

**A Critical Narrative Analysis of the Deployment of Corporate  
Arrangements in the Conduct of Government Employee Pension Fund**

**by**

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## DECLARATION

By submitting this thesis, I declare that the entirety of the work contained therein is my own, original work, that I am the authorship owner thereof (unless to the extent explicitly otherwise stated) and that I have not previously in its entirety or in part submitted it for obtaining any qualification.

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## ABSTRACT

The South African (SA) government is experiencing problems with regard to its service delivery mandate in public institutions. These problems have resulted from a number of factors, such as SA's history of unequal distribution of resources; the introduction of remedial legislations and programmes when the new government took office in 1994; incorrect implementation of these legislations and programmes with the accompanying departure of skilled managers accompanied by the influx of new and inexperienced managers. Deliberate interventions were introduced to address this service delivery problem however, many public institutions remain unsuccessful in fulfilling their mandate to service delivery.

In this study, the Government Employees Pension Fund (GEPF) is used as a case study to learn more about the effect of corporate governance in addressing service delivery problems in public institutions. As a government entity, the GEPF experienced some service delivery problems with regard to its mandate. Like any other public entity in SA, the GEPF is governed by all legislative provisions governing public entities and is equally affected by challenges such as scarcity of resources (financial; equipment and skills).

The objectives of the study is to identify major principles and techniques related to corporatisation as an approach to management practice; to identify major challenges encountered by GEPF prior to corporatisation; and to analyse the deployment of corporate arrangements in the conduct of the GEPF in relation to these techniques and principles. The basis of this research is a thorough literature study and interviews with managers of the GEPF.

The major finding of this study is that the GEPF has entrusted basic duties and responsibilities affecting its mandate to employer institutions (EIs). These basic yet sensitive functions have been left arbitrarily to EIs, hence the GEPF is unable to execute its duties in its benefits administration in line with its vision. Other findings include internal processes are incorrectly applied, thus hampering effective and efficient benefits administration; there is lack of, or limited use of a performance management system; there is an inability to deal with predictable problems; and the organisation of resources does not support the vision of the GEPF.

Achievements in terms of the corporatisation process to improve performance were noted. The enrolment of the services of consultants to assist the GEPF to improve its performance led to the following: approval of the organisational structure that supports the GEPF's vision;

empowerment of managers in terms of skills capacity; conversion of contract workers to permanent; and taking an aggressive approach to performance and risk management. It is therefore concluded that although challenges still exist, the GEPF has embarked on a systematic process to rid itself of the challenges it faces.

## OPSOMMING

Die Suid-Afrikaanse Owerheidsektor ervaar tans probleme ten opsigte van sy diensleweringmandaat. Die probleme met swak dienslewering kan toegeskryf word aan faktore soos Suid-Afrika se geskiedenis van wat betref die onbillike verdeling van hulpbronne, die daarstel van 'n nuwe regering in 1994 wat gelei het tot regstellende wetgewing en programme, die onoordeelkundige implementering van hierdie nuwe wetgewing en programme, en die gepaardgaande verlies van bekwame bestuurders en die aanstelling van nuwe en onervare bestuurders. Ten spyte van doelbewuste ingrypings om die diensleweringprobleem aan te spreek, bly owerheidsinstellings steeds in gebreke om aan hul diensleweringmandaat te voldoen.

Die Government Employees Pension Fund (GEPF) is as 'n gevallestudie gebruik om die effek van korporatiewe bestuur op die hantering van diensleweringprobleme in owerheidsinstellings te bepaal. Die GEPF as 'n owerheidsinstelling ervaar ook probleme wat sy mandaat van dienslewering betref. In vergelyking met ander owerheidsinstellings ervaar die GEPF soortgelyke uitdagings ten opsigte van hulpbronverdeling (op finansiële vlak, en wat toerusting en vaardighede betref).

Die doelwit van die studie is om die hoofbeginsels en -tegnieke verbonde aan korporatisering as 'n bestuursbeleid te identifiseer, om die hoofuitdagings vir die GEPF voor intervensie op 'n objektiewe en onbetrokke wyse te identifiseer, en om die tegnieke en beginsels aangewend sedert die implementering van die intervensie te analiseer. Hierdie studie is op 'n deeglike literatuurstudie en die voer van onderhoude met bestuurslede van die GEPF geskoei.

Die vernaamste bevinding van die studie is dat die GEPF sy basiese verpligtinge en verantwoordelikhede rakende sy mandaat aan die werkgewersinstellings toevertrou. Die basiese, dog sensitiewe funksies wat arbitrêr aan die werkgewer oorgelaat word, kniehalter die GEPF om sy administratiewe pligte volgens sy visie uit te voer. Ander bevindings sluit in dat interne prosesse op 'n ondoeltreffende manier toegepas word, wat dan doeltreffende administrasie kortwiek. Dit sluit in die gebrek of beperkte gebruik van 'n prestasiebestuurstelsel, die onbevoegdheid om ooglopende probleme te identifiseer en beperkte hulpbronne, wat nie die visie ondersteun nie.

Die aanwending van korporatiewe prosesse om dienslewering te verbeter blyk suksesvol te wees. Die aanstelling van konsultante om behulpsaam te wees met dienslewering het gelei tot die goedkeuring van 'n organisatoriese struktuur wat die visie van die GEPF ondersteun, die bemagtiging van bestuurders omdat hul vaardigheid verbeter is, die aanstelling van kontrakwerkers in permanente poste en 'n aggressiewe benadering tot prestasie- en risikobestuur.

Die gevolgtrekking is dat alhoewel daar nog uitdagings bestaan, die GEPF 'n sistematiese proses onderneem het om die uitdagings te oorkom.

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## ABBREVIATIONS

ACSA:	Airport Company of South Africa
BoT	Board of Trustees
CEO:	Chief Executive Officer
CFO:	Chief Financial Officer
CIO:	Chief Information Officer
CIPFA:	Chartered Institute of Public Finance and Accountability
COO:	Chief Operations Officer
CRM:	Client Relationship Management
CSR:	Corporate social responsibility
DPSA:	Department of Public Service and Administration
EAP:	Employee assistance programme
EIs:	Employer Institutions
GEPF:	Government Employees Pension Fund
GPAA:	Government Pension Administrative Agency
HRD:	Human Resources Division
ICT:	Information and Communication Technology
IoDSA:	Institute of Directors in Southern Africa
IT:	Information technology
NPM:	New public management
NT:	National Treasury
PAIDF:	Pan African Infrastructure Development Fund
PIC:	Public Investment Corporation
PP:	Public Protector
SA:	South Africa

SANDF:	SA National Defence Force
SAPS:	SA Police Services
SOEs:	State-owned enterprises
SLA:	Service level agreement
WIC:	Walk-in-centre

# CHAPTER 1 INTRODUCTION

## 1.1 INTRODUCTION AND BACKGROUND

The quasi-public corporation has been well known from the 19<sup>th</sup> century. In the 1800s, quasi-public corporations were used in America mainly for undertakings involving a public interest. In such companies, ownership rested with the public and direction with management (Berle & Means, 1932: 11). After 1994, the South African (SA) government realised that some of the instruments for service delivery and policy execution were public corporations. Although these public corporations were created in terms of government legislation, their control and governance were not based on any standardised principles or rules. The new government realised that they almost operated autonomously of the previous government set-up, and without any direct control.

The first King Report [Institute of Directors in Southern Africa (IoDSA), 1994] was published in SA to formalise an ongoing process of corporate governance reform. This report was a code of corporate practice and was based on a broad consensus of the SA business community. One of the most distinguishing aspects of SA's corporate governance reform has been its focus on a more stakeholder-orientated approach (Solomon, 2004: 220). This approach suggests that companies should discharge an accountability function to other groups of stakeholders, rather than shareholders alone. The Corporate Governance Committee emphasised the need to satisfy shareholders, but not to the detriment of other stakeholders (Solomon, 2004: 221).

These public corporations or state owned enterprises (SOEs) formed the main drivers of the formal sector economy and played a pivotal role in the economic growth in SA. Since 1994, their status and their extent of potential privatisation has been the subject of rigorous debate within government and civil society organisations. Their contention, such as their "responsiveness, accuracy of their processes in the service delivery and their ability to meet the needs of the public," were undercut [United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), 2007].

The public sector is clearly in need of reform, but the very characteristics that make this reformation necessary is inept management which also constitutes the basis for resistance to reformation (Minogue et al, 1998: 22). The government's role is to create an environment which

encourages greater national productivity, that includes more and better goods and services at lower prices (Bander, 1975: 14). Concern with service delivery systems is beginning to appear in developing countries. SOEs have therefore been created with a unique service delivery mandate, which includes the achievement of socio-economic goals of the government. They operate within the various legislative frameworks, such as, the Public Finance Management Act, 1999 (Act 1 of 1999), which is part of government's broad strategy to improve financial administration in the public sector as well as the Companies Act, 1973 (Act 61 of 1973).

The Government Employees Pension Fund (GEPF), as a former state department, the National Treasury (NT), embarked on the process of corporatisation. As an entity and a juristic person, it was created in terms of the GEPF Act, 1996 (Act 21 of 1996b). It is a consolidation of different pension funds from former self-governing territories and independent states, and by 2010 it had 1.217 million contributing members and 323 977 pensioners. Its business is informed by its mandate to focus on the delivery of service that includes putting its clients first, as aligned to the Batho-Pele (People First) principles in the White Paper (RSA, 1995b).

One of the GEPF's objectives includes the efficient relationships with its stakeholders (see Section 3.4). Since the amalgamation (see Section 3.2) in 1996, the GEPF experienced major business challenges (GEPF Annual Report 2007: 26). These challenges will be analysed and discussed in the following section (1.1.1). The Minister of NT raised some reservations regarding the quality of service provided by GEPF. This increased pressure from affected stakeholders and was compounded by criticism from the legislature. It subsequently prompted a reconsideration of the GEPF's business administration. The decision to corporatise the GEPF's business administration was subsequently conceived.

The purposes of this study were the following:

- to analyse and critically outline the deployment of corporate arrangements in the conduct of GEPF.
- to identify and list principles and techniques essential for a public entity to embark on, in order to operate within a corporate set-up.
- to list and analyse selected corporatisation techniques in terms of their extent of implementation.
- to outline the pre-corporatised GEPF and the targeted model and process aimed at addressing the challenges identified by the GEPF in meeting its stakeholder expectations and mandate.

### **1.1.1 The challenges faced by the GEPF prior to corporatisation**

The pre-corporatised GEPF faced number of major challenges. The funding level was low (72.3%) in 1996 (RSA, GEPF Annual Report, 2005: 32) and only 69% in 1994. Its benefits payment process suffered from late and often incorrect payments (either overpayments or underpayments); incorrectly completed claim documents received from employer institutions (EIs); an unreliable information technology (IT) system and data; and pressure for quality service from stakeholders. The GEPF had no strategic objectives, mission and vision statement to which to align its internal processes and resources.

The GEPF faced an ongoing problem of backlogs in claim payments which occurred in both regular and irregular patterns. Irregular patterns occurred when there was a sudden influx of claims such as in times of retrenchments, rationalisations of SOEs or during severance package periods. The after effects of government strikes also led to a situation where, for instance, after a month-long EIs strike, a surge in claims would hit the GEPF due to the unproductive strike periods. Regular backlogs occur annually, especially at the end of the year when people prefer to retire or simply allow their contracts to expire.

The EIs form the lifeline of the GEPF business administration to its members due to the limited direct relationship between the GEPF and its members. The only relationship and communication channels that exist between the two stakeholders (GEPF and EIs) are informal, in the sense that they are not monitored. When new members are admitted to the GEPF and when they terminate their membership, EIs are wholly responsible for the documentation of the process.

The above process indicates the primary cause of late and incorrect payment of benefits as the GEPF is disabled from processing a claim if the EIs have not submitted the claims. The onus to prove membership data such as pension contribution amount, date of admission to the GEPF and the reason for termination has been left to EIs. The GEPF is a defined-benefit pension fund, which means that benefits to members are defined prior to their termination of membership. Therefore, the type of termination and not necessarily the contribution amount, will determine the formula to be used to calculate benefits.

Of the total 720 GEPF employees, 38% (280) in 2005 were contract workers (RSA, GEPF Annual Report, 2006). These workers are at a disadvantage because their morale and commitment cannot always be confirmed. They cannot claim permanency, career development

or even some of the fringe benefits. They are therefore likely to leave for better prospects, thus creating a high employee turn-over that could compromise service delivery because trained and skilled workers leave the company only to be replaced by new employees who still need training. For the duration of training, employees' actual productivity remains below the potential.

### **1.1.2 Focus of the research**

The research carried out in this study analyses the roll-out of the corporatisation process within the GEPF. It reveals the state of affairs prior to this process and during the roll-out, with a view to assessing these (interventions) to establish whether the challenges the GEPF was faced with are being addressed. It focuses on relevant principles and techniques used by institutions in the corporate world as a way to determine whether the course taken here is similar to that taken by these institutions. These principles and techniques are analysed and placed in the context of a public sector institution involved in transforming itself to operate in a corporate environment, with the hope of improving efficiency and effectiveness, subsequently leading to customer satisfaction.

## **1.2 RESEARCH PROBLEM AND OBJECTIVES**

According to Mouton (2005:158) the definition of implementation (process) evaluation research, aims "to answer the question of whether an intervention (strategy) has been properly implemented (process evaluation studies) -whether the target group has been adequately covered and whether the intervention was implemented as designed".

The following research problem was identified:

What interventions does the GEPF intend to implement to ensure that existing challenges are addressed adequately?

The research objectives of this study are the following:

- to briefly identify major challenges encountered by GEPF in an unbiased and objective manner prior to the corporatisation intervention.
- to describe the targeted GEPF structure and functions in the corporatisation process.

### **1.3 RESEARCH DESIGN**

The study is mainly a qualitative study providing contextual data, where the researcher has purposefully selected his sources. Programme monitoring and performance management capabilities are essential in the application of this design. In order to determine the success or failure of the corporate governance strategy, the study earmarks GEPF senior managers for data collection. The Chief Executive Officer (CEO), the Chief Operations Officer (COO) and the Client Relations Manager. Their inputs and reports will form an integral part of data collection.

Documents relevant to this study (reports and newsletters,) will be analysed and used to support the findings. The consultant's final report on the change management process will be critically analysed to determine its effectiveness (for employees). Information related to the *status quo* prior to and after the intervention will mainly be obtained from these senior managers. The limitation to this design is that the corporatisation process is still in ongoing. The records of the Employees Benefits division that were applicable prior to the corporatisation process will also form part of the study. These will serve to confirm the existence of challenges that necessitated the corporatisation intervention.

### **1.4 RESEARCH METHODOLOGY**

This is an empirical study and multiple methods of collecting data will be used. Participation observation will be used extensively, taking care to remain objective (as the researcher will be within the GEPF). Structured and unstructured questionnaires will be used for data collection. Responses to these questionnaires will be followed up with interviews, if necessary, to clarify any issues that might be outstanding. Documentary analysis will form an integral part, especially where old information is required.

Three interviewees were purposefully selected from amongst senior managers. Official records will be retrieved from the Human Resources division, to obtain any information required and to verify observations. This will mainly concern data related to opinions regarding variables such as absenteeism and the staff morale prior to the intervention. Documentary data will be randomly retrieved and clients will also be selected randomly from the information system. Electronic data that are available will also be retrieved for analysis.

## **1.5 SUMMARY**

In this chapter, the GEPF is introduced and the challenges it faces in its service delivery mandate identified and explained. The chapter also describes the research problems and objectives of this study, as well as the design of the research and the methodology that will be used in the data collection process. The period of the study ensures that all aspects of the study have been taken into account in order to meet deadlines.

The chapter described the environment in SA after the new government came into power and the challenges it faced thereafter. These included service delivery challenges experienced by public institutions. These challenges were compounded by a number of factors, including public managers' incompetence; flaws in the implementation of remedial legislations, and citizens' expectations that were at times practically impossible.

In the next chapter, attention is given to techniques and systems involved in the corporatisation process with special focus on public institutions. Several techniques will be identified and analysed for their applicability to the GEPF situation. Extensive literature in the environment of corporate governance will be consulted. It will include speeches of senior government officials and government programmes that are aimed at stimulating and improving service delivery in public institutions.

