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FACTORS CONTRIBUTING TO TRANSGRESSIONS IN THE PROCUREMENT PRACTICES OF STATE-OWNED ENTITIES (SOES): ESKOM AND TRANSNET

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A research report submitted to the Faculty of Management, University of Witwatersrand for the degree of Master of Management in the field of Governance and Management.

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February 2024

Abstract

Public procurement is a vital process for governments and state-owned enterprises (SOEs) to procure essential goods and services. However, state capture and unethical practices have plagued it. The State Capture Commission Report highlighted issues such as poor governance, unethical conduct, and insufficient internal control systems. This has led to financial and operational challenges for SOEs, which heavily rely on state guarantees and bailouts.

In South Africa, the government spends around R1 trillion annually on procurement, which represent 12% of the country's gross domestic product (GDP) (National Research Foundation, n.d.). The Auditor General (AG) report for the 2020/21 financial year reported that most SOEs had high balances of irregular expenditures. Transnet had the highest irregular expenditure, totalling R14.1 billion, followed by Eskom with R11.6 billion (Maeko, 2021).

This study aimed to identify the underlying governance factors contributing to transgressions in SOE procurement practices and to provide remedial actions to prevent recurrence. Agency Theory was used to examine the identified issues, and a comprehensive literature review was conducted to investigate the underlying factors.

The study found that failure to address these governance issues could lead to qualified audit opinions, issues of going concerns for SOEs as well as impact investments and public confidence. The study also revealed that the slow implementation of consequence management could foster a culture of noncompliance and accountability. The current South African public procurement system ca is characterised by political interference and cadre deployment, which undermines transparency, accountability, and good governance. Political appointments and cadre deployment in critical positions encourage wasteful spending, undermine governance, and promote dictatorship.

Politicised boards and management in SOEs has led to an increasing prevalence of corruption. The AG, Standing Committee of Public Accounts (SCOPA), National Treasury (NT), Department of Public Enterprises (DPE), and the respective SOEs' boards have been unable to conduct their oversight functions effectively due to their unwillingness to do the right thing and failure to establish robust preventative controls. The state's approach to board nomination lacks transparency, operates in an ad hoc manner, and is excessively politicised.

Remedial actions to address these issues require a dedicated commitment from top leadership, fast implementation of corrective measures, and periodic monitoring and evaluation processes. Limiting political interference in the administration of remedial actions can enhance the effectiveness, fairness, and integrity of the anti-corruption process.

KEYWORDS: public procurement, SOEs, governance, Eskom, Transnet

Declaration

I declare that this dissertation titled "**FACTORS CONTRIBUTING TO TRANSGRESSIONS IN THE PROCUREMENT PRACTICES OF STATE-OWNED ENTITIES (SOES: ESKOM AND TRANSNET"** is my own work and has not been previously presented for any academic degree or examination at any other institution of higher learning. All the sources utilised or cited have been duly acknowledged by means of a complete reference.

_____

Bonolo Moloto
Student No: 2040254
March 2024

Acknowledgements

This phase of my academic career was extremely challenging, but I would like to thank God Almighty for granting me the grace, fortitude, and resiliency to complete my studies.

I would also like to thank the following people who were instrumental in my academic journey and provided unwavering support:

- My supervisor, for his professionalism, academic guidance, expertise, and unwavering patience and mentorship throughout the entire research process. You were certainly a blessing and a destiny helper from the Lord.

- My dear husband, for his unwavering support, love, and encouragement throughout my academic journey.

- My parents for their sacrifices, which enabled me to continue my academic pursuits. The fortitude and fighting spirit of my late father, who was diagnosed with a terminal disease, served as a source of inspiration and support for me during the concluding phases of my research studies. His legacy will forever live on in my heart.

- My late mother-in-law whose constant prayers have been a source of strength and inspiration throughout my academic journey.

- My employer for granting me a bursary to pursue this master's degree and for providing me with the necessary time off and resources to complete the coursework and research obligations.

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Abbreviations

AGSA	The Auditor General of South Africa
BEE	Black Economic Empowerment
Boards	Board of Directors
DPE	Department of Public Enterprises
GDP	Gross Domestic Product
ICASA	Independent Communications Authority of South Africa
NDP	National Development Plan
NPC	National Presidential Committee
NERSA	National Energy Regulator of South Africa
OECD	Organisation for Economic Cooperation and Development
OCPO	Office of the Chief Procurement Officer
OUTA	Organisation Undoing Tax Abuse
PPPFA	Preferential Procurement Policy Framework Act
RSA	The Republic of South Africa
SOEs	State-Owned Enterprises
SCOPA	Standing Committee of Public Accounts
SIU	Special Investigation Unit
UNECA	United Economic Commission for Africa

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CHAPTER 1: INTRODUCTION, PURPOSE, OBJECTIVES OF THE STUDY

Public procurement is defined as an established process governments and state-owned enterprises (SOEs) use to procure goods and services (OECD, 2015). South African public institutions, including SOEs, use a public procurement method to supply the public with essential goods, services, and infrastructure projects that are vital to the economy (Shabangu, 2021).

Public procurement is widely recognised as an essential component of good governance (Davy, 2003). The effectiveness of the public procurement system relies on its efficient administration and adherence to sound governance principles, along with the implementation of strong monitoring and accountability mechanisms (Corruption Watch, 2022).

Section 217 of the South African Constitution deals with the anchor principles for public procurement. It stipulates that the procurement of goods, services, and construction projects be conducted in a fair, equitable, transparent, competitive, and cost-effective manner (Section 217 (1) of the Constitution of the RSA, 1996). It aims to rectify past discriminatory practices and mandates public entities to uphold these principles (Bolton, 2006). The principle of fairness requires that public procurement processes be conducted in a fair manner, treating all suppliers equally and providing them with an equal opportunity to participate in the tendering process. The principle of equitability requires that procurement processes promote equity and address historical inequalities pertaining to race, gender, or socioeconomic status. The principle of transparency requires the public procurement process to have unrestricted access to tenders and ensure fair treatment of all service providers. Competitiveness requires that the public procurement process have unimpeded entry into the procurement market, allowing the recommended supplier to fulfil requirements at the most favourable price. Cost-effectiveness centres aim to minimise costs while obtaining the best value for money when an organ of state procures goods or services (de la Harpe, 2009).

Bosio and Djankov (2020) state that the South African government's annual expenditure on the acquisition of goods and services through the public procurement system is estimated to be around $13 trillion. In the year 2020, the government spent approximately 12 per cent of the

country's Gross Domestic Product (GDP) on the acquisition of goods and services. Approximately 30 per cent of this figure is derived from SOEs (Bosio & Djankov, 2020). Hence, the implementation of sound governance practices and efficient oversight mechanisms is of great significance for SOEs. Furthermore, the significant expenditure through public procurement has led to public procurement being utilised as a policy tool, whose main objective is not only to promote social, economic, or environmental goals but to act as a mechanism to redress historical discriminatory policies and practices (Bolton, 2009).

The field of public procurement encounters many kinds of hurdles (Munzhedi, 2016), and it has emerged as a primary focus for capture (Matebese-Notshulwana, 2021). Capture refers to a form of systematic corruption that has a detrimental impact on governance (Sitorus, 2011, p. 46). The phenomenon occurs when individuals or organisations within the public and private domains attempt to modify legislation, regulations, and other governmental policies in order to advance their own interests (Sutch, 2015).

The phenomenon became more prevalent in South Africa during the tenure of Jacob Zuma, the former President of South Africa. The procurement departments of SOEs such as Transnet and Eskom experienced capture (Magubane, 2017). This was primarily due to the significant size of their procurement budgets, which totalled R140 billion in the 2017/18 fiscal year (BusinessTech, 2017).

The Consolidated General Report on National and Provincial Audit Outcome for the 2017/18 and 2018/19 financial years highlighted significant findings pertaining to non-compliance with procurement legislation, inadequate governance, and insufficient oversight. These factors were highlighted as key contributors to the decline in the financial state and procurement practices of SOEs, as stated in the Consolidated General Report on National and Provincial Audit Outcome, 2017/18 (p. 116). This indicates that the processes of public procurement remain vulnerable to poor governance practices despite the significance of public procurement, both as a method of acquiring goods and services and as a policy tool.

Given the above, this study will examine various factors that contribute to poor governance in the public procurement of SOEs, particularly within Eskom and Transnet in South Africa. The study will first provide a detailed critical literature review that will examine the governance

factors that contribute to procurement transgressions in SOEs. The research will be theoretically anchored in agency theory. This theory will provide a framework for analysing underlying issues. The chosen case studies for this study are Eskom and Transnet, as both SOEs have experienced governance challenges in their procurement functions. Information will be gathered from both entities to identify the underlying governance factors that contribute to repeated transgressions in the procurement of these entities. Lastly, the study will explore remedial actions and steps that are required to improve and prevent the recurrence of these issues.

1.1 Problem Statement

According to Section 217 of the Constitution, the "public procurement system must function in adherence to principles of fairness, equity, transparency, and cost-effectiveness." Nevertheless, there has been a consistent violation of the principles governing public procurement in the last 20 years (Corruption Watch, 2022). Consequently, the field of public procurement has continued to be susceptible to instances of unethical practices. The State Capture Commission Report (2022, p. 835) identifies a range of ongoing challenges in public procurement, including concerns surrounding governance, unethical behaviour, monitoring and oversight deficiencies, inadequate internal control systems, the improper appointment of corrupt individuals, and the unfair distribution of state contracts.

A significant number of prominent SOEs have encountered challenges pertaining to their financial performance and operational efficiencies, primarily stemming from poor governance practices. A significant number of entities also currently depend on state guarantees and bailouts to sustain their operations. The provision of state guarantees and bailouts imposes a substantial burden on the fiscal resources of the nation. Since 2018, significant efforts have been made to address the misconduct that has affected many SOEs and to guide them towards a more appropriate path (United Nations Economic Commission of Africa, 2021, p. 3).

According to the Auditor General's (AGSA) Consolidated General Report on National and Provincial Audit Outcomes for the 2020/21 financial year, the Department of Public Enterprises' (DPE) portfolio recorded an expenditure of approximately R25.9 billion. This significant sum primarily originated from Eskom and Transnet. The AGSA reported that most

SOEs, especially Transnet and Eskom, did not follow procurement policies and procedures. The largest transgressors are Transnet at R14.1 billion in irregular expenditure and Eskom at R11.6 billion (Maeko, 2021).

Considering this, an analysis will be conducted by gathering information from the two entities, Eskom and Transnet, to identify the underlying factors that contribute to recurring malpractices in the procurement processes of these entities. The selection of these institutions for this study is based on their significant impact on the South African economy as well as their shared challenges in governance pertaining to procurement processes.

1.2 Research Objectives/Purpose

The main purpose of the study is to analyse the governance factors that lead to procurement transgressions in Eskom and Transnet as a case study. The secondary purpose is:

1.2.1 to determine the causes of repeated governance failures and unethical practices in the procurement of these two entities.

1.2.2 to determine why oversight institutions and structures are unable to adequately monitor and scrutinise the governance flaws in the procurement of these entities?

1.2.3 to determine the remedial actions and steps that are required to improve and prevent the recurrence of these issues.

1.3 Research Questions

The study's main research question is to understand what governance factors lead to procurement transgressions in Eskom and Transnet as a case study. The sub-research questions include:

1.2.4 What factors cause repeated governance failures and unethical practices in the procurement of these two entities?

1.2.5 Why are oversight institutions and structures unable to adequately monitor and scrutinise the governance flaws in the procurement of these entities?

1.2.6 What remedial actions and steps are required to improve and prevent the recurrence of these issues?

1.4 Knowledge Gap and Significance of the study

Eskom and Transnet play a significant role in the country's economy and have been major targets of state capture and violations of governance principles, particularly in their procurement practices (Nzimakwe, 2023). Previous studies may have examined procurement shortcomings from a broader perspective; however, they did not extensively investigate the prevalent challenges or specific governance failures faced by these two institutions' procurement processes. Moreover, the studies may have briefly touched on oversight, but they have not thoroughly examined the systemic issues that hinder effective oversight within these entities.

Since the release of Zondo Commission, there have been few studies examining governance flaws in Eskom and Transnet's procurement processes. Additionally, there is a shortage of case studies exploring the intersection of governance and procurement within the South African context, especially with SOEs such as Eskom and Transnet. This study is different because it aims to understand the ongoing governance failures facing the procurement of these entities and the systematic issues that sustains unethical practices. This study aims to address the gap through a case study analysis in understanding the governance failures in these entities. Furthermore, it aims to understand why oversight institutions have failed to effectively monitor procurement processes within these entities post Zondo Commission era.

Given the study's focus on unethical practices within Eskom and Transnet, it holds significance in the broader context of state capture and corruption in South Africa. The study aims to identify the gaps and provide specific remedial actions for these entities, which may also serve as a model for other SOEs facing similar challenges. It would provide insights and guidance to policymakers and governance entities on the necessary reforms to improve procurement processes in state-owned enterprises.

1.5 The Limitations of the Study

This study is limited to only two SOEs, which will be used as case studies. It is important to note that the findings may not necessarily be representative of the practices followed by other SOEs. However, they do provide an insight into what could potentially be transpiring in other SOEs as well. Further, due to the lack of authorisation granted to conduct interviews, a document analysis was adopted for data collection instead.

1.6 Structure of the Study

The study consists of five chapters. The subsequent paragraphs provide an overview of the contents of chapters two to six.

Chapter 1: Introduction, Purpose, and Objective of the Study: This chapter provides an introduction to the study. It focuses on the research's purpose and objectives.

Chapter 2: Literature Review: This chapter explores the governance factors responsible for recurring procurement transgressions in Eskom and Transnet, analysing their procurement practices as a case study and identifying the causes of these governance failures. The chapter reviews relevant literature, and critically examines governance failures and theoretical frameworks, focusing on previous reports and literature on Eskom and Transnet.

Chapter 3: Theoretical Framework and Research Methodology: This chapter discusses the research study's theoretical framework, agency theory, and its methodology, including qualitative research and document analysis. It details the selection of methods and data analysis techniques and discusses the selection and document analysis procedures for data collection. The study adopted a qualitative approach to assess the extent of transgression in the governance of the procurement functions of Eskom and Transnet. Further, the chapter presents research questions and data collection using a case study method, focusing on Transnet and Eskom. It aims to understand the implications of procurement irregularities in governance by conducting an analysis of common governance factors in the procurement of these entities.

The data collection in this research was through secondary sources. Academic journals and reports from the websites of South African national departments (DPE, the NT, Auditor General, Eskom, and Transnet) constituted the secondary sources of information.

Document analysis was used as a means of gathering information due to its recognised benefits, such as its cost effectiveness, ability to access remote topic areas, and the researcher's ability to study documents without requiring physical interaction (Delport, De Vos, Fouche, & Strydom, 2003, p. 325). Most of the consulted sources included information and reports from

the oversight committee that provides governance oversight to these SOEs (Eskom and Transnet).

Chapter 4: Data Findings, Interpretation, and Discussion of Results: This chapter presents a summary of the research's findings. It also presents a comprehensive analysis and interpretation of the research results and findings in relation to the research objectives.

Chapter 5: Conclusions, Recommendations, and Remedial Actions: The concluding chapter discusses the study's purpose, research questions, objectives, and their connection to the research questions and theoretical framework. Furthermore, the chapter will provide recommendations, remedial actions where appropriate, and steps for future research efforts.

1.7 Conclusion

This chapter presented an overview of the research by providing the research purpose, questions, and objectives. The chapter further provided the basis for exploring and understanding the factors that cause repeated transgressions in the procurement practices of SOEs, with a special focus on Eskom and Transnet. This research discusses the secondary sources consulted for its purpose. The chapter sets the tone for the subsequent chapters, which will explore deeper into the underlying causes and propose recommendations for improving governance in SOEs. The next chapter explores the literature review for the study.

CHAPTER 2: LITERATURE REVIEW

The purpose of a literature review is to investigate scholarly material such as journal articles, books, and any other pertinent sources for a specific issue, research area, or theory. It provides a description, a summary, and a critical evaluation of the relevant works in relation to the issues investigated in a particular study (Seitheisho, 2019).

Therefore, the purpose of this chapter is to review the available literature on key concepts and themes in this study. This will be achieved through the analysis of literature on governance-related issues in public procurement. This literature review will critically analyse governance factors that lead to transgressions in the procurement processes in Eskom and Transnet as the chosen case studies. It will also explore in detail the causes of repeated governance failures in the procurement processes of these entities. The review will examine scholarly articles related to the governance of public procurement within these entities.

The section will first discuss key concepts and themes, as well as frame the understanding applied in this study. These include public procurement, governance, and how SOEs conduct their procurement processes, particularly the chosen case studies (i.e., Eskom and Transnet). This section will also evaluate the legislation that governs public procurement will also be evaluated, and a brief background on Transnet and Eskom will be provided. Following this, an analysis of the factors that lead to repeated violations in these entities' (Eskom and Transnet's) public procurement processes will follow.

2.1 Public Procurement

2.1.1 Conceptualising Public Procurement

Public procurement refers to the process by which government entities acquire goods and services from external service providers (OECD, 2015; Ambe & Badenhorst-Weiss, 2012). Ambe and Badenhorst-Weiss (2012) argue that this is accomplished through a range of contractual methods, including purchasing, buying, or hiring. Reinforcing the notion of what constitutes public procurement, Hommen and Rolfstam (2009) state that public procurement is an activity through which the government acquires goods and services through buying or

purchasing. The public procurement process helps the government and state-owned entities deliver essential public goods and services to their citizens (Bolton, 2006).

