REVIEW PAPER

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Corporate governance reform strategies for State-Owned Enterprises (SOEs): An integrated review of literature

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ABSTRACT

The study centered on the corporate governance reform strategies for SOEs with a primary focus on Zimbabwean SOEs. The main objective of the study was to consider ways to enhance corporate governance practices by SOEs and corporate governance reform strategies adopted by SOEs. The primary goal of identifying main strategies that may be used to reform SOEs that includes developing relevant corporate governance legislation. The study reveals that corporate governance reform is necessary to rescue troubled SOEs which have been found under different situations of corporate governance malpractices. It is recommended that in Zimbabwe there is a need for more SOEs corporate governance workshops. Researcher also laid out that there is a need to carry out a further study on the effectiveness of corporate governance reform strategies being adopted by Zimbabwean SOEs that include the implementation of the PECG Act amongst other Acts of parliament that are meant to provide corporate governance of SOEs. Authors recommended that further studies on the corporate governance of SOEs would be most desirable as a way of addressing the pertinent problems currently bedevilling such SOEs in Zimbabwe.

Keywords: Corporate governance, State-Owned Enterprises, Corporate governance reform, Public Entities

1. INTRODUCTION

State-Owned Enterprises (SEO) are pivotal to the Zimbabwean economic landscape especially through the provision of basic services that include necessities such as water, electricity, transport, health facilities, and also education amongst others. Such SOEs have been regarded as strategic entities which are key to the economic growth of both developed and developing countries [1]. Despite the importance of such SOEs to the economy, they are largely threatened by corporate governance malpractices as has been reported by various reports of the Auditor General Zimbabwe. Lin *et al*., (2020) opines that SOEs are inefficient although have significantly contributed to economic growth in developed countries like China [2]. Given the key roles of SOEs to any economy, there is a need to ensure that such SOEs at all costs remain accountable, transparent, and efficient to keep the economy growing by contributing to the nation's GDP. This means that various corporate governance strategies may be adopted to sustain SOEs in light of various malpractices that have happened in these SOEs. This means that the Government of concerned SOEs may develop legislative frameworks and other strategies that may bring compliance to the best standards of corporate governance. In the following paragraphs, reviewers explore the general problems facing SOEs and also the various strategies that may be employed to redirect the path of corporate governance for SOEs.

2. BACKGROUND OF THE STUDY

In Zimbabwe, there has been a wave of corporate governance malpractices which such waves of highly publicized corporate scandals that have occurred in some State-Owned Enterprises (SOEs) have been attributed to deficiencies in corporate governance [3]. Some of these scandals include situations where SOEs are engulfed by scandals of awarding hefty salaries by CEOs, embezzlement of funds, flouting tender procedures, and improper recruitment procedures. Such a wave of scandals points to the fact that SOEs are troubled by a violation of corporate governance principles hence the need for sustenance of such troubled entities in Zimbabwe. Hence, this calls for stern strategies to bring best corporate governance practices by such SOEs. In this regard, Jia *et al*., (2019) theorised that various strategies through improved corporate governance measures, such as better alignment of agents' private incentives and enhanced monitoring, as well as high-quality public governance, lowers agency risk in state-owned firms [4].

Notable scandals in much of the SOEs in Zimbabwe may be ascribed to deficits in the practice of good corporate governance. This is not only unique to Zimbabwe but many previous studies on Chinese corporate governance have claimed that such State-Owned Enterprises are inefficiently administered and poorly controlled [5].There seems to be a general agreement to the notion that SOEs are depressed and distressed as can be noted in the Auditor General (AG)'s Report 2016 on SOEs to Parliament in the year 2016. The AG's Report of 2016 notes that the main challenges that have afflicted the SOEs are mainly corporate governance in nature. The poor corporate governance practices have crippled operations of SOEs, which Chigudu (2021) mentions that the National Railways of Zimbabwe (NRZ) and other categories of SOEs are no exception to the country's SOEs' inefficient performance [6]. At the NRZ following a string of failures, it has been forced to rely significantly on government funds to remain sustainable [6]. Reports on the performance of SOEs are reflective of a plunge in the implementation and practice of good corporate governance principles to which reports indicate that some of the malfeasances by SOEs include senior management who of late have enjoyed a lavish life while there is poor service delivery and employee incapacitation. Notable reports on board fights and squabbles have been noted at NetOne Telecommunications in the year 2020 with much time and effort were drawn to appearances at courts by board members instead of revitalizing the troubled SOE.