## **CHAPTER 2**

# **CORPORATE GOVERNANCE IN THE PUBLIC SECTOR CONTEXT**

### **2.1 INTRODUCTION**

Arguments based on existing rules and procedures should be greeted with a reasonable degree of scepticism. They should be challenged and the issue be reframed in terms of achieving the best possible outcome, with regard to the intention of the rules, the complexity and the ambiguity of the situation (Cheema & Rondinelli, 2007: 30). The idea to transfer production from private capitalists to public ownership is very old. However, it is only in recent years that, with the growing complexity of social and economic conditions, the technical problem of the management of scale undertakings has become evident. This led moderate socialist thought, to develop a theory of the public corporation to fuse state control and managerial autonomy (Hansen, 1954: 3).

All that organisations should seek to do, is to maximise the attainment of goals while respecting constraints. There is a growing need for operations to be more efficient, effective and accountable (Pollit & Bouckaert, 2004: 6). The public sector comprises a system of public institutions that affect people's everyday lives in numerous ways. They include political institutions and structures that determine and implement laws, and those that provide social and economic services. They also account for a significant part of all economic activity, such as employment and contribution to the Gross National Product. Given this importance of the public sector, innovation is of key concern (Koch & Windrum, 2008: 5).

The literature review for this study on the concept of corporate governance and corporatisation was sourced from various sources. The aim of this chapter is to identify major principles and techniques associated with the corporatisation process especially within the public sector. Only those principles and techniques related to public sector will be analysed. This will be done through extensive study of available literature in corporate governance, speeches of senior government and corporate officials and programmes within the SA government. Principles and techniques applicable to developing countries like SA and the nature of challenges in the country's service delivery environment will be adopted.

## 2.2 DEFINITIONS

Corporate governance is defined in various ways and no particular definition can be regarded as absolute. This difference in the definitions has been attributed to a number of issues, such as existing conditions in any given country, the purpose for which the organisation has been created and, most importantly, the industry or sector in which the organisation operates. Corporate governance consists of deliberate changes in the structure and processes of public sector organisations with the objective of getting them run better and may include their merging and splitting (Pollit & Bouckaert, 2004: 6).

Corporatisation is derived from the term corporation, which is a body of persons granted a charter legally recognising them as a separate entity having its own rights, privileges and liabilities from those of its members (Segal, 1989: 13). It is further defined as a process by which a government department is transformed into a substantially autonomous entity embracing the praxis and disciplines of a business corporation (Whincop, 2005: 3). This is highlighted by a shift in the traditional way of service delivery mechanisms to a more classical approach propagating managerial autonomy from the government's set-up. It comprises structure and processes to manage problems resulting from separation between entity ownership and administration.

A public corporation is an economic entity, which considerably increases the benefits for its stakeholders (shareholders, employees and clients) within a relatively short time (Pümpin, 1991: 12). Corporate governance is described by Monks and Minow (1995: 1) as the relationship among various participants in determining the direction and performance of corporations with the primary participants being the shareholders, Board of Directors, management, employees and clients. It refers to the system by which organisations are directed and controlled. However, in recent months the effective control of public corporations has assumed particular prominence with parliamentary systems recognising this as a problem (Musolf, 1959: 26).

Corporate governance is "the process of supervision and control to ensure that the company's management acts in accordance with the interests of the shareholders" (Solomon & Solomon, 2004: 13). This definition emphasises supervision and control as mechanisms to ensure that shareholders' interests are safeguarded with no mention of other stakeholders. Smith and Walter (2006: 47) similarly state that "the more democratic the society, the greater will be the demand for the assurance of orderliness, equal access, and fair play," which makes good

corporate governance a necessity in the modern day lives in SA. It refers to control of corporations and to systems of accountability by those in control (Farrar, 2001: 3).

A broader definition of corporate governance given by Tricker (1967: 17) and involves giving overall direction to the enterprise, with overseeing, controlling and satisfying legitimate expectations of accountability and regulation by interests beyond the corporate boundaries. This definition includes concepts of accountability and satisfying legitimate expectations, which have a significant role in corporate governance. SOEs are organised in the same manner as corporate entities except that they are publicly owned, are expected to operate in a broad commercial manner but often enjoy regulatory protection. Musolf (1959: 26) states that public corporations form part of government and are managed by persons who are servants of the state.

### **2.3 PRINCIPLES OF CORPORATE GOVERNANCE**

The presence of often-conflicting objectives between managers and shareholders gave rise to corporate governance as a tool to deal with this problem. A former Minister of Public Service and Administration, Dr Zola Skweyiya (27 February 1997), during the Service Delivery Conference in February 1997 stated that “Our public service has two distinct aims: first and foremost to improve the delivery of public service to all our people” corporate governance is only one of many available methods to improve service delivery in the public service.

Corporate governance has assumed a leading role and the centre stage as a tool to enhance corporate performance. The Department of Public Service and Administration (DPSA) through its Public Service Week project during November 2005, had among other objectives to “enhance the quality and efficiency of public services” (Frazer-Moleketi, 2005). Given the state of the public administration in SA and its history of self-government and the TBVC states, quality and efficiency become a cumbersome goal. Different states used different standards to benchmark the concepts of quality and efficiency.

Brian Molefe, Head of the Public Investment Corporation stated that since the King Commission, significant strides have been made to develop sound corporate governance practices in SA (Molefe, 2005). He stated that corporate governance and the need for the prudent management of companies are complementary. He asserted that corporatisation would enable the consolidation of skills capacity and increase efficiency. According to Fox and Heller

(2006: 17), the secret behind the acquisition and success of the largest firms lies in their managerial talent and practices. Most of these large public sector firms now form part of the so-called Chapter 9 institutions found in the Constitution Act, 1996 (Act 108 of 1996a).

Since the main or absolute shareholder in state corporations is the government, through a Cabinet Minister, he has governance powers to determine the goals and objectives, which are negotiated annually (as in performance agreements) for that particular corporation (Whincop, 2005: 129). The objectives may include, but are not limited to, financial targets where applicable, or customer service standards and norms. This resulted in the Statement of Corporate Intent. Where performance falls below the target, it will signify the need for a more serious intervention in the corporation.

In order for a state department to embark on the process of corporatisation, certain procedures in its systems have to be changed, adapted and aligned to the envisaged structure. Deliberate efforts need to be put in place in order to set clear goals as to where management wants to steer the department to (RSA, GEPF Annual Report, 2006: 24). Intensive studies need to be undertaken, where similar processes were undertaken, in order to model the process and learn from previous mistakes, while capitalising on successes.

Corporate governance as a management tool is based on various principles according to which the process should conform in order to be able to meet the needs of the public (Salamon, 2002: 6). These principles serve both as guidelines and benchmarks, from which should the organisation comply with, certain results will emerge, which will effectively lead to a corporatised organisation. Corporate governance encompasses several operational principles but for the purpose of this study, only those principles necessary to the corporatisation of a state department will be identified and explained.

The Chartered Institute of Public Finance and Accountability (CIPFA) identified three fundamental principles of corporate governance that apply equally to organisations in the public and private sectors: transparency, integrity and accountability. This management approach (corporate governance) is closely related to the concepts of corporatisation. For the purpose of this study, corporatisation and corporate governance will be used interchangeably with one concept entirely referring to the other. Similarly, for the purpose of the study, the concept of SOEs will also refer to public corporations.

Whincop (2005: 32) identifies four guiding principles of the corporatisation process: namely, clarity of objectives, managerial responsibility and accountability, authority and autonomy, and competitive neutrality. These principles guide the process to restructure state departments with the aim to convert them to SOEs. Only principles that are found to be relevant to the corporatisation process of the GEPF will be highlighted and further defined and explained.

### **2.3.1 Accountability, responsibility and ethics**

Modern public administration is not just about efficiency; it involves participation, accountability and empowerment (Minogue et al, 1998: 17). Fundamentally, accountability refers to the process of holding employees individually and collectively responsible for their actions, past, present and future. It refers to the giving and demanding of reasons for conduct in which people are required to explain and take responsibility for their actions (Roberts & Scapens, 1985: 116). Taking responsibility for future actions involves clarity of roles and being proactive. Taking present responsibility involves ethical issues. Callahan (2007: 114) differentiates various spheres of accountability, namely, bureaucratic, legal, professional and political accountability.

Accountability literally means providing account of something individually or collectively for decisions and actions to others and can be both prospective and retrospective. It is commonly used in close association with responsibility, answerability, fault and blame. It is aimed at preventing abuse of authority and to ensure that government organisations actually operate in pursuit of key values of humaneness, fairness, efficiency and effectiveness. Accountability is embedded in the progressive refinement of performance management systems (Gregory, 2009: 67). Perspective is to see accountability and responsibility as two sides of the same coin: one fettering on performance and the other enhancing it.

Salamon (2002: 38) notes that there is a direct link between accountability and the amount of discretionary powers granted. Similarly, Walsh et al (1997: 47) add that if managers are given a greater freedom to manage, they must also be under an obligation of accountability for their performance. It is a means of control and direct administrative behaviour, by requiring answerability for some expected performance targets and adherence to ethical behaviour and standards of efficiency (Callahan, 2007: 109). This will include monitoring, which requires a system of performance measurement using performance indicators.

Questions of honesty and ethical behaviour have become a major concern for governments worldwide, leading to a concern of transparency (Minogue, et al 1998: 32). Ethics are intended to

eliminate corruption. Ethics are about the behavioural issues of employees; they have elements of transparency and involve accountability and responsiveness. The SA government recognised that there was a need for statutory bodies to ensure accountability. The Constitution Act, 1996 (Act 108 of 1996a) thus gave rise to the so-called Chapter 9 institutions such, as the Public Protector, the Human Rights Commission and the Auditor General (Miller, 2005: 78).

According to the White Paper on SA Public Service Transformation (15 November 1995) public service ethics should benefit the citizens who are recipients of services provided by public institutions. This paper was formulated to outline service delivery standards for officials, departments, state agencies and other institutions not directly controlled by government or its legislation. It provides guidelines in terms of which these institutions and individuals within them should conduct themselves. The Constitution of RSA, 1996 (Act 108 of 1996a) requires public administration to adhere to principles of high standards, fairness, efficiency, responsiveness, participation, transparency and accountability.

### **2.3.2 Good governance**

According to the Business Roundtable (USA), as quoted in the King II Report on corporate governance (IoDSA, 2002: 153), adoption of a good set of rules or principles is not a substitute for, and does not, by itself assure good corporate governance. This translates to the fact that principles, rules or practices embodied in a code of corporate governance will only be effective if measures are in place to enforce compliance thereto and that sanctions exist for non-compliance. An impact is therefore the ultimate objective in the implementation of these principles, and not only in their formulation. Good governance includes property rights and contract enforcement covering the entire public sector reform and takes place within the supreme law (Farazmand & Pinkowski, 2007: 314).

Good governance includes parameters like political and bureaucratic accountability, the independence of the judiciary, participation of civil and religious groups, and freedom of expression and information (Reader, 2005: 120). It may often occur that remedies as set out for non-compliance are not applied. This requires investigation, and determining why these remedies are not being used. There is a possibility that the codes might lack statutory backing, or, enforcement may require further legislation, in which case promulgation of such legislation needs to be expedited (IoDSA, 2003: 153).

In order to ensure that the code of corporate governance makes a meaningful contribution in the future, certain issues have been established. Firstly, the role of media in corporate governance, as a regulatory tool, cannot be discounted. The media should enjoy freedom to report on, and even investigate, corrupt behaviour detected in the corporate world without any form of hindrance or intimidation. The media's role should be protected by law and should even be encouraged to cultivate interest in compliance and reporting on non-compliance.

### **2.3.3 Corporate social responsibility**

Corporate social responsibility (CSR) is defined by Crane, Matten and Spence (2008: 7) as a company's commitment to operating in an economically, socially and environmentally sustainable manner while balancing the interests of diverse stake holders, and it takes many shapes and forms. Environmental and consumer groups give it a broad interpretation, which is anathema to those who believe that CSR is here to stay in business. It is a complicated problem requiring an understanding of law, politics, economics and an ability to forecast events.

CSR is about the belief that a corporation is its people and they are not detached from society (Bander, 1975: 44). This concept is also associated with concerns such as the negative impact of international trade on local life in general, fuelling feelings of alienation and suspicion, and that investment decisions made by corporations are insensitive to local needs and circumstances. CSR is important in contributing to society's acceptance of the significance and often changes resulting from the effect of globalisation. It creates an opportunity for corporations to contribute to the improvement of social conditions in affected communities. When corporations align local needs to their corporate agenda, the results are that such corporations' credibility and reputation are enhanced.

### **2.3.4 New public management**

Over the past 20 years, the introduction of new public management (NPM) has been a major reason for organisational reforms in the public sector. It has ushered in new methods for the organisation of the public services (Koch & Windrum, 2008: 8). It is about the right-sizing of the public sector through privatisation. It is about a variety of options in the service delivery process and involves issues like management culture, converting citizens to clients through empowerment programmes, responsiveness and accountability for performance. It involves the application of private sector management techniques and structures to government departments and statutory corporations that were previously subject to rigid central control (Farrar 2001: 385).

NPM does not refer to any one idea but to the currently fashionable set of ideas driving administrative reform. It refers to explicit standards of performance; disaggregation of public sector units; and greater competition in the public sector (Hodges, 2005: 9). Furthermore, Barzelay (2001: 5) refers to the NPM as the development of innovative practised routines that are intended to improve the performance of compliance or enforcement of programmes. The first thrust of managerial change in the public sector is captured in the three E's economy, efficiency and effectiveness, with key values being "value for money" and "better use of resources."

The NPM incorporates three basic elements. The first is rooted in the ideology of "managerialism". The second is the business-centred managerial practices and techniques, imported from the private sector. The third is transforming a bureaucratic, paternalistic and democratically passive polity into an efficient, responsive and consumerist one (Farnham & Horton, 1996: 24). Its focus becomes that of efficiency, consumer satisfaction and meeting performance targets using innovation (Koch & Windrum, 2008: 15). The NPM seems to have been born out of the frustration of common man - the citizen – at not receiving the quality of service that he expected or paid for (Reader, 2005: 119).

Performance management has suddenly become an important feature of public services. This means planning, delegating and assessing the operations in public organisations' activities. Performance management aims for high standards of work to achieve quality outputs and satisfy customer needs. Senior public managers concerned with performance, quality and value for money are introducing private-sector people management techniques into public organisations (Farnham & Horton, 1996: 41). Citizens, on the other hand define themselves as active customers of government services rather than mere recipients and flatteringly compare public against private sector services (Minogue et al, 1998: 20).

Principles of efficiency and timeliness advocated by the NPM complement each other. There is no reason why efficiency goals cannot be attained through the corporatisation of public enterprises, to ensure commercial operation under public ownership (UNCTAD, 1992). Efficiency involves using the best methods and techniques to increase quality while decreasing costs. It involves utilising resources in a manner that provides for the ease of performing tasks. On the other hand, timeliness involves the swiftness with which clients are attended to and the ultimate client satisfaction. It is about getting things done better and doing different, yet fewer, things (Cloete 2006: 76).

The NPM is about rejecting the public administration concerns with accountability and control, and giving way to the business management emphasis on productivity, performance and quality service to clients. Government agencies are created and operate somewhat independent of both the political processes that set out their purpose and the citizens or clients that they serve (Cheema & Rondinelli, 2007: 53). The NPM is driven by the belief that acquiring and developing private sector management skills and practices is necessary in order to deal with the fundamental dilemma of the public sector, that of the increasing demand for better quality public services and the need to control public expenditure (Koch & Windrum, 2008: 15).

### **2.3.5 Risk management**

Risk management is the process of identifying risks (the possibility of negative outcome) in advance, assessing their likely possibility of occurrence, and then taking steps to reduce or eliminate them (Aba-Bulgu & Islam, 2007: 40). The King II Report (IoDSA, 2002: 76) defines it as the process of identifying and evaluating the actual potential risks pertaining to a company, followed by a process of termination, transfer, tolerance or mitigation of each risk. This process entails planning, arrangement and control of processes and resources with a view to minimising the risk impact to acceptable levels, using either internal or external controls or even a combination of both.

