuendorf (2002), was to ensure that codebook process and procedure was objective, and that confidence in the analysis and interpretation of the research findings could be assured. Lombard, Synder-Duch, and Bracken (2002) define inter-coder reliability as the extent to which different coders, who are independent of each other, evaluate the message or artefact in the text and arrive at a common conclusion. Freelon (2010) regards inter-coder reliability as the most crucial criterion to ensure validity for studies employing content analysis, especially in social studies.

The outcomes of Scott's π and Cohen's *k* were .901 and .900 respectively, which implied that the coders agreed 90% of the time in sentiment analysis and data capturing (Hayes & Krippendorff, 2007). This is a good score for measuring data capturing and coding reliability. Once the captured data had been cleaned, transformed, and prepared, the matrix in the Excel sheet consisting of dependent and independent variables was imported into Minitab for further analysis in the quantitative stage.

5.5.4. Data analysis procedures

Due to the pragmatic nature of the research, data analysis was executed in two phases: quantitative and qualitative. With regard to the quantitative phase, the analysis was performed using MiniTab Version 17. MiniTab is a statistical data analysis program that focuses primarily on process improvement and quality management. The software offers the advantage of unparalleled ease-of-use and a use-friendly interface. During this phase, the analysis was divided into descriptive and inferential statistics. With the latter, the focus was on Pearson's product-moment correlation and multivariate regression analyses. For the qualitative phase, content analysis aided by Microsoft Excel software, and the focus was on *average, total (sum), Countif,* and *trend analyses.* All these procedures are explained in detail in the following sub-sections.

5.5.4.1. Quantitative phase – Descriptive statistics and Inferential statistics

Due to vast literature on CG research, there are a variety of measurement and methodologies available. By extension, there are also variety of approaches and variables to measure the CG–sustainability association (Birindelli *et al*., 2018; Heo, 2018; Jo & Harjoto, 2012). The dependent variable was measured using the TBL approach, using a composite index of each dimension, namely SocD, EcoD, and EnvD. This measurement was guided by approaches followed in previous studies (Heo, 2018; Hussain *et al*., 2018; Fernandez-Feijoo, Romero & Ruiz, 2012; Aras & Crowther, 2008). For independent variables, nine board characteristics were used as a proxy for CG in the present study. These variables were selected in line with extant literature on measuring the CG–sustainability association (Heo, 2018; Hussain *et al*., 2018; Kikeri, 2018; Bezuidenhout *et al*., 2018; Roy & Pal, 2017; Jo & Harjoto, 2012; Frederick, 2011; Love, 2011) and their relevance to the South African SOE environment. Table 5.4 illustrates how these variables were operationalised. According to Pallant (2011), descriptive statistical analysis is necessary in research because it enables the researcher to gain meaningful insights on the properties of the data to be analysed. This form of analysis is usually performed during the preliminary analysis stage and helps to identify if there are any outliers that need attention before further analysis is undertaken, which is important, as the presence of outliers may skew the analysis (Pallant, 2011).

Frequency, mean, median, variance, and standard deviation (SD) scores are used to report these types of statistics. The focus was on interpreting minimum values, maximum values and degree of dispersion, measured by kurtois and skewness, to determine how the data were distributed amongst dependent and independent variables. The results are reported and discussed in Chapter 6.

Inferential statistical analysis, unlike descriptive statistics, allows the researcher to make inferences or predictions about properties of the population under study (Field, 2009). Inferential statistics are usually used for two purposes: to estimate population parameters and to test hypotheses. Therefore, relationships amongst variables can be explored (Pallant, 2011).

Table 5.4: Measurement and operationalisation of dependent, independent and control variables

Variables	Measurement	Label
Dependent variable: SP		
Social disclosure (SocD) index	Cumulative composite index of entity's performance on GRI social indicators (Hussain *et al.,* 2018).	SocD
Economic disclosure (EcoD) index	Cumulative composite index of entity's performance on GRI economic indicators (Hussain *et al.,* 2018).	EcoD
Environmental disclosure (EnvD) index	Cumulative composite index of entity's performance on GRI environment indicators (Hussain *et al.,* 2018).	EnvD
Independent variables:		**Hypotheses and expected Sign**
Board activeness (BA)	Number of meetings per year (Tshipa, *et al*., 2018a).	H1a H1b H1c (+)
Board turnover (BT)	Average of the percentage of board members exit (Liu *et al.,* 2013).	H2a H2b H2c (-)
Women's representation on the board (WB)	Total number of women directors on the board (Heo, 2018).	H3a H3b H3c (+)
Board size (BS)	% of women representation on the board relative to board size (Galbreath, 2011)	H4a H4b H4c (+)
Outsider representation (OR)	% of independent directors to total directors	H5a H5b H5c (+)
Nomination committee (NC)	Binary value of 1 if it exists and 0 otherwise	H6a H6b H6c (+)
Remuneration committee (RC)	Binary value of 1 if it exists and 0 otherwise	H7a H7b H7c (+)
Independence of audit committee (AC)	Binary value of 1 if finance director serves on the audit committee and 0 otherwise (Chan & Li, 2008)	H8a H8b H8c (+)
Sustainability committee (SC)	Binary value of 1 if it exists and 0 otherwise	H9a H9b H9c (+)
Control variables		
Leverage (LVG)	Debt divided by total assets (Tshipa, *et al*., 2018a)	
Firm size (SIZE)	Logarithm of total assets of the entity (Hussain *et al.,* 2018)	
Industry (IND)	Industry dummy variable (Nguyen *et al.,* 2014)	
Return on assets (ROA)	Net profit divided by total assets (Muzata, 2018)	
Return on equity (ROE)	Net profit divided by total equity (Muzata, 2018)	

For the purpose of the present research, the focus was on Pearson' correlations and multivariate regression analyses. Pearson's correlation technique, shown in the formula below, explains correlation between the variables.

$$r = \frac{n\sum xy - (\sum x)(\sum y)}{\sqrt{[n(\sum x^2) - (\sum x)^2] \cdot \text{sqrt}[n(\sum y^2) - (\sum y)^2]}}$$

This technique is used for assessing the strength and direction of the association between variables(Field, 2009). In terms of strength, the values of coefficients range between -1 and +1, where coefficient values closer to 1 suggest a stronger association, while values closer to -1 indicate a weak association. The direction of the association is indicated by positive or negative values, where the former indicate that all variables increase together, whilst the latter implies that an increase in one variable is accompanied by decreased value in the other variable (i.e. inverse association). In deciding on the evidence and strength of the association between variables, correlation coefficient output from Minitab was analysed, in line with Pearson's threshold for the strength of the correlation, shown in Table 5.5.

Table 5.5: Interpreting Pearson's correlations

Correlation Coefficient	Range	Strength of correlation
(r)	0.9 and 1.0	Very highly correlated
(r)	0.7 and 0.9	Highly correlated
(r)	0.5 and 0.7	Moderately correlated
(r)	0.3 and 0.5	Low correlation
(r)	less than 0.3	Little if any (linear) correlation

In addition to analysing correlation coefficients, Field (2009) is quick to point out that presence of correlation does not suggest causality, and thereof its direction. Results of this phase and the related discussions are presented in Section 6.3 of Chapter 6.

5.5.4.2. Qualitative phase – Content analysis

In the qualitative phase, manual content analysis was sought for three purposes in an attempt to address RO_2 to RO_4. Firstly, the analysis of the nature and scope of SOEs' CG and SR disclosure performances practices was assessed by exploring and comparing extent of CG provisions and SR standards disclosure of SA schedule SOEs in the annual

and integrated reports over the entire study period were used for this purpose. During this assessment, further analysis was executed with the aid of Microsoft Excel graphical functions to visualise the performance of SOEs, as explained in Section 5.5.4. At this point, the performance of each SOE was assessed by computing *total (sum)* and *average performances* metrics against the *total expected (desired) performance*. Second, the extent of SOEs' level of adherence practices to King report provisions and GRI standards of disclosure was assessed. This was in line with RO_3. Microsoft's *Countif* function was employed to determine the level of adherence performance on each GC provision and GRI standard per year. The procedure is explained in detail in Section 7.3. Once the level of adherence had been assessed, the next step was to determine if trends in the disclosure and adherence performance metrics could be established. This was in line with RO_4. Microsoft's *trend function* was computed to analyse performance. Trends in the frequency of disclosure and adherence performance were determined for each SOE. This is also assessed on an annual basis using a temporal trend exploration procedure, in line with the recommendations of Jenkins and Yakovleva (2006). The detailed results and a discussion of this phase are presented in Chapter 7.

5.6. Ethical issues in this research

Upholding high standards of ethical values in research is important to ensure that the research is conducted with integrity and honesty. Brewer, Salkind, and Rasmussen (2012) and Mouton (2011) describe ethical behaviour doing the right thing to ensure that no harm, intended or unintended, is inflicted in the process. Tustin *et al*., (2005:335) share similar sentiments, and define ethics in research as "*that which is deemed acceptable, right, or good*". Tustin *et al*., (2005) and Salkind (2012) note that ethics in research should be a daily business practice guiding one's behaviour to ensure that the principles and values of academic integrity are upheld.

The present researcher applied for ethical clearance by the university to conduct the study. The methods of data collection and analysis underwent a rigorous approval process, as it was subjected to risk assessment and assessed for compliance by the Department of Finance, Risk Management, and Banking Ethics Review Committee. The

committee categorised the level of risk as negligent. A copy of Ethical Clearance Certificate is attached in Appendix B. Furthermore, as required by policy and SOP provisions, this thesis document was put through Turnitin®, a plagiarism-detection program, to check words or phrases that showed similarity with previous research or literature. The Turnitin® report's (see Appendix A) similarity index was acceptable per the university's recommendation of 25% or lower. Where exact words or phrases had been taken from previous research, the sources were acknowledged through in list of references.

5.7. Concluding remarks for the chapter

Methodological research design choices made in this study were discussed in detail in this chapter. Based on the review of previous research methodologies in section 5.2, the gaps were identified, which formed basis for the extant research. This was followed by a discussion of pragmatism as the preferred philosophical lens of the study in section 5.3. This was guided by much of research within the governance literature relying on single method research, meanwhile the infusion of quantitative and qualitative methodological processes and procedures in a single study seem to be receiving less attention.

Section 5.4 followed, and focused on the discussion of the sample design, strategy, and methods adopted in the current research. The population and sampling frame were then discussed in this section. The initial plan was to study CG and SR practices of all 21 SOEs as listed in Schedule 2 of the PFMA, however owing to missing data, the final sample was restricted to studying 11 SOEs. This was because some of the SOEs' annual reports could not be accessed despite numerous attempts by the research to acquire these reports. This difficulty is acknowledged in, section 8.4 of Chapter 8.

In Section 5.4, and the data collection, capturing, and analysis procedures followed in Section 5.5. As hinted in the previous paragraph, annual reports were the primary source of data, hence secondary data analysis was preferred. The data capturing was a team approach comprising of the researcher, supervisor, three research assistants, and the statistician. Data cleaning and validation procedures were executed to ensure that reliability and validity threats are dealt with, as these have potential to compromise the

data analysis process, and thus subsequently, spurious research results. The last part of section 5.5 presented a discussion on how the results of both quantitative (descriptive and inferential statistics) and qualitative (content analysis) phases are reported.

In section 5.6, the ethical issues pertaining to this study are addressed in detail, meanwhile, the current section is the last one for the chapter and presents concluding remarks. The next chapter present the results and a discussion of the evidence of an association between selected CG and SR performance indicators, in line with RO_1 of the study.

CHAPTER 6 – RESULTS AND DISCUSSIONS: THE ASSOCIATION BETWEEN CORPORATE GOVERNANCE VARIABLES AND OF SUSTAINABLITY REPORTING PERFORMANCE INDICATORS

6.1 Introduction to the chapter

The previous chapter discussed the methodological procedure and research design that guided the current research. This chapter reports the results and discusses evidence of the association between CG variables and three dimensions of SR disclosure. This is in line RO_1 of the study, which was to find evidence of an association between selected CG variables and the three dimensions of sustainability reporting (SR) performance indicators of South African Schedule 2 SOEs. Nine research propositions were associated with this RO, as outlined in Section 1.3 of Chapter 1. The results indicate whether the propositions were accepted or rejected. Section 6.2 presents the results of the descriptive statistical analysis. This is followed by the results and a discussion of the inferential statistical analysis, Section 6.3, where the results of Pearson correlation and multivariate regression analysis, the empirical model, and implications of propositions' results are presented.

6.2 Descriptive statistics

This section presents the results of the descriptive statistics analysis, which provides a picture of the data and insights. The focus of this discussion is means, standard deviations, minimums, medians, maximums, and range values. In addition, skewness and kurtosis are also discussed, to provide an indication of the symmetry of the data and its peakedness, through an interpretation of goodness-of-fit. A well-modelled data set is likely to produce a good fit, while poorly modelled data would produce a poor fit (Field, 2009). Table 6.1 depicts the results of the descriptive statistics for the CG variables and SR performance indicators over the 15-year period of investigation. The findings suggest that the distribution of data on the disclosure of the variables, including control variables, varied substantially amongst the SOEs.

The mean and standard deviations of BT, LVG, ROA, and ROE exhibited high variation, compared to other variables. This observation is supported by the maximum and minimum values of the variables. The skewness of WB, BS, SC, and EnvD were fairly symmetrical, as their skewness fell between -0.5 and 0.5. However, SIZE and EcoD were

moderately skewed, while BA, BT, LVG, ROA, and ROE were highly positive skewed, as their skewness was greater than 1. On the other hand, SocD, OR, RC, and AC were negatively skewed, as their skewness was less than -1. The variables LVG, OR, RC, AC, ROA, and ROE exhibited high kurtosis (> 3), indicating the presence of outliers. BA, BT, WB, BS, NC, SC, SIZE, SocD, EcoD, and EnvD exhibited platykurtic (kurtosis < 3) characteristics; thus, there was no evidence of outliers. According to George and Mallery (2010), when the skewness and kurtosis values fall between -2 and +2, the researcher may infer a normal univariate distribution. This was the case with this data; therefore, a normal distribution of the data was assumed.

In terms of histograms, the shapes of the graphs for almost all the variables were roughly symmetrical, thus confirming normal distribution of the data. Nevertheless, OR and IND were moderately skewed to the right, whereas BT was moderately skewed to the left. Appendix H presents the detailed results of the descriptive statistics in the form of histograms.

6.2.1 Board activeness (BA)

BA, which is a proxy for how active the board is based on the number of meetings held annually, had a mean (median) of 9.51 (8.00), with a range of 24 meetings. This therefore suggested that, on average, each SOE held at least 9 meetings annually, with 3 being the lowest number of meetings held, while 27 meetings as the highest number of meetings held. This was an outlier based on the analysis of histograms, and Eskom and the SABC were the main contributors. SD, which measured dispersion of each observed value from the mean, was reported to be 5.72. This suggested that there was not much spread of values from the mean, thus implying low variation. The provisions in the King reports do not prescribe the number of meetings to be held by a governing board but do recommend at least one meeting every quarter. The Cadbury Report, on the other hand, recommends regular board meetings (Cadbury, 1992). With an average of 9 meetings annually, as reported in Table 6.1, SOEs tend to meet more regularly, as this is above recommended quarterly (i.e. four) meetings per year.

Table 6.1: Descriptive statistics for CG variables and SR performance indicators

Variable	*N*	*Mean*	*SE Mean*	*Std Dev*	*Minimum*	*Median*	*Maximum*	*Range*	*Skewness*	*Kurtosis*
Independent Variables										
Board activeness (BA)	11	9.2	0.431	5.536	0	8	27	27	1.8	3.38
% Board turnover (BT)	11	20.16	1.24	15.95	0	14	86	86	1.31	1.89
% Women on the board (WB)	11	36.618	0.686	8.818	17	38	58	41	-0.12	-0.6
Board size (BS)	11	11.297	0.245	3.141	5	11	19	14	0.06	-0.77
% Outsider representation (OR)	11	82.945	0.664	8.531	30	85	93	63	-3.08	12.61
Nomination committee (NC)	11	0.6364	0.0376	0.4825	0	1	1	1	-0.57	-1.69
Remuneration committee (RC)	11	0.8788	0.0255	0.3274	0	1	1	1	-2.34	3.53
Independence of audit committee (IAC)	11	0.7758	0.0326	0.4184	0	1	1	1	-1.33	-0.22
Sustainability committee (SC)	11	0.5273	0.039	0.5008	0	1	1	1	-0.11	-2.01
Control Variables										
Return on equity (ROE)	11	9.61	6.21	79.83	-475.69	8.17	498.72	974.41	1.07	23.74
Return on assets (ROA)	11	5.29	4.22	54.25	-159.69	2.44	475.89	635.59	5.45	42.99
Leverage (LVG)	11	74.4	15.4	197.7	0	0.6	782.8	782.8	2.65	5.63
Firm SIZE	11	21.525	0.247	3.172	13.904	22.172	26.636	12.733	-0.63	-0.45
Industry (IND)	11	0.8182	0.0301	0.3869	0	1	1	1	-1.67	0.78
Dependent Variables										
SocD	11	0.3976	0.0111	0.1425	0	0.42	0.63	0.63	-0.87	0.53
EcoD	11	0.5057	0.0126	0.1616	0	0.5059	0.8	0.8	-0.72	1.31
EnvD	11	0.2854	0.0153	0.1968	0	0.3297	0.6486	0.6486	-0.06	-1.46

Source: MiniTab output

Variables definitions: ***Independent variables:*** Board turnover (BT) = Average of the percentage of board members' resignations; Board activeness (BA) = Number of meetings per year; Board size (BS) =Total number of directors on the board; Women on the baord (WB) = % of women's representation on the board relative to size of the board; Outsider representation (OR) = % of independent directors to total directors of the board; Presence of a Remuneration committee (RC) = Binary value of 1 if it exists and 0 otherwise; Presence of a Nomination committee (NC) = Binary value of 1 if it exists and 0 otherwise; Presence of a Sustainability Committee (SC) = Binary value of 1 if it exists and 0 otherwise; Independence of audit committee (IAC)= Binary value of 1 if finance director serves of audit committee and 0 otherwise. ***Control variables***: firm size (*SIZE*) measured by a logarithm of total assets of the entity; Leverage (*LVG*) = Debt divided by total assets; ROE = Net Profit (Loss)/Total Equity; ROA = Net Profit (Loss)/Total Assets; IND = Binary value of 1 if the entity operates in a sensitive industry and 0 otherwise. ***Dependent variables***: SocD is an index of entity's performance on GRI social indicators; EcoD is an index of entity's performance on GRI economic indicators; EnvD is an index of entity's performance on GRI environment indicators.

Arguments in the literature around frequency of board meetings seem to hold divergent positions. Scholars like Vafeas (1999), Prado-Lorenzo, and Garcia-Sanchez (2010), Frias-Aceituno *et al.,* (2013), and Giannarakis (2014a) associate meeting frequently with inefficiency and directors' inefficacy, which, in turn, adversely affect their performance. On the opposing side, the argument is that regular meetings enhance transparency, disclosure, and performance are improved alongside accountability and effective allocation of resources (Jizi *et al*., 2014; Allegrini & Greco, 2013; Adawi & Rwegasira, 2011; Ricart *et al*., 2005).

Given these results and persistent governance challenges SOEs have been experiencing over the years, it can be assumed that frequency of meeting is an indication of performance issues and the need to focus on efficiency. Some of these governance challenges include, but are not limited to, worrying board instabilities, allegations of corruption, and financial misappropriation. Therefore, in line with the first school of thought mentioned above, these frequent meetings prove to be ineffective, and attendance of these meetings is associated with remunerating attendees. As such, value for money cannot be determined by this attendance. Equally so, the directors or the chairs of the boards do not demonstrate the required degree of efficacy in dealing with issues at hand. The concern, however, is that ROI relating to these meetings is not being realised, given continued governance and performance challenges.

6.2.2 Board turnover (BT)

For BT, which is a proxy for percentage of directors' resignations, the statistics suggested that, on average, 20% of directors resign or leave the board in a particular financial year. At some point, the highest board turnover reached 86%, and, interestingly, 0% turnover has never been reached. The dispersion from the mean (SD) was also low, at 16.46, as the distance from the mean was 4.18%. Given the average board size of 11 members, as shown in Table 6.1, the BT statistic implied that, on average, two members leave the board annually, through resignation, dismissal, or retirement. Drawing from prior studies it is known that most SOEs, especially the major ones like SABC, DENEL, ESKOM, SAA and Transnet, have, in the recent past battled with poor governance practices (Kanyane

& Sausi 2015; Thomas, 2012) and also high exodus of board members, mainly through dismissals and resignations (Thabane & Snyman-van Deventer, 2018). Thabane and Snyman-van Deventer (2018) observe that SABC, SAA, and ESKOM are known to have an 'unhealthy' degree of labour turnover, through a mass exodus in some instances, of both members of the board and executive management. Political interference through political instability has been largely blamed for these developments. This view affirms findings of the AG's 2016–2017 report on the status of SOEs, which pointed out instability at board- and executive management levels, alongside delays in board appointments and indecisiveness of the government on effective oversight of SOEs.

In relation to instability, the report adds that six of the SOEs that were reviewed in that financial year did not fill the CEO position for six months, with average CEO tenure reported as 2.5 years. As far as the CFO position is concerned, average tenure was 3 years, while 11% of the SOEs had no CFO for up to 6 months. It is important to note that the CEO and CFO are key members of the board and executive management, and instability at this level is likely to derail the strategic direction of these institutions.

6.2.3 Women's representation on the board (WB)

The mean for WB was 36.89, with a standard deviation of 8.86. The implication of these statistics is that, on average, there was a 36% representation of women on the boards of the SOEs under study. This figure is unfavourably low, taking into account that the move towards gender-neutral boards is gaining the momentum. The OECD's 2019 CG Factbook reports that quotas for SOEs are ambitiously high, at over 40% women's representation across the world. From SA's context, a target of 50% women's representation in decision-making at an apex level was set to be achieved through Gender Equity Bill was tabled in parliament in 2013. This target was however never realised, and the Bill failed in its implementation. Without going into the reasons for the Bill's failure, the call for equal gender representation continues to cause upheaval, most recently through shareholder activism. Viviers, Mans-Kemp and Fawcett (2017) state that the in extant governance literature, the issue of board-gender diversity, with attention towards more women's representation remain a highly contested topic.

According to Bosch, Van der Linde, and Barit (2020), the practice of a gender-neutral board is largely voluntary in most parts of the world, for example, in countries such as Australia and UK, while in countries such as Norway, Germany, Spain, and France, 40% women's representation is a mandatory quota. The OECD's 2019 CG Factbook South Africa also supports a practice of a voluntary mechanism to achieve a diverse board, through regulatory reforms such the Constitution, the Companies Act 71 of 2008, the Broad-Based Black Economic Empowerment Act 53 of 2003, its Codes of Good Practice, King IV, and the Employment Equity Act 55 of 1998.

King IV, which is applicable to SOEs through its complementary section (Part 6.6) addresses gender diversity under Principle 7 and Recommended Practices 10 and 11, calling for governing bodies to set gender diversity target and then report progress towards these targets (IoDSA, 2016). Furthermore, SOEs are required by the DPE's 2002 protocol on CG in the public sector to ensure that their boards are representative of historically disadvantage members of society. According to the protocol, these members of society include women, who ought to be advanced on a large scale, in line with affirmative action plans (DPE, 2002).

6.2.4 Board size (BS)

BS has also received fair amount of attention in the governance literature, and much of the debate centres around whether a large or small BS can enhance monitoring mechanisms (Hussain *et al*., 2018). Authors like Prado-Lorenzo and Garcia Sanchez (2010) argue against a large BS, citing governance inefficiency amongst their reasons. As shown in Table 6.1, the mean for BS was 11.451, with an SD of 3.191, thus suggesting a little variation across the SOEs. Newell and Wilson (2002) recommend five to nine members as an ideal size for a board. According to OECD's 2019 CG Factbook, BS varies between countries, with Germany recommending between three and 21 members, France recommending three to 18, India recommending three to 15, with Russia expecting no less than seven members on the board. SA's mean comparison against other countries, based on Spencer and Stuart's (2018) board index, was found to be

relatively high (closer to 12 board members), compared to the USA's average of 11, Russia's 10.6, and the UK's 10.5 members.

Despite these figures and statistical information, there is no consensus on the optimal BS and structure, due to variations in firm size, nature of operations, and organisations' orientations. For SOEs, which are largely funded by government subsidies, the BS is likely to be influenced by political orientation, interests, and the mandate emanating from the philosophy, agenda, and influence of the governing party.

6.2.5 Outsider representation (OR)

The average statistic of OR, which was a proxy for the independence of the board, was 83.396%, with an SD of 8.495. This statistic implies that most of the boards of the SOEs under study are highly independent. The highest value was 93%. Due to increasing concerns regarding maladministration and governance failures, especially in the country's public sector, a judicial commission of inquiry into allegations of state capture was instituted to probe allegations of corruption and fraud. SOEs and other public institutions were at the centre of this investigation, and some board members had to appear before the commission. It is therefore understandable that the call for independent boards, through majority outside directors is intensifying. In support of this, Madumi (2018) strongly advocates in favour of independent boards, as high standards of transparency, accountability, and ethical conduct are then more likely to be upheld.

6.2.6 Presence of the nomination, remuneration and social committees

The mean and SD statistics for presence of NC, SC, and RC were 0.6991 [0.4483], 0.5926 [04803], and 0.9421 [0.1984], implying that the majority of the SOEs have these committees in place. These committees are argued to enhance the idea of corporate citizenship and considered a symbol of the board's commitment to sustainable development (IoDSA, 2016). Whilst embracing and acknowledging the importance of board committees in promoting independent judgement, balancing power, especially in terms of conflicts of interests and assisting the board in effectively discharging its duties, both King III and King IV do not contain prescriptions relating to number and types of committees. It is therefore the prerogative of each entity to decide on the necessity of

such committees. This was evident in the SOEs under study, as some had an NC, AC, RC, sustainability or social and ethics committees, while others had none of these. In some cases, the RC and NC were co-opted into one committee, with the reasons cited being efficiency and minimising unnecessary overlap or duplication.

6.2.7 Independence of the audit committee (IAC)

The presence of a finance director on the AC has been argued to instil financial accountability and good CG practice, while at the same time minimising chances of corporate failure and acts of maladministration. The mean statistic was 0.9132, while the SD was 0.2055. The low SD statistic implied that its value was not far from the mean. The results showed that over 90% of the SOEs have independent AC through the presence of financial expertise on the board. The independent AC, as Tshipa *et al*., (2018a) observe, draws the benefits of having someone to address any issues or questions outside the know-how and proficiency of ordinary board members. This observation is in line with arguments in the literature that the independence is associated with improved monitoring, control, and transparency (OECD, 2015b). However, given frequent media reports relating to conflicts of interests, maladministration, fraud, and corruption (Thomas, 2012), the efficacy of such independence and the associated benefits remain debatable, particularly within SOEs.

Thomas's (2012) study paints an empirical picture of the media reports of SOEs' governance failures in SA. Thabane and Snyman-van Deventer (2018) similarly contextualise the extent of governance deficiencies of SA SOEs through a critical reflection exploring the root causes. In line with arguments from an agency problem perspective, the authors, citing Chang (2007), state that at the core of SOEs' agency problem is "the self-serving or self-seeking nature of human beings". This view is not far removed from the debates on managing conflict of interests as widely reported in the governance literature (Ahmad *et al*., 2017; Allegrini & Greco, 2013; Herda *et al*., 2012).

6.3 Inferential statistics

In this section, the results of the inferential statistics are presented and discussed. The focus is on bivariate correlations and multivariate regressions analysis, in addressing RO_1.

6.3.1 Bivariate correlation analysis amongst the dependent variables

In this section, the results of Pearson's product-moment of correlation analysis are reported and discussed. The results of the analysis are presented in Table 6.2, showing the extent of correlation between dependent, independent, and control variables, reported at three levels of significance (i.e. 1%, 5%, and 10%). This analysis took into account Field's (2009) advice that evidence of correlation does not necessarily mean causality.

As shown in Table 6.2, there is evidence of correlation between the three dependent variables (SocD, EcoD, and EnvD). A positive correlation between SocD and EcoD is evidenced by 77% correlation coefficient meanwhile 60% correlation coefficient confirm SocD and EnvD correlation. Both the correlations were significant at 1%.Similarly, EcoD and EnvD correlated positively at 65%, significant at 1%.

In Pearson's criteria for measuring the strength of correlation (Table 5.5), a correlation between 0.5 and 0.7 suggests a moderate correlation, while a correlation between 0.7 and 0.9 is an indication of high correlation. This approach of interpreting correlation was followed in previous studies, such as Hussain *et al*., (2018); Mahmood *et al*., (2018); Zakaria (2018) as well as Michelon and Parbonetti (2012) to mention few.

6.3.2 Correlations between independent and dependent variables

In terms of correlation between predictors of interest (independent variables) and the dependent variables, evidence of the results indicated that a degree of correlation existed. In some instances, an inverse strong correlation is found. There was a notable association between BA and SR performance indicators, significant at 1%. The strength of this correlation was, however, low, with a correlation coefficient (*r*) of 0.344 for SocD, 0.420 for EcoD, and 0.407 for EnvD. Correlation between BT and the three dimensions were very low. A negative but statistically insignificant correlation was established between WB and two dimensions of SP, SocD (r = -0.013) and EnvD (r = -0.034). For BS,

a low correlation was noted between the three dimensions, at significance level of 5% for SocD and 10% for EcoD and EnvD indices respectively. Regarding OR, there was no linear positive correlation with SocD (r = 0.000) and little correlation with EcoD (r = 0.092), both significant at 1%. In terms of correlation with EnvD, a strong negative correlation, significant at 1%, was established, evidenced by a correlation coefficient of r = -0.073.

Correlation of TBL dimensions of SR and existence of board committees varied in terms of direction and the strength. A low significant (1%) linear positive correlation was found with presence of NC, RC, SC, and independence of AC, as all correlation coefficients were lower than the 0.600 threshold. Notably, the correlation between RC and EnvD was very low, r = 0.192, and was also found to be insignificant.

6.3.3 Correlations between control variables and dependent variables

In order to reduce the potential impact of bias due to omitted variables, a number of control variables were included in a model, and, as such, correlation between control variables also vary by strength and direction. ROA correlated with ROE (r = 0.405) at 1% significance (p < .01), while the correlations with LVG and SIZE were negative, evidenced by r = -0.313 at 1% significance. Correlation between ROA and IND was very low and insignificant. An insignificant negative correlation was further established between ROE and LVG (r = -0.075), except that the association between ROE and SIZE was significant at 10%. The correlation between IND and SIZE was negative (r = -0.241) at the 1% level of significance, while it was very low for LVG and IND (r = 0.191) at the 5% level of significance. García-Sánchez *et al*., (2019) highlight the influence of SIZE and the type of institution in SR disclosures, noting that larger entities tend to perform well with respect to SR performance indicators. Zu and Song (2009) state that, given the SIZE and nature of the operations of SOEs, these entities are more likely than small entities to have agents in the form of managers who will target high SR performance.