Arrowsmith (2010) posits that the concept of public procurement is an administrative process that requires planning, contract placement, and contract administration. It should be viewed as a strategic function and implemented at all spheres of government (i.e. national, provincial, and local). The OECD (2005) characterises procurement as a strategic component of public finance and governance systems. This view is supported by the position of Mazibuko and Fourie (2017) through their systematic approach to the concept of public procurement, which they define as the supply chain system the state and its entities use to acquire goods and services, with the main goal of serving the public interest. As such, public procurement extends beyond the mere acquisition of goods and services. It is a crucial process that governments use to acquire essential goods and services to meet the needs of their citizens (Arrowsmith, 2010). Thus, Arrowsmith (2010), Mazibuko (2017), and Fourie (2017) concur that the fundamental concept of public procurement is to serve the public interest.

The strategic nature of public procurement is also evident in how it is construed in the South African context. Turley and Perra (2014) contend that there is a consensus that procurement serves as a strategic function for the South African government to effectively execute policies aimed at promoting socio-economic development and transformation. The public sector in South Africa places significant emphasis on procurement processes. Procurement serves as a mechanism for facilitating the achievement of national development goals (Rogerson & Rogerson, 2019). Collectively, Arrosmith (2013), Turley and Perra (2014), and the OECD (2005) assert that procurement serves as a strategic function within the three spheres of government, supporting socio-economic development and promoting transformation. Furthermore, it plays a pivotal role in the functioning of public finance and governance systems.

2.1.2 Objectives and Importance of Public Procurement

Public procurement is widely acknowledged as a crucial element of good governance (Davy, 2013). According to the World Bank (2020), the main objective of public procurement is to promote the principles of good governance and improve the allocation of resources and provision of services. Furthermore, Mashamaite and Raseala (2018) emphasise that robust

governance mechanisms are required to ensure fairness, transparency, and accountability in procurement processes. Collectively, these authors (Davy, 2013; Mashamaite, 2018; Raseala, 2018) concur that good governance is essential in public procurement because it promotes the principles of fairness, transparency, and accountability in public procurement processes. Thus, incorporating good governance into the field of public procurement also improves resource allocation.

Section 217 of the Constitution of the Republic of South Africa also advocates for the principles of good governance. The section mandates that the procurement of goods, services, and construction projects be conducted in a fair, equitable, transparent, competitive, and cost-effective manner. Fairness and equitability require procedurally fair procurement processes while transparency ensures unrestricted access to tenders and fair treatment of all service providers. Competitiveness allows for unimpeded entry into the procurement market, enabling the recommended supplier to meet the requirements at the most favourable price. Cost-effectiveness focuses on minimising costs while ensuring the best value for money when an organ of state procures goods or services (de la Harpe, 2009).

Over the years, the role of public procurement has evolved from an administrative role to a strategic one, with the primary objective of improving resource distribution, efficiency, transparency, and accountability in the process (OECD, 2015). Public procurement is becoming so complex that the transition of the function from an administrative to a strategic role will require procurement officials to develop multidisciplinary skills and abilities (OECD, 2015). The transition will improve efficiency in the public procurement system by streamlining procurement systems, adopting efficient technical procedures, reducing duplication, and developing tools to improve procurement and achieve greater cost effectiveness. Transparency can be enhanced by maintaining a high level of openness throughout all stages of the public procurement system. It enables unrestricted access to information for all parties involved, including suppliers, civil society, and the public, thereby ensuring transparency in the flow of public funds. Accountability can be strengthened through the implementation of oversight and control measures at every stage of the procurement cycle, which includes the establishment of suitable procedures for reporting complaints and imposing sanctions (OECD Public Procurement Principles, 2008). Transparency is crucial in reducing corruption and ensuring that governments adhere to the rule of law.

The implementation of public procurement reforms in South Africa began in 1995 with the objective of advancing the principles of good governance. The reform process was driven by the inconsistencies in policy application, a lack of accountability, the absence of supportive structures, and fragmented processes. As such, the purpose of these reforms was to establish a system of accountability, robust support systems, and streamlined processes. Additionally, these reforms introduced a preferential system to specifically target socio-economic objectives (Ambe, 2009). By focusing on socioeconomic objectives, public procurement effectively acquired a secondary objective as a policy tool.

Due to the targeting of socio-economic goals in public procurement, it can be construed that the government service delivery system places considerable emphasis on procurement, prioritising objectives that may be perceived as secondary to the primary objective of procurement. Cane (2004) asserts that these secondary objectives encompass the utilisation of procurement as a mechanism to uphold social, industrial, or environmental policies. In elaborating on this view, Bolton (2009) asserts that procurement is a policy tool whose main objective is not only to promote social, economic, or environmental goals. Instead, it is a means of promoting the achievement of these objectives and a mechanism to redress historical discriminatory policies and practices.

The South African government uses procurement as both a strategic instrument and a mechanism to implement policies for socio-economic development and transformation (Turley & Perera, 2014). Turley and Perera (2014) assert that procurement functions as a strategic instrument that allows the government to effectively execute policies aimed at promoting socio-economic development and transformation.

Even though there is a general understanding that the principal objective of public procurement is to acquire goods or services that effectively meet a designated purpose while optimising favourable conditions (Arrowsmith, 2010), there is a common view in the literature (e.g. Cane, 2014; Bolton, 2009), that the secondary objective of procurement is to support social, economic, and environmental policies and goals as well as to correct past unfair practices. Moreover, public procurement serves to create employment, promoting fair labour practices, and preventing discrimination against marginalised groups (Uyarra & Flanagan, 2009).

Essentially, public procurement is a process to acquire goods and services, with the primary objective of allocating financial resources effectively. However, the process has also been utilised to serve other policy objectives.

In contrast, Harpe (2009) posits that there are three primary stakeholders within public procurement. The primary stakeholder is the government, which assumes the role of providing funding for the procurement activities. The second stakeholder comprises the public, who play a crucial role in both the direct and indirect funding of goods and services through taxation. Furthermore, they are the recipients of these goods and services, thus benefiting from them. Finally, private enterprises assume a vital role as providers of the goods and services under consideration. It is important to acknowledge the incorporation of principles such as fairness, equity, transparency, competitiveness, and cost effectiveness.

There is a policy expectation that SOEs provide the public with goods and services that are important to the economy. For instance, economic strategies such as the Accelerated and Shared Growth Initiative for South Africa (AsgiSA) and the New Growth Path (NGP) provided institutional backing for the dependence on public enterprises to grow the economy (Makunyana & Odhiambo, 2016). Furthermore, SOEs are expected to play a developmental role in addressing South Africa's triple challenges: poverty, inequality, and unemployment (NDP). Hence, good governance is imperative in SOEs. As such, public procurement processes must be conducted in a manner that promotes good governance in SOEs.

Beyond being a process to acquire goods and services for the state and its agencies, public procurement also serves as a policy tool in South Africa. One of the policy tools the government uses to achieve social and transformational goals is public procurement (Bolton, 2006). This simply means that public procurement is a policy tool used to address inequities that are present because of policies and practices that were unfair in the past. This is primarily done through preferential procurement (General Procurement Guidelines, 2014).

What the literature indicates is that public procurement is the process through which the state acquires goods and services. Moreover, it serves as a key aspect of good governance and serves as a policy tool used to remedy the repercussions of past injustices in the South African context.

2.2 Good Governance

Like many concepts in the social sciences, the concept of 'governance' has been defined differently by various scholars. For instance, Kanyane and Sausi (2015) define governance as the structure and process through which institutions at all levels determines the role of participants in decision-making and implementation processes, as well as who will be held accountable for the outcomes of those decisions.

Matshabaphala (2014) posits that good governance involves participatory democracy, transparency, responsiveness, equity, honesty, and integrity while ensuring ethical leadership. In addition, good governance ensures transparency, accountability, efficiency, and the maintenance of the rule of law in economic, political, and administrative systems (National Treasury, 2015, p. 15). Thus, governance in general means both the decision-making process and the determination of which policies will be implemented, and which will excluded.

The DPE defines "governance in respect to SOEs as the methods and systems through which SOEs are directed, governed, and held responsible" (DPE, 2013). This reiterates that public procurement must be done in accordance with Section 217 of the Constitution. In addition, the General Procurement Guidelines by the National Treasury encourage good governance practices in procurement processes (General Procurement Guidelines, 2014). In fact, the guidelines stipulate that the procurement of goods or services should not happen if it does not meet the requirements set out in the guidelines.

There are clear legislative and policy expectations that public procurement should be carried out in a manner that promotes good governance. Given the significant public funds used for purchasing goods and services, the procurement processes within SOEs must be governed and managed in an accountable, transparent, and cost-effective manner (Heggstad, Frøystad, & Isaksen, 2010). In essence, fairness, transparency, and accountability are important for the governance of the procurement processes within SOEs.

2.3 Public Procurement Within SOEs

State-owned entities (SOEs) are legal entities that provide services on behalf of the government (Bolton, 2010) and play an important role in the country's economy. Since 1994, they have been the key drivers in assisting the government with economic growth and poverty reduction. The government uses SOEs to deliver key infrastructural services such as electricity, transportation, and water to all citizens (Kikeri, 2018).

The government has also earmarked SOEs as means to combat poverty, generate employment, and develop key industries such as finance, energy, transport, telecommunications, manufacturing, and natural resources (Mashamaite & Raseala, 2018). The government created SOEs as a governance model to boost economic growth, enhance the government's ability to deliver public services, and promote state development (Chilenga, 2016).

There is a common understanding between (Mashamaite and Raeale (2018) and Chilenga, 2016) that SOEs were created by the government to increase economic growth, deliver services, reduce poverty, create employment, and develop the state. The government continues to depend on SOEs to achieve specific development objectives (United Nations Economic Commission of Africa, 2021, p. 3).

South African's Constitution (Section 217) mandates that SOEs procure goods and services in a system that is fair, equitable, transparent, competitive, and cost effective. Therefore, SOEs have been created to provide critical services like electricity, education, health care, transportation, and road infrastructure on behalf of the government, which would normally be expensive for private sector companies to deliver (Tukamuhabwa, 2012).

SOEs have the responsibility of ensuring that essential public services are delivered in an efficient manner on behalf of the state (Ovens and Associates, 2013, p. 3). According to the World Bank (2020), government spends about 12 per cent of global GDP on procurement of goods and services, which translates to almost a third of government spending coming from SOEs. This view is further supported by the AG's positing that one-third of the country's GDP and a quarter of the government's expenditures are spent by SOEs (Consolidated General Report on National and Provincial Audit Outcomes, 2020).

SOES are the largest purchasers of goods and services in the economy because they have the largest budgets. Therefore, proper governance and oversight of SOEs are critical, given their size and contribution to the country's GDP (World Bank, 2020).

2.4 Legislation Governing the Public Procurement Processes of SOEs

Public procurement is highly regulated because of its economic and political importance (Bolton, 2016). This regulation increases transparency, accountability, economy, and integrity in the utilisation of public funds (Mail & Guardian, 2015). SOEs operate under various pieces of legislation, such as the Public Finance Management Act (PFMA) and the Companies Act 61 of 1973, as amended. Therefore, it is essential that directors of SOEs have a thorough understanding of this framework and maintain compliance with legal requirements (DPE, 2002, p. 5).

The policies and regulations specified below represent a subset of the legislative framework that governs the public procurement practices of SOEs in South Africa. This study will solely focus on the following legislation: the Constitution of the Republic of South Africa, the Public Finance Management Act (PFMA), the Preferential Procurement Policy Framework Act (PPPFA), and the procurement policies of SOEs.

2.4.1 The Constitution of South Africa

In 1996, when the South African Constitution was introduced, several changes were made to ensure that public procurement practices were fair. Section 217 of the Constitution mandates these "procuring entities to purchase goods and services in a fair, equitable, transparent, competitive, and cost-effective manner". Therefore, SOEs have a constitutional mandate to ensure that "goods and services are procured through a system that is fair, equitable, transparent, competitive, and cost-effective."

Furthermore, Section 217(2) specifically addresses the users of public procurement. It requires the organs of the state to implement a procurement policy that gives contracts to certain groups

of people. This approach provides support and advantages to marginalised groups that have been subjected to unjust policy discrimination.

2.4.2 The Public Finance Management Act (1999)

The Public Finance Management Act (PFMA), also known as Act 1 of 1999, is a legislative measure that governs financial management practises and establishes the structure for ensuring effective governance in procurement activities within the national and provincial government sectors. The purpose of the PFMA is to uphold the principles of good governance, as outlined in Section 217(1) of the Constitution. These principles aim to establish a procurement system that is characterised by fairness, equity, transparency, competitiveness, and cost effectiveness (RSA, 1996b).

The PFMA regulates the structure and substance of public finance, along with the shift towards a decentralised procurement system overseen by accounting officers in national and provincial departments in relation to the implementation of supply chain management (SCM). The PFMA supports decentralisation in the public procurement process by granting organs of state the authority to carry out procurement processes within their respective procuring entities. Furthermore, it confers decentralised procurement powers to procuring entities (Brunette, Klaaren, & Nqaba, 2019).

Section 51(1)(a) of the PFMA stipulates that an accounting authority is obligated to ensure that their institution or entity establishes and maintains a procurement and financing system that adheres to principles of fairness, equity, transparency, competitiveness, and cost effectiveness, among other requirements.

The PFMA and the Companies Act inform the governance of SOEs. Section 51(1)(a) of the PFMA mandates SOEs to establish policies and processes that will ensure their “procurement processes are fair, equitable, transparent, and competitive”. Therefore, the PFMA requires SOEs to establish policies and procedures to ensure that their “procurement processes are fair, equitable, transparent, and competitive”.

The objective of the Act is to provide a framework for SOEs to report their financial data and enhance their accountability while promoting consistency and uniformity across the SOEs. Furthermore, it aims to ensure that the procurement of goods and services is provided in a timely and cost-effective manner (Ovens and Associates, 2013, p. 3). However, Setino and Ambe (2016) identified considerable gaps in the Act because it does not include other elements such as SOE board and CEO appointments, government official appointments to boards, and developmental goals and objectives. The PFMA promotes good governance standards, increased transparency, accountability, and public trust and confidence in state organisations, all of which contribute to increased wealth creation and shareholder value. Good governance, as defined by the PFMA, protects organisations from managers and directors who choose to pursue their own interests (Serongoane & Ukwandu, 2021).

2.4.3 The Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000)

The Preferential Procurement Policy Framework Act (PPPFA) was established in accordance with Section 217 of the Constitution (Republic of South Africa, 1996). Its primary objective is to amend Section 217(2) of the Constitution by creating a structured framework for the implementation of procurement policies. The preferential procurement policy is outlined in Section 217(2) of the Constitution (RSA, 2000a).

This constitutional provision mandates the implementation of a procurement policy that grants preference in contract allocation and prohibits unfair discrimination According to McCrudden (2004), the use of public procurement as a regulatory tool in post-apartheid South Africa can be seen as a deliberate effort to mitigate the effects of racial discrimination and inequality, which were made worse by economic inequalities.

The PPPFA (Act No. 5 of 2000) was implemented with the aim of facilitating the transformation process of SOEs (Karangi & Mwangangi, 2017, p. 17). This legislation enables SOEs to engage in procurement activities within a framework that utilises a preference point system.

It is worth noting that the Act is not exclusively targeted at SOEs; however, its introduction serves to support their transformation efforts. The aim was to use public procurement in general (by all organs of the state) as a policy tool to achieve secondary objectives, i.e. transformation

(Bolton, 2006). This framework created a scoring system for evaluating tenders to ensure that all South Africans benefit from the public purse through job creation and economic activity.

The 2017 PPPFA regulations in South Africa significantly changed procurement and Black Economic Empowerment (BEE) policies. Prior to 2017, only 10 to 20 per cent penalties were imposed on companies failing to meet BEE criteria. This had a detrimental effect. However, since the implementation of the 2017 regulations, government entities have begun to preemptively disqualify companies from tendering based on BEE criteria, such as if a company is not 100 per cent black owned. However, the Constitutional Court deemed these regulations invalid and unconstitutional, requiring government entities to cease pre-disqualifying tenders. The Constitutional Court ruled in favour of Sakeliga, declaring that then-Minister of Finance, Pravin Gordhan, exceeded his legal authority by regulating the 2017 PPPFA. Sakeliga effectively reversed BEE policies through legal action, compelling government entities to cease the practice of pre-disqualifying tenders. Failing to comply with this by government entities could result in judicial review and other legal proceedings (Le Roux, 2022).

2.4.4 Supply Chain Management and Procurement Policies

The PFMA mandates the accounting authorities of SOEs to establish policies and procedures that guarantee the fairness, equity, transparency, and competitiveness of their procurement procedures. The accounting authorities are also required to develop their own procurement policies, which encompass a set of rules, regulations, or guidelines that dictate how organisations should manage different procurement activities. In addition, they are required to establish a connection between their procurement practices and their policies, thereby aligning them with the organisation's strategic objectives (National Treasury, 2015, p. 16).

2.5 Background of Eskom and Transnet

Transnet and Eskom are the backbone of the economy, and their success is crucial for it (United Nations Economic Commission of Africa, 2021, p. 50). Eskom produces about 95 per cent of South Africa's electricity. Eskom's objective is to supply sustainable electricity to expand the economy and improve South Africans' quality of life (p. 48). However, since 2007, Eskom has been struggling to meet demand due to continuous power shortages (p. 13).

According to Nkosi (2020, p. 119), the significance of SOEs for economic growth remains high even though they confront extreme obstacles such as low productivity, inefficiency, and wasteful spending. The Auditor-General Report for the Republic of South Africa (2016/17) stated that Eskom and Transnet accounted for R19.6 billion and R8.1 billion, respectively. The R51 billion was incurred because of fruitless and wasteful expenditures.

The financial status of SOEs, such as Eskom and Transnet, can be attributed to several factors. These include the decline in confidence among financial markets and lenders, which can be attributed to instances of financial mismanagement, governance shortcomings, and challenging or unstable economic circumstances (Consolidated General Report on National and Provincial Outcome, 2017/18).

