

Analysing the Role of Good Corporate Governance in TVET Colleges in South Africa

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Abstract

The main purpose of the study was to analyse the role of good corporate governance in TVET colleges in South Africa (SA). The study employed qualitative methods using secondary data from various credible publications. From a theoretical perspective, the study discovered that, corporate governance plays a pivotal role in TVET colleges to certify equal treatment of shareholders, integrity and business ethics, conflict resolution, accountability and transparency in all spheres of their operations and leadership. In the same vein, empirical studies examined indicated that, TVET colleges face a myriad of challenges such as lack of effective leadership and sound administration; inadequate and misappropriation of funds as well as weak accountability. Furthermore, TVET colleges also experience inadequate and substandard infrastructure and insufficient equipment thus inter alia. The study recommends that, TVET colleges in SA should leverage on compliance with good corporate governance principles both internally and externally as contained in the King's reports of corporate governance. It emerged from the study that, TVET colleges should develop code of practice in line with the CET Act. Likewise, TVET colleges must consider training in King codes and other relevant governance codes so as to reap fully the rewards of good corporate governance within their space.

Keywords: Corporate governance, performance, management

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1.0 Introduction

With the outbreak of the global economic meltdown, corporate failures, and other challenges, there has been an increase in the demand for detailed organisational disclosures. The stakeholders believe that the disclosures will promote transparency and accountability by those entrusted with running the organisations' affairs (Moloi 2014; Reuters 2008; Minamihashi 2009; Ali 2007). TVET colleges function in a turbulent and complex atmosphere requiring difficult choices and trade-offs within competing priorities to be made (Naidoo, 2009). For this reason, the fundamental roles of corporate governance are used to promote business ethical practices to meet the increasing demands for equal treatment of shareholders, integrity and business ethics, conflict resolution amongst other roles. Moloi (2008) indicated that corporate governance values in South Africa were created to ensure the ethical control and management of companies, organisations, and institutions to enhance ethical leadership, accountability, transparency, and sustainability of these organisations. Corporate governance comes into existence after the ownership of a company is separated from its control. For instance, the separation of management and control of TVET colleges's accountability between the Department of Higher Education and Training (DHET), TVET council and the management of these colleges. The roles of corporate governance became prominent in TVET colleges following increased, dishonest, and unethical dealings that caused shareholders to flee out of fear, distrust, and disgust (Zhou and Cheng, 2011).

1.2 Historical lane of TVET colleges in South Africa

In the light of digital transformation and the fourth industrial revolution (4IR) or industry 4.0, the footing of TVET colleges and its strategic focus on technical and vocational, occupational education and training has the aim of preparing students to become functional workers in a skilled trade in South Africa. It is more apparent to say, the practice of good corporate governance in these colleges brings a positive change in terms of performance (PMG, 2019). The technical and vocational education and training (TVET) college sector in South Africa was established in 2002 in terms of the FET Act 98 of 1998.

More so, TVET colleges are spread across all 9 provinces of the South African territory with the majority of them concentrated in five provinces. KwaZulu-Natal (KZN) has nine TVET colleges, the Eastern Cape and Gauteng have eight TVET colleges each, Limpopo with seven TVET colleges, and the Western Cape with six TVET colleges (Moloi, 2008). Provinces such as the Free State, North West, Mpumalanga, and the Northern Cape have a 24% representation (PMG, 2019). Several institutional reports pointed out that TVET colleges face many challenges such as leadership with limited commitment and poor administration; insufficient and misuse of funds. Moving on, TVET colleges also experience weak accountability; inadequate infrastructure and limited equipment for support and learning services. This is an indication that governance in general is a challenge in this environment. When South African Further Education and Training Student Association (SAFETSA) carried out a survey in 2019 on these colleges it was not satisfied with how principals ran colleges (PMG, 2019).

According to (PMG, 2019) SAFETSA asserted that most student bodies suffered from power struggles with the college councils. In the survey report, it was proposed that the term of office for principals should not be permanent, to avoid colleges being run by complacent principals (PMG, 2019). TVET colleges (formerly Further Education and Training colleges) aim to provide educational opportunities to those who either do not qualify for tertiary education or require vocational training with direct application to the workplace (Du Toit, 2012).

According to the SAFETSA survey report, the TVET curriculum did not match what was required in the labour market. Briefing by SA Further Education and Training Student Association (SAFETSA) indicated that leadership and management challenges; lack of experience and expertise are major drawbacks in the TVET sector (PMG, 2019). This elucidates the fact that the adoption of good corporate governance by TVET colleges would be beneficial to the institutions.

