

State of State-Owned Enterprises' Governance in BRICS Countries - Issues for Consideration

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Abstract

State-owned Enterprises (SOEs) across the world are the main drivers of the economy; specifically through their contribution to their countries' Gross Domestic Product (GDP). Although SOEs are the principal drivers of the formal sector of the economy and contribute significantly to the economic growth as the main entities that deliver many social goods and services to ensure the quality of life to all, they encounter governance failures, which need attention. Consequently, they become unsustainable and vulnerable to corruption. This article used a cross-analysis informed by a qualitative design to examine the governance of SOEs in the BRICS countries comprised of Brazil, Russia, India, China and South Africa. The article found that BRICS countries have no common agenda for SOEs, largely due to inadequate governance, ownership policy, oversight, and accountability disparities. Therefore, there is a need to reform the governance of the SOEs in each BRICS country to ensure that they become optimally responsive. The purpose of this article is to attempt to rekindle the discourse related to SOE governance in BRICS countries.

Key terms BRICS, Accountability, Governance, State-owned entities



Introduction

State-owned entities or enterprises (SOEs) are generally described as “any corporate entity recognized by national law as an enterprise, and in which the state exercises ownership” (Organization for Economic Cooperation and Development (OECD), 2015). These enterprises account for approximately 5% of the total economy of an average OECD country, and 10%–40% of the largest emerging economies. Bruton, Peng, Ahlstrom, Stan, and Xu (2015) report that SOEs represent approximately 10% of the global Gross Domestic Product (GDP).

There are many SOEs in the public utilities, telecommunications, banking, hydrocarbons, and extractive sectors. However, the number of SOEs decreased in virtually all industrialised and emerging economies after the economic crisis in 2008 (Som, 2013). This 2008 global financial crisis damaged the image of the private sector—a substantial contributor to economic development—and also affected SOEs (Corrigan, 2014). Twelve years later, after the SOEs had been recovering, the COVID-19 pandemic emerged, wreaking havoc in the global market. South Africa, for example, was beset by governance challenges due to the corruption that emanated from the public procurement of COVID-19 personal protective equipment (PPE). Silvestre, Gomes, and Gomes (2018) argue that an analysis of SOE governance is needed, and that there have been only a few studies on BRICS SOEs in this regard.

Despite the 2008 global financial crisis and COVID-19 challenges that have other countries to rethink the role of SOEs due to market shifts, it has become apparent that for both political and economic reasons, the state will remain a major owner of various productive assets in a number of economies for years to come. In addition, the temporary government control of private sector enterprises has added to the existing corporate governance challenges. Governments are now concerned about maintaining a levelled playing field, and ensuring efficiency in the use of public money. Therefore, a corporate governance regime is important to improve efficiency in SOEs and to ensure that taxpayers’ money is well spent (Som, 2013). SOEs that are less driven by profits and more by political and social imperatives might be substantial economic drivers to stay the course. There is a need for a stable balancing act in this regard, namely, balancing the economic and socio-political interests in SOEs through proper governance arrangements.

As SOEs are the providers of key public services, including public utilities, their governance structures and operations have an impact on citizens’ lives (OECD, 2015). However, the influence of politicians, rather than career business people in SOEs, could lead to favouritism and conflicts of interest (Corrigan, 2014, p. 2; Silvestre *et al.*, 2018).

Huifang (2016) argues that BRICS countries have come together as an economic bloc, and that this not only reflects the economic cooperation and political alliances of these countries but also the failure of the current global economic governance framework in



satisfying the real needs of these countries (Atale, 2012; Beeson & Zeng, 2018). This article considers the state of governance in SOEs in BRICS countries, and therefore, raises critical issues for consideration. Thus, the main question it raises is, “*What is the state of governance in the SOEs of BRICS countries?*” The article adopted a qualitative cross-analysis approach drawn from observations and document reviews to answer the research question. This is informed by the qualitative design.

The authors found that despite these enterprises being the principal drivers of the formal sector of the economy, contributing significantly to the economic growth as the main entities that deliver many social goods and services that ensure the quality of life of the public, they encounter governance failures. Eventually, they become unsustainable and vulnerable to corruption, and more importantly, the abuse of public office for personal gain (Kyunga, Young-Hee, & Yang, 2018; Silvestre *et al.* 2018).

