Influence of Board Committees on Efficiency of Commercial Public Enterprises Boards in Eswatini

Ntombifuthi Sally Sangweni[1]; Dr. Michael Moyo[2;]
Dr. Gibbet Murambiwa Magaisa[3]

[1]University of Namibia, Eswatini, Namibia.
[2]University of Namibia, Windhoek, Namibia.
[3] Aldersgate University, Philippines.

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Abstract: This paper examined the impact of board committees on the effectiveness of commercial public business boards in Eswatini. This work utilised an interpretivist research philosophy, utilising an inductive approach to uncover fresh insights regarding the impact of board committees in commercial public enterprises. The paper employed exploratory research design utilising qualitative research methods. The study sample consisted of eight board members who were intentionally selected from the boards of commercial public firms in Eswatini to conduct the research. The data acquired from in-person interviews was assessed by content analysis. The study indicated a necessity for specialised committees to improve board effectiveness. It was also noted that adequate training for board committee members could enhance board efficiency and effectiveness. The composition of the board members was identified as a significant factor in the efficacy of the board committees. Ultimately, political influence in the appointment of board members adversely impacts the functioning of board committees and boards inside commercial public businesses. This paper advocates for the selection of qualified board members to provide efficient and effective governance. It is crucial to ensure that board members receive adequate training to effectively fulfil their monitoring responsibilities. Political actions should not interfere with company operational decisions. It is essential to establish governance structures and guarantee that public firms adhere to them.

Keywords: *Board Committees, Board Composition, Board Of Directors, Commercial Public Enterprises, Corporate Governance.*

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I. INTRODUCTION

Commercial public enterprises (CPEs), commonly known as state-owned enterprises (SOEs), are businesses owned by the government and created under enabling statutes and the Companies Act. CPEs, while operating under state authorization, are intended to act with a significant degree of autonomy. CPEs in Eswatini are established to enhance national development by bolstering economic growth, facilitating service delivery, generating jobs, and advancing social welfare [1]. Notwithstanding the strategic significance of CPEs, their governance and operational efficacy remain dubious. This is attributable to persistent issues related to inefficiency, corruption, and mismanagement [2].

Corporate governance (CG) relates to the framework of the particular rules, organizational policies, and processes that are employed in the direction and management of organizations [3]. CG and its importance became prominent following notable corporate scandals [5]. These include the Enron crisis in the United States and the downfall of Parmalat in Italy [4]. These events and others prompted a worldwide reassessment of governing arrangements. The aforementioned crises prompted the establishment of many corporate governance codes and regulatory frameworks, including as the OECD Principles in 1999; amended in 2004 and 2015), the UK's Cadbury Code in 1992, the Sarbanes-Oxley Act 2003 in the United States, and the King Reports I–IV in South Africa [6].

The primary concern in corporate governance discourse pertains to the principal-agent problem, which occurs when the interests of corporate managers, acting as agents, diverge from those of the owners, who are the principles. Current research has recognized this tension as a primary factor contributing to corporate governance failures [7, 6]. In order for a corporation to mitigate these risks, it should adopt strict governance procedures and monitoring mechanisms. These key practices include careful consideration of the board composition, audit integrity, risk management, and disclosure standards [7]. The implementation of efficient corporate governance procedures in public firms is essential, especially in

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emerging nations [8]. Various studies has shown that poor adherence to corporate governance rules results in bribery, inefficiency, financial mismanagement, and erosion of public trust [8, 9, 10]. Hence, effective corporate governance monitoring systems are crucial for mitigating agency difficulties and improving performance in public firms [11].

Initiatives have been undertaken to enhance corporate governance through legal reforms, which are embodied in the Companies Act of 2009, which supplanted the obsolete 1912 Act [12, 13]. For Eswatini, entities such as the Public Enterprises Unit, Parliament, the Ministry of Public Enterprises, and the Ombudsman are perceived as providing oversight [14]. Despite the presents of some governance mechanisms, the majority of CPEs in Eswatini are grappling with persistent governance issues, resulting in widespread corruption, financial mismanagement, and suboptimal performance. This underscores the necessity of prioritizing the appropriate composition of the CPE board and its potential influence on improving board performance [15]. Given that over 60% of CPEs in Eswatini rely on government support yet fail to meet their income objectives, it is imperative to pinpoint areas where CPE boards may guide these institutions towards success. This study examined the impact of board committees on board effectiveness in commercial public businesses in Eswatini.

