

# Corporate Governance in State Owned Enterprises: A case Study of Namibia Housing Enterprises (NHE)

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## Abstract

*The issues of good corporate governance has emerged to be matters of serious concern in State-Owned Enterprises. So much scholarly articles have been published all over the world about good corporate governance, thus, guidelines, practice and principles. Namibian State-Owned Enterprises (SOEs) have been under criticism publicly over the poor governance in recent times. This report reviews the governance at one of Namibia' State-Owned-Enterprises, NHE which was under public criticism over its governance recently. This paper seeks to understand the causes of poor governance in State Owned Enterprises in Namibia. The data used in this research paper is drawn from literature available and interview conduct with NHE employees on good governance. The findings of the research paper points out to inexperienced Board members, lack of transparency and openness, the size of the structures of the Board, imbalanced Board in terms of skills and knowledge, lack of diversity, size and Board compositions.*

**Keywords:** Enterprise, Housing, Good governance and Strategic Plan

## 1.1 Introduction.

For many countries all over the world, good governance in central governments, state owned enterprises and the private sectors has proved to be the basis for continued growth in almost every aspect of economies.

## 1.2 background of the research paper

Good governance in SOEs is debatable and differ from economy to economy, the question of what really causes poor governance and what are the consequences of good governance are not debatable neither have different answers in any economy. It is a known fact that without good governance it is impossible to

achieve high and widely spread economic development and to sustain or improve that development. This is no exception to the National Housing Enterprise (NHE) of the Republic of Namibia. The National Housing Enterprise (NHE) is a state-owned company of the Government of the Republic of Namibia under the Ministry of Urban and Rural Development. Its accountability to the Ministry of Regional and Local Government, Housing and Rural Development was formalized by the NHE Act of 1993 (Act No 5 of 1993) as amended.

NHE stems its dictate from NHE Act No 5 of 1993. NHE endeavors to stimulate home-ownership by being a customer-focused institution that provides housing solutions in order to lessen the national housing need.

NHE principal business is providing housing needs to low and middle income citizens of Namibia and financing of housing for such citizens. This is done through land acquisition from Local Authorities/Municipalities and Town Councils, housing construction and provision of housing loans.

## **2. Literature Review**

### **2.1 Establishing the basis of NHE's review of its Governance.**

According to the NHE 2017/18 Strategic Plan, NHE sets out guiding principles and values that are derived from a pillar of core values that defines the character and culture of NHE and its people. These values are stated as Integrity, Caring, Teamwork, Solution Driven and Excellence (NHE 2017/18 Strategic Plan). It has been established earlier that NHE is a state owned enterprise under the Ministry of Urban and Rural Development and is 100% owned by the government of the Republic of Namibia. Since NHE was established by the Act of Parliament, National Housing Act No. 5 of 1993 as amended it follows therefore that NHE comply with all relevant legislations such as the Companies Act (No. 28 of 2004), Public Enterprises Governance Act, 2006 (Act No.2 of 2006), State Finance Act, 1991 (Act 31 of 1991), as amended. (NHE 2017/18 Strategic Plan).

It against this background that NHE's corporate governance will be reviewed in line with the core values as principles, stipulated as integrity, caring, teamwork, solution driven and excellence.

### **2.2 The Importance of principles**

State owned enterprises are involved in governance problems of many African countries. This is so mainly because of the ineffectiveness, losses, budgetary burdens, and provision of poor products and services. It is within these boundaries

that it is essential to understand the importance of the principles set out by NHE to measure their efficiency and scrutinize the corporate governance.

It is a known fact that most goals and objectives of the state owned enterprises are set out by the central government. In an article published by *Confidente* on July 2, 2015, Andrew Lomboleni stressed the importance of a well informed and well- trained board of directors in SOEs in Namibia, (*Confidente* July, 2015), something the author can articulate to the excellence and solution driven as core guiding principles at NHE.

In principle, the guiding core values of NHE do have substantial meaning, however in reality the opposite is true. For example one cannot overlook the fact that NHE for some reasonable time NHE allowed a board member to act as Chief Executive Officer of the parastatal illegally. (*New Era* July, August 2016). This action by NHE which raised public criticism is an indication that the guiding principles are indeed important in analyzing the governance of the parastatal. Where is integrity in an action like that? Will such an action an act of excellence? Is such an action aimed at providing solutions as stipulated in the mandate?

