

**EVALUATING THE EFFECTIVENESS OF FINANCIAL MANAGEMENT IN STATE
OWNED ENTERPRISES – A CASE OF LIMPOPO ECONOMIC DEVELOPMENT
AGENCY**

By

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DECLARATION

I declare that this mini-dissertation entitled “Evaluating the Effectiveness of Financial Management in State-Owned Enterprises – A Case of Limpopo Economic Development Agency,” hereby submitted to the University of Limpopo (Turffloop Graduate School of Leadership), for the degree Master of Public Administration has not previously been submitted by me for a degree at this or any other university; that it is my work in design and execution, and that all material contained herein has been duly acknowledged.

Masekoameng RC (Mrs)

Date

DEDICATION

This research study is dedicated to the Almighty God, my creator, God of Mount Zion for leadership, guidance, protection, wisdom provided as well as strength granted to me throughout the period of study, I remain indebted to You!

I also dedicate this research to my father, the late Mankweng Madimetja Makgaba and my mother Anna Raesetja Makgaba who gave me a gift of basic education and for always advising me that education is the pillar of success and to my beloved husband, Ranti Sekgakgamala Ramajadikgolo (Lekgowa) for his understanding, encouragement and unwavering support, and for always being available on my side to ensure achievement of this study, I humble myself before you!

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ABSTRACT

Effective financial management is the cornerstone for financial performance and sustainability of State-Owned Enterprises (SOEs). SOEs are created by government to perform social and economic responsibly which encompasses the creation of job opportunities and growing the economy. This study was conducted to evaluate if financial management of the Limpopo Economic Development Agency (LEDA), a State-Owned Enterprise, was effective in improving its financial performance.

The main objectives of the study were to understand the role of the Board of Directors in ensuring effective financial management of LEDA; to determine the effectiveness of financial management policies, systems and procedures put in place by LEDA; to identify financial management challenges faced by LEDA in improving its financial performance in order to provide possible solutions in the form of recommendations. Research questions were developed in line with the research objectives.

The study population comprised thirteen officeholders of LEDA i.e. Board of Directors, executive management and middle management. The researcher applied the qualitative research methodology. Data was collected through the use of primary and secondary data collection methods. The secondary data collection involved the review of literature and management information systems such as annual reports. Conversely, primary data collection involved face-to-face interviews with eleven (11) officials consisting of one member from the Board of Directors, six (6) managers from the executive management, and four (4) middle managers using a semi-structured interview schedule. Initially, the interviews targeted thirteen (13) officeholders of LEDA; however, two members of Board of Directors could not be reached pending their tight schedules. Nevertheless, their unavailability did not hamper the progress and authenticity of data collection as the total response rate was 85%. Purposive sampling was used to select respondents based on their responsibility and accountability in ensuring effective financial management and performance of the Agency. Qualitative data was analysed using thematic analysis and the researcher included graphic displays, frequencies and simple portions to elucidate the financial performance, research theories as well as biographical data of the respondents.

The results revealed that LEDA's Board of Directors monitor the financial performance of the Agency through various structures which included the Board Audit and Risk Committees. The Board reviews and endorses both the financial and non-financial performance of the Agency and report to the shareholder in line with the Shareholders' Compact that had been entered into between the Agency and the shareholder. However, the findings revealed that the Shareholder's Compact did not include key performance measures and indicators expected of the Agency and that restricted monitoring of performance deliverables and the reporting standards.

The study also found out that LEDA implemented its financial management policies and procedures effectively, which contributed to the Agency obtaining an unqualified audit opinion in 2013/14 and 2014/15 financial years. However, the unqualified audit opinion was obtained with matters of emphasis on poor management of revenue, expenditure, internal controls, procurement and contracts.

The study further revealed that the Agency did not have an integrated financial management and reporting system in place. This was necessary to support managers in making well informed and timely decisions. Lack of an integrated financial management and reporting system contributed towards the long tenure of the Auditor General in auditing LEDA's financial statements which was costly to the government.

The study also reflected that LEDA had the potential to sustain itself financially if it could strengthen revenue management systems, minimise costs and obtain additional funding to implement feasible financial sustainability projects.

The research findings were analysed and interpreted, and possible solutions for improving financial management practices, performance and financial sustainability of the Limpopo Economic Development Agency recommended.

TABLE OF CONTENTS

Declaration	ii
Dedication	iii
Acknowledgements	iv
Abstract	v
Table of contents	vii
List of figures	xi

CHAPTER ONE: OVERVIEW OF THE STUDY

1.1	INTRODUCTION	1
1.2	BACKGROUND TO THE STUDY	2
1.3	STATEMENT OF THE PROBLEM	3
1.4	SIGNIFICANCE OF THE STUDY	6
1.5	AIM OF THE STUDY	7
1.6	OBJECTIVES OF THE STUDY	7
1.7	RESEARCH QUESTIONS	7
1.8	STUDY AREA	8
1.9	RESEARCH METHODOLOGY	8
1.10	ETHICAL CONSIDERATION	11
1.11	DEFINITIONS OF KEY CONCEPTS	11
1.12	LIMITATIONS OF THE STUDY	13
1.13	OUTLINE OF RESEARCH	13
1.14	CONCLUSION	14

CHAPTER TWO: LITERATURE REVIEW

2.1	INTRODUCTION	15
2.2	DEFINITION OF STATE-OWNED ENTERPRISE	15
2.3	PURPOSE FOR THE FORMATION OF STATE-OWNED ENTERPRISES	16
2.3.1	The International Perspective	16
2.3.2	The African Perspective	17
2.4	ROLES AND RESPONSIBILITIES OF THE BOARD OF DIRECTORS	20
2.5.	COMPOSITION OF BOARD OF DIRECTORS	21
2.6	IMPORTANCE OF FINANCIAL MANAGEMENT IN SOES	22
2.6.1	Challenges Facing the Performance of SOEs	25
2.6.2	Factors Contributing to the Improved Financial Performance in SOEs	27
2.7	THEORIES WHICH ARE RELEVANT TO SOES	29
2.8	LEGISLATIONS GOVERNING SOES IN SOUTH AFRICA	33
2.9	CONCLUSION	35

CHAPTER THREE: RESEARCH DESIGN AND METHODOLOGY

3.1	INTRODUCTION	37
3.2	RESEARCH DESIGN	37
3.3	STUDY AREA	38
3.4	POPULATION	38

3.5	SAMPLING AND SAMPLING METHODS	39
3.6	DATA COLLECTION METHODS	40
3.6.1	Primary Data Collection	40
3.6.2	Secondary Data Collection	41
3.7	DATA ANALYSIS	41
3.8	VALIDITY AND RELIABILITY	42
3.8.1	Validity of the Instrument Used to Collect Data	42
3.8.2	Reliability of the Instrument Used to Collect Data	43
3.9	ETHICAL CONSIDERATIONS	43
3.9.1	Confidentiality	43
3.9.2	Honesty	44
3.9.3	Permission to Conduct a Research	44
3.9.4	Informed Consent	44
3.9	CONCLUSION	44

CHAPTER FOUR: PRESENTATION AND ANALYSIS OF DATA

4.1	INTRODUCTION	46
4.2	INTERVIEW RESPONSE RATE	46
4.3	PRESENTATION OF DATA	46
4.3.1	Biographical Data of the Respondents	47
4.3.2	Perceptions of the Respondents Regarding the Effectiveness of Financial Management of LEDA	54

4.4	KEY FINDINGS OF THE STUDY	69
4.5	CONCLUSION	72
CHAPTER FIVE: RECOMMENDATIONS AND CONCLUSION		
5.1	INTRODUCTION	75
5.2	SUMMARY FINDINGS	76
5.3	CONCLUSIONS	77
5.4	RECOMMENDATIONS	79
	REFERENCES	83

LIST OF FIGURES

Figure 1.1:	LEDA financial performance over a 5-year period	5
Figure 2.1:	Principal-agent relationship	30
Figure 3.1:	A stakeholder model of business enterprise	31
Figure 4.1:	Respondents by gender	48
Figure 4.2	Respondents by age category	49
Figure 4.3:	Respondents by race	50
Figure 4.4:	Respondents by position within LEDA	51
Figure 4.5:	Respondents by years of service	52
Figure 4.6:	Respondents by educational background	53
Figure 4.7:	Respondents by nature of employment	54

LIST OF ANNEXURES

Annexure A:	Letter to participants	A-1
Annexure B:	Informed consent for taking part in the study	B-1
Annexure C:	Interview guide for Board of Directors, executive management and middle management of the Limpopo Economic Development Agency (LEDA)	C-1
Annexure D:	Letter of request for permission to conduct the study	D-1
Annexure E:	Proof reading certificate from language Editor	E-1

CHAPTER ONE

OVERVIEW OF THE STUDY

1.1 INTRODUCTION

State-Owned Enterprises (hereafter referred to as SOEs), are established by government to deal with strategic risks and dangers that the state or society faces to its security, health, prosperity or wellbeing by adopting commercial and business principles in service delivery (Department of Public Service and Administration, 2003:58). SOEs are partially or fully owned by the state and are defined as legal enterprises that are created by government to undertake commercial activities on behalf of the government (The Presidency, 2012:29). The application of commercial principles by SOEs allows them to compete profitably with other organisations and mitigate business risks that might hinder the expansion of enterprises, and thus securing the status of a “going concern” - the capacity or potential of an enterprise to exist in the near future.

South African State-Owned Enterprises form a significant part of vital industries that drive the economy by providing key inputs which include electricity, transportation and telecommunications (Department of Public Enterprises, 2002:2). SOEs play a central role in government’s infrastructure plans, with investments financed on the strength of their own balance sheets and therefore the finances of SOEs need to be healthy and well managed (National Treasury, 2014:65). Furthermore, SOEs play a critical economic role in the quest of the South African developmental objectives, and are expected to lead in promoting economic growth, infrastructure development and increasing job creation (Mokwena, 2012:5).

Historically, the South African SOEs encountered poor financial management which contributed to negative financial performance outcomes and financial dependency on government despite the critical developmental role they are required to play. Over the years, there have been indicative records of poor financial performance. Poor financial performance affects the borrowing powers of SOEs and the strength of the balance sheet to attract investors for expansion of business operations. As a result, SOEs rely largely on financial assistance and a massive injection of capital to achieve the predetermined

objectives. Therefore, it becomes imperative that SOEs manage finances in a way that could yield better returns (The Presidency, 2012:8).

In an attempt to alleviate the financial dependency of SOEs from government and ensure that SOEs have the ability to enhance their financial performance, thus strengthening their balance sheet position, strategies should be put in place as a matter of choice and not chance. This study therefore, evaluates if financial management of SOEs is effective in improving the institution's financial performance in the case of the Limpopo Economic Development Agency. This chapter outline the background to the study, statement of the problem, significance and limitations of the study, aim and objectives of the study, research questions, study area, research methodology, definitions of key concepts, outline of research and ethical consideration.

1.2 BACKGROUND TO THE STUDY

The Limpopo Economic Development Agency (hereto referred as LEDA or the Agency), is one of the thirteen (13) Limpopo State-Owned Enterprises listed in terms of the Public Finance Management Act, Act 1 of 1999 (as amended by Act 29 of 1999). LEDA is a State-Owned Enterprise of the Limpopo Department of Economic Development, Environment and Tourism. LEDA is established in terms of the Limpopo Development Corporation Act No.05 of 1994 as amended that mandates the Agency to perform the economic development function of the Province through the provision of financial support to Small, Medium, and Micro Enterprises (SMMEs) (Limpopo Economic Development Agency, 2013/14:5).

LEDA was established after the amalgamation of the former Limpopo Economic Development Enterprise (LimDev), Trade and Investment Limpopo (TIL), Limpopo Business Support Agency (LIBSA) and the Limpopo Agriculture Development Corporation (LADC) during 2012 (State of the Limpopo Province Address, 2013:12). The amalgamation of the aforementioned State-Owned Enterprises into LEDA was necessary to avoid duplication in the business of developing the economy. LEDA has staff establishment of four hundred and twenty-six (426) employees comprising of twelve (12) senior / executive management, Seventy (70) middle management and three hundred and forty-four (344) lower level staff, i.e. administration clerks, accounting clerks, personnel

officers, cleaners, etc. The staff and infrastructure inherited from LimDev, LIBSA, and LADC and TIL were incorporated into LEDA.

Prior to the formation of the Limpopo Economic Development Agency, the amalgamated SOEs obtained negative audit opinions from the Auditor General of South Africa for a period of four (4) years, i.e. 2008/09, 2009/10, 2010/11 and 2011/12 financial years. Audit opinions ranged from a qualified to disclaimer audit opinions and therefore suggesting that the state of the financial affairs required government intervention. During 2012/13 financial year, one (1) year after the amalgamation, LEDA obtained a qualified audit opinion with matters of emphasis which included poor financial management (Limpopo Economic Development Agency, 2012/13:83). The findings of the Auditor General of South Africa for the period 2013/14 financial year has shown that LEDA's financial performance has improved by obtaining an unqualified audit opinion. However, the unqualified audit opinion was accompanied by matters of emphasis which stipulated among others, lack of proper financial control systems and ineffective implementation of the Public Finance Management Act (Limpopo Economic Development Agency, 2013/14:64).

From the 2012/13 and 2013/14 financial years Auditor General's findings, it could be argued that LEDA's financial performance requires intervention. If LEDA's financial management systems are not improved, the financial performance could regress, the Agency may not attract investors, and may cease to operate as a "going concern". Consequently, government will be obliged to provide more funding to ensure the continuous existence of the Agency.

Money is a scarce resource and the national share of revenue is not sufficient to fund the ever increasing demands on the South African citizens. In order to overcome the problem of scarcity of resources, it becomes imperative for SOEs to strive for efficiency in their operations to ensure sustainable development. Compliance with relevant legislations, prescripts and policies contribute to effective financial management and organisational efficiencies.

1.3 STATEMENT OF THE PROBLEM

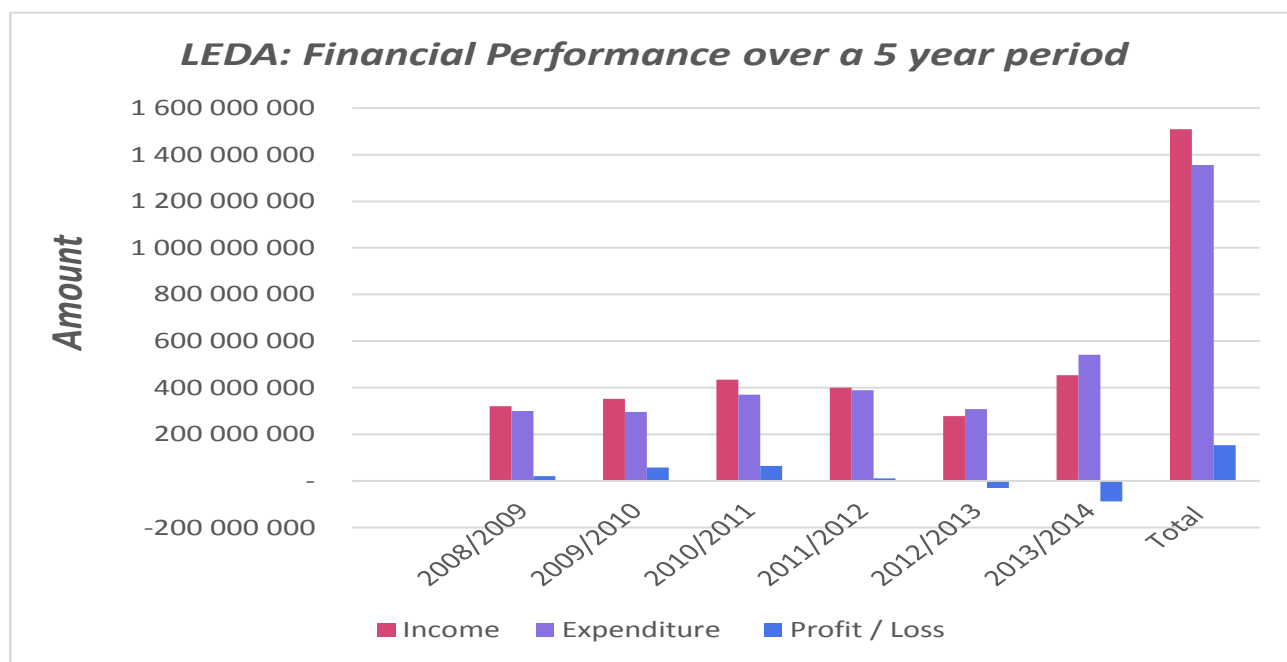
The danger of business failure as a result of lack of sound financial management practices is real (Kwame, 2010:3782). Poor financial management of SOEs has a negative bearing

on their financial performance outcomes and further encourages financial reliance on government. The Public Finance Management Act, Act 29 of 1999, which is hereto referred as the PFMA outlines that SOEs are developmental arms of government and are fully or partially funded by government. However, SOEs appear to operate at a loss which puts them in a bad position of attracting borrowings from investors to expand their operations. For example, during the 2012/13 financial year, the South African Airways (SAA) received a bailout from the National Treasury in the form of a financial guarantee, amounting to R5 billion over a period of two years as a security to support its balance sheet strength (Department of Public Enterprise, 2012/13:105). The financial guarantee was provided to enable the SAA to borrow from financial markets, thus ensuring that the airline continues to operate as a “going concern”.

The Limpopo Economic Development Agency (LEDA) is funded partially from the national share of revenue in order to perform its functions (Limpopo Economic Development Agency, 2013/14:6). LEDA receives a grant annually from the government which encourages financial dependency, despite the fact that the Agency could sustain itself financially through, among other things, maximising revenue collection and managing available working capital efficiently and economically. The problem is compounded by the fact that SOEs, including LEDA are failing to collect and recover outstanding revenue and have expenditure in excess of their revenue (Auditor General of South Africa, 2012/13:41).

The analysis of the Auditor General’s findings for the period 2008/09 to 2013/14 financial years, is a reflection that LEDA’s financial performance requires intervention. Figure 1.1 below depicts the financial performance of LEDA for a six-year period. The period 2008/09 to 2011/12 shows the financial performance prior to the amalgamation, and the period 2012/13 to 2013/14 reflect the financial performance after the amalgamation.

Figure 1.1: LEDA Financial performance over a 5-year period



Source: Annual Reports 2008 – 2014 (LIBSA, LimDev, TIL, LADC and LEDA)

It is clear that the Agency had expenditure in excess of revenue during the financial years 2012/13 and 2013/14 which resulted in a loss. Further analysis of LEDA’s financial statements demonstrated that the Agency did not comply with Section 51(1)(b)(i) and 51(1)(b)(iii) of the Public Finance Management Act (Act 1 of 1999) which requires that SOEs must take effective and appropriate steps to collect all revenue due to the institution and manage available working capital efficiently and economically.

The study was motivated by the 2012/13 and 2013/14 Auditor General of South Africa’s findings which reflected that LEDA had financial management challenges. LEDA’s outstanding debts accumulate and the status quo indicates that the financial policies and systems are inadequate and ineffective. The qualified audit opinion obtained by LEDA in 2012/13 financial year implies amongst other things, that if the financial performance of the Agency has not improved, LEDA can be declared to be not a “going concern”. Subsequently, the government through the Limpopo Provincial Treasury would be forced to intervene by providing additional funding to the Agency to save the situation. Funding for provincial government services in the form of national share of revenue is limited and therefore, providing additional funding assistance to State-Owned Enterprise could result in reducing funding allocation for other departments which are aimed to improve the lives of citizens.

The researcher therefore wanted to evaluate if financial management of LEDA was effective in improving the institution's financial performance. There hasn't been any study of this nature conducted in LEDA previously, and therefore, the information gathered from the study will be of assistance to LEDA and other SOEs in the Limpopo Province and other provinces in South Africa.

1.4 SIGNIFICANCE OF THE STUDY

Effective financial management is the cornerstone for existence of enterprises. The research in this area is worth doing because it identifies gaps within the financial management systems of SOEs and outlines possible solutions required to improve financial performance outcomes. The research is envisaged to benefit LEDA since it provides recommendations on how to implement financial management legislations, policies, systems and procedures in a way that enhances the financial performance of an enterprise, thereby contributing to the achievement of a clean audit opinion. Furthermore, the research identifies and outlines better strategies that would strengthen the balance sheet of an Agency and by so doing improve the confidence of the users of financial statements.

The research will benefit other State-Owned Enterprises by proving better strategies on how to implement sound financial management practices. For other government departments, the research ascertains the support and oversight role required by government departments over the SOEs to enhance the financial performance of SOEs. Good financial performance will aid government as a whole to channel the limited resources (National/Provincial share of revenue) to other priorities for the benefit of the South African citizenry.