1.3 Corporate governance defined

Corporate governance is often described as a vague concept, with loose definitions giving rise to different understandings of what it involves (Naidoo, 2009). Consistently, there are divergent opinions on the meaning of corporate governance. Goddard (2005) indicated that corporate governance is a set of voluntary principles and leading practices applicable to all organisations regardless of the form of incorporation. Moloï (2008) also reiterated that corporate governance has a broad scope that includes both social and institutional aspects. Thus, corporate governance can be considered as a system by which companies are directed and managed. It configures the formulation and achievement of objectives and goes further to evaluate how risk is monitored and assessed as well as performance optimisation.

Institute of Directors (2016) attest that corporate governance is the system of principles, policies, procedures, and clearly defined responsibilities and accountabilities used by stakeholders to overcome the conflicts of interest inherent in the corporate form. This resonates with the corporate governance principles stated in the King's reports in South Africa. For instance, the King III report applies to all entities regardless of the manner and form of incorporation or establishment and whether in the public, private or non-profit sectors. In this regard, corporate governance can be said to involve the interaction between various participants (Shareholder, Board of Directors, and Company Management) in shaping the corporation's performance and the direction it seeks to pursue. It deals with determining ways to take effective strategic decisions and develop added value to the stakeholders.

However, the divergence in these definitions can be attributed to two important factors which are economic diversity and cultural diversity (Marisetty and Ved Puriswar, 2005). The governance framework especially in institutions is to encourage the efficient use of resources, its accountability, and finally its stewardship in terms of leadership and management. The aim is to align as nearly as possible the interests of all the stakeholders.

1.3 Roles of corporate governance in TVET colleges

It is possibly a fact that the roles of corporate governance in TVET colleges are premised on characteristics of good corporate governance namely discipline, transparency, discipline, accountability, responsibility, independence, fairness, and social responsibility, indicated within the King III report of 2009 as cited in (Muswaba & Worku 2012). This section provides a concise discussion of corporate governance principles.

1.3.1 Accountability

Corporate Governance is intended to increase the accountability of an institution and avoid massive disasters before they occur. Considering the aforementioned challenges being faced by TVET colleges, annual reports have been portrayed as a special vehicle of communicating to stakeholders, financial and non-financial information such as corporate governance principles applied (Barac et al., 2011). Corporate governance brings accountability in all spheres of the institution. This enables the auditing process in terms of accountability (Adelowotan, 2013). Having established that the disclosure of how an organisation is being managed is of interest to stakeholders, it can be observed that corporate governance plays a pivotal role in TVET colleges in South Africa (Barac et al., 2011; Crous, 2017).

To ensure accountability within the institution, corporate governance affects the operational risk and subsequently promotes the sustainability of a corporation. The corporate governance principles and practices disclosed by publicly funded TVET colleges in South Africa have been thriving to implement open-door policies and transparent systems that can be audited together with suitable and qualified leadership (HSRC, 2010). This suggests that, apart from the accountability role, corporate governance also seeks to promote transparency within the institution and its stakeholders. More so, corporate governance principles and practices in TVET colleges synchronize the operation of the institution with the aim of the South African government (TVET Colleges, 2018). These colleges are conceived as a channel to upgrade many South Africans who may not be able to gain access to higher education. In essence, TVET colleges exist to facilitate empowerment by the government for a meaningful contribution to the economy (TVET Colleges, 2018). This argument is contained in the National Development Plan (NDP), which has acknowledged TVET colleges as a significant tool for addressing the

shortage of skills in the country. Henceforth the adoption of corporate governance principles and practices brings smooth running of the institutions with ethical open systems that can be audited.

1.3.2 Transparency

Furthermore, corporate governance incorporates accountability and transparency which provide the means for efficient and effective management structures (Muswaba & Worku 2012). However, TVET college management finds it difficult to make concise decisions regarding the allocation of appropriate resources required for the organisation's mission and purpose (Terblanche 2008). This results in a challenge for TVET college management to incorporate relationships between transparency and accountability as vital indicators for the institution's success (Marginson & Considine 2000). However, the role played by corporate governance practices to ensure accountability and transparency solves these recurring management challenges within the institutions.

Moloi (2008) indicated that corporate governance ensures transparency which promotes strong and balanced systems within institutions. This also ensures that the interest of all shareholders (Majority as well as minority shareholders) are safeguarded. The SAFETSA survey report cited by PMG (2019) postulates that TVET colleges face many challenges such as leadership and administration; funding and accountability. These challenges could also be attributable to the lack of application of corporate governance principles (PMG, 2019). In this light, corporate governance contributes to eliminating these challenges through advocating for ethical business practices in technical and vocational educational training centres.

