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Corporate Governance and Firm Performance: A Study of Selected South African Energy Companies

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Abstract- Orientation
Energy plays a pivotal role towards the success of the South African economy since both corporates and households depend on energy for their livelihood. Therefore, it is essential that we have a detailed understanding of how energy can be improved. The relationship between company performance and corporate governance has gained popularity in many accounting, finance, and management discussions. The question is, does corporate governance influence the performance of energy companies in South Africa?
Research Purpose
This study serves to determine if there is a correlation between corporate governance and company performance in South African energy companies. This study navigated on the general portrayal of the empirics and literature analysis on the corporate governance decisions and company performance.
Motivation of Study
The energy sector is essential for the success of the South African economy, therefore, the gap of corporate governance improving firm performance till Covid-19 has motivated this study.
Research Approach
The research follows a quantitative research approach. The research methodology with a comprehensive discussion of the data collection techniques, tools and techniques used in the study, having analysed 20 energy companies' performance from a population of 205 using annual reports.
Main Findings
The research established that there is a positive correlation (0.89) between corporate governance and firm performance. The research findings are based on the relationships between corporate governance and company performance using the financial perspective of selected South African energy entities.
Practical Implications and Value added
From the findings, the selected energy companies in South Africa are encouraged to implement sound corporate governance to improve their performance.

Indexed Terms- Energy sector, Corporate Governance Decisions, Energy Management, integrated reporting, Johannesburg Stock Exchange-listed companies, Institute of Directors South Africa, King IV Report, sustainability reporting, Company Performance

I. INTRODUCTION

The trajectory of socio-economic development in South Africa is significantly influenced by energy companies (ECs) (Edoun, 2015:353). Central to energy enterprises' course of action is powerful, accountability and transparency (Kane-Berman, 2016). Therefore, establishing the fundamentals of democracy and good governance in all South African entities should arguably be top priority. To help South Africa accomplish economic growth, poverty reduction, service delivery, job creation and the development of the nation's important sectors like finance, transport, energy, manufacturing, telecommunications, and natural resources, sound corporate governance activities are essential tools (Moyo, 2010:7). However, most of these significant energy companies in South Africa are plagued by subpar leadership, deficient financial reporting, corruption, bad management, hostility, impunity, persistent underperformance, hatred, debt loads and insufficient performance monitoring and accountability procedures (Zinkin, 2020:11). Failures in corporate governance, such as excessive politicking, poor executive accountability, and vague objectives, are responsible for some of these disasters. As a result, South African energy companies, no longer significantly contribute to development or effectively and efficiently carry out their public service roles, undercutting government intends to

achieve growth and development goals (Links & Haimbodi, 2011:9). The study therefore makes the case that the main reason why most energy companies fail to carry out the purpose for which they were established is a lack of effective good corporate governance. This study examines the corporate governance muddles of energy companies that hamper enterprise efforts at socio-economic growth. The African Energy's SA Power report, (2020/2021:5) finds that South African companies' transformation in the energy sector at large is crucial since these companies are riddled with governance issues, which are the archenemies of effective corporate governance.

1.1 Structure of this paper

The remainder of this section explores key corporate governance concepts and the rationale behind the exploration of links or the relationship between corporate governance and energy companies' performance in South Africa. Section 2.2 of the paper provides a detailed literature review of the extent to which conventional corporate governance principles lead to good performance of companies in general. Section 2.3 zooms into what defines company performance from a financial point of view. In the same section, the paper tries to identify company performance comparison between private and public energy entities since some financial matrices of measure may differ among these entities. The paper turns then in Section 2.4 to measures of good governance (both conventional and emerging), and measures of company performance focusing on financial performance only. Section 2.4 also proceeds to quantify the relationship between the defined good corporate governance and energy companies' performance, using results from DICTION software, (Links & Haimbodi, 2011:9).

II. LITERATURE REVIEW

The literature has found a connection between corporate governance and business performance. There are several variables that have been identified in the literature as having an impact on corporate performance, including company size, board size, board diversity, education, board ownership and leverage. These studies mostly looked at the banking sector, while some also examined other businesses. The biggest gap in the past research was the exclusion of other industries, such as the energy sector, which is one of the major economic drivers. The problem is that banks and financial institutions attracted a lot of attention. One such flaw is that studies in the field focussed only on the stock market, leaving out other listed firms that are in the energy industry and other economic sectors. It appears that most studies have a bias in favour of financial institutions and ignore businesses like manufacturing and petroleum that provide support for the financial sector. Corporate governance and financial performance in the petroleum business have not received significant attention in previous research. They have been linked in numerous studies to larger governmental reforms and environmental concerns. More precisely, it is crucial to carefully assess how board characteristics and performance relate to one another in this important industry. This is the issue that this study is aiming to address; studying the relationship between corporate governance and corporate performance, using energy companies in South Africa as case study, particularly state-owned energy companies. This study adopted a doctrinal approach. Data were gathered from books, journals, online articles and other resources in this field.