The article considers the relevant conceptual and theoretical expositions on governance and public financial management. This is followed by an analysis of the SOE governance within the BRICS countries. For this reason, each BRICS country is objectively discussed regarding issues for consideration about the state of its SOE governance. Kanyane and Sausi (2015) argue that there is no single exceptional measure of corporate governance. This article attempts to contribute towards the resuscitation of the BRICS SOE governance discourse to poignantly strengthen governance in the BRICS SOEs to ensure their resilience against corruption or ethical questions.

Conceptual and theoretical expositions

The following sections provide conceptual and theoretical perspectives that underpin the BRICS SOE governance discourse.

Governance

Kanyane and Sausi (2015) describe governance as the structure and process through which institutions at every level determine the role players in decision-making and implementation processes, as well as determining those who are to be held accountable and responsible for the outcomes of the implemented decisions. Similarly, Sambo and Kanyane (2020) attest that, together with ethics, accountability forms an important pillar of governance. Subramanian (2015) posits that the government, as a shareholder in SOEs, should be a role model when it comes to corporate governance practices. However, the opposite is true, as SOEs have not demonstrated good corporate governance practices.

According to Subramanian (2015), there are several reasons for the poor corporate governance in SOEs, some of which relate to serving public interests, while some relate to serving political objectives (Chakrabarti, 2017). In addition, the government plays conflicting roles as both a shareholder and a regulator of SOEs. Furthermore, when governments hold the majority stake in SOEs, the SOEs may experience less pressure from private investors and the market because they mainly rely on the government for new



finance (soft budget constraints). Therefore, SOEs may not have an incentive to improve their corporate governance practices to increase their value.

Good governance includes having partnerships and networks between government agencies and civil society organisations (Kyunga *et al.*, 2018). In SOEs, good corporate governance requires honesty, transparency, ethics, and integrity of all stakeholders involved in the running of these enterprises, namely, the shareholders, boards, executives and employees (Kanyane & Sausi, 2015).

Corrigan (2014) avers that SOEs can be regarded as potentially powerful tools that governments can use for development purposes; thus, the way in which they operate has a substantial influence on a country's wider business and corporate governance landscape. Corrigan (2014) further contends that even though SOEs embody 'public interest' by virtue of being funded by public resources, they are still ordinary companies, similar to others. However, due to their quasi-monopoly status they have great influence which makes them lucrative sources of patronage. In countries emerging from systems of large government intervention, regulation, or influence over markets, SOEs are likely to be the largest domestic companies in operation, often running and managing countries' infrastructure. For this reason, it becomes even more critical for SOEs to subscribe to a corporate governance regime to ensure their long-term success, because they are more prone to failure due to non-compliance with legislation, in contrast with their counterparts in the private sector.

An 'agency problem' in the governance of SOEs is due to the SOEs being controlled by professional managers, but owned by outside shareholders (Chakrabarti, 2017; Subramanian, 2015). Similarly, Som (2013, p.2) states that the specific challenges faced by SOEs in terms of governance include the "principal-agent problem, lack of proper oversight, political interference, weak and disorganized boards, and a confused mix of commercial and social objectives that SOEs must achieve". As a result, corporate governance in SOEs is the main challenge in most countries.

Public financial management

By virtue of being majority owned or wholly owned by the state, SOEs must subscribe to the legislative and regulatory frameworks governing the management of public finances of their countries. Sambo (2017) argues that the aim of financial management is to improve the management, allocation, and control of financial resources. The above-mentioned author further argues that public finance is the basis of any government, because a government provides services to its citizens through public financial resources. Tkachenko (2020) maintains that although there are many definitions of public financial management, there is increased recognition that public financial management does not only cover technical accounting issues but the overall taxation, costs, and debt management of government, which affects the allocation of public financial resources as well as the distribution of income.



