GOVERNANCE OF AFRICAN STATE-OWNED ENTERPRISES (SOES) – TOWARDS AGENDA 2063

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Abstract: Following centuries of institutionalised colonialism, Africa continues failing to drive socioeconomic growth and prosperity. Although the vestiges of Africa's colonial legacy have certainly contributed to this malaise, Africa cannot continue blaming colonialism for its failure to develop. To reverse the downward spiral and provide the platform to achieve the goals of the African Union's Agenda 2063, requires a return to Africa's primary Ubuntu[1] values. Africa must accept that it can no longer remain passive participants, simply providing raw materials for beneficiation by the Global North. State-owned enterprises (SOEs), governed according to sound corporate governance principles, can contribute to sustainable socioeconomic development. Not only enhancing their transparency and accountability, but also positioning them to constructively contribute to achieving the Agenda 2063 aspirations. To understand the extent to which sound corporate governance practices can contribute to SOE effectiveness, a qualitative research approach thematically analyses the disclosures contained in the publicly available annual reports of purposively selected SOEs, in predetermined countries across each of Africa's nine regional economic communities. The extent of conformance with established corporate governance practices is calculated using a disclosure index developed from global corporate governance frameworks.

INTRODUCTION

When compared to states in the Global North as well as to several rapidly developing states in Asia, Africa stands out as being in dire need of development in key areas such as infrastructure and governance. Africa's mounting development challenges are exacerbated by factors such as the residual effects of colonialism (Ackers, 2018), widespread corruption (Hope, 2020), population growth, globalisation, and more recently, the impact of the COVID-19 pandemic (Yaya *et al*., 2020).

It is estimated that the cumulative African infrastructure investment gap will expand to USD 1.59 trillion by 2040, requiring Africa to increase its infrastructure investment by 39%, compared with the global standard of 19% (Metcalfe and Valeri, 2019). To mitigate emerging service-delivery gaps require seven specific types of infrastructure investment including: power and energy; water and sanitation; road and highways; other transport (e.g. air and sea); ICT; railways; as well as core public service infrastructure (e.g. hospitals and schools). With the notable exception of ICT, Africa requires significant infrastructure investment across the remaining six categories (Metcalfe and Valeri, 2019). Since addressing a country's infrastructure need is important mechanism to reduce service-delivery challenges, not merely a notional investment, governments must identify how strategically developing and maintaining their infrastructure can be leveraged to enhance service delivery for the benefit of their citizens and residents (Metcalfe and Valeri, 2019).

Development issues have dominated the socio-political agendas of most post-colonial African states, both individually and collectively (Mlambo, 2020). Hampered by politico-economic factors such as colonial and foreign corporate interests, economic reconstruction, foreign aid and structural adjustment, several African states have been struggling to develop their countries since the Year of Africa (1960) (Sebola, 2019). Acknowledging legacy constraints, African states have come together under the auspices of the Organisation of African Unity (OAU) and its successor, the African Union (AU), to promote and accelerate development through forging continental development programmes.

Although the notion that Africa desperately needs development is indisputable, African leaders appear to have recognised and prioritised this need (Aniche, 2020). Concerned about the lack of development in Africa, African heads of state started formulating a robust long-term 50-year development path for Africa. African states unanimously adopted the resultant Agenda 2063, which was sufficiently flexible to facilitate Africa's ability to achieve its development agenda, aimed to achieve the "Pan African vision of an integrated, prosperous and peaceful Africa, driven by its own citizens, representing a dynamic force in the international arena" (AU, 2015, p.1). However, despite more than 60 years of developmental efforts, and notwithstanding Agenda 2063's proactive developmental approach, African states continue to face daunting domestic and transnational development challenges (Sebola, 2019). Continuous developmental challenges such as poor corporate governance, inadequate reporting, and lack of accountability by African leaders and government office holders continue to impede Agenda 2063 (Zadawa and Omran, 2020).

Within the context of Agenda 2063, this paper specifically considers the governance impediments to African governments deploying state-owned enterprises (SOEs) to pursue their developmental goals focusing on their corporate governance and how to mitigate the identified impediments. Bernier (2011), Thynne (2011) and Tõnurist (2015), helpfully note that SOEs could drive innovative policy management through policy coordination, policy utilisation, fiscal responsibility and surplus maximisation. Bass and Chakrabarty (2014) assert that investment in SOEs tends to safeguard the future of SOEs and their owning states, with such investments providing resource security. However, since SOEs often raise difficult governance and accountability questions (Shaoul *et al*., 2012), the adoption of accountability and governance best practices allows them to remain accountable to citizens, within this complex organisational form, while delivering on their respective mandates. Around the world SOEs typically use taxpayers' funds to deliver on their state-provided mandates. Thus, SOEs are normatively expected to account to taxpayers on how the resources entrusted to them have been deployed to provide public goods and services on behalf of their respective governments. This paper therefore not only provides observations that should assist Africa to achieve its Agenda 2063 aspirations (aspirations 1, 3 and 7 in particular), but also to develop its critical enablers (enablers b, c and d in particular).

Acknowledging that governments around the world tend to use SOEs to achieve their developmental objectives, this paper suggests that SOEs are mechanisms that could be leveraged to assist African states achieve Agenda 2063. This paper asserts that African SOEs adopting globally accepted governance best practices are more likely to efficiently, effectively and economically deliver goods and services, on behalf of their owning states. These best practices include both voluntary and mandatory disclosure mechanisms, such as corporate governance codes, the Global Reporting Initiative (GRI), the United Nations (UN) Sustainable Development Goals (SDGs) and Integrated Reporting (<IR>).

This paper intends to make four contributions: the first is to develop a corporate governance conformance index for assessing the corporate governance codes of SOEs in the selected countries relative to the above best practice. The second contribution is to assess the extent to which selected countries conform to best practice, utilising the developed conformance index. The third is to identify countries that have better conformance and could serve as learning examples for other countries to emulate and the last is to point to specific areas requiring corporate governance reforms in the selected countries and generally.

This paper proceeds in two phases. The first uses extant literature and frameworks to identify and develop a governance and accountability conformance index, based on global best practice, appropriate for African states. The second, empirically assesses the extent to which corporate governance practices in the selected countries conform with the identified best practice.

