EXPLORING CORPORATE GOVERNANCE PRACTICES ON STATE ENTITIES: A CASE STUDY OF UMGUNGUNDLOVU DISTRICT MUNICIPALITY

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DECLARATION

I, **Jey Difference Nyalungu,** do hereby declare that this thesis is the result of my investigation and research and that this has not been submitted in part or full for any degree to any other university.

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ABSTRACT

Municipalities across the country continue to face growing criticisms due to lack of performance and providing services to communities. In South Africa, the district and local municipalities are no exception to the lack of performance. The perception to establish a working climate within the structures of the South African municipalities call for the municipal authorities to do more to increase the level of performance across the existing structures. Given this backdrop, this empirical study explored corporate governance practices of state entities with specific reference to three selected local municipalities in the uMgungundlovu district municipality. This empirical study aims to understand corporate governance practices towards performance in selected municipalities. Empirical datasets were sourced during semi-structured interviews aided by FGDs. The researcher applied semi-structured interviews to gather primary data from 106 participants and three FGDs to triangulate the research findings. Interview schedule and questionnaire were employed to collect quantitative and qualitative datasets. Quantitative data was analysed through the Social Package for the Social Science (SPSS) with several techniques including t-test, Analysis of Variance (ANOVA), Chi-square as well as regression. These tools were used to test the null and alternate hypotheses. In terms of qualitative data, thematic analysis was employed to conduct the analysis for interpretations. Empirical data was supported by outcomes based on secondary datasets. The findings revealed lack of corporate governance knowledge that makes it impossible for municipalities to perform to their optimum. One of the key findings that emerged was that “fairness” contributes to the overall municipalities’ performances. Based on all the seven principles of corporate “fairness” was the only concept that needs serious applications in the municipalities to stimulate performance, this empirical study recommends the need to provide adequate education and training to all employees of the municipalities with information on corporate knowledge. More knowledge regarding the practical applications of the corporate governance principles to increase performance in municipalities. Furthermore, education is required to explain the governance practices with the municipalities. Municipal authorities such as the ward councillors and Municipal managers must be advised to pay regular visits to communities to ascertain the needs of community members. The researcher suggests ongoing educational and training programs to provide employees with knowledge in corporate governance.

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LIST OF ACRONYMS

AG:	Auditor General
ANC:	African National Congress
ANOVA:	Analysis is variance
BoD:	Board of Directors
FGD:	Focus Group Discussions
IoDSA:	Institute of Directors South Africa
JSE:	Johannesburg Stock Exchange
MFMA:	Municipal Finance Management Act
MMC:	Member of Municipal Council
NED:	Non-Executive Director
NPV:	Net present value
NPV:	Net present value
OECD:	Organisation for Economic Co-operation and Development
PAIA:	Promotion of Access to Information Act
PFMA:	Public Finance Management Act
PLC:	Public Listed Companies
RDT:	Resource Dependency Theory
ROE:	Return on equity
RSA	Constitution of the Republic of South Africa 1996
RSA:	Republic of South
SMMEs:	Small Medium Micro Enterprises
SOCs:	State owned Companies
SOEs:	State Owned Enterprises
SPSS:	Social Package for Social Sciences
TCEs:	Transaction Cost Economics

CHAPTER ONE

INTRODUCTION AND BACKGROUND OF THE STUDY

1.1 STUDY OVERVIEW

The primary purpose of this chapter is to introduce the research. This includes the background of the study, as well as the significance of the study, and its aims and objectives. The chapter proceeds to research questions that guide the study. The theoretical framework, the research methodology, the ethical issues, and the limitations of the study. Lastly, the chapter provides an outline of each chapter followed by the conclusion.

1.2 INTRODUCTION TO THE STUDY

The new democratic government of South Africa continues to battle with the issues of its colonial past. Due to the imbalance of the past, the current government faces a growing backlog of infrastructure deficiencies, such as the lack of clean drinkable water, the insufficient access to energy supplies and, road infrastructure, and the inability of the government to support Small, Micro and Medium Enterprises (SMMEs). Since the dawn of democracy in 1994, the South African government has been battling the adverse consequences of its colonial past. Other backlogs include the construction of tarred roads, as well as the maintenance of the roads, access to free education for previously disadvantaged South Africans, and the creation of employment opportunities.

Besides, the present government is unable to meet the needs of the vast majority of the population across the country. As such, the citizens often resort to protest actions due to the lack of service delivery, both in urban and rural areas. The inability of the government to meet the demands of its citizens has culminated into service delivery protests in an attempt to draw the government's attention. This phenomenon has become a norm in every corner of the country; there-by, it has set a wrong precedence in a politically dominated country. The genuineness of citizens' demands is indisputably validated by political infighting and comradeship within state institutions and consequently diverting the use of the public purse for political gain. These factors have created space for opportunists to loot from the state coffers without facing consequences. The absence of and or lack of accountability on the use of public funds seems to have propelled residents to demand same through service delivery protests.

Some characteristics that are prevalent in all these social unrests are a lack of leadership, a lack capacity and a lack of political will to serve the public. Service delivery protests have been a matter of debate in political, academic, and social cycles. Common traits in all these protests are a lack of basic services such as, but not limited to, a lack of clean water and sanitation, electricity, land, road infrastructure, and corruption and mal administration. The primary focus of this thesis is on selected municipalities within the uMgungundlovu District. One question that arises from the discussion is whether South Africa's leaders have the drive to act ethically and pay due diligence to corporate governance initiatives, as enshrined in our common law, as well as the King Code.

Evidence from the King III Report revealed that South Africa has experienced a wider non-conformity to the key rules of good governance. Because of these events, vast amounts of public funds in private and state-owned-entities are looted due to financial mismanagement, corrupt practices, and poor governance (Vo & Phan, 2013). The table below highlights municipal spending for the financial year 2016-2017.

Table 1.1: Municipal spending 2016/2017 financial year

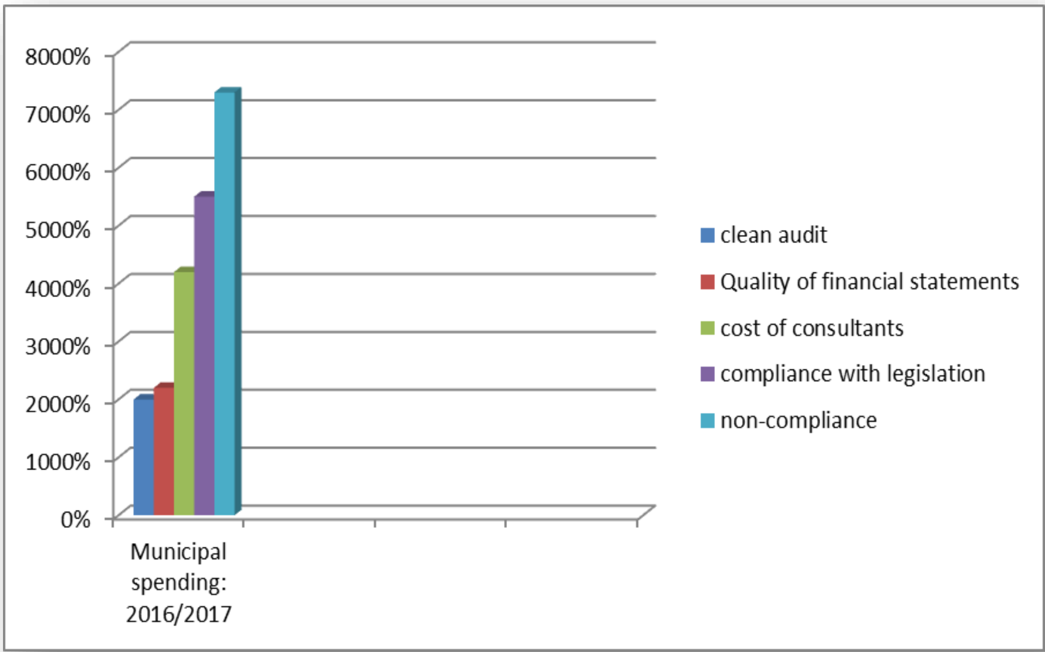
Municipal spending	
Clean audit	20%
Quality financial statements	22%
Cost of consultants	42% / R757 million
Irregular expenditure	R28 billion
Compliance with legislation	55%
Fruitless and wasteful expenditure	R1.1 billion
Non-compliance	73%

Source: AG report (2018)

South Africa has experienced high non-conformity to the key principles of good governance as enshrined in the King Report (IoDSA, 2016). This has led to both private and state-owned-entities losing exorbitant amounts of money through corruption, financial mismanagement, and poor governance (Vo & Phan, 2013). The focus of this study is at the local government level, with particular attention to municipalities that fall under the uMgungundlovu District. There is a general agreement among policy makers and analysts that good governance enhances organisational performance, thereby adding value to the quality of life of ordinary citizens (Masegare, 2016).

Service delivery protests have been a matter of debate in political, academic, and social cycles. Common grievances raised in all these protests are the lack of basic services. Characteristics that are more prevalent in all these social unrests are lack of leadership, lack of capacity, and lack of political will to serve the public. In his 2017 report, the Auditor General (AG) pointed out that most of the qualified audits in municipalities are due to governance problems (Auditor-General Report, 2017). These governance problems are worth investigating. Good corporate governance is about leadership and accountability, characterised by ethical values. Figure 1.1 on the next page shows the analysis of the Auditor-General's report for the period 2016/17 financial year.

Figure 1.1: Analysis of AG Report – 2016/2017



Source: Researcher's own compilation (2021)

The efficient and effective running of a municipality is the responsibility of the entire leadership team comprising the municipal council, the municipal manager, and senior management (Bonney, 2015).

1.3 BACKGROUND TO THE STUDY AND RESEARCH RATIONALE

Municipalities should represent a beacon of hope for disadvantaged communities in South Africa. Good governance, financial sustainability, and the provision of basic services, such as clean water, sanitation, adequate energy supplies and road infrastructure are challenges facing municipal leadership. Financial sustainability is the key to provide adequate and reliable services. This has been a growing concern among communities who are deprived of basic services. The thesis is premised on the governance issues of state entities, with particular focus on the uMgungundlovu District Municipality. The general context of this research is to explore the significance of corporate governance practices on the performance of state entities, with particular attention to selected local municipalities within the uMgungundlovu District.

The level of governance in regional and local communities in South Africa leads to the unequitable distribution of services. Municipal structures lack transparency, accountability, and coordination. Complex issues, such as a lack of active participation and poor implementation of various policies, negatively influence service delivery in communities. Services such as health, water and sanitation are not decentralised. Considering this, the study proposed that community participation, accountability and ethical values in the various structures of the municipalities be enhanced through good governance to facilitate service delivery and eliminate service delivery protests. Improvement in governance practices will not only enhance accountability but assisted in providing much needed services to rural communities who travel long distances to access basic services (Mbele, 2015).

Given the depth of service delivery deficiencies across local municipalities, there is an urgent need to practice good governance in municipalities. To realise good governance, all stakeholders should work together through coordinated efforts. Numerous audit reports on municipalities revealed poor outcomes in terms of financial reporting and skills shortage. Moreover, no municipality in South Africa received satisfactory audit outcome (Auditor-General Report, 2012/2013). The AG Report further indicated that R3.54 billion was spent on unauthorised expenditure within the financial period. A similar report by the Human Sciences Research Council (HSRC) highlighted “cadre deployment” by the ruling party, the African National Congress (ANC), as one of the major causes of poor governance in government entities (Makale, 2015). The deployment system of the ANC led to the appointment of unqualified and incompetent public servants who did not possess the necessary skills to deliver services. This led to a lack of quality service delivery (Makale, 2015)

One of the elements of good governance is public participation, as it helps communities to address the socio-economic challenges they face (Tosuni, 2013). Enabling community members to participate in the service delivery process is paramount to the delivery of accessible services, capacity building, consultation, and better communication (Vo & Phan, 2013). Based on this background, it is possible to say that at local municipality levels, there is poor governance practices; thus, service delivery decreases. Despite numerous government structures and frameworks, lack of governance creates problems of accountability and a poor display of ethical standards. All these drawbacks adversely affect good governance practices and ultimately trigger service delivery protests in communities. To ensure the address the prevailing issues in municipalities, the study recommends that various state entities, including municipalities, institute to integrate corporate governance practices for a steady level of performance.

According to an Auditor General's Report, lack of accountability and leadership were the primary reasons for failures at local government level (Auditor General's Report 2013/2014). The A-G's Report also states that these issues needed to be fixed, both within the national and local government structures across municipalities. Based on the A-G's Report, the success of state entities is based on good leadership and an acceptance of accountability (Ali, 2018). Rural areas in South Africa continue to experience funding challenges and lesser standards of governance due to a lack of skills (Kanyane, 2011). In the rural areas of South Africa, corrupt practices by community leaders contribute to a lack of development in local municipalities (Siddle & Koelble, 2016). Moreover, the policy of decentralisation in local government functions without adequate funding models, which leads to service delivery protests in disadvantaged communities (Siddle & Koelble, 2016).

Although this study provides a detailed discussions on the uMgungundlovu district municipality later in chapter 3, this section highlights brief information regarding the various municipality structures in Kwazulu-Natal province. This empirical study was done in the uMgungundlovu district municipality which housed seven local municipalities that serves the urban-rural communities. Figure 1.1 on the following page illustrates the uMgungundlovu district municipalities where the three selected local municipalities were selected.

Figure 1.2: Map of municipalities in Kwazulu-Natal Province

Source: http://www.municipalities.co.za.

Municipalities have always been in the news for various reasons including maladministration, financial malpractices, lack of performance and poor service delivery. This trend has led to some communities taking to the streets to voice their unhappiness with the district and local municipalities (Masegare, 2016). Many municipalities are characterised by service delivery protests which result in the vandalising of properties. According to the report released by the Auditor-General for the financial year 2016/2017, more than 60% of public entities received qualified audits (A-G Report, 2018).

These qualified audits are mainly because of public entities that flaunt the procurement policy and disregard the Municipal Finance Management Act. The question that one needs to answer is whether there is a lack of leadership, a lack of capacity, or a lack of the political will to serve the public. This results in tax payers' money not being accounted for. In addition, the general feeling is that the performance of government entities directly or indirectly affects service delivery.

1.4 PROBLEM STATEMENT

Although several empirical studies have been conducted to understand service delivery protests, not much research has been done to determine how corporate governance could assist municipalities to provide efficient services to curb service delivery protests (IDASA, 2010; Burger, 2009; Van Vuuren, 2009; Mogale, 2003). For the past decade, South Africa has been experiencing a monumental rise in service delivery protests countrywide. At the heart of all these service delivery protests are local and district municipalities, whose mandate regarding services is enshrined in the Constitution of the Republic of South Africa (Act 108 of 1996). In order to perform well at a municipal level, a person has to possess the necessary skills and knowledge, conduct him/herself ethically, and exercise due diligence. The hypothesis is that people with positions within the municipal councils do not have the necessary skills and, qualifications, and are not competent to perform their duties; hence, they are unable to apply the municipal policies, as expected.

Besides, the structure of municipal government is highly political as instability grows (Mwebasa, 2010; Gildenhuys, 2000. Ward councillors, the municipal mayoral council, and the executive mayor are all political deployments, who lack not only the necessary skills, but are also unable to acquire the relevant level of experience to perform their given tasks. Based on this, it is risky to deploy cadres to key strategic positions, where they lack the necessary expertise. The King III Report on corporate governance highlights the attributes of good governance: namely, the ethical values of responsibility, accountability, fairness, and transparency. Responsible leaders direct organisation's strategies and operations with a view to achieve sustainable economic, social and environmental performance. Service delivery protests have been a matter of debate in political, academic and social cycles for many years.

Common traits in all these protests are lack of basic services such as lack of clean water and sanitation, electricity, land and, road infrastructure. Characteristics that are prevalent in all these social unrests are a lack of leadership, a lack of capacity and a lack of political will to serve the public. The AG pointed out that most of the qualified audits in municipalities are due to issues of governance (AG's Report, 2018). These governance issues are wealth investigating. This phenomenon has the potential of not only harming the already strained economy; it further propels the social and cultural divide that culminates in xenophobic attacks and damage to property and destroys the existing infrastructure - all in the name of seeking the government's attention. Because of the afore-mentioned factors, municipalities fail to perform and meet the demands of the people; hence, service delivery protests take centre stage.

1.5 AIM OF THE STUDY

The aim of the study is to evaluate the impact of corporate governance practices on the performance of local municipalities.

1.6 RESEARCH OBJECTIVES

- To assess possible relationship between municipality performance and knowledge of corporate governance.
- To assess the effectiveness of corporate governance practices in uMgungundlovu district municipality.
- To identify the relationship between municipality performance and corporate governance practices.
- To explore the roles of corporate governance practices to enhance performance and service delivery in municipalities.
- To determine the existence of corporate governance practices in local municipalities.
- To develop a framework that incorporates corporate governance practices to enhance municipal performance in the uMgungundlovu District municipality and
- To develop evidence-based practical recommendations to improve performance in local municipalities.

1.7 RESEARCH QUESTIONS

- What is the contribution of corporate governance practices on the overall municipality performance?
- What is the contribution of corporate governance principles (integrity, accountability, responsibility, competency, independence, and fairness) to municipality performance?
- To what extent does fairness contribute to municipality performance?
- What is the significance relationship between municipality performance and knowledge of corporate governance?
- What is the effect on the level of corporate governance knowledge on municipality performance?
- To what extent does corporate governance knowledge contribute to municipality performance?
- What is the evidence-based practical recommendations that can improve performance in local municipalities?

1.8 FORMULATED HYPOTHESES

Research hypotheses are essential tentative solutions to specific problem that require scientific assessment to be conducted (Blumberg, Cooper & Schindler, 2014). To test the problems, it is the responsibility of the researcher to identify a variable of a sample unit that impact on different descriptor (variable or character) of similar or different unit (Brannen, 2016). According to Garner, Wagner and Kawulich (2016), the identified variable or descriptor that impact other units is referred to as an independent variable. The dependent variable also known as response variable is affected by the independent variable (Kumar, 2018). Based on available literature the dependent and independent variables of this study are corporate governance and performance. The following null (H0) and alternative (HA) hypotheses were formulated for testing.

H1N: Corporate governance practices have no overall significant contributions to the municipality performance.

H1A Corporate governance practices have overall significant contributions to the municipality performance.

H2N: Corporate governance practices (integrity, accountability, responsibility, competency, transparency, independence, and fairness) do not contribute significantly to the enhancement of municipality performance.

H2A: Corporate governance practices (integrity, accountability, responsibility, competency, transparency, independence, and fairness) contribute significantly to the enhancement of municipality performance.

H3N: Fairness has no overall significant contribution to the municipality performance

H3A: Fairness has no overall significant contribution to the municipality performance.

H5N: There is no significant relationship between the level of municipality performance and the level of knowledge and corporate governance.

H5A: There is significant relationship between the level of municipality performance and the level of knowledge and corporate governance.

H6N: There is no significant effect on the level of knowledge of corporate governance on municipality performance.

H6A: There is significant effect on the level of knowledge of corporate governance on municipality performance.

H7N: There is no significant contribution of the knowledge of corporate governance to municipality performance.

H7A: There is significant contribution of the knowledge of corporate governance to municipality performance.

H8N: Knowledge of corporate governance has no significant contribution to the municipality performance.

H8N: Knowledge of corporate governance has significant contribution to the municipality performance.

1.9 SIGNIFICANCE OF THE STUDY

This empirical research aims to contribute to the existing body of scientific knowledge on corporate governance and its application within the local municipal structures in South Africa. The study is designed to offer insights regarding skills applications by municipal employees to deliver services to communities. The study will also aim to determine the reasons for the growing violent protests in several municipalities, including in the research setting. Hence, the outcome of this study will pave the way for decision makers to redesign and align the existing policy framework with corporate governance framework.

1.10 DEFINITION OF KEY CONCEPTS AND TERMS

The key concepts which are used throughout this study provide clarifications to allow the readers to understand the context of this empirical task. To conceptualise and contextualise these terms more is required of the researcher to enable the reading public to understand the primary fundamentals of service delivery and governance issues. Once the readers are able to contextualise every issue, these terms would add value to the final outcome of this study. The following are some of the terminologies: corporate governance, service delivery and municipality.

1.10.1 Service delivery

Service delivery focusses on ongoing processes to deliver affordable service by the public and private sector institutions. Service delivery is referred to as making available goods or services by the state authorities and organisations to needy communities (McLennan, 2009). Service delivery is one of the basic constitutional responsibilities that considers several social factors such as improvement to community living standards, reallocation of scarce resources and basic supply of water and sanitation. Understanding and be able to contextualise related terms of service delivery allow public entities to focus more on the state's intentions and plans to make available what communities expect (Katorobo, 2007).

Simply put, municipal service entails any form of service that is regarded critical to be of acceptable and of quality to enhance the living conditions of communities (Municipal Finance Management, Act 56 of 2003). According to the Act, the services should be equitable and easily accessible to improve the standards of communities and must undergo regular reviews for upgrade.

1.10.2 Municipality

One of the state's organs that rests on the local arms of the government is the municipality (Von Stapelberg, 2006). Municipalities across the country exercise legislative authorities over specific local government (Meyer, 2015). Municipalities are to a larger extent public entities that provide management tasks of not only the planning of activities but render other services such as organising, leading and to control stakeholders in the environment. Municipalities operate in a highly complex climate where huge amount of information is processed daily. Every municipality in South Africa exercise its authority to provide developmental initiatives to communities. However, the complexities of municipalities' working conditions are due to demarcation tasks that in the long run create gaps between providers of basic services to communities (Lues & Kroukamp, 2008). Municipalities are separate arms of government that are established to provide different functions including service delivery to communities.

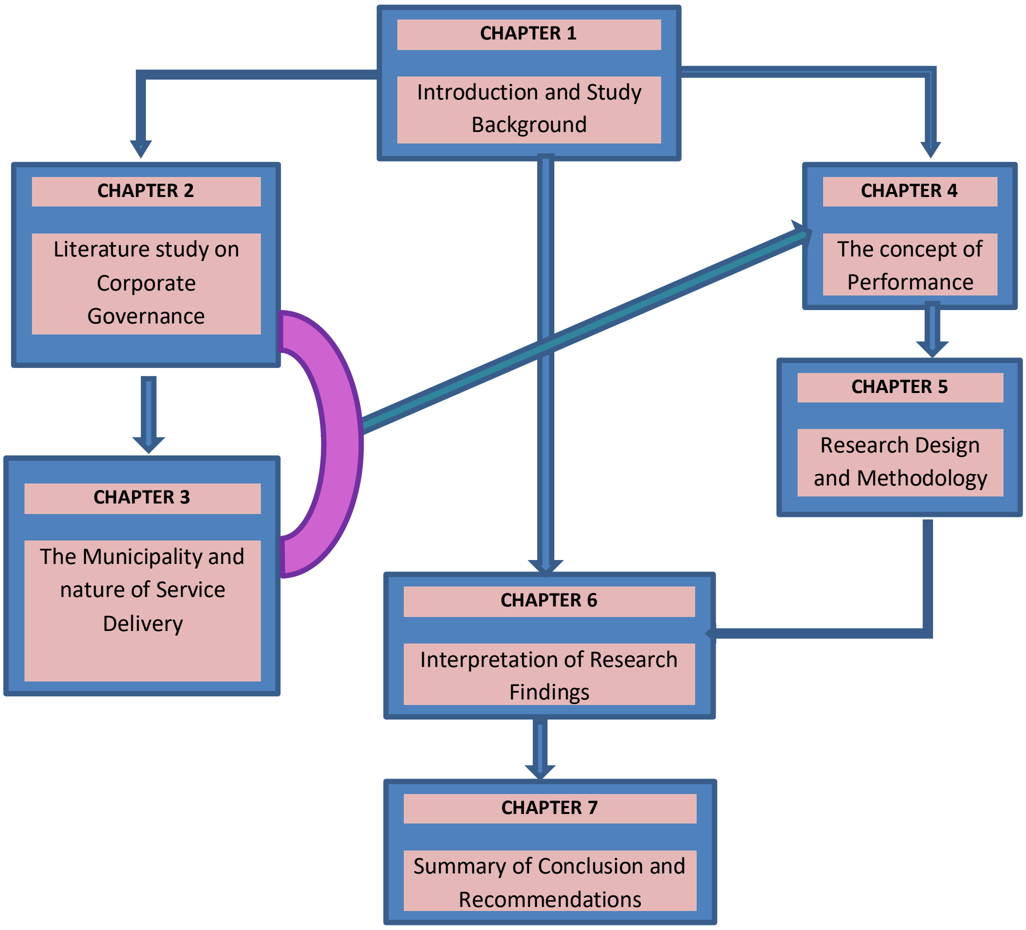
1.10.3 Corporate governance

Corporate governance is referred to as processes, policies, customs, laws and institutions that provide specific directions to establishments to ensure better administration procedures (Tshipa, 2017). According to Braun and Sharma (2007) and Tosuni (2013), processes of corporate governance are utilised to attain organisational objectives as well as the steady management of relationships between different role players namely the stakeholders, board of directors and shareholders of various entities.

1.11 Framework of the study

This section focuses on the pictorial depictions of each chapter of the study. The diagram on the following page illustrates the critical path that this empirical study followed:

Figure 1.3: Format of the study



Source: Design for the study

1.11.1 **Chapter One**: Introduction and study background.

This section provides detailed background and the primary rationale of the study. The section further outlines the problem statement, research questions, objectives as well as the significance of the study. In addition, the chapter accounts for explicit definition of key terminologies for a clearer understanding of the context in which the various terms were applied throughout the study.

1.11.2 **Chapter Two**: Literature Review – Corporate governance

The chapter discusses corporate governance and different related issues including the agency theory, agency problem, stakeholders' theory, and the stewardship theory.

Besides, the chapter looks at corporate principles and highlights various elements of corporate governance. The elements include accountability, transparency, and fairness, among others. As part of the literature review, other aspects of corporate governance theories such as the internal and external types of corporate governance were explained.

1.11.3 **Chapter Three**: The municipality and nature of service delivery

This section outlines the nature of the municipalities and issues of service delivery in various municipalities. The section also features the municipal background and the respective categories. Other areas that were covered by the chapter include characteristics of the local government, the landscape, and the roles of municipalities across the study areas. The chapter features a detailed discussion on the relationship between corporate governance and service delivery.

1.11.4 **Chapter Four**: The concept of performance

The focus of this chapter was to provide detailed literature on the theoretical framework of performance in municipalities. As such, key variables that guide this empirical study namely; performance measurement, corporate governance and performance were discussed at length. The chapter analysed performance in the context of the existing landscapes of the local municipalities since the formation of the local government structures. Besides, further literature including performance measurement, corporate governance and performance, market and accounting based measurements were discussed. The prospects of performance as an enhancement to service delivery were discussed.

1.11.5 **Chapter Five**: Research design and methodology

The chapter considers the research design and the methodology protocol required to achieve empirical findings. Other research procedures were followed. This include mixed methods (qualitative and quantitative) design approaches. Included in this chapter are the descriptions of different data analytical methods and reporting procedures that were followed. The chapter based the research findings on both qualitative and quantitative designs.

1.11.6 **Chapter Six:** Interpretation of research findings

This chapter focused on the research findings and interpretations through the qualitative and quantitative data. Final outcomes that emerged from the empirical data by means of SPSS and the Nvivo thematic analysis were discussed after detailed interpretations.

1.11.7 **Chapter Seven**: Summary of conclusion and recommendations

This section of the study is the last chapter. The chapter represents synopsis that is based on the conceptual framework, review of literature and primary data analysis. Based on this information, conclusions were drawn for implementation. The chapter finally provided recommendations for the benefit of community members, municipal officials, and employees of the selected local municipalities of Msunduzi, Mkhabathini and uMngeni. Emanating from these backdrops, this thesis suggested that the all the recommendations be implemented by municipal authorities to increase and improve service delivery across the selected local municipalities.

1.12 **CHAPTER SUMMARY**

The present chapter outlined the context of the study including the aims, objectives, the research questions as well as the problem statement. In addition, the chapter briefly highlighted the structure of the study to identify specific information that are included in different chapters. The following chapter provides the theoretical framework of corporate governance as a concept as well as the different principles of accounting, transparency, fairness, integrity, responsibility, competence, and independence. The following chapters broadly review and provide detailed analyses of extant literature on the concepts of corporate governance, service delivery, the South Africa's municipal structure and performance with the view to respond to the research objectives and the primary subject of this empirical study.

CHAPTER TWO
CORPORATE GOVERNANCE

2.1 INTRODUCTION

Corporate governance practices are central to private corporations including JSE listed companies. However, no existing research suggests the existence of corporate governance practices at local government level. Based on the scarcity of data, a corporate governance template from the private sector will be recommended in order to draw knowledge from it. The literature review will provide an outline on local government institutions, the purpose of local municipalities, ethical leadership, and corporate governance. The literature review will also delve into the collapse of municipalities through administrative malpractices, political interference, fraud and corruption and a loss of credibility in members of the council.

This section begins by providing an overview of the significance of local municipalities in relation to economic growth and access to basic services and service delivery. It will also highlight the challenges, as well as the advantages, of local municipalities. The Constitution, Section 152, sets out the objectives for local government as follows: to provide democratic and accountable government to local communities; to facilitate the provision of services to communities timeously and in a sustainable manner; to promote social and economic development; to promote a safe and healthy environment; and to facilitate maximum participation of communities in local government engagement.

2.2 OVERVIEW OF CORPORATE GOVERNANCE

The concept of corporate governance dates back to Smith's scientific work entitled, 'The Wealth of Nations' in 1776, which raised a concern regarding the problems caused by the separation of ownership and control in joint-shareholding companies (Gu, 2013; Pande, 2014). However, its ultimate aim remains unchanged, and concerns the setting up of an appropriate corporate governance system to best match ownership with control, and to mitigate any conflict between the two (Pande, 2014). This will lead to order and corporate efficiency (Shao, 2009). Although corporate governance codices have been introduced in many countries, they are not legally binding, but only provide recommendations for good corporate governance (Michelberger, 2017).

According to Tshipa (2017), there are different concepts of corporate governance. The United States (US) applies a liberal model, whereas the United Kingdom (UK) prioritises shareholders' interests above all else (Peterson, 2014). Sobhan (2014) asserts that the coordinated model in the UK and Japan broadly recognises stakeholders' interests such as employees, customers, suppliers, managers, and the community. Every model has its own distinctive advantages (Lee, 2011). In the UK and the US, the liberal approach on corporate governance supports innovation, which is more radical (Azeez, 2015). The coordinated approach on corporate governance embraces quality and innovation (Sobhan, 2014; Vasudev, 2012).

Corporate governance includes the efforts of stakeholders to optimise a company's management system and its monitoring systems (Norman, 2013). Modem corporations are always subject to various conflicts of interest because not all fund providers of a firm (owners, including investors and creditors) can or want to participate in the firm's daily operations (Amsteus, 2011; Sobhan, 2014). According to Gu (2013), when ownership and control in modem entities do not fully coincide with each other, potential conflicts of interest between owners and controllers may arise; thus, reducing a company's value to operate to its maximum (Felo, 2011). According to Tosuni (2013), early research on corporate governance focused on conflicts of interest between shareholders and management.

Earlier in the introduction, it was mentioned that corporate governance denotes the regulatory framework for the management and supervision of companies. Notwithstanding this fact, corporate governance structures are largely determined by legislators and owners (Spira, 2002). Based on scientific studies, the daily operations at corporate level should not be taken for granted, or else, executives are likely to operate the firm based on individual interests without proper monitoring (Sobhan, 2014; Amsteus, 2011). Thus, good corporate governance is a complex concept to define as it includes compulsory and voluntary actions and adherence to laws and regulations (Lee, 2011; Spira, 2002).

Governance refers to the way in which something is governed or managed (Masegare, 2016). It applies to anything that requires oversight and management on its behalf (Lee, 2011). According to common law, a company is a legal entity or a legal person (Muchemwa & Padia, 2016). As a person, he/ she is able to enter into contracts and do business transactions (Thomsen, 2008). A company can own assets, owe money to other entities, it can sue, and be sued (Wu, 2007). However, a company is dependent on human beings to make decisions, arrange transactions, and conduct all its activities on its behalf (Vo, 2013).

The OECD (2010) defines corporate governance as the system by which business corporations are directed and controlled. The structure of corporate governance stipulates the sharing of rights, as well as responsibilities, and guides decision making on the affairs of the corporation (Adebayo, 2014; Azeez, 2015). By doing this, it provides the structure through which a company objectives are set and the means of attaining these objectives and monitoring performance (Collier & Zaman, 2005). However, there is no clearly established understanding of corporate governance in the academic literature (Filmer, 2006). This is evident in the fact that, in the South African context, there is the additional problem of no adequate translation of the term (Tshipa, 2017).

Lee (2011) notes that the definition of corporate governance, in the sense of an internal legal company structure, is too narrow and static. Thus, research in the field of corporate governance frequently analyses only some aspects of the concept (Lee, 2011). In terms of the Cadbury Commission Report, corporate governance refers to the system which direct and control companies (OECD, 2010). In the context of the theoretical discussion, corporate governance refers to the specific problems occurring from a separation between a company's direction and its ownership (Felo, 2011). Pyles (2014) concludes that the original meaning of the concept of corporate governance is a set of mechanisms through which outside investors protect themselves against expropriation by insiders.

Thus, the basic definition of corporate governance adopted by this study is as follows: the system by which management is controlled and directed so that outside investors (shareholders) or owners are protected against expropriation by insiders (management) (Guo & Kumara, 2012; Pyles, 2014). Existing literature has documented corporate governance well. Much of it is based on empirical research, mainly from Europe and North America (Salami, 2014). However, this topic has been hugely under-explored in the context of state entities and government business (Corrigan, 2014).

It is worth noting that emerging and transition economies differ considerably from their developed counterparts in many respects, such as the level of financial market development, laws and regulations and quality of law enforcement (Gu, 2013; Selvam, 2016). For example, compared with Western economies, emerging and transition economies are always criticised for their weak law enforcement pertaining to financial irregularities (Matari, 2014). South Africa, as a developing country and a member of BRICS (Brazil, Russia, India, China and South Africa), has experienced an unprecedented economic contraction since the world recession in 2008 (Crow, 2016).

Considering the political trajectory that took place in the Zuma administration, dramatic changes, both economic and social, now present an unprecedented poor image of economic growth in South Africa (Mncwango, 2015; Tshipa, 2017). As mentioned before, studies have improved our knowledge of corporate governance in the private sector context (Chilenga, 2016). However, not much has been done to improve corporate governance in state entities (Sanusi, 2016). In light of the literature on corporate governance in developed economies, the empirical evidence using South African case studies is very limited (Corrigan, 2014; Collier & Zaman, 2005). This thesis seeks to redress the lack of literature on this subject matter.

From a government point of view, governance can be defined as the constitutional, legal and administrative arrangements by which governments exercise their power as well as the related mechanisms for the purpose of shared accountability, transparency, integrity and maximum participation by citizens (Laking, 2002 cited in Kanyane, 2015). The success of any organisation depends on the governance structure, whether small or large (Michelberger, 2017).

Good corporate governance is about leadership and accountability, characterised by ethical values (Ali, 2018; Khan, 2011). The efficient and effective running of a municipality is the responsibility of the entire leadership team, comprising the municipal council, the municipal manager, and senior management (Bonney, 2015). Collier and Zaman (2005) argues that good governance is the steering of society through networks and partnerships between government corporations and civil society associations. Good governance also has the potential to encourage and facilitate economic growth and development at a larger national level (Dzingai, 2017).

The governance of state entities is crucial in ensuring competitiveness and economic efficiency (Otman, 2014). Governance is concerned with practices and procedures, which will ensure that an entity achieves its objectives (Robinson, 2019). The objective of a company is usually to maximise the wealth of its shareholders, and the activities of a company are aimed at achieving that objective (Ng'eni, 2015). However, as all companies operate in the context of a broader society, its activities will be subject to various guidelines and constraints based on the interest of other members of the society (Muchemwa & Padia, 2016). Members of the society are referred to as stakeholders (Vasudev, 2012). Stakeholders are those who affect and are affected by a company in its operations, and include suppliers, banks, employees, customers, the families of employees, and the public (Khan, 2011).

Corporate governance is concerned with how power is shared and exercised by different stakeholders of an organisation, to ensure that the objectives of the organisation are achieved and that the holders of power in a company should be held accountable for their actions and omissions (Fontaine, 2006). Khan (2011) asserts that a company is expected by society to be a good citizen. In the same breath, stakeholders have a duty to ensure that a company is run in a sustainable manner (Pande, 2014; Shao, 2009). In order to assist companies in operating sustainably, there are various rules, regulations and guidelines, which deal with corporate governance (Robinson, 2019). The Companies Act 71 of 2008, as amended, provides a legal framework within which companies should operate. According to Robinson (2019), South Africa has been in the forefront of establishing guidelines for corporate governance, under the ambit of the King Report.

Companies are formed to achieve one or more objectives (Vasudev, 2012). These objectives may be set out in their constitutions known as Memorandums of Incorporation (Companies Act, 1998). Some of the objectives may not appear in their Memorandums of Incorporation, but are implied or assumed, rather than being documented (Muchemwa & Padia, 2016). These objectives may change depending on the strategy that a board of directors implements for a company (Robinson, 2019). In terms of King IV, a company should be governed in such a way that it moves towards the achievement of these goals. Although a company exist as a legal person, it is in reality, the organised, collective effort of many different individuals (Elghuweel, 2015).

A company is controlled by a board of directors in the interest of maximising shareholders' wealth (Otman, 2014). The challenge of good corporate governance is to find a balance, whereby the interests of different stakeholders are sufficiently recognised (Gu, 2013). Rules for public companies listed on the Johannesburg Stock Exchange (JSE) are listed under the Companies Act as well as the JSE Listed Requirements (JSE-LR) (Sanusi, 2016). These rules specify different requirements for public SOC (Corrigan, 2014). A compulsory measure of enforcement is that all companies listed on the JSE should adhere to good corporate governance practices and apply the principles as enshrined in the King IV Report (IoDSA report, 2016).

Good governance in both private and public corporations has the potential to create sustainable empowerment across a vast spectrum of stakeholders (Ferdous, 2013). Remarkably, to the contrary, poor governance, both in government and corporations, has a severe negative effect on stakeholders and company performance (Tosuni, 2013). Poor governance results in corruption and the mismanagement of state funds, which leads to the wastage of public funds; and thereby impeding service delivery to ordinary citizens (Crow, 2016).

2.3 THE GOVERNANCE LANDSCAPE

Governance is a historic term from the field of political philosophy and political science (Michelberger, 2017). In the 1950s, the concept of governance arose in American business discourse (Michelberger, 2017). A decade later, the term 'good governance' was introduced by the World Bank to define the regulatory framework for the management and supervision of companies (OECD, 2004). The corporate governance framework is largely determined by legislators and owners, whereas the actual corporate governance design of a company falls to the supervisory board or a board of directors (Tshipa, 2017). However, there is still no common understanding of a single definition of corporate governance (Kondlo, 2017).

2.4 CONCEPTUALISING CORPORATE GOVERNANCE

Corporate governance broadly describes the processes, customs, policies, laws and institutions that direct entities and corporations in the way they act, administer and control their operations (Masegare, 2016; Tshipa, 2017). Braun and Sharma (2007) and Tosuni (2013) further explain that the corporate governance process works to achieve the goal of the organisation and manages the relationship among stakeholders, including a board of directors and the shareholders. It also deals with the accountability of the individuals through a mechanism, which reduces the “principal-agent problem” in an organisation (Peterson, 2014). Corporate governance is an essential standard for establishing the investment environment, which is needed by competitive companies to gain a strong position in efficient financial markets (Appiah, 2013).

Corporate governance is essential to the growth of businesses and responsible for the success of entrepreneurs in the community (Khan, 2011). The academic literature discusses ‘good corporate governance’ and the improvement of existing corporate governance (Peterson, 2014). Lee (2011) asserts that good governance has the capability to guide a professional and a transparent local government administration in the interest of citizens. The discussion on the characteristics of good corporate governance includes regulations regarding appropriate and acceptable risk management, procedures, management organisation, long-term value creation, transparency, safeguarding mechanisms to secure the interests of stakeholders, and, overall, a clearly defined control structure (Ali, 2018).

In the framework of the agency theory, corporate governance is viewed as a set of mechanisms to protect outside investors, respectively, shareholders or principals, against expropriation by insiders, because, according to the agency theory, managers will serve their interests rather than those of owners or shareholders (Bebchuk, Cohen & Ferrell, 2009). To avoid this, corporate governance rules should prevent the abuse of owners' interests through establishing monitoring standards (Michelberger, 2017). To sum up, no unified or common good corporate governance system, theory, component model, or regulation exists (Duh, 2017). Every country has established its own system of good corporate governance (Muchemwa & Padia, 2016). In general, governance refers to the environment in which government functions, and the relationships it has with outside stakeholders (Persons, 2015).

A system of governance refers to a government's relationship with the electorate, the public, the consumer of services, and non-state actors (Jones, 2000). Good governance relates to institutional capacity in management and administration and includes formal and informal structures within government institutions (Khan, 2011). It encompasses the ability to co-ordinate and assists with the implementation of policies, projects and action plans, and includes public involvement, institutional development, transparency in decision-making processes, and accountability (Meyer, 2015). Gu (2013) concurs that corporate governance should be used to guide policies, laws and processes on how corporations should be run.

However, according to Tshipa (2017), the definition has changed over the past few years, shifting from a functional, economic focus on agency problems within an institution in an attempt to shield shareholders' interests. The latest developments on corporate governance and the perception of accountability echoes a new way of linking business with legal, social and economic view of doing business (Gill, 2008). The implications of these definitions are that corporate governance is a system of corporate management and control to satisfy the strategic goals of all stakeholders while complying with the legal, ethical and environmental needs of society (Adebayo, 2014).

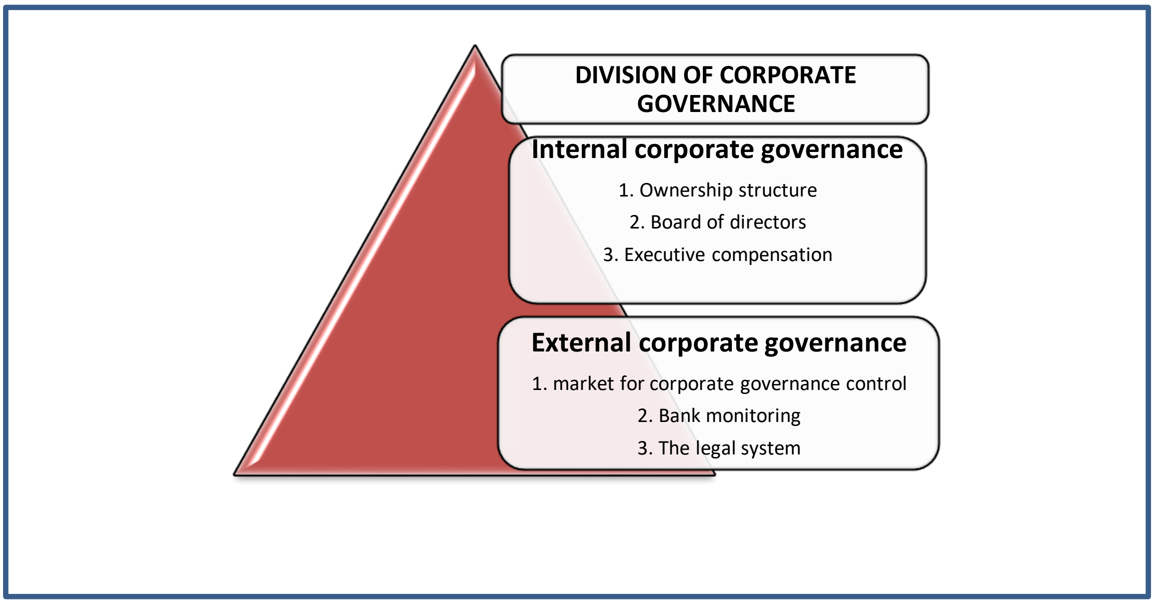
Corporate governance has traditionally specified the rules of business decision making that apply to the internal mechanisms of companies (Mncwango, 2015). This set of norms and laws has served to shape the relations among boards of directors, shareholders, and managers, as well as to resolve agency conflicts (Peterson, 2014;

Vo & Phan, 2013). However, in the aftermath of Enron, corporate governance has accentuated issues that go beyond the traditional focus to touch on corporate ethics, accountability, disclosure, and reporting (Robinson, 2019). As companies seek to assure regulators and investors that they are fully transparent and accountable, corporations have increasingly pledged their commitment to honest and fair corporate governance principles in a wide spectrum of business practices (Gill, 2008).

2.5 CLASSIFICATION OF CORPORATE GOVERNANCE

Despite the multiple definitions of corporate governance as a concept, existing literature primarily divides its content into two broad categories - internal and external corporate governance (Babatunde, 2009). Despite the multiple theories of corporate governance, including the resource dependence, stakeholder and institutional theories, the epistemological basis of this domain remains the agency theory (Madison, 2014). As a result, research results are inconclusive, sometimes contradictory, on the question of what constitute the best practices and desirable characteristics of firm corporate governance (Mbele, 2015). Figure 1.4 below shows the various divisions of corporate governance namely the internal and external environments.

Figure 1.4: *Classification of corporate governance.*



Source: Researcher's own work (2021)

The following section outlines the classification of corporate governance to determine its significance in providing for the objectives of this empirical study.

- **Internal corporate governance**

Internal corporate governance primarily comprises of the ownership structure, a board of directors, and executive compensation (Collier & Zaman, 2005). Given the existing legal climate in South Africa, the existence of the legal framework is guided by the Companies Act, as well as the Johannesburg Stock Exchange-Listing Requirement (JSE-LR) (Gu, 2013). Babatunde (2009) calls for a balance in the roles of the three groups of players - the shareholders, a board of directors, and the managers. These groups are referred to as the internal mechanisms for good governance (Jones, 2010). In terms of the division of the structure, shareholders provide capital for investment purposes in return for profit motives in the form of dividends, and increases in corporate value (Babatunde, 2009).