Policy-makers will benefit from the research since the research provides the reliable information which may be utilised for the development of relevant future legislative frameworks, policies and procedures for effective management of SOEs which will enhance financial performance and public accountability. For researchers and academics, the research will serve as a basis for future studies that would want to pursue the topic at a broader national level and in other provinces with an intention to increase the knowledge required for future reference as well as the enhancement of financial performance of the country's SOEs.

The research will also contribute to the public management discipline by serving as a source of reference for review of financial management framework policies. The study will further assist in expanding previous research on the impact of financial performance of State-Owned Enterprises and contribute to the literature on the importance of effective financial management.

1.5 AIM OF THE STUDY

The aim of the study was to evaluate if financial management of LEDA, a State-Owned Enterprise, was effective in improving its financial performance.

1.6 OBJECTIVES OF THE STUDY

The following are the main objectives of the research study:

- a) To understand the role of Board of Directors in ensuring effective financial management of LEDA;
- b) To determine the effectiveness of financial management policies, systems and procedures put in place by LEDA; and
- c) To identify financial management challenges faced by LEDA in improving its financial performance since its formation and to provide possible solutions in the form of recommendations.

1.7 RESEARCH QUESTIONS

The following research questions were identified to be significant to achieve the study objectives:

- a) What is the role of the Board of Directors in ensuring effective financial management of LEDA?
- b) How effective are the financial policies, systems and procedures of LEDA?
- c) What are the financial management challenges faced by LEDA in improving its financial performance since its formation and what are the possible solutions?

1.8 STUDY AREA

Limpopo Economic Development Agency is situated at Lebowakgomo in the Limpopo Province, sixty (60) kilometers southeast of Polokwane in the Capricorn District.

1.9 RESEARCH METHODOLOGY

Research methodology refers to the “how” of collecting data, and the processing thereof within the framework of the research process (Brynard & Hanekom, 2011:35). There are two basic methods of collecting data, namely quantitative and qualitative methods. Bryman (2012:35) describes quantitative research as a research strategy that emphasises quantification in the collection and analysis of data. Furthermore, Bryman (2012:36) distinguishes and describes qualitative research as a research strategy that stresses words rather than quantification in the collection and analysis of data and that predominantly accentuates an inductive approach to the relationship between theory and research, in which the emphasis is placed on the generation of theories. For the purpose of this study, the researcher followed a qualitative research methodology. Qualitative methodology could yield better results as it allows the researcher to know people personally and experience their daily challenges when confronted with real life solutions.

1.9.1 Research Design

A research design is a plan, structure and strategy of investigation which is used to obtain answers to research questions or problems (Kerlinger, 1986:279). According to Kumar (2011:94), a research design is useful for the identification and development of procedures and logistical arrangements required to undertake a study. It further emphasises the importance of quality in these procedures to ensure validity, objectivity and accuracy. In order to obtain answers to the research questions, data was collected and processed within the framework of the research process as supported by Brynard & Hanekom (2011:35).

There are various research designs in conducting research and the study in this area took the form of descriptive and exploratory research design. A descriptive research is defined as the study that seeks to determine answers to who, what, when, where and how questions Zikmund (1997:38) whereas exploratory research is the study in which the major emphasis is to gain insight into a situation, phenomenon, community or individual

(Blaikie 2000 as cited in De Vos, Strydom, Fouché & Delpont, 2012:95). The researcher therefore explored as to whether financial management systems used by LEDA were effective in improving financial performance of the institution, answered the “what” and “how” questions raised in this research and explored new ways that could aid the Agency in improving its financial performance.

1.9.2 Population

Population is the study object and consists of individuals, groups, organisations, human products and events, or the conditions to which they are exposed (Welman, Kruger & Mitchel, 2005:52). Population is further defined as the group of interest to the researcher, the group to whom the researcher would like to generalise the results of the study (Fraenkel & Wallan, 1990:69). LEDA has the staff establishment of 426 personnel. However, the population in this study focused on management of LEDA targeting the Board of Directors which is the oversight structure, as well as the executive and middle management. LEDA has one oversight structure consisting of eight members whereas executive management and middle management consist of twelve and seventy officials respectively.

1.9.3 Sample

A sample is a subgroup of the total population, specifically those individuals chosen from the population that would be involved in an experiment or would be respondents in a survey (Spector, 1981:2). This concept is further supported by Fraenkel & Wallan (1990:66). It stipulates that a sample is a group in a research study from which information is obtained. For this study, the researcher adopted a purposeful sampling method on the basis of understanding of the concept by the respondents. A purposeful sampling is based on the presupposition that the researcher’s knowledge about the population can be used to indicate the cases to be included in the sample. This gives the researcher an opportunity to decide in selecting or choosing, on purpose individuals considered typical of the population or knowledgeable on the issue being studied (Polit & Hungler, 2001:229).

The study targeted the Board of Directors or the Board, executive management and middle management as the responsible bodies and overseer of the Agency’s financial performance. Consequently, the sampling in this study was comprised of the thirteen individuals: three members of the Board who are the Chairperson of the Board and non-

executive directors to obtain information with regard to the role of Board in ensuring good financial performance of the Agency, six members of executive management i.e. the Group Chief Executive Officer, the Company Secretary, the Group Financial Officer and three Chief Executive Officers representing core functionaries of LEDA who executed management functions and ensured that the strategic decisions of the Board and financial management were implemented effectively. The other group consisted of four middle managers responsible for the day-to-day management operations in ensuring attainment of LEDA's financial and non-financial objectives.

1.9.4 Data Collection

Data could be collected through various techniques which include observations, interviews, questionnaires, experimental techniques and records or unobtrusive measures (Nkatini, 2005:30). This study is qualitative in nature and therefore, the researcher collected data through the use of interviews. Interviews are a method of collecting data through direct interchange with an individual who is known or expected to possess the knowledge regarding the study (De Vos, Strydom, Fouché & Delpont, 2012:342).

In conducting qualitative research, two main types of interviews are considered, namely, un-structured and semi-structured interviews (Bryman, 2012:469). The researcher collected data by utilising a semi-structured interview schedule. The choice of the instrument was based on the fact that the semi-structured interview schedule allows the researcher to make follow-ups on answers given by interviewees. Although all the respondents are asked same questions, the interviewer is allowed to adapt the formulation of a question, including the terminologies, to fit the background and educational level of the respondents. Semi-structured interviews offer a versatile way of collecting data and could be applied to all age groups with different levels of education (Welman, Kruger & Mitchel, 2005:166).

In this study, the researcher collected data from the respondents pertaining, but not limited to, the effectiveness of financial management policies and procedures; the challenges faced in improving the Agency's financial performance; the strategies to improve financial performance and sustainability of LEDA; the effectiveness of the Board in discharging its roles in improving the financial performance; as well as financial accountability of the executive management and the Board.

Further data was obtained from, among other sources, management information systems in the form of reports such as annual reports, government legislations, books and journals that had relevant information.

1.9.5 Data Analysis

According to De Vos (1995:301), data analysis is the process of bringing order, structure and meaning to the mass of collected data. Data in relation to the study was collected, analysed, transformed with the goal of highlighting useful information and arriving at proposed solutions. The researcher used thematic analysis method to summarise raw data into a form that made the data easy to understand and interpret (Zikmund, 1997:533). Therefore, the researcher transformed the data collected into themes and included tables and frequencies which summarised and described the financial management and performance of the Agency.

1.10 ETHICAL CONSIDERATIONS

Mafunisa (2000:25) describes ethical conduct as the ability to undertake socio-professional acts in a manner that is acceptable. Chapter 10 of the Constitution of the Republic of South Africa, Section 195, outlines the democratic values and principles applicable to all spheres of government which include amongst others, that public administration must promote and maintain a high standard of professional ethics.

In this study, ethical considerations were considered by requesting an approval from the top management of LEDA and the Head of Limpopo Provincial Treasury. In order to ensure and provide assurance to the respondents regarding anonymity, an informed consent form was signed by respondents, which stipulated that the collected data would be utilised only for the purpose of this study, be kept strictly confidential and that the research report would not mention respondents' names. In addition, participation of the respondents in the study was voluntary as they were not under any obligation to respond to the interview schedule.

1.11 DEFINITIONS OF KEY CONCEPTS

For the purposes of this study, the following terms are used as defined below:

1.11.1 Financial management

In the public sector, financial management focuses on the prioritisation and use of scarce resources, on ensuring effective 'stewardship' over public money and assets, and on achieving value for money in meeting the objectives of Government (National Treasury, 2000:3).

1.11.2 Financial sustainability

Financial sustainability refers to the continuing capability of an organisation to generate enough funds to work towards its vision. In order for organisations to be financially sustainable they need to have various ways of generating revenue; have effective financial management systems; have a clear vision; and have financial independency (CIVICUS, 2003:6).

1.11.3 Shareholder's Compact

The Shareholder's Compact represents an agreement between the relevant executive authority at national or provincial government level, as the majority shareholder and the Accounting Authority of the public enterprise, with regards to performance expectations and parameters. It does not replace the strategic, corporate and business plans, but is rather complimentary to them. It describes the relationship between the signatories and identify the behaviour that would be required on both sides to support effective management and performance of the enterprise (National Treasury, 2002:2).

1.11.4 State-Owned Enterprises

State-Owned Enterprise is defined as a legal enterprise created by government to undertake commercial activities on its behalf. SOEs are therefore referred to as business enterprises that are established by national, provincial or local governments, whose supervisory officials are from the government (The Presidency, 2012:29). According to the Public Finance Management Act, Act 1 of 1999 as amended, State-Owned Enterprise is a juristic person under the ownership control of the national/provincial executive which has been assigned financial and operational authority to carry on a business activity as its principal business, provides goods or services in accordance with ordinary business principles and is financed fully or substantially from sources other than the National/Provincial Revenue Fund or by way of a tax, levy or other statutory funds.

1.12 LIMITATIONS OF THE STUDY

Research in the area of financial management is sensitive and subject to possible limitations. As a result, the participants may have a feeling of investigations and restrict important information which could influence the credibility of findings and recommendations. Data was collected from eleven (11) officials instead of (13) thirteen that were sampled because two (2) members of the Board of Directors could not be reached. The Board of Directors was mostly locked in strategic meetings and belonged to various boards of companies. However, their unavailability did not have a negative influence on the results as the total response rate was quite high (85%). In terms of KPMG (2012:64), the Board of Directors may belong to more than one Boards but should ensure that accepting other offers are not detrimental to their onerous responsibilities.

1.13 OUTLINE OF RESEARCH REPORT

Chapter One introduces the reader to the research and includes background to the study. The introduction and the background provide the reader with an idea of the essentials of financial management of State-Owned Enterprises and the role of SOEs in the economy.

Chapter Two reviews literature on which this study based its theoretical argument. It is in this chapter that the researcher was able to find out what was already known about the question before trying to answer it. The knowledge gap was identified and duplication of efforts was avoided to ensure reinventing the wheel. The chapter further provides the background and context for the research problem and justifies the reason for conducting the research study.

Chapter Three provides the information regarding the research methodology being applied either quantitative or qualitative. This research applied a qualitative research methodology. An overview of research design population, sampling, data collection and data analysis were provided in this chapter.

Chapter Four discusses the findings of the research in detail and presents the analysis of the findings.

Chapter Five presents the conclusion and recommendations of the study.

1.14 CONCLUSION

This chapter discussed the overview of the study which included background to the study, motivation or rationale, significance, statement of the problem, study area, aim of the study, objectives, research questions, definitions of key concepts, research methodology, ethical considerations and the outline of the research report. Chapter two discusses the literature review.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

State-Owned Enterprises (SOEs) are the developmental arm of government and are employed as a tool to enhance the state's service delivery objectives. Chapter one of this study discussed the establishment of the Limpopo Economic Development Agency (LEDA), a State-Owned Enterprise under the governance of the Limpopo Department of Economic Development, Environment and Tourism. It further outlined the purpose and roles that LEDA is mandated to play in enhancing the economic development of the province and in creating job opportunities.

This chapter begins by defining SOEs as organisations that are instituted by government to extend the delivery of services to the citizenry while operating on commercial principles. Secondly, in order to gain an understanding of the existence of SOEs, purposes and roles of SOEs are drawn from both the international and the African perspectives which indicate that SOEs are created to achieve social and economic objectives on behalf of government while expected to generate the bulk of revenue to augment government budget. Furthermore, the processes for the establishment of SOEs' governance structures and the role they play are delineated.

In an effort to understand efficiencies in SOEs, how SOEs are regulated and suggest various ways of enhancing SOEs performance, theories relating to SOEs and legislation mandates are reviewed. Finally, the chapter outlines the challenges facing SOEs in achieving their objectives as well as factors contributing to the improved financial performance of SOEs.

2.2 DEFINITION OF STATE-OWNED ENTERPRISES

According to the World Bank (1995:26), SOEs are government owned or government controlled economic entities that generate the bulk of their revenues from the selling of goods and services. MacCarthaigh (2011:220) espouses that SOEs are organisations that are partially or fully owned by the state and are involved in commercial activities in a

competitive market environment. Christiansen (2011:83) concurs by proclaiming that SOEs are considered as profit-orientated entities or government business enterprises that operate in competition with the private sector organisation. SOEs therefore are comprehended as government business enterprises that perform government activities on commercial principles. This signifies that SOEs are owned by government, operate independently to achieve their delegated responsibilities, should maintain proper financial management systems and generate the bulk of revenue to sustain government business operations.

2.3 PURPOSE FOR THE FORMATION OF STATE-OWNED ENTERPRISES

SOEs are the developmental arm of government and their purpose is to grow the economy and create job opportunities (MacCarthaigh, 2011:220). SOEs are founded by government to achieve social responsibility such as the creation of job opportunities and simultaneously accomplish economic responsibility. Furthermore, SOEs are expected to generate cash flows in excess of their cash outflows and meet business requirements of financial performance, adapt to changing environment and provide an assurance of public accountability (Aharoni, 1981:1341). SOEs were originally created in Argentina in the 19th century to provide goods and services on behalf of the government applying business principles and played a significant role in improving the Argentine Economy. The notion for the establishment of SOEs was then adopted globally whereas the purpose for the creation varies from country to country (Panzoni, 1982:377).

2.3.1 International Perspective

Internationally, SOEs are instituted to enforce monopoly prices and use the proceeds generated as a fiscal income, and to sell goods and services at reduced prices as a technique to distribute subsidies. Furthermore, SOEs are envisioned to sustain the economy through construction of new infrastructure and achieving social goals of creating and preserving employment. SOEs are thus dominant in energy, transport and telecommunication sectors whose performance is critical to broad segments of the population and other parts of the business sector. International countries have since established a joint forum called Organisation for Economic Co-Operation and Development (OECD) to address the economic, social and environmental challenges of globalisation. The forum is comprised of 30 states which also include Ireland, Hungary and the United State of America (OECD, 2005:9). The rationale for the formation of SOEs

in international individual countries are described below in respect of Ireland, Hungary and the United State of America.

2.3.1.1 Irish State-Owned Enterprises

In Ireland, SOEs contributed significantly to social and economic development since independence (Forfás, 2010:3). SOEs provide essential infrastructure and services which are critical to economic development and play a key role in enhancing entrepreneurship and skills including technical and managerial skills (Forfás, 2010:8). In addition, SOEs interconnect networks such as electricity, harness natural resources and provide finance for the developing economy (MacCarthaigh, 2011:221).

2.3.1.2 Hungarian State-Owned Enterprises

State-Owned Enterprises in Hungary are established to deliver state tasks, fulfill societal needs and to realise government economic policy goals and plays a key role in the developmental state. SOEs are required to operate efficiently in order to maximise the Return of Investment (ROI) for the government which becomes acceptable if it reflects a positive growth when compared with the previous financial year (Christiansen, 2013:21).

2.3.1.3 State-Owned Enterprises in the United States of America

In the United State of America, SOEs are created because, a) Legislators are less hesitant to grant funds to authorities than to regular state agencies; b) SOEs are better suited to the performance of essentially commercial functions; c) Existing political and geographical boundaries are not always suitable for performance of the desired public service; d) Constitutions and court decisions make it difficult for state agencies to borrow money; and e) the authority removes control of the activity from normal political party considerations. In short, the constitutional and other restrictions on state borrowing have motivated for the creation of public enterprises in the United States of America (Seidman, 1983:7). In the African context, SOEs serve as the mechanism for national development and to alleviate market failures while removing impediments to country's development (Balbuena, 2014:15). The creation of SOEs in African perspective is outlined below.

2.3.2 African Perspective

SOEs play a vigorous role in the economic development of African counties and are the focal point for the state's developmental strategies. In Africa, similarly to the developing countries, the supply of basic services such as water, electricity and transportation is

dependent on government delivering them through SOEs (Balbuena, 2014:7). To have a clear understanding of the importance of SOEs in African countries, four countries: Malawi, Zimbabwe, Botswana and South Africa are outlined as follows.

2.3.2.1 SOEs in Malawi

Malawi is one of the poorest African countries and relies largely on donor funding for government spending. The government of Malawi has formed SOEs which focuses on commercial objectives to maximise revenue for government budget. Consequently, such commercial SOEs are self-funded from their own sources of revenue to achieve both public and commercial objectives (Sector Guidelines for Parastatal Organisations and State Owned Enterprises, 2011:13).

2.3.2.2 SOEs in Zimbabwe

In Zimbabwe SOEs contributes significantly to the country's economic growth through undertaking economic activities such as infrastructure development while at the same time achieving social objectives (Balbuena, 2014:49). SOEs are commercialised to be profitable enterprises and sustain their operation and therefore, the government does not provide subsidies or funding except in the case of loss relating to provision of social and policy obligations. The commercialisation of SOEs was triggered by the budget pressures which were being faced by the Zimbabwean government and which made it difficult to continue providing subsidies to SOEs (Zhou, 2000:198).

2.3.2.3 SOEs in Botswana

At independence in 1966, Botswana instituted SOEs primarily because the private sector did not contribute to the economic development of the country whereas the need to put essential services in place was high. Botswana was dominated by extreme poverty with lack of basic needs such as electricity, telephones, transportation services, water and sewerage. The introduction of SOEs was also motivated by lack of satisfaction by government on goods and services provided by foreign companies and private sectors. As a result, the government of Botswana initiated SOEs and commercialised them to compete with the private sector in the provision of goods and services (Leith, 2005:93).

2.3.2.4 South African perspective

South Africa is part of the global world and has also adopted SOEs as one of the mechanisms to drive the country's economic development. SOEs are part of the public

sector and an instrumental tool to enhance the performance of government which is eminent in changing the life of citizens to the better. Fundamentally, SOEs are created for strategic, social or economic mediation by government and are designed to operate independently by adopting business principles while retaining accountability in the delivery of services (Department of Public Service and Administration, 2003:58).

Prior 1994, South African SOEs were employed as mechanisms to aid the apartheid government survive obstacles and were instrumental to grow the economy. Post 1994, the democratic government inherited a public administration which was portrayed by amongst others lack of public accountability and transparency, poor control systems and dilapidating infrastructure. Consequently, the government transformed the public sector inclusive of SOEs to support the goal of becoming a developmental state which aims to provide sustainable employment; increase economic growth, recuperate infrastructure, develop skills and innovation, and improve service delivery (The Presidency, 2013:39). Government provides funding to SOEs and plays an oversight role over SOEs' governance and financial performance to ensure the achievement of the agreed mandates.

The Department of Public Service and Administration (2002:59) prescribes that in executing its oversight role, government is represented by the shareholder of a state owned enterprise who is referred to as the government department that executes the ownership rights of government under the leadership of the relevant Executive Authority. The shareholder is required to exercise policy control over the SOE in line with their obligation to report back to the Parliament and the public at large. Moreover, the shareholder facilitates and represents the government in the development and signing of Shareholder's Compact and further ensures that the appropriate structure is put in place to ensure effective governance and good financial performance of a State-Owned Enterprise.

The governance structure of SOEs is comprised of the Board of Directors or the Board, Executive and non-executive managers and Board committees (Department of Public Enterprises, 2002:8). The Board is nominated by the shareholder in terms of a State-Owned Enterprise's founding documents and its roles and responsibilities are outlined in the next section.

It can be observed from the exploration of purposes for the formation of SOEs in various countries that, SOEs are established for economic and infrastructure development and to create employment opportunities. Moreover, SOEs are government business enterprises and are free to compete with private companies, generate more revenue for their operations and become financial self-sufficient and pay dividends to government.

