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Critical Analysis of the Linkage Between Good Corporate Governance and Institutional Performance in TVET Colleges in South Africa

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Abstract
The value of good corporate governance in TVET colleges can never be downplayed. There is a correlation between good corporate governance and institutional performance. The rationale behind the formulation of corporate governance ethical codes was to ensure that academic institutions and other organisations could be systematically managed. TVET colleges have been, over the years, striving to offer vocational and occupational education and training to prepare students to become functional workers in a skilled trade. This elucidates how corporate governance supports positive institutional performance. Nonetheless, KMPG, Deloitte, Institute of Directors, and other observers of the South African corporate environment noted that the development of King I, II, and III reports on corporate governance initially focused on corporate bodies only. Institutions such as TVET colleges and other organisations were later covered. This was done to address inequity and consider the significant role of such educational institutions for the development of the nation's economy. The subsequent King's reports were designed in a manner that permitted them to apply for any organisation regardless of manner or form of incorporation.
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1.0 Introduction

Institutional performance became dependent on good corporate governance as a result of the increasing demands on the business and educational environment to be integrated flawlessly. TVET colleges also provided the setting for the practice of good corporate governance for vocational training centres, promoting compliance with ethical practices as well as boosting institutional performance.

In recent years, there has been a growing interest in the concept of corporate governance in many countries including South Africa. Historically, corporate governance became institutionalised in South Africa in 1994 as a result of the publication of the King I report (Institute of Directors, 1994). This was the first of King's reports on corporate governance in South Africa (Moloi, 2008). In essence, the introduction of corporate governance brought proper ethical and institutional management which resulted in improved performance. Undeniably, TVET colleges lately, have been the centre of manpower and skill development due to proper management and accountability displayed in its leadership.

Apart from the financial regulatory aspects that affect institutional performance, the King report encouraged an integrated approach to good governance in the interest of stakeholders (Institute of Directors, 1994). The report also outlined the fundamental principles of good financial, social, ethical, and environmental practice (Institute of Directors, 1994).

In this regard, integration of ethical conduct stipulated by the corporate governance guideline in TVET colleges in South Africa increased the chances of visibility of vocational training in colleges against institutions of higher education (universities), which over the years have been sabotaging the existence of TVET colleges in the educational arena. More so, the King II report (Institute of Directors, 2002) grounded its context on the institutional failures as experienced by the TVET colleges in the past and recent years. In the same breathe, (Moloi, 2008) also discovered similar corporate governance problems which led to the poor performance of some vocational educational institutions in South Africa. Furthermore, the King II report (Institute of Directors, 2002) encouraged openness and accountability from those who are entrusted with the shareholders' funds (Moloi, 2008). This insinuates that institutions that are governed by these corporate governance principles are supposed to comply with stipulated guidelines to promote institutional performance.

In sync with the above indication, the King III report on corporate governance aimed at ensuring that business reporting is done with a view of showing how organisations and institutions can both positively and negatively impact on the economic life of the community (Moloi, 2014). This is done with regards to how it operated during the year of review and also to show how the company intends to enhance those positive aspects and eradicate or ameliorate the negative aspects in the year ahead (Institute of Directors, 2009). Henceforth, the fundamental principles of good corporate governance promote a positive economic impact in the vocational training centre by producing skilled manpower for the South African labour market. Thus, corporate governance has been described as the processes by which organisations are directed, controlled, and held accountable (Australian National Audit Office, 2003).

1.2 Technical and vocational education and training colleges (TVET)

In essence, TVET colleges dispense occupational education and training with aim of preparing students to become functional workers in a skilled trade. The practice of good corporate governance in these colleges facilitates a positive change in terms of institutional performance (TVET Colleges, 2018). The technical and vocational education and training (TVET) college sector in South Africa was established in 2002 in terms of the FET Act 98 of 1998. The process constituted 152 former technical colleges (state and state-aided) merging into 50 TVET multi-site colleges across nine South African provinces. With a wide variety of courses to choose from, a TVET college education can provide students with all the necessary skills and knowledge one needs for a career.

1.2.1 Corporate governance in TVET colleges

Good corporate governance is practiced in TVET colleges in many spheres such as leadership, management, accountability, business ethical practices among others. Naidoo (2002) concurs that corporate governance, especially in educational institutions, is related to compliance issues in terms of making sure that service provision is offered to all the stakeholders in an ethical way that does not violate human and business principles.

According to (Cadbury, 1992), corporate governance can be described as the system by which entities are directed and controlled. In organisations such as TVET colleges, corporate governance translates to the framework envisaged to drive the development of a new system and to ensure its responsiveness to the education and training needs of the nation.

In essence, corporate governance facilitates good governance in institutions such as TVET colleges. It advocates the deployment of effective environmental strategies that can position institutions to efficiently utilize resources (Moloi, 2014). Corporate governance is considered as one of the mechanisms of the administrative reform process. It upholds principles of justice; transparency; clarity and disclosure; monitoring and accountability; assigning of responsibilities, and identifying relationships between all parties.