### **2.3 Why using these guiding Principles.**

NHE violated the same Act that gave birth to it. As this writer mentioned earlier, the objectives of State Owned Enterprises are set by the central government. One of the major strategic objectives of NHE is on the shareholder/customer perspective, where NHE strives to be the trend-setter with respect to innovation, policy development and creating a co-operative and partnership environment in which other players and stakeholders in the housing market can make productive contributions to housing delivery in Namibia. (NHE 2017/18 Strategic Plan)

For a state owned enterprise such as NHE to achieve such a strategic perspective, the starting point would be to the guiding principles. In other words every action aimed at reaching the overall mandate should not overlook the guiding principles. Governance is crucial in this regard. Corporate governance is big term which, among other things, incorporates the rules, relationships, policies, systems and processes whereby authority within organisations is exercised and maintained. In other words the governance characteristics of an institution are mapped by a myriad of factors both internally and externally. As such the principles and practice are good start out points.

## **2.4 Theories of corporate governance**

### **2.4.1 Agency Theory**

The main aim of corporate governance as stressed By Mubwandarikwa, (2013), is to align, as much as possible, the interests of individuals, corporations and society. This in other words means that the sociological study of corporate governance is in some instances comprehended with the relationship not only between principals and agents in a corporation, but also the relationship between all stakeholders and the mediating processes, among these the result in an effective organization.

The need to study corporate governance is understood to have originated from the agency theory. (Mubwandarikwa, 2013). This can be seen as a viewpoint that tries to elucidate the relationship between the principals, thus shareholders and agents, thus executives of an organisation. The agency theory states that the principal delegates or hires an agent to perform work. Within this manner of relationship, one end acts on behalf of the other end. The agency theory, further outlines that a conflict always arise as a result of the fact that the in some instances the interests of the agent and the principal are not associated. A good and clear example of this explanation could be the fact that the Board of Directors at NHE acted as the principal and appointed the Acting Chief Executive Officer. The interest of the Board might have been, for example, to ensure ongoing productivity after the term of the previous Chief Executive officer had come to an end. The interest of the agent might have been for example to make as much money as possible during the time which he is acting.

There are a number of reasons why this theory does not adequately elucidate the manner and nature of cooperate governance. Among others is fact that the link between principals and agents and the assumption that a business is owned dispersly, leaves out the fact that internal stakeholders are often diverse. The fact that these stakeholders are diverse means that they act in such a manner that portrays them as socially constructed interests.

### **2.4.2 The Stakeholder Theory**

According to Clarkson, (1994), as cited by Mubwandarikwa, (2013), the stakeholder theory states that the firm is a system of stakeholders operating within a larger system of the host society that provides the necessary legal and market infrastructure for the firm's activities. According to Mubwandarikwa, (2013), the major challenge with traditional stakeholder model of an organisation is that it is difficult, if not impossible to ensure that organisations fulfil wider objectives. According to Solomon (2007), as cited by Mubwandarikwa, (2013), the stakeholder Theory has developed gradually since 1970. Mubwandarikwa (2013) further states that when the theory was proposed, it was a general theory of the firm, incorporating corporate

accountability to a broad range of stakeholders. Further, Mubwandarikwa (2013) explains that the theory would then elucidate a firm's behaviour by integrating observed social performance with observed economic performance.

### **3. Findings**

#### **3.1 A critical review of the NHE's governance**

Corporate governance is important for businesses. It puts the super-ordinate goal of business success within the context sound shareholder-stakeholder relations and honest business behaviour. The purpose of corporate governance is to match business behaviour and management conduct with the corporate intentions, mission and objectives of the business. This implies that corporate governance should not be seen as an added burden to businesses, but as a catalyst for improved compliance that leads to improved performance. As such, NHE's governance will be examined through exploring The Board under these headings, size, balance, diversity and committees.

#### **3.2 The NHE Board structure and composition**

The correct board structure is imperative to ensure the alignment of the interests of the shareholders and the company. Further, the operations of the business are to be effectively managed, not in the best interest of the executives and managers, but in the interest of the shareholders and company. To this effect, it is good corporate governance to have a board that consists of both executive and non-executive directors that include independent directors. In the case of NHE, the Board is comprised of five independent, non-executive members only. This composition is contrary to the notion that the board should consist of both executive and non-executive directors that include independent directors. (Hendrikse & Hendrikse, 2012.). However it is worth noting that the CEO of NHE, by virtue of being CEO forms part of the Board as an executive director.