2.4 ROLES AND RESPONSIBILITIES OF THE BOARD OF DIRECTORS

In terms of the Department of Public Enterprises (2002:8), the board of directors has absolute responsibility for the performance of the State-Owned Enterprise and is fully accountable to the shareholder for such performance. KPMG (2012:48) concurs that the Board is the central point of governance and maintains full and effective control over the State-Owned Enterprise. The Board is further liable for the performance and sustainability of a State-Owned Enterprise and in insuring that the business enterprise remains a “going concern”. For that reason, the Board should effectively oversee the governance and financial management of the SOE and be involved in all substantial decisions affecting the business enterprise.

Section 51 of the Public Finance Management Act (PFMA), Act 1 of 1999, provides that the Board needs to introduce and maintain effective, efficient and transparent financial management and internal control systems. Furthermore, the Board should manage working capital, expenditure and revenue collection effectively. The development and implementation of such control measures limit an enterprise from incurring financial risks and improve efficiencies in operations and thus the performance. Consequently, the National Treasury regulations, 2002 which is herein referred to as Treasury Regulations, necessitates the Board to submit a three-year financial plan to the shareholder and the relevant Treasury which covers the anticipated revenue and expenditure, asset and liability management, cash flow projections, capital expenditure programmes and dividend policies. In addition, the Board is required to provide quarterly performance reports and prepare annual financial statements in accordance with generally acceptable accounting practice and annual report of an enterprise covering activities of that particular financial year and submit to the shareholder, Auditor General and the relevant Treasury within the prescribed period as outlined in the Public Finance Management Act.

The submission of financial plan, quarterly performance, annual financial statements and annual reports enhances financial management and strengthens the financial accountability that the Board upholds towards the shareholder on the performance of the delegated mandates in line with the Shareholder's Compact. In order for the Board to perform its roles effectively, they should be competent in the area of financial management, business judgment, crisis response, knowledge and experience of the industry, business experience in international markets, strategic leadership and general management principles (KPMG, 2012:49). As espoused by Hillman (2015:1), an experienced workforce requires less training and thus reduces training costs while enhancing the organisational performance. The Board is comprised of the executive and non-executive directors. According to KPMG (2012:50), there is no ideal size for the Board of Directors; however, the existence of too large a Board results in delayed decision-making.

From the various discussions on the roles and responsibilities of the Board of Directors as outlined above, it is clear that the Board of Directors is fundamental to the success of SOEs operations and should efficiently manage and lead an organisation to ensure that it is financially self-sustainable. It is imperative that the Board of Directors possess the right skills including financial management and business leadership acumen and further accounts to the shareholder on the success and failure of the SOE.

2.5 COMPOSITION OF THE BOARD OF DIRECTORS

The Board of a State-Owned Enterprise is nominated in terms of the SOEs' Act and is encompassed by executive and non-executive directors with the majority of non-executive directors, to sustain autonomy in decision-making. The Executive Directors perform management functions for the SOE and ensure that strategic decisions of the Board are implemented effectively and timeously. In contrast, non-executive directors play a critical role in corporate governance by providing an independent and objective strategic perspective and enhanced sense of responsibility and accountability (Department of Public Enterprises, 2002:8). The Executive Authority that plays an oversight role over the respective SOE, is responsible to appoint one of the members of the Board - an independent non-executive director as the Chairperson of the Board to provide direction and maintain effectiveness of the Board (Institute of Directors in Southern Africa, 2009:31).

As outlined in the Protocol of Corporate Governance in the Public Sector (2002:10), the Chairperson of the Board represents the head of the Board and their responsibilities include the following:

- a) Ensure that members of the Board are informed and partake in decision-making of the business;
- b) Oversee that the executive management execute their management role and contribute entirely in the operation and governance of the SOE;
- c) Make sure that non-executive managers monitor the business operation and contribute to the decision making; and
- d) Act independently and objectively in ensuring that related responsibilities are prioritised.

The Board further appoints the Chief Executive Officer, the Company Secretary and the Chief Financial Officers to ensure that there is more than one point of contact between the Board and management. The Chief Executive Officer ensures that the SOE is run efficiently and effectively in accordance with the strategic decisions of the Board and is accountable to the Board on the performance of the organisation. Conversely, the Company Secretary provides Board members with guidance regarding the nature and extent of their duties and responsibilities. The Company Secretary is as such, required to be knowledgeable or experienced in the relevant laws governing the State-Owned Enterprises (Department of Public Enterprises, 2002:8; Institute of Directors in Southern Africa, 2009:37). On the contrary, the Chief Financial Officer is appointed to ensure effectiveness of the financial management of a State-Owned Enterprise which includes exercising sound budget control practices, effective internal control system and timeous financial reporting (National Treasury, 2002:7).

In the formulation of a complete governance structure, the Board appoints Board committees, namely, audit committee, remuneration committee and nomination committee. The remuneration committee assesses and determines remuneration for executive directors in line with their expertise and the market while the nomination committee is appointed to identify suitable candidates for the Board's membership and provides recommendations to the Executive Authority who will take the final decision. On the other hand, the audit committee plays a pivotal role in certifying the integrity of financial management reporting and controls, the proper identification and management of risks

and should therefore possess financial qualifications and expertise (Department of Public Enterprises, 2002:15). Because every decision that an enterprise makes has a financial implication, financial management is therefore not the sole responsibility of the chief executive officer but also for the entire governance structure and the line management in an enterprise (Baker and Powel, 2005:4).

It could be comprehended that the Board of Directors of SOEs is constituted by both the executive and non-executive directors. The executive directors perform the daily management of SOEs whereas non-executive directors are critical with the high level of autonomy in guiding and monitoring operations to ensure success of SOEs.

2.6 IMPORTANCE OF FINANCIAL MANAGEMENT IN SOEs

Financial management is the cornerstone of effective and efficient delivery of quality services to the public. Sound financial management is critical in achieving SOEs objectives and maximising return on investment. Subramanian (2008:3) supports this view by stating that in order for SOEs to realise their respective goals, they should maintain effective financial management systems that support an enterprise in generating funds and ensuring that the budget allocation is efficiently directed to SOEs priorities. Madue (2009:414) accentuates that financial resources are scarce and thus the management of finances centers on the utilisation of such resources to ensure effective, efficient and transparent use of public funds in order to achieve value for money while providing goods and services to the public.

According to Coe (1989:1), financial management concerns the budgeting of projected revenue and expenditure; purchasing of goods and services; accounting for revenue and expenditure, investing unused funds; controlling of risks, compliance to financial prescripts and auditing of transactions at year end. In terms of the Treasury Regulations, financial management comprises, but not limited to, planning and budgeting, revenue and expenditure management, asset and liability management; management of debts, banking and cash management, supply chain management and accounting and reporting. SOEs are funded by government to deliver their mandates and are expected to have proper financial and internal control systems in all areas of operations and financial management to maintain accountability and enhance transparency. Siswana (2007:228) highlights that

in the absence of financial and internal control systems, funds transferred by government to SOEs cannot be accounted for accordingly.

The Public Finance Management Act 1 of 1999, perceives internal control procedures as systems that limit corruption, fraud, fruitless and wasteful expenditures on the utilisation of public funds. Van Wyk (2003:38) supports the view that internal control systems and procedures are critical in enhancing the financial performance of SOEs; however, puts forward that such systems must be effective and complimented by sound financial records and the appointment of professional financial staff.

Muttard Foundation and Alberta Culture (2008:8) express effective financial management as the management and accounting of funds in ensuring that spending is in accordance with the intended purposes. The HM Treasury Skills Advisory Panel (2008:8) provides that effective financial management could be attained by investing in skills development, reflecting the required financial management standards in performance targets and publicising the benefits for good financial performance of an enterprise. Furthermore, an understanding of good financial management encourages managers to display good stewardship of resources, decision-making and value for money.

Subramanian (2008:3) assumes that reliable financial reporting systems are imperative to promote effectiveness of financial management and to provide credible information to funders and donors about the use of funds. In addition, the application of international accounting standards, globally contribute considerably in enhancing financial management and increasing the credibility of financial reports. The effectiveness and reliability of systems enable SOEs to report back to the shareholder and citizens in host and donor countries about how funds have been utilised.

According to Paramasivan and Subramanian (2009:10); Lakew and Rao (2009:64), ineffective financial management, planning, reporting, accounting information systems, working capital management, fixed asset management affects the financial performance of SOEs negatively. Kwame (2010:19) agree that if financial management practices and decisions of an enterprise are ineffective, the financial performance will be adversely affected and thus causing failure of a business enterprise. Fundamentally, every decision that an enterprise makes has a financial implication and as a result, financial management is not the sole responsibility of the chief executive officer or chief financial officer, but also

of service management in an enterprise (Baker & Powel, 2005:4). Therefore, financial managers, financial practitioners and service/programme managers who apply financial management processes as part of their broader functions, should be equipped with financial management skills and training to ensure an enterprise's effective financial management thus improving financial performance (The World Bank, 2010:57).

2.6.1 Challenges Facing the Performance of SOEs

State-Owned Enterprises are faced with various challenges that impact negatively on its performance and the following are discussed:

2.6.1.1 *Poor financial management, reporting and governance*

Scott (2007:3) is of the view that SOEs are failing because they do not have proper financial reporting systems and that if the reports are made available, they are incomplete, inaccurate and does not provide an adequate basis for decision-making by the Board and the executive managers. Maidoki (2013:69) concurs by stating that managers need timeous financial reports in order to make well-informed decisions. In addition, Bhattie and Sarwet (2012:4) commends that poor financial performance and losses of SOEs attribute to bad financial management practices, a deficient management information system and ineffective management policies and corruption. Nellis (2005:7) also concurs with both views by stating that SOEs fail as a result of inadequate or lack of financial reporting and oversight systems.

2.6.1.2 *Lack of skills and shortage of competent managers*

Scott (2007:3) assumes that SOEs' obtain adverse financial performance because Board members lack the independence, professional skills and experience necessary to properly undertake their duties. This view is supported by Nellis (2005:7) who states that management of SOEs are untrained and appointed based on political favors instead of technical know-how which result in them serving the political interest and not that of SOEs. In contrast, Mahmoud (1992:35) is of the view that SOEs operates with a high vacancy rate of senior staff or are filled with unqualified management staff thus impacting negatively on SOEs performance. Thus, adding more competent people to the organisation's strengthens financial management controls and enhances financial performance (Gramling, Hermanson, & Shelly Ye, 2010:31).

2.6.1.3 Below-cost pricing

Stan, Peng and Bruton (2013:13) postulate that government does not allow SOEs to charge competitive prices despite functioning using commercial principles because SOEs are expected to achieve the social goal of delivering goods and services to the citizens at affordable low prices. The study by Nellis (2005:7); Mbo and Adjasi (2013:22) maintains that government partake in the service and product pricing decisions of SOEs to ensure affordability by consumers, however, such an involvement has a negative influence on SOEs performance as measured in terms of return on assets, asset turnover, debtor's days and creditor's days. The study further states that in the case where tariff structures are kept exaggeratedly low and prevent full cost-recovery by SOEs, tariff review and compensating non-commercial services may be necessary.

2.6.1.4 "soft" budget constraints

The performance of SOEs is usually neglected because SOEs' budget constraints are softened and any excess expenditure over earnings are often backed up by government through subsidies, guarantees and other financial bailout (Kornai, 2001:4; Forfas, 2010:23; MacCarthaigh, 2011:218; Stan, Peng & Bruton, 2013:9). It is perceived that the continuation of soft budget constraints impacts negatively on the performance of SOEs and encourages them to engage in activities not directly related to their mandates (Michael, 2007:205). However, if the budget constraints of SOEs are hard, SOEs will have no option but to improve the quality of goods and services, cut operating costs and introduce new products and processes which would improve the SOEs financial performance (Kornai, 2001:10). In OECD countries, SOEs do not normally have access to concessionary finance and are restricted from borrowing funds from state-controlled institutions and this is done to encourage SOEs performance (OECD, 2005:2011).

2.6.1.5 Little emphasis on profitability and efficiency

SOEs are not motivated to maximise profits and to minimize operating costs and this often leads to the inability to operate in the foreseeable future and poses concern of their financial sustainability as well as the pressure to acquire additional funding from government (Mahmaud, 1992:35; Auditor General of South Africa, 2012/13:56). According to Huefner (2011:5), cost and revenue management are critical and have a close relationship because cost management influences the profitability and efficiency through cost reduction whereas revenue management enhances the profitability of the organisation through sales growth. However, SOEs reflect indicators of financial health

risk in that they incur irregular and wasteful expenditure and there are no proper controls for assets and revenue management (Limpopo Economic Development Agency, 2013/14:67).

2.6.1.6 Principal-agent problem

The shareholder of SOEs often experience agent relationship problems because SOEs are not directly run by them and as such the owners cannot tell how much of performance is due to managerial failure or external factors (Forfas, 2010:23). Principal agent problem arises because the agent has better information about the business enterprise as compared to the principal and therefore the principal cannot be easily assured that the agent is performing in line with the mandate. In addition, the agent may act dishonestly which reduces the value of the principal's performance and therefore involving high monitoring costs by the principal. Equally, another agency problem may involve the owners, agencies and stakeholders whereby the agent fails to assure the owners of the good relationship with stakeholders (Armour, Hansmann & Kraakman, 2009:3). In the case where the relationship with the stakeholders is poor, it can cause the downfall of an enterprise.

However, agency problems may be addressed by amongst others, imposing regulatory and or governance strategies. Regulatory strategies are prescriptive and provide a set of rules and standards governing principal-agent relationship constraining the agent's behaviour directly whereas governance strategies involve setting of governance principles which provide amongst others, appointments rights, powers of principals to intervene in SOEs management, provision of incentive strategies and reliance on auditors for credibility of financial statements (Armour, Hansmann & Kraakman, 2009:5).

2.6.2 Factors Contributing to the Improved Financial Performance in SOEs

Various strategies were suggested as a means towards improving the performance of SOEs. According to Price Waterhouse (1996:2), the performance of SOEs could be improved by among other things, commercialisation which could yield income optimization, increased productivity, improved services and cost reduction. Thompson and Strickland (2003:281) concur that the commercialisation or implementation of SOEs reform and turnaround strategies are necessary when a business enterprise goes into a crisis and the objective is to improve operational efficiency and financial performance. However, Mattlin (2007:23) suggests that the performance of SOEs could be enhanced

by introducing a centralised operating and budgeting system that tightens state control over the SOEs finances which include income and expenditure. In the case where SOEs faces financial crisis, government may bypass normal routes such as SOEs boards and assert their authority over the breadth of state activity and seek to optimise SOEs revenue streams while cutting costs (MacCarthaigh, 2011:228).

The Auditor General of South Africa (2012/13:34) maintains that performance could be enhanced by implementing sound performance management processes, evaluating and monitoring performance, and consistently demonstrating that poor performance has consequences. This view is supported by Mishra (2014:49) who states that an on-line employee performance management system which is linked with SOEs objectives is the transparent process and the solution towards enhancing SOEs performance. Mishra further suggests that based on performance rating, high performers will be motivated through salary increments and career progression whereas poor performers will be developed by identifying their shortcomings during assessment phase and thus preparing development plans for them.

Other factors such as strengthening employees' communication and striking equity balance in the workplace could be viewed as management practices and government policy matters. However, Laurel (2005:80) is of the view that the organisational performance could be enhanced through effective employee communication because it enhances employees' understanding of the organisational goals and thus contributing positively to the financial performance. Furthermore, Hoogendoorn & Oosterbeek van Praag (2013:15) postulate that organisations with the balance of men and women employees out perform the male dominated ones with regard to financial performance. As espoused by Rothwell (2010:6), and Morton, Foster and Sedlar (2005:5), organisations should strive for a balance workforce and develop retention and succession planning strategies to ensure profitability and sustainability of organisations.

It is deduced that sound financial management is critical in achieving SOEs objectives and maximising return on investment. The following elements emerge from the discussion on the importance of financial management of SOEs that are critical in enhancing their financial performance:

- Maintaining effective financial management systems (Policies, procedures, reporting systems and automated systems, etc.).
- Focusing the allocation of financial and physical resources on SOEs objectives and spending the budget in accordance to the intended purposes.
- Ensuring internal control systems and enhancing public accountability.
- Appointing financial practitioners, managers and the Board that possesses financial management expertise.
- Charging of competitive prices on goods and services.
- Hardening the “soft” budget constraints and allow SOEs autonomy to generate more revenue for its operations while minimising costs.
- Development and implementation of turnaround strategies to enhance financial performance and self-sustainability.

2.7 THEORIES WHICH ARE RELEVANT TO SOEs

Scholars have suggested different types of theories relating to the management of SOEs and the following are discussed:

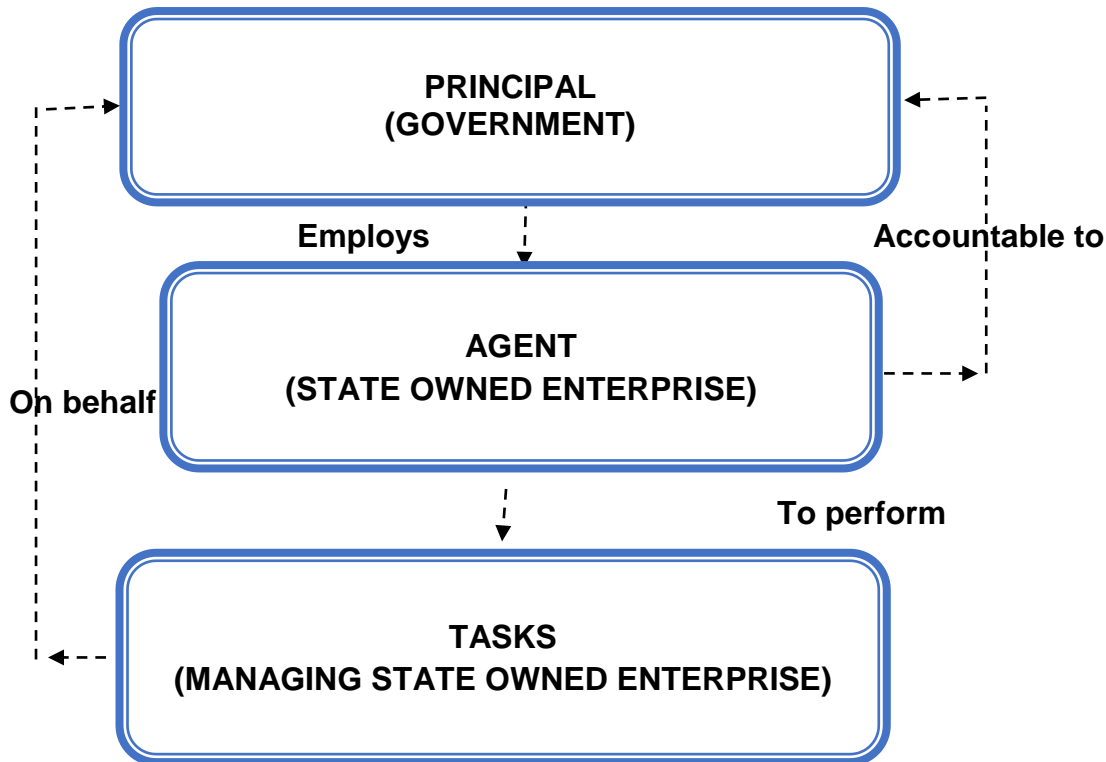
2.7.1 Agency Theory

The Agency Theory describes the relationship in a contract under which the shareholder (government) engage the agent (State-Owned Enterprise) to perform services on their behalf, which is referred to as principal-agent relationship (Jensen & Meckling 1976:308). According to the theory, the contractual relationship between the shareholder and the agent is referred to as principal-agent relationship. An agency relationship occurs between two or more parties, where one designated as the agent acts on behalf of the designated principal in execution of the delegated tasks (Ross, 1973:134).

According to Pontes (1995:57), Agency Theory is a model based on the assumptions that the principal-agent relationship is characterised by a conflict of interests between the shareholder and the State-Owned Enterprise. Jensen & Meckling (1976) cited in Pastoriza & Ariño (2008:3) concur that SOEs are motivated by opportunities for their own personal gain and thus, the conflict of interest occurs when the agent diverges from the interest of the principals. Jensen and Meckling (1976) cited in Eisenhardt (1989:60) suggest that the agent behave in the interest of the principal if the contract entered into between the principal and the agent is performance outcome based and when the

principal have proper systems to restrict agent opportunism. Figure 2.1 below reflects a summary of a principal-agent relationship.

