

Corporate Governance and the Likelihood of State Capture in South African State-Owned Enterprises

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Abstract

Purpose/Objectives: Drawing on agency, stakeholder, legitimacy, and public choice perspectives, this study examines how board and committee governance characteristics, alongside selected financial conditions, are associated with the likelihood of state capture among Schedule 2 state-owned enterprises (SOEs) in South Africa.

Design/Methodology/Approach: The study employs a longitudinal panel design (2011–2022), covering 18 Schedule 2 SOEs (216 firm-year observations). A firm-year state capture indicator is constructed from official public inquiries and documentary evidence, with capture coded to the relevant financial year. Binary logistic regression models are estimated, with probit specifications used for robustness.

Findings: Board independence and ethnic diversity are associated with significantly lower capture odds, while a higher frequency of board meetings is associated with higher odds—likely reflecting governance stress rather than direct failure. Financially, higher leverage and liquidity are positively associated with capture, whereas engagement with a Big Four auditor is associated with a lower likelihood. At the committee level, greater risk committee independence and the existence of a social and ethics committee are protective; however, greater independence on the social and ethics committee is positively associated with capture and should be interpreted cautiously as possible symbolic governance.

Practical Implications: The findings support reforms that strengthen substantive board independence, improve risk oversight composition, and institutionalise ethics governance. Repeated board activity, leveraged pressure,



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and unusually high liquidity should be treated as early-warning indicators, not causal proof.

Originality/Value: The study provides rare firm-level, panel-based evidence on state capture risk in an African SOE context and advances a transparent, replicable operationalisation of state capture using public inquiry evidence.

Keywords: corporate governance; state capture; state-owned enterprises; South Africa

Introduction

The governance of South African state-owned enterprises (SOEs) has been under sustained public scrutiny for more than two decades amid persistent concerns about wasteful and fruitless expenditure, procedurally irregular contracting, and non-compliant executive and board appointments that have weakened both performance and legitimacy (Thomas 2012). Recent inquiries indicate that more than R57 billion was paid through illegal contracts issued by SOEs, widely described as “state capture” (Zondo Commission 2022). In South Africa, this has been closely associated with the manipulation of appointments and actions across SOEs, government departments, and regulators, with severe implications for democratic governance and the public interest.

Governance failures in SOEs are not unique to South Africa. Globally, weak SOE governance has led to financial losses and political interference (Milhaupt and Pargendler 2017; Rajib et al. 2016), whereas governance reforms have improved public services in some countries (Dassah 2015). In South Africa, SOEs remain central to the developmental agenda through their roles in industrialisation, infrastructure provision, and the commercialisation of strategic services; yet many have evolved into major fiscal risks despite earlier profitability (Fourie 2014). Eskom, South African Airways (SAA), and the South African Broadcasting Corporation (SABC) have since received significant bailouts, underscoring the scale of their deterioration (Cheteni and Khamfula 2018). Given SOEs’ contribution to GDP, employment, and essential services, their failure carries broad economic and social consequences (Adebayo and Ackers 2022; National Treasury 2019).

South Africa has developed a relatively sophisticated governance architecture, shaped by global corporate governance reforms and domestic instruments that emphasise accountability, transparency, and ethical leadership (Kumar and Singh 2012). The King Reports, especially King IV, position the board as the custodian of corporate governance, responsible for ethical and effective leadership and performance oversight (Moraka 2024). The Companies Act 71 of 2008 and the Public Finance Management Act 1 of 1999 (PFMA) further codify governance and accountability requirements. Under the PFMA, Schedule 2 SOEs are major public entities expected to generate sufficient operational revenue and avoid reliance on state subsidies. Despite these frameworks, governance weaknesses and operational underperformance persist.

State capture provides a critical institutional lens for understanding these failures. It refers to the exercise of undue influence by powerful actors to shape laws, regulations, and public decisions for private benefit at the expense of public value (Hellman et al. 2000). The Zondo Commission (2022) documents how capture contributed to the decline of several major SOEs. Explanations highlight South Africa's historical legacies, ruling-party dominance, internal factionalism, and a resource-dependent economic structure as enabling conditions (Chipkin et al. 2018; Lodge 2014), with consequences that include weakened oversight institutions, misallocated resources, and heightened inequality and social instability. SOEs have been central targets and instruments of capture, given their economic weight and control of strategically valuable services and contracts (National Treasury 2019).

However, despite extensive legal, political, and descriptive analysis, there remains limited firm-level quantitative evidence on how specific board characteristics and financial structures are associated with SOE vulnerability to capture (Ojeyinka et al. 2025). Existing research has largely relied on case studies and macro-level explanations, with less systematic attention to variation over time in board size, independence, gender and racial diversity, meeting frequency, committee arrangements, leverage, liquidity, profitability, and audit quality. This gap limits theory development and weakens the design of targeted governance reforms. Hence, this study addresses the gap by examining how board characteristics, board committee structures, and selected financial indicators relate to the likelihood that South African Schedule 2 SOEs are classified as state captured. Drawing on annual and integrated reports and documentary sources for 18 Schedule 2 SOEs from 2011 to 2022, the study operationalises firm-level state capture and estimates logistic regression models linking capture classification to board structure, diversity, independence, board activity, committee arrangements, leverage, liquidity, profitability, and audit quality. The contribution is threefold: (1) it develops a transparent firm-year coding approach based on publicly available evidence from official investigations; (2) it provides panel-based empirical evidence from an African SOE setting on governance attributes associated with capture risk; and (3) it offers an empirical foundation for an anti-state-capture governance framework relevant to SOEs in comparable institutional environments. Because the governance variables and capture classification are measured within the same broad period, and the capture evidence was often disclosed ex post, the analysis is framed as associational rather than causal.