Acknowledging the importance of corporate governance best practice, the AU attempted to match Agenda 2063 to the UN's SDGs (AU, 2015) – confirming that the Agenda 2063 does not represent standalone goals but builds on recognised global governance frameworks. Indicative of the intricate interrelationships amongst governance elements, Koerber (2009) asserts that despite each framework typically being designed to satisfy the specific needs of a particular stakeholder group, the components of the various frameworks usually overlap.

LITERATURE REVIEW

Acknowledging the importance of SOEs in development, it is crucial that they are governed according to the principles espoused by sound corporate governance frameworks, legal and regulatory frameworks, as well as accountability measures. This will enhance their transparency and accountability and position them to constructively contribute to achieving Agenda 2063. Appropriate corporate governance frameworks should therefore include best practices that would facilitate the ability of SOEs to optimally fulfil their mandates in a responsible and sustainable manner, allowing them to be perceived as responsible stewards and custodians of the resources entrusted to them.

The African Union[1] and Agenda 2063

The Organisation of African Unity (OAU) was established in 1963, after *several African countries gained independence following centuries of oppressive colonialism. The OAU's* pan-African vision was "an Africa that was united, free and in control of its own destiny … to rid the continent of the remaining vestiges of colonisation and apartheid; to promote unity and solidarity amongst African States; to coordinate and intensify cooperation for development; to safeguard the sovereignty and territorial integrity of member States and to promote international cooperation."

The African Union (AU) which was launched in 2002 to succeed the OAU, is a continental body consisting of 55 African member states. The objective of the AU was to accelerate "the process of integration in the continent to enable Africa to play its rightful role in the global economy while addressing multifaceted social, economic and political problems compounded as they were by certain negative aspects of globalisation." Despite the AU identifying 17 specific, but intrinsically interrelated objectives, this study considers the following five economically oriented goals:

- *Accelerating the continent's political and socioeconomic integration.*
- *Enabling the continent to play its rightful role in the global economy and international negotiations.*

[1] Extracted from the website of the African Union at: https://au.int/en/overview. [accessed 28 March 2021]

- *Promoting sustainable development at the economic, social and cultural levels, as well as facilitating African economic integration.*
- *Coordinating and harmonising existing and future Regional Economic Community (REC) policies to gradually achieve the AU's objectives.*
- *Developing and promoting common policies on trade, defence and foreign relations.*

The purpose of RECs (regional economic communities), representing regional groupings of African states, is facilitating regional economic integration amongst members of individual regions as well as through the wider African Economic Community (AEC). In this regard, the RECs are increasingly involved in coordinating the development and governance interests of AU member states. The AU recognises the following eight RECs:

- *Arab Maghreb Union (UMA)*
- *Common Market for Eastern and Southern Africa (COMESA)*
- *Community of Sahel-Saharan States (CEN-SAD)*
- *East African Community (EAC)*
- *Economic Community of Central African States (ECCAS)*
- *Economic Community of West African States (ECOWAS)*
- *Intergovernmental Authority on Development (IGAD)*
- *Southern African Development Community (SADC)*

Factors likely to influence Africa's ability to achieve its development agenda include ongoing structural transformation, increased peace and reduction in the number of conflicts, renewed economic growth and social progress, people-centred development, gender equality and youth empowerment, changing global contexts, increased African unity providing the necessary critical mass to be perceived as a global power capable of rallying support around its own common agenda, emerging development and investment opportunities in areas such as agri-business, infrastructure development, health and education, as well as increased African commodity beneficiation (AU, 2015). In an attempt to capacitate Africa to emerge from the malaise caused by centuries of colonial oppression, in May 2013, African heads of state and government representatives solemnly re-dedicated Africa to the Pan African Vision of an *integrated, prosperous and peaceful Africa, driven by its own citizens, representing a dynamic force in the international arena*. The resultant Agenda 2063 includes the following primary aspirations for Africa:

1. *A prosperous Africa based on inclusive growth and sustainable development.*
2. *An integrated continent, politically united and based on Pan-African ideals and the African Renaissance vision.*
3. *An Africa adhering to the fundamental principles of good governance, democracy, respect for human rights, justice and the rule of law.*
4. *A peaceful and secure Africa.*
5. *An Africa with a strong cultural identity, common heritage, shared values and ethics.*
6. *An Africa whose development is people-driven, relying on the potential of African people, especially its women and youth, and caring for children.*
7. *Africa as a strong, united and influential global player and partner.*

To ensure that Africa can achieve these aspirations, Agenda 2063 requires acceleration of efforts to achieve 16 specific objectives. Acknowledging the myriad of challenges that must be overcome before Africa can realise its full potential and claim its rightful place amongst the developed nations of the Global North, and the rapidly developing nations of the Global East (Müller, 2020), Agenda 2063 identifies eight critical enablers for African transformation. Collectively, these 16 audacious objectives provide the roadmap to achieve the Pan-African vision outlined above, within 50 years, from 2013 to 2063. Not only does Agenda 2063 encapsulate Africa's aspirations for the future, but it also identifies key flagship programmes to accelerate Africa's socioeconomic growth and development, facilitating the rapid transformation of the continent (AU, 2015). SOEs are one of the mechanisms through which states could achieve the Agenda 2063 goals, especially the goals related to development. In this regard, SOEs facilitate structural transformation, emerging development and investment opportunities, infrastructure development, health and education as well as increased African commodity beneficiation.

State-owned enterprises

Around the world, governments create SOEs to assist them to achieve their socioeconomic goals. Since SOEs are the primary vehicles used by many states to deliver public goods and services, it is imperative that they operate in a sound competitive and regulatory environment in order to enable them to achieve their mandates. Notwithstanding the longstanding privatisation/nationalisation debate, many states acknowledge that SOEs and related enterprises are socioeconomic policy tools that states can use to deliver on their mandates (Bernier, 2014; Florio, 2013). In fact, some states, especially in Asia (Hayashi, 2010), have exemplified this use of SOEs and related enterprises as socioeconomic mechanisms (Pereira, 2008). SOEs today, account for more than one fifth of the world's largest enterprises (OECD, 2018), illustrating the important contribution of these enterprises to the global economy. To ensure financial stability and to sustain growth and development, SOEs must therefore operate according to the highest standards of governance and accountability. In their study of Latin American SOEs, Penfold *et al*. (2015) identified SOEs created to meet public policy objectives; SOEs responsible for providing public utilities, such as water, electricity, gas, etc; SOEs created to provide specific goods or services required by the state, such as suppliers of military equipment; and SOEs responsible for generating revenue for the state and compete with the private sector.

