Financial Sustainability of South African State-Owned Enterprises: A Case of Limpopo Economic Development Agency

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ABSTRACT

The South African State-Owned Enterprises (SOEs), as institutions partially or fully owned by the state established to contribute to the country’s economic recovery and to ensure enterprise and innovation opportunities, have an obligation to effectively manage their finances. In order for these institutions to meet their social and economic responsibility which, inter alia, encompasses growing the country’s economy and creation of job opportunities for citizens, have to be financially sustainable to compete profitably with other organisations and mitigate business risks that might hinder the expansion of enterprises. It therefore becomes imperative for these institutions to cogently apply commercial principles so as to enhance their financial self-sustainability.

Keywords: financial performance, financial management, financial sustainability, state owned enterprises, economic responsibility.

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I. ABSTRACT
The South African State-Owned Enterprises (SOEs), as institutions partially or fully owned by the state established to contribute to the country’s economic recovery and to ensure enterprise and innovation opportunities, have an obligation to effectively manage their finances. In order for these institutions to meet their social and economic responsibility which, inter alia, encompasses growing the country’s economy and creation of job opportunities for citizens, have to be financially sustainable to compete profitably with other organisations and mitigate business risks that might hinder the expansion of enterprises. It therefore becomes imperative for these institutions to cogently apply commercial principles so as to enhance their financial self-sustainability.

However, the country’s SOEs ad infinitum require financial bailout from government, and the Limpopo Development Agency (hereafter referred to as LEDA) is no exception. It is upon this premise that this article seeks to establish if the LEDA is effectively improving its financial performance in order to meet its statutory obligations. The study utilised a qualitative research approach, and primary data was gathered through face-to-face interviews with eleven LEDA officials comprising the Board of Directors, middle managers, senior and executive management using a semi-structured interview schedule. These respondents were purposively sampled because of their positions as they play a pivotal role in the financial management of LEDA. The results revealed that LEDA has the potential to sustain itself financially if it could strengthen revenue management systems, minimise costs and obtain additional funding to implement feasible financial sustainability projects.

Keywords: financial performance, financial management, financial sustainability, state owned enterprises, economic responsibility.

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II. INTRODUCTION AND BACKGROUND
SOEs form a significant part of vital industries that drive the South African economy by providing key inputs which include electricity, transportation and telecommunications, thus contributing towards achieving the country’s developmental objectives (Republic of South Africa, 2002). SOEs play a central role in government’s infrastructure plans, with investments financed on the strength of their own balance sheets and therefore the finances of SOEs need to be healthy and well managed (Republic of South Africa, 2014). Historically, SOEs in South Africa encounter financial challenges which affect the strength of their balance sheet to attract investors for expansion of business operations. As a result, SOEs relied largely on financial assistance and a massive injection of capital from government to achieve the predetermined objectives. Cash is a scarce resource and the national share of revenue is not sufficient to fund the ever increasing demands on the South African citizens. Therefore, it becomes imperative that
SOEs manage finances in a way that could yield better returns and enhances their financial self-sustainability (Republic of South Africa, 2012).

The study evaluates if financial management of the LEDA is effective in improving the institution’s financial performance in the case of. The Limpopo Economic Development Agency is one of the thirteen (13) Limpopo State-Owned Enterprises listed in terms of the Public Finance Management Act (Act 29 of 1999 as amended). LEDA is a State-Owned Enterprise of the Limpopo Department of Economic Development, Environment and Tourism. LEDA is established in terms of the Limpopo Development Corporation Act No.05 of 1994 as amended that mandates the Agency to perform the economic development function of the Province through the provision of financial support to Small, Medium, and Micro Enterprises (SMMEs) (Republic of South Africa, 2013).

LEDA was established in 2012 after the amalgamation of the former Limpopo Economic Development Enterprise (LimDev), Trade and Investment Limpopo (TIL), Limpopo Business Support Agency (LIBSA) and the Limpopo Agriculture Development Corporation (LADC) (Republic of South Africa, 2014). The amalgamation of the aforementioned State-Owned Enterprises into LEDA was necessary to avoid duplication in the business of developing the economy. LEDA has staff establishment of four hundred and twenty-six (426) employees comprising of twelve (12) senior/executive management, Seventy (70) middle management and three hundred and forty-four (344) lower level staff, i.e. administration clerks, accounting clerks, personnel officers, cleaners, etc. The staff and infrastructure inherited from LimDev, LIBSA, and LADC and TIL were incorporated into LEDA.