Tkachenko (2020) further states that the system of public finance management is a system of multiple role players, complex relationships, and dynamic and interrelated processes. Effective public financial management systems are therefore needed for the purposes of “maximizing the efficient use of resources, [creating] the highest level of transparency and accountability in government finances and [ensuring] long-term economic success” (Tkachenko, 2020, p. 78). Sambo (2017) supports the assertion by reiterating the importance of public financial management by government institutions, which should ensure that income and expenses are managed efficiently and effectively through their budget.

Closely linked to these assertions is the notion of accountability, particularly financial accountability. Raffer (2004) refers to two types of financial accountability: external and internal accountability. The former refers to the obligation that institutions have to external stakeholders, such as customers and state agencies, while the latter refers to the obligations that internal stakeholders, such as staff, have toward each other. It is thus critical for all stakeholders in SOEs to be accountable, both in general, and from a financial perspective.

This discussion needs to consider the important issue of soft and hard budget constraints. Maskin and Xu (2001) aver that soft budget constraints are caused by, among others, the ability of state institutions to negotiate their budgets *ex post facto*. The above authors further describe soft budget constraints in the context of politics, wherein a government bails out firms when, for various reasons, the political price of permitting the bankruptcy of such firms is considered too high, for example, affecting employment or enterprises fail due to a potential social unrest.

Thus, Maskin and Xu (2001) argue that soft budget constraints have a direct influence on the efficiency of state institutions through the effect they have on the expectations of managers in those institutions. In this regard, managers are said to anticipate that the government would avoid massive insolvency by providing financial relief or bailouts to insolvent SOEs (Chakrabarti, 2017). SOEs that are constantly bailed out by the government would thus suffer from dependency syndrome and inefficiency, which are indicative of weak governance. Davis and Keiding (2002) argue that the consequences of profit losses and hard budget constraints could cause SOEs’ business closures due to weak governance arrangements.

BRICS Governance Architecture

The governance architecture of the BRICS countries is displayed in Table 1. The architecture comprises legal instruments and institutional mechanisms that reflect the extent to which governance in BRICS countries is taken seriously.



Table 1 BRICS governance architecture

BRICS governance architecture					
	Brazil	Russia	India	China	South Africa
Legal	Law 13303/2016	Code of Corporate Conduct	Companies Act, 2013	Company Law, 1994	Companies Act, 2008
				Securities Law, 1999	Public Finance Management Act, 1999
			Guidelines on Corporate Governance of SOEs	SOEs Regulations & Code of Corporate Governance for Listed Companies	King IV Code
Institutional	President of the country		Parliament	CCP	Cabinet
			Parent Ministries		Parent Ministry
	BOD	BOD	BOD	BOD	BOD
			PESB		
			CVC	CSRC	
		Comptroller and Auditor General		Auditor General South Africa	

Source: Authors own compilation

As shown in the table, there is no direct legislation that governs SOEs in BRICS, neither is there legislation nor guidelines at BRICS level. SOEs are rather addressed in terms of the respective protocols and legislation in individual BRICS countries. For example, the appointment of SOE directors is covered by Law 13303/2016 in Brazil. In India, China, and South Africa, SOEs are legislated by various company acts and related protocols. The China Company Act of 1994 is the oldest, followed by that of South Africa that was passed in 2008. The SOE boards of directors in the aforementioned three countries are regulated by guidelines and code of corporate governance, and are also under the control of various institutional mechanisms. These three countries have a fair governance framework, despite the challenges that are expounded on in the next discussion of each BRICS country. It is for this reason that there is diversified governance of SOEs in BRICS countries, as the different contexts do not allow for uniformity.

From Table 1, it can be seen that all BRICS countries have a Board of Directors (BODs). Brazilian SOEs, for example, are under the watch of the president of the country as the final arbiter to appoint and remove board directors. In Brazil, one wonders why the president has centralised the oversight of SOEs by being involved in appointing and firing any person in the position of power. This centralised arrangement is compounded by many governance challenges and could be potentially abused by the political leaders. No wonder, Thomas (2012, p. 450) warns that OECD best practice is that the board, and not the government, should have the power to appoint and dismiss the CEO, along with having full responsibility and accountability for the operations of the SOE without political interference.