Transparency is known as the presentation of an institution's facts and figures in a manner that is clear and apparent to all stakeholders concerned (Nickels, McHugh & McHugh 2010). This implies that all transactions and transformations of the TVET colleges are ethical and visible to all stakeholders, thereby limits any misconduct or malpractices which may occur. Transparency assists organisations in creating more awareness for occurrences prevalent within the country's structure (Nickels et al. 2010). Prudently, the role played by corporate governance practices to ensure transparency ensures proper management of TVET colleges as a hub for manpower and skill development for South Africans.

1.3.3 Conflict resolution mediator

In concurrence with the preceding point, corporate governance acts as a conflict resolution mediator by providing ethical business practices that enhance the settlement of disparities within TVET colleges and its stakeholders. Naidoo (2009) affirms that corporate governance principles and practices are necessary to resolve any conflict of interest or conflicting desires among the different stakeholders in the business. For example, shareholders are interested in profit, whereas upper management may prefer to reinvest revenue into the company to improve efficiency, working conditions, or salary schedules. Corporate governance undoubtedly trends and plays roles like alternative dispute resolutions, risk-based internal auditing, and policies on remuneration.

Theoretically, the agency theory approach indicates that parties to a contract will act to maximize their self-interest and that all actors have the freedom to enter into a contract or to contract elsewhere. 'Agency theory' explicitly casts management as 'agents' for shareholders (usually termed principals), and their relationship is conceived to be a contractual one based on the market exchange (Zou and Cheng, 2011). This theory is about the conflicts that arise between the Principal and the Agent because of differences in the goals resulting in additional costs to the firm thereby eroding the wealth of the firm and its shareholders. A study by Berle and Means (1932) has brought into focus the divergence in the profit-maximizing and cost-minimizing ideals of the firm's behavior. This causes agency costs and results in cases where managers and owners try to control each other due to their conflicting objectives (Shankman, 1999). Henceforth, corporate governance principles mediate to regulate the powers of government over the management and leadership of TVET colleges by enhancing the smooth flow of information and avoidance of bureaucratic stigma within the institutions and its stakeholders.

1.3.4 Integrity and business ethics

In such institutions as TVET colleges, corporate governance principles ensure that integrity and business ethics are upheld diligently. The creation of a good governance policy in TVET colleges sets the tone at the top of the institution, subsequently encouraging employees at every level to make good, ethical choices (HSRC, 2010). It helps to create an institutional culture where stakeholders feel proud of their behavior making it easier to identify cases of fraud, scandal, or other inappropriate business practices. For instance, the SAFETSA survey report cited by PMG (2019) indicated the challenge of improper leadership where principals and some board members without adequate qualifications and experience were incorporated to run some TVET colleges. This is against the principles of good corporate governance as stipulated in the King reports. According to Naidoo (2009), corporate governance allows companies and institutions to put their positive traits on display. In sync with the above indications, the stakeholder theory emphasis that managers should have broad stakeholder orientations rather than narrow shareholder orientations. This implies that TVET colleges should at all times maximise stakeholders' value to promote integrity and business ethics. 'Stakeholder' is a term originally introduced by the Stanford Research Institute (SRI) referring to "those groups without whose support

the organization would cease to exist” (Freeman, 1984). Stakeholders of a firm or institution include suppliers, buyers, public policy decision-makers, social groups, and the government (Freeman, 1984). The conventional view that the success of the firm is dependent only on maximizing shareholders’ wealth has limitations due to negative externalities imposing external costs on society. This theory states that the success of the firm is dependent on the relationship that a firm has with its stakeholders (Zhou and Cheng, 2011). Consequently, corporate governance values play an intermediary role to maximise stakeholder value in TVET colleges.

1.3.5 Equity

Corporate governance plays a role in TVET colleges to certify equal treatment of shareholders thus students, leadership, council, independent boards, government as well as the community. On the same note, Zhou and Cheng (2011) observed that the corporate governance framework ensures that the shareholders maintain a voice at the table and are not overrun by executives looking out for their self-interest. For example, it balances the power between the groups at the top, creates a set of checks and balances, and ensures that the board of directors can operate as an independent body, making the choices it feels are best.

1.3.6 Exposure of visibility of errors in leadership and management

Furthermore, corporate governance plays a role in TVET colleges to enhance the visibility of errors in leadership and management as well as other operational spheres. Scout (2013) as cited in Jeremy (2010), indicated that a transparent good corporate governance process will make it clear when parts of that process are not working, meaning the company can then spend resources to make itself run more smoothly. Therefore, with a corporate governance monitoring system in place in TVET colleges, it is easy to see and account for errors in all spheres of operations.