The trajectory of socio-economic development in South Africa is significantly influenced by energy companies, particularly government-owned energy companies (Edoun, 2015:353). Central to government-owned enterprises' course of action is a powerful, accountable and transparent government (Kane-Berman, 2016:27). Therefore, establishing the fundamentals of democracy and good governance in all government institutions was the post-apartheid government's top priority. To help the government accomplish economic growth, poverty reduction, service delivery, job creation and the development of the nation's important sectors like finance, transport, energy, manufacturing, telecommunications, and natural resources, sound corporate governance activities are essential tools (Moyo, 2010:7). However, most of these significant energy companies in South Africa are plagued by subpar leadership, deficient financial reporting, corruption, bad management, hostility, impunity, persistent underperformance, hatred, debt loads and insufficient performance monitoring and accountability procedures (Zinkin, 2020:11). Failures in corporate governance, such as

excessive politicking, poor executive accountability and imprecise objectives, are responsible for some of these disasters. As a result, government-owned companies, no longer significantly contribute to development or effectively and efficiently carry out their public service roles, undercutting government intends to achieve growth and development goals (Links & Haimbodi, 2011:6). The study therefore makes the case that the main reason why most energy companies fail to carry out the purpose for which they were established is a lack of effective good corporate governance. This study also examined the corporate governance muddles of state-owned energy companies that hamper governmental efforts at socio-economic growth. The report finds that governance transformation in the state-owned enterprises sector at large is crucial since these companies are riddled with governance issues, which are the archenemies of effective corporate governance.

2.1 Corporate Governance

The phrase "corporate governance" refers to the procedures and guidelines intended to regulate and guide management actions carried out within a company (Edoun, 2015:7). Corporate governance has grown to be a serious concern ever since globalisation took over the commercial world. According to Pillay (2011:3), corporate governance is one of the key factors that both domestic and foreign investors consider before investing in emerging economies abroad. Prior research has focussed on the reason for corporate governance and governance-related concerns that emerged during the 2008 financial crisis (Moyo, 2010:9). The collapse of the financial markets and its consequences highlighted the usefulness of corporate governance as a tool to improve the performance and efficiency of corporate organisations. Many empirical studies on the impact of corporate governance on a firm's success have been conducted by academics like Kane-Berman (2016:3).
A frequent belief from earlier studies is that effective corporate governance can promote efficient resource usage both inside the corporation and the economy (Moyo, 2010:9). Additionally, it may boost domestic and foreign confidence, which could lower the cost of capital investment. Additionally, it secures the management's and the board's obligations (Moyo, 2010:9). Additionally, the board members will uphold the law and render just decisions in the interest of the company. Although it may not totally or immediately stop corruption, good corporate governance makes it more difficult for it to occur. Strong corporate management can be developed with the aid of good corporate governance, which can also improve outcomes for shareholders and society at large. The most important elements of corporate governance, according to scholars like Hutchinson and Carl (2003:7) are the board of directors' structure and mandate, their compensation, the service roles of financial reporting, institutional directors, director ownership, member accountability, freedom availability to an enterprise, institutionalisation of audit functions and shareholders. Different corporate governance models have been developed and are used in nations including Germany, the United States, and the United Kingdom. The creation of the World Governance Index (WGI) demonstrated the World Bank's interest in corporate governance-related issues. Regulations, corruption, and rule of law are the three key factors that the WGI used to evaluate the business performance of various nations.

Energy companies are key to the growth of South Africa's GDP, however, they seem not to be performing well. The performance problems appear to stem from a poor relationship between corporate governance and company performance in energy companies of South Africa. Furthermore, little research attest to address the relationships between corporate governance and company performance. This is the gap which this research study aimed to fill.

2.2 Financial Performance

Performance, according to Kane-Berman (2016:14), is the company's assessment of how resources are used in a way that helps it to achieve its goals. Financial performance, according to Henry's (2018:7) definition, relates to the use of financial indicators to determine the objective level of success, firm investment support opportunities and financial resource contributions. Financial performance refers to how well an organisation may be performing, however, organisational performance is defined by other scholars as the accomplishments and results within a certain company (Edoun, 2015:353).

In most cases, four firm performance metrics, divided into accounting- and market-based measures, can be

used to confirm the relationship between corporate governance and firm performance. The Tobin's Q, net profit margin on sales, return on equity and return on assets are the four. Prof. James Tobin of Yale University, the inventor of Tobin's Q ratio, argued that the market value of all the companies listed on the stock market should be equivalent to their replacement costs (Kane-Berman, 2016:8). In a nutshell, this is the market ratio of the equity and debt values divided by the total asset replacement cost. Businesses that follow the Tobin's Q principles are more successful and are thought to be using resources fairly, whereas those with a Tobin's Q below the unity are thought to be misusing resources (Weir, 2002:6).

2.3 Financial Performance and Corporate Governance Relationship

Any corporate entity's governance structure has an impact on how well it can react to external circumstances that have an impact on how well it performs (Edoun, 2015:357). In African nations like Ghana and South Africa, the idea is slowly rising to the top of the political agenda. In fact, it is thought that the Asian crisis and the seeming underperformance of the corporate sector in Africa are to blame for turning the phrase "corporate governance" into a buzzword in the development discussion (Jebran & Chen, 2021:11). The relationship between corporate governance and firm performance has been established through empirical investigations. Jackling and Johl (2019:8) found that companies with effective governance do better overall.

2.4 Corporate Governance Influence on Corporate Performance

This section included a summary of the various corporate governance theories and how they affect the financial performance of petroleum companies. As a theoretical and analytical framework, this study combined four theories: agency theory, stewardship theory, resource dependence theory, and transaction cost economics theory.

III. THEORETICAL FRAMEWORK

3.1 Theory of Agency

Separation of ownership and control has been highlighted to imply that qualified management run a company on behalf of the owners (Bonetti, Magnan & Parbonetti, 2018:1060). Conflicts typically start when a company's owners believe its professional management are not operating in their best interests. According to Weir (2002), the agency theory aims to identify and address problems that arise when top management and its principals work together. The thesis is predicated on the idea that organisations' goal should be to increase the shareholders' or owners' wealth (Hart et.al., 1997:23). According to the agency hypothesis, the majority of firms function in an environment of partial knowledge and ambiguity.