Literature and Hypotheses

Governance and State Capture in SOEs

State capture is a systemic form of corruption in which powerful private actors collude with public officials to shape state decisions for private benefit (Hellman et al. 2000). Unlike routine administrative corruption, it involves the manipulation of institutional rules, appointments, procurement systems, and oversight processes, making it difficult to observe directly and challenging to measure consistently. SOEs are particularly vulnerable because they provide essential public services while controlling large

budgets. Reliance on state backing can weaken market discipline, making them attractive targets for patronage. Under capture, boards and executives may align with political patrons, thereby undermining accountability and oversight. South Africa's governance frameworks (e.g., the King IV Code and the PFMA) emphasise ethical leadership and financial controls. However, commissions of inquiry such as the Zondo Commission have documented governance breakdowns, including compromised appointments, political interference, and the override of controls enabling corruption. These patterns highlight the need to examine how board and financial attributes relate to capture risk while recognising that governance indicators are imperfect proxies for corruption exposure. Prior studies have identified board size, independence, and diversity as key to oversight (Dalton et al. 1998), although most research examines performance outcomes rather than extreme failures like state capture. Weak governance and political meddling are widely linked to SOE underperformance (Cuervo-Cazurra et al. 2014; World Bank 2020), but the direction of influence may be complex because governance arrangements can both shape and respond to crises. Accordingly, this study investigates associations between board composition and the likelihood that an SOE is classified as state captured, rather than treating governance characteristics as unambiguous causal predictors.

This measurement problem is particularly important in South Africa because the most authoritative evidence on capture became available through investigations released after many of the underlying events had occurred. Ex post inquiry evidence strengthens documentary validity but creates temporal ambiguity: the empirical indicator reconstructs when capture-related conduct occurred, not when it was publicly revealed. The measure should therefore be understood as a transparent classification of documented exposure to capture-related conduct, rather than a real-time corruption risk score.

Board Size

Board size is a fundamental governance attribute influencing monitoring quality, decision-making, and managerial discipline (Jensen 1993). Agency theory predicts that larger boards are prone to coordination problems, free-riding, and a reduced willingness to challenge management, which increases agency costs (Lipton and Lorsch 1992). Additional seats may also facilitate entrenchment if they are filled by loyal or politically connected directors, thereby weakening accountability (Bennedsen et al. 2008). In contrast, resource dependence theory suggests that larger boards may enhance oversight by providing broader expertise and external linkages, particularly in complex operating environments (Coles et al. 2008). Empirical evidence is mixed, indicating that the effects of board size are context-dependent (Guest 2009). In South African SOEs, where patronage, political interference, and corruption are persistent governance challenges (Cuervo-Cazurra et al. 2014; World Bank 2020), larger boards may increase exposure to state capture by expanding opportunities for politically motivated appointments and weakening the formation of an independent majority. Because state capture involves the manipulation of governance structures to advance private interests (Hellman et al.

2000), very large boards are likely to be particularly susceptible. We therefore hypothesised the following:

H₁: Larger board size is positively associated with the likelihood that a state-owned enterprise will be classified as state-captured.

Board Independence

Board independence, typically measured by the proportion of independent non-executive directors, is a central mechanism for mitigating agency problems. Agency theory argues that independent directors provide more objective oversight due to their distance from management and political principals (Fama and Jensen 1983). Evidence suggests that higher board independence can strengthen monitoring and autonomy, although results remain mixed because independent directors may lack firm-specific knowledge or be constrained by entrenched institutional power structures (Bhagat and Black 2001). In South African SOEs, governance risks are exacerbated by politicisation, blurred mandates, and weak accountability (Aharoni 2000). Governance codes such as King IV therefore emphasise having a majority of independent non-executive directors to reduce power concentration and improve oversight (IODSA 2016). Under conditions of state capture, where political actors seek to influence appointments and decisions, independent directors should be better positioned to resist opportunistic behaviour and protect the interests of public shareholders (Shleifer and Vishny 1997). It is thus hypothesised that:

H₂: A higher proportion of independent non-executive directors on the board is negatively associated with the likelihood of state capture.

Board Gender Diversity

Board gender diversity represents an important dimension of board composition that can influence the quality of decision-making and oversight. Diverse boards may benefit from enhanced information processing and broader perspectives, although they may also face coordination and conflict costs, contributing to mixed empirical findings (Miller and Triana 2009). Research on female directors suggests that increased female representation can improve monitoring, ethical sensitivity, and decision quality in some contexts (Adams and Ferreira 2009). Resource dependence theory further argues that female directors can expand access to external resources and increase attention to social and ethical compliance (Isidro and Sobral 2015). In South Africa, gender diversity is particularly salient due to historical exclusion and ongoing transformation imperatives (Patel and Graham 2012). Within SOEs vulnerable to state capture, gender-diverse boards may be more responsive to societal interests and more willing to challenge corrupt directives, thereby reducing the likelihood of board co-optation. We thus hypothesised that:

H₃: A higher proportion of female directors on the board is negatively associated with the likelihood of state capture.