1.3.7 Promotion of Compliance

Corporate governance promotes compliance to business ethical practices, legal and legislative connotations among other spheres. According to Scout (2013) citing Block, Jang, Kim & Claessen (2006), companies that ensure their corporate governance strategy includes compliance with all related governing agencies are at far less risk of regulatory punishments and fines since the process will ensure that products, goods, and services all meet the required expectations. Integrated sustainability performance and integrated reporting are also recommended in the report to enable stakeholders to make informed assessments on the economic value of a company Naidoo, (2009).

The stewardship theory supports the above indications in that corporate leaders as stewards in TVET colleges have to lead with vision and apart from leading from the front, they can also lead from the behind thereby allowing line managers both at the functional and strategic level to also take part in decision making and leadership. Stewardship theory has a more social-oriented perspective on corporate governance. Drawing from Maslow’s hierarchy theory, self-actualization motivates managers to successfully perform challenging tasks and gain recognition (McClelland, 1961). Based on this premise, stewardship theory favors boards having a majority of ‘specialist’ executive directors rather than a majority of ‘non-specialist’ independent directors who will supplement the organizational knowledge resources (Zhou and Cheng, 2011).

1.4 Corporate governance gaps in TVET colleges

The study identified a number of gaps that exists in the practice of corporate governance in TVET colleges not limited to inconsistency in strategic thinking frameworks, corporate board evaluations, compliance issues, decision making and appointments of council, committees and board members. Rampant exposure of weak audit systems within TVET colleges widens the gap in proper practice of corporate governance.

It emerged from the study that, the governing board, councils and committees within the colleges are required to ensure that management of information is reliable for strategic decision-making. In addition, the attainment of sound internal audits and effective reporting to stakeholders is kept transparent and accounted for corporate governance principles should be observed. However, a sizeable number of the existing board, councils and committees do not have adequate controls systems to mitigate the risk of exposure to unethical business practices due to lack of properly implemented and monitored corporate governance guidelines.

More worrying to the proper management of the TVET colleges is the fact that, the study unearthed that the governing boards and councils within college management do not currently have mechanisms in place to monitor and evaluate the performance of the council and its committees. This impacts adversely on practice of good corporate governance within TVET colleges. The governing board should designate a committee to manage the assessment of the council. With respect to this identification, both King III and King IV acclaims that a dedicated nomination committee should be put in place with distinct focus on matters relating to processing appointments in the governing board as succession planning for governing board members, as well as the evaluation of the performance of the governing board (IDoSA, 2016:56).

1.5 Conclusion and Recommendations

After a thorough interrogation of the current subject matter, the study concluded that, , the roles of corporate

governance are premised on features such as discipline, transparency independence, accountability, responsibility, fairness, and social responsibility. Corporate governance plays a pivotal role in TVET colleges to certify equal treatment of shareholders, integrity and business ethics, conflict resolution, accountability, and transparency in all spheres on their operations and leadership. These roles are also reinforced by theoretical implications such as the agency theory approach, stakeholder, and stewardship theory. The impetus for the rise of corporate governance principles and practice in South Africa was to ensure that companies and other institutions are managed to promote ethical management, responsibility, transparency, and sustainability of these institutions. Rationally, forecasters of the corporate governance environment in South Africa noted that the development of corporate governance principles and practice was principally aimed at maximising the role of corporate governance. The principles exist to promote good business ethical practices in institutions such as TVET colleges and beyond.

Basing on the results that emanated from this study, the study recommends TVET colleges to support compliance with good corporate governance principles both internally and external as contained in the king reports of corporate governance in south Africa. It emerged from the study that, TVET colleges should develop code of practice in line with the CET Act and must consider training in King codes and other codes so as to utilize the full benefits of good corporate governance in these institutions.

Furthermore, the study recommends that,TVET colleges should strengthen the capacity of council committees with the appropriate set of skills and resources to process management information at sub-committee level before reports are tabled to councils. Besides, the study also indicated that TVET colleges should capacitate the internal audit function with necessary independence to perform their function and report to the audit committee and the governing board. This will inturn promote transparency and accountability as stipulated by the king codes of corporate governance in South Africa. After a cautious interrogation of the role of corporate governance in TVET colleges it also emerged from the study that the governing board and council need to nominate and engage in systematic invitation of other members of management and independent observers in council and board meetings to promote objectivity. Lastly, it can be recommended that TVET colleges should conduct a skills gap analysis in order to establish the critical and missing set of governance skills. The findings of such an exercise, will guide the human resource department to develop appropriate training programmes for council, board and management members ought to be trained in.

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