Through the RSA Public Audit Act of 2018, the South African government granted the AGSA the authority to prosecute offenders to deter and reduce wasteful spending. As a result of the increase in fruitless and wasteful spending during the 2018/19 fiscal year (Consolidated General Report on National and Provincial Audit Outcomes, 2018/19), it is possible that the implementation of this Act has not yet produced tangible outcomes. Therefore, the financial decline of SOEs posed a serious threat to economic stability, necessitating government intervention in the form of a bailout.

In the 2021/22 fiscal year, public procurement expenditures accounted for 15 per cent of the country's GDP. Approximately 76 per cent of public procurement expenditure was conducted by local and provincial governments as well as public entities, including prominent SOEs like Eskom (electricity) and Transnet (logistics). The national government accounted for the remaining 24 per cent of this expenditure (Simone & Balasundharam, 2023).

2.5.1 Eskom

Eskom, a prominent power utility with a 100-year operational history, holds a significant position among its global counterparts. It operates within the context of the fifth-most energy intensive economy worldwide. Eskom, being the predominant entity in the market and owned by the state, is responsible for the generation of over 90 per cent of South Africa's electricity. Additionally, it exercises control over the entirety of the national high-voltage transmission

grid and directly supplies approximately half of the electricity to consumers, while the remaining portion is allocated to municipalities (Godinho & Hermanus, 2018).

As the largest SOE in South Africa, Eskom has the potential to impact economic development, but it has a history of needing financial bailouts. The government provided over R420 billion in financial guarantees, with Eskom being the largest fiscal risk to the National Revenue Fund (Auditor General, 2021). According to the Eskom Group Annual Report (2018/19), Eskom's mismanagement of its finances over the past two decades has cost R605 billion and resulted in massive debt instruments and borrowings of R440 billion (Eskom Group Annual Report 2018/19). Through the Special Appropriations Bill, Eskom was allocated R59 billion in 2019. Early in 2019, the SOE obtained R69 billion in government guarantees.

According to Gumede (2018), the SOEs are repeatedly bailed out until the debt they amass threatens to bring down the national economy. Despite numerous bailouts, Eskom continues to provide unreliable electricity, threatening the country's economic viability to the point where rating agencies such as Moody's have downgraded the country's economy to junk status.

Furthermore, Gumede (2018) emphasised that bailouts should not be taken lightly due to the billions of dollars derived from interest payments. Gumede (2018) reinforced that when indebted SOEs collapse economies, countries usually seek bailouts from international lenders like the World Bank or the International Monetary Fund (IMF). International lenders may advocate privatising SOEs as a condition for loans (Gumede, 2018). Thus, South Africa is under pressure to privatise its SOEs due to their financial burden and lack of value creation.

The fact that Eskom was a primary target of state capture in South Africa is not unexpected. Eskom has been having governance and financial issues since the 2017/18 financial year. Eskom has received a qualified audit opinion since the end of the 2017/18 financial year. The qualified audit opinion stemmed from a lack of documentation provided and insufficient internal controls. Financial markets lost confidence in Eskom due to financial misconduct and governance shortcomings (Balasundharam & Simore, 2023).

SOEs in South Africa, with a particular emphasis on Eskom, are significantly preventing economic growth and investor confidence. Additionally, they are compromising service delivery and playing a crucial role in the downgrading of the economy by credit rating agencies

such as S&P Global Ratings, Moody's, and Fitch (Laing, 2017). Goldman Sachs identified Eskom as the most significant threat to the economy of South Africa (Bloomberg, 2017). Most SOES services in South Africa have deteriorated significantly, and continue to do so, due to a lack of disciplinary mechanisms for poor governance and financial misconduct.

In 2018, the Parliamentary Portfolio Committee on Public Enterprise of South Africa launched an inquiry into governance, procurement, and the financial sustainability of Eskom due to the numerous governance issues in Eskom (Report of the portfolio committee on public enterprises on the inquiry into governance, procurement, and financial sustainability of Eskom, 2018). The goal of the inquiry was to determine if former ministers Malusi Gigaba and Lynn Brown neglected procurement corruption (Portfolio Committee on Public Enterprises, 2018).

2.5.2 Transnet

Transnet, a major SOE, is responsible for owning and operating railway, port, and pipeline infrastructure. As such, it must adhere to numerous laws and policies set by the national government. Transnet plays a significant role not only in the transportation industry of South Africa but also in the wider economic context of African countries that depend on its logistical infrastructure, including harbours located within South Africa, to support their import and export operations (Transnet, 2022).

Transnet is a major player in freight logistics and goods transportation in the country and other parts of the African continent. It delivers thousands of tonnes of products across South Africa every day (Transnet, 2011). Transnet's goal is to expand its footprint in regional markets to drive freight system integration to stimulate inter-regional trade and lower logistical costs (Transnet Freight Rail, 2018b).

According to Swilling (2017), Eskom and Transnet emerged as significant contributors to procurement expenditure, collectively accounting for approximately two-thirds of the total expenditure. They were identified as the primary contributors to irregular expenditure in the AGSA reports for the 2017/18 to 2022/23 financial years (Consolidated general report on national and provincial audit outcomes, 2017). Transnet disclosed a loss of R5,7 billion for the 2023 financial year (Transnet Annual Financial Statements, 2023). Transnet is currently under

pressure to receive a bailout from the National Treasury, which will further intensify its debt payment that currently exceeds R1 billion per month (Business Day, 2024).

Transnet experienced a regression in its financial standing, transitioning from an unqualified opinion with findings to a qualified opinion. This is primarily attributed to its failure to provide sufficient evidence to disclose all instances of irregular expenditure. Transnet has once again obtained a qualified audit opinion, primarily attributed to their failure to substantiate the disclosure of all irregular expenditures (Auditor General, 2017).

2.6 Analysis of the Factors Leading to Repeated Governance Failures and Unethical Practices in the Procurement Practices of Eskom and Transnet

Since 2017, the AGSA has identified various recurring factors that impede the governance of procurement functions in SOEs. The AGSA's report identified non-compliance with procurement legislation, poor oversight, and risk management in the SOEs as the factors that contribute to transgressions of procurement practises by these entities. SOEs' finances and procurement are deteriorating because of these factors (Auditor General of South Africa, 2017, p. 116).

Similarly, the United Nations Economic Commission for Africa (UNECA) has identified poor oversight and political interference as the primary factors contributing to poor governance in the procurement practices of SOEs (United Nations Economic Commission for Africa, 2021, p. 2). UNECA also reported that many of the issues experienced by SOEs are related to governance failures, a lack of effective oversight, and political interference (United Nations Economic Commission of Africa, 2021, p. 2).

Poor governance and substandard performance have affected many SOEs (United Nations Economic Commission of Africa, 2021, p. 3). Some of the challenges that procuring entities face in terms of governance include: the appointment of politically exposed persons to the boards of SOEs, a lack of accountability, poor leadership, poor management, corruption, impunity, poor performance, high debt loans, and a lack of systems for monitoring performance and holding people accountable (Corrigan, 2014). If these issues are not addressed, they will

make it difficult for SOEs to attract investment and will discourage participation from the private sector (Kanyanane & Sausi, 2015).

However, the literature will be critically assessed to determine the factors potentially contributing to repeated transgressions in the public procurement of SOEs. This study assesses the factors that contribute to poor governance in procurement at Eskom and Transnet. Understanding the underlying causes of persistent governance issues in the procurement of these entities will follow. The study is limited to the five factors that are discussed next.

2.6.1 Non-compliance with Procurement Laws and Regulations

Historically, compliance has been defined as conformity or adherence to regulations and legislation (Bor, Chepkwony, & Bonuke, 2015). It is to act in accordance with a set of guidelines laid out by a law, regulation, policy, or standard. It is also defined by Dickey, McKnight, and George. (2007) as the extent to which an agent adheres to the principal's rules, instructions, policies, and procedures. In contrast, non-compliance is defined as the extent to which an agent (i.e. employee) does not follow the principal's rules but instead violates the rules that are prescribed by the principal (i.e. the employer).

Legislation and regulations are in place to govern the South African public sector (Okono & Muturi, 2017, p. 121; Koech & Namusonge, 2015, p. 117). The national government has established a highly regulated system of public procurement. This system is then extended to other public entities through the implementation of specific policies, legislation, and regulations (Hanks, Davis, & Perera, 2008). Each organ of the state is responsible for determining its own procedures and policies, which must be consistent with the legislative framework (Watermeyer, 2011, p. 3). These policies and regulations are regarded as the cornerstone of a solid SCM system in an institution (Thai, 2009, p. 8). Government SCM laws and regulations are the most crucial pillars of an effective SCM system (Callende & Matthews, 2009, p. 8). SCM and procurement policies are a set of rules, regulations, and standards that instruct how organisations should deal with different procurement conditions (Bartik, 2009, p. 49).

Sound public procurement policies and practices are critical components of good governance (Hui Othman, Normah, Rahman, & Haron, 2011). Government compliance with procurement guidelines remains a crucial objective (Zitha, 2016). Compliance in public procurement entails ensuring that public procurement regulations are strictly adhered to and in line with the relevant rules and laws (Mwangi, 2017; Bor *et al.*, 2015). Compliance is essential in any legislation governing public procurement to ensure the efficient application of public procurement legislation (Diggs & Roman, 2012; Oruezabala & Rico, 2012) as well as ensure accountability and transparency in public procurement practices. Compliance with any legislation requires a comprehensive understanding of the rules (Rossi, 2010). Lukic (2007) agrees that knowledge of the law can increase compliance because once officials are familiar with what they are required to comply with and what they are not, it makes compliance much easier. Gelderman, Ghijsen, and Brugman (2006) also support the idea that procurement officials will adhere to and comply with clear rules.

The authors Onchweri and Muturi (2015) show that, despite the adoption of procurement legislation, there are still inefficiencies in how public funds are used in procurement due to poor compliance (Onchweri & Muturi, 2015). It has been observed that non-compliance continues to play a role in the ineffective allocation of public resources and finances even after the implementation of procurement legislation (*ibid.*). Jeppesen (2010) also asserts that the absence of transparent and accountable systems in public procurement can lead to a higher risk of non-compliance, corruption, and misappropriation of funds.

If there is a lack of transparent and accountable systems, there is a notable possibility that the considerable resources allocated to public procurement systems will become associated with elevated levels of corruption and misappropriation of funds (Jeppesen, 2010). In the absence of transparent and accountable systems, there is a significant risk that the substantial resources allocated to public procurement systems will become linked to increased levels of corruption and misappropriation of funds (Jeppesen, 2010). Langseth (2000) states that procurement officials face several obstacles when it comes to compliance with procurement laws and regulations. Over the years, non-compliance has been viewed as a significant impediment to the effectiveness of regulations (Gelderman *et al*.,2006).

A key factor that determines if SOEs can achieve their strategic objectives is compliance with policies and regulations (Eyaa & Oluka, 2011, p. 35). The authors claim that institutional factors, a lack of professionalism, and a lack of familiarity with procurement regulations are the three causes of noncompliance with procurement processes. They claim that without a solid understanding of procurement rules, procurement professionals are likely to violate or not comply with norms and guidelines.

In South Africa, SCM processes are highly regulated and regularly audited. The AGSA audits compliance with these laws and ongoing system improvements (National Treasury, 2015b:51; Bowersox, Closs, & Cooper, 2007; Mentzer, 2004). Fagbadebo and Dorasamy (2021) indicated that SOEs have a high rate of non-compliance with laws, regulations, and tender conditions; this was supported by various AGSA reports (2017, p. 2021) that revealed that SOEs are not complying with procurement policies and regulations.

Since 2017, the AGSA has been reporting areas of non-compliance with procurement legislation in SOEs. According to the same report, Eskom and Transnet have had the highest number of findings due to non-compliance with legislation in their procurement practices. The AGSA further indicated that procurement was the most violated area (Consolidated general report on national and provincial audit outcomes 2020–2021, p. 112). Despite the findings, it seems little has been done to remedy the situation as the AGSA still flags non-compliance with procurement legislation as a serious issue.

Most SOEs find it hard to follow procurement laws and policies, which has led to an increase in irregular spending (Consolidated general report on national and provincial audit outcomes 2020–2021, p. 150), with Transnet contributing the most at R14.1 billion and Eskom at R11.6 billion (Maeko, 2021). This practice continues to make public procurement the main target for capture in SOEs because issues of non-compliance and violations of procurement legislation and laws are not being rectified (Matebese-Notshulwana, 2021). The Zondo Report also reported that procurement laws and policies were not followed in these SOEs, particularly in instances where suspicious procurement of goods and services occurred in cases that were before the Commission of Inquiry into Allegations of State Capture.

Instead, deviations, confinement, and contract modifications were made so that private companies with relationships to top management and politicians could benefit (Corruption

Watch, 2022). This has led to an increase in corruption at both Transnet and Eskom. This type of procurement process facilitated the capture of both procuring entities (Corruption Watch, 2022). Enforcing stringent adherence to SCM policies and regulations will promote their interests (Owuth & Mwangangi, 2015, p. 181).

From a review of the literature, it is notable that previous studies have identified a lack of familiarity with laws and regulations as one of the causes of non-compliance with procurement regulations (De Boer & Telgen, 1998). Gelderman *et al.* (2006) agree that a lack of awareness of procurement laws leads to poor compliance levels in public procurement. Raymond (2008) identifies the lack of highly qualified personnel in public procurement as another element that hinders compliance with public procurement regulations. This is supported by Van Zyl (2006), who highlighted that non-compliance with procurement processes and procedures is caused by a lack of skills, capacity, and knowledge to adequately implement procurement functions across various government sectors.

Raymond (2008) emphasises that there is a link between corruption and a lack of highly qualified personnel in public procurement, which ultimately undermines compliance. Raymond (2008) further advances the idea that corrupt practices impede compliance with public procurement laws due to the appointment of unqualified personnel in public procurement. It is generally accepted that corrupt practises are another issue with the potential to lead to persistent non-compliance with procurement laws (Magakwe, 2022).

In addition, the high levels of non-compliance were partially attributable to complex legislative requirements (Heneghan & Donnell, 2007). Successful SCM requires individuals who are competent, objective, and impartial officials. According to Hui *et al*. (2011), non-compliance will continue to be an issue in public procurement as long as procurement officials do not understand the laws and are not properly trained. Therefore, it is essential that SCM practitioners have an in-depth understanding of SCM policies and regulations, their interpretation, and their effects (National Treasury, 2015b, p. 51; Bowersox *et al*., 2007; Mentzer, 2004). Mentzer (2004) argues that SCM practitioners should join professional bodies to continue their professional development.

According to Foerstl, Hartmann, Wynstra, and Moser (2013), professionalism in public procurement encompasses not only the levels of education and credentials of personnel but also

a professional approach to conducting business activities. If the workforce is not adequately educated on procurement issues, there are severe repercussions, including violations of codes of conduct (Raymond, 2008). In the absence of a procurement professional with a solid understanding of procurement indicators, the likelihood of non-compliance in the procurement process is high.

Red tape, or rather its avoidance, is also a contributory factor that SCM practitioners cite for non-compliance. Gelderman *et al.* (2006) confirms this view and claim that one of the most common justifications for non-compliance in public procurement is the desire to cut out red tape. Many SCM practitioners in SOEs find the regulatory environment cumbersome and timeconsuming. Staff responsible for compliance matters in SOEs also indicate that solely complying with the legislative environment is time-consuming, leaving less time to execute the SOEs' primary objectives (PRC, 2012, p. 77). Despite this, it remains important to comply with SCM policies and regulations to improve governance in SOEs.

With recent studies still highlighting non-compliance with procurement laws as an issue in SOEs (Dorasamy & Fagbadebo, 2021), it is imperative that SCM policies and regulations be implemented to improve control and eliminate corruption and maladministration. Zubcic and Sims (2011) add another element: deterrence mechanisms such as law enforcement and fines increase compliance; thus, regulatory compliance requires legal consequences.

The curbing of non-compliance is important as it has a widespread impact on SOEs. The AGSA continues to identify non-compliance with procurement laws as a problem in SOEs and further indicates that it has a negative impact on their financial statements and the financial health of these entities in general (Consolidated General Report on National and Provincial Audit Outcomes ,2020–2021, p. 112).

Further analysis on this theme was conducted during data collection, and it is discussed further in the data discussion section. This was an important aspect of the study, as it aims to investigate whether the primary causes of recurrent non-compliance in the public procurement practises of these SOEs remain the same as those identified in previous research and why the causes are not being addressed.

2.6.2 Accountability

Good public procurement decisions require accountability—a system that makes any process transparent and holds those who do not comply accountable (OECD, 2007). Scott (2006) shares the perspective that accountability not only holds individuals responsible for their actions but also extends to holding third parties accountable.

Soundry (2007) states that accountability is a key element of public procurement. Accountability in the context of public procurement means that public procurement is conducted in a way that is fair, transparent, and equitable (Scott, 2006). Bailey, Farmer, Jessop, and Jones (2015, p. 344) agree that accountability requires government administration that is open and transparent and permits external scrutiny and public reporting. Thus, transparency and accountability are crucial to enhancing the corporate governance of SOEs (OCED, 2018). Bailey *et al.* (2015) further define accountability as the most fundamental principle of government SCM, with the primary objective of preventing the misuse of public funds. Accountability in public procurement entails monitoring processes and decisions while holding decision-makers accountable. It requires public entities to establish oversight institutions, such as internal control functions or parliamentary committees, to monitor the utilisation of public funds (OECD Principles for Integrity in Public Procurement, 2009). Additionally, it requires the participation of civil society and the public in monitoring the allocation of public funds to ensure fair competition and efficient use of public resources (Preventing Corruption in Public Procurement, 2016).

