

Johannesburg  
27 January 2020

**SELECTING THE WRONG DIRECTORS FOR THE SOE AND SOC BOARDS HAS BEEN DISASTROUS**

By Terrance M. Booyesen and peer reviewed by Jene' Palmer CA(SA) (CGF Lead Independent Consultant)

As most South Africans eagerly awaited some reprieve from a year of constant and negative bombardment, be this over matters such as a massively contracted economy, rising unemployment, state capture, rising corruption and the threat of expropriation of property without compensation, many had hoped to return from their annual vacation rested, and hopeful to hear some positive news. This did not happen.

Besides the imminent threat of being downgraded to junk-status by Moody's Rating Agency and in spite of the National Treasury and our central bank's optimism of expanding our GDP by 1.2% this year, both the World Bank and the International Monetary Fund have pegged our economic growth below 1%!

Let's not forget about all the promises from the Eskom board in early December 2019, saying that South Africans would not experience any load shedding during the festive period. These promises did not last long, and way before most employees arrived back at work in January 2020, their holidays had been marred by further blackouts.

Then there's the SAA business rescue saga; the SA government finally allowed business sense to prevail when it was agreed that SAA would be placed into business rescue, subject to the strict provisions of the Companies Act and the appointment of an independent business rescue practitioner. However, there appears to be a strong belief that the national airline must be saved, whatever the costs and in spite of the findings and recommendations (which are still to be finalised) of the practitioner. Was the business rescue decision just another smoke-screen to tick the good governance box? The bizarre decisions being taken by the boards of directors such as Eskom and SAA (and these are just two examples) fail to take cognisance of the bigger picture which should be about placing the organisation's interests -- and therefore the broader interests of South Africa -- first. It is patently obvious that directors are not performing their fiduciary duties in the manner prescribed under various legal prescripts, nor following governance codes such as King IV<sup>™</sup>.

Clearly, something is wrong, in fact seriously wrong!

But the latest set of events following the ANC's Lekgotla last weekend seems to suggest that both President Cyril Ramaphosa and the ANC's NEC seem to have understood the critical importance of placing the correct, and most appropriate people on the boards of state-owned companies ('SOC') and other state-owned entities ('SOE'). In total, there are about 700 state-owned companies and entities. Many of these organisations have reported dismal financial performance and have dysfunctional boards, the most notable of these include Eskom, SAA, Transnet, Denel, PRASA, NECSA, SABC and Landbank.

As we are now well on our way into the new year, with the President's #SONA2020 and Minister Tito Mboweni's Budget Speech being just a few weeks away, one wonders if President Ramaphosa's vows which he expressed shortly after last weekend's Lekgotla -- to stop haphazard cadre deployment within the SOE/SOC boards -- will have any positive bearing upon the pending Moodys announcement, including the SA Business Confidence Index, not least also on new foreign direct investment?

In order to “build a capable state”, President Ramaphosa is calling for boards to be comprised of credible individuals, who have the correct qualifications to occupy such positions. This call, seemingly, has the backing of the NEC. The President is quoted as saying *“the ANC will become more stringent in the selection process of all public representatives including setting qualification criteria for comrades who should be put on ANC lists.”*

Undoubtedly, such a move which if backed by proper oversight, bodes well if it is implemented correctly. Its national deployment should see much improved organisational performance, and indeed improved governance of the respective organisations, as well as a much-needed branding refurbishment for South Africa. As is the case within the private sector, the principles of applying good and proper governance frameworks which are effective and efficient, remain the same irrespective of the nature and / or the size of the organisation.

As an organisation that specialises in corporate governance, we agree with the President’s sentiment that *“a capable state starts with the people who work in it. Officials and managers must possess the right financial and technical skills”* and most importantly, these people must unequivocally lead organisations ethically, using appropriate governance measures to direct and control their organisations in a sustainable manner. We stand firmly with the President, when he announced the state’s commitment *“to end the practice of poorly qualified individuals being parachuted into positions of authority through political patronage.”*

The past practices of appointing incompetent individuals to serve as directors in many of the state-owned companies and entities has over the last two decades, not only resulted in dysfunctional boards, but in many instances, it has also resulted in a toxic relationship between the board and the shareholder (Minister/s), as well as within the board membership itself. Against this backdrop, it is not surprising to see premature board retirements, which are often cited under the auspices of ‘ill-health’ or ‘career advancements’.

Hope springs -- once again -- for the promise of a “new dawn” for South Africa.

### **ENDS**

WORDS: 882

### **For further information contact:**

CGF Research Institute (Pty) Ltd  
Terrance M. Booysen (CEO)  
Tel: +27 (11) 476 8264 / Cell: 082 373 2249  
E-mail: [tbooyesen@cgf.co.za](mailto:tbooyesen@cgf.co.za)  
Web: [www.cgfresearchinstitute.co.za](http://www.cgfresearchinstitute.co.za)

CGF Research Institute (Pty) Ltd  
Jene’ Palmer (Lead Independent Consultant)  
Tel: +27 (11) 476 8264 / Cell: 082 903 6757  
E-mail: [jpalmer@cgf.co.za](mailto:jpalmer@cgf.co.za)  
Web: [www.cgfresearchinstitute.co.za](http://www.cgfresearchinstitute.co.za)