Arthur Levitt, the former Chairman of the USA Securities and Exchange Commission (SEC), observed that not only are today's companies complex enterprises but they are engulfed by rapid technological change and fierce global competition (SEC, 2010). He therefore proposed an assessment on risk exposure of companies in an ever-changing landscape. Risk management cannot be a once-off process and it is essential that companies continuously include Risk management as one of the strategic goals.

A risk is an event that results a loss. Process control of internal processes can be used to minimise the frequency of risks associated with internal procedures (Panjer, 2006: 13). Risks have the capability of influencing the achievement of any company's objectives. They could include mainly financial, operational and strategic objectives. Risks can also include company assets, information such as technological innovations and inventions. When potential company risks have been identified, all resources should then be utilised to proactively manage these risks.

The King II Commission Report (IoDSA, 2002:79) places the responsibility of the risk management process on the Board. It claims that while the management is accountable to the Board with the design, implementation and monitoring of the risk management process, the responsibility remains, however, with each employee within the company. The management can create a structure within the company to deal with risk management by having a risk officer or risk committee. The officer or committee will then assume a technical responsibility dealing with risks at all levels.

The King III Report (IoDSA, 2002: 78; 85) recommends a number of methods to manage risks. These methods can be in the form of internal policies and techniques or processes brought into the organisation from outside. If internal, then risk management should be practiced throughout the company by all employees and should form an integral part of daily activities. It should be managed through the reliability of reporting and adherence to rules and ethical conduct. Commitment of management to the risk management process and putting control systems in place will contribute to this process.

### **2.3.6 Statement of Corporate Intent**

The Statement of Corporate Intent is a document which introduces SOEs in terms of objectives, mandate and vision and addresses the reason for the existence of the SOEs. They (SOEs) would study entities similar to them, even in the private sector, for the purpose of benchmarking and reconciling the outcomes with the customer needs and create a vision. This vision will then form part of the Statement of Corporate Intent to guide SOEs in terms of quality performance. The Statement of Corporate Intent also operates in the form of a performance agreement through which targets are negotiated between the Minister or the Board and other stakeholders (Whincop, 2005: 129).

Where goals and targets are not realised, remedial actions are considered for such failures. These actions could take the form of modification of targets or a change of management. These goals and targets are renegotiated annually and adjustments made where necessary. The Statement of Corporate Intent further contains aspects of ethics and values of the SOEs. There may be values contained in the Statement of Corporate Intent, such as integrity, professionalism, collegiality and commitment to the public good. A code of conduct may be formulated to address further detailed aspects of values and ethics.

## **2.4 STAKEHOLDERS AND THEIR ROLES IN CORPORATE GOVERNANCE**

A corporation has relationships with many constituent groups that affect it and which in turn are affected by the corporation (Jones, Musssari & Schedler, 2004: 91). Corporate governance as a process has stakeholders, each with unique roles. However, these roles, do not operate in isolation, but are interdependent, and often complement each other within their co-existence. In the event that any stakeholders have aspirations, fears or concerns, and are ignored, the entire process is threatened. It is therefore important that all stakeholders are aware of these aspects in order to minimise the negative issues and exploit issues of common interest. For the purpose of this study, only those stakeholders applicable to the GEPF will be discussed.

### **2.4.1 The Board of Directors**

The Board of Directors (Board) is responsible for corporate governance and has two main functions: first, to determine the company's strategic direction including general and specific goals, and second, to control the company and compare results with the plan (Farrar, 2001: 308). The Board further monitors performance regularly, including the financial performance of the company. It has to agree to performance and risk indicators. The Board will appoint one director as the chairman who will ensure that the Board provides leadership and vision to the company. The Board is ultimately accountable for the performance of the company (GEPF Annual Report, 2005: 11)

The Board exercises its power collectively in meetings usually by way of a quorum. It operates on fiduciary bases towards shareholders and such duties are imposed in a strict manner by law. The Board must therefore act honestly and in good faith in what it considers to be in the interest of the company. Board members must exercise their conferred powers for an acceptable purpose. For example, they may not improperly use their Board status to benefit themselves or their relatives. The Board has an overall responsibility to ensure that succession is planned: for example, if the Chief Executive (CEO) was to leave suddenly (Wixley & Everingham, 2005: 43).

As fiduciaries, Board members may not allow a situation where they are seen to have a conflict of interest. The principle of assuming a position of interest or having interest in the outcome of Board decisions must always be safeguarded. Not only must good faith be done but it must also be manifestly seen to be done. Neither should Board members use the company's assets, including information for their own or anyone's benefits without the company consent (Wixley & Everingham, 2005: 90).

## **2.4.2 The management**

The Board requires management to execute strategic decisions effectively and according to laws and legitimate interest and expectations of all stakeholders (IoDSA, 2009: 20). Management has played a significant role in public sector reforms as it is the driver of change in the process (Farnham et al, 2005: 46). Management operates through various systems, such as planning, organising, leading and controlling. It has to ensure that the corporate strategy engages employee involvement and buy-in, and allays their fears and concerns. Management also needs to ensure that the corporate staff retention strategy is formulated and that staff development takes place.

### *2.4.2.1 The Chief Executive Officer*

In modern governance, government relies heavily upon CEOs, whose relationship with the political head is regulated by contract (Lane & Lane, 2000: 186). While in most public corporations the position of the chairman of the Board and that of the CEO are combined, Tylecote & Visintin (2008: 79) propose that the two roles should not be exercised by the same individual. The CEO, who is the most senior member of the corporation at the executive level, is entrusted with the daily sound operation of the company.

He has as much power as delegated to him by the Board (Farrar, 2001: 304) and makes inputs in the appointment of senior managers. He is critical in the success or failure of the company (King III Report, 2009: 30). The CEO's personality can, in some cases, have a significant effect on the formation of expectations and the corporate culture. A strong CEO with a forceful leadership style may impart similar patterns of behaviour in other managers in the organisation (Gibbs & Lazear, 1997: 422).

### *2.4.2.2 Other senior officials*

The COO reports to the CEO. He has a strategic and tactical focus, and he further monitors the daily operation of the corporation. He may also have to report directly to the Board on matters of corporation performance (GEPF Annual Report, 2007: 14). The CFO, on the other hand, is an expert on financial matters and is charged with a variety of financially related duties. He often reports directly to the CEO. Unlike a chartered accountant, he is required to display sound business knowledge and problem-solving abilities. Other senior managers are the Chief Information Officer (CIO) and the Human Resources Manager HRM.

### *2.4.2.3 The employees*

Employees are a major stakeholder in the work of the state and activities of the government. They have an interest in the substantive content and direction of reforms. They have to interpret and implement the policies of government (Farnham et al, 2005: 47). For the purpose of this study, employees shall exclude senior management unless specifically mentioned to refer otherwise (RSA, GEPF Annual Report, 2006: 20). Employee behaviour and attitude can be influenced by a number of factors in any organisation. Employees are one of the strongest candidates for power or at least influence over management (Tylecote & Visintin, 2008: 68). This happens through legal constraints on dismissals and employment protection.

When public enterprises are incorporated, thousands of employees have reason to fear for their jobs eventually (Lane & Lane, 2000: 76). They may therefore form attitudes, which will determine their behaviour in front of customers. This will in turn influence the customer attitude, commitment, and ultimately the customer retention, which is critical to the organisation's success or failure. Employees need clarity of roles, necessary skills and equipment, opportunity to excel in what they can do best, and management that values their contribution (RSA, GEPF News, 2002: 6). SA employees are governed by the Labour Relations Act, 1995 (Act 66 of 1995a) and trade unions form a strong support for them.

### *2.4.2.4 The clients*

In the public sector context, citizens are regarded as clients. They are informed of what standards of service they can expect and offered redress if that is not forthcoming. Citizens as clients are becoming more aware and critical of government services (Farnham et al, 2005: 47). Converting citizens to customers of state entities can be achieved through empowering them with knowledge and information, and they should be allowed to make representation against low quality services (Minogue et al, 1998: 20). Public organisations need to value clients and the communities they serve. Before attempting to procure services for clients, it is important for officials to know the character and needs of the clients they serve (Cheema & Rondinelli, 2007: 57).

Clients are major stakeholders in corporate governance as their perceptions affect a company's reputation (IoDSA, 2009: 100). For the sake of a company's success, it is important that the clients' needs are identified and catered for in the best possible way. Citizens, in their role as taxpayers, can and should make demands upon government. Sometimes citizens emphasise and exercise their individual rights rather than their collective rights. That happens when they

differentiate themselves from their neighbours. Public corporations therefore need to learn to draw their clients closer and even attempt to cater for individual and community needs (Lane & Lane, 2000: 36).

Reader (2005: 119) states that, daily, there is some or other news item of citizens' grievance in the press. Customers enjoy the protection and support of consumer organisations. It is important that these organisations are known in the environment where the company operates. Some corporations have a Customer Relations Division to play a proactive role in dispute resolution. In 2009 the Ombudsman for Banking Services recorded a total of 3 366 complaints: 21% of these complainants' claims were fully upheld, 9% had a portion upheld, 5% had no award made and 0,5% had their complaints withdrawn with the other 0,5% never responded to after laying complaints (Ombudsman for Banking Services, 2009: 8).

## **2.5 SUMMARY**

Worldwide, governments explored ways to make the public sector organisation more economic, efficient and effective. They are however faced with a dilemma of unlimited and often conflicting needs against limited resources. SA is no exception, in the effort to re-assess its public service, given its pre- 1994 history, which resulted in insurmountable challenges (Miller, 2005: 78). The implementation of reform initiative in SA has not been without its problems. The government faced human resources, financial, technical and process constraints, resistance to change by officials, and lack of skill and understanding of the processes. There has emerged something of a consensus that NPM has indeed enhanced the efficiency of government activity (Gregory, 2009: 73).

This chapter focused on the definitions of various concepts that are related to corporatisation. A number of initiatives introduced by the government by various ministers such as the Public Service Week are noted. The importance of corporate governance is also emphasised. Principles of corporate governance are also outlined and analysed for what they promise to deliver in the normal state department functioning. Various stakeholders were considered in terms of their roles, effects and strengths in the corporate environment. The chapter also served to draw the similarities in the meanings between the concepts of corporate governance, corporatisation and privatisation. Individual stakeholders were identified and analysed in terms of their roles and participation in corporate governance.

In the following chapter, the regulatory framework of the GEPF will be discussed. Various rules and regulations in the functioning of the GEPF are analysed as well as individual structures forming the company. Structures as found within the GEPF are also looked into and the reporting line described.

## **CHAPTER 3 THE REGULATORY FRAMEWORK OF THE GEPF**

### **3.1 INTRODUCTION**

This chapter provides historic overview of the GEPF leading to its formation and the transition from the old dispensation (pre-1994) to the new (post-1994) SA. It includes the legislative origin of the GEPF and other legislations giving rise the GEPF, from the Constitution of RSA Act, 1996 (Act 108 of 1996a), including national legislations regulating its administration. The chapter then describes the regulatory framework of the GEPF. It commences with an analysis of the organisational structure prior to the corporatisation process, followed by a comprehensive examination of the new model organisational structure.

The chapter continues with an outline of reporting lines and functions within which the GEPF operates, as well as relationships among divisions GEPF. It provides an understanding of the current structure, which makes it possible to analyse the alignment of the functions with a view to determining the effectiveness and efficiency towards achieving those goals. The chapter signifies the reduction of the dependency of on the Ministry for making major decisions (Lane & Lane, 2000: 77). Finally, the existence of stakeholders involved in the GEPF business and their interdependence to each other is discussed. Here, each stakeholder, with its functions, is separately considered.

### **3.2 HISTORIC OVERVIEW OF THE GEPF AND ITS LEGISLATIVE FRAMEWORK**

The pre- 1994 SA was separated in areas of self-determination, or homelands, in line with the policy of Apartheid. This policy provided for separate development of areas based on the principle of exclusion. Each self-governing territory was therefore regarded as an independent state capable of self-government. These self-governing administrations sustained pension fund privileges for the civil servants working for them. During the transformation that took place in SA during and after 1994, ten pension funds from these self-governing states were amalgamated with effect from 1 May 1996, to form the GEPF (RSA, GEPF Annual Report, 2002: 1).

Section 197(2) of the Constitution Act, 1996 (Act 108 of 1996a) provides for a fair pension for public service employees and for the promulgation of the national legislation to regulate this

pension. By virtue of this provision the GEP Act, 1996 (Act 21 of 1996b) was subsequently promulgated, thus creating the GEPF as a legal entity and a juristic person solely owned by the SA government. The GEPF is a self-administered defined benefit pension fund created with an objective to administer pension and related benefits to employees of the SA government and other SOEs (RSA, GEPF Annual Report, 2005: 14). Its primary task is to collect, invest and eventually pay out pension and related benefits to its clients.

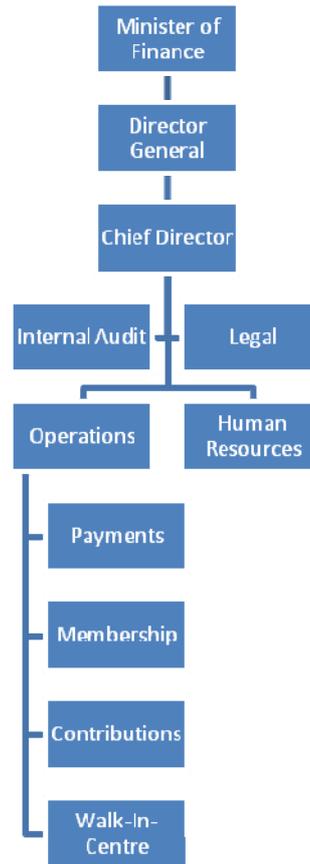
The GEPF, as the largest pension fund in Africa (RSA, GEPF Annual Report, 2009:1), has embarked on the process of corporatisation in order to improve and even to exceed performance standards set for public institutions. The purpose is to deliver the best possible service to its clients whenever and wherever applicable. The Constitution of SA Act, 1996 (Act 108 of 1996a) requires, *inter alia*, among others, a public service to be sensitive to the needs of the public, and that it utilises “resources efficiently, economically and effectively”. Recent developments have however seen, growing public criticism regarding its effectiveness.

### **3.3 ORGANISATIONAL STRUCTURE OF THE GEPF**

For the purpose of this study, the organisational structure of the GEPF will be analysed from two perspectives. First, the current semi-corporate structure will be analysed with reference to its pre-corporate form and then its target model structure. The structure in terms of positions occupied by senior officials and divisions in terms of their areas of specialisation will be explained. Second, the accompanying functions of both the pre-corporate model and the target functions will be analysed.

#### **3.3.1 The Pre corporate model organisational structure**

A schematic representation of the old model organisational structure of the GEPF is shown in Figure 1. The pre-corporate structure had the head of the GEPF at the general manager level, assisted by two senior managers, one in charge of the Human Resources Division (HRD) and another in charge of Operations. The structure sustained the Legal and the Internal Audit divisions. The HRD dealt with all employee related functions while Operations dealt with pension benefits issues, such as contributions, membership updates and benefits payments. Focus was only given to benefits processing units, with member details only updated when benefits were due to be paid. The structure provided for only one client walk-in centre (WIC), based in Pretoria, for the entire GEPF membership (RSA, GEPF Annual Report, 2000: 21).



**Figure 1: Old model organisational structure (March 2000).**

Source: RSA, GEPF Annual Report, 2000

### 3.3.2 The Pre corporate functions

Firstly, the pre-corporate model GEPF functions highlighted a number of areas with deficiencies. Functions focused only on those areas considered as primary: statutory reporting, financial control, and beneficiary maintenance. These areas were maintained in terms of the required principles and standards: however, they relied upon a number of other processes, which, if not well managed, would be adversely affected. Therefore, the impact these functions exerted on the ultimate outcome was marginal (personal interview: M Kola, 17 October 2007).

Secondly, the model comprised those areas which, while they require attention, they are not critical, and therefore require minimal intervention, streamlining or just adequate control. They are however, contributing factors to the perceived inefficiency and ineffectiveness of those functions as well as to the attainment of the ultimate objectives of the GEPF. These functions are, for example, payment of pension benefits in terms of accuracy and the related timeliness;

membership data maintenance; membership contribution management; and information and document security (personal interview: M Kola, 17 October 2007).