Adverse selection and moral hazard are two agency problems that these circumstances typically expose businesses to. When a principal is unable to verify whether an agent accurately represents his or her capacity to perform the work for which he or she is compensated, adverse selection occurs. On the other side, moral hazard is a circumstance in which a principle is unsure whether an agent has made every effort (Bonetti, Magnan & Parbonetti A. (2018:1060). According to the agency theory, professional managers have access to superior information that gives them an advantage over the owners of various enterprises. According to this argument, a company's senior executives can be more interested in their own welfare than the welfare of the company's shareholders.

According to the agency theory, a majority of independent directors on the board of directors' results in lower agency costs because it is simpler to monitor managers' behaviour (Fama and Jensen, 1983:6). According to Weir *et al.* (2002:11), companies with a high share of independent directors outperform their competitors. However, other research contends that there is no connection between firm success and the proportion of independent directors (Bhagat and Black, 2002:7). It is expected that there is no connection between the percentage of independent directors on the board and firm performance, in accordance with the agency theory and the results of the majority of earlier studies.

Concerning managerial ownership, there are two points of view. The agency theory contends that current managerial ownership is dangerous and detrimental to businesses (Zinkin, 2020:12). In contrast, if managers are also company shareholders,

they are more likely to behave in the best interests of the business. According to Ojo (2019:5), managerial ownership and performance are positively correlated. So, a positive correlation between management ownership and firm success is what we believe to be true.

In conclusion, Kanyane and Sausi (2015:6) are credited with the conception of agency theory, but it has not been applied to boards of directors until the 1980s. This research study holds that people are typically self-interested rather than altruistic and that they cannot be relied upon to behave in others' best interests. Contrarily, people typically aim to increase their own usefulness. The agency theory paints a clear picture of the contractual connection between shareholders and directors (Maurez, 2015:9). This emphasises the idea that directors' actions, taken in their capacity as shareholders' agents, should be scrutinised to ensure that they are in the best interests of the shareholders.

3.2 Stewardship Theory

Stewardship theory, also known as the stakeholders' theory, employs a different approach from the agency theory. It starts off with the idea that businesses have more important societal goals than simply increasing shareholder money. According to the stakeholders' theory, businesses are social entities that have an effect on a wide range of stakeholders' welfare. Stakeholders are people or organisations that interact with organisations and have an impact on or are affected by the accomplishment of the firm's primary goals. Stakeholders have moral and legal rights and can play a significant role in a company's success (Edoun, 2015:8).

When stakeholders receive what they need from a company, they come back for more. In conclusion, the stewardship hypothesis contends that a company's board of directors and chief executive officer, working in the capacity of stewards, are more inclined to behave in the company's best interests than for their own personal gain. This is because senior executives eventually start to see a company as an extension of themselves (Clarke, 2004:6). The stewardship idea contends that top management at a company is more concerned with the long-term viability of the company than the shareholders are (Henry, 2018:9).

However, it is also true that the agency theory's underlying premises may not always hold true and that it effectively ignores the intricacies involved in managing businesses, which is why the stewardship theory is necessary. The stewardship theory approaches governance primarily from the legal standpoint of the organisation, in contrast to the agency theory. Simply put, when a company is incorporated, it separates from its shareholders and becomes an independent legal entity. Directors are chosen by the shareholders to lead the business and look out for their interests. An independent auditor's report confirming the company's financial stability is typically included with the directors' report to shareholders on the outcomes of their management (Henry, 2018:9). Stewardship also stems from the numerous obligations that directors have to the business and, consequently, the shareholders. These obligations include fiduciary responsibilities and the obligation to exercise care, skill and diligence, which are now codified in the Companies Act 71 Section 77. As a result, there is a tacit implied expectation that the directors will run the company in the best interests of the shareholders and not act in their own self-interest, where such interests contravene those of the shareholders.

The trust owed by directors has been undermined by corporate scandals including dangerous trading, outrageous board compensation, nondisclosure, and general manipulation of business finances to depict non-existent profits, leading to harsh criticism of the stewardship notion in recent years.

This emphasises how important it is for corporate governance principles to direct the work of boards. Shareholder ministers must exercise extreme caution in the SOC context to make sure that boards behave in the best interests of the company and are true stewards of the state's interests.

3.3 Resource Dependency Theory

The open system theory is where this theory has its roots. It recommends that businesses show varied degrees of reliance on the outside world, particularly when it comes to the resources they require to function. Organisations must therefore deal with uncertainty while acquiring resources (Weir, 2002:8). According to this hypothesis, an organisation that

depends on outside resources will have less administrative discretion and will have its main aims interfered with less frequently. As a result, this hesitation in carrying out managerial responsibilities has the potential to threaten the organisation's very existence.

When faced with such expensive situations, management acts proactively to use external dependency to the organisation's benefit. The degree to which an organisation maximises its power can be used to define its success (Bhagat and Black, 2002:7). Within the context of the premise, an organisation may try to control rising levels of external dependency by avoiding or accommodating external demands or by putting in place the necessary measures.

The foundation of this argument is the presumption that careful management of dependencies and uncertainty leads to greater financial performance most of the time. As a result, choosing effective methods to have a favourable impact and subsequently manipulate the environment to one's advantage becomes a crucial consideration when choosing effective techniques. To the joint benefit of the client and the organisation, this is crucial to determine whether the company gives or withholds its essential resources (Jackling and Johl, 2019:8).