While many states have grown their economies through effective and appropriate SOE performance management and governance (Tsheola *et al*., 2013), in other states, SOEs are plagued by serious governance and accountability issues, aggravated by corruption (Hope, 2020), a lack of competition and incentives, principal-agent problems, soft budget constraints, pursuit of multiple objectives, direct political pressure, bureaucracy, punitive labour legislation and regulations, strong trade unions, and an inability to reduce costs and promote innovation (Szarzec and Nowara, 2017); requiring serious and urgent reforms.

Corporate Governance Reforms

SOE governance is an important strategic organisational tool for public sector management (Domokos *et al*., 2016). Despite its obvious importance, it is concerning that corporate governance failures are the most problematic issues facing SOEs (Aharoni, 1981) mandated to provide public goods on behalf of their respective governments. This may be attributed to most states formulating corporate governance guidelines for their SOEs based on what should apply to private sector organisations (Subramanian, 2015). This may also be further attributed to these SOEs combining both commercial and social forms of organising, as SOEs are accountable for both financial and social performance, and ensuring that these dual performance objectives complement rather than contradict each other. Several states have consequently developed and are developing new legal and regulatory frameworks better aligned to the needs of SOEs (Vijayakumar and Nagaraja, 2012). The core of reforms to address changing social and business environments, is rooted in accountability, affecting governance and transparency, and impacting the ability of organisations to achieve their mandates (Florio, 2014).

To stimulate socioeconomic growth, the governments of many states are considering various means to effectively and efficiently restructure their social and commercial enterprises

(Xiao-ling *et al*., 2015). Whereas Paz (2015) argues that institutional reforms influence the extent to which both organisations and states either fail or succeed, Duppati and Locke (2013) suggest that SOEs are more likely to improve following these reforms. Similarly, Hai and Donnell (2017), found that Vietnamese SOEs that have been reformed were more effective and efficient, with improved corporate governance practices and performance following reforms. This is consistent with Jurkonis *et al*.'s (2016) observation that SOE governance reforms improves operational effectiveness, thereby improving performance. States are therefore constantly organising and reorganising their SOEs in a bid to facilitate their capacity to deliver on their mandates (Bernier, 2011).

Theoretical Underpinning

It may be argued that most economic theories rest on postulates about organisations, and where some of these theories address behavioural issues, they address them from the standpoint of individuals present within an organisation. However, although there is a need to address the issue of the motives of individuals present in an organisation, individual motives in conjunction with organisations do not tell a complete story of a firm. Subsequently, Stinchcombe (1960) contends that the focus on motives should not be on the individuals present within an organisation per se but on the constitutions, both internal and external, of organisations, which may constrain or permit individual motives within an organisation.

Thus, organisational constitution is a sociological approach that entails the distribution of the powers and responsibilities of people and of subunits in the determination of organisational policy (including issues related to but not limited to boards of directors, controls, transparency and disclosure, relations with stakeholders and performance monitoring). This constitution is similar to that of the constitution of a state, and it determines the political life of an organisation. While this appears to be internal to an organisation, there are constitutions that are also external to organisations. Legal and regulatory is a good example of this organisational constitution and may be both internal and external. Hence, the most important part of an organisational constitution is the decision rule it institutionalises. This organisational constitution points to the importance of legal and regulatory framework as well as legislation (decision rule) by which organisations coordinate their affairs. In effect, while a sound organisational constitution can mitigate opportunistic behaviour, a weak one will surely sustain opportunistic behaviour, thereby resulting in weak, ineffective and inefficient organisational structure.

Governance and Accountability in The Public Sector

Public sector governance encompasses processes undertaken by governments (for the purposes of this study) (Bevir, 2013) to steer and coordinate several actors, usually in hybrid arrangements (Kickert, 2001; Schmitz and Glänzel, 2016). Governance thus refers to the interactions that take place in those hybrid form of organisations (Almquist *et al*., 2013).

Recall that Florio (2014) asserts that the core of reforms is to address changing social and business environments, is rooted in accountability, affecting governance and transparency, and impacting the ability of organisations to achieve their mandates. This appear to be in order considering that public sector governance typically involves simultaneously balancing the dual objectives of profit (or surplus) generation and providing public goods and services, traditionally addressed by separating business and public service (Ebrahim *et al*., 2014; Klijn, 2008).

Accountability is a crucial component of good governance, involving being answerable for decisions or actions, and preventing the misuse of power and other forms of inappropriate behaviour (Devaney, 2016; Mark, 2010). The new public management ideology sees accountability as a tool to enhance the ability of the state, and its organs, to deliver public goods and services, sustaining its ability to ‘perform’ more effectively, efficiently and economically

(Demirag and Khadaroo, 2011). From a simplistic shareholder primacy perspective (Friedman, 1970), the purpose of business is to create monetary value for owners or shareholders (Low, 2006). Despite recognising the applicability of other theoretical frameworks, such as stakeholder (Freeman, 1984), or instrumental theories (Ackers and Eccles, 2015), corporate law statutorily obliges managers and directors of profit-seeking companies, to maximise shareholder wealth (Low, 2006). By comparison, in addition to attempting to operate profitably, or to at least break even (although more often than not, SOEs are loss-making and require substantial state subsidies), the primary purpose of public organisations, such as SOEs, is to serve public interest (Mansi *et al*., 2017), requiring SOEs to prioritise their accountability efforts to address their social mandates (Almquist *et al*., 2013).