Shareholders' interest is generally the maximisation of firm value through equity and the monitoring of risk throughout the process (Babatunde, 2009). According to Adenikunju (2005), an independent board of directors entails the core internal governance mechanism, which is the link between the executives and the owners, various stakeholders, and the external business. The role of a board of directors, according to the division of the structure, is to represent the interest of shareholders who have a responsibility to stakeholders under voluntary and statutory provisions (Vo, 2013). A board needs to be independent particularly from management, and its members should understand the firm's business practices and general business operations, such as business law, accounting, marketing, finance, or production (Robinson, 2019).

Furthermore, the size of a board of directors should be reasonable, with the directors serving a fixed term (Babatunde, 2009). In order to achieve the preceding objectives, governance mechanism should be put in place in order for a board of directors to function efficiently (Jones, 2010).

- **External corporate governance**

Besides the internal corporate governance mechanisms, external corporate governance is the other important aspect of the corporate governance system, which mainly consists of the market for corporate control, bank monitoring and the legal system (Adenikunju, 2005). In Western countries, companies with unsatisfactory corporate performance are often punished or disciplined by a negative market (Civelek, 2015). The external division of corporate governance constitutes the formal legal and regulatory obligations designed to ensure that companies abide by common standards of fairness, transparency, accountability, and responsibility to protect shareholders, consumers, workers, the environment, and even competitors from abusive practices (Babatunde, 2009; Vo, 2013).

It has become common knowledge that all business sectors in the economy have a legal and regulatory framework that efficiently addresses their operations, entry requirements, and exits (Collier & Zaman, 2005). Based on available literature, debt issuance is a significant external corporate governance mechanism that assists in reducing conflicts of interest between management and shareholders (Gu, 2013). It could be argued that the government can improve corporate governance by strengthening a legal system that protects shareholders' interests in order to enhance law enforcement and regulations (Okpara, 2011; Pande, 2014).

2.6 PURPOSE OF GOOD CORPORATE GOVERNANCE

Based on the news on financial crises and corporate collapses, communities have lost confidence in the business sector (Khan, 2011). Corporates' inability to perform, such as Enron and WorldCom, have led to the emergence of a strong and efficient corporate governance system on the financial performance of companies (Ludvigsen, 2010). The 2009 global economic recession called for the need to promote good corporate governance across the globe (Kanyane, 2014). However, recent corporate scandals and business failures have spurred a lively debate on whether firms are adequately governed (Asiinwe, 2015). Another challenge, as pointed out by Dzingai (2017), is that developing countries are lagging in implementing corporate governance practices in their corporations.

Over the past decades, corporate governance of state-owned companies (SOCs) has been the subject of major public interest and fierce debate in political settings (Ludvigsen, 2010). The primary issues that feature prominently in these debates are how politicians (when acting in their capacity as government-owners) and corporate directors provide monitoring, control systems as well as the behaviour of corporate managers in SOC (Kondlo, 2017; Masegare, 2016). Within the political setting, corporate governance is regarded as a relatively new phenomenon (De Ver, 2009).

The news about corporate governance is that since the late 1990s, governments have shown keen interest in and paid systematic attention to the ownership role of SOC (Nair, 2014). Reasons why the government does this is that it must be seen to be complying with company policy, and pressure from political ownership interference (Goswami, 2002). It is evident from several reports by the AG that the primary drawback of corporate governance is that at government level, particularly municipal level, corporate governance is not viewed in a serious light, as opposed to private sector (AG Report, 2018; Salami, 2014).

The rules and guidelines of corporate governance have been developed to respond to the various corporate failures such as Enron, Steinhoff, VBS Mutual Bank, Gupta-gate, Wells Fargo and, Volkswagen (Mncwango, 2015; Naimah, 2017). A major concern with corporate governance is the conflict of interest between a board of directors and other stakeholder groups, particularly shareholders and employees (Vasudev, 2012). The relationship between the shareholders and a board of directors is at the centre of many of the problems that arise in corporate governance (Michelberger, 2017; Vo, 2013). A large company has many stakeholders and must balance the demands and needs of each of them. Often, there will be conflict of interest between stakeholders from time to time (Tosuni, 2013; Goswami, 2002).

2.7 CORPORATE GOVERNANCE THEORIES

According to the corporate governance theory, the most important aspect of a company structure is the separation of ownership from the management (Wasserman, 2006). This implies that those people who make decisions about the direction of a firm are not necessarily the same people who lead operations (Peterson, 2014). In the quest for describing the separation between shareholders and managers, an agency relationship is formed (Delke, 2015). In this relationship, the shareholders are the principals who then enter into a contract with the corporate managers as "the agents" to act on their behalf (Keay, 2017). The focus on corporate governance reflects a general trend in the business environment towards focusing on shareholder involvement (Ludvigsen, 2010). The private sector settings, which include the concept of "duality of control," have been a matter of debate for a long time (Madison, 2014). The King Report, together with the OECD guidelines, proposed that the chairperson and the CEO positions be held by two different individuals (Robinson, 2019). Ownership therefore lies with a board, which has powers to hire the CEO and other executive positions (Price & Van der Walt, 2013).

2.7.1 The Agency Theory

According to Keay (2017), the agency theory was developed to expound on and conceptualise the role and behaviour of agents, which include managers and directors of corporations. The theory seeks to address agency problems, which exist because of the appointment of boards and directors in companies, and the separation of ownership (Wiseman, Cuevas-Rodriguez & Gomez-Mejia, 2012). The agency theory also holds directors and senior managers accountable for corporate governance activities (Filatotchev, Jackson, Gospel & Allcock, 2007). Moreover, according to the theory, the key challenge is to determine how shareholders can ensure that agents (i.e. the directors of a company) act in the best interest of the organisation rather than in their own interest (Keay, 2017).

In the agency relationship there is always a compelling temptation by agents to seek to maximise their own personal interests when acting in such a capacity (Matari, 2014). The agency relationship arises from the engagement with skilled personnel to act on behalf of the shareholders, as they do not possess the necessary expertise, nor do they have the time to it (Madison, 2014). The agency relationship is typically defined as a contract by which shareholders engage the agent to perform some services on their behalf (Braun and Sharma, 2007). Yusoff (2012) supports the notion that corporate governance focuses on the separation of ownership, which leads to the principal-agent problem.

Furthermore, the theory regards corporate governance as an instrument where a board of directors plays a monitoring role in order to curtail the problems brought about by the dual relationship (Wesley, 2010). In this context of agent-principal relationship, agents are the managers, whereas principals are the owners and a board of directors, who play a monitoring role (Mallin, 2004; Madison, 2014). Corporate governance is characterised into two factors, namely, that corporations are divided into two schemes, managers and shareholders, whose relationship is cemented by a principal-agency relationship; the second viewpoint is that humans are naturally self-centred and reluctantly sacrifice their own personal interests for the interests of others (Yusoff, 2012).

The agency role of the directors is embedded in the governance function of a board for the purpose of serving shareholders' interest and monitoring the implementation of decisions made by a board (Braun & Sharma, 2007). The separation of ownership from management can lead to managers of firms taking action that might not maximise shareholder wealth, due to their firm specific knowledge and expertise, which would benefit them and not the owners; hence, a monitoring mechanism is designed to protect the shareholder interest (Madison, 2014).

The intriguing practical interest in the issue of corporate governance encourages researchers to take a closer look at what happens to governance decisions in the case of state ownership (Mncwango, 2015). As a result, this thesis asks the question: What factors might explain some of the key governance decisions that are made by either politicians or corporate directors? More precisely, the researcher aims to determine whether we might possibly trace governance decisions to some distinct sets of motives carried out by politicians and corporate directors. Moreover, the researcher aims to explore whether governance decisions are influenced by the institutional context in which SOCs operate and some of the basic firm characteristics, which distinguish firms under state control (Ludvigsen, 2010).

In a business set-up, shareholders are the owners of a company (Vasudev, 2012). Though they may own a company, they are not in direct control of, nor operate a company (Wasserman, 2006). Operating a company requires a specialised skill (Collier & Zaman, 2005). The owners therefore employ directors, as professional managers, to operate a company on their behalf; this is known "as agency theory" (Vasudev, 2012). The principal shareholder hires agents, known as a board of directors, to perform managerial tasks on their behalf (Gillan, 2006). The principal determines the tasks to be undertaken and the agent performs the tasks in accordance with the principal's wishes (McColgan, 2001). The agency theory assumes that both the principal and the agent have a certain amount of self-interest in fulfilling either of their roles (Mncwango, 2015). As each party has such self-interest, it is evitable that conflict will arise (Milhaupt, 2017).

Madison (2014) asserts that in the context of agency theory, the agent has a duty to act in the best interest of the principal. This could certainly mean that directors have a duty to act in the best interest of the shareholders (Shao, 2009). The agency theory creates a fiduciary relationship between the agent and the principal (Fontaine, 2006). The interests of stakeholders such as employees, regulators, banks, suppliers and creditors must be considered by the directors acting on behalf of a company (Collier & Zaman, 2005). The agents act on behalf of the principal and they, remain responsible for the moral consequences of their actions (Laiho, 2011). Hence, directors cannot, dismiss liability for an illegal, immoral, or unethical decision on the basis that they are carrying out the instructions of their principals (Tshipa, 2017). It is usually not feasible for a principal to monitor the work of an agent. These difficulties have culminated in the development of agency theory as best practice in companies listed on the New York Stock Exchange (Keay, 2017).

2.7.1.1 The Agency Problem

The agency problem, in its simplest form, illustrates a relationship between two parties, principals (owners) and an agent (manager) who make decisions on behalf of the principals (Meyer, 2015). As the ownership of a modem corporation becomes dispersed, the owners might have few incentives to become involved in the firm's day-to-day operation. Hence, they must render their capital and control rights to professional managers with the hope that their authorised management is able to run the firm more efficiently to generate higher returns, than if the firm was managed by themselves (Azeez, 2015). In an ideal world, the owners and the manager would sign a complete contract in which they specify exactly what the manager needs to do with the funds, and how the profits are allocated in terms of the Memorandum of Incorporation (The Companies Act, 2008).

However, according to Peterson (2014), it is difficult to foresee all future contingencies, and such a complete contract is not realistic. Owners, therefore, have to allocate at least part of their residual control rights to the management in firms' daily operations. It is worth noting that if left to their own devices, managers may act in their own interests, which might not always be in line with those of the owners (Laiho, 2011). It is difficult for shareholders to be assured that their funds are used efficiently and not wasted on, for example, negative net present value projects (Tosuni, 2013). The shareholders, similarly, can discourage managers from diverging from shareholders' interests by devising appropriate incentives for managers and then monitoring their behaviours and extra costs; agency costs might be generated in order to implement this (Meyer, 2015).

The literature provides clear evidence that agency conflict between management and shareholders frequently occurs and can result in a substantial reduction of corporate value (Masegare, 2016). Some of the clearest evidence on agency problems comes from firms' corporate payout policy. Lee (2011) states that managers in the US oil industry chose to spend large free cash flows heavily on Exploration and Development activity and diversification programmes outside the industry, rather than returning excess resources to shareholders. Heath (2004) suggested that conflicts of interest between management and shareholders over the payout policy are severe in firms with substantial free cash flow. Managers have strong incentives to make their firms go beyond the optimal size, rather than returning profits to shareholders in the form of dividends (Gu, 2013).

The agency problem, as presented in Benavides (2014), can be illustrated using the concept of institutional economics and the assumption of self-interested rational actors who want to maximise their welfare, subject to constraints imposed by the environment. According to Santos (2012), the theory of institutional economics clearly states that the principal is the actor in possession of a number of resources, but not the exact combination of them, which would allow him/her to realise interests. Meanwhile, the agents are managers with the expertise and experience to utilise the investment to generate profits; both are rational actors (Wiseman, Cuevas-Rodríguez, & Gómez-Mejía, 2012). The agent will be held accountable by the principal in ensuring that the skills and knowledge resources the agent possesses are beneficial to the organisation during his/her employ (Felo, 2011). The agent should be held responsible for how he/she administers the affairs of the employer rather than amassing personal wealth at the expense of the employer.

For the sole reason that there is no mechanism to measure whether the agent is carrying out his/her obligations without abusing company resources, their relationship should be based on moral and ethical standards (Azeez, 2015). In addition, there might be situations that are not capable of providing the necessary funds; this might may lead to unscrupulous behaviour by the agent (Panda & Leepsa, 2017). Thus, the principal-agent, or the agency problem arises. This agency problem translates into the separation of powers and control between management and finance. This narrative can be better comprehended from a business perspective where the business concept and the funding thereof do not rest with the same person or entity (Jones, 2010).

From this observation, it can be said that a firm or corporation, consists of the system of relationships, which come into existence when the direction of resources is dependent on an entrepreneur (Gu, 2013). Based on such a system, it is imperative to have a memorandum of understanding, in which both parties are obligated. As it stands, owners are in a better position before committing their funds, as there is less risk involved. Once investors have put down their capital, the scale of power and control rests with the agent (Abdullah, Shah and Hassan, 2008). Managers, theoretically, can take the money and disappear. This is why contracts are signed, as an attempt to address the inherent risk (Tosuni, 2013).

2.7.2. The Stakeholder Theory

A firm is not a human being, but a legal entity, where conflicting objectives and viewpoints of individuals are equal within a framework of contractual relationships (Keay, 2017). These contractual relationships are not only between a company and employees; but also, with all stakeholders, such as customers, suppliers, creditors and members of the community where the business operates (Yusoff, 2012). The key purpose of these contracts is that agents acting in the interest of their principals are motivated to maximise the value of the firm (Civelek, 2015)

Stakeholder theory was embedded in the management discipline in 1970's and further developed to incorporate the accountability aspect to a broad range of stakeholders (Vasudev, 2012). Shao (2009) states that the stakeholder theory is derived from a combination of the sociological and organisational disciplines. Stakeholder theory can be viewed as any group or individuals who can affect, and are conversely affected, by the operations of an organisation (Heath, 2004). Whereas the agency theory compels managers to serve the interests of shareholders; the stakeholder theory broadens their network to include other stakeholders, such as employees, partners, and the whole supply chain (Hernandez, 2007; Keay, 2017; Mallin, 2004).

Robinson (2019) describes stakeholders as any group of shared interest who can affect and inversely be affected, by the affairs of the business. In essence, a company can be regarded as a collection of stakeholders who all have an interest in how the objectives of a company are achieved. Stakeholders can further be classified as internal and external. Internal stakeholders include shareholders, management and employees, whereas, external stakeholders include financial institutions (banks), suppliers, creditors, regulators and the community in which a company operates (Robinson, 2019).

There can also be a broader group of stakeholders who may not be so closely linked to the organisation such as the media, business partners, competitors, and the public; none the less, they are affected by a company's activities (Benavides, 2014). Stakeholders will each have an interest in how a company achieves its objectives (Khan, 2011). However, not all these stakeholders' interests can be fully achieved. A company will have scarce resources to use in achieving its objectives; therefore, it must balance the interest of both groups. Maintaining a company and keeping it financially viable could mean sacrificing some major interest of part of the stakeholders.

According to Khan (2011), it is the duty of management to identify its stakeholders as well as their interests. Management has a duty of care towards the organisation. A company's actions, in achieving its objectives, should be based on a set of ethical principles that take stakeholders' interests into account (Robinson, 2019). King IV Report on corporate governance bases its principles and recommendations on the stakeholder-inclusive approach to stakeholder management. The stakeholder-centric approach states that the interests of shareholders and stakeholders are interdependent and that the interests of stakeholders have value for making decisions that are in the best interest of a company over time (IoDSA, 2016).

According McColgan (2001), the stakeholder theory attempts to bridge the gap between stakeholders and management. Shao (2009) opines that all stakeholder groups participate in a business to acquire profits. McClelland (2011) suggests that a firm is a system composed of diverse stakeholders with varying interests within the organisation. Fontaine (2006) states that the decision-making process in the stakeholder relationship can be affected by conflicting objectives within the system. Braun and Sharma (2007) argue that stakeholder interests have intrinsic value and therefore the focus should be on decision making by management.

In discharging their ethical duty as management, they should apply a stakeholder-inclusive approach in decision making before taking a resolution to further the objectives of a company (Price & Van der Walt, 2013). Over the years, the stakeholder theory has gained prominence because a number of researchers have recognised that the activities of a corporate entity affect a broader scale of the organisation, than only its major shareholders (Gillan, 2006). McColgan (2001) suggests that firm performance should not merely be measured in monetary terms, but rather on creating value for all stakeholders.

2.7.3 The Stewardship Theory

In contrast to the agency theory, the stewardship theory depicts a different model of management, where management is viewed as good stewards who will act in the best interest of the shareholders (Keay, 2017). The basic theory of stewardship is based on the premise of social psychology, which focuses on the behaviour of senior executives (Mallin, 2004). In terms of the stewardship theory, the success of a firm relies on managers who make key decisions for the organisation in order to maximise shareholders' wealth (Filatotchev et al., 2007). A good steward improves firm performance and seeks to meet the expectations of various stakeholder groups in an organisation (Madison, 2014).

According to Wesley (2010), the stewardship theory serves a dual purpose - when the value of shareholders is increased, so is the material value of a steward. Another role of a steward, according to Gillan (2006), is to strike a balance between various stakeholders and other interested parties. Stewardship theory addresses the assumption that there is an underlying tension between the principals and their agents whereby agents focus on short-term financial improvements at the expense of overall firm value (Solomom, 2010). The agency model suggests that shareholders should recognise this tension and mitigate risks by developing mechanisms that align the interests of the principal-agent and inhibit unprincipled actions by the agents (Wesley, 2010).

The stewardship theory is slightly different in approach from the agency theory. It begins from the premise that organisations serve a broader social purpose than just maximising the wealth of shareholders (Vasudev, 2012). According to the stakeholder theory, companies are social objects that can affect the welfare of many stakeholders; whereas, stakeholders are regarded as a group or individuals who continuously interact with the business with shared objectives (Mulili, 2011). The stewardship theory assumes that managers behave as trustworthy stewards of the organisation and focus on the collective good of the firm (Heath, 2004). Corruption and unethical conduct is minimised because the steward carries all the risks the organisation might face (Wesley, 2010).

OECD (2010) proposes that the framework on corporate governance should strategically give guidance to the organisation, assist in the monitoring role of the executives, and help a board to hold accountable those responsible for decision making in the organisation. Makuta (2009) asserts that the success of a business lies in the accountability of the directors as the main drivers of corporate governance best practice. One of the key success factors of good corporate governance is to hold directors accountable for their actions (Jones, 2010).

Stewardship theory stresses the role of top management as stewards (Fontaine, 2006), and integrating their goals as part of the organisation. The stewardship perspective suggests that stewards are satisfied and motivated when organisational success is achieved (Gillan, 2006). On the other hand, stewardship theory recognises the importance of structures that empower the steward and offers some measure of autonomy built on trust (Keay, 2017). The theory also stresses the role of employees or executives to act more autonomously so that the shareholders' returns are maximised (Shao, 2009). In this sense, it is believed that the firm's performance can directly influence perceptions of their individual performance (Abdullah & Valentine, 2009).

According to Chrisman, Chua, Kellermanns and Chang, (2007), stewardship theory offers an alternative way of conceptualising the principal-agent relationship, which can be applied to board members and company executives. Stewardship theory seeks to explain the role and behaviour of directors in achieving the goals of a firm (Solomon, 2010). Agents who act as stewards will not be concerned about advancing their own interests, but rather endeavour to maximise the value of a firm on behalf of the shareholders. Thus, there is an alignment between stewards and company interests resulting in dynamic performance equilibrium for balanced governance (Keay, 2017).

2.7.4 The Resource Dependency Theory

The Resource Dependency Theory (RDT) aims to provide a guide on how to manage organisations which are affected by the external environment, systematically (Yusoff, 2012). RDT holds that organisations are characterised by an open system, which is dependent on the external environment (Udayasankar, 2008). According to RDT, organisations are dependent on resources, mainly economical resources, which are expedient on the existence of the organisation in that environment (Muchemwa & Padia, 2016). Whereas the stakeholder theory and the stewardship theory are based on relationships, the RDT is based on a board of directors who provide access to resources needed by a firm (Nienhuser, 2008).

Hence, RDT focuses on the role of directors in providing resources to an organisation, sourced from the external environment (Hillman, Cannella & Paetzols, 2000). Udayasankar (2008) asserts that RDT emanates from the premise that various elements of corporate governance can serve as critical resources for an organisation. In the context of RDT, Mulili (2011) states that corporate governance can be used as a tool to generate much needed resources in an organisation. RDT further holds that a board of directors can contribute to a firm's performance through their much needed skills and expertise (Yusoff, 2012).

According to Dzingai (2017), a board of directors can be a useful source of key resources, based on human and social capital. Resource dependency theorists, such as Nicholson and Kiel (2007), state that the appointment of representatives of independent organisations can be viewed as a vehicle to gain access to critical resources aimed at the success of an organisation. Hillman, Canella and Paetzols (2000) assert that the appointment of directors benefits an organisation in terms of skills and classified information, which is crucial to stakeholders such as customers, suppliers, policy makers and the broader business community.

Further explanations by the RDT add that there are significant governance relationships between owners and managers in an organisation (Daily, Dalton & Cannella, 2003). One of the advantages of RDT is that it explains the potential benefits arising from various stakeholder groups; it also supports the view that corporate governance can be used as an instrument to generate and maintain resources that serve as a competitive advantage for a firm (Udayasankar, 2008). The underlying assumption about RDT is that dependence on important resources has the potential to influence actions and the ultimate outcome of a firm's critical decisions (Muchemwa & Padia, 2016). Nienhuser (2008) asserts that the basic assumption about the RDT is that the firm will gain a competitive advantage if it is coordinated with the environment. This viewpoint holds that directors have an obligation to expose the firm to external resources needed for survival (Yusoff, 2012). An organisation's quest to acquire resources culminates in the development of a bi-lateral relationship between organisations (Udayasankar, 2008).

2.7.5 The Transaction Cost Theory

According to Yusoff (2012), the transaction cost theory (TCT) was first introduced by Cyert and March (1963) and later described by Williamson (1996). TCT is an interdisciplinary alliance of law, economics and organisations (Chen, 2007). TCT views a firm as an organisation that is comprised of individuals with different views and objectives (Yusoff, 2012). It also holds that the organisation has the capability of determining production, as well as the pricing structure (McClelland, 2011). The theory further expounds on how a company's strategic investments influence governance structures (Saravia, 2014).

Corporate governance exists to ensure that the suppliers of capital to a firm receive an adequate return on their investment (Yusoff, 2012). According to McClelland (2011), investors supply a firm with capital in the form of either debt or equity. According to TCT, debt and equity are much more than alternative financial vehicles for making an investment in a firm, but they are governance mechanisms that employ forms of governance in order to safeguard the capital invested in the firm (Nicholson & Kiel, 2007). Debt provides market governance because they need to know that their investments in the business is worthwhile; and the lender is able to abide by the rules of the contract in terms of interest payments, repayment of the principal amount, and the liquidity aspects of the business (Chen, 2007).

Transactional Cost Economics (TCE) differs from well-known theories on capital structure in that it views debt and equity as corporate governance alternatives and their benefits in financing individual investment projects, which will depend on the characteristics of the assets required to undertake the projects (Williamson, 2010). TCE particularly accentuates the concept of specific assets. This is with reference to depreciable assets that would likely lose their value but with salvage rights at the end of the project (Saravia, 2014). TCE's bone of contention is that if the required asset is non-specific, it will be appropriate to use debt as the governance structure in order to finance the project (Wasserman, 2006). The use of equity as a governance structure will be beneficial if the asset in question is highly specific (Saravia, 2014).

2.7.6 The Political Theory

Political theory brings the approach of developing voting support from shareholders, rather by purchasing voting power (Yusoff, 2012). Hence, having a political influence in corporate governance may direct corporate governance within the organisation (Roe, 2015). Public interest is reserved as the government participates in corporate decision-making, taking into consideration cultural challenges (Certo, 2003). The political model of corporate governance can have an immense influence on governance developments (Yusoff, 2012). Over the last few decades, the government of a country has been seen to have a strong political influence on firms (Roe, 2015). As a result, there is an entrance of politics into the governance structure or firms' mechanisms (Saravia, 2014).

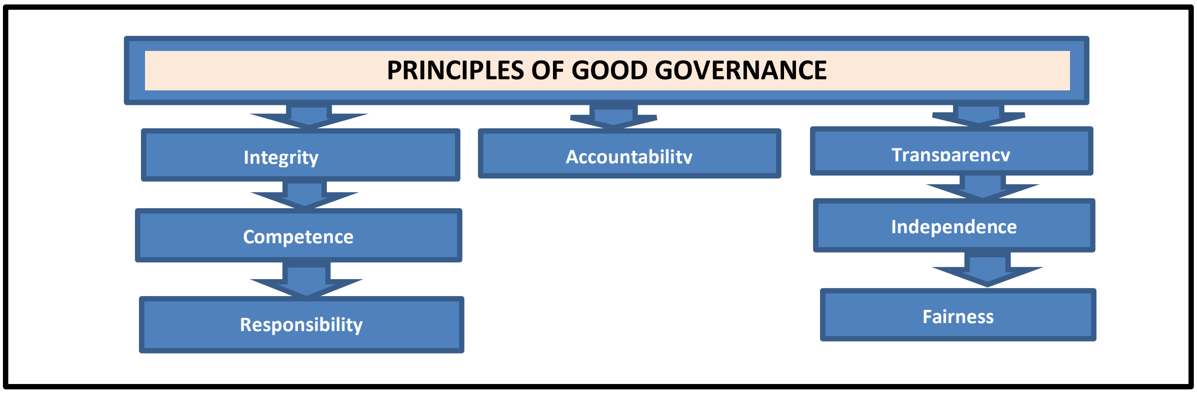
2.8 CORPORATE GOVERNANCE PRINCIPLES

It has become evident from empirical research that corporate governance consists of a set of internal procedures, measures, laws, regulations, and informal guidelines, which direct how corporate officials make decisions and consequently bear responsibility for the risk they take from making such decisions (Monks and Minow, 2004; Thomsen, 2008). Mutuku (2012) states that the main objective of this system is to ascertain those corporate decisions are made in the best interests of the corporation and its stakeholders.

Poor corporate governance is often characterised by weak ownership, poor regulatory control, and a legal system that is not able to protect shareholder rights (Mbaabu, 2010). However, effective corporate governance in an institution provides insights to managers, as it holds both a board and senior managers accountable for their actions (Thomsen, 2008). When the accountability and oversight role are effectively managed, they have the potential to increase firm value by improving the performance of entities (Ribstein, 2006). It is worth noting that effective corporate governance and accountability might not guarantee improved individual firm performance because there are other factors that could affect the impact of firm performance (Dicke, 2000).

Corporations do not operate in isolated environments or in vacuums, they are subject to state-imposed rules and regulations, as well as events and forces around them (Jones, 2010). As a result, corporate governance is affected by overall public governance (Asiimwe, 2015). Political and economic weakness in a country impacts negatively on governance and in a long run filter into the corporate world (Mutuku, 2012). Figure 1.5 below illustrates the principles that underline good governance within a given entity. All seven principles will be explained in the section that follows.

Figure 1.5: Schematic model of good governance



Source: Design for the study

2.8.1 Integrity

Integrity means the quality of being honest and having strong moral principles (Norman, 2013). Integrity is a personal choice to hold oneself accountable to a higher set of values (Collier & Zaman, 2005). In the context of an organisation, integrity means that a board should act in good faith and in the best interest of a company (Rejeb, 2012). The directors should avoid conflict of interest. Where conflict of interest does exist, it must be disclosed (Wu, 2007). The directors should act ethically, accountable to the broader impact of their decisions, and lead by example for a company to follow a higher set of ethical standards (OECD, 2004). Robinson (2019) asserts that the degree of integrity of a company can be seen in the information it chooses to make public, even when the consequences of doing so may not be favourable at the time. The rationale behind taking such decisions is informed by the ethical duty to be accountable to the broader stakeholder group.

2.8.2 Competence

Competence is the quality of being able to perform a task adequately (Robinson, 2019). According to Cheffins (2011), competence calls for a higher degree of skill, knowledge, qualification, or capacity to perform a task. In the context of an organisation, it means that the directors of a company should have sufficient understanding of a company as well as the industry in which it operates (Monks & Minow, 2004). In terms of Robinson (2019), the directors should exercise critical awareness of stakeholder groups that are impacted by its activities. They should be able to commission sufficient resources, which they need to operate (Mwesigwa, 2014). In doing so, a company should act as a responsible citizen and thereby respect all the laws and regulations as set out in that environment (Muchemwa & Padia, 2016).

The directors of a company have a duty to ensure that they equip themselves with this information, as well as the necessary skills and relevant education levels in order to make decisions that are in the best interest of the organisation (Cheffins, 2011). In order to keep the level of competence high, directors are compelled to engage in continuous education and research (Keay, 2017). As the external environment keeps changing, directors should always keep their competence levels high in order to meet the demands of the organisation (Robinson, 2019).

2.8.3 Responsibility

Rejeb (2012) describes responsibility as a means by which a person is held to account to management on how power and resources were used at his/her disposal. In the context of an organisation, it translates to a board's responsibility in steering the organisation's objectives in an accountable manner (Musa, 2015). Acting in a responsible manner means the directors should consider both risks and opportunities in making decisions and ensure that they have, at their disposal, relevant and sufficient information about their endeavours (Mbaabu, 2010). Due consideration should be made to the effect that decisions that are taken also cater for the interest of stakeholder groups and ultimately that of a company (Cheffins, 2011).

A key issue in corporate governance is making a decision as to who will be responsible for what. In the case of companies, executive directors are responsible for the operations of the business (Price & Van der Walt, 2013; Monks & Minow, 2004). The recommendation of the King IV Report is that a charter should be adopted by a board; the charter documents the powers delegated to the Chief Executive Officer (OECD, 2010). Accountability goes together with responsibility (Ribstein, 2006). Any person delegated with authority and responsibility should be held accountable for their achievements and performance (Musa, 2015).

2.8.4 Accountability

According to Robinson (2019), accountability means answerability, liability, and the expectation of having to explain one's actions. Accountability includes the acknowledgement and assumption of responsibility for actions, including governance (Keay, 2015). In the context of a company, a board should be willing to answer as to how it executes its responsibilities (Mutuku, 2012). Accountability remains the requirement for a board, even where duties have been delegated to parties (Ribstein, 2006). Accountability can take many different shapes and forms, but the crucial point is that a board is required to provide accurate information concerning its decisions and actions, so that shareholders are informed as to what has been done (Keay, 2017).

Accountability, according to Jones (2010), involves a board explaining and justifying its actions, omissions, risks, and dependencies for which it is responsible. It is generally acknowledged that for accountability to be effective there must be a dialogue (Wu, 2007). Accountability is measured by the difference between performance and the requirements or expectations of others (Mosunova, 2014). Therefore, a person's level of accountability should be evaluated by another person or by other groups based on that person's ability, the quality with which the person completes specific tasks, and the value of the evaluator (Dicke, 2000). Moreover, accountability is a word that is frequently used in many parts of the society, perhaps more often in the realm of government and politics (Dicke, 2000).

As a result, the growing emphasis on corporate governance and its importance to the viability of an organisation operating in today's global economy is the driving force to effect the necessary changes in how business enterprises respond to the need for greater accountability and transparency in their management (Keay, 2017).

2.8.5 Fairness

Ramatabana (2017) defines fairness as the state, condition, or quality of being fair, free from bias, or injustice. In the context of a company, a board should adopt the stakeholder's inclusive approach when making decisions (Cheffins, 2011). The directors should make sure that the basis of their decisions is ethical and balanced in the interest of each stakeholder group (OECD, 2010).

2.8.6 Transparency

Mateescu (2015) defines transparency as the ability to be seen through. In a business context, it refers to the clear and honest way in which a company conducts itself. It extends to the lack of hidden agendas as well as the availability of information required for decision- making (Armstrong, Core & Guay, 2013). In the context of an organisation, it means that the directors should be transparent in how they exercise their roles and responsibility (Cheffins, 2011). Corporations are gradually coming to the realisation that being transparent, even to the extent that they impart information that is damaging to the firm in the short term, might well assist in the long term (Gillan & Starks, 2000).

According to Robinson (2019), transparency permits stakeholders to make a meaningful analysis of a company and its actions. Transparency also refers to both information about the financial position of a company and to non-financial issues, such as the direction a company is taking, its strategic position and future endeavours (Armstrong et al., 2013). Stakeholders are able to understand a company that is transparent, if the stakeholders can understand information that it provides, and if the information is reliable, trust is built between a company and its stakeholders (Thomsen, 2008). Transparency further applies to processes by which decisions are taken (Jones, 2010).

2.8.7 Independence

Independence means freedom from outside control or support (Robinson, 2019). In the context of a business, independence refers to the extent to which structures and procedures are in place to minimise potential conflict of interest between stakeholders (Adeyemi, 2015). In a company, executive directors are directly attached to the business as they oversee its functioning; whereas non-executive directors are those directors who have no interest in a company and have the freedom to act without any conflict (Cheffins, 2011).

2.8.8 Reputation and reputational risk

A company or a business, like an individual, will be known widely by its reputation, defined as the character generally ascribed to that entity (Nair, 2014). Moreover, reputation may be good or bad. Reputation could also be a source of goodwill or serve as a hindrance (Vallius, 2016). For a company whose shares are traded on the markets, a good reputation, known as goodwill, can be a major asset. For instance, a strong share price facilitates the raising of extra cash from new and existing members (Vallius, 2016). It also makes a company's shares acceptable as a way of paying for acquisitions, remunerating staff, and generally enhancing the way the business is viewed by the financial community (Mbaabu, 2010).

According to Robinson (2019), reputation cannot rely solely on one aspect, but should be viewed holistically through elements such as a code of ethics, corporate social responsibility, fair treatment of staff, attitude to customers, community involvement and abiding by the laws and regulations of the country. Although it might take several years to build a good reputation, it could be destroyed instantly through a badly handled catastrophe or bad publicity. In many instances, damage to goodwill can destroy a company (Rejeb, 2012).

2.9 POTENTIAL COST AND BENEFITS OF CORPORATE GOVERNANCE

Many scholars agree that the practice of corporate governance yields remarkable results (Kondlo, 2017). This section is also concerned with the question of what sound corporate governance is. The questions that one should be asking is what benefits good corporate governance yield for companies would and more importantly, what are the costs of bad corporate governance practices (Rejeb, 2012). Several researchers have linked corporate governance practices, or certain provisions of corporate governance, to the market valuation of a company (Radebe, 2017). Other researchers have found evidence of the correlation between good corporate governance and the lower cost of equity capital (Khan, 2011).

These findings are consistent with the suggestions that improved corporate governance reduces agency costs (Todorovic, 2013). Naidoo (2002) asserts that the effectiveness of corporate governance depends on the application of these principles in a manner, which benefits stakeholders, as well as broader industries and economic sectors. Benefits to stakeholders include resolving conflicts of interest, instilling controls and a sense of ethics, and enforcing and encouraging transparency (Corrigan, 2014). Corporate governance further promotes the efficient use of resources within a firm and the larger economy (Amsteus, 2011). It also helps a firm to attract low-cost investment capital through improved investor and creditor confidence, both nationally and internationally (Radebe, 2017).

Corporate governance also increases a firm’s responsiveness to the needs of the society and improve long-term performance (De Ver, 2009). Mbele (2015) states that good governance promotes firm-wide efficiency and a fair return for investors. Furthermore, Heenetigala & Armstrong (2011) asserts that good governance can benefit a company through a better flow of funds and improved access to low-cost capital, strong internal controls, and discipline. Good, clean governance can result in high credit scores; and thereby, allowing a company to source short-term and long-term loans with ease from lenders (Santos, 2012). Collier and Zaman (2005), in turn, states that companies that are properly governed are supported by deep and transparent financial markets, robust legal systems, and efficient resource allocation.

According to Sobhan (2014), this encourages financial and economic stability and increases national and global growth rates, whereas it is the opposite for poorly governed companies. Kondlo (2017) emphasises that good corporate governance brings better management and sensible allocation of a company's resources, and enhances corporate performance which would significantly contribute to a company's share price, increasing the value of a shareholder's holdings.

2.10. EVALUATION OF CORPORATE GOVERNANCE

For the researcher to conduct better assessment of the impact of corporate governance, it is necessary to be able to quantify corporate governance practices (Loecker, 2013). Given that corporate governance has many aspects, and each aspect has many dimensions, the measurement is a complex problem (Corrigan, 2014). According to Naidoo (2002), various institutions have been working on assessing, quantifying, and ranking corporate governance practices. These rankings have been used by researchers to establish a relationship between performance and corporate governance (Mashonganyika, 2016). Moreover, the measurement of corporate governance in emerging markets remains problematic, as there are no solid systems to benchmark against (Rose, 2016).

The impact posed by agencies, which analyse corporate governance on the market, is claimed to be enormous (Tosuni, 2013). According to Rose (2016), there are many agencies for rating governance, such as ISS, GMI, Glass Lewis and Co, but the market leader is ISS. The state of empirical research on good corporate governance and firm performance is challengeable owing to the absence of well-established data to back the relationship between the two variables (Guo & Kumara, 2012; Michelberger, 2017). According to research on corporate governance, the Sarbanes-Oxley Act could be seen as a turning point, after which changes could be observed in many countries (Azeez, 2015). Many countries introduced corporate governance codes as a kind of soft law since 2002 (Felo, 2011).

In addition, laws were modified regarding the requirement to supervisory boards in many countries (Felo, 2011). In the same vein, post-Sarbanes-Oxley is viewed as a robust global standardisation of corporate governance requirements (Khan, 2011). On the contrary, the global standardisation of corporate governance was characterised by significant differences between corporations in terms of demographics (Li, 2010). However, there is no standard template on acceptable corporate governance practices in various countries (Asiimwe, 2015; Lee, 2011).

2.11 COMPLIANCE OF GOVERNANCE FRAMEWORK

2.11.1 The constitutional foundation of governance compliance

The general governance in large entities is mostly rooted as the principal code or practice or a combination thereof (Pande, 2014). For instance, in the United States of America (USA), large section of governance is represented in Congress and referred to as the Sarbanes-Oxley Act (Norman, 2013). Filmer (2006) asserts that the statutory regime is known as *"comply or else".* The implication is therefore that there are legal consequences that are attached to noncompliance. Within the corporate governance literature, there has been ongoing argument against the *'comply or else'* rule (Jones, 2010). Further literature on the "comply or else" indicates that the theory cannot be a one-size-fits-all. This is because large corporations work in accordance with governance mandate depending on the country of operations (Filmer, 2006). The cost of compliance is difficult, measured in terms of both time and direct cost (Collier & Zaman, 2005).

The notion of implementation is by far very complex because it compels board management to concentrate on the issues of compliance at the expense of enterprise developmental issues and growth possibilities (Peterson, 2014). The improvement in the economic value of a company, as well as the absorption of risk, lies with a board of directors (Amsteus, 2011; Salami, 2014). The board has a responsibility to balance their role of enforcing compliance and pay close attention to the goal, which is to improve performance (Adams, Hermalin & Weisbach, 2010).

2.11.2 **Voluntary basis for governance compliance**

South Africa, and the Commonwealth member states (including the UK), have opted for a code of principles and practices on a 'comply or explain' basis, in addition to certain governance precepts that are legislated (Jones, 2010). The question whether the United Nations' Governance Code should be 'comply or explain' or 'comply or else' is frequently debated (Felo, 2011). The representatives of several of the world bodies were opposed to the word 'comply', because it connoted that there had to be adherence and there was no room for flexibility (Azeez, 2015). Following the King II Report, the JSE required listed companies to include in their annual report a narrative statement as to how they had complied with the principles set out in King II, providing explanations that would enable stakeholders to evaluate the extent of a company's compliance and stating whether the reasons for noncompliance were justified (Price & Van der Walt, 2013; Kondlo, 2017; Tshipa, 2017).

There are examples in South Africa of companies listed on the JSE that have not followed practices recommended but have explained the practice adopted and have prospered (Masegare, 2016). The attention of a board was mainly on the assurance that executives are acting in the best interest of a company and not for themselves, as anticipated in the memorandum of understanding with the company's stakeholders (Michelberger, 2017). South African companies that are listed on the JSE are considered by foreign institutional investors as well governed in emerging economies and should therefore strive to keep this status (Tshipa, 2017). Before the global financial crisis in 2008, South Africa benefited immensely from its listed companies because of good governance practices. This was evidenced by the significant flow of capital into the country's fiscus (Adebayo, 2014).

Notwithstanding the successes, the King Committee shared a belief that there should be a standard code of principles and practices on a non-legislated basis (IoDSA, 2016). Accordingly, King III, therefore, is on an *'apply or explain'* basis, and its practical execution should be addressed in a manner that shifts the legal duty of directors to act in the best interests of the company (Kuhlman & Farrington, 2010). In following the 'apply or explain' approach, a board of directors, in its collective decision-making, could conclude that to follow recommendations would not, in the circumstances, be in the best interests of a company (Vasudev, 2012).

According to Gibbon, Peel, Garston and Bridget (2016), a board could decide to apply the recommendation differently or apply another practice and still achieve the objective of the overarching corporate governance principles of fairness, accountability, responsibility, and transparency. Therefore, the duty of explaining how the principles and recommendations were applied, or if not applied, the reasons, results in compliance (Peterson, 2014).

2.11.3 **The link between governance principles and law**

There is always a link between good governance and compliance with the law (Asiimwe, 2015). Good governance is not applied in isolation to the law, and it is entirely inappropriate to separate governance from the law (Otman, 2014). The starting point of any analysis on this topic is the duty of directors and officers to discharge their legal duties (Vo & Phan, 2013). According to common law, these duties including the duty of care and skill (diligence) and fiduciary duties are grouped into two categories as enacted in the Companies Act 2008.

Mncwango (2015) asserts that as far as the body of legislation that applies to a company is concerned, corporate governance mainly involves the establishment of structures and processes, with appropriate checks and balances that enable directors to discharge their legal responsibilities and oversee compliance with legislation. In addition to compliance with legislation, the criteria of good governance, governance codes and guidelines will be relevant to determine what is regarded as appropriate standard of conduct for directors (Kanyane, 2014).

When governance practices become more established, it becomes more feasible for the courts to regard certain conduct to conform to best practices, and later be viewed as standard practice (IoDSA, 2016). Corporate governance practices, codes and guidelines therefore lift the bar of what are regarded as appropriate standards of conduct (AG Report, 2017). Hence, any failure to meet a recognised standard of governance, albeit not legislated, may render a board or individual director liable by law. Around the world, hybrid systems are developing. In other words, some of the principles of good governance are being legislated in addition to a voluntary code of good governance practice (Robinson, 2019). In an ‘apply or explain’ approach, principles override specific recommended practices (Lee, 2011).

However, some principles and recommended practices have been legislated and there must be compliance with the letter of the law (Lee, 2011). This does not leave room for interpretation (Azeez, 2015). Consequently, what was contained in the common law is being restated in statutes (Ferdous, 2013). In this regard, perhaps the most important change is incorporation of the common law duties of directors in institutions (Muchemwa & Padia, 2016). Consequently, the recommendations that were made in the King II Report are currently regarded in the King III Report as matters of law by virtue of their inclusion in the Companies Act (Companies Act, 2008). Besides the Act, there are other statutory provisions, which create duties for directors (Adams et al., 2010; Vo & Phan, 2013).

The Companies Act legislates in respect of state-owned companies as defined in the PFMA, which includes both national government business enterprises and national public entities (Robinson, 2019). Through observation in existing literature, it is evident that the distinction between state owned and privately owned is unquestionably thin (Chilenga, 2016). State-owned companies are described as 'SOC Limited', whereas, private companies (which have Pty Ltd at the end of a company name), are companies that have memoranda of incorporation prohibiting the offer of shares to the public and restricting the transferability of their shares (Companies Act, 2008). According to the Companies Act (2008), personal liability entities (which have 'Inc.' at the end of a company name) provide those directors and past directors are jointly and severally liable for the contractual debts of a company.

A public company (which has Ltd at the end of a company name) means a profit company that is not a state-owned company, private company or personal liability company (Sanusi, 2016). A non-profit company carries the naming convention 'NPC'. All companies must prepare annual financial statements, but there are limited exceptions from the statutory requirement for an external audit of these annual financial statements (Corrigan, 2014). According to common law, a company is generally permitted to provide financial assistance for the purchase or subscription of its shares, to make loans to directors, subject to certain conditions such as solvency and liquidity, and to describe the standards of directors' duties by reference to the common law principles (Companies Act, 2008).

It is incumbent upon directors to act in good faith, to uphold values, and to act ethically when in a position of power (Matari, 2014). From time to time, directors are called upon to account (Keay, 2015). In terms of the Companies Act (2008), provisions exist for relieving directors of liability in certain circumstances, either by the courts or, if permitted, by a company's memorandum of incorporation, but not on account of gross negligence and wilful misconduct or breach of trust. The Act does make a distinction between statutory provisions and voluntary principles, and recommended practices (Companies Act, 2008; IoDSA, 2016). The Act makes it clear that it is a board's duty, if it believes it to be in the best interests of a company, to override a recommended practice (Gibbon, Peel, Garston & Bridget, 2016). However, a board must then explain why the chosen practice was applied and give the reasons for not applying the recommended practice (Robinson, 2019).

2.11.4 **Impact of external environment on corporate governance**

Businesses operate in the external environment where they have no control over the economy, the exchange rate, the economy of other nations, and the political will of other countries (Muswaka, 2013). According to Otman (2014), the credit crunch, which was experienced globally in 2008, and the resulting crisis among leading financial institutions, is increasingly presented as a crisis of corporate governance (Filatotchev et al., 2007). Nevertheless, although the prevailing challenges are to a larger degree an indication of weaknesses in the global financial environment, they should not be interpreted as reflecting malfunction in the broader South African corporate governance models where values-based principles are followed and governance is applied, not only in form but also in substance (Todorovic, 2013).

Consequently, it is essential that South African policymakers focus their response to the crisis on the underlying sources of the problem, including any defects in the financial regulatory framework (Babatunde, 2009). The opponents of the current regulatory framework in South Africa propose that a US-based approach be adopted, as it is more robust and highly capable of reducing risk of systemic economies in the near future (Selvam, 2016). However, it is worth remembering that the US is the primary source of the financial crisis (Lee, 2011). The Sarbaness-Oxley, with all of its statutory requirements for rigorous internal controls, has not prevented the collapse of many of the leading names in US banking and the finance sector (Santos, 2012).