Table 6.2: Pearson's correlation statistics

	BA	BT	WB	BS	OR	NC	RC	IAC	SC	ROA	ROE	LVG	SIZE	IND	SOCD	ECOD	ENVD
BT	0,109	1															
	0,196																
	0,265	0,166															
BS	0,199	-0,093	0,009	1													
	0,017	0,270	0,916														
OR	-0,096	-0,134	0,097	0,175	1												
	0,250	0,112	0,247	0,036													
NC	0,279	-0,010	-0,057	0,358	0,146	1											
	0,001	0,903	0,500	0,000	0,081												
RC	0,072	-0,006	0,088	0,008	0,207	0,388	1										
	0,394	0,942	0,294	0,920	0,013	0,000											
IAC	0,029	0,048	0,067	-0,030	0,108	0,303	0,862	1									
	0,728	0,571	0,425	0,717	0,198	0,000	0,000										
SC	0,309	0,049	0,097	0,232	0,125	0,264	0,232	0,277	1								
	0,000	0,560	0,248	0,005	0,134	0,001	0,005	0,001									
ROA	0,024	0,106	-0,003	0,012	-0,022	0,084	0,075	0,098	0,147	1							
	0,777	0,207	0,975	0,883	0,789	0,315	0,369	0,243	0,079								
ROE	0,064	0,079	0,135	-0,015	-0,023	-0,021	0,012	0,034	0,039	0,405	1						
	0,446	0,349	0,105	0,856	0,787	0,800	0,887	0,683	0,647	0,000							
LVG	0,098	0,243	-0,059	-0,080	0,093	0,066	-0,010	0,015	0,164	-0,054	-0,075	1					
	0,244	0,004	0,486	0,339	0,270	0,435	0,905	0,855	0,050	0,519	0,374						
SIZE	0,028	-0,223	0,165	0,224	-0,204	0,053	0,004	-0,108	-0,028	-0,236	-0,157	-0,313	1				
	0,735	0,008	0,049	0,007	0,014	0,526	0,960	0,199	0,740	0,004	0,061	0,000					
IND	-0,475	0,091	0,063	-0,307	0,086	-0,244	-0,081	-0,138	-0,248	0,044	0,090	0,191	-0,241	1			
	0,000	0,281	0,454	0,000	0,308	0,003	0,337	0,098	0,003	0,597	0,286	0,022	0,004				
SOCD	0,344	0,106	-0,013	0,238	0,000	0,437	0,593	0,556	0,222	0,070	0,016	0,173	-0,122	-0,348	1		
	0,000	0,208	0,873	0,004	0,997	0,000	0,000	0,000	0,008	0,408	0,850	0,038	0,144	0,000			
ECOD	0,420	0,082	0,055	0,377	0,092	0,488	0,584	0,578	0,369	0,046	0,059	0,067	0,041	-0,368	0,777	1	
	0,000	0,331	0,512	0,000	0,272	0,000	0,000	0,000	0,000	0,582	0,485	0,422	0,624	0,000	0,000		
ENVD	0,407	0,145	-0,034	0,548	-0,073	0,401	0,192	0,230	0,303	0,122	0,019	0,202	0,071	-0,402	0,603	0,651	1
	0,000	0,083	0,688	0,000	0,387	0,000	0,021	0,006	0,000	0,145	0,820	0,015	0,395	0,000	0,000	0,000	

Source: Minitab Pearson correlation analysis

These are the results of Pearson correlation results from Minitab Pearson results. SocD_Index EcoD_Index and EnvD_Index represent triple bottom dimensions of SR performance indicators, as part of the dependent variables. BA, BT, WB, BS, OR, NC, RC, IAC, SC are all independent variables whereas ROA, ROE, LVG, Size and IND are all the control variables. p-values for each variable are beneath correlation coefficient and are labelled according to the following colour coding which indicate each level of significance test.

*** < 1% significant level, ** < 5% significant level * < 10% significant level.

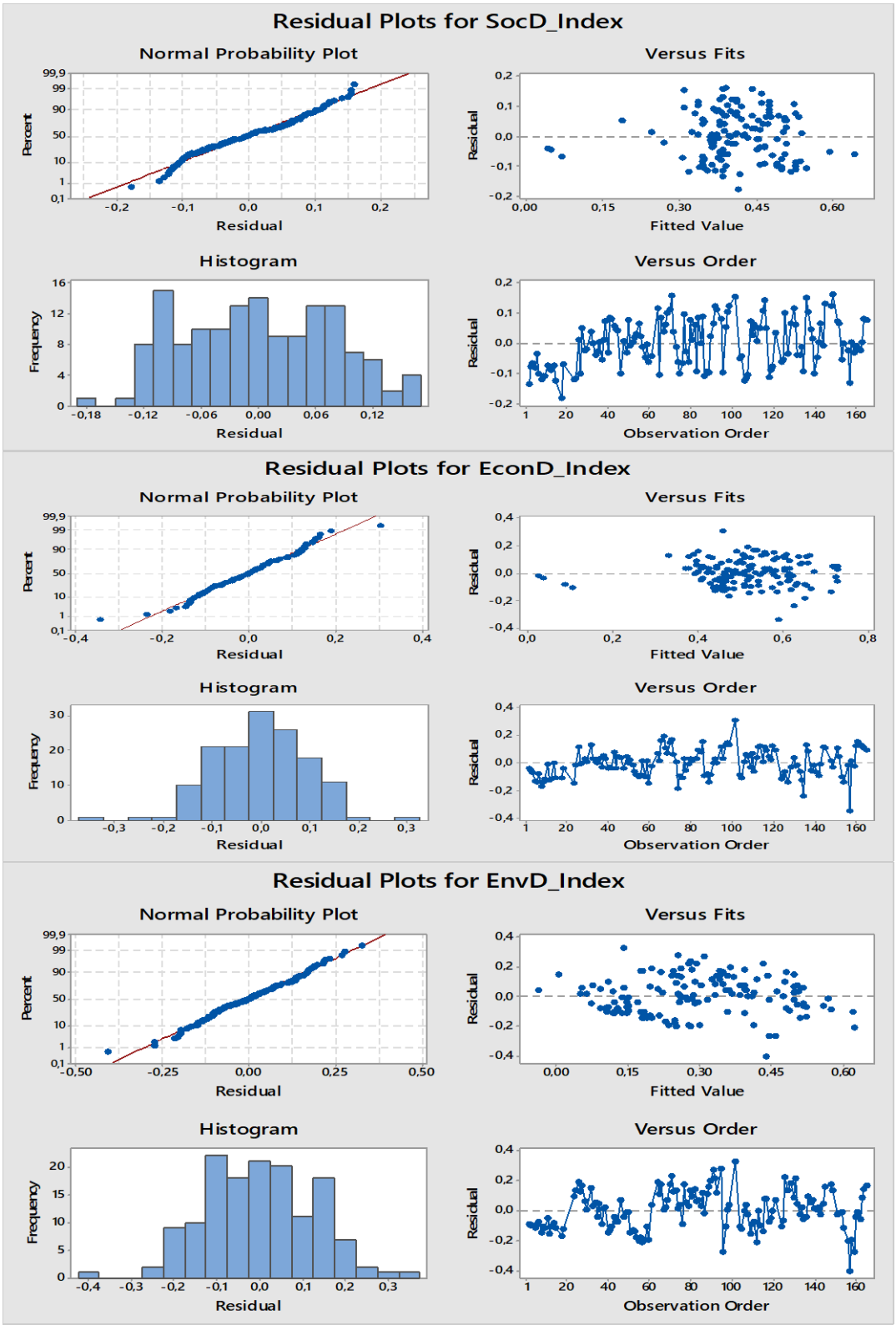
Correlation amongst the dependent variables (SocD, EcoD, and EnvD indices) and two control variables, ROA and ROE, was very low and insignificant in all cases. On the other hand, the correlation between LVG and triple bottom line SR performance indicators was also very low, but significant at the 5% level of significance for SocD (r = 0.173) and EnvD (r = 0.202), but insignificant for EcoD (r = 0.067). The SocD_Index negatively correlated with Size (r = -0.122) and IND (-0.348). Both EcoD and EnvD indices showed a very low and statistically insignificant positive correlation with Size (r = 0.041) and (r = 0.071). However, EcoD and EnvD and their correlation with IND was found to be negative (r = -0.368) and (r = -0.402) and significant (1%).

6.3.4 Multivariate regression analysis — model estimation

When testing for robustness and reliability, the aim is to tell how good, fit, and accurate the model is (Field, 2009). This is done by the researcher assessing a regression line to determine if there is fit between the model and the observed data. Field (2009) notes that it is important to look for the presence of outliers and cases that may influence the interpretation of the results, as this will result in a biased model.

Therefore, the diagnostic tests preceded model estimation for reliability and robustness checks. This was done through MiniTab's residual test/histogram-normality tests; the results are shown in Figure 6.1. Regarding residual diagnostics, histograms, and distribution of data, it could be inferred with a degree of certainty that errors were normally distributed. The variance seemed constant, based on residuals versus fitted graph, and there was no evidence of any pattern. QQ-plots are used to present the results of these tests and, as evidenced by normal probability plots, the data were clustered around the regression line, thereby suggesting a good fit (Pallant, 2011). This was confirmed by statistical evidence that the errors were independent, as can be seen from the histograms of SocD, EcoD, and EnvD indices. In all three figures, it can be observed that the plot line reflects a fit, as almost all points fall on the diagonal line. In terms of histograms, in all three figures, these approximate a bell shape as far as symmetry expectation of a normal distribution are concerned.

Figure 6.1: Diagnostic residual plots for dependent variables (SocD, EcoD, and EnvD)



Source: MiniTab Output

For multivariate regression analysis, LVG, OR, RC, IAC, ROE, and ROA were standardised through a winsorisation process, whereby extreme values were limited to reduce the impact of outliers. This procedure was guided by Andersen's (2008) book titled *Modern methods for robust regression* and Ferguson's (1961) approach to dealing with outliers. SAS Institute (1999) also provided a useful procedure for mitigating potential pitfalls of outliers through trimmed mean and winsorised mean approaches. Wang and Zhang (2019) followed a similar approach to ensure regression model reliability. This evidence provided assurance that further analyses (i.e. correlations and multiple regression) would be reliable and free from bias and not yield spurious results.

Analysis of variance through VIF and fitting of residual plots to determine probability of normality assisted in avoiding the possible problems of multicollinearity and endogeneity. The VIF score was computed for each predictor variable following the approach of Allegrini and Greco (2013). The evaluation for the possible presence of multicollinearity relied on Gujurati and Porter's (2009) guidelines, which stipulate that a score of 10 or more is problematic when interpreting the results and may suggest presence of multicollinearity. The problem of multicollinearity was not detected in any of the three models, as none of the VIF scores in the models exceeded a value of 10. These findings therefore suggested that multicollinearity would not be a serious problem in the interpretation of the regression results. Most of the VIF scores ranged between 1.17 and 1.70, with RC and AC being the two outliers at 4.30 and 4.17 respectively.

Once reliability and robustness checks had been performed, analyses proceeded to model estimation and interpretation of results. Due to the small data set, an auto-regressive model could not be run. Therefore, a multivariate regression model was deemed fit for testing the hypotheses (propositions) of the current study. Due to the multivariate nature of the association between the variables, three models were estimated, as follows:

Model 1

$$SocD_{i,t} = \alpha 0 + \beta_1 BA_{i,t} + \beta_2 BT_{i,t} + \beta_3 WB_{i,t} + \beta_4 BS_{i,t} + \beta_5 OR_{i,t} + \beta_6 NC_{i,t} + \beta_7 RC_{i,t} + \beta_8 IAC_{i,t} + \beta_9 SC_{i,t} + \beta_{10} ROA_{i,t} + \beta_{11} ROE_{i,t} + \beta_{12} LVG_{i,t} + \beta_{13} SIZE_{i,t} + \beta_{14} IND_{i,t} + \varepsilon_{i,t} \quad (6.1)$$

Model 2

$$EcoD_{i,t} = \alpha 0 + \beta_1 BA_{i,t} + \beta_2 BT_{i,t} + \beta_3 WB_{i,t} + \beta_4 BS_{i,t} + \beta_5 OR_{i,t} + \beta_6 NC_{i,t} + \beta_7 RC_{i,t} + \beta_8 IAC_{i,t} + \beta_9 SC_{i,t} + \beta_{10} ROA_{i,t} + \beta_{11} ROE_{i,t} + \beta_{12} LVG_{i,t} + \beta_{13} SIZE_{i,t} + \beta_{14} IND_{i,t} + \varepsilon_{i,t} \quad (6.2)$$

Model 3

$$EnvD_{i,t} = \alpha 0 \, \beta_1 BA_{i,t} + \beta_2 BT_{i,t} + \beta_3 WB_{i,t} + \beta_4 BS_{i,t} + \beta_5 OR_{i,t} + \beta_6 NC_{i,t} + \beta_7 RC_{i,t} + \beta_8 IAC_{i,t} + \beta_9 SC_{i,t} + \beta_{10} ROA_{i,t} + \beta_{11} ROE_{i,t} + \beta_{12} LVG_{i,t} + \beta_{13} SIZE_{i,t} + \beta_{14} IND_{i,t} + \varepsilon_{i,t} \quad (6.3)$$

The results of the multivariate regression analysis are shown in Table 6.3, and the detailed results of regression coefficients and analysis of variance for each model are presented in Appendix I. The specification results are discussed in the sub-sections below.

6.3.4.1 SocD and CG (Model 1)

The evidence of an association between SocD and selected CG variables was estimated as Model 1 using the regression equation shown below. The detailed specification results of the association are given by the regression equation shown in Table 1 in Appendix I.

SocD_Index = *0,401 + 0,00248 BA + 0,000115 BT + 0,000586 WB + 0,00884 BS- 0,002863 OR + 0,0263 NC + 0,3586 RC + 0,0114 AC - 0,0287 SC - 0,000032 ROA + 0,000010 ROE + 0,000113 LVG - 0,00921 SIZE - 0,0833 IND*

Seven variables (BA, BT, WB, BS, NC, RC, IAC) were found to be positively associated with SocD, whereas OR and SC were negatively associated with SocD. Only BS and RC were significant at the 1% level, while SC was significant at the 10% level of significance. In terms of control variables, ROE and LVG had a positive association with SocD, whereas ROA, SIZE, and IND all had a negative association with SocD.

In terms of level of significance, LVG, SIZE, and IND were significant at the 1% significance level. Based on the adjusted R-square, the model explained 53.78% variance of the association with SocD, while 46.22% may be due to unknown factors. The model

was significant based on an F-statistic of 12.80 at the 1% significance level. Allegrini and Greco (2013) note that such values suggest that the model possesses good explanatory power.

6.3.4.2 EcoD and CG (Model 2)

Evidence of the association between EcoD and selected CG variables was estimated as Model 2, using the regression equation shown below. The detailed specification results of the association are given by the regression equation shown in Table 2 in Appendix I.

EconD_Index = *-0,092 + 0,00670 BA + 0,000471 BT + 0,00066 WB + 0,01386 BS - 0,00062 OR + 0,0389 NC + 0,1867 RC + 0,2456 AC + 0,0085 SC - 0,000135 ROA + 0,000120 ROE + 0,000046 LVG - 0,00039 SIZE - 0,0366 IND*

Based on the results, the independent variables BA, BT, WB, BS, NC, RC, AC, SC, ROE, and LVG had a positive impact on EcoD. However, BA, BS, and AC were significant at the 1% level, and NC and RC were significant at the 10% level, while the remaining independent variables (BT, WB, SC) and control variables (ROE and LVG) were not significant. The independent variables OR, ROA, SIZE, and IND had a negative impact on EcoD. However, none of these variables were significant. Based on the adjusted R-square, the model explained 56.54% variance of the association with EcoD, while 43.46% may be attributed to unknown factors. The model was significant based on a F-statistic of 14.20 at the 1% significance level, which suggested good explanatory power.

6.3.4.3 EnvD and CG (Model 3)

Evidence of an association between EnvD and selected CG variables was estimated as Model 3, using the regression equation shown below. The detailed specification results of the association are shown in Table 3 in Appendix I.

EnvD_Index = 0,015 + 0,00499 BA + 0,001094 BT - 0,00005 WB + 0,03026 BS - 0,00372 OR + 0,0372 NC - 0,029 RC + 0,211 AC - 0,0084 SC + 0,000356 ROA - 0,000001 ROE + 0,000243 LVG + 0,00158 SIZE - 0,0888 IND

The independent variables BA, BT, BS, NC, AC, ROA, LVG, and SIZE had a positive impact on EnvD. However, BS and LVG were significant at the 1% level, and BA and AC were significant at the 5% and 10% level respectively. The remaining independent variables (BT, NC) did have a positive impact on EnvD, but were not significant. The

independent variables WB, OR, RC, SC, ROE, and IND had a negative impact on EnvD. However, both OR and IND were significant at the 5% level, and the remaining independent variables (WB, RC, SC) and control variable (ROE) were not significant. Based on the adjusted R-square, the model explained 51.51% variance of the association with EnvD, while 48.49% of the variance may be due to unknown factors. The model was significant based on a F-statistic of 11.77 at the 1% significance level, thus suggesting good explanatory power. The next section present a discussion of the results related to the propositions and their implications.

6.3.5 Discussion of propositions and implications

The propositions outlined in Section 1.3 of Chapter one are discussed in this section. The results of the sign and the decision regarding each proposition are indicated in Table 6.3, followed by a discussion in alignment with the table.

6.3.5.1 Proposition 1 — BA and SR performance indicators

BA, as one of the components of CG, is known to be amongst mechanisms aimed at improving monitoring and control and based on extant literature (Birindelli *et al*., 2018; Hussain *et al*., 2018; Paul, 2017; Pamburai *et al*., 2015; Chamisa *et al*., 2015; Agyemang *et al*., 2014; Ntim & Osei, 2013; Brick & Chidambaran, 2010; Shivdasani & Zenner, 2004), Proposition 1 (H_1a, H_2a, and H_3a) on the association between BA and SR performance indicators was expected to be a positive sign. However, the output of the regression analysis, as shown in Table 6.3, was an inconclusive result. SocD (H_1a) was found to be positive but insignificant (*p*-value > significance levels), whereas EcoD (H_1b) and EnvD (H_1c) were positive and significant at 1% ($p < .01$). Therefore, H_1a (SocD) is rejected, and propositions H_1b (EcoD) and H_1c (EnvD) are accepted.

Other studies that have found an insignificant association between BA and SocD of sustainability disclosure performance include those of Giannarakis (2014a, 2014b) and Lorenzo *et al*., (2009). The unique contribution to the literature by the current research on this association is that BA matters in SOEs; therefore, its influence on SR performance indicators remain inconclusive and need further exploration.

Table 6.3: Results of multivariate regression analysis

Variables	Expected proposition sign	Multivariate Regression Models — Dependent variables (triple bottom dimensions of sustainability reporting)						Results of the sign and decision
		SocD		EcoD		EnvD		
		Coefficient	P-value	Coefficient	P-value	Coefficient	P-value	
Constant		0.401	0.001***	-0.092	0.522***	0.015	0.939***	
Independent Variables								
BA	[+]	0.00248	0.106	0.00670	0.000***	0.00499	0.048**	H_1a[0;R] H_1b [+;A] H_1c[+;A]
BT	[-]	0.00012	0.803	0.00047	0.404	0.00109	0.150	H_2a[0;R] H_2b [0;R] H_2c[0;R]
WB	[+]	0.00059	0.488	0.00066	0.524	-0.00005	0.971	H_3a[0;R] H_3b [0;R] H_3c[0;R]
BS	[+]	0.00884	0.001***	0.01386	0.000***	0.03026	0.000***	H_4a[+;A] H_4b [+;A] H_4c[+;A]
OR	[+]	-0.00286	0.003***	-0.00062	0.592	-0.00372	0.017**	H_5a[-;R] H_5b [0;R] H_5c[-;R]
NC	[+]	0.0263	0.165	0.0389	0.093*	0.0372	0.230	H_6a[0;R] H_6b [+;A] H_6c[+;R]
RC	[+]	0.3586	0.000***	0.1867	0.054*	-0.029	0.824	H_7a[+;A] H_7b [+;A] H_7c[0;R]
IAC	[+]	0.0114	0.878	0.2456	0.007***	0.211	0.083*	H_8a[0;R] H_8b [+;A] H_8c[+;A]
SC	[+]	-0.0287	0.089*	0.0085	0.679	-0.0084	0.760	H_9a[-;R] H_9b [0;R] H_9c[0;R]
Control Variables								
		-0.00003	0.821	-0.00014	0.432	0.00036	0.123	
ROA		0.000001	0.923	0.00012	0.354	-0.000001	0.996	
ROE		0.00011	0.003***	0.00005	0.317	0.00024	0.000***	
LVG		-0.00921	0.001***	-0.00039	0.908	0.00158	0.725	
SIZE		-0.0833	0.000***	-0.0366	0.193	-0.0888	0.020**	
IND								
F-stat		12.80	0.000***	14.20	0.000***	11.77	0.000***	
R-sq adj		53.78%		56.54%		51.51%		

Key: *** < 1% significant level, ** < 5% significant level and * < 10% significant level.

Note: LVG, OR, RC, IAC, ROA and ROE were standardised to reduce the impact of outliers. Findings in parenthesis: [+] = Positive; [-] = Negative; [0] = Not significant; R = [Rejected]; A = [Accepted]

The results of the current study do not support agency theory's view that the board meeting more often improves monitoring and control mechanisms (see Tshipa *et al*., 2018a; Ntim & Osei, 2011). The same applies to stakeholder theory's assertion that frequent meetings will give the board sufficient time to pay attention to needs of the entity's stakeholders. From the perspective of legitimacy- and social contract theory, these results implies that the entity has the opportunity to achieve a balance between society's expectations and the entity's activities (Deegan, 2002).

The results of the present study's descriptive analysis showed that the frequency of the SOEs' board meetings was above average, i.e. 11.45, equating to approximately one meeting per month. Meanwhile the King Code on CG and SOEs Charter recommend at least one meeting every quarter (IoDSA, 2016). Interestingly, these frequent meetings did not prove to be significant in influencing the SoD of sustainability disclosure, evident in the coefficient value and significance level.

In terms of association between BA and EcoD (H_1b), the results of the present study are in line with those in literature (Tshipa *et al*., 2018a; Paul, 2017; Ntim & Osei, 2011). Kiranmai and Mishra (2020), in the context of Indian SOEs, also found a positive association between economic performance and frequency of board meetings. However, Hussain *et al*., (2018) found a positive but insignificant association. In line with the proposition regarding this association, these results imply that more frequent board meetings improve disclosure of economic aspects of the TBL. These results tie in with the results of qualitative phase, where content analysis was used to determine the most disclosed (frequent) target phrase, and EcoD (one of the TBL dimensions) was found to be most often disclosed by both CEOs and chairs of boards.

The last sub-proposition (H_3a), related to EnvD, was also found to be positively and significantly (at 1%; $p < .01$) associated with BA, thus corroborating the results of earlier studies by De Villiers *et al*., (2011) and Adawi and Rwegasira (2011). These results could suggest that, as the board meets more frequently, disclosure on EnvD aspect of the triple bottom line of SR improves. It can thus be assumed that there is some level of transparency on disclosure of environmental issues. These sentiments are shared by

Ricart *et al*., (2005), who associate a high level of board activity (meetings) with strategic discussions and planning, in which sustainability issues tend to be discussed. However, Prado-Lorenzo and Garcia-Sanchez (2010) and Frias-Aceituno *et al*., (2013) revealed a negative association between board meetings and EnvD disclosure. The positive association found in the current study could mean that discussions at these meetings benefit entities' performance on environmental disclosure, which is important, as more than 80% of the SOEs under study operates in sensitive industries.

King IV and the UNGC compact on environmental sustainability encourage entities to consider performing sustainably by placing ESG high on their agenda, which could have contributed to this finding (IoDSA, 2016). In the qualitative analysis of CEOs' and chairpersons' statements, the terms "*environmental dimension*" and "*sustainability*", amongst others, were found to have received considerable attention. Borrowing from Prado-Lorenzo *et al*., (2009), it can thus be assumed that entities with the best environmental and social disclosure practices tend to have clear CSR policy guidelines. The results are inconclusive regarding the association between BA and SR performance indicators, which could be attributable to lack of enforcement and standardisation by the boards of the SOEs with regard to SR disclosure in the annual reports. It could also mean that frequent meetings are ineffective as an oversight mechanism around issues of disclosures, as there may be other pressing issues that dominate the agenda

6.3.5.2 Proposition 2 — BT and SR performance indicators

The results of the proposition of a relationship between BT and SR performance are at odds with sign of the proposition, and significance of these results to governance research is that turnover of the board needs to be managed, as it has implications for the individual dimensions of TBL. Arguments from literature suggest that members exiting the board, either through resignation, retirement, dismissal, or death would result in instability and inefficiency of the board (McDonnell, 2020; Cowen & Marcel, 2011).

Eriksson *et al*., (2001) liken BT to failure of the board. If the reason for exiting the board is retirement, the exit is planned, and it is likely that succession planning or a contingency plan is in place to cushion the negative effects of the exist. Earlier research by Lui *et al*.,

(2013) and Jiang and Peng (2011) argue in favour of intended BT, stating that it is healthy and provides an opportunity to integrate new ideas into strategic-decision making whilst ensuring that the remaining board structure adjusts to environmental changes and entities' evolving needs. Thabane and Snyman-Van Deventer's (2018), on the other hand, posit that high BT is unhealthy and, amongst other challenges, is associated with hostile power play between shareholders (board management and ministers), unending bailouts by government, maladministration, and legislative delinquency with regard to the especially the PFMA and the Companies Act. Where a member's exit is unplanned, the negative effects thereof are unavoidable. From agency theory's perspective, BT results in agency problems, especially with regard to monitoring mechanisms (Liu *et al*., 2013).

In the present study, BT was found to be positively associated with all three dimensions of SR, although the associations were insignificant. The implication is that BT does not have a negative influence on SR performance indicators. There are various speculative reasons for this. First, members may leave the board for different reasons. Few of the SOEs in the study had experienced high BT. The results of the descriptive statistics showed that 20% was the average annual BT, against average BS of 11.29 members. This number is too small to reach the conclusion that one or two members leaving the board has a significant effect on the performance of the board. Second, these results could be attributable to the lagged effect of BT. In other words, when the member leaves the board, the effect may not be felt immediately, but only after some time. This was also evident in a study by Homroy and Slechten (2019), where turnover events within a year were treated to lessen the effects. Therefore, the argument that a board may experience inefficiencies and poor performance as members of the board exit may not hold.

Similar to results of the current study, Harjoto and Jo (2011) also found an insignificant and positive association between BT and the CSR score, while Homroy and Slechten (2019) found no significant association with environmental performance (measured by GHG emissions). Most recently, McDonnell and Cobb (2020) studied the concept of "*social movement boycott*" to find a positive association with directors' turnover, whereby boycotts are likely to challenge entities' CSR performance. Directors then exit due to the

boycotts, suggesting incongruency between entities' social values and directors' personal values. This argument is held within legitimacy- and social contract theory, which posit that the entity gains legitimacy from society if there is a match with society's needs and expectations. Therefore, given this discussion and mixed results and the level of significance, the results do not support any of the three sub-propositions [SocD (H_2a), EcoD (H_2b), and EnvD (H_2c)] of Proposition 2.

6.3.5.3 Proposition 3 — WB and SR performance indicators

The presence of women on the board (WB) was found to be positively associated with both SocD and EcoD, and negatively associated with EnvD. In all cases, the results were insignificant, thus suggesting inconclusive evidence of an association between WB and the TBL dimensions of SR performance indicators. These results are important for policymakers, given the increasing emphasis on women's representation on boards as part of transformation.

Women are argued to be more socially responsible than their male counterparts and, given a chance, have the potential to improve a board's socially responsible behaviour. Empirically, the present study's results are in congruent with those of Birindelli *et al*., (2018), who found an inverted U-shape between the presence of women on the board and ESG. Galbreath (2011), on the other hand, found that having more women serving on the board is positively associated with both EcoD and SocD, but found no significant association with EnvD. From the perspective of critical mass theory (Birindelli *et al*., 2018; Galbreath, 2011), WB is expected to improve performance of the board with respect to SR performance. The same view is held by Jizi (2017), who argues that WB is expected to direct entities' scarce resources towards a good cause, maximising CSR projects and reporting. Furthermore, Ong and Djajadikerta (2018), arguing in favour of female directors, suggest that they have better meeting attendance and are found to be more interested in reporting sustainability issues compared to their male counterparts.

There is notable support for a positive SocD (H_3a) association with WB in literature (e.g., Ibrahim & Hanefah, 2016; Ntim & Soobaroyen, 2013; Galbreath, 2011; Bear *et al*., 2010). A positive association with EcoD (H_3b) was confirmed in the studies of, e.g., Dhaliwal *et*

al., (2011), Bernardi and Threadgill (2010), Smith *et al*., (2006), Williams (2003), Stanwick and Stanwick (1998), Liao *et al*., (2020), Biswas *et al*., (2018), Fernandez-Feijoo *et al*., (2012), Rao *et al*., (2012), Walls *et al*., (2012), Galbreath (2011), and Post *et al*., (2011). This association with EnvD was contained in H_3c, it was expected that the results of the present study would support this association.

However, from the results of the present study, it is clear that the presence of women on the board does not influence SR performance in terms of the triple bottom line. This result seemingly contradicts claims in literature by proponents of gender-diverse boards (Galbreath, 2011; Bear *et al*., 2010; Orij, 2010; Webb *et al*., 2008; Campell & Minguez-Vera, 2008) that women are socially sensitive and responsive (Williams, 2003), having a participative decision-making style (Konrad *et al*., 2008), and are more likely to push the agenda of the board towards effective stakeholder management (Hussain *et al*., 2018). However, it must be noted that the results could be attributable to a low representation of women (i.e. 36%) on the boards of the SOEs under study, as these women may not have sufficient bargaining power to influence the board's decision-making and promote a socially responsible agenda. This indicates a need for improved and larger quotas of women on boards through policy development so that women may take part in the strategic decision-making processes of the entity, as argued by Williams (2003).

Due to the inconclusive (mixed) results related to Proposition 3, due to the sign for EnvD and insignificant coefficients for SocD and EcoD, the 3 sub-propositions for the proposition are rejected.

6.3.5.4 Proposition 4 — BS and SR performance indicators

The association between a larger BS and TBL dimensions of SR performance was found to be positive, and more importantly, significant at 1% ($p < .01$). This finding contradicts findings in previous research, such as that of Huu Nguyen (2020), Hussain *et al*., (2018), and Prado-Lorenzo and Garcia-Sanchez (2010) arguing for smaller sizes of the board. The findings of the present study in this regard are consistent with those of prior studies such as those by Correa-Garcia *et al*., (2020), Sadou *et al*., (2017), Rao and Tilt (2016), Janggu *et al*., (2014), Jizi *et al*., (2014), and Allegrini and Greco (2013), amongst others.

The results of the current study indicate a significant positive association between the size of the board and the disclosure practices of SOEs on the triple dimensions of SR performance indicators. Hussain *et al.,* (2018) posit that there is a lack of consensus regarding this association, citing arguments around the agency theory, which regard BS as ineffective in enforcing and effecting monitoring mechanisms. Authors like Kassinis and Vafeas (2002) hold the view that a large BS is ineffective in preventing poor sustainability practices, while Jensen (1993), from an agency theory perspective, cites a delay in decision making as a contributing factor.

The result of the current study could mean that a larger BS enhances effective and coherent decision-making regarding sustainability disclosure practices. Furthermore, a shared vision and experience in dealing with aspects of sustainability disclosure could also play a role. From the perspective of stakeholder theory, a large board may be more effective in addressing the interests of stakeholders and achieving transparency in disclosing sustainability issues better than smaller board. Allegrini and Greco (2013) note that a larger BS could be beneficial to representation on the board, thereby enhancing the independence of the board. This, in turn, could result in more transparency in information disclosure, thus advancing broader stakeholders' needs.