A board of directors is a crucial governance instrument that positively impacts corporate performance, according to the resource dependency hypothesis. In terms of decision-making, larger boards are more effective, have more knowledge and expertise, and are more diversified (Kane-Berman, 2016:13). A similar statistically significant and favourable association between board size and the Q ratio is reported by Henry (2018:4). Jebran and Chen (2021), however, draw the conclusion that large boards are perceived as being less effective and may also be expensive for businesses. The resource dependency theory and most earlier studies' findings support the hypothesis that there is a link between board size and business success.

3.4 Theory of Transaction Cost Economics

The company can be seen as a governance structure with governance issues that may be attributed to different contractual risks. These may include informational asymmetries, self-interested opportunism, asset specificity, small-number bargaining and issues with restricted rationality (Weir, 2002:6). The work of Klein (1998:9), has been heavily cited in transaction cost economic theory, which argues that firms can save expenses if they can concentrate on their core business instead of focussing fully on non-core business operations. Consequently, corporate governance should assist a company in identifying internal methods and actions that can reduce the transaction costs related to these contractual hazards.

The core premise of transaction cost economic theory is that enterprises have grown to such a size that they have replaced the market in deciding how to allocate resources, with the number of transactions executed serving as the unit of analysis. According to the notion of transaction costs, corporations support internal production and markets as intermediate economic governance structures between two extreme governance systems because of the significant costs associated with properly executing transactions (Kanyane & Sausi, 2015:7).

3.5 Empirical Analysis

Causation is confirmed by most studies on the relationship between corporate governance and firm performance (Kiel and Nicholson, 2003). However, while some research suggests a robust association, others (Maurez, 2015:11) suggest a very weak relationship. For instance, Bhagat and Black (2002:8) discovered a significant association between corporate governance and firm performance as measured by stock valuation. Using a straightforward ordinary least squares model, Henry (2018:7) investigated the impact of ownership and corporate governance on the performance of Korean banks between 1998 and 2002. They found that having just one foreign director on the board significantly improves firm performance but having multiple foreign directors does not.

The empirical data also supports the idea that major shareholders actively watch companies and that direct shareholder monitoring increases a company's overall profitability. Studies on managerial turnover support this conclusion (Kane-Berman, 2016:10). For instance, when substantial owners are present, Hart et.al., (1997:27) observe a higher turnover of directors, further demonstrating that large shareholders are

active monitors. Therefore, the advantages of direct oversight and a better fit between cash flow and control rights exceed the drawbacks of limited diversification prospects or rent seeking by majority owners.

McGregor (2014:12) conducted a study on the financial performance and corporate governance of Nigerian banks. The association between corporate governance and financial success of the 21 firms listed on the Nigerian Stock Exchange was established by this study using secondary data. To examine the relationship between corporate governance and the financial success of the analysed organisations, a panel data regression analysis approach was used. The level of relationship between the variables under consolidation was measured using the Pearson correlation. According to the analysis, outside directors do have a significant but unfavourable impact on firm performance as measured in terms of ROE (Regression results showed a negative association between the variables); the more equity that directors own in their companies, the better their financial performance (a strong significant relationship between the variables); and the number of outside directors does have a significant but unfavourable impact on firm performance as measured in terms of ROE (regression result showed a negative association between the variables).

Links and Haimbodi (2011:4) discovered after examining corporate governance and financial performance of businesses in Nigeria during the post-consolidation era that dispersed share ownership does influence the profitability and dividend of enterprises. They also discovered that the size of the board has no bearing on a company's success. Bhagat and Black (2002:7) looked at corporate governance in Ethiopia and its effect on firm performance. The study of the data was quantitative and included multivariate regression, descriptive and inferential statistical analysis and hypothesis testing. The averages and standard deviations of the variables in the regression were examined using the descriptive statistics.

They carried out a traditional linear regression analysis and discovered that firm performance is significantly correlated with explanatory variables like the capital adequacy ratio, board size and the presence of an audit committee, while the square of the capital adequacy ratio and firm size are significantly correlated negatively with performance as measured by Retun On Equity (ROE). This implies that performance declines as the number of variables rises, and vice versa. The study consequently advised the government of National Bank of Ethiopia to be worried about the degree of both internal and external corporate governance processes of enterprises to strengthen the commercial firms in Ethiopia.

Moyo (2010:7) investigated whether the corporate governance policies implemented by financial organisations listed on the NSE had an impact on their performance. As independent variables, the following were chosen board independence, shareholding compensation, board governance disclosure and shareholders rights. The corporate governance index, on the other hand, was created in accordance with rankings published by the Globe and Mail utilising information from financial institutions and performance metrics taken from yearly financial reports. According to the study's conclusions, there is a link between the performance of financial institutions listed on the NSE and the composition of their boards, Moyo (2010:7). According to the study's overall findings, financial companies listed on the NSE should strive to achieve the greatest degree of corporate governance.

A corporate governance index created from Global and Mail rankings was used as a dependent variable by Moyo (2010:7) in a study of corporate governance and company performance of financial institutions listed on the NSE. However, the implementation of this corporate governance index placed very high standards on these financial institutions because to the NSE's inferior form efficiency and the fact that there are fewer listed companies there than on other established stock markets (Kane-Berman, 2016). This rationale may have made it difficult for Moyo (2010:7) to justify whether the corporate governance practices used by these financial institutions had an impact on their performance.

Financial institutions, particularly commercial banks, savings, and credit co-ops (SACCOS), and microfinance institutions and insurance businesses, have been the focus of most studies on corporate

governance. Studies that focus on corporate governance in other areas are quite rare. It is clear from the research that there is room for more investigation into the local corporate governance procedures of other sectors.