Finally, the model comprised those functions that were laterally discounted or outright non-existent. For example, the structure provided for the Head Office only, where all functions were centralised. There was no clients relations division to specifically address clients issues and clients had to use the WIC for enquiry purposes. As this WIC operated from under the Operations division, no client imperatives were taken into account when dealing with clients. For example, enquiry resolution turn-around time, soliciting feedback from clients, and clients' education and support (RSA, GEPE Annual Report, 2002:14). The following table outlines functions for the GEPE's old model:

**Table 1: Old model Functions (March 2000)**

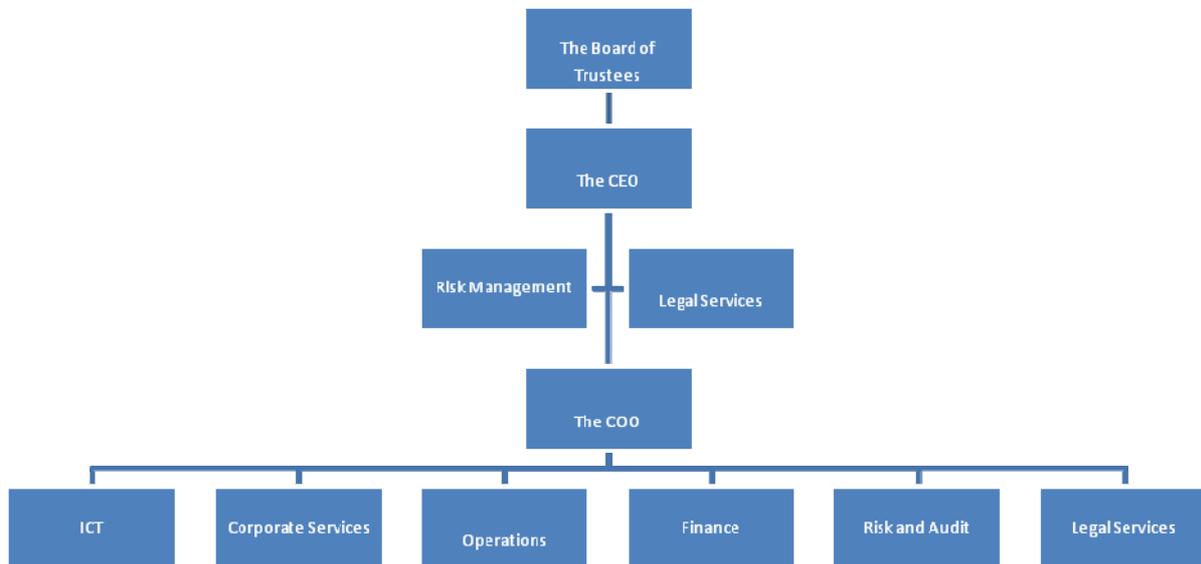
<b>Functions</b>	<b>Status</b>	<b>Tasks</b>
Clients Relations Management	Critical	CRM strategy
	Critical	Employer education and training
	Critical	Solicit feedback
	Fair	Query resolution
	Critical	Monitor customer satisfaction
Financial and Risk Management	Fair	Financial policies and plans
	Critical	Risk management framework
	Fair	Financial reporting
	Fair	Regulatory compliance
Strategy and Insight	Critical	Internal audit and risk management
	Fair	Strategic development
	Fair	Customer satisfaction
	Critical	Performance management
Benefit Administration and Management	Critical	Quality and monitoring
	Critical	Service delivery strategy
	Fair	Benefit guidelines
	Critical	Debt management
Benefit Administration and Management	Critical	Membership admissions & maintenance
	Critical	Correspondence management

**Table 1 (cont. . .)**

Business Support	Fair	Business policies and procedures
	Critical	Service level agreement management
	Critical	Procurement and contract management
	Fair	Corporate communication
	Fair	Security management
	Critical	Project management and support

**3.3.3 The new model (proposed) organisational structure**

With effect from 1 April 2010, the Government Pension Administrative Agency (GPAA) was established in terms of the GPAA Act, 2010 (Act 10 of 2010). It was created to administer pensions on behalf of the GEPF and to provide pension and related benefits for the NT. It was born out of the separation of the GEPF, as a pension fund and its administration agency, so that the latter can fulfil the above role (provision of pension and related benefits), -a practice which is common in the retirement industry (RSA, GPAA Strategic Plan 2010-2013: 2). As such, GPAA inherited the GEPF business and will continue to address the service delivery challenges that GEPF has been faced with. The GPAA has six business units, as shown in the following figure.



**Figure 2: New model organisational structure (April 2010).**

Source: RSA, GPAA Strategic Plan, 2010–2013

### *3.3.3.1 Information and Communication Technology*

The GPAA's Information and Communication Technology (ICT) division directs and manages the organisation's ICT resources, including the data centre (servers), network (local and wide area networks), applications, desktop equipment, and databases. The division is the enabler of GPAA operations and management by providing the building blocks and the inter-operability it requires to deliver on its mandate based on established best practice frameworks, models and standards. The mission of the division is to provide leading-edge technology solutions and high quality pension administration support services (RSA, GEPF Annual Report, 2009:31).

To achieve these goals, the ICT division will ensure the security and integrity of ICT systems, establish and maintain a clear organisational chart with approved levels of authorisations to all staff, establish and maintain defined role-based access controls with appropriate authorisation by both ICT and user departments. The Division will also be patient and supportive of clients when they do not understand what ICT is doing and the services that ICT provides should consistently enable clients to improve their own performance. The ICT division is subdivided into infrastructure management services, application management services and business knowledge management units (RSA, GEPF Annual Report, 2009:31).

Over the next three years, the ICT division will focus on strengthening the strategic alignment of the ICT strategy to the business strategy. This it will do through enhancing the ICT infrastructure and the network to be more responsive to GPAA business needs. It will consolidate the application environment and platforms to enable online service delivery; review the ICT architecture and governance frameworks in order to align them with established best practices to create a business-driven and responsive ICT division. It will further establish and develop an integrated database management system to support single capture and multiple accesses and use of business data and information as well as upgrade the disaster recovery technology to support online backup and archiving of business information offsite at the disaster recovery site.

### *3.3.3.2 Corporate Services*

The primary aim of the Corporate Services division is to support GPAA in achieving strategic goals through the management, co-ordination and oversight of all management support and human resources services within the organisation. In order to achieve this, the Corporate Services division will ensure compliance with all legislative requirements in terms of related policy formulation and frameworks. The Corporate Services division is subdivided into a number of units (RSA, GPAA Strategic Plan 2010-2013: 10).

First, there is the Human Resources Management which is responsible for employee relations, training and development, organisational design and development, employee life cycle (recruitment, selection, appointment and maintenance), and administration (basic conditions of service) and performance management. Second, there is the Security Management Services, which deals with the physical security of personnel and clients as well as information security. Lastly, there is the Facilities Management, which deals with space planning and office equipment resources (RSA, GEPF Annual Report, 2009:33).

The key focus for the next three years is to provide an enabling and conducive environment to all GPAA employees for optimum output (service). In pursuit of this, emphasis will be placed on the following reduction of absenteeism, training and development, and safety and security.

### *3.3.3.3 Operations*

The Operations division will operate in an environment within GPAA that meets customer demands, through operational effectiveness and efficiency. This division implements the required business processes and systems improvements to provide operational excellence to pay benefits as desired by the GEPF. In order to meet customer expectations of GEPF, GPAA will operate through a network of regional offices in all provinces, including branch and satellite office networks. To build mutually beneficial relationships with the employer departments, i.e. national, provincial and municipal offices, GPAA will utilise the services of a client liaison officer and customer service agent to meet the service obligations of both GEPF (RSA, GPAA Strategic Plan 2010-2013: 22).

The Operations division is further divided into a several subunits. First, there is the Client Relationship Management (CRM), which sustains regional offices in all provinces in SA. These regional offices provide clients with WIC facilities, to provide clients with platform for making personal enquiries regarding their benefits. CRM also sustains a centralised call centre situated within the head office where all members' telephone enquiries are attended to (RSA, GEPF News, 2001: 14). Second, is the Business Support Services, which will deal with issues like service level agreements and contractual matter between the GPAA and other stakeholders.

Third, there is the Membership Management, which will deal with members personal information update. Members' service periods and beneficiaries will be managed from this division. Fourth, will be the Contribution Management unit, which will deal with matters arising out of contributions received from EIs in respect of members in their employ. Lastly, the Benefit

Processing unit will deal with calculation and payment of pension benefits. This unit will serve to align all exits to specific rules for the purpose of benefits calculations.

#### *3.3.3.4 Finance*

The Finance division directs and manages financial resources available to GEPF to administer, by utilising best practice principles. To achieve the aforementioned, the Finance division will ensure that financial policies are adhered to, financial record keeping is done according to an appropriate framework, and sufficient cash flow levels are maintained for operational activities (RSA, GEPF Annual Report, 2009:33). The Finance division consists of a number of sub-divisions. First, there is the Finance Management unit, which is responsible for keeping all financial records of the GPAA (RSA, GEPF Annual Report, 2007: 35). The GEPF primarily makes use of an electronic system to pay and receive payments. Payments that are made by the GPAA are through electronic transfers, and only in extremely special circumstances can cheques be issued. No cash payments are made under any circumstances.

Second, there is the Supply Chain Management, which deals with all policy issues of procurement and the actual procurement needs of GPAA. It ensures that provisions of the Public Finance Management Act, 1999 (Act 1 of 1999) are complied with. Third, is the Payroll unit, which is responsible for employee remuneration issues and operates in conjunction with the HR. Fourth, is the Budgeting and Reporting unit, which deals with appropriations. Last, there is the Debt Management unit, which deals with remittances. The unit will receive all forms of monies due to the GPAA.

#### *3.3.3.5 Risk and audit*

Internal audit should pursue a risk-based approach to planning as opposed to a compliance approach that is limited to evaluation of adherence to procedures. A risk-based internal audit approach has the benefit of assessing whether the process intended to serve as a control is an appropriate risk measure (IoDSA, 2009: 94). The Risk and Audit division promotes a fraud-free environment within the GPAA and manages the mitigation of all the different types of risks and exposures that the organisation is faced with. To achieve the aforementioned, it will implement the required risk assessment tools to identify risk and provide support to achieve operational excellence.

The Risk and Audit division consists of these subunits: Risk Monitoring, Fraud Prevention, Forensic and Internal audit, and will focus on facilitating the enterprise-wide risk assessment process. It will review the risk management strategy and implementation plan. It will also

monitor and report on risk mitigations, interventions, implementation of risk response and treatment plan and the roll-out of awareness campaigns. It will analyse fraudulent activities with a view to determine trends (RSA, GEPF Annual Report, 2009:27).

#### *3.3.3.6 Legal services*

The GPAA Legal division provides a legal service to the GEPF and NT by addressing any legal matter or issue the GPAA or GEPF may be exposed to. It also ensures legal compliance and the development of legally compliant strategies. Its core areas and processes include legal administration, legal interpretation, research and analysis, litigation management and contracts, policies and legal documentation. It will also provide assistance in the development of service level agreements (SLAs) between the GPAA and its suppliers and stakeholders (RSA, GEPF Annual Report, 2009:26).

### **3.3.4 The proposed model functions**

In creating a proposed model, it is imperative to start with the existing one. It is also important, to consider the shortcomings of the existing model from which to develop a number of alternative solutions and then adopt the best one taking a number of factors, namely, cost effectiveness, efficiency, impact and sustainability into consideration. It also involves analysing trends in existing functions with a view of avoiding a recurrence of preventable problems. To understand a problem and design an effective solution, it must be researched in the best possible way.

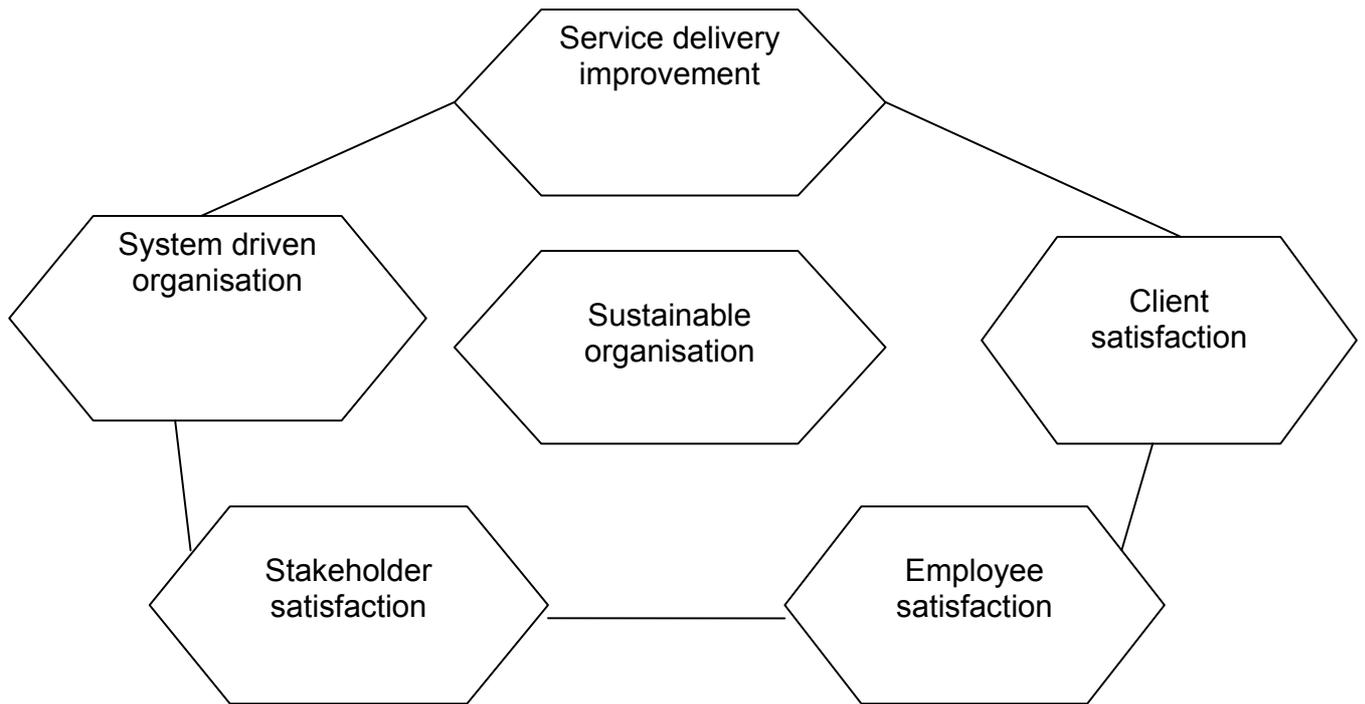
#### *3.3.4.1 Mandate*

GPAA reports to the Minister of NT and its mandate is to administer pensions on behalf of GEPF and NT in terms of the GPAA Act, 2010 (Act 10 of 2010) and the GEPF Act, 1996 (Act 21 of 1996b). The establishment of GPAA as a separate pension administration component marks a new era in government pension administration. It introduces a significant policy shift that will promote governance in the fiduciary responsibilities of the Minister of NT and the GEPF Board respectively. (RSA, GEPF Annual Report, 2009:1).

The Minister of NT is the executive authority and GPAA's financial affairs will be governed by the Public Finance Management Act, 1999 (Act 1 of 1999), while its human resources will fall under the ambit of the Public Service Act, 1994 (Act 103 of 1994). Its primary clients are the NT and the GEPF. The working relationship between GPAA and its primary clients will be regulated by means of service level agreements.

### 3.3.4.2 Vision

The GPAA's vision is to be the best-in-the-class pensions' administrator, providing financial security, peace of mind and exceptional service to government employees, pensioners and other stakeholders. This vision will be realised as outlined in the following figure 3.



**Figure 3: Realisation of the GPAA Vision.**

### 3.3.4.3 Mission

The GPAA mission is to effectively and efficiently manage and administer the pensions and related benefits on behalf of its members, pensioners and their beneficiaries through accurate and timeous payment of benefits; modernisation of current administration process and systems; providing member and client support; and managing stakeholder relationships.