Prior to the formation of the Limpopo Economic Development Agency, the amalgamated SOEs obtained negative audit opinions from the Auditor General of South Africa for a period of four (4) years, i.e. 2008/09, 2009/10, 2010/11 and 2011/12 financial years. Audit opinions ranged from a qualified to disclaimer audit opinions and therefore suggesting that the state of the financial affairs required government intervention. During 2012/13 financial year, one (1) year after the amalgamation, LEDA obtained a qualified audit opinion with matters of emphasis which included poor financial management (Republic of South Africa, 2012). The findings of the Auditor General of South Africa for the period 2013/14 financial year has shown that LEDA’s financial performance has improved by obtaining an unqualified audit opinion. However, the unqualified audit opinion was accompanied by matters of emphasis which stipulated among others, lack of proper financial control systems and ineffective implementation of the Public Finance Management Act of 1999 (Republic of South Africa, 2014). From the 2012/13 and 2013/14 financial years Auditor General’s findings, it could be argued that LEDA’s financial performance requires intervention. If LEDA’s financial management systems are not improved, the financial performance could regress, the Agency may not attract investors, and may cease to operate as a “going concern”. Consequently, government will be obliged to provide more funding to ensure the continuous existence of the Agency.

This article therefore begins by outlining the purpose of the establishment of SOEs. The article further discusses factors that contribute to sustainable financial constraints of SOEs, and continues to discuss the method utilised in gathering data. The presentation of the findings and analysis of data are also provided. Finally recommendations and conclusion are presented.

III. PURPOSE FOR THE FORMATION OF STATE-OWNED ENTERPRISES

SOEs are institutions established by government to achieve social responsibility such as the creation of job opportunities and simultaneously accomplish economic responsibility. 

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(MacCarthaigh, 2011). SOEs are expected to generate cash flows in excess of their cash outflows and meet business requirements of financial performance, adapt to changing environment and provide an assurance of public accountability (Aharoni, 1981). SOEs were originally created in Argentina in the 19th century to provide goods and services on behalf of the government applying business principles and played a significant role in improving the Argentine Economy. The notion for the establishment of SOEs was then adopted globally whereas the purpose for the creation varies from country to country (Panzoni, 1982).

SOEs are instituted to enforce monopoly prices and use the proceeds generated as a fiscal income, and to sell goods and services at reduced prices as a technique to distribute subsidies. In addition, SOEs are intended to sustain the economy through construction of new infrastructure and achieving social goals of creating and preserving employment. SOEs are thus dominant in energy, transport and telecommunication sectors whose performance is critical to broad segments of the population and other parts of the business sector. SOEs are required to operate efficiently in order to maximise the Return of Investment (ROI) for the government which becomes acceptable if it reflects a positive growth when compared with the previous financial year (Christiansen, 2013).

In African countries, SOEs play a vigorous role in the economic development and are the focal point for the state’s developmental strategies. As in the case of developing countries, in Africa the supply of basic services such as water, electricity and transportation is dependent on government delivering them through SOEs (Balbuena, 2014). Malawi is one of the poorest African countries and relied largely on donor funding for government spending. Therefore, the government of Malawi has formed SOEs which focuses on commercial objectives to maximise revenue for government budget. Consequently, such commercial SOEs are self-funded from their own sources of revenue to achieve both public and commercial objectives (National Corporate Governance Review Committee, 2011).

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

South Africa is part of the global world and has adopted SOEs as one of the mechanisms to drive the country’s economic development. Prior 1994, South African SOEs were employed as mechanisms to aid the apartheid government survive obstacles and were instrumental to grow the economy. Post 1994, the democratic government inherited a public administration which was portrayed by amongst others lack of public accountability and transparency, poor control systems and dilapidating infrastructure. Consequently, the government transformed the public sector inclusive of SOEs to support the goal of becoming a developmental state which aims to provide sustainable employment; increase economic growth, recuperate infrastructure, develop skills and innovation, and improve service delivery (Republic of South Africa, 2012). Government provides partial or full funding to SOEs, and plays an oversight role over SOEs’ governance and financial performance to ensure the achievement of the agreed mandates.

**IV. IMPORTANCE OF EFFECTIVE FINANCIAL MANAGEMENT BY SOEs**

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

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

The Public Finance Management Act 29 of 1999 perceives internal control procedures as systems that limit corruption, fraud, fruitless and wasteful expenditures on the utilisation of public funds. Van Wyk (2003) supports the view that internal control systems and procedures are critical in enhancing the financial performance of SOEs; however, puts forward that such systems must be effective and complimented by sound financial records and the appointment of professional financial staff.