Although a board of directors is accountable to a company itself, a board should not ignore the legitimate interests and expectations of its stakeholders (Adams et al., 2010). A board should consider the inclusive approach to governance in their decision-making process, as adopted in the King II Report. It should also take account of the legitimate interests and expectations of a company's stakeholders in making decisions in the best interests of a company (Price & Van der Walt, 2013).

2.11.5 **Governance's inclusive stakeholder approach**

This study seeks to emphasise the inclusive approach to governance. The inclusivity approach to governance instils the culture of responsiveness to stakeholders. A board of directors should also consider the legitimate interests and expectations of stakeholders, other than shareholders (Vasudev, 2012). The way in which the legitimate interests and expectations of stakeholders are treated in the two approaches is different (Shao, 2009). In the enlightened shareholder approach, as highlighted by Norman (2013) and Heath (2004), stakeholders have a legitimate interest in a company's affairs.

However, stakeholders are often only considered in as far as it would be in the interests of shareholders to do so (Abbas, 2010). With regard to the stakeholder inclusive approach, a board of directors considers the interests of stakeholders on the basis that it is in the best interests of a company, and not merely as an instrument to serve the interests of the shareholder (Bekink, 2006). Vasudev (2012), further asserts that integration and trade-offs between various stakeholders are made on a case-by-case basis, to serve the best interests of a company. The shareholder, on the premise of this approach, does not have a predetermined place of precedence over other stakeholders (Bebchuk et al., 2009). Notwithstanding, the interests of the shareholder or any other stakeholder may be afforded precedence based on what is believed to serve the best interests of a company at that point (Elghuweel, 2015).

The best interests of a company should be interpreted within the parameters of a company as a sustainable enterprise and a company as a responsible corporate citizen (Turyakira, 2018). This approach gives effect to the notion of redefining success in terms of lasting positive effects for all stakeholders to achieve growth (Naimah, 2017).

2.12 CHALLENGES: CORPORATE GOVERNANCE

One of the biggest challenges in developing countries is that corporate governance is not strengthened by law enforcement and therefore it is susceptible to abuse of shareholders' rights. These may lead to loss of control by a board of directors, weakened regulatory framework, lack of enforcement and monitoring systems, and lack of transparency and disclosure (Otman, 2014). Based on this, Wu (2007) observes that there are quite a few factors that impede on corporate governance, including political, legal and regulatory frameworks; social and cultural factors; economic environment; accounting and auditing framework; corruption and business ethics; and governmental and political dynamics.

According to Shao (2009), many board members lack the requisite skills and competencies to contribute to the leadership of modern corporations. The board needs a range of skills and understanding to be able to deal with various business issues and have the ability to review and challenge management performance (Collier & Zaman, 2005; Madison, 2014). The board needs to have an appropriate level of commitment to fulfil its responsibilities and duties (Dzingai, 2017). The board of directors has the legal authority and obligation to monitor and control corporate activities and to protect shareholder interests (Onetto, 2007).

Babatunde (2009) writes that challenges that impede progress on governance practices in Nigeria include poor management and weak internal control systems. Thus, the significance of this study is relevant in an environment like South Africa, which is characterised by growing calls for effective corporate governance, particularly for public entities (Peterson, 2014). This call is understandable in view of the value of effective governance in the business sector (Babatunde, 2009; Okpara, 2011).

2.13 **LEADERSHIP AS A DRIVER OF CORPORATE GOVERNANCE**

2.13.1 **Background**

De Ver (2009) points out that the concept of leadership has generated debate across business, political and social circles. But what is leadership? Is there any concept that best describes leadership to an extent that it can be understood universally? Scholars should understand that leadership is not a moral concept (Todorovic, 2013). Rai, Patnayakuni and Seth (2006) asserts that leaders are human beings and therefore fallible, fragile and emotional. As such, leaders can act unpredictably under different conditions, they can be trustworthy and deceitful, they can be brave yet cowardly, and they can be so greedy and yet generous. The assumption that leaders are generally good people is far from reality and it severely limits the scope of them becoming more effective leaders (Ali, 2018). In principle, leadership should be regarded as a complex phenomenon made up of variety of other personal, social and organisational processes (Ali, 2018). The key factor in leadership is influence, whereby people are motivated to work towards set goals wilfully without being coerced (Wang, 2010).

2.13.2 **Characteristics of leadership**

Recent empirical study by Obiwuri (2011) assets that the management concept of leadership can be divided into four spheres. These according to the study were processes of leadership, influence of leadership, leadership in the context of group and leadership that involves goal attainment. Many authors describe the concept of leadership differently, but what is common in the definitions is that leadership is viewed as a process by which a leader influences a group to work towards a common goal (Obiwuri, 2011). The assumption that is common among the definitions is that leadership is about exerting a measure of influence in a group setup or organisation (Marashdeh, 2014). Nevertheless, irrespective of the uniformity on the importance of leadership, and the innumerable works on the concept, the field of leadership studies has not succeeded in articulating a coherent, paradigm-shifting model or approach that both scholars and practitioners can accept and work with (Hao, 2015).

Armstrong, Segal and Davis (2005) underscore the sentiment that corporate governance is about effective leadership, which is characterised by ethical values of accountability, responsiveness, fairness, and transparency. It is the system or process of giving direction or control to companies (Hao, 2015). A clear and functioning corporate governance system helps the firm to attract investment, raise funds, and strengthen the foundation for firm performance (Rai, Patnayakuni & Seth, 2006). However, investors are more likely to be enticed by companies that disclose good corporate governance systems, as they are perceived as well-governed firms, which carry less risk (Braun and Sharma, 2007). Hence, a company with a sound corporate governance structure will have improved performance (Dzingai, 2017)

There is no agreement as to what ‘leadership’ means. According to Vasudev, (2012), leadership needs to be understood politically, that is, as a political process, which involves at least three critical aspects, namely:

- Leadership implies the mobilisation of people and resources, both political and economic, in the quest for certain results.
- Leadership should be understood in the context of power dynamics in a particular environment that is characterised by legitimacy and authority; and
- Leadership commonly encompasses coalitions, be it formal or informal, to solve persistent problems, which affect growth and development.

Marashdeh (2014) describes leadership as a collective phenomenon. This means that leadership is an interaction between parties, which often involves a structuring or restructuring of the situation guided by the perceptions and expectations of others. Adler (2004) concedes on the complexity of leadership, in his definition, he describes leaders as agents of change, persons whose acts affect other people more than other people’s acts affect them. Leadership occurs when one group member modifies the motivation or competencies of others in the group (De Ver, 2009). It is therefore expected that, by broad definition, any member of the group can display some measure of leadership qualities that may vary from person to person (Dessler & Starke, 2004).

2.13.3 **Good leadership qualities**

Leadership is a reciprocal phenomenon (Naidoo, 2002). There is no leadership without followership (Obiwuri, 2011). Attributes of leadership, according to Sharma (2007) include the following:

- **Leadership as personality and its effects**

A leader is considered as a person possessing the greatest number of desirable traits of personality and character (Coyle, 2008). Leadership is viewed by personality theorists as people who possess qualities that differentiate them from their followers; this does not affect the impact followers have on leaders (De Ver, 2009).

- **Leadership as the art of inducing compliance**

Leadership is the ability to handle people to achieve the most with the least friction and the greatest cooperation (Rai, Patnayakuni & Seth, 2006). Furthermore, leadership is the creative and directive force of morale (Cheffins, 2011). Naidoo (2002) defines leadership as the ability to impress the will of the leader on followers with respect, loyalty, and cooperation. This perspective also regards leadership as a unidirectional exertion of influence and as an instrument for moulding the group to the leader's will (Grint, 2004).

- **Leadership as the exercise of influence**

According to Obiwuri (2011), leadership influences change in the conduct of people. The concurrent view of leadership is that of achieving goals through the process of influencing group efforts (Grint, 2004).

According to Kellerman (2004), the attributes mentioned above are a more interactive view of the relationship between leaders and followers. Otman (2014), states that an individual's efforts to change the behaviour of others is attempted leadership. When the other members change, this creation of change in others is successful leadership (Minja, 2009). If the others are reinforced or rewarded for changing their behaviour, this evoked achievement is effective leadership (Otman, 2014). For Pearce and Robinson (2019), the concept of influence reflects the idea that there is a difference in the extent to which individuals affect the group. Wang (2010) views leadership as the ability of an individual to influence, motivate, and enable others to contribute towards the effectiveness and success of the organisations of which they are members.

It is virtually impossible to talk about corporate governance without referring to leadership. Leadership is the system or process of giving direction or control to companies (Lee, 2011). A transparent and functional governance system should help a firm to attract investment, to raise much needed capital, and strengthen the basis for company performance (Kanyane, 2014). However, investors are more likely to be attracted to companies that disclose favourable corporate governance issues, as they perceive well-governed firms to be less risky (Robinson, 2019). Hence, a company with a sound corporate governance structure will have improved performance (Dzingai, 2017).

Tshipa (2017) recommends that South African companies should see compliance with the recommendations of the King IV Code on Corporate Governance not as a liability, but an ethical investment that could likely yield financial benefits in the long-term. Complying with corporate governance principles may not immediately translate into financial and significant economic benefit; however, businesses should continue to adopt corporate governance practices to meet stakeholders' social and environmental needs for sustainable development (Kuhlman & Farrington, 2010).

2.14 **ETHICAL LEADERSHIP**

2.14.1 **Background**

As mentioned in the introduction, corporate governance defines the regulatory framework for the management and supervision of companies whereas the corporate governance framework is largely determined by legislators and owners (Jones, 2010). Good governance is essentially about effective leadership (Matari, 2014), and leaders should rise to the challenges of modern governance (Kuhlman & Farrington, 2010). The envisaged kind of leadership should be characterised by good ethical values such as responsibility, accountability, fairness and transparency, and should be distinctly based on moral duties that are expressed in the concept of Ubuntu (Abiodun & Oyeniyi, 2014). At the heart of corporate governance is leadership, therefore, it is incumbent upon leaders to carry out their duties with diligence, care and skill (Robinson, 2019).

2.14.2 **Leadership and Ethics**

The role of a board of directors with the executives should be to set the appropriate ethical tone for the business and to act as role models by demonstrating credibility and integrity timeously (Boatright, 2011). Burcea and Croitoru (2014) affirm that ethical leadership is closely connected with compliance. The more managers behave as ethical leaders and role models, the more likely they are to influence employees and gradually establish ethical behaviour (Norman, 2013). There is undoubtedly a huge responsibility on leaders to act ethically (Abiodun & Oyeniyi, 2014). Executives and directors must be role models whose behaviour mirrors a company‘s code of ethics, and they should act on what they say (Hao, 2015).

It should be noted that ethics and values are matters that go hand in hand with personality and action (Cosans, 2009). One must be seen to be acting ethically and be of good moral standing (Abdullah & Valentine, 2009). Corporate directors and executives have a duty and the unique opportunity to reinforce their company‘s protection against fraud, mismanagement, and corruption (Bremer & Elias 2007). This can be achieved if the directors are ethically upright and support a model that will influence operational practices in creating and sustaining an organisational culture that encourages ethical conduct and a commitment to compliance with the law (Billyard, 2015).

An ethical culture might act as the missing link between corporate regulation and effective performance (Adebayo, 2014). Considering that ethics already exists in corporate governance structures, an attempt will be made to define the concept of ethics in the context of corporate governance regulation and to outline the nature of an ethical corporate governance framework (Filmer, 2006).

2.14.3 The role of ethics on leadership

Multinational companies operating in different countries are obliged to find the golden line between numerous and frequently contradictory rules, inconsistent laws, and conflicting interests (De Ver, 2009). There is the perception that, in today's ruthless and highly-competitive business environment, the companies that survive are those which focus on profit-driven objectives (Babatunde, 2009). However, even if profit maximisation is taken to be the sole corporate objective, the method of achieving that objective is more complex than simply focusing on short-term gains (Jones, 2010). Modern companies must devise a system, which ensures that their goals are sustained without compromising their future needs (Nair, 2014). An injection of morality, fairness and integrity is essential for the establishment of an ethical culture, as companies are entering into the age of enlightenment (Ahmad, 2009).

The business model, based on sheer profit maximisation, led to growing pressure on managers and chief executives to meet the market's expectations (Matari, 2014). In an era in which managers enjoyed paternalistic power with relatively little accountability, the temptation for executives to cook the books to show credibility with the markets was almost irresistible (Amsteus, 2011). Gradually the excessive demand for value and short-term profitability created a hitting the numbers 'culture (Santos, 2012). The introduction of incentives at the beginning of the 1990s further reinforced the short-term culture, instead of solving the problem of agency costs (Chrisman, Chua and Litz, 2004).

Based on this profitability mentality, lucrative bonuses, performance-related incentives, and stock options, created by the separation of ownership and control, brought the opposite result (Vallius, 2016). Managers were not only motivated to push up the company's share price at any cost, but they were also rewarded for not exposing the rot (Nair, 2014). It is fair for managers to be rewarded through bonuses when a company meets its targets. The problem is when the choice of corporate objectives is not based on a company's resources and potential, but instead on short-term priorities or unrealistic targets (Turyakira, 2018). Corporate strategy should define corporate priorities and expectations, and not the other way round, especially if the focus is on how performance standards will be met or how numbers will be hit (Loecker, 2013).

A good corporate strategy is one that sets the right goals and determines the most efficient way to accomplish them within the limits of the law and a company's potential (De Ver, 2009). Not all companies will always be successful and profitable based on performing their obligations ethically (Norman, 2013). However, ethics are internal to business and not imposed upon business activity from outside (Burcea & Croitoru, 2014). There is no evidence showing that ethical conduct leads to a reduction of profit and financial downturn (Sobhan, 2014). On the contrary, it has been reported that the stock market rewards companies with admirable corporate governance and high ethical standards by valuing them highly (Hao, 2015). There are studies reporting that companies with more comprehensive corporate governance tend to pay more in dividends (Panda & Leepsa, 2017).

Ethics have been increasingly recognised as the missing link in the chain that links corporate performance with success because there is a growing consensus about opportunistic behaviour, self-interested agents, and erosion of business culture (Ng'eni, 2015). Ethics is not a new concept in the area of corporate governance, it already existed in the business culture internationally (Chrisman et al., 2004; Matari, 2014,). Common law and self-regulatory codes, in which compliance is purely voluntary, have been in existence for a long while (Benavides, 2014). Companies and market participants have adopted the principles and provisions of these codes even without the intimidating effect of sanctions, because they recognise the value and the usefulness of their recommendations (Meyer, 2015).

According to Samaha and Dahawy (2011), voluntary compliance incorporates an ethical element, as these codes are intended to show companies and their managers how to achieve their overriding goals and how to design their strategy without using questionable, unethical, or illegal means. It was argued earlier in this thesis that the nature of the Code's recommendations was surprisingly similar all around the world, as the vast majority referred to values like integrity, transparency, accountability, fairness and respect (Heath and Norman, 2004; Robinson, 2019). There are also some notable initiatives, not originating from governments, which highlight the ethical character of voluntary compliance (Ardichvili, Mitchell and Jondle, 2009).

With reference to the narration above, the voluntary conduct model was adopted by ten global financial institutions, which agreed to comply voluntarily with several environmental and social principles developed by the World Bank and the International Finance Corporation to promote socially responsible conduct and sound environmental practices in relation to project finance initiatives (Andreadakis, 2010). For some critics, voluntary codes of conduct, although without enforcement mechanisms, have an important educational value for corporations as well as developing countries (Epstein, 2007). Others believe that the emergence of codes of conduct, which are essentially voluntary, is an acknowledgement of the inadequacy of efforts to protect the environment, human rights, and labour standards through traditional governmental and intergovernmental regulation (Andreadakis, 2010).

An ethical and transparent business culture is essential for long-term success of companies and very beneficial for both the shareholders' and stakeholders' interests (Chrisman et al., 2004). For longevity and continuity, companies have always been looking for the best strategies, those that would increase their value (Azeez, 2015). Successful performance in both short-term and long-term can be the outcome of an ethical culture; this is where the whole misunderstanding has its roots (Dzingai, 2017; Sobhan, 2014). Ethics can be incompatible with profit maximisation (Masegere, 2016). Ethics refer to the whole operation of a company, such as the objectives, business decisions and priorities, and day-to-day handling of issues and problems, and they cover every aspect of a company's conduct and practices (Chrisman et al., 2004).

In other words, the behaviour of a company is characterised as ethical based on the way it copes with its daily affairs, its problems, as well as the hierarchy of its objectives (Filip, 2015). Companies identify a set of objectives, which they try to accomplish (Guo & Kumara, 2012). Ethics refer to the means used for the accomplishment of these objectives, such as the pursuit of profit (Asiimwe, 2015). The question of pursuing profit does not automatically make a company unethical (Norman, 2013). The question of ethical behaviour will be answered following an assessment of the whole culture of a company (Andreadakis, 2010). One of the factors that that threatens ethical culture is globalisation (Vasudev, 2012).

Globalisation poses a difficult ethical challenge for companies, as it is hard for a multinational company to implement a single code of ethics in all its subsidiaries and branches around the world (Norman, 2013). This is because of fundamental differences in traditions, customs, laws, perception of ethics, and culture in general (Laiho, 2011).

2.14.4 **Ethics, morals and culture**

One of the main hindrances of a globally accepted ethical conduct is culture (House, Hanges, Javidan, Dorfman & Gupta, 2004). Culture is defined as accepted behavioural standards within the confines of a specified group as guided by a pattern of shared learned beliefs, traditions, and principles (Jones, 2010). The problem with this aspect of culture is that what is accepted as morally just in one society is regarded as nonsensical by another (Jones, 2010). Norman (2013) describes a code of ethics as nothing more than formalised public statements used as guides for both present and future behaviour, and a certain degree of variation is acceptable when talking about companies operating on different continents (Turyakira, 2018).

As a result, the pertinent question that needs to be asked is whether there is any ethical culture that can ideally play the role of a point of reference for all companies worldwide, irrespective of where they operate, where they are registered, or where their shareholders come from (Matari, 2014). Instances where ethics become formal or informal standards or conducts that is used to provide guidance to the general behaviour, ethical code does not represent the only instruments that serves company's interest (House et al., 2004).

Ethics should also be distinguished from morals because morality refers to and defines personal character, whereas ethics stress a social system in which those morals are applied (Matari, 2014). The establishment of an ethical culture can contribute significantly filling the gaps of the existing legislative and self-regulatory framework, in improving corporate governance structures nationally as well as internationally and, finally, in strengthening the defences of the business community against future scandals and crises (Jones, 2010).

2.14.5 **The practical pillars of ethics**

As Jones (2010) indicates, the practices of ethical culture within companies stem from mission and culture, effectiveness of leadership and integrity. Further research findings on ethical culture add that other practices include balance of shareholder and stakeholders including long-term perspectives of companies (Boatright, 2011). In other words, companies are expected to have clarity of mission and values, reflected in ethical guidelines and behaviour, which is driven by a good organisational culture that institutionalises ethical values and builds relationships of trust and respect (Norman, 2013). In this corporate culture, where core business functions are aligned with the organisational processes, an environment is nurtured that actively eliminates people who do not share the values and sustainability over the long term (Matari, 2014).

Consequently, modern companies do not have to re-write their constitution and replace their whole management team (Cosans, 2009). Newcomers are implanted in the existing culture of high moral values (Chrisman et al., 2004, 2017). On the one hand, Trevino, Weaver, Reynolds (2006), suggest that deviations from cultural norms should be punishable. However, a culture of fear may breed operating inefficiencies without necessarily increasing ethical corporate culture (Jones, 2010). Mutuku (2012) concurs that shared accountability and equal authority are some of the main attributes of an ethical culture. The company should comply with the legal requirements, and its incentives systems should reward ethical conduct and promote the corporate mission (Tosuni, 2013).

A company should have an ethical code of conduct that is clear, well communicated, and is specific about expected procedures and practices, thoroughly understood, and enforceable (Samaha and Dahawy, 2011). In this way, all parties involved understand what is expected from them and what standards they need to reach (Trevino et al., 2006).

According to Turyakira (2018), ethics involves learning what is right and wrong, and then doing the right thing. The actual process of resolving such ethical dilemmas is what makes a good leader (Norman, 2013). Success is closely related to a company's leadership and ethical background (Marashdeh, 2014). Effective leadership, according to Hao (2015), is about creating and developing a strategic vision of the organisation, which is based on good ethics and shared values. At the heart of the ethical dilemma, striking the right balance between conflicting interests in demanding circumstances, when there is no time or not sufficient information, is what all companies are looking for from their management team (Burcea & Croitoru, 2014).

Most ethical decisions have multiple alternatives, extended consequences, mixed outcomes, uncertain consequences, and personal implications (Mutuku, 2012). Peterson (2014) asserts that no rule or code can replace this process by offering the right answer for each given dilemma, because no law can resolve all moral dilemmas. Good rules and good governance alone do not make a company successful (Jones, 2010). Rules and ethics cannot be seen separately (Pande, 2014). The ethical part aims to support and strengthen the power of the rules (Peterson, 2014). If rules are the skeleton, ethics is the flesh to the bones in that corporate strategies should be developed in a way that allows core values and principles to co-exist (Zinkin, 2010).

However, it is not simple to translate best practice into corporate action (Andreadakis, 2010). Core values are those that must not be compromised for financial gain or short-term expediency (Trevino et al., 2006). It is a demanding task to strike the appropriate balance between the corporate objectives and the ethical objectives, which are added by corporate governance rules and codes (Santos, 2012). Each company should be clear on defining their aims, objectives, and goals, in addition to the means for their accomplishment (Matari, 2014). Codes of ethics are most often perceived as tangible evidence that a company has recognised a need for, and has made a commitment towards, ethical behaviour (Andreadakis, 2010).

All the human resources of a company should be encouraged to participate in the creation of an ethical and supportive business environment. Corporate governance is based on the relationships among all the participants in this complex environment (Adler, 2004). Corporate objectives are the same for all participants, even though the effect of a company's conduct and performance may differ or be indirect (Khan, 2011). The success of a company is the overarching objective. Recent study by scholars Corrigan (2014) and Radebe (2017) revealed that the success of a company is of utmost interests to the benefits of all the members of the entity.

2.14.6 **Unethical organisational culture**

To understand what unethical culture looks like, there must be a clear and unambiguous definition of good ethical culture (Cheffins, 2011). Norman (2013) defines ethical organisational culture as a culture, which shapes high ethical standards among its members, takes into consideration the rights of various stakeholders, and is not only concerned with what goals are achieved but also how such goals are achieved. Based on this, unethical organisational culture poses serious challenges in a company (Billyard, 2015). With the Gupta-gate scandal in South Africa, accountants and auditors were harshly criticised for acting impartially and, in turn, contributing to the corporate failure of the auditing firm involved (Desai & Goolam, 2017).

What was missing from the accounting firm was accounting ethics that is expected of company employees to the benefits of society (Samaha and Dahawy, 2011). There are many cases where accountants were accused of lack of ethical sensitivity, professionalism, independence, and impartiality (Filatotchev et al., 2007). Even if we accept that they were not just self-interested, accountant and auditors faced huge predicament when they had to choose between doing their job properly and face the danger of losing their jobs, or making improper judgements and remaining employed (Robinson, 2019). For example, the accountants at Arthur Anderson did not behave with honesty, and integrity when auditing Enron (Li, Mangena & Pike, 2012).

As a result, shareholders were harmed, a company collapsed, and some Arthur Anderson accountants were held legally liable for their breach of business ethics (Burcea & Croitoru, 2014). Ethics is the key because accountants do not have to resolve any conflicts of interests, but have to remain independent and unbiased (Azam, Usmani & Abassi, 2011). Shareholders, managers, directors and investors rely on the accountants' work so heavily that their credibility should not be debatable (Norman, 2013). Corporate failures have undermined the long-standing reputation of the accounting profession. However, the general trust in the accounting and audit profession can be brought back through thorough improvements in ethics (Dellaportas, 2006).

Furthermore, corporate governance rules should incorporate the ethical standards of the society in which the companies operate (Ng'eni, 2015). Companies are an integral part of the general social environment (Ezam et al., 2011). Thus, their conduct influences the developments of ethical standards, while at the same time companies are affected by these standards (Van Wyk & Badenhorst-Weiss, 2017). Self-regulation, through using soft law and minimum standards, is intended to strike a balance between rules and ethics (Simpson, 2013).

2.15 **KING REPORT ON CORPORATE GOVERNANCE**

2.15.1 **Overview of the King Report**

Judge Mervyn E King of the Supreme Court of South Africa was asked by the Institute of Directors of Southern Africa (IoDSA) to chair a committee on corporate governance (IoDSA, 2013). The judge viewed this as an opportunity to educate the newly democratic South African public on the working of a free economy. The King Committee was a blueprint for the governance landscape in South Africa. It established recommended standards of conduct for boards and directors of listed companies, financial institutions, and state-owned enterprises. It included not only financial and regulatory aspects, but also advocated an integrated approach that involved all stakeholders (IoDSA, 2013).

The King Report on Corporate Governance is a set of guidelines that help structure corporate governance framework for companies in South Africa (IoDSA, 2016; Tshipa, 2017). It was issued by the King Committee on Corporate Governance. Since its inception in 1994, the King Committee was successful in publishing the King Code on Corporate Governance scribed in King I in 1994. King II was published in 2002 and later King III report in 2009. The latest code, being King IV, was published in 2016. Compliance with the King Reports is a requirement for companies listed on the JSE (IoDSA, 2016). The King I Report on corporate governance was applicable mainly to

JSE-listed companies, financial institutions, including mutual banks and insurance companies, state-owned enterprises, and large unlisted corporations.

2.15.2 **The King Report in South Africa**

Unlike other corporate governance codes, such as Sarbanes-Oxley, the King Code is non-legislative and based on principles and practices (McGregor, 2014). It also adopts an “apply or explain approach” (Pande, 2014). The philosophy of the Code consists of the three key elements of leadership, sustainability and good corporate citizenship (Kuhlman & Farrington, 2010). It views good governance as essentially being effective, ethical leadership (Wajeeh & Muneeza, 2012). The King I Report states that leaders should direct a company to achieve sustainable economic growth, and social and environmental growth (IoDSA, 2013). It views sustainability as the primary moral and economic imperative of this century. The Code’s view on corporate citizenship flows from a company's standing as a juristic person under the South African Constitution, and it should operate in a sustainable manner (Kuhlman & Farrington, 2010; RSA, 1996).

2.15.3 **King I Report on Corporate Governance**

The King I Report on corporate governance was published in 1994 as the first corporate governance code for South Africa (Persons, 2015). The King Report made series of recommendations with regard to standards of conduct for boards and directors of companies, financial institutions and certain state-owned enterprises (The Companies Act, 2008). The integrated approach of the King Report was that it should also include not only the financial and regulatory aspects of the organisation, but also the involvement of all stakeholders (Price & Van der Walt, 2013). The Report was applicable to banks, financial and insurance companies as defined by the Financial Services Acts of South Africa, and large unlisted companies (IoDSA, 2013). The King Report encouraged all companies to adopt the Code, irrespective of their size and revenue. According to IoDSA report (2013), the King 1 Report is based on selective principles. These principles include the disclosure of executive members’ remuneration, affirmative action programmes and the code of ethics for entities among others.

2.15.4 **The King II Report on Corporate Governance**

In 2002, when the Earth Summit was held in Johannesburg, King pushed for an amendment of the King II Report, including new sections on sustainability, the role of the corporate board, and risk management. This revised code of governance was applicable from March 2002 (IoDSA, 2013). The purpose of the inclusion was solely to accommodate other passive sectors of the economy, such as national and provincial departments, including local government. Treasury regulations and policy frameworks, such as the Public Finance Management Act (PFMA) and the local based Municipal Finance Management Act (MFMA), were to be reconfigured to include a framework on corporate governance (IoDSA, 2013). The King Report inspired companies to implement the applicable principles from the Code. Similar to King 1 Report, King 11 Report consists of several principles namely key responsibilities of directors regarding their roles, adequate management of risk, internal audit reporting processes, accounting and auditing report and to enforce legislations.

2.15.5 **King III Report on Corporate Governance**

In an interview with Judge Mervin King, he said the King II Report was wrong to include sustainability as a separate chapter, leading companies to report on it separately from other factors. In the next version, the 2009 King III Report, governance, strategy, and sustainability were integrated. The Report recommended that organisations produce an integrated report in place of an annual financial report and a separate sustainability report, and that those companies create sustainability reports according to the Global Reporting Initiative's Sustainability Reporting Guidelines.

In addition to the earlier versions, the King III Report was also relevant to all business entities, including not-for-profit organisations. King encouraged all entities to adopt the King III principles and explained how these had been applied or were not applicable. The King III Code of Governance was applicable from March 2010. The Report incorporated a few global emerging governance trends. These include alternative dispute resolution processes, risk-based internal audit procedures and examination of performance by the board of directors.

As with King I and King III, the Code of corporate governance was not enforced through legislation. However, due to evolutions in South African law many of the principles put forward in King II were now embodied as law in the Companies Act of South Africa of 2008. In addition to the Companies Act, there were additional applicable statutes that encapsulated some of the principles of King III, such as the PFMA and the Promotion of Access to Information Act (PAIA).

2.15.6 **King IV Report on Corporate Governance**

There have been significant corporate governance and regulatory developments, locally and internationally, since King III was issued in 2009, which need to be taken into account. The other consideration is that whilst listed companies are generally applying King III, non-profit organisations, private companies and entities in the public sector have experienced challenges in interpreting and adapting King III to their particular circumstances. The enhancement to King IV was aimed to make it more accessible to all types of entities across sectors. King IV was published on 1 November 2016. The Institute of Directors in Southern Africa (IoDSA) is the custodian of the King Reports and the holder of their copyrights.

2.15.7 **Application of the King Code**

Mncwango (2015), in his study, made observations on the application of the King Code as it applies to corporations. The IoDSA report (2009) supports the narration and further suggests that all entities should apply the principles in the Code and consider the best practice recommendations in the Report. The expectation of IoDSA was that all entities, in different shapes and form, would show commitment by way of explanation on how the principles would be applied, or the failure thereof (IoDSA, 2013). This level of disclosure would allow stakeholders to comment on and challenge a board on the quality of its governance (Zagoub, 2011). The King Committee noted objectively that each entity would approach the Code and apply it differently from other entities.

The elusive nature of the application of the Code should assist entities on continuous improvement about governance practices (IoDSA, 2013). Tosuni (2013) caution that the notion of the “apply and explain” approach requires careful consideration on how to implement corporate governance best practices. Robinson (2019) asserts that each principle is of equal importance and together forms a holistic approach to governance. Consequently, “substantial” application of the Code and the Report does not achieve compliance (Kondlo, 2017). According to IoDSA (2013), the Code is applicable to companies within the jurisdiction of South Africa, and foreign organisations are not compelled to apply the Code as is, but apply it as prescribed by the parent company in their land of origin.

2.16 **CHAPTER SUMMARY**

In terms of the constitution, every South African require adequate service delivery. In the global context governments are duty-bound to craft strategies and policies that are aimed at curbing socio-economic issues to raise the standards of living of communities. This chapter outlined extant literature on corporate governance with related theories and models. These models include the agency theory and problem, theories on stakeholder, stewardship, the resource dependency theory, transaction cost theory and political theory. The chapter further unearth specific administrative issues of corporate governance. Furthermore, the chapter featured governance strategic theory were highlighted with several related issues of accountability, ethics, integrity, responsibility, transparency, fairness, competency, and independence. Besides, the King I, II and III reports formed part of this chapter.

Based on literature, the King Reports with related principles that govern the various established committees were highlighted. Other areas that were covered in this chapter include ethical leadership as well as the personal traits of leadership. Lastly, the succeeding chapter deals with literature review on municipality and service delivery.

CHAPTER THREE

THE MUNICIPALITY AND NATURE OF SERVICE DELIVERY

3.1 INTRODUCTION

This chapter will delve into the role of corporate governance in the municipal arena. The chapter will also seek to establish what is meant by performance and what the expectations of good performance are. Corporate governance can be loosely defined as the appropriate distribution of power and responsibilities from a board of directors to the management and owners of a business. This definition recognises that corporate governance is not just a set of external rules, but it is an internal discipline mechanism needed to maintain stability and productivity among the participants in a business enterprise. Corporate governance, transparency and accountability are more than a compliance exercise; they are essential ingredients of good management and a prerequisite for a healthy business.

Moreover, this chapter will unpack the role of a municipality in terms of the delivery of services to communities. Service delivery has been a challenge in South Africa and what municipalities have had to grapple with. If it is not poor dysfunctional management, it is lack of funding from the provincial government. Many politicians are not keen to take responsibility they continue to lobby voter support to stay in power. As a result, the question remains. Can corporate governance play the critical role in fixing service delivery challenges? One must take positive position that if all the challenges pointed out are addressed, the outcome can be different with positives.

3.2 BACKGROUND OF MUNICIPALITIES IN SOUTH AFRICA

According to Bekink (2006), there is not one globally accepted set of principles that can be applied to the governance of local municipalities. Different countries and markets across the globe have developed accepted principles and guidelines that govern the affairs of their corporations (Majekodunmi, 2014). The Cadbury Code (1992) emerged because of the corporate failures of the 1980s (Naimah, 2017). The King Code recommended that for a board of directors to function optimally, there should be changes in board’s structure and a standard procedure should be implemented to make the firm more accountable to its shareholders. Ways to effect changes are to increase the number of independent directors on a board, to separate duties between the chairperson and CEO, and to introduce board committees (Eng & Mark, 2003). According to Collier and Zaman (2005), the principles of corporate governance as adopted by the OECD were meant to assist governments in evaluating and improving the legally established frameworks for corporate governance in their respective countries.

The principles also provide guidance in developing good corporate governance (Goswami, 2002). Even though cultural and institutional differences exist between countries, the underlying principles could allow fundamental compatibility (Pande, 2014). The OECD principles relate to equitable treatment, responsibility, and transparency (Heenetigala & Armstrong, 2011). The term ‘municipality’ in South Africa is synonymous with service delivery protests of one shape or another (Filmer, 2006). The lack of electricity and, clean water, and potholes, dominate the headlines (Salami, 2014). The rolling out of public service delivery objectives is critical to communities (Bekink, 2006), and municipalities have been mandated by the Constitution to deliver essential services, such as water, electricity, roads, sewerage infrastructure and other RDP-related projects (Joseph, 2002). Service delivery protests countrywide are evidence that municipalities are failing to deliver on their mandate (Siddle & Koelble, 2016). The purpose of this chapter is to reveal municipalities’ role in meeting their core objective which is to deliver services to communities.

3.3 **CATEGORIES OF MUNICIPALITIES**

According to the Constitution in Section 156, there are three distinct categories of municipalities. The Constitution further provides that national legislation must define the different types of municipalities that may be established within each category:

- **Category A:** Metropolitan Municipality: it has exclusive authority to make rules over its area of jurisdiction.
- **Category B:** Local Municipality: the local municipality is controlled by the district municipality.

- **Category C:** District Municipality: it has the authority to administer and make rules in areas, which include more than one local municipality. It shares the authority with the local municipality within its area. The different categories in which municipalities operate are defined in table 3.1 below.

Table 3.1: Categories of municipalities

Categories of Municipalities		
A	**B**	**C**
Metropolitan Municipality	**Local Municipality**	**District Municipality**
The metros have prerogative authority to enact rules and regulations over its jurisdiction	They share authority with district municipality in whose area they fall	They have the authority to administer and make rules in areas, which include more than one local municipality. They share authority with the local municipality within their areas.

Source: Researcher's own work (2021)

Municipalities are categorised in terms of power and governance structures, as determined by the MEC for local government in a particular province (Masegare, 2016,). There are three different types of municipalities. This is regulated in Section 7 of the Local Government Act: Municipal Systems Act (Crow 2016). Depending on the category of municipality, these can be amplified by either a ward participatory system or a sub-council participatory system (Meyer, 2015). In South Africa, the total area has been divided into three categories of municipality, namely metropolitan (the eight largest cities); 46 district municipalities, covering urban and rural areas as a kind of regional government; and 224 local (urban) municipalities, in terms of the Local Government: Municipal Demarcation Act 27 of 1998 (Baatjies, 2010). Thus, the whole population is subject to local government legislation and to government policies on municipal governmental and administrative affairs (Ramutsheli & Janse van Rensburg, 2015; Thornhill, 2014).

3.4 **LOCAL GOVERNMENT**

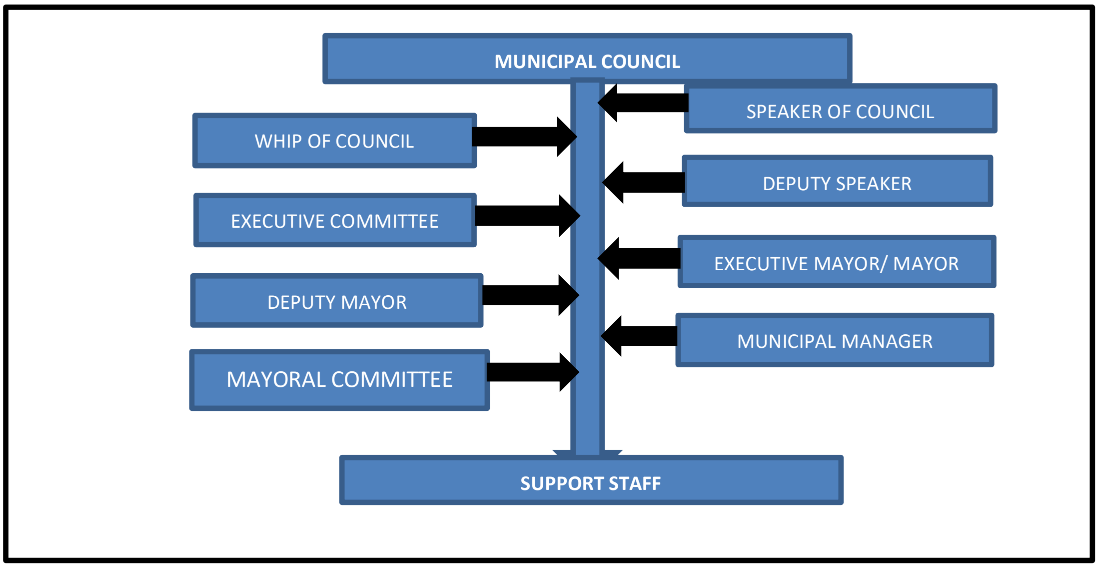
Local government can be described as a sub-provincial level of government at local level, which has jurisdiction over a limited range of provincial functions, within a demarcated geographical area (Twala, 2014). The term *'local Government'* refers to the institution or structure, which exercises authority or carry out governmental functions at the local level (Masegare & Ngoepe 2018). Local governance, on the other hand, refers to the processes through which public choice is determined, policies formulated, and decisions are made and executed at the local level, and to the roles and relationships between the various stakeholders, which make up the society (van der Waldt, 2002). It can also be defined as the exercise of political, economic and administrative authority to manage local affairs (Mmela, 2017).

Municipalities are the core institutions within the sphere of local government (Kanyane, 2011). Municipalities are organs of state that consist of the political structures and administration of the municipality and the community within the municipal area (Remi, 2011). Since democracy, there have been advances in certain key sectors of the economy, like education and health; however, at a local government level the quality and efficient delivery of basic services to people, like water, sanitation, housing and electricity, remains a challenge (Makale, 2015). In recent years, the number of violent service delivery protests across the country has escalated, with people frustrated at the slow pace of delivery and at corrupt practices that have become endemic in some municipalities (Ndebele & Lavhelani, 2017).

The uMgungundlovu District Municipality is a municipality in the province of KwaZulu-Natal. In terms of the Constitution, local governments are awarded the critical role of developing and rebuilding local communities, which were previously disadvantaged from the apartheid government (Siddle & Koelble, 2016). Municipalities are the custodians of public funds (Makale, 2015), and they are tasked with utilising public resources to address the needs of local communities through the provision of basic services (Govender, 2012). The local government framework should be strengthened to become developmental so that it can have an impact on the lives of citizens, while seeking new ways of improving the livelihood of the poor masses (Ntsala & Malatji, 2016). Thus, in short, developmental local government means strong leadership and a clear vision for local government (Remi, 2011). This requires municipal officials to discharge their responsibilities with prudence and in an efficient, transparent and accountable manner; thus, promoting good governance (Siddle & Koelble, 2016). At local level, good corporate governance practices should entail the implementation of efficient and accountable systems, which promote development and ensure that people are free to participate in the economy (IDASA, 2009).

According to Sanusi (2016), the role of local municipalities is to deliver services in an equitable and responsible manner. Mncwango (2015) proposes that the governance framework that exists in the private sector should be applied in all sectors of government, including in local structures. The governance framework should be used as a template in local government if it is to achieve management excellence and facilitate growth through an oriented corporate culture (Norman, 2013). The key role players within the municipal structures of South Africa are stated in figure 3.1 below.

Figure 3.1: Key role players in a municipality



Source: Designed for the study

3.5 **PURPOSE OF LOCAL GOVERNMENT**

Local government is the sphere of government closest to local business and communities, tasked with ensuring growth and development in such communities (Meyer, 2015). Section 3 of the Constitution provided local municipalities with a critical mandate of rebuilding local communities previously disadvantaged by the apartheid government, by allocating the necessary resources for growth and development (RSA, 1996). Local government's role has expanded from being the provider of public goods and basic social services, to include local economic development initiatives (Masegare, 2016). The right of existence of local authorities includes creating an opportunity for the inhabitants of a local area to deal with matters particular to their municipality (Meyer, 2015). Moreover, local authorities are established to promote the interests of the communities concerned (Siddle & Koelble, 2016).

Hence, the developmental role of local government should be to create a suitable and favourable environment for the people at the local level through efficient and effective service delivery (Meyer, 2015). The value of local government in a country is inestimable because it is an indispensable arm of government (Kanyane, 2014). Its link with the qualities of service that citizens enjoy is significant (Majekodunmi, 2014). Local government further serves as a form of political and administrative structure facilitating decentralisation, national integration, efficiency in governance, and a sense of belonging at grassroots level (Ramutsheli & Janse van Rensburg, 2015).

3.6 **CHARACTERISTICS OF LOCAL GOVERNMENT**

Local government is a tier of government, which is subordinate to central or regional government (Remi, 2011). It involves both the administrative and political processes of governmental control (Miller, 2002). Its area of authority is delimited by the statute establishing it because it has a constitutional or statutorily mandated power to perform certain legislative, administrative and judicial functions (Van der Waldt, 2002). Its council is made up of elected representatives who are responsible to the electorate in the discharge of the functions assigned to them (Miller, 2002). Moreover, the local government sphere is empowered by both the provincial and national government to exercise legal autonomy in terms of making and executing its own policies, preparing its own budget, and hiring its own employees (Siddle & Koelble, 2016).

Local government is a legal entity that allows residents of a defined geographic area to receive services (Bloom, Sunseri & Leonard, 2007). However, it is also a democratic institution, governed by an elected council accountable to residents, and to which they can address their collective concerns (Managa, 2012). Furthermore, it is an instrument that residents can potentially use to influence positive change and development in their local community (Bloom et al., 2007). Effective service delivery involves a clear understanding of the specific services an organisation provides, and its target customers (Adebayo, 2014). Understanding the service characteristic enhances how customers see the services that an organisation provides (Grunberg, 2004). Section 152(1) of the Constitution gives rights to municipalities to govern their own affairs as mandated by the Constitution (RSA, 1996). As mentioned before, the role of local government is to deliver basic services, such as water and sanitation, reliable energy, the construction and maintenance of road infrastructures, health facilities, as well as places of learning (Managa, 2012). Poor service delivery and governance is a problem in most local governments in Africa (Okpara, 2011).

3.7 **THE LANDSCAPE OF MUNICIPALITIES.**

Poor service delivery and governance remain an overwhelming challenge in most South African municipalities (Kanyane, 2014). The major impediments to service delivery are the degree of institutional corruption, poor reporting mechanisms, lack of transparency, dysfunctional ward committees, poor or lack of accountability by executive members and municipal officials, exclusion of local communities on governance issues, failure to comply with municipal by-laws and legislation, purposefully ignoring community needs and tampering with the Integrated Development Plan (Bebchuk et al., 2009; Meyer, 2015). These are factors that affect the functioning of municipalities (Vasudev, 2012). The result is protests and disgruntled citizens at local government level (Ramutsheli & Janse van Rensburg, 2015).

These governance challenges require robust interventions by the national government to expedite local government transformation (Toms & Wright, 2002). As mentioned before, municipalities have a legal obligation to provide basic services to their communities in an adequate and timely fashion (Okpara, 2011). However, the inability of local municipalities to deliver basic services not only causes enormous pressure local communities, but it can also have a damaging impact on social and economic development (Steytler & Visser, 2004). Although all municipalities have been constitutionally tasked with providing sustainable and effective services, realising this task is not as easy as it may seem (Okafor, 2011). Many different aspects must be integrated before a municipality is able to succeed in this mammoth task (Bovaird & Loffler, 2009).

One should therefore look not only at the different services that should be provided by local governments, but also the various obstacles and problems to fulfilling their mandate (Kirilo, 2005). One of the challenging factors that affect municipalities is that each local municipality faces various service delivery challenges, and this varies from region to region (Bekink, 2006). Since the advent of democracy, some promising advances have been made in key sectors of the economy, such as health and education; however, at a local government level the quality and efficient delivery of basic services to people, like water, sanitation, housing and electricity, remains a huge challenge (Koma, 2010). The South African government has experienced an escalation in the number of service delivery protests across the country, with people frustrated at the lack of delivery and at corrupt practices that have become endemic in some municipalities (Mmela, 2017).

Municipalities are the custodians of public funds (RSA, 117/1998). They are tasked with utilising public resources to address the needs of local communities through the provision of basic services, such as infrastructure development, water and electricity and refuse removal, and the spatial development of their localities (Govender, 2012). Worth mentioning that many entities fail, not because of lack of resources, but because of leadership crisis. Leaders should be able to combine possible changes with growth, be willing to take prudent risks, and demonstrate considerable problem-solving abilities (Dessler & Starke, 2004). Leadership is critical for growth and development (Marashdeh, 2014), also at the local government level. The concept of good leadership also involves building formal and informal coalitions to unravel problems, which largely define the disputes of growth and development (De Ver, 2009).