3.6 Importance of Corporate Governance

Recent years have seen the interdisciplinary usage of the notion of governance, which has quickly gained importance in the field of development studies (Edoun, 2015:353). Since then, the idea has sparked a lot of discussions on what government is and includes. As a result, there are many distinct meanings, indicating that depending on the context in which the idea is being employed, governance can mean various things to different individuals. Governance is the process through which the government manages the affairs, goods, and services of the state (Kane-Berman, 2016:15). According to Kanyane and Sausi (2015:29), governance refers to the constitutional, legal and administrative frameworks that governments use to execute their authority as well as the associated procedures for citizen involvement, public accountability, and the rule of law. Additionally, according to IFAC and CIPFA (2014:8), governance refers to the measures put in place to guarantee that the targeted results for stakeholders are identified and realised.

According to Edoun (2015:353), governance is a paradigm that represents more than just government. It is a system of institutions, values and rules that help a society manage its social, political and economic affairs through interaction between the government, the private sector and civil society. According to White *et al.* (2000:10), governance also includes the institutional and structural structures of the state, the capacity for decision-making and implementation, and the interaction between public officials and the public. According to Kanyane and Sausi (2015:29), government is nothing more than a hollow shell without good governance. In this regard, governance entails the development of state institutions and governmental structures to enable the former to successfully provide services in accordance with the people's mandate (Edoun, 2015:353).

On the other hand, corporate governance refers to a collection of systems, concepts and procedures that a firm is controlled by (Nevondwe *et al.*, 2014:664). How a firm is run and governed is known as corporate governance. To ensure that employees in an organisation are held accountable and that organisations are effectively managed and governed, corporate governance is crucial (Moyo, 2010:1). Building a balance between individual and communal goals, as well as between economic and social goals, is referred to as corporate governance. The goal is to align the interests of people, organisations, and society as closely as possible (IoDSA, 2002:7). Corporate governance, according to Nevondwe *et al.* (2014:664), is based on values like operating the company with honesty and fairness, being open and honest about all transactions, making all necessary disclosures and decisions, aligned to all local and international laws, being accountable and responsible to stakeholders and a commitment to conducting business ethically. This implies that networks and ties among people, businesses and society serve as the foundation for corporate governance. According to Kanyane and Sausi (2015:29), successful governance entails guiding society through networks and connections between governmental organisations and civil society groups.

According to Edoun (2015:356), successful governance should be characterised by openness in decision-making, informed by a knowledgeable professional bureaucracy, a responsible executive, and a robust civil society engagement, all of which operate within the bounds of the rule of law. Ensuring that organisations always operate in the public interest is a key part of good governance. This calls for a steadfast dedication to moral principles, the rule of law and principles of transparency and extensive stakeholder participation (IFAC, 2013). Therefore, accountability, openness and transparency, as well as independence, responsibility, discipline, fairness, and social duty, as well as interaction between the government and the governed, are all manifestations of good governance (IoDSA, 2002; Edoun, 2015:353). To achieve good governance, according to IFAC (2013:20), an entity must first define its goals in terms of sustainable economic, social and environmental benefits and determine the interventions that will best achieve those goals. Next, it must build its capacity, including the leadership and individual members of the entity. Finally, it must manage risks and performance through

strong internal control and public financial management. Grasp why corporate governance is so crucial in the SOE sector requires an understanding of the governance elements mentioned above.

According to The World Bank (2014:16), effective corporate governance has several advantages:

- Better access to external financing for businesses can result in larger investments, better growth, and more jobs being created.
- Reduced capital costs and increased firm valuation increase investor interest in investments, which in turn spurs economic growth and job creation.
- Through better resource allocation and more effective management, strategic decision-making and operational performance are enhanced, which generates wealth more broadly.
- Reduction in the likelihood of business crises and scandals, a crucial result given the potential severity of the economic and societal costs of financial crises.
- Better interactions with stakeholders can assist to solve issues like environmental protection, enhance social and labour relations and further reduce poverty and inequality.

Furthermore, most of the advantages, if not all of them, apply to state-owned energy companies. While there are not many empirical studies that specifically examine how corporate governance affects SOE performance, anecdotal evidence suggests that better governance is advantageous to both individual businesses and the economy.

Improved governance also makes the contingent liabilities connected to SOEs more transparent, which lowers fiscal risk. In SOEs, corruption is still a major issue that can have a negative impact on the financial health and company valuations, harmful investor perceptions, cause inefficient use of limited public resources, and limit overall economic and financial growth. Better-governed organisations with integrity and accountability processes are likely to be less corrupt and more transparent with good corporate governance.

A fair and transparent business climate where corporations may be held accountable for their activities is created through good corporate governance, which ensures sufficient accountability and transparency in the conduct of a business or institution (Zinkin, 2020:25). In other words, a firm that is well-governed is one that is accountable and transparent to its shareholders and other stakeholders.

3.7 Corporate Governance

Energy companies are key to the growth of South Africa's GDP, however, they seem not to be performing well. The performance problems appear to stem from a poor relationship between corporate governance and company performance in energy companies of South Africa. Furthermore, little research attest to address the relationships between corporate governance and company performance. This is the gap which this research study aimed to fill.

IV. MAIN OBJECTIVE

The main objective of the study was to analyse the relationship between corporate governance and company performance of energy companies in South Africa through analysis of financial ratios from annual reports.