Figure 2.1: Principal - Agent relationship



Source: Kaplan Financial Limited, (2012)

As outlined by the above figure, State-Owned Enterprises are employed by government (Principal) to carry out tasks on its behalf, and by accepting to undertake task on behalf of the principal, the State-Owned Enterprise is accountable to the principal. In agency relationship, the State-Owned Enterprise acts as an implementing agency while the government assumes the role of the principal. Therefore, SOEs are accountable to government while executing their mandates. It is thus assumed that agencies put their own interests first ahead of the shareholders, not committed in the achievement of SOEs goals and are not creative and depend on the principal for survival.

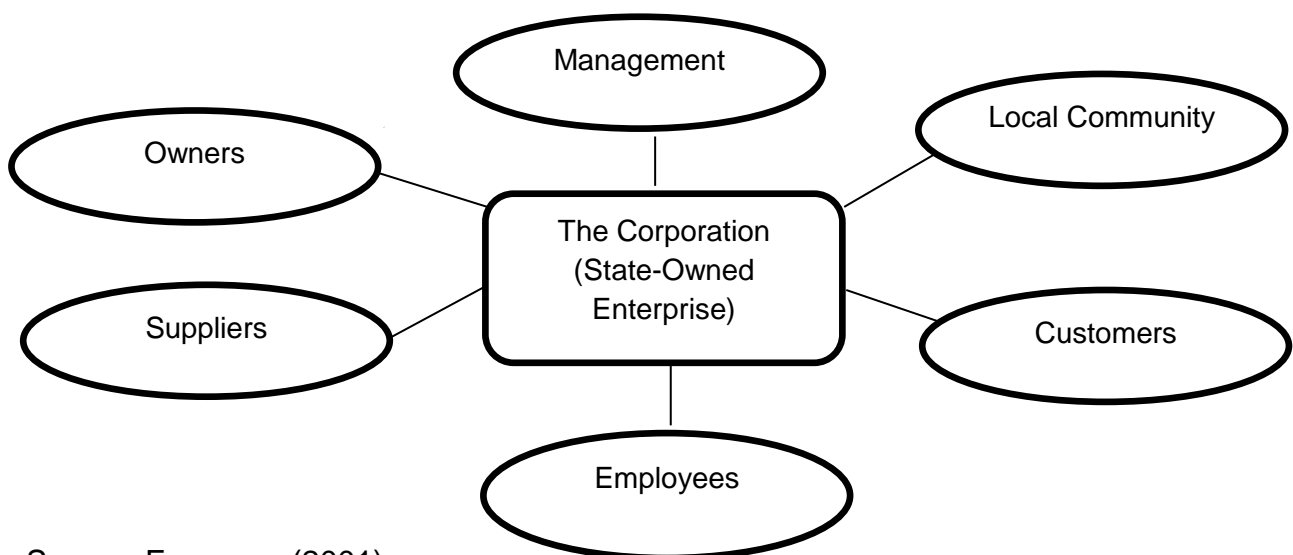
In addition to the principal-agent relationship, SOEs maintain a relationship with their stakeholders which is critical for enhancing their profitability and this is based on the stakeholder theory (OECD, 2004:46).

2.7.2 Stakeholder Theory

The Stakeholder Theory is defined as the relationship between an enterprise and a group of constituents who have legitimate claim that is informed by the existence on an exchange relationship (Freeman, 1984; Pearce, 1982 cited in Hill & Jones, 1992:133). Stakeholders include an enterprise's owners, management, employees, suppliers, customers and local municipality.

In a Stakeholder Theory, owners provide funding, loan and guarantees to the enterprise and expect efficiency and financial return on investment while managers and employees contribute time, skills and human capital commitments, and in return, they expect a fair income and adequate working conditions from their employers. Customers provide revenue to the State-Owned Enterprise through purchases of goods and services, and in return they expect value for their money. Conversely, suppliers provide stock or inputs to the enterprise and anticipate reliable buyers in exchange. As such, the supplier should respond to the State-Owned Enterprise when the need arises, accept late payments and provide price cuts for goods and services. The local municipality/community provide SOEs with locations and local infrastructure and in return, SOEs are expected to be good citizen i.e. SOEs may not expose the community with unreasonable hazards such as pollution or toxic waste but enhance the quality of life of citizenry (Freeman, 2001:42). Figure 2.2 below summarises a stakeholder model in a business enterprise.

Figure 2.2: A stakeholder model of business enterprise



Source: Freeman, (2001)

SOEs provide public service obligations and build sound stakeholder relations which ensure that the operations are sustainable and financially viable (Balbuena, 2004:15). As mentioned by CIVICUS (2003:6), the financial viability is critical and it concerns the ability of an organisation to generate the bulk of resources such as funds to meet its goals. It is worth noting that all stakeholders are critical in contributing towards the realisation of the organisational goals. Thus, the stakeholder relationship is so significant in such a way that if one stakeholder is not present, the enterprise will be negatively affected. Although all the stakeholders are important in contributing to the wellbeing of an enterprise, managers play a critical role of balancing the interest of all stakeholders and are therefore required to be good stewards by being efficient in enhancing the shareholder's return on investment (Hill & Jones, 1992:134).

2.7.3 Stewardship Theory

The Stewardship Theory proposes that managers are good stewards of an enterprises, perform outstandingly and cooperate with all stakeholders for a common goal of attaining an enterprise's deliverables (Donaldson & Davies, 1989 as cited in Mbo & Adjasi, 2013:6). A steward of the organisation is explicated as the one who demonstrates a commitment to the best interests of the enterprise, as opposed to an agent, whose interests may conflict with the organisation and its principals (Hill & Jones, 1992: 138). Furthermore, a steward is one who rises above the level of an agent, is committed to the prosperity of all stakeholders and places the long-term best interests of a group ahead of personal goals (Hernandez, 2008:122).

Fundamentally, the Stewardship Theory is based on the assumption that stewards place greater value on the enterprise's goals not on individual goals, and makes decisions that are in the best interests of the principals (Davis, Schoorman & Donaldson, 1997:611). Consequently, stewards are motivated by intrinsic rewards, such as trust, reputational enhancement, reciprocity, discretion and autonomy, level of responsibility, job satisfaction, stability and tenure, and mission alignment (Van Slyke, 2007:166). The Stewardship Theory is characterised by the following components:

- Managers are selfless, committed and embedded in achieving the goals of an enterprise;
- Managers are focused, productive and contribute towards the success of the organisation; and

- Managers are independent and creative in taking decisions which will benefit and sustain an enterprise.

From all the theories which were discussed, it is clear that there is no theory that outperforms the other. However, South Africa is viewed as applying both the Principal –Agent Theory and the Stakeholder Theory. In South Africa, SOEs are established and funded partially or fully by government to perform services on their behalf. SOEs are thus accountable to government and the public on their financial performance and the utilisation of public funds. SOEs are also expected to maintain and enhance stakeholder relationship to enhance return on investment.

The report on Presidential Review Committee on State Owned Entities (2012:67) provides that the management of SOEs should be guided by legislative framework that is critical in guiding systems, procedures, processes, controls and structures to ensure the performance and effectiveness of SOEs. In South Africa, there are various legislations governing SOEs. These legislations will be discussed in the next section.

2.8 LEGISLATIONS GOVERNING STATE-OWNED ENTERPRISES IN SOUTH AFRICA

State-Owned Enterprises are the developmental arm of government and are thus governed by government legislations which include the Constitution of the Republic of South Africa, the Public Finance Management Act and Treasury Regulations. The Constitution of the Republic of South Africa, 1996, hereto referred as the Constitution, is the supreme law of the land and Section 195 of the Constitution provides that SOEs must promote a high standard of professional ethics, be accountable, promote effective and economic use of resources and be broadly representative of the people with employment practices based on the ability, objectivity and fairness and the need to redress the past imbalances. SOEs are created by government in line with Section 238 of the Constitution which empowers an executive organ of the state in any sphere of government to delegate any power or function that is to be performed in terms of legislation to any other executive organ of state, provided the delegation is consistent with the legislation in terms of which the power is exercised or the function is performed; or may exercise any power or perform any function for any other executive organ of state on an agency or delegation basis.

Chapter 13 of the Constitution brings about financial reforms in the public sector and thus, Section 215 prescribes that the provincial budget and budgetary processes must promote transparency, accountability and the effective financial management of the economy and the public sector. Moreover, Section 216 of the Constitution requires sound financial management in the public sector and provides for the promulgation of a national legislation that establishes the National Treasury to ensure transparency and expenditure control.

The National Treasury was established and introduced uniform treasury norms and standards which prescribe measures that ensure transparency and expenditure control in all spheres of government, and to set the operational procedures for borrowing, guarantees, procurement and oversight over the various national and provincial revenue funds. State-Owned Enterprises are required to comply with the Public Finance Management Act (Act 1 of 1999 as amended) which is herein referred as the PFMA. The Public Finance Management Act was established by National Treasury and gives effect to Sections 213, 215 to 219 of the Constitution. The PFMA was established to regulate financial management in the national government and provincial government inclusive of SOEs, to ensure that all revenue, expenditure, asset and liabilities are managed efficiently and effectively, to provide responsibilities of persons entrusted with financial management and to provide matters connected therewith.

To operationalise the PFMA, the National Treasury has introduced Treasury Regulations for Departments, trading entities, constitutional institutions and public entities which give effect to Section 76 of the PFMA. Treasury Regulations regulate the management of revenue and debts, budgeting and related matters and provide for the framework of banking, cash management and investment.

SOEs are further governed by the Company's Act, Act 71 of 2008 (as amended by Act 3 of 2011) which is herein referred as the Company Act, and the third King Report on Governance for South Africa 2009 which is referred to as the "King Report", (PricewaterhouseCoopers, 2012:2). Company's Act and the King Report shares the same principles of good governance with the Public Finance Management Act. Therefore, the alignment of these legislations is desirable to ensure the predominant governance principles of accountability, fairness, transparency and responsibility. The Company's Act, Act 71 of 2008 is established amongst other things, for the purpose of promoting compliance with the Bill of Rights as provided for in the Constitution; to promote innovation

and investment in the South African markets; and to promote the development of South African economy. The Company's Act prescribes that SOEs are enterprises that are registered in terms of the Company's Act and listed in Schedule 2 or 3 of the Public Finance Management Act (Act 1 of 1999). Both the Company's Act and the PFMA stipulate that in the case where the two acts conflict, the PFMA shall take precedence.

The King Report is established to promote the highest standards of corporate governance in South Africa and applies to all categories of SOEs that are stipulated in the PFMA. Corporate governance refers to the processes by which organisations are directed, controlled and held to account (Department of Public Enterprises, 2002:3). SOEs are further legislated by their SOEs' Enabling Act which is a memorandum of incorporation or Shareholders' Compact. The Shareholder's Compact regulates SOEs' performances, expectations and restrictions (National Treasury, 2002:2).

From the above discussions of legislations governing SOEs in South Africa, it is clear that SOEs are mandatory and are established on the basis of the Constitution of the Republic of South Africa. SOEs are regarded as state owned companies and are established in terms of the Company's Act and are governed by both the Company's Act, PFMA and Treasury regulations. The PFMA and Treasury Regulations regulate financial management and governance whereas the Company's Act amongst others promote the South African economy. It is also noted that the "King Report" is important for application by SOEs as it encourages good governance although it is not mandatory. It is imperative that all SOEs enters into with its shareholders, the shareholder's Compact to regulate the performance relationship and expectations by the shareholder.

2.9 CONCLUSION

This chapter discussed the literature reviewed from various scholars to provide a common understanding of the definition and the effective financial management of SOEs. From the literature reviewed both in the international and in the African countries, SOEs are delineated as government business enterprises which are independent and provide goods and services on behalf of government using business models. The arguments raised by different authors reflect that SOEs require appropriate governance structures in the form of the board of directors as well as board committees to ensure good financial performance and effective governance.

The literature further highlighted that the entire governance structure and management in an enterprise require financial capabilities to achieve set objectives and enhance financial sustainability. Finally, the authors have stated that SOEs are facing challenges in the area of financial management and reporting which could be overcome through, amongst other things, by the introduction of turnaround strategies and the implementation of watertight performance management systems. Moreover, a well-developed legal framework is core for the effective running of SOEs and hence, legislations relating to South African SOEs are reviewed and discussed. SOEs' theories are also taken into consideration to enhance the understanding of the phenomenon under study.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 INTRODUCTION

Chapter two of this study reviewed literature pertaining to the establishment of SOEs both in the International and the African perspectives, the role and contribution of SOEs in developing the economy, various structures necessary for the functioning of SOEs, the importance of financial management in SOEs, performance challenges as well as success factors in enhancing the performance of SOEs. Furthermore, legislations governing SOEs and the related theories were discussed.

This chapter presents the research methodology that was applied in pursuit to answer the research questions. The research methodology in this study was expounded in terms of design, population, sample, data collection methods and instruments as well as data analysis procedures. In addition, this chapter outlines the measures considered to promote the reliability and validity of the study, ethical considerations and permission to conduct the study.

3.2 RESEARCH DESIGN

A research design is a plan, configuration and strategy of an exploration which is used to obtain responses to research questions aimed at resolving research problem. It is an instrumental tool for the identification and development of procedures required to conduct a study (Kerlinger, 1986:279; Kumar, 2011:94). There are two types of approaches that are used in collecting data, which are qualitative and quantitative methods. A qualitative research approach is explicated as research strategy that accentuates words rather than quantification in collecting and analysing of data. A qualitative research approach attempts to enhance the understanding of the researcher regarding the occurrence of situations and the behaviour or conduct of people (Bryman, 2012:36; Hancock, 2002:1). Contrariwise, quantitative research approach is described as a research strategy that emphasises quantification in the collection and analysis of data (Bryman, 2012:35).

In this study qualitative research approach was used. The approach allowed the researcher to obtain opinions, views and perceptions of the respondents in relation to the study and expressed them in her own words. The choice of the research approach, thus enabled the researcher to achieve the aim of the study which is to evaluate if financial management of LEDA, a State-Owned Enterprise, is effective in improving its financial performance.

3.3 STUDY AREA

The study took place in the Limpopo Economic Development Agency's headquarters which is located in the Enterprise Development House, at Lebowakgomo Main Road, sixty (60) kilometers south-east of the Limpopo capital of Polokwane.

3.4 POPULATION

A population is the universe of people or components from which a sample is to be chosen. Furthermore, a population is defined as the pool of interest to the researcher, the pool from which the researcher need to generalise the outcomes of the study (Bryman, 2012:714; Fraenkel & Wallan, 1990:69). In this study, the population includes the management of LEDA which consist of the Agency's oversight structure which is the Board of Directors, as well as the executive and middle management of LEDA. The Board of Directors is the accounting authority of the institution and is comprised of eight members whereas the executive management represents the administrative leadership of the Agency and is encompassed of twelve officials. Middle management is responsible for the day to day operational management and is comprised of seventy officials. In overall, LEDA has the staff establishment of four hundred and twenty-six personnel (Limpopo Economic Development Agency, 2012/13:34).

The Board of LEDA includes the non-executive management and the executive management appointed in line with the institution's founding legislation. The executive management and the middle management encompasses of both core functions and support functions of LEDA. Core functions have the responsibility to prepare and implement plans within the available resources without compromising the attainment of goals and as such are expected to have financial and technical know-how. The support

function of LEDA is responsible to provide management support in the areas which include financial management and corporate services.

The research is aimed at evaluating if financial management of LEDA is effective in improving its financial performance. The effectiveness of financial performance of SOEs lies with the oversight structure supported by the executive and middle management.

3.5 SAMPLING AND SAMPLING METHODS

Sampling is the process of choosing part of the population to symbolise the whole population (Polit, Beck & Hungler, 2004:225). A sample thus consist of a subdivision of the total population, in particular those individuals selected from the population that will be involved in a research or are to be respondents in an investigation (Spector,1981:2). In this study, the sampling consisted of thirteen office holders of LEDA, namely, Chairperson of the Board, two non-executive directors, six managers from the executive management and four middle managers. The Chairperson of the Board is the head of the Board, is accountable to the Board on the overall performance and sustainability of the Agency and will clarify the role plays by the Board of Directors in ensuring good financial performance of the Agency. The non-executive directors are independent members of the Board and provide an autonomous strategic leadership and enhances a sense of accountability (Department of Public Enterprises, 2002:8).

The executive managers, i.e. the Group Chief Executive Officer, the Company Secretary and the Group Financial Officer execute management functions for the SOE and ensure that strategic decisions of the Board as well as financial management are implemented effectively and timeously. The other three executive managers are core functionaries which represent the pillars of LEDA and have the responsibility to ensure that the main mandates of LEDA are effectively attained.

For the purpose of this study, the researcher applied purposive sampling method. A purposive sampling is comprehended as the sampling method used to select the participants on the basis of their understanding of the concept under study. A purposive sampling is based on the assumptions that the researcher has knowledge about the population and can indicate the respondents to be included in the sample. Consequently, the researcher is given the opportunity to decide in selecting on purpose individuals

considered to be knowledgeable on the matter being studied. A purposive sampling is applied as a strategy to ensure that those sampled are relevant to provide answers to the research questions (Polit & Hungler, 2001:229; Bryman (2012:418). Consequently, the researcher selected the respondents to participate in the research based on their responsibility and accountability in achieving the Agency's financial performance and in ensuring its financial sustainability.

3.6 DATA COLLECTION METHODS

Data can be collected through the use of primary or secondary data collection methods, or through the use of both methods. Primary data is data collected by the researcher him/herself for a specific research problem using techniques that best suit the research problem (Hox & Boeije, 2005:593). Conversely, secondary data refers to information collected by institutions, agencies and other people apart from the researcher him/herself (Welman, Kruger & Mitchell, 2005:149). For the purpose of this study, data was collected through primary data and secondary collection methods. The collection of data was intended to address the aim and objectives of the study, the research questions as well as the problem statement.

3.6.1 Primary Data Collection

The primary data was collected from the respondents in relation to the availability and effectiveness of financial management policies and prescripts, the financial management challenges faced by LEDA, strategies that are in place to improve financial performance as well as the role plays by the Board of Directors in ensuring the financial sustainability of the Agency. The researcher collected primary data through the use of interviews instrument which is a technique predominantly used for collecting data in qualitative research through direct interchange of information with an individual who is knowledgeable about the study (Depoy & Gilson, 2008:108). In qualitative research, two key methods of interviews are used, namely, semi-structured and unstructured interviews (Bryman, 2012:469).

For the purpose of this study, the researcher selected the use of semi-structured interview schedule. Semi-structured interviews are formal and flexible method of collecting data in which the researcher uses to gain a detailed picture of participant's belief and perceptions about the research. The instrument was chosen because it is

adjustable and allows the researcher to ask follow-up questions on answers given by the interviewee in order to get a broader picture on the information given. In the utilisation of semi-structured interview, the researcher was guided by the pre-formulated interview questions (De Vos, Strydom, Fouché & Delpont, 2012:353; Bryman, 2012:212). The structure of the interview questions used is outlined below.

3.6.1.1 Structure of the interview schedule

The interview schedule in this study consisted of section A which included biographical information and Section B which comprised of the criteria to assess the availability and effectiveness of financial policies, systems and procedures, criteria to assess financial performance and challenges of LEDA, and criteria to assess the roles and responsibilities of Board of Directors in ensuring effective financial management of LEDA. The same semi-structured interview schedule was used to collect data from all the participants – one member from the Board of Directors, six managers from the executive management and four middle managers who both have the financial responsibility and accountability towards ensuring the sustainability of the Agency. Both open and close ended questions were utilised which explored the perceptions and attitude of the respondents regarding the effectiveness of financial management of LEDA in improving its financial performance.

3.6.2 Secondary Data Collection

Secondary data in this study encompasses accounting data which enabled the researcher to understand the financial performance status, challenges and sustainability of the Agency. Secondary data was collected through the review of management information systems in the form of reports such as annual reports, audited financial statements, government legislations, books and journals that bears the relevant information to the research.

3.7 DATA ANALYSIS

Kawulich (2004:97) defines data analysis as the process of reducing huge amount of collected data to make logic of them. Data analysis is important and helps the researcher to organise and compress data in order to answer research questions, achieve research objectives and make conclusions about the area of study. The research in this area took

the form of qualitative method. According to Taylor-Powell and Renner (2003:2), qualitative data is analysed through systematic processes that involves the following:

- Understanding of the data collected through reading and re-reading the text and listening to the audio tape recordings several times;
- Putting focus on the analysis by organising data by questions and answers from respondents to identify consistencies and differences; and
- Categorising information or coding by discovering patterns and relations within and between categories.

In this study, the researcher has analysed the collected data through the use of the thematic data analysis method. The thematic data analysis method is defined as a qualitative method that identifies, analyse and report themes within a data (Braun & Clarke, 2006:79). The researcher transcribed the interview responses, read transcripts numerous times to make sense of the interviews and obtain connections between the data collected and the literature reviewed in order to make generalisation of the study. In analysing data, the researcher organised the raw data into categories and created themes (De Vos, Strydom, Fouché & Delpont, 2012:410; Zikmund, 1997:533; Neuman, 2006:460).