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

According to Paramasivan and Subramanian (2009); Lakew and Rao (2009), ineffective financial management, planning, reporting, accounting information systems, working capital management, fixed asset management affects the financial performance of SOEs negatively.

Agyei-Mensah (2010) agrees that if financial management practices and decisions of an enterprise are ineffective, the financial performance will be adversely affected and thus causing failure of a business enterprise. Fundamentally, according to Baker & Powell (2005), every decision that an enterprise makes has a financial implication and as a result,
financial management is not the sole responsibility of the chief executive officer or chief financial officer, but also of service management in an enterprise. Therefore, financial managers, financial practitioners and service/ programme managers who apply financial management processes as part of their broader functions, should be equipped with financial management skills and training to ensure an enterprise’s effective financial management thus improving financial performance.

V. FACTORS CONTRIBUTING TO POOR FINANCIAL SUSTAINABILITY OF SOEs

State-Owned Enterprises are faced with various challenges that impact negatively on performance as stated below:

5.1 Poor financial management, reporting and governance

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

5.2 Lack of skills and shortage of competent managers

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

5.3 Below-cost pricing

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

5.4 ‘Soft’ budget constraints

The performance of SOEs is usually neglected because SOEs’ budget constraints are softened and any excess expenditure over earnings are often backed up by government through subsidies, guarantees and other financial bailout (Kornai, 2001:4; Forfás, 2010; MacCarthaigh, 2011; Stan, Peng & Bruton, 2013). The continuation of soft budget constraints impacts negatively on the performance of SOEs and encourages them to engage in activities not directly related to their mandates (Michael, 2007). However, if the budget constraints of SOEs are hard, SOEs will have no
option but to improve the quality of goods and services, cut operating costs and introduce new products and processes which would improve the SOEs financial performance (Kornai, 2001).

5.5 Little emphasis on profitability and efficiency

SOEs are not motivated to maximise profits and to minimize operating costs and this often leads to the inability to operate in the foreseeable future and poses concern of their financial sustainability as well as the pressure to acquire additional funding from government (Mahmoud, 1992; Republic of South Africa, 2012/13). According to Huefner (2011), cost and revenue management are important factors towards financial sustainability of enterprises because cost management influences the profitability and efficiency through cost reduction whereas revenue management enhances the profitability of the organisation through sales growth.

5.6 Below-cost pricing

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

VI. AIM AND OBJECTIVES OF THE STUDY

The aim of the study was to evaluate if financial management of Limpopo Economic Development Agency, a State-Owned Enterprise, was effective in improving its financial performance. The following are the main objectives of the research study:

- To ascertain the role played by LEDA in reinforcing its investment opportunities and revenue collection to ensure its financial sustainability; and
- To identify financial management challenges faced by LEDA in improving its financial performance since its formation and to provide possible solutions in the form of recommendations.

VII. RESEARCH METHODOLOGY

A qualitative research approach was preferred in the collection of primary data through semi-structured interview schedule. Primary data was collected through the use of semi-structured interviews scheduled with eleven officials, namely, one member from the Board of Directors, six managers from the Executive Management and four middle management. Semi-structured interviews were selected because are formal and flexible method of collecting data which the researcher uses to gain an understanding of participant’s perceptions about the research phenomenon. In the utilisation of semi-structured interview, the researcher was guided by the pre-formulated interview questions (De Vos, Strydom, Fouche & Delport, 2012; Bryman, 2012). Interviews were conducted with the participants individually in the comfort of their offices following an appointment.

The sampling consisted thirteen officials, however, the unavailability of two members of the Board of Directors did not hamper the progress and the validity of data collections since the total response rate represented 85% which is 11 officials. For the purpose of this study, the researcher applied purposive sampling method. A purposive sampling is comprehended as the sampling method used to select the participants on the basis of their understanding of the concept under study. A purposive sampling is based on the assumptions that the researcher has knowledge about the population and can indicate the
respondents to be included in the sample. Consequently, the researcher is given the opportunity to decide in selecting on purpose individuals considered to be knowledgeable on the matter being studied. A purposive sampling is applied as a strategy to ensure that those sampled are relevant to provide answers to the research questions (Polit & Hungler, 2001; Bryman, 2012). The researchers therefore, selected participants/respondents in the research based on their responsibility and accountability in achieving the Agency’s financial performance and in ensuring its financial sustainability. Secondary data was collected through the review of management information systems in the form of reports such as, inter alia, annual reports, audited financial statements, government legislations, books and journals that bears the relevant information to the research.