These results are aligned to literature (Larmou & Vafeas 2010; Coles *et al*., 2008; Boone *et al*., 2007) objecting to a 'conventional narrative' of favouring smaller boards. SOEs, due to their size and the complexity of their operations, may benefit from a larger board and a significant number of independent board members. In closing, all three dimensions [SocD (H_4a), EcoD (H_4b) and EnvD (H_4c)] of Proposition 4 are accepted.

6.3.5.5 Proposition 5 — OR and SR performance indicators

The results of the association between the independence of the board (as the predictor of interest), measured by the percentage of outside board directors (OR) to total number of board members and SR performance, was found to be negative. The results were, respectively, significant at 1% and 5% for the SocD and EnvD variables, while EcoD was found to be insignificant. Furthermore, the results contradicted the expected positive sign of the proposition, which was based on extant literature. However, other researchers have

also documented a negative association, such as Allegrini and Greco (2013), Zhang (2012), Cheng and Courtenay (2006), Ajinkya *et al*., (2005), Gul and Leung (2004), and Eng and Mark (2003).

Studies that found a positive association between OR and SR disclosure performance include those of Jizi *et al*., (2014), Herda *et al*., (2012), De Villiers *et al*., (2011), Galbreath (2011), Post *et al*., (2011), Sahin *et al*., (2011), Huang (2010), and Dunn and Sainty (2009). Recently, Biswas et al., (2018), Ong and Djajadikerta (2018), and Ju Ahmad *et al*., (2017) also found a positive relationship, although industry was found to have played an influential role in these studies. However, it should be noted that the majority of these studies were done within the context of private entities, and research of this nature is still scant in the SOE domain. Kiranmai and Mishra (2020) conducted a study on the independence of BoD of SOEs within the context of Indian context. Nevertheless, their target variable of interest was financial performance, not the TBL, and their results indicated a negative association.

With regard to theoretical literature, proponents of agency theory (Fama & Jensen, 1983) and stakeholder theory (Freeman, 2015, 1984) argue that the less close and aligned the directors are to management, the greater the likelihood will be that they will act in the best interests of stakeholders and enforce and inspire information disclosure. This, according to Herda *et al*., (2012), is beneficial to stakeholders, especially external stakeholders. Garcia-Torea *et al*., (2016) share similar sentiments on outside directors being advocates of stakeholders' interests, underscoring Webb's (2004) assertion that entities with socially responsive boards are likely to be characterised by a high level of board independence. Ong and Djajadikerta (2018), in alignment with Post *et al*., (2011), observe that the more independent the board members are, the greater the likelihood will be that they will encourage disclosure of sustainability information.

In the present study, the opposite findings with regard to the expected signs of the propositions' results, H_5a (SocD), H_5b (EcoD), and H_5c (EnvD) are rejected. The negative associations (against the expected signs of the propositions) could be attributable to a variety of anecdotal factors evident during data capturing process. For example, how

SOEs view the issue of independence differs from how it is practised in the private sector. Likewise, although most members of the boards were reported to be NEDs, however in terms of independence that was not the case. For example, in some instances, a board member may have worked or done business with the entity, which dilutes independence. This raises the issue of conflicts of interests based on prior experience with the entity, and the director may not act sufficiently independently in questioning or monitoring disclosure practices.

Another factor is the responsibilities given to these directors, which may be a limiting factor. Directors may be appointed to focus only on the monitoring role, thus neglecting aspects of reporting and disclosure and enforcing accountability of agents of the SOEs. Michelon and Parbonetti (2012) suggest that disclosure on board activities, including independence is regarded as an indirect monitoring tool to guard against directors losing focus on enforcement.

Closely related to demands placed on directors' energy is directors having multiple responsibilities. Most directors also serve on other boards, and, as such, their attention may divide with regard to their fiduciary responsibilities. This may cause them to focus their energy and attention on issues related to their own interests, which contradicts the rationale for their appointment to the board.

Another issue could be that directors lack the experience or expertise to enforce compliance. Htay *et al*., (2012) relate this to low information asymmetry. Duchin *et al*., (2010) hold the view that the independence of the board has a bearing on disclosure practices, which are dependent on the cost of information at the disposal of the outside directors. The higher the cost is, the less effective the independent directors will be in enforcing good governance disclosure practices (Duchin *et al*., 2010). With regard to the agency theory perspective, Pavlopoulos *et al*., (2017) established an inverse association between high-quality IR information and agency costs.

6.3.5.6 Proposition 6 — presence of a NC and SR performance indicators

The presence of an NC was found to be positively associated with all three dimensions of SR performance. Only the association with EcoD was found to be significant at the 10% level of significance ($p < .1$), while the association was insignificant for SocD and EnvD. These mixed results and at odds with prior research on this association. There is a lack of research on this relationship, and these results bring to the fore the importance of improving governance in public entities.

The presence of NC is thought to be a catalyst for transparency in appointing board members. In this regard, O'Sullivan *et al*., (2008) established a positive association between NC and forward-looking disclosure. Cerbioni and Parbonetti (2007) also found that the existence of an NC positively influences disclosure, while Pavlopoulos *et al*., (2017), who looked at IR and the presence of an NC found that it resulted in disclosure of high-quality IR information. Another, similar study that found a positive association is that of Karamanou and Vafeas (2005).

Consistent with the results of the current study, Allegrini and Greco (2013) documented an association between the existence of an NC and voluntary disclosure of information, albeit that the association was insignificant. Jo and Harjoto (2011) also established insignificant association when the CEO is made the chair of the NC, thus bringing into question the independence of the NC in its effectiveness in enforcing or encouraging sustainability disclosure. King IV recommends that these committees consist of NED chaired by an independent NED, with members of executive management barred from serving on the committee (IoDSA, 2016).

The directions of the signs determined in the analyses in the current study are in accordance with the proposition. However, only EcoD (H_6b) was significant at 10%, whereas the associations with SocD (H_6a) and EnvD (H_6c) are rejected. These mixed results that no support was found for Proposition 6 in its entirety. The explanation behind these results could be the same as the speculation relating to independence of the members of the NC, who are also board members. In closing, introduction of NCs on the boards is a relatively new practice in the context of SA as indicated in King IV (IoDSA,

2016). When SOEs realise the possible benefits, especially with regard to monitoring and oversight, this practice may become commonplace. The results related to Proposition 5 indicated a negative association between OR and SR performance indicators; therefore, some of the reasons, such as lack of experience, energy, or desire, and preoccupation with other board assignments, could also apply here.

6.3.5.7 Proposition 7 — presence of a RC and SR performance indicators

The association between the presence of a RC and SR performance was found to be somewhat mixed. RC was found to be positively and significantly associated with SocD and EcoD, but negatively and insignificantly with EnvD. These results suggest that disclosure of social and economic affairs in the reporting of SOEs is positively associated with the presence of a board RC.

These results are aligned with those of earlier research on the nature of the association between RC and SR performance indicators, which results have been inconclusive. The current study's results are important for SOE–governance literature, given concerns against the exorbitant salaries of the executive while employees are underpaid. The literature also calls for performance-linked remuneration (Bezuidenhout *et al*., 2018; Ngwenya & Khumalo, 2012). Maas (2018) in examination of social performance targets and how these affect executive remunerations, concluded that there is no evidence that targets in executive remuneration actually lead to improvement in social performance.

The results of the present study are consistent with those of Velte (2016) who viewed the association from perspective of ESG disclosure performance. On association between RC and economic disclosure, Puni (2015) found positive results. With regard to environmental disclosure performance, the results are aligned with those of Coombs and Gilley's (2005) study. Carter *et al*., (2010), however, found no significant evidence of an association of RC with EcoD.

The positive findings on association of RC with EcoD and SocD could be explained by stakeholders expecting of entities to act in a socially responsible manner. Sun *et al*., (2009) observe that it's the efficacy of the RC that can determine proper alignment of the

remuneration of executive management (mainly CEOs) to financial performance of the entity. RCs are mechanisms known for contributing to sound governance through control and regulation by ensuring remuneration issues are aligned in the interest of stakeholders' expectations (Bezuidenhout *et al*., 2018).

Maas (2018) indicates that local communities, employees, and customers are usually the stakeholders that should hold entities accountable as far as remuneration and value for money are concerned. Allegrini and Greco (2013) note executives' exorbitant salaries are cause for concern, one that has been on agendas worldwide for some time (Bezuidenhout *et al.*, 2018; Ngwenya & Khumalo, 2012).

Both agency theory and stakeholder theory are dominant theoretical lenses in governance and remuneration literature (Larkin *et al*., 2012; Gerhart *et al*., 2009; Coombs & Gilley, 2005). Evidence suggests that CEOs are intentionally responsive to remuneration issues especially if these issues have impact on their own compensation (O'Connell & O'Sullivan, 2014; Chng *et al*., 2012). The United Nations-backed Principles for Responsible Investment (2012) states that guidelines on integration of ESG issues in dealing with executive remuneration issues, which, in most entities, are dealt with by RCs, is a resourceful way of encouraging dialogue and assisting boards in refining their governance practices.

Based on the results, H_7a (SocD) and H_7b (EcoD) are accepted, and H_7c (EnvD) is rejected. Attributing factors that could explain these results are myriad; however, one particularly relevant to this research is RCs' oversight role in enforcing board's transparent disclosure practices on remuneration issues. Secondly, due to SA SOEs' history of poor performance, both financially and in governance matters (Kikeri, 2018; Heo, 2018; Thomas, 2012), the issue of executive remuneration, specifically the CEO-to-employee pay ratio, is receiving increased scrutiny. Given socio-economic implications associated with executive remuneration, the role played by RCs is intricate and a crucial one. It has thus far influenced the debate in restoring the principles of fairness and accountability (Bezuidenhout *et al*., 2018; Ngwenya & Khumalo, 2012).

Thirdly, another attributing factor could be that SOEs' RCs are heeding the increased pressure to demonstrate adherence to good governance principles through transparency on issues relating to fair, inclusive, and equal pay. Members of the RC should ensure that issues relating to environmental disclosure receive more attention. This could be in the form of linking CEOs' and executives' remuneration to performance on environmental disclosure.

6.3.5.8 Proposition 8 — Independence of the AC and SR performance indicators

The results on the association between the independence of the AC and SR performance indicators were somewhat mixed for the three sub propositions. The association with SocD was found to be positive; however, it was insignificant. The association with EcoD and EnvD was found to be positive and significant at 1% and 10% respectively. The latter were thus in line with the expected signs of the coefficients. The significance of these findings, though inconclusive, is that they confirm the importance of having independent AC. The results confirm the concerns of the Auditor Generals' 2016–2017 report regarding the role of audit companies in providing audit assurance of entities' economic activities and financial statements. It is important that SOEs, through their BoD do not adopt a lax approach to good governance, and an independent AC is one of the monitoring mechanisms with which to mitigate this risk.

Pavlopoulos *et al*., (2017) found that entities with a highly independent NC and AC are more likely to exhibit high levels of IR disclosure behaviour, compared to those without these governance arrangements. Along the same lines, Carcello *et al*., (2002) established that the more independent the AC is, the greater the likelihood of voluntarily disclosing information will be.

These positive results were also established in previous studies, such as those by Saha and Akter (2013), Said *et al*., (2009), O'Sullivan *et al*., (2008), Barako *et al*., (2006), and Arcay and Vazquez (2005). Allegrini and Greco (2013) also found insignificant results, but nevertheless underscore the importance of enforcing independence of board monitoring, alongside voluntary disclose of sustainability information. This, they argue, plays a crucial role in mitigating agency conflicts, costs, and information asymmetry.

It is clear that much more needs to be done in ensuring that ACs are independent, so as to ensure a high level of sustainability disclosure. The regard to the EnvD dimension, the results contradict those of Naseer and Rashid (2018), Alhazaimeh *et al*., (2014), and Ienciu *et al*., (2012), who found no significant relation with the independence of the AC.

The insignificant results of the association with the SocD may imply that members of the AC do not enforce or give sufficient attention to social issues. This could be due to a lack of expertise or experience in area of social issues with regard to GRI standards. Earlier reasons attributed to the negative association between OR and SocD that degree of NEDs' independence within SOEs is somehow diluted could also be applicable to this explanation. This implies directors' previous association with the entity may cloud their objectivity and may be biased in their action and decision making.

Based on the results, sub-proposition H_8a (SocD) is not accepted. On the other hand, based on the signs and levels of significance, sub-propositions H_8b (EcoD) and H_8c (EnvD) are accepted. Overall, the association between the independence of the AC and the TBL dimensions remains inconclusive and requires further research.

6.3.5.9 Proposition 9 — SC and SR performance indicators

Results for the association between the presence of a SC and the TBL dimensions of SR performance were inconclusive. Association of the presence of SC with SocD and EnvD was found to be negative, while the association with EcoD was found to be positive but insignificant. Only the association with SocD was found to be significant, at the 10% level. These results contradict those of Biswas *et al*., (2018) Hussain *et al*., (2018), which revealed a strong and positive association between social and environmental performance reporting. Other studies that revealed a positive association but from context of measuring presence of the SC through CSR include those of Birindelli *et al*., (2018), Spitzeck (2009), and Kent and Monem (2008).

Studies that yielded mixed results include those of Arena *et al*., (2015), Liao *et al*., (2014), Rodrigue *et al*., (2013), Rupley *et al*., (2012), and Walls *et al*., (2012). Michelon and Parbonetti (2012) and McKendall *et al*., (1999) found a positive but insignificant

association with environmental performance disclosure. However, none of these studies were conducted within the context of SOEs.

The results of the current study imply that the existence of an SC does not significantly enhance SR performance indicators. The negative association with SocD could be the result of SCs' inefficacy and inefficiency in ensuring that social issues have the attention of the BoD. Therefore, members of SCs', in fulfilling their monitoring and oversight function, are weak in influencing disclosure of the TBL aspects per the GRI reporting guidelines (GRI, 2016). In addition, the concept of an SC is relatively new one, as it was only introduced in 2008, with most SOEs establishing an SC only in 2016. As such, efforts by these committees in line with the TBL performance may be subjected to lag.

Havenga (2015) notes that oversight of social issues such as socio-economic development, good corporate citizenship, public health and safety, and fair and equal employment opportunities, amongst others, need to be prioritised. Giving women more opportunities in terms of representation and appointing them in executive positions could assist in improving the performance and efficacy of social and ethics committees, as women are argued to be more considerate of social issues (Ong & Djajadikerta, 2018; Galbreath, 2011; Orij, 2010; Williams, 2003).

In contradiction with theorical expectations, the inclusive results of the present study may signal poor efforts by the SC towards investment and prioritising stakeholders' interests, especially with regard to disclosure of social and sustainability issues. From a legitimacy perspective, SOEs may find it difficult to win the trust of the public (stakeholders) due to SOEs poor performance on disclosure. From the perspective of agency theory, better monitoring mechanisms, including independence and frequent meetings by these committees, may be necessary to reduce agency costs, thus improving SOEs internal governance structures. This could translate into better utilisation of scarce resources, one of the tenets of resource-dependence theory.

In closing, due to inconclusive results, none of the three sub-propositions (i.e. H_9a, H_9b, and H_9c) is accepted.

6.4 Concluding remarks for the chapter

This chapter presented the results and discussions of the quantitative phase of the study. Both descriptive and inferential statistics were presented. Of the nine propositions, the only association that was found to be consistent with expectations of the signs for all three dimensions of SR performance indicators was that with BS. This association was found to be significant at the 1% level of confidence, thus implying that a larger BS is strongly associated with SR performance indicators. A summary of the propositions, alongside the results of the multivariate regression analysis, was presented in Table 6.3.

BA and independence of the AC were found to be positively and significantly associated with EcoD and EnvD, while RC was positively and significantly associated with SocD and EcoD only. The negative association found between WB and EnvD was in contrast to contemporary arguments in literature that women are more socially responsible and aware of environmental issues than their male counterparts.

The associations between OR and SocD, RC and EnvD, and SC with SocD and EnvD were also negative. Overall, mixed results were obtained on the association between CG variables and SR performance indicators. This provides opportunities for further exploration of this area, especially within SOEs. Such research could also make cross-country comparisons.

Notwithstanding the mixed results, this research yielded knowledge on CG variables that have not received much research attention, specifically their association with SR performance indicators. Research on governance in SOEs is still in its infancy when compared to research on private entities. For example, the current research focused on BA, BT, and the presence of board committees such as NCs, RCs, and SCs, which are yet to be as widely explored as BS, WB, and OR. The results highlight the importance and responsibility upon the BoD of SOEs to act as monitoring mechanisms in managing conflicts of interests and enforcing a culture of integrity and transparency. Chapter 8 provides recommendations for practice and future research based on the results reported in this chapter, underpinned by the findings of the qualitative phase of the study.

CHAPTER 7: RESULTS AND DISCUSSION — CORPORATE GOVERNANCE AND SUSTAINABILITY REPORTING PERFORMANCE PRACTICES OF THE SOES

7.1 Introduction to the chapter

The previous chapter presented and discussed the results of the quantitative phase of the research, which focused on evidence of an association between CG variables and SR performance indicators. This chapter presents the results and a discussion of the qualitative phase of the research. Content analysis was used to assess SOEs' performance with respect to disclosure practices in order to achieve the following qualitative ROs:

- RO_2: To explore and compare the nature and scope of South African Schedule 2 SOEs' disclosure practices with regard to corporate governance and sustainability performance.
- RO_3: To explore the extent of South African Schedule 2 SOEs' adherence to King reports' and the Global Reporting Initiative's disclosure requirements.
- RO_4: To determine if there is a trend in disclosure practices of South African Schedule 2 SOEs' reporting on corporate governance and sustainability performance indicators.

The decision to use content analysis was guided by previous research (Kuzman *et al*., 2018; Nazer, 2018) that followed a similar approach. The present study's unique contribution is that was a longitudinal study executed within the context of SA Schedule 2 SOEs. This therefore makes the study distinct from the extant literature reviewed, which is summarised in Table 7.1.

Table 7.1: Prior research examining disclosure practices

Author(s)	Context (period)	Methodological approach (data source)
Kuzman *et al*., (2018)	200 SOEs from six countries of the former Socialist Federal Republic of Yugoslavia; 2010–2014	Econometric modelling through multiple regression analysis (financial and annual reports)
Nazer (2018)	30 SOEs (10 & 20 from Schedules 2 and 3 respectively); 2008–2014	Textual content analysis (annual reports)

Surty *et al*., (2018)	21 Schedule 2 SOEs; 2013–2015	Descriptive quantitative research (annual reports)
Mmako (2016)	Top 100 JSE-listed (50 top-performing and 50 poorly performing entities; 2012	Content analysis using ATLAS.ti (integrated annual and financial reports)
Oosthuizen and Lahner (2016)	Top 40 JSE-listed entities; 2004, 2007, and 2010	Descriptive and exploratory quantitative research (annual reports)
Ungerer and Vorster (2015)	30 JSE-listed entities; 2010–2011	Descriptive quantitative analysis (annual reports)
Ungerer (2013)	24 JSE-listed entities; 2013–2015	Cross-sectional descriptive quantitative analysis (annual reports)
Kiyanga (2014)	23 Botswana Stock Exchange-listed and Top 40 JSE-listed entities	Comparative study using content analysis (annual and integrated reports)
Padia and Yasseen (2011)	Top 100 JSE-listed entities; 2005	Descriptive quantitative analysis (annual reports)
Moloi and Barac (2010)	Top 40 JSE-listed entities; 2006	Content analysis
Santema and Van de Rijt (2001)	73 large Dutch entities on Amsterdam Stock Exchange	Comparative analysis (annual reports)

Source: Researcher's own compilation

The distinctive nature of the current research from prior research is based on three aspects. First, the studies listed in the table above focused on private entities, with exception of three studies — Kuzman *et al*., (2018), Nazer (2018), and Surty *et al*., (2018), which were SOE-oriented research. Similar to the context of the current research, two of these studies were within the context of SA and focused on Schedule 2 SOEs, and one was within an international context.

The second aspect relates to the methodological approach followed in the present study. All the above studies were mono-method studies (i.e. either quantitative or qualitative), and thus did not make use of abductive reasoning. Bryman and Bell (2015) suggest using a combination of deductive and inductive reasoning. The current study's research approach was a combination of quantitative and qualitative analytical lenses. The last distinctive aspect is the period examined in the present study. None of the studies shown in Table 7.1 examined a period exceeding ten years, whereas the present study covered

a period of 15 years, in line with recommendations that more longitudinal studies be conducted in SOE governance research (Daiser *et al*., 2017; Grossi *et al*., 2015).

With regard to the findings of the present study, it should be noted that high or low performance scores are not indication of good governance practices. The findings are related to disclosure practices as a way to assess SOEs' performance on disclosure of selected CG provisions. Overall, the SOEs under study showed fairly good disclosure performance, with the top five performers being the same SOEs that are known to have poor CG practices: SABC, Denel, Eskom, SAA, and Transnet. These SOEs are the top five transgressors with regard to corruption, maladministration, and poor financial results (Thomas, 2012).

Studies that have reported SOEs' corrupt activities and malfeasance include those by Thabane and Snyman-van Deventer (2018), Mbele (2016), Mekwe (2015), Corrigan (2014), McGregor (2014a), and Fourie (2013). Furthermore, these SOEs are known to have struggled to maintain stability in their boards, as large numbers of members have, at times, resigned or been dismissed. Thabane and Snyman-van Deventer (2018) also reported that Eskom, SAA, and the SABC, amongst others, have struggled with a persistent exodus of board members. It could be speculated that the why these SOEs perform better in disclosure due to a competent executive management team and a dedicated company secretary. A company secretary as a custodian of good governance practices is responsible for general administration of activities of the board, to ensure efficiency and compliance with legislation (IoDSA, 2016). The company secretary also assists with the compilation and distributing of documentation, annual work plans, and targets required of the board (IoDSA, 2016). With regard to the SOEs mentioned above, there may be a strong working relationship between the company secretary and executive management, which is why the impact of these mass exits is minimal in terms of the context of the present study, as explained later in this discussion.

The rest of this chapter is structured as follows. Section 7.2 presents and discusses the results pertaining to RO_2, related to exploration and comparison of the nature and scope of South African Schedule 2 SOEs' disclosure practices with regard to corporate

governance and sustainability performance. RO_3, which was to explore the extent of SOEs' adherence to the performance practices recommended in King reports and GRI standards, is discussed in Section 7.3. Section 7.4 addresses the results related to RO_4, which was to establish whether there was a trend in the level of CG and SR disclosure of the SOEs under study. Section 7.5 provides discussion and implication of the results while Section 7.6 provides concluding remarks.

7.2 The nature and scope of CG and SR disclosure practices of SA Schedule 2 SOEs

This part of the research is related to RO_2, which is concerned with exploring disclosure practices in the annual and integrated reports of SA Schedule 2 SOEs. The aim is to determine extent to which these entities practise good governance drawing from the principle of fair and transparent disclosure. Building from the data capturing procedure as explained in section 5.5.2 of Chapter 5, a CG-SR disclosure score sheet (as shown in Appendix C) consisting of 34 CG variables and 32 SR indicators was used to assess disclosure performance practices of the SOEs. Selected King report III and IV provisions were used as criteria for assessing CG disclosure, and a dichotomous score approach was followed where a binary score of 1 would indicate disclosure while 0 otherwise. An SOE with a good performance would have scored a maximum possible CG disclosure score of 34 per each financial year.

On the other hand, in assessing performance on SR disclosures, a performance rating scale ranging from 0 to 5 was used. The rating scale is guided by GRI sustainability reporting guidelines which encourage TBL reporting. If no disclosure on the item in the annual/integrated reports is observed, a score of 0 is allocated, meanwhile if a fair amount of disclosure is observed, a score of 3 is given.

Table 7.2: Maximum possible score per each dimension of SR disclosure

TBL dimension	No of items	No of sub items	Max possible score
SocD	19	40	200
EcoD	5	17	85
EnvD	8	29	145

Source: Researcher's own compilation

As shown in Table 7.2, SocD is made up of 19 items, with 40 sub items, EcoD with 5 items and 17 sub items while EnvD consists of 5 items and 29 subitems. For example, the first item in SocD is *Employment – GRI 401* and it has three sub-items each with maximum possible score of 5. If the disclosure is interpreted to be of high quality, this item will have a maximum score of 15 (i.e 3x15). All these sub-scores are added together to arrive at cumulative score for SocD, for which the maximum possible score is 200. From this cumulative score, a disclosure index for each of the three dimensions is constructed by dividing the actual score obtained by the SOE with maximum score. For example, in 2005 ATNS obtained a disclosure score of 36 which was divided by 200 to arrive at a disclosure index score of 0.18. It is from this analysis that performance assessment of whether or not SOEs adhere to disclosure expectations is made through the following assessment metric as shown in Table 7.3. According to the table, an overall score of between 0 and 20 suggest a poor level of a performance. A mid-range level performance is indicated by a score that falls between 41 to 60, whereas at the other end of continuum, an excellent performance is illustrated by a score range of between 81-100. The results and interpretation of the results for this procedure follows next in subsection 7.2.1 where CG and SR performances are respectively discussed as an attempt to address RO_2.

Table 7.3: Disclosure rating scale for the three dimensions of SR performance

Dimension	Poor level of disclosure and adherence performance	Low level of disclosure and adherence performance	Average level of disclosure and adherence performance	Good level of disclosure and adherence performance	Excellent level of disclosure and adherence performance
Scale	0-20	21-40	41-60	61-80	81-100

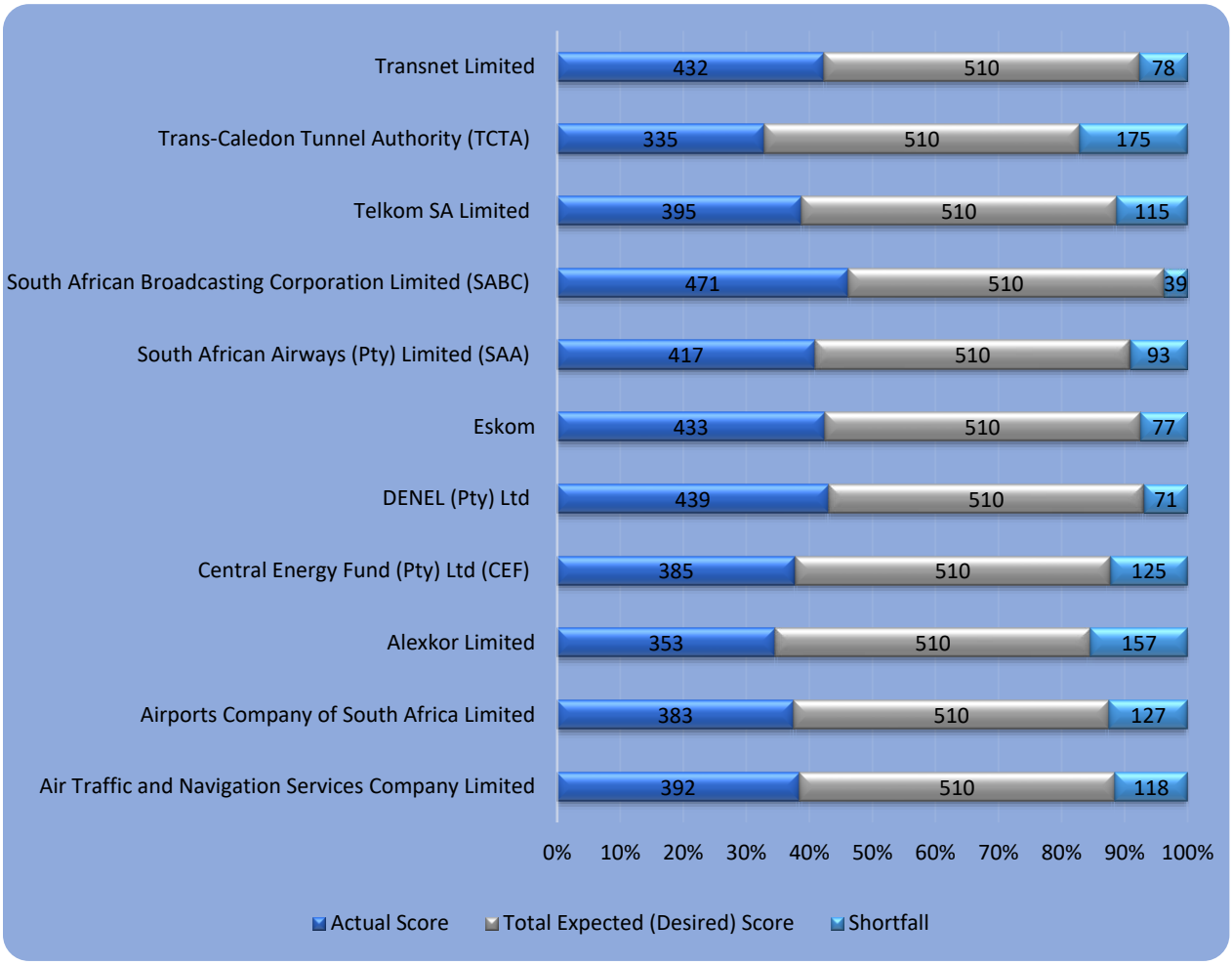
Source: Adapted from Pivac *et al*., (2017)

7.2.1 SOEs' CG disclosure performance practices

Actual and average disclosure performances were the two metrics used in this analysis. Figure 7.1 presents a comparison of the SOEs expected (desired) and actual disclosure performance. The maximum possible score was 34, and the midpoint was a score of 17.

As there were 11 SOEs, the aggregated expected (desired) score for each SOE over the entire period of the study was 510 (i.e. 34 x 15), and the aggregated score for the combined performance of all the SOEs over the 15 years under study was 5 610.

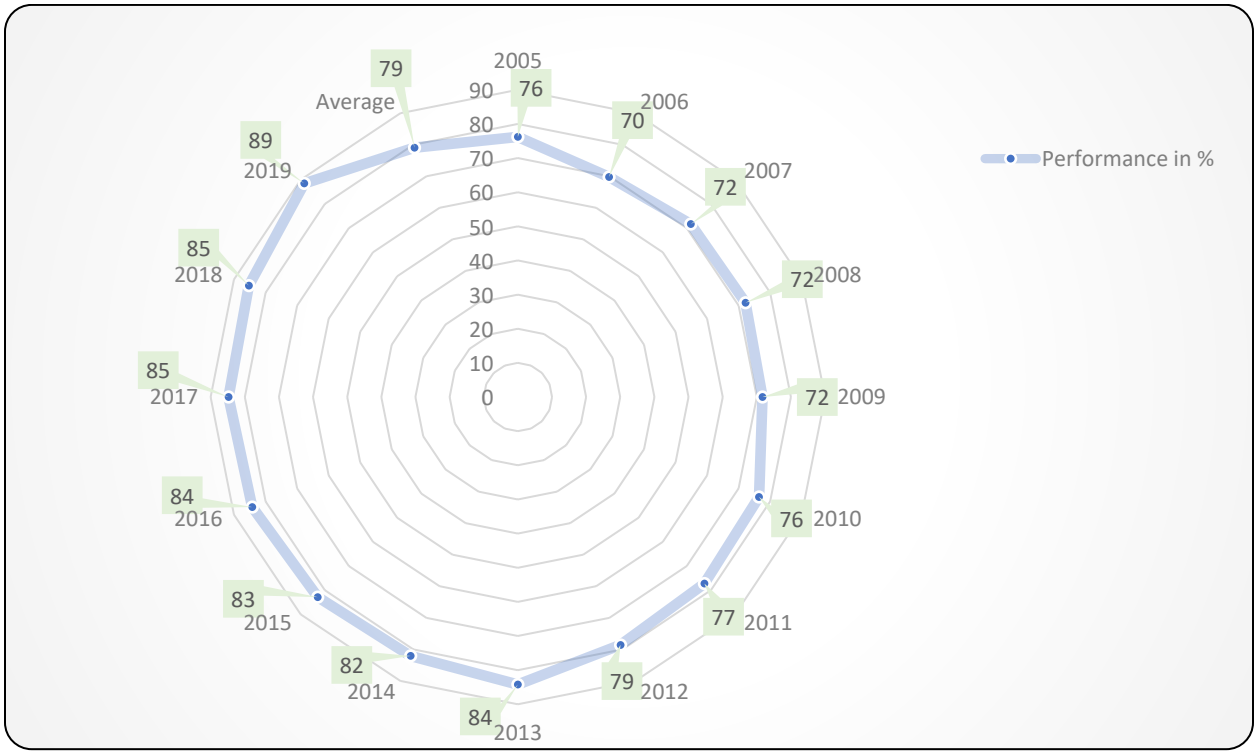
Figure 7.1: SOEs' CG disclosure performance: Expected versus Actual performance



Source: Researcher's own design

The total combined score for all SOEs throughout the entire study period was 4 435. SABC and Denel had the highest scores, 471 (92%) and 439 (865) respectively, out of a possible 510. These SOEs were closely followed by Eskom and Transnet, each with a score of 85%. The low-performing SOEs were TCTA (66%) and Alexkor (69%), while ACSA and CEF each scored 75%. The average disclosure performance score per year (i.e. SOEs' combined average score divided by total expected score) for the sampled SOEs is illustrated in Figure 7.2.