As seen from Table 1, in Russia, the governance arrangements of SOEs is inadequate compared to that of other BRICS countries. Hence, the SOEs are confronted by many governance problems, including corruption. This is signalled by Azahaf and Schraad-Tischler (2012, p. 4) stating:

Russia shows worrying steering capability shortcomings. Given the prevalence of political patronage and clientelism, the lack of involvement of independent experts and other stakeholders, and frequent contradictions in the communication of policies, forward-looking policy-making in the sense of sustainable government is practically impossible in today's Russia.

There is a need therefore to develop legal instruments directly related to the SOE regime, if Russia is to succeed in strengthening the governance of the SOEs against potential governance abuse and corruption.

Indian and Chinese SOEs have commissions, namely, the Central Vigilance Commission (CVC) and the China Securities Regulatory Commission (CSRC), which both enhance accountabilities. This is a commendable and useful way of enhancing the governance and optimal functionality of the SOEs.

Oftentimes, SOEs, as in China and South Africa, are muddled in party-politics. Therefore, it is critical to draw a clear line between a political party and the SOE boards to allow these enterprises to thrive without being politically charged or mired in party-politics. Hence, there is a need for an umbrella or overarching legislation for SOEs, which clearly defines the governance and developmental mandate of SOEs in society to avoid conflicting roles and mandates.

In a nutshell, Table 1 presents some of the loopholes in the legal and institutional mechanisms of the respective countries. They show that both Brazil and Russia have legal and institutional loopholes that account for why they are predisposed to potential governance abuse and corruption. However, the remaining BRICS countries, India, China and South Africa, are no exception and all suffer from governance challenges in some way, hence, the next section discusses each BRICS country explicitly. Thomas (2012, p. 451) argues that in spite of increasing legislative measures in South Africa, there is little



evidence that SOE governance has improved over time. Azahaf and Schraad-Tischler (2012, p.30) argue that “overcoming these problems instead demands effective governance and future-oriented policy-making in each of the BRICS countries”.

Overview of SOEs state of governance in BRICS countries

Arguably, SOEs in BRICS are exposed to many governance challenges, such as principal-agent issues, lack of proper oversight and accountability, political interference, weak and disorganised boards, and conflicting mandates and interests as a result of a confusing mix of the commercial, political and social objectives that SOEs must achieve. These governance challenges are not only limited to SOEs in BRICS, but the entire landscape of the SOE sector in many economies. Hence, efforts to improve corporate governance in SOEs have lagged those of the private sector (Som, 2013). Following these range of governance challenges, an overview of the state of SOE governance in each of the BRICS countries is outlined below.

Brazil

Fontes-Filho and Alves (2018) are of the view that the direction and objectives of SOEs in Brazil are subject to regular changes imposed by the country’s political system. These changes expose the management of these entities to instability and temporary public demands. According to Limoeiro and Schneider (2017), all positions of power and policy influence in Brazilian SOEs are subject to the direct appointment and removal by the president of that country, contrary to the position in South Africa where the shareholder minister of the specific sector, the cabinet, and the board oversee SOEs, while the president is hardly involved.

Limoeiro and Schneider (2017) refer to corruption in the form of kickbacks that occur in construction and procurement contracts within Brazilian SOEs (Kyunga *et al.*, 2018). By law, Brazilian SOEs should have audit committees as a governance structure; these committees are meant to supervise management activities and verify compliance with laws and regulations, and provide suggestions on the annual reports of SOEs (Fontes-Filho & Alves, 2018).

A new law (Law 13303/2016) has been passed in Brazil, which provides the legal statute and rules for the appointment of directors in SOEs, including the appointment of independent directors. Fontes-Filho and Alves (2018) further state that the passing of this new law points to the continuing fragile structuring of the control mechanisms of corporate governance in Brazil. According to Fontes-Filho and Alves (2018, p. 7), the lack of independence of the boards of SOEs,

lack of minimum professional experience for board members, the appointment of politicians to administrative and supervisory bodies, the need



for releasing the Annual Governance Statement showing the objectives regarding public policy and operational and financial data, and the compulsory implementation of compliance and risk departments, as well as a statutory audit committee, indicate the weaknesses present in the state system.