3.8 VALIDITY AND RELIABILITY

The validity and reliability of data collecting instruments are fundamental in ensuring the credibility and trustworthiness of the research and they are discussed below.

3.8.1 Validity of the Instrument used to Collect Data

The validity refers to the degree to which a measuring instrument measures what it is intended to measure. The validity is important because the objective of the study should represent what the researcher is exploring (Pieters, 1999:203; Welman, Kruger & Mitchell 2005:9). For the purpose of this study, content validity was considered in measuring as to whether the collected data include collection of contents as per the literature reviewed. Thus, data collected was scrutinised and linked with the literature reviewed with the purpose of deriving an informed conclusion (Babbie, 2007:147).

3.8.2 Reliability of the Instrument used to Collect Data

According to Pieters (1999:203), reliability refers to the measuring procedure that makes it possible to obtain a similar or consistent results every time the same instrument is applied, irrespective of where and when the instrument is used. The data pertaining to the area of study was collected primarily, through the use of a pre-formulated interview schedule which was the same for the selected sample. The interview schedule was developed based on the research problem, questions as well as research objectives.

Further data was collected from sources that include audited financial statements and the annual reports to enhance the reliability of information. Financial statements, management reports and published annual reports are useful to provide a reliable information regarding financial performance and the effectiveness of an enterprise. This is so because financial statements and annual reports are prepared by the authorised officials and are audited by the Office of the Auditor General or the external auditor (Periasamy, 2010:150).

3.9 ETHICAL CONSIDERATIONS

Ethics is a concept which concerns people's views, their drives for choices as well as their simulations of good and bad conduct. Good conducts denote obeying rules in performing set tasks regardless of consequences and motives (Moodali, 2001:96; Pauw, Woods, van der Linde, Fourie & Visser, 2010:338). Collecting data from people raises ethical concerns and therefore it is required of the researcher to take care in avoiding harming people, having due regard for their privacy, respecting them as individuals and not subjecting them to unnecessary research and harm. The researcher guarded against both physical and psychological harm, noted that people have the right to privacy and therefore conducted the study professionally and honestly, and maintained to keep the collected data confidential and anonymous (Goddard & Melville, 2001:49).

3.9.1 Confidentiality

Confidentiality refers to the ability of the researcher to guarantee respondents' of their right to anonymity. That is, even if the information gathered contain names, the researcher keeps it private to the public by not releasing the research report in a way that link individuals to responses (Neuman, 2006:139). In an effort to enhance confidentiality, the researcher wrote a letter to respondents outlining the purpose of the research and

guarantee them that the information gathered will be kept confidential and be utilized particularly for the purpose of this study.

3.9.2 Honesty

Data collected was recorded as accurate as possible to avoid misrepresentation of information collected. As part of conducting a research, the researcher is required to uphold to honesty and refrain from data fabrication or misrepresentation nor betraying citizenry. The researcher was honest in describing the procedures and instruments used for collecting data as well as presentation of research report (David & Resnik, 2011:2).

3.9.3 Permission to Conduct a Research

In an endeavor to promote professionalism in conducting this research, the researcher obtained permission from the Accounting Authority of the Limpopo Economic Development Agency to which an approval was granted in writing. The motivation for the study clearly stated who, when and how the research will be conducted (Nkatini, 2005:34). The research was conducted within the available institutional guidelines and government legislative requirements.

3.9.4 Informed Consent

Ethical considerations further require the researcher to obtain permission from the respondents. Thus, an informed consent form informing the participants about the purpose of the interview and the research was designed and signed by the respondents. An informed consent form also put emphasis on the confidentiality and anonymity of the information gathered to achieve the aim of the study (Welman, Kruger & Mitchell, 2005:201).

3.10 CONCLUSION

This chapter discussed the research methodology that was used to explore the research problem which include the research design, population, sampling, data collection and data analysis techniques. Qualitative research design was chosen to explore the effectiveness of financial management of LEDA in improving its financial performance. This method was chosen because by nature, effectiveness cannot be measured and reliance is placed by interviewing the respondents to understand their perception regarding the subject matter. Pre-formulated interview schedule was used to guide the interview process. The

population of the study included the Board of Directors, the executive and middle management of LEDA. Thus, the study was focused on LEDA's headquarters which is situated at Lebowakgomo in the Limpopo Province. Purposive sampling was used to identify participants that are knowledgeable and accountable in the area of study. Ethical considerations espoused by the researcher were also contemplated. The next chapter focuses on data analysis and interpretation thereof.

CHAPTER FOUR

ANALYSIS OF DATA

4.1 INTRODUCTION

As the aim of this study was to evaluate if financial management of LEDA, a State-Owned Enterprise is effective in improving its financial performance, it became imperative to outline the research design and methods of collecting data as discussed in chapter three.

This chapter focuses on the presentation, interpretation and analysis of data gathered from LEDA primarily through a qualitative research approach based on face-to-face interviews with the Board of Directors, executive management as well as middle management which were purposefully selected based on their contributory role on financial performance and sustainability of LEDA.

4.2 INTERVIEW RESPONSE RATE

Thirteen office holders of LEDA were sampled for the study, namely, three members from the Board of Directors, six managers from the executive management position and four middle managers. However, the interviews were conducted with eleven officials instead of thirteen that were initially identified. The officials that were available for interviews were one member from the Board of Directors, six managers from the executive management, and four middle managers. The other two members of the Board of Directors could not be reached because of their tight schedule as they belong to various boards of companies. Their unavailability however, did not hinder the progress and authenticity of data collection as the total response rate made up 85%.

4.3 PRESENTATION OF DATA

This part consists of Section A which presents the biographic information of the respondents and Section B which comprises of the findings from the contextual questions asked to explore perceptions and attitude of the respondents regarding the effectiveness of financial management of LEDA in improving its financial performance.

4.3.1 Section A: The Biographical Data of the Respondents

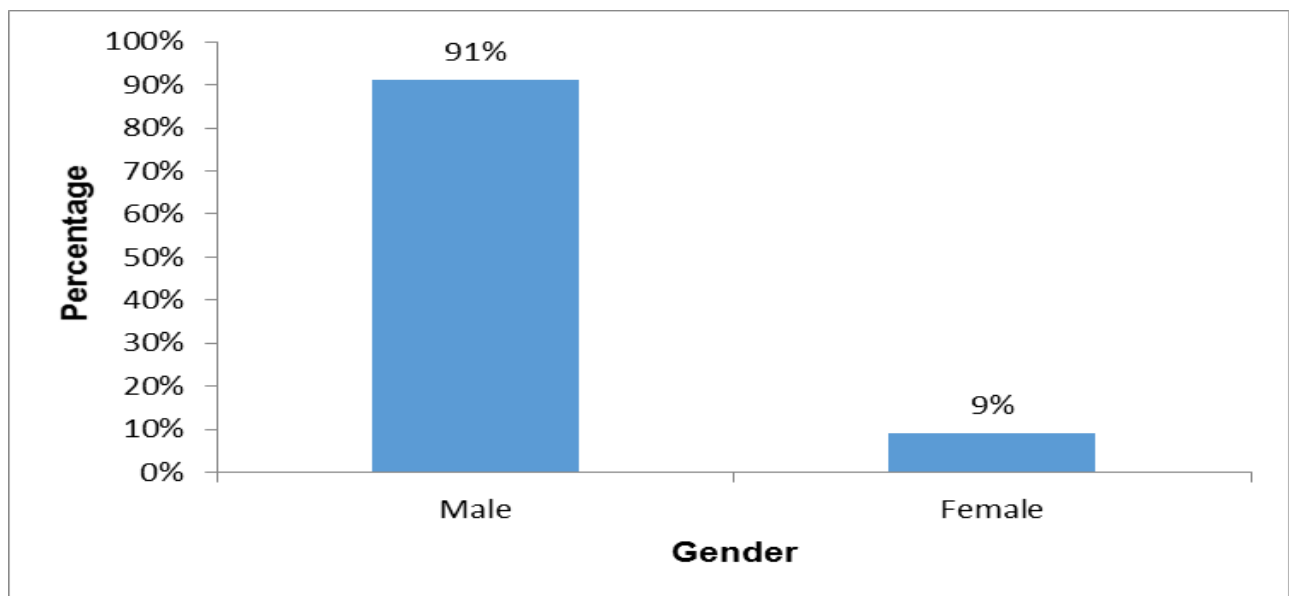
The respondents were profiled based on their gender, age category, race, position within the organisation, job experience, educational background and job status.

4.3.1.1 Respondents by gender

Figure 4.1 reflects the gender profile of respondents. Out of eleven respondents, males constituted ten (91%) with only one (9%) female participant. In terms of LEDA's Annual Report (2014/15:66), the staff profile shows that there was one (1%) female at executive management level compared to six (6%) males, twelve (13%) females at senior management level versus nineteen (20%) males, whereas at middle management level there were eighteen (19%) females as compared to thirty nine (41%) males. The gender statistics depicts that LEDA is a male dominated institution. This is despite the fact that Limpopo Province is female dominated with three million and fifty six thousand, eight hundred and ninety three (3 056 893) as compared to total male population of two million, seven hundred and forty seven thousand and forty nine (2 747 049) males (Statistics South Africa, 2015:15).

Determining the gender of respondents were important because the South African government seeks to promote equity in the workplace by promoting equal opportunity and fair treatment in employment. The government further developed the Gender Policy Framework to guide practices and procedures in ensuring equal opportunities for men and women in the workplace (Employment Equity Act, Act 55 of 1998:5; South Africa's National Policy Framework for Women's Empowerment and Gender Equality, 2000:4). Consequently, organisations should seek to promote a balance between employment of male and female employees. The study conducted by Hoogendoorn & Oosterbeek van Praag (2013:15) reveal that organisations with the balance of men and women employees out performs the male dominated ones with regard to financial performance.

Figure 4.1: Respondents by gender



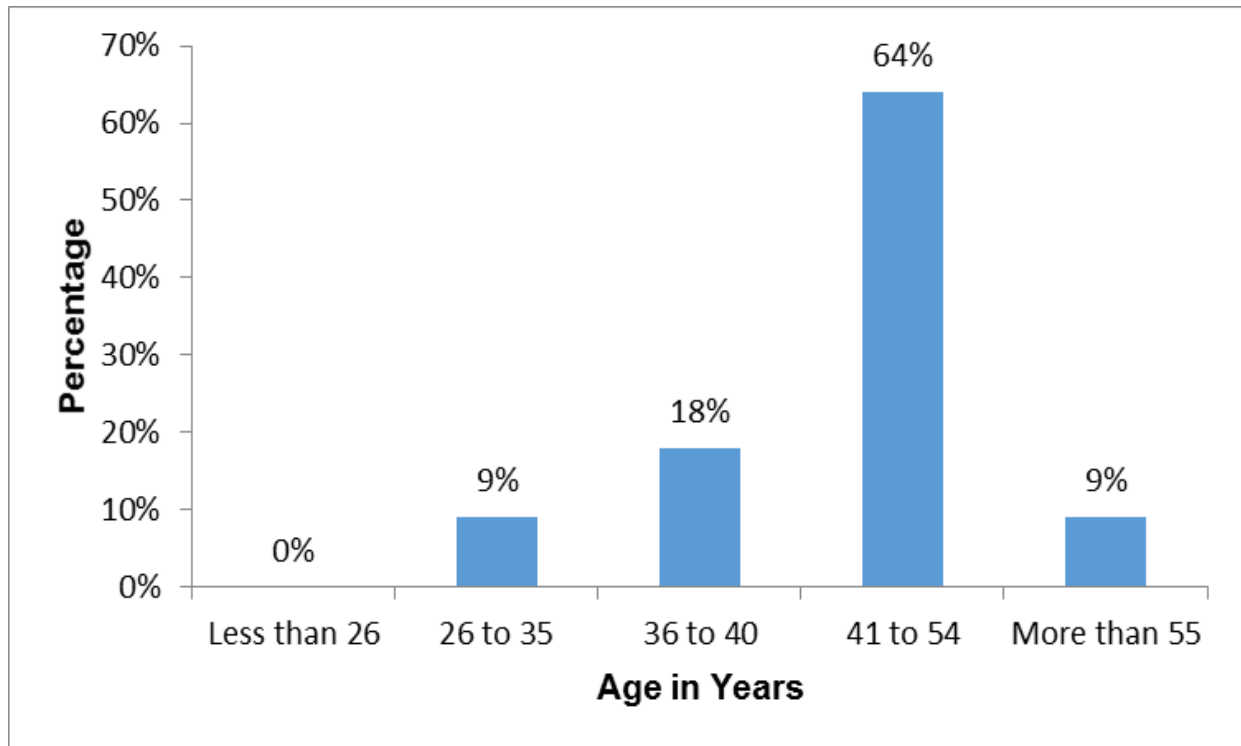
4.3.1.2 Respondents by age category

Figure 4.2 depicts the age categories of the respondents which ranges from 26 years to 55 years and above. Out of eleven respondents, there was one (9%) participant falling under the age category of 26 to 35 years, two (18%) respondents with 36 to 40 years, seven (64%) respondents with 41 to 54 years and one (9%) participant in the age group of more than 55 years. It means the majority (73%) of the respondents fall into the age category of 41 years and above.

From figure 4.2 it is clear that the majority of the workforce belongs to Generation X, which means they are older than 36 years of age as compared to Generation Y of age below 36 years. These results could suggest that LEDA's management is aging and there is no succession planning as youth only represents 9% of the respondents. It is imperative that organisations should strive for a balance workforce and develop strategies to keep older workers and transfer their knowledge and skills to younger employees to ensure result driven, customer satisfaction, profitability and continuity of organisations (Rothwell 2010:6; Morton, Foster & Sedlar, 2005:5).

Profiling respondents by age category is critical because Section 195(1) of the Constitution of the Republic of South Africa of 1996 provides that public administration must be broadly representative of the South African people, with employment and personnel management practices based on ability, objectivity, fairness, and the need to redress the imbalances of the past to achieve broad representation.

Figure 4.2: Respondents by age category

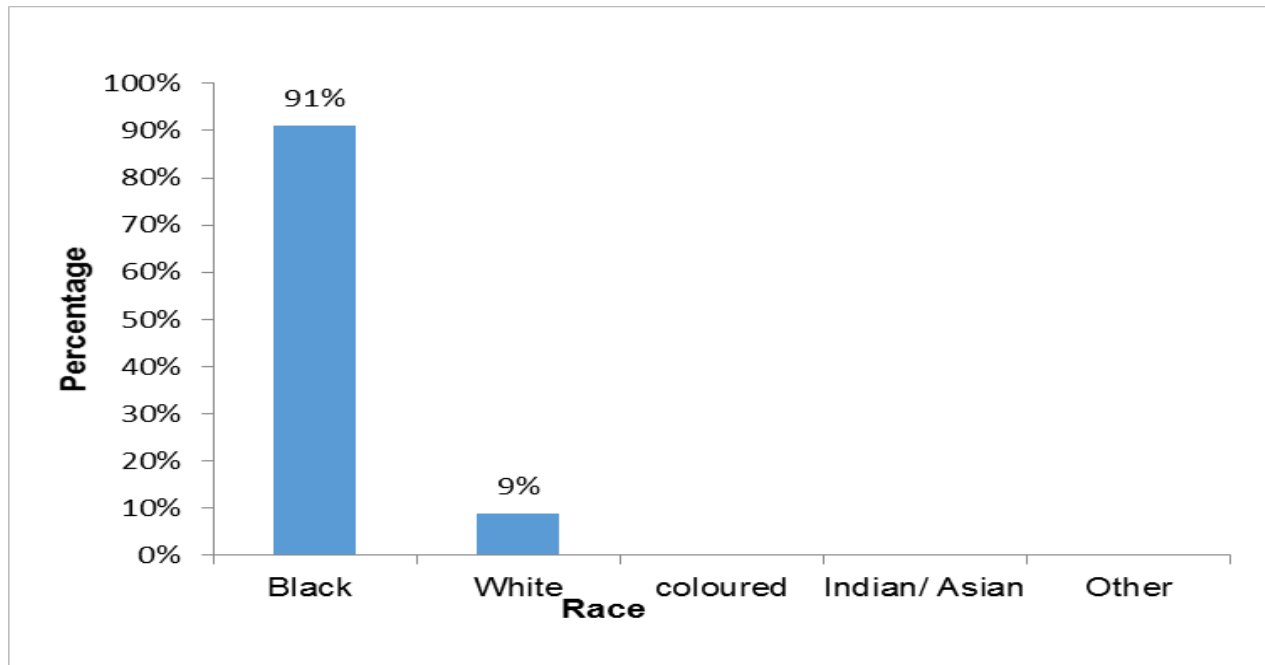


4.3.1.3 Respondents by race

Figure 4.3 represents the profile of the participants in terms of race. The majority of the respondents were Blacks with ten participants (91%), one White (9%) participant whereas Coloureds and Indians/Asians were not represented. In terms of LEDA staff establishment, Blacks constitute four-hundred-and-twelve (97%), Whites make seven (2%), Indians/Asians make two (1%) while Coloureds are not represented (Limpopo Economic Development Agency, 2012/13:34). In terms of race population the Limpopo Province is comprised of 97% Blacks, 1% Coloureds and Indians, and 2% Whites (Statistics South Africa, 2012:17).

The results show that LEDA is a black dominated organisation and it is perceived that the reason for black group domination attributes to the fact that LEDA's operations focus on developing the rural communities as well as the promotion of small, medium and micro enterprises (SMMEs) in the Limpopo Province unlike the commercial banks.

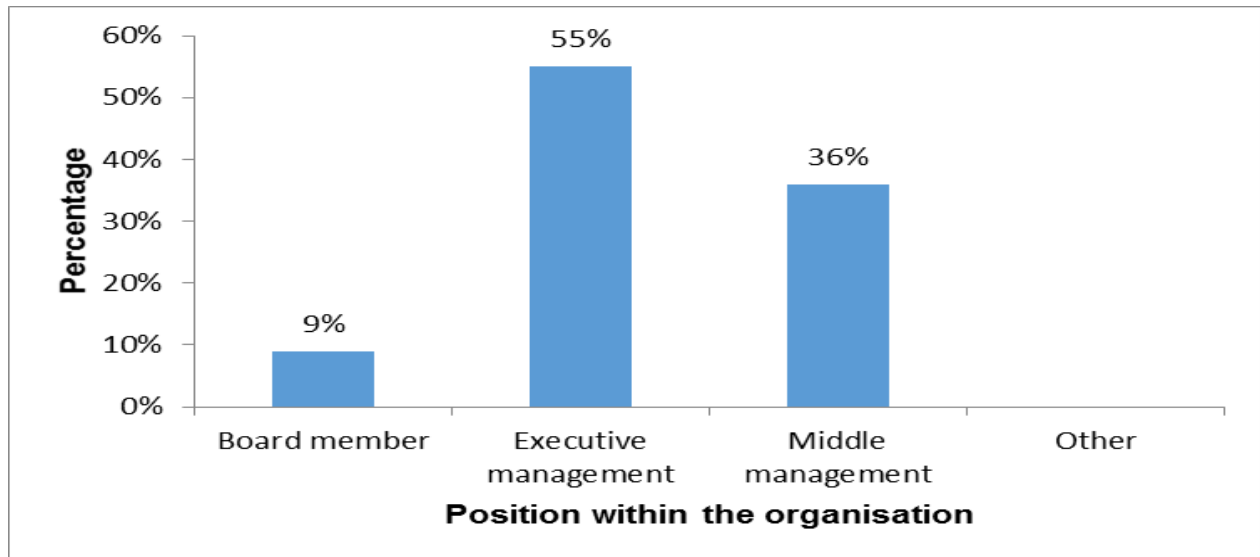
Figure 4.3: Respondents by race



4.3.1.4 Respondents by position within the organisation

Figure 4.4 illustrates the profile of respondents by their position within LEDA. The executive management encompassed the greatest single proportion of six (55%) participants, middle management constituted four (36%) respondents while the Board of Directors counted the lowest at one (9%). The executive management sampling comprised the greatest single proportion because of their key role in ensuring that strategic decisions of the Board are implemented effectively and timeously. Conversely, the Board of Directors are few in number due to the nature of the organisational structure, and the fact that the presence of too large a Board contributes to delays in decision-making and increases the risk of red tape (Department of Public Enterprises, 2002:17; KPMG, 2012:50).