Accountability requires public officials and institutions to justify their actions and decisions and to face consequences when they fail to perform their duties or keep their commitments. National Treasury (2015, p. 7), through its General Procurement Guidelines, states that accountability is not only about holding individuals and organisations accountable for their actions but also for the results or outcomes of their decisions. Sizani (2006) concurs that accountability is a principle that holds individuals and organisations accountable not only for their goals and actions but also for their results.

Accountability is the right to obtain explanations and justifications from public officials or private service providers responsible for the use of public resources. This imposes on officials the responsibility to account for the use of public resources. It also requires oversight bodies to

demand adequate explanations and justifications from government officials and, if they are not provided or are inadequate, to initiate and recommend corrective action (Luyt, 2008).

The AGSA states that accountability requires the application of consequence management to all instances of poor performance or transgressions in order to be effective (Consolidated General Report on National and Provincial Audit Outcomes, 2018–2019). In public procurement, accounting officers are accountable for the overall procurement decisions and must ensure that all decisions are justifiable and in the best interests of the organisation (Muchainyerwa, 2013). Accountability involves ensuring that procurement activities are correctly documented (Akaninyene & Mark, 2015). This is significant because it makes it simpler for all parties involved in the procurement process to obtain information and understand why decisions were made in that particular manner.

While Barrett (cited in Mugo and Ngugi, n.d.) states that the goal of accountability in public procurement is to ensure that the public interest is protected, the World Bank (2014) has a different view: for accountability to be effective, it must comprise two distinct phases, which are answerability and enforcement. The World Bank (2014) explains that answerability requires organisations and public officials to explain their decisions and actions to their clients and institutions responsible for monitoring them. This further explains that enforcement requires monitoring or accounting agencies to act against those in authority for breaking their public duties.

The lack of accountability is historical in SOEs. For instance, in one of the chosen case studies, it dates to the apartheid era. According to Godinho and Hermanus (2018), Eskom has a long history of lacking transparency and accountability dating back to the apartheid era. In the new dispensation, the PFMA holds SOEs accountable for how they utilise public resources. Accounting officers are accountable for procurement decisions as a whole and must ensure that all decisions are justifiable and in the best interests of the organisation (Muchainyerwa, 2013). Therefore, accountability is important in SOEs because it ensures that public officials are held accountable for the decisions and actions they take while carrying out their duties (Consolidated General Report on National and Provincial Audit Outcomes, 2017, p. 120). Despite this, Willie Mathebula (the former acting chief procurement officer for the National Treasury) indicated at the State Capture Commission that too often there was no accountability for procurement

irregularities, despite the existence of consequence management tools that govern procurement (Mdeni, 2018).

2.6.3 Consequence Management

Consequence management refers to the use of direct and fair consequences to hold individuals accountable when they do not follow the rules (Khumalo & Mazenda, 2021). It is a tool used to change or improve a specific undesirable behaviour that violates the organisational code of conduct (Matolong, 2015).

According to the AGSA, the absence of consequence management for irregular expenditures creates an environment in which additional violations of compliance will likely occur (Consolidated General Report on National and Provincial Audit Outcomes, 2017). By instituting consequence management, it is possible to reduce irregular and unauthorised spending and waste and increase the accountability of expenditures (Van Staden, Fourie, & Holtzhausen, 2022).

SNG-Grant Thornton auditors found that a lack of audit evidence to support steps taken to ensure consequence management affected efforts to drive accountability and consequence management (SCOPA, 2021). According to the auditors, the accounting authorities failed to exercise adequate oversight responsibility to ensure compliance with applicable legislation and related internal controls. The Standing Committee on Public Accounts (SCOPA) was concerned about the lack of consequence management in SOEs and their continued exploitation of public funds.

Eskom's former Chief Executive Officer (CEO), André de Ruyter, indicated that junior staff at Eskom often accused their bosses of corruption and wrongdoing in procurement processes when they were taken to disciplinary processes (BusinessTech, 2020). Further, as a result of the current leadership crisis in SOEs, it could be construed that those entrusted with strategic leadership positions in SOEs engage in a high level of corrupt activities, maladministration, fraudulent activities, and misappropriation of taxpayer funds for personal gain (Ireri, 2016, p. 40). This creates a culture of impunity in SOEs that deliberately disregards the governing policies and statutory framework that govern SOEs (Centre for Constitutional Rights, 2017).

2.6.4 Political Interference and Patronage

Political interference occurs when political leaders use their positions to interfere with the procurement process for personal gain (Pillary, 2004). It gives political leaders power over appointments, promotions, and dismissals. It happens when there is interference in the procurement processes by politicians, businesspeople, members of parliament, and prominent top management (Hui *et al*., 2011). Such interference has disrupted the procurement process and discouraged transparency.

Political interference is also defined as actions taken by political leaders to influence or impose their will in violation of administrative processes (Batalla, Torneo, & Magno, 2018). This also happens when the system of checks and balances does not work effectively when a small group of politicians puts those connected to them in key positions or forces public servants to do what they want by threatening their careers (Brunnette & Klaaren, 2020). In addition, Raymond (2008) argued that when ministers and political parties receive illegal payments in government procurement processes, they jeopardise the procurement process and limit compliance. He further states that when ministers and political parties get secret payments in government procurement, this behaviour undermines the process and limits compliance (Raymond, 2008).

Kuruppu (2022) adds another element: political interference in the procurement process is one of the primary causes of procurement malpractice in several countries. For example, in South Africa, public procurement is regarded as primarily political in nature (Schapper, Malta, & Gilbert, 2006) and has made it possible for politicians to interfere with procurement practises (Brunette & Klaaren, 2020). This interference facilitates corruption and has undermined oversight and enforcement (Brunnette & Klaaren, 2020) because managers act as agents for elected officials (Murray, 2009). This has led to a lack of transparency and favours being extended without accountability (Lodhia & Burritt, 2004). Countries continue to lack the political will and accountability to implement anti-corruption measures in public procurement despite the availability of numerous legislative frameworks (Magakwe, 2021).

Coviello and Gagliarducci's (2010) view is that collusion is one way in which politicians influence procurement. For example, if the accounting officer of the procuring entity has an

interest in the tender process, this could jeopardise the integrity of the procurement process. Aketch (2015) says that pressure from those at the top also invokes fear in public officials, resulting in them following unlawful instructions due to the threat of being suspended.

Tshishonga (2014) adds an element of political patronage and has described it as an ongoing challenge that many public entities face. It has led to the emergence of cadre deployment: a strategy in which politically connected and loyal party members are deployed to carry out government strategic plans at various levels of state without any merit. According to Pattillo (2012), cadre deployment refers to the placement of devoted members of the ruling party in crucial positions to expand the party's influence and authority. Cadre deployment poses a serious risk to South Africa's public finances since it encourages wasteful spending and poor procurement practices (Cheeseman, Bertrand, & Husaini, 2019). If cadre deployment has a negative impact on public finances, it will have a negative impact on service delivery. Cadre deployment undermines this fundamental criterion by putting party loyalty ahead of good governance and the rule of law.

Authors like Pareto (1935) and Mathiot and Gervais (2011) say that the political elite also influences procurement and government decision-making. They define the political elite as a group of people with the ability to legally affect state decision-making. It further states that the highest government positions are held by them and are under their control. This was evidenced in the state capture report in these entities, where the elite (i.e. Guptas) influenced government contracts and decision-making in these entities.

These politically connected individuals are given authority to take advantage of SOEs (Huang & Snell, 2003) to reward their political allies and principals with leadership positions and lucrative contracts (Madunga, 2014). Political patronage is regarded as a form of abuse of power to favour those who are politically connected or loyal (Sebake & Sebola, 2014). It encourages corruption by removing governance systems and replacing them with dictatorships and instructions without proper checks and balances.

Higley (2011) says that the idea of power is at the centre of politics. Gaining or maintaining state power is the main concern of political players. Fukuyama (2015) states that most democracies have organisations that control how power is used and tell legitimate political

actors who have state authority what to do (Fukuyama, 2015). The author further affirms that power is wielded by individuals who are prone to violating the rules.

The Commission of Enquiry into State Capture was set up to investigate alleged systemic political corruption in which private interests influenced state decision-making (Godinho & Hermanus, 2018). In the report, Chief Justice Raymond Zondo cites numerous instances in which state organs abused policies and legal mandates to favour the preferred private entities of their senior management (Corruption Watch, 2020).

2.6.5 Corruption

Transparency International (2006) defines corruption as the use of power for personal gain. The Corruption Act (94 of 1992) in South Africa concurs with this definition, stating that corruption entails the misuse of power for illegal gain or profit. In contrast, the European Union (EU) defines corruption as illicit remuneration or behaviour towards individuals involved in public or private sector procurement, violating their obligations to obtain undue advantages for themselves or third parties (European Union, 2016, p. 12). Drawing from the various definitions, corruption can be understood as the misuse of authority for personal gain, often resulting from entrusted authority or responsibility, and can extend beyond financial gain. The benefit derived from corruption is not usually monetary in nature. One potential incentive is the ability to exert control over a specific situation, such as the selection of a family member for a position. Corruption encompasses the exploitation of policy instruments, housing provision, infrastructure development, and construction projects in order to manipulate and circumvent authorised procurement procedures for personal benefit (Makgwe, 2023).

Corruption undermines good governance in public procurement. Smart Procurement (2011) supports this notion by indicating that corruption places a significant financial burden on the government, particularly in relation to the procurement process. And corruption emanating from procurement processes in SOEs is quite prevalent. This is indicated by the findings of the Organization for Economic Cooperation and Development (OECD) (2014), which showed that around 81 per cent of the corruption cases reviewed by the organisation between 1999 and 2013 included officials associated with SOEs. According to Serongoane and Ukwandu (2021), this procurement-related corruption in SOEs is also a concern in the South African context.

Drawing from authors on corruption, there is a widespread view that corruption and favouritism have posed significant challenges for certain SOEs. The revelations and testimonies of people at the Zondo Commission, a public inquiry that the President launched, which revealed how people enriched political leaders and public officials through corrupt practices, show that public procurement corruption in South Africa is still a serious problem (Makwe, 2023).

SOEs have long been plagued by corruption and are currently facing significant challenges (City Press, 2017). SOEs in the procurement environment often encounter prevalent issues such as corruption, fraud, and tender irregularities (Magoro, 2010). This is evidenced by the presence of corruption, patronage, rent seeking, and state capture that have been prevalent in key South African SOEs. The presence of these adversarial practices prompted the creation of a Judicial Commission of Inquiry into allegations of state capture, corruption, and fraud in the public sector (National Planning Commission Report, 2022). The State Capture Report (2022) highlighted the extent of state capture by political elites, who infiltrated public procurement processes by appointing politically connected people and violated procurement processes by leaking confidential bid information. The state capture report highlighted the politically connected people as mostly senior government officials who are often the main targets of corruption schemes that target SOEs (Kierie, 2018). Fourie (2015) concurs that political elites infiltrate the procurement processes of key public institutions, not only to violate the procurement process but for private gain and self-enrichment.

The authors' views suggest that corruption in public procurement is perpetuated by the irregular appointments of politically connected people in senior government positions. This enables the manipulation of procurement processes by favouring politically connected people with confidential tender information for private gain and self-enrichment. The perpetuity of this corruption has the detrimental effect of increasing the financial burden on government procurement.

2.7 Why Oversight Institutions and Structures are Unable to Monitor Effectively and Scrutinise Governance Flaws in Procurement in Public Entities

2.7.1 Oversight

The term 'oversight' originated in Russia where it was referred to as '*kontrol*' (McGrath, 2013). McGrath (2013) defines oversight as a form of political supervision over a governance system. It requires the creation of institutions to supervise the agents' actions to ensure the effective achievement of public policy goals. In contrast, Morgenstern and Manzetti (2007) define oversight as a critical concept for government, its institutions, and the individuals within these institutions. It ensures accountability by granting supervisors the power to monitor actions and penalise violators. Stapenhurst, Pelizzo, Olson, and Von Trapp (2006) collectively define oversight as the constitutionally mandated responsibility of legislative bodies, acting as a control mechanism to identify and analyse risks in government operations. The OECD (2016) further states that oversight is a process that can effectively monitor government actions and address emerging risks. No standard definition of oversight exists as authors have varying views of what it is. However, drawing from the various definitions, oversight can be understood as a system that holds government, institutions, and those who work within these institutions accountable for their actions through supervision and monitoring of their actions. Stapenhurst *et al.* (2006) posit that oversight has the ability to identify potential and emerging risks, which is good for good governance.

Oversight plays a crucial role in promoting transparency and accountability within SOEs, which are essential for enhancing their corporate governance (OECD, 2008). Despite its challenges, oversight is an effective tool for significantly improving SOE governance by monitoring and detecting maladministration, abuse, and mismanagement of public funds (Mukura, Shalle, Kanda, & Ngatia, 2016), particularly in strategic functions like procurement. In functions like public procurement, effective oversight is vital to ensure that the public procurement function aligns with good governance practices (National Treasury, 2016). Morgenstern and Manzetti (2007) introduce the concept of effective oversight, defining it as the ability of the principal to supervise actions and impose penalties on individuals involved in misconduct. Drawing from the various authors' views, oversight is crucial for promoting accountability and transparency within SOEs, which are fundamental for improving their governance. The authors further introduced the concept of effective oversight, which is

paramount in strategic functions like public procurement to ensure that procurement activities are aligned with the principles of good governance. Furthermore, the authors emphasised the importance of oversight, which involves not only monitoring but also enforcing consequence management for any misconduct.

Since 2017, the reports from the AGSA have consistently highlighted poor oversight in the procurement activities of SOEs as a major contributor to governance challenges within these entities (AGSA Consolidated General Report on National and Provincial Audit Outcomes, 2017). The oversight of SOEs' procurement processes is entrusted to key institutions such as the AGSA, SCOPA, NT, DPE, and the respective boards of the SOEs. These entities play a crucial role in providing oversight and ensuring the transparency and integrity of procurement activities within SOEs. The research will be limited to these specific institutions.

2.7.2 The Role of the Auditor General South Africa (AGSA)

The AGSA is a government agency that is accountable to the National Assembly. It is essential in maintaining constitutional democracy, ensuring accountability, and promoting good governance in the public sector through audits (Sadiki, 2015). The AGSA is mandated by Section 188(1) of the Constitution to audit and report to Parliament on the accounts, financial statements, and financial management of all government entities (DBSA, IoDSA, and PWC, 2011, p. 8). This information is crucial for Parliament, especially SCOPA, to fulfil its oversight role.

The South African government has granted the AGSA the authority to prosecute offenders through the RSA Public Audit Act of 2018, aimed at preventing and reducing wasteful expenditure within the public sector. Although there is a legislative backing, for accountability measures, the AGSA's reports show inconsistent levels of oversight among ministries responsible for SOEs (Auditor General, 2017, p. 51). This discrepancy underlines the difficulty of effectively dealing with governance concerns in SOEs and emphasises the necessity for a more cohesive approach to improve oversight and accountability procedures in all sectors.

2.7.3 Standing Committee on Public Accounts (SCOPA)

Parliament plays a pivotal role in the governance of South Africa, with responsibilities ranging from law formulation to budget approval and oversight of public finances. It is tasked with overseeing the cabinet, executive branch, and state organs, holding ministers and departments accountable for the management of SOEs (Madue, 2017).

Du Toit (2005) emphasises Parliament's function in evaluating SOEs' performance through the analysis of their annual financial statements. This assessment is further supported by SCOPA, which was established to exercise financial oversight over national, provincial, and SOEs (Makhado, 2016). As a governmental oversight body, SCOPA monitors the allocation and utilisation of taxpayer funds by the executive branch, ensuring accountability and transparency in financial management (RSA, 2012a, p. 1).

SCOPA's role in scrutinising the AGSA's annual financial statements and audit reports is crucial in safeguarding public funds and ensuring accountability in government expenditures (Du Toit, 2005, p. 3). Parliamentary committees and legislatures utilise financial accounts to hold accounting officers responsible and make informed decisions on budget allocations (Consolidated General Report on National and Provincial Audit Outcomes, 2021–2022). However, challenges exist in the oversight process, hindering efficient monitoring of SOEs by Parliamentary Committees across different jurisdictions in South Africa.

To enhance transparency in public fund allocation, it is essential for the National Assembly and legislatures to consistently strengthen oversight and accountability measures across departments and public entities. Overcoming obstacles to oversight responsibilities is crucial for ensuring effective governance and financial management within SOEs.

2.7.4 Portfolio Committee on Public Enterprises

The Portfolio Committee on Public Enterprises (PCPE) performs an oversight function over the Ministry, DPE, and SOEs in accordance with the Rules of Parliament as established by the Constitution (Portfolio Committee on Public Enterprises, 2022−23). It is supported by the AGSA, which has the authority to prosecute offenders through the RSA Public Audit Act of

2018, aimed at preventing and reducing wasteful expenditure within the public sector. Although there is legislative backing for accountability measures, the AGSA's reports show inconsistent levels of oversight among ministries responsible for SOEs (Consolidated General Report on National and Provincial Audit Outcomes, 2017, p. 51). This discrepancy underlines the difficulty of effectively dealing with governance concerns in SOEs.

The PCPE is responsible for examining the Strategic Plan and Annual Performance Plan of the Department and its entities to determine if the requested funds are in line with the objectives outlined in the corresponding Strategic Plan and Annual Performance Plan documents (Portfolio Committee on Public Enterprises, 2022−23). Portfolio committees are responsible for exercising oversight over the service delivery performance of SOEs in relation to their corporate plans.