#### **3.3 Balance within NHE Board**

Principle number 3 of the principles of good governance states that "the board should include a balance of executive and non-executive directors and in particular independent non-executive directors such that no individual or small group of individuals can dominate the board's decision making process" (Hendrikse & Hendrikse, 2012, p. 100). There is enough evidence to show that the NHE Board is a one sided affair. The Board is made up of, as indicated earlier 5 non-executive members. This imbalance, one would argue that it contributed a great deal to the illegal appointment of the acting Chief Executive Officer.

### 3.4 Committees and Size

The board should be of a size and have committees which commensurate with the sophistication and scale of the organisation. Appropriate board committees should be formed to assist the board in the effective performance of its duties. According to Hendrikse & Hendrikse, (2012.), committees constitute an important element of the governance process and should be established with clearly agreed reporting procedures and written scope of authority. To this end, NHE has two committees, thus the audit committees and the remuneration committees. This number is of course, far less than the standard committees that ensure good governance. Since the NHE board is only made up five non-executive members, it follows that the size is too small.

### 3.5 Diversity

In recent years diversity of board members has stood to be one of the most significant corporate governance issues. According to Kang, Cheng, and Gray (2007, p. 195) board diversity can be defined as the “variety in the composition of the board of directors”. The diversity of the Board of Directors at NHE is evidence enough that different skills are brought to the institution. The features of good corporate governance as stipulated in the King II Report, (2002) are concomitant with the system components of good governance that among others include the board, procedures and reporting, to this effect the skills set provided by the members of the board is quite diverse.

### 3.6 Transparency and Openness

Harvey, (1995) as cited by Mubwandarikwa, (2013), argues that the administration of organisations should always be characterized by openness and transparency. This follows that the society in which an organisation operates in should be able to have full confidence in as far as the decision making process is concerned. Amongst the guiding principles of NHE is integrity, which is translated as honest, truthful, consistent and transparent, (NHE 2017/18 Strategic Plan). With the recent criticism over the appointment of the acting Chief Executive Officer, this principle becomes violated or in other words abused. The Board of directors’ decision to violate the same Act that gave birth to the institution they are heading is a clear indication that there was no transparency neither honesty in this matter. The fact that there was a top management official who had earlier acted on the same position but was not considered, is a clear indication that the board tempered with integrity, hence transparency and honesty, and of course good corporate governance was overlooked. Central to good governance is transparency and openness.

#### 4. Recommendations

As stipulated by OECD, (2014.), the board of directors for any SOE has the decisive responsibility for an SOE's performance. This entails that the board should be fully accountable to the owners and act in the best interest of the shareholders and the company. Additionally, in the bid to fulfill its mandate the board needs to fulfil key roles. Among other key roles, the board needs to be composed so that they can exercise objective and independent judgment. This entails, in the case of NHE that the board should be disparate with high levels of government and appointments should be as per guidelines stipulated in the State-Owned Enterprises Governance Act, 2006, (Act No. 2, 2006). And they should be based on professional merits, (OCED, 2014.).

The major recommendations to NHE are:

- Urge NHE to revisit the entire corporate governance process of the organisation and identify areas that need improving. This areas include but not limited to aligning the governance with guiding principles, and also following and adhering to the Act.
- NHE board should carry out an annual evaluation to appraise their performance, that of the board committees and the CEO. The outcome of the evaluation should be used to inform future board and management appointments
- NHE should aim at attracting more experienced and Independent Non-Executive Directors onto the Board
- NHE should address transparency, and openness issues
- NHE should establish more committees to substantiate decision making process.
- NHE should work on improving the size of the Board.

#### Conclusion

Effective and successful corporate governance is highly possible but will only work if integrity, transparency and openness becomes the order of the day in State-Owned Enterprises. In addition, this writer strongly believes that there is still ample time for NHE to reflect, and re-evaluate its corporate governance, learn from past mistakes and build from them. An article in The Villager Newspaper on 30 June 2017, by Masawi stated that a report compiled by Deloitte's Junius Mungunda State-Owned enterprises are worst in corporate governance in Namibia since the board members are either underqualified or political appointees . (Masawi, 2017.). With so much negative publicity in the media on corporate governance in Namibia recently, this should be a wakeup call for all State-Owned Enterprises to improve and aim better in as far as corporate governance is concerned.

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