Board Ethnic Diversity

Ethnic and racial diversity is a critical governance attribute in South Africa, shaped by post-apartheid reforms and Black Economic Empowerment policies aimed at redressing historical exclusion from corporate control (Patel and Graham 2012). Racially diverse boards may enhance organisational legitimacy and strengthen alignment with a broader stakeholder base, particularly in public entities that provide essential services (Ntim 2015). Stakeholder theory suggests that boards reflecting their stakeholder environment are better equipped to balance social and economic objectives (Hillman and Keim 2001). Empirical evidence from South Africa remains mixed, with reputational and stakeholder benefits sometimes offset by coordination challenges (Ntim et al. 2012). In the context of state capture, greater representation of historically disadvantaged directors may reinforce SOEs' developmental mandates and reduce vulnerability to elite rent-seeking networks that exploit procurement and appointments (Chipkin et al. 2018). By contrast, demographically insular boards may be more easily integrated into closed networks through which capture is coordinated. Based on this argument, we hypothesised that:

H₄: A higher proportion of Black directors on the board is negatively associated with the likelihood of state capture.

Board Meeting Frequency

Board meeting frequency is commonly used as a proxy for board activity and engagement. Agency theory predicts that more frequent meetings enhance monitoring and constrain opportunism (Fama and Jensen 1983). However, in politicised SOE environments, unusually high meeting frequency may reflect governance strain, crisis management, or political interference rather than effective oversight. South Africa's state capture experience illustrates that boards of SOEs such as Eskom, SAA, and Transnet met frequently during periods of procurement controversy and investigation, suggesting that formal activity alone is insufficient to prevent capture. In this context, frequent meetings may serve to manage or legitimise contested decisions rather than to challenge them substantively. We therefore hypothesised that:

H₅: More frequent board meetings are positively associated with the likelihood of state capture.

Risk Committee Independence

Committee effectiveness depends not only on its existence but also on its composition. Extending the general arguments on board independence, risk committees dominated by independent directors should be less vulnerable to pressure from politically connected executives or ministers and more willing to question high-risk or opaque transactions (Fama and Jensen 1983). Empirical work on board committees indicates that independence is associated with more stringent monitoring and higher quality financial reporting (DeFond and Francis 2005). In the context of South African SOEs,

independent risk committees are therefore expected to serve as an important line of defence against capture strategies that rely on complex financial arrangements and procurement irregularities. It is, therefore, hypothesised that:

H₆: A higher proportion of independent directors on the risk committee is negatively associated with the likelihood of state capture.

Social and Ethics Committee Presence

Stakeholder and legitimacy theories emphasise that SOEs must respond to the expectations of diverse stakeholders and conform to societal norms of integrity, fairness, and social responsibility to sustain legitimacy and support (Deegan 2002). Social and ethics committees (SECs) institutionalise these expectations at the board level by overseeing ethical conduct, compliance, social responsibility, and stakeholder relationships. For SOEs delivering essential public services and pursuing developmental mandates, a functioning SEC provides a formal mechanism to identify and address corruption risks, stakeholder harm, and misuse of public resources, while strengthening board accountability for ethical failures (World Bank 2019). Given that state capture in South Africa has involved systematic breaches of ethical and legal norms in procurement and appointments (Choudhury 2017), SOEs with an SEC should be better positioned to detect and resist such practices. We thus hypothesised the following:

H₇: The presence of a social and ethics board committee is negatively associated with the likelihood of state capture.

Social and Ethics Committee Independence

Finally, as with the main board and other committees, the independence of SEC members is critical. Independent directors serving on the SEC are more likely to represent broader stakeholder interests, question unethical behaviour, and insist on remedial action, consistent with agency theory and stakeholder theory prescriptions that governance bodies should protect principals and stakeholders against self-serving behaviour by managers and political patrons (Freeman et al. 2010). In a context where state capture exploits weaknesses in ethical oversight and normalises corrupt practices, an SEC dominated by independent directors should provide a stronger check on collusion and help realign SOE behaviour with its public mandate. We therefore hypothesised that:

H₈: A higher proportion of independent directors on the social and ethics committee is negatively associated with the likelihood of state capture.

Methodology

Study Population, Design, and Sample

This study focuses on major South African SOEs designated as Schedule 2 under the PFMA (21 commercial SOEs expected to operate without state subsidies). We examined these SOEs over the period 2011 to 2022 using a quantitative longitudinal (panel) design, drawing data primarily from annual and integrated reports. Due to missing data, the final sample includes 18 SOEs (216 firm-year observations), covering approximately 86 per cent of the population. Three entities (Armaments Corporation of SA, Denel, and SA Express) were excluded due to insufficient data. The state capture indicator was constructed at the firm-year level using official public inquiries, especially the Public Protector's 2016 State of Capture report and the Zondo Commission reports. A firm-year was coded as captured (1) when official evidence linked the SOE to capture-related conduct in that financial year, including politically influenced appointments, procurement manipulation, irregular contracting, diversion of resources, or documented collusion among public officials, SOE decision-makers, and private interests. A firm-year was coded as not captured (0) when no evidence of this was identified for that year. Where inquiry evidence was published after the events occurred, the coding followed the year in which the underlying events took place rather than the publication year of the inquiry report. Overlapping incidents within the same SOE-year were treated as a single captured observation because the dependent variable is dichotomous; therefore, the measure captures the presence, not the intensity, duration, or severity, of capture. About 44 per cent of the observations were classified as captured. This coding strategy improves replicability by linking each classification to public documentary evidence; however, it may still contain measurement errors when capture was undetected, only partially documented, or disclosed after the study period.

