CORPORATE GOVERNANCE STRUCTURES: THE PERFORMANCE OF ZAMBIAN LISTED COMPANIES

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DECLARATION

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ABSTRACT

Corporate governance, which hinges on integrity, transparency and accountability, has been globally recognised. Despite this recognition, corporate scandals, corporate failures and poor financial performance of companies have continued to affect the corporate and non-corporate world and thus corporate governance has become a topical issue. There has been limited research on the relationship between corporate governance structures and the financial performance of listed companies in Zambia. This research, therefore, investigated the relationship between corporate governance structures and the financial performance of the selected Lusaka Stock Exchange (LuSE) listed companies for the period 2009 to 2017. With the wide range of stakeholders of the LuSE listed companies in Zambia and the need to grow and develop Zambia's economy, measuring the financial performance of the companies is vital. Additionally, the growth and development of the Zambian economy is at the heart of Zambia's economic policies - aimed at eradicating poverty and gender-related inequalities in income. The aim of the research was to adjust the existing framework of corporate governance structures that would enhance the financial performance of the Lusaka Stock Exchange listed companies. This research study has adopted the stakeholder theory to corporate governance, as there are many stakeholders (shareholders, banks, suppliers, customers, government, and employees, amongst others) interested in corporate governance and financial performance for companies.

The study employed a mixed research methods approach that involved the collection and analyses of secondary and primary, quantitative and qualitative data. A total of 19 Lusaka Stock Exchange listed companies was used in the descriptive and inferential statistics while 46 self-administered questionnaires were analysed. A total of 15 interviews were held with key role players comprising Chief Executive Officers of the selected key institutions. The random effects panel regression model was used to investigate the relationship between corporate governance structures (board of directors and managerial ownership) and financial performance (proxied by the Return on Capital Employed and Tobin's Q). Self-administered questionnaires and

interviews were conducted to provide insight into corporate governance structures, including the relationship between corporate governance structures and financial performance.

All the self-administered questionnaires' participants indicated that separation of the chief executive officer and board chairperson roles improved financial performance. The random effects panel regression tests using the Return On Capital Employed and Tobin's Q showed that separation of chief executive officer and board chairperson roles showed had no statistically significant relationship with financial performance of selected the Lusaka Stock Exchange listed companies. Similarly, the study has revealed that the majority of non-executive directors and the number of board meetings do not have any statistically significant relationship with the financial performance of the selected Lusaka Stock Exchange listed companies. However, the insights from key role players have revealed that the majority non-executive directors and the holding of frequent (quarterly) board meetings positively relate with the financial performance of the selected Lusaka Stock Exchange listed companies. A small board of directors (averaging seven board members) has a statistically significant positive relationship with financial performance of the selected Lusaka Stock Exchange LuSE listed companies. Furthermore, insights from self-administered questionnaires revealed that large boards have a positive relationship with financial performance. The contrasting results mainly stem from the argument that insights from key role players could have been premised on the need to comply with LuSE Lusaka Stock Exchange Code of Corporate Governance and international corporate governance best practices. The major implications of the research results regarding the separation of the CEO and the chair of the board as well as having a majority NEDs are contradictory. The quantitative research revealed no relationship between financial performance, the division of the two roles and a majority NEDs, yet the opinions of key role players indicated the opposite. The contradiction in findings mainly stems from the fact that the application of corporate governance in Zambia as is fairly new and the stock market is not yet fully developed.

The board processes such as the number of board committees, the establishment of audit and risk committees and internal and external audits relate with financial performance of the selected Lusaka Stock Exchange LuSE listed companies in different ways. The results of the random panel regression analysis, using Tobin's Q,

have revealed that the establishment of an audit committee has a statistically significant positive relationship with financial performance. The insights from key role players revealed that the establishment of an audit committee, internal and external audits as internal corporate governance structures have positive relationships with the financial performance of Lusaka Stock Exchange listed companies. Furthermore, the results of the random effects panel regression analysis showed that the establishment of a risk committee does not have any statistically significant relationship with the financial performance of the LuSE listed companies. Conversely, the insights from interviews revealed that the establishment of a risk committee has a positive relationship with financial performance. Finally, insights from the self-administered questionnaires and interviews revealed that managerial ownership positively relates with financial performance as managers align their interests with shareholders' interests. The major implications are that a continued focus on the use of audit committees as well as internal and external audits can contribute positively to the financial performance of the LuSE listed companies.

The author makes the following major recommendations for shareholders, board of directors, senior management, practitioners and academics:

- It is recommended that the shareholders of the two Lusaka Stock Exchange Companies, that didn't have the separation of the two roles, should approve the separation of the two roles while the 17 Lusaka Stock Exchange listed companies that had the two role separated should continue separating the two roles;

- The board of directors should ensure that a greater proportion of non-executive directors form part of the boards in the Lusaka Stock Exchange listed companies;

- Senior management should facilitate the holding of the recommended four annual board meetings; and

- The Securities Exchange Commission should use the research report as one of the key documents that to revise of the Lusaka Stock Exchange Code on Corporate Governance in Zambia.

This study's limitations included limited financial data for the descriptive and inferential statistics, the young age of the Lusaka Stock Exchange, the limited number of listed companies and the developing nature of the country. In this regard, the study recommends that future research is required when the number of LuSE listed companies has increased; to include other companies (companies listed on both the main and alternative Lusaka Stock Exchange markets, private sector and state owned entities); as a comparative study for corporate governance in Zambia (Lusaka Stock Exchange listed companies) and South Africa (Johannesburg Stock Exchange listed companies). Given the contrasting results, future research is critical to investigate the relationship between board size and financial performance.

KEY TERMS

Corporate Governance, Financial Performance, Board of Directors, Managerial Ownership

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LIST OF ACRONYMS AND ABBREVIATIONS

ACCA	Association of Chartered Certified Accountants
ACFID	Australian Council for International Development
AfDB	African Development Bank
AGM	Annual General Meeting
AICPA	American Institute of Chartered Public Accountants
ASS	Asset Value
BC	Board Committees
BFSA	Banking and Financial Services Act
BL	Board Leadership
BM	Board Meetings
BOD	Board of Directors
BoZ	Bank of Zambia
BP	Board Processes
BPP	Brierley Price Prior
BS	Board Size
BST	Board Structure
CEO	Chief Executive Officer
CFA	Chartered Financial Analyst
CG	Corporate Governance
CIMA	Chartered Institute of Management Accountants
CIPE	Centre for International Private Enterprise

CSF	Critical Success Factor
CSO	Central Statistics Office
CVA	Cash flow Value Added
DTI	Department of Trade and Industry
EAZ	Economic Association of Zambia
EBIT	Earnings Before Interest and Tax
EM	Economic Margin
EVA	Economic Value Added
EY	Ernest and Young
FE	Fixed Effects model
FRC	Financial Reporting Council
GAAP	Generally Accepted Accounting Principles
GEAR	Gearing
GRZ	Government of the Republic of Zambia
DWH	Durbin-Wu-Hausman
ICAS	International Centre for Professional Accountants
ICGN	International Corporate Governance Network
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
IoDSA	Institute of Directors Southern Africa
IoDZ	Institute of Directors Zambia
IoDUK	Institute of Directors United Kingdom

JSE	Johannesburg Stock Exchange
KCM	Konkola Copper Mines
KPI	Key Performance Indicator
LuSE	Lusaka Stock Exchange
LSE	London Stock Exchange
MO	Managerial Ownership
MVS	Market Value of Shares
MVD	Market Value of Debts
NPO	Non-profit Organisation
NED	Non-Executive Director
OECD	Organisation for Economic Co-operation and Development
OFM	Office of Financial Management
PACRA	Patents and Company Registration Agency
PIA	Pensions and Insurance Authority
PWC	PriceWaterHouseCoopers
RE	Random Effects model
ROA	Return on Assets
ROCE	Return on Capital Employed
ROE	Return on Equity
RSA	Republic of South Africa
RVA	Replacement Value of Assets
SA	South Africa
SAQ	Self-Administered Questionnaire

SEC	Securities and Exchange Commission
SME	Small and Medium Enterprise
SOEs	State Owned Enterprises
SOX	Sarbanes Oxley Act
SPSS	Statistical Package for Social Scientists
SVA	Shareholder Value Added
UFS	University of the Free State
UK	United Kingdom
UNDP	United Nations Development Programme
USA	United States of America
ZCCM-IH	Zambia Consolidated Copper Mines – Investments Holding
ZICA	Zambia Institute of Chartered Accountants
7NDP	Seventh National Development Plan

CHAPTER 1: INTRODUCTION

1.1 Introduction

The concept of corporate governance is an amalgamation of several disciplines including law, economics, finance, organisational behaviour, management, ethics and politics (Rwegasira, 2000:258). Corporate governance is narrowly defined as involving a set of relationships amongst a company's management, its board of directors, its shareholders, its auditors and other stakeholders (Pandya, 2011:5).

Although corporate governance, which hinges on integrity, transparency and accountability has been globally recognised, corporate scandals and corporate failures or poor financial performance of companies have continued to affect the corporate and non-corporate world. Consequently, corporate governance has become a topical issue. In this regard, Tosuni (2013:209) argues that developing countries have realised the importance of corporate governance for the proper functioning of capital markets and ensuring investor confidence. The King I, II, III and IV Reports on corporate governance have evolved over time following developments in financial markets and international corporate governance practices (Institute of Directors Southern Africa (IoDSA), 2016:1; IoDSA, 2009:1; IoDSA, 2002:5). Furthermore, according to Eun and Resnick (2009:27), the corporate scandals and failures that include Enron - 2001, WorldCom and Global Crossing in the United States of America (USA) – 2002, as well as Parmalat in Europe - 2003, have raised serious questions about the way public corporations are governed around the world. In Asia, Bai, Lu, Song and Zhang (2004:599) and Lee and Yeh (2004:378) resonated with this and argued that poor corporate governance was regarded as one of the key factors that caused the Asian financial crisis in 1997. In this regard, it can be argued that no industry or company anywhere in the world is immune to inadequate corporate governance practices.

A recent example in South Africa is the Steinhoff scandal. Steinhoff was founded in Germany in 1964, before relocating to South Africa in 1993. Steinhoff is listed on

both Johannesburg and Frankfurt stock exchanges (Naudé, Hamilton, Ungerer, Malan, and Klerk, 2018:1). Rossouw (2018:1) and Skae (2018:1) recorded that Steinhoff enjoyed a remarkable story of growth, from its humble beginnings in Germany to its transformation into a massive global holding company. However, for the past four years (2014 - 2017) Steinhoff's financial performance remained in an imbalance. Bowker, Bornochis and Wild (2018:1) document that forensic investigations conducted by PriceWaterCoopers (PWC) revealed accounting irregularities for 2017 and the preceding three financial years. Steinhoff's financial accounts lacked pivotal information about how it was generating revenue and why it appeared to focus on tax breaks rather than the actual business. According to Naudé *et al.* (2018:1) the poor financial results and the accounting irregularities could have emanated from unethical business practices within Steinhoff. Jooste (2018:2) and Naudé *et al.* (2018:1) reiterate that Steinhoff's corporate scandal is South Africa's biggest corporate scandal and could be South Africa's version of the Enron accounting scandal.

Although the full scale of the consequences of the Steinhoff corporate scandal are not yet known, the financial performance of the company has negatively been affected as its share prices have plummeted. By 31 December 2017 the share price of Steinhoff went into a tailspin resulting in a loss of €10 billion in share price and consequently has triggered a liquidity and credit crunch for Steinhoff (Bowker *et al.*, 2018:1; Naudé *et al.*, 2018:23; Rossouw, 2018:1). Many reasons can be attributed to the corporate scandal and the subsequent poor financial performance. Naudé *et al.* (2018:20) and Skae (2018:1) agree that the corporate scandal and poor financial performance of Steinhoff is largely attributed to poor corporate governance evidenced by a lack of independence of non-executive directors and the presence of a corrupt chief executive officer. The lack of independence of non-excutive directors diluted their oversight role, which contributed to the poor financial performance of Steinhoff. Furthermore, Skae (2018:1) argued that executive directors had more freedom to engage in unethical activities and hide these from the supervisory board of Steinhoff. In summary, Jooste (2018:2) argued that poor corporate governance was promoted within Steinhoff as the board lacked responsibility for an ethical culture, independence and responsibility for oversight and risk management. The

case of Steinhoff presents clear evidence of the negative impact of poor corporate governance structures on the financial performance of companies.

One area of corporate governance research focuses on investigating the relationship between corporate governance structures and the financial performance of companies (Al-Matari *et al.*, 2012:244; Ferrer *et al.*, 2012:130; Vintilă & Gherghina, 2012:179; Tan, Tam & Hu, 2010:736; Abdelkarim & Alawneh, 2009:105; Harjoto & Jo, 2008:146; Garg, 2007:42; Haniffa & Hudaib, 2006:1045; Florackis, 2005:213). This is in a bid to discover how corporate governance structures contribute to the long term success of companies, as well as the national and global economies.

1.2   Background to the study

In Zambia the capital market (financial market) is not fully developed (Lusaka Stock Exchange (LuSE), 2013:1; Chilolo, 2009). Potton (2005:36) contends that a capital market provides a mechanism that enables companies to raise capital and investors with capital to invest. In 1993 with the realisation that economic growth can only be realised through the development of a strong financial market, the Government of the Republic of Zambia (GRZ), with support from the International Finance Corporation (IFC) and the World Bank, established the LuSE. The establishment of the LuSE was aimed at stimulating the emergence of a dynamic and active private sector as the primary engine for economic growth (LuSE, 2013:1; African Development Bank, 2003:25) and to enable companies to achieve wider share ownership and good corporate governance (Chungu, 2013:37). With the same support the Zambian Securities and Exchange Commission was established in 1993 through an act of parliament, to be responsible for the supervision and development of the Zambian capital market (Securities Exchange Commission (SEC), 2013:1). The SEC's mandate also encompasses licencing, registration and authorisation for financial intermediaries, issuance of debt and equity instruments and collective investment schemes (SEC, 2013:1). With regard to LuSE listed companies for the period 2009 to 2017, only 20 listed companies were consistently listed on the LuSE. A total of 19 LuSE listed companies had complete financial information required for this research study and therefore the focus of this study is on the 19 listed

companies. Appendix 5 provides information regarding companies' listing dates and the type of sector they operate in.

As Zambia is yet to grow its capital market fully through the SEC and the LuSE, corporate governance is a new theme, not only to the country but to the companies listed on the LuSE as well. The LuSE, in conjunction with the Institute of Directors Zambia (IoDZ), developed a code of corporate governance for the listed companies (LuSE, 2013:2). The LuSE corporate governance code has principles to be adhered to by the listed companies on an either comply or explain basis, as discussed in Chapter 2.

In 2005 following the realisation that the need for good corporate governance had taken centre stage for the corporate world, LuSE devoted financial and non-financial resources to develop a code of corporate governance. In particular, Zambia's capital market had at the time existed for 12 years without a code of corporate governance. The development of the code of corporate governance was premised on the view that clear guidelines with regard to standards and practices were required to enhance corporate governance and promote transparency and accountability in public companies (LuSE, 2005:2).

When compared with corporate governance in South Africa, Zambia's corporate governance code has similarities with the King Reports. In particular, both King IV and the LuSE Corporate Governance Code represent guidelines and principles of corporate governance rather than rules to comply with. Furthermore, King IV and the LuSE Code of Corporate Governance espouse the following (IoDSA, 2016:35; LuSE, 2005:5):

- The roles of Chief Executive Officer and Board Chairperson should be separated;

- The board should comprise non-executive directors as the majority;

- Board committees should be established and maintained; and

- The board should meet regularly to allow information sharing and improve decision making by the board.

While similarities exist between King IV and the LuSE Corporate Governance Code, differences are also apparent. Firstly, corporate governance in South Africa evolved from King I in 1994 to King IV which came into effect with the financial year starting on or after 1st April 2017. The LuSE Corporate Governance Code has not seen any revision since its development in 2003 despite the continuous developments in both the capital markets and corporate governance landscape. Furthermore, the King IV Report considers all organisations regardless of their form of incorporation (Deloitte, 2016:1; IoDSA, 2016:35; KPMG South Africa, 2013:2) whereas the LuSE Corporate Governance Code only applies to listed companies (LuSE, 2005:2). In terms of board meetings, the LuSE Corporate Governance Code advocates that the board should meet four times annually whereas King IV Report does not specify the number of times that the board should meet, but rather espouses that the board should meet regularly. While both the King IV Report and LuSE Corporate Governance Code advocate for appropriate board committees to be established and maintained, the two codes differ in terms of the specific type and number of board committees to be in place. LuSE corporate governance code provides that at a minimum, audit and remuneration committees should be in place (LuSE, 2005:5) whereas King IV recommends that audit, nominations, social and ethics, remuneration and risk committees be established and maintained (IoDSA, 2016:35).

According to Kanyama (2018:1), in Zambia there have been improvements in corporate governance practices in the LuSE listed companies. However, despite the improvements in corporate governance practices, LuSE listed companies still need to continue improving their corporate governance practices by benchmarking against international corporate governance practices. Similarly, Elekdag and Gelos (2016:1) claim that as developing economies have become more financially integrated with developed economies, benchmarking their corporate governance practices with international corporate governance practices improves corporate governance. Furthermore, improved corporate governance in developing countries can help developing countries to be more resilient in the face of a more uncertain external environment. Zambia has a liberalised economy, which is integrated with the international financial system and consequently benchmarks its corporate governance with international corporate governance practices such as King IV, is critical to improve Zambia's economic growth and development. This research,

therefore, discusses corporate governance in Zambia while considering international corporate governance practices such as the Combined Code (United Kingdom), King Reports (South Africa) and Sarbanes Oxley Act (United States of America).

For every organisation, whether public, private, for profit or non-profit, achievement of a set of objectives is critical for ensuring a competitive advantage and continued existence (Marr, 2014:1; Botten, 2008: 416; Behn, 2003:586). Consequently, every business should endeavour to improve its operations by clearly identifying the critical success factors (critical activities) and establishing clear key performance indicators for every part of its business as a critical process of performance management. This process aims at achieving improved business results for every part of business operations of the company (Marr, 2014:2; Behn, 2003:586).