Russia

Augustynowicz (2014) is of the view that, in both the English and Russian literature, there are very few noteworthy publications that analyse the SOE sector in Russia, as well as the corporate governance issues of the state. The above author further contends that “there is no unified definition of SOEs in Russia, neither in official documents, nor in the scientific literature” (Augustynowicz, 2014, p. 136), because there are SOEs that are wholly state-owned. In Russia, SOEs have economic value, and are said to employ approximately 35.7% of the economically active population (Augustynowicz, 2014).

The OECD (2004) states that the government of Russia has worked on increasing state control in the boards of its SOEs. Regulations were adopted whereby SOEs were classified according to their importance to the state and by the level of ministries involved in their decision-making. Positive changes have been noted in the legal framework that forms the foundation for corporate governance, some of which include the introduction of board-level committees at most SOEs, such as audit committees that are expected to help improve internal controls.

In addition, the adoption of the Code of Corporate Conduct that was approved for the purposes of making recommendations on the regulation of board activities, resulted in positive changes in the corporate governance practices in SOEs. Furthermore, the Russian Institute of Directors noted improvements in various aspects of corporate governance practices, such as higher numbers of independent directors in boards, and disclosures (OECD, 2004).

There are, however, challenges that have been identified in the governance of Russian SOEs, such as conflicts of interests and corruption involving SOE board members, lack of appropriate requirements for board members, lack of procedures for the evaluation of their performance, and a lack of clear objectives for the SOEs. In 2004, the Audit Chamber reported the following reasons for the unsatisfactory quality of state property management: the Federal Service for Financial Markets did not properly control SOE disclosures as expected by the Audit Chamber; and SOEs did not comply with the Code of Corporate Conduct with regard to voting on dividends (OECD, 2004). Furthermore, government representatives were found to have failed to follow instructions and did not comply with the established procedures when making decisions on dividends due on government stock. Also, Thomas (2012, p. 452) contends that the process of appointing government representatives to boards in Russia lacks transparency, and board members are often passive and are frequently reshuffled.



India

State-owned enterprises in India are referred to as Public Sector Undertakings (Subramanian, 2015) or simply Public Enterprises (PE) (Khwandwalla, 1984). Scrimgeour and Duppati (2014) report that SOEs are the backbone of the Indian economy, and represent around 25% of the country's GDP (Chakrabarti, 2017). Indian PEs are governed by a complex legal and institutional framework, such as the Companies Act, 2013, clause 49 of the Listing Agreement, and Department of Public Enterprises' guidelines (Som, 2013).

Contrary to Russia, India made concerted efforts to devolve the state ownership of some corporations to the private sector in 1991. The Indian government introduced new economic reforms and industrial policies, which unlocked the sectors that were previously the monopoly of the PEs, thus creating a competitive environment. The government arguably uses disinvestment as the only available alternative to get rid of unproductive state enterprises, owing to either the strategic nature of some industrial sectors, or due to the multiplicity of objectives that are not necessarily value adding. Nonetheless, the government has retained a vast majority of enterprises under its direct control. Most of such enterprises are controlled by parent ministries and managed by career bureaucrats (Bhasa, 2015; Subramanian, 2015).

In addition, corporate governance reforms were introduced to ensure comparable performance between PEs and their private counterparts (Scrimgeour & Duppati, 2014). Som (2013) contends that the government of India that owns or controls interests in key sectors such as infrastructure, oil, gas, mining, and manufacturing, has implemented measures—including better corporate governance—to improve the performance of its PEs. The above author further states that the reforms have focused on, among others, disinvestment of government shares and development of a performance monitoring system to ensure the accountability and strengthening of the boards of SOEs. Guidelines on Corporate Governance of SOEs were issued in 2007, and became mandatory to be implemented from 2010. Similarly, Chakrabarti (2017) states that some emerging economies, such as India, have adopted a policy of gradual disinvestment in SOEs, as advocated by the World Bank and International Monetary Fund.