2.7.5 National Treasury (NT)

The NT provides governance for SOEs' funding and borrowing programmes (Makhadi, 2016). According to Section 76(4) of the Public Finance Management Act (RSA, 1999), the NT is authorised to establish regulations or provide instructions that are applicable to all institutions governed by the Act. These regulations and instructions pertain to the establishment of a procurement system framework that adheres to the principles of fairness, equity, transparency, competitiveness, and cost-effectiveness as mandated by the Constitution (RSA, 1996).

The Office of the Chief Procurement Officer (OCPO) was established to modernise and oversee the South African public sector SCM system to ensure fair, equitable, transparent, competitive, and cost-effective procurement of goods, services, and construction work. The OCPO is not directly involved in procurement but manages procurement reform, maintains the procurement system, and oversees government-private sector business (National Treasury, 2015, p. 6).

The NT is the custodian of all laws that govern public procurement. It provides SCM policy implementation guidance and its regulations mandate SCM implementation for institutions under the PFMA (National Treasury, 2015). The NT periodically releases legislation, practice notes, circulars, and guidelines to facilitate the effective implementation of procurement policies across all levels of government.

The purpose of the policy guidelines is to establish a SCM framework in accordance with the Public Finance Management Act (PMFA). These guidelines aim to promote consistency and standardisation across government entities, ensuring transparency and effective expenditure control as mandated by Sections 215 to 219 of the Constitution (RSA, 1996). These guidelines establish a fundamental framework that establishes guidelines for procurement management within the government and integrates supply chain policy across all levels of government and for all governmental entities.

According to Ambe and Badenhorst-Weiss (2012), the NT's legislation reinforces the fundamental tenets of the PFMA. Additionally, this legislation aims to decentralise the SCM function to the accounting officers or accounting authorities while also consolidating multiple functions into a single SCM function.

2.7.6 Department of Public Enterprises (DPE)

The DPE plays a crucial role in providing oversight and guidance to SOEs in South Africa. As a representative of the shareholders, the DPE ensures that SOEs fulfil their mandates and achieve the desired outcomes, thereby improving their financial, commercial, and operational performance (Raseala, 2018). The primary objective of the DPE is to stimulate investment, enhance productivity, and drive transformation within its portfolio of SOEs, fostering economic growth, industrialisation, job creation, and skill development (Portfolio Committee on Public Enterprises, 2022−2023).

Under the PFMA, the DPE is granted executive authority with oversight powers, particularly concerning corporate plans, shareholder compacts, and quarterly reports (Du Toit, 2005). The shareholder compact governs the relationship between the DPE and SOEs, outlining strategic objectives, policies, key performance indicators, and reporting requirements. SOEs are required to report to the DPE quarterly and annually on their compliance with the compact, enabling effective management of their responsibilities, approvals, and reporting under the PFMA (Eskom, 2011b, p. 32).

Recognising the significant role of SOEs in advancing economic growth, the DPE acknowledges their contribution to the development of critical infrastructure and

manufacturing capacity in South Africa (DPE, 2013, p. 1). By fostering a collaborative relationship with SOEs and ensuring adherence to regulatory frameworks, the DPE plays a vital role in driving sustainable economic development and promoting the overall well-being of the South African economy.

2.7.7 SOE Boards

2.7.7.1 Overview of SOE Boards

The main responsibility of an SOE's board is to oversee the SOE's performance. The primary responsibility of the board is to ensure the fulfilment of strategic objectives that have been mutually agreed upon with the relevant minister (DBSA, IoDSA, & PWC, 2011, p. 8). The board also ensures that the SOE's management operates in the best interests of the shareholders (Vagliasindi, 2008, p. 2).

According to Du Toit (2005, p. 10), boards play a crucial role in the corporate governance of SOEs. According to the DPE (DPE, 2002, p. 9), every SOE is advised to establish a board that is both effective and efficient. Such a board should consist of executive and non-executive directors, with a preference for more non-executive directors to guarantee independence and objectivity in the decision-making processes of the SOE.

A SOE's board is answerable to Parliament and is also known as the accounting authority, or the individuals entrusted with the responsibility of governance (IoDSA, 2016). The board should ensure that the SOE is aware of and adheres to applicable laws, rules, government policies, and codes of business practice and communicates with shareholders and key stakeholders openly and promptly on SOE concerns (DPE, 2002, p. 10). The board also develops, monitors, and reviews corporate strategy, main plans of action, risk policy, annual budgets, and SOE business plans. They frequently identify financial and non-financial risk areas and performance metrics (DPE, 2002, p. 11).

The minister responsible for the public enterprises' ministry is tasked with the responsibility of appointing boards for SOEs. According to Rossouw (2005), the selection of board members and senior management positions in SOEs is frequently influenced by political affiliations.

Williams (2010, p. 35) further suggests that this practice leads to the board's efforts to satisfy the stakeholder. Notwithstanding, many reports, including the State Capture report, indicate that too many SOE board members are 'captured' or forced to represent their private interests while on these boards (De Visser & Waterhouse, 2020).

2.7.7.2 Eskom's Board

The board, in collaboration with multiple committees, functions as the main pillar of Eskom's governance framework and actively promotes the principles of accountable ethical conduct. The board has the responsibility of ensuring accountability to shareholders by fulfilling financial, operational, and other business obligations (Eskom, 2022).

Eskom's Memorandum of Incorporation (MOI) specifies the boards and shareholders' authority and responsibilities. The Generation, Transmission, and Distribution divisional committees were established to promote accountability for each division. The legal separation of Eskom will result in the formation of subsidiaries with their own independent boards (Eskom, 2022). Based on established principles of good governance, the board of Eskom Holdings SOC Ltd will hold these subsidiaries accountable. Such boards of these SOEs play a crucial role in ensuring accountability and oversight for the performance and effectiveness of the entity (Eskom, 2022).

The establishment of divisional boards for generation, transmission, and distribution was implemented to promote distinct accountability for each division. This transitional structure represents the initial phase towards Eskom's legal separation. The divisional boards do not possess the characteristics of a board of directors as defined by the Companies Act, 2008. Instead, they operate as functional boards until the completion of the legal separation process. Despite operating with a certain level of autonomy, the divisional boards are obligated to provide regular reports to the Executive Committee (Exco) to maintain alignment between decision-making processes and Eskom's overarching strategic objectives.

The legal separation of Eskom will ultimately lead to the establishment of wholly owned subsidiaries, each with its own independent board. This process will begin with the creation of National Transmission Company South Africa SOC Ltd, which will oversee the transmission

aspect of Eskom's operations. The boards of the wholly owned subsidiaries will continue to be accountable to the board of Eskom Holdings SOC Ltd in accordance with established principles of good governance. Eskom has previously encountered instances of corporate governance violations, specifically in relation to accusations of state capture involving state-owned companies (SOCs) in South Africa. The issues have received extensive coverage in various media outlets and have been the focus of multiple investigations and inquiries, as previously discussed in prior integrated reports. The commencement of the Judicial Commission of Inquiry into Allegations of State Capture, under the leadership of Deputy Chief Justice Raymond Zondo is a particularly noteworthy event that took place in August 2018 (Eskom, 2022).

Furthermore, Eskom has faced allegations of corporate governance transgressions, particularly in relation to claims of state capture involving SOEs. The Judicial Commission of Inquiry into Allegations of State Capture, under the leadership of Deputy Chief Justice Raymond Zondo, investigated Eskom. Furthermore, it is worth noting that there exists a significant skills shortage crisis within the boards of critical SOEs. This issue has the potential to impact the governance of these SOEs as the effectiveness of the board of directors is closely linked to the overall corporate performance (Eskom, 2022).

The boards of these SOEs should play an important role in ensuring accountability and oversight for how well the SOEs work and perform. They are the key link between the public, the government, and the SOE. So, board failures are largely to blame for SOE governance failures. The National Association of Corporate Directors (NACD) in the United States came up with similar principles in 2009. These principles emphasise the central role that the board plays in oversight and accountability, such as making sure that the people who are appointed to the board are competent and committed.

2.7.7.3 Transnet's Board

The fundamental basis of governance lies in the existence of competent leadership, diligent oversight, responsible management, and accountability, all of which are firmly grounded in a strong ethical framework (Transnet, 2022). Furthermore, the board assumes the responsibility of offering strategic guidance to the organisation and ensuring its sustained sustainability and victory in the long run. The board plays a crucial role in establishing the ethical leadership that

serves as the fundamental basis for effective corporate governance. The organisation is guided by sound principles and processes of governance, which establish and direct the responsibilities of the Board. These principles and processes also actively foster a culture of sustained governance within the organisation (Transnet, 2022).

The Zondo Commission released the initial segment of its report in the early part of 2022 and finalised its proceedings in June of the same year. Volumes 3 and 4 of Part IV were specifically focused on the examination of allegations pertaining to state capture within Eskom. In contrast, Part 1, Volume 2, presented a relatively restricted set of recommendations concerning Eskom. The Commission discovered instances of fraud and corruption committed by former executives, former members of the board, suppliers, and individuals associated with them. Furthermore, there has been a glaring skills gap crisis on the boards of critical SOEs. In essence, corporate governance structures put in place might also not be able to carry out the legislative mandate effectively. As an example, Eskom's previous board (whose term ended in September 2022) "was insufficiently constituted and lacked critical skills and experience based on the size and nature of Eskom". This had a direct impact on the governance within SOEs as the capabilities of the board of directors tend to be directly proportional to corporate performance (Ozdemir & Killincarslan, 2021).

2.8 Conclusion

This chapter has provided an overview of the existing literature related to the research topic. It presented a comprehensive analysis of the governance factors contributing to transgressions in the procurement practices of SOEs, providing significant insights into the challenges faced by entities like Eskom and Transnet. The chapter establishes a foundation for future study and proposes suggestions for strengthening governance practices to prevent future transgressions in the procurement practices of these entities. The next chapter explores the theoretical framework and research methodology for the study.

CHAPTER 3: THEORETICAL FRAMEWORK AND RESEARCH METHODOLOGY

This aspect of the study will present a comprehensive analysis of the research design and methodology chosen for this paper. According to Babin & Svensson (2012), the research design functions as a comprehensive framework that outlines the methodologies, locations, and analysis techniques used to gather and analyse the requisite data for the study. This method will also allow for a deeper understanding of the factors that contribute to these entities' ongoing governance challenges in their procurement processes. The chapter will outline the theoretical framework adopted in this study.

3.1 Agency Principal Theory

Defee, Williams, Randall, and Thomas (2010) posit that sound research should be grounded in theory or have a strong theoretical foundation. The inclusion of a theoretical framework serves as a guide for the development of the research design and methodological strategy (Schurink, 2009, p. 807). Given this, this chapter presents the theoretical framework that informs the research study. This study used Agency Theory as its framework to examine the identified issues. The relevance and applicability of this framework will also be explained.

Agency Principal theory is the theoretical framework of governance. This theory began when the management of an entity was separated from ownership (Fisher, 2004). Berle and Means (1932) asserted that the separation of ownership and management in organisations creates conflict of interests and weakens shareholder power, giving management more control. According to Jensen and Meckling (1976), this creates self-serving managers. The inherent agency problem occurs when management prioritises personal benefits over entities and stakeholders' best interests. A principal has the power to compel an agent to perform a task that serves the interests of the principal but may not necessarily be in the best interest of the agent. The theory posits that this causes a conflict to arise within the agent-principal relationship due to divergent interests (Maher & Andersson, 1999, pp. 12–17). However, as a precautionary measure against potential conflicts of interest between shareholders and agents, boards are supposed to be instruments that safeguard shareholders' interests. It can be deduced from the views of the authors that an agency theory faces limitations when there is separation between ownership and management in organisations. This separation of power may lead to conflicts of

interest and a transfer of power to management. The challenge with separation of power is that managers may obtain more power to prioritise personal interests or pursue political interests.

3.1.1 Agency Theory and the Shareholder

Agency theory is used in the context of SOEs as a useful framework to analyse the complex relationships of various stakeholders, especially in the interactions between the board and management. Agency theory posits that conflict of interest can arise due to the separation of ownership and management, where shareholders (principals) entrust management (agents) with the responsibility of making decisions regarding the organisations on their behalf. This delegation of authority might create conflicting interests between management and the shareholders, with the shareholder aiming to maximise profits and the manager pursuing personal goals.

3.1.2 Agency Theory and the Public

Ultimately, SOEs are owned by the public but run by directors and managers who do not own the entities. Within the context of Eskom and Transnet, ministers designate boards and executive management to supervise these entities for the public. According to Health (2004) and Donahue (1989), it is imperative for government employees engaged, for example, in public procurement, such as procurement managers, to fulfil the role of acting as representatives for elected officials. However, the challenge in terms of this theory is that citizens do not have the means to keep an eye on the performance of shareholders, ministers, directors, and government officials as they do not have the information or institutional power to watch and control their actions (Mukura *et al*., 2016).

The public can utilise the various oversight reports (i.e. AGSA reports, annual reports, and state capture reports) to assess the efficiency with which SOEs utilise tax revenues to deliver services (Consolidated General Report on National and Provincial Audit Outcomes, 2021−2022, p. 58). However, there are limitations whereby specific public information can remain hidden from the public, as happened in Eskom and Transnet during state capture. Despite the availability of oversight reports to the public, certain information was still deliberately withheld from specific

officials, oversight committees, boards, and the public. This information remained new throughout the state capture commission.

3.2 Research Methodology

This section outlines the research methodology, including study population, sampling, data collection, analysis, interpretation, ethical considerations, reliability, and validity, providing a background, and discussing aspects such as data analysis and interpretation. The research methodology outlines the study's objectives, the approach used in the research, and the direction that the research took.

3.2.1 Research Design and Research Method

Creswell (2019) defines a research design as a strategic framework encompassing the researcher's decisions about the study's assumptions, methodology, data collection, analysis, and interpretation. The research design functions as a comprehensive framework that defines the methodologies and locations by which the necessary information for the research will be acquired, as well as the way in which it will be analysed (Babin *et al*. 2012). Beyond what a research design is, (Lewis & Forsythe, 2012) identified three distinct research designs: quantitative, qualitative, and mixed methods (p. 170). A research design outlines the specific methodology and approach that will be used to conduct a study to obtain answers to the research question. This includes determining the methods for data collection and analysis (Kumar, 2018). It outlines the research instruments that will be used to collect data, the sources of data, the selection of participants, and the ethical considerations.

The current study employed a qualitative research methodology. According to Brynard, Brynard, and Hanekom (2014), a qualitative approach is a research methodology that generates descriptive data, primarily comprising participants' own written or verbal expressions concerning their experiences or perspectives on the subject under investigation. This research methodology was chosen for to its ability to facilitate the accumulation of data through the examination of documents from various sources (Creswell, 2013, pp. 44–45).

3.2.1.1 The Case Study Research Method

The case study is a qualitative research paradigm that uses an exploratory approach to investigate existing records of similar situations. It is bound to time and place, allowing for the use of multiple data sources (Baxter, 2008). Various academics have examined the concept of a case study, focusing on different aspects of its characteristics. Stake (1998) argues that the focus of a case is more important than the means used to investigate it. In contrast, scholars like Yin (1994) and Merriam (1994) prioritise the methodology and procedures employed in conducting a case study. Despite their differing views, these scholars agree that case studies should be detailed, conducted in an authentic environment, and focused on current circumstances.

Yin (1994) suggests that the case study method is the most suitable approach when dealing with problems related to what, how, and why. The objective of a case study approach is to acquire a comprehensive understanding of a single individual or circumstance. Additionally, Yin (2003) asserts that case studies are the preferred method for answering how and why questions in real-life situations over which the investigator has limited control of events. Similalrly, Rowley (2002) asserts that case studies are an excellent way to examine the world around us and provide valuable insights. This method allows for a better understanding of SOE governance.

Eskom and Transnet were selected as case studies because both entities have been the primary targets for state capture and violators of governance frameworks in procurement practices. Holden (2021) also asserts that Transnet and Eskom were the main targets of state capture. They were both among the top SOEs identified by the Zondo Commission as having high levels of poor governance, corruption, and gross financial mismanagement in their procurement functions. The gravity of these challenges was severe at both institutions, as indicated in the state capture reports. Both entities have been the primary targets for state capture and violations of governance frameworks in procurement practices. Thus, the case study approach was chosen because it seeks to understand why there are repeated transgressions in the procurement practices of Eskom and Transnet. This qualitative study aimed to identify the root causes and factors that contribute to governance failures in the procurement of these entities. The study also examined what corrective measures and preventative measures are necessary to ameliorate

the situation and prevent its recurrence. This chosen technique will determine the extent of transgression in the procurement functions of Eskom and Transnet.

3.3 Data Collection

Data collection is commonly defined as the methodical and accurate gathering of both theoretical and empirical information that is relevant to the research problem, research purpose, specific objectives, the study's significance, and pertinent research questions (Burns & Grove, 2006, p. 40). Rahi (2017) defines data collection as the systematic gathering of information from primary and secondary sources for research purposes, enabling researchers to answer study questions. Drawing from the various definitions, data collection can be understood as the process of gathering information to enable the researcher to address the research questions.

The data collection process in this study focused on document review and analysis as a method. This method involves the researcher obtaining secondary evidence from non-human sources, including electronic databases and search engines. The research primarily focused on analysing reports issued by oversight bodies responsible for monitoring Eskom and Transnet procurement and governance practices. The study was confined to these oversight bodies: the DPE, NT, AGSA, SCOPA, and SOEs' boards. In addition, a comprehensive examination of documents from Eskom and Transnet's, such as annual reports, National Planning Commission (NPC) reports, Eskom and Transnet's annual reports, and AGSA reports from 2017 to 2022.

Through document analysis, the researcher gained valuable insights into current and historical theories, trends, and practices related to governance issues in the procurement of SOEs. It further helped to identify any gaps in existing knowledge and highlighted areas for future research to address these gaps. The data collection for this study encompassed a wide range of sources, including academic literature, journals, reports, and relevant newspapers, amongst others, to ensure a comprehensive understanding of the research topic.