Thus, if the process of identifying key performance indicators (KPIs) and establishing critical success factors (CSFs) is not properly implemented and monitored, the ultimate goal of improved business may not be achieved. Failure to achieve set targets lead to poor business results (Pogue, 2008:54). Some of the major causes of poor financial performance include macro- and microeconomic variables such as poor fiscal policies, high inflation rates, currency depreciation, economic recession (Frankel, 2012:29) and poor management (Pogue, 2008:54). According to Pogue (2008:54), poor business results that can lead to business failure are mainly caused by poor business planning, poor financial planning, poor marketing and poor management and leadership. Lee and Yeh (2004:378), as well as Johnson, Boone and Friedman (2000:141), document that poor corporate governance contributed to the financial crisis in Asia in 1997. This is because in countries with poor corporate governance, poor economic prospects result in more expropriation by managers and thus a larger fall in asset prices (Johnson *et al.*, 2000: 141). Arguably corporate governance structures can greatly help in improving business performance.

Zambia is a developing country that relies on economic liberalisation as the engine for growth (Hoskisson, Lau & Wright, 2000:249). Most of Zambia's parastatals have been privatised thereby allowing citizens to invest in the companies. The economic liberalisation means that Zambia is no longer a command economy, but rather a free economy determined by economic factors of supply and demand (Hoskisson, Lau & Wright, 2000:249). In addition, the country has allowed the investments by local and

international investors to flow to the country through the financial market regulated by the SEC and the LuSE.

The liberalisation of the Zambian economy is aimed at attracting both local and international investments. According to the World Bank (2006:4) and the Centre for International Private Enterprise (CIPE) (2008:2), good corporate governance attracts investments, sustains growth and stimulates production and innovation. Arguably, maintenance of good corporate governance practices does not only maintain existing investor confidence (thereby maintaining the investments), but also attracts additional investments (The World Bank, 2006:3). Maintaining existing investments and attracting additional or new investments has many benefits. At company level it brings additional financial resources, creates employment, improves shareholders' wealth, and attracts suppliers to provide raw materials, and it improves product quality to meet customers' demand (Chilolo, 2009). These benefits translate into the big picture of improving the country's economy and thereby improving the living standards of its people (Mulenga, 2013:25).

The aim of any investment is to make an acceptable return. According to Ogilve (2008:4) and Potton (2005:5), for a profit-making entity, the main strategic objective is to optimise the wealth of the owners/shareholders. One of the ways of measuring the achievement of strategic objectives is by measuring the financial performance of the company (Collier, 2006:86). The aim of measuring the financial performance of a company at regular intervals is to monitor the progress of the company in terms of meeting the financial objective of maximising the shareholders' wealth (Ogilve, 2008:4) and by extension, meeting the interests of other stakeholders. Traditionally, ratio analysis (accounting ratios) has been employed to analyse the financial performance of companies. The ratio analysis looks at historical information; for instance, measuring the financial performance of a company over the past one year. Other measurement tools concern the market value of the companies so as to determine whether there has been an improvement or reduction in the value of the company (Brierley Price Prior (BPP), 2013:540; Collier, 2006:90).

Listed companies in Zambia are expected to contribute to the improvement of the Zambian economy. As these are public companies, investments into these companies would be made if good corporate governance practices are established

and maintained (The World Bank, 2007). However, in 2014 their contribution to the Zambian economy was insignificant as evidenced by minimal market capitalisation of the LuSE that stood at about US$10billion (Mpofu, 2013:1). Poor corporate governance practices and structures in the Zambian companies have contributed to the poor financial performances of the companies (Kabaila, 2014:2; Chungu, 2013:29). For example, minority shareholders of Zambia Consolidated Copper Mines – Investment Holding (ZCCM-IH), one of the listed companies, have complained about its poor corporate governance (Udoh, 2013:1). Other stakeholders, such as the government and employees in other companies, share similar views. The poor management of the Konkola Copper Mines (KCM) Public Limited Company has deprived the country of its own resources and has led to the failure by the company to meet its obligations as its liabilities stood at US$1.6 billion, compared to its assets of US$0.1billion (Kabaila, 2014:2). As such, Kabaila (2014:2) attributes the poor performance to the poor state of corporate governance, particularly in the listed companies. Consequently, poor corporate governance practices or structures have a relationship on the position of listing of the companies. Furthermore, in Zimbabwe (one of the developing Sub-Saharan countries), poor corporate governance has contributed to the delisting of companies, thereby reducing investment and investor confidence (Mpofu, 2013:2).

At the heart of corporate governance are the structures that are basically the bedrock of corporate governance. Corporate governance structures aim to harmonise the interests between the managers and stakeholders (Vintilă & Gherghina, 2012:175). These structures comprise both internal and external structures. External corporate governance structures are construed to be structures that aim to contribute to the efficiency and effectiveness of financial markets (Apadore & Subaryani, 2014:164; Wu, Lin, Lin & Lai, 2009:2). Both internal and external structures aim to protect the interests of the stakeholders of companies, thereby improving company financial performance to meet a company's overall objectives (Apadore & Subaryani, 2014:164; Vintilă & Gherghina, 2012:175; Wu *et al.,* 2009:2;).

Consequently corporate structures play an important role in company financial performance. Lee and Yeh (2004:378) document that weak corporate governance

structures contributed to the financial crisis in Asia. Similarly, Avram (2012:83) documents that due to the difficulties generated by the worldwide recession of 2007/2008, many academics are paying increasing attention to the corporate governance structures, especially to the connections that might be identified between board structure, ownership and performance. According to Apadore and Subaryani (2014:164), Vintilă and Gherghina (2012:175) and Wu *et al.* (2009:2) and corporate governance is essential for company performance in order to achieve a return on investment. In developing countries, Rouf (2012:73) supported the view that it is widely believed that good corporate governance is an important factor in improving the economies of developing countries. From the above argument it can be inferred that research on corporate governance, particularly focusing on the relationship between corporate governance structures and company financial performance, is still considered relevant and necessary to help the developed and developing economies.

1.3 Previous research studies and current research gap

In this section, the research study has discussed the previous studies relating to the relationship between corporate governance structures and company financial performance. Furthermore, the research gap on the relationship between corporate governance structures and financial performance has been identified.

As mentioned in the introduction, corporate scandals and corporate failures have continued to disrupt the corporate and non-corporate world, attracting debate on corporate governance. According to Marn and Romuald (2012:31), as well as Okpara (2009:184), promotion of efficient and effective corporate governance has become an important agenda for companies in developing countries because it can enhance managerial excellence and help companies with fragile governance structures to increase capital and attract foreign investors.

The corporate governance agenda and debate have attracted attention globally. In this regard, much research on corporate governance has been conducted in the different parts of the world by practitioners, governments, international organisations and academia among others in the corporate entities in the different industry sectors (Marn & Romuald, 2012:1). One area of research focus has been investigating the relationship between corporate governance structures and the performance of companies (Al-Matari *et al.*, 2012:310; Ferrer *et al.*, 2012:123; Vintilă & Gherghina, 2012:179; Tan, Tam & Hu, 2010; Abdelkarim & Alawneh, 2009:105; Harjoto & Jo, 2008:143; Garg, 2007:39; Haniffa & Hudaib, 2006:1034; Florackis, 2005:211).

1.3.1   Research in developed countries

Developed economies such as the United Kingdom (UK) and Australia have well-developed capital markets. Corporate governance in these economies contributes to the integrity, transparency and accountability of the companies in these developed economies (Marn & Romuald, 2012:2; Okpara, 2009:1).

One of the corporate governance research areas in the developed countries has been corporate governance practices focusing on the corporate governance structures. Scholars and analysts have focused on how the corporate governance structures relate with company financial performance. For example, Florackis (2005:211) in United Kingdom, as well as Rebeiz and Salameh (2006:747) in the United States of America investigated how the board structure impacts on company performance. Others have investigated how other structures such as ownership structure, managerial ownership and the legal framework (Henry, 2008:912) affect company performance in Australia. The results of these studies have varied and have been inconclusive. In the United Kingdom, Florackis (2005:213) found that managerial ownership contributes to good company performance.

1.3.2 Research in developing countries including Zambia

Developing countries are countries in which the majority of the population has far less income and weaker social indicators than the population in high-income countries (Library of Congress Collections Policy Statements, 2008:1). The people living in developing countries live on far less money and often lack basic public services in comparison to the population in highly industrialised countries (Library of Congress Collections Policy Statements, 2008:1). The World Bank (2012:2) further contends that developing countries have small domestic markets, poor health and education systems, their populations are largely rural and hunger and poverty prone. Such countries are also referred to as emerging economies. Although Africa consists of developing countries, levels of economic activities have been on the rise as Africa is a continent of business opportunities (Akwagyiram, 2013:5). Africa is now one of the world's fastest growing regions (Akwagyiram, 2013; Chuhan-Pole, Agwafo, Buitano, Dennis, Korman & Sanoh, 2013:1).

In developing countries such as Malaysia, Taiwan, Indonesia and India, there has been limited research conducted on the relationship between corporate governance and financial performance. The research results of the extant literature by many scholars such as Baccar, Mohamed and Bouri (2013:288), Jackling and Johl (2009:492), Mashayekhi and Bazaz (2008:156), Garg (2007:40), Eisenberg, Sundgren and Wells (1998:35) and Jensen (1993:831), have been inconclusive (in terms of the influence of corporate governance structures on company performance) as has been the case in the developed economies. For example, in India Garg (2007:39) and Wang, Jeng and Peng (2007:264), found that boards of directors' characteristics, such as the board size, have a negative effect on the performance of the company. However, Jackling and Johl (2009:493) found that larger boards have a positive relationship with company financial performance. In Malaysia, Haniffa and Hudaib (2006:1052) found that large boards positively affect company performance whereas in Indonesia, Nuryanah and Islam (2011:34) found that board size did not affect company performance.

Many Sub-Saharan countries such as South Africa and Zambia, have implemented economic reforms requiring adoption of good corporate governance practices to

foster sustainable economic growth (Munisi & Randoy, 2013:12; Berry, 2009:3; Asiedu, 2002:10). Despite this development, many scholars have focused research on corporate governance practices (Mulenga, 2013:29; Mulili, 2011:18; Chilolo, 2009:19) but with little focus on the relationship between corporate governance structures and financial performance. Some of the limited research studies in Africa have focused on listed companies drawn from Ghana, South Africa, Nigeria and Kenya. One of the few research studies conducted in Ghana have revealed that corporate governance had a positive relationship with financial performance of the sampled listed companies (Kyereboah-Coleman, 2007:30).

As discussed in the previous sections, corporate governance in Zambia and in Zambian companies is a new development representing a topical research area. According to Chisanga (2017:5) corporate governance practices are being appreciated in both public and private companies. Corporate governance is a fairly new development in Zambia. Furthermore, there has been limited research on corporate governance in Zambia. The limited research on corporate governance has focused on the role of the boards of directors and establishing the presence and quality of corporate governance practices in the listed and non-listed companies in Zambia (Chilolo, 2009:21). Despite the limited research, calls have been made about improving corporate governance practices in Zambian companies (Kabaila, 2014:1: Lusaka Times, 2013:2). This has been as a result of poor economic growth of the country in general and in particular the poor performance of Zambian companies. Once investors are attracted to invest in Zambian companies, the companies will have capital to develop the economy. Enhanced financial performance of companies may improve the country's economy and will also attract further investments from both local and international investors (Marn & Romuald, 2012:5; Okpara, 2009:184).

According to Pandya (2011:6), Wang *et al.* (2007:264), Rossouw (2005:95), Okeahalam (2004:359) and Armstrong (2003:12), good corporate governance can result in many benefits that include improved company performance (Wang *et al.*, 2007:264), an improvement in strategic planning (Pandya, 2011:6), providing market discipline and transparency, acting as a deterrent to corruption, providing assurance of integrity of financial reports and creating a reputation among internal and external stakeholders. The World Bank (2006:4) and the Centre for International Private

Enterprise (2008:2) resonate with this and add that good corporate governance attracts investment, sustains growth and stimulates production and innovation.

Furthermore, poor corporate governance practices contribute to the poor financial performance of companies (Kabaila, 2014:1; Udoh, 2013:1). Scholars and practitioners (Pandya, 2011:6, Wang *et al.*, 2007:264; Rossouw, 2005:95; Okeahalam, 2004:359; Armstrong, 2003:12) have argued that strengthened corporate governance structures positively relate with the good financial performance of companies. However, there has been limited published research on the relationship between corporate governance structures and companies' financial performance in Zambia. Thus, the study on the relationship between corporate governance structures and the financial performance of the Zambian LuSE listed companies is of paramount importance.

At the heart of corporate governance are the corporate governance structures that explain its importance. Corporate governance structures comprise internal structures (including boards of directors and managerial ownership) and external structures (relating to market control and legal framework) (Gill, Vijay & Jha, 2009:8). It is inferred from this that corporate governance structures form the basis from which the benefits of corporate governance can be realised. As the internal structures are indeed under the control of the company, it becomes easier to measure the relationship between internal corporate governance structures and financial performance than using the external corporate governance structures. This research therefore focuses investigating the relationship between internal corporate governance structures and company financial performance as shown in Figure 1 below.

Figure 1:   Research focus
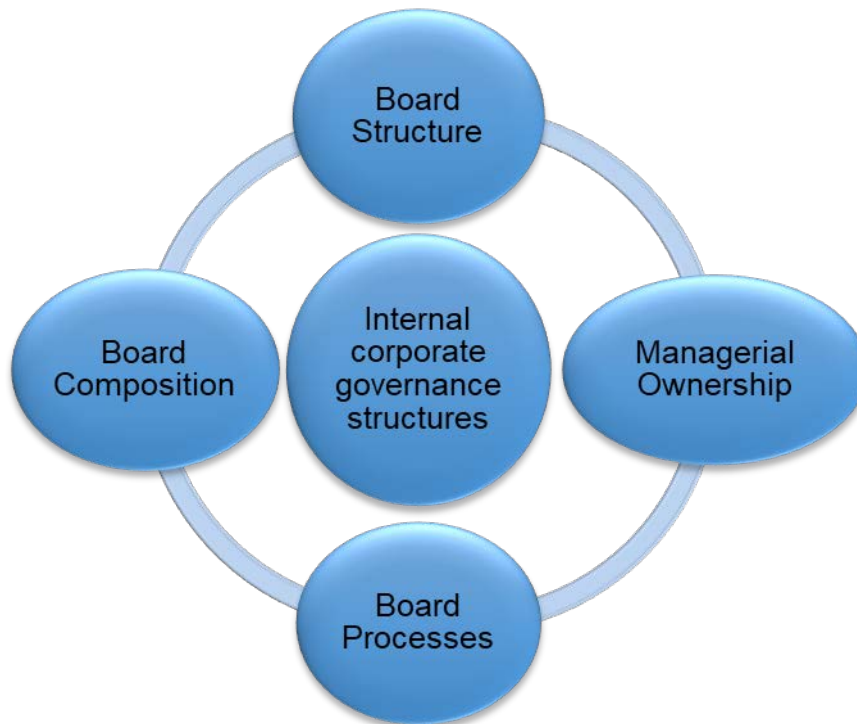
Source: Author's own construct

1.4   Problem statement

Strengthened corporate governance structures would not only improve corporate governance in emerging economies but would also spur growth in economic activities through the attraction of investments of capital improving the financial performance of companies. In Zambia, listed companies are part of the liberalisation strategy to bring about economic growth and improve the living standards of the people. As argued by Marn and Romuald (2012:31) as well as Okpara (2009:184), economic growth can be spurred on through strong corporate governance structures and practices.

Corporate governance structures (managerial ownership, board size, board composition, board processes, internal and external audits and ownership concentration) relate with financial performance in different ways. In developed

economies such as Australia, Europe and North America, research investigating the relationship between corporate governance structures and company performance exists. This research has arisen as a result of the importance of corporate governance in general and the corporate governance structures in particular. Corporate scandals such as Enron, WorldCom in the United States of America (USA) and Parmalat in Europe have led to such empirical research to be conducted. Despite the large number and frequency of this research on the relationship between corporate governance structures and the performance of companies, the research outcomes have been inconclusive and contradictory.

In developing countries, research on corporate governance has been limited and its results inconclusive. Much of this research has taken place in Asia, making it difficult for the results to be applied in other developing economies like Southern Africa in general; Zambia in particular. This is because of differences in economic conditions, political conditions and the infrastructure of the countries. In Sub-Saharan Africa, research on this subject has been limited. The limited research has been conducted on countries such as Ghana, South Africa, Nigeria and Kenya in 2007 (Kyereboah-Coleman, 2007:11). In Zambia, there is limited research investigating the relationship between corporate governance structures and financial performance, despite the growth of economic activities and the creation of capital market regulated by the SEC and the LuSE.

Poor financial performance of companies that results from poor corporate governance structures, affects the survival of the companies (Kabaila, 2014:1; Chungu, 2013:2). This poses a challenge to the public companies listed the LuSE. Consequently, the problem of how corporate governance entities should be operated to enhance financial performance of the listed companies in Zambia, is critical.

1.5   Primary and secondary research objectives

The primary and secondary research objectives for this study are discussed in this section.

1.5.1   Primary research objective

The primary research objective of this study is to adjust the existing framework of corporate governance structures in order to enhance the financial performance of listed companies in Zambia.

1.5.2   Secondary research objectives

To achieve the primary research objective the following secondary research objectives have been formulated:

- To conceptualise corporate governance in general;

- To identify the key determinants of corporate governance in terms of structure;

- To analyse current corporate governance structures of LuSE listed companies;

- To analyse the financial performance of the companies that are listed on the Zambia Stock Exchange;

- To investigate the relationship between corporate governance structures and company financial performance; and

- To adjust international guidelines of corporate governance structures to enhance financial performance of listed companies in Zambia.

In order to achieve the above primary and secondary objectives, appropriate research questions must be formulated.

1.5.3 Research questions

The research questions enable the gathering of the required information and its analysis. The following research questions have been posed:

1. Do corporate governance structures play an essential role with regard to LuSE companies' financial performance in Zambia?