#### 3.3.4.4 Core values

The GPAA core values are as follows are listed and described in the following table:

**Table 2: The GPAA core values**

No	Value	Description
1	Integrity	Doing the right thing even when you are not watched.
2	Openness	Allow access to information to the right persons at the right level.
3	Interdependence	The achievement of our goals is based on the interrelationship of the different components of the service delivery chain.
4	Caring	Placing ourselves in the shoes of those we serve by addressing their needs in a humane manner.
5	Client focus	Our actions are derived from the client's needs.

#### 3.3.5 The GPAA's strategic goals

The following are the GPAA's strategic goals:

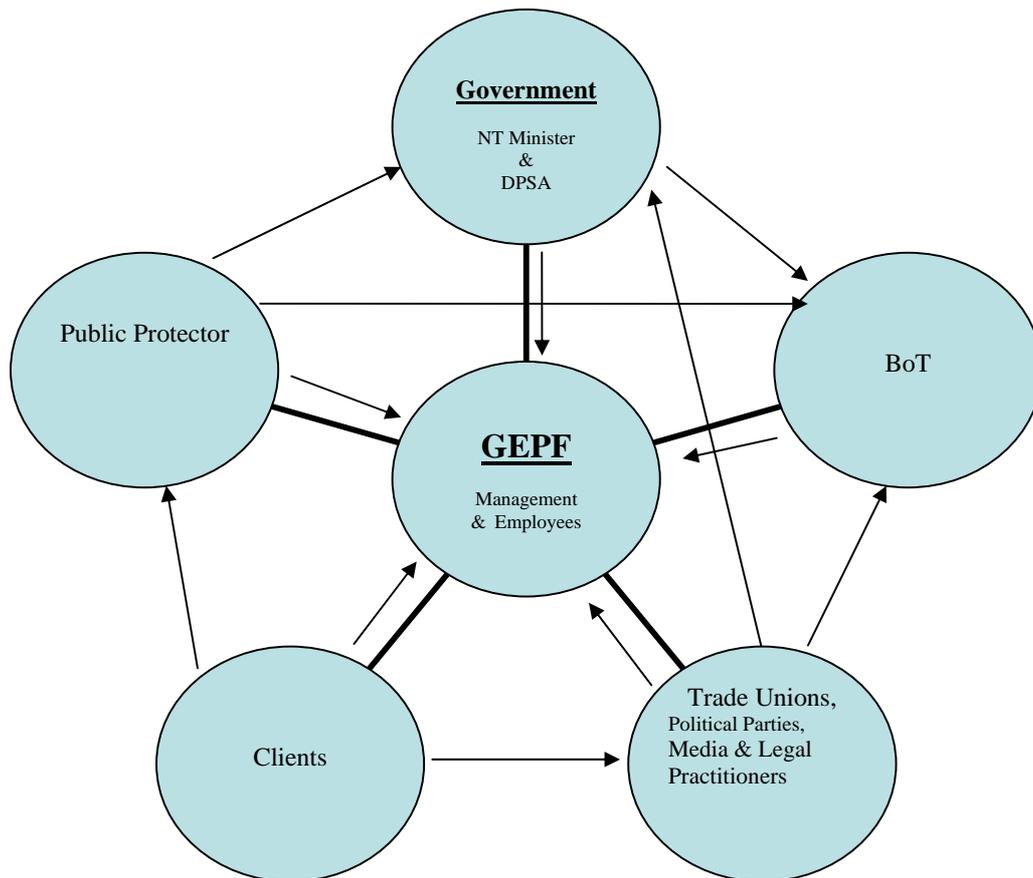
- Improve customer satisfaction.
- Improve service delivery to meet administrative obligations with speed, ease and accuracy.
- Build mutual relationship with stakeholders.
- Create strategic partnerships with employer communities.
- Enhance service delivery through enabling technology and well documented processes

### 3.4 STAKEHOLDERS IN THE GEPF, THEIR INTERDEPENDENCE AND INFLUENCE ON PROCESSES

A stakeholder-inclusive corporate governance approach recognises that a company has many stakeholders that can affect the achievement of its strategy and long-term growth. Stakeholders can be any group that can affect or be affected by the company's operations (IoDSA, Report 2009: 100) and include shareholders, customers, employees and society in general. Figure 4 shows GEPF stakeholders and their relationship with one another. Some stakeholders are only interested in the developments within the GEPF while others actively participate in the GEPF processes.

However, all of these stakeholders influence these internal GEPF processes in terms of the administration of pension benefits and related processes. Stakeholders need to be taken into

account when the change process is initiated because their role will affect internal systems and have an impact on outcomes and other stakeholders. For example, incorrect payment of benefits will lead to incorrect tax calculation and therefore have an implication for beneficiaries (stakeholder) and the SA Revenue Services (stakeholder).



**Figure 4: GEPF and stakeholder relationship**

### 3.4.1 The Government of South Africa

Section 31 of the GEP Act, 1996 (Act 21 of 1996b) holds the government of SA liable for obligations of the GEPF to its members in terms of whether it properly funded or not. The Act further stipulates that the Ministry should be consulted and to approve a number of sensitive and strategic issues, such as any amendment to the Act, dissolution of the GEPF and transfer of liabilities and assets to any separate Fund. The GEPF, was created in terms of an Act of

Parliament of SA to pursue the interests of the government and therefore it is directly owned by the SA government.

According to the GEPF Act, 1996 (Act 21 of 1996b) the interest of the government is represented by the Minister of NT and also by other departments, namely, the Department of Public Service and Administration (DPSA) and the Office of the Public Protector (PP). The DPSA ensures that statutory procedures and regulations within the GEPF remain within the structures of the Public Service of SA. The PP, on the other hand, represents mostly the interest of clients in terms of late payments and other disputes by providing free mediation on their behalf.

### **3.4.2 The employer institutions**

The client base of the GEPF comprises employees of state departments and SOEs. The role of EIs is an all important one as they are expected to collect and pay over the members' (in their employ) contributions to the GEPF. They are also expected to keep and maintain all data related to the duration and dates of membership of their employees to the GEPF. The EIs are required to correctly and timeously complete claims and forward them to the GEPF on termination of membership of employees and act as agents until payment is made (RSA, GEPF Annual Report, 2007: 30).

### **3.4.3 The Board of Trustees**

The Board of Trustees (BoT) was set up in line with the GEPF Act, 1996 (Act 21 of 1996b). The BoT comprises sixteen members: eight of them are from the EIs, six from public sector trade unions, one from the SA National Defence Force (SANDF) and the SA Police Services, and one from the GEPF pensioners. The BoT shall, in terms of section 6 of the GEP Act, 1996 (Act 21 of 1996), manage the GEPF and exercise the powers, perform the functions and carry out the duties conferred upon it. Members of the BoT are principals of their institutions in their own right and bring along their diverse skills to fulfil their fiduciary duties and responsibilities within the GEPF.

### **3.4.4 The management**

The GEPF management has a duty to convert strategic vision and decisions as determined by the BoT into practice. It consists of a number of committee structures such as the Executive committee (EXCO) and the Management committee. Other committees created to deal with a variety of issues include the health, safety, finance, facilities and security. The management

forms a link between the BoT and the employees of the GEPF (RSA, GEPF Annual Report, 2007: 27).

### **3.4.5 The employees**

For the purpose of this study, the employees within the GEPF shall refer to those who deal mainly with administrative functions and are without managerial duties. They include those employees that are directly involved with production, without whom production is not possible, and those who have direct contact with clients and whose attitude to work as well as their behaviour will determine the image of the GEPF. The skills they possess and their ability to adapt to new and changing circumstances will determine the success or failure of the GEPF in fulfilling its mandate (RSA, GEPF Annual Report, 2006: 67).

### **3.4.6 The clients**

The GEPF clients refers to contributing members and pensioners who are in receipt of their monthly pension benefits and shall include all stakeholders (persons or organisations) who receive services. By virtue of being civil servants, GEPF members are legally bound to GEPF membership as determined by the GEPF Act, 1996 (Act 21 of 1996b). It is therefore imperative to protect members against poor customer service as competition not applicable to the GEPF thus clients are legally restricted to the GEPF. (RSA, GEPF Annual Report, 2007: 30).

### **3.4.7 Other stakeholders**

Other stakeholders represent the interests of clients in the pension benefits administration and include the media, legal practitioners, trade unions and political parties. The media serve to highlight those exceptional cases where clients or their beneficiaries suffer through either delays or incorrect benefit payments. Legal practitioners are often preferred where disputes arise and they often assist clients in compilation of submissions and offer legal advice to clients. Trade unions and political parties confront the government through forums to represent their members.

Only through trade unions, political parties, media or legal practitioners can clients' plight be taken to the BoT which in turn can raise a concern to the management. For any unsatisfactory response, the PP will make representation to government through any of the structures. The GEPF (management and employees) will remain accountable to all stakeholders concerning its performance or lack thereof.

### **3.5 SUMMARY**

In this chapter the GEPF regulatory framework was outlined and discussed. The historic origin of the GEPF was described both in the old and the new dispensation. The Constitution, 1996 (Act 108 of 1996a) and the GEPF Act, 1996 (Act 21 of 1996b) were identified as the legislative sources for the creation of the GEPF. This was followed by a detailed description of the organisational structure of the GEPF. The transition from GEPF to the GPAA was also explained with the enabling legislation, the GPAA Act, 2010 (Act 10 of 2010). The GEPF's core values and strategic objectives were also outlined.

The workflow of claim documents was described as well as how the various divisions complement each other to provide the overall functionality of the GEPF's internal process. The position and role of the government and the other stakeholders was also examined. The structure given in the chapter is the current semi-corporatised structure. The proposed (fully corporatised) one is still awaiting the approval of the Board and the Minister of NT.

The following chapter addresses mainly the data collection process. It includes a description of questionnaires used and interviews with selected officials within the GEPF concerning the roll out of corporate governance techniques.

## **CHAPTER 4**

### **THE CORPORATISATION PROCESS WITHIN THE GEPF**

#### **4.1 INTRODUCTION**

When corporatising, the government emphasises control and accountability but it does so within a context in which clear performance measures such as profits and sales are not available to aid in assessing these functions (Rainey, 1997: 311). The GEPF, as a non-profit government entity, is expected to exercise control and accountability during and after corporatisation. This chapter mainly comprises a description of the empirical study that was carried out; data were collected through observation, questionnaires, interviews and records. The chapter reflects on the sampling and forms the critical part of the study, where data will be consolidated and interpreted.

The chapter explores and analyses techniques already described at the beginning of the study in terms of their applicability to the GEPF environment. The outstanding techniques towards the completion of corporatisation will also be described. The outstanding techniques are analysed with a view to projecting their impact on the outstanding challenges. This will be done by listing and reconciling these outstanding techniques with the challenges, thus determining the projected impact. This will enable an objective analysis and comparison with resultant facts crucial to form findings and thus conclusion.

#### **4.2 SAMPLING AND DATA COLLECTION**

Participants for the interviews were purposefully selected from within the GEPF. Consideration was given to the role they play in the GEPF as related to this study. They should possess the knowledge of techniques already rolled out and those still envisaged to be implemented. Regarding customer perception, questionnaires that are in current use within the GEPF were to be drawn at random, analysed and interpreted. Records were to be searched on the system and only those that were considered relevant and able to add value to the study in various ways were to be used.

### **4.2.1 Interviews**

For the purpose of the data collection, interviews were conducted with the following people: the CEO, Mr P Tjie; the COO, Ms M Kola; and the Client Relations General Manager, Ms M Moilola. These interviewees are part of management, and intensively involved with strategic issues of the GEPF regarding the corporatisation process. They were also placed in those positions that allow them to possess the required knowledge. Their expertise and positions within the GEPF and in the corporatisation process should enable them to articulate their observations and understanding of the process and related concepts.

Mr Tjie, was interviewed on the issues of risk management, the Statement of Corporate Intent, the management's role, the role of the BoT, corporate social responsibility, and ethics. Ms M Kola, was interviewed on the issues of good governance, new public management and the employees. Ms M Moilola, the Client Relations Manager, Ms M Moilola, was interviewed on the techniques the GEPF intends to employ to cater for the needs of its clients and its employees. Some questions were thus also directed to her in this regard, because as the CRM's roles is also towards employees as clients.

### **4.2.2 Questionnaires**

The questionnaires are both structured and unstructured. The questionnaire to the CEO, COO and Clients Relations Manager consisted of open-ended questions with the purpose to draw, as wide as possible, valuable data without being restrictive. This was to ensure that as much available information would be obtained, which would add value to the study. The customer questionnaire, however, was more restrictive and only intended to restrict customers to specific responses. These specific responses would be used to determine how they perceive the quality of service they receive from the GEPF.

The standard questionnaire used by the GEPF was adopted. Five hundred questionnaires were sampled at random and analysed. The responses were restricted to "very good, good, poor, and very poor". The questionnaire omitted the "average" option. The researcher regards this as valid if the vision of the GEPF regarding is business administration is considered. From the 500 questionnaires, 340 (68%) were "good and very good" and 160 (32%) were "poor and very poor". Of the 160, 146 were found to be legitimate, because their cases were only paid after a delay of a three-month period from their termination date, and 14 were found to be dissatisfied with issues not related to the purpose of the study.

### **4.2.3 Records**

Documents and electronic data relevant to this study also formed part of the study. The GEPF Change Management Report (2002) regarding the readiness of employees for the corporatisation process was studied. Articles in newspapers and magazines that were applicable to this study were also consulted. The IT system records were accessed to collect relevant data, such as time taken after termination of membership by clients until claim documents were received by the GEPF, the average time taken by that the GEPF from receipt of the documents to the payment of benefits, and the number of enquiries recorded.

## **4.3 ACCOUNTABILITY, RESPONSIBILITY AND ETHICS**

The chairperson of the BoT, Mr Martin Kuscus, not only mentioned the need to balance the risk with the reward, but went on to state that the GEPF has evaluation instruments to measure “these things” (accountability; responsibility and ethics). Since the GEPF uses the Public Investment Corporation (PIC) for the investment of its assets, accountability, responsibility and ethics extend to the PIC (RSA, GEPF Annual Report, 2007: 18). The investment committee constitutes by members from both the GEPF and the PIC. The PIC reports to the investment committee, which in turn reports to the BoT.

In order to increase the level of accountability by the PIC, the GEPF constructed a document to mandate the PIC on what they can and cannot do, where and when they should invest, in what type of asset classes and at what percentage they should invest. This measure therefore puts a state of alertness on the PIC with regard to its activities with a view to fulfilling the mandate. Therefore, no amount of external pressure is likely to distract the PIC from fulfilling that mandate. However, the GEPF has eased some of the pressure because some of the money has been withdrawn and invested in-house (RSA, GEPF Annual Report, 2007: 20). The PIC is also answerable to Parliament.

Regarding accountability of employees, the GEPF intends to address the issue of accountability proactively through setting clear performance expectations for their staff. Staff performance is in the process of being aligned to organisational strategic objectives and support is being given to attain the expected performance. Continued performance monitoring is being implemented and good performance is being rewarded through performance bonuses. Non-performance, however, is being dealt with in terms of organisational directives.

The GEPF espouses good corporate values. First is honesty, which refers to rejecting any form of misrepresentation and withholding information from stakeholders. Second is transparency, which refers to openly communicating with stakeholders and being open to scrutiny. Third is fairness, which refers to acting impartially and investigating facts first before drawing conclusions. Then there is professionalism, which refers to proper conduct and enhancing the dignity of the staff and the company through providing accurate, timeous, and responsive quality service (personal interview: M Kola, 17 October 2007).

Regarding issues of legality of processes and decisions, the GEPF has, in the proposed model of its structure, made provisions to strengthen its Legal division. The Legal division will have a Head at the General Manager level, assisted by three senior managers reporting to him (personal interview: P Tjie, 10 October 2007). The legal component will have eleven legally qualified staff instead of the current seven administrative staff. Given this setup, the GEPF will be capacitated to enhance the legality of practices and decision making. The risk of having successful litigations against the GEPF will be reduced.