3.3.1 Document Analysis

Document analysis is an iterative process that combines content and thematic analysis, involving skimming, reading, and interpretation (Bowen, 2009). This systematic procedure is

used to review and assess both printed and electronic documents, including those that are computer-based and transferred over the Internet (Corbin & Strauss, 2008). It requires the thorough inspection and interpretation of data to gain comprehension, and empirical knowledge (Corbin & Strauss, 2008). It was chosen as a means of gathering information and for its costeffectiveness and ability to access remote topics without physical interaction (Davis, Delport, Scholtz & Van Aarde, 2003).

In this study, most of the sources examined focused on the governance issues contributing to repeated transgressions in the procurement practices of these SOEs. In addition, the sources relate to oversight functions effectiveness in monitoring and reporting governance shortcomings. Furthermore, sources relating to what corrective and preventative measures are necessary to ameliorate the situation and prevent its recurring violations.

The following secondary sources were considered for the purpose of this research:

3.3.1.1 Official Reports

Official reports were used as one of the sources of secondary information. The documents ranged from annual, AGSA, and NPC reports to those from Corruption Watch, Organisation Undoing Tax Abuse (OUTA), and state capture. All these official documents could be accessed through government and civil society websites. The websites consulted were those of the DPE, NT, Eskom, and Transnet.

3.3.1.2 Media or Newspaper

This research used publicly available information from various mass media sources, including some newspapers (i.e. Business Day, BusinessTech, Mail & Guardian, etcetera).

3.3.1.3 Evaluating Evidence

When evaluating evidence, a researcher must assess various aspects such as relevance, content, authenticity, credibility, accuracy, and representativeness of selected documents in relation to the research problem and purpose, ensuring alignment with the study's conceptual framework

(Bowen, 2009). This evaluation process, as defined by Bowen (2009), entails a thorough examination of documents to determine their balance, completeness, comprehensiveness, and ability to select relevant information. This process allows the researcher to evaluate a document's original purpose, target audience, author, and sources of information while considering factors like firsthand experience, solicitation, editing, and anonymity. To ascertain the authenticity of documents within a particular context, it is imperative to conduct comparisons with other pertinent sources. Therefore, when evaluating evidence using document analysis it does not entail simply arranging a sequence of excerpts from printed materials in a particular order to convey a notion that occurs to the researcher. But, it entails assessing documents in a manner that generates empirical knowledge and fosters comprehension. It allows researchers to gain insights and ensure the reliability of the information gathered.

3.4 Sample Technique and Size

According to Saunders, Lewis, and Thornhill (2019), sampling is a technique that researchers use to select the subjects of interest for a study carefully. To ensure the reliability and validity of research findings, it is imperative for researchers to utilise suitable sampling techniques, namely non-probability (judgmental) and probability (representative) sampling methods.

Lewis *et al.* (2012) argue that researchers should use a combination of non-probability (judgmental) and probability (representative) sampling techniques in their studies. McDaniel and Gates (2010) assert that the determination of sample size relies on the characteristics of the population under study and the researcher's estimation of the required quantity. The determination of the sample size is reliant upon the characteristics and conduct of the population being investigated as well as the researcher's assessment of the necessary magnitude (McDaniel & Gates, 2010, p. 335). The sampling method chosen for this study is non-probability.

3.5 Data Analysis

The primary objective of the analysis section is to explain the methodology used for data analysis, which helps to answer the research questions at hand. The process of data analysis

entails the assessment of the collected data to determine its level of significance. In qualitative research data analysis, a systematic approach is followed to search for and organise various materials, like observation notes and non-textual materials, to deepen the understanding of the phenomenon under investigation (Wong, 2008, p. 14). The purpose of this analysis is to enhance understanding and perception of the phenomenon under investigation.

The study uses content and thematic analysis as part of the data collection methodology. Moretti, Van Vliet, Bensing, Deledda, Mazzi, Rimondini, *et al.* (2011) concur with this. Content analysis involves the categorisation of written or spoken content based on shared meanings while thematic analysis demonstrates the interconnectedness of themes within the data (Alhojailan, 2012). After collection, the data was analysed to identify and extract underlying themes. This allows researchers to uncover underlying themes and develop codes for each theme by establishing correlations between various concepts and conducting comparative analysis. Similar data is consolidated into cohesive themes to highlight similarities. Subsequently, corresponding codes will be generated for each identified theme. In instances where comparable data was present, it was consolidated into a unified theme if the data showed similarity.

The framework matrix, identified by Gale, Heath, Cameron, Rashid, and Redwood (2013) as a type of thematic analysis, arranges qualitative data in a table format with rows and columns, enabling the comparison of different cases and the organisation of data based on common themes. Research was conducted through document review. The analysis was conducted to examine SOEs' repeated governance failures in their procurement processes. The focus was on the impact of these factors on the repeated transgressions of procurement processes by SOEs as well as the effectiveness of oversight functions in monitoring and reporting these governance flaws and transgressions. Lastly, there is the exploration of the remedial actions and steps that are required to improve and prevent the recurrence of these issues. All the secondary data used for the study is that which is in the public domain to avoid issues of confidentiality that may arise as an ethical concern.

3.6 Validity and Reliability

Validity and reliability are fundamental aspects of qualitative research, particularly concerning the trustworthiness of the data collected. Roberts and Priest (2006) suggest that trustworthiness in qualitative research ensures that the information provided is not only true but also valid and reliable. Babbie, Mouton, Vorster, and Prozesky (2012) provide additional support for this emphasis on validity and reliability by highlighting the significance of the accuracy and reliability of research data. To maintain these standards, the study adopted Maxwell's (2005) framework of four trustworthiness indicators: credibility, confirmability, transferability, and dependability. Maxwell's (2005) framework holds significance as the study centres on document analysis. This framework provides a structured approach to assessing the credibility, confirmability, transferability, and dependability of research findings. In the context of analysing governance factors contributing to transgressions in the procurement practices of SOEs, these trustworthiness indicators play a crucial role.

Furthermore, the concept of validity plays a crucial role in determining the effectiveness of the research in measuring its intended objectives and emphasises that validity assesses whether the research really measures what it sets out to measure and if the results are accurate. Field (2009) categorises validity as criterion validity and content validity, emphasising the need for the research outcomes to align with the intended goals and accurately represent the phenomena under study. By adhering to these validity principles, the study can ensure that the research outcomes are accurate, reliable, and aligned with the research objectives, thereby enhancing the overall quality and credibility of the study.

3.6.1 Reliability

Reliability is the ability to reproduce results (Raacke & Raacke, 2012, p. 82). Academic literature related to the research questions was used as a reliable source. The study sought to maintain reliability and consistency in its findings by focusing on how governance factors affect buying practices that break the law and how well oversight systems work. This approach fits with the principles of qualitative research, emphasising the need for systematic data collection and analysis methods to ensure that research results are consistent and reliable. This can be done by using organised ways to collect and analyse data. Academic literature serves as

a reliable and consistent source of information, supporting the study's objective of producing reliable research results.

3.6.2 Credibility

Credibility ensures that the information gathered from documents is accurate and valid: the study can establish credibility in its findings. This involves verifying the authenticity and reliability of the data sources used in the analysis of governance factors affecting procurement practices in SOEs.

3.6.3 Transferability

The purpose of transferability is to compare the research circumstances and methodologies to those of other similar environments (Lee & Lings, 2008). To ensure transferability, specific responses to similar trends from Eskom and Transnet were analysed. Transferability, according to Abdalzaher and Muta (2020), affects generalisability by comparing research circumstances and methodologies across similar environments. To ensure that the results can be used in other situations, the study looked for responses that are similar to governance trends in Eskom and Transnet. Transferability is essential in a research study that employs document analysis as it ensures that the insights gained from analysing documents can be transferred and applied to diverse contexts, thereby increasing the study's relevance, generalisability, and practical utility.

3.6.4 Dependability

Dependability, or reliability, as defined by Corbin and Strauss (2008), ensures the correctness of results and data collection methods. Dependability refers to the consistency and stability of the research findings over time. By following a systematic approach to document analysis and research design, the study ensures that its results are dependable and can withstand scrutiny and verification.

3.7 Ethical Considerations

In accordance with the principles of research ethics, it is imperative that all individuals affected by a researcher's study or findings are treated fairly and with respect for their rights (Gravetter & Forzano, 2010, p. 72). The development and submission of a research protocol to the Wits Ethics Committee was undertaken. Reliability and adherence to ethical standards were also considered in order to address the ethical concerns.

3.8 Research Limitations

The focus of this study is factors that contribute to repeated governance failures and unethical practices in the public procurement of SOEs. Since public procurement is broad and there are several SOEs, this study focus on the factors that lead to repeated poor governance and unethical practices in the public procurement of two SOEs: Eskom and Transnet. Interviews could not be conducted due to not obtaining approval to conduct interviews from the oversight structures (AGSA, NT, DPE, and SCOPA). Hence, a document analysis was adopted.

3.9 Conclusion

The research methodology used in this study played a crucial role in outlining the underlying governance challenges within the procurement of these entities. Through the application of a qualitative research methodology and a case study approach, this study extensively examined the various factors that contribute to governance failures within the procurement of these entities. The qualitative method was used to gather data by analysing documents from different sources, enabling a thorough analysis of governance factors contributing to the repeated transgressions in the procurement of these entities. An extensive analysis of research design and methodology provided a process for data collection, analysis, and interpretation.

This chapter provided a comprehensive overview of the research design, data collection, and analysis for the current study. The study was also guided by ethical considerations and limitations experienced during the study. These factors were deemed suitable for qualitative research methods. The next chapter explores the research findings and interpretation.

CHAPTER 4: RESEARCH FINDINGS AND INTERPRETATION

This chapter presents the findings derived from the secondary data. The secondary data was used to analyse the factors responsible for recurrent transgressions in the procurement of these entities. Various documents, including annual reports from the AGSA, Eskom and Transnet, DPE, the NPC, and Presidential Review, were used to respond to the research questions. This chapter will present the findings of the causes of repeated governance flaws and transgressions in the procurement of state-owned enterprises, particularly in Eskom and Transnet. A comprehensive analysis of the findings and interpretation of the outcomes will also be provided.

The chapter presents a comprehensive analysis of the findings of the factors that contribute to governance challenges in the procurement of these entities. This comprehensive analysis of findings is essential in understanding the underlying causes of governance flaws and recurrent transgressions in the procurement of these entities.

Prior to exploring the findings and engaging in discussions, it is crucial to reiterate the research questions:

1.1 What factors cause repeated governance failures and unethical practices in the procurement of these two entities?

1.2 Why are oversight institutions and structures unable to adequately monitor and scrutinise the governance flaws in the procurement of these entities?

1.3 What remedial actions and steps are required to improve and prevent the recurrence of these issues?

The research sought to understand the underlying factors that cause repeated governance failures and unethical practices in the procurement functions of Eskom and Transnet. Through the analysis of key documents such as AGSA reports, Eskom and Transnet's annual reports, NPC reports, and Presidential Review reports, insights were gained to respond to the research question.

4.1 Factors Causing Repeated Governance Failures and Unethical Practices in Procurement at Eskom and Transnet

The AGSA Report (2017) identified non-compliance with procurement legislation, lack of accountability, absence of consequence management, and corruption as the key factors that contribute to the increasing financial challenges and repeated transgressions in the procurement practices of the two SOEs studied. Similarly, UNECA emphasises inadequate oversight and political interference as significant governance issues affecting these entities (2021).

Moreover, Corrigan (2014) emphasises that poor board appointments, accountability gaps, corruption, impunity, poor performance, large debt loans, and the absence of performance monitoring mechanisms are the key factors affecting these entities. Thus, this section will present the factors that cause repeated governance failures and transgressions in public procurement at Eskom and Transnet.

4.1.1 Non-compliance with SCM Legislation

The AGSA reports from the 2017/18 to the 2021/22 financial years were analysed. The analysis revealed the subsequent causes, as outlined in Table 1 below, as contributing to the recurring non-compliance with supply chain management (SCM) legislation in the governance and procurement practices of SOEs, particularly in Eskom and Transnet.

The analysis of these reports also identified the subsequent causes, as outlined in Table below, as contributing to the recurring absence of accountability in the governance and procurement practices of SOEs, particularly in Eskom and Transnet.

Table 1: Non-compliance with SCM Legislation

Factor: Non-compliance with SCM Legislation	
Source	**Causes**
Consolidated General Report on National and	The AGSA report identified the following as the primary causes of noncompliance with SCM legislation: 1. Ongoing disregard of audit findings and recommendations by some auditees

Factor: Non-compliance with SCM Legislation	
Provincial Audit Outcomes **(2021/22 financial year)**	2. Lack of actions taken against potential fraud and irregular actions
Consolidated General Report on National and Provincial Audit Outcomes (**2020/21 financial year)**	1. Auditees fail to implement effective preventative controls. 2. Failure to take timely corrective actions led to repeated noncompliance with legislation in SOE procurement.
Consolidated General Report on National and Provincial Audit Outcomes **(2019/20 financial year)**	1. Lack of mature and responsive internal control mechanisms to prevent misstatements, non-compliance, losses, and signs of financial distress
Consolidated General Report on National and Provincial Audit Outcomes **(2018/19 financial year)**	1. Absence of effective measures to address non-compliance with SCM legislation 2. Failure to hold those responsible for such non-compliance accountable 3. Lack of oversight and monitoring by authorities results in repeated non-compliance with legislation 4. Slow response in implementing corrective action and commitments to capacitate SCM units with appropriate skills and experienced staff who will monitor compliance with SCM legislation 5. Lack of implementation of consequence management

Consolidated General Report on National and	1. Failure to enforce consequence management for those who did not follow the legislation 2. Slow progress in resolving audit findings by management and the board
Factor: Non-compliance with SCM Legislation	
Provincial Audit Outcomes **(2017/18 financial year)**	3. Instability in both board and key leadership positions 4. Unauthorised, fruitless, and wasteful expenditures in contravention of laws and regulations are one of the significant non-compliance matters

4.1.2 Accountability and Consequence Management

The report from the NPC was used to analyse the underlying causes for the recurring absence of accountability and consequence management in SOEs, particularly in Eskom and Transnet. The analysis of information from the reports identified the subsequent causes, as outlined in Table 2 below, as contributing to the recurring absence of accountability in the governance and procurement practices of SOEs, particularly in Eskom and Transnet.

Table 2: Accountability

Factor: Accountability	
Source	**Causes**
National Planning Commission Report **(2022)**	1. High turnover on SOEs boards affects both accountability and strategy. 2. The absence of a state ownership policy prevents the establishment of a clear accountability framework for the state's role as a shareholder. 3. Inadequate transparency in public reporting with respect to the shareholders' stated objectives, which are not accessible to the public 4. The appointment of boards lacks effective accountability measures. Historically, this has allowed boards to promote their own personal interests.

The analysis of information from the reports identified the subsequent causes, as outlined in Table 3 below, as contributing to the recurring absence of consequence management in the governance and procurement practices of SOEs, particularly in Eskom and Transnet.

Table 3: Consequence Management

Factor: Consequence Management	
Source	**Causes**
Consolidated General Report on National and Provincial Audit Outcomes **(2021/22 financial year)**	1. The absence of changes in behaviour and the inability to build a culture of holding individuals accountable within these organisations 2. The absence of leadership that sets the appropriate tone at the top to inspire a change in behaviour among top-level individuals
Consolidated General Report on National and Provincial Audit Outcomes **(2019/20 financial year)**	1. Officials lack clarity around their expected roles and performance standards. 2. Officials lack clarity regarding the impact of repercussions of transgressions and poor performance.
Consolidated General Report on National and Provincial Audit Outcomes **(2018/19 financial year)**	1. The constant changes in executive and management positions make it difficult to hold individuals accountable for their actions.

4.1.3 Political Interference and Patronage

The NPC's report was used to analyse the reasons for the political interference and patronage in the procurement practices of SOEs, particularly in Eskom and Transnet.

The analysis of information from the reports identifies the subsequent causes, as outlined in Table 4, as contributing to the recurrent political interference and patronage in the governance and procurement practices of SOEs, particularly in Eskom and Transnet.

Table 4: Political Interference and Patronage

Factor: Political Interference and Patronage	
Source	**Causes**
National Planning Commission Report **(2022)**	1. The current system is susceptible to political influence, particularly in the preferred method of cadre deployment. This method is ad hoc rather than systematic and lacks transparency in its process. 2. The existing institutional framework lacks the necessary integrated oversight structure and professionalisation to protect the process from political interference and capture and to properly serve the 'state's function as owner/shareholder. 3. The issue faced in the SOE governance process is the influence of political factors from the shareholder. 4. The current coordination between line ministries and shareholder ministries relies on informal meetings and working groups, limiting transparency, and allowing political hierarchy to enforce corruption at the SOE level, highlighting a weak institutional weakness.

4.1.4 Corruption

The reports from OUTA, AGSA, and Eskom Integrated (2022) were used to analyse the reasons for the political interference and patronage in the governance and procurement practices of SOEs, particularly in Eskom and Transnet.

The analysis of information from the reports points out the subsequent causes, as outlined in Table 5 below, as contributing to the recurring corruption practices in the governance and procurement practices of SOEs, particularly in Eskom and Transnet.