2. Why are the current corporate governance structures important with regard to LuSE companies' financial performance in Zambia?

3. What internal corporate governance structures should be in place to impact LuSE companies' financial performance in Zambia?

4. Do the internal corporate governance structures relate with financial performance of the listed companies in Zambia?

5. What characteristics should the corporate governance structures have to impact LuSE companies' financial performance in Zambia?

6. How do the corporate governance structures relate with company financial performance of the listed companies in Zambia?

7. Why is the understanding of the corporate governance structures important with regard to LuSE companies' financial performance in Zambia?

1.6 Research design and methodology

In this section, the research study introduces the research design and methodology that comprises data collection and analysis.

1.6.1 Research design

According to Cooper and Schindler (2014:125) and Bryman and Bell (2007:40), a research design provides the framework for the collection and analysis of data. In

order to achieve the aim of this research, the researcher discusses the framework of the research, including the research methods which are the techniques for collecting data (Kielmann, Cataldo & Seeley, 2011:7; Bryman & Bell, 2007:40), as well as analysing the data. Section 4.6 of Chapter 4 discusses research design in depth by providing the rationale of the research design for this research study. As such both secondary and primary research informed this study.

1.6.2   Secondary research

Struwig and Stead (2013:82) add that secondary data are available data from existing sources. The secondary research is the product of the literature review that has informed this research study. In this regard, use of the annual reports of the 19 LuSE listed companies comprised secondary data that was collected from the websites of LuSE and individual LuSE listed companies.

1.6.3   Primary research

Primary research, which is the collection of data that has not been collected before, was used by the researcher for information gathering (Cooper & Schindler, 2014:130; Acaps, 2012:3; Bryman & Bell, 2007:28). Similarly, Struwig and Stead (2013:82) hold that primary data comprise new data collected for the specific research project. Primary research (through the use of questionnaires and interviews) will provide data, which will be compared with the existing literature on corporate governance structures. In addition, primary research will generate data which will be compared with existing literature with regard to the relationship between corporate governance structures and LuSE companies' financial performances.

1.6.4   Mixed research methods

As discussed in this section and Chapter 4, this research employed both quantitative and qualitative research methods through the use of descriptive and inferential statistics, self-administered questionnaires and interviews. Bryman and Bell (2007:642) argued that individual research methods (quantitative and qualitative) have their own strengths and weaknesses. To ensure that their strengths are leveraged and that strengths offset the weaknesses, the two methods must be employed together as mixed methods approach. Bryman and Bell (2007:642), as well as Johnson and Onwuegbuzie (2004:43), posit that the mixed research method stands for research that integrates quantitative and qualitative research within a single project. Therefore, the argument for the mixed method is premised on the following:

1. The mixed research method is of practical necessity (Fielding, 2010:127) as it improves research results;

2. It enables provision of more complete, concrete and nuanced answers for complex research questions (Heyvaert, Maes & Onghena, 2011:671);

3. No single method would provide a comprehensive account of the corporate governance as a complex research area (Torrance, 2012:113); and

4. The mixed method offers flexibility that results in a more holistic and accurate understanding of the phenomena under study (Ponterotto, Mathew & Raughley, 2013:47).

The proposed research method for this study is a concurrent mixed research method approach that involves the use of quantitative and qualitative research to ensure comprehensive data collection and analysis. Accordingly, financial performance analysis of the companies was done concurrently with the distribution of the self-administered questionnaires and conducting of interviews. This was achieved as financial performance evaluations were conducted through regression analysis while the self-administered questionnaires were distributed to the Chairpersons of the

Board and Audit Committee, Chief Finance Officer and Company Secretary. The researcher held 15 interviews with the Chief Executive Officers of the LuSE listed companies and the key institutions of the capital market in Zambia. This enabled mixed research methods to be employed concurrently for this research study. Furthermore, the researcher employed a mixed methods approach to ensure that the collected data is of high quality. This was made possible by triangulating the sources, which involved the use of the mixed method comprising primary and secondary data; as well as quantitative and qualitative methods. The researcher recognises that one research method is not necessarily better than the other, but rather that each one of them is better at doing different things (Saunders, Lewis & Thornhill, 2003:85). The involvement of different methods is what is referred to as triangulation, aimed at improving data quality and results of the study

As discussed in the following Sections 1.6.5 to 1.6.10, the research employed both quantitative and qualitative methods involving the use of questionnaires and interviews in the data collection and analysis. The purpose of mixed methods research is not to replace either qualitative or quantitative research, but rather to extract the strengths and diminish the weaknesses in both approaches within this study (Cameron, 2014:33; Andrew & Halcomb, 2006:143). In Section 4.6 the use of both qualitative and quantitative methods as mixed methods approach is justified. In addition, Section 4.6 provides a discussion on the concepts and theories on mixed methods approach, including the relevance of the methods for this research study.

1.6.5 Quantitative method

Bryman and Bell (2007:28) argue that the research strategy that researchers employ in their research is inclined to their ontological and epistemological foundations. This provides philosophical issues that reflect the researcher's set of ideas and belief system (Alexander, Wallace & O'Farrell, 2009:2).

The research instruments for the quantitative method for this study were the use of statistics and SAQs. SAQs are research instruments that involve quantitative

strategy construed as research strategy that emphasises quantification in the collection of data (Bryman & Bell, 2007:28; Alexander *et al.*, 2009:2).

1.6.6 Quantitative data population and sample size

The population for the descriptive and inferential statistics discussed in Chapter 4 comprised all the LuSE listed companies whereas the population for the SAQs consisted of all senior management and board members of the LuSE listed companies. The population is the total collection of elements about which a researcher wishes to make some inferences (Cooper & Schindler, 2014:338). A sample of a study is a segment of the population selected for investigation (Bryman & Bell, 2007:182). As only 19 LuSE listed companies were consistently listed on LuSE and had complete financial data, the sample for the descriptive and inferential statistics comprised 19 LuSE listed companies as shown in Appendix 5. Furthermore, 76 SAQs were distributed to 76 respondents who were key role players. In this regard, four SAQs were distributed to each of the 19 LuSE listed companies. The SAQs enabled the researcher to make meaningful comparisons of responses across participants (Mack, Woodson, Macqueen, Guest & Namey, 2005:3).

1.6.7 Quantitative data collection

The financial data for this research study was obtained from the websites of LuSE and individual LuSE listed companies. In this regard, the researcher obtained 171 audited annual reports for the descriptive and inferential statistics to enable the investigation of the relationship between corporate governance structures and financial performance. In this regard, control, independent and dependent variables were used to investigate the relationship. As discussed in Chapter 4, the various variables included return on capital employed asset values, gearing, (ROCE), Tobin' Q, board of directors and managerial finance. In addition, standardised data was obtained from the key role players using SAQs. SAQs were used to obtain insights

on corporate governance including the relationship between corporate governance structures and financial performance. As discussed in Chapter 4, the research study was for the period from 2009 to 2017.

1.6.8 Quantitative data analysis

Cooper and Schindler (2014:86) observe that data analysis involves synthesising accumulated data to a manageable size, developing summaries, looking for patterns and applying statistical techniques. As discussed in Chapter 4, this study used descriptive and inferential statistics for the financial data obtained to enable investigation of the relationship between corporate governance structures and financial performance.

The proposed research initially involved an analysis of the financial reports of all the LuSE listed companies for the nine-year period from 2009 to 2017. In this regard, the researcher used both the accounting ratio called return on capital employed (ROCE) and Tobin's Q, the market valuation method, as discussed in Chapter 4. The choice of these methods is consistent with the extant literature as indicated by Al-Matari *et al.* (2012:244), Ferrer *et al.* (2012:130, Vintilă and Gherghina (2012:179-180), Tan *et al.* (2010:736), Harjoto and Jo (2008:146), Garg (2007:39), as well as Florackis (2005:213). This involves regressing the corporate governance structures (managerial ownership, board structure, composition and processes) to identify or establish their relationship with the financial performance of the company. The initial step in the data collection involved obtaining the financial and corporate governance data from the Companies' annual reports. The data collected from the annual reports was populated in Microsoft Excel and then imported to Stata (as discussed in Section 4.7). The descriptive and inferential statistics were conducted using the Stata Version 13. The variables for the regression analysis as detailed in Chapter 4 included dependent, independent and control variables presented in Table 1.

Table 1:   **Dependent, independent and control variables**

Type of variable	Chapter reference
Dependent Variable – Return on capital employed (ROCE) and Tobin's Q	Chapters 3 and 4
Dependent variable – Board of directors and managerial ownership	Chapter 3
Control variables - Value of assets and gearing	Chapter 4

Source: **Author's compilation**

As data from SAQs was standardised, the research study used Statistical Package for Social Science (SPSS) to analyse data to enable development of themes and logical presentation of research results. As discussed in Chapter 4, the use of SAQs provided insight into the relationship between corporate governance structures and the financial performance of the listed companies. The current literature on the subject mainly uses regression analysis as the only method of investigating the relationship between corporate governance structures and the financial performance of the companies (Al-Matari *et al.*, 2012:244, Ferrer *et al.*, 2012:130; Vintilă & Gherghina, 2012:180; Tan *et al.*, 2010:736; Abdelkarim & Alawneh, 2009:105; Harjoto & Jo, 2008:146; Garg, 2007:42; Haniffa & Hudaib, 2006:1045; Florackis, 2005:213). The analysis of the responses from the questionnaires utilised SPSS and enabled rapid and accurate analysis of the responses to provide a cross check with the results of the regression analysis.

1.6.9   Reliability and validity

Reliability is concerned with issues of consistency of measures and the question about whether the results of the study are repeatable (Bryman & Bell, 2007:40). The fundamental question becomes how stable or unstable is the measure or instrument

adopted for a particular research study. For this study the researcher ensured the reliability by pilot testing the questionnaires in selected listed companies to ensure quality and relevance of the questions.

Validity is concerned about whether or not a measure really measures a given concept (Bryman & Bell, 2007:164). In order to ensure that the questionnaires are valid, the researcher ensured that the questions are developed based on the research objectives. In this regard, the overall research question and research sub-questions informed the questions that were in the self-administered questionnaire and the interview schedule.

1.6.10   Qualitative method

As argued in Section 4.5, the use of quantitative methods reflects philosophical issues with an emphasis on quantification in the collection and analysis of data (Bryman & Bell, 2007:28). Positivism, which is the social science philosophy closest to the theories of reality and knowledge of natural science, has been extensively debated, as many scholars have argued their case for the qualitative method that provides rich and detailed data and being a research strategy that emphasises words rather than quantification (Bryman & Bell, 2007:28). In order to get insight about the corporate governance and the relationship between corporate governance structures and financial performance of the listed companies, the researcher made use of interviews with the company's senior management, consisting of the CEOs of LuSE listed companies and ZICA, LuSE, EAZ, SEC and IoDZ. The CEOs of the key institutions have been included because their institutions are key players in corporate governance in Zambia and in particular corporate governance in the LuSE listed companies. In addition, these institutions are key players in the capital market in Zambia. As such the CEOs of the sampled 19 LuSE listed companies and the five key institutions are categorised as key role players, to provide more insight into the study.

1.6.11   Qualitative method population and sample size

The population for the interviews comprises all the CEOs of the 19 LuSE listed companies and the five key institutions totaling 24 participants. As discussed in Chapter 4, a total of 15 interviews were held with the key role players. The key role players provided insights on corporate governance including the relationship between corporate governance and financial performance of the LuSE listed companies.

1.6.12   Qualitative data collection

As discussed in Chapter 4, semi-structured interviews were conducted in two ways including face-to-face and by telephone. The semi-structured interviews were conducted from July 2017 to November 2017. The researcher used an interview schedule (Appendix 3) which consisted of questions for the interviews.

1.6.13   Qualitative data analysis

The interview schedule for this research study comprised questions which were divided into relevant sections. To ensure that the interview data is logically analysed, the sections of the questions accounted for the research themes. Bryman and Bell (2007:579) acknowledged that one of the main difficulties with qualitative research is that it rapidly generates a large, cumbersome database. This study also generated data from the interviewees that was rich in nature, but also required interpretation. This requires a framework to guide the analysis of data. For this study, the researcher employed grounded theory as a framework where data collection and analysis proceed in tandem, repeatedly referring back to each other. Thus, the researcher firstly, codes the data by breaking it down to component parts of the corporate governance structures and financial performance based on the interview schedule. The coding of the data involved assigning codes to the interviewees and

interview questions to allow structured data analysis. The codes for answers to the interview questions are based on themes that emerged from the provided answers. As discussed in Chapter 4, interview data was analysed based on the themes comprising background information, corporate governance principles, financial performance, corporate governance and financial performance. The thematic analysis contributed to the achievement of the primary research objective and secondary objectives.

1.6.14   Qualitative data quality criterion

According to Korstjens and Moser (2018:121) qualitative researchers are concerned about whether the findings in the qualitative research can be trusted by the people who were not involved in the research. As such credibility, transferability, dependability and confirmability require particular consideration in qualitative research design. In Section 4.8, this research study has considered the trustworthiness of the interview data as well as the quality criterion for the qualitative portion of the study.

1.7   Significance of the research

As discussed in Section 1.4, there has been limited known published research on the relationship between corporate governance structures and listed companies' financial performance in Zambia. This study will bridge this gap and also lead to the adjustment of existing framework of corporate governance structures that will strengthen existing corporate governance structures to improve financial performance of the listed companies in Zambia. The results of the study will also form the basis on which the LuSE can improve corporate governance practices for the listed companies by updating the code of corporate governance for listed companies.

Secondly, as discussed in the previous section, the study included the use of questionnaires and interviews aimed at gaining more insight about the relationship

between the corporate governance structures and companies' financial performance, and would thereby improve the research results. The study will also contribute to the growing body of research on the relationship between corporate governance structures and companies' financial performance and would thus help companies develop or improve an effective, suitable and relevant framework of corporate governance structures. Finally, this study will be of significance in contributing to the body of knowledge in both the developing and developed countries by bringing in new knowledge on the relationship between corporate governance structures and company performance in Zambia.

1.8   Ethical considerations

With any research, research ethics are an important consideration. Alexander *et al.* (2009:6) posit that ethics is a very important concept in business and management research impinging on how one interacts with others in one's research. According to Saunders *et al.* (2007:178) ethics in academic research relate to the appropriateness of one's behaviour in relation to the rights of those who become the subject of one's research work, or are affected by it. Particularly in this study, corporate governance hinges on ethics that require fair treatment of all stakeholders (shareholders, employees, customers, suppliers, government departments, pressure groups and communities) of the company. Consequently, the researcher applied care and honesty as an ethical value, in order to comply with the University of the Free State's (UFS) code of ethics and avoid exploitation of the study's participants. This is consistent with Gibbs (2004:467), who has argued that consideration of ethics is important so to avoid exploitation of a study's participants. Cakar and Alakavuklar (2011:248) as well as Kostley and Gibbs (2006:93), echo this and further posit that personal morals should also be applied to ensure ethical behaviour in one's research. The following are the research considerations for this research study:

The researcher sought approval from the relevant authorities of the listed companies to conduct the research. The researcher has included the communication to the relevant authorities which includes detailed information with regard to the research and identification of the researcher (Appendix 1). In addition, the participants signed

the informed consent form (Appendix 4) to ensure that the study is conducted in an ethical manner and that participants are willingly involved in the study.

The researcher had the responsibility of explaining to the respondents the objective of the research including the emphasis of confidentiality (of data that will be collected). The researcher also explained to the respondents that participation in the study was voluntary and that one could withdraw at any time without any consequences. Additionally, responses had no bearing on the respondents. The researcher also advised the respondents that he would not make mention of their names, but rather that anonymity would be maintained. A further ethical consideration is the concern of how the information obtained from the study will be utilised. The researcher explained to the listed companies and the participants that the information obtained from the study, including the research report, will be used for academic purposes and not for commercial purposes to the disadvantage of any of the participating listed companies.

The ethical issues relating to research interviewees and respondents concerned the fact that their relationships with the CEOs may suffer as a result of their honest responses and may feel threatened from their positions in the boards and in the companies. The researcher ensured that the responses remained anonymous and those respondents confirmed the validity and appropriateness of their responses before the final analysis of the research results was done. Finally, the researcher's ethical clearance was approved by the ethics research committee. The research application was approved with clearance number UFS-HSD2017/0031.

1.9   Research study's overview

In this section, the overview of this study through summaries of each chapter is provided.

Chapter 1

Corporate governance has been identified as a critical component for improving a company's financial performance. In Zambia there is limited known and publishable research that has investigated the relationship between corporate governance structures and the performance of companies. While there has been a number of research studies in developed countries (such as the UK) and a few research studies in some developing countries (for example in Asia), the research results have been inconclusive. In this regard, this research investigated the relationship of corporate governance structures and the financial performance of LuSE listed companies in Zambia through the use of both secondary and primary data sources and the employment of a mixed research method. The quantitative method for this research involved descriptive and inferential statistics and SAQs targeting 19 LuSE listed companies and 46 key role players. The qualitative research method through the use of interviews was employed to obtain insights from 15 key role players with regard to corporate governance and financial performance. The use of a mixed research methods approach involving qualitative and quantitative methods is aimed at improving data quality and more meaningful results of the study. Furthermore, this research takes into account ethical considerations in order to improve the quality of research results.

Chapter 2

Chapter 2 discussed concepts and theories on corporate governance by focusing on corporate governance structures. The accounts of corporate governance developments in the USA, UK, South Africa and Zambia have been discussed. For example the developments in corporate governance in South Africa from King

Reports I, II, III and IV have been highlighted in Chapter 2. Corporate governance is regarded important for developing countries in order to attract foreign direct investment. Poor corporate governance can have negative impact such as reduction in profitability as operational costs increase. Furthermore, Chapter 2 has discussed the link between corporate governance and law demonstrating that corporate governance is not separate from the law but instead it is part of the law. Internal corporate governance structures have been highlighted as important as they are established to align the interests of managers with those of the shareholders and other company stakeholders to create value for the companies.