VIII. FINDINGS

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

The greatest single proportion of the respondents had extensive years of experience which suggests that they had sufficient expertise to contribute to the effective financial performance and sustainability of LEDA. From a total number of interviewees, 46% have honours degrees, 27% with master degrees, and only 18% with bachelor degrees. This therefore illustrates that LEDA has an educated workforce that could bring and implement strategies to ensure the continuity and profitability of the Agency, if they aptly apply their knowledge and skills in improving the financial performance of the organisation.

Data collected was analysed through the use of the thematic data analysis method. The thematic data analysis method is defined as a qualitative method that identifies, analyse and report themes within a data (Braun & Clarke, 2006:79). The researcher transcribed the interview responses, read transcripts numerous times to make sense of the interviews and obtain connections between the data collected and the literature reviewed in order to make generalisation of the study. Again, data was organised into categories into different themes (De Vos, Strydom, Fouche & Delport, 2012; Zikmund, 1997; Neuman, 2006). The findings in this paper represent the potential of LEDA in sustaining itself financially as a government business enterprise; and challenges that hinders the financial self-sustainability of LEDA. Through this analysis the following were the findings:

8.1 Financial sustainability of SOEs

Financial sustainability concerns the continuing ability of the organisation to generate enough resources to achieve its vision. SOEs are required to earn sufficient commercial returns to justify their ability to exist in the future and to pay commercial dividends to the shareholder from those returns (Republic of South Africa, 2002; CIVICUS, 2003). The findings revealed that LEDA has the potential to sustain itself financially, however, the Agency needed to consider strengthening its revenue collection processes and investment opportunities; as well as the separation of economic and social responsibilities.

8.2 Strengthening of investment opportunities and revenue collection processes

The majority of the respondents, nine (82%) indicated that LEDA had to reinforce its investment opportunities and revenue collection strategies. The entity should consider disposing
off non-core investments that are running at a loss, to support potential profitable investments. The respondents reiterated that LEDA is a Schedule 3D business enterprise which meant it was expected to be financially self-sustainable, although it is not yet at that stage. The Agency should consider developing and implementing investment policy guidelines which would aid in yielding good returns and thus improving LEDA’s financial sustainability. It is noteworthy that the respondents acknowledged that in the recent past, all the business divisions of LEDA had been mandated to develop turnaround strategies focusing on generating more revenue to improve its financial self-sustainability. The participants stated that if the Agency could get all business divisions to collect all revenue due on a monthly basis, LEDA could be financially self-sustainable. Since LEDA is a government-owned institution, the management of the Agency tended to be very lenient.

Respondent A expressed the fact that since LEDA has a considerable amount of investments, and if such investments are appraised and supported properly, LEDA would be self-funded within a short space of time. LEDA have none-core investments that can be disposed of to support the available investments that have potential to generate returns. Respondent F concurred that, all the business divisions of LEDA have been given mandate to develop turnaround strategies, focusing on generating more revenue.

### 8.3 Economic and social responsibilities of LEDA

Five (46%) of the respondents highlighted that, if government was concerned about financial sustainability of LEDA, it had to consider separating the performance of economic and social responsibilities. They were of the view that social responsibility function should be transferred from LEDA to government departments or non-government business enterprises. Within LEDA, there are former Trade and Investment Limpopo, Limpopo Agricultural Development and Limpopo Business Support Agency that are not for profit making while on the other hand there is Enterprise Development and Finance division which is for profit making. The respondents raised a view that, for LEDA to be financially self-sustainable, all the non-income generating divisions should be transferred to government departments and LEDA focus on the business units that generate revenue. On the contrary, Aharoni (1981) postulates that SOEs are established by government to undertake both social and economic responsibility functions. SOEs are thus expected to generate cash flows in excess of their cash outflows to meet their business requirements and should provide an undertaking for public accountability.

Respondent B cited that LEDA could not be financially self-sustainable because it consist of former institutions such as Limpopo Business Support Agency (LIBSA) and the Limpopo Agriculture Development Corporation (LADC) which were actually providing social responsibility and not for profit making. As a result, such institutions are providing grants and operating at the expense of LEDA and thus require business reengineering. Respondent C also expressed that social responsibility is impacting negatively on financial sustainability of LEDA and this occurred since the amalgamation of entities into LEDA.