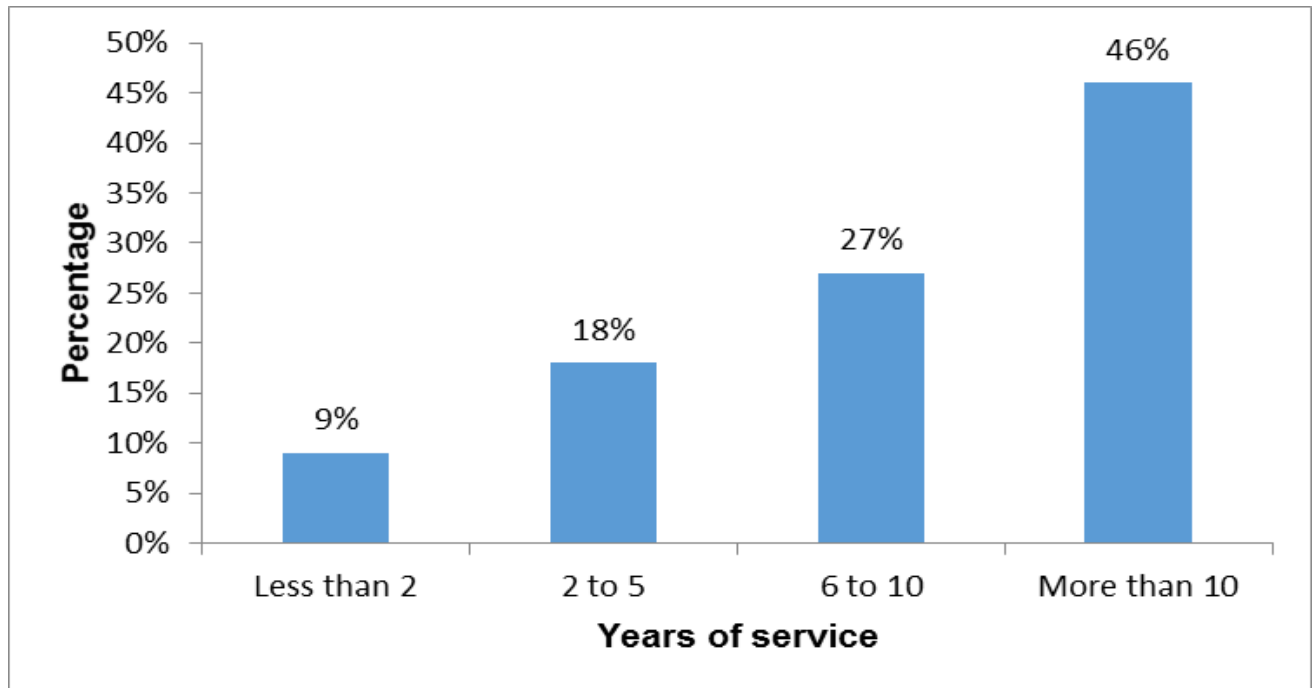
Figure 4.4: Respondents by position within LEDA



4.3.1.5 Respondents by job experience

Figure 4.5 portrays the profile of respondents by job experience within LEDA. There was only one respondent (9%) with less than two years experience, two (18%) respondents with 2 to 5 years, three (27%) respondents with 6 to 10 years while respondents with more than 10 years comprised 46% which reflects the greatest single proportion. The greatest single proportion of the respondents had extensive years of experience which suggests that they had sufficient expertise to contribute to the effective financial performance and sustainability of LEDA. Hillman (2015:1) suggests that an experienced workforce usually has encountered and overcome many work related challenges and as such does not require comprehensive training and it reduces training costs while allowing greater organisational performance.

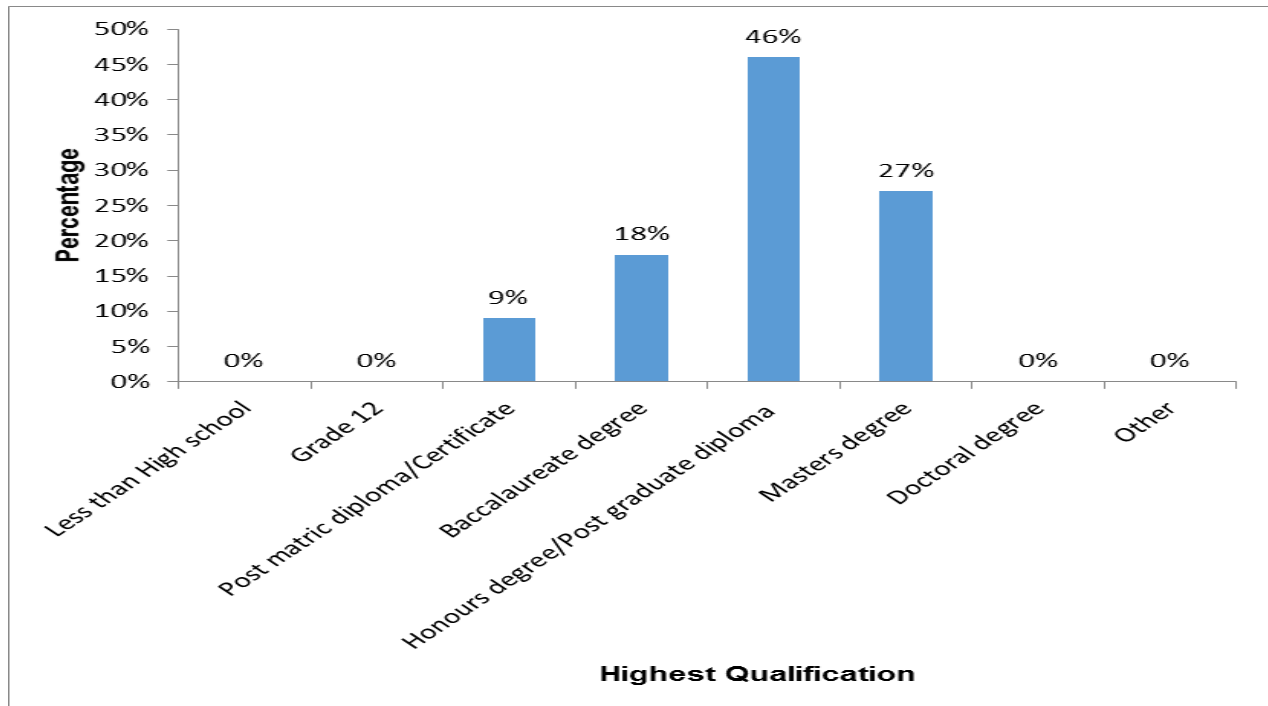
Figure 4.5: Respondents by years of service



4.3.1.6 Respondents by highest qualification

Figure 4.6 depicts that out of eleven respondents, five (46%) participants had Honours Degrees representing the greatest single proportion, three (27%) had Masters Degrees, two (18%) respondents had Baccalaureate Degrees whereas respondents with a post matric certificate/diploma comprised of one participant (9%). The figure further depicts that there are no respondents with the qualifications less than high school, Grade 12 (Matric/Std 10) as well as doctoral degree (PhD). These results illustrate that LEDA has an educated workforce that could bring and implement strategies to ensure the continuity and profitability of the Agency, if they aptly apply their knowledge and skills in improving the financial performance of the organisation.

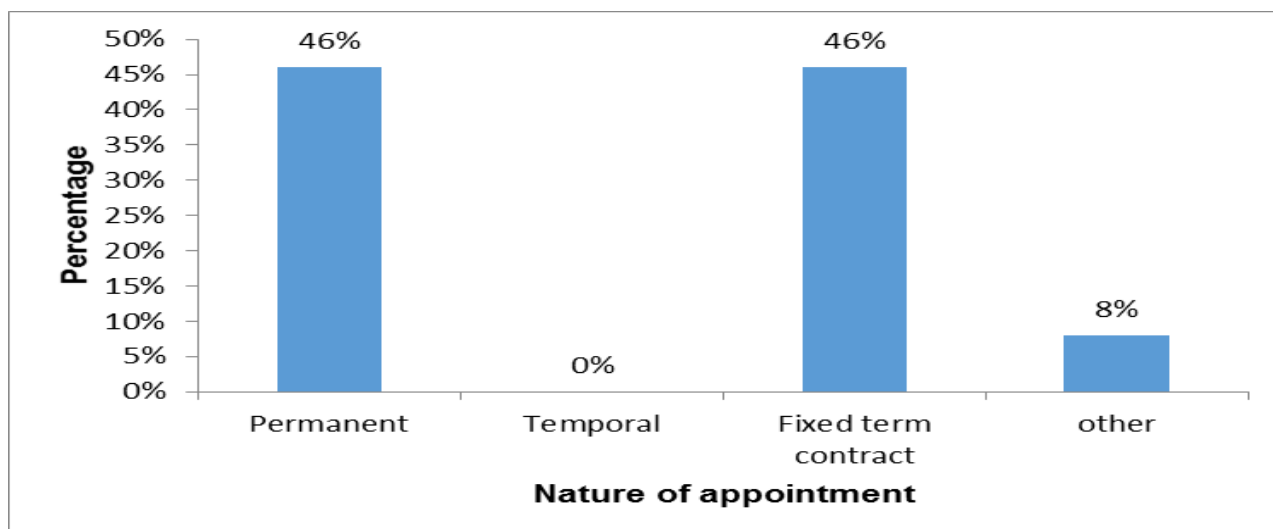
Figure 4.6: Respondents by educational background



4.3.1.7 Respondents by nature of employment

Figure 4.7 reflects the profile of respondents by their job status. Five (46%) of the respondents are appointed permanently, five (46%) appointed on a fixed term contract, while only one respondent (8%) has other job status in the form of interim appointment. Despite the fact that the appointment of executive management on fixed term contract obliges them to perform their duties diligently and competently, a fixed term contract appointment as espoused by Melbinger (2004:3) could have a negative impact in the organisational performance because employees may be discouraged and look for permanent positions elsewhere. Furthermore, Wandera (2011:200) states that the employment of staff on a short term basis results in a spontaneous labour turnover, low staff morale and low organisational performance.

Figure 4.7: Employment by nature of employment



4.3.2 Section B: Perceptions of the Respondents regarding the Effectiveness of Financial Management of LEDA

Section B summarises the results of open-ended qualitative questions designed to gather respondents' perceptions on the effectiveness of financial management at LEDA in improving its financial performance. The researcher used thematic analysis when developing questions and in analysing the qualitative responses.

4.3.2.1 Theme 1: The effectiveness of financial policies and procedures

The respondents were asked to share their opinion about the effectiveness of LEDA's financial policies and procedures. This question aimed to test the effectiveness of policies and procedures towards improving the financial performance of LEDA. Out of eleven respondents, seven (64%) of the respondents agreed that the financial policies and procedures used by LEDA were effective because the Agency obtained an unqualified audit opinion in the past two consecutive financial years, that is in the 2013/14 and 2014/15 financial years (Limpopo Economic Development Agency, 2013/14:64; Limpopo Economic Development Agency, 2014/15:87). The participants were of the view that the unqualified audit opinion is an indication of improved financial management and tight internal controls and procedures put in place. Respondent E emphasised that the fact that LEDA was formed in 2012 after the amalgamation of four Agencies, an unqualified audit opinion obtained in 2013/14 and 2014/15 financial years reflected that the financial policies and procedures were effective.

Despite the majority of respondents (64%) agreeing that the financial policies and procedures were effective, three (27%) of respondents are of the view that LEDA's financial policies and procedures were not effective because they were not communicated to staff. It is imperative that organisations should ensure regular communication of policies to instil compliance and common understanding towards the attainment of objectives. As mentioned by Laurel (2005:80), effective employee communication help employees understand the organisational goals, respond positively to change and contribute meaningfully to the financial outcomes. Therefore, policies should be distributed and explained to staff to ensure their effectiveness.

Moreover, one respondent (9%) disagreed that LEDA had financial policies and procedures available. Respondent F indicated that LEDA did not have financial management policies and procedures and thus implemented the PFMA and Treasury Regulations. The participant further stated that if the Agency had the financial policies and procedure manual, he/she had never come across such policies. This response supports the sentiments of Respondent A that policies and procedures were not well communicated to all employees.

4.3.2.2 Theme 2: The alignment of financial policies with the PFMA and Treasury Regulations

The participants were asked whether LEDA's financial policies were aligned to the Public Finance Management Act and Treasury Regulations. This question was intended to measure whether the Agency complied with the PFMA and Treasury Regulations when developing financial policies and procedures. The PFMA and Treasury Regulations are established by government to regulate financial management in the national and provincial government inclusive of SOEs and as a result the alignment of financial management policies with these legislations aid compliance thereof. The majority of the respondents, ten (91%), agreed that LEDA's financial policies were informed by the Public Finance Management Act and Treasury Regulations.

Respondent C attested that prior to 2011, LEDA was audited by private companies and the focus was always on the financial profitability without putting more effort on compliance of financial legislations. With the introduction of the Auditor General auditing the books of SOEs in 2010/11 financial year, the Agency was therefore audited on the financial performance and compliance with the PFMA and Treasury regulations. Thus,

the Agency was found wanting and took approximately two years obtaining qualified audit opinion on matters relating to compliance. However, LEDA has since improved as evidenced by the unqualified audit opinion received in the past two financial years.

4.3.2.3 Theme 3: Financial accountability of the Executive Management to the Board of Directors

Participants were asked how the management of LEDA accounted to the Board on financial performance in their area of jurisdiction. This was asked to identify whether the executive management understood their reporting role with regard to the financial performance in their area of operation. All the eleven (100%) respondents indicated that the executive management reported their financial performance to the Board of Directors through the Board Audit and Risk Audit Committee.

“At LEDA we have an Executive Committee which comprises of the executive managers or let’s say directors of each division. From EXCO it will go to the Board Audit and Risk Committee (BARC) which is a subcommittee of the Board of directors. At any stage from EXCO or BARC it can be referred back to management if they need clarity or any details. But from the Board Audit and Risk Committee it will go to the Board itself.” (Respondent B).

4.3.2.4 Theme 4: Mechanism used by the Board to monitor financial performance of the Agency

The researcher wanted to know the monitoring system the Board employed to ensure the effective financial performance of LEDA. This question was intended to test whether the Board played its role in monitoring LEDA’s financial performance. The majority, ten (91%), of the respondents were of the view that the Board monitored the financial performance of the Agency through the Board Audit and Risk Committee which coordinates and analyses the financial performance reports and presents to the Board for review and recommendations. The participants’ concurrence affirms the literature reviewed which states that the audit committee plays the fundamental role in confirming the integrity of financial management reporting and the proper identification and management of organisational risks (Department of Public Enterprises, 2002:15). The responses gathered reflect that the Board played its role in monitoring the financial performance of the Agency and in ensuring that relevant governance structures are put in place.

On the other hand, one (9%) respondent are of the view that the Board applied the Performance Management and Development System to monitor and encourage employees to achieve LEDA's financial performance. Mishra (2014:49) suggests that employees' performance management system which is aligned with SOEs predetermined objectives is the remedy for improving organisational performance.

"LEDA is involved in an incentive bonus scheme for all staff from top right down; these are in alignment with APP and our annual performance as well as programme for APP for finances itself, which speaks directly to financial management. So on a group or agency level, the board is involved to actually look at KPI's of different staff members within finance and evaluate how their contribution is made towards the achievement of the APP and unqualified audit opinion at the end of the day." Respondent B.

4.3.2.5 Theme 5: Performance accountability by the Board of Directors to the shareholder

The respondents were asked to outline the mechanisms employed by the Board to account to the shareholder. This question was posed to establish whether the Board accounted to the shareholder on both financial and non-financial performance of the Agency. All respondents (100%) displayed that the financial and non-financial performance of the Agency were reported by the Board to the shareholder through the submission of quarterly reports, bilateral meetings and Annual General Meetings.

The participants also stated that the Board of Directors and the shareholder had entered into a Shareholder's Compact to regulate the performance deliverables and reporting requirements of the Agency. According to the National Treasury (2002:2), the Shareholder's Compact is a tool used by the shareholder to outline SOEs' performance expectations and limitations.

Respondent E mentioned that on a quarterly basis the Board submitted the performance of the Agency to the shareholder in line with the Shareholder's Compact and the Annual Performance Plan. Furthermore, the Board provided the shareholder with reasons for any performance deviations, and whatever questions the shareholder wanted to ask; they would interrogate the report and the Board had to provide answers to those questions.

4.3.2.6 Theme 6: Frequency of reporting the performance by the Board to the shareholder

The respondents were asked how often the Board of Directors' reported the financial and non-financial performance of the Agency to the shareholder. This question was to probe whether the Board produced and presented timely performance reports to enable the shareholder make informed decisions about the financial self-sustainability of the Agency. All (100%) participants indicated that the reports on the financial and non-financial performance were prepared and endorsed by the Board and submitted to the shareholder quarterly in line with the Shareholder's Compact. The performance of the Agency was also discussed during the annual general meeting and also the shareholder had a representative in Board meetings who served as a line of communication between the Board and the shareholder.

In addition, four (36%) respondents said that the shareholder might require performance reports at any time as stipulated in the Shareholder's Compact.

4.3.2.7 Theme 7: Feedback and recommendations by the shareholder to the Board

The respondents were probed to provide details on how the shareholder provided feedback and recommendations to the Board on the performance of the Agency. The question was asked to test the communication flow from the shareholder to the Agency on the financial and non-financial performance. Six (55%) respondents reflected that the shareholder provided feedback and recommendations to the Board through bilateral meetings, Annual General Meetings, through representative of the shareholder in Board meetings and in writing.

Respondent K echoed that the feedback was provided to the Agency through the shareholder representative in the Board where issues requiring attention by the Board were raised. The shareholder also gave a broad outline relating to the performance of the preceding year and expectations of the forthcoming year during the Annual General Meeting.

However, two (18%) of the respondents agreed that the shareholder provided feedback on the financial and non-financial performance of the Agency. However, they contended that the executive management did not disseminate feedback to the employees and that the line of reporting was not well defined. The participants stated that the shareholder

sometimes invited the executive management to the portfolio meetings and Legislature to account without the knowledge of the Board.

On the contrary, three (27%) of the respondents were of the view that the shareholder did not provide feedback to the Board on financial and non-financial performance of the Agency.

“On this one I’ll be lying. I don’t know if they do provide feedback. I’m not sure. Maybe the CFO... at a CFO level; because I never received a report or saw a report saying the shareholder or saying something. I don’t even know if the shareholder reviews our report. According to me, I think that is the other thing that is lacking.”
Respondent J.

4.3.2.8 Theme 8: Financial Sustainability of SOEs

The respondents were asked to state their views on whether LEDA could be financially self-sustainable. This question was intended to establish whether the Agency had the potential to sustain itself financially as a government business enterprise. The participants agreed that LEDA had the potential to sustain itself financially. However, the Agency needed to consider strengthening its investment opportunities and revenue collection processes as well as the separation of economic and social responsibilities.

(i) The strengthening of investment opportunities and revenue collection processes

The majority, nine (82%) of the participants agreed that LEDA had to reinforce its investment opportunities and revenue collection strategies. Respondent A stated that LEDA could sustain itself financially in the short to medium term however, it required a catalyst to lead the financial sustainability strategies. LEDA has non-core investments that could be disposed for a fee to support potential profitable investments. LEDA owns forty percent in ASA Metals (Pty) Ltd which is a multibillion business however, it is making losses. If such investments are profitable, they could support both the non-financial and financial operation of LEDA and attract more investments.

Respondent F stated that LEDA in terms of its formation was a Schedule 3D business enterprise which meant it was expected to be financially self-sustainable, although it is not yet at that stage. Consequently, the Agency should consider developing and implementing policy guidelines on investment and equity funding. The investment guideline document would provide direction on how and where the Agency should invest

and yield good returns which will in turn improve LEDA's financial performance and sustainability.

Respondent F further said that in the recent past, all the business divisions of LEDA had been mandated to develop turnaround strategies focusing on generating more revenue to improve its financial performance and the financial self-sustainability. The participant stated that if the Agency could get all business divisions to collect revenue on a monthly basis at 100% including property division, LEDA could be financially self-sustainable but because it is a government-owned institution, the management of the Agency tended to be very lenient.

In terms of the literature reviewed, financial sustainability concerns the continuing ability of the organisation to generate enough resources to achieve its vision. SOEs are required to earn sufficient commercial returns to justify their ability to exist in the future and to pay commercial dividends to the shareholder from those returns (Department of Public Enterprises, 2002:26; CIVICUS, 2003:6).

(ii) The separation of economic and social responsibilities

Five (46%) of the respondents added that if government were concerned about financial performance and sustainability of LEDA, it had to consider separating the performance of economic and social responsibilities. They thus suggested that social responsibilities should be transferred from LEDA to government departments or non-government business enterprises.