Chapter 3

In Chapter 3, company performance (with emphasis on financial performance) and the relationship between internal corporate governance and financial performance are discussed. Financial measures that include ROCE and Tobin's Q have been argued and motivated as the financial measures for financial performance. ROCE and Tobin's Q represent accounting and value-based methods respectively. The discussion has revealed mixed results on the relationship between the internal corporate governance structures and financial performance as has been reported in the extant literature. With regard to board structure it is evident that in the extant literature board size can either be positively or negatively related to the financial performance. Having majority NEDs and presence of audit committee in the board of directors have different relationships with the financial performance in that the relationship can be positive, negative or neutral at times. Other internal corporate governance structures such as risk committee, holding of board meetings, internal and external audits and managerial ownership have either positive or negative relationship with the financial performance of companies. Finally, different stakeholders categorised as internal, connected and external stakeholders are interested in the relationship between corporate governance structures and financial performance to help in meeting their varied interests.

Chapter 4

An account of the research design and strategy that comprises the collection and analysis of data for this research is provided in Chapter 3. Triangulation through the use of both secondary and primary data, quantitative and qualitative research methods has been adopted for this research. The sample for the quantitative data included 19 LuSE listed companies while the sample for SAQs was 76 key role players. Financial data was collected from the 19 LuSE listed companies for the purpose of conducting descriptive and inferential statistics. The Hausman tests were conducted in choosing random effects model for this research study. With regard to SAQs, 46 filled in SAQs were received from the key role players. Reliability and validity of quantitative data were important consideration in ensuring that primary research objective was achieved. The research study employed Stata version 13 and SPSS to analyse the financial data and SAQs respectively. A total of 15 semi-structured interviews were conducted. The interview data was analysed based on the themes reflected as sections in the interview schedule. Trustworthiness comprising credibility, transferability, dependability and confirmability was the criteria used for ensuring the quality of interview data results. Finally, ethical considerations relating to access to information, confidentiality of information and UFS code of ethics were considered.

Chapter 5

Chapter 5 provides the detailed findings of the research. In this regard, Chapter 5 discusses the research findings, including the interpretations of the findings from the descriptive and inferential statistics, SAQs and interviews of this research study. The findings are presented using descriptive trends, inferential statistics, SAQ and interview analyses. Furthermore, Chapter 5 presents interpretation of the findings with the regard to corporate governance and the relationship between corporate governance structures and financial performance of LuSE listed companies for the 9-year period from 2009 to 2017.

Chapter 6

Chapter 6 provides the overview of the research summarising the corporate governance theories including the relationship between corporate governance structures and financial performance. In this regard, study's mixed research methods are discussed. Summary of the major findings and recommendations relating to board of directors and managerial ownership have been presented. Specific recommendations relating to board of directors and managerial ownership are made for shareholders, board of directors and senior management of the LuSE listed companies aimed at enhancing the financial performance of the LuSE listed companies. Recommendation to practitioners such as LuSE, SEC and IoDZ has been made to ensure that LuSE listed companies benefit from the research outputs. Finally the academics have been provided with the recommendation for future research when managerial ownership becomes a common practice.

CHAPTER 2: CORPORATE GOVERNANCE PRINCIPLES AND THEORIES

2.1 Introduction

In Chapter 1 an account was given with regard to the research problem, research aim and objectives including an overview of the research methodology and design for this research study. Furthermore, Chapter 1 discussed and introduced the topical area of corporate governance and its importance for the financial performance of listed companies. Chapter 2 is the literature review of this research study and provides an account of the existing literature on the relationship between corporate governance structures and the financial performances of companies. The importance of corporate governance, development of corporate governance in the USA, UK, South Africa, Zambia and other developing countries will also be addressed. Furthermore, Chapter 2 discusses the link between corporate governance and the law. The consequences of poor corporate governance structures in companies are also discussed briefly. Chapter 2 will also address key concepts of corporate governance that include principles based and rules based approaches. The chapter will conclude by discussing both the internal and external corporate governance structures while highlighting the internal corporate governance structures as the focus of this research.

2.2 Corporate governance concepts

The term corporate governance has a clear origin from a Greek word, "Kyberman", meaning to steer, lead or govern (Ayendele & Isichel, 2013:51). In the Latin and French languages, it is referred to as "gubernare" and "governor" respectively. In general, corporate governance is a concept interdisciplinary in nature, comprising concepts from finance, economics, management and law, among other disciplines. Corporate governance is narrowly defined as involving a set of relationships amongst a company's management, its board of directors, its shareholders, its auditors and other stakeholders (Pandya, 2011:5; Gregory & Simms, 1999:2).

Rwegasira (2000:258) echoes this by saying that corporate governance is concerned with structures within which a corporate entity or enterprise receives its basic orientation and direction. This could be viewed as the way owners direct and control their managers in running their investments. Scholars such as Coleman and Biekpe (2006:670), as well as Hickson and Turner (2005:176), have argued that a broader view of corporate governance concerns the methods by which suppliers of finance control managers.

According to Coleman and Biekpe (2006:671), corporate governance is concerned with the relationship between the internal governance structures of companies and society's concept of the scope of corporate accountability. Vintilă and Gherghina (2012:175) resonate with this and hold that corporate governance comprises the process and structure through which a company's business and affairs are managed by enhancing business prosperity and corporate accountability with the ultimate objective of enhancing shareholders' wealth. Thus, Mishra and Bhattacharya (2011:71) claim that corporate governance is the process and the structure used to run the affairs of a company for increasing prosperity of the business and also accountability of the management with the objective of achieving shareholder value in the long run, while taking into account the interests of the other stakeholders in the business of the company.

Nuryama (2012:3) views corporate governance as the way the company is directed and controlled. Malhotra, Poteau and Fritz (2013:62) echo this and argue that the idea of corporate governance is rooted in the objective of separating ownership from management. From this argument most scholars and researchers on corporate governance have found the use of agency theory (as their theoretical framework) as the natural choice (Vintilă & Gherghina, 2012; Yusof & Alhaji, 2012; Gill *et al.,* 2009; Abor and Biekpe, 2007; Alonso-Bonis & Andrés-Alonso, 2007; Rebeiz & Salameh, 2006; Welch, 2003; Lorsch & MacIver, 1989).

2.3   Corporate governance foundation theories

As discussed in the previous section, corporate governance is an amalgam of different disciplines. In this regard, different theories exist that inform the foundation of corporate governance influenced by the different disciplines. These theories include the following: agency, shareholder primacy, stewardship, stakeholder, transaction cost economics, resource dependency, social network, political, legitimacy, managerial and class hegemony, engaged shareholder, imperialism and imperial model and socialist theories.

2.3.1   Agency theory

Listed companies are by law identified as having the ability to sue or be sued. One of the key legal features of the company is that, upon incorporation, it acquires a separate and distinct legal personality (Lan & Heracleous, 2010:295). Thus, companies are identified as separate entities and legal persons (Farrar & Hannigran, 1998:1). This personification of a company has substantial legal significance because it implies a single and unitary source of control over the collective property of its various participants (Lan & Heracleous, 2010:295). In addition the legal personality defines and legitimises the corporation as an autonomous economic entity, and it grants the company various rights, including constitutional rights, thereby offering corporate property unprecedented protection from, and by, the state (Lan & Heracleous, 2010:295). Thus, companies enjoy their own rights that are separate from the investors (those who have provided finance to the companies).

According to Abdullah and Valentine (2009:88), companies have become powerful and dominant institutions following their presence in every part of the globe in various sizes, capabilities and influences. The governance of these companies has influenced economies and various aspects of the social landscape. Yusoff and Alhaji (2012:53) assert that a company is not an individual but a legal fiction, where conflicting objectives of individuals are brought into equilibrium within a framework of contractual relationships. Consistent with this view, Charreaux (2004:5) purports that

a company is represented as being a "nexus of contracts", in other words, a decision making centre responsible for centralised negotiations and management of all contracts required for its activities. A company is run by managers who are employed to serve the interests of the investors (CIMA, 2013:105; Abdullah & Valentine, 2009:88). The separation of the principals and agents concerns the clear responsibilities of the two groups. In this regard, the agents and the principals have different roles. In this regard, the principals are responsible for hiring agents and delegating authority to them while agents perform the assigned tasks. As per Figure 2, the relation of the two is that of the owners as principals employing the managers as agents (Yusoff & Alhaji, 2012:54; Abdullah & Valentine, 2009:88). As such the board of directors representing the shareholders appoint agents to run the affairs of the company to achieve companies' objectives (Figure 2).

Figure 2:   The agency theory
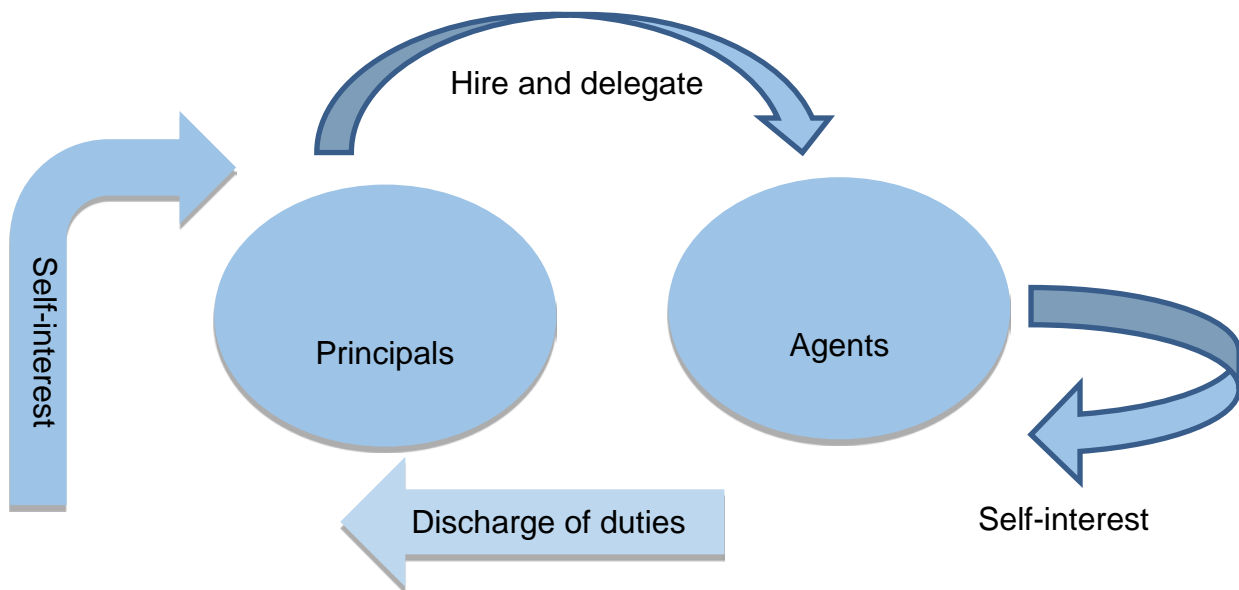
Source: Adapted from Yusoff and Alhaji (2012:54) and Abdullah and Valentine (2009:88)

Gomez and Russel (2005:7) consider separation of ownership and control as a hallmark of modern companies. This raises the issue of the separation of investors (shareholders) who are the owners, from managers entrusted to manage the

investment leading to the agency problem. Peters and Bagshaw (2014:110), as well as Sanda, Mikailu and Garba (2005:7), claimed that the problem arises as a result of the presence of information asymmetry in which case the agents pursue their own interest and may negatively affect the principal's interests by reducing the principal's wealth.

The theoretical underpinnings for most of the current framework of corporate governance come from the classic works by Fama and Jensen (1983:8), Jensen and Meckling (1976:5), as well as Berle and Means (1932:1) who described the agency theory as a separation of ownership from control of the company. Berle and Means (1932:64) argued that this creates agency problems and in their own words they stated that:

"It has often been said that the owner of a horse is responsible, if the horse lives he must feed it; if the horse dies, he must bury it. No such responsibility attaches to (the owner of) a share of stock. The owner is practically powerless through his own efforts to affect the underlying property. The spiritual values that formerly went with ownership have been separated from it...the responsibility and the substance which have been an integral part of ownership in the past are being transferred to a separate group in whose hands lies control."

From the foregoing it is inferred that the principal and the agent have different roles to play (Figure 2). According to Issarawornrawanich and Jaikengkit (2012:1311), Yusoff and Alhaji (2012:54), as well as Abdullah and Valentine (2009:88) the principal is responsible for hiring the agent and the agent carries his/her duties as delegated to him/her by the principal. In this regard, the agent should perform according to the delegated powers (Yusoff & Alhaji, 2012:54; Abdullah & Valentine, 2009:88). As both the principal and agent have their own interests conflict of interest arises.

According to Issarawornrawanich and Jaikengkit (2012:1311), as well as Yusoff and Alhaji (2012:53), the contract between the principal and agent that describes the modern company birthed the agency theory. Consistent with this view, and Berle and Means' proposition, Abdullah and Valentine (2009:89) view agency theory as the relationship between the principals (shareholders) and agents such as the company

executives and managers. It can be argued that the differential interests and risk preferences of company owners and management become the fundamental problem. Jensen and Meckling (1976:305) further contend that the managers will not manage the principals' investments with the same vigilance as if the investments were their own. They purport that:

"The directors of such investments, however, being the managers rather of other people's money than of their own, it cannot well be expected, that they should watch over it with the same anxious vigilance with which the partners in a private partnership frequently watch over their own. Like the stewards of a rich man, they are apt to consider attention to small matters as not for their master's honour, and very easily give themselves a dispensation from having it. Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company."

Gill *et al.* (2009:8) propose that corporate governance came into being basically to support and protect the investors from the agents; that is, to reduce agency costs. Agency costs are the costs that arise from monitoring the managers who are the agents of the principals (the shareholders) who have invested in the company. Such costs are as a result of the contractual relationship and include direct costs as they relate to the discharge of the agreed duties or roles. There are also costs that are incurred as a result of fulfilling the agency roles that may not be directly related to the agreed duties and as such, the costs are regarded as indirect costs. Agency costs are premised on the belief that both the shareholders and managers pursue their own interests that lead to self-interest behaviour (Eun & Resnick, 2009:82). The monitoring of managers is aimed at aligning their interests with those of the owners.

Gill *et al.* (2009:8) contend that agents will take decisions with the aim of optimising their wealth and minimising their risk at the expense of the shareholders' value. Consequent to this view, Fama and Jensen (1983:8), Jensen and Meckling (1976:305) and Berle and Means (1932:64), claim that internal and external monitoring structures need to be implemented to lessen divergence in interests between shareholders and management. The International Corporate Governance Network (2005:1) suggests that agency theory has provided the basis for

governance standards, codes, and principles developed by many institutions. Ferede (2012:9) concludes by clarifying that agency theory is the starting point for any debate on corporate governance. Daily, Dalton and Canella (2003:4) concur with this and state that the theory has prominence in corporate governance due to its conceptual simplicity, and that the notion of human beings as self-interested is a generally accepted idea. The use of the agency theory has largely informed this study and as such has shaped the research to a large extent.

Despite its popularity, agency theory has its own limitations (Peters and Bagshaw, 2014:103; Al-Malkawi & Pillai, 2012:568; Mallin, 2007:2; Cullen, Kirwani & Brennan, 2006:5; Melyoki, 2005:18). Abdullah and Valentine (2009:89) warn that in agency theory, the agent may have succumbed to self-interest, opportunistic behaviour and falling short of a congruence between the aspirations of the principal and the agent's pursuits. This is because both the principal and agent may behave rationally and opportunistically in their dealings (Ees, Gabrielsson and Huse, 2009:310). Santosh (2006:1) warns that an encompassing and unifying theory of corporate governance is lacking. However, given the varying contexts of countries and sectors in which companies operate, an encompassing and unifying theory of corporate governance would prove rather difficult to develop. The most popular theoretical framework, agency theory, is proving to be a straight-jacket which could be useful in some contexts but quite limiting, particularly when the underlying assumptions do not hold.

2.3.2   Shareholder primacy theory

Millon (2013:1013) holds that shareholder primacy, a term familiar to all corporate law academics, is the idea that corporate management's primary responsibility is to promote the economic interests of shareholders. This is premised on investor protection as the primary philosophy driving the modern corporate governance movement. As global financial markets are becoming more integrated than before, Zambia's financial market cannot remain behind. As such corporate governance in LuSE listed companies need to incorporate developments in corporate governance practices in other countries such as Australia as regards shareholder primacy theory of corporate governance.

Consistent with view of Millon (2013:1013) above, Stout (2003:2002) argues that shareholder primacy theory was introduced to offer alternative corporate governance theory to address the agency cost problem of corporate managers neglecting shareholders' interests. The aim of the shareholder primacy theory is the maximisation of shareholders' wealth or value. Informed by the agency theory and thus rooted in finance and economics thinking, shareholder primacy postulates that shareholders, as principals have ultimate control while management are agents who should be accountable to the shareholders (Lan & Heracleous, 2010:297). In this regard, the proposition is that shareholders influence the running of the company and as such, they exert pressure on how the company is governed.

Lan and Heracleous (2010:297) assert that the judicial endorsement of shareholder primacy theory came in 1919, when the Supreme Court of Michigan in Dodge versus Ford Motor Company (Co.), formulated the principle that management must conduct corporate affairs for the benefit of shareholders, not for other stakeholders or concerns. In this regard, Supreme Court of Michigan rejected Ford Motor's rationale for deciding not to pay a special $10 million dividend to shareholders. According to Collison, Cross, Ferguson, Power and Stevenson (2011:19), Gamble and Kelly (2001:110) as well as Stoney and Winstanley (2001:603), shareholder primacy has traditionally been regarded as the core of Anglo-American corporate governance principles. The benefits of this theory of corporate governance include:

- Efficiency: shareholder primacy maximises directors' knowledge and experience (Collison *et al.*, 2011:19; Salacuse, 2004:77);

- Shareholder primacy ensures accountability to the owners (shareholders) (Collison *et al.*, 2011:19; Vinten, 2001:36);

- Shareholder primacy places the concept of private property in a position of centrality and recognises that shareholders should be free to resolve how to deal with their wealth (Collison *et al.*, 2011:19; Pettet, 2001:61);

- Shareholder primacy postulates that in generating wealth, companies by definition meet and satisfy other social needs and requirements (Collison *et al.*, 2011:19; Wallace, 2003:121).