Public sector accountability comprises state-centred accountability and social accountability (Brinkenhoff and Watterberg, 2015). State-centred accountability refers to the institutions the state establishes to monitor SOE performance, compliance and to control abuse. By contrast, social accountability involves more direct participation by citizens to monitor SOE performance, requiring mechanisms to hold the state to account over their use of taxpayers' funds and resources (Hassan *et al*., 2016).

Since it has been argued that the core of reforms is to address changing social and business environments, is rooted in accountability (Florio 2014), and that the core problem faced by SOEs is related to their corporate governance (Aharoni, 1981), then reform efforts of SOEs should focus on improving their corporate governance (especially the constitution/decision rule by which they operate as espoused by organisational constitution theory) through adopting corporate governance best practices including corporate governance codes, global reporting initiative, sustainable development goals and integrated reporting, which will improve their accountability and their ability to deliver on their mandates. This indicates that this study is more focused on state-centred accountability relative to social accountability.

Corporate Governance Codes

Corporate governance codes formulate standards of good governance, primarily for publicly traded companies, including companies with partial state ownership (Grosman *et al*., 2016). Corporate governance codes *inter alia* recommend mechanisms to prevent opportunistic behaviour, thereby assisting organisations achieve their objectives, improve performance and protect shareholder interests (Grosman *et al*., 2016). Corporate governance codes typically address issues such as board composition, board development, remuneration, accountability, audit and shareholder relations (OECD, 2015; World Bank, 2014).

The World Bank's (2014) Toolkit for the corporate governance of SOEs and the OECD's (2005) Guidelines on the corporate governance of SOEs are two specific SOE frameworks. The World Bank's Toolkit identifies eight governance areas, including: legal and regulatory frameworks; ownership and organising models; performance monitoring; financial and fiscal discipline; boards of directors; transparency, disclosure and controls; mixed ownership; and implementing reforms (World Bank, 2014). Similarly, the OECD's Guidelines includes six items: legal and regulatory frameworks; the state's role as owner; equitable shareholder treatment; stakeholder relations; transparency and disclosure; and SOE board responsibilities (OECD, 2005). The considerable overlap between the World Bank's (2014) and the OECD's (2005) framework, confirms Koerber's (2009) assertion that even when not targeting the same user group, some degree of overlap can be expected among frameworks.

Despite collectively providing specific guidelines applicable to SOEs, the SOEs in many countries have not applied the provisions of the World Bank's and OECD's frameworks. For example, many states do not require their SOEs to have boards of directors comprising both public and private role players, which the World Bank (2014) suggests is likely to consider and deliver on both social and commercial SOE objectives (USA, 2020). Similarly, although the

OECD suggests that SOEs should fully recognise their stakeholder responsibilities and report on their stakeholder relations, SOEs in many states do not prepare annual reports, and when required to prepare annual reports SOEs are often not required to report on stakeholder engagement (USA, 2020).

In addition to the specific OECD and the World Bank SOE corporate governance requirements, Sustainable Development Goals (SDGs) and Agenda 2063 goals as well as international reporting standards should be incorporated into SOE corporate governance codes, which should be aligned with the SDGs and Agenda 2063. These reporting standards include the Global Reporting Initiative (GRI) and integrated reporting (<IR>) they are discussed below, after SDGs.

The reasoning behind SDGs is to cater for trade-offs economic and socio-environmental issues. Politics often involve difficult trade-offs favouring the economy to the detriment of social and environmental issues (Lorek and Spangenberg, 2014). Contemporary sustainable development discourse reveals that trade-offs between economic, social and environmental goals are common (Gupta and Vegelin, 2016). The UN's SDGs were developed to provide a platform to facilitate achieving these goals (Gupta and Vegelin, 2016). The SDGs emanated from the 2030 Agenda for Sustainable Development (UN, 2014), under the auspices of the UN (Hák *et al*., 2016). The UN released "*Transforming Our World: The 2030 Agenda for Sustainable Development*" to assist states contribute to the global sustainable development agenda, in 2015. This UN commitment document, underpinned by the five pillars of people, plant, prosperity, peace and partnership, incorporates 17 SDGs and targets to "stimulate action over the next 15 years in areas of critical importance for humanity and the planet" (UN, 2014, p.3). The UN's SDGs, increasingly referred to as "The Global Goals" (Global Goals, 2020), represent intergovernmental commitments, which are rapidly gaining traction and salience among a broad range of actors beyond the 193 UN member states that unanimously endorsed them. These actors include public policy bodies, NGOs, as well as several public sector and private sector organisations (Bebbington and Unerman, 2018). This acceptance is exemplified by the AU specifically linking Agenda 2063 to the UN's SDGs (AU, 2015).

Further, investors no longer consider conventional financial disclosures ignoring material "non-financial" issues as sufficient. Thus, in order to cater for trade-offs between financial and non-financial disclosures, stakeholders persistent demand for comprehensive non-financial disclosures relating to organisational operations (Ackers and Eccles, 2015), led to the birth of the GRI and <IR>. The GRI, which has been pioneering CSR reporting since 1997, emerged as the world's most widely-used framework for voluntarily reporting CSR performance (De Villiers and Alexander, 2014; Marimon *et al*., 2012; Roca and Searcy, 2012), becoming the gold standard for CSR reporting (Ackers, 2014), and even incorporated into the mandatory CSR reporting frameworks of some countries (Alonso-Almeida *et al*., 2014). According to Manetti (2011) the GRI's foundational elements encompassing economic, environmental and social dimensions, positions it as the best available CSR reporting option, which Prado-Lorenzo *et al*. (2009) assert provides a harmonised, standardised, understandable and objective report for all firms worldwide. Moreover, a CSR report claiming GRI compliance at a stipulated application level, conveys a very clear and concise meaning of reporting quality, resulting in users expecting to find specific levels of predetermined information (Liu *et al*., 2019).