Table 5: Corruption

Factor: Corruption	
Source	**Causes**
Organisation Undoing Tax Abuse (OUTA) Report (**2017**)	According to the OUTA Report (2017), Eskom's executive management and board have failed to prevent corruption, actively supporting or engaging in it in some cases. Furthermore, the Minister of Public Enterprises is accused of participating in Eskom's corruption and mismanagement because of his passive conduct while working as the representative of the shareholder.
Factor: Corruption	
AGSA Consolidated Report on Audit Outcomes **(2021/22 financial year)**	The lack of action on fraud and corruption, disregard for auditee findings, and increased irregular expenditure balance indicate weaknesses in governance and accountability at national and provincial auditees, hindering their ability to deliver services (AG Report, 2021−2022, p. 61).
Integrated Report of Eskom Holdings SOC Ltd **(2022 financial year)**	Zondo Commission Findings: The report from the Zondo Commission revealed significant cases of fraud and corruption at Eskom, leading to recommendations for criminal charges, consequence management, and ethical culture promotion. These findings suggest that there have been shortcomings in the way procurement methods were governed in the past, highlighting the importance of enhancing governance and ethical frameworks.

4.2 Conclusion

This chapter presented the findings of the study. It can be concluded that the research findings have uncovered the root causes behind governance failures and unethical practices in the procurement processes of the target entities. Based on the comprehensive analysis of the research findings, it is evident that governance failures in the procurement processes of SOEs like Eskom and Transnet are multifaceted and deeply rooted in issues such as political

interference, lack of accountability, corruption, and weak institutional frameworks. The recurring transgressions in these organisations highlight the urgent need for a holistic approach to address these challenges.

The identified factors, including non-compliance with legislation, political interference, corruption, a lack of consequence management, and accountability gaps, highlight the systemic governance challenges prevalent in these institutions. The reports from various sources, such as the AGSA, OUTA, and the NPC, provide valuable insights into the root causes of these issues and emphasise the importance of transparency, accountability, and ethical leadership in the procurement processes of SOEs.

The recurring issues of non-compliance with legislation, inadequate oversight, and accountability deficiencies highlight the urgent need for governance structures to enforce consequence management and ensure accountability for decisions made within these entities. In essence, the findings emphasise the complexity of governance failures in procurement at state-owned entities such as Eskom, necessitating a comprehensive strategy to effectively address these issues.

Based on the findings presented above, there is a clear demonstration that the current governance frameworks and structures within SOEs are not able to adequately address non-compliance. The auditees' persistent disregard for audit findings and recommendations, as well as the absence of consequence management, is a clear indication of systemic failures within SOEs. This behaviour does not only reflect deficiency in accountability but also suggests that SOEs have normalised a culture of non-compliance. Failure to hold responsible individuals accountable for non-compliance has created an environment of impunity, normalising unethical behaviour. Executive management and the board's inability to tackle non-compliance, corruption, enforce consequence management, and accountability highlights a governance breakdown that requires correction. The inability of leadership to establish a strong ethical tone further weakens efforts to promote accountability throughout the organisation. The prioritising of political instructions and directives over public interest undermines accountability. There is therefore an urgent need to address the pervasive culture of non-compliance corruption, accountability failures, political interference and patronage within SOEs.

The next section presents the data results for the study.

4.3 Discussion of Data Results

This section presents the results of the study derived from secondary data from various oversight functions. The following target documents were analysed to obtain the results of the study:

a) AGSA consolidated report on audit outcomes for the 2017−2022 financial years
b) Eskom and Transnet's annual reports for the financial year ending March 2023
c) NPC Report: Institutional Governance Review
d) OUTA Report (2017)
e) Corruption Watch data
f) Literature relevant to the purpose of this section of the study

4.3.1 Factors Causing Repeated Governance Failures and Unethical Practices in Procurement at Eskom and Transnet

4.3.1.1 Non-compliance with SCM Legislation

Since 2017, the AGSA has found that Eskom and Transnet's rising debt and recurrent breaches in their procurement practices stem partly from failure to adhere to SCM laws (Consolidated General Report on National and Provincial Audit Outcome, 2017). The AGSA's findings highlighted that the overall control environment within SOEs is generally weak in terms of compliance with laws and regulations. This is proven by the unfavourable audit outcomes for both entities (Consolidated General Report on National and Provincial Audit Outcomes, 2020–21). The audit reports identified non-compliance with SCM legislation as a significant issue. Every year, non-compliance with SCM legislation is reported, leading to high levels of irregular expenditure, and creating an environment for further non-compliance.

An analysis was conducted on the AGSA Reports (2017–2022) financial years. The reports identified the following issues as key contributing factors to the persistent non-compliance with SCM legislation in SOEs:

a) Ongoing disregard for audit findings and recommendations by some auditees

b) Failure to take corrective action against potential fraud and irregular actions
c) Failure to implement effective preventative controls
d) Lack of mature and responsive internal control mechanisms to prevent misstatements, non-compliance, losses, and signs of financial distress
e) Absence of effective measures to address non-compliance with SCM legislation
f) Failure to hold those responsible for such non-compliance accountable
g) Lack of oversight and monitoring by authorities results in repeated non-compliance with legislation
h) Slow response in implementing corrective action and commitments to capacitate SCM units with appropriate skills and experienced staff who will monitor compliance with SCM legislation
i) Lack of implementation of consequence management
j) Failure to enforce consequence management for those who did not follow the legislation
k) Slow progress by boards and management in resolving audit findings
l) Instability in both board and key leadership positions

However, the audit reports consistently identified the following three issues as the common contributing causes of non-compliance with SCM legislation within these entities:

a) Absence of preventive controls and lack of mature internal control mechanisms to prevent non-compliance as well as failure to implement effective internal controls to respond to issues of non-compliance and absence of measures to address noncompliance within SCM.
b) Slow response in implementing corrective measures and failure to take timely corrective action
c) Absence of consequence management—failure to enforce it against those who did not adhere to the rules and failure to hold those responsible for such non-compliance accountable

The results of the findings indicate that the presence of effective internal control mechanisms and prompt responses to corrective actions are necessary to address instances of noncompliance. Failure to implement such measures will result in the persistence of noncompliance with SCM legislation. Furthermore, if there is no implementation of a culture that emphasises compliance, the imposition of consequence management, and accountability, then non-compliance with SCM legislation will continue. The audit reports have also

highlighted that the failures of these entities to comply with SCM legislation led to a significant balance of irregular expenditures in their annual reports. This has a detrimental effect on the financial outlook of the entities.

Irregular Expenditure

The PFMA mandates accounting authorities to prevent the incurrence of irregular, fruitless, and wasteful expenditures. Generally, SOEs were unable to prevent such expenses (Consolidated General Report on National and Provincial Audit Outcomes, 2018/19). Since 2017, the AGSA has reported that these entities have challenges avoiding irregular expenditures due to the contravention of SCM laws and regulations (AGSA Report, 2017). For instance, in March 2023, Eskom revealed that it had incurred a cumulative amount of R91.2 billion in irregular expenditure, primarily due to previous transgressions in SCM (Eskom Integrated Report, 2023, p. 55). In contrast, Transnet's latest annual report for the 2022/23 financial year disclosed a decrease in irregular expenditure to R556 million, which is a 50.2 per cent reduction compared to the previous year's R1,117 million. However, this decline was due to irregular expenditures that were not accounted for and a recurrent failure to comply with SCM standards. This demonstrated a lack of accountability regarding irregular expenditure and the breaching of SCM laws as cases involving R3.4 billion have not resulted in any criminal charges. Currently about 6 per cent of these expenses are being investigated (NPC Report, 2022).

In addition, Transnet's annual report (2023) indicated that the company lacked adequate oversight to ensure compliance with SCM legislation, and internal controls to prevent irregular, fruitless, and wasteful expenditures (p. 17). This could suggest that if there is a lack of attention in implementing corrective measures and consequence management to address the irregularities, then the irregular expenditure balances in these entities will continue to grow.

Furthermore, the analysis of the data consistently identified the following issues as the common contributing causes of high balances of irregular expenditures within these entities:

a) Lack of oversight to ensure compliance with SCM legislation
b) Lack of internal controls to prevent irregular, fruitless, and wasteful expenditures
c) Insufficient focus on implementing remedial actions and consequence management to clear these irregularities

4.3.1.2 Accountability and Consequence Management

Accountability is one of the pillars of the PFMA. It requires the accounting officer or accounting authority to take preventive steps and to act when corrupt practices are identified (Magakwe, 2023). It requires the imposition of appropriate sanctions against corrupt action and behaviour (Lobel, 2019).

An analysis of the NPC's report on the institutional governance review highlighted the following as the primary causes that contribute to a recurring lack of accountability within SOEs:

a) High turnover on SOE boards impacts accountability and strategy.
b) The lack of a state ownership policy, which could enhance clarity and accountability regarding the state's overall approach as a shareholder.
c) Insufficient transparency in public reporting regarding objectives outlined in the shareholders' compact, which are not publicly available
d) There are no robust accountability mechanisms for the appointment of boards. This has historically enabled boards to advance their personal interests.

These findings suggest that the board members will continue to prioritise their personal interests as long as there is still a high turnover on SOE boards, a lack of transparency in board appointments, and an absence of accountability mechanisms. Accountability will continue to be a recurrent issue in the governance of SOEs if there is no transparency in the public reporting regarding objectives outlined in the shareholders' compact. For example, in Transnet, the qualified audit opinion highlighted irregular expenditures that were not accounted for. This demonstrated that there is a lack of accountability when it comes to irregular expenditure, as instances involving R3.4 billion have not led to criminal charges. Currently, about 6 per cent of these expenses are being investigated (NPC Report, 2022).

Consequence Management

The South African governance system struggles with poor consequence management for officials found guilty of or engaging in unethical behaviour, leading to a rise in irregularities and corruption (Thusi, Matyana, & Jili, 2023). The absence of consequence management for

those who caused irregular expenditures creates an environment conducive to further noncompliance (Consolidated General Report on National and Provincial Audit Outcome, 2017). An analysis of secondary data acquired from the AGSA reports for the 2017–2022 financial years revealed the following as factors that contribute to the lack of consequence management in SOEs:

a) Lack of behavioural change within these entities towards these findings
b) Failure to establish a culture of consequence management within these entities
c) Officials lack clarity around their expected roles and performance standards.
d) The constant changes in executive and management positions make it difficult to hold individuals accountable for their actions.

These results suggest that the status quo will remain unchanged unless there is a cultural and behavioural change towards audit findings and procurement irregularities within these entities. A lack of consequence management will persist as long as there is instability in the appointments of executives and senior positions and officials are not informed of the repercussions of their actions, which are resulting in recurring transgressions, irregular expenditures, and poor performance.

As required by Section 51(1)(e)(iii) of the PFMA, the AGSA was unable to obtain adequate audit evidence that disciplinary action was taken against officials who incurred irregular, fruitful, and wasteful expenditures in Transnet. This was due to the following reasons:

a) The inability to maintain accurate and comprehensive records, which has hindered investigations into irregular expenditures
b) Certain officials who caused irregular expenditures not being subjected to disciplinary action
c) Disciplinary proceedings were not initiated in instances where confirmed financial malfeasance was committed by officials.

These results posit that there might be a possible presence of a bad culture within these entities that may not take these irregular matters seriously.

The analysis of Transnet's annual report (2023) revealed ongoing efforts in consequence management, with the Special Investigating Unit (SIU) examining events that occurred in the 2010 and 2018 financial years (p. 17). In addition, the report revealed that Transnet is working

with the Commission and other state agencies to actively address state capture investigations to ensure continuous consequence management and remediation actions. Courts are also being approached to set aside fraudulent contracts.

The result of the research findings indicates that progress in addressing reported matters from 2010 to 2018 through the consequence management process and law enforcement authorities is slow, as these issues are still ongoing and unresolved. The entities' slow-paced implementation of consequence management will encourage a culture of noncompliance and a lack of accountability.

4.3.1.3 Political Interference and Patronage

The NPC's report was analysed to identify the causes that contribute to recurring political interference and patronage in the governance of procurement practices of SOEs, particularly in Eskom and Transnet.

The NPC's Institutional Governance Review was analysed. The report identified the following as causes that contribute to political interference and patronage in SOEs:

a) The current system, characterised by ad hoc cadre deployment methods and a lack of transparency, is susceptible to political influence.
b) The current institutional framework lacks the necessary oversight structure and professionalisation to safeguard the process from political interference and effectively serve the state's role as owner/shareholder.
c) The governance process of SOEs is influenced by political factors from shareholders.
d) The current coordination between line ministries and shareholder ministries is based on informal meetings, limiting transparency, and allowing political hierarchy to enforce corruption at the SOE level.

The SOE governance process faces political shareholder issues, requiring professionalisation. The results of the analysis suggest that if the current system is marked by cadre deployment and lacks the necessary structure and professionalism to safeguard against political interference. The continued practice of placing party members in key positions within SOEs will hinder the promotion of transparency, accountability, and effective governance. This

current practice will enable corruption within SOEs. The challenges related to political shareholder matters highlight the need for professionalisation.

4.3.1.4 Corruption

Over the past decade, SOEs have faced challenges like poor governance, financial sustainability, operational inefficiency, corruption, patronage, rentseeking, and “state capture, prompting the establishment of a Judicial Commission (NPC Report, 2022). The concerns were further outlined in 2018 World Bank research, which highlighted that state-owned enterprises have experienced the infiltration of politicised boards and management, leading to a growing prevalence of corruption.

The Zondo Commission's findings unveiled substantial instances of fraud and corruption inside Eskom, prompting suggestions for criminal prosecution, the implementation of consequences, and the fostering of an ethical culture (Zondo Findings, 2022). Eskom is presently facing corporate governance breaches, including allegations of corruption and state capture, which have received extensive media coverage and undergone investigation (Eskom Integrated Report, 2023, p. 53). Furthermore, in 2023, André de Ruyter made allegations of fraud and corruption without disclosing them to the board; the board has since reverted to the original notice. However, Eskom's board made a commitment in 2021 to eliminate fraud and corruption to regain its reputation and ensure its financial stability (Integrated Report, 2021).

The analysis of information from the reports provided by AGSA, OUTA, and Eskom Integrated Report 2022 identified the following factors as recurring causes for corruption in procurement practices in SOEs:

a) Passive conduct of the shareholder in addressing issues of corruption
b) Lack of action on fraud and corruption matters
c) Disregard or ignoring of audit findings
d) Increased irregular expenditure balance

The suggested corrective measures are admirable, but the level of corruption at Eskom, publicised by its former CEO, André de Ruyter, has not decreased. Without proper oversight and monitoring, these efforts are good on paper only.

The results of the analysis suggest that if the recommendations from different oversight institutions and reports are not properly addressed and monitored, the efforts to reduce corruption will merely be a superficial compliance exercise. If the shareholder chooses to take a passive stance towards these irregularities and fails to act in addressing audit findings, corruption will continue to pose a prevalent risk in the procurement practices of SOEs.

4.4 Oversight Functions

This section provides the results of the analysis that was done on why oversight institutions and structures are unable to monitor and scrutinise governance flaws adequately in the procurement of these entities.

Various reports from the oversight functions were analysed. The reason for selecting these reports is that they provide oversight for these SOEs in terms of procurement and governance.

a) DPE reports

b) Annual reports from Eskom and Transnet

c) NT information analysed by Corruption Watch

d) SCOPA feedback on the outcome of the financial performance of SOEs

e) NPC's report on institutional governance

f) OUTA report

These reports were used to examine the reasons why oversight functions are unable to monitor and scrutinise the governance failures effectively in procurement in these SOEs. The reports provide an analysis of the underlying causes:

a) Lack of robust preventative controls by the auditee to detect and correct financial misstatements, losses, and non-compliance.

b) Delayed implementation of corrective action by the auditee

c) Few members of senior management are willing to perform their oversight roles.

d) Oversight failures despite an increase in oversight in parliamentary committees

e) Leadership challenges at the board level are not addressed.

f) Board performance has been deteriorating.

g) High turnover and instability in management and board positions make accountability difficult.

However, the results of the analysis of the NPC report (2022) suggest that the oversight of SOEs is not only influenced by senior management and the board. Civil servants also play a role because they are inherently more susceptible to direct political influence and less inclined to adopt pragmatic approaches to resolving emerging issues. They enjoy a higher level of protection in their positions, which reduces their level of accountability and diminishes their motivation to pursue responsible stewardship for which they can be held responsible (NPC, 2022).

4.4.1 Why Oversight Institutions and Structures are Unable to Monitor and Scrutinise Governance Flaws Effectively in Procurement at These Entities

This section provides the results of an analysis conducted on the reports generated by oversight functions. The following reports from the oversight functions were assessed to determine the reasons behind the above:

a) DPE reports
b) Annual reports from Eskom and Transnet
c) NT information analysed by Corruption Watch
d) SCOPA feedback on the outcome of the financial performance of SOEs
e) NPC's report on institutional governance
f) OUTA report

4.4.1.1 The AGSA

The AGSA, a Chapter 9 institution in the South African Constitution, is accountable to Parliament and is required to conduct SOE performance audits on the credibility of their procurement processes. In other words, the AGSA ensures that SOEs have approved procurement policies and are following legislative mandates.

The AGSA's audit results of SOEs for 2022/23 suggests a minimal celebration for South Africa's major SOEs, with Eskom disclosing a cumulative irregular expenditure of R91,2 billion in March 2022. Transnet reported a new irregular expenditure of R556 million was confirmed for the 2023 financial year, a 50.2 per cent reduction from the previous year's R1,117 million due to repeated non-compliance with SCM prescripts (Transnet, March 2023). These

entities have been reporting unqualified audits for the past four years, with no improvement in their irregular expenditure balances.

Transnet was granted a three-year exemption, from 2021/22 to 2023/24, for the disclosure of certain PFMA provisions for three years to improve internal control measures for accurate reporting due to audit findings. This is a clear demonstration that the AGSA annually identifies irregularities and flaws within the procurement practices of these SOEs, but the challenge is that corrective action and consequence management are not prioritised by the SOEs after the audits.

