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## Governance Issues at State-Owned-Enterprises in the Second Republic of Zimbabwe

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### Abstract

Zimbabwe experiences economic depression which affects business and performance of many organizations including State Owned Enterprises. Scholars argue that poor governance affected State Owned Enterprises. The paper aims to analyse governance issues at State Owned Enterprises in Zimbabwe. The purpose of the study was to analyse the appointment of board of directors at State Owned Enterprises, to establish the impact of political interference on State Owned Enterprises and to provide recommendations for the improvement of State Owned Enterprise governance. The study used desk-top research where analysis of documents presented by other scholars are analysed and apply the information to the current state of State Owned Enterprises in Zimbabwe. It follows the line of a concept paper. The study established that State Owned Enterprises were facing governance challenges. Poor governance was caused by political, economic and poor management factors among other causes. The paper provides recommendations, among them, the government to privatise and use other models of State Owned Enterprise restructuring strategies.

**Keywords:** Business Governance; State Owned Enterprises; Board of Directors; Governance Committees.

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## **1. Introduction**

Business governance has become a topical topic for scholars due to scandals happening in various national companies, international organisations and countries across the world. Globally, international organisations had been rocked by a plethora of scandals ranging from corruption, creative accounting, nepotism, and collusions, to name a few. Scholars point these issues as signs of current governance models failure and proposed other types of theories to direct business governance [6]. On the other hand, scholars agree on the significance of business governance to an organisation. Due to the significance of business governance models, various countries use different approaches to State-Owned-Enterprises governance. Countries, like, France, Britain, United States of America, and others, privatised State-Owned-Enterprises and strategic enterprises are placed under mixed-ownership model [4]. This approach adopted in developed countries improves governance of State-Owned-Enterprises through implementation of corporate governance and supervision by stakeholders without interference from politicians and governments [7]. The market forces play an important role when the State-Owned-Enterprises are privatised or under mixed-ownership. However, developing countries governments regard State-Owned-Enterprises as strategic entities and use them for political mileage. This assertion was supported by the World Bank Report which reveals that State-Owned-Enterprises in developing countries lack good governance due to political and government interference. The paper examines governance of State-Owned-Enterprises in developing countries using Zimbabwe as a case study. The paper begins by introducing corporate governance as it relates to State-Owned-Enterprises, then further interrogates current governance issues and corporate governance frameworks or policies existing in Zimbabwe. Governance challenges facing State-Owned-Enterprises are analysed and recommendations provided.

## **2. State-Owned-Enterprises Governance**

Governance of State-Owned-Enterprises differs from country to country depending on the nature of ownership. In most developing countries, like Zimbabwe, where State-Owned Enterprises are wholly owned by government, governance takes another root. Many scholars refers to “corporate governance” when in actual fact they are discussing “State-owned-Enterprise governance”. The appointment and structure of board of directors of State-Owned-Enterprise differs from that of a corporates. World Bank Report reveals that board of directors of state-owned-Enterprise are appointed by the Minister [8]. They serve the interests of the part which in most cases do not adhere to governance principles but the manifesto of the party. Ministers are appointed by the ruling part through President’ Office. They serve On the other hand, board of directors of a corporate are elected by stakeholders at the Annual General Meeting. Therefore, State-Owned-Enterprise board of directors get instructions from a politician who may not be an expert in the field of governance [2]. Getting instruction from a political party which have its own manifesto to fulfil and agenda affect the function of the State-Owned-Enterprise board of directors. The World Bank Report argues that the powers of the board of directors may be undermined by the parent ministry [8]. The Ministry, in Zimbabwe for example, gets directives from the Office of the President and Cabinet on how to implement governance designs and policy framework. Board of Directors plays to the tune of the Minister and Cabinet since they are the paymasters. Cabinet members and Ministers are politicians who may not have proper understating of corporate governance. In Zimbabwe during Mugabe era, Ministers interfered in the running of State-Owned-Enterprises which resulted in malfunctioning of

most of these organisations [5]. The malfunctioning State-Owned-Enterprises end up draining the fiscus through bell-outs from the government. It breeds corruption in most Zimbabwe State-Owned-Enterprises [5]. On the other hand, it differs from privatised State-Owned-Enterprises which are monitored by stakeholders and affected by market forces.