Respondent G said LEDA could not be financially self-sustainable unless the social responsibility could be separated from the economic responsibility. Within LEDA, there are former Trade and Investment Limpopo, Limpopo Agricultural Development and Limpopo Business Support Agency that are not for profit making while on the other hand there is Enterprise Development and Finance division which is for profit making. The respondent raised a view that, for LEDA to improve its financial performance, all the non-income generating divisions should be transferred to government departments and LEDA focus on the business units that generate revenue to ensure its financial sustainability.

Contrary to the views of the respondents for separating economic and social responsibility, Aharoni (1981:1341) postulates that SOEs are established by government to undertake both social and economic responsibilities. Moreover, SOEs are expected to

generate cash flows in excess of their cash outflows to meet their business requirements and should provide an undertaking for public accountability.

4.3.2.9 Theme 9: Financial management challenges

The respondents were asked to express their views regarding the financial management challenges that were faced by LEDA in improving its financial performance. This question was intended to identify financial management constraints and to propose solutions that would aid the enhancement of the financial performance of LEDA. All (100%) participants acknowledged that the Agency encountered financial management predicaments that impacted negatively on LEDA's financial performance which the researcher categorises below in terms of the following sub-themes:

- Lack of proper funding for expansion of business operations;
- Poor collection of revenue;
- Lack of effective financial management accounting and reporting system;
- Shortage of financial management staff;
- Poor change management approach and lack of financial management training; and
- Long turnaround time for auditing the accounting books.

(i) Lack of proper funding for expansion of business operations

Out of eleven respondents, seven (64%) emphasised that the amalgamation of four Agencies (LIMDEV, LIBSA, ARDC and TIL) into LEDA resulted in the Agency being financially insufficient. The incorporation of three Agencies (LIBSA, ARDC and TIL) which were mainly created to execute social responsibilities, with one Agency (LIMDEV) which was created to perform the economic responsibilities has brought the financial difficulties in LEDA.

According to the participants, the social responsibility function is not fully funded by government and therefore it depends financially on the profit generated through economic responsibility at the expense of business expansion. The respondents were also of the view that the Agency could not perform both the social and the economic responsibilities simultaneously. If the two responsibilities were carried by the same Agency there would be a financial compromise on the part of economic responsibility. The participants further indicated that maintaining equilibrium between being a profit

generating company as well as complying with the government financial legislations retracted the financial sustainability of LEDA.

Respondent C outlined that the Agency was required to balance the mandate of being a company and a State-Owned Enterprise which is time consuming since it entails complying with the PFMA and Treasury Regulations and that compromises the Agency to operate on commercial principles.

Also, seven (64%) respondents believe that the Public Finance Management Act and Treasury Regulation restrict SOEs from borrowings whereas the grant that is allocated to the Agency is decreasing yearly and consequently hindering the financial performance and sustainability of LEDA.

“The PFMA, I think somewhere around section 30 to 50 makes specific mention that you are not allowed to get loan funding. This specific section that prohibits us from getting some types of funding is the one we want exemption for. Why should the money only be coming from tax payers? Why can't your Absa's Standard banks and DBSA's, both private and public help us unlock the potential in the province and in creating jobs? Why rely on Treasury when we know that grant can become less in future.” Respondent B.

(ii) Poor collection of revenue

The majority, nine (82%), of respondents stressed that the collection of revenue in LEDA is poor. This implies that the revenue collection and loan policies are poor on not implemented to the latter.

Respondent B highlighted that although revenue collection was of great importance to the Agency, LEDA had a big challenge in collecting its revenue. The revenue collection challenge was exacerbated by the inheritance of long outstanding debts of over 20 years as a result of the amalgamation of the business and non-business enterprises and it was difficult to recover the debts. Consequently, it is imperative that LEDA should provide plans to close the gaps and develop future revenue collection strategies because the future government grant is not guaranteed.

Respondent C accentuated that government was more interested in complying with financial and other legislations to obtain clean audit opinion rather than the profitability of SOEs. Respondent G added that the Agency had to consider maximising revenue

collection as well as minimising operational costs such as Travelling and Subsistence and communication costs in improving the Agency's financial performance. The respondent continued by stating that other costs such as performance bonuses rewards had to be correctly aligned to the performance achieved by the individuals and not the performance of the Unit to alleviate unnecessary costs.

The literature review confirms that SOEs have the most autonomy, operate in a competitive market place where decisions are made in accordance with business principles and therefore are required to generate their own revenue. Additionally, revenue management has a close relationship with cost management because it enhances the organisation's financial returns through sales growth whereas cost management enhances financial returns through cost reduction (Huefner, 2011:5; Department of Public Service and Administration, 2003:58).

(iii) Lack of effective financial management accounting and reporting system

From the responses of seven (64%) participants, there was a reflection that LEDA's financial management and reporting systems were not effective.

As stated by Respondent A, executive management requires monthly management accounts to reflect on previous month's performance and plan properly for the forthcoming months. However, the available financial management system could not provide monthly reports and sometimes even the quarterly reports could not be extracted. The literature reviewed ascertains that managers need timeous financial reports in order to make well-informed and timely decisions and thus enhancing effective operations and increased profits. Therefore, organisations require suitable financial management and reporting systems to be financially self-sustainable (CIVICUS, 2003:6; Scott, 2007:3; Maidoki, 2013:69).

(iv) Shortage of financial management staff

Out of eleven respondents, seven (64%) respondents stated that the shortage of financial management staff was one of the impeding factors to the effective financial management and performance of LEDA.

Respondent A substantiated that the shortage of financial management personnel in LEDA remained a challenge. This was also noted during the recent past Audit Committee Meeting and the proposal was made to resource the finance division with

the suitable human resources. The shortage of financial management personnel might compromise the segregation of duties which is central in ensuring effective financial controls and thus the financial performance of the Agency. According to Gramling, Hermanson, and Shelly Ye (2010:31), adding more people to the organisation's function is one of the mechanisms to address the weaknesses in segregation of duties and thus strengthening the financial management controls.

(v) Poor change management approach and of financial management training

Eight (73%) of the participants' responses reflected that there was poor change management approach during the amalgamation of the four (4) agencies into LEDA that affected the overall financial performance adversely. The amalgamation of four agencies into LEDA brought people with various understanding of their historical mandates, business operations and financial systems. However, LEDA's employees do not have a common understanding of the organisational's objectives and financial management processes and systems.

Respondent F emphasised that after the amalgamation of four entities into LEDA, the officials operated on a trial and error in implementing the financial management legislations and policies without the proper guidance. The respondent was of the opinion that strengthening the relationship with the Provincial Treasury could assist in bringing a better understanding and interpretation of financial management processes that could address the Agency's financial management predicaments.

“The challenge of being in different industries, even the understanding of consolidation you might find that it is a challenge. And then again in terms of man-made thing, we can agree on the date when things (accounting books) can be closed where all the inputs or all the data must be finalised and you find that there's a division *that* is still lagging. It means that in that time systems cannot be closed so that you can get financial information, because you wait for that.” Respondent I.

(vi) Long turnaround time for auditing the accounting books

In as far as Respondent C is concerned, the Office of the Auditor General lacked an understanding of LEDA's operations and processes and this resulted in long turnaround time of audit which have an adverse effect on the Agency's operations and the financial performance. Respondent C further said that LEDA was comprised of various large groups of companies involving almost all sectors such as mining, transportation, property management and agriculture. Therefore, the Auditor General's office took approximately seven months to audit LEDA's accounting books because of the nature

and size of the company which left LEDA with insufficient time to perform its main operations. However, the long turnaround time for auditing of accounting books could be as a result of lack of synergy and inaccurate records as espoused by Respondent I.

4.3.2.10 Theme 10: Strategies to improve financial performance

The participants were asked to express their views with regard to the strategies that LEDA had to put in place to enhance its financial performance. This question was intended to establish future plans that were necessary to curb the Agency's financial management and performance challenges. From the responses, seven (64%) participants which represented the greatest single proportion were of the view that amongst other things, LEDA could improve its financial performance if it could be provided with full funds for the execution of social responsibilities; and if the financial control systems could be strengthened.

(i) Strengthening of financial control systems

The participants stated that the Agency had to improve financial control systems by reviewing policies, procedures as well as the accounting and reporting systems to ensure that they were compatible in supporting the achievement of its mandates, i.e. execution of both social and economic responsibilities. They are of the view that the then financial accounting system was designed specifically for LIMDEV prior to the amalgamation of the four Agencies into LEDA. The review of financial control systems had to consider the stringent measures to minimise costs and enhance revenue and debt collection. The respondents further suggested that LEDA had to develop proper financial guidelines to ring-fence gains and savings realised and investing in those projects that could yield better return on investment, thus ensuring the effectiveness of LEDA's financial management and sustainability.

According to Respondent I, LEDA did not have compatible financial management system to support reporting. The participant stated that the information management systems had to be revamped so that it suited the needs of all the four amalgamated Agencies which resulted in the formation of LEDA. In addition, Respondent B proposed that the Agency had to benchmark its financial policies and systems with its counterparts and align them accordingly to enhance competition with the commercial financial institutions.

Respondent C also suggested that LEDA had to seek a clear understanding regarding the Auditor General's requirements in improving its financial systems and controls. The

financial management systems should ensure that the accounting records could be extracted and made available as and when the Auditor General requires them. Respondent C continued by stating that proper financial management systems could reduce the audit turnaround time, enhance the compliance with the PFMA and Treasury Regulations as well as the attainment of clean audit opinion.

(ii) Provision of full funds for the execution of social responsibilities by government

Respondent D said that if the government could provide full funding for the execution of social responsibility function, the financial management and performance of LEDA could improve. Respondent E concurred by stating that the grant that came from government had to be properly budgeted for, fully allocated and clearly ring-fenced for social responsibility. In addition, LEDA had only to take for what it could provide in terms of social responsibility in line with the available funds from government in consideration of operational costs which included the salaries of people who were engaged in providing those social responsibilities.

4.3.2.11 Theme 11: Proposed solutions to address financial management challenges
All eleven (100%) respondents acknowledged that the Agency had financial management challenges. As such, the majority nine (82%) proposed the following solutions in addition to the already stated strategies that could improve the financial sustainability of LEDA,

- Ensure financial accountability; and
- Obtain PFMA exemption of borrowings and on supply chain management processes.

(i) Ensure financial accountability

One of the solutions that could improve financial performance, according to the respondents is ensuring compliance to financial management policies by staff and holding officials accountable for non-compliance with policies thereof. Respondent H suggested that, ensuring compliance of financial policies by staff would also minimise audit findings which will thus improve the financial performance of the Agency.

Respondent K accentuated that LEDA had not been strong in terms of consequence management in ensuring accountability and as such officials contravened financial controls. Year on year there were issues relating to irregular and wasteful expenditure despite the fact that the PFMA was clear on repercussions relating to financial

misconduct. He perceived that managements of LEDA were reluctant to discipline the officials. The literature reviewed concurs by accentuating that consequence management is a tool for implementation of sound performance management and monitoring (Auditor General of South Africa, 2012/13:34).

(ii) Obtain PFMA exemption of borrowings and on supply chain management processes

From the responses, it was also picked up that the participants were of the view that obtaining PFMA exemption on borrowings and on Supply Chain Management (SCM) processes would go a long way in improving the financial performance of LEDA. They were of the view that PFMA provided red tapes on SCM processes thus failing the Agency to compete fairly with private enterprises. Furthermore, the PFMA restrictions on SOEs borrowings retracted the Agency's expansion in that the Agency did not have sufficient funds to contribute fairly when investors were willing to invest in LEDA.

In as far as Respondent H, the attainment of PFMA exemption would allow LEDA to go outside the market to borrow money based on the strength of its balance sheet for expansion of its operations. In converse, government had to provide additional capital to support LEDA's sustainability projects which would improve the Agency's financial performance.

Respondent K also concurred and raised a concern that government required that LEDA had to operate on government principles being guided by the PFMA despite the fact that SOEs were established to operate based on commercial principles. He added that as a way of improving efficiencies, PFMA exemption had to be obtained and that LEDA had to operate like Industrial Development Corporations (IDC) which is given exemption for borrowings to expand business operations.

In addition, five (46%) respondents pointed out that the executive management, finance staff, Internal Audit and Risk management units of LEDA had to be equipped with the required competencies to ensure the effectiveness of LEDA's financial management. The appointment of executive management and Board members also had to consider business acumen and not be based on political orientation. The literature reviewed affirms that in order for the Board to perform its roles effectively, they should be competent in the area of financial management, business judgment, crisis response, knowledge and experience of the industry, business experience in international markets, strategic leadership and general management principles (KPMG, 2012:49).

The participants also stated that the finance unit and risk management unit were understaffed and had to be properly capacitated.

“For LEDA the biggest challenge is that of filling of vacant positions and appointing capable, qualified and experienced staff that understand the delicate balance that LEDA have between the prospering economic in generating sustainable revenue and delivering the social responsibility. Currently in LEDA the vacancy rate especially in finance is very high. We have about 8 vacant positions out of 32, almost 23%. Most are key positions, higher level” Respondent B.

“First is to appoint the people with the requisite skills because you know all these things are created because people that were on those former entities, some of those people were inherited and they find themselves in Finance without the finance background. Some of these things, sometimes it needs the people to appoint a person with the requisite skills. And this applies across the Board, even on the above people, because you see, when you have got a head that does not have the requisite skills, he cannot make the right decisions” Respondent K.

4.3.2.12 Theme 12: Further comments towards improving the financial performance and the sustainability of the Agency

The participants were requested to provide additional comments which they considered could improve the financial performance and the sustainability of LEDA. The question was asked to allow the participants to be open and impart any view which they felt could enhance the financial successes of LEDA. The participants raised numerous proposals which they are of the view that LEDA had to consider in improving its financial performance and sustainability and are presented hereunder.

- Improving revenue collection – Strengthening of revenue collection policies, procedures, processes and strategies;
- Investing in relevant technology – A comprehensive financial management system that is compatible to the Agency’s mandates would improve proper recording of financial transactions and operational efficiencies;
- Cultivating a culture for value for money – minimise spending, ensure quality spending and maximise profits;
- Close monitoring and support by both the Provincial Treasury and the mother department on financial and governance matters, as well as representation of capable officials in the Board of Directors;
- Providing proper support to SMMEs and other grant beneficiaries to ensure that once the Agency has provided financial support, they become self-sustainable;

- Establishing forums as well as benchmarking with other similar Agencies for sharing of best practices;
- Restructuring of the Agency to ensure that it responds to the new mandate emanating from the amalgamation of four Agencies - Development of business process mapping and proper organisational design could alleviate duplications of responsibilities within LEDA and enhance common understanding of its operations;
- Maintaining stability in Board of directors by appointing them over a period of more than two years; and
- Conducting change management training programmes to ensure that all employees have a common understanding of the vision, mission and strategic objectives of the Agency.

4.4 KEY FINDINGS OF THE STUDY

The summary of major findings is presented below based on the research objectives and questions:

4.4.1 Role of Board of Directors in Ensuring Effective Financial Management of LEDA

The study found that the Board of Directors monitored the financial performance of the Agency through various structures which included the Board Audit and Risk Committees. The Department of Public Enterprises (2002:8) postulates that the Board of Directors has complete responsibility over the performance of the State-Owned Enterprise and is fully accountable to the shareholder for such performance. The majority of the respondents stated that the Board reviewed and endorsed both financial and non-financial performance of the Agency and reported to the shareholder in line with the Shareholder's Compact that had been entered into between the Agency and the shareholder.

The Limpopo Economic Development Agency (2014/15:92) however, stipulates that the Shareholder's Compact does not include mandated key performance measures and indicators expected of the Agency. The exclusion of performance measures and indicators in the Shareholder's Compact could result in an Agency taking a wrong direction and thus impacting negatively on its financial performance. The Shareholder's Compact is a tool to regulate SOEs' performance deliverables, restrictions and reporting requirements (National Treasury, 2002:2).

Despite the fact that six (55%) of the respondents reflected that the shareholder reviewed the Agency's performance and provided feedback and recommendations to the Board, it is not clear as to how performance was measured since the performance measures and indicators were not stated in the Shareholder's Compact. According to the literature reviewed, the effective financial management could be achieved by reflecting the required financial management standards in the performance targets and publishing the benefits for good financial performance of an enterprise (HM Treasury Skills Advisory Panel, 2008:8).

4.4.2 Effectiveness of Financial Management Policies, Systems and Procedures and its impact on the Agency's Financial Performance

The research found out that the financial policies and procedures used by LEDA were effective. The findings concur with the Auditor General's report on the Agency's financial statements which reflect that LEDA obtained an unqualified audit opinion in the past two consecutive financial years, that is in the 2013/14 and 2014/15 financial years (Limpopo Economic Development Agency, 2013/14:64; Limpopo Economic Development Agency, 2014/15:87). However, the effectiveness of financial performance referred hereto is measured in terms of compliance to financial legislations in contrast to profitability of the Agency. The findings also reveal that the Agency spend excessive time striving to comply with the PFMA and Treasury Regulations to obtain clean audit opinion instead of focusing into the business itself because the government is more interested in complying with legislations rather than the profitability of SOEs.

The researcher analysed the reports from the Auditor-General which reflected material non-compliance to financial management legislations in areas which included expenditure and revenue management, internal controls, procurement and contract management (Limpopo Economic Development Agency, 2014/15:92). The research also found out that the Agency did not have adequate financial management and reporting systems in place which are necessary to support managers to make well informed and timely decisions. The researcher is of the view that the inadequate financial management and systems are some of the attributing factors towards the long tenure of the Auditor General in auditing the financial statements of LEDA which is costly to the government.

4.4.3 Financial Management Challenges faced by LEDA in improving its Financial Performance Since its Formation

The research revealed that, since the Agency was formed, LEDA did not have comprehensive financial management and reporting systems to support effective decision making. In addition, the Agency did not have the capacity to earn sufficient commercial returns to achieve its objectives. However, the research uncovered that the Agency had potential to sustain itself financially in the future if it unleashed investment opportunities, strengthened revenue collection systems and obtained additional funding to implement financial sustainability projects. The findings further revealed that despite the fact that the Agency had strategies to enhance its financial performance to become financially self-sustainable, shortage of funding restricted the implementation of such financial sustainability projects.

The researcher is of the view that LEDA's financial management and performance strategies are not sound and feasible enough to attract funding and that the Agency cannot interpret clearly its borrowing powers as outlined in Section 66 of the PFMA. The Department of Public Enterprises (2002:36) provides that government has a strong interest in the financial performance of SOEs and as such it considers supporting borrowing proposals for SOE's that have a proven track record of good performance and accountability. However, the borrowings should provide appropriate justification to support proposed capital expenditure programs and further validate the return on investment. In addition, the research findings indicate that the Agency did not fully explore its avenues to fund the financial sustainability projects, such as disposal of redundant/obsolete assets and strengthening the revenue and debt management processes. The shortage of financial management staff in LEDA that was uncovered by the research also compromises the effectiveness of financial management controls and performance.

The greatest single proportion (46%) of the participants are of the view that there had to be a separation of economic and social responsibilities within the Agency in order for LEDA to sustain itself financially. The researcher noted that LEDA's employees did not have a clear understanding regarding the purpose for the establishment of the Agency by government. The literature reviewed stipulates that SOEs are established by government to achieve social and economic responsibilities, i.e. the creation of job opportunities as

well as generating cash flows in excess of their cash outflows to meet business requirements of financial performance (Aharoni, 1981:1341). Consequently, the research found that the Agency did not perform proper change management during the amalgamation of the four SOEs into LEDA and that caused misconstructions amongst employees relating to the performance roles of the organisation (social and economic responsibilities). Prior to the amalgamation of the former four (4) Agencies into LEDA, some of the SOEs contributed largely to the social responsibility whereas others contributed fundamentally to the economic responsibility.

The respondents indicated that the amalgamation of the former four Agencies into LEDA in 2012 brought in the social and economic responsibilities which are contradictory to each other and thus impacting negatively on the Agency's financial sustainability.

4.4.4 Possible Solutions to Enhance Financial Performance and Sustainability of the Agency

The research revealed that there was a need for LEDA to review financial management policies, procedures and systems, identify funding and investment opportunities and strengthen revenue and debt management strategies as well as introduce cost efficiency measures.

The research also highlighted that if the financial management unit and the Internal and Risk management units could be capacitated, the financial management could be improved. The participants stressed that the Agency had to consider appointing competent people including both the executive managers and Board members and also maintain stability of the Board by reviewing its appointment terms. Furthermore, the findings revealed that LEDA had to consider setting clear goals and objectives and improve change management approach to enhance common understanding and support of financial performance by all staff.