#### **4.4 GOOD GOVERNANCE**

The PIC therefore, through the investment committee, has an obligation towards the GEPF, which in turn has an obligation towards its members. Since the funds administered by the GEPF belong to, and are administered on behalf of its members, the GEPF has vested interest in ensuring that involved institutions are governed to comply with good corporate governance and subscribe to the best international practices (RSA, GEPF Annual Report, 2007: 17).

Within the GEPF, the current structure gives effect to the Audit division, which ensures that rules and procedures are complied with. The GEPF Act, 1996 (Act 21 of 1996b) provides for the appointment of external auditors to audit books and activities within the GEPF. The Act further makes provision for officials to co-operate with auditors by answering all questions put to them by auditors. The CEO is the ultimate respondent to all audit findings and queries, and is required to put measures in place to ensure that audit concerns are addressed. Auditors' recommendations need to be taken seriously by management.

The Forensic division, as discussed in Section 4.7, was created to ensure compliance and proactively introduce those measures that will eliminate fraud. The proposed GEPF structure provides for a dedicated compliance department that will serve as a quality assurance division.

The core function of this structure will be to deal with compliance aspects of all other divisions within the GEPF. It will monitor processes within the GEPF in relation to all stakeholders (Section 3.4) and ensure that concerns from stakeholders are addressed (Wixley & Everingham, 2005: 165).

#### **4.5 CORPORATE SOCIAL RESPONSIBILITY**

Among the other responsibilities of the investment committee is the CSR. The GEPF, through the PIC, is restricted in terms of the offshore investment. The only change made, as agreed to the Minister of NT, was to establish the Pan African Infrastructure Development Fund (PAIDF), which allows for investment in the African continent only (RSA, GEPF Annual Report, 2007: 19). The GEPF has put down US\$250m of the US\$700m committed to the PAIDF as start-up capital.

Through the Isibaya Fund, the GEPF was able to assist with Black Economic Empowerment start-up projects by granting capital. It was further instrumental in the refurbishment of the Mabopane shopping complex (near Pretoria) and R14m was used to refurbish the Garankuwa shopping complex (RSA, GEPF Annual Report, 2007: 19). These targeted areas are those where ordinary fund managers are normally risk averse. Not only are citizens now afforded the opportunities of shopping near to their homes but there are now employment opportunities on their doorstep, which should lead to an increase in savings, in terms of transport costs, and also convenience.

There are a few other areas where the GEPF is involved in CSR activities. Examples are where the PIC collaborates with the Development Bank of SA; between the PIC and the Industrial Development Corporation; between the PIC and the Department of Trade and Industry; and the PIC with the Airports Company of SA. The government, through the office of the State President or of the Minister of NT, will keep a close watch on any mismanagement or incorrect investment decisions (RSA, GEPF Annual Report, 2007: 20).

The GEPF provides a bursary scheme and employees have an opportunity to improve their formal qualifications at recognised academic institutions (personal interview: M. Kola: 17 October 2007). The GEPF has adopted the Literacy programme that seeks to improve the educational levels of its academically disadvantaged staff members. This has resulted in the emergence of higher primary qualifications and a reduction in the level of illiteracy amongst GEPF employees (RSA, GEPF Annual Report, 2007: 30).

Within the Corporate Services, the GEPF has contracted a private company in an initiative whereby employees are given support to deal with problems of a personal nature that could affect their wellbeing and performance. The initiative is called the Employee Assistance Programme. In addition to this initiative, the GEPF has made employee wellness a strategic priority. Guidelines have been formulated to promote employee wellness and a wellness centre has been created wherein minor ailments of employees are treated or attended to.

Finally, there are a number of smaller initiatives that have been created to show the human face of the GEPF to its employees. For example, the GEPF provides free tea/coffee with milk to its employees, and the same privilege is extended to clients during winter. The GEPF supports, through sponsorships, a number of sporting codes for its employees: annual GEPF golf day competitions, shooting as a sport, and soccer. Employees are not only encouraged to participate but are allowed certain privileges, such as the day off on event days.

#### **4.6 NEW PUBLIC MANAGEMENT**

The GEPF still falls within the ambit of a state department and the employees are regulated in terms of the Public Services Act, 1994 (Act 103 of 1994), as amended. The GEPF has however embarked on a corporatisation route. In the past decade, it has rolled out a number of interventions towards corporate governance, some of which are discussed at length in this study. Special emphasis has been placed on performance management, efficiency or cost-cutting, improving service quality and service standards, and responsiveness and timeliness.

The GEPF Act, 1996 (Act 21 of 1996b), as amended, makes provision for the payment of benefits within a period of 60 days from the date it received duly completed claim documents. If the documents were found to be not duly completed and were returned to the EIs, when they were resubmitted they would be regarded as new documents. The 60-day period would count from the start of the newly received documents. The process resulted in claims being delayed by months, and sometimes even years. The outcry from stakeholders was loud, yet in vain, as the GEPF hid behind this legal provision.

Performance management was assessed conventionally, and production statistics were manually provided and not verified. Objectivity to such statistics was always questionable, as it was not done through an independent process. The manual counting created room for manipulation and misinformation, especially because there were no verification measures in

place. When production statistics were eventually released, they could not be compared to any standards or targets as the targets were never considered an important part of the performance management process.

In the Pensioner division life certificates are used to determine the life status of retired members and beneficiaries to determine their eligibility for benefits. This function was maintained at the annual cost of R300 million in order to save a potentially R900 000 loss (personal interview: P Tjie, 10 October 2007). The costs involved are personnel expenditure, stationery and printing, postage, furniture and equipment, as well as costs to pensioners related to the return of the life certificates. Despite the costs involved, the process created inconvenience to pensioners, especially in rural areas. More than 90% of suspended benefits (due to the non-return of life certificates) had to be reactivated after an enquiry or late receipt of life certificates.

In order to deal with these problems the GEPF contracted a team of consulting companies. These companies are entrusted with different responsibilities to assist in transforming the GEPF into an agency model with NPM features. One company is the Expert Consultants Group, which has been tasked to provide skills and capacity through training courses. Managers and nominated supervisors received training on topics such as Project Management and Operations Management. The team also works closely with management to identify areas where the employees require skilling. The process is continuing (personal interview: P Tjie, 10 October 2007).

IBM, a consulting company for the GEPF, has been tasked to transform the current GEPF structure into a new one. Divisions such as Forensics, the strengthened Legal division and the revamped Communications division emerged from initiatives to improve the structure in order to build the GEPF capacity to meet its challenges. This process is continuing to model the structure into features of the NPM agency model (personal interview: P Tjie, 10 October 2007).

#### **4.7 RISK MANAGEMENT**

In 2006, the GEPF discovered a spate of fraudulent activities where active members were being fraudulently terminated from service and their pension benefits cashed. This happened through collusion between corrupt GEPF officials and officials at the EIs. Officials at the EIs would complete claims and forward them to the GEPF where they would be processed by GEPF officials. The benefits would then be paid into fraudulent bank accounts. This would only be

discovered when the member eventually terminates services, which could probably be after several years (personal interview: P Tjie, 10 October 2007).

Officials at EIs would also approach a terminating member and collude with that person to agree to have his or her contributions inflated (doubled, tripled, or even more), thus leading to a direct increase in pension benefits payable. The overpaid money would then be split between the parties. The practice got so rife that members at the EIs even offered to resign so they could have their contributions inflated, thus receiving benefits they might otherwise never have had in their entire lifetime. The known financial damage has been recorded to run into tens of millions of Rands (personal interview: P Tjie, 10 October 2007).

To deal with this problem, the GEPF created a Forensic division. A Risk Manager was subsequently appointed together with supporting staff, which comprised forensic and administrative officials. This division deals with problems related to fraud and proactively designs measures aimed at curbing fraudulent practices. Recently, the GEPF saw the emergence of IT systems' validations where all contribution increases exceeding 10% are rejected by the system. These cases are then referred for manual verification of contribution to validate such an increase. To curb fraudulent terminations, the Forensic division created a validation in the GEPF IT systems where the processing of a claim is blocked if contributions are received even one month after the date of termination.

While these two processes have added more duties to the existing staff, the resultant effects, as fraud-prevention techniques, are unquestionable. The RM team monitors trends within the GEPF that are likely to be utilised as loopholes to commit fraud and puts preventative measures in place that will assist to discourage fraudulent practices (Wixley & Everingham, 2005: 85).

#### **4.8 STATEMENT OF CORPORATE INTENT**

A company with an intention to be the best in both service delivery and stature needs to embark on a process of transformation. GEPF News (2001: 6) reveals the vision of the GEPF as follows: "we strive to attain and sustain world class performance in employee benefits, pension and retirement fund administration." The management of the GEPF has committed to forming a model organisation with regard to the level of service and security. This vision helps shape and guide processes within the GEPF to a competitive level to its private sector contemporaries.

The GEPF adopted as their mission to “strive to inspire our people to be the most proficient and professional providers of world-class employee benefit services” (RSA, GEPF News, 2001: 6). The GEPF intends to achieve this through the best available technology; accountable, transparent and responsive processes and practices; teamwork; and investing in “our people.” As part of this mission, the GEPF has created regional offices in order to meet the intended standards and to provide quality service (personal interview: M Moilola, 18 October 2007).

The GEPF has adopted a strategic document that outlines the company’s objective and initiatives to realise its mandate. This document is developed a year in advance and is evaluated on a quarterly basis by the EXCO and the BoT. This document, in addition to the “Vision and Mission” statement, sheds light on how the GEPF pledges to fulfil its mandate in a manner that satisfies its members, beneficiaries and other stakeholders. It reflects on how to achieve targeted investments; develop and adopt an integrated client service strategy; deal with issues of good governance; and recruit and retain competent staff and ethical issues.

## **4.9 THE CHANGE MANAGEMENT PROCESS**

### **4.9.1 The structure**

The GEPF, during November 2002, contracted the services of Bentley West management consultants to facilitate the change management process. The process resulted in the creation of a structure that comprised a focus group coordinator, facilitators, a clearing house committee, a steering committee, focus group members (employees), and management. Stakeholders in the structure had unique roles, which were intertwined in a manner that would ensure the effective implementation of the intervention (RSA, GEPF News, 2002: 8).

The clearing house was the working committee which represented the steering committee and was responsible to promote and encourage employees’ participation; receive and analyse information from the focus group; prepare responses; improve the focus group process; identify topics for discussions; and the communication of focus group activities through the GEPF Intranet (RSA, GEPF Report, Focus Groups: 2002). The role of the focus group coordinator was to ensure facilitators are elected and trained; develop a schedule (time and venue) for meetings; provide ongoing support and guidance to facilitators; and reporting on activities.

### **4.9.2 The process**

The focus group sessions comprised two-hour sessions, which were earmarked only for the managers and supervisors in the GEPF, who then requested that it be extended to the rest of the staff members. The request was formalised and the contents were “adapted” for the roll-out. Not all staff members attended; it was more a matter of arbitrarily deciding if they wanted to attend, thus some never attended. Reasons cited were, for example, work commitments, and some could not be released by their supervisors (RSA, GEPF Report, Focus Groups: 2002).

During the sessions general responses were noted for the purpose of feedback to the clearing house. Amongst others, the responses were: “I now understand why I am fearful of my promotion; Who can we talk to if supervisors do not even want to listen; My supervisor must attend this session; I do not think the Employee Assistance Programme is confidential as it is alleged; and I do not trust my Counsellor.” Of the 478 employees eligible to attend, only 210 (44%) attended the focus group sessions. Gardeners, messengers, cleaners and security officials were not included as they were not seen to be the targeted group.

### **4.9.3 The outcome**

One of the objectives of the focus group was to address concerns and allay fears concerning the imminent change envisaged for the GEPF. In addition, the objective was to identify and address to the best possible extent the needs and legitimate desires of the employees with regard to their role in the GEPF. A wide variety of concerns, fears and questions were raised and responded to by the clearing house. Equally, a list of needs and desires was compiled during these sessions (RSA, GEPF Report, Focus Groups: 2002).

From amongst the fears, questions about job security were raised; provision of training as an intervention to build staff capacity to meet conform to new arrangements; the relocation of the GEPF premises; withdrawal of existing benefits; and growth, development and promotions. From amongst the needs and desires list, were issues of refurbishment of the GEPF buildings and facilities; introduction of subsidised staff uniforms; introduction of flexi-time (staff starting work on different times and knocking off at respectively different times); and recognition of academic achievements through a salary raise (RSA, GEPF Report, Focus Groups: 2002).

Resulting from the focus group sessions, a lapa (a social facility to host functions) and a kiosk were built. The kiosk provides a variety of refreshments and foods to the GEPF staff as well as to its neighbouring companies. The GEPF now provides certain free refreshments (Section 4.5)

to all of its staff members. The building was also refurbished. The GEPF regularly holds feedback meetings between management and employees (P Tjie, 10 October 2007). In these meetings, questions are asked and responded to on the spot, and strategic objectives are communicated on time.

#### **4.10 SUMMARY**

In this chapter the roll-out of the corporatisation within the GEPF was analysed in terms of its effectiveness. The structures, procedures and techniques introduced are described against challenges experienced within the GEPF, thus clarifying whether or not progress has been made and whether or not the outstanding interventions are capable of addressing the remaining challenges. This was done by way of mentioning earmarked interventions in terms of the proposed new GEPF structure.

The objectives and mandate of the GEPF are outlined towards service delivery improvement. Broad issues of corporate governance have been looked into as well as those processes that directly affect performance. Data collection was done using questionnaires and interviews. The following chapter includes the findings, conclusions and recommendations.

## **CHAPTER 5 FINDINGS, CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 INTRODUCTION**

In Chapter 3, the regulatory framework of the GEPF was outlined and discussed together with the stakeholders in the GEPF and its structure. The role of each stakeholder was stated and their interdependence was described. The objectives and strategic goals of the GEPF were also outlined and discussed. In Chapter 4, the roll-out of the corporate governance techniques within the GEPF and the extent thereof were discussed, together with data collected through questionnaires, interviews and access of records. In Chapter 5, the data collected will be now reconciled with challenges described in Chapter 1 to obtain the findings. These findings will be limited to those that will aid in addressing the challenges stated in Chapter 1.

Conclusions will be drawn from a reconciliation of the findings of the study. The conclusion will form the critical part of the thesis as it will highlight the effectiveness of the interventions; evaluate the implementation process; and state and analyse what went wrong (if anything), or, what needs to happen and why, for the process to move forward. Finally, the chapter will include the recommendations that will be derived from the conclusion. The recommendations will pre-empt the effect of outstanding features or techniques that are projected to bring out certain results in the GEPF administration.

### **5.2 FINDINGS**

The objective of the GEPF is to administer pension contributions and pay benefits accurately and on time. A number of factors within and outside the GEPF administration have contributed to the GEPF not attaining this objective in the most effective and efficient manner. The following are findings in terms of processes that inhibit the GEPF from realising its objectives in the best manner, as contained in its vision and mission statement:

#### **5.2.1 The EIs, role in the administration of the GEPF**

There is limited direct relationship between the GEPF and its members. The EIs form the enabling lifeline of the GEPF business administration with its members. The EIs are primarily the custodians of GEPF members' data. Where the EIs cannot support any outstanding

information about the member, the GEPF will proceed to implement whatever information is at its disposal regardless of whether such decision or action will compromise its own members in respect of benefits or not. The member cannot successfully lodge a claim by him/herself without the involvement of the EIs.

The GEPF membership is terminated when members terminate their employment with the EIs. Except for any liabilities by members towards their former EIs (ex-employer), the EIs have no interest in the outcome of the accuracy or the timeous payment of such benefits. There is no legal requirement or penalties to compel EIs to attend to GEPF members' timeously. The EIs' involvement in GEPF members' affairs operates in an arbitrary manner and GEPF officials do not have authority over EIs officials over members' claim issues.

### **5.2.2 Contract workers**

The GEPF Annual Report (2009: 14) informs that a total of 280 GEPF contract employees have been converted to permanent, and can enjoy fringe and other benefits such as pension. According to the interview with Ms Kola (17 October 2007), the remaining 175 contract employees have also been targeted for conversion. The latter's conditions of appointment differ from the former contract workers. The former have been contracted to the GEPF hence the ease of conversion. The latter have been contracted to the GEPF through their employment agencies, thus making it necessary to acquire those employees from those agencies.