3.8 **CORPORATE GOVERNANCE PRINCIPLES AT LOCAL GOVERNMENT LEVEL**

Governance refers to the environment in which government functions, and the relationships it has with outside stakeholders (Persons, 2015). Jones (2010) refers to local governance system as a relationship-building mechanism within the electorate and all the stakeholders. Good governance relates to institutional capacity in management and administration and includes formal and informal structures within government institutions (Radebe, 2017). Governance also encompasses the ability to co-ordinate and assist with the implementation of policies, action plans and public participation, which guide institutional and economic development (Meyer, 2015).

According to Tshipa (2017), the collective definition of corporate governance focuses on systems, procedures, processes, policies and by-laws, which affect the ways through which local government activities are directed, administered or controlled (Appiah, 2013; Rambajan, 2010). Yet the substance attributed to this definition has changed dramatically over the past few years, shifting from a functional, economic focus on agency problems within a private law sphere to a public policy approach that seeks to protect investors and non-shareholder stakeholders (Vasudev, 2012). The advancement of corporate governance reflects wide-ranging changes in the socio-economic landscape of business corporations (Gill, 2008).

The implications of the above definitions are that corporate governance is a system of corporate management and control to satisfy the strategic goals of all stakeholders while complying with the legal, ethical, and environmental needs of the society (Adebayo, 2014). A corporate governance framework should be consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities (Filmer, 2006). The importance of a good legal and regulatory framework is critical, as it has a direct impact on the corporate governance that will ensue (Solomon, 2010). As established by Mutuku (2012), there is a positive relationship between good legal protection and the dispersion of shareholders.

In line with most of the existing theory on corporate governance, it has been said that most corporate governance problems stem from the separation of ownership and control. This separation gives rise to the potential agency problem, which is argued, in this case, to give managers the possibility to behave unscrupulously and misappropriate company resources (Vo & Phan, 2013).

3.9 **LOCAL GOVERNMENT FRAMEWORK ON GOVERNANCE**

The literature review will outline local government institutions, their purpose, local municipalities, ethical leadership and corporate governance (Pande, 2014). The review will furthermore delve into the collapse of municipalities through administrative malpractice, political interference, fraud and corruption, and loss of credibility in the members of municipal councils (Henstra, 2010). Because the significant role of local municipalities is to deliver basic services and create a platform for economic growth (Meyer, 2015), the literature review will also highlight the challenges, as well as the advantages of local municipalities (Boesten, Mdee & Cleaver, 2011). The Constitution (1996, Section 152) sets out some of the objectives of local government. These objectives are structured:

- to provide democratic and accountable government to local communities.
- to facilitate the provision of service delivery to communities in a sustainable and equitable manner.
- to assist in promoting social and economic development in an area; and
- to encourage communities to participate in local economic developments (RSA, 1996:78).

The municipal sector has always been an important element of many economies, including the most advanced ones (Govender, 2012). There are legitimate economic and non-economic reasons for state ownership and views on the role of government in the economy (Kowalski, 2013). The role that states entities play in economic development includes creating and controlling monopolies in strategic industries, ideological branding, and promoting economic development (Corrigan, 2014). According to OECD Report (2010), the local government framework depends on the following principles:

- **Equitable treatment of shareholders**

The equitable treatment of stakeholders should form the basis of the corporate governance framework in the local landscape (Naimah, 2017). All shareholders should have the opportunity to obtain effective redress for the violation of their rights (Heath, 2004). An institution/organisation cannot be seen as a body consisting of only managers and shareholders (Shao, 2009). It is a far more complex exercise involving employees, suppliers, the public, and the environment, which jointly are considered stakeholder group (Vasudev, 2012).

- **Stakeholder recognition**

The corporate governance framework should recognise the rights of stakeholders, established by law or through mutual agreements, and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises (Bebchuk et al., 2009; Khan, 2011). Stakeholder recognition plays a major role in ensuring that the strategic direction of a company is enforced through monitoring and accountability to stakeholders (Crow, 2016). The Enron and Parmalat corporate scandals, which happened in 2001 and 2003 respectively, were said to have been caused by a lack of transparency and disclosure (Heath & Norman, 2004). It was expected that these scandals would create increased awareness for the future (Chambers, 2005).

- **Transparency and disclosure**

The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the organisation, including the financial situation, performance, ownership, and governance (Cheffins, 2011). The sixth OECD principle is concerned with a board and its responsibilities (Muchemwa & Padia, 2016). The board is answerable to the shareholders, as well as various stakeholders, the purpose of this principle is to make the board of directors responsible for running the organisation (Mateecsu, 2015).

3.10 THE ROLE OF PROVINCIAL AND NATIONAL GOVERNMENT

The national government and provincial governments, by legislative and other measures, must support and strengthen the capacity of municipalities to manage their own affairs, to exercise their powers and to perform their functions (RSA, 1996). Local government cannot fulfil its mandate without a partnership with the provincial and national government (Kanyane, 2014). Thus, the establishment and maintenance of sound intergovernmental relations have become vital in ensuring the success of local government (Boesten et al., 2011). It is for this reason that the rendering of services must take place within the spirit of cooperative government (Meyer, 2015). Inadequate service delivery is an escalating problem and a growing challenge confronting the current leadership (Jones, 2010).

The rendering of municipal services to satisfy specific community’s needs is, of necessity, dependent upon the availability of sufficient resources (Meyer, 2015). All spheres of government are frequently confronted with increasing and competitive demands for more and effective services, and a general lack of sufficient resources to meet such demands (Adebayo, 2014). Inadequacies in service delivery are fuelled by corruption and translate into excessive expenditure; thus, reducing the accessibility of resources that are meant to address the core objectives, including alleviating poverty and promoting economic development (Govender, 2012; Kanyane, 2014). Ramutsheli and Janse van Rensburg (2015) state that municipalities depend on strong revenue bases to sustain their viability and ability to deliver services to individual households.

Municipalities are organs of state that consist of the political structures and administration of a municipality and the community within the municipal area (Tshipa, 2017). A municipality and its council are not synonymous with each other (Masegare, 2016). Municipalities are required to manage their administration, budgeting and planning processes to give priority to the basic needs of the community, and to promote their socio-economic development, as well as participate in national and provincial development programmes (RSA, 1998). According to the National Treasury, if municipalities achieve the above objectives consistently, provided they do so within their administrative and financial capacities, they could be considered as a functional, well-performing municipality (Govender, 2012; RSA, 1998).

It is apparent that the state continues to face difficulties in the delivery of basic municipal services, even after decades of democracy (Ramutsheli & Janse van Rensburg, 2015). The failure of municipalities to deliver basic services not only causes immense hardship for the residents of municipalities, but also can have a detrimental impact on social and economic development (Kanyane, 2014). Kanyane (2014), states

that councillors have been accused of being arrogant and insensitive to the needs of the community. Lack of effective conflict management and the absence of coherent systems to measure service delivery, or the quality of the client interface, are some of the political reasons underlying protest action (Meyer, 2015).
It could be argued that local government in countries with a particular kind of national regime will reveal similar characteristics (Zinkin, 2010). Local government usually emulates the national governmental system, and in most cases, the most influential political power in the national sphere will be in the majority in municipal councils (Makale, 2015). In South Africa, for example, most of the municipalities are under the control of the ruling African National Congress (ANC) and its allies (Thornhill, 2014).

According to Miller (2002), various mechanisms had to be developed to prevent a situation in which power is concentrated in the hands of only one level or sphere of government, resulting in power being abused without recourse for the citizens, and without society being able to question the actions of government as exercised at the central or other levels. According to the Nigerian Constitution, local government is an important structure for economic development (Okpara, 2011). It is required to promote rural development and reduce poverty and inequality, but major problems have been encountered in local government administration (Siddle & Koelble, 2016).

3.11 THE MUNICIPAL COUNCIL AND GOVERNANCE

A municipal council is a body consisting of directly or directly and indirectly elected councillors/members (RSA, 1998). A municipal council is thus one of the political structures of a municipality (Masegare, 2016). The King IV Report on Corporate Governance recommends that there be a balance in terms of knowledge, diversity of thoughts, and the independence of the controlling board to conduct their duties efficiently and efficiently (Dzingai, 2017). Local government is the government structure closest to most people in a country (Govender, 2012).

In many instances, the municipality becomes the first point of contact between communities and a public office (van der Waldt, 2002). This contact may occur in the payment of rates and taxes, a visit to a clinic, the use of public transport or the acquisition of services for a residential property (Kanyane, 2014). The essence of a democratically elected representatives are that councillors are typically elected on a ward basis and that they live and govern in close proximity to the people they govern (Thornhill, 2014). In terms of Masegare (2016), the core objectives of local government in terms of Section 151 of the Constitution are as follows:

- to provide independent and accountable leadership to local communities.
- to sustain service provisioning to communities.
- to help facilitate and stimulate economic growth.
- to maintain health and safety; and
- to promote public participation in economic forums.

The council is the main representative organ of the local government structures (Chaligha, 2014). It is further an essential part of every unit of local representatives in government (Gray & Khan 2010). The primary role of the council as a representative body varies from the evolution and the mechanics of processes of the local government in each country (Kanyane & Koma, 2014). Some of the decisions made by the council includes passing the budget, enacting ordinances, and by-laws, as well as making or approving appointments (Mmela, 2017). Other decisions include approvals and amendments and making proposals that are submitted to the council (Khan, Nemati & Iftikhar, 2011). A council with decisive authority may take decisions regarding matters of overall policy objectives or relatively more trivial matters concerning the routine co-ordination of staff members (Lyons, 2007).

3.12 **THE ROLE OF MUNICIPALITY**

Municipalities are the custodians of public funds (Meyer, 2015). These municipalities are tasked with utilising public resources to tackle the requirements of local communities through basic services namely infrastructure, water, electricity and refuse removal, and the spatial development of their localities (Govender, 2012; Masegare, 2016). Related issues are that of councillor competencies and participation in local decision-making processes (Ramutsheli & Janse van Rensburg, 2015). According to the South African Local Government Association (SALGA) the issue of roles and responsibilities has been a major point of discussion in local government since its inception; this issue has constantly undermined local government level of performances (Govender, 2012).

3.13 **POLITICAL DYNAMICS**

The fact that corporate governance theory is silent on the identity issue in general and state ownership in particular, the focus is to turn to the research field of political economics for further insights (Masegare, 2016). As the term signifies, political economics straddles the disciplines of economics and political science (Ludvigsen, 2010). More precisely, it involves the use of economic tools to study policy decisions and, ultimately, how different policies affect economic outcomes (Besley, 2005). The core assumption of this theoretical framework is that politicians, like anyone else, act in pursuit of their private interests (Dzingai, 2017). Making these assumptions about the interests is a first step towards achieving a richer understanding of corporate governance in the case of state ownership (Asiinwe, 2015; Dzingai, 2017).

According to Ludvigsen (2010), politicians derive their utility from the power and policy influences that go with the job. To ensure that politicians hold on to their positions, it means they must please both the party-group as well as the voters (Elghuweel, 2015). The essence of this re-election model is that politicians have no policy preferences of their own, so they choose the kinds of governance decisions that maximise their chances of electoral victory (Okpara, 2011).

Extant literature provides little guidance into the issue of how politicians will choose governance decisions that are considered right for the society in general and the business community (Persson & Tabellini, 2000). By contrast, Siddle and Koelble (2016), affirms that most research on corporate governance in the context of state ownership has been carried out within the framework of the re-election model, which elevates the idea that politicians are concerned with how they might insure themselves against negative voter reactions. There is an assumption that politicians care about their reputation in the sense that they want to signal their competence to outside observers. Interestingly, there are several reasons why politicians might seek to behave as reputation-builders (Okpara, 2011). The most intuitive reason is that they want to appear talented to the voters, as voters might use information about their past performance to select the most competent politicians (Persson & Tabellini, 2000). Table 3.2 on the following page depicts a model of governance with political inputs and governance implications.

Table 3.2: Governance models.

Governance model	**Motivational concern**	**Implications for corporate governance**
Reputation	Politicians seek to build a reputation for being talented	Politicians engage in corporate governance to look competent to outside observers
Re-election	Politicians seek to stay in office	Politicians engage in corporate governance to insure against negative voter reactions
Ideology	Politicians seek to implement party-political goals	Politicians engage in corporate governance so as to strengthen partisan profiles

Source: Ludvigsen (2010).

3.14 CHALLENGES AFFECTING THE IMPLEMENTATION OF CORPORATE GOVERNANCE

Organisations do not operate in isolation, as a result every endeavour being it successful or unproductive, there is always a human factor (Tom & Wright, 2002). Organisations are broadly confronted with numerous impediments during operations (Dessler & Starke, 2004). Below are some challenges that impact on organisations that relates to governance issues.

3.14.1 Lack of leadership

Many organisations fail not because of a lack of resources, but because of a leadership crisis. Leadership is critical for growth and development in that it frequently involves forging relationships with all stakeholders (De Ver, 2009). When considering Africa, the Democratic Republic of the Congo (DRC) and, Sudan (North and South) are blessed with some of the richest oil fields in Africa (Thornhill, 2014).

Beyers (2016) states that Zimbabwe, Zambia, Angola and Mozambique have the most fertile soil for agricultural production, and Botswana has some of the world's largest diamond deposits. However, these countries, and by implication, their cities, are characterised by large numbers of poverty-stricken citizens, unable to access basic services due to their inability to pay for services (Crous, 2002). What is lacking across these cities is good governance (Robinson, 2019). The emphasis is not on the differences among countries regarding the position of municipal government in the broader political system; instead, the focus is on the governing systems and the administrative and managerial practices used to satisfy a community's needs to identify what is required to promote good governance in general (Beyers, 2016).

Jones (2010) affirms that if urbanisation is noticeable, the pressure for municipal services will increase, making it more difficult for cities to provide sustainable services. Moreover, the development of informal settlements, without infrastructure, is likely to increase. According to Siddle and Koelble (2016), this phenomenon could have serious environmental consequences, for example, on land use, sewage disposal and pollution, and living conditions. To avert a crisis and mitigate the escalating effects of rapid urbanisation, specific attention should be paid to providing resources to local government to enable it to deliver services to the urbanised communities it is responsible for (Baatjies, 2010). Local government, however, needs to achieve efficient and effective government and administration to achieve the goal of good governance (Siddle & Koelble, 2016; Thornhill, 2014).

3.14.2 **Human resources challenges**

An aspect that affects operations in municipalities, as identified by Dzingai (2017), is human resource related problems. One of the crucial issues in any institution determining effective and efficient service delivery is its human resources (Makale, 2015). In several African countries, the availability of high-quality employees, especially in the managerial echelons, is limited (Dzingai, 2017).

3.14.3 **Financial management**

According to MFMA, municipalities are required to manage the distribution of resources and to ensure that a municipality is steered towards economic growth and sustainability (Feil, 2017). Good financial management is the key to local delivery (Abdullah et al., 2008). It is disturbing to note that most municipalities are generally associated with the worst form of financial management (Roos, 2012). One of the prevailing challenges within municipalities as pointed out by IDASA (2009), is that of financial mismanagement, financial reporting, corruption and non-compliance. Consequently, this results in poor performance; thus, the delivery of services is compromised. The other factor that undermines the performance of municipalities is the availability and shortage of the required skills (Van der Waldt, 2002). A significant number of municipalities do not have the managerial, administrative, financial, and institutional capacity to meet the rising needs of local people (IDASA, 2009).

3.14.4 **Political commitment**

The re-election prospect, as noted by Roos (2012), begs the question: What comes first–the political party or country? The notion that powers corrupt should not be under-estimated (Ali, 2018). There is a general assumption that politicians care only about winning the upcoming elections, which is a standard motive in political economics literature. The desire to stay in office is mainly because politicians might have a taste for wielding power, or that they enjoy the privileges that come with the job (Maskin & Tirole, 2004). Moreover, the electorate cannot be expected to collect information and learn about the optimality of policy decisions before the next the election takes place (Steytler & Visser, 2004). On the contrary, the average voter seems to have either poor or biased information, or he/she has little or no interest in learning about the effects of poor judgement (Ludvigsen, 2010).

3.14.5 **Agency theory in relation to political appointments**

The principal-agent theory or agency theory sometimes also called principal-agent model is a model from the so-called New Institutional Economics (Michelberger, 2017). This theory is established on economics, sociology, and political science (Boesten et al., 2011). The basis of the theory is the principal-agent problem between the principal as the employer and the executive officer as the agent (Norman, 2013). The principal usually has a knowledge advantage. Thus, information asymmetry is a constituent characteristic of the principal-agent relationship, which can be used in different ways either in favour of or as a disadvantage to, the principal (Norman, 2013). The principal-agent theory offers a model to explain the actions of people and institutions in a hierarchy and the cost/benefit-effective design of contracts (Michelberger, 2017).

Governance relies on its effectiveness of the transparency of financial information and the transparency of management decisions so that external market mechanisms can be effective through disciplinary effects on a company and thus on executive performance (Berghe, 2012). The agency theory's influence can be seen in the promotion of corporate governance codices to strengthen the control role of the supervisory board (Michelberger, 2017). However, different stakeholders have different interests and, thus, differ on the question of a more direct control of the management or a more indirect control in the form of an appropriate supervisory authority (Masegare, 2016). It should not be overlooked that the mentioned stakeholder groups are likely to be interested primarily in the settlement of their claims, but in contrast to the owners, not necessarily in the maximisation of a company's market value (Berghe, 2012).

3.14.6 **Political motivation**

Interestingly though, mainstream political economics suggests that political motivation does not necessarily correspond to that of the career concern model (Dzingai, 2017). In fact, politicians are assumed to care about policy influences for other reasons than to preserve the loyalty of the party-group and the voters – for instance, for the sake of increasing the welfare of groups in society (Tshishonga, 2014). From this view, we should therefore distinguish between the cases in which politicians' motives are simply re-election (which allows them to maintain their power and/or extract rents) or that of implementing their preferred policies (Miller, 2002). As far as political motivation is concerned, we start from the assumption that politicians only care about their reputation – they want to appear competent to outside observers (Bekink, 2006).

In line with this reputation model, politicians are likely to choose those governance decisions that display conformity to normative benchmark criteria about corporate governance, as such behaviour would signal their talent (Herian, Hamm, Tomkins & Pytlik, 2012). Alternatively, we might assume that politicians care solely about their re-election prospects (Tshishonga, 2014). The essence of this re-election model is that politicians have no policy preferences of their own, so they choose the kinds of governance decisions that maximise their chances of electoral victory (Koma, 2010). Ultimately, an assumption can be made that politician strictly care about political ideology. According to this ideology model, politicians would decide upon corporate governance in line with partisan profiles (Reddy, 2016).

3.14.7 **Cadre deployment by the ANC**

The question of what takes precedence between departmental policy and that of the ruling party will remain a thorn in the flesh of the political landscape. This challenge is also prevalent in the municipal domain (Collier & Zaman, 2005). One inference, which can be drawn, is that the ANC's cadre deployment systematically places loyalty ahead of merit, and even of competence, and is therefore a serious obstacle to an efficient municipal service (Ramutsheli & Janse van Rensburg, 2015). Politically connected, and in many cases, incompetent people are deployed in senior positions. Unqualified people are unable to deliver services efficiently and effectively (Elghuweel, 2015). While not all inefficiency problems can be blamed on the ANC's policy of cadre deployment, there has been growing concerns with the implementation of the policy (Azeez, 2015).

The monitoring and evaluation system has pointed to the fact that cadre deployment is a major setback and acknowledged that such recommendations by the ruling party undermine governance and ethics in that members pay allegiance to the policy of the party rather than that of the organisation (Thornhill, 2014). This includes the proposal that cadre deployment should also consider academic qualifications, ensuring that loyalty is not considered ahead of, but together with skills, competency and merit (Thomas, 2012). The composition of local government organs and management exclusively depend on political dynamics (Managa, 2012).

Municipal leadership usually faces criticism that political changes oblige them to focus on short-term or on non-commercial objectives in exchange for objectives based upon a new political environment (Benavides, 2014). In contrast, the King III Report highlights the key attributes of good governance: ethical values of responsibility, accountability, fairness, and transparency based on moral duties (IoDSA, 2013). Responsible leaders direct company strategies and operations with a view to achieve sustainable economic, social and environmental performance (Robinson, 2019). Knowing that the leaders are not seen to be promoting practices of good governance; this ultimately leads to a total collapse of existing systems (Koma, 2010).

3.15 **MANAGEMENT OF FINANCIAL RESOURCES**

3.15.1 **National Treasury as custodian of public funds**

Section 42(3) of the Constitution states that Parliament is the highest authority in South Africa to which the executive arm of government accounts, that is, amongst others, the final public financial management accountability is rendered to the Parliament (Ribstein, 2006). All members of the executive arm of the government therefore report to the Parliament on their use of public funds. The National Treasury was established through Section 216(1) of the Constitution, with the following mandate:

- To ensure that there is both transparency on the inflow and outflow of funds in every sphere of government.
- To enforce compliance where there is a perceived or real threat of a material breach of regulations, and
- To promote and enforce transparency and effective management in respect of the revenue, expenditure, assets and liabilities of departments, public entities and all constitutional institutions.

3.15.2 **Functions and powers of the National Treasury**

Section 117 of the Constitution sets the following functions for the National Treasury

- To facilitate and stimulate economic growth through a fiscal policy framework.

- To co-ordinate inter-governmental financial and fiscal relations.
- To set up the national budget.
- To help in the monitoring and the implementation of provincial budgets;
- To uphold and enforce transparency and effective financial management of the public purse; and
- To prescribe uniform Treasury norms and standards.

3.15.3 **The Public Finance Management Act**

The purpose of the Public Finance Management Act (PFMA) is to regulate financial management in the national government and provincial governments; and to ensure that all revenue, expenditure, assets, and liabilities of those governments are managed efficiently and effectively (Pauw, Woods, Van der Linde, Fourie & Visser, 2009). According to the PFMA, responsibility and accountability for public financial management rests with the office of the accounting officer (Ribstein, 2006).

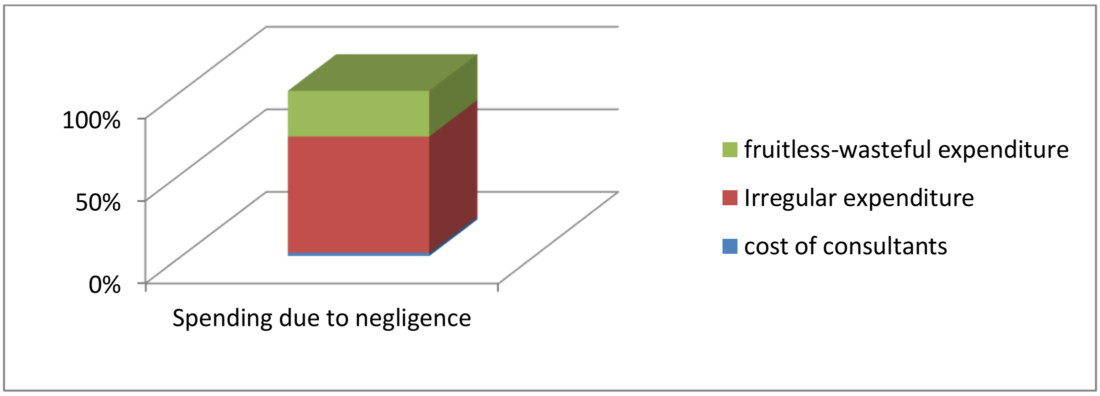
In respect of Supply Chain Management, Treasury Regulations (Section 16) provide a framework for procurement, as required by S76/4/c of the PFMA. Of particular importance is Section 16/6.4 of the framework, which outlines a standard application in respect of government funds (Treasury S16/1996). The afore-mentioned extracts from the Constitution, the PFMA and the National Treasury Regulations is evidence that there is sufficient legislation in South Africa that regulates the management of financial assets in the country (Keay, 2015).

3.15.4 **The Municipal Finance Management Act**

The Municipal Finance Management Act (MFMA) was enacted in 2003 to regulate public financial management in the local sphere of government (Pauw et al., 2009). The PFMA catered for government departments, their public entities, and constitutional institutions, to the exclusion of the local sphere of government (Mutuku, 2012). Further, considering that the two pieces of legislation, namely the PFMA and the MFMA, need not collude, as they operate in distinct spheres of government, it would be naïve to expect them to conflict each other in a manner, which could send the message that they were not aware of each other’s existence (Ribstein, 2006).

The MFMA provides that sound and sustainable financial management policies be put in place in all municipalities to facilitate the budgetary processes and to make community involvement compulsory. One of the most important objectives of the MFMA is that of developing sound financial governance within every municipality. This also entails a separation of duties and responsibilities between mayors, councillors and public officials (Masegare, 2016). The MFMA, if applied correctly and timeously, is critical in monitoring the distribution of resources to avoid wasteful and fruitless expenditure. Figure 3.2 below illustrate the findings of the Auditor General on the performance of municipalities in the KwaZulu-Natal provincial government.

Figure 3.2: Inappropriate spending by municipalities 2016/2017



Source: Researcher's own work (2021)

Figure 3.2 highlights some of the irregular spending in the 2016 and 2017 financial period. Instances of poor local governance Include corruption, lack of communication with communities, competition for access to resources, evading community needs, patronage networks, politics of excess, use of outsiders in official positions, gender as an issue in local governance, internal conflict, lack of accountability, poor treatment of community members by officials, use of sex in exchange for opportunities, nepotism, inadequate leadership, and conflict between officials and civic leaders (Ntsala & Malatji, 2016). The State of Local Government in South Africa Report 2009 points that there is growing high skills deficit within municipalities remain a major challenge (SALGA, 2009).

A significant number of municipalities do not have the managerial, administrative, financial, or institutional capacity to meet the rising needs of local people (IDASA, 2009; Makale, 2015). Essential to municipal service delivery is the availability of finances coupled with skilled human resources (Siddle & Koelble, 2016). Municipalities have three ways to raise funds: firstly, through property rates for land, houses and businesses; secondly, through service rates by charging users for basic services provided; and lastly, through the allocation from the National Treasury (RSA, 2003). Municipalities receive conditional grants and, the Municipal Infrastructure Grant (MIG) to spend on maintenance and to upgrade their infrastructure (Masegare, 2016). The funds, if well administered, can result in a ripple effect to improve service provision to rural communities (Kanyane, 2014).

The government requires efficiency and effectiveness, which is hindered by minimal governance and implementation skills within these local institutions, especially rural municipalities (Kanyane, 2011). The partnership between the two Acts is strengthened by this narration; Section 3(3) of the PFMA ensures that the MFMA acts in unison with the PFMA, and not against it. It also states that in the event of any inconsistency between this Act and any other legislation, the PFMA takes precedence (Pauw et al., 2009).

3.15.5 **Measures to prevent irregular, fruitless and wasteful expenditure**

Section 32(1) directs a municipality to where liability lies for irregular or fruitless and wasteful expenditure. The Office of the Auditor General should ideally be empowered to rule on such write-offs, in view of its perceived competence, independence and objectivity. To instil financial discipline in municipalities, the MFMA (2003) in Section 38 and Section 39 authorises the National Treasury to stop paying over to a municipality its portion of the local government equity share for a limited period, if it fails to fulfil certain responsibilities, all listed in the provisions. While this situation prevails, the municipality is placed at the mercy of the member of the provincial executive responsible for municipalities (Kanyane & Koma, 2014). According to Reddy (2016), the application of the MFMA is rewarding to keep checks and balances in place to avoid irregular, fruitless and wasteful expenditure.

Mazibuko and Fourie (2013) recognise that mayors, municipal managers, councillors, and officials have the greatest responsibility to demonstrate good stewardship and accountability. The Municipal Finance Management Act requires municipalities to take reasonable steps to ensure that the resources of the municipality are used effectively, efficiently and economically (Masegare, 2016). Good financial management is the key to local delivery (Koma, 2010). It is very worrying to note that most municipalities are generally associated with the worst form of financial management (Meyer, 2015). Corruption, financial mismanagement, and non-compliance with financial legislation are common in most municipalities (Mazibuko & Fourie, 2013). Consequently, service delivery is compromised due to lack of performance. The other factor that undermines the performance of municipalities is the availability and shortage of the required skills (Baatjies, 2010).

3.15.6 Corporate governance within the public service sector

Public service delivery has been one of the fundamental areas of government concerns in developing countries especially in South Africa since the dawn of democracy. At the heart of public service delivery, is the provision of basic services at local government levels namely collection of refuse, providing water and sanitation, electricity among others. South Africa has years instituted excellent policies and frameworks and tailored-made legislations. Yet, there has been ongoing strikes in communities due to challenges (Ngubane, 2005; Pretorius & Schurink, 2007). The contribution of corporate governance is enormous as corporate governance contributes to the effectiveness and efficient facilitation of State-owned enterprises (SOEs).

In rendering successful tasks in public sector organisations depends on steady progression of corporate governance. As a result, the best practices of corporate governance across local government spheres facilitate, contribute in improvement and sustain the overall delivery of services at the local government spheres across the country. Recent study report by the Audit Commission (2003) further adds that practicing corporate governance in public service organizations demand accountability framework to assist establishments to attain set goals. The report reiterated that establishments that practices better systems of corporate governance is capacitated enough to sustain services of high standards (Turley & Zaman, 2007).

Within the local government spheres, corporate governance enables local authorities to provide directions and institute control measures for every function that relates to various communities. Thus, it reminds the local authorities of the relevant roles at community levels (The Reading Borough Council, SA). To ensure that there is effective and efficient management system in the public sector establishments, authorities are concern in several countries regarding the central role corporate governance play (Mulili, 2011). This implies that corporate governance serves as a primary business tool that is apply by management in organisations to facilitate and improve services.

Implementing corporate governance to improve service delivery have been a very critical instrument in developing countries. However, as Rabelo and Vasconcelos (2002) cited in Mulili (2011), corporate governance models in developed countries contrast with the developing world. Inability to adopt the principles of corporate governance in developing countries means that not enough research activities have gone into it to understand its adoption over the years. According to Mulili (2011), encouraging productivity serves as the means to promote efficient corporate governance in developing countries to enhance public service delivery. By its nature, corporate governance practices entails several processes as well as systems through which corporate entities are controlled, directed and made to be accountable (Ali, 2018).

3.16 **SERVICE DELIVERY IN SOUTH AFRICA**

3.16.1 **Definition and scope**

Ndebele and Lavhelani (2017) define services as the outcomes that customers receive. This definition acknowledges citizens, the recipients of services, as customers or clients. Kanyane (2011) further describes service delivery as the provision of public activities, products, benefits, to satisfy the citizens. From these definitions, it is eminent that service delivery can be in the form of tangible product or services. Service delivery as a concept is mainly applied in administrative cycles namely the public service or public servants, referring to employees who are dedicated to offer quality and reliable service to the citizens (Nengwakhulu, 2009). Effective service delivery is rendering services that correspond to the customers' desires, needs and expectations (Makale, 2015). Mazibuko and Fourie (2013) caution that unless the government treats the members of the public seriously, as the private sector does with its customers, the concept of service delivery will continue to be undermined. The government should therefore continuously seek new and better ways to build service institutions that have the capacity to champion and advance the course of development (Remi, 2011). Local government should also create an appropriate and conducive environment for the people at the local level through efficient and effective service delivery (Siddle & Koelble, 2016).

The specific role of the local government sphere is to create suitable and favourable conditions in which the sectors of the economy can perform optimally (Aluko, 2011). Poor service delivery and governance remains an overwhelming challenge in most South African municipalities, as noted by Bekink (2006). Beyers (2016) places the blame squarely on the current government-political system, which lacks transparency, and is perpetrated by corrupt individuals who are not accountable to anyone. The current trajectory of lack of public participation, dysfunctional ward committees, and an unskilled labour force all contribute to a weakened governance system. These are the factors affect the functioning of municipalities. As a result, this has led to protests and disgruntled citizens at local government level (Bekink, 2006).

These governance challenges require robust interventions by the national government to expedite local government transformation (Mofolo, 2012). Municipalities have a legal obligation to provide basic services to their communities in an adequate and timely fashion (Tshipa, 2017). Not only does the lack of basic services cause enormous hardship to residents of municipalities, it has a propensity to derail economic growth and development (Beyers, 2016). Although all municipalities have been constitutionally tasked with providing sustainable and effective services, such a realisation is not as easy as it may seem (Gray & Khan, 2010). According to Beyers (2016), several aspects including the economic growth need to be integrated to enable municipality to become successful.

Many different aspects must be integrated before a municipality is able to succeed in this mammoth task (Ngubane, 2005). One should therefore look not only at the different services that should be provided by local governments but also to the various obstacles and problems to fulfilling their mandate (Van der Waldt, 2002).

3.16.2 **Overview of service delivery at the local government structures**

Promoting service delivery at local government levels the identification of issues for immediate attention (Joseph, 2002). Hence, the growing calls for the slogan *"service to the people"* as another measuring tool to transform the local government (Tomkinson, 2017). The call for service delivery to all South Africans add to what the previous Premier of Gauteng Mbhazima Shilowa (2005) outline during his opening statement at the Gauteng legislature. According to the Premier, the African National Congress's (ANCs) five-year program of strategic is in line with the objectives of:

- Building an effective and caring government
- Develop healthy, appropriate skilled and productive people.
- Fight poverty and build secure and sustainable communities
- Stimulate faster economic growth and lessen rate of unemployment considerably
- Deepen democracy, nation building and the realisation of the people's constitutional rights.

Similar programs by the government that are related to service delivery at local government levels include the principles of Batho Pele (the people's first), the Reconstruction and Development Programme (RDP) and the Growth employment and Redistribution (GEAR) strategy (Kanyane, 2014). One of the principles introduced since the new democratic government came into power was the *"Batho Pele"* principles. These principles were instituted to educate communities to demand improvement in service delivery and transformation, the Batho Pele principles highlight service standards, courtesy, access, openness and transformation, redress, consultation, and value for money. The concept of Batho Pele outlined the principles of basic services delivery to communities must be effective and efficient. These are some of the administrative responsibilities of the local municipal managers (MMs).

3.16.3 **Background to service delivery in South Africa**

The Constitution in Section 152 sets out the main objectives for local government, which are to provide equitable and accountable government to local communities; to provide service timeously and in a sustainable manner; to promote economic growth and development in the area; and public participation of communities and community organisations in matters of local government (Govender, 2012). Despite the powers given to local authorities to deliver and manage their own resources, most municipalities struggle to achieve their objectives (Beyers, 2016). A review of local government performance reveals that service delivery improved in urban areas, while backlogs in rural areas are addressed at a slow pace or, to a larger extent, are entirely ignored.

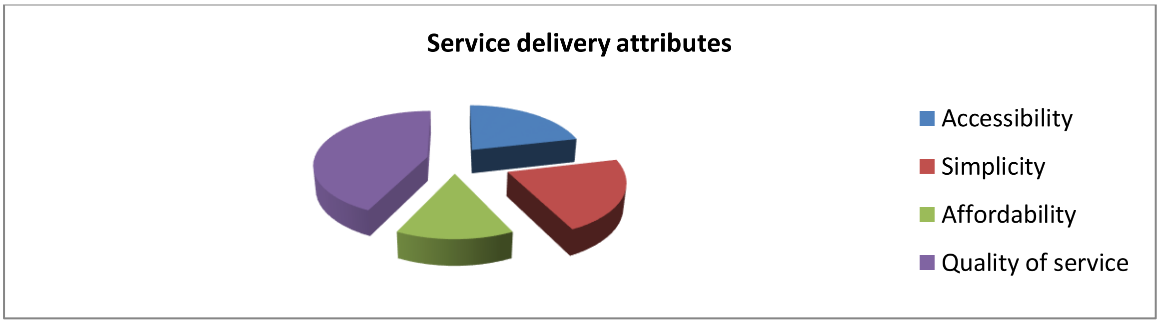
This is evidenced by continuous service delivery protests across the country (Makale, 2015). The challenge is further complicated by implementation problems within rural municipalities; seeking innovative ways to address complexities in a rural set-up to avoid diversion of funds to towns (Beyers, 2016; Makale, 2015). Govender (2012) states that the national government has introduced various initiatives in the wake of the political and social unrests attributed to service delivery. Some of the government initiatives introduced support programmes, such as the Local Government Strategic Agenda (LGSA), the Integrated Development Planning Support programmes (IDP), the Municipal Infrastructure Grant (MIG) as well as donor supported programmes (Govender, 2012).

However, despite the government's endeavours to support embattled municipalities, the state of local government in South Africa is attributable to structural, governance and capacity factors (Beyers, 2016). Nengwakhulu (2009) points out that service delivery from a municipality's point of view, is not only a managerial or administrative problem, but also an intricate process whereby a decision should be made on how, when and to who the scares resources should be distributed. For example, in deciding upon a municipal infrastructure project, many players are involved. This includes a ward councillor and ward committee to identify the need for such a project, various levels of senior municipal management to plan and budget for such a project and service providers to be contracted through the supply chain process to implement the project and to ensure tangible deliverable outcomes within the specified contracted period (Kanyane, 2014).

3.16.4 **Approaches to service delivery**

According to Bekink (2006), in order to achieve optimal service delivery, each municipal government should choose a delivery system best suited to the type of municipality concerned, having considered the needs of the communities. The IDP adopted by the council should be used to guide the delivery of service to communities (Ramutsheli & Janse van Rensburg, 2015). Figure 3.3 below illustrates various service delivery attributes.

Figure 3.3: Service delivery attributes



Source: Researcher's own work (2021)

According to Bekink (2006), the principles of service delivery can be summarised as follows:

- Accessibility: the constitutional obligation of all communities is that they should have access to basic human rights services such as clean water, energy, road infrastructure, health, and related services.
- Simplicity: the rolling out of services by a municipality should be kept simple, easy and user friendly for all citizens, including the illiterate and physically disabled persons.
- Affordability: the role of a municipality should be to enhance the quality of life of its citizens. This can only be achieved if municipal services are affordable and are kept at a reasonable level. The pricing model of all municipalities should be revised in order to suit the lives of ordinary people.

- Quality services: quality is perceived as the measure to which something is fit for purpose and without flaws. Thus, municipalities should deliver good quality service, which users are willing to pay for (Bekink, 2006).

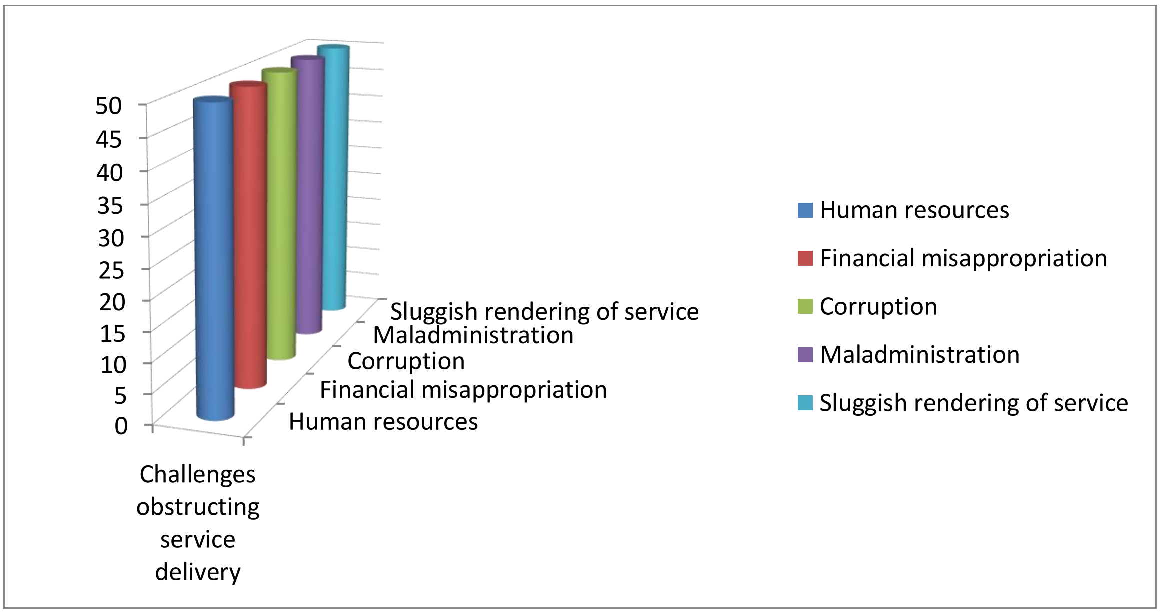
3.16.5 **Challenges obstructing service delivery**

According to the OECD (2010), some of the key challenges within local government that hamper service delivery include the following:

- Human resource challenges: lack of capacity and relevant skills remain unaddressed in municipalities. Many municipalities across South Africa do not have the people with the requisite technical skills to provide service of high quality.
- Corruption and maladministration: lack of accountability and financial systems to detect corruption are major obstacles to rendering of transparent service.
- Financial challenges: across South Africa several local municipalities are either bankrupt, or on the brink of bankruptcy, which affects their ability to provide quality service delivery to people.
- Lack of public participation: communities do not take part in the building of the economy. This hampers service delivery as communities do not know how or who to approach when they face challenges regarding service delivery in their communities.
- Slow rendering of services: there is a huge backlog of service delivery within communities. This slows down development and discourages growth.

Service delivery in municipalities is hampered by several challenges. Some of these challenges are shown in figure 3.4 on the next page. These challenges are documented to severely obstruct the capabilities at municipal levels to deliver reliable services to communities.

Figure 3.4: Challenges obstructing service delivery



Source: Researcher's work

3.16.6 **Other municipal challenges**

Municipalities across the globe are faced with numerous impediments due to many factors. Some of the factors that impede on municipal performances are listed and discussed below. Though the challenges below are not conclusive, each impact negatively on municipal performances.

- **Rural-urban migration**

Migration has a negative impact on the quality of rural life as it reduces the number of individuals, especially young adults, in rural areas, increasing pressure on those remaining behind to work much harder to close the gap created by those who left (Remi, 2011). Rural poverty is a contributing factor for more men leaving rural areas to find work in urban areas, leaving the majority of households headed by females; these households are poorer than other households in rural areas (Lyons, 2007). A study in Lagos further indicated that inadequate social amenities in rural communities was one of the main reasons for rural-urban migration (Remi, 2011).

- **Intergovernmental relations**

Given the three spheres of government in South Africa, it is not only the responsibility of local municipalities to deliver services to communities, but as most municipal functions are also inter-linked with functions of national, provincial and, in some cases, district or other local municipalities, referred to as concurrent functions (Bloom et al., 2007). Therefore, proper coordination and facilitation of the delivery of such services becomes crucial to combat poor intergovernmental communication at national and local level. The lack of an integrated system was identified as a major challenge contributing negatively to efficiency and timeliness (Okecha, 2001).

Sound intergovernmental relations are essential for all government spheres to place national interests above geographic interests, enabling the relevant institutions to make concerted effort towards the state's ultimate goal – the improved welfare of all citizens (Vasudev, 2012). According Vianna (2014), the level of corruption; institutional capacity constraints relating to appropriate skills and staff; lack of transparency; dysfunctional of ward committees; lack of accountability by councillors and municipal officials; lack of public participation; failure to comply with municipal by-laws; failure to prioritise community needs; and budgeting processes contribute towards the collapse of the municipal system.

Based on the AG's remarks, it is evident that the South African government lacks the skills, relevant human capital and expertise to manage the sophisticated systems put in place, and the competency to efficiently deliver on its constitutional mandate of public service provision (AGSA, 2018). This point is underlined by the high number of protests reported in many communities since 2004 (Nengwakhulu, 2009). As the sphere that is closest to the people, municipalities find it hard to come up with coherent strategies for the provision of affordable public services to citizens (Mazibuko & Fourie, 2013). To circumvent this competency problem, Makale (2015) states that municipal workers must at all times endeavour to perform in a manner that will optimally increase their efficiency and improve their quality-of-service delivery (Makale, 2015; Vasudev, 2012).

- **Political interference**

Politicians as government representatives are more concerned with maintaining a good reputation and popularity among voters so that they can keep their positions in the new administration (Ludvigsen, 2010). Interestingly, though, mainstream political economics suggests that political motivation does not necessarily correspond to that of the career concern model (Zagoub, 2011). In fact, politicians are assumed to care about policy influences for other reasons than to preserve the loyalty of the party-group and the voters; for instance, for the sake of increasing the welfare of particular groups in society (Ali, 2018).

From this view, it is convenient to distinguish between the cases in which politicians' motives are simply re-election, which allows them to maintain their power or that of implementing their preferred policies (Nengwakhulu, 2009). As far as political motivation is concerned, the assumption is that politicians only care about their reputations. They want to appear competent to outside observers (Ludvigsen, 2010). In line with this reputation model, politicians are likely to choose those governance decisions that display conformity to normative benchmark criteria about corporate governance, as since such behaviour would signal their talent (Okpara, 2011). Alternatively, an assumption can be made that politician care solely about their re-election prospects.

- **Corruption**

If the principles of corporate governance are applied correctly, they can act as a preventative mechanism for the embezzlement of funds and maladministration (Adebayo, 2014). Fraud in government includes a series of unnatural acts and deliberate illegal acts to produce false perceptions about the advantages or disadvantages performed by people outside and inside the institution (Muchemwa & Padia, 2016). According to Sanusi (2016), cheating in government entities occurs from the misappropriation and embezzlement of state-owned assets, resulting in a false or misleading statement. It is also results from the possibility of weaknesses in internal control levels (Sanusi, 2016).

The danger of corruption, according to Sanusi (2016), is that it becomes widespread, billions of rands go into the pockets of the privileged and projects meant to improve infrastructure increasingly fail. The pressure to become corrupt is almost impossible to resist (Okpara, 2011), and cronyism, cover-ups and intimidation become prevalent. This is counter to what is needed for municipalities to perform well and to provide the services and products needed for economic and social growth (Sanusi, 2016). There are numerous examples of actual or alleged corruption both in companies and in government, which are left unattended because of control mechanisms in the organisation (Nengwakhulu, 2009).

One of the major problems in South Africa has been the tender process where illegal deals, amounting to billions of rands, have been squandered (Appiah, 2013). Conflicts of interest have either not been disclosed or ways have been found to enable people to take advantage of opportunities including forming companies owned by relatives or friends (McGregor, 2014). According to McGregor (2014), sufficient steps were also not taken to recover, write off, approve, or condone unauthorised, and irregular and fruitless and wasteful expenditure, as required by legislation. According to COGTA (2009), incidents of fraud and corruption within local government in South Africa appear to be increasing.