Also, <IR> recently emerged as a mechanism to achieve (Rowbottom and Locke, 2016) organisational reporting that address stakeholders' needs, as well as issues relating to sustainability, ethics and transparency (Almăşan *et al*., 2019). Prior to the emergence of <IR>, organisations have for many years disclose sustainability and intellectual capital information on an ad hoc basis (Bovens, 2007), usually either included in small sections of the annual report or as stand-alone reports (Liu *et al*., 2019), prompting observers to argue that non-financial information should be disclosed with reference to the organisations' economic fundamentals

(Schneider and Meins, 2012). Stubbs and Higgins (2018) concur by asserting that non-financial reporting enhances understanding about an organisation's value-creation stories and potential. Thus, organisations have begun to realise that the traditional business model, based on profit-seeking with scant regard to employees, the environment and society, should be revised to consider objectives that are wider than financial ones (Ivan, 2019); confirming the importance of <IR>. As an accounting and corporate reporting innovation tool, <IR> advocates integrating material financial and non-financial information in a single report, thereby holistically contextualising how organisations create and sustain value (Liu *et al.*, 2019). <IR> promotes interactive dialogue and engagement between organisations and stakeholders (Sierra-García *et al.*, 2015).

RESEARCH METHODOLOGY

This paper utilises a qualitative research approach to identify and compare the SOE disclosure practices in purposively selected African states (Warwick and Osherson, 1973; Whetten, 2009). With reference to recognised corporate governance codes and international reporting standards, it specifically examines the extent to which governance and accountability practices conform with identified best practice.

The population for this comparative study comprises all 55 African Union member states. Since the aim of the study is neither to underpin nor to confirm theory, but to explore the extent to which SOEs in these states have adopted corporate governance and accountability best practices, theoretical sampling (Adebayo and Ackers, 2021) was not considered appropriate.

Instead, two states were purposively selected from each of the eight African RECs, i.e. UMA, COMESA, CEN-SAD, EAC, ECCAS, ECOWAS, IGAD and SADC. The states included in the sample were selected based on their number of SOEs, as identified by the USA Department of State's 2020 Investment Climate Statement publication (USA, 2020). The rationale being, that states with more SOEs were more likely to have developed SOE sectors than states with fewer, thereby providing better learning opportunities for states with less developed SOEs sectors. Hence, Morocco (268) and Mauritania (120) were selected in UMA, Egypt (226) and Kenya (180) in COMESA, Ghana (86) and Mali (48) in CEN-SAD, Tanzania (226) and Rwanda (30) in EAC, Cameroon (200) and Democratic Republic of Congo (DR Congo) (20) in ECCAS, Cote d'Ivoire (82) and Togo (41) in ECOWAS, South Sudan (15) and Uganda (30) in IGAD, and South Africa (700) and Namibia (128) in SADC.

The sampling units included corporate governance codes, legal and regulatory frameworks as well as other voluntary and mandatory reporting and accountability mechanisms applicable to SOEs in the selected states. The frameworks analysed and matched with best practice, were obtained from the publicly available websites of the respective authorities charged with overseeing SOEs, as well as the authorities responsible for issuing corporate governance frameworks and promulgating relevant legislation and regulations.

Extant studies into the adoption of frameworks have either used disclosure indices (Abhishek and Divyashree, 2019; Chariri, 2019; Kiliç and Kuzey, 2018; Liu *et al*., 2019; Rivera-Arrubla *et al*., 2017), or scoring systems (Eccles *et al*., 2019; Ghani *et al*., 2018; Pistoni *et al*., 2018; Ruiz-Lozano and Tirado-Valencia, 2016). This study first used a scoring system to code and categorise the observations emerging from the content analysis, based on identified best practices. Thereafter, to assess conformance with best practice, a Corporate Governance Best Practice Index was developed.

The index consists of five pillars: legal and regulatory SOE frameworks; boards of directors; performance monitoring measures; controls, transparency and disclosure; and stakeholder relations. Each pillar comprises five different pointers based on the best practices described in the OECD's (2005) Guidelines and the World Bank's Toolkit (2014) (see Appendix 1). Since two states were selected per REC, up to two points are allowed for each, thereby providing a maximum of ten points per pillar. The total results for each pillar are accumulated arriving at a maximum cumulative corporate governance best practice conformance indicator of 50 points per REC. The index scores are calculated based on information publicly available on the websites of the relevant authorities in the 16 purposively selected states. The study uses the following ordinal measures to assess best practice conformance:

0 – non-conformance

1 – partial conformance

2 – full conformance

The three-point rating system and conformance index criteria used to calculate the conformance index is based on zero for non-conformance, and two being the maximum achievable score for full conformance of each component. The observations emerging from the analysis of best practices was interpreted using scores calculated according to a best practice conformance index, reflecting the extent to which preselected pointers conform with best practice (Gerged *et al.*, 2018; Munyo and Regent, 2016).

Corporate Governance Conformance Pillars

Since a strong legal and regulatory framework improves SOE management and performance, the first pillar appropriately addresses the legal and regulatory frameworks applicable to SOEs. Legal and regulatory frameworks should therefore clearly articulate the rules applicable to SOE, as well as the mechanisms to ensure effective supervision and accountability and improve SOE management and performance. State ownership should be separated from other governmental functions where overlapping roles may cause conflicts of interest. A regulatory framework encouraging fair competition with the private sector also contributes to enhancing SOE sustainability and performance. This pillar assesses the extent to which the legal and regulatory frameworks conform with the OECD (2005) and World Bank (2014) governance frameworks.

The second pillar which deals with boards of directors, suggests that boards should comprise members with the requisite skills and experience to successfully guide SOEs. The board's role should be similar to the private sector, with the appointment and removal of directors being transparent. This pillar assesses the extent to which board practices conform with the OECD (2005) and World Bank (2014) governance frameworks.

The third pillar deals with performance monitoring, the disclosure of which introduces a powerful accountability mechanism. This disclosure enables government and the public to assess how efficiently, effectively and economically resources entrusted to SOEs have been used to deliver on their mandates, within the context of their strategic objectives and the ownership policies of their respective governments. Performance monitoring is a fundamental ownership function of the state as owner, to drive both financial and nonfinancial improvement. This pillar assesses the extent to which performance monitoring conform with the OECD (2005) and the World Bank (2014) governance frameworks.

The fourth pillar deals with controls, transparency and disclosure. Information disclosure is a key mechanism for furthering transparency and control in organisations; thereby leading to efficient management in SOEs. It ensures evaluating the economic and social impact of SOEs regularly and in a credible and comparable manner, thus, highlighting any deviations from the defined targets can be corrected and, if necessary, sanctioned appropriately. This pillar assesses the extent to which the controls, transparency and disclosures conform with the OECD (2005) and the World Bank (2014) governance frameworks.

