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Political interference collapsing state-owned companies, UCT research warns



Minah Tong-Mongalo

Photo: Supplied

With economists warning that South Africa is on the brink of an economic crisis, research warns that state-owned companies (SOCs) are “on a direct path to collapse” unless urgent reforms end political interference, hold shareholder representatives to account, and force entities to operate without endless government bailouts. The warning comes from Minah Tong-Mongalo, who received her PhD in Commercial Law on 9 September 2025 from the University of Cape Town (UCT) for a thesis examining the original powers of state-owned companies’ boards in South Africa.

Tong-Mongalo traces her interest in this critical issue to the growing failure of South Africa's SOCs, which have increasingly relied on government bailouts rather than as self-sustaining entities. Encouraged by her husband, Tshepo, she pursued a research path that would explore why these companies – tasked with delivering essential services and driving economic development – have repeatedly faltered.

Her concern was heightened after reviewing the *Report of the Portfolio Committee on Public Enterprises on the Inquiry into Governance, Procurement, and Financial Matters*, which confirmed political interference as a systemic driver of misgovernance. Alarming, the very political actors accused of interference were often responsible for removing boards when companies struggled, a contradiction that sparked the central question of her thesis: how can boards fulfil their fiduciary duties under South Africa's Companies Act of 2008 when political pressure routinely undermines their independence?

Central to her research is the distinction between the board's statutory authority and the state shareholder's influence. Under the Companies Act, boards exercise original governing authority vested in them by law, not delegated by the state. This gives them a legal duty to act in the company's best interests, independent of political pressures. "In practice, however, this autonomy is routinely eroded. When boards are treated as if their authority is derived from the state shareholder, they are forced to prioritise political directives over long-term company viability, contributing directly to mismanagement, financial instability and collapse," she says.

Tong-Mongalo emphasises that restoring the boards' original, undelegated authority is fundamental. "Boards must be empowered to govern without undue political pressure or the ever-present threat of removal for refusing to rubber-stamp shareholder instructions."

In her view, the ultimate responsibility for SOC governance lies with the boards, not the state shareholder. "Boards have fiduciary duties to the company and are legally liable for failing to act in its best interests. By contrast, state shareholder representatives often owe their loyalty to political parties rather than the company and are rarely held accountable for decisions that harm the entity. Parliamentary oversight has proven insufficient to enforce this accountability. To restore integrity and functionality in SOC governance, boards must be affirmed as the sole custodians of corporate governance, with original, undelegated authority. Only empowered, independent boards can safeguard public value and ensure the sustainability of SOCs," she explains.

The current governance model deviates sharply from best practice. Provisions in the Public Finance Management Act (PFMA) allow state shareholder representatives to veto board decisions, effectively placing them in the role of management without bearing the consequences of management's decisions. The state occupies multiple roles – shareholder, policymaker and fiscal manager – diluting board authority and opening the door to political interference. SOC mandates remain poorly defined without clear legislation delineating roles and responsibilities, leaving the state free to intervene. Drawing lessons from Singapore, Tong-Mongalo notes that in entities such as Temasek, the government and president are expressly precluded from involvement in corporate decision-making- a safeguard South Africa currently lacks.

She said: "Board appointments remain highly politicised, often prioritising party loyalty over sector expertise, financial acumen and governance knowledge. Even when qualified individuals are appointed, political considerations continue to influence decisions about who

is eligible for key positions. The legal and regulatory framework compounds these challenges: SOCs are governed by both the Companies Act and the PFMA, creating conflicts that leave boards vulnerable.

“The absence of clearly defined mandates generates ambiguity as to what constitutes the company’s best interests. Additionally, shareholder representatives are not subject to fiduciary obligations, rendering them susceptible to advancing political expediency at the expense of corporate sustainability. Furthermore, the state shareholder’s capacity to remove directors arbitrarily, and without adherence to a transparent process, undermines the director’s ability to discharge fiduciary responsibilities effectively.”

While the Companies Act provides mechanisms that could support stronger governance – codified directors’ duties, rights for shareholders to inspect company records, and derivative legal standing – the PFMA and founding legislation for SOCs often allow state overreach. Tong-Mongalo argues that an overarching SOC law is long overdue, one that harmonises obligations, extends fiduciary duties to state shareholder representatives, and insulates boards from political interference. Although the National State Enterprises Bill is in progress, she warns that it does not sufficiently protect board autonomy, leaving gaps in the governance architecture.

Her thesis proposes a range of reforms aimed at both structure and accountability. Introducing mixed-ownership structures, where the state is not the sole or majority shareholder, could invite scrutiny from other investors and curb political interference. Extending fiduciary duties to shareholder representatives, with personal liability for breaches, would align their accountability with that of directors.

She also advocates piercing the corporate veil in cases of abuse, ensuring that those who exploit the SOC’s separate legal personality are held responsible. “Derivative legal standing should be broadened to allow those acting in the public interest to litigate on behalf of SOCs, particularly when state representatives are implicated. The SOCs should be sustainable, and the government must put a demand on their investment. Bailouts perpetuate mediocrity.”

According to her, these reforms would restore both accountability and integrity. Fiduciary responsibilities for shareholders would curb arbitrary, politically motivated decisions and align state actions with ethical and lawful conduct. Harmonised legislation would clarify roles and powers, leaving no room for misinterpretation. An extended derivative standing would strengthen legal safeguards, protecting SOCs from collapse. Competent, independent boards would be empowered to act decisively in the company’s best interest, ultimately safeguarding the public interest these entities serve.

“The urgency of reform cannot be overstated,” she says. “With Eskom’s rolling blackouts disrupting businesses and Transnet’s operational failures threatening trade logistics, South Africa faces the prospect of an economic crisis exacerbated by failing SOCs. The government can no longer sustain these entities through bailouts without risking public finances and service delivery. Reforms are needed immediately to restore investor confidence and ensure that SOCs can operate as viable, self-sustaining entities.”

Despite the stark evidence, Tong-Mongalo notes that political will remains limited. “While the establishment of the Presidential State-Owned Enterprises Council and a Government–Business Partnership signals some recognition of urgency, change is not occurring fast

enough. Volumes of evidence from the Zondo Commission remain unaddressed, and current legislation does not sufficiently distance the state from SOC governance". She remains hopeful that her research will influence policymakers and catalyse a national dialogue on governance reform.

The broader stakes extend beyond corporate governance into public concerns about corruption and service delivery. Poorly governed SOCs cannot fulfill their developmental mandates, and citizens bear the cost when they fail. Eskom's crisis, for instance, has disrupted electricity supply, business productivity and everyday life, exemplifying how governance failures translate directly into corruption and service delivery breakdowns. Tong-Mongalo's work highlights that the quality of SOC governance mirrors broader government accountability, reinforcing the imperative for reform at both levels.

Academically, she hopes her thesis will stimulate more research on SOC governance and generate evidence-based solutions to influence policy. Practically, she seeks to guide government action, ensuring that reforms are symbolic and substantive, protecting the financial health of SOCs and the public interest they serve. Her study underscores that without decisive action, the continued mismanagement of state enterprises could lead to systemic failures in service delivery, threatening economic stability and public trust.

Her research is both a warning and a roadmap. It identifies the structural flaws and legislative gaps that have allowed political interference to persist and provides concrete steps to restore board autonomy, accountability and financial sustainability. Whether South Africa acts on these recommendations may determine not only the future of its SOCs but the resilience of its economy and the trust of its citizens.

Her thesis was supervised by Professor Dennis Davis, with Dr Helena Stoop serving as the administrative supervisor.

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