The absence of adequate internal controls within the financial management systems of the local government functions contributes to the increasing rate of fraud and corruption (COGTA, 2009). In contrast, Nel and Rogerson (2005) assert that poor service delivery is fuelled by a lack of capacity to implement developmental projects which would keep the municipalities economically viable. Municipalities in South Africa do not have adequate economic strategies in place to address the issues of poverty, unemployment and inequality (Rambajan, 2010). Some of the challenges facing municipalities are not corruption related but have to do with poor planning and adopting a laidback approach to service delivery; for instance, the distribution of land for residential purposes (RSA 1998:16).

- **Fraudulent practices**

Fraud and fraudulent practices are intentional acts of omission on the part of the perpetrator, which include misrepresentation of facts for financial benefits. In implementing this definition, the European Bank for Reconstruction and Development is guided by principles such as omission, misrepresentation, recklessness, inaccuracy and negligence.

3.17 **CHAPTER SUMMARY**

Discussions so far in this chapter revealed that municipalities are established to deliver services to communities as the municipal authorities are closer to communities. The chapter highlighted some of the challenges that confronted every municipal structure. Key among these challenges were growing rural urban migration, and intergovernmental relations. In general, the chapter revealed that the broader arms of government make it difficult to provide efficient services to the majority of South Africans. Besides, there is growing failures of municipal services due to corrupt practices that makes it hard for the authorities at municipal levels to prioritise community needs, total collapse of existing systems and structures within the municipality, lack of communication, skill challenges, issues of non-transparency as well as dysfunctional councillors.

All these are some of limitations to deliver services to communities. As municipalities grapple with lack of coherent plans to provide affordable services to the public, employees must try to increase efficiency as they perform their day-to-day tasks. This suggests that service delivery may be lacking in municipalities of South Africa. Inability by municipalities to provide affordable and sustain services to communities are explored to determine whether corporate governance practices can assist to increase performance of municipalities in uMgungundlovu district municipalities. The following chapter discusses applicable methodology that is designed to find answers to the issue of service delivery. The applicable methods also focus on municipalities' level of performance to the enhancement of service delivery.

CHAPTER FOUR

PERFORMANCE

4.1 INTRODUCTION

Local government performance over the years through municipal structures is rated to be successful provided there is growing and uninterrupted service delivery to communities. This chapter laid emphasis on some key factors that either influence or negatively impede performance in the form of service delivery in municipalities in developed and developing countries. The chapter outlined some of the challenges and shortfalls within local municipalities in the developed and developing countries. Issues such as insufficient resources, lack of budget control, skill deficiencies and lack of accountability at local government structures. The chapter further draws on existing literature to revealed gaps between service delivery and local municipal performances.

4.2 CONCEPTUALISING PERFORMANCE

This study aims to present the importance of performance at the level of business organisations in terms of a historical and multidisciplinary approach, to determine a balance in the business environment. According to Sanda, Mikailu & Garba (2005), performance is difficult to define, but it can have at least three meanings or connotations:

- a successful outcome of an action or the action itself.
- the ability to show progress based on constant efforts; and
- performance is progress oriented, making efforts for continuous improvement.

Performance is also important for the individual (Sanda et al., 2005). Accomplishing tasks and performing at a high level can be a source of satisfaction, with feelings of mastery and pride (Rose, 2016). Low performance and not achieving goals might be experienced as dissatisfying or even as a personal failure (Mohamed, Basuony & Badawi, 2013). Moreover, performance, if it is recognised by others within the organisation, is often rewarded by financial and other benefits (Biron, Farndale & Paawe, 2011). Performance is a major, although not the only prerequisite for future

career development and success in the labour market (Bourne, Mills, Neely, & Platts, 2000). In practice, it might be difficult to describe the action aspect of performance without any reference to the outcome aspect (Matari, 2014). Because not any action but only actions relevant for organisational goals constitute performance, one needs criteria for evaluating the degree to which an individual's performance meets the organisational goals (Vo & Phan, 2013). It is difficult to imagine how to conceptualize such criteria without simultaneously considering the outcome aspect of performance at the same time (Marashdeh, 2014).
The starting point in addressing the determinants of the strategy, respectively the variables with a significant influence on the content and results, is mainly represented by achieving efficiency and effectiveness (Zulkiffli, 2014).

Zulkiffli (2014) assert that by analysing literature concerning the links between performance and efficiency can be ascribed to the following:

- Efficiency: it represents the completion of a task with the minimum use of resources (Bourne et al., 2000). This can be expressed through visible outcomes in the organisation (Lee, 2011). Most commonly, efficiency can be expressed in the form of input-output ratio (Ali, 2018). In the field of economic efficiency, productivity is widely used as a yardstick to gauge efficiency (Biron et al., 2011).
- Effectiveness: effectiveness is reaching the best results by fulfilling the obligations as set out in a company's strategy (Berghe, 2012). The operational effectiveness of an organisation is recognised when it is able to build and maintain relations with stakeholders and continuously strive to uphold the image of the organisation (Mizrahi, 2009).

According to Ng'eni (2015), there is no existing data in the South African context that links municipal performance to corporate governance. Theory on such can be accessed from SOEs as well as public listed companies on the JSE (Tshipa, 2017). Well-governed firms should have a higher firm performance and value (Civelek, 2015). Several studies indicate that companies with good corporate governance have better long-term performance for shareholders or in terms of general business performance (Robinson, 2019). Shleifer and Vishny (1997 cited in Santos, 2012) assert that better-governed firms have better operating performance because effective governance reduces control rights conferred by shareholders and creditors.

This increases the probability that managers invest in positive net present value projects and lesser capital costs, which leads to improved performance (Selvam, 2016). Adebayo (2014) affirms that effective corporate governance is important, as it helps to attract lower-cost investment capital through the improved confidence of investors. The corporate governance debate in the US in the early 1990's has emphasised the need for better governance (Turyakira, 2018). Governance regulations in the US, such as the Sarbanes-Oxley Act (2002), were aimed at improving corporate governance in the US (Heath & Norman, 2004).

Evidence from empirical research strongly suggests that at a firm's level, better governance leads not only to improved rates of return on equity and higher valuation, but also to higher profits and sales growth (Peterson, 2014). In the capital market, where trade debt and equity capital are issued, it is important to maintain global financial systems, and for the survival and growth of national economies (Civelek, 2015). Vo and Phan (2013) state that business relies on investors and financial institutions to provide them with much needed capital, but if there are no well-founded corporate governance systems in place, it will be difficult to source such funds.

The economic growth of a business depends on its role in creating safe, efficient and competitive capital markets (Shao, 2009), while the lifeblood of capital markets is the capital provided by investors, which must be protected through appropriate regulations, effective corporate governance, and optimal market mechanisms (Heenetigala & Armstrong, 2011).

4.3 **DEFINITION OF PERFORMANCE**

Performance means, firstly, reaching strategic objectives (Switzer & Tang, 2009). According to Hudson, Lean and Smart (2001), this concept is better known as efficiency. The concept of performance is perceived in industrial circles as the rational model by which organisations scale their work rate. Performance goes hand-in-hand with efficiency, which is implicitly taken into consideration when setting goals in an organisation (Rajeeva, 1998). According to Biron et al., (2011), performance also involves also the economic concept of creation of wealth or value to the organisation. Thus, performance is a relationship between the operational costs of the organisation and the benefits acquired from it (Biron et al., 2011). Two concepts that dominate modern management organisations are value and performance (Abdullah et al., 2008).

A performance measure is to assess the value, and by knowing the causes that generate value, performance can be measured. Value and performance are adjacent concepts (Civelek, 2015). Shao (2009) asserts that performance is an unstable balance between efficiency and effectiveness. Performance is also seen as a state of an enterprise's competitiveness, reached by a level of effectiveness and efficiency that ensure sustainable market presence (Azam et al, 2011; Switzer & Tang, 2009).

4.4 **LOCAL GOVERNMENT PERFORMANCE IN DEVELOPED COUNTRIES**

Local government performance in the developed countries have been overwhelming in contrast to the developing countries that continue to experience major limitations. For instance, in Australia, recent study has identified shortfalls that required urgent consideration (Dale & Samara, 2008). The study further outlined limitations such as insufficient resources, excessive control measures at state government levels over budget allocations, inability by local government authorities to correctly direct resources, disagreements between different levels within the existing local government structures during service delivery to communities. The Federal Authority is unable to delegate powers to local governments' applications to provide basic services.

Despite these drawbacks, at local government structures, residents in Western Australia indicated that through service s by local governments, there was significant improvement in the lives of communities (Quinlivan, 2012). According to the study, residents were able to employ various performance measurements tools to gauge certain areas of services by the local government. For example, accountability to community by the local authorities was very minimal (Quinlivan, 2012). Another scientific study in the USA through the application of Data Envelopment Analysis (DEA) revealed that variables such as density in population, growing levels of unemployment and issues of households' income create difficulties for local government to be efficient (Allaf, 2012). Similar study commissioned by Aldamen, Duncan, Kelly, McNamara and Nagel (2012) revealed that the delay in service delivery in a particular community impact on the level of specific service satisfaction. Recent study in Spain also highlighted that the depth of inefficiency was not linked to poor level of management by the local government authorities (Balaguer-Coll, Prior & Tortosa-Aussina, 2010). Further results from the study showed that political and fiscal issues indicating revenues, policy and grants of state authorities are some of the reasons for the lack of performance by the local municipality (Aldamen et al., 2012). In the United Kingdom (UK), the local government authorities applied the *"shared services principles"* as costs reducing measure to advance service-related performances (Pike, 2012).

The concept of *"shared services principles"* was through partnership initiative that make it possible for the generation of economies of scale – a cost reduction measure (Pike, 2012). However, Quinlivan (2012) in a similar study found that supporting *"high-trust partnership*" add more value to add value to existing performance at local government.

4.5 **LOCAL GOVERNMENT PERFORMANCE IN DEVELOPING COUNTRIES**

Developing countries across the globe have inadequate delivery of services due to lack of skills and infrastructure. In India, the level of performance within the local government structures largely influenced participatory principles and decentralisation (Pathania, 2013). The study further add that there is lack of political leadership and commitment, high bureaucratic practices and inadequate resources. All these according to the study adversely affect the overall performance of municipalities across the local government (Kanyane, 2014). The study further highlight that various communities in India continue to influence processes of implementation through the participatory plans, processes of decision-making and to execute different assigned tasks.

One of the key tools that is used in India by communities' members is referred to as *"transformative participation"* (Pathania, 2013). Other contributory factors that impact on the level of performance include the strategic bureaucratic practices that allows cheating within establishments and inconsistent behaviour at political levels (Crous, 2002). This implies that there is significant cheating, high level of bias tendencies (Pathania, 2013). Service delivery is further hampered because of inefficiencies and lack of Political will through funding for centrally sponsored schemes that were earmarked for community projects. Further study on local government in the rural area of Makassar in Indonesia revealed a very low and unsatisfactory capacity at institutional levels and at local government (Imbaruddin, 2003).

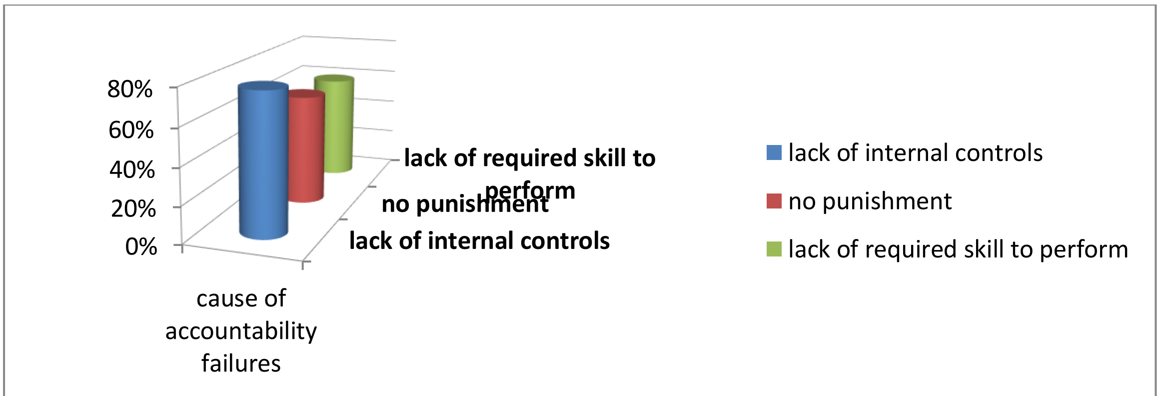
According to Kurnia (2012), local government officials continue to demonstrate serious weaknesses and inefficiencies in delivering basic services to the local communities. On the global context, it was suggested that the private sector entities are to be part of existing municipal management system to support communities in making available the requisite services to community members (Abraham, 2012). Another reason for lack of service delivery in developing countries was due to insufficient technical skills and good governance structure that contributes to incorrect tendering processes and contract failures that impact adversely on performance in municipalities (Abraham, 2012). The general state of good governance including e-governance in the public sector was below standard to enhance service delivery to communities (Tomkinson, 2017)).

4.6 CORPORATE GOVERNANCE AND COMPANY PERFORMANCE

The relationship between corporate governance and a firm's performance is important to researchers in this field and central to this thesis. There is a growing body of research relating corporate governance to some aspect of company performance. The search for the link between returns and good governance remains academics and practitioners' quest (Solomon, 2010). In their review of literature in this field, using data from emerging markets, Berghe (2002), found that there is strong evidence of a positive correlation between corporate governance and company performance. Mizrahi (2009) argues that companies can no longer ignore the pressure from the investor community in respect to their corporate governance. However, there is no single measure for corporate governance, thus researchers have used a wide range of approaches allowing them to explore various ingredients of governance (Dzingai, 2017). There is evidence that financial reporting oversight by an independent audit committee is inversely correlated to cost of equity capital (Zulkiffli, 2014). Gompers, Ishii and Metrick (2003) explore the relationship between shareholder rights and corporate performance.

One of the important functions of public sector organisations is to provide services that meet the expectations of citizens and at the same time are efficient, effective, and equitable (Gompers, Ishii & Metrick, 2003). Achieving high standards is paramount and linked to successful organisational performance (Zhou, 2016). Municipalities are protected by the local government sphere and the state to ensure that they are financially viable (Christensen, Johnson, Turner & Christensen, 2011). Therefore, their performance is measured on how accountable they are to both the provincial government and the state (Lee, 2011; Matari, 2014). In figure 4.1 below the causes of accountability failures are depicted:

Figure 4.1: Causes of accountability failures



Source: Researcher's own compilation (2021)

Several committees have proposed that companies' boards should have members with varied expertise to enhance performance (Turley & Zaman, 2007). The members should have expertise on the business environment in which the company operates. Although the areas of expertise were not mentioned, all of the reports suggested that directors should have accounting or finance-related qualifications to be appointed as audit committee members (Turley & Zaman, 2007). The underlying basis of this recommendation is that knowledgeable board members are in a better position to understand their main role of monitoring management (Roe, 2015). Robinson (2019) asserts that board members' qualifications have been found to be crucial in determining their effectiveness in carrying out their duties. Hence, the appointment of directors with accounting or finance qualifications is considered indispensable, especially when dealing with external auditors and carrying out other' tasks, such as evaluating financial statements and reports. However, there were no empirical studies that directly related supervisory board members' accounting and financial qualifications with performance (Muchemwa & Padia, 2016).

According to the OECD Report (2010), few studies examined the link between performance and accounting and financial qualifications of audit committee members. Shao (2009) and Gibbon et al. (2016) found that companies involved in enforcement actions by the authorities concerning accounting issues were much less likely to have an accountant on a board and the audit committee. The implication of their studies is that an accounting or financial qualification of non-executive members would more likely contribute to the monitoring quality of accounting and corporate financing (Onetto, 2007).

The relationship between corporate governance and operating performance was explored by Marashdeh (2014); given the importance of corporate governance, one assumes intuitively that the good performance of financial institutions is related to good corporate governance. However, due to their complexity, there is no straight forward answer to which elements of corporate governance improve or worsen the performance of a given institution (Biron et al., 2011). Most studies used a small set of variables to measure firm performance and determine the relationships between single aspects of corporate governance and one or two firm performance variables (Gibbon et al., 2016).

According to Biron et al. (2011), some companies make use of standard typical performance metrics such as return on assets, return on equity, market capitalisation, and other equity methods in order to evaluate performance. They expected a positive relationship between the corporate governance ratings of the companies' countries and firm performance, assuming that companies in countries with a higher rating show better corporate governance practices and thus a better financial and operational performance and higher market values (Azam et al., 2011).

According to Masegare and Ngoepe (2018), the multivariate regression analysis showed that the coefficient of corporate-governance ratings had a highly significant positive effect on performance. The main conclusion was that companies could improve performance by adhering to good corporate governance practices (Masegare & Ngoepe, 2018). Other researchers, including Gupta, Chandrasekhar and Tourani-Rad, (2013) held a different view to firm performance by asserting that well-governed firms did not outperform poorly governed firms, particularly in a financial crisis. In their findings, the main result was that good corporate governance, measured by the corporate governance rating of a firm's country, had no impact on firm performance on country level (Azeez, 2015; Vo & Phan, 2013).

Turley and Zaman (2007) assert that corporate governance failure, explaining market price or firm performance, cannot be verified. Different financial and non-financial measures have been used as indicators of firm performance in both the literature and in practice (Tamburini, 2016). According to Civelek (2015), widely used metrics include revenue (such as sales, revenue growth); profit (for example, earnings before interest and tax (EBIT), earnings per share); return measures (such as return on capital, return on assets, return on equity); market value (e.g., Tobin's Q); and, non-financial measures (e.g., customer satisfaction, strategic goals, expense reduction (Crow, 2016).

Given the extent to which the definition of performance is used, it means that the term can be observed according to the different financial and non-financial types of objectives (Abdullah et al., 2008). From a financial perspective, performance is a measure of numerical and quantitative data, which indicates how well each objective has been met (Bonney, 2015). However, performance measurement requires an extensive use of quantitative and qualitative data, with clear definitions and specific frequency for analysis, so the choice between them depends on the purpose which each seeks to accomplish (Grunberg, 2004). Slack, Chambers and Johnston (2007), for example, distinguish five types of performance objectives that influence the operation system: cost, dependability, flexibility, quality and speed.

Firm performance based on available literature is based on the firm value systems (Matari, 2014). Firm value can be approached in four different ways, according to corporate finance literature (Slack et al., 2007). The values according to literature depends on better approach to financial management, sufficient capital structure with focus on structural changes, resource-based approaches, sustainable growth methods due to the firm performance as a result of investment needs.

Apart from the above-mentioned factors that increase the firm value, the market for corporate takeovers and the market for manager's argument assume that information is produced to minimise the cost of capital, which is responsible for value maximisation (Civelek, 2015). Based on empirical research capital markets, the risk adjustment rate of returns form part of the firm present value discounted based on the future cash flows. Investor confidence and efficiency in the capital markets are the main driving force of financial stability and economic growth (Amsteus, 2011).

It should be stated that increased investor confidence results in higher share prices (Ng'eni, 2015). Share prices and returns are considered to vary in prices plus dividends. The growth of a business is witnessed by the increase in share prices over time (Civelek, 2015). Referring to the above, Amsteus (2011) considers the shareholder value as the only concern of a firm, whereas Selvam (2016) states that there seems to be a general acceptance of the importance of a wider stakeholder community.

4.7 RELATIONSHIP BETWEEN CORPORATE GOVERNANCE AND FIRM PERFORMANCE

One of the main objectives of this study is to explore corporate governance practices on the performance of state entities. Within its reach, the study will reveal benefits, for embracing corporate governance practices. In the past decade, empirical research has shown significant relationships between various corporate governance features and corporate performance (Appiah, 2013). Governance mechanisms differ between developed and emerging economies (Felo, 2011).

The performance of municipal governance is receiving renewed attention, especially in developing countries, owing to moves to promote efficiency and the redistribution of resources in urban areas (Asiinwe, 2015). In Africa, the high rate of growth in cities has attracted interest in city performance. Pierre (2005) indicates that large metropolises have sprouted in Africa. More people in Africa prefer to live in cities because of the qualitative changes in their physical and non-physical settings (Meyer, 2015).

This has increased the need for city governments to improve the services offered in public facilities (Miller, 2002). In Africa, corporate governance, has been widely used in public organisations since 2000, owing to the practices advocated by the New Public Management adherents (Okpara, 2011). The popularity of corporate governance in public institutions resulted from a growing realisation that they need managers to run them and management boards to ensure that the institutions are run effectively (Fontaine, 2006). Hence, corporate governance has become popular in non-profit-institutions in Africa, because it is seen as a strategy for promoting good performance of these institutions by preventing poor governance from taking root.

Monks and Minow (2004) argue that the worldwide concern for transparency and accountability in all types of human endeavours has solidified the popularity of corporate governance in public institutions. The concern for public institutions to have practices and procedures that enable them to achieve their objectives and meet stakeholder expectations has enabled corporate governance to find a firm grounding in city governance (Core, Wayne, Guay & Tjomme, 2006). Corporate governance has enabled cities to create an enabling environment through which they can explore appropriate technological and development innovations (Muchemwa & Padia, 2016). Hence, corporate governance is looked at as an institutional governance framework that shapes the efficiency and stability of urban governance (Peterson, 2014).

Governance mechanisms in emerging markets differ substantially from developed economies in their institutional, regulatory, and legal environments (Gill, 2008). Azeez (2015) refers Sri Lanka as an emerging market economy striving for economic growth. In recent years, corporate governance has emerged as an important issue for Sri Lanka due to corporate scandals in its recent past and the on-going effects of globalisation (Azeez, 2015). The relationship between corporate governance and company performance is illustrated in Table 4.1 below:

Table 4.1: Relationship between corporate governance and firm performance

Board Quality	**Corporate Governance Regime**		
Member skill, education and experience	**Board Structure**	**Risk**	**Incentives**
Organisational work flow	Number of committees	Board membership	Performance-based-compensation
	Strategy committee	Independence of a board	Executive board remuneration
	Board size	Frequency of meetings	Sub-committee remuneration
		Compliance	
Firm Performance			
Growth	Profitability	Shareholder Return	Financial Leverage

Source: Michelberger (2016)

The relationship between corporate governance and firm performance is important to researchers in this field and central to this thesis. There is on-going research in the academic arena on the existence of, or perceived link between, good governance and firm performance. Sanda et al., (2005) established in his/her review of literature using data from emerging markets, that there is strong evidence of a positive correlation between corporate governance and company performance. Tamburini (2016) argues that companies can no longer ignore the pressure from the investor community in respect to their corporate governance.

However, with the current knowledge of corporate governance framework, it is evidently clear that there is no one single measure for corporate governance (Corrigan, 2014). Thus, researchers have used a wide range of approaches allowing them to explore various ingredients of governance (Sanda et al., 2005). There is evidence that financial reporting oversight by an independent audit committee is inversely correlated to cost of equity capital; namely, firms that have their reports supervised by independent audits will have lower cost of equity capital (Corrigan, 2014). It is argued that such effect is achieved due to smaller agency risks faced by shareholders (Ng'eni, 2015). Given the importance of corporate governance, one assumes intuitively that good performance of financial institutions is related to good corporate governance (Loecker, 2013). However, due to the complex nature of the two concepts, it is not easy to find the exact element of corporate governance that enhance performance of an organisation (Tosuni, 2013).

4.8 **EFFECT OF CORPORATE GOVERNANCE ON FIRM PERFORMANCE**

This sub-section is concerned with the question of what sound corporate governance is. What benefits would good corporate governance yield for companies and more importantly, what are the costs of bad corporate governance practices? (Lee, 2011). A few researchers link corporate governance practices, or certain provisions of corporate governance, to the market valuation of a company (Biron et al., 2011). Other researchers have found evidence of the correlation between good corporate governance and lower cost of equity capital (Sanda et al., 2005). These findings are consistent with the suggestion that improved governance reduces agency costs (Okpara, 2011).

The effectiveness of corporate governance depends on the application of these principles in a manner, which benefits stakeholders, as well as broader industries and economic sectors (Tosuni, 2013). Benefits to stakeholders include resolving conflicts of interest, instilling controls and a sense of ethics, and enforcing and encouraging transparency (Vasudev, 2012). The municipal sector has always been an important element of many economies, including the most advanced ones (Ramutsheli & Janse van Rensburg, 2015). According to Ramutsheli and Janse van Rensburg (2015), the root causes of a failed municipal sector are:

- Inadequate human resources capacity;
- A shortage of skills;
- An unethical organisational culture, and
- An ineffective (or non-existent) performance management system.

Specific root causes and the underlying causative factors linked to these four main themes were also identified (Matari, 2014). Two all-embracing root causes appear to be connected with most of the identified specific root causes and their underlying factors are lack (or total absence) of leadership, commitment, and a management system that is almost completely devoid of consequences for poor performance and wrong-doing (Okpara, 2011). These two all-embracing root causes were identified as fundamental to the majority of the identified failures (Matari, 2014). In the 2018 financial year, the Auditor-General reported an overall deterioration in the audit results of South Africa's municipalities for the 2016-2017 financial year. The AG's Report (2018) affirmed that despite the Office's constant and insistent advice and caution to those charged with governance and oversight about administrative lapses since 2013, their counsel had largely not been heeded.

4.9 FACTORS THAT AFFECT FIRM PERFORMANCE

4.9.1 Unethical organisational culture

Ethical organisational culture is defined as a culture, which shapes high ethical standards among its members, takes into consideration the rights of various stakeholders, and is not only concerned with what goals are achieved but also how such goals are achieved (Norman, 2013). Unethical business practices in both the financial and performance areas have been identified as key factors contributing to the poor performance of local government (Turyakira, 2018).

4.9.2 Lack of internal control

The governance role of accounting information contributes directly to economic performance by managing the resources of the firm efficiently and reducing the expropriation of the wealth of investors by managers (Todorovic, 2013). Therefore, financial accounting information is considered to reduce the risk premium demanded by investors to compensate for the risk of losses due to the opportunistic behaviour of managers (Heenetigala & Armstrong, 2011).

4.9.3 **Risk management**

The use of equity involves a great measure of risk (Abdullah et al., 2008). Financial markets have gradually become sophisticated in terms of their pricing structure and transference of risk (CIMA, 2006). Sabato (2010) describes risk as the level of uncertainty that exists in decision-making. Accounting regulations and advancement in technology are susceptible to risk (CIMA, 2006). Risk cannot be eliminated, but it can be controlled to a certain degree (Robinson, 2019). These challenges, among others, lead decision makers to be risk cautious when taking major decisions. The economic growth of a business depends on its role in creating safe, efficient, and competitive capital markets (Wu, 2007). The life blood of capital markets is the capital provided by investors, which must be protected through appropriate regulations, effective corporate governance, and the optimal market mechanism (Heenetigala & Armstrong, 2011).

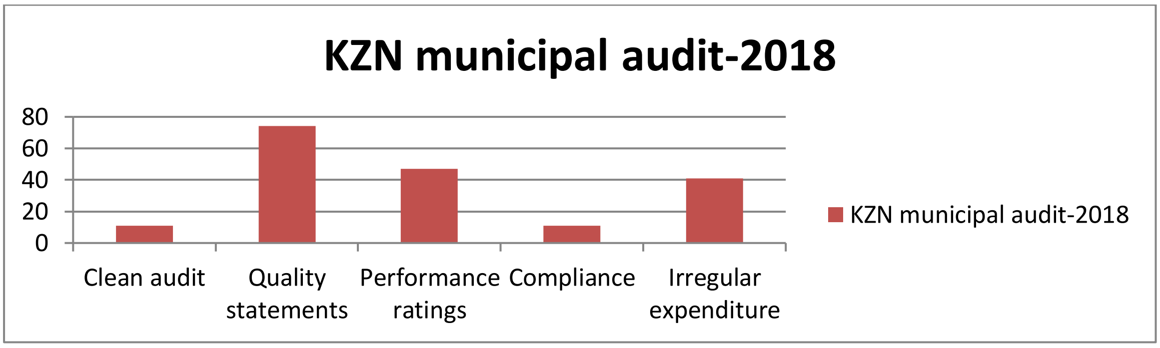
4.9.4 **Poor financial reporting**

Financial reporting and disclosure are important means by which management communicate firm performance and corporate governance to outside investors (Abdullah et al., 2008). Corporate disclosures provided through regulated financial reports are important to the functioning of an efficient capital market (Shao, 2009). The demand for financial reporting and disclosures arises because of information asymmetry and agency conflicts between managers and outside investors (Azam et al, 2011). Disclosure of information over and above the accounting regulations has benefits in capital markets (Civelek, 2015).

4.10 **AUDITOR GENERAL'S REPORT ON MUNICIPAL PERFORMANCE**

According to the AG Report (2018), KwaZulu-Natal regressed in reporting and governance. The AG lamented the fact that the province continued the trajectory of a downward spiral, as it was reported during the financial year of 2015/16. Figure 3.2 below depicts municipal performance in the province of KwaZulu-Natal. The AG cautioned that in these municipalities, complacency and a lack of follow-through on the previous administration's commitments had had an effect. "Leadership did not decisively deal with the weaknesses we reported and warned them about. If these lapses in accountability are not dealt with, the regressions will continue," warned the AG. Fruitless and wasteful expenditure amounted to R1.5 billion (a 71% increase from the previous year). Figure 4.2 below illustrates the audit report on municipal spending during the financial period of 2017 and 2018.

Figure 4.2: Municipal audit for the periods 2017 and 2018



Source: Researcher's own work (2021)

In addition to the audit report above, table 4.2 below reveals the patterns of regression on the level of quality performance of municipalities within the province of Kwazulu Natal. The analysis of these tables will be done in the analysis and discussion section of this study.

Table 4.2: Audit results for KZN municipal authorities 2017 and 2018

Financial report	%
Clean audit	11
Quality of financial statements	74
Quality of performance reports	47
Compliance	11
Irregular expenditure	41

Source: Researcher's own compilation (2021)

Local government accountability failures, cautioned the AG Report (2018), resulted in municipalities not achieving their objectives, which in turn had a negative impact on the lives of citizens. Based on the AG Report (2018), there are three important areas that impact on local government accountability. These areas include the financial wellbeing of local municipalities. These areas include a healthy financial state of local municipalities, unproductive expenditure and delivery of municipal infrastructure. Similar survey report by Masegare and Ngoepe (2018) revealed some areas of concern that need urgent attention to sustain operations in the municipalities. These areas include filling of vacant positions, shortages of scare skills and growing political interferences (Okafor, 2011; Masegare & Ngoepe, 2018).

4.11 **APPLICATION OF CORPORATE GOVERNANCE AT MUNICIPAL LEVEL**

Principles of corporate governance were developed as guidelines rather than rules, which could be used across different countries and markets (Robinson, 2019). The Cadbury Code (1992) emerged because of the corporate failures of the 1980s (Robinson, 2019). The Code recommended changes to board structures and procedures to make the firm more accountable to shareholders, suggesting an increase in the number of independent directors on a board, separation of the chairperson and CEO, and introduction of board committees (Jones, 2010).

4.12 **MUNICIPAL BEST PRACTICES**

4.12.1 **Maximising the municipal leadership position**

Municipalities play a strategic role in the delivery of basic services, such as water and sanitation, transport infrastructure, energy and health. This makes them the most visible entities in emerging markets and because of this visibility, they should play a leadership role in corporate governance (Abiodun & Oyeniyi, 2014). Because of their unique position, they have the ability, and the responsibility, to set a positive example and help establish a blueprint for other local entities to follow (Ahmad, 2009). As governance principles become more recognised globally as an important baseline for healthy markets, they can put forward initiatives within the emerging markets in which they operate (Chilenga, 2016).

4.12.2 **Maintaining long-term business perspective**

SOEs often serve a dual purpose of earning profits through a sustainable business practice and serving the public interest, which can create possible conflicts of interest (Sanusi, 2016). SOEs also commonly face criticism because political changes will compel them to focus on short-term or non-business goals, changing their objectives based on a new political environment (Corrigan, 2014).

4.12.3 **Achieving business objectives**

Corporate governance practices facilitate the growth of business objectives. Besides good corporate governance may assist entities through processes of internal performances to achieve set objectives (Sanusi, 2016). According to Sanusi (2016), some of the internal performance triggers include clearer decision-making structures and processes. Bekink (2006) add that municipalities use the principles of transparency, stabilising management and board, minimising issues of conflict of interest, reduction in self-dealing, enhance the socio-environmental practices and balance socio-economic outcomes to attain better performance standards (Okafor, 2011; Rossouw, 2004; Todorovic, 2013; Kyereboah-Coleman, 2007). According to Managa (2012), there is growing public assumption that state entities differ from municipal establishments. However, Govender (2012) argued that disclosing every form of information reduces perceptions and eradicate fraud, corrupt practices and misuse of resources. Cheffins (2011) add that through increasing level of transparency and disclosure of information, there can be improvement in the ongoing public perceptions.

4.13 **ANALYSIS OF PUBLIC-PRIVATE SECTOR GOVERNANCE FRAMEWORK**

Past analysis of the public-private sector has shown that management of state entities are expected to implement better strategies to enhance the level of financial performance to increase economic activities and stimulate job opportunities (Bonney, 2015). This implies that state entities are primary providers of essential goods and services that creates favourable environments for employment and have the potential to build existing state capacity (Mmela, 2017). Once the state entities become successful, there is the likelihood that the South African economic landscape will become more competitive (Masegare & Ngoepe, 2018).

In this research, a few remedial actions have been identified; for example, hiring competent people; running state entities the way privately-owned corporations are run; and where need be, restructure for a good cause (Ahmed & Uddin, 2018). The poor performance of state entities influences the decision to centralise services (Govender, 2012). There is a fierce continuous debate in the country about the subject of privatisation, governance and poor performance, (Akoum, 2012). The debate emerges from the notion that privately-owned corporations are successful, whereas their state-owned counterparts are in shambles (Twala, 2014). Globally, successful nations have leveraged their state-owned entities to improve the economic wellbeing of their citizens.

4.14 **FRAMEWORK OF CORPORATE GOVERNANCE PRACTICES**

Developing countries have acknowledged the overall significance of corporate governance principles (Tosuni, 2013). Recent studies named entities such as Parmalat, Worldcom, Enron that no establishments across the globe is immune to proper applications of corporate governance principles of accountability, transparency, fairness, integrity, responsibility, competency, and independence. Corporate governance is characterised as the path that provides critical services to stakeholders. Regarding the nature of this empirical study, the stakeholder's theory that entails the community members and other municipal resources are utilised to explore the relationship between corporate governance principles and practices to enhance municipal performance.

The stakeholder's theory is aimed to ensure that entities such as the existing municipal structures direct and control available resources to attain adequate level of performance to render the desired services. Stakeholders' theory is primarily founded on the premise that entities are bound to provide reliable services to role players with vested interest in the establishment. In this regard, this empirical study took cognisance of the tasks of various municipal authorities including the ward councillors, MMs, other employees among others were used to participate in the study to provide the requisite datasets through interviews and FGD (Focus Group Discussion).

In developing countries including South Africa, practices of corporate governance knowledge are limited in several entities especially the municipalities. These limitations are the result of growing political and infrastructure deficiencies. In the context of sub-Saharan Africa, the present subject to understand the depth of corporate governance practices among municipal authorities is critical for the survival of entities. Poor applications of corporate governance principles is known to be the resultant effect of sub-standard municipal performance. This is highly due to other compounding factors such as lack of education and training. Communities' complaint on regular basis of lack of services and other amenities. As a result, lack of corporate governance knowledge and practices among service providers such as authorities in municipalities poses a broader limitation to communities, national and provincial governments.

Given the growing lack of corporate governance knowledge and practices, a framework is required to assist in enhancing entities such as the municipalities to improve performances at different levels of the organisation not only in uMgungundlovu district municipality but other public entities country wide.

4.15 **CHAPTER SUMMARY**

In this chapter the literature showed different variables that contributes to poor local government performance. The resultant effect means inability of municipal authorities to provide basic services to communities. Establishing different structures in local communities is to provide easy access by communities to access services. However, due to skills shortages, expectations of communities regarding service delivery are not met. These situations are further deepened due the inability of state and local authorities to implement policies and procedures as enshrined in the constitution of South Africa. The AG Report identified several challenges including lack of severe accountability within the municipal structures as another contributor to poor rate of performance and failure to deliver basic services to communities. The report further highlighted lack of individual capacity to comply with constitutional and legislative procedures. Besides, the chapter stated lack of political will is seen as one of the negative contributors to existing minimal level of performance. The following chapter focuses on the methodology and data analysis.

CHAPTER FIVE
RESEARCH DESIGN AND METHODOLOGY

5.1 INTRODUCTION

The preceding chapters gave an account of the theoretical perspectives of this research. This chapter broadly covers the philosophical views that was adopted by the researcher. This include the philosophy that guide the study such as the research design, methodology applied to access knowledge from participants, data collection techniques and procedures and how empirical data is analysed.

5.2 FRAMEWORK OF RESEARCH DESIGN AND METHODOLOGY

According to Collier and Zaman (2005), a theoretical framework is a chart that guides research by taking into consideration existing theory of prior studies that explains the relationships between phenomena. A theoretical framework consists of selected theories that channel broader perspectives on viewpoints regarding the understanding and planning of a research topic as well as concepts and definitions relevant to the choice of topic, as well as the concepts and definitions relevant to the choice of topic (Pande, 2014). The concept of theory also necessitates clarification (Abend, 2006). Heath and Norman (2004) describe theory as a model that allows the researcher to make links between the abstract and the concrete; the theoretical and the empirical; and thought statements and observational statements.

It is a generalised statement that asserts a connection between two or more types of phenomena (Matari, 2014). A theory highlights and explains something that one otherwise would find confusing. In many cases, it is an answer to a ‘Why?’ question (Arbnor & Bjerke, 2009). For example, why some people are educated, whilst others are not. Therefore, one of the characteristics of theory is that it can be used as a response to questions (Gilbert, 2007). Several theories provide deeper descriptions that offer predictions towards understanding the relationships between variables that guide scientific studies. Apart from two related scientific theories of corporate governance and performance, this study is based on the agency theory which advocates for building relationships between the agent and the principal within an organisational setting (Pande, 2014). The agency theory states that participating in an agent-principal relationship gives an agent unnecessary powers and authority to institute critical decisions which influence a company's operations on behalf of the principal, known as a shareholder (Salami, 2014).

5.3 **RESEARCH PARADIGM**

According to Filmer (2006), practical research is based on essential philosophical assumptions about what constitutes valid research; in addition, which preferred research method is suitable for the gathering of evidence in a study. In order to conduct and evaluate any research, it is therefore important to know what the underlying chapter discusses the philosophical assumptions and the design strategies underpinning this research (Thomas, 2012). The research design for this study is descriptive and exploratory, which is analysed through qualitative and quantitative methods. Greene (2007) states that researchers hold different views on what constitutes knowledge and truth. These divergent views guide our thinking, beliefs, and assumptions about society, and about how we fit into that society (Atieno, 2009).

According to Drobot (2012), asserts that a paradigm can be defined as a whole system of thinking. A paradigm can also refer to the recognised research practices in a particular discipline (Atieno, 2009). Cozby (2009), in turn, asserts that a paradigm is simply an elementary set of beliefs that guide action in research. Thus, research requires a paradigm in order to put the study into perspective (Morgan, 2007). Morris and Burket (2011) and Bergman (2008) describe the types of research paradigm as follows:

5.3.1 **Positivism**

Positivism is research approach that consist of observation, experimentation, and the understanding of human behaviour. Positivism is a scientific investigative method that applies a worldview approach to research (Fadhel, 2002). It is the only legitimate means through which humans extend knowledge and understanding (Drobot, 2012). The scientific method, when applied in its pure form, should be used to explore observations and give answers to critical questions (Fadhel, 2002). The method, which attempts to interpret and give meaning to observations in terms of factual, measurable variables, is a preferred worldview for research (Biesta, 2010). According to Fadhel (2002), positivism is used to observe and provide answers to key questions. For instance, research based on the positive paradigm relies on deductive logic to formulate hypothesis for conclusion.

Biesta (2010) adds that positivism is a method used to interpret and provide meaning to observations, and to measure variables. Its main objective therefore is to give explanations, based on outcomes (Cohen, Manion & Morrison, 2011). Hence, the main objective is to provide explanations on the outcomes, based on predictions. Some general assumptions on outcomes include empiricism, generalisability, determinism and parsimony. The understanding of each of these assumptions assists researchers to give meaning, and to research expectations within the paradigm (Morris & Burket, 2011; Punch, 2005). For instance, the assumption of determinism entails that occurrence are observed due to other related factors. Cohen, Manion and Morrison (2000) asset that if we are to understand casual relationships among various factors, there should be a systematic way of making predictions and controlling the potential impact of the explanatory factors on the dependent factors, which is more of controlling the known for the unknown.

The assumption of empiricism holds that to investigate a research problem, verifiable empirical data should be collected to support the theoretical framework and to test the formulated hypothesis. Consequently, the generalisability assumption inductively infers that the outcome obtained from research conducted within the positivist paradigm, in one context, should be applicable to other situations. The positivist researcher should be able to observe events and make predictions about what could be expected in other studies. Based on these assumptions, the positivist paradigm advocates for the use of quantitative research methods, particularly descriptive, in order to gather data and make analyses (Punch, 2005).

Fadhel (2002) holds the view that the positivist paradigm's epistemology is the objectivist theory. Objectivist epistemology ascribes to the notion that human understanding is gained through reasoning. By implication this means that through research, knowledge can be acquired which progressively estimates the real nature of aspects under investigation. This mean that knowledge gained through research can help us understand the environment around us (Alise & Teddlie, 2010).

5.3.2 **Interpretivism**

Interpretivist theorists hold the view that there is a wider theoretical discipline within the interpretivist paradigm (Gay & Weaver, (2011). An important unifying factor in this approach is its focus on significantly achieving an understanding of the subject's frame of reference. Interpretivism theorists differ from other natural and social scientists in their ability to provide adequate understanding of a given phenomenon (Cooksey & McDonald, 2011). However, the interpretivist approach does not mean degenerating to subjectivism, nor the generalisation of unlimited interpretations (Gay, & Weaver, 2011). Interpretivism emphasises the nature of people's characters and the role they play in cultural and social life (Cohen et al., 2000). The theory infers meaning and motives through behaviour and interaction with others in society (Gay & Weaver, 2011).

One of the main characteristics of the interpretive paradigm is that it can accommodate numerous perspectives and divergent versions of the truth (Morgan, 2007). The theory holds that any knowledge gained through research contributes to the understanding and interpretation of the context (Cozby, 2009). Interpretivism accepts multiple perspectives, it is open to change, and promotes participatory and holistic approach to research (Punch, 2005). The proponents of this theory do not ascribe to the existence of common values for research; rather, the guiding standards in research are because of a particular group or culture (Gay & Weaver, 2011). Thus, at the centre of the interpretivist paradigm is the endeavour to understand human experiences in a complex world (Corley & Gioia, 2011).

According to Biesta (2010), the viewpoint of the observer is intentionally oppressed for the sole purpose of deducting meaning from the viewpoint of the subject under observation. This view holds that reality is socially constructed; hence, emphasis is placed on understanding the individual in relation to the environment around him/her. Punch (2005) asserts that the researcher has the capacity to construct knowledge because of the researcher's experience in real life. The relativist ontology in this paradigm entails that a situation under study has numerous realties and that such realties can be explored to deduct meaning through human actions between the subject under study and the researcher (Ellis & Levy, 2008). This study applied mixed methods as such both the interpretivism and positivism are relevant throughout this empirical study to provide solutions to the research questions.

5.4 RESEARCH DESIGN

Research design refers to the basic structure of a research project, the plan for carrying out an investigation focused on a research question that is central to the concerns of a particular epistemic community (Schwartz & Yanow, 2012). Creswell (2009) views research design as the functional plan in which certain research methods and procedures are linked together to acquire a reliable and valid data for empirical analyses. According to Creswell, Plano and Clark (2007), research design refers to a plan or blueprint of how the researcher intends to conduct the research, whilst for Creswell (2014), it is a complete strategy on the central research problem. Research design focuses on the end-product and all the steps in the process to achieve that outcome (Silverman, 2010).

In essence, a research design becomes a template in which certain research methods and procedures are linked together to form a reliable and valid body of data for analyses, conclusions, and theory formulation. The research design thus provides the researcher with a clear research framework; it guides the methods, decisions and sets the basis for interpretation (Brannen, 2016). The central question of a research design is the type of questions that the researcher seeks to answer (Mohajan, 2017). In this study, the researcher is concerned with the impact of corporate governance on the performance of municipalities. The blueprint of this research is firmly built on the relationship between governance and organisational performance, and the effect thereof.

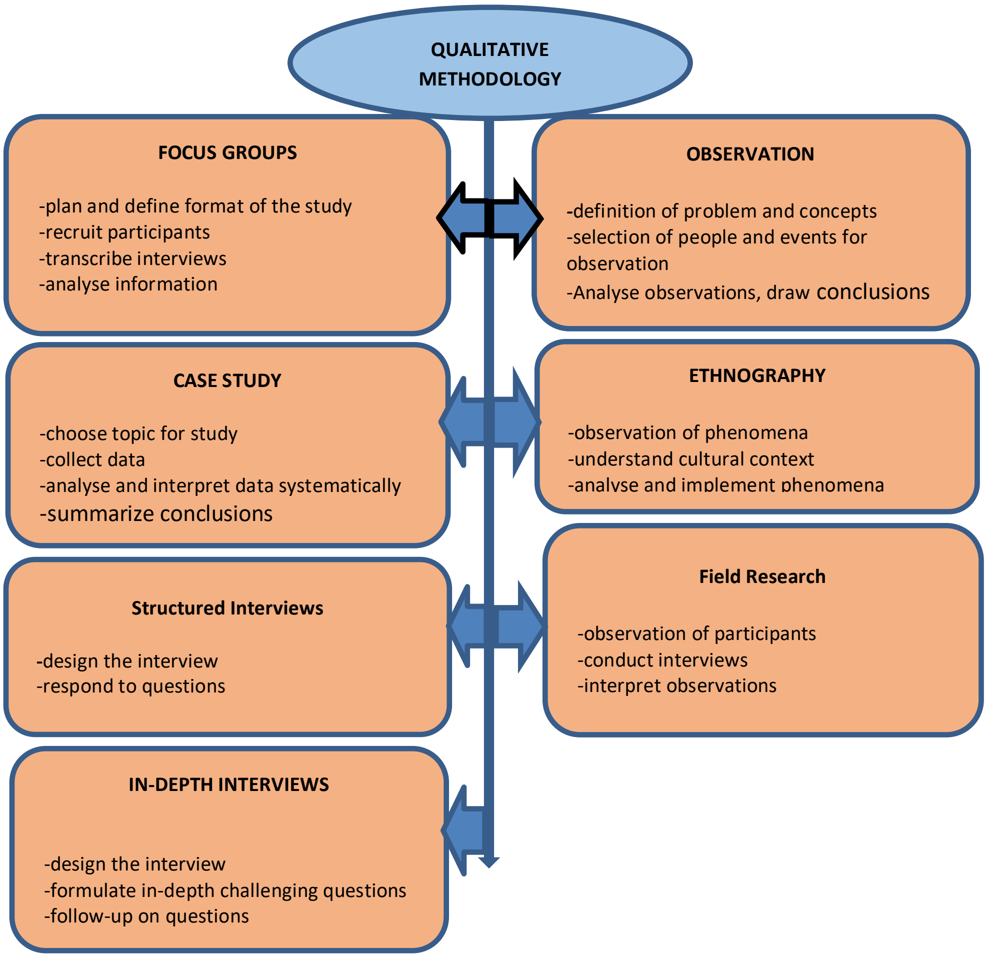
This study adopted a mixed method approach. In this study, the independent variable is corporate governance: whereas the dependant variable is performance. The mixed method approach will be used to quantify responses through generating numerical data on corporate governance and performance among other variables. The gathering of data will be done using a structured questionnaire, which will be made available to participants, who are selected from the population under study (Wiid & Diggines, 2009).