The view that shareholders' rights should be treated as primary and superior to other stakeholders' rights may be detrimental to other stakeholders of the company. Lan and Heracleous (2010:299) as well as Stout (2007:2), conclude that even though Dodge versus Ford Motor Co. (1919) argued for shareholders' rights as primary, the courts have only cited this case once in an unpublished decision, which indicates the weakness of both its precedent value and its influence on legal doctrine. According to Collison *et al.* (2011:19), the principal criticisms levied against the shareholder primacy concept are that it encourages a short term directional focus within companies at the expense of longer term strategy and that it diminishes the likelihood of the development of stakeholder relationships. In this regard, the agent is more concerned about the shareholder rather than the company as a whole. The agent should be responsible for conducting company operations in the best interests of all the shareholders to ensure value creation for the company. Thus an agent should be a steward to fulfil this role.

2.3.3   Stewardship theory

According to Friedman (1970:1), stewardship theory was dominant in the United States of America (USA) and English speaking countries in the 1960s. In his seminal work, West (2006:434) argues that the right to individual private ownership and the belief that market forces will achieve economic efficiency are the key assumptions implicit in the agency theory. Arguably company executives (directors and managers) are called to be stewards of the shareholders with the responsibility to manage the shareholders' assets. The stewardship theory is primarily concerned with companies making a return on the shareholder's investment in the quest to maximise shareholders' wealth by creating value for the company. Thus, according to Yusoff and Alhaji (2012:57), Abdullah and Valentine (2009:90), Kyereboah-Coleman (2007:4), Davis, Schoorman and Donaldson *(*1997:20:47), as well as Donaldson and Davis (1991:65), the agent's objective is primarily to maximise the company's performance, because the agent's need for achievement and success are satisfied when the company is performing well (Smallman, 2004:78).

Yusoff and Alhaji (2012:57) further advocate that the stewardship theory sees a strong relationship between managers and the success of the company, and therefore the stewards protect and maximise shareholder wealth through company performance. This theory holds the view that the company is an extension of its owners (the shareholders). It has the goal of providing goods or services to customers for the benefit of its owners, and therefore it is required to be accountable and responsible towards its owners (Friedman, 1970:1). According to Abdullah and Valentine (2009:90), stewards are company executives and managers working for the shareholders, protect and make profits for the shareholders (Figure 3). Rooted in psychology and sociology, the theory emphasises maximising shareholders' wealth through company performance (Peters & Bagshaw, 2014:103; Al-Malkawi & Pillai, 2012: 549; Davis *et al.*, 1997:2).

Figure 3:   The stewardship theory

Shareholders' profits and returns

Empower and trust

Shareholders

Stewards

Protect and maximise shareholders' wealth

Intrinsic and extrinsic motivation
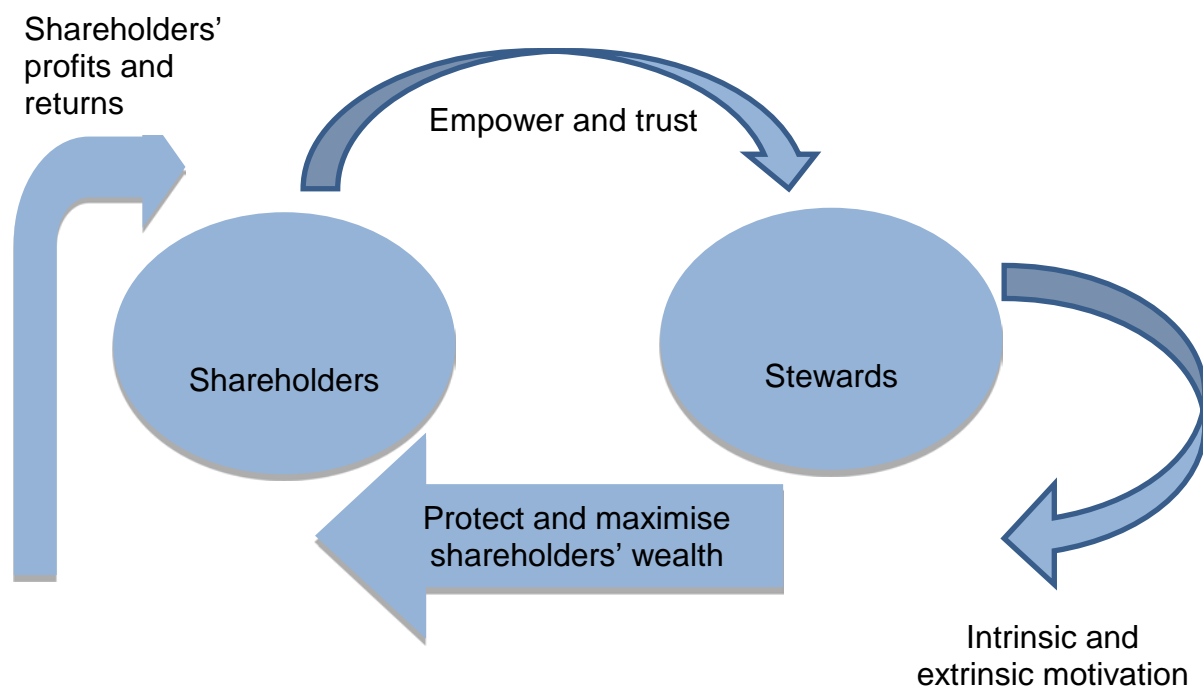
Source: Adapted from Yusoff & Alhaji (2012:57) and Abdullah & Valentine (2009:92)

As per Figure 3, the steward has the responsibility to serve the interests of the shareholders. As a company has many other stakeholders who also affect and are affected by the operations of the company, a steward needs to be aware of them and serve their interests too. The stakeholder theory takes cognisance of other stakeholders besides the shareholders.

2.3.3 Stakeholder theory

As opposed to the stewardship theory, the stakeholder theory is based on the view of the company as a social entity that has responsibility (and accountability) to a variety of stakeholders, in its widest sense including all those that may influence or are influenced by the corporation (Peters and Bagshaw, 2014:110). In this regard, the stakeholders include owners, suppliers, customers, employees, management, government and local communities (West, 2006:434). Consequently, a stakeholder refers to those groups without whose support the organisation would negatively affect the operations of the organisations. In this regard, a stakeholder is one that is affected by, or affects, the operations or activities of a company. In essence the stakeholder theory presents a point of departure from both the shareholder and stewardship theories to corporate governance. According to Peters and Bagshaw (2014:110), Ferede (2012:14), as well as, Freeman, Wicks and Parmar (2004:364) stakeholder theory is an extension of agency theory, as it takes the interests of many different groups and individuals into account, including interest groups related to social, environmental and ethical considerations.

While the stewardship theory emphasises maximising shareholder value which is purely a financial value, the IoDSA (2009:9) argues that the value should be seen in terms of the triple bottom line; taking into account social, economic and environmental performance. According to the IoDSA (2016:25), there is an interdependent relationship between the company and its stakeholders. The company's ability to create value for itself depends on its ability to create value for others (IoDSA, 2016:25). Thus, stakeholders other than the shareholders should be considered in the maximisation of a company's value to ensure sustainability of the company. This demonstrates that for value to be created, adequate controls must be

in place (CIMA, 2013:86). Additionally, the argument states that the company does not exist in a vacuum (only shareholders) but rather that a number of stakeholders have an influence on the operations of the company as they could be important actors. Yusof and Alhaji (2012:57), as well as Kyereboah-Coleman (2007:4) argue that researchers have recognised that the activities of a company influence the external environment requiring accountability of the company to a wider audience than simply its shareholders. Similarly, Dzingai and Fakoya (2017:1) has suggested that modern corporate governance principles support a theory that considers and balances the legitimate and reasonable needs, interests, and expectations of its stakeholders in an inclusive, ethical and sustainable manner as part of its decision making.

Following the argument that the shareholder is just one of the stakeholders in the company and consistent with the view of Salami, Johl and Ibrahim (2014:1), stakeholder theory considers a wide range of stakeholders that can be classified as internal, connected and external stakeholders that include employees, management, shareholders, suppliers, customers, financiers, community and government among others (BPP, 2013:156). Sarbah and Xiao (2015:41) maintain that at the very basic level, corporate governance is about ensuring that the concerns of a company's shareholders and stakeholders are taken into proper account and all their interests balanced. The main reasons for the stakeholder theory to steer corporate governance include the following:

- Shareholders are just one group of stakeholders of the companies;

- Other stakeholders such as employees, suppliers, the community and government are equally important in the achievement of company objectives; such as maximising shareholders' wealth through profit maximisation. Corporate governance is seen as a web of relationships (Feizizadeh, 2012:353); and

- The shareholders' interests can only be satisfied by taking account of stakeholder interests as well (Feizizadeh, 2012:354).

As argued above, stakeholder theory considers different stakeholders of the company and as such, several contracts do exist to manage such relationships. Htay

and Salman (2013:90), as well as Badulescu and Badulescu (2008:3), view the relationships as contractual arrangements that generate costs. As such the stakeholders can influence the financial performance of the LuSE listed companies. For example shareholders provide equity finance, banks provide both long term and short term debt, suppliers provide credit, customers provide revenue and management manage the resources of the LuSE. In this regard actions by the different stakeholders can influence the financial performance of LuSE listed companies. In the stakeholder theory the emphasis is on maximising the value of the different stakeholders and as such, costs of maintaining the contractual relationships are not considered critical. However, the transaction cost economics theory does consider such costs in the quest of creating wealth for the company.

2.3.4 Transaction cost economics theory

According to Htay and Salman (2013:90), as well as Badulescu and Badulescu (2008:3), transaction cost economics theory sees a company as a sum of contracts put into practice in order to organise and regulate transactions and serve to accomplish contractual relations. Its main concern is in carrying out economic transactions based on the most efficient governance structure, and is thus aimed at offering a methodology through which to analyse how the governance of a company affects a company's economic value (Tadelis & Williamson, 2010:1).

Melyoki (2005:24) argues that the transaction cost economics theory is applied in the neo-institutional economics theory to the study of economic organisations and departs from the traditional theory of the company in which assumptions of rationality and perfect information are made. In his seminal work, Coase (1937:17) pointed out that economic organisations exist to minimise transaction costs of trading in markets. The transaction costs are the costs of operating the market system, including costs related to the search for a party with whom to transact, costs of negotiating the terms of transacting, and costs of ensuring the parties fulfill their exchange obligations (Maitland, Nicholas and Boyce, 2000). Htay and Salman (2013:90) resonate with this and state that transaction costs refer to explicit fees associated with a transaction as well as implicit fees of monitoring and controlling a transaction. According to Saravia and Chen (2008:9), the transaction costs arise mainly as a result of bounded

rationality (limited processing capacity) and information asymmetry (incomplete information). In this regard, bounded rationality comes from a limited capacity of shareholders and managers to process all the available information and consider every possible outcome associated with any transaction (Htay & Salman, 2013:90). Furthermore, information asymmetry occurs when information related to exchanges or transactions is not evenly distributed between the shareholder and agent.

Similar to agency theory, the transaction cost economics theory assumes that managers aim to maximise their own interests at the expense of the shareholders. As a result, Melyoki (2005:32) has contended that the transaction theory does not address itself to the manner in which the board should be organised, to be effective in protecting shareholder interests. Additionally, while the transaction cost theory seeks the best governance structure that would control the agents' opportunistic behavior in pursuit of profit maximisation for their shareholders (Htay & Salman, 2013:90), managing companies' existing and new dependencies within their operating environment through the development of relationships with other companies, is critical (Borman, 2010:126). Dependencies in this regard refer to resources that companies depend upon for their survival (Htay & Salman, 2013:91 and Borman, 2010:126). Such resources can be derived from insiders, experts, support specialists and community influences (political leaders, university faculty, members of clergy, leaders of social or community organisations) among others (Htay & Salman, 2013:91).

2.3.5   Resource dependency theory

Borman (2010:126) contends that the central proposition of resource dependency theory is that an organisation's survival is influenced by its surrounding social, political and task environment and hinges on its ability to procure critical resources from that environment. As corporate governance is viewed as a framework for the effective regulation, monitoring and control of companies, which allows for alternative internal and external structures for achieving the underlying objectives, companies should secure the needed resources to ensure their survival (Htay & Salman, 2013:91; Borman, 2010:126; Daily *et al.*, 2003:1). Htay and Salman (2013:91) added

that the resources should be provided by having a network with the external environment. Yusoff and Alhaji (2012:56) considered the environmental linkages between the company and outside resources as the basic proposition of resource dependence. Van Ness, Miesing and Kang (2009:189) believe resource dependency theory describes company success as the ability to maximise power by accessing scarce and essential resources. Abdullah and Valentine (2009:92) contended that the resource dependency theory focuses on the role that directors play in providing or securing essential resources to a company through their linkages with the external environment. As such, the board of directors bring resources such as information, skills, key constituents (suppliers, buyers, public policy decision makers, social groups) and legitimacy (Yusoff & Alhaji, 2012:56; Abdullah & Valentine, 2009:92; Hillman, Canella & Paetzold, 2000:235) to ensure a company's success and survival.

The resource dependency theory concentrates on the role of the board of directors in providing access to resources needed by the company. This is premised on the theory that the primary function of the board of directors is to provide resources to the company; consequently, they, in turn, are viewed as an important resource to the company (Peters & Bagshaw, 2014:111; Abdullah & Valentine, 2009:89). Peters and Bagshaw (2014:111) further argue that unlike the agency theory that concentrates on the monitoring and controlling role of the board of directors, the resource dependency theory focuses on the advisory and counselling role of directors to a company's management.

While the acquisition of required resources through formal connections is critical for a company's survival (Htay & Salman, 2013:9; Borman, 2010:126; Daily *et al.*, 2003:2), consideration of the society in which companies operate is far more important (Thomsen, 2012:1). Thus, social networks play an important role in the corporate governance of a company.

2.3.6   Social network theory

As corporate governance is multi-disciplinary in nature and formation, different disciplines view it differently and as such, different schools of thought exist. Thomsen and Conyon (2012:28) see sociology, the science of society, as relevant to corporate governance. Thomsen and Conyon (2012:28) stress that in corporate governance, social network theory is used to describe connections between companies through board membership and ownership (shareholders). The social network in this regard, is seen as a set of agents (companies, board members, owners) that are formally and informally connected. In this regard, there is more to corporate governance than formal institutions.

Kogut and Walker (2003:14) contend that governance and control operate through the constitution of relationships that bind economic organisations and individual actors. Thomsen and Conyon (2012:34) conclude that the social network theory emphasises both formal and informal institutions as networks and norms that influence corporate governance. Companies are complex entities that have both formal and informal institutions involving networks and norms that influence their corporate governance and determine behaviour and performance. Consequently, the social network theory postulates that network structures, rather than individual agent attributes, determine behaviour and performance (Thomsen & Conyon, 2012:28). In this regard, the determination of behaviour and performance is argued to be the basis of how a company is controlled. While the social networks among management, the board and employees are critical, politics also come into play in such networks and beyond such networks. Thus, allocation of power among the social network players and beyond the social networks, is critical in the running of the company (Hough, McGregor, Myles & Christine, 2005:45).

2.3.7   Political theory

Hough *et al*. (2005:45) explain that politics are described as the practice of the art or science of directing and administrating political units with companies being

conceived as political units. According to Thomsen and Conyon (2012:29), politics is clearly important because:

- It shapes the law;

- Policy makers influence corporations through taxation and other policies; and

- Governments often own companies.

Political theory is defined as a theory that gives more emphasis to social context and acknowledges the distribution of power and politics to be fundamental in the running of companies (Hough *et al.*, 2005:45). With this argument, the theory recognises that the allocation of corporate power, privileges and profits between owners, managers and other stakeholders is determined by how governments favour their various constituencies. Therefore, the ability to influence allocations at company level is subject to the national framework which is interactively subjected to the influence of the corporate sector (Hough *et al.*, 2005:46). The political theory is seen as a theory in which active investors seek to change corporate policy by developing voting support from dispersed shareholders, rather than by simply purchasing voting power or control.

Thus, having a political influence on corporate governance may direct corporate governance within the company. It is argued that political theory is a relatively new theory on corporate governance, having gained its recognition during the 1990s. Implicit in the view that political theory is a relatively new theory is the assumption that companies have stakeholders that make demands on the companies (Hough *et al.*, 2005:46). The theory therefore, predominantly and ordinarily highlights bargaining, compromise, negotiation, inconsistency and more or less continual conflict and power, internal struggles and expediency among the stakeholders (Hough *et al.*, 2005:46). It is construed that the theory stresses that corporate governance is fundamentally shaped by politics primarily through law, which leads to international differences in corporate governance. Companies benefit from the capital market as they find it easy to raise capital and that their shares are easily traded with known share prices. Understanding the political marketplace is therefore critical in appreciating how companies are run and how they survive.

Hough *et al.* (2005:46) caution that in political theory, representative structures in corporate governance will impair the quality of decision making. Furthermore, Hough *et al.* (2005:46) claim that democracy in companies has been described as an impractical ideal as it may be difficult to make decisions. In addition, democracy can result in the election of directors on the basis of popularity and likeability rather than skill (Hough *et al.*, 2005:46). This may negatively influence the performance of the company and as such, management must be aware of such limitations. Additionally, as the political theory emphasises distribution of power and politics to be fundamental in the running of companies (Htay & Salman, 2013:90; Hough *et al.*, 2005:45), a company's actions must be desirable and appropriate. In other words, the actions must be legitimate and within their authority and compliant with the expectations of their stakeholders.

2.3.8   Legitimacy theory

Yusoff and Alhaji (2012:58) describe legitimacy theory as a generalised perception or assumption that the actions of an entity are desirable, proper, or appropriate with some socially constructed systems of norms, values, beliefs and definitions. Rooted in the sociology and psychology disciplines and similar to social network theory, legitimacy theory is based upon the notion that there is a social contract between a society and a company. Companies are ultimately accountable to society for how they operate and what they do. Therefore, Yusoff and Alhaji (2012:58), as well as Deegan (2004:54), conclude that companies should also be accountable to society because society provides companies with the authority to own and use natural resources and to hire employees.