A government blue print, 'The National Development Strategy 1 (2020)', in light of the challenges and problems faced by SOEs notes that the Government of Zimbabwe will expedite SOE reforms targeting improved governance, provision of services at viable prices, full or partial privatization, demergers, outright disposals, and amalgamations of some SOEs into existing government departments. In light of such intended reforms which are attempts to rescue distressed SOEs do not happen devoid of good corporate governance practices. The Government of Zimbabwe, in a bid to put off a wave of scandals, has in 2018 enacted the Public Entities Corporate Governance Act (PECG) Act Chapter 10.31. The Act which has many provisions to corporate governance is meant to bring corporate governance uprightness by SOEs in Zimbabwe. In Zimbabwe, problems and challenges that are faced by State-Owned Enterprises have been of corporate governance nature. The poor practice of corporate governance standards by SOEs has precipitated the occurrence of scandals in various SOEs in Zimbabwe. In support of corporate governance deficits in SOEs in Zimbabwe, Chigudu (2020) asserts that highly publicized scandals that have shaken SOEs in Zimbabwe have been ascribed to deficits in corporate governance [6].

Additionally, the report of the Auditor General (2018) alludes that SOEs lack due diligence when procuring goods and services [7]. Some of the notable cases include the Zimbabwe Electricity Transmission and Distribution Company (ZETDC) which has not taken delivery of transformers 9 years after making the payment of USD 4.9 million to a supplier. This, therefore, results in losses by such SOEs which are supposed to contribute to the economic growth of the country.

Amongst the challenges that have been faced by SOEs is political interference through ministerial directives which at times are in breach of corporate governance practices. In this view, the Dema Power Project in Zimbabwe was awarded to Sakunda Holdings in 2016 without having participated in the tender process [8]. 'Sakunda sub-contracted Aggreko', a company that has been disqualified by the State Procurement Board (SPB) because of its high costs and failure to meet technical specifications. These problems by SOEs have largely been indicative of the lack of adherence to pillars of corporate governance that include transparency, discipline, accountability, fairness, responsibility, and independence as unearthed by the report of the Auditor General (2020) [7].

Although in 2017, SOEs represented about 14 percent of the country's GDP, with commercial SOEs contributing about 7.5 percent, against a potential of over 40% it is evident that SOEs in Zimbabwe have been distressed by corruption, poor financial and operational performance, ineffective monitoring and evaluation, and poor corporate governance [9]. Many SOEs have incurred significant losses, accumulating short-term debt and arrears resulting in loss of equity. The distress by SOEs also includes unprecedented levels of human capital attrition attributed to low salaries and loss of value of the local currency which has also negatively impacted the effectiveness of public services delivery. Therefore, such distressed SOEs which are also pivotal to the economy need rescue probably through the development of specific corporate governance legislation, strengthening, enforcement, and ensuring compliance to relevant corporate governance frameworks. Therefore, the import of this review is thus to carry out an in-depth analysis of the various corporate governance reform strategies that may be employed to rescue SOEs from corporate governance malpractices.

3. STATE-OWNED ENTERPRISES AND THEIR CLASSIFICATIONS:A ZIMBABWEAN PERSPECTIVE

According to Willemyns (2016), there seems to be no universally accepted definition of the term State-Owned Enterprise [10]. The International Public Sector Accounting Standards Board (IPSASB), in May 2018 outlines that SOEs may be called by various names such as Government Corporations, Government Business Enterprises, Government Linked Companies, Public Enterprises, and Parastatals amongst other names [11]. As such with the difference in the naming of SOEs, the definition of SOEs also differs across countries. In accordance to research by the OECD (2005) SOEs come in a wide range of legal forms that depend on various factors (table 1).

However, in trying to define these SOEs the researcher does so by looking at some of the characteristics of such SOEs. Willemyns (2016) defines SOEs as those entities that are formed not with the sole purpose of profit-making but are formed as a way of correcting market failures [10]. Hence in many cases SOEs are monopolies that evade competition with the sole purpose of remedying such market failures. The OECD (2015) explains that SOEs are corporate entities that are recognized by national law as enterprises and in which the State exercises

Table 1. Features that determine forms of SOEs

Full, majority or minority ownership by the government
Listing or not on the stock exchange
Government shareholding through agents such as government pension funds, asset management funds, restructuring corporations, and development lenders
The state enabled, illustratively those enterprises which have been granted exclusive rights by the state contrary to state-owned
The level of government that owns the enterprise(central/federal/state/ regional or local
How the enterprise was founded
The position in the public administration hierarchy
The purpose of the SOE
Status of the SOE if it is in the process of being privatized

Source: Adapted from OECD Report 2005 [28] ownership or which are under the control of the state [12]. Countries differ in respect of institutions which they consider as State-Owned Enterprises in which some SOEs may be found in various categories or groupings of an economy such as commercial firms, transport, mining, financial intermediaries amongst others to which the government has control. Illustratively according to the Report of the Auditor General (2018) in Zimbabwe groupings of SOEs have been done according to the category of boards, commissions, councils, companies and corporate, financial institutions, funds, hospitals, and institutions amongst others [7]. Having defined SOEs from a different scholarly perspective, the researcher adopts a definition of an SOE by the OECD which sees SOEs as enterprises where the state has significant control through full, majority, or significant minority ownership.