Responding to concerted calls for organisations to responsibly address the needs of both shareholders and stakeholders, the fifth pillar deals with stakeholder relations. The states' ownership policies should therefore acknowledge the responsibility of their SOEs to stakeholders, requiring them to report on their stakeholder relations. This pillar assesses the extent to which stakeholder relations conform with the OECD (2005) and the World Bank (2014) governance frameworks.

ANALYSIS, INTERPRETATION AND DISCUSSION OF RESULTS

Since adopting corporate governance best practices should help attenuate governance problems faced by SOEs, their accountability and ability to achieve their mandates should improve. The study therefore identifies several governance and accountability best practices and analyses and interprets the extent to which authorities of the selected states require their SOEs to conform with these practices.

Table 1: Corporate governance conformance index per REC, country and pillar

REC	Country	Pillar 1	Pillar 2	Pillar 3	Pillar 4	Pillar 5	Total
UMA	Morocco	5	8	8	5	4	30
	Mauritania	6	3	4	4	1	18
	Mean	**5.5**	**5.5**	**6**	**4.5**	**2.5**	**24**
COMESA	Egypt	9	8	10	6	8	41
	Kenya	7	10	10	10	8	45
	Mean	**8**	**9**	**10**	**8**	**8**	**43**
CEN-SAD	Ghana	9	8	10	5	6	38
	Mali	4	10	2	7	0	23
	Mean	**6.5**	**9**	**6**	**6**	**3**	**30.5**
EAC	Tanzania	7	8	4	5	3	27
	Rwanda	4	10	4	3	0	21
	Mean	**5.5**	**9**	**4**	**4**	**1.5**	**24**
ECCAS	Cameroon	7	10	6	7	4	34
	DR Congo	4	9	3	3	6	25
	Mean	**5.5**	**9.5**	**4.5**	**5**	**5**	**29.5**
ECOWAS	Cote d'Ivoire	4	10	2	7	0	23
	Togo	6	4	2	5	2	19
	Mean	**5**	**7**	**2**	**6**	**1**	**21**
IGAD	South Sudan	4	10	10	9	6	39
	Uganda	8	8	10	10	6	42
	Mean	**6**	**9**	**10**	**9.5**	**6**	**40.5**
SADC	South Africa	7	10	10	10	8	45
	Namibia	7	10	10	10	8	45
	Mean	**7**	**10**	**10**	**10**	**8**	**45**
Cumulative		**98**	**136**	**105**	**106**	**70**	**515**
Average		**6.1**	**8.5**	**6.6**	**6.6**	**4.4**	**32.2**

Table 1 reveals that cumulatively the RECs and accordingly the countries included in the study, appear to have acceptable corporate governance codes for their SOEs (i.e. above 50% conformance), for four of the pillars, with only pillar 5 (stakeholder relations) below 50% conformance. The high average conformance for pillar 2 (boards of directors) with a mean score of 8.5, is attributed to this pillar also being impacted by extant corporate legislation prescribing specific rules for boards of directors as pointed in section 3.1. By comparison, contrary to stakeholder theory highlighted in section 2.5, the lowest mean conformance score of 4.4 for pillar 5 (stakeholder relations) points to governments deciding on what may be in the country's political interest (in line with shareholder primacy highlighted in section 2.5) (Low, 2006), without meaningfully engaging citizens to ensure that their efforts are aligned to address the public's expectations and needs (Almquist *et al*., 2013).

Unlike SADC, IGAD and COMESA where both countries investigated appeared to have strongly conforming corporate governance frameworks, conformance by both ECOWAS countries were poor, with the two counties in both UMA and CEN-SAD, reflecting significantly different levels of conformance; largely as a result of SOEs not having their own specific legislation and having to make recourse to laws applicable to private enterprises, which is usually problematic in most cases (Subramanian, 2015). Therefore, while it may be argued that RECs have an impact on corporate governance frameworks, this does not always hold true. It is accordingly suggested that each REC should consider driving the adoption of corporate governance frameworks that incorporate global best practice, adapted to suit regional circumstances (OECD 2015; Bank 2014).

Corporate Governance Trends by Country

Since the corporate governance practices of the individual SOEs within each country were not examined, the study observations are indicative and cannot therefore be generalised to the African continent, each African REC, or even the specific countries studied. However, selecting countries in each REC, based on their number of SOEs, improves the robustness of the sample and the validity of the resultant findings. As illustrated in Table 1, the corporate governance codes in three of the sixteen analysed countries strongly conform to the OECD (2005) and the World Bank (2014) governance frameworks, i.e. Kenya (NWONGOZO - Code of Governance for State Corporations), Namibia Code (NamCode; Public Enterprises Governance Act) and South Africa (Public Finance Management Act (PFMA); King IV; Protocol on Corporate Governance in the Public Sector) appear to have codes that are strongly aligned with the OECD (2005) and the World Bank (2014) governance frameworks, with scores of 45 out of 50 (90%) each. The strong conformance in these countries is attributed to the fact that the countries have robust regulations formulated specifically for SOEs (Vijayakumar and Nagaraja, 2012). In the case of South Africa, King IV also have provisions for SOEs in addition to those contained in the Protocol on Corporate Governance in the Public Sector and the PFMA. Other countries with strong governance codes include Uganda (Companies Act) with a score of 42 (84%), and Egypt (Code of Corporate Governance for the Public Enterprise Sector) with a score of 41 (82%). Note that the Uganda Code is a Companies Act, largely applicable to private enterprises, the Act is robust enough to cater for specific SOEs regulations. Countries with adequate governance codes (above 50%) include South Sudan (Laws of South Sudan; Companies Act) with 39 (78%), Ghana (State Ownership Report; Public Financial Management (PFM) Act and Regulations, 2019) with 38 (76%), Cameroon (Law No.2017/010 and Law No.2017/011, laying down the general rules and regulations governing public establishments, and for governing public corporations) with 34(68%), Morocco (Code of Good Governance Practices for Public Establishments and Enterprises in Morocco) with 30 (60%), Tanzania (Guidelines on Corporate Governance Practices by Public Listed Companies in Tanzania; Public Corporations Act) (27), and DR Congo (Business Code of Conduct for the Private Sector in the DRC, applicable for

SOEs) with 25 (50%). While some countries including Cameroon and Morocco have specific regulations for SOEs, the disparity in conformance level compared with those above them is that their legislations are not robust enough.