4.1 Theoretical objectives

The specific theoretical objectives were as follows:

- Establishing any form of relationship suggested by prior literature between corporate governance and profitability measures in South African energy companies.
- Establishing the relationship between corporate governance and stock market measures in South African energy companies from prior studies.
- To establish if prior studies suggest a relationship between corporate governance and liquidity and solvency performance in South African energy entities.

From an analysis of annual reports between 2016 and 2020, the research determined the performance (y) of the 20 sample entities and assess the entities' corporate governance decisions (x), thereby concluding the nature of the relationship that exist between the two variables (r) using the correlation analysis.

4.2 Empirical Objectives

- To evaluate the effect of corporate governance decisions on profitability ratios.
- To evaluate the effects of corporate governance decisions on liquidity and solvency ratios.
- To evaluate the effect of corporate governance decisions on investor ratios

V. RESEARCH METHODOLOGY

Creswell *et al.* (2011:7) reveal that methodology is a philosophical framework that embraces assumptions about research which includes research design and data collection. Therefore, the research methodology for this study was viewed as a systematic and logical way of collecting data and analysing (McMillan & Schumacher, 2010:74) for the purposes of uncovering relationships of corporate governance and entity performance.

This study was primarily grounded on a quantitative research approach that utilised financial analysis performance data (profitability, non-profit driven and stock market investor ratios) from registered energy companies in South Africa. The approach facilitated in-depth analysis of individual entity performance, and a careful review of the relationship of corporate governance decisions and entity performance.

All the data presented were empirical and evidence-based, drawn directly from annual reports extracted from entities' websites from 2016 to 2020. The period was chosen as it is recent hence producing an up-to-date investigation as well as taking into consideration the effects of the pandemic.

Pascual (2019:12) explains financial analysis as the process of extracting information from financial data, detecting and interpreting patterns and trends to get pertinent insights from the data.

5.1 Research Paradigm

Creswell *et al.* (2011:6) argue that a paradigm is a philosophical approach that could be in post-positivism, pragmatism, constructivism or behaviourism. This study took a pragmatic stance as supported by John Dewey (1859-1952). The pragmatic theory advocates practical approaches to living a life of meaning (Malafronte & Pereira, 2021:245). McMillan and Schumacher (2010:16) and Creswell *et al.* (2011:11) contend that pragmatism draws from practical measurements, construction of knowledge and verification of the theory. Considering this, pragmatism was considered appropriate for this study since it explored and determined appropriate financial performance through accomplishments in their practical claims. Therefore, the study's paradigm was pragmatism because of its practical objective of extracting evidence on financial performance used in annual reports as sampled from the South African energy companies.

The study collected empirical data to analyse and test against the theory to formulate an argument based on the financial performance of the companies. Therefore, based on the foregoing, the researcher took a pragmatic ontology with a view to interpret (epistemology) relationships of corporate governance and company performance.

5.2 Research Design

Research design can be defined as a plan of action that is based on the philosophical assumptions of the method used (Creswell *et al.,* 2011:56; McMillan & Schumacher, 2010:29). Creswell *et al.* (2011:11) further explains that the type of research questions to investigate, the purpose of the research and the research paradigms, principles and philosophies underlying a study are key to the type of research design. Following this, the study was guided by the above explanations of the research design therefore the researcher viewed the research design throughout the inquiry (McMillan & Schumacher, 2010:30; Creswell *et al.,* 2011:58).

The researcher adopted a descriptive design based on cross-sectional and longitudinal data (2016–2020) extracted from annual reports. Therefore, the research was grounded on empirical secondary data taken from sampled energy companies in South Africa. The data were quantitatively examined to uncover the relationship of corporate governance decisions to financial performance.

5.3 Empirical Study

The researcher carried out a quantitative study based on a small sample size of 20 energy companies in

South Africa from a population of 205 entities. The study covered the analysis of the impact of corporate governance decisions on South African energy companies' performance from a financial perspective. The collection of empirical data through entities' annual reports limited to South African energy entities. Due to the strategic positioning of energy entities in South Africa, this study is paramount in the steering of corporate governance in a new direction.

5.4 Population and Sampling

Creswell, *et al.* (2011:11) and Saunders, *et al.* (2016:17) concede that a population is a group of people, events, or documents from which the sample is extracted. For this study the targeted population was 105 registered South African energy companies. From these companies to date there have been an average of four companies being registered annually, (Energy Services Market Intelligence Report, 2022:33). The total population is, therefore, 105 when based on the average number of energy entities found. "The pandemic has resulted in more companies being registered due to many losing their jobs and opportunity for those working remotely" (Stats SA, 2020:117). Therefore, the researcher decided to round-up the population size to 200 in case the energy entity had more companies registered based on weforum.com.

McMillan and Schumacher (2010:34) advance stratified sampling as a type of sampling that allows a researcher to select small groups or individuals who are knowledgeable and informative about the desired research area. Stratified sampling refers to random sampling techniques that divide items of a whole population into different groups called strata based on their similar characteristics, (Energy Services Market Intelligence Report, 2022:14). Samples from each stratum are taken proportionately. The sampling formula used is sample size divided by population size x stratum size/population of subgroups.

Considering this, the sampling will mean the process of stratified choosing representative samples of registered energy companies' annual reports. As a result, the research study took a non-probability sampling technique in which the researcher used stratified sampling where 20 energy companies were sampled because are "information-rich cases whose study will illuminate the questions under study" (Patton, 2002:89). Convenience is considered so that the researcher was able to manage the data within the limitations of financial resources and proximity. The corporate annual reports of the selected companies from 2016 to 2020 were retrieved from the websites of the companies.