5.4.1 **Qualitative method**

Qualitative data are mostly non-numerical and usually descriptive or nominal in nature (Berg, 2012). Often, such data captures feelings, emotions, or the subjective perceptions of something (Punch, 2013). Qualitative approaches aim to address the 'how' and 'why' and tend to use unstructured methods of data collection to fully explore the topic (Biesta, 2010), while qualitative questions are open-ended and include focus groups, group discussions and interviews (Alise & Teddlie, 2010). Qualitative approaches are good for further exploring the effects and unintended consequences of a topic/issue (Morris & Burket, 2011). They are, however, expensive and time consuming to implement (Morgan, 2007). In addition, the findings cannot be generalised to participants outside of the study and are only indicative of the group involved (Cozby, 2009).

The use of qualitative methods to collect data is important in providing much needed information for evaluation purposes through the observation of results and assessment (Punch, 2013). Furthermore, qualitative methods can be used to improve the quality of survey-based quantitative evaluations by helping generate evaluation hypothesis, strengthening the design of survey questionnaires and expanding or clarifying quantitative evaluation findings. Figure 5.1 on the following page illustrates the qualitative methodology followed in this study

Figure 5.1: Diagrammatic depiction of qualitative methodology



Source: Designed for the study

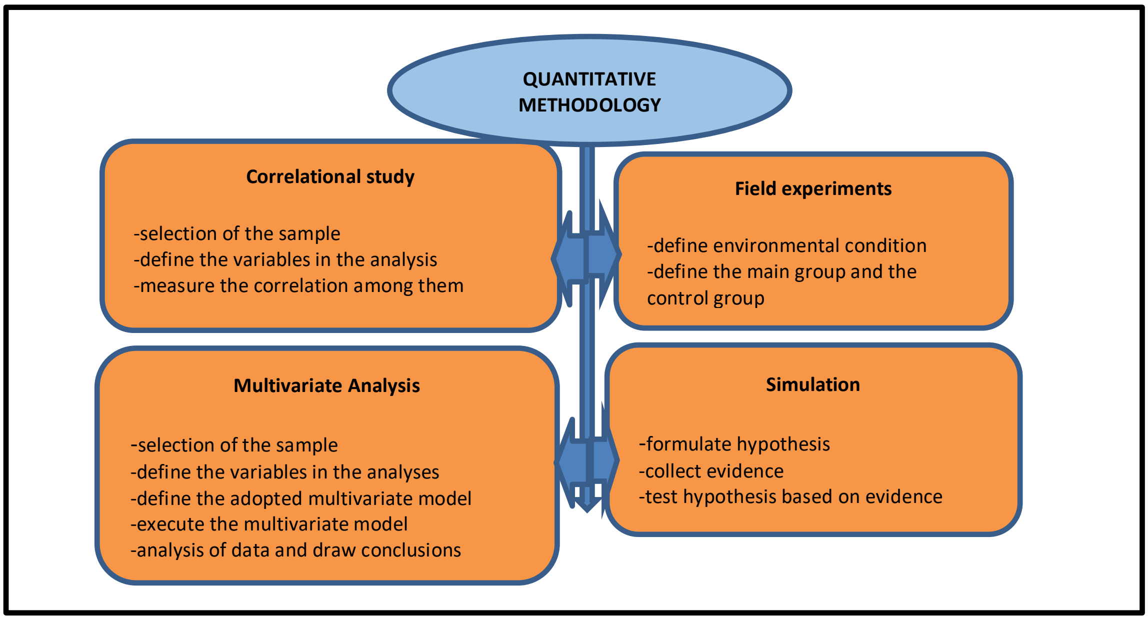
According to Drobot (2012), the qualitative approach is used to gain an understanding of underlying reasons, opinions, and motivations by providing insights into the problem or helping to develop ideas and hypotheses for potential quantitative research. In simple terms, it is method of observation that is used to gather evidence through non-numerical data (Morris & Burkett, 2011). This type of research includes various methods of collecting data through case studies, interviews, and focus groups, such as group discussions with participation and observation (Greene, 2007). However, there is a down-side to this approach. Knight and Burn (2005) caution that the quality of the research depends on the knowledge and skills of the researcher. It could also be time consuming.

Bergman (2008) asserts that the process of qualitative research is largely inductive, with the inquirer generating meaning from the data collected in the field. Concerned with the quality of information, qualitative methods attempt to gain an understanding of the underlying reasons and motivations for actions and establish how people interpret their experiences and the world around them (McGilvray, 2008). Qualitative methods also provide insights into the setting of a problem, generating ideas, and hypotheses (Kothari, 2008).

5.4.2 **Quantitative method**

Quantitative methods collect of numerical data, which can be transformed into statistics (Flick, 2014). Bryman (2011) state that this method is used to quantify attitudes, opinions, behaviours, and other defined variables, and it generalizes results from a larger sample population. Quantitative methods also use measurable data to formulate facts and uncover patterns in research (Byrne, 2002). The interpretation of calculations, standard deviations, and correlations means that the researcher displays knowledge and comprehension of the subject under study (Cohen et al., 2011). Creswell (2009), however, warns that research results should be applied with caution in that research-based evidence could be imperfect. The downside of this method is that researchers need to have access to the population, which could be time-consuming and costly (Turner, 2013). Quantitative methodology is depicted in figure 5.2 below in a form of a mind-map.

Figure 5.2: Mind-map of qualitative methodology



Source: Own compilation.

Quantitative methods interpret data to make sense of a phenomenon by asking the *'where', 'who',* the *'why'* and *'when'* questions (Byrne, 2002). Quantitative methods look to quantify data and generalise results from a sample of the population of interest (Kothari, 2008). They may look to measure the incidence of various views and opinions in a chosen sample, for example, or aggregate results. Quantitative data is numerical in nature and can be mathematically computed; it also measures using different scales, which can be classified as nominal scale, ordinal scale, interval scale, and ratio scale (Morris & Burkett, 2011). Moreover, quantitative methods use a systematic standardised approach; employs methods such as the surveys, ask questions to address the *'what'* of problem.

Quantitative approaches have the advantage that they are cheaper to implement, are standardised (so comparisons can be easily made) and the size of the effect can usually be measured (Shavelson, 2002). Quantitative approaches, however, are limited in their capacity for the investigation and explanation of similarities and unexpected differences (Bryman, 2011). In the quantitative paradigm, it could also be difficult to implement some methods because of a lack of the necessary resources. Moreover, the challenge with the implementation of surveys is frequent low participation and loss to follow-up rates. Random sampling and structured data are methods applied in quantitative data collection, which turn diverse experiences into pre-determined categories (Alvi, 2016). If the intent is to generalise from the research participants to a larger population, the researcher will employ probability sampling to select participants (Morris & Burkett, 2011).

5.4.3 **Mixed methods research**

Mixed methods research is a methodology for conducting research that involves collecting, analysing and integrating quantitative (e.g., experiments, surveys) and qualitative (e.g., focus groups, interviews) research (Cohen et al., 2011). Is an integrative approach that provides better understanding of the research problem, than either of them alone (Bryman, 2011). This method should be used when understanding the phenomenon in depth is of great importance to the researcher (Tashakkori & Teddlie, 2003). It could sometimes be unclear how to resolve discrepancies that could occur when investigating the findings, especially when collecting quantitative data, followed by qualitative data (Turner, 2013). According to Davies (2011), mind mapping is a useful tool for understanding a complex reality; it also promotes creative thinking and encourages brainstorming.

5.4.4 **Pros and cons of selected research methods**

Quantitative research focuses on quantification of relationships between the dependent and independent variables (Denscombe, 2008). Qualitative research on the other hand, is about data assessment through interviews, videos, and observations (Taylor & Coffey, 2009). Like several scientific approaches, research methods are not without advantages and disadvantages. Table 5.1 below illustrates the advantages and disadvantages of research methods.

Table 5.1: Advantages and disadvantages of research methods

Method	Advantages	Disadvantages
Observation	- Collect data simultaneously with the event occurring - it is devoid from obstacles - Flexible and oriented to knowledge discovery	- Very time consuming -Dependent on the observer's impartiality - Requires significant preparation - Difficult to collect data in real time
Ethnography	- Based on observation and interviews with the people who are directly involved - Provide in-depth findings - Suitable to explore new lines of research	- Very time consuming - Difficult to obtain concise and precise conclusions - Researcher needs to have a deep knowledge of the problem domain
Field research	- Adequate to obtain detailed data - Data is collected with emphasis on the social background	- Data collected from a large number of people is difficult to generalise. - Dependent on the observer's impartiality - Documenting observations could be a challenging process

Focus groups	- Adequate to obtain detailed information about a person and a group - Offer the opportunity to seek clarification - There is a flow of responses as many members participate	- Hard to control and manage - Difficult to obtain the participation of people - Can be not representative of the entire population
Case studies	- Provide detailed information about individuals - Offer a good opportunity for innovation and to change current theoretical assumptions - Case studies can supplement responses from focus groups	- Difficult to establish cause-effect connections - Hard to generalise from a small number of case studies - Ethical issues, especially of confidentiality, could appear - Not one topic is relevant to everybody
Structured interviews	- Well-structured and easy to compare respondent's answers - Can reach a large sample - Easy to replicate - interviews are easy to organise	- Very rigid - Low flexibility in the choice of response - Difficult to obtain detailed data.
In-depth interviews	- Probing helps to delve deeper into the subject - Can be performed in informal environments	- Time consuming and relatively costly - Longer verification process to extract compared information

Source: Almeida (2017)

5.4.5 **Rationale for using mixed method approach.**

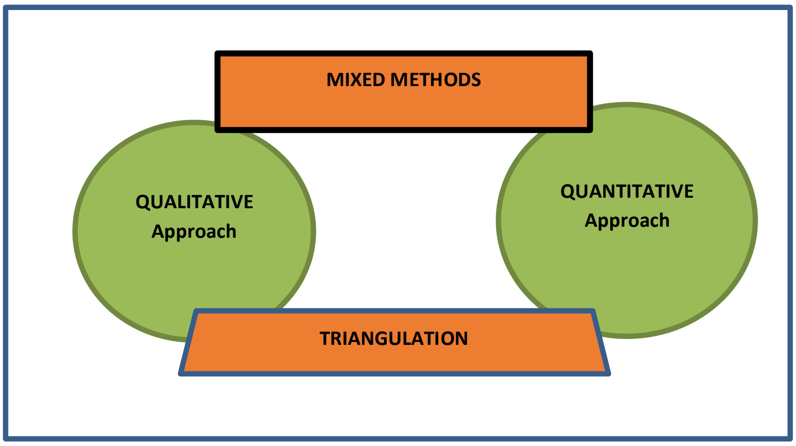
According to Morris and Burkett (2011), the goal of mixed methods research is not to replace the quantitative or qualitative approaches, but rather to draw from their strengths and to minimise possible weaknesses. Flick (2014) suggests that blending these two methods can produce a final product, which can highlight the significant contributions of both. Zohrabi (2013) states that linking data provides a way of using statistics, which is the traditional language of research. Moreover, the motivation behind using the mixed methods approach is the desire to get the whole story (Bergman, 2008). Tashakkori and Teddlie (2003) state that employing multi methods in the same study gives the researcher confidence that he or she has addressed the most important issues. Some of the key rationale for selecting mixed methods approach were to generate and understand broader and deeper insights of the research, gain broader interests in the research issues, and to achieve broader interpretations (Bryman, 2011).

5.5 **TRIANGULATION OF RESEARCH DESIGN**

Triangulation is how alternative perception is used to justify, challenge, or expand prevailing research outcomes (Christ, 2010). It is applicable when the field of study is difficult, demanding, or contentious (Khan, 2014). The present research meets all these criteria (Creswell, 2009). Biesta (2010) explains that the term ‘triangulation’ originated in the field of navigation, where a location is determined by using the angles from two known points. Triangulation in research is the use for more than one approach to research specific questions. The objective is to increase confidence in the findings through confirming a proposition, using two or more independent measures (Greene, 2007). The combination of findings from two or more approaches also provides a more comprehensive picture of the results than either approach could do alone (Bryman, 2012).

Triangulation is a powerful technique that facilitates validation of data through cross verification from two or more sources (Creswell, 2009). In particular, triangulation refers to the application and combination of several research methods in the study of the same phenomenon (Bergman, 2008). Triangulation also involves using multiple data sources in an investigation to produce understanding (Creswell, 2010). To make research results bias free, valid and generalised increase the rate of certainty (Christ, 2010). Triangulation thus entails using more than one method of data collection as well as theories, in order to make the findings more reliable (Creswell, Klassen, Clark & Smith, 2011). The process of data triangulation strengthens a study by increasing the validity and credibility of the data sets and information (Greene, 2007). Figure 5.3 below exemplifies the research processes leading to triangulation approach.

Figure 5.3: Approaches to research triangulation



Source: Own compilation

5.5.1 **Methods of triangulation**

There are several approaches to triangulate the outcomes of empirical study based on mixed method approaches. According to Creswell et al., (2011) triangulation differs in the following ways. Data from empirical sources can either be triangulated at sources, by means of analyst triangulation and through theoretical perspectives. By triangulation, the researcher used an integrated multi-technique that reduce biases as well as to minimise the general weaknesses (Fidel, 2008). By its nature, triangulation makes it possible for the researcher to attain different information on similar issues (Greene, 2007). According to Greene (2007), the method of triangulation can be applied to either validate and to establish reliability checks on mixed methods and to reduce mistakes.

Mixed methods used different approaches to gather empirical data. However, the method of triangulation merges both methods to gather data and to eradicate bias

(Creswell et al, 2011). Triangulation is of utmost benefits to the researcher since it reduces uncertainties (Arbnor and Bjerke, 2009). Further benefits of triangulation include eradicating inconsistencies, verification, and data credibility (Bryman, 2012; Cohen, Manion & Morrison, 2011). In this study, data received through various data collection instruments are triangulated with the results. Data results and the analysis from the questionnaires are contrasted with those of the focus groups discussions (FGDs) and interviews to build a case to understand corporate governance practices in state institutions such as the selected local municipalities.

5.6 **POPULATION AND SAMPLE**

5.6.1 **Background**

The uMgungundlovu District Municipality is situated in the south-western part of the province of KwaZulu-Natal. The uMgungundlovu district Municipality covers an area of 9,512.92 km² with a population of 1,066,152 residents. The N3 national route runs through the district, which connects two economic hubs of Durban in KwaZulu-Natal and Johannesburg also referred to as Gauteng. The Msunduzi Local municipality is in the capital city of Pietermaritzburg, where services are readily available but not adequate and the area is zoned as urban in terms of municipal classifications. Local municipalities such as Richmond, Mshwathi and uMngeni are semi-urban and rural. Mpofana Local Municipality and Mpendle are rural areas with minimal economic activities. Figure 5.4 on the next page depicts the map of the district municipality of uMgungundlovu including other local municipalities such as the selected local municipalities of Msunduzi, uMngeni and Mkhambathini.

Figure 5.4: Map of uMgungundlovu District

Source: www.municipalities.co.za

5.6.2 **Population**

According to Rubin and Babbie (2008), population is referred to as all the groups and individuals from which the researcher plans to draw inferences. Bryman (2012) add that a study population represents the universe of specific units from which a research sample was chosen. For purposes of this study, all the local municipalities of uMgungundlovu district municipality meet the definition of research population to provide primary data for analyses. However, the sample for this study was chosen from three selected local municipalities of Msunduzi, uMngeni and Mkhabathini. In considering the definition of research population, two main elements are significant. These include identification and defining of the research target population for generalisation and lastly, the sample frame designed as the core source of selecting the research sample.

In this current study, the researcher intended to use specific literature including practices of corporate governance, service delivery and the level of performances within the local municipalities of uMgungundlovu district municipality. Three local municipalities were chosen namely the Msunduzi, uMngeni and Mkhabathini local municipalities. The target population of this study comprised all the 703 employees of the uMgungundlovu district municipality. The employees include senior managers, councillors, and other employees from various departments in the district municipality. Staff volumes at each of the selected local municipalities remains minimal. For instance, it was not possible to select research sample based on employee numbers. The researcher made the decision to conduct semi-structured interviews using 3 senior managers (1 each from the selected local municipalities). For the FGDs a sample of 18 senior managers (6 from each of the selected local municipalities) and 300 municipal councillors, staff members and 10 community members into two groups of five in each group.

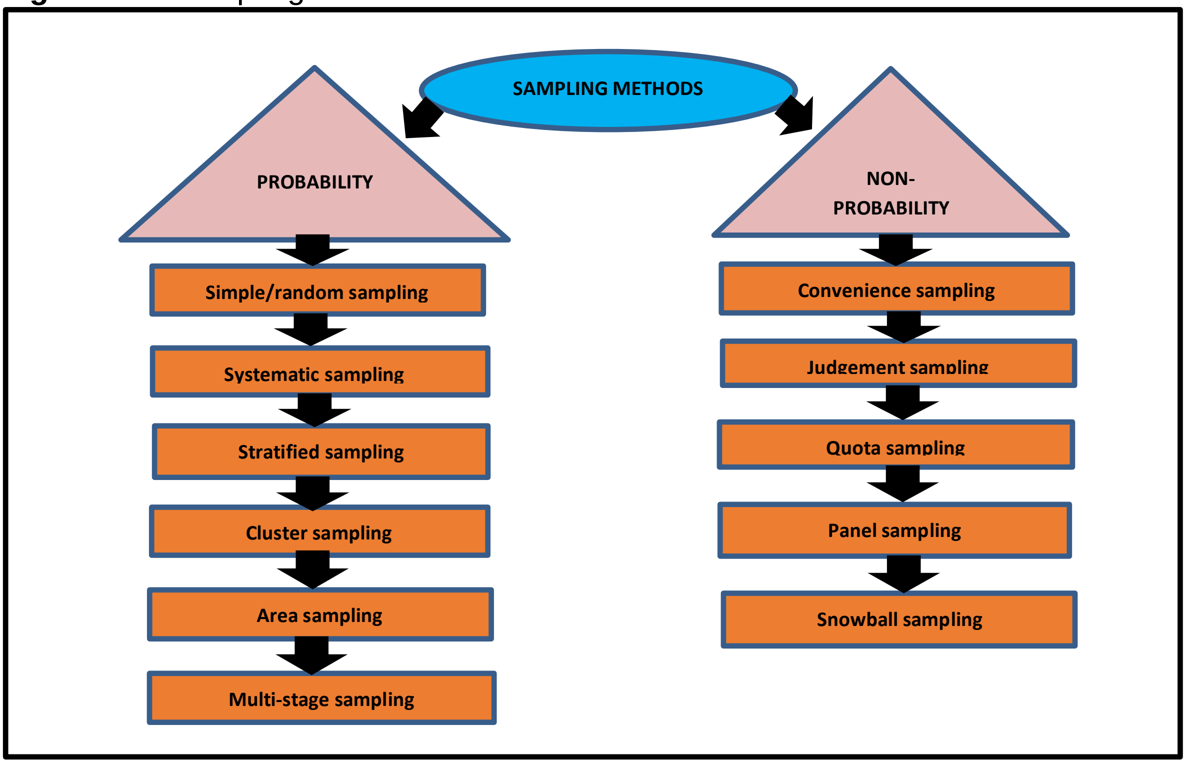
5.6.3 **Sample**

Sampling is defined as a research method that is employed to choose individual members of a specific population to assist in making statistical inferences and to estimate the characteristics of the entire population (Wiid & Diggines, 2009). Sampling thus entails choosing a portion of the population to represent the whole population (Landreneau, 2003). There are two main categories of sampling methods namely probability and non-probability (Tustin, Ligthehm, Martins & Van Wyk, 2005). Probability sampling is when every individual within the study population has an equal chance of being selected (Johnstone & Keith, 2010). Hence, probability samples are those samples in which members of the population have a known chance (probability) of being selected in a sample (Lavrakas, 2008). Figure 5.5 on the following page illustrates the two categories of research sampling techniques namely the non-probability and the probability sampling techniques.

Sampling techniques entails roughly ten tools namely probability and non-probability. Whilst the non-probability sampling method are utilised in cases where the researcher has no intention to apply generalisation of research outcomes based on the sample size to the general population, the probability sampling tools show generalisation tool to the selected population. This study utilised non-probability sampling known as the convenience and judgement sampling. According to Oppong (2013), convenience sampling can be defined as individuals in a group believed to be representative of the population chosen, because the population lives close to the researcher. Judgemental sampling is a non-probability sampling technique whereby sample units are selected based on the researcher's knowledge and judgement (Creswell, 2014).

The rationale for the using non-probability sampling is that the uMgungundlovu district is diverse based on different economic and social factors. The selected local municipalities were specifically chosen on the strength of their diverse landscapes in economic and social terms and their scale of development. Based on the general demographics and socio-economic landscapes of the research settings, the researcher made the decision to select Msunduzi, Mkhabathini and uMngeni local municipalities as the representations of the research settings that participated in the study. Completed and amended research questionnaires after modifications were distributed to all participants namely the senior managers, council members, municipal employees, and selected citizens from Msunduzi, Mkhabathini and uMngeni municipalities were given the questionnaires to provide answers to the questions. Figure 5.5 below depicts sampling methods used in research activities.

Figure 5.5: Sampling methods



Source: Own compilation

5.7 **DATA COLLECTION**

Data collection is the process of gathering and measuring information on variables that are of interest to the scientific study (Tustin et al, 2005). It is an established and systematic approach that enables the researcher to answer the stated research questions, test hypotheses, and evaluate outcomes (Tustin et al., 2005). The main objective for collecting data is to gather reliable evidence, which is then translated into data analysis that seeks answers to questions (Friese, 2011). The data collection stage is one of the most important stages in research. Data collection starts with determining what kind of data is required, followed by the selection of a sample from a certain population, and thereafter, a certain instrument will be used to collect the data from the selected sample (Creswell, 2010).

For collecting relevant data for this study, the researcher used the questionnaires, focus group discussions (FGDs) and semi-structured interviews as the means to gather primary data. Flick (2014) asserts that while methods of collecting data may vary by discipline, the emphasis on ensuring that data is accurate and honest remains the same. According to Arbnor and Bjerke (2009), the accuracy of data collection and maintaining integrity in research remain essential. This study applied mixed methods (quantitative and qualitative) quantitative data was collected through self-designed questionnaire based on literature while the interview schedule was used to gather qualitative data. The next section below discussed the instruments employed by the researcher to collect primary data.

5.8 **DATA COLLECTION INSTRUMENTS**

Research instrument is a tool or device (such as a questionnaire, test, observation schedule, or interview guide) used to collect data (Canals, 2017). Regarding this study, questionnaires and interview schedules were utilised as instruments to source primary data. Below the researcher discuss the two data collection instruments namely questionnaire and interview schedule or design. These two instruments are used to access qualitative and quantitative data. Flick (2014) supports the view that choosing data collection instrument should be treated as a major decision that should be made only after careful consideration of the possible alternatives.

5.8.1 Questionnaire design

A questionnaire is described by Smallbone and Quinton (2004) as a document designed to collect quantitative data for statistical analysis. The questionnaire in this study is meant to gather quantitative information, which are based on corporate governance, service delivery and performance, as indicated in the literature review. Although questionnaires are often designed for statistical analysis of responses, it is often demanding to construct relevant questions that will assist in determining the outcome (Bryman & Cramer, 2008). The construction of a questionnaire is challenging and often complex in that it should guide the participants to answer objectively and consistently (Byrne, 2002). Responding to the difficulties in designing the questionnaire, Friese (2011) suggests the following applicable information to design research questionnaire of high standard. These guidelines include:

- conceptualise known variables.
- each variable should be treated as a survey question.
- group survey questions in their shape and form.
- arrange the questions in the questionnaire in sequence to eliminate possible confusion.
- the survey questions should provide a good measure of validity and reliability.
- the survey questions should be worded in an easy-to-understand format to make it easier for participants to answer objectively and honestly; and
- the survey questions should be kept clear and relevant to the participants.

For the purposes of this study, the researcher designed the questionnaire based on the guidelines provided by Friese (2011). The research questions were formulated in response to the research objectives set out in Chapter one. In line with the guidelines, the researcher set out a simple and easy questionnaire covering various sections as follows:

Section A: This section included general information of the participants, such as age, gender, highest qualification, and position.
Section B: This section focused mainly on participants' knowledge of corporate governance.

Section C: The bulk of this section dealt with systems within the municipality, such as the HR system, supply chain, the PFMA/ MFMA, and the application of corporate governance to enhance performance.

Section D: This section dealt with service delivery, and with how people felt about service delivery in the research area.

According to Green (2008), the Likert rating scale questions suggests the extent to which the participants' agreed to specific research questions. The decision by the researcher to employ a five-point Likert scale was to enable participants to choose their desired options. The rationale for using a five-point scale was to eliminate any neutral responses (Grbich, 2007). Table 5.2 below depicts the format of the questionnaire that was throughout this study to generate credible data from the participants. The following section describe the design of the interview schedule that the researcher used to gather qualitative data.

Table 5.2: Format of the questionnaire

Strongly disagree	Disagree	Neutral	Agree	Strongly agree
1	2	3	4	5

Source: Own construction (2021)

5.8.2 **Design of the Interview Schedule**

The interview schedule is a research tool that is applied to collect qualitative data. Interview schedule comprises a list of open-ended questions that were structured to serve as a guide to the interviewer (Gilbert, 2007). Interview schedule design for this empirical research entails a pre-construction of interview questions. As suggested by Atkinson, Coffey and Delamont (2001), interview schedule must be effectively designed to include open-ended questions that enables participants to select answers on individuals own terms and to apply own languages in answering every research question (Guest, Namey & Mitchell, 2013). Throughout this study the researcher based all questions on the research topic. The interview schedule includes questions about service delivery, municipal performance, and corporate governance.

In designing the questions, the researcher provides guidance to include relevant questions in the interview schedule to be used during semi-structured interviews and FGDs (Greeff, 2009). Only questions based on related issues of the research topic were posed to the participants were incorporated in the schedule (Saks & Allsop, 2012). To ensure adequate questions were obtained, to provide answers, the researcher formulated questions based on literature. Besides, the literature was divided into several themes as all the questions were designed in a semi-structured interview format. All the questions were arranged in the interview schedule in the same sequence as they were posed to participants during the interview schedule.

5.8.3 **Semi-structured interviews**

Morris and Burkett (2011) describes an interview as a data collection instrument, which involves the oral questioning of participants. Several authors, including Lavrakas (2008), concur that the purpose of an interview is to get answers from the participants through questioning and probing. This study applied two approaches to collect empirical data. These approaches were the semi-structured interviews as well as questionnaire. According to Bowen (2006), semi-structured interviews assist the researcher by making it possible to gather rich data. Semi-structured interviews focus on participants who are asked few predetermined questions, while the rest of the questions flow from the discussion of the topic (Tustin et al., 2005).

The semi-structured interviews allow the researcher to use specific schedule to direct the interview processes (Zenobia, Chan & Wai-tong, 2013). Another researcher Finlay (2010) asserts that empirical researchers during the interview processes participants are given maximum attention by the interviewer to understand their views. This process according to the author allow the researcher to show the participants maximum empathy, curiosity, and compassion. The researcher found the semi-structure interviews very useful as it allows this study to employ open-ended questions that the researcher pre-set closer to each participant (Jamshed, 2014; Creswell, 2014).

The researcher prefers to use semi-structured face-to-face, individual interviews to gather data to understand respondents' experiences through facial demonstrations, blushing as well as personal gestures (Polit & Beck, 2014). Adopting this form of data collection, the researcher access deeper insights of individual experiences that enable participants to tell their own stories to allow full coverage of the research topic (De Vos, De Hauw & Van der Heijden, 2011). Similar sentiments were echoed by Merriam and Tisdell (2016) stated that qualitative data use words to express respondents' thoughts and expressions. To ascertain maximum information, the researcher used direct quotes based on respondents' experiences and feelings, views as well as interview knowledge (Patton, 2014).

5.8.4 **The interview process**

The applicable interview processes were in form of a semi-structured interviews and FGDs as discussed earlier. Prior arrangements were made with the participants to conduct the interviews. Whereas the questionnaires and the FGDs were generalised, the interviews were limited to senior municipal managers (MMs) or the council members to be precise. The interviews were conducted in the comfort of individual offices of the employees in Msunduzi, uMngeni and Mkhabathini as the selected local municipalities. The rationale for using senior staff members was to access their in-depth of knowledge on existing systems and processes of corporate governance, human resources, procurement, and general administration within the local municipal structures.

To ensure all ethical protocols were followed, the researcher sought permission from all the sectional managers across the selected local municipalities. Permission was granted by the sectional managers to use their offices to conduct the interviews. As part of planning for the interview processes, a series of questions, which were research objective-oriented, were formulated prior to the interviews. The purpose of the formulation was to capture the main theme of the interviews and to guide the interview processes to prevent unnecessary conversations. The duration of the interviews was restricted to 45 minutes because the MMs had busy schedules due to the Covid-19 pandemic. All three MMs from the selected local municipalities showed willingness to participate in the interviews; they were assured of their confidentiality, as well as the confidentiality of the interview contents.

The researcher asked permission from the participants to make use of a voice recorder (Samsung A20 Smartphone) to record the conversations, and a notepad to take field notes during the interview proceedings. The next section focuses on data collections processes by considering different research tools that are used throughout the study to gather primary data using mixed methods.

5.8.5 **Piloting the research instruments**

It is necessary that research instruments are piloted prior to the administration of the questionnaires on a larger scale to participants (Zikmund, Carr & Griffin, 2013). Pre-testing of research instrument is done to establish the clarity of the questions that forms part of the research instruments to be administered to participants (Sekaran & Bougie, 2010). Without piloting the research instruments, the credibility of the instruments is likely to be doubtful (Wilson, 2014). Justification to conduct the pilot exercise in this study is to determine the exact average time-frame participants are likely to take to complete the instruments (Wilson, 2014). Besides, piloting the instruments allow the researcher to administer a clearer and error free questions to participants. The researcher used few individuals from the selected population to test the questions in the questionnaires in search of possible errors, invalid and inappropriate questions (Hussain, Mail, Shamy, Alghamdi and Saoudi, 2016). The researcher re-worked and fine-tuned all incorrect questions soon after the pilot exercise was completed before the administration of participants.

5.8.6 **Data collection process using research questionnaire.**

With the assistance of six trained research assistants from the research settings, the questionnaires were distributed to 130 respondents across the selected local municipalities of Msunduzi, uMngeni and Mkhabathini. Two trained assistants were assigned to each of the selected municipality to distribute the questionnaires to participants. The participants were asked in good faith to participate and provide data for this empirical research. Concerning the members of staff and the council members in the selected local municipalities, the research assistants made prior appointments with the relevant authorities to distribute the questionnaires. The questionnaires were administered under strict Covid-19 prescripts. No one was coerced to fill in the questionnaires. The questionnaires from junior staff members were taken back after completion, whereas the rest of the questionnaires were collected by the senior staff in charge and handed over to the research assistants at a later stage.

5.8.7 **Defining focus group discussions**

Canals (2017) FGDs as a data collection technique where people of similar backgrounds and experiences gather to discuss specific topic of interest. One of the primary functions of FGDs is to allow participants to give their views, opinions, perceptions, attitude, and beliefs about a particular subject (Tashakkori & Teddlie, 2003). Bergman (2008) warns that the composition of the group should be carefully planned to create a non-threatening environment that easily facilitate better feeling among members to freely express themselves openly to provide trustworthy opinions. According to Berg (2012), membership of four to six participants in one group is reasonable to participate in FGDs.

5.8.7.1 **Data collection process through FGDs**

Invitations were sent to twenty participants to take part in the FGDs. Two participants declined, citing Covid-19 related restrictions for non-participation. The remaining 18 members were divided into three groups of six individuals each. Each FGDs consisted of two members of the public, two council members and two employees of the selected (Msunduzi, Mkhabathini and uMngeni) local municipalities. For easy analysis of data in verbatim, the groups were referred to as FGDA, FGDB and FGDC respectively. A group of six participants in each group of three were set up to discuss pertinent issues of service delivery, the performance of local municipalities, and corporate governance practices within the selected municipalities. In total six FGDs were conducted.

The criterion used for the selection of the participants was based on availability. A prearranged topic guide was used during discussions with participants in each group to provide credible and reliable information. Through the directions of the researcher as the group leader, participants were allowed to ask each other questions as they are from diverse backgrounds and geographical locations. Besides, each participant has been tasked to provide different government services to the local communities. The guide was based on the research questions, which were highlighted in chapter one. The duration of the discussions lasted between 45 to 60 minutes. Besides, the length of the FGDs was measured using follow-up questions designs to seek clarifications.

5.9 QUALITATIVE AND QUANTITATIVE DATA ANALYSIS

Data analysis entails the application of multiple research approaches that relates to various procedures and plans (Creswell, 2009). Its primary purpose is to classify empirical data, structure the research outcomes to reach conclusion (Friese, 2011). According to Leedy and Omrod (2005), there are different steps that guides data analysis during empirical research processes. These steps include the logical presentations of the case under investigations, data categorisation, clarifications, and data assessment. Conducting data analysis according to themes and patterns are the key hallmark of the analysis used throughout this research. Lastly synthesising the research findings and to aid the processes of generalisation of the research findings.

In general, data analysis depends on the type of gathered from the field. Throughout this research, quantitative and qualitative data was collected using the questionnaire and the interview schedule. Two main approaches (quantitative and qualitative) data was collected for analysis. The IBM statistical software packages namely the 23 Software Version was applied to facilitate meanings to the primary data. Data collected from respondents was possible through the services of professional statistician. Descriptive statistics as described by Welman, Kruger and Mitchell (2005), entails a summary of primary data collected from individual groups. In conducting descriptive statistics frequency, percentages, measurements of variability and central tendency were affected (Nick, 2007).

Collecting and consolidating mass of numerical information, the researcher in this study used descriptive statistics to change primary data into information for description of volume of data. In this study, frequency, percentages, counts, standard deviations and means were utilised throughout the descriptive statistics. Percentages and frequency counts were also employed to explain participants' demographic data such as age groups, gender composition, educational and employment status. Through the descriptive statistics, employee positions and employment by the municipalities were summarised. The descriptive was followed by inferential statistics for conclusive information to be drawn with inferences (Nick, 2007). Other statistical tools that were applied to support the inferential statistics include chi-square test, t-test, ANOVA, and the regression (*refer to chapter 6 for details*).

To ensure the hypotheses provided accurate results different statistical tools were applied for testing. The researcher tested and computed summary statistics for the variables based on the results of the formulated hypotheses. In addition to the quantitative data, the researcher sourced qualitative data through semi-structured interviews and FGDs which was later analysed by means of thematic method. Thematic data analysis involves data identification, conducting analysis and reporting on various related patterns (Liamputtong, 2009). The Thematic analytical tool depicts common features including generation of primary data, using iterative procedures to analyse data, employ field notes during data generation stages and coding of primary data (Blackstone, Given, Levy, McGinn, O'Neill & Van den Hoonaard. 2008).

The researcher made the decision to use thematic analytical techniques based on several benefits. According to Braun and Clarke (2006), by utilising the thematic analysis the study benefits from flexibility and application of theoretical freedom, providing and summarising similarities as well as variations. For this study, primary data from semi-structured interviews and FGDs were transcribed to facilitate the data analysis procedures. The researcher employed themes and sub-themes based on the interview questions that emerged throughout the interviews and FGDs with different participants.

5.9.1 **Characteristics of qualitative research sample**

The senior managers and other employees who participated in interviews as well as the FGDs. All the senior managers have worked for the municipalities for more than 10 years except one who worked for less than six years of age. The age group of the senior managers and other employees who took part in the interviews and FGDs range from 28-50 years. Only two female employees aged between 30-38 years provided data during the FGDs. Almost all the participants have achieved some level of educational qualifications. The local district municipalities that were represented were from Msunduzi, Mkhabathini and uMngeni in the uMgungundlovu district municipalities.

5.10 LIMITATIONS TO THE STUDY

This research applied both qualitative and quantitative methods to collect data. Limitations identify the weaknesses with research settings while the concept of "de-limitations" provide enough explanations of how research scope is focused on specific entity against a broader approach (Welman, Kruger & Mitchell, 2005). This empirical study is limited to specific municipalities in the uMgungundlovu district in KZN. Once completed, its findings will be made available to the research settings. Similarly, its outcomes will largely serve as a significant indicator for municipalities of the same geographical and economic background.

5.11 ETHICAL CONSIDERATIONS

Ethics in research is regarded as one of the most significant features of the research study (Resnik, 2011). According to Blumberg, Cooper and Schindler (2014) the norms and standard of behaviour of people is guided by ethics in their relationships with each other. It is imperative that researchers consider appropriate values throughout the different stages of research (Connelly, 2014). Wiid and Diggines (2009) caution that it is extremely important to treat participants in an ethical manner. The research project in its entirety warrants coordination and cooperation of various stakeholders in different disciplines, which require high level of accountability, fairness and mutual respect (Resnik, 2011). Society in general is guided by rules which facilitate behaviour standards and moral norms (Blumberg et al., 2014). A researcher should make an informed choice of the appropriate method to use for the collection of relevant data and present such findings in a logical sequence (Connelly, 2014). Below are some of the guidelines that were applied throughout this research.

5.11.1 Participants should be willing and informed.

Informed consent forms the basis for ethical research (Fleming, 2018). The manner of willingness and informed consent immensely contribute to obtaining permission from participants in the quest for gathering data. The responsibility of the researcher in this regard was to ensure that participants were informed in advance the nature of the research and the steps that would be taken to ensure their informed decision. Before interviews are conducted, it is important for the respondents to give their permission (Fleming, 2018). Essentially, conducting research implies that a person has thorough knowledge, volunteers to partake in the research and that consent has been willingly given (Resnik, 2011). The aspect of informed consent includes a clear explanation of who the researcher is, as well as the intention of conducting research (Fleming. 2018). Participants should also be made aware of how data collected will be reported and utilised (Blumberg et al., 2014). Fleming (2018) asserts that the process of informed consent can be loosely regarded as the tacit contract between the researcher and the participants.

5.11.2 **Data collected should be held in confidence.**

It is essential for the identity of participants to be kept in confidence. The anonymity of participants also serves as an assurance that their identity shall be protected (Resnik, 2011). Anonymity can only be maintained when the subject's identity cannot be directly linked to personal responses (Akaranga & Makau, 2016). If any information is to be revealed for some reasons, participants should give consent to that effect. This heightens honesty and integrity towards research by protecting participants from physical and psychological harm (Akaranga & Makau, 2016). Participants should be given the assurance that their responses will be kept confidential (Wiid & Diggines, 2009). The researcher should make efforts to protect the identity of the participants and to keep the conversation as confidential as possible. If a particular organisation was used as a case study or relevant data was collected from it, the researcher should be cautious in revealing findings if such information may hamper the working relations between the sponsor and the researcher (Akaranga & Makau, 2016).

5.11.3 **Ensure that the respondent is not deceived.**

Participants should be informed in advance that the interviews are for study purposes only and that their personal integrity will not be compromised for participating in the study (Rensik, 2011). As Fleming (2018) notes that collecting data through deception threatens the integrity of the research. When participants feel that they have been fooled into participating in an unworthy course, they are accustomed to avoiding further research projects by other researchers who are authentic and ask in good faith. To ensure the authenticity of the research project, an official letter of permission to conduct research from the municipality was attached to the questionnaire.

5.11.4 **Ensuring no harm to the participants**

Participants play a major role in the collection of primary data. Consequently, without them research would be meaningless. Collection of data was conducted with a full knowledge of how participants' daily life routines would be impacted (Barbour, 2008). The researcher ensured that enough reasonable time was given to participants to psychologically adjust and to ensure that prevailing fears are alleviated. The researcher did not interfere with the daily work of council members and municipal employees in the collection of data. Where follow-up was needed, the researcher opted to liaise with the participants through emails, by prior arrangement, in order to avoid intrusion (Denscombe, 2008). According to Fleming (2018), participants should not be physically or mentally harmed. Participants should also not be put in a position of discomfort to embarrass them.

5.12 **CHAPTER SUMMARY**

This chapter outlines approaches that were utilised to gather empirical data from respondents. The chapter include the empirical research design, methods, the target population as well as the sampling techniques used. Research instruments namely the questionnaire and interview schedule were discussed. In addition, this chapter discussed two data analyses approaches since the research design based on mixed methods. The methodology section of this chapter enabled the researcher to address the research questions to achieve the objectives. The following chapter focused on presenting and discussion of the final outcomes.

CHAPTER 6

INTERPRETATION AND DISCUSSION OF FINDINGS

6.1 Introduction

A comprehensive report on the research approach was detailed in the previous chapter including the research design and the target population. Besides, the chapter outlined the sampling techniques, data collection approaches and the research instruments used. The present chapter highlighted and analysed the empirical data gathered by means of questionnaire, semi-structured interviews and FGDs from respondents across the selected municipalities of Msunduzi, Mkhabathini and uMngeni in the uMgungundlovu district municipalities. In this section, a two-phase interpretation was conducted namely descriptive and inferential analysis which involved graphs, charts, tables, and figures. Besides, the section outlined inferential statistical tools such as the chi-squared, ANOVA, regression analysis and the Pearson's correlation coefficient. Other statistical tools that featured in this chapter include the cross tabulation and the thematic tool that was applied to analyse and to increase and interpret qualitative data.

This study aims to explore corporate governance practices in selected local municipalities of Msunduzi, Mkhabathini and uMngeni in uMgungundlovu district municipalities. The following objectives were empirically pursued:

- To assess the depth of corporate governance practices in uMgungundlovu district municipality.
- To identify the relationship between municipality performance and corporate governance practices.
- To assess possible relationship between municipal performance and knowledge of corporate governance practices.
- To explore the roles of corporate governance practices to enhance performance and service delivery in municipalities.
- To determine the existence of corporate governance practices in local municipalities.

- To develop a framework that incorporates corporate governance practices to enhance municipal performance in the uMgungundlovu District municipality and
- To develop evidence-based practical recommendations to improve performance in local municipalities.

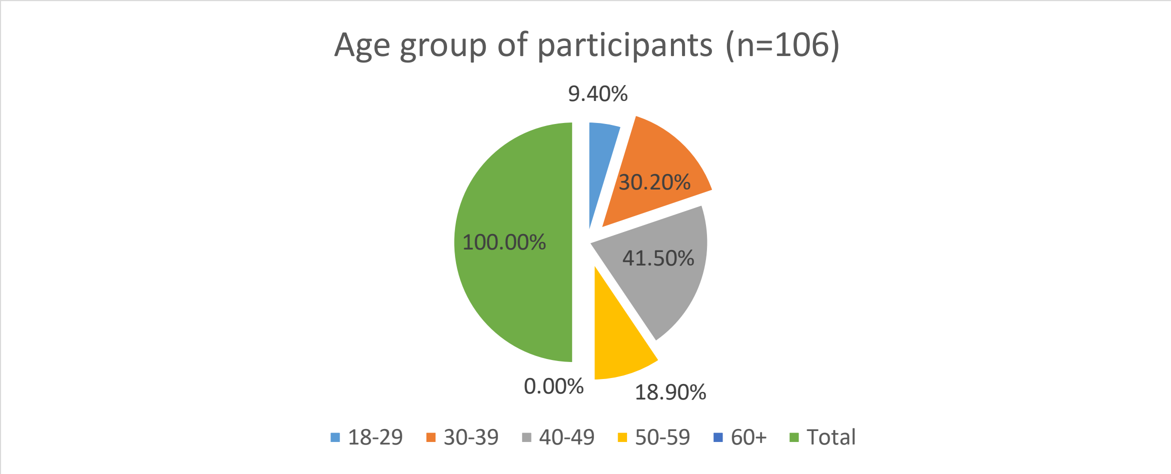
6.2 **RATE OF RESPONSE**

Applying a total target population for this study of 300 from the selected municipalities, 130 participants responded to the questionnaires. Nonetheless, out of the 130 questionnaires, only 106 were completed without errors and deemed credible for analysis. The final response rate was 81.5 per cent. Regardless of its importance in assessing the quality of the empirical survey Bell and Bryman (2018) indicated that there is no logically proven minimal acceptance response rate. Response rates lesser than 50 per cent are believed to be unacceptable (Bell & Bryman, 2018). However, extant scientific studies have indicated that rates of response that are under 18 per cent are equally credible (Bell & Bryman, 2018). According to Johnson and Wislar (2012), a response rate that is very low does not compromise the exact representation of the research outcomes. Based on these scientific findings, the response rate for this study is considered very high. As such, the findings of this study are deemed credible.

6.2.1 Respondents' profile

Though the participants' demographic does not largely influence the extent of sharing knowledge (Abili, Thani, Mokhtarian and Rashidi, 2011), part of the quantitative research instrument consisted of age, gender, and educational achievements of the participants. The motivating factor for including participants' profile as part of the research instrument was to determine the participants' levels of competencies in answering the contents of the research instrument. According to Lin (2008), the demographic aspects are critical moderating indicators of participants' knowledge in every empirical investigation Figure 6.1 on the next page depicts the respondents' age categories in selected local municipalities of Msunduzi, uMngeni and Mkhabathini. On the following pages, the researcher explained the frequency distribution of participants' age, gender, education, employment status, employment by municipalities and positions of participants in the municipalities.