As argued above, companies exist to maximise the wealth of their shareholders through profit maximisation, and legitimacy theory postulates that profit is viewed as an all-inclusive measure of organisational legitimacy (Yusoff & Alhaji, 2012:58; Deegan, 2004:13). Deegan (2004:13) further adds that companies must consider the rights of the public at large, not merely the rights of the investors. Yusoff and Alhaji (2012:58) warn that failure to comply with societal expectations may result in sanctions being imposed in the form of restrictions on the company's operations,

resources and demand for its products. Thus, considering socially constructed systems of norms, values, beliefs and definitions in the running of the company is important.

As argued above, legitimacy theory is concerned with accountability of the company towards society. It is also important to define who makes the decisions in the company as this would help in determining how a company is directed and controlled. The managerial and class hegemony theory is concerned about determining the person who makes decisions in a company so as to establish how a company is directed and controlled (Hough *et al.*, 2005:26).

2.3.9 Managerial and class hegemony theory

In terms of a technical explanation, hegemony refers to the concept of predominant power (Hough *et al.*, 2005:25). Hegemony therefore seeks to identify the person who is in control of a company and such control becomes the foundation of corporate governance. Berle and Means (1932:64), as well as Hough *et al.* (2005:26) clearly distinguish two hegemony theories, namely managerial and class theories. Thus, managerial theory, which is rooted in management, is informed by the assumption that the shareholder, or his/her vote, is rarely capable of being used as a vehicle of democratic control, but that management controls the modern company (Hough *et al.,* 2005:26). Furthermore, class hegemony theory is concerned with the social character of board functioning. Consequently, the class hegemony theory has an extensive history in sociology. Implicit in the theory is the argument that the upper class consisting of senior executives of large companies, dominates key institutions in society and as such, has influence in the corporate governance of the companies. The upper class of senior executives is argued to be in limited numbers. Hawksley (2004:1) argues that the upper class influences how companies are run and thus determines the corporate governance of the company.

2.3.10　　　　Imperialism and imperial theory

According to Hawksley (2004:1), throughout history, the creation of empires and the behaviour of empire builders have occupied the thoughts of many scholars. Empires are basically relationships, formal or informal in which one state controls the effective political sovereignty of another state (Hawksley, 2004:1; Abeysekera, 2003:18). Empires had influenced the economic activities of nations and as such have influenced how companies are run. Consistent with this view, Hawksley (2004:9) coins imperialism as a process where one country having control over another country's economy, imposes its local statutes on that country. As such, imperialism is a state policy, practice, or advocacy of extending power, especially by gaining political and economic control of one country by another.

Abeysekera (2003:18) views imperialism as the sufficient function of the process of integrating new regions into the expanding economy and is largely decided by the various and changing relationships between political and economic elements of expansion in any particular region and time. Consequently, the purpose of imperialism remains as the construction of consensus for global ideals of liberal democracy, rights and the free market. Fuchs (2010:222) finds that imperialism has led to the concentration of production and capital thereby creating monopolies which play a decisive role in economic activities. In this regard, when one country has control over the economy of another country, influence is exerted on how the companies are directed and controlled.

2.3.11　　　　Socialist theory

Seesaghur (2015:38) acknowledges that good governance embodies the idea of transforming the lives of people especially in the context of developing countries. Seesaghur (2015:38), points out that good governance establishes the idea of an ideal form of governance and of how government ought to be run. Consistent with this proposition, Gisselquist (2012:7) views good governance not only as a major component of economic growth and development but also the driving force behind other types of political and social outcomes.

The concept of socialism means the collective ownership and democratic management of the means of production for common good. The socialist form of governance, originating during the French Revolution, aims to bring in the development of the common people in society through economic improvement and industrialisation. Socialism, therefore, aims to reject monopolistic practices rather ensure good welfare, economic growth and greater efficiency in a given society. The socialism theory mainly aims to ultimately bring about economic development that largely benefits the marginalised or impoverished citizenry by improving their standards of living. In China, the socialist governance system has been adopted to emphasise the socialist market economy, dominated by the public sector and controlled by the government (Seesaghur, 2015:37; Swagel, 2012:1). As China is an emergent super power exerting a strong presence in the global sphere (Seesaghur, 2015:36), its corporate governance system has growing influence, particularly where investments are made, including some African countries such as Zambia and South Africa.

2.3.12   Engaged shareholder theory

Companies need to remain relevant by maintaining regular interaction with important stakeholder groups in order for them to survive in a challenging business environment. In this regard, companies' boards of directors should maintain shareholder relations in discharging boards' duties. Huang and Xie (2016:114) advise that shareholders of a company should participate in the company's management and closely monitor management issues in order to enhance the company's performance. According to the IoDSA (2016:71) and Ernest and Young (2016:1), the King IV Report under Principle 16, recommends that the board oversee the company and encourages proactive engagement with shareholders including engagement at the company's annual general meeting (AGM). Furthermore all directors should be available at the AGM to respond to shareholders' queries on how the board executed its governance duties. It is argued that engaging shareholders improves accountability and ensures transparency in the company (Huang & Xie, 2016:116). Furthermore, engaged shareholder theory can bring about the following benefits:

- Provide an opportunity for shareholders to assess how prudent management is in managing shareholders' investments;

- Enable shareholders to make timely decisions for the board's attention and;

- Shareholders become more conversant with their companies' operations.

Having considered the different theories of corporate governance, it becomes paramount to discuss the development of corporate governance theories and situating the different corporate governance theories discussed above into their relevant academic disciplines. This helps in identifying theories' philosophical similarities and differences and in addition the discussion leads to the critical analysis and choice of the foundation theories for this research study.

2.3.13   Summary of corporate governance theories

The previous Sections 2.3.1 to 2.3.12 have discussed the various theories of corporate governance. Table 2 below summarises the theories on corporate governance:

Table 2:   **Summary of the theories of corporate governance**

Theory	Detail
Agency Theory	- The agency theory is defined as a separation of ownership from control of the company; and - The agency theory is the starting point for any debate on corporate governance.
Shareholder Primacy Theory	Shareholder primacy theory is based on the idea that corporate management's primary responsibility is to promote the economic interests of shareholders.

Theory	Detail
Stewardship Theory	▪ Stewardship theory is primarily concerned with companies making a return on the shareholder's investment; and ▪ This theory holds the view that the company is an extension of its owners.
Stakeholder Theory	▪ Stakeholder theory is a theory based on the view of the company as a social entity that has responsibility (and accountability) to a variety of stakeholders; and ▪ The theory considers a wide range of stakeholders that can be classified as internal, connected and external stakeholders.
Transaction Cost Economics Theory	▪ Transaction cost economics theory sees a company as a sum of contracts; ▪ Its main concern is in carrying out economic transactions based on the most efficient governance structure.
Resource Dependency Theory	▪ The central proposition of the resource dependency theory is that an organisation's survival is influenced by its surrounding social, political and task environment; and ▪ The resource dependency theory describes company success as the ability to maximise power by accessing scarce and essential resources.

Theory	Detail
Social Network Theory	- The social network theory is used to describe connections between companies through board membership and ownership (shareholders); and - The social network in this regard is seen as a set of agents (companies, board members, owners) formally and informally connected.
Political Theory	- The political theory is a theory that gives more emphasis to social context and acknowledges the distribution of power and politics to be fundamental in the running of companies; and - The ability to influence allocations at company level is subject to the national framework which is interactively subjected to the influence of the corporate sector.
Legitimacy Theory	- Legitimacy is a generalised perception or assumption that the actions of an entity are desirable, proper, or appropriate with some socially constructed systems of norms, values, beliefs and definitions.
Managerial and Class Hegemony Theory	- The managerial and class hegemony theory refers to the concept of predominant power; and - The theory is informed by the assumption that the shareholder or his/her vote, is rarely capable of being used as a vehicle of democratic control but that

Theory	Detail
	management controls the modern company.
Imperialism and Imperial Theory	▪ Imperialism and the imperial theory is seen as a theory to influence corporate governance as empires can affect the economies of nations of the world.
Socialist Theory	▪ The socialist form of governance that aims to bring in the societal development of the common people.
Engaged Shareholder Theory	▪ The engaged shareholder theory supports the board to ensure that the company encourages proactive engagement with shareholders.

Source: Author's compilation

2.3.14 Current developments in corporate governance theories

As discussed in the previous sections, corporate governance is multi-disciplinary in nature; thus, theories that inform corporate governance are many and varied. The disciplines range from management, accounting, finance, economics, sociology, politics to psychology (Figure 4) and different schools of thought by academics, practitioners, governments, civil society and other interested parties exist that influence corporate governance. Hough *et al.* (2005:7) theorise that corporate governance is complex and that it can only be properly understood by the adoption of a multi-disciplinary and multi-theory approach.

Figure 4:   Theories of corporate governance
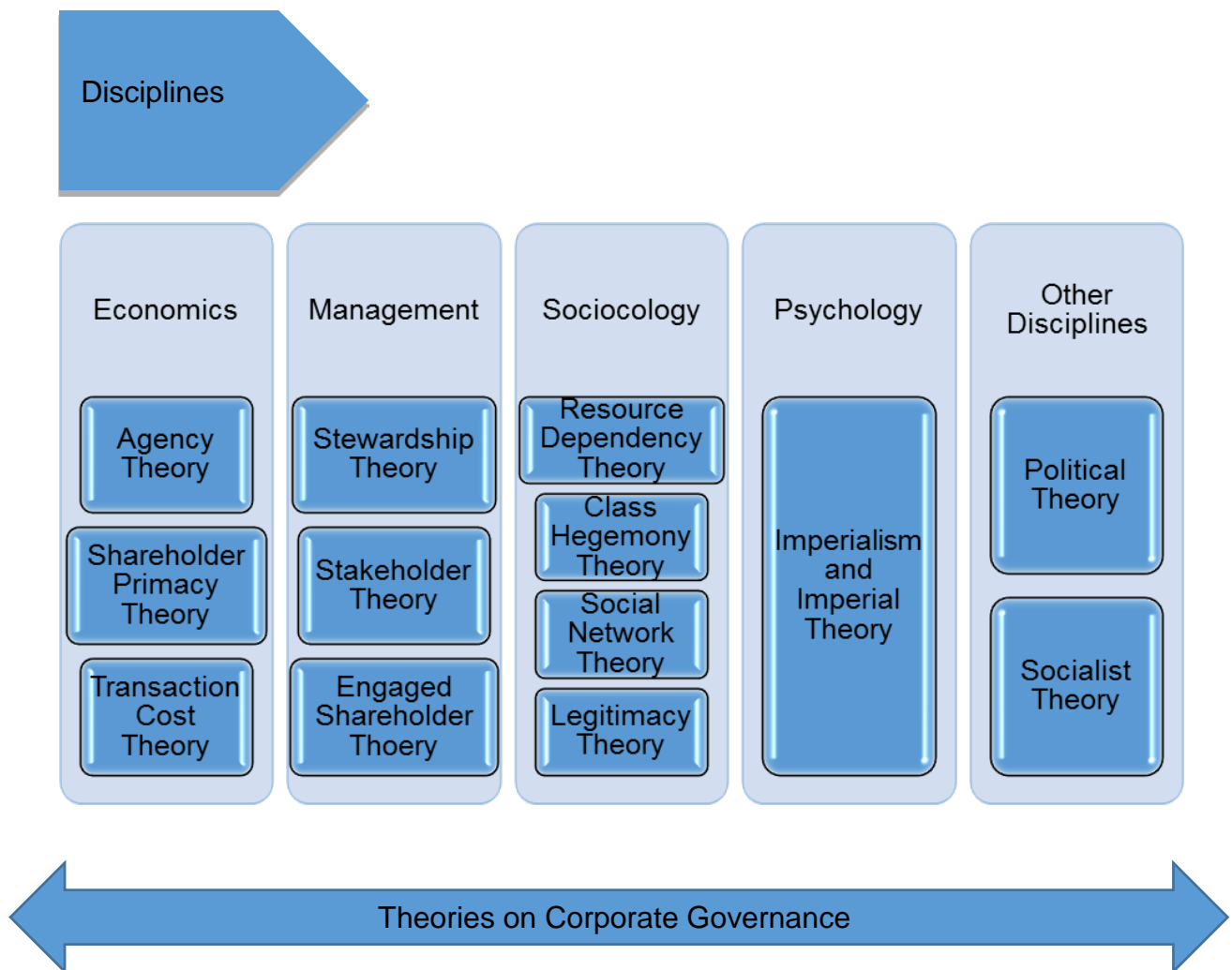
Source: Adapted from Hough *et al*. (2005:7).

As companies operate in different countries (with different legal systems) and capital markets, companies have different contexts (different theories as discussed from Section 2.3.1 to Section 2.3.12). Yusoff and Alhaji (2012:53) confirmed that governance may differ from country to country due to various cultural values, political and social and historical circumstances and economic contexts.

Following the argument that corporate governance is multi-disciplinary in nature, Yusoff and Alhaji (2012:53) hold that reliance on one perspective, a school of thought or theory is unlikely to be rewarding in practical terms for improving corporate governance, and as such an interdisciplinary holistic approach is necessary. Hough *et al*. (2005:7) concur with this view and further hold that a multi-

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theory approach to corporate governance would capture the complexity of corporate governance in the modern companies. Similarly, Abdullah and Valentine (2009:94) comment that good, effective corporate governance cannot be explained by one theory. Given that LuSE listed companies belong to different sectors of the economy and that there are many different stakeholders, consideration of different corporate governance theories enhances the study of corporate governance in Zambia. Discussion of different corporate governance theories contributes to the better understanding of corporate governance in Zambia. Furthermore, inclusion of different corporate governance theories has helped in motivating the stakeholder theory as a foundational corporate governance theory for this research study. The stakeholders will be discussed in more detail in the subsequent sections.

2.3.15   Company stakeholders

While this research study, consistent with existing research (Hendrikse & Hefer-Hendrikse, 2012:104; Issarawornrawanich & Jaikengkit, 2012:1311; Yusoff & Alhaji; 2012:54; Lan & Heracleous, 2010:295; Abdullah & Valentine, 2009:88; Rossouw, 2005:95; Okeahalam, 2004:359; Armstrong, 2003:12) on corporate governance, has been informed by the agency theory, the pragmatic stakeholder theory to corporate governance has been adopted for this research study. In this regard, the stakeholders of the company have a significant relationship with the performance of the companies. Additionally, the stakeholders have a great deal of interest in the financial performance of the LuSE listed companies. As such different stakeholders can influence financial performance as different stakeholders have different roles such as provision of capital (shareholders and banks), short term finance (banks and suppliers), revenue (customers) and tax collections (government). As argued by Schanz (2008:78), the concept of the stakeholder provides a theoretical framework for analysing the relationships of a corporation with relevant constituencies in its industry, political, social, economic and legal environment. This section therefore provides a discussion on the stakeholders for this research study.

According to BPP (2013:49) and Botten (2009:3), stakeholders are those persons and organisations that have an interest in the company and/or are affected by the

operations of the company in which they have an interest. Curtice (2006:2) resonates with this and adds that a stakeholder is an individual or group that can considerably affect the performance of the business and therefore their support is required by the business. Curtice (2006:2) further points out that stakeholders have certain expectations from the company, and assessing the degree to which these expectations are currently being satisfied, provides a valuable indicator of current and future performance. Table 3 details the common types of stakeholders:

Table 3: **Types of stakeholders**

Type of Stakeholder	Definition	Comment
Internal Stakeholder	Internal stakeholders are those stakeholders within the company and work within the company. Examples include Directors, Managers and Employees	The interests of internal stakeholders mainly concern the following: jobs/careers, money, promotion, benefits and satisfaction in their work and company profitability.
Connected Stakeholder	Connected stakeholders are stakeholders that often have a significant stake in company's activities by virtue of their contractual or commercial relationships with the company. Examples include shareholders,	Shareholders require maximisation of their wealth through improved profitability and transparency and accountability (corporate governance).
		Bankers are concerned about security of loans provided and adherence to loan agreements.

Type of Stakeholder	Definition	Comment
	bankers, suppliers and customer.	Suppliers have wide ranging interests that include profitable sales, timely payments for their goods and supplies and long term relationship. Suppliers are also interested in fair procedures in awarding contracts and fewer trade disputes.
		Customers have interests that include production and provision of quality goods and services.
External Stakeholders	External stakeholders are stakeholders external to the company but whose objectives and degrees of influence in the company are diverse. Examples include government and regulatory agencies, interest and pressure groups, industry associations and trade unions and non-governmental organisations.	Government and regulatory agencies are interested in the jobs created and maintained, investment and infrastructure, aggregate demand for computation of gross domestic product (national income), corporation taxes and protection of emerging industries.
		Interest or pressure groups are interested in the rights of the employees, communities in which the companies operate and the pollution that may be caused by the companies.
		Industry associations and trade unions are mainly concerned about the rights of their members who are the employees of the companies.

Type of Stakeholder	Definition	Comment
		Non-governmental organisations are mainly concerned about the human rights of the employees of the companies.

Sources: Adapted from BPP (2013:49) and Botten (2009:3).

It is evident from Table 3 that stakeholders of companies are wide ranging and include employees, the government, shareholders, customers and suppliers among others.

2.3.15.1 Employees

According to BPP (2013:49) and Botten (2009:3), employees are internal stakeholders that are primarily concerned about the performance of the companies they work for. Consequently, employees would be interested in the profitability of companies to enhance employees' promotion and career development options. It is argued that employees are a critical resource that companies use as a factor of production to make profits anfd ultimately increase shareholders' wealth. Similarly, Davletgildeev (2018:1) argues that in corporate governance employees play an important role in contributing to the long term success and performance of a company. Furthermore, in accordance with the agency theory, employees' interests can be aligned with shareholders' interests through the sale of shares to employees to improve company performance (Abor and Biekpe, 2007:288; Simoneti and Gregoric, 2005:2). As such, employees are an important stakeholder in the company. This study discusses employees as part of managerial ownership.