Figure 7.2: Average CG reporting disclosure performance per year



Source: Researcher's own design

The average performance in 2005 was 76% Performance declined to 70% in 2006, and then increased marginally, by 2%, to 72% over the next three years (2007–2009). Between 2010 and 2013, performance scores reached a peak of 84%, and then dropped to 82% and 83% in 2014 and 2015 respectively. Thereafter, performance increased progressively, reaching 89% in 2019, which was the highest peak. Interestingly, the average performance seems to show a steady improvement one year after King III was introduced in 2010 (IoDSA,2009).

This also seems to have been case in 2017, which was one year after King IV came into effect (IoDSA, 2016). The average combined performance of all SOEs throughout the study period was 79. Using the performance rating scale in Table 7.3, this equates to *Good disclosure performance*; however, there is still room for improvement, especially when looking at the low-performing SOEs. The SOEs' disclosure performance could be attributed to variety of factors. For example, it could have been as a result of increased awareness through campaigns and the emphasis the media and parliament oversight

bodies place on the importance of adhering to good governance. Improvements to and simplification of disclosure expectations in the governance code e.g. introduction of King IV may have been another contributing factor.

The size of the SOE may also be another attributing factor to disclosure performance scores. Larger entities tended to perform better than smaller ones, with the exception of a few who performed poorly: ACSA, ATNS, and CEF. This finding is aligned with that of a study by Khanchel (2007), notes that larger entities tend to have high leverage needs and therefore practise stronger governance. As discussed in Section 6.3.3, Martinez and Kang (2013) and Zu and Song (2009) also found that large SOEs are more likely to perform well in terms of disclosure. Furthermore, large entities are more likely to allocate sufficient resources, thus giving them superior advantage in their disclosure performance.

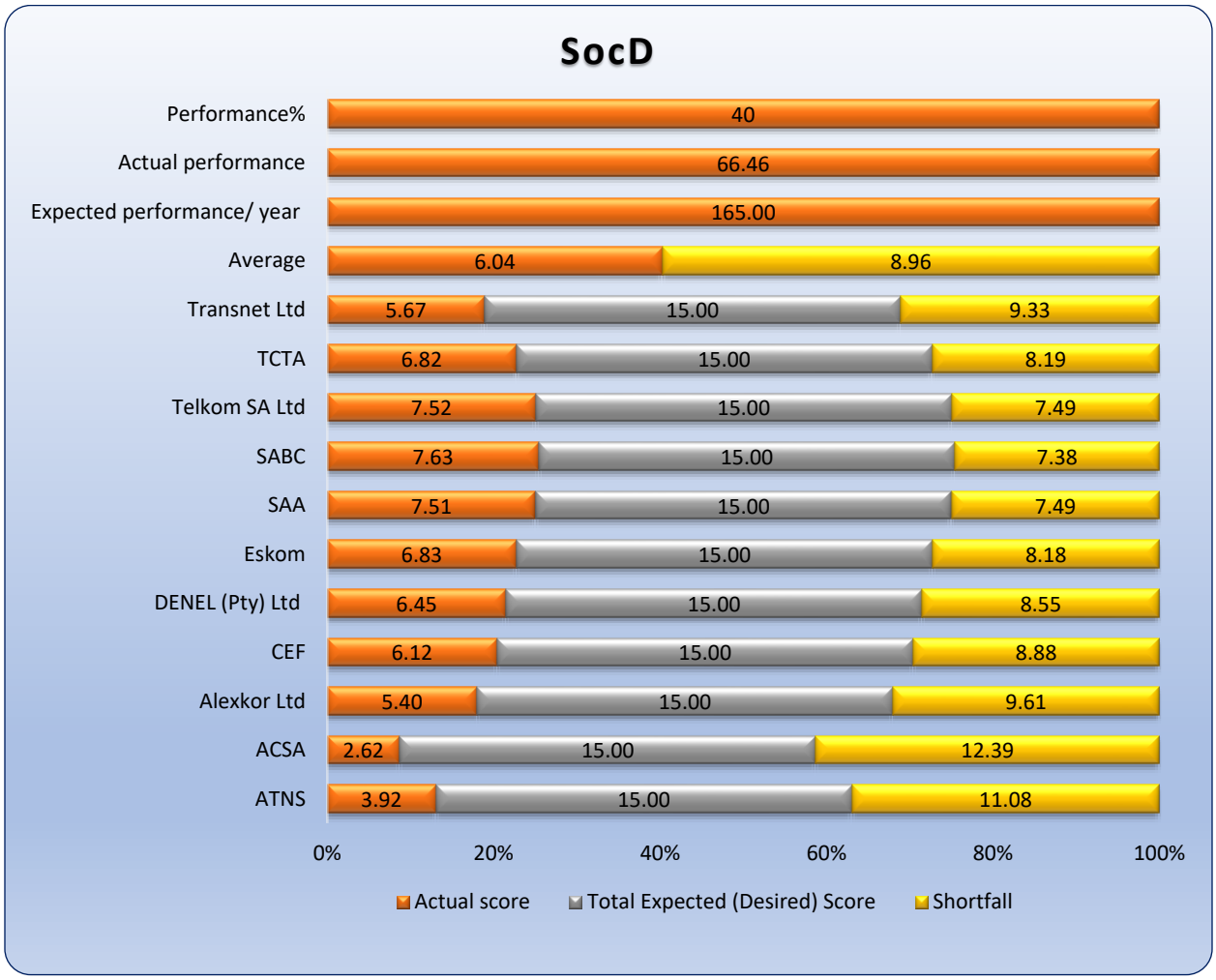
This advantage is aligned with the tenet of resource-dependence theory, which states that more resources increase the likelihood of a better performance. For example, Prahalad and Hamel (1994) and Barney (1991) regard sufficient resources as strategic tools to enable the entity to attain a sustainable competitive advantage. Furthermore, Hillman *et al*., (2009) mention that board composition and size signal ability of the board to allocate critical resources to the entity. Pfeffer and Salancik (1978) then add that the BoD can benefit an entity in four ways, that is through: (i) information and counselling; (ii) facilitating channel of information flow between the entity and environmental contingencies; (iii) access to resources and (iv) legitimacy.

With regard to SOEs, this could be related to government support in the form of subsidies and bailouts (resources) to enable the boards to perform better. This relationship (resources provision and performance) therefore requires more research. A final factor may play a role is these SOEs' years of existence, as it may be assumed that performance increases with experience.

7.2.2 SOEs' SR performance practices

As noted in Section 7.2, SR disclosure performance of SOEs was assessed using a five-point Likert scale to arrive at disclosure index for each performance indicator. Each SR disclosure index had a minimum of score 0 and a maximum of 1. Similar to CG disclosure, two metrics (actual and average performances) were used to assess SOEs' actual scores, shortfall values, and average scores on disclosure of SR performance indicators (see Appendix D). SOEs could attain a maximum score of 15 (a score of 5 on each sub-item) for each dimension of SR reporting. Figure 7.3 followed by the EcoD in Figure 7.4 and the EnvD in Figure 7.5 illustrate how SOEs performed in disclosure of each of the three TBL dimensions.

Figure 7.3: SOEs' SocD disclosure performance

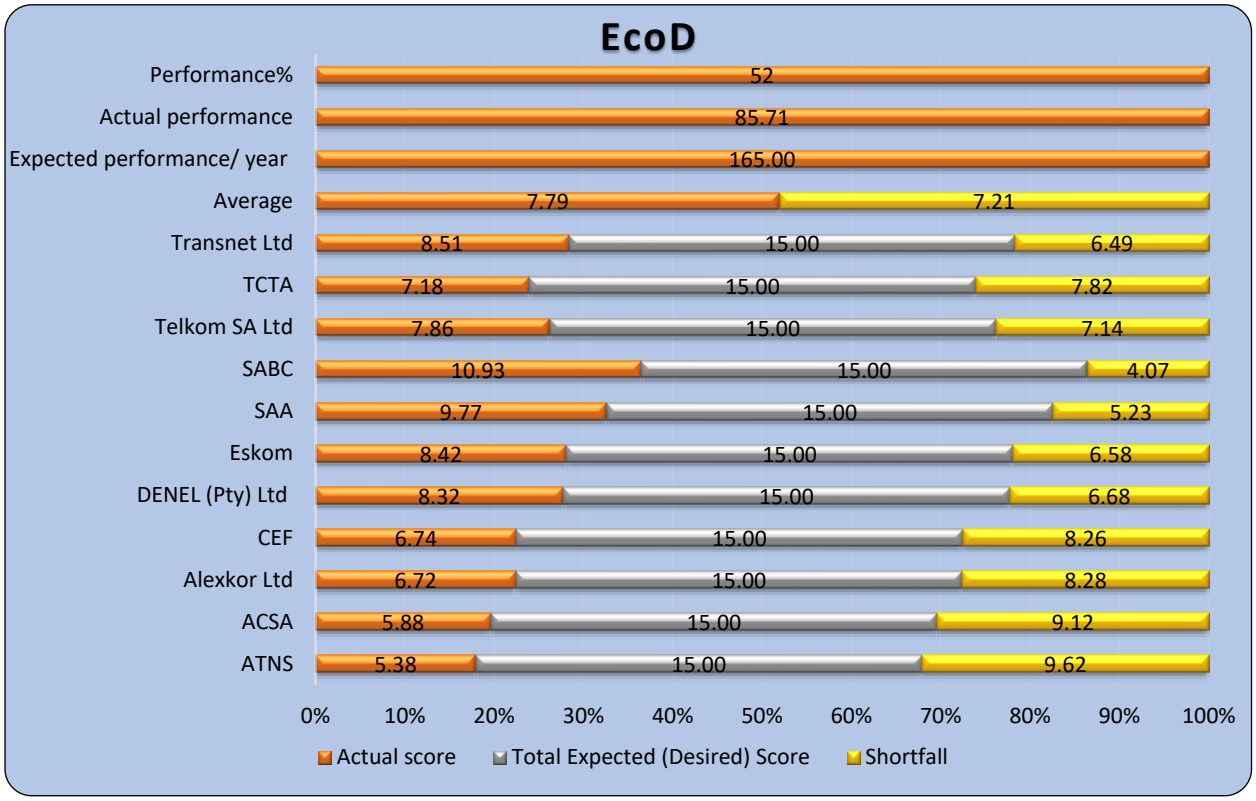


Source: Researcher's own design

Starting with the SocD disclosure performance, the total expected (desired) score was 15, which none of the SOE attained, evident in the actual disclosure scores in the Figure 7.3. SOEs with a score slightly above the average were the SABC (7.63), closely followed by Telkom and SAA, with 7.52 and 7.51 respectively. The lowest scores were those of ATNS (3.92) and ACSA (2.62). Transnet had performed well with regard to CG disclosure, however, the SOE was amongst the low performers in terms SocD disclosure, with a score of 5.67, followed by Alexkor (5.40).

The aggregated SocD disclosure performance score per SOE was also computed. The maximum possible (expected) aggregated score was 165 (11 per year X 15 years). From this aggregated score, actual and average scores were computed. The sum of actual scores was 66, and the average was 40% (actual performance divided by expected performance). On the performance rating scale, this performance score fell within 21–40 range, which represented *Low-level disclosure performance*

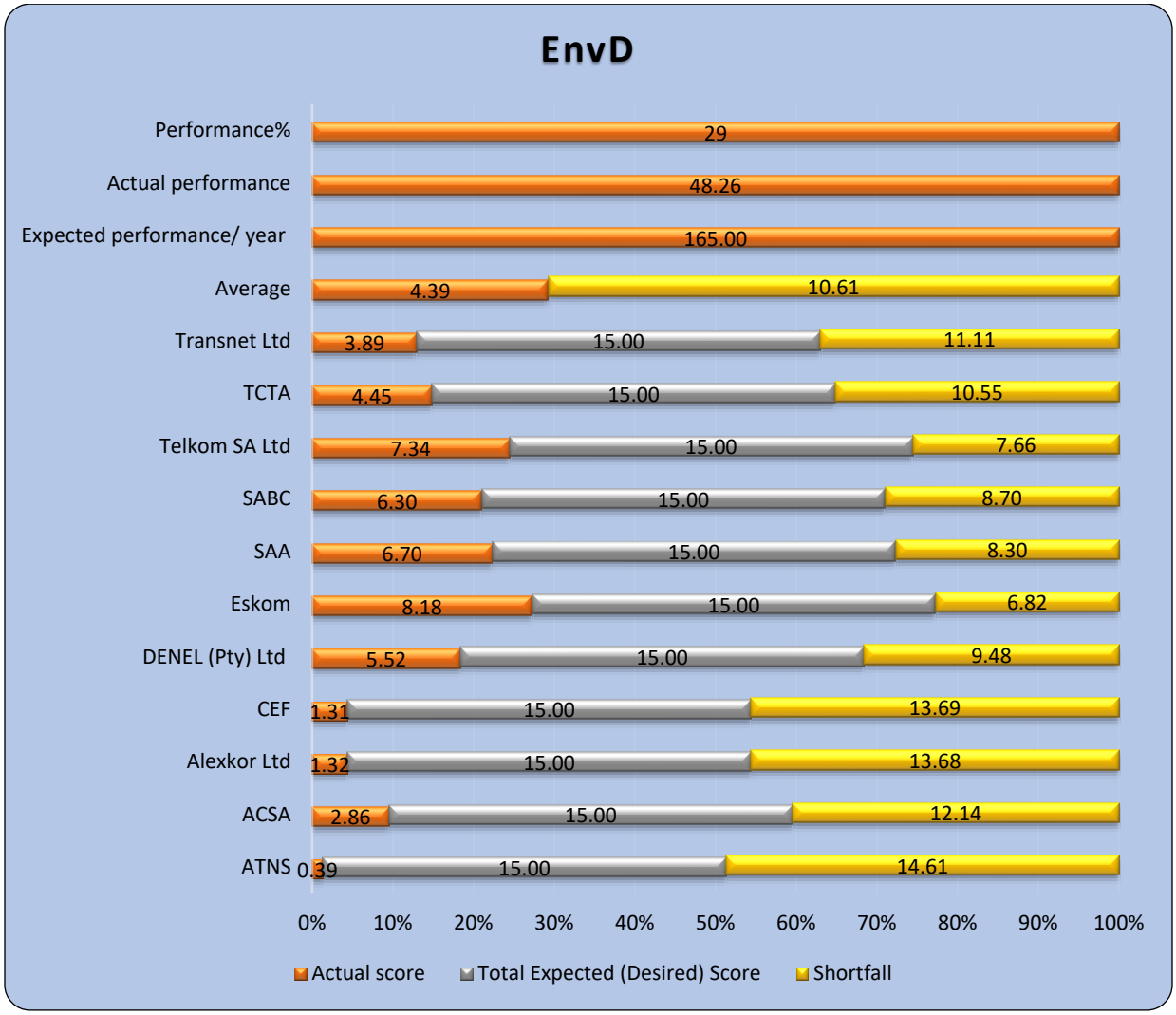
Figure 7.4: SOEs' EcoD disclosure performance



Source: Researcher's own design

For EcoD, (see Figure 7.4), the top three performers include the SABC (10.93), SAA (9.77) and Transnet (8.51). Eskom and Denel (Pty) Ltd are close to the third performer with respective scores of 8.42 and 8.32. The poor performers within this dimension are ACSA and ATNS with scores of 5.88 and 5.38 respectively. This is also evidenced by their largest shortfall values, thereby suggesting that they post highest deficiencies from the desired performance. Using performance rating scale, the EcoD disclosure performance score fall within 41-60 score range, thus qualifying for such SOEs would qualify for overall "*average-level disclosure performance*".

Figure 7.5: SOEs' EnvD disclosure performance



Source: Researcher's own design

All SOEs performed very poorly in terms of the average score for the EnvD (see Figure 7.5). ATNS, ACSA, Alexkor, and CEF were the worst performers, as their performance varied between 0.01 and 0.15. Eskom, Telkom, SAA, and SABC were the top four performers. Two of these SOEs, Eskom and SAA, are involved in operations that could have devastating environmental impacts in the form of waste, pollution, and use of resources.

Comparing the average actual SR disclosure performance scores across the three dimensions against the total expected performance score of 165, the SOEs performed better on the EcoD, with an average of 85.71. This was followed by the SocD, with an average performance of 66.46, the EnvD, at 48.26. On the performance rating scale, the SocD's average performance score was 40%, and the EcoD's was 52%. Both scores fell within the 41–60, i.e. *Average disclosure performance*. For the EnvD, the score was worryingly low at 29% (21–40 range), which suggests that the SOEs performed dismally in disclosure of their environmental activities. The operations of ATNS, ACSA, Alexkor, TCTA, and Transnet could also have significant environmental impacts, and it could therefore be reasonable expected that these SOEs would perform better on this dimension. However, they were found to be amongst the poor performers.

The reasons for the SOEs poor performance may be ineffective board committees towards disclosure requirements. Furthermore, lack of standardised reporting guidelines could also be playing a role in this regard (McGregor, 2014c). Committees such as sustainability, environmental, social, and ethics committees should be established to ensure that SOEs adhere to the sustainable reporting agenda as promoted by GRI, United Nations Principles for Responsible Investment, King III and IV codes on governance and World Bank's ESG amongst to mention the few (World Bank, 2019; GRI, 2016; IoDSA, 2016; UN PRI, 2012). Lack of standardised guidelines by oversight bodies for SOEs is another possible attributing factor. There are also no monitoring tools in place, and SOEs are not held responsible for poor disclosure. The next section presents SOEs' adherence performance metric on GC provisions and SR standards.

7.3 Extent of adherence to CG and SR disclosure requirements (King Reports III & IV and GRI Standards)

In addition to assessing the nature and scope of SOEs' disclosure performance, an adherence performance metric was employed to measure the degree to which the SOEs adhered to CG and SR disclosure expectations. The CG disclosure expectations are in line with the provisions of the King III and King IV, while SR disclosure expectations are guided by GRI's (2016) standards.

In achieving RO_3 of the study, the disclosure performance of the SOEs per CG provision and SR indicator was analysed for the period under study. Level of adherence was classified according to a performance rating scale (see Table 7.3), on a continuum of poor to excellent performance. The Microsoft Excel *Countif* function was used to perform the analysis and assess the performance against the metrics performance rating scale. Using sentiment analysis (Rocca *et al*., 2020), each time a particular King III and IV provision or GRI standard was disclosed, a score was allocated. A score of between 0 and 20 was allocated to indicate poor level of adherence, whereas a score between 81 and 100 indicated an excellent level of adherence. Colour coding was also used to indicate the categorise performance into *excellent* (green) or *poor* (red).

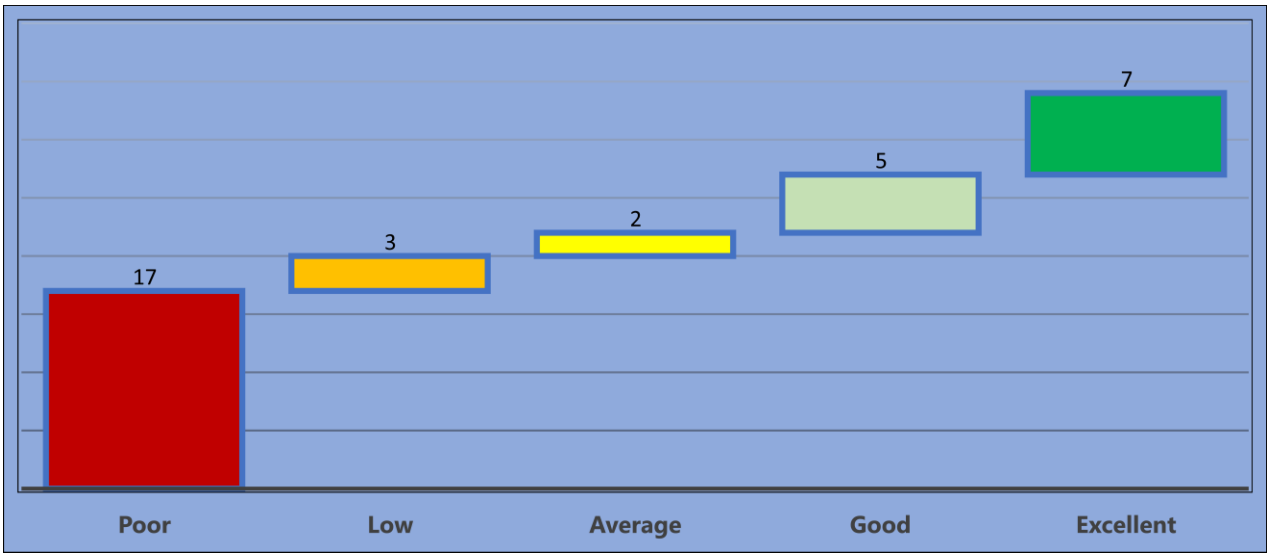
Two metrics were used to assess SOEs' adherence to King III and IV provisions and GRI standards — adherence per provision and adherence per year. *Excellent performance* was indicated by the number of times a 100% level of disclosure was achieved. In other words, this would imply that the provision was disclosed by all SOEs throughout the study period. This assessment was then used to determine overall performance (see Appendices E and F for detailed results).

7.3.1 Adherence per CG provision

Figure 7.6 reports SOEs adherence to the King Reports' provisions. Out of 34 provisions, 7 were satisfactorily adhered to, thus qualifying for green coding to indicate *Excellent adherence performance*. This indicates that these provisions were satisfactorily disclosed in almost all the years under study, evidenced by a disclosure performance score range that fell between 81% and 100%. Five of these provisions were disclosed 100% by all the

SOEs throughout the study period: (1) "*unitary board system",* (2) *"BS is closed"* (3) "*Board is comprised of both executive and NEDs"* (4) "*RC exists"* (5) "*AC exists"*. The other two provisions — "*number of meetings is disclosed in the annual reports*" and "*majority of board members are NEDs* qualified for *excellent adherence performance* with a score of 87%. Therefore, non-adherence occurred on two occasions (disclosure periods) of the study period, i.e. 13%.

Figure 7.6: Adherence performance per King Report III and IV provisions



Source: Researcher's own design

With regard to a unitary board system, the findings suggest that all the SOEs had a unitary board system, also known as a one-tier board system, which has been criticized for being exclusionary of wider stakeholder groups such as customers, creditors, employees, and suppliers. The main criticism is that only a single body, usually made up of executive management (directors) and NEDs, is entrusted with strategic decision-making. One of the critics is Spisto (2005:88), who compared unitary and two-tier systems in the context of SA. The author refers to the unitary system as "pyramidal", one that "omits to include the participation on the board or at management level of any other group or body, other than the directors themselves, the shareholders or the officers". As such, a move towards a two-tier system that consists of supervisory and management boards could address SA's governance challenges related to a unitary system.

The supervisory board, which is a key feature of the two-tier system, is elected by shareholders. Employee representatives could also be part of the board and partake in key strategic decisions. The supervisory board is tasked with holding the management board responsible for its performance, and, failure which, consequence management could follow. King III details pertinent issues relating to the balance of power, stating that a majority of NEDs preferable in order to avoid unjust and excessive power concentrated in one group. A majority of NEDs will also ensure a balanced view of stakeholders' interests (IoDSA, 2009).

With regard to committees, SOEs scored 100% for disclosing the existence of an RC and an AC. However, the existence of an NC and SC was poorly disclosed, as indicated in Figure 7.7. Five provisions showed *Good adherence performance* by SOEs, with disclosure scores falling between 61% and 80%. The first was *Board meets at least quarterly*, with a score of 73%; thus, this was not disclosed on four occasions. In other words, during those periods, the SOEs' boards did not have regular meetings. This is against prescripts of the King report provisions, which recommend at least four meetings a year.

The second provision, "*CEO is a board member*" was confirmed 12 out 15 times; hence, allocated performance score was 80%. Two SOEs, ACSA and Eskom, were found to be transgressors. ACSA did not disclose in 2005, ESKOM failed to disclose in 2015 and 2017. Eskom, in this period, faced leadership issues after the CEO was summarily dismissed in April 2015. The interim CEO was appointed mid-June 2017.

The third provision, *"Company secretary is disclosed"* was also not adhered to on four occasions by TCTA, in 2005, 2006, 2007, and 2018, and closer inspection of annual reports for this SO, it was mentioned that the secretary resign before the reporting year came to an end.

Still on the level of *Good adherence performance*, the fourth provision, "*RC has at least 3 NEDs*", and the fifth provision, "*AC has at least 3 NEDs*", were adhered to 80% of the time. This finding suggests that, at some point (a deficit of 20%), RCs and ACs were not

wholly independent, as they were not made up of NEDs. RCs' lack of independence was noted for the years 2005 and 2016 (TCTA) and 2006 (ACSA). ACs' lack of independence was noted for 2006 (Alexkor), 2012 (ACSA), and 2016 (TCTA).

Two provisions, "*Directors' attendance of meetings*" and *"AC is chaired by NED*" fell in the category of *Average adherence performance*, both with a score of 47%. In other words, these provisions were not adhered to 53% of the time. Transnet (in 2017), Eskom (in 2008, 2012, 2013, and 2015), ACSA (in 2009), CEF (in 2006), and Alexkor (in 2005) failed to disclosure directors' meeting attendance. The "*AC is chaired by NED*" provision was transgressed by Transnet (in 2011, 2012, and 2016), SABC, ATNS, ACSA (in 2015), Telkom (in 2007 and 2014), and Eskom (in 2006, 2012, 2013, 2014, and 2015).

A low level of adherence was evident for three provisions, namely "*AC attends 50% of the meetings*", "*Resignation of board members is disclosed*", and "*RC is chaired by NED*". The scores for these provisions fell in the range 21–40.

A total of 17 provisions were categorised under *Poor adherence performance* (see Figure 7.7). The poor adherence performance is an indication that provisions were not adequately adhered to in the SOEs' annual reports. As part of colour coding, they are coded with a red colour. The scores ranged between 0% and 20% and were mostly related to committees.

Another seven of the 17 provisions with poor adherence performance were: (1) "*All committees meet at least twice a year",* (2) "*NC chair attends 50% of meetings",* (3) *"Finance director or CFO is a board member",* (4) *"Women constitute 40% of board members",* (5) *"NC exists",* (6) *"NC has at least 3 NEDs", and* (7) *"NC is chaired by independent NED"*, with a score of 0, i.e. no disclosure over the 15-year period under study.

For the provision *"All committees meet at least twice a year",* the highest adherence score was 91%, in 2006, 2018, and 2019, whereas the lowest scores were for 2012 and 2016. This is an indication that in these two years, some SOEs (Alexkor, CEF, Denel, SAA, Telkom, and TCTA did not adequately adhere to reporting or disclosing their board

meetings. Literature on CG and board meetings (Jizii *et al*., 2014; Allegrini & Greco, 2013; Ricart *et al*., 2005) call for regular board meetings, argued to be effective monitoring mechanisms to improve transparency and disclosure, and a platform for active engagement on critical issues.

With regard to the existence of an NC, the highest adherence performance score was 82%, in 2012, 2013, 2017, and 2019. This could mean that some of the SOEs did not have an NC, despite King III and IV recommendations that organisations establish NCs to assist in evaluating the performance of the board, as well as identifying, recommending, and appointing board members (IoDSA, 2016; 2009).

Based on the analysis of the disclosed information in the annual reports, SOEs seem to have adhered to this provision "*40% women representation on the board*" for about 53% of the study period (i.e. 8 out 15 times). Based on information in Appendix E, the highest percentage scores were 64% in 2013 and 55% in 2019, meanwhile non adherence (below 40%) was observed for seven periods (2005, 2008, 2009, 2010, 2012, 2017 and 2018). This confirms that during these years most of the SOEs' boards were male-dominated. Oversight bodies such as BoD or parliamentary bodies should ensure that targets relating to women's representation in legislative and governance frameworks such as the Broad-based Black Economic Empowerment Act 53 of 2003, Employment Equity Act 55 of 1998, King Reports, and the National Development Plan are adhered to in order to redress imbalances of the past.

In terms of adherence per year, only in 2019 was *Good adherence performance* recorded for CG adherence. The percentage level of adherence was 72%, which fell in the fourth category in Table 7.3. *Low level of adherence performance* is recorded in 2005, 2006, 2009, 2014, and 2016, whereas *Average adherence performance* was recorded nine times in the rest of the reporting years. The overall adherence performance score was 15, which was computed by dividing the number of times a 100% disclosure per provision was achieved by 34 provisions.

A total of 85% of provisions were not adhered to in disclosure. Research by McGregor (2014c) on SOEs' adherence to principles of CG in SA established high degree of non-compliance in adhering to CG provisions such as board independence and disclosure. McGregor (2014c) went further to mention that SABC and Passenger Rail Agency of South Africa (PRASA) are amongst those who were found to be non-compliant with CG provisions.

7.3.2 Adherence per SR performance indicator

Microsoft's *Countif Function* was used to measure SOEs' adherence to GRI disclosure standards. The metrics used were adherence performance per provision and per year (see Appendix F). The SOEs' performance in adherence to SR disclosure per the GRI guidelines was dismal compared to their adherence to CG provisions. Throughout the entire study period, none of the standards met 100% adherence level. The outcome would be different if a 50% threshold were used in *Countif* search criteria, as that would mean that a low level of adherence performance would be 25%. (see grading in Table 7.3).

Lack of effective oversight or standardised reporting guidelines for SOEs may be amongst the factors attributing to this poor adherence performance (McGregor, 2014c). With regard to GRI standards, the below-average performance by SOEs could be attributed to the fact that GRI standards are developed internationally, and, as with the King Reports' provisions, entities are not forced to adopt them. Whilst acknowledging that these provisions are only recommendations and are therefore not mandatory, SOEs could perform better in ensuring that their disclosure practices are guided by these provisions.

Both King III and King IV encourage entities to take the issue of sustainability seriously, as it is regarded as an interface between organisation strategy and control (Surty *et al*., 2018). A mechanism to hold SOEs accountable is therefore necessary to improve SOEs performance, value creation, and governance practices (KPMG, 2012; PWC, 2012, 2015; IoDSA, 2011).