### IX. CHALLENGES THAT HINDER FINANCIAL SUSTAINABILITY OF LEDA

The following have been identified as contributory factors that hinder financial sustainability of LEDA:

#### 9.1 Lack of proper funding for expansion of business operations

The greatest single proportion of the respondents, seven (64%) stated that the amalgamation of four Agencies (LIMDEV, LIBSA, ARDC and TIL) into LEDA in 2012 resulted in the Agency being financially insufficient. The merging of three Agencies (LIBSA, ARDC and TIL) which were mainly created to execute social responsibilities, with one Agency (LIMDEV) which was created to perform the economic responsibilities has brought
the financial difficulties in LEDA. According to the respondents, the social responsibility function is not fully funded by government and therefore it depends financially on the profit generated through economic responsibility at the expense of business expansion.

9.2 Performance of both social and economic responsibilities

The respondents were of the view that the performance of economic responsibility is key in enhancing financial sustainability of LEDA, however, it is compromised by the performance of social responsibility functions. They indicated that maintaining equilibrium between being a profit generating company as well as complying with the government financial legislations retracted the financial sustainability of LEDA. The Agency was required to balance the mandate of being a company and a State-Owned Enterprise which is time consuming since it entails complying with the PFMA and Treasury Regulations and that compromises the Agency to operate on commercial principles.

9.3 Lack of appropriate business and financial management skills

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

9.4 Poor collection of revenue

Effective revenue management is a key contributor for financial sustainability of SOEs, however, LEDA had a considerable challenge in collecting its revenue. The majority of the respondents, nine (82%) accentuated that the collection of revenue in LEDA is poor. The revenue collection challenge in LEDA was exacerbated by the inheritance of long outstanding debts of over 20 years as a result of the amalgamation of the business and non-business enterprises and it was difficult to recover the debts. This implied that the revenue collection and loan policies are poor on not implemented to the latter. Furthermore, the respondents emphasised that Government was mainly interested in complying with financial and other legislations to obtain clean audit opinion rather than the profitability of SOEs. They believed that the Agency had to consider maximising revenue collection and minimising operational costs because the future government grant is not guaranteed.

The literature review confirms that SOEs have the most autonomy, operate in a competitive market place where decisions are made in accordance with business principles and therefore are required to generate their own revenue. Furthermore, revenue management has a close relationship with cost management since it enhances the organisation’s financial returns through sales growth while cost management enhances financial returns through cost reduction (Huefner, 2011; Republic of South Africa, 2003).

X. CONCLUSION AND RECOMMENDATIONS

The study reflected that LEDA had insufficient funds to implement financial sustainability projects. Out of the funds allocated to the Agency annually, the social responsibility functions consumed the bulk of the Agency’s funds and thus impacted negatively on its profitability and financial self-sustainability capabilities. Furthermore, the non-core investment and assets...
were operating at a loss while the long outstanding debts were difficult to recover which exacerbated the financial dependency of LEDA in government funding. This implied that LEDA has the potential to be financially self-sustainable.

Money is a scarce resource and the national share of revenue is not sufficient to fund the ever increasing demands on the South African citizens. In order to overcome the problem of scarcity of resources, it becomes imperative for SOEs to strive for efficiency in their operations to ensure sustainable development. Compliance with relevant legislations, prescripts and policies contribute to effective financial management and organisational efficiencies. The study concludes that SOEs remain the developmental arm of government and therefore, LEDA should be afforded the necessary technical and financial support by the shareholder in enhancing its profitability thus contributing to the Agency’s financial self-sustainability. The following recommendations are presented for enhancing financial sustainability of LEDA:

10.1 Exploration of Avenues to Earn Sufficient Financial Returns for the Expansion of LEDA’s Operations

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

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

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

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

The Agency should also ensure that the Board of Directors, executive management, finance staff, internal audit and risk management are equipped with the required competencies to ensure the effectiveness of LEDA’s financial management. Financial management is the responsibility of the entire governance structure and the core management in an organisation. The appointment of executive management and Board members should also consider competency in areas such as financial management and not be based on political orientation.

10.3 Change Management Approach and Clarification of Roles

LEDA’s workforce did not have a common understanding regarding its purpose and as a result, were of the view that the performance of the social and economic responsibilities were contradictory and impacted negatively on the Agency’s financial sustainability. Change
management training should be provided to ensure that all staff have a clear understanding of the purpose for the formation of LEDA in order to contribute effectively to its financial profitability and sustainability. According to Aharoni (1981), government has established SOEs to achieve social and economic responsibilities, to operate on commercial principles and to generate the bulk of revenue to meet its business requirements of financial performance. During the amalgamation of the four Agencies into LEDA, proper change management was not effectuated and thus resulted in roles ambiguity and escalated the financial challenges.

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