Indian SOEs account to various institutions such as parliament, the Comptroller and Auditor General and the CVC (mandated to prevent corruption and malpractice in SOEs), and the Public Enterprises Selection Board (PESB) (responsible for managing the process of selecting board members, including tenders and advertising) (Scrimgeour & Duppati, 2014). Scrimgeour and Duppati (2014) argue that the poor performance of SOEs in India is caused by the multiple principals that SOEs are accountable to, and who have multiple goals and conflicting interests. Khwandwalla (1984) adds and attests that senior bureaucrats of the ministry to which the PE is attached, and political masters and officials of such other regulatory bodies as the planning commission, the bureau of public enterprises, or the public investment board, often make conflicting demands. Hence, PE



managers complain of multiple masters or principals which add to the complexity of the SOEs' governance.

China

Wang (2014, p. 637) identified the “twin governance structures” in China’s SOEs: one for legal governance and the other for political governance. The legal governance structure, featuring the shareholders, the board of directors, the supervisory board, and the management team, is installed according to the People’s Republic of China Company Law, and represents the convergence of Chinese corporate governance with Western corporate law norms. Political governance in China, especially from the Chinese Communist Party (CCP), is a dominated process that controls decision-making and the appointment of employees in SOEs (Wang & Han, 2020).

It has become clear that the role of the party in the SOEs has been strengthened and institutionalised in the new round of SOE reforms. Thus, it is apparent that the party-state has established two “supremes” in corporate governance, since both the board of directors (BOD) and the CCP are prescribed to be the decision-making bodies in SOEs. In such a case, as long as the BOD is not given the real power to run the company independently, and the CCP is in charge, the percentage of private ownership is more or less irrelevant in SOEs with mixed ownership (Wang & Han, 2020).

China has experienced dramatic economic changes over the last three decades. Although China endeavours to transition to a market economy by corporatising its SOEs, it continues to exercise a significant degree of influence over the economy, and controls the majority of shares in the corporatised SOEs, even after public listing. Chinese institutional or rather, governance reforms have produced diversified state ownership regimes. The various types of government ownership, therefore, exert different influences on the ownership structure and shareholding controls (Tenga, Fuller, & Li, 2018).

Wang (2014) contends that the number of SOEs in China dropped from 65 000 to 20 000 between 1998 and 2010. The share of SOEs in the total industry in China has also gone from 40% to less than 5%. However, there have been growth in SOEs in capital-intensive, upstream sectors, or strategic sectors, such as banking, telecom, energy, and natural resources. Xiao (1998) avers that China did not have uniform legislation for all types of enterprises with different ownership structures until 1993. Tan and Wang (2007) raise various laws and regulations that have been promulgated in China to ensure that there is good corporate governance in listed companies, including listed SOEs (Wei, 2003). Some of these laws are the Company Law, 1994; the Securities Law, 1999; and regulations issued by the CSRC.

The CSRC has also approved a code of corporate governance for listed companies to evaluate whether these companies have good corporate governance structures. However, despite the plethora of good laws and regulations aimed at improving good corporate governance in China, good corporate governance remains an illusion (Wang, 2014). China’s



difficulty in establishing a sound corporate governance environment is caused by various factors, such as principal-agent problems, conflicting objectives of the state as a shareholder and a regulator, as well as a lack of a corporate culture that demands a sense of responsibility and accountability from directors, managers, and shareholders (Tan & Wang, 2007). Silvestre *et al.* (2018) claim that governance reforms in some Chinese SOEs were unsuccessful because of a lack of state autonomy and capacity.

Tan and Wang (2007) are of the view that the 'Anglo-American' corporate model is absent in China. As an example, Tan and Wang (2007) argue that the appointment of directors of SOEs is an important aspect of corporate governance. However, listed SOEs do not disclose their internal procedures (if any) for nominating directors. Tan and Wang (2007) further state that there is political interference in the management of Chinese SOEs, where politicians use the firms to achieve political and social objectives, such as preventing loss-making listed SOEs from bankruptcy for fear that this would aggravate unemployment problems and disrupt social stability, instead of maximising the efficiency and performance of the firms. This relates to soft budget constraints, which increases the dependency of SOEs on the government.

Wang (2014) differentiates between legal governance and political governance, which, according to the author, coexist in the control and operation of Chinese SOEs. The former relates to governance within the bounds of state laws, whereas the latter refers to personnel appointments and decision-making processes in SOEs, which are dominated by the CCP. In many cases, the informal, non-legal rules related to political governance, and which run in the background, succeed over the legal rules (Wang, 2014).