1.2.2 Institutional performance in TVET colleges

Vocational Training Centres are constantly exploring means to alleviate pressure and demonstrate accountability in operations that affect students' enrolment, learning, and cost of education. The influence exerted by TVET college leaders is pivotal in bringing about curriculum change that boosts their performance. In this regard, such leaders should be in a position to harness their ability to understand emerging trends in education and guide their institutions' performance while seeking to address the imbalances of the past system. For TVET college leaders, the uttermost objective is to achieve a vision based on shared values, thus, develop and implement effective curriculum change strategies.

According to Moloi (2014), the South African TVET sector is currently faced with multi-faceted changes posing the need for the different levels of leaders, besides the senior management team, to take charge of various change initiatives. This will ensure that leadership responsibilities are shared thereby promoting participation in leadership functions (Moloi, 2014). College leaders do not always have to direct and lead from the front, but should also occasionally allow management an opportunity and space to lead. Henceforth, there are several indicators of institutional performance in TVET colleges that can be linked to good corporate governance such as the leadership of the colleges among others.

1.3 The fundamentals of good corporate governance in South Africa

Corporate governance (CG) is an emerging phenomenon and its development is based on different complex disciplines including, but not limited to legal, cultural, ownership, and other structural differences (Mallin, 2013). According to Naidoo (2002), corporate governance is "a set of relationships between a company's board, its shareholders, and other stakeholders. It also provides the structure through which the objectives of an organization are set, and the means of attaining those objectives and monitoring performance are determined" (OECD, 1999).

The Cadbury Report (1992) denotes corporate governance as "the whole system of controls, both financial and otherwise, by which a company is directed and controlled". An institution that applies the core principles of good corporate governance; fairness; accountability; responsibility, and transparency will usually outperform other companies and will be able to attract investors, whose support can help to finance further growth (Institute of Directors, 2016). Good corporate governance has always been about organisations achieving the best possible results, but the vision of those results has changed since they were first articulated by the UK Cadbury Commission in 1991. The first principles of corporate governance were largely concerned with shareholder protection and ensuring that the interests of shareholders could be aligned as closely as possible with the actions of management. Corporate governance involves a set of relationships between a company's management, its board, its shareholders, and other stakeholders. It elucidates the importance of sound governance at TVET colleges as a means of realizing institutional goals by regulating their internal affairs.

1.4 Theoretical and empirical connotations underpinning good corporate governance

The theories underpinning the practice of good corporate governance in institutions include the agency theory, stewardship theory, and resource-dependent theory.

1.4.1 Agency theory: defines the relationship between the principals (such as shareholders of the company) and agents (such as directors of the company). According to this theory, the principals of the company hire the agents to perform work. The principals delegate work to the directors or managers who act as their agents (Abid et al 2014). The agents are expected to act and make decisions in the best interest of the principals. The key feature of agency theory is the separation of ownership and control.

The theory prescribes that people or employees are held accountable in their tasks and responsibilities. Rewards and punishments can be used to correct the priorities of agents. The essence of this theory is in defining the association between good corporate governance and institutional performance in TVET colleges in South Africa. This implies that the management of TVET colleges acts on behalf of the stakeholders and strives to offer better vocational training subsequently promote skills and manpower development in the South African industry (TVET Colleges, 2018).

Rossouw et al (2002) as cited in Berle and Means (1932), considers corporate governance as a concept formulated to address the issues caused by the separation of ownership from corporate control. In South Africa, TVET colleges are a government initiative to improve the skills and manpower development targeting the youth entering the job market. The separation of ownership and control of these colleges promotes the practice of good corporate governance and institutional performance. (Moloi & Barac, 2010). The problems associated with the concept of agency forms the basis for research on corporate governance undertaken by Liu and Taylor (2008). According to Liu and Taylor (2008), good corporate governance refers to strategies utilised to effectively address the agency problem. The board of directors becomes the focal point of the governance system and is therefore held responsible for the effective performance of the institution (IOD, 2002).

1.4.2 Stewardship Theory: states that a steward protects and maximizes shareholders' wealth through institutional performance. In this case, stewards are the institution's executives and managers who work to protect and make profits for the shareholders (Abid et al 2014). Stewards are satisfied and motivated when organizational success is attained. The theory emphasizes that employees or executives to be equipped to act more autonomously so that the shareholders' returns are maximized. The employees take ownership of their jobs and perform their duties diligently. In this regard, corporate governance in TVET colleges can be defined as stewardship (Cornelius, 2005). The responsibility of corporate directors is mainly to provide oversight for the goals and strategies of the institution and to foster their implementation (Cornelius, 2005:12).