According to Butler (2010) Corporate governance addresses the process, system, and controls in which organizations operate [13]. Corporate governance may also be taken to refer to the relationship between the governed and those with the task to govern in the organizational set up. In another definition, Oman (2001) opines that corporate governance refers to private and public institutions, laws included, regulations, and accepted business practice [14]. It is a market economy govern the relationship between corporate managers and entrepreneurs who are corporate insiders on the one hand, and those who invest resources in corporations, on the other hand.

Other scholars believe that corporate governance simply means prevention of theft [15]. A historical understanding of corporate governance by Shleifer and Vishny (1997) is seen as ways suppliers of finance to corporations assure themselves of getting a return on their investment [16]. How they make sure that managers do not steal capital or invest in bad projects. In this archival understating of corporate governance, they hold the view that corporate governance is the mechanism through which outside investors are protected against expropriation by insiders [17]. In this definition, insiders take to cover stakeholders such as managers, shareholders creditors, and other banks. Those referred to as outsiders in this definition include equity investors, providers of debt, and not major but shareholders that are a minority. As an incorporation of the given definitions to corporate governance, it may be noted that corporate governance exists between insiders of the organization which includes, management and other stakeholders with interests in the firm but bears no managerial roles in the organization who are regarded as outsiders

As observed from the above definitions of corporate governance, there seems to be no standardized definition of corporate governance. Despite this, the Cadbury Report of the United Kingdom and the King Report 1 allude that corporate governance is the system by which companies are directed and controlled. The definition by Cadbury and King Report has been argued that it lacks nuance and is deceptively too simple [18]. In this view, the corporate governance is defined as the process of controlling management and balancing the interests of all internal stakeholders and other parties [19]. They can be affected by corporation's conduct to ensure responsible behavior by corporations and to achieve the maximum level of efficiency and profitability of a corporation. This definition fits well in the context of this review paper on SOEs whose mandates have across the globe been threatened by scandals.

In the context of SOEs, corporate governance also implies the process that involves governing of SOEs with the same sound corporate controls and management as other profit-seeking companies, although SOEs may carry social or public goals which profit-seeking companies potentially do not [20]. Therefore, SOEs may need to be actively owned and managed to reach their aspired objectives in a manner that is efficient, effective, and socially responsible. This is done while also while ensuring that SOEs fulfils their social responsibilities to the government as a shareholder, other stakeholders, and the general citizens of the country.

4. CORPORATE GOVERNANCE REFORM STRATEGIES FOR SOES

Reform of State-Owned Enterprises has been discussed and implemented in China for nearly 40 years [21]. In Zimbabwe, the reforming of SOEs has been largely through the development of corporate governance legislations that are meant to reform operations and management of such SOEs. In this regard, the Government of Zimbabwe, after realising the poor observance of best corporate governance practices, in November 2018 enacted the Public Entities Corporate Governance Act. The Act seeks to provide for the governance of public entities in Zimbabwe in compliance with Chapter 9 of the Constitution. In this regard, the PECG Act gives a uniform mechanism for the regulation of the conditions of service for members of public entities. This was a corporate governance legislative strategy that sought to shape the corporate governance practices of public entities in a transparent manner.

The enactment of the PECG Act whose enactment was a key milestone since Zimbabwe has been basing corporate governance practices without a clearly defined Act of parliament of corporate governance [22]. The problem of basing on corporate governance guidelines and frameworks is that they are not law hence may not be enforceable in the court of law. Therefore the coming of the PECG Act was a great corporate governance reform strategy since it carries sentences and punitive measures in case of a breach of the provisions of the Act. The PECG Act also prescribes the term into the office for Chief Executive Officers (CEO) for SOEs. Such a prescription on the term of CEO in the office is also chronicled in section 197 of the Constitution of Zimbabwe which allows an Act of Parliament to limit the terms of office of CEOs or heads of government-controlled entities. In summary, the Act gives measures and standards of good corporate governance to be observed by government-controlled entities and other commercial entities owned or wholly controlled by the state.