The poor adherence of the SOEs in the current study with regard to SR disclosure was also visible in the yearly performance metric. The performance difference could be due

to lack of oversight by regulatory bodies the absence of standardised disclosure guidelines for SOEs. These entities are urged to adopt integrated reporting (IR) in which the entity's financial information is integrated with sustainability reporting by disclosing aspects on the TBL dimensions of SocD, EcoD, and EnvD (Surty *et al*., 2018). King IV recommends that ACs prioritise external quality assurance to ensure that material aspects of SR disclosed in annual or integrated reported are of a high quality (IoDSA, 2016).

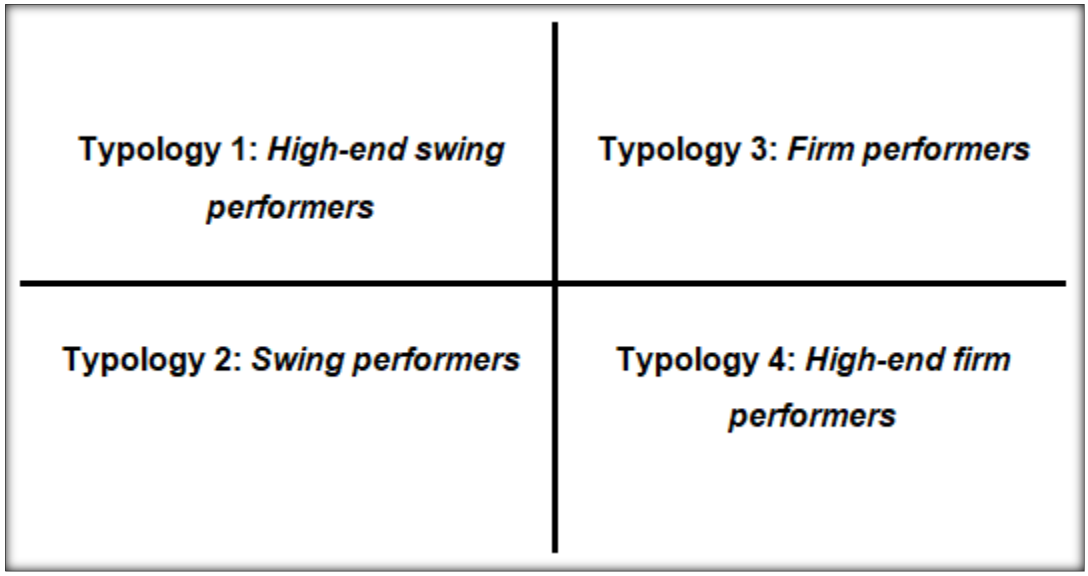
7.4 Trends in the level of CG and SR disclosure performances practices

RO_4 was to determine whether trends existed in the CG and SR adherence performance practices of South African Schedule 2 SOEs. The analyses, discussed in Sections 7.2 and 7.3, found that SOEs differ in their disclosure performance and adherence to CG and GRI standards. To make sense to these differences, the data were analysed with a view to determining trends, as was recommended by Marx and Mohammadali-Haj (2014) and Marx and Van der Walt (2011).

A horizontal Microsoft Excel trend analysis was conducted to determine if disclosure and adherence performance practices of the SOEs changed or differed over a period. The choice of this form of analysis was informed by Enyi (2019), who states that trends or visible patterns can be used in evaluation of the constancy of the occurrence of events (natural or economic). The author further indicates that trend analysis is one of the traditional methods of identifying discrepancies in event occurrences, which can be used to predict the future path of events (Enyi, 2019). Immerwahr (2004) notes that trend analysis could also be useful in estimating uncertain events based on past performance. To distinguish between these behavioural patterns, four typologies were utilised, shown in the form of a matrix in Figure 7.7.

Typology 1: *High-end swing performers* are characterised by a periodic highly unstable disclosure pattern, based on movement on the trend line, which is an indication of high variation in disclosure behaviour from one period to the next.

Figure 7.7: Matrix of typologies



Source: Researcher's own design

Typology 2: *Swing performers* are characterised by a calm but still unstable disclosure pattern. The trend line shows relative fluctuation movement, compared to *high-end swinger performers*.

Typology 3: *Firm performers* are characterised by a relatively stable behavioural pattern. The trend line is relatively flat.

Typology 4: *High-end firm performers* are characterised by a highly stable disclosure pattern. The trend line is linear.

This classification procedure followed an approach similar to that used in previous studies; for example, Salterbaxter (2003) categorised three styles of reporting, namely '*Deluxe*', '*Standard*', and '*Economy*'. Jenkins and Yakovleva (2006) used reporting types to explain trends in reporting and disclosure behaviour, categorised as '*Mature reporters'*, '*Adolescent reporters'*, or '*Infant reporters'.*

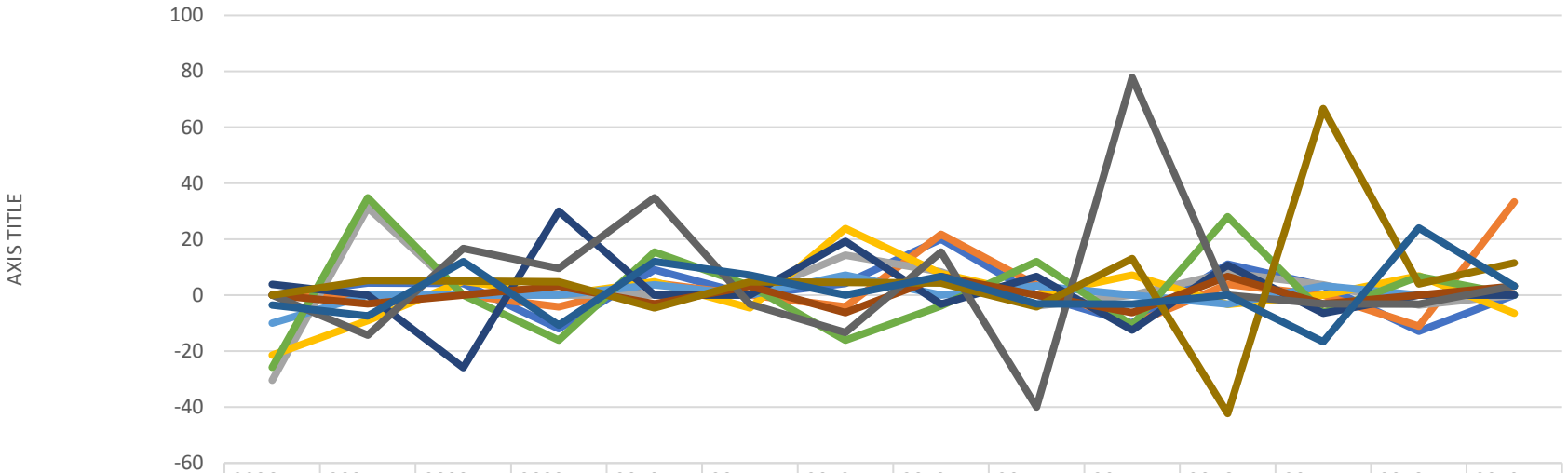
7.4.1 Trends in the level of CG disclosure practices

In the present study, the line graphs are characterised by series of steady highs and lows, except for a few SOEs. This behaviour was determined by checking whether % change remained constant over the entire study period. Figure 7.8 illustrates trends in the level of CG disclosure practices over the entire period under study. When looking at trends over time, it is evident that the disclosure behaviour amongst SOEs did not follow a smooth pattern. CEF, Eskom, SABC, Telkom, and Transnet are characterised as high-end swing performers, as their disclosure patterns have persistent high and low strokes over time. This means they were not able to maintain their disclosure scores throughout the period under study, evident in a pattern of consistent year-to-year variations in their disclosure practices. For example, Telkom's disclosure performance demonstrates a pattern of periodic highs and lows, and its disclosure performance changes at a faster pace than that of the other SOEs. There were significant variations between 2013 and 2016, and the trend stabilised slightly from then onwards.

Overall, significant changes in the disclosure scores of SOEs from one year to the next were evident, i.e. a high degree of variations and significant fluctuations. Inconsistent disclosure behaviour could be attributed to a variety of factors. First, it could be that, in a particular disclosure year, the SOE was able to meet (disclose) all the provisions on which they are assessed, while, in the next period, the same disclosure provision is not met, thus indicating non-adherence. Second, it could be that, as new CG provisions were introduced through newer versions of King Reports, there was delay in SOEs effecting the required structural changes in order to ensure adherence to the new provisions.

Alexkor, ATNS, ACSA, Denel, and SAA were classified as *Swing performers*, as their disclosure patterns are characterised by a relatively unstable trend line. For example, Alexkor started with a steep drop in their performance score of -30 for 2006, and then surged to 30 for the following year.

Figure 7.8: Changes and trends in the level of GC disclosure practices



	2006 YtY % Change	2007 YtY % Change	2008 YtY % Change	2009 YtY % Change	2010 YtY % Change	2011 YtY % Change	2012 YtY % Change	2013 YtY % Change	2014 YtY % Change	2015 YtY % Change	2016 YtY % Change	2017 YtY % Change	2018 YtY % Change	2019 YtY % Change
ATNS	0	4	4	-12	9	0	4	20	0	-10	11	3	-13	0
ACSA	0	0	0	-4	4	0	-4	22	4	-10	4	0	-11	33
Alexkor Ltd	-30	31	0	0	0	0	14	8	-4	0	8	4	-4	0
CEF	-21	-9	5	0	5	-5	24	8	0	7	-3	0	7	-6
DENEL (Pty) Ltd	-10	0	0	0	4	0	7	0	3	0	-3	3	0	0
Eskom	-26	35	0	-16	15	3	-16	-4	12	-11	28	-6	7	0
SAA	4	0	-26	30	0	0	19	-3	7	-13	11	-6	0	0
SABC	0	-3	0	3	-3	3	-6	7	0	-6	7	-3	0	3
Telkom SA Ltd	0	-14	17	10	35	-3	-13	15	-40	78	0	-3	-3	3
TCTA	0	5	5	5	-5	5	5	4	-4	13	-42	67	4	12
Transnet Ltd	-4	-7	12	-11	12	7	0	7	-3	-3	0	-17	24	3

Source: Researcher's own design

Both ATNS and ACSA maintained stability for the 2006 and 2008 reporting years, thereafter fluctuations became evident. ACSA hit inflection point in the 2009, 2015, and 2018 reporting years which, is an indication of a slump in disclosure scores. ACSA dropped significantly in the 2009, 2012, 2015, and 2018 reporting years.

The third classification of typology is *Firm performers*. The performers' disclosure patterns show little variation. TCTA and Denel were both classified as firm performer, and they maintained an upward trend in their adherence. TCTA maintained this performance, with the exception of the years 2010 and 2014, thereafter its performance improved smoothly. Denel started at a low of -10 in 2006, and then improved steadily for the next five years (until 2012), subsequently its performance increased slightly, by 7% (in 2013). From there, a variation of between -3 and 3% is observed.

None of the SOEs qualified for classification in the fourth typology — *High-end firm performers*. While some SOEs were found to be performing well with regard to disclosure on CG provisions, none was able to maintain this performance over time. This finding is aligned with that of Surty *et al*., (2018), who examined trends in SOEs' levels of reporting and disclosure on 19 CG provisions over three years. PWC (2004) confirm that experience and the length of entity's existence can influence levels of disclosure, arguing that good performance comes with experience.

7.4.2 Trends in the level of SR disclosure practices

Trends in SOEs' SR disclosure practices were analysed per dimension (i.e. SocD, EcoD, and EnvD). A graphical depiction of each of these three dimensions' disclosure trends is presented in Appendix G, starting with the SocD.

7.4.2.1 SocD

The fluctuating nature of SocD disclosure (second figure in Appendix G, page 220) signifies that none of SOEs' disclosure performance practices can be categorised into either Typology 3 or 4 (i.e. *Firm performers* or *High-end firm performers).* Instead, they are classified into Typology 1 (*High-end swing performers*), due to the periodic highs and lows on the trend line. This observation is informed by frequently descending disclosure patterns, evident in the number of negative disclosure trends for almost over half of the study period.

None of the SOEs managed to maintain a stable disclosure performance score for at least three consecutive reporting years. Only Alexkor and Denel managed to maintain the same score as for the previous year (2005), which was used as a base year. Almost all the SOEs indicate a slump in their disclosure score, except for ATNS, SAA, and Telkom, whose scores showed a positive trend in 2006. CEF's scores, on the other hand, started high but then started to descend. Transnet and ACSA show below-average performance trends, which suggest that they were regressing on SocD disclosure a year-to-year basis.

Between 2006 and 2015, swings were frequent for all SOEs, but lines started showing a little stability, until 2019. Overall, the trend analysis showed that SOEs' performance was unstable, suggesting inconsistencies and a high degree variation in their disclosure practices.

7.4.2.2 EcoD

Similar to the SocD, a high degree of variation and inconsistency was evident in the trends of disclosure related to the EcoD. A graphical depiction of this dimension's disclosure trend analysis is shown in the second figure in Appendix G, page 221. Transnet's disclosure trend between 2011 and 2014 stands out as an outlier performance, compared to other SOEs, as, during this period, the entity's score fluctuated significantly. Overall, all SOEs displayed a fluctuating disclosure trend throughout the study period with regard to this dimension. Therefore, all SOEs are classified as *High-end swing performers*. Denel has a unique trend. The years 2006 and 2007 showed the worst disclosure performance, where after its performance improved, until 2019. The trends of Transnet, TCTA, and Telkom stabilised a bit between 2007 and 2013, which some degree of consistent disclosure performance during this period.

7.4.2.3 EnvD

A graphical depiction of this dimension's disclosure trend analysis is shown in the third figure in Appendix G, page 222. ACSA shows as a noticeable outlier in reporting disclosure, with its trend showing a significant increase in 2013. Denel's performance also changed at a fast pace. All of the entities under study operate in what could be considered sensitive natural environments, with exception of the SABC. All SOEs

showed a trend of poor disclosure practices, which is cause for concern with regard to sustainability of the environment.

7.5 Discussion and implication of the results

From the trend analysis, it is clear that SOEs fall short in adhering to GRI disclosure standards in their reporting. Most of the SOEs' disclosure fluctuated with regard to adherence to both CG and SR requirements over the entire period under study. The inconsistent disclosure practices may also cast doubt on their transparency.

Van Zyl (2013), in a study on sustainability and integrated reporting in SA, found that although disclosure towards integrated reporting was improving, the pace thereof was slow. In addition, very few entities management comprehends and appreciates the significance of social and environmental sustainability (Van Zyl, 2013). Similar to the findings of the current research, Jenkins and Yakovleva (2006), in their temporal trend analysis of mining entities, found considerable variation in the reporting behaviour and practices with regard to the social and environmental dimensions. Interestingly, this finding contradict the assertion by PwC (2004) that experience, and long existence enhance disclosure performance.

PWC (2004) posit that asset holding and increasing market capitalisation are affording experienced and long existing entities advantage over relatively new and inexperienced entities. It is therefore expected that, given their financial power and their wide geographical spread of their operations, long existing entities would be experienced enough to perform well on disclosure, especially with regard to the TBL.

The findings of the current study could be attributed to a lack of uniformity in reporting and disclosure practices. This could be attributable to the absence of standardised guidelines or a reporting system to guide reporting and disclosure by SOEs, a sentiment shared by McGrecor (2014c). Another contributing factor to lack of uniformity may be that SOEs have not yet adopted the GRI guidelines in their disclosure practices. The move towards sustainability reports could also assist in improving SOEs' SR performance, provided that government enforces adherence and establishes oversight mechanisms through policy development. Government should therefore put into place performance metrics to guide disclosure performance practices of SOEs.

7.6 Concluding remarks

This chapter presented the results of the contextual content analysis of SOEs' disclosure practices with regard to CG and SR requirements. The period under study spanned for 15-years (2005-2019).

RO_2 explored the nature and scope of SOEs disclosure performance. It was found that SOEs perform better on disclosure of CG provisions. With regards to the TBL (i.e disclosure of SR performance indicators), SOEs' performance was the poorest in disclosure of environmental aspects related to their business activities. They were found to be moderately disclosing social and economic dimensions, although their performance is yet to surpass the 50% threshold of the desired performance.

RO_3 was to determine the degree to which SOEs adhere to King Report provisions and GRI standards in terms of CG and SR disclosure. The results revealed that the level of CG adherence stood at 50% for the studied provisions, and the overall performance was poor. The results were even worse for adherence to GRI reporting, with 0% adherence to standards examined.

RO_4 of the study, which was to determine trends in levels of disclosure performance practices of the SOEs, reveal a high degree of variations and fluctuations in SOEs disclosure was evident.

The last part of the chapter dealt with discussion and implication of the results to give sense of the findings. The next chapter presents concluding remarks, and highlights the study's contributions and limitations, followed recommendations for practice and suggestions for future research.

CHAPTER 8: RESEARCH SUMMARY, CONTRIBUTIONS, LIMITATIONS, AND DIRECTIONS FOR FUTURE RESEARCH

8.1 Introduction and research summary

This study was divided into eight chapters. The first chapter provided background to the study, and the second reviewed extant literature in the domain under study. Theory and empirical views of literature were presented in Chapters 3 and 4 respectively, and Chapter 5 presented a discussion on the research design and methodology. Chapters 6 and 7 presented of results and findings from the qualitative and quantitative phases of the study. This chapter concludes the study with a summary of the findings, a discussion of the contribution and limitations of the study, followed by suggestions for future research.

8.2 Summary of research findings

The main research purpose was to explore CG and SR disclosure practices of SA Schedule 2 SOEs, which was done according to four ROs.

RO_1 was to establish evidence of an association between selected CG and SR performance indicators. A detailed presentation of the results was provided in Chapter 6. The main finding was that the results are inconclusive, except for the association of BS with SR performance indicators, which relationship was positive and significant. This finding suggests that BS is strongly associated with TBL dimensions.

BA and composition of the AC were found to be significantly associated with EcoD and EnvD, while RC was associated with SocD and EcoD only. The negative association between WB and EnvD is in contrast to contemporary arguments in the literature, as women are purported to be more socially responsible and considerate regarding environmental issues than their male counterparts.

Negative association were also found between OR and SocD, RC and EnvD, and for SC with SocD and EnvD. The mixed results regarding associations between CG variables and SR performance indicators are an opportunity for further research.

RO_2 was to explore and compare the nature and scope of South African Schedule 2 SOEs' disclosure practices with regard to corporate governance and sustainability

performance. It was found that, overall, SOEs perform better on disclosure of CG provisions. Disclosure on SR performance indicators was poor in all the SOEs under study. The SOE fared better in social and economic disclosure than in disclosure related to environmental issues.

RO_3 was to explore the extent to which the SOEs adhered to King Report provisions and GRI standards in their CG and SR disclosure practices. The overall adherence performance was found to be poor with regard to both CG provisions and SR indicators. Adherence to GRI reporting standards was found to be non-existent. Attributing factors noted in literature were discussed in detail in Chapter 7.

RO_4 was to determine if trends were evident in the level of CG and SR disclosure practices of the SOEs. The findings suggest that SOEs are not consistent in their level of adherence on a year-to-year basis. This may be due to a lack proper reporting and disclosure guidelines for SOEs.

8.3 Contributions of the research

The significance and contribution of this research to the body of knowledge is three-fold — empirical, theoretical, and methodological. These contributions are discussed in the next four subsections, alongside policy implications.

8.3.1 Empirical contribution

The empirical investigation and subsequent analysis of the association between the selected CG variables and SR performance indicators are the main contribution of the study. This contribution is three-fold:

(1) Investigations in this area remain inconclusive as an increasing number of studies continue to yield inconsistent and mixed results (Endrikat *et al*., 2020; Oosthuizen & Lahner, 2016).

(2) The selected predictors of interest are rarely studied in a single study, which contributes to fragmentation of the literature in this field (Hussain *et al*., 2018).

(3) Most of the studies in which these variables were examined did not consider the TBL approach.

Studies in this domain have mostly been conducted in the context of private entities, with only a handful having focused on SOEs. The following are notable studies that adopted the TBL approach, but not in the context of SOEs: Shrivastava and Addas (2014), Ho and Taylor (2013), and Aras and Crowther (2008).

Kumar *et al*., (2018) and Menozzi et al. (2011) acknowledge the evolving and maturing nature of governance research, and state that more research is needed in other contexts, with Kuzman *et al*., (2018) specifically mentioning the lack of research within SOEs' context. Therefore, the current research advances knowledge and understanding of the association between CG and SR performance indicators from perspective of SOEs. Most notably, the current research brings to the fore that BA, BT, WB, board independence, AC's independence, and the presence of board committees (RC, NC, and SC) are less-studied CG variables against their association SR performance indicators, more so from SOEs' context. This study's approach is in line with a growing research focus on governance–sustainability integration (E-Vahdati, *et al.,* 2019; Salvioni *et al*., 2018).

8.3.2 Theoretical contribution

Theories are regarded as essential tools in research, for they guide and drive the research journey. Theories provide a framework for action and understanding, thus creating a stimulus for advancing knowledge within the chosen research field (Wagner *et al*., 2009; Inglis & Maclean, 2005). Therefore, the relevance of a chosen theory is important in any research (Babbie & Mouton, 2012).

The current study employed multiple theories in a complementary approach to explaining the hypothesised associations between the variables. This research underscores the importance of understanding governance–sustainability integration research using a multi-theory lens. A complementary approach was therefore followed in integrating the tenets of the mainstream CG theories (agency- and stakeholder theory) other relevant governance theories, such as the political theory of CG, legitimacy and social contract theory, stewardship theory, and resource-dependence theory. The applicability of this theoretical framework to the current research is argued in Section 3.3. The use of multiple theories was based on Hussain *et al*., (2018) stances that a single theory cannot fully explain research phenomena

and account for all hypothesised variable associations. To the best of researcher's knowledge, no other study in the context of SOE governance has followed this approach. Instead, other studies have largely employed individual mainstream theories (e.g., Adebayo, 2020; Marimuthu, 2020; Bezuidenhout *et al*., 2018; Hussain *et al*., 2018; Surty *et al*., 2018; Thabane & Snyman Van-Deventer, 2018; Bezuidenhout, 2016; Mbele, 2016; Kanyane & Sausi, 2015; Mekwe, 2015; Ngwenya & Khumalo, 2012; Thomas, 2012). Studies by Tshipa *et al*., (2015, 2018) are amongst few that employed this complementary approach; however, the research was not conducted in the context of SOEs, instead they focused of JSE listed entities.

8.3.3 Methodological contribution

The present study responded to increasing appeals for multi-variable and multi-period studies (e.g., Daiser *et al*., 2017; Tshipa *et al*., 2018b; Grossi *et al*., 2015). Due to the dearth of studies using a pragmatic research paradigm, the study followed a simultaneous mixed-method design by combining both textual content analysis and multivariate regression analysis to achieve the objectives. Most studies are either quantitative or qualitative, with researchers missing an opportunity to analyse research phenomena using abductive reasoning, which is a combination of deductive and inductive reasoning, set within a pragmatist worldview.

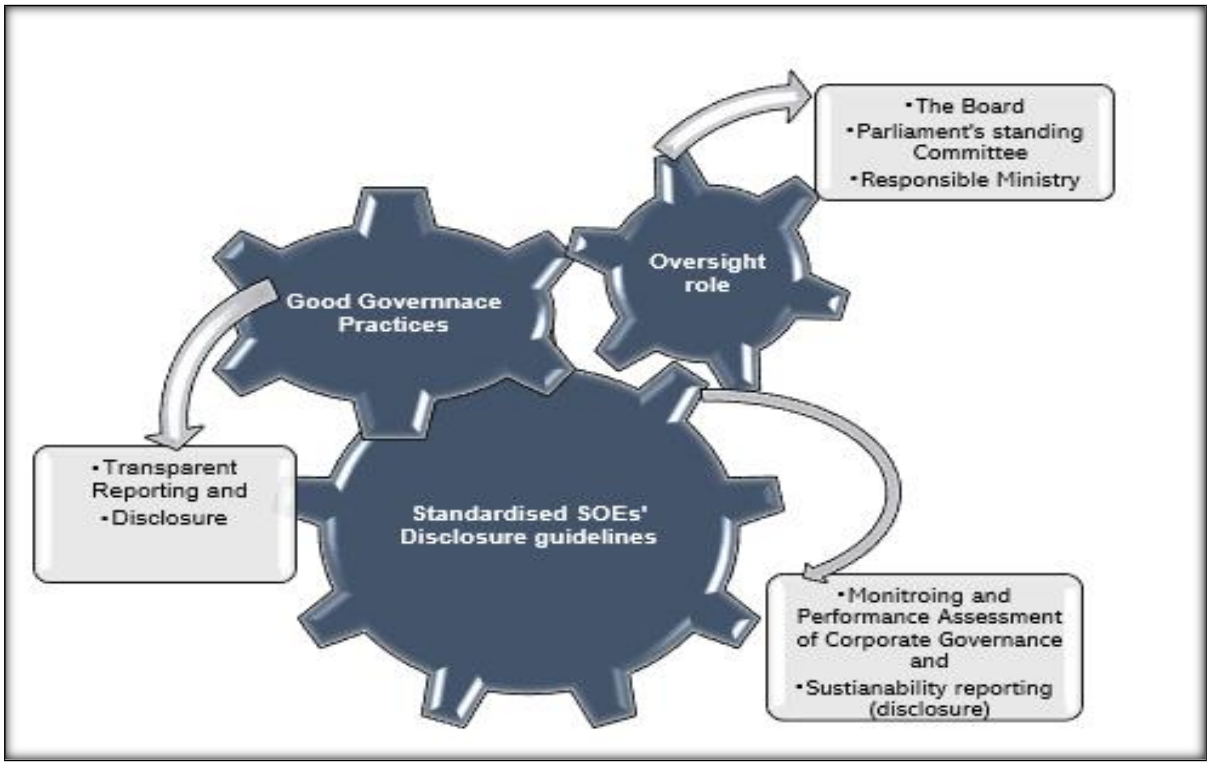
The last distinctive aspect of this study is the period under study. None of the studies listed in Table 7.1 were conducted on a period exceeding ten years. The present study's research period of 15 years is therefore a unique contribution. To the best knowledge of the researcher, no previous studies within SOE-governance research adopted this methodological approach in the South African context. This approach was based on governance literature calling for incorporation of unfamiliar CG variables and methodologies to establish how this influence sustainability over multiple periods (Heo, 2018; Hussain *et al*., 2018; Grossi *et al*., 2015).

8.3.4 Policy and managerial implications

The research results and findings may prove useful to policy makers, practitioners, and academia. Policy makers are encouraged to translate good governance practices into a sustainability culture through a unified legislative framework and governance recommendations, in order to strengthen the oversight function.

Practitioners can therefore appreciate and draw conclusions regarding the importance of governance–sustainability disclosure practices. Based on the shortcomings revealed due to a fragmented legislative framework and the lack of standardised guidelines, the study contributes to the literature and practice through a disclosure compliance framework (Figure 8.1).

Figure 8.1: Disclosure and transparency compliance framework



Source: Researcher's own design

The oversight role could be strengthened through a co-ordinated and unified process to enforce compliance, and enhanced through continuous education, training, capacity development and coaching. A shareholder (minister, on behalf of government), parliament's standing committee, and the boards of SOEs need to ensure that they strengthen the oversight role in monitoring of the disclosure performance of SOEs. They also need provide relevant support to executive management to execute its functions independently, without any undue interference.

SOEs' reporting and disclosure guidelines need to be co-ordinated centrally, to ensure standardised reporting behaviour. This will assist in ensuring adherence (compliance) to principles of good governance with reference to transparent reporting and disclosure, whilst upholding of high standards of ethical behaviour.

Agents and accounting authorities of SOEs would benefit from appreciating the value of ensuring that their qualitative disclosures in reporting are aligned to prescriptions in the form of regulatory, governance, and monitoring frameworks. Transparency and disclosure are amongst key governance pillars, alongside accountability, fairness, and responsibility, according to King III and IV and the OECD's framework on principles of good CG. Therefore, the agents (executive management) and accounting authorities (boards) have to ensure that systems and resources are in place to support adherence to these principles of disclosure.

8.4 Limitations of the research

Price and Murnan (2004) indicate that no research is without limitations. The present research is no exception, as it has number of limitations, which emanated from methodological shortcomings and financial and time constraints.

- **Research method** — although this research was largely exploratory, there is a need for further research to answer deeply exploratory research questions such as "why", "how" or "when" to gain more and new insights into governance practices of SOEs.
- **Use of secondary data** — annual integrated and sustainability reports were used to source information for this study. The shortcoming associated with this research method is related to data coding. This methodological procedure may be subject to different interpretations and mistakes by the researcher. However, for the purpose of this research, section 5.5.3 in Chapter 5 presented a discussion of how this risk was mitigated to ensure reliability and accuracy.
- **Access to data and small sample size** — this limitation relates to the sample study versus the population. The focus of the research was major SOEs listed in Schedule 2 of the PFMA, which are argued to be playing an influential role in advancing government's developmental agenda. Due to inability to access data (reports) from some of the SOEs for entire study period, the decision was made to exclude them. Only 11 SOEs were included in the study, which is 52% of the population. Therefore, the results of the study cannot be generalised to the entire population of SOEs, although there are some insights and lessons to be learned from the findings of this research.

- **CG and SR indices and performance rating matrix** — due to time constraints, the disclosure indices and performance matrix developed in this research are yet to be robustly validated.

8.5 Recommendations for future research

Due to shortcomings and findings that merged from this research, acknowledged in the previous section, the recommendations for future research are an effort to shape future SOE governance research. Therefore, the recommendations are three-fold — theoretical, methodological, and practical.

8.5.1 Theoretical recommendations

SOE governance research is complicated, and, as such, no single theory is sufficient to explain all phenomena within this field. Therefore, the call for use of a multi-theory lens is extended, as it may enhance understanding of the dynamics of this field. In line with the focus on governance–sustainability integration research, there is a need for infusing theories to respond this new agenda for research. Traditional mainstream CG theories such as the stakeholder- and agency theory are narrow and individualistic in explaining this integration, and infusion of the less-explored governance theories, such as the political theory of CG, proactive stakeholder engagement, behavioural agency, stewardship, resource-dependence, legitimacy and social contract theories is a step towards governance–sustainability integration.

8.5.2 Methodological recommendations

The following are the methodological recommendations for future research.

- **Less-studied CG variables' association with SP** — In order to satisfactorily comprehend this association, there is a need for further extensive exploration of less-studied and equally important CG variables, such as board committees, board evaluation, board performance, board tenure, board diversity, and board members' educational backgrounds and qualifications.
- **Multiple-data approach** — Still in line with calls for more pragmatic research designs, future studies could consider integrating multiple levels of data.

  The use of secondary data and surveys and interviews will enable triangulation in the interpretation of research findings. Future research could use interviews to draw insights into views of key bodies such as the IoDSA,

who is the custodian of the King Codes on Good Governance in SA, as well as board members of various accounting authorities, legislators, and policy makers. For example, members of parliament serving on standing committees that play an oversight role could be interviewed regarding their view on what could be done to improve adherence to governance practices by SOES, especially with regard to the key pillars of good governance, i.e. transparency, accountability, fairness, and disclosure.

- **Sample period and size** — The present researcher attempted to respond to calls for more longitudinal studies within the field of governance; however, the need remains to conduct more longitudinal studies, especially longitudinal studies spanning 20 years or more. This research can also be expanded to include other forms of SOEs in order to increase richness, validity, and reliability of the data.
- **Comparative and cross-country research** — Performance research of SOEs presents a unique avenue for future research. Comparative studies within the country and cross-country, especially from Southern African Development Community (SADC) region could be undertaken in an attempt to understand and gain insights into differences in the performance of SOEs, including quality of disclosure, adherence to governance provisions, strength of governance systems, political interference, and interventions.