Countries with inadequate corporate governance codes (below 50%) include Cote D'Ivoire (Uniform Act on Commercial Companies and the Economic Interest Group; Organisation for the Harmonisation of Business Law in Africa (OHADA) 2014 reform on general commercial law) with 23 (46%), Mali (Mali Public Expenditure Management and Financial Accountability Review (Volumes 1 and 2); Organisation for the Harmonisation of Business Law in Africa (OHADA) 2014 reform on general commercial law; Uniform Act on commercial Companies and the Economic Interest Group) with 23 (46%), Rwanda (Guiding Code of Corporate Governance; LAW N°07/2009 of 27/04/2009 Relating to Companies) with 21 (42%), Togo (Report on the Observance of Standards and Codes (ROSC); Corporate Governance Country Assessment) with 19 (38%), and Mauritania (1990 ordinance; 1983 Chart of Accounting and the Governance of State-Owned Enterprises and Public Agencies in the Islamic Republic of Mauritania) with 18 (36%). A common issue with these countries with low conformance index is that they do not have specific regulations for their SOEs (Subramanian, 2015).

Further analysis of the specific index's pillars reveals that countries with the strongest first pillar (legal and regulatory framework) conformance were Egypt (9), Ghana (9), Uganda (8), Kenya (7), South Africa (7) and Namibia (7). A majority of this countries have specific SOEs regulations, thus, this is understandable. By contrast, Mali, Rwanda, DR Congo, Cote d'Ivoire and South Sudan appear to have the weakest with 4 points each.

Examining the second pillar, with the highest conformance (board of directors), suggests that the codes are well-developed relating to directors. Whereas eight countries (50%) had perfect scores for this dimension (Kenya, Mali, Rwanda, Cameroon, Cote d'Ivoire, South Sudan, South Africa and Namibia), and Mauritania and Togo with poor scores of 3 and 4 respectively, all the remaining countries were acceptable (above 50%).

Similarly, the codes of seven countries (Egypt, Kenya, Ghana, South Sudan, Uganda, South Africa and Namibia) had perfect scores for pillar 3 (conformance), with the codes of Mauritania, Mali, Tanzania, Rwanda, DR Congo, Cote d'Ivoire, Togo all being inadequate (less than 50%) with scores of 4, 2, 4, 4, 3, 2 and 2 each.

Kenya, Uganda, South Africa and Namibia all achieved perfect scores for pillar 4 (controls, transparency and disclosure (Pillar 4), with Mauritania (4), Rwanda (3) and DR Congo (3) with inadequate conformance, and four countries (Morocco, Ghana, Tanzania and Togo) all barely conforming with scores of 5.

Pillar 5 (stakeholder relations) represents the worst conforming dimension – assisted by the fact that most legislations do not cater for issues relating to stakeholders, especially reporting such as the GRI (Manetti, 2011) <IR> (Stubbs and Higgins, 2018) as well as SDGs (Gupta and Vegelin, 2016) and Agenda 2063 – with Mali, Rwanda and Cote d'Ivoire all scoring 0 for this pillar, and Morocco (4), Mauritania (1), Tanzania (3), Cameroon (4) and Togo (2) all inadequately dealing with this pillar. Egypt, Kenya, South Africa and Namibia, scored the highest with 8 each, with Ghana, DR Congo, South Sudan and Uganda being adequate with a score of 6 each.

Corporate governance trends by REC

Table 1 reveals that the governance codes in the two SADC countries appeared to have the most well-developed sets of codes conforming with the OECD (2005) and the World Bank (2014) governance frameworks, with both Namibia and South Africa scoring 45 points in this category. In this regard, it should be noted that notwithstanding South Africa administering Namibia prior to Namibian independence, Namibia and South Africa still have strong economic ties, which may have contributed to South Africa's King Code directly influencing the development of the Namibia Code. Similarly, COMESA (86), represented by Egypt (41) and Kenya (45), and IGAD (81), represented by South Sudan (39) and Uganda (42) also appear to have well-developed codes for SOE governance since they have SOE specific legislation. While CEN-SAD (61) represented by Ghana (38) and Mali (23), and ECCAS (59) represented by Cameroon and DR Congo also appear to have acceptable corporate governance codes, UMA (48), EAC (48) and ECOWAS (48), all appear to have inadequate corporate governance codes for their SOEs, potentially impairing their ability to effectively, efficiently and economically deliver on their state-provided mandates.

CONCLUSION

Although SOEs remain a significant socioeconomic tool around the world, these SOEs face several challenges impacting their ability to fulfil their state-provided mandates. Many observers have thus noted that corporate governance is the most problematic issue facing SOEs and calling for the reformation of corporate governance mechanisms for SOEs.

The Corporate Governance Conformance Index proposed in this paper attempts to highlight emerging SOE corporate governance trends. It should be seen as a first step to reform SOE corporate governance, before individual SOE conformance can be analysed in selected countries. Despite developing the Conformance Index using publicly available information, which may be limited in scope, it provides a good indication of countries' efforts to establish and implement strong corporate governance practices aligned to international standards, such as the OECD and the World Bank.

Notwithstanding the paper's shortcomings, it provides an indication of where SOE corporate governance reform efforts should be directed. Despite room for improvement, the analysis of SOE corporate governance frameworks revealed that the countries in this study appear to have well-developed SOE frameworks relating to boards of directors as well as for controls, transparency and disclosure. However, legal and regulatory frameworks, performance monitoring and stakeholder relations appear deficient, indicating that the organisational structure of SOEs in the countries may be deficient in line with the theory espoused for this study (organisational constitution). Being the weakest corporate governance dimension, stakeholder relations require the most attention, especially since SOEs are usually established to deliver on specific mandates on behalf of their owning states, or to provide the state with revenue which can be used to improve service delivery. Although stakeholder relations may require the most attention, it is obvious that any attempt at reforming SOE corporate governance should start with the appropriate legal and regulatory frameworks, including SOE ownership and organising policies. This will provide the platform upon which reforms that cut across other SOE corporate governance pillars can be improved, including those that may appear adequate.