The coding procedure followed four rules. First, the unit of analysis was the SOE's financial year. Second, evidence was attributed to the year of the underlying appointment, transaction, contract, or governance event rather than to the year in which an inquiry reported it. Third, overlapping or multiple capture-related incidents within the same firm-year were coded only once because the dependent variable is binary. Fourth, when evidence was ambiguous, the observation was coded as captured only if the official record provided a clear link between the SOE and capture-related conduct. These rules make the measure replicable while acknowledging that a dichotomous indicator cannot perfectly capture intensity or uncertainty.

Data Collection and Variables

Data on board characteristics, board committees, and financial indicators were manually collected from each SOE's annual and integrated reports. Table 1 summarises the variables and their measurements. After assembling the panel dataset, we performed data cleaning, including checks for missing values, consistency of variable definitions across reporting years, and winsorization of extreme financial ratio outliers. The panel was balanced for the 18 retained SOEs over 12 years. Key control variables in the

analysis include firm size, return on assets (ROA), leverage ratio, current ratio, and a Big Four audit firm dummy. Committee independence was measured by the number of independent directors on the relevant committee, as some annual reports inconsistently disclosed committee denominators across years. This count measure captures the absolute presence of independent voices but may be mechanically related to committee size; therefore, committee-level results are interpreted cautiously. Ethical clearance for the study was obtained from the University of South Africa.

Table 1: Variables and measurement

Variables	Measurement	Sources
State capture (<i>capture</i>)	Dummy variable equal to 1 when official public inquiry or documentary evidence links the SOE to capture-related conduct in the relevant firm-year, and 0 otherwise; coding follows the year in which the underlying events occurred.	Nour et al. (2024)
Board size (<i>bsize</i>)	The total number of members on the board.	Aldhamari et al. (2020)
Board independence (<i>bind</i>)	The ratio of independent directors to total board members (%).	Gerged (2021)
Gender diversity (<i>gend</i>)	The ratio of female directors to total board members (%).	Hasan et al. (2022)
Ethnic diversity (<i>ethn</i>)	The ratio of non-White directors to total board members (%).	Gyapong et al. (2016)
Board meetings (<i>bmeet</i>)	Total number of board meetings during a financial year.	Abang'a et al. (2022)
Risk committee existence (<i>rc</i>)	Dummy variable. 1 if a risk committee exists, 0 otherwise.	Arowolo et al. (2017)
Risk committee independence (<i>rc_ind</i>)	Number of independent directors on the risk committee; interpreted as a count of independent oversight capacity rather than as a proportion.	Karim et al. (2024)
Social and Ethics Committee existence (<i>sec</i>)	Dummy variable equal to 1 if a social and ethics committee exists, and 0 otherwise.	Arowolo et al. (2017)
Social and ethics committee independence (<i>sec_ind</i>)	Number of independent directors on the social and ethics committee; interpreted as a count of independent oversight capacity rather than as a proportion.	Karim et al. (2024)
Firm size (<i>fsize</i>)	Natural logarithm of total assets.	Hasan et al. (2022)
Leverage ratio (<i>lev</i>)	Total debt as a ratio of total assets.	Hasan et al. (2022)

Variables	Measurement	Sources
Return on assets (<i>ROA</i>)	Profit after tax divided by total assets.	Gerged (2021)
Current ratio (<i>cur</i>)	Ratio of current assets to current liabilities.	Hasanuddin et al. (2021)
Quality of external audit (<i>B4</i>)	1 if the audit is conducted by any of the Big Four, and 0 otherwise.	Nour et al. (2024)

Model Specification and Estimation

We modelled the likelihood of state capture using binary logistic regression, which is appropriate for a dichotomous dependent variable (i.e., captured vs. not captured). The main independent variables correspond to the governance attributes hypothesised (H_1 – H_8), along with the firm-level controls defined above. Several logistic models (Models 1–5) were estimated to test each board characteristic individually with controls, and Model 6 included all key board variables simultaneously. As a robustness check, we estimated alternative probit specifications and models that incorporated committee variables alongside board characteristics; these produced qualitatively similar results. Because governance characteristics and capture classification are measured contemporaneously, and some evidence of capture only became public after the underlying events, the estimated coefficients are interpreted as conditional associations rather than causal effects. This is consistent with econometric cautions that observational panel estimates can be affected by simultaneity, omitted variables, and reverse causality (Wooldridge 2010). The estimated relationship is expressed as:

$$\text{logit} [\Pr(\text{capture}_{it} = 1)] = \phi 0 + \phi 1 \text{gend}_{it} + \phi 2 \text{ethn}_{it} + \phi 3 \text{bsize}_{it} + \phi 4 \text{bind}_{it} + \phi 5 \text{bmeet}_{it} + \phi 6 \text{rc_ind}_{it} + \phi 7 \text{sec}_{it} + \phi 8 \text{sec_ind}_{it} + \phi 9 \text{fsize}_{it} + \phi 10 \text{ROA}_{it} + \phi 11 \text{lev}_{it} + \phi 12 \text{cur}_{it} + \phi 13 \text{B4}_{it} + \varepsilon_{it}$$