II. LITERATURE

The function of committees within the board in enhancing board performance has garnered heightened focus in corporate governance literature [16]. This is because of the committees' role in enhancing the transparency of the board, its accountability, and strategic direction [16, 17]. Informed by international best practices such as Ref [18, 19], the committees of the board are recognized as essential they improve governance quality through specialized and focused discourse. The OECD and King IV recommend that boards of directors should form governance committees to oversee essential domains such as audit, remuneration, risk management, and nominations. These committees are established to aid boards in executing their fiduciary duties and monitoring functions more effectively [17].

Board committees are small groups derived from the board of directors, tasked with specific responsibilities to examine, discuss, and provide recommendations on complex or technical issues [20]. Ref [21] asserts that such committees do not supplant the fundamental function of the board but rather augment it by dedicating adequate focus to subjects that may be overly technical or complex for the entire board to handle. The establishment of board committees aims to enhance decision-making by ensuring that topics are meticulously examined prior to reaching the board. This enhances efficiency and fortifies control, facilitating improved oversight of financial, ethical, and strategic matters [22]. Ref [18] underscores that the establishment of board committees is intended to enhance board performance by fostering accountability, ensuring sound governance practices, and refining decision-making via judicious delegation of responsibilities. The report underscores that these committees should mostly consist of non-executive or independent directors, a strategy designed to mitigate potential conflicts of interest and enhance objectivity in their oversight role.

Ref [18] concurs, asserting that committees should have individuals who are not already involved in the organization's daily operations, thus ensuring independent and impartial oversight. Empirical data regarding board committees and academic research revealed the significant role of board committees in governance within the private sector [17, 18, 19]. This has shown that audit, remuneration, and nomination committees enhance openness in financial supervision, executive compensation, and director appointment procedures. Such innovation in corporate transparency helps to notably improve and increase the extent of trust in the governance frameworks that are in place within the organization, hence supporting and augmenting investor trust in such entities [19, 21]. Also, the risk and audit committees have a tremendously important role to play towards improving oversight and risk management procedures, which are a critical and crucial element in the avoidance of financial misreporting and unethical conduct within the corporate framework [23].

The addition of more non-executive directors to committees enhances their efficacy, owing to their independence and broader external perspectives. Non-executive members are more inclined to contest management choices, advocate for diverse perspectives, and strengthen board responsibility. The inclusion of inside or executive directors on critical committees, such as salary and nominating committees, may compromise impartiality and lead to biased choices, especially when such decisions affect senior management [24]. This corresponds with the findings of Ref [25] that identified a propensity for executive-dominated committees to support the Chief Executive Officer (CEO) particularly on salary and evaluation.

Although there is a substantial body of work regarding board committees in private enterprises, their function and influence within State-Owned Enterprises (SOEs) or Commercial Public Enterprises (CPEs) remain inadequately examined. Ref [26] observed that most empirical research focus on publicly traded or international corporations, resulting in a deficiency in comprehension of the public sector, particularly in developing countries such as Eswatini. This disparity is significant, as state-owned firms often face increased risks of inefficiency, political intervention, and corruption, all intensified by the lack of market discipline and the complex interplay of competing stakeholder interests.

The role of board committees can be assessed in light of the agency theory's focus on the primary principal-agent relationship that lies at the heart of corporate governance. Ref [27] contends that the lack of separation of ownership from control in the public enterprise causes self-interest inclinations among the agents (managers or directors) who act towards the principals. Committees of the board are valuable tools for minimizing agency costs, facilitating more

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effective monitoring, and achieving improved alignment of interests between managers and stakeholders [17].