4.5 CONCLUSION

The major causes of SOEs' adverse financial performance attributed to lack of management information systems, poor financial management practices, ineffective or non-compliance to financial management policies and the absence of key performance indicators. The research findings reflected that LEDA did not have integrated financial

management and reporting systems that supported management in monitoring the financial performance timely. Also, the fact that the Shareholder's Compact entered into between LEDA and the shareholder did not stipulate performance measures and indicators, rendered the financial and non-financial performance reporting by the Board to the shareholder ineffective. From the findings gathered, the researcher can therefore draw conclusion and provide recommendations of the research study which are outlined in the next chapter.

CHAPTER FIVE

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

The study was conducted to evaluate if financial management of LEDA, a State-Owned Enterprise is effective in improving its financial performance. The findings of the study could contribute to the literature on the importance of effective financial management of State-Owned Enterprises and assist in expanding previous studies conducted in this area. It is important for LEDA to note that sound financial management maximises the return on investment whereas poor financial management of SOEs result in adverse financial performance outcomes and encourages financial reliance on government (Kornai, 2001:4; Subramanian, 2008:3; Forfás, 2010:23; MacCarthaigh, 2011:218; Stan, Peng & Bruton, 2013:9).

Chapter One provided a general overview of the research stating how poor financial management of South African SOEs affects their financial performance adversely despite their critical role in promoting the economic growth, infrastructure development and job creation. The chapter also discussed the objectives and the research questions formulated in the quest to address the research problem. The definitions of key concepts relating to the study were also outlined.

Chapter Two presented the literature review and the theoretical background on which the study is based. The chapter also explored the definitions of SOEs, the purpose of their establishment both internationally and in the African perspective. The chapter continued to provide the rationale for the establishment of SOEs in the South African perspective. In addition, the chapter outlined the importance of sound financial management in SOEs, the challenges facing financial performance as well as factors contributing to improve financial performance. In addition, the roles, responsibilities and the composition of the governance structures as well as legislative mandates governing SOEs in South Africa were outlined.

Chapter Three presented the research methodology that was applied in a search to answer the research questions. A qualitative research methodology was applied which accentuated words in collecting and analysing of data (Bryman, 2012:36; Hancock,

2002:1). Furthermore, an overview of research design population, sampling, data collection instrument and data analysis was also discussed. In conclusion, the chapter outlined the validity and reliability of data collecting instruments used as well as the ethical considerations.

Chapter Four discussed the findings of the research and presented the analysis and interpretation of the findings based on a face-to-face interviews with members of the Board of Directors, executive management and middle management. The chapter also presented the biographical information of the respondents and further explored the perceptions and attitudes regarding the effectiveness of financial management of LEDA in improving its financial performance.

Chapter Five presents summary of findings, conclusions and recommendations of the study.

5.2 SUMMARY OF FINDINGS

State-Owned Enterprises, both in the International and African perspective including South Africa remain the developmental tool of government in the provisioning of infrastructure and services for economic development. As a results of scarcity of resources and the increasing population and demands of citizens, SOEs are obliged to ensure effective financial management to remain a “going concern” and to be financially self-sustainable. In terms of their formation, SOEs are intended to operate on commercial principles, compete fairly with the market and generate the bulk of revenue for its operations. For the fact that SOEs’ budget constraints are softened, that is, any excess expenditure over its financial returns are often backed up by government through subsidies, guarantees and other financial bailout, encourages SOEs to neglect the financial performance and self-sustainability.

The objectives of this research were to understand the role of the Board of Directors in ensuring effective financial management of LEDA, to determine the effectiveness of financial management policies, systems and procedures put in place by LEDA and to identify financial management challenges faced by LEDA in improving its financial performance since its formation. The summary of findings are discussed in the next section based on biographic information and the study objectives.

5.2.1 Biographic Information

LEDA is a male dominated institution because the staff profile comprises of 67% males and 33% females at management level. In terms of age the research concludes that the Agency's management are aging as 73% of the respondents fall into the age category of 41 years and above. It was noted that 46% of the respondents had extensive years of experience and possessed Honours Degrees. The research further concludes that LEDA has educated and experienced workforce that could enhance its financial performance if they properly apply their knowledge and skills.

5.2.2 Role of the Board of Directors in Ensuring Effective Financial Management of LEDA

The Board of Directors exercised its responsibility over the performance of the State-Owned Enterprise. The research also revealed that the Board of Directors put relevant governance structures which included Audit and Risk Committees. The Board monitored the financial performance of LEDA through the Board Audit and Risk Committees, reviews and endorses the performance reports to the shareholder in line with the Shareholder's Compact. However, the Shareholder's Compact did not stipulate the key performance measures and indicators anticipated of an Agency which resulted in an Agency obtaining an unqualified audit opinion from the Auditor General during the financial years 2013/14 and 2014/15 with matters of emphasis.

5.2.3 Effectiveness of Financial Management Policies, Systems and Procedures of LEDA

The research revealed that, since the Agency was formed, LEDA did not have intergrated financial management policies and reporting systems to support effective decision making. The research also revealed that there was material non-compliance to financial management legislations in areas which included expenditure and revenue management, internal controls, procurement and contract management.

5.2.4 Financial management challenges faced by LEDA in improving its financial performance since its formation

LEDA had a shortage of financial management staff and that compromised the effectiveness of financial management and internal control systems. Furthermore, LEDA

did not have the capacity to earn sufficient commercial returns to achieve its objectives. The Agency also had shortage of funds to implement its financial sustainability projects.

The findings further reveals that the Agency spend excessive time striving to comply with the PFMA and Treasury Regulations to obtain clean audit opinion instead of focusing in its business and financial self-sustainability. LEDA's employees did not have a clear understanding regarding the purpose for the establishment of the Agency by government and that proper change management were not performed during the amalgamation of the four SOEs into LEDA which caused misconstructions amongst employees relating its objectives.

5.2.5 Possible Solutions to Enhance Financial Performance and Sustainability of the Agency

The research revealed that there is a need for the Agency to review financial management policies, procedures and systems, identify funding and investment opportunities and strengthen revenue and debt management strategies as well as introducing cost efficiency measures. The research also revealed that the Agency should consider setting clear goals and objectives and improve change management approach to enhance common understanding and support of financial performance by all staff.

5.3 CONCLUSIONS

Based on the findings of the study, the conclusions that can be drawn are as follows:

5.3.1 Biographic Information

Conclusions are made that LEDA is a male dominated institution because the staff profile comprises of 67% males and 33% females at management level. In terms of age the research concludes that the Agency's management are aging as 73% of the respondents fall into the age category of 41 years and above. The research further concludes that LEDA has educated and experienced workforce that could enhance its financial performance if they properly apply their knowledge and skills.

5.3.2 Effectiveness of Financial Management Policies, Systems and Procedures

LEDA has financial management policies and procedures that are compliant to the Public Finance Management Act and Treasury regulations. It means that LEDA is in the right direction with regard to the development of financial policies and procedures.

5.3.3 Financial Management Challenges Faced by LEDA in Improving its Financial Performance since its Formation

LEDA had disintegrated financial management reporting systems. Furthermore, LEDA had insufficient funds to implement financial sustainability projects. Of the available annual funding, the social responsibility functions consumed the bulk of the Agency's funds and thus impacted negatively on the profitability of LEDA and its capacity to become financially self-sustainable. The study discovered that some of the non-core investments and assets were operating at a loss while the long outstanding debts were difficult to recover; they therefore exacerbated the financial dependency of LEDA in government grants.

5.3.4 Role of the Board of Directors in Ensuring Effective Financial Management of LEDA

It is concluded that measuring the mandated performance anticipated of the Agency was impossible as the Shareholder's Compact did not stipulate performance measures and indicators anticipated on an Agency. As espoused by HM Treasury Skills Advisory Panel (2008:8), effective financial management could be achieved by, amongst others, stipulating the required financial management standards in the performance targets and publishing the benefits for maintaining good financial performance.

The Board of Directors exercised its responsibility over the performance of the State-Owned Enterprise and placed relevant governance structures which included Audit and Risk Committees. The Board monitors the financial performance of LEDA through the Board Audit and Risk Committees, reviews and endorses the performance reports to the shareholder in line with the Shareholder's Compact. In LEDA, this was not the case because the Agency obtained an unqualified audit opinion from the Auditor General during the financial years 2013/14 and 2014/15 with matters of emphasis that stated

amongst others that the Shareholder's Compact did not stipulate the key performance measures and indicators anticipated of an Agency.

Therefore, the study concludes that SOEs remain the developmental arm of government and as such the shareholder should provide the necessary support and monitoring to ensure that LEDA has sound financial management systems that contribute to financial self-sustainability and which further aid the expansion of its business operation of performing the mandated economic development function of the Province. LEDA has the potential for becoming financially self-sustainable and as such, effective financial management practices and systems should be prioritised.

5.4 RECOMMENDATIONS

Based on the findings and conclusions of the research, the following recommendations are drawn for the improvement of financial performance of LEDA.

5.4.1 Strengthening of Compliance to Financial Management Legislations

Despite the fact that the financial policies and procedures of LEDA complied with the PFMA and Treasury Regulations and were effective in aiding the attainment of unqualified audit opinion, the Agency should consider strengthening compliance to revenue, expenditure, procurement and contract management policies as well as internal control systems. The effectiveness of revenue management enhances financial performance of the organisation through sales growth and debt recovery whereas sound expenditure management contributes to the financial performance through cost reduction (Department of Public Service and Administration, 2003:58; Huefner, 2011:5). LEDA's long outstanding debts and the slow recovery thereof was an indication that the processes for provision of loans and other services such as property rentals were weak and necessitated benchmarking. LEDA should also review its internal controls. Compliance with financial management legislations improves the opportunities for an organisation to obtain clean audit report which improves the confidence of the users of financial statements and further contributes to financial self-sustainability.

5.4.2 Integrated Financial Information Management and Reporting Systems

LEDA's financial information management and reporting systems were not integrated and thus affected decision-making adversely and maximised the Auditor General's tenure and

increased audit costs. The integrated financial information management and reporting systems are necessary for organisations to provide accurate records timely to enhance decision-making. In addition, customers and debtors require accurate bills and statements in order to pay their accounts and thus improving financial performance of the Agency.

5.4.3 Exploration of Avenues to Earn Sufficient Financial Returns for the Expansion of LEDA's Operations

The findings revealed that LEDA was not financially self-sustainable because it did not generate sufficient funds and received insufficient grants from government to expand its operations. The Agency should explore investment opportunities and financial sustainability projects by conducting feasibility studies for such projects prior the implementation to ensure value for money. It is also important that LEDA should review the existing assets and investments to ensure that assets and investment businesses that are operating at a loss receive business process re-engineering.

Government, which is the shareholder should also consider securing funding and ring-fencing it for LEDA's feasible sustainability projects over a specified period and reinforce support and monitoring to improve the financial performance. The financial support is necessary without softening the budget constraints, to ensure that LEDA successfully performs its mandated economic development functions. It is thus imperative that a clear funding model should be designed for the funding of both social and economic responsibilities considering that the budgeting processes are currently ambiguous.

5.4.4 Appointment of Adequate and Competent Staff in Financial Management Division

Shortage of financial management staff is an impediment to financial management in the areas which include the segregation of duties and the enforcement of internal controls. The immediate filling of critical posts in the financial management unit is necessary to reinforce segregation of duties and other financial management controls (Gramling, Hermanson, & Shelly Ye, 2010:31). This will also help the organisation to move towards obtaining a clean audit opinion.

5.4.5 Equipping Officeholders with Financial Management Skills and Knowledge for Interpretation of Financial Management Legislations

The respondents are of the view that that PFMA restricted the Agency from borrowings to expand its operations. LEDA's workforce should be capacitated on the interpretation of financial legislations particularly on their borrowing powers as stipulated in Section 66 of the PFMA. Government should consider supporting borrowing proposals for SOEs that demonstrate proven track record of good financial performance and financial accountability for the purpose of feasible capital expenditure projects (Department of Public Enterprises, 2002:36).

In addition, the Agency should ensure that the Board of Directors, executive management, finance staff, internal audit and risk management are equipped with the required competencies to ensure the effectiveness of LEDA's financial management and attain good audit opinions without matters of emphasis. Financial management is the responsibility of the entire governance structure and the core management in an organisation. The appointment of executive management and Board members should also consider competency in areas such as financial management and not be based on political orientation.

5.4.6 Setting of Clear Performance Measures and Indicators

The study has revealed that the Shareholder's Compact does not stipulate key performance measures and indicators. The omission of performance measures and indicators make the financial accountability by the Board to the Shareholder impossible; hence there is material non-compliance to financial policies. The Shareholder's Compact should be reviewed to include clear performance measures and indicators to enhance financial and non-financial accountability.

5.4.7 Change Management Approach and Clarification of Roles

LEDA's workforce did not have a common understanding regarding its purpose and operated on trial and error in implementing financial management systems. The findings revealed that LEDA's workforce are of the view that the performance of the social and economic responsibilities were contradictory and impacted negatively on the Agency's financial sustainability. Change management training should be provided to ensure that

all staff have a clear understanding of the purpose for the formation of LEDA in order to contribute effectively to its financial performance. According to Aharoni (1981:1341), government has established SOEs to achieve social and economic responsibilities, to operate on commercial principles and to generate the bulk of revenue to meet its business requirements of financial performance. During the amalgamation of the four Agencies into LEDA, proper change management was not effected and thus resulted in roles ambiguity and escalated the financial management performance challenges.

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ANNEXURE A

LETTER TO PARTICIPANTS

PO Box 3707

Polokwane

0700

01 October 2015

The Respondents

Limpopo Economic Development Agency

Enterprise Development House

Main Road, Lebowakgomo

0737

INFORMED CONSENT FOR TAKING PART IN THE STUDY

Sir / Madam

Kindly be informed that I, Ramadimetja Catherine Masekoameng, am a research student at the University of Limpopo - Turfloop Graduate School of Leadership. I am conducting a research titled ***“Evaluating the effectiveness of financial management in state owned enterprises – a case of Limpopo Economic Development Agency”*** as part of fulfilling the requirements for master’s degree in Public Administration.

You are kindly requested to participate in answering the interview questions relating to the study. The interview will take approximately 30 to 40 minutes of your time. Please take note that the information provided by you remains confidential and will be used for research purposes only.

Masekoameng RC
Researcher

ANNEXURE B

INFORMED CONSENT FOR TAKING PART IN THE STUDY

UNIVERSITY OF LIMPOPO
TURFLOOP GRADUATE SCHOOL OF LEADERSHIP
MASTER OF PUBLIC ADMINISTRATION (MPA)

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Email address : Zwelibanzi.Mpehle@ul.ac.za
Research Office : 015 268 2212

RESPONDENT'S CONSENT

I----- (Please write in your full names) hereby confirm that I understand the contents of this document and the nature of the research project, and I consent to participate in the research project. I understand that I am at liberty to withdraw from the project at any time, should I so desire.

By signing this consent to participate in the research, I understand that the researcher uphold to ethical principles for conducting research which include maintaining information of the participant private and confidential, and that the information provided in the research will be used strictly for the purpose of this study.

.....
Signature of Respondent

.....
Date

ANNEXURE C

INTERVIEW GUIDE FOR BOARD OF DIRECTORS, EXECUTIVE MANAGEMENT AND MIDDLE MANAGEMENT OF THE LIMPOPO ECONOMIC DEVELOPMENT AGENCY (LEDA)

RESEARCH TOPIC

Evaluating the effectiveness of financial management in State Owned Enterprises – A case of Limpopo Economic Development Agency

PURPOSE

The purpose of this interview is to give you a chance to tell us how you feel about the “Effectiveness of financial management in state owned enterprises (Limpopo Economic Development Agency)”. Data collected from this study shall only be used for the purpose of completing the MPA study.

CONFIDENTIALITY

Your answers to the questions and all other information you give to us will be held in strictest confidentiality.

INSTRUCTIONS

This interview schedule consists of two sections. In the first section you will tell us your biographical information. The second section asks about how you feel about effectiveness of financial management in state owned enterprises (Limpopo Economic Development Agency)”.

Your cooperation in answering the interview questions is highly appreciated. Please be frank and honest. Give a true picture of your feelings!!!

SECTION A – BIOGRAPHICAL INFORMATION

This section refers to biographical information which is necessary to compare groups of respondents. The information required may be sensitive; however, we assure you that your responses will remain anonymous. Please answer all the questions to the best of your ability.

SECTION A: DEMOGRAPHIC INFORMATION					
<i>Please mark the appropriate answer with an X</i>					
1. Gender	Male			Female	
2. Age Category	25 yrs and younger	26 to 35 yrs	36 to 40 yrs	41 to 54 yrs	55 yrs and older
3. Race	Black	White	Coloured	Indian or Asian	
	Other (please specify):				
4. Position within the organisation	Board Member	Executive Management	Non-executive Management	Middle management	
	Other (please specify):				
5. Job Experience or years of service within LEDA	Less than 2 yrs	2-to-5 yrs	6 to 10 yrs	More than 10 yrs	
6. Educational Background (highest qualification)	Less than high school	Grade 12 (Matric/ Std 10)	Post Matric Diploma or certificate	Baccalaureate Degree (s)	
	Honours Degree / Post Graduate Diploma	Masters Degree	Doctoral Degree (PhD)	Other, please specify	
7. Job status (Is your job permanent, temporary or fixed term contract)	Permanent	Temporal	Fixed term contract	Other, please specify	

SECTION B – CONTEXTUAL QUESTIONS

This section explores perceptions and attitudes regarding the effectiveness of financial management of LEDA in improving its financial performance. In all instances, there are no wrong nor right answers.

8. In your opinion, how effective is LEDA's financial policies and procedures?

9. What strategies should LEDA put in place to improve its financial policies to enhance its financial performance?

10. What is your understanding on the alignment of LEDA's financial policies to the Public Finance Management Act and Treasury Regulations?

11. In your opinion, what are the financial management challenges faced by LEDA in improving its financial performance?

12. What solutions should LEDA put in place to address its financial management challenges?

13. What strategies should LEDA put in place to improve its financial performance?

14. How does management of LEDA account to the Board on financial performance in their area of jurisdiction?

15. What monitoring systems does the Board employ to ensure financial performance of LEDA?

16. What are the mechanisms used by the Board to account to shareholders on both financial and non-financial performance of LEDA? Please elaborate?

17. How often does the Board of Directors required to report both financial and non-financial performance of LEDA to the shareholders? Please elaborate?

18. How does the Shareholder/ Principal provide feedback and recommendations on the performance of the Agency?

19. In your view, can LEDA sustain itself financially? Please elaborate?

20. Do you have any other comment/s that would contribute in improving financial performance and sustainability of LEDA?

Thank you for your time and invaluable contribution.

ANNEXURE D

LETTER TO REQUEST PERMISSION TO CONDUCT THE STUDY



Ms R C Masekwaneng

P O Box 3707

Polokwane

0700

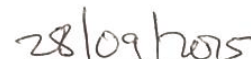
MASTER OF PUBLIC ADMINISTRATION IN UNIVERSITY OF LIMPOPO

Further to your request to LEDA to conduct research in regard to your studies, permission is hereby granted for you to proceed with such research, on condition that, upon completion of your research, the final product should be shared with LEDA.

May we remind you that confidentiality information gleaned during research should not be divulged to third parties.

You are requested to schedule appropriate appointments through the Group Company Secretary and also provide LEDA with your timelines.


Mr S T M Phetla
Acting MD: LEDA


Date

ANNEXURE E

PROOF READING CERTIFICATE FROM LANGUAGE EDITOR

PO Box 302

Levubu

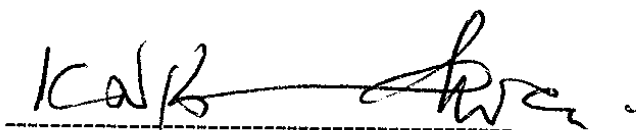
0929

11 May 2016

0845302444 (Cell)

TO WHOM IT MAY CONCERN

This is to certify that I, Dr KN Phalanndwa, have edited the Masters dissertation of **Mrs Ramadimetja Catherine Masekoameng** entitled "Evaluating the Effectiveness of Financial Management in State-Owned Enterprises – A Case of Limpopo Economic Development Agency" and that I am satisfied with the quality of work she has produced in terms of structuring the document, style, grammar and spelling. Suggestions for suitable corrections and improvement have been made to the candidate.



A handwritten signature in black ink, appearing to read 'KN Phalanndwa', is written over a horizontal dashed line.

Nthambeleni Phalanndwa (PhD)