Data Analysis

We estimate multiple model specifications to test the hypotheses both individually and jointly. Models 1–5 each include one board attribute of interest (corresponding to H_1 – H_5), along with the full set of control variables. Model 6 includes all five board attributes simultaneously, allowing for the assessment of their joint associations as well as the potential masking or multicollinearity among board characteristics. To assess multicollinearity, we examined Pearson correlation matrices and variance inflation factors (VIFs), which indicated no serious concerns. All models use robust standard errors clustered at the firm level to account for intra-firm correlation over time. Given the short panel and the small number of firm clusters (18 SOEs), clustered inference should be interpreted cautiously because cluster-robust standard errors rely on asymptotic logic and can perform poorly when the number of clusters is limited (Cameron and Miller 2015). The relatively small number of captured observations compared to the number of predictors also creates a risk of overfitting in logistic

regression, consistent with events-per-variable cautions in binary outcome modelling (Peduzzi et al. 1996). For this reason, the models are specified parsimoniously, estimated in stages, and interpreted as evidence of robust associations rather than definitive causal estimates. Year fixed effects were evaluated but excluded from the final specifications, as likelihood ratio tests indicated that they did not jointly improve the model fit. As a robustness check, we re-estimated all specifications using the probit model. Although logit and probit models differ in their assumed error distributions, the probit results were qualitatively similar to the logit estimates, with key variables retaining the same sign and significance. A summary of the probit results is presented in Table 4. Finally, we estimated an alternative logistic specification that included board committee variables (risk committee independence, social and ethics committee presence, and social and ethics committee independence) to assess whether the main findings are sensitive to committee-level governance controls. All analyses were conducted using Stata 14 and EViews 10.

Results

Correlation Matrix and Variance Inflation Factor

Pearson pairwise correlations and VIFs were used to assess associations among the study variables, as presented in Table 2. All explanatory variables showed moderate correlations, except for the high correlation (0.817) between the existence of a SEC and its independence (*sec_ind*). This correlation is expected because *sec_ind* can be positive only where the committee exists. Rather than treating this as fatal multicollinearity, the committee variables are interpreted cautiously, and the VIF results are reported transparently. Subsequent VIF tests confirmed the absence of serious multicollinearity, with all VIF values below 5.0 and an average value of 1.73. Consistent with the thresholds suggested by Lemma et al. (2022) and Olaniyi and Odhiambo (2023), the estimated models do not appear to suffer from severe multicollinearity.

Table 2: Correlation and VIF

Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14
capture	1													
bsize	.129	1												
bind	-.213	-.044	1											
gend	.128	.149	.023	1										
ethn	-.236	-.098	.068	-.052	1									
bmeet	.168	.098	.006	-.021	.020	1								
rc_ind	-.004	.270	.275	.078	.009	-.112	1							
sec	.010	-.017	-.261	-.053	.238	.142	-.085	1						
sec_ind	.059	.132	-.165	-.010	.071	.120	.140	.817	1					
lfsize	.199	.378	.136	.229	-.100	.234	.286	.123	.143	1				
ROA	.096	.139	.044	.073	-.013	-.141	.146	-.080	-.036	.167	1			
lev	.274	.001	-.024	.090	-.077	.089	.097	.109	.066	.202	.084	1		
cur	.212	.089	.153	.188	-.223	-.059	.103	-.206	-.176	.190	.136	-.010	1	
B4	-.092	.228	.019	.049	-.239	-.145	.034	-.202	-.178	.167	.177	.101	.129	1
VIF	-	1.37	1.25	1.10	1.32	1.20	1.47	4.43	4.05	1.60	1.12	1.14	1.20	1.26
1/VIF	-	.731	.798	.907	.756	.833	.682	.225	.247	.626	.894	.879	.833	.794

Notes: $N = 216$ firm-year observations (18 SOEs over 12 years). Correlation coefficients in bold are those discussed in the text. No pairwise correlation among the main independent variables exceeds 0.5 except between SEC and SEC_IND ($r = 0.82$), which is expected since SEC_IND is only positive when SEC is present. CAP = state capture dummy. BSIZE, BIND, GEND, ETHN, and BMEET are defined in Table 1. RC and SEC are dummy variables for committee existence; RC_IND and SEC_IND are counts of independent members. LFSIZE = log total assets. ROA = return on assets. LEV = leverage ratio. CUR = current ratio. B4 = Big Four auditor dummy.

Binary Logistic Regression

Table 3 presents the binary logistic regression results examining the association between corporate governance (board attributes) and the likelihood of a firm being classified as state captured. To ensure robustness, six models were estimated. Models 1–5 isolate the individual associations of gender diversity, ethnic diversity, board size, board independence, and board meeting frequency, while Model 6 includes all board attributes simultaneously to validate the earlier specifications. The likelihood ratio (LR) statistics were significant at the 5 per cent level across all models, indicating that the included covariates jointly improve model fit relative to an intercept-only specification (Nour et al. 2024).

Model fit was further supported by the McFadden R^2 values, which ranged from 11.7 per cent (Model 1) to 23.0 per cent (Model 6), suggesting moderate explanatory power (Porter and Gujarati 2009). The count R^2 values were also high, with correct classification rates between 60.6 per cent and 73.6 per cent, suggesting useful in-sample classification performance. In addition, the Hosmer–Lemeshow (HL) statistics were not significant at the 5 per cent level for any specification, indicating no evidence of poor model calibration. Collectively, these diagnostic tests suggest that the logistic regression models are internally consistent, although they do not, by themselves, establish causal identification.