8.5.3 Practical recommendations

From practical point of view, practitioners may benefit from the following recommendations:

- **Improve governance structures and mechanisms** — There is an urgent need to improve governance structures and mechanisms of SOEs, to ensure that accounting authorities (boards) effectively and efficiently exercise their responsibilities, independently of political interference or due pressure. Governance structures such as the board composition, appointment, performance, evaluation, and meetings need to be overhauled in line with the contemporary move towards TBL and ESG principles.
- **Standardised reporting and disclosure typology, metrics and assurance guidelines** — One of the observations made during this research is that

SOEs' disclosure and reporting practices are disaggregated and vary significantly across SOEs. This may be attributable to the fact that some of the SOEs are selective regarding what to disclose and withhold information to the detriment of entity's reputation. Therefore, there is a need to be harmonise these performance differences through a standardised reporting framework and assurance guidelines. This could be done by enacting a reporting framework and guidelines designed specifically for SOEs, to guide their disclosure- and reporting behaviour. In the absence of such regulation, reporting and disclosure behaviour would inherently involve a level of subjectivity, and thus put the credibility of SOEs in question. Therefore, inconsistent reporting style is likely to persist guided by entities' own preference or communication agenda. It is for this reason that a typology, metrics of indicators, and assurance guidelines and standards should be utilised in assessing disclosure performance. The Ministry of Public Enterprises, the Presidential Review Committee on SOEs, the National Treasury or another oversight body from parliament, such as standing committees, need to work together in developing these guidelines, in line with a relevant and realigned legislative framework.

- **Strengthen oversight, harmonise the fragmented legislative framework, and enforce compliance** — There is a need to strengthen governance oversight and align the fragmented legislative framework governing SOEs, a problem that was acknowledged by the Presidential Review Committee on SOEs' report in 2013. The report notes that countries such as New Zealand, Canada, France, and Sweden succeeded in their reforms of SOEs by clarifying the role of the state as a policymaker, legislator, operator, and shareholder. Similarly, PwC *et al*., (2011) affirm that divergent pieces of legislation create confusion regarding where levels of monitoring start and end. Furthermore, an aligned approach will assist in ensuring that performance inefficiencies and setbacks are identified and addressed immediately.
- **Disclosure performance matrix** — The findings on reporting trends in the present study signify the need for standardised reporting guidelines and strengthening of the oversight function by the main shareholder (government, represented by the relevant minister), the accounting authority (board of the

SOE), executive management (agents), and policy makers. The would require a disclosure performance matrix for SOEs. Therefore, future research could consider some form of collaboration in development and validation of such an instrument. Work has already begun in this area by University of Stellenbosch's Centre for CG in Africa, and there is a need for modification, revision, and validation of this instrument.

- **Capacity development** — Training in the form of coaching and development programmes should be established to ensuring that SOEs adhere to principles of good governance and uphold high standards of ethical behaviour.

8.6 Final concluding remarks

This chapter concludes the research with a summary of the research, contributions of the research, limitations of the study, and recommendations. The main RQ was:

> ***Do South African Schedule 2 SOEs exhibit good CG and SR disclosure performance practices*?**

This RQ was answered by exploring the CG and SR disclosure practices of SA Schedule 2 SOEs. It revealed that these SOEs largely perform better in their disclosure related to CG provisions than to SR performance indicators. Using an adherence (compliance) performance scale, it was found that SOEs follow poor adherence practices with regard to both CG and SR performance. Their poor performance was evident in trend analysis, which revealed periodic upswings and downswings in disclosure performance. A lack of standardised a disclosure and transparency compliance framework, the fragmented legislative framework, and ineffective governance structures and mechanisms are amongst some of the factors that contribute to this performance. In conclusion, there is a need for enforcement, monitoring, and evaluation of SOEs' disclosure performance through a standardised disclosure performance matrix, which should be combined in a comprehensive framework based on the TBL approach. In the era of sustainability, the TBL approach remain at the heart of good governance practices.

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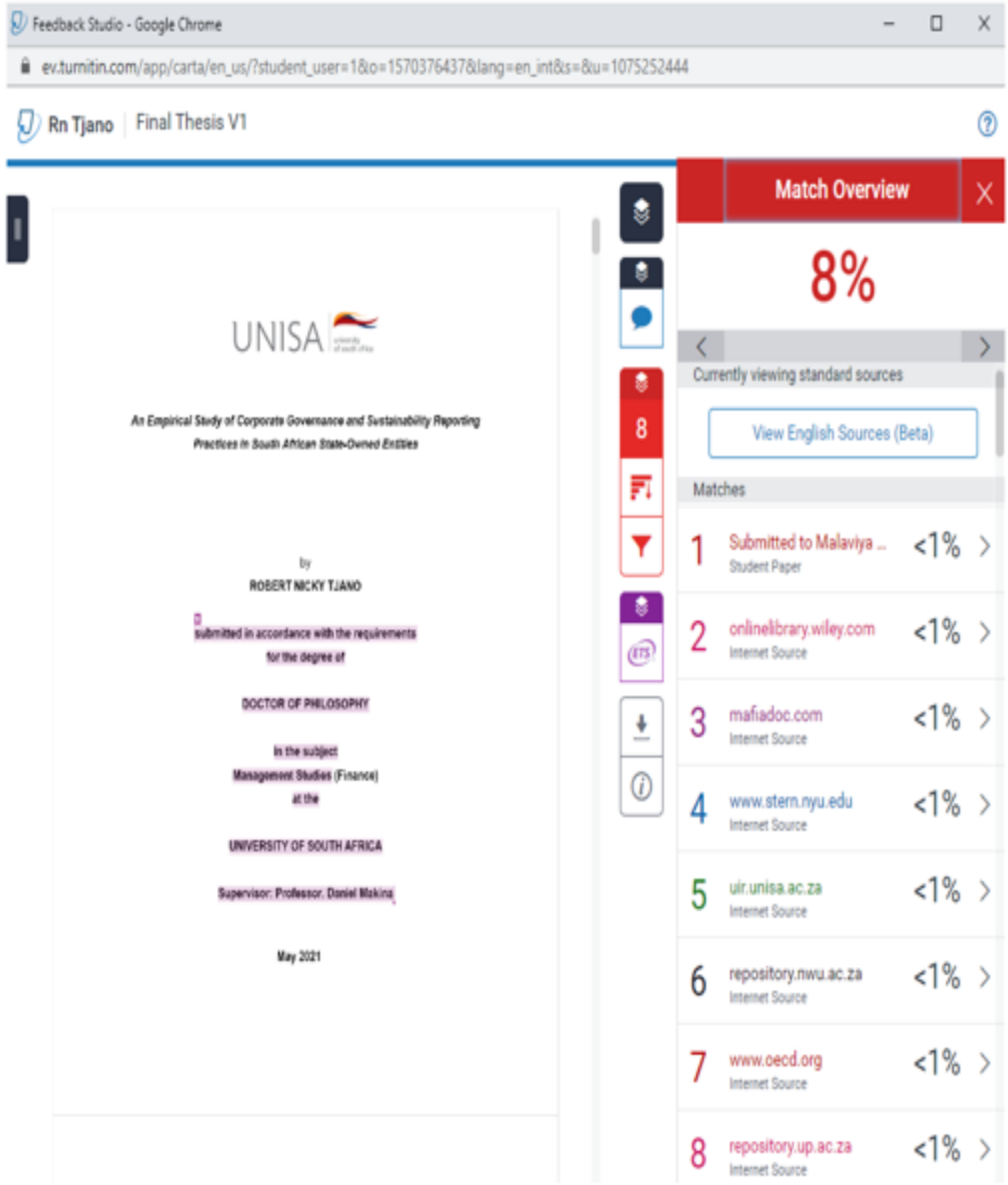
APPENDIX A: TURNITIN REPORT



APPENDIX B: ETHICS APPROVAL

UNISA university of south africa

UNISA DEPARTMENT OF FINANCE, RISK MANAGEMENT AND BANKING ETHICS REVIEW COMMITTEE

Date: 18 February 2020

ERC Ref #2020/CEMS/FRMB/001
Name : Mr RN Tjano
Student #: 34727787
Staff #:

Dear Mr RN Tjano

Decision: Ethics Approval from 18 February 2020 to 31 March 2026

Researcher(s): Name MR RN Tjano

E-mail address tjanorn.unisa.ac.za, telephone 012 429 6008

Supervisor (s): Name Prof D Makina
E-mail address makind@unisa.ac.za, telephone 012 429 4832

Working title of research:

An empirical study of corporate governance practices in South Africa state-owned entities

Qualification: PHD

Thank you for the application for research ethics clearance by the Unisa DFRB Ethics Review Committee for the above mentioned research. Ethics approval is granted for the period 18 February 2020 to 31 March 2026

*The **negligible risk application** was **reviewed** by the DFRB Ethics Review Committee on 18 February 2020 in compliance with the Unisa Policy on Research Ethics and the Standard Operating Procedure on Research Ethics Risk Assessment*

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APPENDIX C: CG and SR DISCLOSURE ITEMS

CG disclosure items (King report provisions)	SR disclosure items (GRI standards)
Board performance [10 principles]	**Social [19 items]**
Board meets every quarter [Principle 2.6.1.1]	Employment - GRI 401 [15] Labour/Management relationship - GRI 402 [5] Health and safety of employees (Occupational Health and Safety) HIV & AIDS- GRI 403 [50] Training and Education - GRI 404 [15] Diversity and equal opportunity (Governance bodies and employees - GRI 405 [10] Non-Discrimination - GRI 406 [5] Freedom of Association and Collective Bargaining GRI 407 [5] Child labour - GRI 408 [5] Forced or Compulsory Labour GRI 409 [5] Security Practices - GRI 410 [5] Rights of Indigenous people - GRI 411 [15] Human Rights Assessment - GRI 412 [15] Local Communities (Stakeholders engagement) GRI 413 [15] Supplier Social Assessment - GRI 414 [10] Public Policy - GRI 415 [5] Consumer Protection (Customer health and Safety and Privacy) - GRI 416 [10] Marketing and labelling - GRI 417 [15] Customer Privacy - GRI 418 [5] Socioeconomic Compliance - GRI 419 [5]
All committees meet at least twice a year [Principle 7, King III]	
The number of meetings is disclosed in the AR [Principle 2.6.1.2]	
The details of each director's attendance are disclosed in the AR [Principle 2.6.13.3]	
Chairperson of nomination committee attends 50% of annual general meetings [Principle 2.7.9]	
Chairperson of remuneration committee attends 50% of annual general meetings [Principle 2.7.9]	
Chairperson of audit committee attends 50% of annual general meetings [Principle 2.7.9]	
Performance of board members is evaluated on a regular basis [Par 109-114]	
Board members are inducted [Principle 89-90]	
The resignation of board members is disclosed [Principle 2.8.1]	
Board Composition [24 principles]	**Economic [5 items]**
Company is governed by a unitary board of directors. [Principle 2.1.2]	Economic performance -GRI 201 [4] Market presence-GRI 202 [10] Indirect Economic Impacts -GRI 203 [10] Procurement practices -GRI 204 [5] Anti-Corruption -GRI 205 [15] Anti-Competitive Behaviour -GRI 206 [5] Tax - GRI 207 [20]
The number of board members (board size) is disclosed in the AR [Principle 2.1.10; 2.18.4]	
Finance director or Chief Financial Officer is member of the board [Principle, Chapter 2 King III]	
Qualifications and experience of directors is satisfactorily disclosed [Chapter 2 King III]	
Women are represented on the board [Principle 2.18.4, King IV]	
Board is comprised of both executive and non-executive directors. [Principle 2.1.3]	
Majority of members are non-executive directors [Principle 2.2.8]	
Board is chaired by a non-executive independent director. [Principle 2.2.2 and 2.7.7, King III]	

When CEO and chairperson are combined, independent director is appointed as deputy chairperson. [Principle 2.3.1]	
The CEO is a board member. [Principle 2.3.1]	
Board is assisted by a competent, suitably qualified and experienced company secretary. [Principle 2.10.1]	
Nomination committee exists [Principle 2.2.2]	**Environmental [8 items]**
Nomination committee is comprised of at least 3 non-executive directors [Principle 2.2.2]	Materials - GRI 301 [15] Energy - GRI 302 [25] Water and Effluents - GRI 303 [10] Biodiversity - GRI 304 [20] Carbon Emissions - GRI 305 [35] Waste Disposal - GRI 306 [25] Environmental compliance - GRI 307 [5] Supplier Environmental Assessment - GRI 308 [10]
Independent non-executive director chair the nomination committee [Principle 2.2.2]	
Remuneration committee exists [Principle 2.5.3]	
Remuneration committee is comprised of non-executive directors and majority are independent [Principle 2.5.2]	
Independent non-executive director chair the remuneration committee [Principle 2.5.4]	
Audit committee exists [Principle 2.2.2]	
Audit committee is comprised of non-executive directors and majority are independent [Principle 2.2.2]	
Independent non-executive director chair the audit committee [Principle 2.2.2]	
Chairman is not a member of the audit committee	
Social committee exists [Principle 7, King IV]	
Social committee is comprised of non-executive directors and majority are independent [Principle 7	
Independent non-executive director chair the social committee [Principle 7]	

APPENDIX D: DISCLOSURE SCORES FOR SR PERFORMANCE INDICATORS

	SocD				EcoD			EnvD		
	Average performance	**Actual score**	**Total Expected (Desired) Score**	**Shortfall**	**Average performance**	**Actual score**	**Shortfall**	**Average performance**	**Actual score**	**Shortfall**
ATNS	0.26	3.92	15.00	11.08	0.36	5.38	9.62	0.03	0.39	14.61
ACSA	0.17	2.62	15.00	12.39	0.39	5.88	9.12	0.19	2.86	12.14
Alexkor Ltd	0.36	5.40	15.00	9.61	0.45	6.72	8.28	0.09	1.32	13.68
CEF	0.41	6.12	15.00	8.88	0.45	6.74	8.26	0.09	1.31	13.69
DENEL (Pty) Ltd	0.43	6.45	15.00	8.55	0.55	8.32	6.68	0.37	5.52	9.48
Eskom	0.46	6.83	15.00	8.18	0.56	8.42	6.58	0.55	8.18	6.82
SAA	0.50	7.51	15.00	7.49	0.65	9.77	5.23	0.45	6.70	8.30
SABC	0.51	7.63	15.00	7.38	0.73	10.93	4.07	0.42	6.30	8.70
Telkom SA Ltd	0.50	7.52	15.00	7.49	0.52	7.86	7.14	0.49	7.34	7.66
TCTA	0.45	6.82	15.00	8.19	0.48	7.18	7.82	0.30	4.45	10.55
Transnet Ltd	0.38	5.67	15.00	9.33	0.57	8.51	6.49	0.26	3.89	11.11
Average	0.40	6.04	15.00	8.96	0.52	7.79	7.21	0.29	4.39	10.61
Expected performance/ year	**11.00**	**165.00**			**11.00**	**165.00**		**11.00**	**165.00**	
Actual performance	**4.43**	**66.46**			**5.71**	**85.71**		**3.22**	**48.26**	
Performance%	**40%**	**40%**			**52%**	**52%**		**29%**	**29%**	

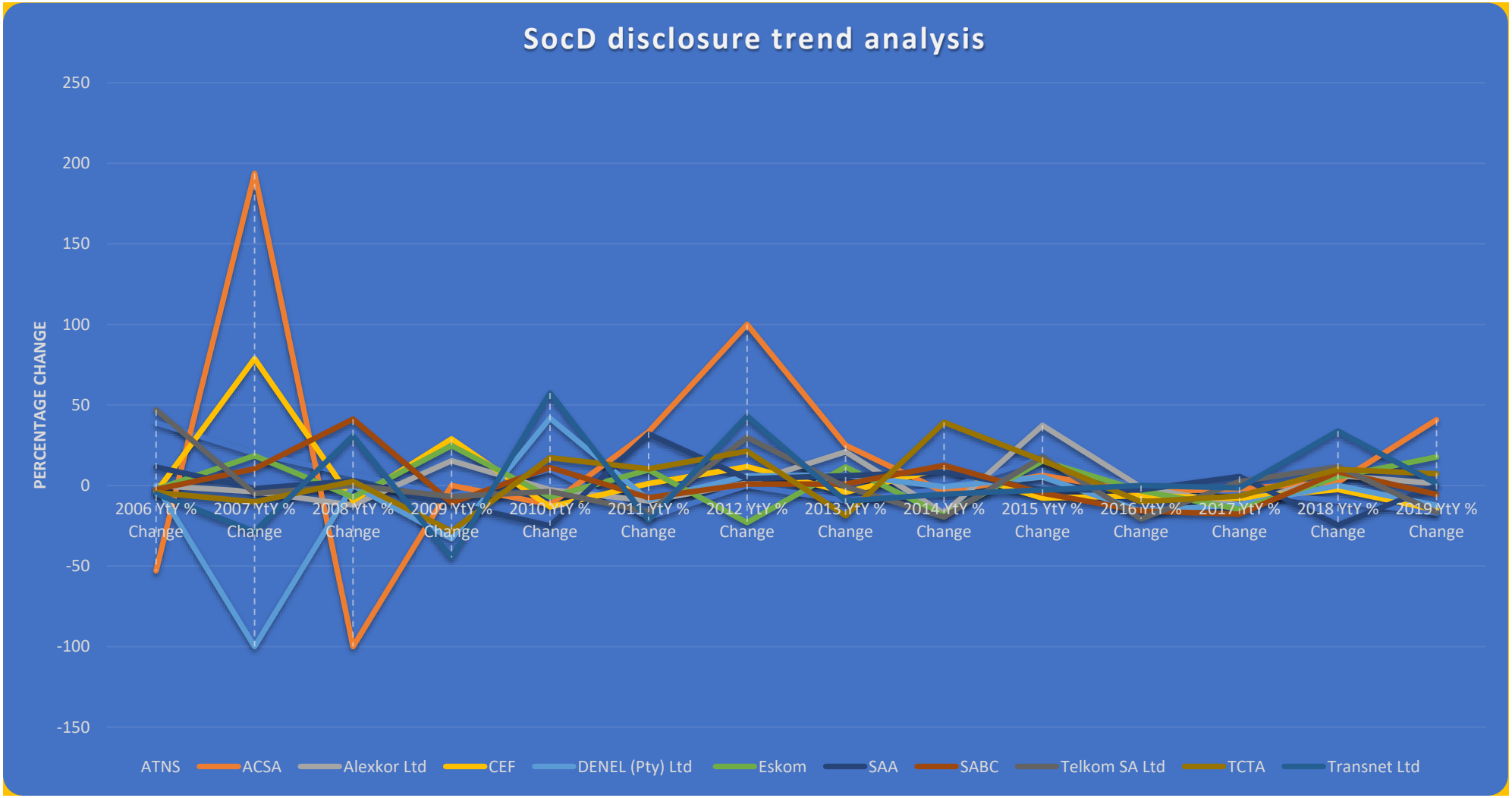
APPENDIX E: CG ADHERENCE PERFORMANCE

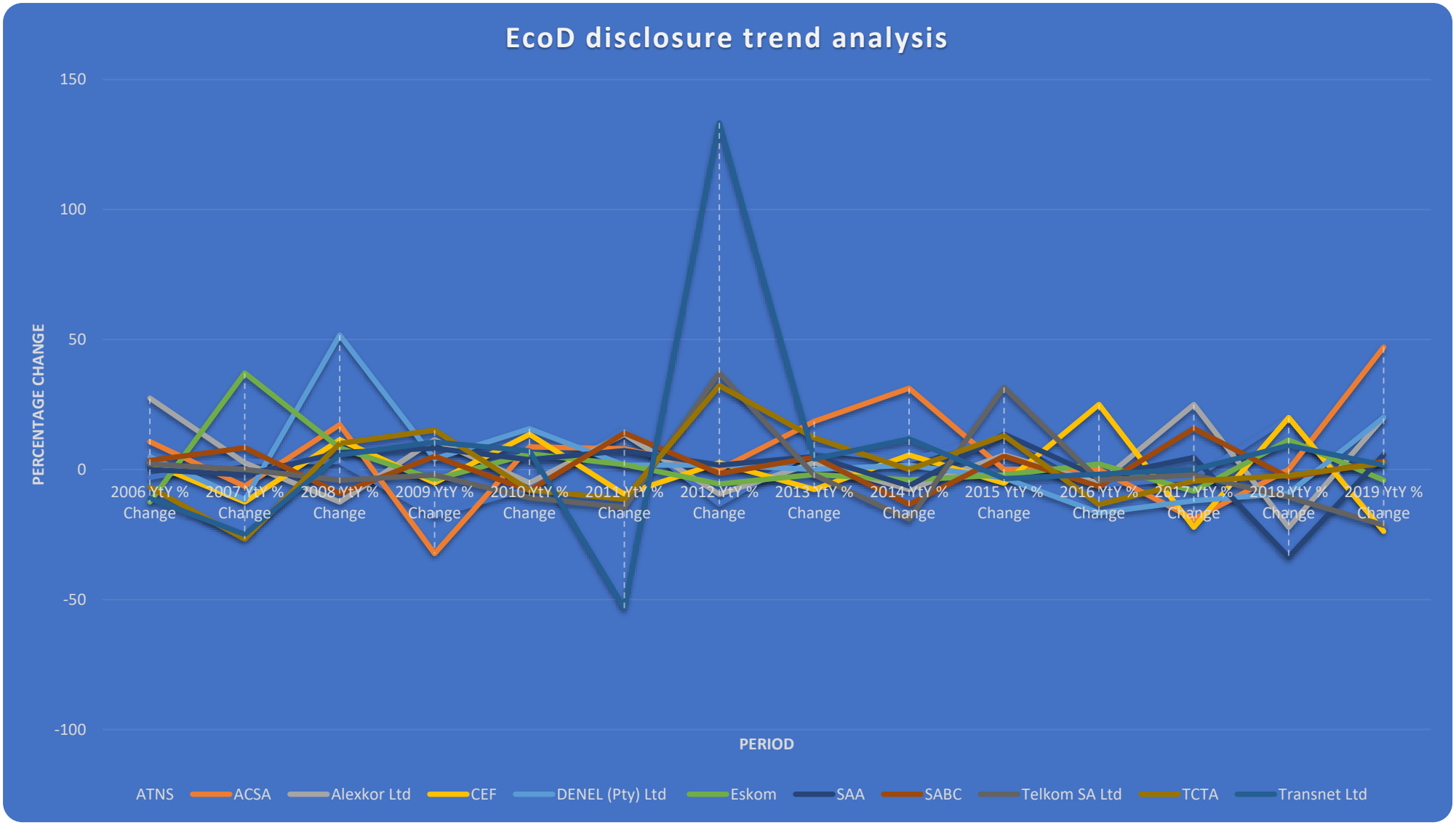
Adherence disclosure performance on King III & IV provisions																No of times 100% was achieved (per year)	Level of Adherence (performance %)	Performance label (based of level of adherence)
Provisions	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**			
Board meets at least quarterly (4 times a year)	100	100	100	100	91	100	100	100	100	91	91	91	100	100	100	11	73	Good
All committees meet at least twice a year	82	91	82	82	73	73	91	55	73	73	73	55	82	91	91	0	0	Poor
Number of meetings are disclosed in AR	100	100	100	91	91	100	100	100	100	100	100	100	100	100	100	13	87	Excellent
Each director's attendance is disclosed in the AR	91	91	100	91	91	100	100	91	91	100	91	100	91	100	100	7	47	Average
NC Chair attends 50% of meetings	55	36	36	45	36	73	55	73	64	82	73	82	82	91	82	0	0	Poor
RC Chair attends 50% of meetings	73	55	55	45	55	64	64	82	82	91	82	91	91	100	100	2	13	Poor
AC Chair attends 50% of meetings	82	82	82	82	91	100	91	100	100	91	100	91	91	100	100	6	40	Low
Annual board performance evaluation was done	64	45	55	55	55	64	73	64	91	91	91	82	100	91	100	2	13	Poor
Board members are inducted	82	64	64	73	73	73	91	73	100	91	91	91	73	55	82	1	7	Poor
Resignation of board members is disclosed	91	91	100	100	91	91	82	100	100	82	91	91	91	91	82	4	27	Low
Unitary board system	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	15	100	Excellent
BS is disclosed	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	15	100	Excellent
Finance Director or CFO is a board member	64	45	55	55	64	64	64	64	64	73	73	73	73	82	82	0	0	Poor
Qualifications and experience are disclosed	91	91	82	82	91	91	82	73	73	82	100	91	82	91	91	1	7	Poor
Women constitute 40% of board members	27	45	45	27	27	36	45	36	64	45	45	64	36	27	55	0	0	Poor
Board is comprised of both executive and NEDs	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	15	100	Excellent
Majority of board members are NEDs	100	100	100	91	91	100	100	100	100	100	100	100	100	100	100	13	87	Excellent
Board is chaired by a NED(independent)	73	45	45	64	55	64	64	82	82	73	82	73	82	73	82	0	0	Poor
independent director is appointed as deputy	55	36	36	45	36	73	55	73	50	65	84	73	100	83	100	2	13	Poor
CEO is a board member	91	100	100	100	100	100	100	100	100	100	91	100	91	100	100	12	80	Good
Company Secretary is disclosed	91	91	91	100	100	100	100	100	100	100	100	100	100	91	100	11	73	Good
NC exists	73	55	45	64	64	73	73	82	82	73	82	73	82	73	82	0	0	Poor
NC has at least 3 NEDs	73	45	45	64	55	64	64	82	82	73	82	73	82	73	82	0	0	Poor
NC is chaired by INED	73	45	45	64	55	64	64	73	73	64	73	73	82	73	82	0	0	Poor
RC exists	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	15	100	Excellent
RC has at least 3 NEDs	91	91	100	100	100	100	100	100	100	100	100	91	100	100	100	12	80	Good
RC is chaired by INED	91	82	91	100	100	100	100	91	91	82	82	100	91	91	100	6	40	Low
AC exists	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	15	100	Excellent
AC has at least 3 NEDs	100	91	100	100	100	100	100	91	100	100	100	91	100	100	100	12	80	Good
AC is chaired by INED	100	91	91	100	100	100	91	73	91	82	55	91	100	100	100	7	47	Average
Board Chair is not a member of AC	100	73	91	91	91	91	91	91	91	91	82	100	91	82	100	3	20	Poor
SC exists	36	27	27	18	18	27	36	73	91	82	100	91	91	100	100	3	20	Poor
SC has at least 3 NEDs	36	27	27	18	18	27	36	64	91	82	91	91	91	100	100	2	13	Poor
SC is chaired by INED	36	18	27	18	18	27	36	45	73	73	82	91	91	100	100	2	13	Poor
No of times 100% was achieved (per provision)	**11**	**9**	**13**	**13**	**11**	**16**	**14**	**13**	**15**	**12**	**13**	**12**	**14**	**18**	**23**		**5**	
Level of Adherence (performance %)	**34**	**28**	**41**	**41**	**34**	**50**	**44**	**41**	**47**	**38**	**41**	**38**	**44**	**56**	**72**			**Poor**
Performance label (based of level of adherence)	**Low**	**Low**	**Average**	**Average**	**Low**	**Average**	**Average**	**Average**	**Average**	**Low**	**Average**	**Low**	**Average**	**Average**	**Good**		**15**	

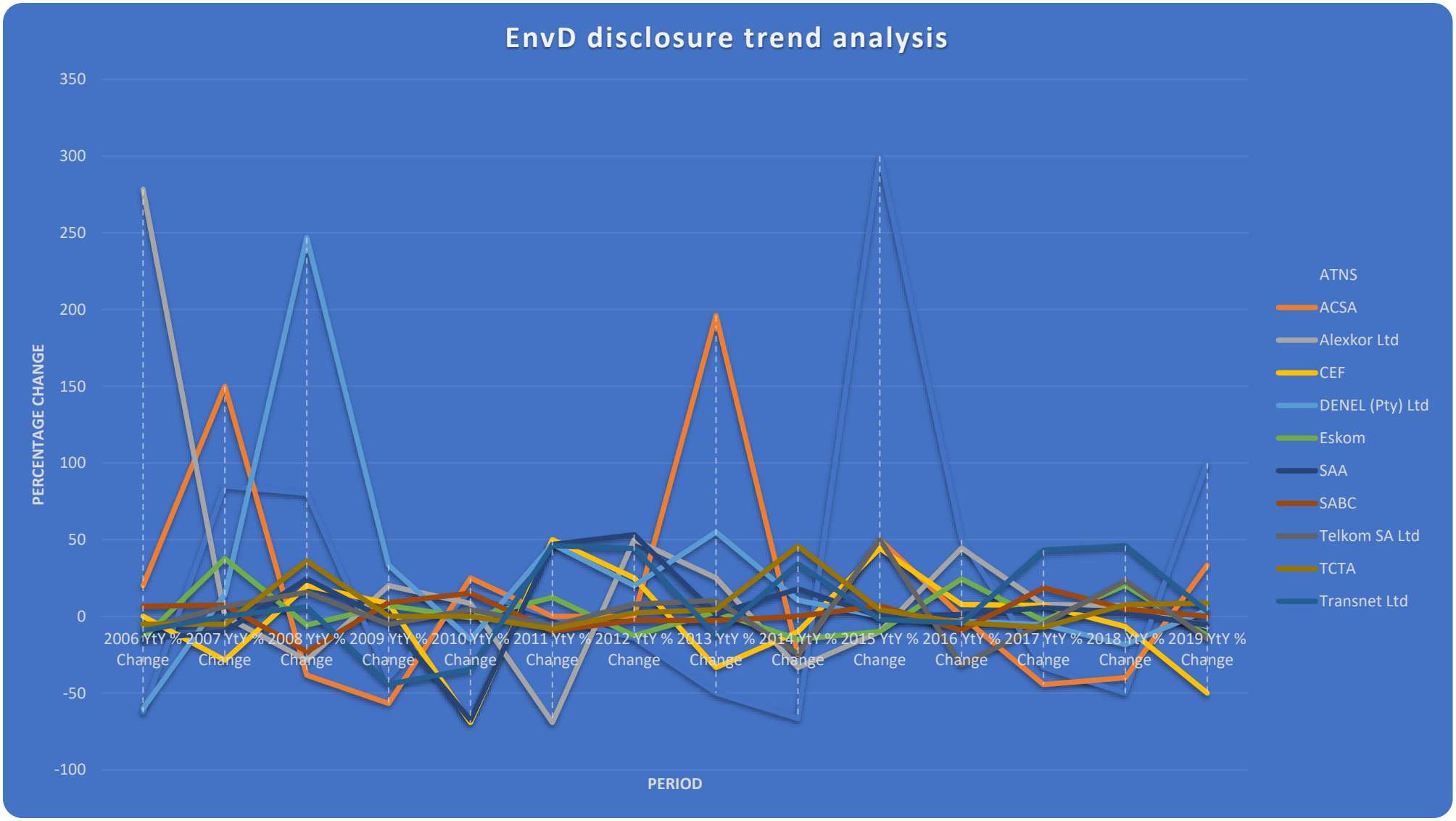
APPENDIX F: SR INDICATORS ADHERENCE PERFORMANCE