Malherbe and Segal (2001:3) postulate that by the late 1980s South African corporate practices had fallen behind international norms, and so had the associated laws and regulations. The first King Report on Corporate Governance for South Africa (King I) was released in 1994 and is hailed internationally as a seminal work on corporate governance (IOD, 1994). According to the Institute of Directors (2016), the King I report went beyond the financial and regulatory aspects of corporate governance. The report went further in advocating for an integrated approach to good governance, including promoting the interests of a wide range of stakeholders (Institute of Directors, 2016). It was the first report on corporate governance worldwide that embraced the concepts of stakeholder engagement, ethics, and environmental management (Rossouw et al 2002:300). These initiatives brought about by such corporate governance reports have helped in building high performance and sustainable systems in TVET colleges.

1.4.3 Resource Dependency Theory: can be applied when assessing the role of TVET colleges' councils ("boards") in providing access to resources needed by the institution to boost its performance. The theory suggests that directors play an important role in providing or securing essential resources to the institution through their linkages to the external environment (Abid et al 2014). The provision of resources enhances institutional functioning, institutional performance, and its survival against universities in South Africa who are increasingly offering the same advanced skills and manpower development. The directors and, or management are responsible for sourcing resources such as information, skills, access to key constituents such as all stakeholders affiliated to the colleges. Naidoo (2002) classified directors into four categories namely: insiders; business experts; support specialists; and community influential.

The theories discussed above are relevant in stipulating how corporate governance is associated with institutional performance. For instance, the TVET colleges' leadership synchronizes resources with the performance of the institution by making sure that there are enough available resources to support the mission and vision of the institutions.

1.5 Linkage between good corporate governance and institutional performance in TVET colleges

The association between good corporate governance and institutional performance in TVET colleges is imminent. In South Africa, the TVET college leadership capacity seems to be further hampered by insufficient physical and human resources (TVET Colleges, 2018). As a countermeasure, some good governance initiatives are being used in managing these colleges to remain competitive (TVET Colleges, 2018). A study by Varouj, Ying, & Jiaping (2005) uncovered that the increasing interest in the application of corporate governance diminishes many of the problems faced by companies such as trust in accounting information. Good corporate governance has resulted in an extended vision of successful results (Moloi, 2014). However, management bears the onus of developing and implementing corporate strategy, as well as operating the institution's business under the board's oversight, intending to produce sustainable long-term value creation.

The board and management of these TVET colleges should inevitably engage with long-term shareholders to tackle issues and concerns that are of widespread interest to them. Factors that might affect the institution's long-term value creation in offering vocational training to South African citizens should also be put into consideration. Shareholders that engage with the board and management in a manner that may affect corporate decision making or strategies are encouraged to disclose appropriate identifying information and to assume some accountability for the long-term interests of the institution and its shareholders as a whole (Moloi, 2014). Shareholders should recognize that the board must continually weigh both short-term and long-term uses of capital when determining how to allocate it in a way that is most beneficial to shareholders and to building long-term value. Henceforth, this will build a positive and sustainable institutional performance.

The linkage between good corporate governance and institutional performance in TVET colleges is also demonstrated when the council consults with the student representative councils to provide a suitable structure to advise on policy for student support services within the public college. This act indicates the practice of good corporate governance that promotes a positive and sustainable vocational institution performance. Students at all public colleges are subject to a code of conduct, disciplinary measures, and procedures that are determined by the council relating to national policy (Moloi, 2014). The quality of teaching and learning is demonstrated by good pass rates until the college is regarded as a centre of excellence (TVET Colleges, 2018). Formal relations enable the colleges to ensure the relevance of the curriculum, knowledge of lecturers, and to provide placement opportunities to students that would enhance their opportunities for finding formal employment.

1.6 Recommendations

- In light of the correlation between good corporate governance and institutional performance, South African TVET colleges' administrators should ensure that the King codes of corporate governance are intensely and wholly applied in their operations.
- More so, the government through the Department of Higher Education and Training (DHET) has a responsibility to monitor and ensure that all TVET colleges operating in South Africa comply with the King codes.
- TVET institutions need to have the flexibility to adjust and ensure that they have sufficient capacity to successfully devolve in leadership and operations.
- TVET colleges should maximize and leverage the of serving stakeholder interests at all times knowing that it is not massive student enrolment that offers institutional performance but a comprehensive combination of good corporate governance practices and resource mobility together with quality services.

1.7 Conclusion

In a nutshell, there is a notable correlation between good corporate governance and institutional performance in TVET colleges in South Africa. TVET centres are coming under mounting pressure to demonstrate accountability in operations that affect student enrolment, learning, and the cost of education. Leaders in such institutions should be in a position to harness their ability to understand emerging trends in education and to guide an institution in various ways. This will help to achieve a vision based on shared values and developing and implementing effective curriculum change strategies. TVET colleges in South Africa should ensure that good corporate governance practices guided by the King codes are keenly and fully applied in their operations for a positive and sustainable institutional performance in terms of service delivery and good ethical practices.

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