Board Composition and State Capture

Model 1 in Table 3 shows that gender diversity has no statistically significant association with the likelihood that an SOE would be classified as state captured, a result confirmed in Model 6. This suggests that gender diversity, as measured in this study, is not independently associated with capture classification among South African SOEs. In contrast, Model 2 shows that ethnic diversity has a significant negative association with the probability of state capture, suggesting that more ethnically diverse boards—particularly those with higher representation of Black directors—are less likely to be classified as captured. This finding is reinforced in Model 6, where the proportion of Black directors remains a significantly negative predictor of capture classification. Thus, ethnic diversity emerges as a governance attribute associated with a lower risk of capture in public firms.

Board size, examined in Model 3 and Model 6, shows no statistically significant relationship with state capture, indicating that the number of directors alone is not meaningfully associated with capture likelihood in the sampled SOEs. However, Model 4 and Model 6 reveal that board independence has a strong negative association with the probability of state capture. Boards with a higher proportion of independent non-executive directors are substantially less likely to be classified as captured, underscoring the protective role that independence may play in constraining undue influence.

Finally, Model 5 and Model 6 show that board meeting frequency positively predicts the odds of state capture classification. This should not be read as evidence that meetings cause capture. A more plausible interpretation is that frequent meetings may reflect governance strain, crisis response, escalating oversight demands, or attempts to manage contested decisions during periods of institutional stress.

Table 3: Board composition and state capture: Logistic regression

Variables	(1) capture	(2) capture	(3) capture	(4) capture	(5) capture	(6) capture
gend	0.008 (0.523)					0.000 (0.982)
ethn		-0.036*** (0.002)				-0.035*** (0.006)
bsize			0.085 (0.137)			0.061 (0.340)
bind				-0.095*** (0.000)		-0.095*** (0.000)
bmeet					0.077** (0.034)	0.088** (0.035)
lfsize	0.123 (0.154)	0.150* (0.082)	0.093 (0.293)	0.021** (0.024)	0.087 (0.327)	0.150 (0.158)
ROA	0.008 (0.521)	0.010 (0.422)	0.008 (0.565)	0.011 (0.421)	0.013 (0.323)	0.019 (0.198)
lev	1.778*** (0.001)	1.625*** (0.002)	1.831*** (0.001)	2.097*** (0.001)	1.840*** (0.001)	1.987*** (0.002)
cur	0.073*** (0.007)	0.059** (0.029)	0.077*** (0.006)	0.095*** (0.001)	0.082*** (0.004)	0.087*** (0.006)
B4	-0.608* (0.087)	-0.914** (0.017)	-0.701* (0.056)	-0.597 (0.108)	-0.499 (0.169)	-0.808** (0.046)
Constant	-2.620*** (0.003)	0.483 (0.693)	-2.953*** (0.000)	4.519** (0.013)	-2.689*** (0.001)	6.406*** (0.004)
Diagnostic test: Model evaluation						
McFadden R^2	0.117	0.149	0.124	0.183	0.132	0.230
Likelihood ratio (LR)	34.857	44.136	36.697	54.296	39.083	68.336
Prob (LR)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
H–L stat	0.771	0.148	0.565	0.105	3.148	0.088
Prob (HL)	(0.380)	(0.701)	(0.452)	(0.746)	(0.078)	(0.767)
% of correct pred (Count R)	65.7	70.8	66.7	72.7	60.6	73.6
Observations	216	216	216	216	216	216

Note: Probability values in parentheses; *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

The results for the control variables indicate several significant patterns. First, firm size shows a positive association with the likelihood of state capture in Models 2 and 4, suggesting that larger SOEs may be more attractive targets because they control larger procurement budgets, infrastructure assets, and strategic rents. Second, the current ratio has a positive and significant association with the probability of state capture. Although liquidity is normally interpreted as financial strength, in the SOE context it may also signal available resources that can be redirected through irregular procurement or patronage networks. This interpretation should be treated cautiously and tested in future work. Third, leverage exhibits a significant positive relationship with state capture, indicating that highly leveraged firms are more likely to be classified as captured than their less leveraged counterparts. This may reflect fiscal pressure, bailout dependence, or the use of debt-financed resources in non-productive or politically directed activities rather than value-enhancing investments. Fourth, audit quality is negatively associated with the likelihood of state capture. Employing a Big Four audit firm—Deloitte, PwC, EY, or KPMG—is associated with lower odds that an SOE will be classified as captured, consistent with the governance-strengthening role of high-quality external audits. Finally, profitability, measured by ROA, has no significant association with state capture across all six models, suggesting that contemporaneous firm performance does not predict capture classification within the sample.

Robustness Checks

To confirm the consistency of the main findings, probit regression models were estimated and reported in Table 4. The probit results closely mirror those from the logistic models, indicating no meaningful differences between the two estimation techniques. Board attributes such as board independence and ethnic diversity are consistently associated with a lower likelihood of state capture, while frequent board meetings are associated with a higher likelihood. As in the main models, gender diversity and board size remain insignificant predictors of capture classification. Regarding the control variables, the probit results reaffirm that higher leverage and stronger liquidity (current ratio) are positively associated with capture classification, whereas audit quality, proxied by Big Four audit firms, is negatively associated with the likelihood of capture. Overall, the probit estimates support the robustness of the logistic regression associations while maintaining appropriately cautious causal interpretation.