Adherence performance on GRI Standards																No of times 100% was achieved (per year)	Level of Adherence (performance %)	Performance label (based of level of adherence)
GRI Standards	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019			
Employment - GRI 401 [15]	37	45	45	51	50	51	48	50	49	52	50	47	48	48	50	48	0	Poor
Labour/Management relationship - GRI 402 [5]	19	24	26	18	29	40	36	47	36	38	36	24	40	29	25	31	0	Poor
Health and safety of employees (Occupational Health and Safety) HIV & AIDS- GRI 403 [50]	31	45	53	60	55	64	60	61	64	60	67	61	55	60	54	57	0	Poor
Training and Education - GRI 404 [15]	38	48	55	61	58	50	55	58	60	56	56	54	58	58	63	55	0	Poor
Diversity and equal opportunity (Governance bodies and employees - GRI 405 [10]	51	60	59	55	58	59	54	60	65	65	68	65	66	60	65	61	0	Poor
Non-Discrimination - GRI 406 [5]	5	5	5	7	4	2	7	4	4	15	15	11	9	19	18	9	0	Poor
Freedom of Association and Collective Bargaining GRI 407 [5]	7	13	20	20	22	22	18	15	25	22	27	24	20	19	21	20	0	Poor
Child labor - GRI 408 [5]	2	4	5	7	11	7	9	7	13	15	15	11	9	14	5	9	0	Poor
Forced or Compulsory Labour GRI 409 [5]	2	9	6	7	11	7	11	7	7	11	13	11	7	14	11	9	0	Poor
Security Practices - GRI 410 [5]	5	16	15	11	9	4	2	5	13	16	16	16	16	15	15	12	0	Poor
Rights of Indigenous people - GRI 411 [5]	15	16	16	20	18	16	9	11	15	13	16	15	16	14	11	15	0	Poor
Human Rights Assessment - GRI 412 [15]	23	22	25	30	25	23	27	25	25	25	28	24	25	26	27	25	0	Poor
Local Communities (Stakeholders engagement) -GRI 413 [15]	27	35	33	36	32	30	28	33	38	35	35	31	26	26	26	31	0	Poor
Supplier Social Assessment - GRI 414 [10]	40	35	34	43	29	30	35	42	41	39	45	45	39	34	41	38	0	Poor
Public Policy - GRI 415 [5]	11	15	26	29	25	16	24	29	27	33	31	29	22	19	27	24	0	Poor
Consumer Protection (Customer health and Safety and Privacy) - GRI 416 [10]	40	47	52	42	34	37	33	45	48	50	57	52	40	40	43	44	0	Poor
Marketing and labelling - GRI 417 [15]	29	32	32	32	30	30	27	32	28	34	39	34	30	32	31	31	0	Poor
Customer Privacy - GRI 418 [5]	13	13	12	18	9	13	7	13	13	18	20	15	15	16	16	14	0	Poor
Socioeconomic Compliance - GRI 419 [5]	33	38	37	38	44	53	44	44	45	49	47	44	42	37	39	42	0	Poor
Economic performance -GRI 201 [4]	49	55	48	51	58	53	54	58	61	60	63	61	60	58	55	56	0	Poor
Market presence-GRI 202 [10]	35	38	32	38	35	39	35	35	45	45	50	45	45	40	45	40	0	Poor
Indirect Economic Impacts -GRI 203 [10]	58	63	60	61	66	67	63	70	67	67	69	66	63	53	55	63	0	Poor
Procurement practices -GRI 204 [5]	49	55	61	60	69	65	71	71	62	65	67	67	67	70	63	64	0	Poor
Anti-Corruption -GRI 205 [15]	37	44	45	50	48	47	47	59	60	55	61	61	57	59	65	53	0	Poor
Anti Competitive Behaviour -GRI 206 [5]	35	27	38	35	31	29	33	33	38	36	38	29	35	34	42	34	0	Poor
Tax - GRI 207 [20]	39	40	32	36	44	51	46	49	49	50	51	50	49	47	46	45	0	Poor
Materials - GRI 301 [15]	38	37	36	35	36	28	28	26	36	37	46	45	42	42	45	37	0	Poor
Energy - GRI 302 [25]	25	31	32	39	38	33	37	41	44	48	51	49	46	49	46	41	0	Poor
Water and Effluents - GRI 303 [10]	31	37	33	35	36	31	34	35	48	41	45	42	41	47	48	39	0	Poor
Biodiversity - GRI 304 [20]	43	46	51	50	50	48	41	45	49	44	50	48	50	56	57	48	0	Poor
Carbon Emissions - GRI 305 [35]	26	28	31	34	35	34	24	31	30	34	38	34	35	40	45	33	0	Poor
Waste Disposal - GRI 306 [25]	19	30	36	34	28	28	27	25	32	36	29	31	39	40	37	31	0	Poor
Environmental compliance - GRI 307 [5]	32	51	47	51	49	51	49	56	65	58	60	62	56	58	57	54	0	Poor
Supplier Environmental Assessment - GRI 308 [10]	28	29	31	34	33	28	26	35	39	37	39	41	37	41	39	35	0	Poor
No of times 100% was achieved (per provision)	29	33	34	36	36	35	34	37	40	40	42	40	38	39	39	37	0	Poor
Level of Adherence (performance %)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		
Performance label (based of level of adherence)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	Poor
	Poor	Poor	Poor	Poor	Poor	Poor	Poor	Poor	Poor	Poor	Poor	Poor	Poor	Poor	Poor			

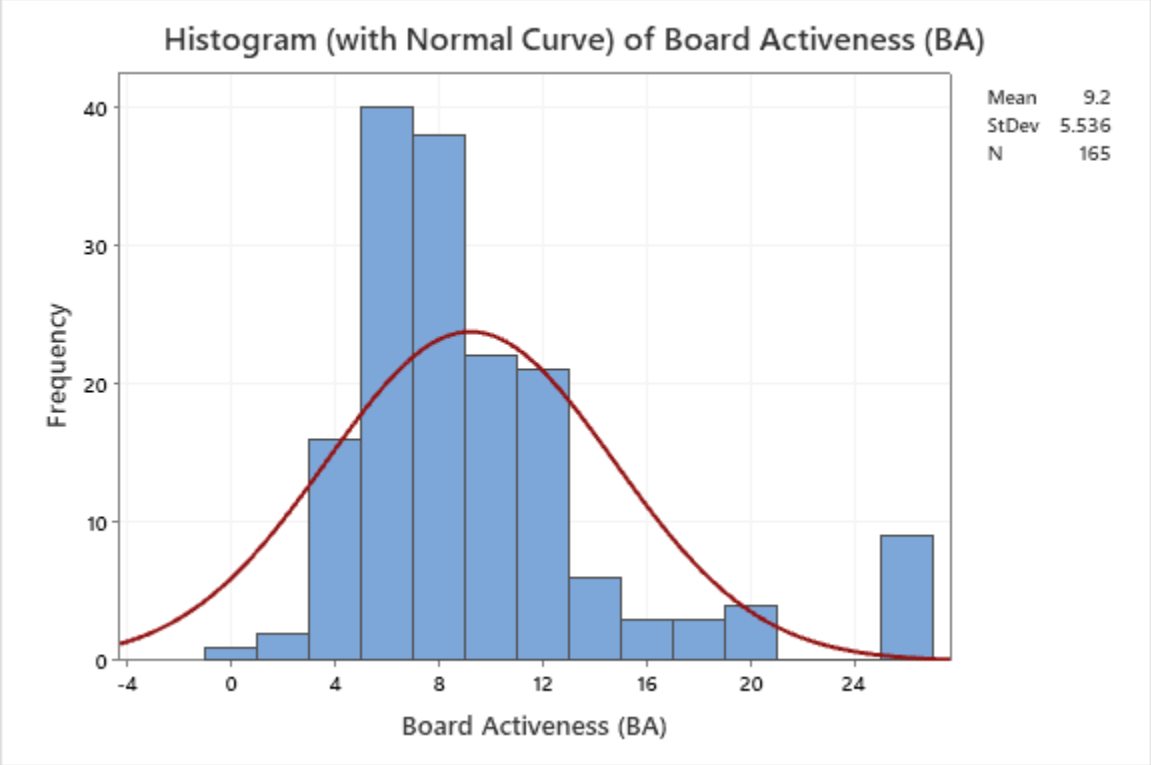
APPENDIX G: SR INDICATORS' DISCLOSURE TREND ANALYSIS – SOCD, ECOD AND ENVD

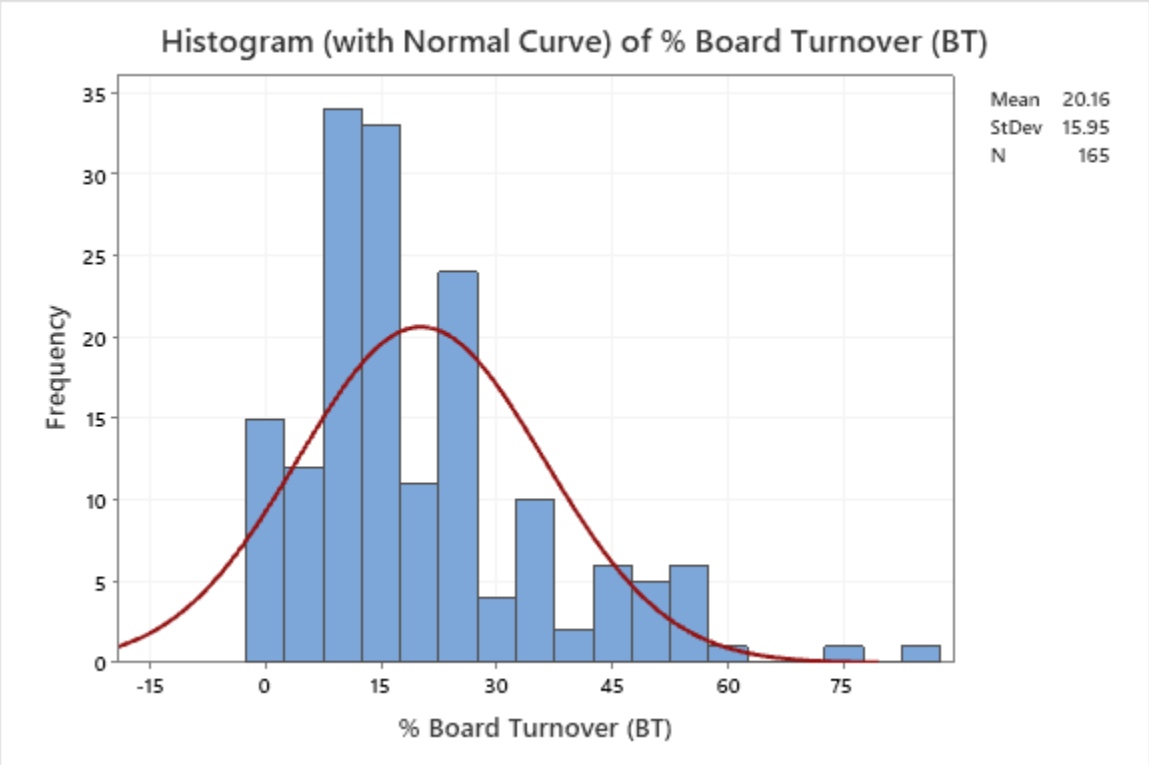


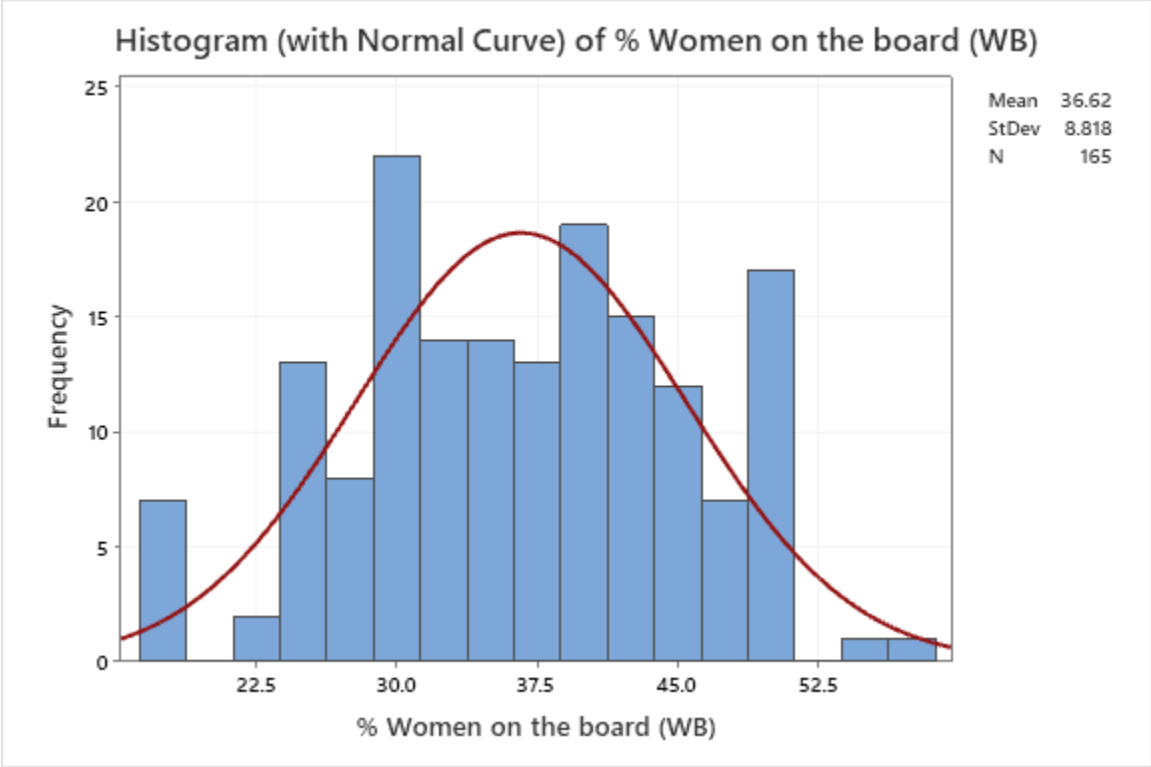

EcoD disclosure trend analysis
150
100
50
0
-50
-100
PERCENTAGE CHANGE
2006 YtY % Change
2007 YtY % Change
2008 YtY % Change
2009 YtY % Change
2010 YtY % Change
2011 YtY % Change
2012 YtY % Change
2013 YtY % Change
2014 YtY % Change
2015 YtY % Change
2016 YtY % Change
2017 YtY % Change
2018 YtY % Change
2019 YtY % Change
PERIOD
ATNS
ACSA
Alexkor Ltd
CEF
DENEL (Pty) Ltd
Eskom
SAA
SABC
Telkom SA Ltd
TCTA
Transnet Ltd

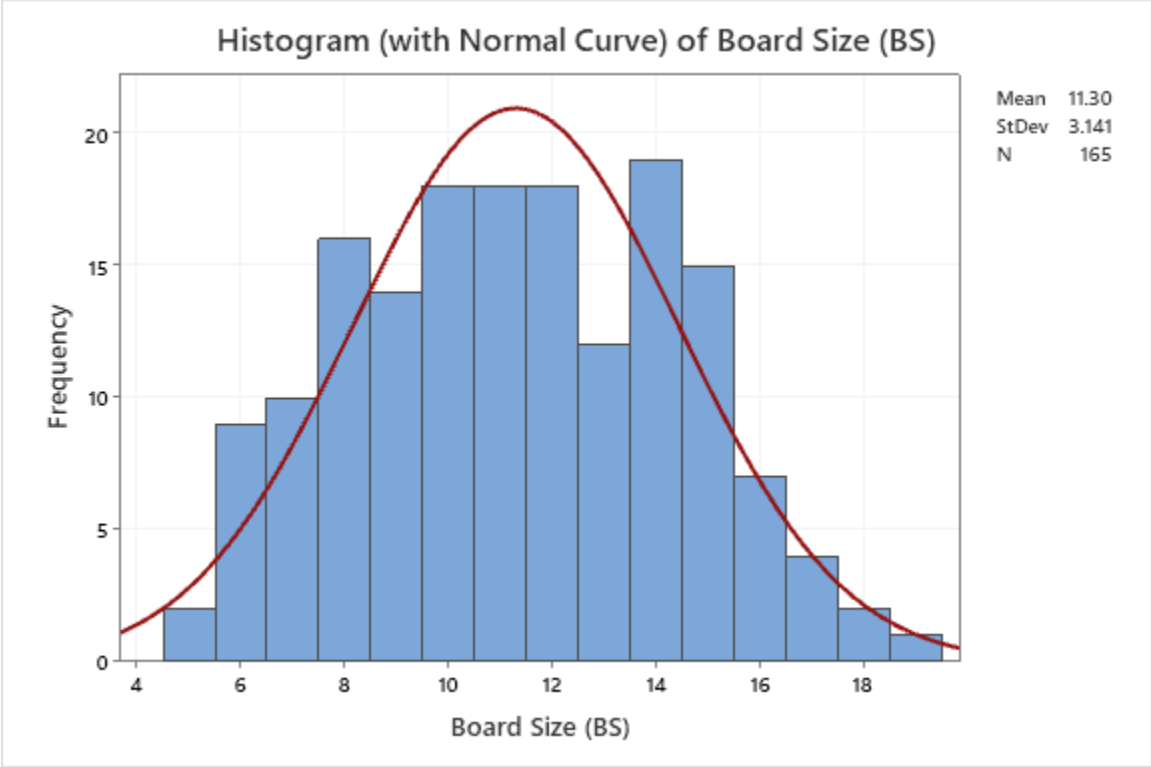

EnvD disclosure trend analysis
350
300
250
200
150
100
50
0
-50
-100
PERCENTAGE CHANGE
2006 YtY % Change
2007 YtY % Change
2008 YtY % Change
2009 YtY % Change
2010 YtY % Change
2011 YtY % Change
2012 YtY % Change
2013 YtY % Change
2014 YtY % Change
2015 YtY % Change
2016 YtY % Change
2017 YtY % Change
2018 YtY % Change
2019 YtY % Change
PERIOD
ATNS
ACSA
Alexkor Ltd
CEF
DENEL (Pty) Ltd
Eskom
SAA
SABC
Telkom SA Ltd
TCTA
Transnet Ltd

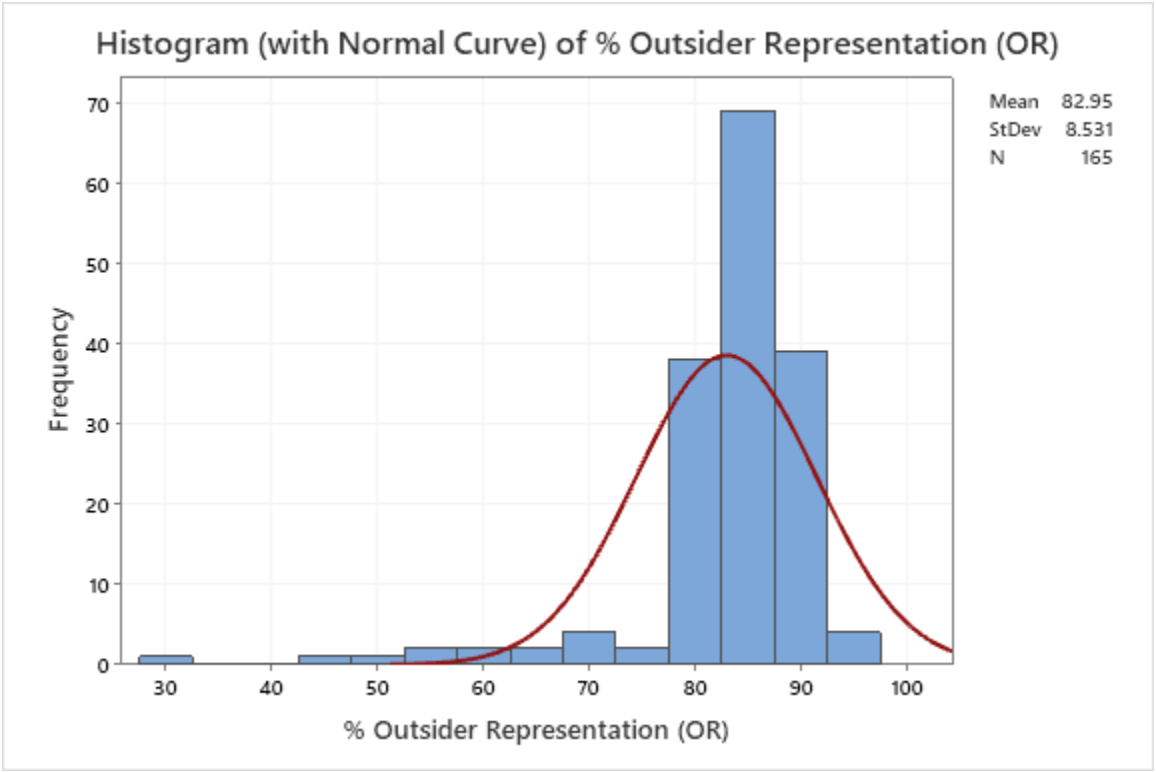
APPENDIX H: DESCRIPTIVE STATISTICS - HISTOGRAMS

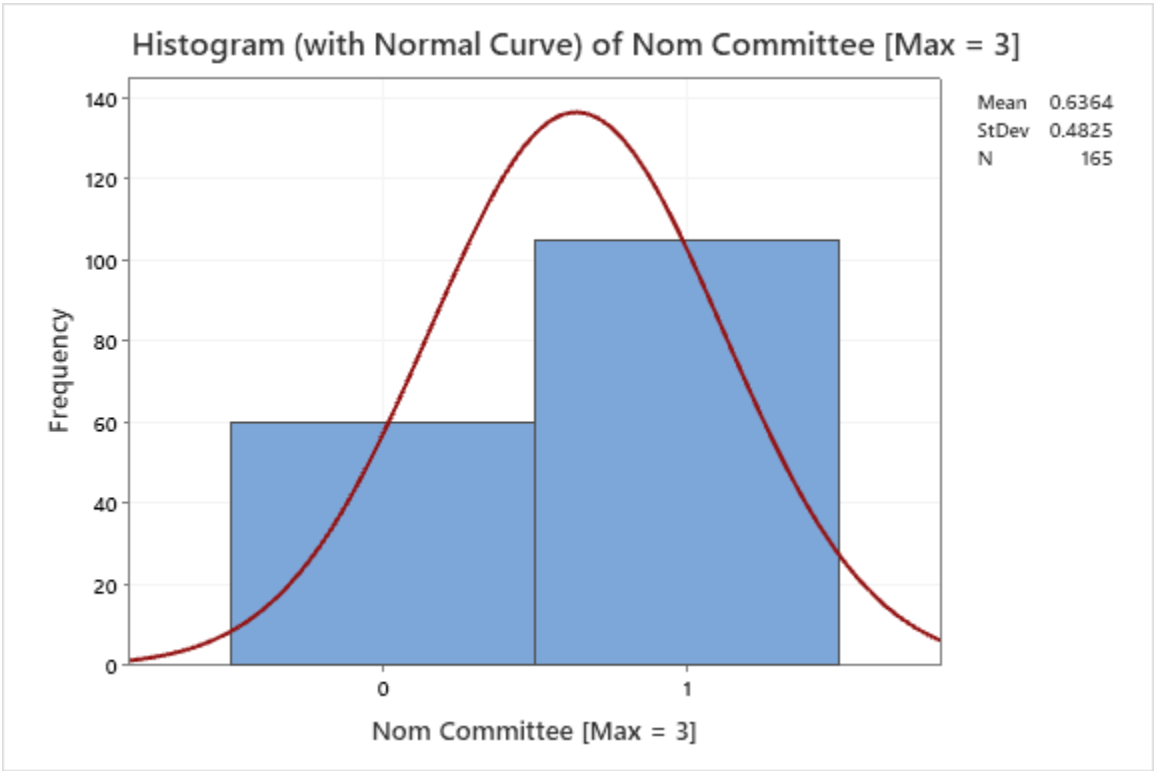


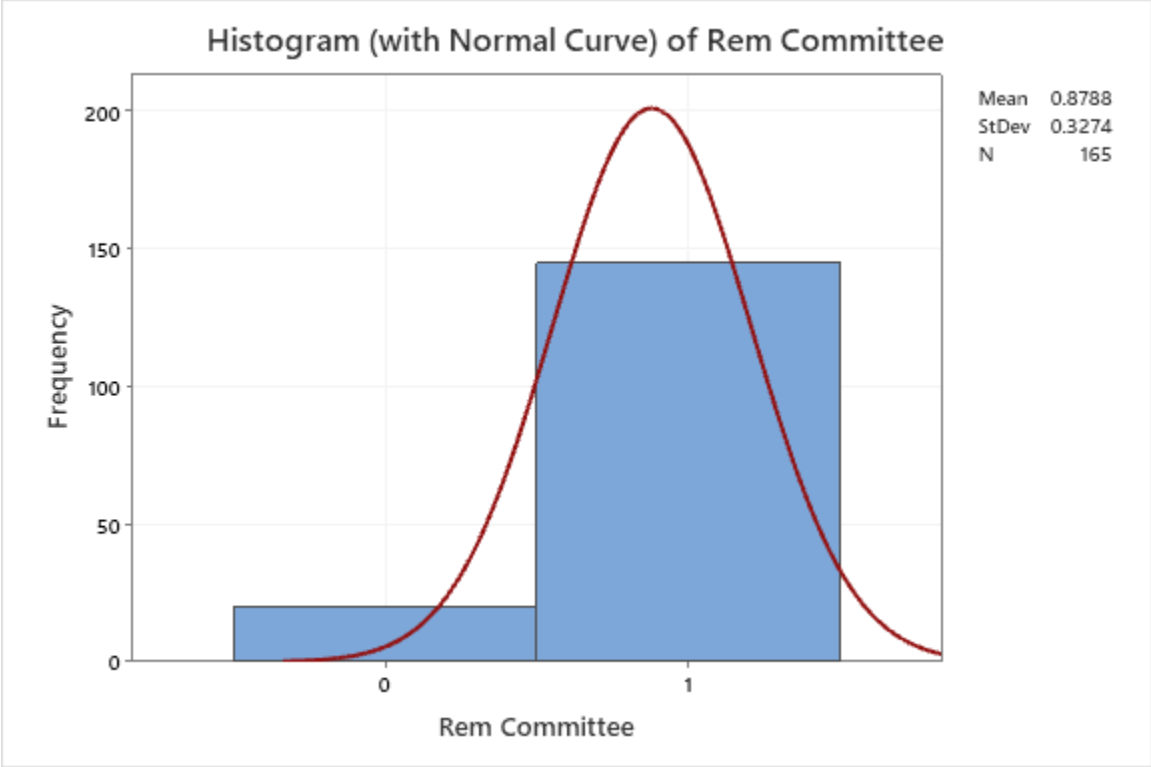


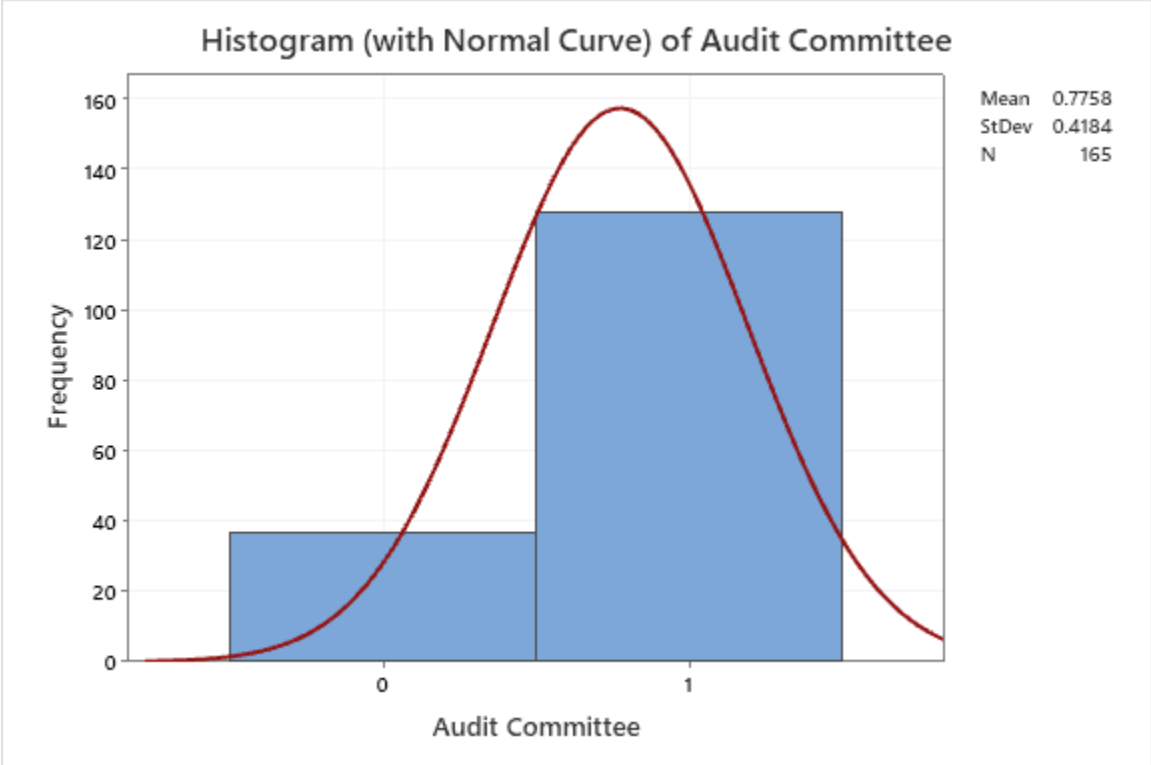

Histogram (with Normal Curve) of % Women on the board (WB)
Mean 36.62
StDev 8.818
N 165
Frequency
% Women on the board (WB)
0
5
10
15
20
25
22.5
30.0
37.5
45.0
52.5

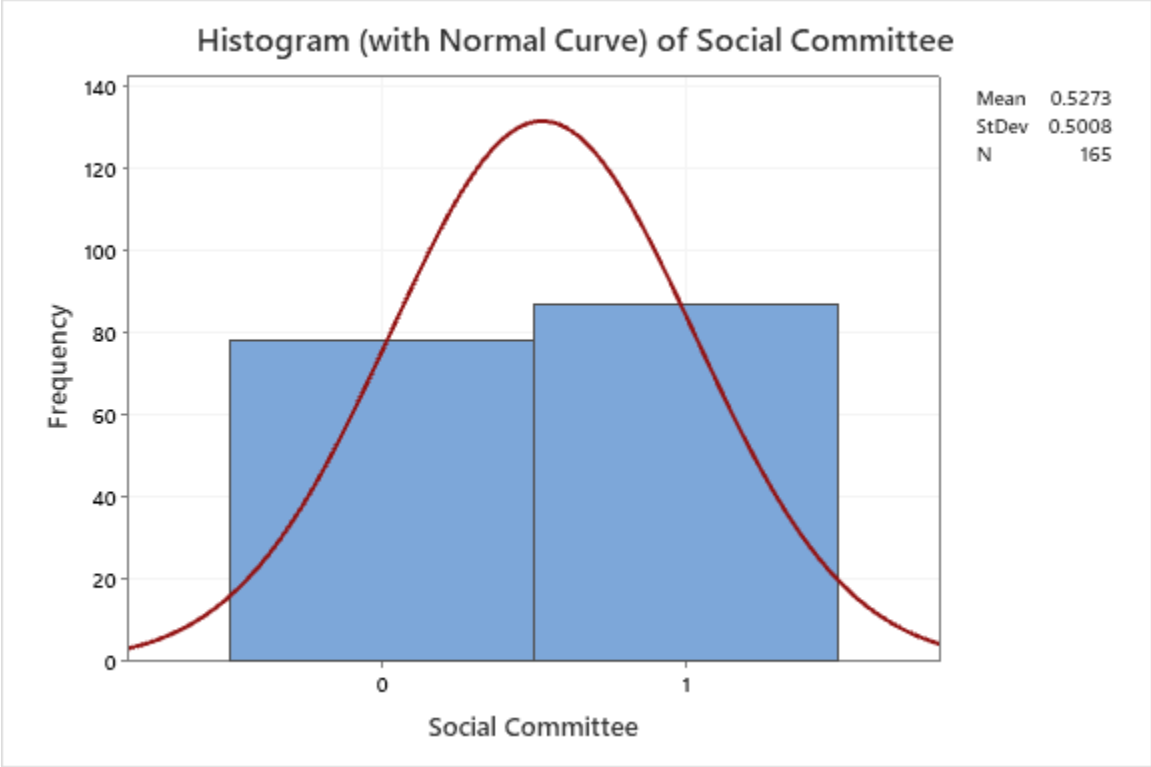

Histogram (with Normal Curve) of Board Size (BS)
Mean 11.30
StDev 3.141
N 165
Frequency
Board Size (BS)
0
5
10
15
20
4
6
8
10
12
14
16
18