### **5.2.3 Use of benchmarking and implementation assessment**

During the change management process it was clear that not only was benchmarking not done but also the entire process of implementation assessment was not even considered. When a decision was taken to roll-out the change management to all employees, it was not clear what the envisaged end-product was. Neither was any effort made to determine whether what was intended was actually achieved or not. In fact, it was an arbitrary decision by employees on whether they wanted to attend focus group sessions or not. No formal systems were put in place to ensure that all employees attended sessions and that non-attendance was based on valid reasons, or follow-up sessions arranged.

The focus groups exposed some underlying capacity and skill deficiencies of certain supervisors within the GEPF as opposed to the potential in junior employees. No proof of follow up or the capacity building process was available for scrutiny. More than half (56%) of eligible employees that were earmarked for the change management failed to attend the focus groups and were

permanently left out. These are the employees that never realised the benefits of the process and therefore never had their fears or concerns known or responded to (RSA, GEPF Report, Focus Groups: 2004).

During focus group sessions, general responses were noted for the purpose of feedback to the clearing house. Some responses were: "I now understand why I am fearful of my promotion; Who can we talk to if supervisors do not even want to listen?; My supervisor must attend this session; I do not think the Employee Assistance Programme is confidential as it is alleged; and I do not trust my Counsellor." Of the 478 employees eligible to attend, only 210 (44%) attended the focus group sessions. Gardeners, messengers, cleaners and security officials were not considered as eligible for exposure. Even some administrative staff (268) that were eligible did not attend (RSA, GEPF Report, Focus Groups: 2004).

#### **5.2.4 Incorrect usage of performance management**

Performance management within the GEPF has always been based on statistics for claims successfully handled. This process emanated from performance at individual level, then to divisional and eventually to the organisational level. The problem is that these statistics did not have any meaning if not compared against specific targets or indicators. It was thus impossible to assess performance without having prior targets. Performance should lead to specific outcomes. "Management should know how much of the department's work and outcomes advanced their organisation towards realising their strategic objectives" (Cokins, 2004: 41)

The statistics used to measure performance are obtained manually rather than from an independent source or system. Productivity depends not only on how we measure performance but also on the IT used to do so (Schlenker & Matcham, 2005: 171). Magliolo (2007: 68) states that in an environment like SA, with differing statistics (official and unofficial), it is difficult to forecast, and thus it is best to consider only statistics that can be confirmed by at least two additional sources.

As a result, objectivity and accuracy could not always be guaranteed. The use of numbers (quantity) of claims successfully handled by individuals and the division was always a challenging task as certain claims were classified as "difficult". Difficult claims are those that had outstanding information and take time to be successfully processed. Normally these were seen when some time has been spent on the case but it could not be successfully settled. This has a

direct link to the EIs role in the business administration of the GEPF, as the outstanding information would be with the EIs.

When an error is identified, the GEPF IT system does not allow for processing with error. This causes the claim to be returned to the EIs a few times for different errors (picked up by different sections), instead of once for all errors. When claim documents are processed with errors, payment is disabled, but other sub-divisions are also enabled to handle the claim. When eventually the claim is returned to the EIs for correction, it is only done once for all the errors. On return to GEPF, the claim should be correct and enable a successful payment.

### **5.2.5 Inability to deal proactively with foreseeable problems**

The main reason cited by GEPF for especially late payment of claims was that it was experiencing backlogs. Backlogs occur when there is a sudden inflow of claim documents from the EIs. They occur in two different ways. First, there are irregular backlogs, which occur when a specific employer embarks on a process of restructuring, thus resulting in mass claims being sent to the GEPF. Second, there are the regular backlogs, which occur at specific times, such as the end of the year when it is convenient for members to retire or have their contracts terminating.

In both regular and irregular backlogs, it is clear that management displayed a lack of planning and anticipation. It is evident that management did not have the foresight to apply measures to counter the effect of the mass influx. Furthermore, in both scenarios performance management cannot be ruled out as the contributing or worsening factor. It is for this reason that performance management, as a process of managing and planning, is an integration tool, bringing together methodologies, metrics, software tools, processes and systems that manage the performance of an organisation (Cokins, 2004: 1).

### **5.2.6 Staff component within the GEPF should support its vision**

CRM has 77 of the total 720 staff members placed in this unit compared to 125 in the Employee Benefit unit. The Employee Benefit component forms the core of the GEPF business administration and comprises further sub-units. An analysis of the given staff compositions reflects inconsistencies. The CRM, which forms the support division of the employee benefit division, has about 75% of the staff composition of the latter.

The call centre is equipped with an IT system that monitors the number of calls at any given time, the duration of each, waiting time, and abandoned and discouraged calls. Supervisors

perform random checking (listening) of conversations for quality purposes. An analysis of employee benefit division reflects the following in terms of enquiries received through the client services: only 3% of all enquiries received are related to the pensioner maintenance unit while more than 75% are related to payment processing unit. No IT system is available in the employee benefit division to assist with performance and quality management (RSA, GEPF News, 2005).

### **5.2.7 The claim documents route**

The claim documents route, as briefly outlined in Operations (Section 3.3.3.3), is long, thus delaying the finalisation of claims. The processes regarding the movement and reading in/out of documents within and between sections affect the timeliness of claims processing. The flow is as follows: pre-verification, receiving and distribution, membership; and payments. All of these divisions have subdivisions of processing and checking, and in each case a document has to be read in/out. Some documents are referred to divisions such as Legal and other support divisions for further and specialised attention.

## **5.3 CONCLUSION**

The SA government introduced several interventions to maximise performance and improve the skills capacity of public servants. These interventions are in the forms of Acts of Parliament, workshops, campaigns and speeches. However, service delivery and performance remain a challenge for most SOEs. This happens against the background of all the structures that have been created through legislation to ensure that a certain maximum level of performance, accountability and especially service delivery is achieved. Given these arguments, it is safe to conclude that some processes are still not being implemented as designed, or rather, a re-look into the processes within the SOEs is necessary (Roberts & Scapens, 1985: 116).

The conclusion to this study will flow directly from the findings and will only highlight those issues that add value to this study. Some related concepts and issues will be combined in order to give a flow of facts and to highlight some relationships. The GEPF has never denied the fact that some areas can improve in terms of their performance and service delivery. However, until a few years ago, not much attention, if any, was given to internal and external processes. The processes that flow from the conclusions have been objectively arrived at, and should provide some answers to the long standing and evasive question of GEPF performance.

### **5.3.1 The role of the EIs**

The role of the EIs in the GEPF business administration is too excessive, and thus itself presents a liability rather than an asset. Given the fact that the contributing members are GEPF members, not EIs members, should add an element of caution. The EIs officials have no compelling measures in place, for example SLAs or legislation, that holds them accountable for their role in the GEPF business administration. The tasks of the EIs in relation to the admission of new members, the onus of proof of admission date, and the completion of claim documents, are too much in the hands of the EIs, whose role is similar to that of a third party.

The EIs have no vested interest in the affairs of their ex-employees, some of whom could have been dismissed. It is therefore a possibility that this part of their administration will not be a priority, as it will be to the GEPF, and thus more resources have a chance of being utilised elsewhere, where the EIs might be required to account for their own non-performance. The GEPF will occasionally provide training on the completion of claim forms to EIs officials. After some time the trained EIs officials get promoted or are seconded to other divisions, thus leaving with the required skills. The GEPF administration is a specialised function and requires dedicated resources and people with specialised skills.

### **5.3.2 Contract employees and the morale and commitment of employees**

The commitment and morale of the previously contract employees are expected to improve. This process of converting contract employees is also expected to have a positive effect on the morale and commitment of the remaining agency-contracted employees. Unfortunately, morale and commitment can be attributed to different causes for different employees.

Permanent employees bemoan the lack of career paths and management's confidence in them (RSA, GEPF Focus Groups Report: 2002). They especially feel short-changed in terms of recognition, and that their contribution to the service delivery within the GEPF is only valued with reservations, even though they are the ones at the heart of the business. Lack of recognition of academic achievement is another factor that kills the morale of the permanent employees as they feel that, regardless of their achievements, there is no compensation in terms of career development and upward mobility.

The Focus Group Report (2002) reveals other factors that also contribute to the low morale and lack of commitment, for example: lack of the required skills to match the job requirements, lack of a staff retention policy, ineffective and undocumented business processes (personal

interview: M Kola, 17 October 2007). However, much has been achieved in a number of areas, such as the conversion of contract employees, the formulation of a staff retention policy, the IBM consultants reengineering of the GEPF business process, and earmarked internal promotions for GEPF employees for middle-management level positions. The GEPF is thus well on course to revamp the morale and commitment level of its employees.

### **5.3.3 Accountability, responsibility and ethics**

The Focus Group intervention was well thought of especially by managers and supervisors but was faulty in terms of the execution thereof. Firstly, due to the fact that an invariable consulting fee was charged (regardless of the number of attendees), it made financial sense to ensure that the maximum possible number of employees attended. This was necessary to effectively utilise the funds committed to the change management process and that optimal value is derived. Accountability in terms of the effective utilisation of funds was therefore minimal.

Secondly, accountability in terms of performance, especially, in the failure to have documented guidelines, procedures and standards for its employees, was compromised. It would be impossible to enforce employee accountability in this environment if adequate measures are not in place to ensure clarity, and it becomes difficult to assess performance on which the accountability function rests. The current internal processes therefore do not support the GEPF's intention to foster accountability of its managers and employees.

Thirdly, the effectiveness of the Focus Group process directly depended on the percentage of employees exposed to it. The larger the percentage of employee attendance, the more effective the process would be – with an ideal of 100% exposure. In most cases the employees who are in dire need of the intervention are those in need of persuasion, or must even be compelled to attend. The GEPF has thus failed to implement this process correctly, and neither was any assessment carried out on its completion in order to determine its effectiveness or impact.

With regard to ethics, however, the GEPF has moved in the right direction and, subject to the implementation of the proposed structure, it should be in line to create an effective Legal division. This division should ensure that the current loopholes found in the capacity of its Legal division are contained. Complimenting the Legal division, the re-engineering of the Communication division with qualified (Public Relations and Journalism) staff is expected to add more value to issues of ethics as this division will be the face of GEPF, with its performance and products (articles and publications).

#### **5.3.4 Good governance and risk management**

The author elected to combine the two concepts – good governance and risk management – as they are inter-related to a large extent. Principles, rules and practices embodied in corporate governance will only be effective if measures are in place not only to enforce compliance thereto, but that sanctions exist for non-compliance (The Business Roundtable, USA, quoted in King Report on Corporate Governance, 2002: 153). Non-compliance to rules will necessarily lead to a risk to the company and, to some extent, compliance should not only be encouraged, it should be compulsory.

The appointment of the Risk Manager should be seen as a positive step in the right direction. The Compliance division, which forms part of the proposed new GEPF structure, will ensure uniformity and compliance in terms of its monitoring duties. The awareness of these interventions should not only send a discouraging message to fraudsters (including officials), but will serve as a deterrent to all those that may still be tempted, or still contemplating indulging in fraudulent activities. Between years 2002 and 2005, when the spate of fraudulent transactions first hit the GEPF only the Audit division within the structure was in existence. It did however not serve as a deterrent; it was more often reactive, and lacked investigative competence.

The other internal interventions, such as the 10% salary increases and continuous contributions (Section 4.7), have directly impacted on the common fraud of inflating members' contributions. Both have been devastating, and could have, if they remained undetected, in a long run collapsed the GEPF. With a dedicated Risk Management division, the extent and prevalence of fraud within the GEPF is expected to decrease significantly. It can therefore be safely concluded that the GEPF is effectively dealing with matters of risk management by itself.

On the other hand, the proposed new GEPF structure makes provision for the Legal division, which is headed by an official at the Senior Manager level. The fortification of the GEPF in terms of its legal compliance is now improved beyond the normal bounds. This division will ensure that not only are internal processes complying to legal principles but also that its external relations remain legally sound. A successful organisation needs to have both its internal and external relationships legally compliant to be in a position to avoid unnecessary and avoidable litigation, which could prove to be costly.

### **5.3.5 New public management**

To improve the service to clients, the GEPF introduced a number of initiatives. Training was given to EIs officials to enable them to reduce error claims submitted to the GEPF. The emphasis during training to submit claims early has also brought an improvement in terms of the turn-around time for claims processing. The hi-tech electronic monitoring system introduced in the call centre has helped to monitor service quality, for example, the duration of waiting, abandoned and discouraged calls. The service in the call centre is also offered in all eleven SA official languages and with written correspondence in all eleven.

The current investigation on the sustainability of life certificate administration (Section 4.5) demonstrates positive action and an initiative on the part of GEPF in terms of cost reduction. Even if the ongoing research into the finding of alternative organisational forms of fulfilling the objectives of the life certificate section are not realised, the investigation might bring about a cost effective way of monitoring the (life) status of pensioners and their beneficiaries. This process will also be in line with the characteristics of NPM of doing things differently, innovatively and better.

Other issues of service standards, timeliness, responsiveness and a business-style of GEPF management have also come to the fore. A new method of reporting on performance as introduced by the new management has already started bearing positive results. New standards and targets will have a direct result on the issues of timeliness and responsiveness. The introduction of email and internet for enquiries, and enabling members to make their own calculations in terms of pension value, improves the service standards of the GEPF to its clients.

### **5.3.6 The management**

The author believes that the single most important factor in determining the success or failure of any organisation is its leadership. Management in any organisation is entrusted with the responsibility of steering the organisation through all obstacles and challenges towards its strategic vision. The quality of leadership is crucial in the organisation's quest to remain in the market, which continues to get tighter with organisations mushrooming. Private pension funds are free to compete with the GEPF when members retire as they may transfer their benefits out of the GEPF to those private pension funds. The government introduced initiatives to ensure that agency capacity is built. Legislations have been passed and programmes created for this purpose.

The GEPF's transformation of its business administration saw the appointment of senior managers in various divisions. This is against the background that in the previous three years, the GEPF had only one senior manager at the COO level and only three middle managers at the manager level. The turn of events provides a platform for effective administration where all the aspects mentioned under findings should be successfully addressed.

## **5.4 RECOMMENDATIONS**

The recommendations will be limited to those that will directly lead to an improvement in the alleviation of GEPF challenges, and not necessarily according to the findings and conclusion. There will be concepts that appear in the findings and conclusion but will not appear in the recommendations, as the organisation is doing well on such aspects, and thus recommendations are not required. For example, the organisation is doing well on Risk Management and is being successfully managed under the circumstances.

Recommendations have no meaning when not implemented, or at least having a feasibility study done on them. A further study on how best to implement recommendations will add more value to them. It is important that recommendations are not implemented in a rigid manner because conditions might have changed by the time implementation is considered compared to the time when they were made. It must be mentioned that success within the GEPF in terms of reaching its business goals will also depend, to a large extent, on the efficiency and effectiveness of its employees in carrying out their duties.

### **5.4.1 Need for a Service Level Agreement or legislation**

Either a SLA or a legislation is imperative for especially. applicable in terms of the business relationship between the GEPF and EIs. As mentioned in the conclusions, there are no compelling reasons to commit EIs to prioritise the business administration of the GEPF. The first step to take would be to enter into some SLA with all EIs. This will be less complicated than the legislative route. Management from the GEPF and EIs or their collective representatives, with the assistance from their legal divisions, may conclude such an agreement. The SLA will have to comply with all the requirements in order to be enforceable.

It is important that all stakeholders, especially the clients, through labour unions, are engaged when a SLA is drawn up. Employees and their managers, as the subjects of the SLA, should play a key role and, where possible, specialised knowledge of organisation and work study

officials should be invited. This is to safeguard company interests and ensure that the desired performance is neither unattainable nor too lax. The second step, which centres around legislative provision to obtain commitment, will be more complex. If, however the SLA route can be successfully implemented, it will render the legislative route unnecessary.