### **3. Zimbabwe State-Owned-Enterprises current issues**

In Zimbabwe, the new dispensation continues to make frantic efforts to introduce new State-Owned-Enterprise reforms. However, the question remains that are these policies going to see the light of the day and implemented. Understanding of the status of governances in State-Owned-Enterprises needs to be interrogated for one to understand the situation. Various scholars highlighted many governance issues in State-Owned-Enterprises in Zimbabwe. The Board of Directors were said to be powerless or involved in the governance malpractices. Rusvingo exposed, through data gathered using interviews and documentary review, poor governance in Zimbabwe Electricity Supply Authority (ZESA), Air Zimbabwe, Harare City Council, Public Service Medical Aid Society (PSMAS) and Zimbabwe Broadcasting Corporation (ZBC)<sup>5</sup>. The empirical evidence and recommendations provided by academics were not being taken note of. Chavunduka categorised State-Owned-Enterprises into strata recommended strategies to turn around these enterprises [2]. State-Owned-Enterprises were grouped into three groups, namely, strategic enterprises, developmental and promotional and commercial purpose. Most State-Owned-Enterprises in Zimbabwe were noted to be monopolies. Chavunduka postulates that State-Owned-Enterprises challenges could be solved by restructuring [2]. The study further revealed that subsidising state-owned-enterprises result in fiscal burden sabotaging macroeconomic stability. The government of Zimbabwe never took notice of recommendations provided by these academics, regardless of the empirical evidence gathered through survey research design. It shows the extent to which corruption had rooted in the government and board of directors. The parliament was no longer playing its oversight role over the executive. The State-Owned-Enterprise board of directors were accountable to the Ministers. The Ministers were only interested in enriching themselves. State-Owned-Enterprises became conduits of stealing government funds. The World Bank Report confirms the results produced by academics in their studies<sup>8</sup>. The report asserts that state-owned-enterprises increased from 43 to 107 (149 percent increase), showing the extent to which the politician find means and ways of robbing government funds and payback those who were politically loyal through boards appointment and jobs. Although the World Bank Report acknowledges the significant role played by State-Owned-Enterprises in the economic, but the way they are governed leave a lot to be desired. Instead of being cash cows, in Zimbabwe, State-Owned-Enterprises drain the fiscus<sup>8</sup>. The financial performance of these organisations indicated by the report showed a blink future. The report highlights various governance issues which require being attended to. However, none of the recommendations from this report has being implemented. The Auditor General Report confirms the findings of the World Bank Report on the poor governance in State-Owned-Enterprises in Zimbabwe [1] Although the Auditor General Report alludes to the fact that audit cannot identify all weaknesses in the system and procedures, but its findings concur with the issues academics revealed in their papers. Most State-Owned-Enterprises audited shows poor governance practices [1]. However, this was not the first audit to reveal the rot in the State-Owned-Enterprises. Audit General once got fired after revealing the poor governance in the State-Owned-Enterprises. The coming in of a new President has yet to yield any effect on the way these government institutions are being run. The same

Board of Directors who were serving under the old regime are still serving in this new dispensation called the Second Republic of Zimbabwe. The new government come up with a new governance framework for State-Owned-Enterprises. This may not change anything since Zimbabwe government is known to pay lip service to governance issues without following any policies. On the other hand, corporate governance codes in Africa discourage the use of legislative framework to enforce governance. Forcing State-Owned-Enterprises to follow certain governance guideline can pose its own challenging since the politicians need to fulfil their manifesto through these institutions, instead of following market related policies.

#### **4. Results and Conclusions**

The narrative deduces that State-Owned-Enterprises in Zimbabwe are poorly governed as revealed by various research papers and reports. This indicates that governance systems and procedures are not being followed regardless of availability of corporate governance framework and policies. The World Bank Report indicates the lack of political will to improve State-Owned-Enterprises governance<sup>8</sup>. The paper can conclude that as long as the politicians interfere with the running of the State-Owned-Enterprises, then their governance will not improve. The role of politician must be that of over-sight through the parliament portfolios, not directly involved in the appointment and supervision of the board of directors. The Auditor General Report clearly reveals poor governance structures and employment (deployment) of political cadre who have no knowledge on governance issues and how a corporate must be run<sup>1</sup>. This leads to Ministers taking advantage of these boards of directors to loot government funds. In other State-Owned-Enterprises, the management took advantage of board of directors' lack of governance knowledge to abuse corporate funds. The academics reveal the poor governance framework for the decay in the State-Owned-Enterprises. Most of the governance frameworks presented by government of Zimbabwe lacked strong theoretical framework to support them. The academics decried the drawing of untested governance models drawn without empirical data to support them. The government use thump-sacking method when it comes to draw governance models. This was due to lack of enough consultancy and researches on governance models suitable for State-Owned-Enterprise, which results in copy and paste of other countries' governance models. The government intuitions were rendered useless and failed to perform their over-sight roles. The recommendations of the Auditor general were not looked into or implemented. Political connections become the order of the day. Corporate cases were being judge at political rallies, with people declared innocent on issues requiring jurisdictions of the learned judges.

#### **5. Recommendations**

This paper recommends that selection of board of directors should not be done by politicians who appoint political partners or partisans. The appointment of boards should be done by Parliamentary portfolio committee on State Owned Enterprises. Board members appointed must have expertise in the business of the State Owned Enterprise. Board members must be drawn from various fields which compliments each other. Aspiring board members must apply and interviewed by Parliamentary portfolio committee on State Owned Enterprises. Findings of the Audit reports must be taken seriously. Parliamentary portfolio committee to play its over sight role diligently. They must be consequences for certain actions. Interference by Ministers (who are politicians) by passing the appointed board should be eradicated. The regulations should minimise the

unnecessary interference by Ministers in the running of SOEs. Ministers should only assist in oversight role and provide the board of directors with access to resources. The board of directors must be given autonomy to hire and fire incompetent management staff.

## **6. Area for further study**

The researcher recommends a further study to examine the changes in the corporate governance of State-Owned-Enterprises due to political change in Zimbabwe.

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