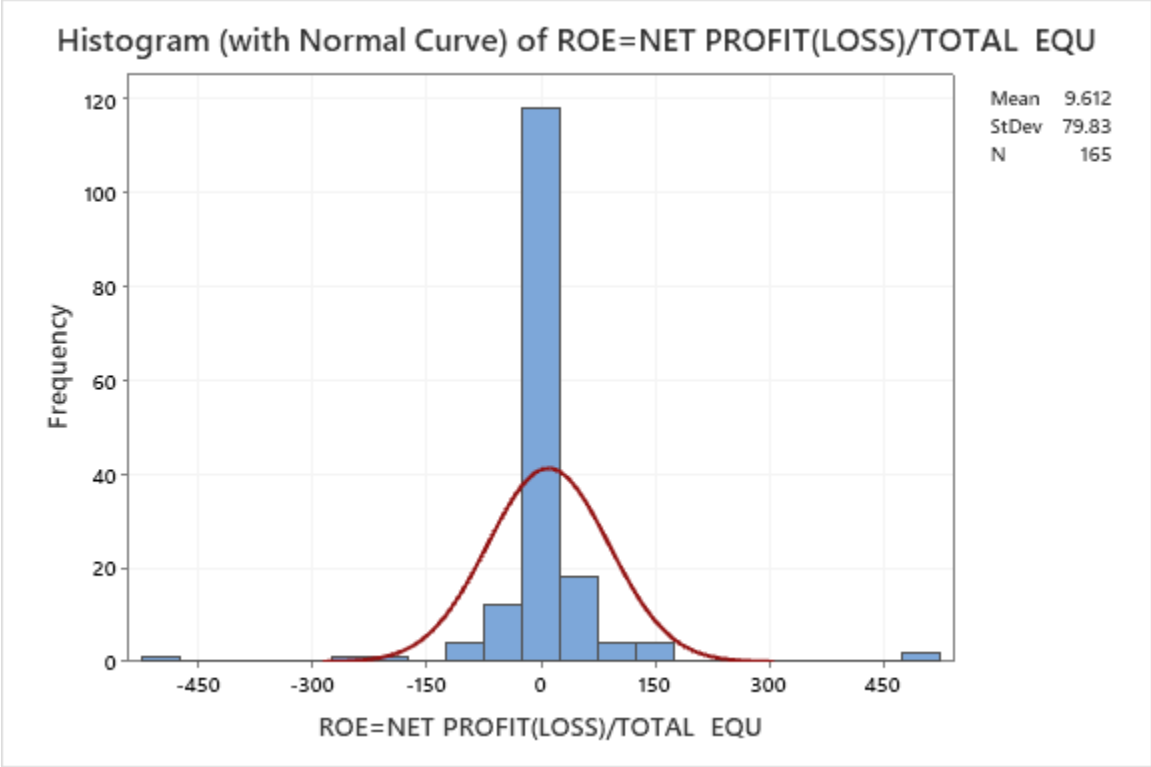

Histogram (with Normal Curve) of % Outsider Representation (OR)
Mean 82.95
StDev 8.531
N 165
Frequency
% Outsider Representation (OR)

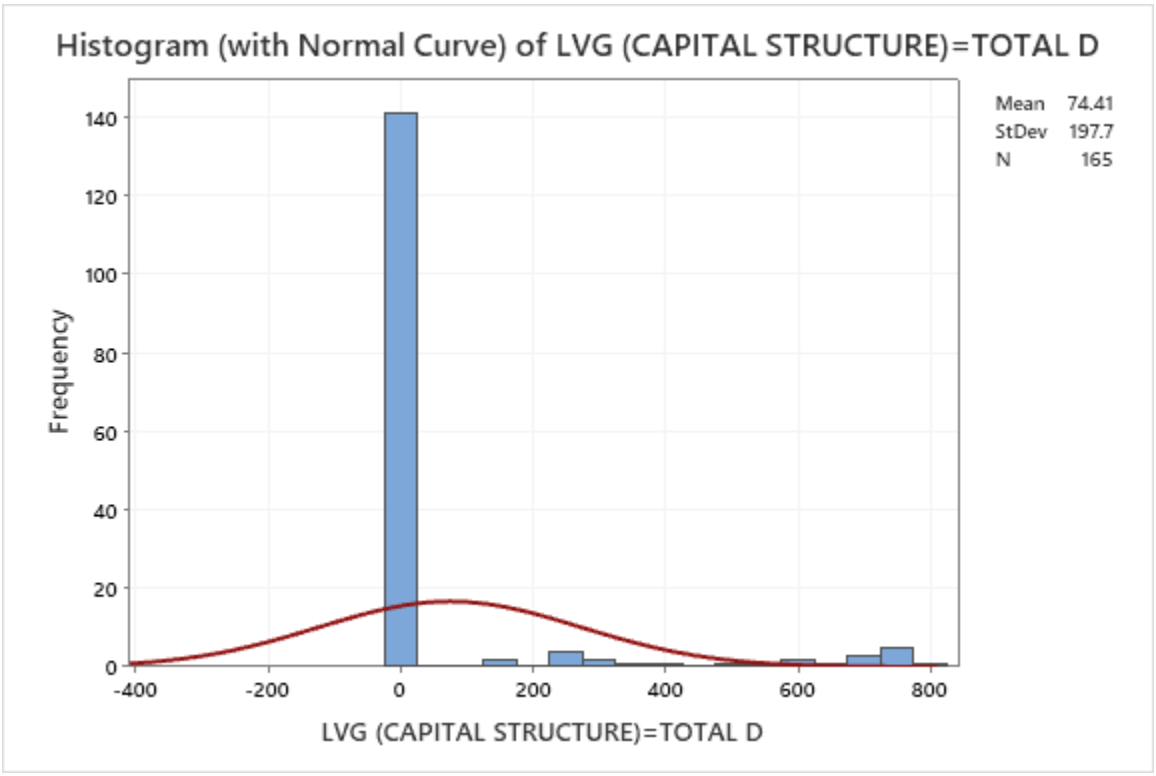

Histogram (with Normal Curve) of Nom Committee [Max = 3]
Mean 0.6364
StDev 0.4825
N 165
Frequency
Nom Committee [Max = 3]

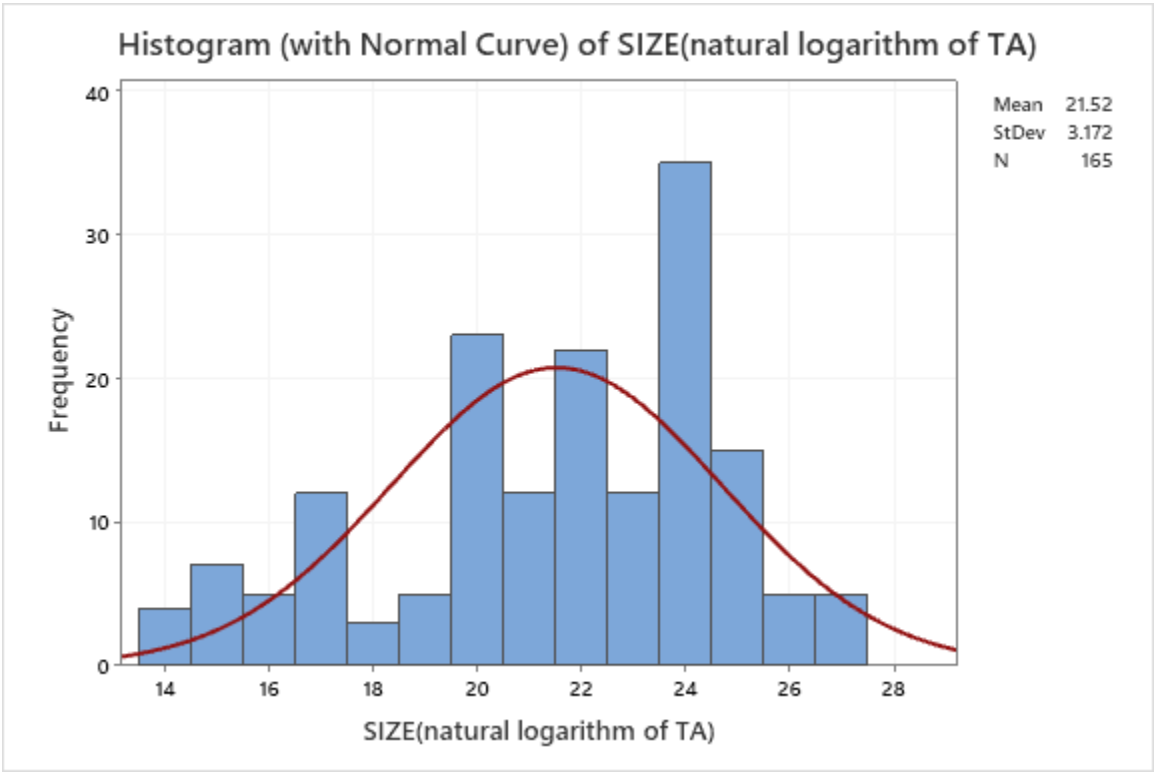

Histogram (with Normal Curve) of Rem Committee
Mean 0.8788
StDev 0.3274
N 165
Frequency
200
150
100
50
0
0
1
Rem Committee

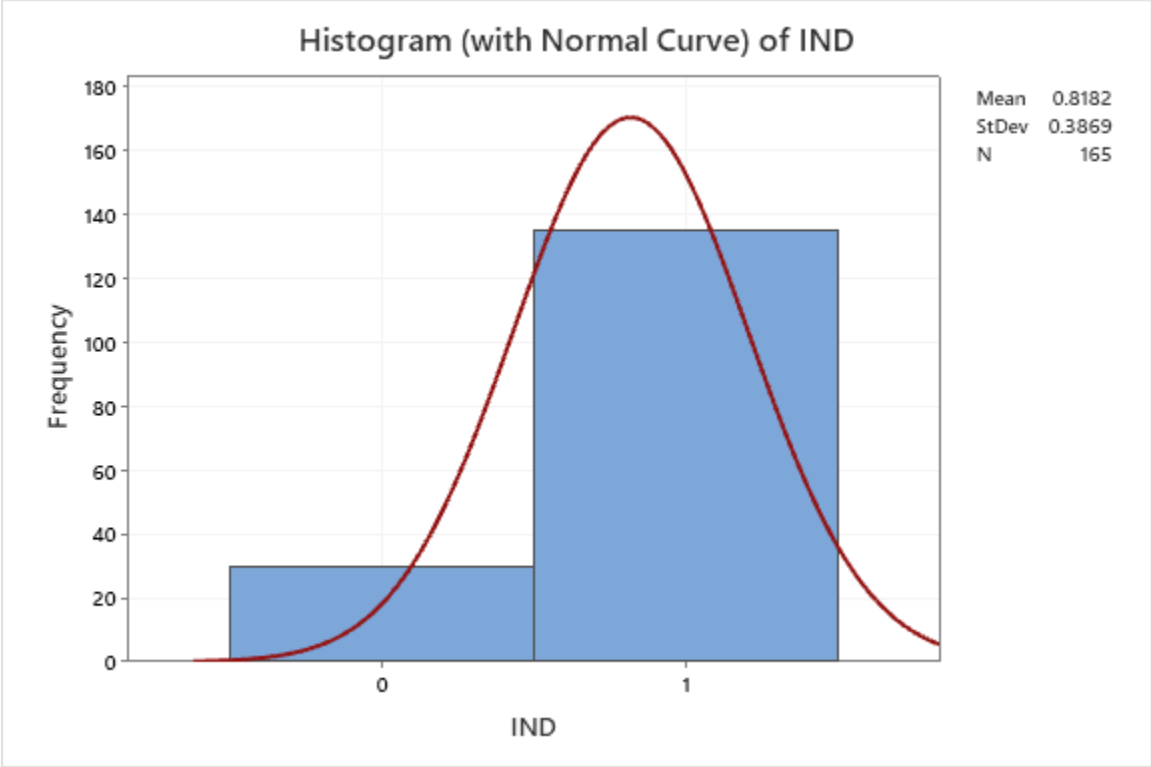

Histogram (with Normal Curve) of Audit Committee
Mean 0.7758
StDev 0.4184
N 165
Frequency
160
140
120
100
80
60
40
20
0
0
1
Audit Committee

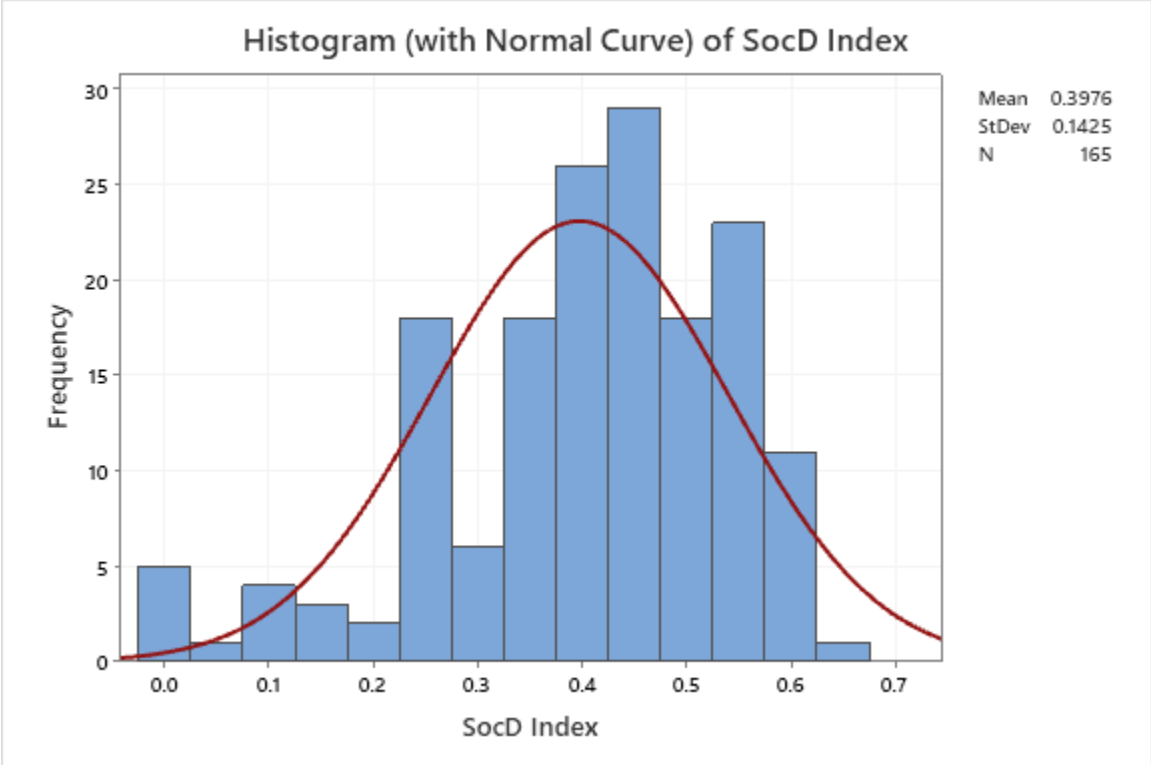

Histogram (with Normal Curve) of Social Committee
Mean 0.5273
StDev 0.5008
N 165
Frequency
140
120
100
80
60
40
20
0
0
1
Social Committee

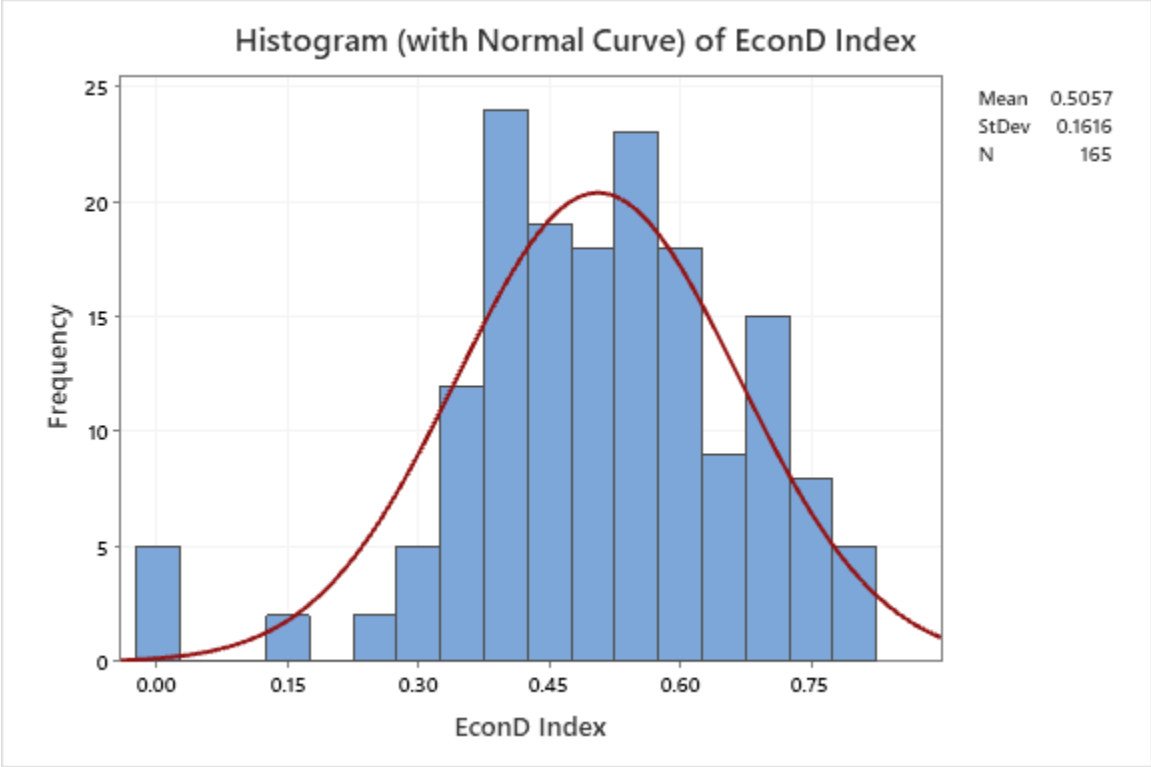

Histogram (with Normal Curve) of ROE=NET PROFIT(LOSS)/TOTAL EQU
Mean 9.612
StDev 79.83
N 165
Frequency
120
100
80
60
40
20
0
-450
-300
-150
0
150
300
450
ROE=NET PROFIT(LOSS)/TOTAL EQU

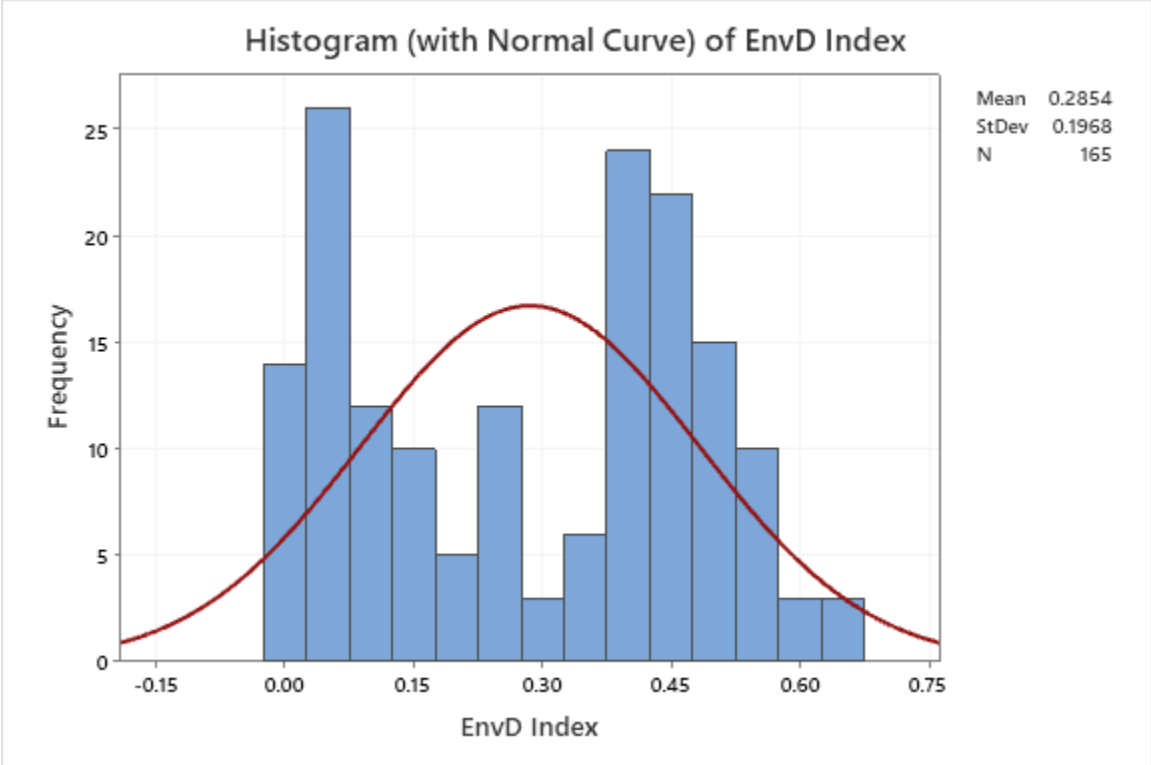

Histogram (with Normal Curve) of LVG (CAPITAL STRUCTURE)=TOTAL D
Mean 74.41
StDev 197.7
N 165
Frequency
LVG (CAPITAL STRUCTURE)=TOTAL D


Histogram (with Normal Curve) of SIZE(natural logarithm of TA)
Mean 21.52
StDev 3.172
N 165
Frequency
SIZE(natural logarithm of TA)


Histogram (with Normal Curve) of IND
Mean 0.8182
StDev 0.3869
N 165
Frequency
180
160
140
120
100
80
60
40
20
0
0
1
IND


Histogram (with Normal Curve) of SocD Index
Mean 0.3976
StDev 0.1425
N 165
Frequency
30
25
20
15
10
5
0
0.0
0.1
0.2
0.3
0.4
0.5
0.6
0.7
SocD Index


Histogram (with Normal Curve) of EconD Index
Mean 0.5057
StDev 0.1616
N 165
Frequency
EconD Index
0
5
10
15
20
25
0.00
0.15
0.30
0.45
0.60
0.75


Histogram (with Normal Curve) of EnvD Index
Mean 0.2854
StDev 0.1968
N 165
Frequency
EnvD Index
0
5
10
15
20
25
-0.15
0.00
0.15
0.30
0.45
0.60
0.75

APPENDIX I: REGRESSION RESULTS

SocD - Table 1

Analysis of Variance

Source	DF	Adj SS	Adj MS	F-Value	P-Value
Regression	14	1,21290	0,086636	12,80	0,000
BA	1	0,01792	0,017921	2,65	0,106
BT	1	0,00042	0,000424	0,06	0,803
WB	1	0,00328	0,003277	0,48	0,488
BS	1	0,08035	0,080346	11,87	0,001
OR	1	0,06278	0,062777	9,28	0,003
NC	1	0,01318	0,013177	1,95	0,165
RC	1	0,14150	0,141498	20,91	0,000
AC	1	0,00016	0,000161	0,02	0,878
SC	1	0,01983	0,019830	2,93	0,089
ROA	1	0,00035	0,000347	0,05	0,821
ROE	1	0,00006	0,000063	0,01	0,923
LVG	1	0,06096	0,060961	9,01	0,003
SIZE	1	0,07648	0,076484	11,30	0,001
IND	1	0,08968	0,089679	13,25	0,000
Error	128	0,86620	0,006767		
Total	142	2,07910			

Model Summary

S	R-sq	R-sq(adj)	R-sq(pred)
0,0822627	58,34%	53,78%	46,42%

Coefficients

Term	Coef	SE Coef	T-Value	P-Value	VIF
Constant	0,401	0,117	3,42	0,001	
BA	0,00248	0,00152	1,63	0,106	1,61
BT	0,000115	0,000460	0,25	0,803	1,20
WB	0,000586	0,000842	0,70	0,488	1,17
BS	0,00884	0,00257	3,45	0,001	1,41
OR	-0,002863	0,000940	-3,05	0,003	1,34
NC	0,0263	0,0188	1,40	0,165	1,48
RC	0,3586	0,0784	4,57	0,000	4,30
AC	0,0114	0,0737	0,15	0,878	4,17
SC	-0,0287	0,0168	-1,71	0,089	1,36
ROA	-0,000032	0,000140	-0,23	0,821	1,32
ROE	0,000010	0,000105	0,10	0,923	1,28
LVG	0,000113	0,000038	3,00	0,003	1,32
SIZE	-0,00921	0,00274	-3,36	0,001	1,61
IND	-0,0833	0,0229	-3,64	0,000	1,70

Regression Equation

SocD_Index = 0,401 + 0,00248 BA + 0,000115 BT + 0,000586 WB + 0,00884 BS - 0,002863 OR + 0,0263 NC + 0,3586 RC + 0,0114 AC - 0,0287 SC - 0,000032 ROA + 0,000010 ROE + 0,000113 LVG - 0,00921 SIZE - 0,0833 IND

EcoD - Table 2

Analysis of Variance

Source	DF	Adj SS	Adj MS	F-Value	P-Value
Regression	14	2,01004	0,143575	14,20	0,000
BA	1	0,13078	0,130781	12,93	0,000
BT	1	0,00710	0,007096	0,70	0,404
WB	1	0,00412	0,004124	0,41	0,524
BS	1	0,19760	0,197600	19,54	0,000
OR	1	0,00291	0,002913	0,29	0,592
NC	1	0,02891	0,028913	2,86	0,093
RC	1	0,03837	0,038371	3,79	0,054
AC	1	0,07516	0,075160	7,43	0,007
SC	1	0,00174	0,001741	0,17	0,679
ROA	1	0,00629	0,006289	0,62	0,432
ROE	1	0,00877	0,008770	0,87	0,354
LVG	1	0,01020	0,010195	1,01	0,317
SIZE	1	0,00014	0,000136	0,01	0,908
IND	1	0,01729	0,017288	1,71	0,193
Error	128	1,29463	0,010114		
Total	142	3,30468			

Model Summary

S	R-sq	R-sq(adj)	R-sq(pred)
0,100570	60,82%	56,54%	49,27%

Coefficients

Term	Coef	SE Coef	T-Value	P-Value	VIF
Constant	-0,092	0,144	-0,64	0,522	
BA	0,00670	0,00186	3,60	0,000	1,61
BT	0,000471	0,000562	0,84	0,404	1,20
WB	0,00066	0,00103	0,64	0,524	1,17
BS	0,01386	0,00314	4,42	0,000	1,41
OR	-0,00062	0,00115	-0,54	0,592	1,34
NC	0,0389	0,0230	1,69	0,093	1,48
RC	0,1867	0,0959	1,95	0,054	4,30
AC	0,2456	0,0901	2,73	0,007	4,17
SC	0,0085	0,0205	0,41	0,679	1,36
ROA	-0,000135	0,000171	-0,79	0,432	1,32
ROE	0,000120	0,000128	0,93	0,354	1,28
LVG	0,000046	0,000046	1,00	0,317	1,32
SIZE	-0,00039	0,00335	-0,12	0,908	1,61
IND	-0,0366	0,0280	-1,31	0,193	1,70

Regression Equation

EconD_Index = -0,092 + 0,00670 BA + 0,000471 BT + 0,00066 WB + 0,01386 BS - 0,00062 OR + 0,0389 NC + 0,1867 RC + 0,2456 AC + 0,0085 SC - 0,000135 ROA + 0,000120 ROE + 0,000046 LVG - 0,00039 SIZE - 0,0366 IND

EnvD -Table 3

Analysis of Variance

Source	DF	Adj SS	Adj MS	F-Value	P-Value
Regression	14	3,00083	0,214345	11,77	0,000
BA	1	0,07242	0,072421	3,98	0,048
BT	1	0,03827	0,038272	2,10	0,150
WB	1	0,00002	0,000025	0,00	0,971
BS	1	0,94193	0,941925	51,73	0,000
OR	1	0,10578	0,105784	5,81	0,017
NC	1	0,02647	0,026472	1,45	0,230
RC	1	0,00090	0,000902	0,05	0,824
AC	1	0,05571	0,055711	3,06	0,083
SC	1	0,00171	0,001711	0,09	0,760
ROA	1	0,04400	0,043998	2,42	0,123
ROE	1	0,00000	0,000001	0,00	0,996
LVG	1	0,27998	0,279976	15,38	0,000
SIZE	1	0,00225	0,002255	0,12	0,725
IND	1	0,10188	0,101882	5,60	0,020
Error	128	2,33052	0,018207		
Total	142	5,33135			

Model Summary

S	R-sq	R-sq(adj)	R-sq(pred)
0,134934	56,29%	51,51%	45,54%

Coefficients

Term	Coef	SE Coef	T-Value	P-Value	VIF
Constant	0,015	0,193	0,08	0,939	
BA	0,00499	0,00250	1,99	0,048	1,61
BT	0,001094	0,000754	1,45	0,150	1,20
WB	-0,00005	0,00138	-0,04	0,971	1,17
BS	0,03026	0,00421	7,19	0,000	1,41
OR	-0,00372	0,00154	-2,41	0,017	1,34
NC	0,0372	0,0309	1,21	0,230	1,48
RC	-0,029	0,129	-0,22	0,824	4,30
AC	0,211	0,121	1,75	0,083	4,17
SC	-0,0084	0,0275	-0,31	0,760	1,36
ROA	0,000356	0,000229	1,55	0,123	1,32
ROE	-0,000001	0,000172	-0,01	0,996	1,28
LVG	0,000243	0,000062	3,92	0,000	1,32
SIZE	0,00158	0,00449	0,35	0,725	1,61
IND	-0,0888	0,0375	-2,37	0,020	1,70

Regression Equation

EnvD_Index = 0,015 + 0,00499 BA + 0,001094 BT - 0,00005 WB + 0,03026 BS - 0,00372 OR + 0,0372 NC - 0,029 RC + 0,211 AC - 0,0084 SC + 0,000356 ROA - 0,000001 ROE + 0,000243 LVG + 0,00158 SIZE - 0,0888 IND

APPENDIX J: EDITING CERTIFICATE

TERESA KAPP

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This serves to certify that I duly edited:

An Empirical Study of Corporate Governance and Sustainability Reporting Practices in South African State-owned Entities

by

ROBERT NICKY TJANO

I am an accredited editor with the University of Johannesburg, University of Stellenbosch Business School, and GIBS, and my clients include Absa, FNB, Takealot, and various other universities and organisations in South Africa and Namibia.

Please note that all editing is done in *Track Changes*, and I therefore have no control over what is accepted or rejected by the author. Furthermore, I have no control over text added at a later stage.

Should there be any queries, please contact me on the number provided above.

Teresa Kapp

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