5.5 Data Collection

Terre *et al.* (2006:11) contend that data refer to the collected materials (raw information) that can be processed and analysed to give an insight into the mind of the researcher on how the research questions of the study have been addressed. Creswell *et al.* (2011:11) explain that sources of data can be published reports, questionnaires, interviews, observations, music and/or any other sources. For purposes of this research annual reports from 2016 to 2020 were be sampled from IRRESS to determine financial performance of the registered energy companies in South Africa. Focus was placed on the sections of the annual reports on financial statements. Whereas the data collection for this study was underpinned on the paradigmatic approach, a descriptive design and the sampling techniques are non-random, convenient and purposeful sampling as explained above.

5.6 Data Analysis Software

The study used DICTION software to accomplish a computerised content assessment of a purposive and convenient sample of 20 energy companies in South Africa for the years 2016 to 2020. Communication is key to both stakeholders, management, and directors alike and it leads to accountability to its investors (Laskin, 2018:344). This is supported by Sillince and Suddab (2008) who advocates for managerial, organisational and strategic communication to promote not only a theoretical point of view but rhetorically. For this study analysis of the relationships between corporate governance decisions and company performance was based on analysing corporate governance decisions and financial components of annual reports for the years 2016 to 2020.

This study used a computerised quantitative analysis method to analyse the relationship between corporate governance decisions and company performance in energy sectors of South Africa. Quantitative analysis can be explained as an analysis of a situation or event,

especially a financial market, by means of complex mathematical or statistical modelling (Larkins, 2018; Frey *et al.,* 1991:17). Considering this, the research study looked at the use of linguistic strategies by energy companies in South Africa in their annual reports. The quantitative analysis method becomes the natural fit for the study. The statistician performed computerised quantitative analysis relying on the DICTION software program designed to explore the content for specific linguistic strategies. The researcher purposely and conveniently selected 20 energy companies registered in South Africa.

This study used the energy companies' annual reports and analysed the strategies used by management in their communications as they portray the status of the company.

Therefore, the researcher was interested in the annual report which is on financial statements. The researcher copied financial statements from the annual reports of all 20 energy companies and imported this text into DICTION. The DICTION software was used to perform the analysis of full content using all 35 narrative strategies. Following that process was to export the data into SPSS for statistical analysis (quantitative).

5.7 Data Analysis and Interpretation

The study made use of quantitative data and the researcher made use of a software package called DICTION. Coding, thematic analysis, cluster analysis, factor analysis and methodical triangulation were used as strategies to analyse the qualitative data (Saldana, 2016; Saunders *et al.*, 2016:8).

Considering this, understanding of the following concepts are key to this research study: validity and reliability, trustworthiness, ethical considerations, research procedures.

5.8 Reliability and Validity

According to Saldana (2016), and Gay and Airasian (2008:5) reliability refers to degree to which an instrument consistently measures what it is designed to measure, and validity refers to accuracy, appropriateness, meaningfulness, and trustworthiness of the findings (Creswell *et al.*, 2011:11 Saunders *et al.*, 2016; Brink, 2006).

5.9 Measure of Trustworthiness

Creswell *et al.* (2011:11) conceive trustworthiness as the way a researcher persuades the audience that the findings of the study are authentic and worth paying attention to them. The researcher collected data from listed companies on the stock exchange (JSE) and made sure that the findings are thoroughly analysed to reflect gaps and are able to be replicated in a similar context.

VI. ETHICAL CONSIDERATIONS

Ethical considerations are important in all research areas (SRM AIrfin, 2018:14), that being said, the author had to constantly consider any limitations to the study and indeed established a few concerns though not so highly unethical issues such limitations do have to be highlighted.

VII. LIMITATION OF STUDY

The researcher made use of the analysis that was subject to financial data only. Qualitative aspects of performance were ignored, therefore, limiting the research outcome. The researcher sampled the population of 205 companies, to use only 20 companies in the energy industry in South Africa. A perfect sample could not be thoroughly established due to the subdivision of these entities into the various subcategories of the energy industry and to establish where each of those entities fall into specific subcategories would have been a mission, given the time constraints. It, however, would have been more accurate, had the sample been subdivided into the sub-categories of the energy industry. Moreover, the data utilised in the study was from 2016 to 2020, 2021 and 2022 data were unavailable. The unavailable data could have assisted to provide better and more accurate results, which is timely, however, due to the delays from several entities to publish their results, the researcher had no choice but to make use of the data that were available.

Methodology

To achieve this objective, a framework was developed and used to perform content analysis on ESG disclosures of energy companies in South Africa from 2016 to 2020. The ESG disclosures were ranked in accordance to the views of theresearcher and therefore

this suggests a relativist approach. Furthermore, interpretation of the results of any observed changes are based on subjective views. Given that this paper is subjective in nature, an interpretivist research philosophy has been employed and therefore a qualitative approach applied. The design of the study performed was inductive as the paper aimed to provide a rationale for the observations noted in changes in the levels of ESG disclosures over time after the onset of mandated integrated reporting.

Content analysis is defined as the analysis of the latent content of a body of communicatedmaterial through classification, tabulation and evaluation of its key themes in order to ascertain its meaning and probable effect (Merriam-Webster, 1940). According to Krippendorff (2018: 4), this is one of the most important research techniques for the social sciences. Sample

The energy sector was investigated in this study. A total of 205 companies are listed under this sector.

VIII. ANALYSIS AND FINDINGS

After series of examination on the theoretical basis of corporate governance, it was clearly stated the efficiency and effectiveness of the corporate governance practice can be seen the financial performance of the energy companies, with was represented as the total balance of trade for the period, the board of director can either have high or low performance.