Table 4: Board composition and state capture – Probit regression

Variables	(1) capture	(2) capture	(3) capture	(4) capture	(5) capture	(6) capture
gend	0.005 (0.545)					0.000 (0.990)
ethn		-0.021*** (0.003)				-0.021*** (0.005)
bsize			0.049 (0.157)			0.030 (0.415)
bind				-0.055*** (0.000)		-0.055*** (0.000)
bmeet					0.047** (0.030)	0.056** (0.023)
lfsize	0.071 (0.175)	0.091* (0.085)	0.051 (0.372)	0.118** (0.031)	0.049 (0.356)	0.086 (0.182)
ROA	-0.005 (0.524)	0.006 (0.410)	0.005 (0.565)	0.006 (0.444)	0.008 (0.325)	0.011 (0.198)
lev	1.140*** (0.000)	1.028*** (0.002)	1.175*** (0.000)	1.266*** (0.001)	1.173*** (0.001)	1.823*** (0.002)
cur	0.047*** (0.005)	0.037** (0.024)	0.049*** (0.003)	0.058*** (0.001)	0.052*** (0.002)	0.053*** (0.004)
B4	-0.369* (0.087)	-0.533** (0.018)	-0.409* (0.061)	-0.353 (0.109)	-0.308 (0.159)	-0.480** (0.043)
Constant	-1.580*** (0.003)	0.208 (0.778)	-1.739*** (0.000)	2.565** (0.016)	-1.638*** (0.001)	3.756*** (0.004)
Diagnostic tests-model evaluation						
McFadden R^2	0.108	0.150	0.125	0.183	0.134	0.231
Likelihood ratio (LR)	35.418 (0.000)	44.381 (0.000)	37.083 (0.000)	54.169 (0.000)	39.781 (0.000)	68.488 (0.000)
Prob (LR)						
H–L stat	1.540 (0.525)	0.178 (0.673)	2.483 (0.115)	0.219 (0.640)	3.498 (0.061)	0.117 (0.732)
Prob (HL)						
% of correct pred (Count R)	65.7	69.4	65.3	72.7	60.6	73.6
Observations	216	216	216	216	216	216

Note: Probability values in parentheses; *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Board Committee and State Capture

The results in Table 5 show that the number of independent directors on the risk committee is negatively associated with the likelihood of state capture, indicating that independent risk oversight may strengthen scrutiny of high-risk transactions and internal control weaknesses. The existence of a social and ethics committee is also associated with a lower probability that an SOE is classified as state captured. However, the positive coefficient for social and ethics committee independence should be interpreted cautiously. Rather than implying that independent SEC members aggravate capture, this result may reflect reactive appointments after governance crises, symbolic compliance, the mechanical relationship between committee size and the number of independent members, or the limited authority of the committee when broader board dynamics are compromised.

Table 5: Board committee and state capture

Variables	(1) capture Logit	(6) capture Probit
rc_ind	-0.320** (0.028)	-0.195** (0.026)
sec	-1.255* (0.082)	-0.708* (0.095)
sec_ind	0.283** (0.047)	0.163** (0.045)
lfsize	0.180** (0.047)	0.105* (0.055)
ROA	0.001 (0.445)	0.001 (0.445)
Lev	1.971*** (0.001)	1.242*** (0.00)
Cur	0.083*** (0.001)	0.053*** (0.003)
B4	-0.623* (0.092)	-0.372* (0.095)
Constant	-1.481 (0.109)	-0.898 (0.107)
Diagnostic tests		
McFadden R^2	0.139	0.140
Likelihood ratio (LR)	41.206	41.629
Prob (LR)	(0.000)	(0.000)
H-L stat	1.690	1.750
Prob (H-L)	(0.194)	(0.186)
% of correct pred	65.7	64.8
Observations	216	216

Note: Probability values in parentheses; *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Discussion of Key Findings

Our study examined how specific board and committee characteristics are associated with the likelihood of state capture in South African SOEs. The evidence highlights the importance of board independence and effective committee oversight, while showing that several structural attributes have weaker or context-dependent associations. First, board size was not a significant predictor of state capture once other governance attributes were controlled for; therefore, H_1 was not supported. This suggests that capture vulnerability is shaped not by size itself but by board composition and oversight capability, consistent with findings that the effects of board size are context specific (Yermack 1996). Second, board independence was consistently associated with lower odds of capture, supporting agency theory arguments that independent directors enhance monitoring and constrain opportunistic or politically driven behaviour. This aligns with prior evidence that independence mitigates fraud and governance failures (Beasley 1996) and with the King IV Report's emphasis on majority independent SOE boards.

Third, gender diversity did not significantly predict capture risk, indicating that women's presence alone may not influence entrenched or networked corruption, particularly where influence is limited or governance environments are already compromised. This finding echoes arguments that diversity effects depend on institutional context and power dynamics (Adams and Ferreira 2009). Fourth, boards with higher representation of Black directors were significantly less likely to be classified as captured. This supports legitimacy and stakeholder theory perspectives, suggesting that more representative boards may enhance accountability, improve stakeholder alignment, and reduce tolerance for irregular practices (Hillman et al. 2000).