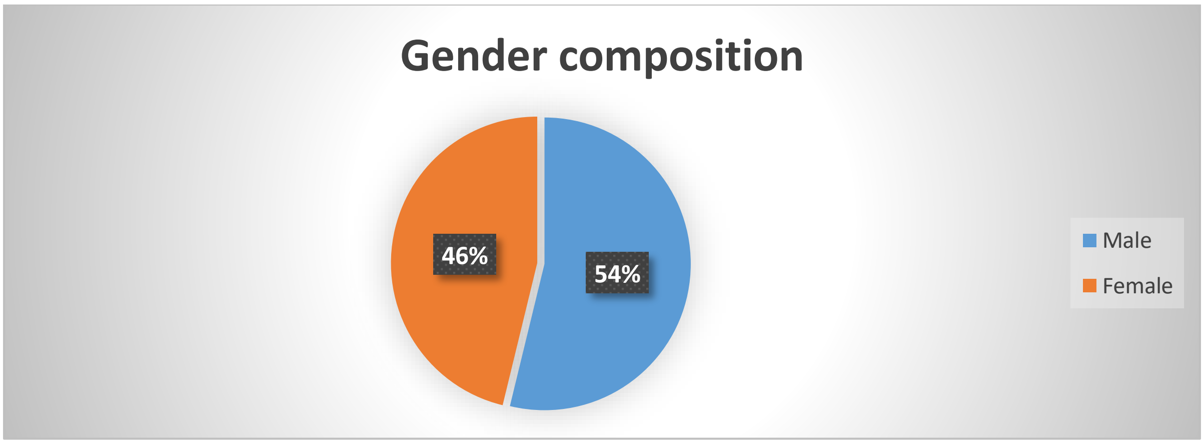
Figure 6.1: Respondents' age categories



Source: Research outcomes

Majority of the research participants were aged between 40-49 years (41,5%). This is followed by the age group between 30-39 years which constitute 30,2%. Based on figure 6.1 above, the participants were in the age group ranging from 30-50 years. From the ensuing descriptive explanations, the researcher concluded that the bulk of participants in the municipalities are young. Figure 6.2 below depicts the gender composition of participants. The primary purpose of the section was to determine gender parity of employees within the municipalities.

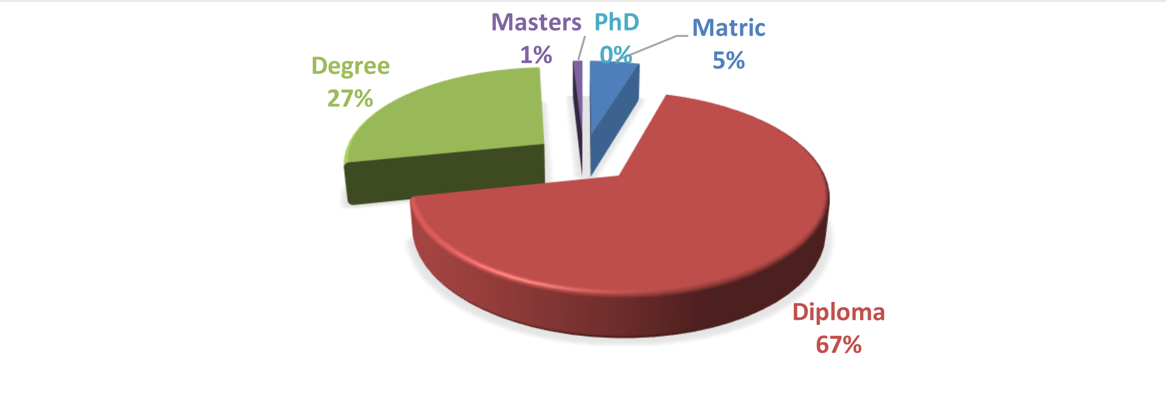
Figure 6.2: Gender composition of respondents



Source: Research outcomes.

Primary research data was collected from a sample total of 106 respondents, majority (53.8) were male respondents while (46.2%) consisted of the female respondents. Figure 6.2 above indicated that males' respondents dominated the primary data collection processes. Recent research by Syed-Ikhsan and Rowland (2004) revealed that sharing knowledge is likely to fail in a working climate that is either dominated by men or female employees. Working climate that is equitably shared by men and females, impact positively on sharing knowledge. Figure 6.3 below summaries the educational achievements of respondents. The section aims to determine respondents' educational achievements in the selected municipalities.

Figure 6.3: Educational achievements



Source: Research outcomes

Based on figure 6.3 above, a total of 106 respondents provided primary survey data. The majority of 67% possessed national diplomas whereas 27.4% acquired degrees. Participants with matric constituted 4.7% and followed by 0.9% who received master's degrees. Regarding educational achievements, it became clear that most of the employees were not highly qualified. This finding is inconsistent with a study by Wang and Noe (2010) that revealed that employees who attained adequate academic qualifications.

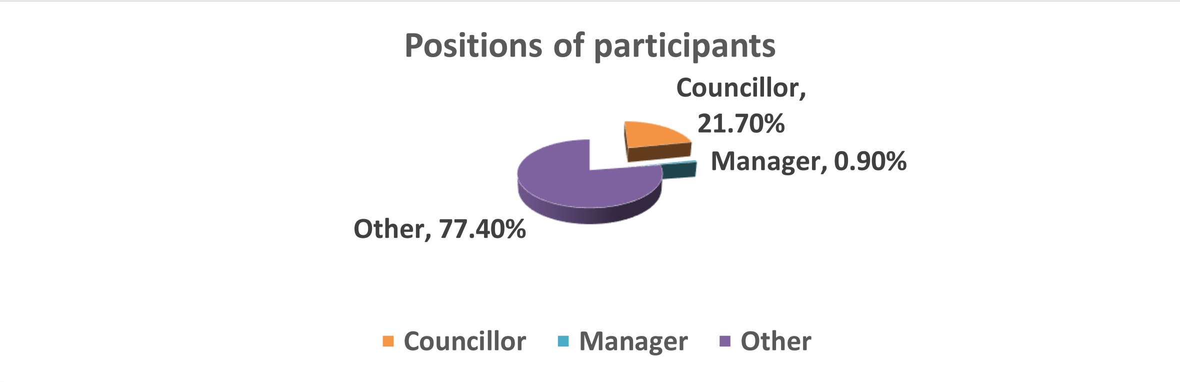
6.2.2 **Respondents' employment status**

The primary purpose of this section was to determine the employment status of respondents within the selected municipalities. Figure 6.4 on the following page depicts two pre-defined (permanent and contractual employment status) employment status. Out of 106 respondents, 89.6% were permanently employed whereas, 10.4% were employed on contract basis. This implies that opinion raised throughout the research study was the true reflections of the employment status of employees within the selected municipalities of permanent employees who raised concerns.

6.2.3 **Positions of respondents**

Respondents' positions are critical for better firm performance. To understand the extent of firm performance, the respondents were asked to provide information relating to individuals position in the municipalities. The purpose was to identify the different job categories that exists in the municipalities. The results of each respondent were depicted in pie chart below. The pie chart shows the true reflection of the proportional distribution.

Figure 6.4: Position of participants



Source: Research outcomes

From a total of 106 participants, 77.4% were employed in different positions ranging from councillors, senior managers, and other municipal employees. The councillors constituted 21.7% whereas municipal managers were less than a percent (0.9%).

6.2.4 **Frequency distributions**

The following tables are designed to explain how the participants understand corporate governance and issues relating to service delivery in the local municipalities. The frequency distribution depicts how primary data was distributed among the different categories. The tables reveal the frequency of participants' responses to each statement in tables B, C and D respectively. To facilitate adequate responses, a

5-point Likert Scale ranging from strongly agreed, disagreed, neutral, good, and excellent were applied. Regarding statements about service delivery, the statements were presented in categories ranging from strongly disagree, disagree, neutral, agree and strongly agree. The frequency of participants' responses to each statement are stated in tables 6.1 knowledge of corporate governance, 6.2 systems within the municipalities and 6.3 service delivery below.

Section B: Rating of the knowledge of corporate governance

Table 6.1: Knowledge of corporate governance

Knowledge of corporate governance	**SD**		**D**		**NUTR**		**GD**		**EXC**		**Total**	
	N	**%**	**N**	**%**	**N**	**%**	**N**	**%**	**N**	**%**	**N**	**%**
B1. The Municipality displays discipline and good behaviour	10	9,4	24	22,6	27	25,5	26	24,5	19	17,9	106	100
B2. The Municipality is transparent in all its dealings	7	6,6	27	25,5	34	32,1	19	17,9	19	17,9	106	100
B3. The Municipality shows independence: no political interference	13	12,3	29	27,4	26	24,5	25	23,6	13	12,3	106	100
B4. The Municipality shows accountability	13	12,3	28	26,4	27	25,5	27	25,5	11	10,4	106	100
B5. The Municipality shows responsibility	14	13,2	23	21,7	29	27,4	26	24,5	14	13,2	106	100
B6. The Municipality shows fairness in all its dealings	9	8,5	30	28,3	30	28,3	28	26,4	9	8,5	106	100

B7. The Municipality shows social responsibility in all its dealings	10	9,4	27	25,5	29	27,4	30	28,3	10	9,4	106	100
B8. The Municipality shows ethical values in all its dealings	8	7,5	28	26,4	25	23,6	29	27,4	16	15,1	106	100
Grand total (overall rating)	84	9,9	216	25,5	227	26,8	210	24,8	111	13,1	848	100

SD=Strongly agree; **D**=Disagree; **NUT**=Neutral; **GD**=Good; **EXC**=Excellent

Source: Research outcomes

Based on the statement *"the municipality displays discipline and good behavior"* as shown in table 6.1 B1, (9.4%) and (22.6%) indicated strongly disagree and disagree respectively, whereas 24.5% and 17.9% agree and strongly agree. Only 25.5% remained neutral regarding discipline and good behavior displayed by the municipal employees.

Given the statement *"the municipality is transparent in all its dealings"* as shown in table 6.1 B2, (6.6%) and (25.5%) scored as follows: strongly disagree and disagree respectively, whereas 17.9% and 17.9% agree and strongly agree, respectively. Only 32.1% remained neutral about transparency in the municipality.

The statement that *"the municipality shows independence: no political interference"* as shown in table 6.1 B3, (12.3%) and (27.4%) indicated strongly disagree and disagree, respectively. Whereas 23.6% and 12.3% agree and strongly agree, respectively. Only 24.5% remained neutral regarding political interference within the municipality. The statement, "the municipality shows accountability" as shown in table 6.1 B4, (12.3%) and (26.4%) indicated strongly disagree and disagree, respectively. Whereas 25.5% and 10.4% agree and strongly agree, respectively. Only 25.5% remained neutral about the level of accountability within the municipality.

Based on table B above, *"the municipality shows responsibility"* as shown in table 6.1 B5, (13.2%) and (21.7%) scored as follows: strongly disagree and disagree respectively, whereas 24.5% and 13.2% agree and strongly agree, respectively. Only 27.4% remained neutral regarding responsibility in the municipality. The statement *"the municipality shows fairness in all its dealings"* as shown in table 6.1 B6, (8.5%)

and (28.3%) indicated strongly disagree and disagree, respectively. Whereas 26.4% and 8.5% agree and strongly agree, respectively. Only 28.3% remained neutral about accountability within the municipality. Given the statement *"the municipality shows social responsibility in all its dealings"* as shown in table 6.1 B7, (9.4%) and (25.5%) indicated strongly disagree and disagree, respectively. Whereas 28.3% and 9.4% agree and strongly agree, respectively. Only 27.4% remained neutral about display of social responsibility by the municipality.

Section C: Rating of the knowledge of corporate governance

Table 6.2: Systems within the Municipality

Knowledge of governance	**VP**		**P**		**AVG**		**GD**		**EXC**		**Total**	
	N	**%**	**N**	**%**	**N**	**%**	**N**	**%**	**N**	**%**	**N**	**%**
C1. Knowledge of King Report on corporate Governance	17	16,0	20	18,9	21	19,8	43	40,6	5	4,7	106	100
C2. Efficiency of the HR system	9	8,5	25	23,6	36	34,0	23	21,7	13	12,3	106	100
C3. Efficiency of the procurement system	7	6,6	26	24,5	37	34,9	28	26,4	8	7,5	106	100
C4. Appointments are based on qualification, knowledge and experience	19	17,9	18	17,0	38	35,8	27	25,5	4	3,8	106	100
C5. HR processes are always followed in the organisation	12	11,3	25	23,6	39	36,8	25	23,6	5	4,7	106	100
C6. Procurement policies are followed	13	12,3	23	21,7	39	36,8	29	27,4	2	1,9	106	100
C7. PFMA/ MFMA is always adhered to	16	15,1	23	21,7	37	34,9	26	24,5	4	3,8	106	100
C8. The organisation always follow the correct HR procedures	11	10,4	30	28,3	36	34,0	24	22,6	5	4,7	106	100
C9. Nepotism exists in the organisation	18	17,0	15	14,2	38	35,8	26	24,5	9	8,5	106	100
C10. Appointees undergo screening processes such as competency tests	16	15,1	24	22,6	43	40,6	20	18,9	3	2,8	106	100
Overall rating	112	13,2	184	21,7	307	36,2	205	24,2	40	4,7	848	100

VP=Very poor; **P=**Poor; **AVG=**Average; **GD=**Good; **EXC=**Excellent
Source: Research outcomes

Based on the statement in table 6.2 C1, (16%) and (18.9%) indicated very poor and poor respectively, in terms of their knowledge of the King Report on corporate governance. The distribution of positive ratings was good (40.6%), and (4.7%) excellent. However, (19.8%) of the respondents rated knowledge of the King Report as average. Overall, the results suggest positive outlook of the system within municipalities. The statement *"efficiency of the HR system"* as stated in table 6 C2, the respondents' opinion was distributed as very poor (8.5%), poor (23.6%), average (34%), good (21.7%) and excellent (12.3%). The results suggest that more needs to be done in improving the HR systems within the municipality.

The statement that *"efficiency of the procurement system"* as indicated in table 6.2 C3 above, respondents' opinion was distributed as follows: 6.6%, 24.5% and 34.9% which represent very poor, poor, and average, respectively. However, 26.4% and 7.5% represent good and excellent, respectively. The overall opinion of the respondents on the statement revealed that more than 50% reflected a negative outlook regarding the procurement system within the municipality.

According to the statement *"appointments are based on qualification, knowledge and experience"* as stated in table 6.2 C4 above, respondents' opinion was tallied as follows: 17.9%, 17% and 35.8% representing very poor, poor, and average, respectively. Meanwhile, 25.5% and 3.8% indicated good and excellent, respectively. This revelation implies that appointments were not based on qualifications, knowledge and experiences of participants.

Regarding the statement *"HR processes are always followed in the organization"*, as stated in table 6.2 C5 above, the respondents' opinion was distributed as follows: 11.3%, 23.6% and 36.8% for very poor, poor, and average, respectively. Whereas 23.6% and 4.7% scored as good and excellent, respectively. The 36.8% average indicate that a larger percentage is not certain with the HR processes being followed in the municipality.

Based on the statement *"procurement policies are followed"* as stated in table 6.2 C6 above, respondents' opinion was as follows: 12.3%, 21.7% and 36.8% representing very poor, poor, and average, respectively. Meanwhile, 27.4% and 1.9% represent good and excellent, respectively. A larger percentage, 36.8% scored neutral which is translated as uncertainty with procurement policies.

Given the statement *"PFMA/ MFMA is always adhered to"* as stated in table 6.2 C7 above, the respondents indicated as follows: 15.1%, 21.7% and 34.9% representing very poor, poor, and average. Whereas 24.5% and 3.8% represented good and excellent, respectively. In sum, a larger percentage is of a view that adherence to PFMA/ MFMA remains a challenge and should be addressed.

According to the statement *"the organisation always follows the correct HR procedures"*, as stated in table 6 C8 above, the respondents scored as follows: 10.1%, 28.3% and 34.0% for very poor, poor, and average, respectively. Only a meagre 22.6% and 4.7% representing good and excellent, respectively.

Based on the statement *"nepotism exist in the organization"* as stated in table 6.2 C9 above, most of the respondents as follows: 24.5% (good) and 8.5% (good) indicated possibility of occurrence. This signifies that nepotism does exists in the municipality.
Given the statement *"appointees undergo screening processes such as competency tests"*, as indicated in table 6.2 C10 above, respondents scored were as follows: 15.1% and 22.6% represented. Whereas 18.9% and 2.8% represented good and excellent, respectively. Meanwhile, a massive 40.6% indicated an average score, which translates to lack of interest or knowledge in the subject.

Table 6.3: Service delivery

	SD		D		NUT		AG		SAG		Total	
Service delivery aspects	**N**	**%**	**N**	**%**	**N**	**%**	**N**	**%**	**N**	**%**	**N**	**%**
D1. Mechanism to engage with the community is working effectively	19	17,9	27	25,5	31	29,2	24	22,6	5	4,7	106	100
D2. The organisation is proactive in dealing with service delivery	22	20,8	36	34,0	20	18,9	20	18,9	8	7,5	106	100
D3. There is intelligence on the ground to gather information	22	20,8	34	32,1	24	22,6	21	19,8	5	4,7	106	100
D4. Communities have access to basic services	14	13,2	30	28,3	24	22,6	26	24,5	12	11,3	106	100
D5. Communities have access to schools and clinics in their area	3	2,8	36	34,0	26	24,5	21	19,8	20	18,9	106	100
D6. Ward councillors are visible in their constituencies	21	19,8	31	29,2	26	24,5	20	18,9	8	7,5	106	100
D7. Ward councillors and MMCs are competent in their portfolios	18	17,0	35	33,0	28	26,4	17	16,0	8	7,5	106	100
D8. Councillors, MMCs and Managers have relevant qualifications	21	19,8	37	34,9	26	24,5	15	14,2	7	6,6	106	100
D9. Communities receive feedback timeously	34	32,1	27	25,5	26	24,5	14	13,2	5	4,7	106	100
D10. Service delivery in the area where you live	18	17,0	33	31,1	29	27,4	17	16,0	9	8,5	106	100
D11. Engagement with community	37	34,9	22	20,8	23	21,7	17	16,0	7	6,6	106	100
Grand Total	166	14,2	251	21,5	208	17,8	147	12,6	76	6,5	1166	100

SD=Strongly disagree; **D**=Disagree; **NUT**=Neutral; **AG**=Agree; **SAG**=Strongly agree

Source: Research outcome

Respondents were asked to share their opinion on different statements on the level of service delivery in municipalities. Several statements were designed to describe the extent of service delivery in communities. This was meant to establish whether knowledge of corporate governance principles enhances service delivery to local communities. Below are the summaries of responses on each statement by the participants as indicated in the table 6.3 above.

Responding to the statement *"Mechanism to engage with the community is working effectively"* in table 6.3 above, majority (29.2%) of the respondents remained neutral to the statement. 25.5% of the respondents disagreed to the statements, whereas 22.6% agreed and only 4.7% strongly agreed. The overall impression based on the results therefore is that majority believed mechanism of engagement is not effective in municipalities, hence, municipalities are lagging in terms of service delivery.

Responding to the statement *"The organisation is proactive in dealing with service delivery" in table 6.3* above, majority (34%) disagreed to the statement, while 20.8% strongly disagreed and 18.9% remained neutral. However, 18.9% agree to the statement. A small proportion (7.5%) of respondents strongly agreed. In summary, the majority (34% + 20.8%) of the respondents disagreed to the statement.

Based on the statement *"There is intelligence on the ground to gather information"* in table 6.9 above, majority (32.1%) of the respondents disagreed with the statement that there is intelligence on the ground to gather information. 20.8% strongly disagreed, 22.6% remained neutral. Only 19.8 % and 14.7% agreed and strongly agreed, respectively, with the statement. The overall opinion expressed by the respondents implied that there is no form of intelligence to gather information in the municipalities.
Based on the statement *"Communities have access to basic services"* in table 6.3 above, the majority 28.3% of the respondents disagreed to the statement that communities have access to basic services. However, 22.6% of the respondents remained neutral, while 24.5% and 11.3% agreed and strongly agreed, respectively, with the statement. 13.2% of the respondents strongly disagreed with the statement. These findings imply that the majority were not in favour of the statement.

Responding to the statement *"Communities have access to schools and clinics in their area"* stated in table 6.3 above, majority of the respondents (34%) disagreed with the statement that communities have access to schools and clinics in their areas, 24.5% remained neutral to the statement while 2.8% strongly disagreed. However, 19.8% and 18.9% agreed and strongly agreed, respectively, with the statement. The findings imply that communities have no access to schools and health facilities.

In response to statement *"ward councillors are visible in their constituencies"* in table 6.3, majority (29.2%) of the respondents disagreed with the statement that ward councilors are visible in their constituencies, 19.8% strongly disagreed while 24.5% remained neutral. However, 18.9% and 17.5% agreed and strongly agreed with the statement, respectively. This implies that ward councilors are not visible in their constituencies.

Responding to the statement *"ward councillors and MMCs are competent in their portfolios"* as stated in table 6.9, majority (33%) of the respondents disagreed with the statement that ward councilors and MMC's are competent in their portfolios while 17% strongly disagreed and 26.4% remained neutral. However, 16% and 7.5% of the respondents agreed and strongly agreed with the statement, respectively. The findings lie in the fact that ward councilors and MMC's lack the competency to perform tasks.
Based on the statement *"Councillors, MMCs and Managers have relevant qualifications"* in table 6.9, majority (34.9%) of the respondents disagreed with the statement that councilors and MMC's and managers have relevant qualifications. Meanwhile, 14.2 agree and 6.6 strongly agree. 24.5% remained neutral with the statement and 19.8% strongly disagreed. These findings imply that councilors, MMC's and managers lack relevant qualifications.

Referring to the statement *"Communities receive feedback timeously"* in table 6.3, majority (32.1%) of the respondents strongly disagreed and 25.5% disagreed with the statement that communities receive feedback timeously. 24.5% of the respondents remained undecided to the statement. However, 13.2% and 4.7% agreed and strongly agreed with the statement, respectively. Based on the findings, it seems to suggest that communities do not receive feedback timeously from the municipalities.

Responding to the statement *"Service delivery in the area where you live"* in table 6.3, 17.0% and 31.1% of the respondents strongly disagreed and disagreed respectively with the statement that there is service delivery in the area. Whereas, while 27.4% were uncertain with the statement. Only 16% and 8.5% of the respondents agreed and strongly agreed with the statement, respectively. The interpretation of the findings indicated lack of service delivery to communities across the local municipalities.

Based on the statement *"engagement with community"* as stated in table 6.3 above, 34.9% and 20.8% of the respondents strongly disagreed and disagreed with the statement that officials from the municipalities do engage with communities. In contrast to 21.7% who remained undecided, 16% and 6.6% of the respondents agreed and strongly agreed with the statement. Thus, these findings further highlighted the sentiments that authorities including the ward councilors and MMCs do not visit communities to understand the challenges.

Research objective 1

To assess the depth of corporate governance practices in uMgungundlovu district municipality.

Table 6.4: Knowledge of corporate governance index

Descriptive Statistics					
	N	Min	Max	Mean	Std. Deviation
Corporate_governance_Index	106	8.00	40.00	24.4528	8.53356
Valid N (listwise)	106				

Source: Research outcomes

Participants' responses as stated in the table above regarding the knowledge of corporate governance is slightly high with a mean value of 24.4528. The minimum responses to corporate governance yielded a mean score of 8 while participants' maximum responses mean score was at 40. However, since the coefficient of variation 0.349 the final outcomes show a low variation of knowledge of corporate governance scores from the mean. This seems to imply that the corporate governance scores are generally close to the mean score of corporate governance index (mean=24.4528) hence the mean score of 24,4528 is a representative score of corporate governance which seems to be good score rating.

Table 6.5: Distribution of the level of knowledge of corporate governance

	Level	N	%
Level of knowledge of corporate governance	Low	35	33.0%
	Moderate	34	32.1%
	High	37	34.9%
	Total	106	100.0%

Majority of responses from participants indicated that the level of corporate governance is high (34.9%). Generally, more respondents (32.1%+34.9%=67%) indicated that the level of corporate governance is high as compared to the respondents who indicated that it is low (33%). This seems to imply that the level of knowledge of corporate governance is generally high rated hence the impression portrayed is that municipality employees are generally well knowledgeable about corporate governance.

6.3 INFERENTIAL STATISTICS

The second section of this quantitative analysis entails applying inferential statistics to making meanings of the primary data. According to Salkind (2015), inferential statistical tools allow the extrapolation of empirical outcomes from a small group of participants to a larger population. Some of the statistical techniques that the researcher applied include the ANOVA, the regression and correlation coefficient. Below are the discussions and applications of the various statistical tools that are applied to test formulated hypotheses. Using the inferential statistics allow the researcher to generalise the outcomes of this study based on the research sample (Christensen et al., 2011). This empirical study applied the following analytical instruments to enhance the qualitative data analysis.

The instruments include the regression analysis, correlations, ANOVA, regression coefficient and the chi-square. The following section of the inferential analyses illustrates the linear relationship between the two variables by means of a correlation: the dependent variables (DVs) and independent variables (IVs). Thereafter, the model summary, the ANOVA and the T-Test are prepared using the null and alternate hypotheses are tested to determine the relationship between the two variables namely the corporate governance and the municipality performance.

6.3.1 **Pearson Correlation Coefficient**

The statistical tool of Pearson correlation coefficient (r) is referred to as the most critical technique of correlation (Berndt & Petzer, 2013). According to Mazzocchi (2008), the Pearson Correlation Coefficient is applied to determine the existence of correlations between variables. Based on the rule of thumb, an (r) between 0.50 and 1.0 represents strong relationship between variables. Whereas 0.30 and 0.50 shows medium and strong relationship; values below 0.30 is known to be weak (Yong & Pearce, 2013).

6.3.2 **Regression Analysis**

The regression analysis serves two primary goals namely to provide insights of the relationship that exists between variables and finally to make predictions of values of one variable against the other (Erskine, Bartlett, Byrem, Render, Febvay and Houseman, 2012). According to Sperandei (2014), the regression statistical tool is defined as an instrument that establishes the strength relationship between variables. The central focus of this study is to determine relationships between two variables. It is a statistical tool that is applied through the Pearson’s correlation coefficient to regulate the strength of the dependent and independent variables (Sperandei, 2014). To ensure the overall significance of the independent variable is achieved, the researcher formulated the null and alternate hypotheses to be tested through the application of the regression analytical tool.

6.3.3 **Analysis of variance (ANOVA)**

The ANOVA is applied to establish the climate to evaluate the differences that exists between more than two conditions. Formulated hypotheses are used to ascertain that every group of conditions are similar. This study employed ANOVA to test formulated hypothesis namely *"Effect of the level of knowledge of the corporate governance on municipal performance".* The ANOVA test was conducted to assess the relationship between two or more variables. The researcher in this study utilized the one-way ANOVA as the means to compare varying group. Similarly, the study maintains type 1 error at 0.05 alpha throughout the process of comparisons.

The ANOVA was conducted to identify relationships, predictions such as integrity, accountability, responsibility, competency, transparency, independence, fairness, and municipal performance. In the case of regression analysis ANOVA is used to evaluate the validity of the regression model. ANOVA was also performed to assess the level of knowledge of corporate governance and municipal performance. Below the null and alternate hypotheses were tested using the ANOVA. The ANOVA is used to test the hypotheses H1N and H3N as indicated.

Research objective 2

To assess the possible relationship between municipality performance and corporate governance practices.

This section presents a snapshot to assess the possible relationship between municipal performance and corporate governance practices, a correlation coefficient between municipality performance and each corporate governance practice (i.e integrity, accountability, responsibility, competency, transparency, independence, and fairness) was calculated. The correlation results of each predictor of corporate governance practices are shown in **table 6.6** on the next page.

Table 6.6: Municipality performance and corporate governance practices

Predictors (Corporate governance practices)	Municipality Performance
Integrity	0,747
Accountability	0,762
Responsibility	0,804
Competency	0,778
Transparency	0,776
Independence	0,734
Fairness	0,86

Source: Research outcomes

All the predictors (refer to table 6.1) indicate a strong positive correlation with the municipality performance. The result in the table shows that if each predictor is increased while keeping other predictors constant, the performance of the municipality is likely to increase. Further analysis for more insights was done using the regression analysis to determine the model which connects municipality performance and the predictors (i.e integrity, accountability, responsibility, competency, transparency, independence, and fairness). The result in the table below is a measure of the variance in the data they can be explained by the predictors (i.e integrity, accountability, responsibility, competency, transparency, independence, and fairness).

Table 6.7: Model summary - A

Model Summary									
					Change Statistics				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change
1	.870[a]	0,757	0,739	6,49433	0,757	43,556	7	98	0,000

Source: Research outcomes

From table 6.7 above the following observation is made: Since R^2 =0.757, it follows that 75.7% of the variance in the data can be explained/predicted by the predictors (integrity, accountability, responsibility, competency, transparency, independence, and fairness). This seems to imply that possible regression model is a good model.

ANOVA

Formulated hypotheses

H1N: Corporate governance practices have no overall significant contribution to the municipality performance.

H1A Corporate governance practices have an overall significant contribution to the municipality performance.

Table 6.8: Corporate governance practices contribution to municipality performance

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	p-value
1	Regression	12859,325	7	1837,046	43,556	0.000[b]
	Residual	4133,279	98	42,176		
	Total	16992,604	105			
a. Dependent Variable: Municipality performance						
b. Predictors: (Constant), (integrity, accountability, responsibility, competency, transparency, independence, and fairness).						

Source: Research outcomes

ANOVA was carried out to test the validity of the multiple regression model of municipality performance on corporate governance practices. The results from the table 6.3 indicated that the model was a significant predictor of municipality performance because p-value is less than 0,05. [F (7,98) = 43.556, p-value = 0.000]. **The null hypothesis (H1N) is therefore rejected at 5% level of significance.** This implies that the regression model has a significant influence over the dependent variable municipality performance.

T-TEST

One of the statistical tools mainly used in inferential statistics is the t-test. The t-test is employed in quantitative study to make inferences to determine significant differences between two groups are very much related (Chell & Athayde, 2009). Besides, the t-test is applied to test formulated hypotheses. According to Kim (2015), t-test that shows a p value of 0.05 scores means a statistical differences between the means. In contrast, a p value lesser than 0.05 means no significant in the means. The researcher in this study utilized a t-test to determine the differences between two groups of variables (Tavakol & Dennick, 2011).

Formulated hypotheses

H2N: Each corporate governance practices (integrity, accountability, responsibility, competency, transparency, independence, and fairness) do not contribute significantly to the enhancement of municipality performance.

H2A: Each corporate governance practices (integrity, accountability, responsibility, competency, transparency, independence, and fairness) contribute significantly to the enhancement of municipality performance.

Table 6.9: Regression coefficients: Contribution of corporate governance practices

Coefficients[a]									
Model		Unstandardized Coefficients		Standardized Coefficients	t	p	Correlations		
		B	Std. Error	Beta			Zero-order	Partial	Part
1	(Constant)	0,769	2,112		0,364	0,716			
	Integrity	0,366	1,024	0,034	0,357	0,722	0,747	0,036	0,018
	Accountability	-0,336	0,697	-0,057	-0,483	0,630	0,762	-0,049	-0,024
	Responsibility	0,627	0,570	0,163	1,099	0,274	0,804	0,110	0,055
	Competency	0,044	0,382	0,013	0,114	0,909	0,778	0,012	0,006
	Transparency	1,016	1,266	0,095	0,803	0,424	0,776	0,081	0,040
	Independence	0,663	0,933	0,064	0,710	0,479	0,734	0,072	0,035
	Fairness	2,699	0,723	0,596	3,730	0,000	0,860	0,353	0,186
a. Dependent Variable: Municipality performance									

Source: Research outcomes

The table above depicts a t-test that was conducted to assess if each corporate governance practices (integrity, accountability, responsibility, competency, transparency, independence, and fairness) contributes significantly to municipality performance index. From the results in table 4 above only fairness contributed significantly to the model (B = 2.899, p=0.000) while the rest of the predictors did not contribute significantly. Integrity (B=0.366 p= 0.722), accountability (B=-0.336, p-=0.630), responsibility (B=0.627, p=0.274), competency (B=0.044, p=0.909), transparency (B=1.016, p=0.479), independence (B=0.663, p=0.479).

The results are:

- In the case of integrity, the p-value =0.716 is higher than the chosen level of significance of 0.05. **Therefore, the null hypothesis is not rejected,** and it is accepted that the coefficient for integrity is not different from zero.
- Looking at accountability, the p-value =0.630 is higher than the chosen level of significance of 0.05. **Therefore, the null hypothesis is not rejected**, and it is accepted that the coefficient for accountability is not different from zero.
- While for responsibility, the p-value =0.274 is higher than the chosen level of significance of 0.05. **Therefore, the null hypothesis is not rejected**, and it is accepted that the coefficient for responsibility is not different from zero.
- In the case of competency, the p-value =0.909 is higher than the chosen level of significance of 0.05. **Therefore, the null hypothesis is not rejected**, and it is accepted that the coefficient for competency s not different from zero.
- In the case of transparency, the p-value =0.424 is higher than the chosen level of significance of 0.05. **Therefore, the null hypothesis is not rejected**, and it is accepted that the coefficient for transparency s not different from zero.
- In the case of independence, the p-value =0.479 is higher than the chosen level of significance of 0.05. **Therefore, the null hypothesis is not rejected**, and it is accepted that the coefficient for independence is not different from zero.
- In the case of **fairness,** the p-value =0.000 is lower than the chosen level of significance of 0.05. **Therefore, the null hypothesis is rejected**, and it is accepted that the coefficient for fairness is different from zero.

Consolidated regression reporting

Correlation, ANOVA and T-test analysis were carried out to investigate whether integrity, accountability, responsibility, competency, transparency, independence, and fairness could significantly predict the municipality performance scores. The R^2 value was 0.757 so 75.7% of the variation in municipality performance scores can be explained by the model containing integrity, accountability, responsibility, competency, transparency, independence, and fairness. The results of the regression indicated that the model was a significant predictor of municipality performance, [F (7, 98) = 43,556, p-value = 0.000]. **While only fairness contributes significantly to the model (B = 2.899, p<0.05), the rest of the predictors did not**. Integrity (B=0.366 p= 0.722), accountability (B=-0.336), responsibility (B=0.627, p=0.274), competency (B=0.044, p=0.909), transparency (B=1.016, p=0.479), independence (B=0.663, p=0.479). The influence of each predictor on the municipality performance if the effects of other predictors are held constant was as follows:

- Integrity (B=0.366): As integrity increases by one score the municipality performance increases by 0.366 scores,
- Accountability (B=-0.336): As accountability increases by one score the municipality performance decreases by 0.336 scores,
- Responsibility (B=0.627): As responsibility increases by one score the municipality performance increases by 0.627 scores,
- Competency (B=0.044): As competency increases by one score the municipality performance increases by 0.044 scores,
- Transparency (B=1.016): As transparency increases by one score the municipality performance increases by 1.016 scores,
- Independence (B=0.663): As independence increases by one score the municipality performance increases by 0.663 scores,
- Fairness (B = 2.899): As fairness increases by one score the municipality performance increases by 2.899 scores. Given the scores of all the predictors except the increase in fairness that increase municipality performance.

Given the overall outcomes of the analysis, the applicable predictive model of municipality performance is outlined below.

Municipality performance = 0.789 +0.366×integrity- 0.366×accountability +0.627×responsibility+0.044×competency+1.016×transparency+0.663 ×independence +2.699×fairness.

Based on the results above, it emerged that six of the variables namely integrity, accountability, responsibility, competency, transparency, and independence were not significant predictors for the dependent variable of municipality performance. In view of this, the regression model will no longer contain these variables. This implies that out of the predictors (refer to table 6.9 above) ***only fairness*** contributes to municipality performance. If we make the determinations for the new regression model, the table below depicts the results as indicated.

Table 6.10: Model summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.860[a]	0.740	.737	6.522
a. Predictors: (Constant), Perceived_Fairness				

Source: Research outcomes

Since R^2 =0.74, 74% of the variance in the data can be predicted by perceived fairness. The model therefore predicts 74% of fairness index values. Further evaluation to determine the overall contributions of fairness was conducted as in the table below and the formulated null and alternate variables.

FORMULATED HYPOTHESES

H3N: Fairness has no overall significant contribution to the municipality performance.
H3A: Fairness has an overall significant contribution to the municipality performance.

Table 6.11: ANOVA

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	p-value.
1	Regression	12569.206	1	12569.206	295.519	.000[b]
	Residual	4423.397	104	42.533		
	Total	16992.604	105			
a. Dependent Variable: Municipality Performance						

Source: Research outcomes

ANOVA was conducted to test if the regression model of municipality performance on fairness is a significant predictor or is valid. The results indicated that the model was a significant predictor of municipality performance because the p-value is less than 0,05. [F (1,104) = 295.515, p-value = 0.000]. **The null (H3N) hypothesis is therefore rejected at 5% level of significance**. This implies that the regression model has a significant influence over the dependent variable municipality performance hence the model can be used to predict the municipality performance index. Through a statistical tool, contribution of *"fairness"* is ascertained by employing null and alternate hypothesis below.

T-Test

FORMULATED HYPOTHESES

H4N: The coefficient for fairness is not different from zero (fairness has no significant contribution to the municipality performance)

H4A: The coefficient for fairness is different from zero (fairness as a significant contribution to the municipality performance)

Table 6.12: Contribution of fairness

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.778	2.104		.370	0.712
	Perceived_Fairness	3.897	.227	.860	17.191	0.000
a. Dependent Variable: Municipality Performance						

Source: Research outcomes

A t-test was conducted to assess if fairness contributes significantly to municipality performance. From table 6.12 above the fairness contributes significantly to the municipality performance since the p-value is less than 0.05 (B=3.897, p=0.000). **Therefore, the null hypothesis (H4N) is rejected at 5% level of significance**, and we conclude that the coefficient for fairness is different from zero.

Summary contribution of fairness to municipality performance

The final observation based on the first regression model was that six of the independent variables namely integrity, accountability, responsibility, competency, transparency, and independence were **not significant predictors for municipality performance.** For this reason, an elaborated version of additional new regression model resulted in the regression equation with the following outcomes:

$$Municipality\ performance\ index = 3.897 \times perceived\ fairness\ index\ + 0.778$$

This means that if the perceived fairness index increases by 1 unit the municipality performance will increase by 3.897 units.

Research objective 3

To assess possible relationship between municipal performance and knowledge of corporate governance.

CROSS TABULATION.

The cross tabulation as a descriptive technique describes bi-variate or the multi-variate data distribution jointly (Wilson, 2014). Cross tabulation is a research technique that applies tables, rows as well as columns that correspond with values or different levels of research variables. Applying cross-tabulation in this research, enables the researcher to gain initial insights into primary data and to investigate relationships between two or more variables.

Table 6.13: Level of municipality performance and knowledge level of corporate governance.

		Level of corporate governance knowledge							
		Low		Moderate		High		Total	
		N	%	N	%	N	%	N	%
Level of municipality performance	Low	10	83,3	2	16,7	0	0,0	12	100,0
	Moderate	14	45,2	12	38,7	5	16,1	31	100,0
	High	11	17,5	20	31,7	32	50,8	63	100,0

Source: Research outcomes

From table 8 above most of the respondents indicated that a low level of municipality performance is associated with a low level of corporate governance knowledge (83.3%). Most respondents indicated that a moderate level (45.2%) of the municipality performance is associated with a low level of knowledge in corporate governance. A greater proportion of the respondents indicated that high level (50.8%) of municipality performance is associated with high level of knowledge in corporate governance.

CHI-SQUARED TECHNIQUE

The chi-square analytical technique is one of the vital statistical tools that is used to assess relationship between variables of categorical nature. As Kumar (2018) explains, the p-value is applied to evaluate the probability for credible statistical assessment that equals to more than the result produced by the research sample. The chi-square explains the null hypothesis as there is no relationship between stated variables based on categories rather on variables that are independent (Wegner, 2019). The chi-square statistical tool is applied to test and to determine the significant relationship between two categorical variables. Hypotheses H5N, H6N and H7N below are tested by the chi-square.

Chi-squared test:

Formulated hypotheses

H5N: There is no significant relationship between the level of municipality performance and the level of knowledge of corporate governance.

H5A: There is a significant relationship between the level of municipality performance and the level of knowledge of corporate governance.

Table 6.14: Level of municipality performance versus knowledge level of corporate governance

		Level of knowledge of corporate governance
Level of municipality performance	Chi-square	28,395
	df	4
	p-value	0.000

A non-parametric chi-squared test was conducted to test for the significant relationship between the level of municipality performance and level of knowledge of corporate governance at 5% level of significance. From table 9 above there is a significant relationship between the level of municipality performance and level of knowledge of corporate governance at p-value less than 0.05, [Chi-square (4) =28.395, p-value=0.0.000]. **Therefore, the null hypothesis is rejected at 5% level of significance.** Thus, in this study the level of knowledge of corporate governance differs significantly in the likelihood on the level of municipality performance. It can therefore be inferred that difference in municipality performance depends on the difference in the level of corporate knowledge of corporate governance. This result appears to confirm observations made in table 8 where the majority of the respondents low level of municipality performance with a low level of knowledge of corporate governance (83.3%). Additionally, from table 8 majority of the respondents associated a high level of municipality performance with a high level of knowledge of corporate governance (50.8%). These two observations from table 8 seem to imply that as the level of knowledge gets higher so does the level of municipality performance.

Descriptive statistics

The descriptive statistics below is applied to indicate municipality performance and the level of knowledge of corporate governance.

Table 6.15: Municipality performance by level of knowledge of corporate governance.

		N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Min	Max
						Lower Bound	Upper Bound		
LKCG	Low	35	25.0	7,450	1,259	22,41	27,53	13	45
	Moderate	34	31,7	6,983	1,198	29,27	34,14	17	45
	High	37	48,3	9,279	1,525	45,18	51,36	29	64
	Total	106	35,26	12,721	1,236	32,81	37,71	13	64

LKCG: Level of knowledge of corporate governance.

Source: Resource outcomes

From table 6.14 above we observe that a high-level knowledge of corporate governance largely impacts on municipal performance with mean score of 48.3 while a low-level corporate governance yielded smallest municipal performance mean score of 25. Overall, the municipal performance scores are closely related for moderate level corporate governance level with standard deviation mean score of 6.983. When compared with the municipal performance scores of low standard deviations of 7.45 and high standard deviation score of 9.279 level knowledge of corporate governance. This observation seems to imply that municipality performance is more reliable when the level of knowledge is moderate than when the level of knowledge is low and high.

ANOVA: Test for significant effect

H6N: There is no significant effect on the level of knowledge of corporate governance on municipality performance.

H6A: There is significant effect on the level of knowledge of corporate governance on municipality performance.

Table 6.16: Effect of the level of knowledge of corporate governance on municipality performance.

ANOVA						
Municipality Performance						
	Sum of Squares	df	Mean Square	F	p-value	Effect size
Between Groups	10397,276	2	5198,638	81,188	0,000	0.611
Within Groups	6595,328	103	64,032			
Total	16992,604	105				

Source: Research outcomes

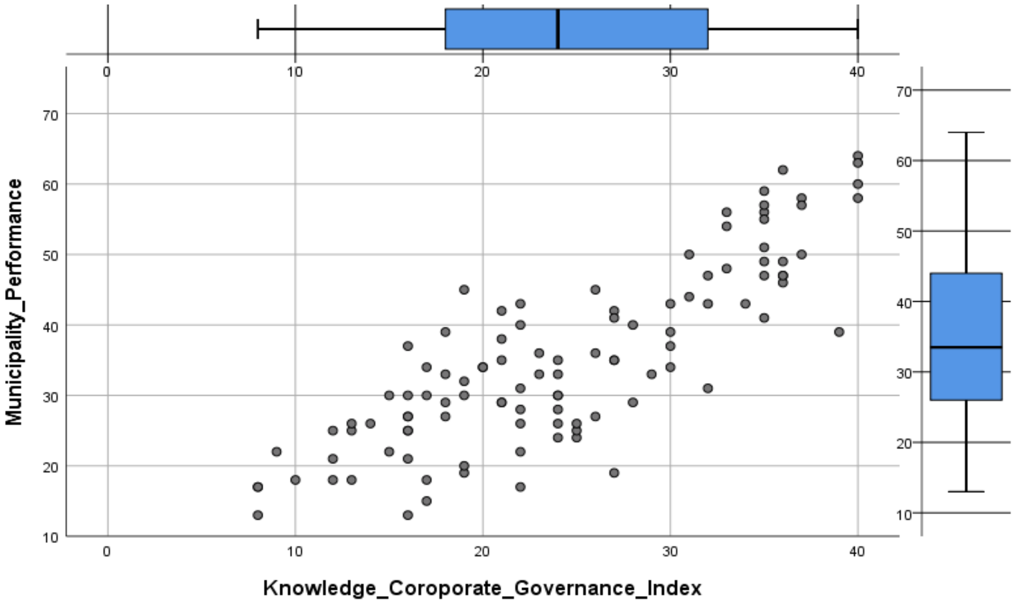
A one-way ANOVA between-groups analysis of variance was conducted to explore the impact of the level of knowledge of corporate governance on municipality performance as measured by municipality performance index scores. The knowledge of corporate governance index scores was divided into three groups low, moderate, and high. From table 6.15 above it is observed that there was a statistically significant difference at the p-value less than 0.05 significance level municipality performance scores for the three levels. (*F (2,105) =81.186, p=0.000*]. **The null hypothesis (H6N) is therefore rejected at 5% level of significance.** In addition to reaching statistical significance, the actual difference in mean scores between the groups was quite high. The effect size, calculated using eta squared, was 0.611. Furthermore, from table 6.15, high level of knowledge of corporate governance has the highest municipality performance (mean=48.3), while low level of knowledge of corporate governance has the lowest performance (mean =25)

Regression analysis (Municipality performance on knowledge of corporate governance)

Scatter plot

This is a graphical snapshot to assess the possible linear correlation between the dependent variable and independent variable. The scatter plot below is a graphical snapshot between the municipality performance and knowledge of corporate governance.