Smith and Trebilcock (2001) agree that SOEs have typically contributed to the growth of economies in both developed and developing

Table 2. Various Categories of SOEs found in Zimbabwe

Category	Some SOEs found in the category
A) category of authorities and agencies	Agricultural marketing authority (ama) Civil aviation authority of zimbabwe (caaz) Zimbabwe investment authority (zia) Zimbabwe national statistics agency (zimstats) Zimbabwe national road administration (zinara) Zimbabwe parks and wildlife management authority (zimparks) Zimbabwe revenue authority (zimra) Zimbabwe tourism authority
B) category of boards	Grain marketing board (gmb) Pig industries board (pib) Tobacco industry and marketing board (timb) Tobacco research board (trb)
C) category of commissions	Sports and recreation commission (src) Competition and tariff commission Forestry commission Zimbabwe human rights commission
D) category of councils	National aids council (nac) Zimbabwe council for higher education (zimche) Zimbabwe schools examinations council (zimsec) Zimbabwe youth council (zyc)
E) category of companies and corporations	Air zimbabwe Allied timbers zimbabwe (private) limited Cmed (private) limited Minerals marketing corporation of zimbabwe (mmcz) National handling services (private) limited National railways of zimbabwe (nrz) Netone cellular (private) limited Petrotrade (private) limited Powertel communications (private) limited Print flow (private) limited Road motor services (rms) (private) limited Telone (private) limited Transmedia corporation (private) limited Zesaholdings (private) limited Zimbabwe broadcasting corporation Zimbabwe mining development corporation (zmdc) Zimbabwe power company (private) limited Zimbabwe united passenger company limited
F) category of financial institutions	Agricultural bank of zimbabwe limited Empower bank limited Small and medium enterprises development corporation (smedco) People's own savings bank (posb)
G) category of hospitals	Chitungwiza central hospital Mpilo central hospital United bulawayo hospitals (ubh)
H) category of tertiary institutions	Bindura university of science education (buse) Bulawayo school of hospitality and tourism Chinhoyi university of technology (cut) Harare institute oftechnology (hit) Midlands state university (msu) National university of science and technology (nust) Zimbabwe institute of public administration and management (zipam)

countries. In this regard, it is agreed to the notion that the performance of SOEs has generally yielded negative results [23]. In a bid result of significant pressure to improve the performance of SOEs [25]. As a key reform strategy, Fredrick (2011) posits that boards for

SOEs may be provided with greater powers and much autonomy in the discharge of their powers. In reforming SOEs boards, Fredrick (2011) considered an enhancement of board composition to ensure that boards have the necessary skills to meet organizational goals [25]. Ensuring board independence through shielding such board members from political intervention is another reform strategy that SOEs. Board independence as a strategy of reforming SOEs may include the right of the board to appoint a CEO. In reforming SOEs' corporate governance strategies, what appears to distinguish best corporate governance practices from poor practices is not found in the legal rights, however, the approach in which government influences the course of running SOEs [26]. According to the OECD (2016) concluded that in reforming SOEs that the key success factors in the public ownership function in enhancing SOEs boards may include a shared vision for governance reforms, clearly communicated policies, and SOEs objectives [27]. Included in the pack for SOEs transformation strategies is a well-designed training program for SOEs board members, enhanced channel of communications between CEOs and boards, increased transparency around the conduct of SOEs boards and management, and government ownership function.

5. CONCLUSION

The present review paper was based on an integrated review of literature on corporate governance reform strategies for SOEs. Therefore, the review of the literature shows that corporate governance reform is necessary to rescue troubled SOEs which have been found under different situations of corporate governance malpractices. The review above indicates that SOEs are important to the economic growth of the country hence require sound corporate governance practices to redirect their path. This may be done through various legislative developments which in Zimbabwe has been done through the enactment of the Public Entities Corporate Governance Act Chapter 10.31 of May 2018.

6. RECOMMENDATIONS

It is recommended that future researchers look into the effectiveness of different corporate governance reform strategies adopted by SOEs. Such strategies may be reviewed in a comparative manner with corporate governance reform strategies also adopted by private firms. In Zimbabwe, there is a need to carry out a further study on the effectiveness of corporate governance reform strategies that include the implementation of the PECG Act. Such studies would be most desirable as a way of addressing the pertinent problems currently bedevilling SOEs in Zimbabwe.

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8. CONFLICT OF INTEREST

The authors have declared that there is no conflict of interest.

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