Fifth, frequent board meetings were positively associated with capture, likely reflecting governance stress, crisis response, or pressured decision-making rather than improved oversight. This parallels evidence that meeting frequency often increases under conditions of poor performance or scandal (Vafeas 1999). Sixth, greater independence within risk committees was associated with a lower likelihood of capture, underscoring the role of empowered, well-constituted committees in scrutinising high-risk transactions and challenging weak internal controls. Seventh, the presence of a SEC was associated with lower capture risk, suggesting that ethical oversight structures can strengthen integrity and compliance systems. However, the unexpected positive association between SEC independence and capture indicates that formal independence may be symbolic, reactive, or insufficient when broader board dynamics remain compromised. This highlights that committee authority, resourcing, timing, and functionality—not independence alone—determine effectiveness.

Theoretical Contributions

This study extends corporate governance theory into the domain of state capture by providing rare firm-level evidence from South African SOEs, thereby bridging governance scholarship and the political economy of corruption. Methodologically, the

study contributes a replicable firm-year approach to operationalising state capture using public inquiry evidence. This approach moves the literature beyond country-level corruption indices and single-case narratives by allowing researchers to examine variation across firms and over time while maintaining transparency about coding assumptions and measurement limitations. The findings are consistent with evidence that board independence is associated with lower exposure to malfeasance (Lin and Hwang 2010) and provide novel evidence that ethnic diversity may be linked to lower capture risk—an underexplored mechanism. The results show convergence between agency and stakeholder perspectives: stakeholder-oriented features (board diversity, social and ethics committee presence) align inclusive governance with tighter monitoring and legitimacy, complementing evidence that diversity can enhance oversight (Sila et al. 2016) and that inclusiveness can mitigate capture risk (Kolstad and Wiig 2016). Consistent with public choice theory, independence may serve as a counterweight to politically motivated appointments, echoing research on the costs of political connections (Faccio 2006). The study also demonstrates the transferability—and limits—of private sector mechanisms (independence, committee oversight, audit quality) to SOEs: they retain disciplinary value but require external enforcement when political interference undermines formal structures.

Policy and Practical Implications

The implications are best understood as theory-informed recommendations rather than direct causal prescriptions. Theoretically, the findings suggest that anti-capture governance depends on substantive independence, stakeholder representation, committee authority, and credible external assurance. For policymakers and shareholder ministries, the results support depoliticised appointments, transparent vetting through independent panels or parliamentary scrutiny, term limits, staggered rotations, and stricter eligibility rules that exclude politically connected or recently appointed public officials. For SOE boards and regulators, the findings support strengthening meaningful diversity across ethnicity, gender, and skills; ensuring diverse representation in powerful roles, particularly in audit and risk committee leadership; resourcing risk and social/ethics committees; guaranteeing full access to risk information; and integrating whistleblowing mechanisms with ethics oversight. The financial results also suggest that sudden increases in leverage, unusual liquidity positions, spikes in board meetings, late reporting, or auditor changes should be treated as early-warning indicators that trigger special audits, board reinforcement, or escalation protocols. Finally, structural reforms should reduce patronage and ministerial overreach through an independent SOE appointments or ownership body, along with clearer legal boundaries that protect board autonomy and limit arbitrary dismissals.

Managerially, the results imply that boards should not equate formal compliance with effective oversight. Independence should be assessed in terms of actual autonomy, access to information, expertise, and the willingness to challenge political or managerial pressure. Similarly, frequent board meetings should prompt diagnostic questions about

whether the board is exercising oversight effectively or merely responding to crisis conditions.

Conclusion

This study examined how board characteristics, board committees, and financial structures relate to the risk of state capture in South African SOEs. The core findings are that board independence, ethnic diversity, risk committee independence, the existence of a social and ethics committee, and Big Four audit engagement are associated with a lower likelihood of capture, while board meeting frequency, leverage, liquidity, and firm size show positive associations in some specifications. Supplementary findings, particularly the positive association with social and ethics committee independence, should be interpreted cautiously because they may reflect reactive governance responses, symbolic compliance, or the effects of committee size. Overall, the evidence indicates that firm-level governance arrangements are meaningfully associated with exposure to systemic corruption pressures, but the observational design does not establish causality. South Africa's SOE experience is therefore both a warning and a lesson: formal governance structures matter, but they build resilience only when independence, authority, accountability, and external enforcement are substantive rather than nominal.

Limitations and Future Research

While the study offers important insights, several limitations remain. First, state capture is measured as a binary classification based on public investigations, which oversimplifies a dynamic phenomenon and may overlook variations in severity, duration, partial capture, or undetected activity. Future work should develop continuous and longitudinal measures. Second, the timing of the governance variables and capture classification creates potential simultaneity and reverse-causality concerns, because governance characteristics may both shape and respond to capture-related crises. Third, the analysis is context specific to South African SOEs during a particular period, limiting generalisability; cross-country comparisons could test external validity. Fourth, the small sample size (18 SOEs over 12 years) and the limited number of firm clusters restrict statistical power, increase the risk of overfitting, and constrain causal inference. Fifth, the focus on internal governance excludes external accountability mechanisms, including the media, civil society, parliamentary oversight, prosecution, and legal enforcement, which future studies should incorporate. Finally, reliance on annual reports and public inquiry evidence may introduce measurement bias, especially in captured firms. Triangulating these sources with forensic audits, contract-level data, procurement records, and interviews would enhance reliability.

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