Figure 6.5: Scatter plot of municipality performance and knowledge of corporate governance index.



The scatter plot indicates a strong positive correlation between knowledge of corporate governance and municipality performance. Thus, as the scores of corporate governance increase, the scores of municipality performance increase as well. This implies that there is the need to increase one of the variables to assist the other increase in corporate governance means the performance of municipality increases.

Correlation coefficient

As part of the inferential statistics, the Pearson's correlation coefficient was performed to assess the correlation between two variables. The correlation is used throughout this study to evaluate the strength of association between two variables (Sedgwick, 2012). Sedgwick (2012) further add that correlation coefficient values range between -1 and +1. Thus, a correlation coefficient that yield +1 shows two related variables. In contrast, correlation coefficient with a value of -1 depicts two related variables of negative outcomes. Accordingly, "0" correlation coefficient shows that there is no correlation between the variables. The correlation coefficient is used to evaluate the extent of linear relationship between a dependent variable and an independent variable.

Correlation Results

Table 6.17: Correlation: Municipality performance versus knowledge of corporate governance

Correlations			
		municipality Performance	Knowledge Corporate Governance Index
Municipality Performance	Pearson Correlation	1	0.833
	N	106	106

Source: Research outcomes

From the table 6.17 above there is a strong positive correlation (Pearson correlation=0.833) between municipality performance and knowledge of corporate governance. This result confirms the observation from the scatterplot above (see Figure 6.5). **This implies that as the knowledge of corporate governance increases municipality performance tends to increase**. Further statistics based on ANOVA evaluated the null and alternate (H7N and H7A) hypotheses to ascertain the relationship that exists between the two variables used.

H7N: There is no significant contribution of the knowledge of corporate governance to municipality performance.

H7A: There is significant contribution of the knowledge of corporate governance to municipality performance.

Table 6.18: Overall contribution of knowledge of corporate governance to municipality

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	p-value
1	Regression	11798,977	1	11798,977	236,269	0.000[b]
	Residual	5193,626	104	49,939		
	Total	16992,604	105			
a. Dependent Variable: Municipality Performance						
b. Predictors: (Constant), Knowledge of corporate governance						

Source: Research outcomes**.**

ANOVA was carried out to test if the regression model of municipality performance on knowledge of corporate governance is a significant predictor. The results from table 6.18 indicated that the model was a significant predictor of municipality performance because p-value is less than 0,05. [F (1,104) = 236,269, p-value = 0.000]. **The null hypothesis (H7N) is therefore rejected at 5% level of significance.** This implies that the regression model has a significant influence over the dependent variable municipality performance hence the model can be used to predict the municipality performance index.

T-Test: Contribution of the knowledge of corporate governance

H8N: Knowledge of corporate governance has no significant contribution to the municipality performance.
H8N: Knowledge of corporate governance has significant contribution to the municipality performance.

Table 6.19: Contribution of knowledge of corporate governance to municipality performance

Coefficients									
Model		Unstandardized Coefficients		Standardized Coefficients	t	p	Correlations		
		B	Std. Error	Beta			Zero-order	Partial	Part
1	(Constant)	4,888	2,092		2,337	0,021			
	Knowledge of corporate governance	1,242	0,081	0,833	15,371	0,000	0,833	0,833	0,833
Dependent Variable: Municipality Performance									

Source: Research outcomes

A t-test was conducted to test if the knowledge of corporate governance contributes significantly to municipality performance. From table 6.19 above the knowledge of corporate governance contributed significantly to the municipality performance since the p-value is less than 0.05 (B=1.242, p=0.000). Therefore, ***the null hypothesis (H8N) is rejected at 5% level of significance.*** This means that if the knowledge of corporate governance index increases by 1 unit the municipality performance will increase by 1.242 units. Thus, if the knowledge of corporate governance index is known the municipality performance index can be predicted using the formula – *municipality performance index =1.242 x knowledge of corporate governance+4.888.*

Consolidating the Assessments of Hypotheses

The following page of this study revealed the final accepted assessments of the null hypotheses. Table 6.19 below depicts all the hypotheses. All the various statistical instruments that were applied to test the different hypotheses formed part of the table illustrating the decisions regarding the rejections and all the major findings. The decision was made to identify the null hypotheses that impacted the municipality performance.

Table 6.20: Consolidation of the outcomes of formulated hypotheses

Null hypotheses	**Statistical analytical Instrument**	**Scientific outcomes**
Corporate governance practices have no overall significant contribution to municipality performance.	ANOVA	H1N Rejected
The corporate governance practice with respect to fairness has no significant contribution to municipality performance.	T-Test	H2N Rejected
Fairness has no overall significant contribution to the municipality performance.	ANOVA	H3N Rejected
The coefficient for fairness is not different from zero (Fairness has no significant contribution to the municipality performance	T-test	H4N Rejected
There is no ***significant relationship between*** the level of municipality performance and the level of knowledge of corporate governance.	Chi-squared	H5N Rejected
There is no ***significant effect*** of the level of knowledge of corporate governance on municipality performance.	ANOVA	H6N Rejected
There is no ***significant contribution*** of the knowledge of corporate governance to municipality performance.	ANOVA	H7N Rejected
Knowledge of corporate governance has no significant contribution to the municipality performance.	T-Test	H8N Rejected

Source: Research outcomes

6.4 QUALITATIVE DATA PRESENTATION AND ANALYSIS

As discussed in the previous chapter, data analysis involves the development and pattern searching supported by utilizing the relevant statistical tools (Blumberg et al, 2014). Analyzing primary data means breaking data into smaller units in search of categories and sub-categories based on information to achieve set objectives. Given the type of data gathered, the mixed methods were applied to perform analyses of primary data. Nonetheless, this section used thematic analysis approach to perform qualitative analysis based on semi-structured interviews and FGDs. Through the thematic analysis, the researcher identified patterns, themes and sub-themes as the analysis progressed. Participants' responses were transcribed and coded based on literature.

This empirical study utilized three (ward councilors and MMs) senior managers each from the selected local municipalities of Msunduzi, Mkhbathini and uMngeni. Besides, 18 employees were selected into a group of six from each of the selected local municipalities provided data for the FGDs. To facilitate easy reading of the qualitative data reporting the participants of the FGDs were labelled as FGDA, FGDB and FGDC respectively. As the semi-structured interviews progressed among the three senior managers, councilors and other employees, several themes and patterns were acknowledged and selected. Similar patterns were followed during the FGDs with each group. The researcher noted more responses to questions which were put to various groups for analysis not in particular order.

In total nine main themes and four sub-themes that emerged throughout the process of analysis formed the core of the qualitative analysis. Specific themes were discussed based on categories and sub-themes in line with stated objectives (refer to chapter 5). Descriptive narratives from senior managers from the selected municipalities during the interviews were analysed and coded. Interviews and FGDs were centered on various objectives as stated earlier in the study. Quotation marks were employed to report the interviewees' voices as well as FGDs groups (Miles, Huberman & Saldana, 2014).

6.4.1 **Research outcomes based on focus group discussions (FGDs)**

This section of the study focuses on FGDs that were sourced from junior employees from the selected local municipalities. Similar questions were posed to the interviewees and members in each focus groups namely FGDA, FGDB and FGDC respectively. All the questions were designed to probe each group member to provide answers relating to specific issues on corporate governance, performance and service delivery as demonstrated throughout the statistical analysis. Below the researcher discussed participants' responses using quotations based on themes and sub-themes that were identified through content analysis and discussed but not in any specific order. Similar quotes that were posed to participants during the interview sections were used during the FGDs to ensure consistency in responses.

The FGDs was a voluntary exercise which took place in a consistent manner. In total, six FGDs were conducted (two FGDs per group) with participants from the selected local municipalities between 4.30pm and 6.30pm. Once the saturation is reached during the FGDs, the sessions are concluded; as Davies and Dwyer (2007) explained, qualitative study ends as soon as research themes start to be repetitive. From the answers during the 6th discussions, it became evident that group members were providing similar issues and answers.

6.4.2 **FGDs analysis and coding semi-structured interviews.**

This section of the empirical study employed 18 participants in three groups of six each, to provide qualitative data for analysis. Similar findings were used by the researcher during the interview processes. For easy quotations, the groups were referred to as FGDA, FGDB and FGDC. Questions posed to the participants were based on the objectives as stated in chapter one. Identification of themes and sub-themes were the focus of the researcher. Besides, more responses from group members and participants during the interviews were put into groups to promote orderly analyses. In total, six themes and sub-themes were identified, the themes and sub-themes were discussed in categories to provide answers to state objectives.

Descriptive narrations and quotations based on participants' responses during the FGDs, and interviews were featured as the analyses progressed. The researcher also prioritized each participant's voices by means of quotations (Miles, Huberman & Saldana, 2014). Based on each FGD and interview remarks, responses and individual narrations, the researcher understood the issues of municipality performance and corporate governance practices.

The relevant themes and sub-themes that emerged formed the primary focus of the researcher during the interpretation processes. Questions on the interview schedule were used during the interviews and the FGDs. All the participants in the FGDs were employees from different departments within the research settings. Participants in the FGDs and interviews commented on the themes and sub-themes in each category (refer to interview schedule, Appendix B)

Theme 1: Role of corporate governance

General responses to the questions of corporate governance have shown that participants have little knowledge of the practices of corporate governance. All the groups (FGDA, FGDB and FGDC) responses revealed insufficient understanding of corporate governance principles. The general perceptions were that participants in each group displayed little or no training on corporate governance practices during the duration of period. Responses in general can be summarized as "…*never had training on that before – that can be an accounting or finance issue".* Group members' responses can therefore be summarized as "*only the accounting/ finance departments know of corporate governance".*

Further probing questions on the role of corporate governance within the municipality, one of the participants during the interview section indicated positive awareness and how corporate governance principles and practices are likely to increase performance. The participant stated "…*I read and understand corporate governance whilst in school, given the training performance will improve, its role will be significant".*

Another participant stated "…*I wonder whether corporate governance add to municipality performance in any way*". However, responding to similar questions on "the role of corporate governance" members from FGDB stated *"…nothing relates to corporate governance in my views".* It was eminent that participants were not aware that corporate governance exists in the municipality at any level. One participant from FGDC stated *"…daily I struggled to understand the exact practices we follow in our department".* Discussions further revealed that participants from the groups (FGDA, FGDB and FGDC) were of the views that much is required to let employees understand the role of corporate governance in different departments. Further revelation by participants from FGDA, FGDB and FGDC led to the overall misinterpretation of the roles of corporate governance. Based on participants' responses it was deduced that little was done by the authorities to inform the employees of the concept of corporate governance. These sentiments were further revealed during the FGDs where majority of the members did not contribute sufficiently to the issue. It was deduced that not much is being done by the authorities to help the employees through education.

Theme 2: Principles of corporate governance.

Responding to the question on principles of corporate governance, it was clear that only few participants from the interviews and FGDs understood the principles of corporate governance. Most of the participants in the FGDs were of the view that application of the principles enhance performance. According to one member of the group "*…the principles promote best practices and hold us to be accountable*". Further response to the same question, one participant interviewed echoed the sentiments that "*…at departmental level not much is done to assist us - follow the principles".* This implies that not much is done to inculcate the principles of corporate governance into the minds of employees. Another member from FGDA stated "…*from my perspectives, the principles as in the books are many, very confusion in the working environment. "To me we need practical applications, education and training on all the principles"; "someone must be available to demonstrate how the principles are applied".*

In contrast, another participant responded to the same theme by indicating that not adequate information was provided by the authorities "…*I will be pleased provided our senior increase our knowledge through workshops and education*". According to him, *"…we aspire to increase performance to create and provide activities that are of benefits to communities – our municipality is lacking in providing essentials".* Similar responses from FGDA another group indicated that it is very complex on daily basis to demonstrate how the various principles of corporate governance are applied.

One member added "…*the principles are complex and interrelated; very difficult to apply, we need role models to assist us in applying each principle into a workable task".* Explaining how the principles of corporate governance can be applied, another participant during interviews elaborated on the statement by stating, "*…the principles are complex and difficult to be applied in our departments, except in the finance section of the municipality", we need support and guidance*". *Personally, I do not understand what the roles or the principles of corporate governance are*". Posing further, all the group members revealed that it was up to management and various sectional heads across the municipalities to support the employees. This was further realized in one of the quotes and verbatim from a group member "*…it is up to the officials to provide guidance and assistance". "Regarding this statement on the role, management must* *demonstrate an increased training and educational programs. "…We want to provide services to communities; our communities need support".*

One of the participants concluded "*…once we are working, I do not think applying the principles are our major concern. The* overwhelming responses from the members of each group during the FGDs indicated that not much initiatives was taken by the municipal authorities to assist the employees to understand the specific roles of corporate governance. In summary, all the group members and the interviewees agreed that applications of corporate governance as they perform their daily tasks does not feature more in whatever they do. To the researcher, the employees perform their tasks not knowing the role and applications of corporate governance.

Theme 3: Application of corporate governance principles

During one of the interview sessions, the researcher was made aware by participants that not much was done at managerial levels throughout the district municipalities to explain corporate governance principles. One of the experienced participants remarked *"… since I have been in employment of the municipality, no one mentioned the so call "principles" …. all that we are made to understand was to work very hard based on policies of the municipality".* Answering similar question, one of the group members from FGDB stated "I hear of the word "principles from my father. He used the word to mean "discipline in the house" not in a working environment". For us to really understand the meaning of corporate principles, we need to go through some serious training and education. *"Applying corporate governance principles in the municipalities is a challenge, a huge "headache" even to my line manager"*. One of the FGDC member added.

Sub-theme: Corporate governance applicability

The researcher posed the question "do you apply corporate governance in the municipality? After much discussion and allowing all the group members to deliberate on the question, it emerged that in a way corporate governance is practiced in performing daily tasks in municipalities. The issue that came out clearly was that the participants were not aware or understand the word. One of the participants during an interview on the same issue was able to explain how corporate governance must be applied and its outcomes in the municipalities. Yet much need to be done at management level to assist the bulk of employees.

Theme 4: Level of performance.

On the issue of the level of performance, it became clear that municipalities need to do more. The members of group FGDC stated, "…*It is not possible to determine our performance status, we lack the qualities. This is clear based on our inconsistencies in different tasks and the delivery of tasks to the community". The community members always complain through sporadic strikes organised by community members. "…Such strikes have become daily occurrences everywhere in the municipalities. "…In fact our level of performance is very low based on daily strikes*". "The municipality first need to provide all the support employees need". He added "…*for some reasons I am of the view that our municipalities expect to involve community member in the issues of performance, it is only the community members who can let us know our state of performance".*
Another member from the FGDC further add *"…majority of us live in the very communities that complain of our services to them; it means we are lagging behind; we do not perform to our abilities*". Further probing on the same topic by the researcher revealed that almost all the municipalities do not take seriously the issues of performance. This revelation was deduced from a member of FGDA *"…not much can be done to us in terms of performance; our management lack the knowledge of performance".* Majority of the participants who were interviewed reiterated that the level of performance at municipal level needs upgrade, motivation and devotion by members to their duties. One participant added "…*our performance can only be improved only through personal devotion to all job-related tasks; nothing can support us in this regard; please colleagues let us to our tasks accordingly and on time".*

Similar question based on theme 4, revealed that though employees knew of the potential benefits of performance, they only think through hard work the existing municipality performance will increase. *"Not much can be done by us as employees in the organisations, we perform our individual daily tasks in our departments and functional areas. Personally, I am of the views that I and other colleagues can increase the performance"*. To further summarize participants' responses, it became clear that all the municipality employees have no inkling regarding the issues of performance. The summary is based on the narrative of one participant who stated that *"…. having knowledge of the exact meaning of corporate governance will provide definite increase in all areas of performance"*

The general remarks based on the statement "level of performance" boiled down to one statement by a member from FGDC who stated, *"…I do not know or can determine the exact level of performance; I pray our managers do".*

Sub-theme: Performance ratings (high, moderate, low, very)

Responding to the question *"how will you rate the municipality performance",* majority of participants during the interviews and from various focus groups shared mixed views. One participant during the interviews alluded to the views that performance is ongoing and at its early state in municipalities because the managers at different sections of have no clear guidelines on its rating. One participant emphasized that national government, district, and local authorities are key role players in rating performance: *"The role players including national and local authorities must be highly involved in rating performance on monthly basis. Also, the authorities need to provide external perspective to assess performance and compliance to boost performance.* This was the response of one participant from group FGDC stated *"…. Performance tools such as early planning enter into agreement and other forms of support does not exist ….so my rating for municipalities is poor performance; after all ongoing daily strikes talk to my rating".*

Participant from FGDA added her voice to the issue of rating performance but in a positive light saying *"… municipalities are at their infancy, as an employee from the finance department, I can only rate our municipalities as a moderate performing…. our entities trying their level best given all that has been achieved over the past ten years".* Her respond revealed some level of awareness that not all is well in municipalities. The employees clearly understood that the level of performance is yet to come. Another participant suggested *"Management at different levels of the municipality structures need to "up the existing games … the structures at different levels of the municipalities must institute rigorous awareness of the system to increase the knowledge of performance"*

In a further interviews session and FGDs, the researcher asked the participants to rate the level of municipal performance. According to one of the participants, municipalities are not worth to be rated as in other public entities. The participant added *"…municipalities are not like well-established entities" "no rating". The g*eneral response to the same question by the participants in FGDB revealed that it was impossible to either rate the municipality low or high. Participants from FGDB overwhelmingly stated "…*rating the municipality is impossible, is not a small job. Most of us are unable to see or identify exactly how municipalities in the communities have performed over the years".* He added "…*this is because community members are at all times on strike, burning car tyres on the road. All roads in communities are block with stones and rubbish".* To my knowledge the municipal deserves no rating.

Another interviewee revealed that based on certain criteria, municipalities can be rated moderate. An indication that there was some level of satisfactory performance. This implies that some level of performance exists in municipalities. Further revelation by FGDC supported the sentiment shared by the participants during the interview.
According to the members of FGDC "*…the municipalities are supposed to be rated moderate".* Majority of participants in the FGDC were of the view that though municipalities are rated as 'moderate'. However, I strongly felt that more needs to be done before municipalities receive a 'moderate' rating. For the time being, participants view the existing performance level as very low.

Much is expected in terms of service delivery. The delivery of services is a major concern to communities. One member from FGDA stated, *"…we came every day from the communities, it seems nothing has been done over the years for such communities to be rated" "in fact no score for now".* The majority (about 60%) of the interviewees rather thought the municipality provided basic services to the community members. During another interview section, it emerged that all the participants agreed that at present all municipalities need to "up their games". According to the interviewees, there were too much service delivery strikes across communities. For instance, through the FGDs the participants concurred that municipalities are rather on the verge of collapse; thus, none of them can be rated instead their performances are *"highly sub-standard".*

Sub-theme: Accountability, transparency, fairness

For more insights, questions were posed to individuals to ascertain how they understood the principle of accountability. The responses showed mixed outcomes. For instance, majority indicated that *"accountability"* and other corporate governance principles are nothing to them as they perform their daily tasks in the municipalities. Participants from FGDB indicated *"…to me I think accountability requires me to be at work on time and perform my assigned tasks". "…to me accountability is just one of the English words" he added.* Responding to the same issue, a female participant form FGDA added *"…I heard of the word accountability during my school days, however I do not know accountability I slinked to performance."*

Further probing by the researcher for more information revealed that some group members are aware of accountability and its implications on organization. Participants from FGDC stated that "…*through accountability performance is likely to increase in the organization*". The participant continued *"…..In fact, one must be accountable in the organization in performing his or her roles",* the participant add. This sentiment was shared by others who were of the view that without being held accountable, employees are likely to perform below expectations and cause serious damages to reputation of the organization. This according to the participant will result reduction in clientele, poor competitive advantage, and lack of growth.

Another participant during the interview process echoed his view that accountability is a good strategy depending on who and where it is practiced. *"Accountability needs proper management and adequate control measures to achieve its objectives. Here in municipality hardly before one see hear of accountability as a practical issue – it seems we are less accountable to communities we serve"*. These sentiments are shared by different group members. For examples two participants from FGDB and FGDC were of the views nothing is really working. According to the participants all is not well as they commented on issues of accountability as part of corporate governance principles.

One participant from FGDC stated "…*accountability is a well-documented tradition that assists personnel to plan and work towards success".* Regarding the statement on transparency, majority of the participants mentioned the positive nature of transparency. The view of the participant was that working in rural communities it is best practice to be transparent in all that you do. By so doing, one allows community members to understand the outcomes of projects made to serve them. Participants added "…*being transparent means decrease in series of community-based strikes, allows for social cohesion between employees and the larger members of communities.*

Participants in various groups (FGDA, FGDB and FGDC) felt that the only means of curbing the challenges and intermittent strikes in communities is to practice being accountable and be transparent. One participant from FGDC stated *"…that is the only, take it or leave it".* Another participant in response to the statement on transparency voiced out "…*to be transparent is to be clearer in all that you do or planned to do, here in our communities we only hear projects being announced no one include us", the issue of inclusive governance does not exist in these communities".* Responding to a follow-up statement on fairness, during an interview session for more clarity, one experienced participant stated that fairness like other principles lack the expected practical in the municipalities. *He added "…for so long, over 10 years, we never heard of fairness in the organization as practical word that promotes and leads to better attitudes of performance by all the employees". "Fairness needs to be the hallmark of every employee in the municipality so that the communities can trust all that we do, being trustworthy means be in a position to provide value added services to communities that appreciates your level of performance". Further probing on the issue, another participant responded "…it is very painful to listen whether fairness is a practical thing or how we must go about it…being fair". In fact, some of these words need practical workshops where everything is explained in theory and as a practical issue" he added.*

Another participant during the interview explained that fairness needs to be practical where community members are treated equally, given same treatment in service delivery. The members of FGDB and FGDC agreed that more workshops and explanations are required to enable all employees in various departments understand the implementation of fairness to filter down to community members and to promote better service.

Theme 6: Strategies to increase performance

Regarding questions on strategies to increase performance, all the participants from the interviews and FGDs were in favour of concrete strategies. One participant from

FGDA "*…we are in need of different performance strategies to assist all the municipal structures". "…we need national and provincial authorities to support all our efforts*", he added. Responding to the same question, participants from the interviews explained how previous strategies that were crafted to enhance performance were not put to better operations. One participant added *"…all the strategies were left to die down within matters of days – very quick due to operational failures by management and lack of communication".* A participant interviewed added. *"…strategies that were created need to be communicated and explained to employees in every department across the municipalities".*

Further probing into the matter showed additional information. According to a member of FGDB, at management level in the past there was no significant strategies that were applied to increase the potentials for growth. This implies that the participants in the FGDs and during the interviews were aware that communication leads to the creation of better applications of strategies. Performance on the other hand, is the resultant effect of better strategy formulation at departmental levels that leads to increase organizational performance. *"…also, one needs continuous education on the applications of the strategies". "…one question we need to ask for now is what went wrong over the years?" why past strategies did not work?"* he asked.

Sub-theme: Increase knowledge of corporate governance

Reflecting on the question *"how do you think increase in knowledge assist in developing strategies?".* Overwhelming majority of participants agreed that it is only through sufficient training initiatives and education that any form of strategy development in municipalities can be given the necessary support. It was also the views of every group member that education is key to human resources development. A participant form FGDB added *"…education and training are paramount to any level of development in the working environment"*. *"We know as employee that given the knowledge through education and training; we can increase performance at departmental levels that will have knock-on-effect on the overall organizational performance". "…we know how to push; all that we ask for is continuous training after our educational achievements" he stated.*

During a group discussion the researcher posed another question to determine whether participants can find ways to increase performance. The overall views from the group members laid more emphases on education and training. The provision of the necessary resources including equipment and facilities, and for employer to employ practical approaches to increase performance. A member from FGDC stated "…*personally I value education and training as the means to increase performance", at the same time I expect the employer to put in place relevant and workable strategies, communicate and craft strategies with all employees then all will be well – for a much-improved performance".*

Similar feedback by participants during interviews added that all employees need to work with deadlines set at departmental levels. From the interviews it can be stated that increased performance stood out very clearly for all participants during the interview session and group discussions. As one participant stated *"…once the municipality improves its yearly performance, I know we will get increase and bonus, so we are all for the idea but to work very hard and stick to the plans is the critical challenge".* In summary, it can be stated that the authorities need to seek advice from the participants to increase performance.

This means that the employers must communicate, institute achievable goals, plan together with all employees across department and provide enough motivations that are attached to each goal. Similarly, employers should try, and device means of increasing training and educating individuals, training to increase human skills to perform better as equipment and processes are utilized efficiently for maximum outputs.

In addition, another participant from FGDA remarked *"…cooperation and provision of all our needs, motivate employees – increase our salaries and other socio-economic benefits will assist us to work hard to improve existing level".* These final remarks by a member of FGDA indicated that employees in the municipalities are prepared to perform to their utmost best provided the authorities play their part.

The researcher probed further during group and interview discussion to understand reasons for underperformance within municipalities. All participants during the interviews agreed that lack of training and education were the primary contributory factors. Based on their responses, the national, provincial and district authorities need to make available facilities to facilitate and encourage employees' long-term training programs. As one group (FGDC) participant remarked *"…there is serious lack of facilities to motivate us, even some junior staff members are planning their exit", "these* *are some of the reasons for non-performance and lack of human skill development at all levels of the organization"*.

"Underperforming" municipalities is due to poor planning and implementation, lack of motivation and non-existence of training and ongoing educational facilities. A participant further stated *"…another reason for underperforming municipalities can be linked to corrupt practices by employees, flawed tender irregularities and blatant disregard for processes and procedures",* in fact human factor in the working environment contributes to under performance. Majority of participants during the interview sessions revealed that underperformance can only be curbed provided serious action is taken to eradicate growing corrupt practices and inability of authorities to motivate employees.

6.5 **CHAPTER SUMMARY**

Chapter 5 dealt with quantitative and qualitative data analysis. This chapter provided data analysis in addition to the findings that emerged from the analysis. The empirical findings were given sufficient descriptions in terms of questions raised in chapter one. Furthermore, the outcomes of the study were discussed based on scientific evidence that arose from the data. The empirical outcomes and its results were interpreted based on the backdrop of relevant theoretical framework in line with applying corporate governance practices in municipalities to stimulate performance. Besides, the quantitative and qualitative data analysis was performed. In terms of qualitative data, thematic method was used in support of specific themes and sub-themes based on participants responses. Regarding quantitative data, the SPSS scientific program was employed throughout the analysis processes. Various scientific tools namely t-tests, ANOVA, chi-square was utilised to assess the null and alternate hypotheses.

CHAPTER SEVEN
CONCLUSIONS AND RECOMMENDATIONS

7.1 INTRODUCTION

Chapter 1 of this empirical study were outlined, and the main findings were provided as part of the study. Chapter 7 concludes this empirical study by highlighting conclusions, implications as well as providing related recommendations based on the findings. The researcher detailed the main objectives of this empirical study earlier in chapter 1 as the intention was to explore corporate governance practices of state entities in uMgungundlovu district municipality. Different strategical approaches were applied to ensure that the phenomenon under discussions is explored through multiple lenses. These approaches were t-test, chi-square, cross tabulation, ANOVA, and regression. Adopting multiple-layer lenses (approaches) enable different robust research outcomes across the qualitative as well as the quantitative method. Additional objectives were also stated in chapter one which were addressed through the relevant literature search that emerged based on outcomes of empirical study. The present chapter provides conclusions on each objective and outlines recommendations.

7.2 EMPIRICAL FINDINGS, RECOMMENDATIONS AND THE FORMULATED HYPOTHESES

This empirical study explored corporate governance practices and performance in selected municipalities. Key variables including corporate governance and performance were extensively reviewed through relevant literature. The first section of the study outlines all the objectives thereafter the findings are discussed as part of addressing the objectives. The objectives that are addressed throughout this study are stated below.

- To assess possible relationship between municipality performance and knowledge of corporate governance.
- To assess the depth of corporate governance practices in uMgungundlovu district municipality.

- To identify the relationship between municipality performance and corporate governance practices.
- To explore the roles of corporate governance practices to enhance performance and service delivery in municipalities.
- To determine the existence of corporate governance practices in local municipalities.
- To develop a framework that incorporates corporate governance practices to enhance municipal performance in the uMgungundlovu District municipality and
- To develop evidence-based practical recommendations to improve performance in local municipalities.

7.3 SUMMARY OF EMPIRICAL FINDINGS

Majority of participants were between the 30-49 years which implies that most of the employees in the municipalities were young. More than half of participants were male. General observations revealed that the majority of participants acquired the national diploma and degree qualifications. Only few participants obtained masters degrees. Regarding employment status of participants, the majority were employed on permanent basis in contrast to few contractual employments. High volume of employees worked as junior officers. However, less than half of participants were municipal councilors while few were in the position of managers or municipal managers.

On the issues of rating corporate governance knowledge of participants, findings revealed poor participants knowledge of corporate governance. However, the findings showed that less than half the participants were knowledgeable of corporate governance within the municipalities. Besides, the findings also showed that most participants agreed that there were political interference challenges in the municipalities. Additional revelation indicated lack of accountability and employees' inability to practice fairness during operations. Only few employees have demonstrated some level of fairness.

More findings rated employees' knowledge level of corporate governance poor to very poor. It was however revealed that majority of the participants were aware of the efficiency of the HR systems in the municipalities. Besides, regarding to rating the efficiency of the procurement system, only few participants were rated poor to very poor in contrast to majority of participants rating the procurement system as good to excellent system. On the issue of appointments based on qualifications, knowledge and experience, the majority of participants, the finding showed appointments were not based on qualifications, experience and knowledge. However, less than half of the participants agreed that appointments in municipalities are based on qualifications, knowledge, and experiences. Similar findings revealed that procurement policies were not followed. Overwhelming majority of participants believed municipalities were rated poor to very poor.

Equally, the municipalities did not follow proper HR procedures. It was established that nepotism was rampant in the municipalities. The findings showed that one way to increase efficiency and performance in the municipality was through sufficient adherence to PFMA or MFMA knowledge. The only way to adhere to fiscal discipline and to complete municipal projects on time was through understanding the PFMA and MFMA. It was established that majority of participants did not understand the prescripts of the PFMA and MFMA. The findings indicate that majority of participants are unable to understand PFMA and MFMA.

Several findings including service delivery sentiments have emerged that most participants indicated that there was no mechanism to engage positively communities for a sustainable service. Municipal authorities such as MMs and ward councilors are expected to be hands-on in dealing with service delivery challenges. The study revealed growing level of lack of pro-activeness by the elected authorities with the aim to solve challenges including service delivery. It further emerged that municipal authorities in the local councils were not visible in communities.

The null and alternative hypotheses were formulated to determine the significant relationship between corporate governance and municipality performance. The findings based on formulated hypotheses revealed mixed outcomes. In all, seven principles of corporate governance namely accountability, integrity, independence, responsibility, competency, transparency, and fairness were tested. These predictors (principles) based on the correlation findings did not reject the six predictors except "fairness". This implies that fairness as a predictor impact on the performance of municipalities. Fairness was the only significant positive contributor to municipality performance among the remaining predictors. The implication is that once employees in the municipalities display sufficient *"fairness"* as different tasks are performed, the level of municipality performance is bound to increase.

7.4 PRIMARY OBJECTIVES OF THE EMPIRICAL STUDY

Critical evaluation of the main objectives that guides this study was conducted in this section. Besides, the study provides detailed account of how the objectives were attained. The primary objective entails whether exploring corporate governance practices of state entities increase the level of performance in municipalities.

7.4.1 Objective 1.

To assess possible relationship between municipality performance and knowledge of corporate governance.

This objective was attained through qualitative and quantitative data analyses. For instance, Table 6.6 clearly revealed that among the predictors of corporate governance, only the construct of *"fairness"* bears relationship with corporate governance in that increase in *"fairness"* leads to increase in performance of municipalities. The result in table 6.6 is further supported further by sentiments of participants as stated in table 6.2 as well as during qualitative processes the interviews and FGDs. Participants indicated that not much was done by the authorities to provide enough corporate governance knowledge. Based on the scatter plot (refer to figure 6.5) the scores of municipality performance increases due to rising corporate governance practices.

7.4.2 Objective 2

To assess the depth of corporate governance practices in uMgungundlovu district municipality.

This objective was attained through frequency table 6.3 where majority of participants responded to statements that provided answers to the stated objectives. The Ward councilors and MMs are unqualified thus, they are unable to practice corporate governance principles as required and in line with expectations. Some of the findings that have emerged during qualitative FGDs and during the interviews include inability of authorities to be proactive in dealing with community issues. Further revelation was that authorities were not visible in various communities across the municipalities.

7.4.3 Objective 3

To identify the relationship between municipal performance and corporate governance practices.

Table 6.5 provided answers to the objective above. The table illustrates significant relationship between the variables (corporate governance practices and municipality performance). Also, the formulated hypothesis revealed that by enabling employees to ascertain corporate governance knowledge, municipalities' performance increases. The objective was further realized based on statistical tool of ANOVA which indicated that the two variables are related.

7.4.4 Objective 4

To explore the roles of corporate governance practices to enhance performance and service delivery in municipalities.

This study was successful to achieve the objective above through the relevant review of literature. The researcher conducted an extensive literature search of constructs such as the principles (predictors) of corporate governance were featured in chapters 2, 3 and 4. Each of the principles were discussed to understand how they relate to firm performance (refer to chapter 4 section 4.7). Specific chapters also revealed different descriptive theories based on literature review which gave specific indications of the relevance of the principles in terms firm performance. Applying the literature this study made it possible to identify the significance and the role of corporate governance within the municipal structures. In sum, the empirical analysis thus far as well as the sources based on literature have largely demonstrate the role of corporate governance practices in service delivery. Majority of participants stated through qualitative analysis that there was severe lack of corporate governance knowledge which impede on individuals' tasks in the municipalities.

7.4.5 Objective 5

To determine the existence of corporate governance in local municipalities

This study applied an extensive review of literature to explore the existence and significance of corporate governance in municipalities. While it became clear in chapters 2 and 3 that corporate governance was important in operating performing municipalities, overwhelming majority of participants during qualitative interviews and FGDs were not in favour of it. In sum, it emerged from participants that not much information was done by management to provide corporate governance knowledge principles to municipal employees. Nonetheless, different theories in chapter 2 highlighted the values of corporate governance principles in municipalities. Some of the principles that stood out were accountability, transparency, and fairness.

7.4.6 Objective 6

To develop a framework that incorporates corporate governance practices to enhance performance in the uMgungundlovu district municipality.

This empirical study aims to explore corporate governance practices with specific reference to municipality performance. A framework is proposed with the view to enhance performance. This framework is designed and discussed (refer to section 4.14). Various principles of corporate governance were explained (refer to chapter 2) above. Given the result of the hypotheses (refer to table 6.19), it became clear that only one of the principles of corporate governance bear relationship with municipality performance. Out of the seven principles, only *"fairness"* bears significant relationship with municipal performance. Increase in *"fairness"* means (refer to scatter plot; figure 6.5) definite increase in municipality performance.

7.4.7 Objective 7

To develop evidence-based practical recommendations to improve performance in local municipalities.

This empirical study illustrates growing body of evidence of qualitative and quantitative terms. Based on this evidence, recommendations are made to improve the performance of municipalities across the uMgungundlovu district municipality. Evidence that emerged from the study after interpretations pointed to key findings of lack of corporate governance knowledge by participants. Given the nature of municipal activities in communities, the evidence is practically related since the ward councilors and MMs are employed to service communities using corporate governance principles. Below are some of the practical recommendations.

7.5 RECOMMENDATIONS

This study employed exploratory method that investigated and explored different aspects of corporate governance to stimulate performance in municipalities. Given the research outcomes, it is recommended that municipal authorities develop ongoing training programs to empower employees with corporate governance knowledge. Providing sufficient knowledge is an empowerment tool that equip employees to perform better in their daily activities in different sectors of the municipalities.

Supportive policy measures are required to create an enabling climate where employees are allowed to augment existing levels of education. In line with the results, it is suggested that management provide enough educational programs on corporate governance. At the heart of the educational programs that authorities should provide, emphasis should be on the in-depth understanding of the corporate governance principles. The study outcomes further revealed that municipal authorities including the Ward Councilors, municipal managers were not proactive. This needs practical form of employee education through ongoing workshops to explain the significance of public engagement by employees in senior positions.

The inability to engage with communities create a vacuum in that corporate governance principles within the municipal structures are compromised. For instance, the principle of accountability should be the main focus in community engagements.

The researcher strongly suggests that senior management staff of local authorities should attend short learning programs at various schools of governance focusing on leadership and governance. Also, short learning programs should focus on seminars and workshops on executive management programs and governance to instill the concepts of accountability, transparency, and other corporate governance principles in senior management positions.

The researcher further recommends improvement to the values of governance. This means that municipal managers including ward councilors and municipal managers need to display good governance namely to be accountable, transparency, and demonstrate fairness. These initiatives are in consonance with the AG's report of (2014) that leadership of municipalities require adequate strength in areas of finance, accountability, and transparency to enhance performance.

There is a need to establish record of events linked to specific days on the calendar for employees' discussions. Establishing such forums will provide a clearer path towards the promotion of understanding corporate governance principles such as accountability, transparency, fairness among others. The municipal authorities should encourage the formation of community audit forums in all the municipalities to stimulate the construct of transparency as one of the principles of corporate governance.

7.6 PRACTICAL IMPLICATIONS

Considering the overall outcomes and recommendations of providing sufficient and ongoing education and training to ward councilors and MMs, these could impact positively on municipal performance to provide better services to communities. Recommendations provided might as well add to the practical improvement in performing various activities. Through these, there might be growing practical integration of corporate governance theories to deal with communities' growing needs.

More empirical study is required in the future for the development of conceptual framework and a model not only to usher the culture of performance into existing municipal structures but to further reinforce employee capacity. Furthermore, this study provides significant contribution to corporate governance literature through the exploration of how the various principles of corporate governance relates to performance in the municipalities. Findings out of this study affirm the theoretical implications that the practices of corporate governance principles namely accountability, transparency, fairness among others to a large extent assist municipalities to perform efficiently.

7.7 LIMITATIONS AND FUTURE RESEARCH

Any form of empirical study provides perspective which employ specific assumptions and beliefs. In a way, perspective by its nature, partially has limitations that is not easy to assess or explore. Every form of research is guided by choices that are made by the researcher through the design, time allocated and available resources at their disposal. For the purposes of this empirical study, the findings were explored, interpreted, and reported after in-depth interpretations were finalized. This empirical study applied mixed methods and utilized the method of interpretative analytical stance to attain its outcomes. A serious reflection based on the final effect of the choices followed, have outlined few limitations as detailed below.

7.7.1 Limitations of the study

This study achieved the stated objectives. Besides, the study contributes significantly to existing body of scientific knowledge. The study explored the knowledge of corporate governance among participants from three selected municipalities. However, there are few limitations that needs some attention. The focus of this study was to explore corporate governance principles and knowledge with specific reference to municipality performance. Every scientific study experienced limitation which needs considerations during the processes of interpretations. Qualitative outcomes that emerged can undergo generalization in similar research context. Besides, participants sample lack representation of all municipal structures in the uMgungundlovu district municipality and country wide.

The interviewer's role throughout the qualitative study is acknowledged. The views expressed by participants during the interview processes are likely to change at the time the transcripts are translated. Similarly, quotes and sentiments of participants are likely to be misrepresented due to translation difficulties. Additionally, this empirical study was conducted during the current Covid-19 pandemic. Government responded through stricter *"lock downs"* of every section of the country that resulted to working from homes. This created limitations which made it difficult for the researcher to revisit participants for clarification of interview questions.

Lastly, this empirical study focused on performance through the assessment of corporate governance principles by selecting three out of the seven local municipalities in uMgungundlovu district municipality. Exploring corporate governance practices to enhance performance in municipalities could as well included other areas such as financial management and accounting-based performance by assessing the level of corporate governance knowledge. The inclusion of all municipalities in exploring the depth of performance and knowledge of corporate governance might have highlighted different empirical outcomes to point out a holistic picture of municipalities in the district.

7.7.2 Suggestions for future study

To ensure that these results are generalised to a wider population, more replications should be conducted in the future to involve larger participation from different municipal districts. Besides, the study should be conducted on a long-term basis with significant budget allocation to enable the researcher to employ more skilled field workers. The study should be designed to understand corporate governance practices and employees' knowledge of the principles of corporate governance in municipalities. Finally, a correlation studies should be conducted in the future for insights into the principles of corporate governance from different developing countries. The focus of the correlation study should be how understanding the principles of corporate governance can enhance performance of municipalities. Furthermore, the findings that emerges from the correlation studies should be shared as success stories that provides a critical learning path in developing countries that experience under performance.

7.8 CONCLUSION

The primary focus of this empirical study was to explore corporate governance practices of state entities in the uMgungundlovu district municipality. The emphasis was on the exploration of employees' knowledge on corporate governance principles and its application to municipal performance. Exploring the knowledge of corporate governance principles will enable Ward councilors, MMs, and others in authorities to understand the practical applications of each principle in the working environment. Key features such as accountability, transparency and fairness, among others, are some of the principles of corporate governance needed to increase municipal performance. Nonetheless, based on the study outcomes, this study pointed to the principle of "fairness" as the contributor to municipal performance. The construct of "fairness" was the only principle out of the six principles of corporate governance that influence the performance of municipalities. In addition, qualitative information revealed that majority of participants had no knowledge of the principles of corporate governance. An implication therefore that the participants were unable to apply the principle to perform daily business activities. These sentiments emerged during interviews and FGDs.

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APPENDICES

Appendix A: **QUESTIONNAIRE**

Exploring Corporate Governance Practices on State Entities: A Case Study of uMgungundlovu District Municipality

SECTION A

Age	18-29		30-39		40-49		50-59		60+	
Gender	Male		female							
Highest qualification	Matric		Diploma		Degree		Masters		PhD	
Number of people under your supervision	2-10		11-19		20-29		30-39		40+	
Rank	Cllr		MMC		Mayor		Manager		other	

SECTION B (rate the following in your own experience)

Knowledge of management/ governance / leadership	**Poor**		**better**		**average**		**Good**		**Excellent**	
Knowledge of King report on corporate governance										
Efficiency of the HR system										
Efficiency of the procurement system										
Service delivery in the area where you live										
How often are HR procedures followed										
How often is procurement system followed										
How often is PFMA/ MFMA adhered to										
Engagement with community										

SECTION C

Indicate as follows: 1-poor to 5-excellent	1	2	3	4	5
Nepotism exist in the organisation					
The organisation always follow correct HR procedures					
The organisation always follow procurement procedures					
Mechanism to engage with the community is working effectively					
The organisation is proactive in dealing with service delivery					
There is intelligence on the ground to gather information					
All communities have access to basic services					
All communities have access to schools and clinics in their area					
Ward councillors are visible in their constituencies					
Ward councillors and MMC are competent in their portfolio					
Councillors, MMC's and Managers have relevant qualification					
Appointments are based on qualification, knowledge and experience					
Appointees undergo screening process such competency test					
Communities receive feedback timeously					

Thank you for your participation in this research project

Appendix B: INTERVIEW SCHEDULE

TOPIC: Exploring Corporate Governance Practices on State Entities: A Case Study of uMgungundlovu District Municipality

The interview that we are about to conduct seeks to explore corporate governance practices on state entities in the uMgungundlovu district municipality

SECTION A: GENERAL

Please take note that the following questions under section A do not form part of the actual interview but are required to build a profile for the municipality. This part will not be used to conduct statistical analyses or to make comparisons between groups.

Profile of the municipality:

1. What is your age?
2. What is your educational background or qualifications?

Structure of the municipality

1. Which local municipality do you belong?
2. How many members of council are in your local municipality?

SECTION B: INTERVIEW QUESTIONS

Theme 1: Corporate governance

1. What do you understand about the concept of corporate governance?
2. Where does corporate governance fit in at municipal level?

Theme 2: Principles of Corporate governance

1. How would you describe the principles of corporate governance, in your own words?
2. Are they necessary in the current state of affairs?
3. How do principles such as accountability, transparency and fairness contribute to the overall performance of the municipality?
4. Are there benefits to corporate governance?

Theme 3: Application of the principles of corporate governance

1. Where do principles of corporate governance fit in?
2. How do you apply the principles of governance within the municipality?

Sub-theme: Applicability of corporate governance

1. Are the principles of corporate governance reasonably applicable?
2. Is there a way of enforcing compliance to corporate governance?

Theme 4: Level of performance

1. How would you describe performance?
2. Is there a standard to measure to performance?

Sub-theme: rating on performance

1. How would you rate the level of municipal performance in your area: high – moderate - low?
2. How can the municipality improve their performance level?

Theme 5: Corporate governance and performance

1. In your understanding, how does corporate governance affect performance in the municipality?
2. Is there a link between corporate governance and performance?

Sub-theme: accountability, transparency, fairness

1. Where do we apply accountability?
2. Where do we apply responsibility
3. Where do we apply fairness?

Theme 6: Strategies to increase performance

1. Are there strategies that you can think of, that can be used to improve performance?
2. Who, in your knowledge, is responsible for implementing strategies that can increase performance in the municipality?

Sub-theme: Increase knowledge- training and education

1. How can municipalities increase knowledge of corporate governance?
2. What form of training, if any, can the municipality use to educate staff?

Theme 7: evaluate performance

1. Is there a method of evaluating performance?
2. How can municipal performance be evaluated?

Theme 8: Ways to increase performance

1. What are ways to increase performance
2. Are there guidelines that need to be followed in order to increase performance?

Theme 9: Reasons for under performance

1. What are the known reasons for under performance?
2. What strategies can municipalities implement to deal with underperformance?

Concluding questions

1. Do you think that corporate governance contribute to building reputable business entities, and why?
2. Is application with enforcement the right thing to do?
3. Should poor governance or lack thereof be punishable by law?
4. Would you expect governance principles to be applied in all sectors?

Thanking you kindly for your participation

…end of interview…

Appendix C

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23 November 2020

CONFIRMATION OF EDITING

I, Margaret Linström, hereby confirm that I language edited the PhD thesis of Jey Difference Nyalungu entitled *Exploring Corporate Governance Practices on State Entities: A Case Study of uMgungundlovu District Municipality*.

The editing was done electronically, using Track Changes, to enable the candidate to accept or reject the suggested changes. Please note that the List of References was not included for editing.