South Africa

Corrigan (2014) states that the South African government has over a long period demonstrated its commitment toward using SOEs as agents of development (Tsheola, Ledwaba, & Nembambula, 2013). Further, in theory, the country's SOEs operate under corporate governance best practice, commercial legislation, and public sector financial legislation. However, this is not always the case, as over 700 South African SOEs have failed repeatedly (Corrigan, 2014).

Despite SOEs in South Africa being the main drivers of the formal sector of the economy, and being responsible for delivering most social goods and services, such as electricity, to ensure quality of life to all citizens, the plethora of legislative and regulatory frameworks that SOEs operate under remains fragmented (Kanyane & Sausi, 2015). As a result, SOEs cannot effectively contribute to the socio-economic development mandate of the state. For example, incongruences have been found between the Public Finance Management Act, 1999 (29 of 1999) and the Companies Act, 2008 (Act 71 of 2008), which all South African SOEs are subject to. A single overarching legislation for SOEs aimed at addressing the dynamics of SOEs, is therefore, necessary (Kanyane & Sausi, 2015).



Responding to a question by a Member of Parliament of the Democratic Alliance, the opposition party in South Africa, on what the total cumulative amount of money is that was spent on the bailout of SOEs since 27 April 1994, the Minister of Finance, Mr. Tito Mboweni, responded as follows: “The total cumulative amount of money spent on SOE recapitalisations and bailouts from 2000/01 to 2019/20 is R187.4 billion”, and the amount excludes indemnities, guarantees, and other contingent support provided to SOEs (Parliamentary Monitoring Group, 2020). The minister went on to indicate that information from 27 April 1994 was not available.

The minister’s answer is an example of soft budget constraints, as previously discussed in the section on China. Kanyane and Sausi (2015) are of the view that the assessment of SOEs in South Africa reveals that these entities are, among others, vulnerable to debt burdens, corporate governance dilemmas, and corruption issues, including the state capture investigated by the Zondo Commission of Inquiry.

State-owned enterprises that are constantly bailed out by the government become dependent on it, and that may result in them becoming inefficient. ESKOM and South African Airways serve as perfect examples of governance failure; they are always candidates for state bailouts, thus suffering from state dependency syndrome. The South African Broadcasting Corporation (SABC) and Passenger Rail Agency of South Africa (PRASA), are more examples of SOEs wrought with governance failures that have made them vulnerable to corruption.

Conclusion

The above discussions raised critical issues related to the state of governance of SOEs in BRICS countries. Given the disparities in how SOEs are run in BRICS countries, their respective governances are somewhat incomparable. However, all SOEs have a developmental mandate that should be informed by proper governance architecture, and a framework emerged from the underlying discussion. Given that SOEs are confronted by governance failures, corruption, and socio-economic vulnerabilities in their respective BRICS countries, they often find it difficult to function optimally as the principal drivers of the formal sector of the economy.

The current SOE governance in BRICS countries is inadequate, especially in Brazil and Russia, necessitating the need to have overarching legal and institutional mechanisms that clearly define how SOEs should function effectively and efficiently. It is evident that SOEs should be underpinned by a governance framework that is all-encompassing, legal, institutional, financially accountable, transparent, independent of party-politics and interference. In addition, SOEs should operate in a flexible environment that allows them to fulfil their developmental mandate.



To this end, at both the regional and international front, SOEs in BRICS, as the principal drivers of the sector in emerging economies, should not be stifled but should be given chance to flourish in the regional and international markets. Through the SOEs, BRICS, as an emerging global force, could remain resilient against trade wars, COVID-19 challenges, and various economic failures in the world, especially if their governance arrangements are depoliticised. BRICS, for example, should engage in bilateral talks to create a flexible governance and enabling environment within the remit of BRICS summity protocols and diplomacies to allow BRICS countries to thrive as emerging economies. Finally, if BRICS aims to lead the emerging economies successfully as a global force, each BRICS country must resolve their own SOEs' governance challenges to ensure that SOEs function optimally and competitively in the local, regional and international markets.

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