#### **5.4.2 New public management**

Much has been achieved in terms of clients' empowerment within the GEPF, however, the main concern in terms of customer satisfaction will remain the time the GEPF takes between members' termination of duties and the actual payment of their benefits. This has and will always be a burning issue in the existence of the GEPF. All stakeholders need to engage one another in the realisation of this objective. The BoT, as the principal body in the GEPF administration, should lead the way by creating an environment conducive for this objective to be realised. This could be done by instilling in the managers a sense of performance, which should be further passed on to supervisors down to the lowest employee.

Irregular and regular backlogs experienced by the GEPF occasionally display a lack of planning, innovation and being proactive. It should be fairly easy to plan and anticipate the regular influxes of claims in terms of periods, for example the end of the year, which is the when most employees prefer to retire or have contracts expiring. Management should align their resources in a manner that they counter these backlogs. Regarding irregular backlogs, the SLA should come into play and compel EIs to notify the GEPF of an imminent influx of claims, such as during retrenchments. This will make it possible for the GEPF to determine the impact and counter measures, for example, the acquisition of contract employees or introduction of overtime.

As a proactive way of dealing with all exits, an IT link to all terminations by EIs should be monitored and relayed to the GEPF. The GEPF can then initiate the benefit claim process by requesting claims documents from the specific EIs. This will improve on the current set-up where the GEPF has to wait for the claim to be submitted and only then start to update the members' data. A dedicated subdivision or an IT system could thus be created, which will monitor and report on these terminations. The GEPF is currently maintaining a similar IT link with the Department of Home Affairs' IT system and it is functioning well.

### **5.4.3 Staff component within the GEPF should support its vision**

The staff component within the GEPF should reflect its intentions to meet its mandate and to fulfil its objectives. The core business of the GEPF lies in the employee benefit division and therefore requires that focus and resources should be directed to that division rather than to the supporting divisions, as is presently the case. It is, for example, incorrect to staff the call centre and the WIC with more personnel or a number equal to, in the employee benefit division. The premise is if other stakeholders (EIs and employee benefit staff) performed well, these support divisions would not be required, at least in the manner in which they are currently structured.

The primary objective of the GEPF is to pay pension benefits correctly and on time. Therefore, resources need to be redirected in terms of priorities in the respective divisions. The reengineering should start with, or be built around, the employee benefit division and be expanded from there. The focus should therefore be on the employee benefit division in terms of staffing and equipment. Similarly, matching IT equipment that is for example in the call centre, which monitors all systems, should be in the employee benefit division. An effective Management Information System should be installed in the employee benefit division to complement other processes such as the performance management system.

### **5.4.4 Reducing the claim documents route**

The claim documents route, as outlined in Section 5.2.7, is not sustainable, and therefore does not support the vision of the GEPF. It is imperative that the route be reduced to the extent that it is permissible in the legal, practical and audit sense. The exception should be when such a move compromises the risk management objectives of the GEPF or any detected risk is identified. The IT system enhancement should also be to the point where transactions, especially sensitive ones, are traceable to an individual. Similar or related divisions should be combined, and employees should be multi-skilled to deal with claims in a broader sense than is the case currently.

## **5.5 SUMMARY**

Given the nature and extent of GEPF challenges in Chapter 1, it is clear that the need for some form of intervention was critical. In order for the GEPF to have its mandate successfully executed, its capacity should be built in terms of both internal and external processes. This was described mainly in Chapters 4 and 5. It is important that in order to determine the successes or failures of these principles, supporting systems and processes of implementation should be

assessed. Failure could be attributed to a number of factors, and thus the inability to determine the cause of the failure, which could lead to even more confusion.

The secret behind the success of the largest organisations lies in their managerial talent and practices (Fox and Heller 2006: 17). The role of management should never be underestimated with regard to the success or failure of any organisation. The management role of co-ordinating other stakeholders has been extensively analysed in this study. Management have the right and duty to utilise and align resources in the best way to achieve the corporate mandate. The first major step is for management to equip themselves with the necessary technical knowledge in their business environment. Then the focus can shift to employees – from supervisory level to the lowest in the company echelon.

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## Appendices

### APPENDIX A: INTERVIEWS

#### A. Mr P Tjie, Chief Executive Officer. 10/10/2007 (Questions asked)

##### Risk management (RM)

1. How does the GEPF intend to deal with RM in terms of identification and evaluation, and whether the risk should be terminated, transferred, tolerated/mitigated?
2. How does the GEPF intend to spread the responsibility for RM to all employees?
3. Do we have or intend to have a structure to deal with RM, and to whom will it be accountable?

##### Statement of corporate intent

1. Does the GEPF have a document explaining why the company exists, its main objective/s and benchmarking?
2. Besides its Vision and Mission statement, how else does the GEPF create vision, and guarantee and hold itself (commit) to quality?
3. How does the GEPF intend to deal with and improve on its professionalism, commitment to the public good, and its corporate integrity?

##### Management's role

1. What are other obstacles towards GEPF's optimal performance? How does the GEPF intend to deal with such obstacles?
2. How does the GEPF intend to deal with specific performance obstacles, such as IT deficiency and equipment?
3. On the issue of empowering through skilling, the GEPF provides both management and employees with a sizeable portion in the budget for a bursary scheme. This is available

to those employees who choose to enhance their academic prowess. However, what is the position with those that have created so-called comfort zones?

4. In the last couple of years the GEPF embarked on an intensive drive to empower their staff with training. However, the entire training process comprised Microsoft Computer programs only, particularly with regard to lower-echelon employees. Why were there no service delivery courses or any other enrichment courses?
5. Staff turnover is definitely not a GEPF problem alone, but what measures does it take to mitigate staff turnover?
6. How does the GEPF intend to create a good corporate culture, and what will be regarded as good corporate culture?

### **The Board's role**

1. Since the Board operates on a fiduciary responsibility/basis, what mechanisms are in place to police the Board with regard to using the conferred fiduciary powers properly, and not for personal purpose/interest/gain? (e.g. the Fidentia saga)
2. How does the GEPF intend to deal with and promote transparency with regard to the Board's activities?

### **Accountability**

1. How does the GEPF intend to deal/enforce accountability for performance as well as non-performance?

### **Corporate social responsibility (CSR) – Corporate investment to employees and the community.**

1. GEPF used to have an annual employees' family day and a monthly 'afternoon-off', both of which are now defunct. Why were they introduced, and why were they later withdrawn?

2. GEPF espouses sporting codes to its employees (golf, soccer, shooting). While golf and shooting enjoy substantial sponsorships from the GEPF and external companies, the grassroots sporting code, soccer, still lags behind in, for example, GEPF sponsorship. Is there any intention to, or effort from the GEPF, make a meaningful investment to this indigenous sport, or to generally encourage employee participation to sports or any social events?
3. As part of the GEPF's CSR we saw the refurbishment of Mabopane and Garankuwa shopping centres. This made life easier in these communities and brought many advantages of working and shopping in own residential areas than in suburbs. Can we expect more of these interventions in the near future? Or can we expect investments in the form of schools or health clinics?

### **Ethics**

1. How does the GEPF intends to invoke integrity among its employees?
2. Only senior members of the Legal division are legally qualified, while the junior members are purely administrative. This fact surely denies the Legal division some potentially optimal legal competence, and thus compromises the legality principle of the GEPF. Are we going to see only legally qualified people in the division and, if not, how does the GEPF intend to deal with the question of capacity building in the Legal division?

**B. Ms M Kola, Chief Operations Officer. 17/10/2007 (Questions asked)**

**Good governance**

1. The GEPF has employed auditors and forensic officials, and there are managerial functions to ensure compliance to rules. What other mechanisms or structures does the GEPF envisage to enforce or to encourage compliance?
2. In the Death Benefit administration for example, there is a legally authorised use of discretionary decision making. How does the GEPF intend to limit this discretionary power, especially to eliminate arbitrary discretions?
3. Indicative of penalty for non-compliance and the recent spate of fraudulent practices by GEPF officials, what is the percentage of successful conviction from the total number of prosecutions?

**New public management (NMP)**

1. 1. The NPM as a management tool espouses a number of principles. Can you inform us as to the position of the GEPF in relation to the following principles of the NPM: Doing things better and cheaper,
2. Improving service quality,
3. Service standards,
4. Responsiveness and timeliness.

**The employees**

1. Much has been done to promote employee buy-in and commitment and morale, for example, conversion of contract employees to permanent workers, promotions and CSR programmes. Other processes, however, such as, team-building workshops are still suspended. When does the GEPF intend to lift the suspension and are there additional initiatives to stimulate employees in this regard (for example, changing the

corporate culture and employee attitude towards work, company, clients and each other)?

2. The GEPF is undergoing an accelerated process of change (performance management, business style of management). How does the GEPF intend to allay employees' fears and concerns, and deal with employee engagement?
3. The GEPF has lost a number of skilled staff to other state-owned enterprises and the business sector. Rewarding performance can definitely serve as an employee retention strategy. How does the GEPF intend to reward good performance and what are other (if any) techniques does it intend to use to retain employees.

**C. Ms MP Moiloa, Clients Relations Manager. 18/10/2007 (Questions asked)**

**The clients**

1. The GEPF rules 14.4.1b and 12.3 allow GEPF clients to transfer their pension benefits to external pension funds. These other pension funds are exploiting this to (rightfully or wrongfully) compete for the GEPF clients. What mechanisms does the GEPF have to counter this practice with a view to customer retention?
2. There are GEPF Outreach programmes (road shows, internet, email, communication division) designed to cater for customer needs. How effective are these especially when remote villages and the illiterate are to be considered? What is being done to address the imbalance or clients empowerment through knowledge/information?
3. How are foreign based clients taken care of in terms of their needs?
4. What is the GEPF policy in dealing with clients' complaints and courtesy?
5. The Life Certificate process is currently being reviewed both as cost-cutting intervention as well as making life easier for clients. Are there any interventions aimed at making life easier for clients?
6. How does the GEPF intend to promote good employees relationship to clients and other employees as clients? namely, courtesy to clients and fellow employees as clients?

## APPENDIX B: THE GEPF TODAY NEWSLETTER

GEPF news letter202002[1].pdf - Adobe Reader

File Edit View Document Tools Window Help

Vandag Lehono Vamunlha  
Gompiano Namhlanje  
Kajeno Namulisa  
Namusi

# GEPF Today

A newsletter for the contributing members of the Government Employees Pension Fund

Issue 8 • April 2002

### Inside this Issue

- Message from the GEPF Management
- Tips on using the GEPF Call Centre
- Financial Planning: Budgeting
- Taxation on Retirement Funds: The 2002 Budget
- Message from the GEPF Management continued
- Frequently asked questions

technology. As we welcome you into the new year, we do so as management, with a clear view of building the GEPF into a fund to be reckoned with, and one that continually takes your concerns and views into account. These factors have been incorporated into our efforts to keep abreast of trends and developments in technology.

A major initiative which is currently our primary area of focus is the implementation of a totally new benefit administration software system, internally known as the

start | M... | 2 | F... | 3 | M... | 2 | 2 | 4:37 PM

**APPENDIX C: GEPF CUSTOMER QUESTIONNAIRE**

Title: \_\_\_\_\_ Initials: \_\_\_\_\_  
 Surname: \_\_\_\_\_  
 Pens no: \_\_\_\_\_  
 Tel. (h): \_\_\_\_\_  
 Tel. (w): \_\_\_\_\_  
 Cell: \_\_\_\_\_

**YOUR OPINION IS IMPORTANT**

Please indicate with an (X) the service rendered to you  
 Please rate the following on a scale of Excellent, Good, Poor, Very Poor.

	 excellent	 good	 poor	 very poor
Friendliness and courtesy with which the staff treated you				
The extent to which the staff are well trained and knowledgeable				
The efficiency and speed with which the staff assisted you				
The extent and willingness to which the staff is willing to go to help you				
Were your needs met?				
The overall level of service you received from this office				

Friendliness and courtesy with which the staff treated you

The extent to which the staff are well trained and knowledgeable

The efficiency and speed with which the staff assisted you

The extent and willingness to which the staff is willing to go to help you

Were your needs met?

The overall level of service you received from this office

General Comments / Suggestions: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

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Title: \_\_\_\_\_ Initials: \_\_\_\_\_  
 Surname: \_\_\_\_\_  
 Pens no: \_\_\_\_\_  
 Tel. (h): \_\_\_\_\_  
 Tel. (w): \_\_\_\_\_  
 Cell: \_\_\_\_\_

**YOUR OPINION IS IMPORTANT**

Please indicate with an (X) the service rendered to you  
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The efficiency and speed with which the staff assisted you				
The extent and willingness to which the staff is willing to go to help you				
Were your needs met?				
The overall level of service you received from this office				

Friendliness and courtesy with which the staff treated you

The extent to which the staff are well trained and knowledgeable

The efficiency and speed with which the staff assisted you

The extent and willingness to which the staff is willing to go to help you

Were your needs met?

The overall level of service you received from this office

General Comments / Suggestions: \_\_\_\_\_

\_\_\_\_\_

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\_\_\_\_\_

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APPENDIX D: NEWSPAPER ARTICLES ON GEFP

WITNESS (Durban)

Friday, 3 August 2007, p. 5

## 'Cut pension payout delays'

PRETORIA — State officials should adhere to some minimum standards on pension payouts, Public Protector Lawrence Mushwana said yesterday.

He was speaking at the first day of a workshop focusing on the root causes of undue delays in the payment of resignation, retirement and death benefits to government employees and their dependents.

He said his office is swamped with complaints dealing with pension payouts, and has been investigating the issue for the past year.

Chief investigator Sanelle Viviers said they have analysed over a thousand complaints received by the Public Protector.

"Some members have waited up to seven years for payment — we have instances where people who approach this office are in dire straits," she said.

— Sapa.

BUSINESS DAY (Final), Companies & Markets  
Thursday, 12 July 2007, p. 11

# State pension fund leads way on disclosure of voting records

'Huge difference to corporate governance'

**Renée Bonorchis**

*Editor at Large*

PUBLIC display of fund manager voting records may become more standard by next March with the Government Employees Pension Fund (GEPF) having said yesterday it aimed to implement the Principles of Responsible Investment (PRI) soon.

The PRI is a United Nations initiative that aims to guide investment professionals to give consideration to environmental, social and corporate governance issues.

In SA, the GEPF and Frater Asset Management have signed the PRI. While it is a voluntary framework, the principles do suggest that investment professionals disclose "active ownership activities", which would include voting, engagement and policy dialogues with the companies they are invested in.

"We are currently investigating how other investors in the global network of peer signatories, including many other of the world's largest institutional investors, have used the principles in practice," said GEPF vice-chairman Dave Balt.

"The GEPF will then compile an implementation policy consistent with its fiduciary responsibilities that will demonstrate meaningful commitment to all the principles. This process is a priority to the GEPF and will hopefully be concluded this financial year."

David Couldridge, senior governance analyst at Frater Asset Management, one of only two fund managers in the country that publicly discloses how it votes at annual general meetings, said if the GEPF had to start disclosing how it voted it could be the tipping point for shareholder activism in SA.

"It could make a huge difference to

corporate governance," said Couldridge. "It has the potential to kick-start something huge. It could change behaviours."

It could also improve shareholder returns, according to Stephen Davis, a specialist in international corporate governance. Davis said at a conference last week that people with pension funds lost on average up to 3% of the value of their pensions thanks to a lack of governance on the part of the fund managers.

The GEPF according to Balt, has been given a seat on the board of the PRI.

Because the PRI is a collaborative effort, the GEPF said it would be working with the institutions it invested its money with to effect change. This would include the Public Investment Corporation (PIC), which is SA's most powerful shareholder.

"The PIC predominantly manages assets owned by the GEPF (about 93%), and therefore if the GEPF discloses ownership activities, this would include the activities undertaken on its behalf by all asset managers managing GEPF assets," said Balt.

The PIC, which said last week it would contemplate disclosing its votes publicly, farms out some of its cash to a handful of large fund managers around the country.

Futuregrowth, a Cape-based asset manager with PIC funds, said it made a point of voting, and was already working on a project for disclosing votes publicly.

"We won't disclose under the PIC's name," said Gerald Meharchand, an equity analyst at Futuregrowth, "but we vote the same way for all of our clients".

Other asset managers, such as Cadiz African Harvest and Investec Asset Management, which do not necessarily have PIC funds, have said that while they disclose their voting records to clients, full public disclosure may not be in the long-term interests of shareholders.