Ref [26] demonstrates that boards that have specialist committees can significantly enhance supervision and strategic direction by making detailed recommendations to the board. The suggestions are expected to be more educated and less biased, provided that the committees include of appropriate individuals, maintain operational transparency, and adhere to high ethical standards. Committee members must possess the requisite skills, knowledge, and experience to fulfil their mandated responsibilities effectively. By facilitating access to expert perspectives, committees promote informed decision-making, hence enhancing organizational performance and sustainability.

The committees of the board should consist of independent or non-executive directors, as indicated by Ref [27]. This arrangement ensures that members remain unaffected by internal operational factors, allowing them to provide unbiased oversight. The size of a committee is a fundamental and determining factor that plays an important role in ascertaining its overall success and effectiveness. Smaller committees are more flexible and have better decision-making efficiency, which allows them to react faster to changing situations and arising challenges. Larger committees have the advantage of being able to accommodate a wider and more diverse spectrum of opinions and perspectives; however, they are prone to coordination issues and might experience less concentration among members as discussions become more complex.

Moreover, besides considering the size and degree of autonomy within the committee, it is noteworthy that Ref [21] emphasized the paramount importance of having relevant and applicable knowledge among the committee members themselves. Through a lack of sufficient financial, legal, or specialist expertise appropriate to the sector, such individuals may be ill-equipped and underprepared to address complicated matters or to formulate the necessary and appropriate questions that would be useful. Due to this lack of knowledge, it therefore becomes of vital significance that periodic training and professional development opportunities be provided for members of committees given that these considerations are essential to assist them in remaining effective and competent in their stated roles.

Despite the value and usefulness of board committees being extensively documented and established to be real in the commercial environment, their application and utilization in the public sector, in the specific case of Eswatini, remain largely untested and worthy of further investigation. Publicly traded companies are prone to a myriad of problems, including governance structures that are not sufficiently robust, an extremely high degree of political interference that tends to slant decision-making, and performance review systems that are not in complete development. As noted in reference numbers [8, 6], the governance breakdowns that are normally experienced by state-owned enterprises habitually arise from board committees that are poorly managed and oversight processes that do not usher in the required degree of rigor.

III. RESEARCH METHODS

This paper adopted a qualitative research methodology, which allowed participants to express themselves comprehensively regarding their perceptions, sentiments, and experiences on the studied topic. The study adopted an interpretivist research philosophy that used an inductive approach coupled with an exploratory research design. This assisted in carrying out an exhaustive and extensive examination of the influences board committees exert on the performance of boards in Eswatini's CPEs. The study sample included eight board members who were particularly selected as they could provide the relevant information that was needed for the study.

IV. DISCUSSION OF FINDINGS

This study revealed significant findings emphasizing the importance of board committees in enhancing corporate governance. A key finding from the study was that board committees markedly improve accountability and supervision. The audit and risk management committees are essential in assisting the board in fulfilling its oversight responsibilities for CPEs. Consequently, it was noted that board committees serve as essential governance instruments for mitigating financial malfeasance and enhancing internal accountability frameworks [17].

A significant finding noted was that the formation of specialized board committees enhances overall decision-making efficiency and quality. It emerged that board decisions concerning intricate financial, legal, and operational matters are more efficiently managed in smaller, specialized groups where experience and time may be optimally utilized. This is consistent with the view of Ref [20] that smaller committees of the board produce quicker and accurately argued decisions. The board's allocation of tasks to smaller committees helps as it leaves the main board focusing on strategic matters without being burdened by technical specifics. This observation unequivocally illustrates that the formation of board committees has resulted in expedited and better-informed decision-making in CPEs, hence improving corporate performance [22].

The composition of the committees was also identified as a crucial factor influencing the success of committees and boards. It was revealed that committees mostly consisting of non-executive and independent directors had superior performance compared to those controlled by insiders or politically nominated individuals. Independent directors, for instance, contribute to the board by bringing objectivity, responsibility, and professionalism to their duties. The challenge observed by this study was the contention of many CPEs with politically motivated selection of board members that often undermine the neutrality and efficacy of their committees. The discrepancies in the structure and autonomy of board committees have resulted in differing

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degrees of committee efficacy among various organizations [23].