2.3.15.2   The Government

In corporate governance, government is a stakeholder of paramount importance in LuSE listed companies. According to Davletgildeev (2018:1), government is responsible for establishing the overall institutional and legal framework for corporate governance. Furthermore, government through its regulatory agencies, is interested in the jobs created and maintained, investment and infrastructure, corporation taxes and protection of emerging industries (BPP, 2013:49). In this regard, although considered a key external stakeholder, government is discussed as part of the stakeholders only and not regarding its influence on financial performance. In addition, government is part of the external corporate governance structures and hence government is out of the scope of the research study which focuses on internal corporate governance structures.

2.3.15.3   Shareholders

The operations of a company are financed through capital that can comprise debt and equity finance. Shareholders provide equity finance to the companies. BPP (2013:49) claims that shareholders are connected stakeholders that often have a significant stake in a company's activities by virtue of their contractual or commercial relationships with the company. Consequently, shareholders require maximisation of their wealth through improved profitability, transparency and accountability. In this regard, although considered key connected stakeholders, shareholders are only discussed as part of the stakeholders and not with regard to shareholders' influence on financial performance, as this research study focuses only on internal corporate governance structures.

2.3.15.4   Customers

The connected stakeholders such as customers are regarded as important stakeholders of LuSE listed companies. According to Botten (2009:3), customers have particular interests in the companies that include production and provision of quality goods and services. As such, companies should ensure that they supply quality goods and services to customers who will pay for these goods and services. This is particularly important because customers are considered as the reason why companies exist, as customers enable companies to earn revenue that will generate profits. Raut (2015:10) posits that companies should emphasise the provision of maximum benefits in terms of quality and price as well as being determined to develop and maintain sustainable relationships with customers. Although considered key connected stakeholders, customers are only discussed as part of the stakeholders and not with regard to how customers influence financial performance, as this research study focuses only on internal corporate governance structures.

2.3.15.5   Suppliers

In business, companies interact with a wide range of stakeholders. For example, suppliers of raw materials have a business relationship with companies. As such, suppliers are interested in continued business with the companies and receiving payments on time (Mirza & Javed, 2013:43). Other than timely payment receipt, suppliers are interested in fair procedures in awarding contracts and fewer trade disputes (Botten, 2009:3). Therefore, it is argued that suppliers are an important external stakeholder for the going concern of a company. However, as this research focuses on the relationship between internal corporate governance structures and financial performance of LuSE listed companies, the research study only considers the suppliers with regard to the discussion on stakeholders of the companies. In this regard, the research study does not investigate the relationship between suppliers and the financial performance of LuSE listed companies.

2.3.16   The stakeholder theory for this research study

Much of the literature on corporate governance has been informed by the agency theory (Vintilă & Gherghina, 2012:175; Abor & Biekpe, 2007:300; Alonso-Bonis & Andres-Alonso, 2007:216; Gill *et al.,* 2009:8; Rebeiz & Salameh, 2006:747; Welch, 2003:287; Lorsch & MacIver, 1989:1). The current debate on corporate governance, particularly on the relationship between corporate governance structures and companies' performances, is based on the agency theory (Ferede, 2012:9), because of conceptual simplicity and the notion that human beings as self-interested (Daily *et al.*, 2003:1).

Mulenga (2013:32) argues that Zambia was colonised by the British and consequently it has adopted English laws. The Zambia Company Act of 1994 that provides rules and regulations of companies registered in the country, is based on the English law (Mulenga, 2013:17; Government of the Republic of Zambia (GRZ), 2008:1). By extension, the companies listed on the LuSE have to comply with both the Zambian Company Act and the LuSE's listing rules. Mulenga (2013:29) further argues that the Companies Act, Chapter 388 of 2008 provides the corporate governance framework for Zambian companies. Chapter 388 of the Companies Act of Zambia of 2008 provides details on the roles and responsibilities of the board of directors of a company. In South Africa, a similar arrangement exists in that boards of directors draw their legal responsibilities from the Companies Act number 71 of 2008 (Republic of South Africa (RSA), 2009:8). As the board of directors has its duties outlined in the Companies Acts for both Zambia and South Africa, it is argued that agency theory becomes the foundation theory of corporate governance in both countries. Peters and Bagshaw (2014:11), as well as Habbash (2010:20), contended that agency theory is the most popular corporate governance theory and has received the most attention from academics and practitioners. Peters and Bagshaw (2014:111) conclude that many of the other theories are intended as complements to, not substitutes for, the agency theory.

Croucher and Miles (2010:370) hold that traditionally, South African Company Law has emphasised the stewardship theory. However, there has been a shift from this to the stakeholder theory as contained in the new Companies Act of 2008 to

characterise the inclusive approach (Croucher & Miles, 2010:370). The stakeholder theory is the hallmark of South Africa's corporate governance approach as contained in the King III Report. The stakeholder theory postulates (as discussed in Section 2.3.3) that shareholders are not the only stakeholders of the company, but rather that there are many stakeholders whose interests must be met. This can be achieved by ensuring that the company makes the decisions that are in the best interests of the company (IoDSA, 2009:7). Consideration of the different theories of corporate governance has provided rich discussion and analysis for this research study.

This research takes cognisance that different stakeholders involving boards of directors (some of whom are shareholders), company employees, CEOs of relevant institutions such as ZICA, LuSE, SEC, IoDZ among others, will be involved in this research study. As such this research has utilised the agency theory as the starting point in discussing corporate governance given that separation of ownership and control are considered as a hallmark of modern companies (Gomez and Russel, 2005:7). However, the agency theory has limitations such as:

- The agent may succumb to self-interest by other agents;

- Opportunistic behaviour and falling short of congruence between the aspirations of the principal's and the agent's pursuits (Abdullah & Valentine 2009:89); and

- Agency theory is not an encompassing and unifying theory of corporate governance (Santosh, 2006:1).

The King IV Report on corporate governance advocates for a stakeholder inclusivity approach to ensure that companies are well directed and controlled to achieve good company performance (IoDSA, 2016:25). The stakeholder theory considers the material stakeholders who have legitimate and reasonable needs, interests and expectations. The stakeholder theory represents a departure from agency theory, which mainly emphasises the interests of the shareholders. In this regard, the study has adopted the stakeholder theory (that considers all material stakeholders) to investigate the relationship between corporate governance structures and the financial performance of the LuSE listed companies. Furthermore, as different stakeholders have different roles such as provision of capital (shareholders and

banks), short-term finance (banks and suppliers), revenue (customers) and tax collection (government), stakeholders are directly affected by the financial performance of the LuSE listed companies. In this regard, the stakeholder theory becomes the appropriate approach in investigating the relationship between corporate governance structures and financial performance of LuSE listed companies in Zambia.

2.4   Importance of Corporate Governance

As discussed in the preceding sections, different definitions of corporate governance do exist; ranging from narrow views premised on the stewardship theory to a broader view that encompasses different stakeholders including employees, suppliers, law regulators, other than just the shareholders. As such the different definitions of corporate governance reflect the following:

- That the concept is an important issue (Balgobin, 2008:22);

- "One size does not fit all" (Balgobin, 2008:22);

- There exist different perceptions of corporate governance (Balgobin, 2008:22);

- There exist different theoretical underpinnings within which the definition is generated (Balgobin, 2008:22);

- It is a key element in improving economic efficiency and improving investor confidence (Organisation for Economic Cooperation and Development (OECD), 2004:1); and

- Corporate governance is one factor that investors consider before making investments, particularly in Africa and Zambia where investors consider the continent as a high risk for investment (Okeahalam, 2004:360).

Many scholars and analysts concur that corporate governance is an important issue (Hendrikse & Hefer-Hendrikse, 2012:104; Rossouw, 2005:95; Okeahalam, 2004:359; Armstrong, 2003:12). Rossouw (2005:95) is of the view that the need for corporate

governance exists. Wang *et al.* (2007:264) contend that corporate governance is of particular interest in finance literature as it accounts for why some companies perform better than others. According to Hendrikse and Hefer-Hendrikse (2012:105), Rossouw (2005:95), Okeahalam (2004:359) and Armstrong (2003:12), corporate governance is important because of the following reasons: the need for separation of management and ownership, the recognition that it can contribute to the economic success of companies, the need for market discipline and transparency, control and maintenance of balance of interests of stakeholders, as well as being a deterrent to corruption and unethical business practices. Similarly, Vo and Phan (2013:210) argued that for the emerging and developing countries, good corporate governance can:

- Serve a number of important public policy objectives;

- Reduce emerging market vulnerability to financial crises;

- Reinforce property rights;

- Reduce transaction costs and the cost of capital;

- Increase foreign direct investment; and

- Lead to capital market development.

Pandya (2011:6) adds that corporate governance improves strategic thinking at the top, rationalises the management and monitoring of risk, assures integrity of financial reports and has long term reputational effects among the stakeholders; both internally and externally to the organisation. Similarly, Veldman, Gregor and Morrow (2016:5) attest that it has become broadly accepted that companies need to be governed with respect for society and the environment. The reason for this is that companies are dependent on the broader institutional and systemic framing for their long term survival and because the most pressing of society's problems cannot be solved without a contribution from corporations or by regulations alone (Veldman et *al.,* 2016:5).

It is clear from the above discussion that corporate governance is important and as such must be given the attention it deserves. According to Ahmed and Gabor

(2011:1), corporate governance is important for companies in both developed and developing countries. As such, Aydemir (2012:12) and the Chartered Financial Analyst (CFA) Institute (2005:8) argue that good corporate governance practices seek to ensure that:

- Board members act in the best interests of shareholders;

- The company acts in a lawful and ethical manner in its dealings with all stakeholders and their representatives;

- All shareholders have the same right to participate in the governance of the company and receive fair treatment from the board and management, and all rights of shareholders and other stakeholders are clearly delineated and communicated;

- The board and its committees are structured to act independently from management, individuals or entities that have control over management, and other non-shareholder groups;

- Appropriate controls and procedures are in place covering management's activities in running the day-to-day operations of the company; and

- The company's operating and financial activities, as well as its governance activities, are consistently reported to shareholders in a fair, accurate, timely, reliable, relevant, complete and verifiable manner.

Similarly, Todorovic (2013:47) and Parker (2007:39) conclude that corporate governance has commanded the highest levels of attention and debate among legislators, regulators, professions, business bodies, and media and in the general community. Amba (2013:1) resonates with this and emphasises that there is an ever increasing attention to corporate governance issues.

For this research, for companies listed on the LuSE, corporate governance principles, although not mandatory, are cardinal for the achievement of their goals (Mulenga, 2013:29). In addition, they are embedded in the listing rules as provided

by the LuSE. Hendrikse and Hefer-Hendrikse (2012:105) sum it up by stating that corporate governance should not be seen as an added burden for business, but as a catalyst for improved compliance that leads to improved performance. It is recognised that there are many factors (such as competition, corporate governance, a country's political and economic landscape) that can affect the financial performance of listed companies in developing countries such as Zambia (Ayako, Githui & Kungu, 2015:84). Given the importance of corporate governance for Zambia to attract investment and maintain investors' confidence, this research focuses on the relationship between corporate governance structures and the financial performance of LuSE listed companies in Zambia.

2.5   Consequences of poor corporate governance structures

Companies enjoy many benefits from the establishment and maintenance of good corporate governance. Some of the major benefits include attraction of investment, contribution to the economic success of corporations, market discipline and transparency, as well as being a deterrent to corruption and unethical business practices (Aydemir, 2012:12; CFA, 2005:8; Rossouw, 2005:95; Okeahalam, 2004:359; Armstrong, 2003:12). Despite the above outlined benefits, corporate governance has its own drawbacks that companies may suffer from. According to Banks (2004:103) some of the problems of corporate governance include:

- An ineffective board failing to provide proper governance as it lacks independence, willingness to challenge decisions, willingness to bear responsibility. An ineffective board may also be one that has knowledge gaps, excessive commitments elsewhere and lacks alignment to the interests of the company;

- Conflicted CEOs, where the roles of CEO are combined with the Chairman of the board position, can impair independence and affect objectivity in the decision making process; and

- Weak (failure) internal and external controls relating to financial and non-financial controls (internal policies and procedures) and those relating to legal and market controls.

Existence of poor corporate governance can lead to the promotion of insider dealing (Ebillity, 2015:1). In addition, insider dealing (an act that involves use of a company's confidential non-public information to pursue directors' own interests) can lead to increased monitoring of directors. This can lead to increasing operational costs and reducing the company's profitability. Kabaila (2014:1), Mulenga (2013:31) and Udoh (2013:1) share similar beliefs and observe that poor corporate governance practices can lead to mismanagement of company resources.

2.6 Corporate governance developments

Aydemir (2012:10), as well as Steger and Amann (2008:1), attest that although corporate governance as a term first evolved in the mid-1980s, the questioning of the governance of corporations in modern perception has its roots in the 1840s. Mulili (2011:3) documents that corporate governance was institutionalised in the 19th century following the growth of companies, for example in the USA. The institutionalisation of corporate governance was an attempt to limit personal liability for the shareholders equal to the unpaid shares of the shareholders.

Corporate governance in developed countries has evolved following many corporate scandals, changes in business formations and changes in both legislation and global markets. As mentioned, in the United States of America (USA) for example, corporate scandals such as Enron, Tyco, WorldCom, Adelphia and Global Crossing have brought about changes in corporate governance (Holmstrom & Kaplan, 2003:1). Mulili and Wong (2011:17), as well as Jackson (2010:22), posited that following the corporate scandals such as WorldCom and Enron in the USA, the Sarbanes-Oxley (SOX) of 2002 was promulgated solidifying the rule based approach to corporate governance. Such crises have fuelled debates in the legislature, thereby requiring the American government to take action to respond to the crises and at the same time forcing them to introduce tight regulation (Anand, Milne & Purda, 2005:5).

This has implications for companies, particularly the listed companies as non-compliance would entail sanctions made against the companies by the USA government. Similarly in Europe, corporate governance has undergone changes that have enabled companies to improve their operations, in a bid to achieve long term success of the companies and improve the economy as a whole (FRC, 2014:1; Haskovec, 2012:14). Corporate governance changes have also been largely necessitated by corporate scandals such as Parmalat in Italy (Haskovec, 2012:14).

Developing countries such as Malaysia, Indonesia and South Africa, have not been left behind in terms of corporate governance changes and reviews. In Asia, the financial crisis of 1997 brought about changes in corporate governance to recover from the financial crisis and build investor confidence (Bai *et al.*, 2004:599; Lee & Yeh, 2004:378). In South Africa the King I, II, III and IV Reports on Corporate Governance account for responses to the changes in domestic and international developments on corporate governance (Ntim, Opong, Danbolt & Thomas, 2012:127 and West, 2006:433) and legislation (IoDSA, 2016:3; Republic of South Africa (RSA), 2009). In the following subsections corporate governance in the USA, UK and developing countries including South Africa and Zambia will be discussed.

2.6.1 Corporate governance in the United States of America (USA)

Corporate governance in the USA has passed many phases of developments, and in principle or approach is very distinct from that of the UK. Holmstrom and Kaplan (2003:5) document that corporate governance in the USA has changed considerably since the 1980s. The corporate governance structures that were in place prior to the 1980s gave the managers of large public USA companies little reason to make shareholder interests their primary focus (Holmstrom & Kaplan, 2003:5). Holmstrom and Kaplan (2003:5) further suggest that corporate managers tended to think of themselves as representing not the shareholders, but rather the companies.

According to Jackson (2010:8), the system of corporate governance in the USA is a moving target due to constant developments in the financial markets and changes in legislations. The development in financial markets and changes in legislations necessitate corporate governance to evolve both in terms of a theoretical ideal and

as a more complex set of practices. This system of corporate governance gives room to improve upon the corporate governance principles for the long-term success of companies, but also to take into consideration any changes in the markets (Jackson, 2010:12). Consequently, corporate governance practices take into account changes in the economy and other corporate governance best practice in other countries such as UK. Furthermore, as corporate governance is inter-disciplinary in nature, developments in the relevant disciplines such as sociology, management, and economics among others will contribute to changes in corporate governance practices.

Although the USA's corporate governance principles are similar to the UK's corporate governance, focusing on maximising shareholders' value, the initial principles comprised weak regulation by the law where gatekeepers (board of directors) were weakly regulated in the USA (Jackson, 2010:22). Mulili and Wong (2011:17) as well as, Jackson (2010:22), posit that following corporate scandals such as WorldCom and Enron in the USA, the Sarbanes-Oxley (SOX) of 2002 was promulgated solidifying the rule based approach to corporate governance. In particular, SOX of 2002 was promulgated with the following objectives in mind (EY, 2012:1; Jackson, 2010:39):

- to enhance corporate governance;

- to strengthen the independence of auditing companies;

- to improve the quality and transparency of financial statements and corporate disclosure;

- to improve the objectivity of research; and

- to strengthen the enforcement of federal securities laws including the use of criminal penalties.

According to Clark (2005:5), SOX brought corporate governance changes, mainly in three broad areas, namely audit, board and disclosure and accounting rules. As a board of directors is responsible for providing policy and oversight of a company, the three broad changes revolved around the boards of directors. The main purpose of the board related changes was to reduce conflict of interest, or interpersonal

pressures, so as to ensure that directors act as judgmental monitors of management rather than as reciprocating colleagues (Clark, 2005:5). Cohen *et al.* (2013:1) and Clark (2005:5) conclude that SOX brought about the following specific corporate governance changes regarding the board of directors:

- the majority of the board members must be independent directors;

- strict rules on the definitions of the independence of directors;

- key board committees such as audit, compensation and nominations committees to comprise independent directors; and

- companies must have key committees which include audit, compensation and nominations committees.

In addition to this, Qian, Strahan and Zhu (2009:1) and Clark (2005:5), document that within the USA, the separation of the roles of Chairman and the Chief Executive Officer has been advocated as a conflict-reducing structural change. Cohen *et al.* (2013:1) concur that SOX significantly expanded the authority and responsibilities of the audit committee and board in overseeing financial reporting and internal controls.