The audit reports highlight that audit recommendations are disregarded and not prioritised by the auditees, hence the repeated status quo within them. This conduct makes oversight bodies like the AGSA ineffective as there is no willingness to address and implement corrective actions by the management of the SOEs. Instilling a culture of compliance and consequence management and ensuring that those who are doing wrong are held accountable is essential.

The Auditing Profession Amendment Act, 2021, No. 5, allows the AGSA to impose sanctions on public sector organisations for violating financial and procurement guidelines, including admission of guilt, disciplinary hearings, investigation offences, and information sharing among law enforcement agencies. To date, the AGSA has not enforced the above sanctions on SOEs. In light of the prevailing state of non-compliance observed in these organisations, it is necessary for AGSA to enforce the aforementioned provisions.

4.4.1.2 The National Treasury

The OCPO plays a crucial role in the oversight of procurement activities. Despite its aim to expose unethical activities in public sector organisations, there has been limited progress in establishing a transparent government that is corruption free. The investigation of alleged incidents of corruption cannot be undertaken due to limitations in resources, such as budgetary constraints and insufficient personnel in the OCPO (National Treasury, 2020).

Multiple media reports have made reference to allegations of malfeasance within SOEs. Since 2016, the OCPO has released reports that provide a comprehensive overview of the state of the public procurement system. These reports offer a concise overview of the number of deviations

and contract amendments for each entity. SCOPA, in a meeting held with the officials from OCPO on 17 February 2023, expressed concerns about the numerous deviations and extensions granted to SOEs, particularly Eskom. The Committee expressed concern regarding entities procured through deviation, despite NT's denial of the deviation. The Committee further noted that the OCPO did not fulfil its responsibility due to its lack of any real power. The Committee highlighted the Office's high vacancy rate and sought an explanation from the OCPO for its inability to effectively address the widespread corruption in the state's acquisition of goods and services. The NT's lack of complete support towards the OCPO was a cause for concern. The Committee suggested interacting with the Director-General of National Treasury to address the situation at the office.

Corruption Watch also released reports on procurement risk trends, which the researcher analysed. The reports analysed trends in deviation requests and contract expansion, focusing on restricted suppliers, using data from reports submitted to the NT by procuring organs of state. The report pointed out that deviations in procurement are exceptional and should only be used in exceptional cases where normal rules are not justifiable. However, relying heavily on deviations may signal abuse of the procurement system or weak internal planning (Corruption Watch, p. 9).

The report highlighted a significant increase in deviation numbers in 2022/23, which indicated that it is a matter of great concern, especially considering the overall trend of reducing deviations since 2017. The most common reasons for deviations in 2022/23 were emergencies and solo providers. Transnet was reported under the highest 10 largest deviations per value of deviation requested (2022/23), at an amount of R462,000,000.00 due to poor planning.

The report further assessed contract variations. It indicated that contact variations pose significant risks, especially when the contract value increases. Such expansions can lead to a larger contract awarded to the supplier, potentially resulting from a lack of competitive bidding. In 2022/23, the 10 largest contract expansions in terms of value were reported to the NT. Eskom was among the largest on the list, and its dominance is undisputed (p. 25). In 2023, Eskom reported 606 instances of non-compliance and 274 instances of modifications and alterations to contracts, suggesting irregularities in transactions. Eskom consistently informs the NT about these issues, as per the instructions provided (Eskom, 2023, p. 55).

It is evident from the above assessment that the OCPO was unable to adequately monitor and scrutinise the governance flaws in procurement in these entities because the Office lacks any real power, hence its inability to address the widespread corruption in the procurement of goods and services. High turnover in this Office was highlighted as another reason as was a lack of support from the Director-General of the department.

Manyathi (2019) suggests that the OCPO's has shown a lack of proactive involvement in investigating corrupt practices, such as the manipulation of procurement processes at Eskom. The author (*ibid.*) highlights that the OCPO refrains from taking proactive measures to rectify deviations in procurement. An additional obstacle is that the OCPO is incapable of conducting investigations into instances of corruption and fraud; as a result, these matters are referred to law enforcement agencies (Manyathi, 2019, p. 116).

4.4.1.3 SCOPA

SCOPA's briefing from the AGSA for the 2019/20 audit revealed a deteriorating financial state, with a significant increase in irregular, fruitless, and wasteful expenditure; inadequate consequence management; and a lack of evidence of investigation of the causes of irregular, fruitless, and wasteful expenditure.

In line with Matebese-Notshulwana (2019), there is an expectation for the executive to be held accountable for its actions by the legislature. The inability of Parliament to hold the executive accountable is a result of the compromise of the very system designed to ensure accountability.

4.4.1.4 SOEs Boards of Directors

According to the NPC's findings (2010), the decisions of SOE boards are excessively influenced by political factors, and boards lack effectiveness in managing numerous objectives. The political system assigns objectives and priorities to many entities, but the administration responsible for coordination lacks the necessary skills and authority to establish an effective framework for prioritisation.

The report highlighted that the state's approach to board nomination lacks openness as it operates in an ad-hoc manner. SOE boards have low transparency. The report highlighted the following as challenges notable in SOEs boards' oversight:

a) Board performance has been deteriorating.
b) Board appointments are excessively politicised.
c) Board members lack the required professional skills.
d) The appointment of CEOs and members of the boards lacks transparency.

Eskom Board

According to the Public Protector Report released in 2020, Eskom was found to be corrupt, with senior executives and board members implicated in fraud and mismanagement, including awarding contracts to Gupta family-linked companies. In 2021, the SIU reported corruption at Eskom, revealing procurement irregularities, fraud, and corruption among employees and contractors. In 2023, former Eskom CEO André de Ruyter alleged further corruption, highlighting a top government official as the central figure in the issue (Bonorchis, 2023).

At Eskom, it is noted that there has been instability in management in the last ten years. Eskom has faced many changes in its CEO position, with 10 CEOs in 10 years, resulting in a lack of permanent leadership. Efforts to establish stability in management and regain the trust in leadership are now in progress. Board vacancies are addressed (Integrated Report, 2023).

Transnet Board

Transnet commissioned the MNS Attorneys Forensic Report in 2018, which revealed substantial evidence of corruption and irregularities within the organisation's procurement procedures (Republic of South Africa, 2022b). The report posited that corrupt practices carried out by external service providers were facilitated by Transnet executives and board members, leading to significant financial losses for the organisation. The 2018 Final Report on Forensic Investigation into Various Allegations at Transnet and Eskom revealed a sequence of corrupt transactions involving Chinese businesses, leading to excessive payments of billions of dollars and abnormalities in procurement procedures (National Treasury, 2018). Further, evidence revealed Transnet board members and executives' wrongdoings and the then-Minister of Public

Services' involvement in corrupt activities (Mahlala, Juta, Chigova, & Zweni, 2023). As long as the appointment of board members is done by politicians, the board will not be able to exercise its oversight role within these entities.

4.5 Conclusion

The chapter presented a discussion of the research results that arose from research questions. In conclusion, the data results discussion underlines the urgent need for SOEs to strengthen their governance practices; enhance transparency, professionalism, and accountability; and implement robust internal control mechanisms to combat non-compliance, corruption, and financial irregularities within these entities. Addressing these issues is essential to restoring public trust, improving financial sustainability, and ensuring effective oversight and management of SOEs. Effective internal control mechanisms and corrective actions are crucial for addressing irregularities and poor governance in the procurement of these entities. Collaborative efforts between oversight bodies, auditees, and relevant stakeholders are essential to promoting transparency, integrity, and sustainable governance practices within the public sector. The next chapter provides a conclusion, identifies the limitations of the study, and offers recommendations for future research.

CHAPTER 5: CONCLUSION, RECOMMENDATIONS, AND REMEDIAL ACTIONS

The chapter provides recommendations and remedial actions that are crucial for improving and preventing recurrent transgressions and governance flaws in the procurement practices of SOEs, particularly in Eskom and Transnet.

The chapter provides recommendations and remedial actions for factors that have been identified as the main contributors to recurrent transgressions and governance flaws in the procurement process of SOES. Key recommendations and remedial actions were derived from thematic discussions and findings that arose from research questions.

5.1 Remedial Actions

5.1.1 Non-compliance with SCM Legislation

According to the AGSA, it is crucial for organisations being audited to address the primary issues that contributed to non-compliance in SOEs promptly and thoroughly. The AGSA has recommended a more adaptable governance structure and repeatedly stressed the need for accountability to address non-compliance with SCM legislation within SOEs. The AGSA has further proposed the implementation of an effective monitoring and evaluation system to minimise irregular, fruitless, and wasteful expenditures and to ensure compliance with public procurement policies and principles.

As part of the remedial action for both Eskom and Transnet:

Eskom's procurement department and SCM has taken steps to decrease irregular spending and enhance commercial oversight by implementing various measures outlined in its procurement roadmap. These measures are designed to minimise cancellations, ensure compliance, limit contract modifications, and enhance performance monitoring (Eskom Integrated Report, 2023). Eskom, however, will implement the following remedial actions to tackle non-compliance with SCM legislation:

a) Eskom is reviewing its SCM and human resource policies to improve consequence management and sanctions.

b) Automated systems are being implemented to address fraud and corruption risks.
c) The forensic and anti-corruption departments are authorised to perform independent investigations.
d) Eskom is consolidating multiple investigative functions into a single unit to improve efficiency.
e) It is envisaged that a high-level structure for the investigative unit will be in place by December 2023, with full implementation planned by the end of the 2024 financial year.
f) The PFMA Loss Control Department is being established to carry out and report on PFMA compliance.

Transnet will launch six distinct streams as part of the remedial strategy to address noncompliance with SCM legislation:

a) Improve supply chain governance by reorganising the internal control structure and finding the best way to distribute decision-making power to make sure that delegations are at the right levels and that the company meets all regulatory requirements.
b) Enhance procurement operations by streamlining SCM processes.
c) Enforce efficient standard procedures for contract management.
d) Supervise employees by providing ongoing training on PFMA regulations and implementing consequences for non-compliance.
e) Implement automation in the SCM processes.
f) Improve the capacity to report on PFMA.

These proposed remedial actions will only be effective once leadership is committed and dedicated to the prompt implementation of corrective measures. Furthermore, the organisational culture must incorporate accountability and devise clear consequences for non-compliance. Without robust, independent, and periodic monitoring and evaluation procedures to evaluate these actions, they will likely be perceived by the public as mere compliance exercises rather than meaningful interventions. Without proper follow-up, these efforts will ultimately become ineffective.

5.1.2 Accountability and Consequence Management

The AGSA has recommended the establishment of a strong accountability structure to ensure that people in positions of authority are accountable for their actions (AGSA Report, 2020–2021). The AGSA has recommended that enforcing consequence management on non-

compliant officials can help auditees to recover losses and serve as a deterrent against future legislative breaches (AGSA Report, 2021–2021, p. 63).

The NPC study (2022) posits the following remedial actions:

The report proposes a revised institutional governance framework for SOEs. The proposed framework seeks to limit political interference, improve accountability and transparency, establish checks and balances, and improve coordination between National Development Plan outcomes and SOE performance.

As part of remedial action for both Eskom and Transnet:

The analysis from the Eskom Integrated Report (2023) has highlighted the following as part of Eskom's remedial action:

a) Eskom has established a task team to review the Zondo Commission's report and has developed an implementation plan to address its recommendations. Key focus areas include: civil recoveries, criminal charges, consequence management against employees and suppliers, director delinquency proceedings, and civil recovery of financial losses. The plan also includes an in-depth crime risk assessment and a review of policies and procedures.
b) The Assurance and Forensic Department and Human Resources Division collaborate to improve consequence management and disciplinary processes.

In its remedial action, Transnet is currently engaged in state capture and investigations in collaboration with the Commission and other state agencies. Ongoing legal proceedings are in place to enforce continuous consequence management and remediation measures. This includes efforts to set aside fraudulent controls through court interventions.

For these proposed remedial actions to be effective, it is imperative for SOEs to prioritise collaboration with law enforcement agencies. This partnership will strengthen the implementation of accountability measures and ensure that unethical behaviour is addressed decisively. By integrating law enforcement into the governance framework, SOEs can enhance their credibility and reinforce public trust.

5.1.3 Political Interference and Patronage

As a recommendation, the NPC report (2022) highlighted some remedial actions to reduce political interference:

a) The Ramaphosa administration is implementing SOE reforms, with the establishment of the Presidential SOE Council for strategic management and changes to boards and executive leadership, aiming to address issues facing SOEs.
b) Professionalisation will increase accountability.
c) An independent state-owned holding company that acts as the owner of SOEs on behalf of the government will help to separate political influence from SOE, allowing greater operational freedom and introducing external expertise to the oversight process related to the state's shareholder function.

By limiting political interference, the implementation of these remedial actions can significantly improve the fairness and integrity of procurement processes. Such improvements have the potential to transform the governance landscape of SOEs, which is essential for restoring public trust. To achieve this, there is a need to professionalise public procurement to ensure that recruitment processes are based on qualifications, skills, and experience to prevent appointments being influenced by political connections. This will enable those in key positions to make informed decisions based on established guidelines rather than political agendas. It is important to foster a culture that values ethical behaviour, empowering employees to resist political pressure and maintain the integrity of the procurement process.

5.1.4 Corruption

The following remedial actions were recommended to address the persistent corruption in the governance of the procurement processes of these SOEs.

The NDP suggested the implementation of an anti-corruption system to ensure accountability for public servants, protection for whistleblowers, and rigorous monitoring of procurement practices (NDP, 1998). The Eskom Integrated Report suggested the implementation of

consequence management, pursuing criminal charges, and fostering an ethical culture to deal with major cases of fraud and corruption (Eskom Integrated Report, 2022).

The Eskom Integrated Report (2023) highlighted the following remedial actions to reduce corruption:

a) The Anti-Fraud and Corruption Integration Committee (AFCIC) was established in 2020 to monitor fraud prevention and integrate forensic, legal, ethical, industrial relations, and supplier review functions. It assesses alignment with the OECD's anticorruption goals, identifies gaps, and develops a plan for 2024.
b) Eskom has developed a comprehensive anti-fraud and corruption strategy, which will be revised based on evaluations, a fraud risk assessment, establishing a fraud risk register, and monitoring its implementation.
c) Fraud awareness campaigns are being conducted through the release of monthly newsletters to raise employee awareness about fraud and corruption.
d) The company has enhanced ethics and fraud awareness programmes for all employees, developed anti-fraud training for managers and supervisors, and implemented fraud awareness for suppliers.
e) Lifestyle audits are being conducted.

There is a need to ensure that these remedial actions translate into tangible outcomes. As highlighted by former Eskom CEO, André de Ruyter, without adequate oversight and supervision, these remedial actions risk becoming efforts that are beneficial on paper rather than meaningful interventions. Therefore, it is imperative that the organisation culture embed strong accountability measures to promote genuine compliance and transparency (André de Ruyter, 2022). Additionally, political will is required to enforce anti-corruption measures in public procurement. A comprehensive strategy that incorporates oversight, protection for whistleblowers, and a firm commitment to ethical leadership is also necessary. Through these connected efforts, SOEs can only effectively mitigate corruption and restore public trust in their governance and procurement processes.

5.2 Conclusion

This chapter outlines the conclusions derived from the study's findings and results. The study comprehensively addressed each research objective by conducting a thorough analysis of existing literature and document analysis. The study identified several governance factors contributing to the persistent transgressions in procurement practice at SOEs.

Ignoring the root causes of SOEs' non-compliance with SCM legislation can lead to severe consequences, such as repeated unqualified audit opinions, uncertainty about the going concern of these entities, and negative effects on both investments and public confidence.

Similarly, the lack of accountability measures within SOEs may result in irregular appointments of executives and board members. These irregular appointments may lead to the concealment of information and the prioritisation of personal and political interests over public interest. Furthermore, the absence of consequence management in the governance practices of these entities may perpetuate a culture of noncompliance and irregular expenditure. Hence, there is a need to create a culture of ethical leadership, educate procurement officials on the consequences of these irregularities, and professionalise public procurement to reduce the likelihood of appointments being influenced by political connections.

Political interference and cadre deployment in critical positions of SOEs pose a significant threat to transparency, accountability, and good governance, creating an environment for corruption within these entities.

To effectively combat corruption, initiatives such as strengthening law enforcement capacity, increasing successful prosecutions in fraud and corruption cases, and implementing early warning systems to identify vulnerabilities in financial and procurement systems are necessary. Political will is crucial in addressing the negative impact of corruption in South Africa, and limiting political interference in remedial actions can enhance the integrity of the anticorruption efforts.

While this study focused on specific factors, further research is needed to assess the implementation of these recommended actions and their impact on improving governance practices within SOEs. It is essential to continue monitoring and evaluating the effectiveness of remedial actions to ensure sustainable improvements in governance and procurement practices within these vital organisations.

5.3 Limitations of the Study

Theofanidis and Fountouki (2018) define the limitations of a study as any inherent constraints that the researcher cannot alter that could impact the study's results. The oversight function did not grant the researcher permission to conduct interviews. Therefore, the study relied on secondary data.

This study is limited to only two SOEs, which will be used as case studies. It is important to note that the findings may not necessarily be representative of the practices followed by other SOEs. However, they do provide an insight into what could potentially be transpiring in other SOEs as well. Further, due to the lack of authorisation granted to conduct interviews, a document analysis was adopted for data collection instead.

5.4 Opportunities for Future Research

There is a need for future research studies to examine the impact of corruption on public procurement processes within SOEs and to explore innovative governance strategies to address this issue effectively. Additionally, further research could focus on the specific challenges faced in implementing the AGSA's recommendations and the identification of remedial actions for enhancing accountability and transparency within these entities. Furthermore, it would be beneficial for future studies to examine the impact of technology. Such an investigation could offer policymakers valuable insights that can be used to effectively address corruption and governance challenges within SOEs.

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