This help to comprehensively restate the contribution of the energy sector to the total GDP of the South Africa economy in its entirety.

The financial performance of the companies whose data have been analysed and collected have affirmed the following result:

- Financial performance is the only numerical and practical indicator of adherence to corporate governance guidelines.
- Financial performance of company shows the application of corporate governance principles to operational dimensions of an entity, in terms of managing risk and achieving financially viable outcomes.
- Financial indicators help reveal the main purpose of corporate reveal the main purpose of corporate governance dimension- business governance and resources utilisation.

The analysis in tables 1.1-1.4 shows the relationship between corporate governance and profitability measure of different structures in the energy sector. Since the energy industry has further sub-categories that have different variables as stated by Krippendorff (2018: 9), the researcher used those subcategories to analyse the relationship between corporate governance and financial performance.

Table 2.1: Correlation analysis of Corporate Governance and Crude Oil performance in profitability.

		Corporate governance	Crude oil NGL trade
Corporate governance	Pearson Correlation	1	.328
	Sig. (2-tailed)		.072
Crude oil NGL trade	Pearson Correlation	.328	1
	Sig. (2-tailed)	.072	

Table 2.1 shows that there is a significant relationship between corporate governances and crude oil NGL trade since the p-value (0.072) is greater than the Alpha value (0.05), therefore it also shows that the degree of relationship (0.328) between corporate governances and crude oil NGL trade is a weak, positive relationship.

Table 2.2: Correlation analysis of Corporate Governance and Natural Gas performance in profitability.

		Corporate governance	Natural gas balance of trade
Corporate governance	Pearson Correlation	1	.557**
	Sig. (2-tailed)		0.001
Natural gas balance of trade	Pearson Correlation	.557**	1
	Sig. (2-tailed)	0.001	

Table 2.2 shows that there is no significant relationship between corporate governances and natural gas balance of trade since the p-value (0.001) is less than the Alpha value (0.05), therefore accept alternative and reject the null hypothesis.

It also shows that the degree of relationship (0.557) between corporate governances and natural gas balance of trade is a strong, positive relationship.

Table 2.3: Correlation analysis of Corporate Governance and Coal and lignite performance in profitability.

		Corporate governance	Coal and lignite trade
Corporate governance	Pearson Correlation	1	0.298
	Sig. (2-tailed)		0.104
Coal and lignite trade	Pearson Correlation	0.298	1
	Sig. (2-tailed)	0.104	

Table 2.3 shows that there is a significant relationship between corporate governances and coal and lignite trade since the p-value (0.104) is greater than the Alpha value (0.05), therefore, accept null hypothesis and reject the alternative hypothesis.

It also shows that the degree of relationship (0.298) between corporate governances and natural gas balance of trade is a weak, positive relationship.

Table 2.4: Correlation analysis of Corporate Governance and Electricity performance in profitability.

		Corporate governance	Electricity balance of trade
Corporate governance	Pearson Correlation	1	-.379*
	Sig. (2-tailed)		.035
Electricity balance of trade	Pearson Correlation	-.379*	1
	Sig. (2-tailed)	.035	

Table 2.4 shows that there is no significant relationship between corporate governances and electricity balance of trade since the p-value (0.035) is less than the Alpha value (0.05), therefore accept alternative and reject the null hypothesis.

It also shows that the degree of relationship (-0.379) between corporate governances and electricity balance of trade is a weak, negative relationship.

The analysis in Table 2.4 shows the relationship between corporate governance and the stock exchange market. The stock exchanged market was measured with “energy intensity GDP”. This relates to one of the objectives of the researcher’s study wherein consideration has to be made on the relationship between corporate governance and stock market ratios or performance on the stock exchange.

Table 2.5: Correlation analysis of Corporate Governance and Energy Intensity performance in profitability.

		Corporate governance	Energy intensity
Corporate governance	Pearson Correlation	1	-0.21
	Sig. (2-tailed)		0.257
Energy intensity	Pearson Correlation	-0.21	1
	Sig. (2-tailed)	0.257	

Table 2.5 shows that there is a significant relationship between corporate governances and energy intensity GDP since the p-value (0.257) is greater than the Alpha value (0.05), therefore, accept null hypothesis and reject the alternative hypothesis.

It also shows that the degree of relationship (-0.21) between corporate governances and energy intensity GDP is a weak, negative relationship.

The analysis in Table 3 shows the relationship between corporate governance and non-profit driven financial matrices like liquidity and solvency. Non-profit driven financial matrices were measured with the total primary consumption of the energy sector, which shows the total amount that was incurred, the cause of producing the demand of the energy sector.

Table 2.6: Correlation analysis of Corporate Governance and Energy primary consumption performance.

		Corporate governance	Total primary consumption
Corporate governance	Pearson Correlation	1	.624**
	Sig. (2-tailed)		.000
Total primary consumption	Pearson Correlation	.624**	1
	Sig. (2-tailed)	.000	

Table 2.6 shows that there is no significant relationship between corporate governances and total primary consumption since the p-value (0.000) is less than the Alpha value (0.05), therefore accept alternative and reject the null hypothesis.

It also shows that the degree of relationship (0.624) between corporate governances and total primary consumption is a strong, positive relationship.

CONCLUSION AND FINDINGS

Based on the above analysis of data presented, it comes without bias that overall, there is a positive correlation between corporate governance and firm performance in South African energy companies. Therefore, the researcher encourages all energy companies to invest in sound corporate governance as this may result in better financial performance for the entities in question.

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