Since strong corporate governance contributes to improving SOE management, countries with low levels of SOE conformance should introduce governance reforms to standardise legal and regulatory frameworks and encourage competition between private and public sector organisations. This will provide a platform to ensure that skilled and competent individuals are recruited and retained on the boards of directors of SOEs. These SOE boards should then set appropriate mandates, objectives, targets and target indicators which can assist in performance monitoring, and ensure that relevant and comparable information is disclosed, based on global practices such <IR> and the GRI, thereby improving SOE transparency and accountability, simultaneously addressing stakeholders' needs, within the context of the SDGs 2030 and Agenda 2063. Above all, countries that do not have specific SOEs regulations are encouraged to do so as some private sector regulations are not usually fully adaptable for SOEs (Subramanian, 2015; Vijayakumar and Nagaraja, 2012) paying particular attention to incorporating international reporting standards that will cater for stakeholder needs while also improving SOE reporting and disclosure. Although this study indicated the conformance of

SOE governance frameworks of selected African countries to the guidelines provided by the OECD (2005) and the World Bank (2014), it is does not measure the quality of the disclosures, or extent to which SOEs comply with these guidelines. Despite the robustness of these SOE governance frameworks, they are not usually mandatory. Future studies should therefore explore the level of conformance of specific SOEs to the guidelines, especially in countries identified as having high conformance with the best practice guidelines in this study. Strong SOE corporate governance is a function of the robustness of the legal and regulatory frameworks, the competence of the boards of directors, the performance monitoring mechanisms in place, the levels of controls, transparency and disclosure and the extent to which stakeholder interests are incorporated, cutting across the governance pillars identified in this study.

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Appendix 1: Development of the Corporate Governance Best Practice Index for SOEs

The pointers evaluated related to each dimension for each governance pillar is described below. When the corporate governance codes for SOEs in each country fully conforms with the desired characteristic, two points are assigned (full-conformance). One point is assigned when the corporate governance code partially conforms (partial-conformance) and zero points when there is no conformance (non-conformance).

First Pillar – Legal and Regulatory Framework

A. There is a clear separation between the state's ownership function and other state functions that may influence the conditions for SOEs, particularly with regard to market regulation.

B. There is a simplified and streamlined operational practices and the legal form under which SOEs operate.

C. There is an arrangement in place to disclose any obligations and responsibilities that an SOE is required to undertake in terms of public services beyond the generally accepted norm be clearly mandated by laws or regulations.

D. SOEs are not exempted from the application of general laws and regulations and stakeholders, including competitors, have access to efficient redress and an even-handed ruling when they consider that their rights have been violated.

E. The legal and regulatory framework allows sufficient flexibility for adjustments in the capital structure of SOEs when this is necessary for achieving company objectives and face competitive conditions regarding access to finance and their relations with state-owned banks, state-owned financial institutions and other state-owned companies based on purely commercial grounds.

Second Pillar – Board of Directors

A. The board of SOEs is not composed in a way that that they cannot exercise objective and independent judgement, and the Chair to be separate from the CEO.

B. There is a mechanism in place to guarantee that employee representation is exercised effectively and contributes to the enhancement of the board skills, information and independence, if employee representation on the board is mandated.

C. There is an important distinction between board nomination and board appointment and adoption of professional criteria for the selection, and removal, of board members.

D. The board have the power to appoint and remove the CEO.

E. Board tenure is specified and renewal/re-election process including the maximum number of time renewal/re-election is possible is indicated in a bid to ensure independence.

Third Pillar – Performance Monitoring

A. Performance objectives are clearly defined contained in formal documents agreed to by the government and the SOE.

B. Performance targets are clearly identified, stated and contained in formal documents agreed to by the government and the SOE.

C. Performance indicators and metrics used in measuring, evaluating and communicating performance expectations and in evaluating performance against expected results care contained in formal documents agreed to by the government and the SOE.

D. Mandates, strategies, and objective are set in order to reflect the overall policy goals of government in its ownership of each company.

E. The state shareholder is competent and includes the various administrative units responsible for the state's areas of economic and financial planning management as well as the ministries or sub-national units responsible for the business area in which the SOE is involved.

Fourth Pillar – Controls, Transparency and Disclosure

A. SOEs are to observe high standards of transparency and are subject to the same high-quality accounting, disclosure, compliance and auditing standards as listed companies.

B. The guiding principles on reporting emphasizes aggregate reporting and publishing, which provides a comprehensive picture of the performance of SOEs as sustained by the GRI and IR.

C. The guiding principles on reporting takes into account broad principles of SOE transparency, disclosure, and control arrangements that can be used to guide improvements such as international standards like IR and GRI.

D. There are specialised committees in place to support the full board in performing its functions, particularly in respect to audit, risk management and remuneration.

E. SOEs are to report material financial and non-financial information on the enterprise in line with high quality internationally recognised standards of corporate disclosure and including areas of significant concern for the state as an owner and the general public and the annual financial statements be subject to an independent external audit based on high-quality standards. Specific state control procedures do not substitute for an independent external audit.

Fifth Pillar – Relations with stakeholders

A. The state ownership policy fully recognises SOEs' responsibilities towards stakeholders and request that SOEs report on their relations with stakeholders.

B. The state ownership policy fully makes clear any expectations the state has in respect of responsible business conduct by SOEs.

C. The state ownership policy on relations with stakeholders aligns with Agenda 2063 and Agenda 2030 (SDGs).

D. Governments, the state ownership entities and SOEs themselves recognise and respect stakeholders' rights established by law or through mutual agreements and listed or large SOEs report on stakeholder relations, including where relevant and feasible with regard to labour, creditors and affected communities.

E. SOEs are to observe high standards of responsible business conduct and expectations established by the government in this regard be publicly disclosed and mechanisms for their implementation be clearly established.