The results indicate that board committees positively influence strategy alignment within the CPEs. These committees are essential for ensuring that the leadership framework, workforce planning, and corporate strategy are all congruent with the organization's long-term objectives. The board committees connect the governance framework with the operations of the CPEs by articulating board-level policies and converting them into implementable recommendations. This linkage allows the CPE to sustain its focus on strategic objectives while exerting stringent monitoring over the implementation phase. This study also found that some CPEs members lack adequate formal training in essential domains like as finance, risk management and corporate governance. This reduces the ability of the ability of these members to evaluate complex issues or participate meaningfully in debates. In the absence of adequate expertise and ongoing professional development, even the well-structured committees may fail to provide their intended benefit. It is thus advised that Eswatini's public enterprises implement specialized training and development initiatives for board and committee members to enhance their skills [27].

This research demonstrates the essential role of board committees in enhancing board effectiveness within Eswatini's commercial public companies. The committees are considerably enhancing governance outcomes by fostering accountability, facilitating focused decision-making, promoting strategy alignment, and providing professional monitoring. Notwithstanding the advantages, challenges such as political interference in the selection of board members, along with insufficient training, continue to undermine the efficacy of board committees, thereby disrupting the operations of the main board. Addressing these concerns would unlock the full potential of board committees, thereby enhancing the governance and performance of CPEs nationwide.

This study finds that board committees significantly enhance the strength of boards in commercial public businesses in Eswatini. Audit, risk, and remuneration committees enhance accountability, transparency, and decision-making quality by addressing both technical and sensitive governance issues. Their efficacy is augmented by the incorporation of independent, non-executive members, enhancing both objectivity and credibility. Moreover, these board committees facilitate strategic alignment between management and the board. Nonetheless, there are drawbacks, including about politically motivated appointments and insufficient training for committee members. The identified drawbacks need to be addressed by the adopting good governance practices like the instituting of effective board committees in Eswatini's public company sector.

This study offers practical, policy, and theoretical implications for the governance of CPEs in Eswatini. The report recommends that CPEs in Eswatini form well-structured board committees capable of operating efficiently. The study's findings demonstrate that board committees, such as audit, risk management, and pay committees, are essential for improving the board's oversight functions and decision-making processes. The CPEs should therefore consider the skills composition of committee members. This also requires continuous training of board members to attain optimal potential and enhance overall performance. Furthermore, boards must to establish operational committees that possess explicit mandates and accountability frameworks, rather than serving only a symbolic purpose.

The study also recommended the implementation of stringent regulatory structure, underpinned by thorough law. This is to eradicate the insufficient enforcement duties and responsibilities of board committees in public corporations. Legislators must amend current laws or enact new statutes to require the formation of essential committees, specify their areas of responsibility, and set minimum competency standards for its members.

The study also recommend improving institutional structures as well as adherence to legislation, which would address governance deficiencies. By this, inefficiency, corruption and poor performance in CPEs would be guarded against. The study theoretically validated agency theory by illustrating how board committees function as instruments to alleviate agency problems and improve accountability between management and stakeholders. The study underscored the need of tailoring governance theories to the distinct circumstances of various locales, especially in emerging nations where state-owned firms encounter distinctive structural and political obstacles.

V. CONCLUSION

This study concluded that board committees play an important role in enhancing governance effectiveness within Eswatini’s CPEs. The study provided some of the key benefits of functional board committees, which include improved accountability, faster and higher-quality decision-making as well as better alignment between strategy and operations. It came out that audit, risk, and remuneration committees are key committees in enhancing oversight of CPEs. The research also indicated that independent, non-executive members play a fundamental role in CPEs in that they contribute greatly to objectivity and credibility. The study also revealed some difficulties experienced by CPEs in their governance processes. Such as political appointments and inadequate training that inhibit committee effectiveness. To address these, skill-based member selection, mandatory training, and a robust legal framework forcing committee formation and duties are recommended by the study. Agency theory is upheld by the study, with the focus being the imperatives of matching governance practice to local settings as a means of combating inefficiency and promoting accountability in state-owned enterprises.

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