Many scholars have criticised the USA's corporate governance (Holmstrom & Kaplan, 2003:1), mainly because of the corporate scandals (such as Enron, Tyco, WorldCom, Adelphia and Global Crossing) and legislative changes to SOX (Prentice & Spence, 2007:4; Holmstrom & Kaplan, 2003:1). The criticism has largely been concerned about the effectiveness of SOX implementation during the first five years (2002 to 2005) and ten years (2002 to 2012) of SOX promulgation. In particular, the criticisms raised are as follows (Wade, 2008:596; Lenn, 2013:1):

- SOX threatens to stifle entrepreneurship and deter companies, domestically and overseas, from accessing the USA capital markets;

- for smaller companies, continued compliance with section 404 of SOX proved extremely difficult and often outweighed potential benefits during the five years of the implementation of SOX to the extent that about US$1 million was incurred as a SOX compliance cost for every US$1 billion in sales;

- SOX compels companies to focus on complying with SOX rather than focusing on business and;

- The survey entitled "Directors Call for Sarbanes-Oxley Repeal" conducted in 2005 revealed that the implementation of SOX made 72% of directors surveyed in the USA too cautious, and consequently they were not taking necessary risks to drive company growth. The same study also revealed that 59% of directors surveyed in the USA have declined a board position due to the risk associated with failure to adequately comply with SOX.

Despite the criticism levelled against the USA's corporate governance, Holmstrom and Kaplan (2003:1) are of the view that there are more benefits than drawbacks of rule based corporate governance, as evidenced by the USA's good economic performance, both on an absolute basis and relative to other developed and developing countries. Qian *et al.* (2009:1) claim that SOX has economic benefits such as reduced agency problems for SOX complying companies and improved access to public debt. The American Institute of Chartered Public Accountants (AICPA) (2012:1) and EY (2012:1) resonate with this and add that SOX has contributed significantly to restoring investor confidence in public companies' financial reports and the USA capital markets. EY (2012:1) concurred that SOX has made it possible to align the interests of auditors, independent audit committees and audit oversight authorities with those of shareholders of the companies in the USA.

2.6.2 Corporate governance in the United Kingdom

Similar to the USA corporate governance, UK corporate governance has evolved over time. It has thus been enduring, but with challenges; requiring its evaluation at appropriate intervals in the light of a changing economic and social business environment (Financial Reporting Council (FRC), 2012:2). According to the FRC (2010:4), the development of corporate governance in the UK has its roots in a series of corporate collapses and scandals in the late 1980s and early 1990s. Such crises had a negative bearing on the concerned companies and the UK economy as a whole. In response to these high profile cases of corporate fraud and director malfeasance (Jordan, 2012:4), the Cadbury Report on corporate governance (FRC,

2010:4) was published. This report made recommendations regarding the control and reporting functions of boards of directors and the role of auditors (Jordan, 2012:4). According to Haskovec (2012:12), the impetus to create the Cadbury Committee came from the Bank of England that encouraged participation of the Financial Reporting Council and the London Stock Exchange. As corporate governance evolved, another report was issued in 1995 focusing on directors' remuneration. The Cadbury 1992, Greenbury 1995, Hampel 1998, Turnbull 1999, Higgs and Combined reports were combined into one report called a combined code, currently known as the UK Corporate Governance Code (FRC, 2010:5).

The major reasons for the different developments in corporate governance principles include being responsive to economic changes and legislation. The UK's Combined Code of corporate governance aims to promote good governance, which in turn facilitates effective, entrepreneurial and prudent management that can deliver the long term success of the company (FRC, 2014:5; London Stock Exchange (LSE), 2012:3).

Different from its US counterpart, the UK corporate governance code comprises principles rather than rules (FRC 2014:5). According to Burgemeestre, Hulstijn and Tan (2010:1), the principles based approach to regulation norms are formulated as guidelines with the exact implementation left to the subject of the norm. In this regard, the UK's corporate governance approach is commonly known as *comply or explain* as the trademark of corporate governance in the UK (FRC, 2014:5).

Nedelehev (2013:77) suggests that the *comply or explain* approach is one approach whose basis is the voluntary application of corporate governance consistent with national codes. The benefits of the *comply* or *explain* approach include the following:

- it is a better instrument in the modern period of economic recovery due to its flexibility (European Commission, 2011); as it allows companies to adapt their corporate governance practices to their specific situations (Nedelehev, 2013:77; FRC, 2010:6);

- compliance with good corporate governance practices attracts more investors, thereby reducing the cost of capital (Nedelehev, 2013:77);

- it leads to self-regulation resulting in better running of companies (European Commission, 2011; Nedelehev, 2013:77; FRC, 2010:6); and

- it gives opportunities for both companies and regulators to become efficient in their operations (Nedelehev, 2013:77; European Commission, 2006:1).

Despite the benefits, the approach is not without drawbacks and challenges. Nedelehev (2013:78) argues that the main drawbacks of the approach include the reality that small-medium companies find it onerous and difficult to implement *comply or explain* corporate governance rules. However, it is argued that making corporate governance principles voluntary, can bring about lax governance and insubordination in the business environment, as monitoring by the regulator is weak or absent (Nedelehev, 2013:77).

The UK corporate governance code is based on the underlying principles of good governance that include accountability, transparency, integrity and focus on the sustainable success of an entity over the longer term (FRC, 2014:5). The main characteristics of the combined code as per Table 4 include the following:

Table 4:   **UK's main principles of corporate governance**

Principle	Detail
Leadership	Every company should be headed by an effective board which is collectively responsible for the long term success of the company. There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision.
Effectiveness	The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.

Principle	Detail
Remuneration	Executive directors' remuneration should be designed to promote the long term success of the company. Performance-related elements should be transparent, stretching and rigorously applied.
Relations with shareholders	There should be a dialogue with shareholders based on mutual understanding of objectives.

Source**:** FRC (2014:5)

The UK's Combined Code on corporate governance therefore emphasises the five main principles of corporate governance with clear guidelines in terms of what they are.

2.6.3 Corporate governance in developing countries

Corporate governance issues are especially important in developing economies, since such countries do not have a strong, long-established financial institutional infrastructure to deal with corporate governance issues (McGee, 2009:3). According to the OECD (2004:1), as well as Oman, Fries and Buiter (2003:8) the importance of corporate governance extends well beyond the corporate sector's operations to include the national development of the developing country. In addition, the importance of a robust corporate governance regime in developing countries is evident, in that several recent studies have suggested that a strong system is necessary to encourage inward investment and nourish long term economic growth (Wanyama, Burton & Hellier, 2009:159; Lynham, Taylor & Dooley, 2006:9; Johnson *et al.*, 2000:15).

In developing countries in Asia as a continent, with the realisation of the importance of corporate governance and following the financial crisis of 1997, changes have been made in corporate governance. These changes in corporate governance brought about increased capital inflow from both domestic and foreign investors. Consistent with this, many scholars and organisations such as McGee (2009:3), Rossouw (2005:95), the OECD (2004:1), Okeahalam (2004:359), Armstrong (2003:12) and Oman *et al.* (2003:8), suggest that corporate governance contributes

to the success of companies. Garg (2007:39) added that corporate governance issues have attracted a good deal of public interest because of their apparent importance for the economic health of corporations and society in general, especially after the plethora of corporate scams and debacles in recent times. Thus, essentially corporate governance contributes to sustainable economic development by enhancing the performance of companies and increasing their access to outside capital (Sarbah & Xiao, 2015:41).

This study focuses on Zambia as a developing country in the sub-Saharan region. One of the major corporate governance developments in the Sub-Saharan region consists of the King Reports in South Africa that have also greatly influenced the corporate governance developments in Zambia (Mulenga, 2013:31).

2.6.4   Corporate governance in South Africa

This section of the dissertation discusses corporate governance in South Africa. The Section 2.6.4 also explores the developments in corporate governance by considering the King Reports while highlighting the influence of the developments in South Africa on other developing countries such as Zambia.

2.6.4.1   King Reports on corporate governance

South Africa is a developing country, although as argued by West (2006:433), it has characteristics of both developing and developed countries. Despite the strong social and economic challenges, fragmented and disparate society marked by extreme contrasts, as observed by South Africa's corporate governance has evolved (Croucher & Miles, 2010:367). Mangena and Chamisa (2008:12), as well as Armstrong (2006:14), asserted that the publication of the King I Report gave birth to the formal institutionalisation of corporate governance in South Africa. The first King Report referred to as the King I Report (chaired by Judge Mervyn King and produced in 1994) was based on corporate governance principles similar to those in the UK. Mangena and Chamisa (2008:12), argued that King I was informed by the recommendations of the UK's Cadbury Report of 1992. In particular, the King I

Report adopted an Anglo-American style unitary board of directors, consisting of executive and non-executive directors (NEDs), who are primarily accountable to shareholders with a voluntary compliance and disclosure regime (Ntim *et al.*, 2012:127).

The boards of directors are the primary focus of corporate governance and as such, should provide effective leadership to their companies to ensure that governance principles of fairness, accountability, responsibility and transparency are achieved in South African companies. In this regard, governance is essentially about effective leadership, challenging leaders to rise to the challenges of modern governance (IoDSA, 2009:8). The IoDSA (2009:11) further asserts that effective leadership is characterised by the governance principles and based on moral duties that find expression in the concept of Ubuntu. Ubuntu is a Zulu word that means humanness and is thus the art of being a human being with African values of caring, sharing, respect and compassion (Broodryk, 2006:1). Additionally, the King II, III and IV Reports advocate for further characteristics of corporate governance that include stakeholder inclusivity, integrity, competence, discipline, independence and social responsibility (IoDSA, 2016:44; IoDSA, 2009:1). Thus IoDSA (2016:44) advocated for corporate governance characteristics (Table 5) for effective leadership that results in achieving strategic objectives and positive outcomes of the company over time.

Table 5:   **Characteristics of corporate governance**

Corporate Governance Principles	
Characteristics	*Description*
Integrity	Integrity refers to possessing the quality of being honest and having strong moral principles. It encompasses consistency between stated moral and ethical standards and actual conduct. Board members should:
	1. Act in good faith and in the best interest of the company;
	2. Avoid conflicts of interest;
	3. Act ethically beyond mere legal compliance;
	4. Set the tone for an ethical organisational culture.

Corporate Governance Principles	
Characteristics	*Description*
Competence	Competence refers to possessing skills and attributes, and exhibiting the conduct that is used to define and measure suitability for a certain role or function.
	Board members should:
	1. Take steps to ensure that they have working knowledge of the company, its industry, capital it uses;
	2. Act with due care, skill and diligence;
	3. Continuously develop their competence to lead effectively.
Responsibility	Responsibility means taking ownership of a duty, obligation or liability. Board members should:
	1. Assume collective responsibility for steering and setting the direction of the company, approving policy and planning and ensuring accountability for company performance;
	2. Exercise courage in taking risks and capturing opportunities;
	3. Attend meetings of the board and its committees and devote sufficient time and effort for those meetings.
Accountability	Accountability is the obligation to answer for the execution of responsibilities. Accountability cannot be delegated, whereas responsibility can be delegated without abdicating accountability for that delegated responsibility. Board members should be willing to answer for the execution of their responsibilities even when these were delegated.
Fairness	Fairness refers to the equitable and reasonable treatment of the sources of value creation, including relationship capital as portrayed by legitimate and reasonable needs, interests and expectations of material stakeholders of the company. Board members should:
	1. Adopt a stakeholder-inclusive approach in the execution of their governance role and responsibilities;

Corporate Governance Principles	
Characteristics	*Description*
	2. Direct the company in such a way that it does not adversely affect the natural environment, society or future generations.
Transparency	Transparency is the unambiguous and truthful exercise of accountability such that decision making processes and business activities, outputs and outcomes (both positive and negative) are easily able to be discerned and compared with ethical standards. Board members should be transparent in the manner in which they exercise their governance role and responsibilities.
Independence	Independence is the absence of undue influence and bias which can be affected by the intensity of the relationship between the director and the company.
Social Responsibility	Responsible corporate citizenship implies an ethical relationship of responsibility between the company and the society in which it operates. Corporate responsibility is the responsibility of the company for the influence of its decisions and activities on society and the environment, through transparent and ethical behaviour that contributes to sustainable development, including the health and welfare of society; takes into account the legitimate interests and expectations of stakeholders; is in compliance with applicable law and consistent with international norms of behaviour; and is integrated throughout the company and practiced in its relationships.

Source: Adapted from IoDSA (2016: 1) and IoDSA (2009:5).

According to West (2006:433) South Africa has developed and maintained a 'first-world' financial infrastructure and efficient capital market that was established in 1887, approximately 118 years ago (Johannesburg Stock Exchange (JSE), 2013:1).

RSA's corporate governance is characterised by a unitary board system, a reliance on capital markets to raise finance, a strong legal framework to protect shareholder rights and a set of self-regulatory measures designed to shape management behaviour (Croucher & Miles, 2010:369). In addition, SA corporate governance has grown from strength to strength evidenced by the developments of the King Reports, from King I in 1994, King II in 2002 to the King III Report in 2009 (IoDSA, 2009:5) and King IV (Deloitte, 2016:1 and IoDSA, 2016:1). The developments in the King Reports have occurred following the changes in the political and economic landscapes as a result of the country's political transformation from apartheid to democracy (Diamond and Price, 2012:60) led by the first black president, Nelson Mandela.

The King I Report, published in 1994, aimed at promoting the highest standards of corporate governance in SA (Cliffe Dekker Attorneys, 2002:2). Being the first report on corporate governance in SA, it saw the first institutionalisation of the corporate governance principles (Cliffe Dekker Attorneys, 2002:1). In 2002 the King II Report was published with an emphasis on moving from a single bottom line (that is, profit for shareholders) to a triple bottom line embracing the economic, environmental and social aspects of a company's activities (Cliffe Dekker Attorneys, 2002:5). In the words of the King Committee:

"...successful governance in the world in the 21st century requires companies to adopt an inclusive and not exclusive approach. The company must be open to institutional activism and there must be greater emphasis on the sustainable or non-financial aspects of its performance. Boards must apply the test of fairness, accountability, responsibility and transparency to all acts or omissions and be accountable to the company but also responsive and responsible towards the company's identified stakeholders. The correct balance between conformance with governance principles and performance in an entrepreneurial market economy must be found, but this will be specific to each company."

The report also encouraged a balance between conformance with governance principles and performance in an entrepreneurial market economy (IoDSA, 2002:12). The King III Report published in 2009 brought its own changes. Ntim *et al.*

(2012:127) stated that the changes were brought about in response to both international and domestic developments. KPMG South Africa (2013:2) and IoDSA (2009:11) contend that the King III Report was as a result of the changes in international governance trends and the South African Companies Act (No 71 of 2008). The King III Report revolves around three major areas namely leadership, sustainability and corporate citizenship (IoDSA, 2009:7):

The IoDSA (2009:7) further argues that King III is on an *apply or explain* basis. The practical application for King III was premised on the view that directors of the company had the legal duty to act in the best interest of the company (IoDSA, 2009:7)

2.6.4.2   Current developments in corporate governance in South Africa

Following local and international developments in corporate governance in South Africa, IoDSA has reviewed and updated the corporate governance code that has culminated in the King IV Report. According to IoDSA (2014:13), the development of the King IV Report was also premised on the following expectations:

- Making style and format changes will make the King IV Report more accessible to all companies and organisations;

- More succinct content and fewer principles for easier interpretation and implementation; and

- Co-creation: the drafting process has been done to be inclusive from the start of the process so as to ensure that the King IV Report is a truly co-created product.

As such, Deloitte (2016:1) claims that King IV is bolder than ever as the Code is principle-based and follows an outcome-based rather than rule-based approach. This is in line with current international sentiment which promotes greater accountability and transparency. It speaks to the expressed view that the application of the Code should contribute to the performance and health (sustainability) of the company. In this regard, it is clear that King IV aims to establish a balance between

conformance and performance. Furthermore, unlike the King I and King II Reports, both King III and King IV Reports take into account all organisations regardless of their form of incorporation (Deloitte, 2016:1; IoDSA, 2016:35; KPMG South Africa, 2013:2). According to IoDSA (2016:35), the King IV Report further broadens acceptance of corporate governance by making the King IV Report accessible and fit for application across a variety of sectors and organisational types. Consequently, the King IV Report includes supplements for specific sectors such as municipalities, non-profit organisations (NPOs), retirement funds, small and medium enterprises (SMEs) and state owned entities. In this regard, the supplements aim to provide high level guidance and direction on how the King IV Code should be interpreted and applied by a variety of sectors and organisational types (Deloitte, 2016:1; IoDSA, 2016:75). The changes in corporate governance in South Africa and abroad have necessitated revisions to codes on corporate governance.

The 21st century has been characterised by changes in business and society, including changes in financial markets. This has contributed to the rationale and development of the King IV Report on Corporate Governance in South Africa. The King IV Report, though not fundamentally different from the King III Report, aims to reinforce corporate governance as a holistic and integrated set of arrangements for the effective control of a company. The fundamental concept in the King IV is the creation of a company's value in a sustainable manner in a triple context of the economy, society and the environment. Thus the King IV Report advocates an outcomes approach (outcomes include ethical culture, good performance, effective control and legitimacy) premised on achieving principles and ultimately good governance. In this regard, the governance outcomes are the benefits that companies could realise if the underlying principles, and therefore utimately good governance, are achieved (IoDSA, 2016:36). It is evident from the espoused outcomes approach that the King IV Report considers all stakeholders and all forms of organisations making it applicable to a wider range of organisations, regardless of whether they are for profit or not. King IV equally takes into account different contexts making it easier to be applied in different countries in Africa. Veldman *et al.* (2016:5) share this view and emphasise that the goal of a company should be to create long-term sustainable value for customers and shareholders while still contributing to societal well-being and environmental sustainability. This provides an

opportunity for companies in the developing countries to take advantage of the risks and opportunities that exist in such an environment.

While King III emphasised an *apply or explain* approach, King IV advocates for an *apply and explain* approach which is an approach linked to the overall outcomes approach. The *apply and explain* approach aims at avoiding mindless compliance by the board but rather encouraging the board to implement mindful compliance. Mindful application of the principles of corporate goverance should harness the benefits of corporate governance in the interests of the companies and applying the governance code is seen as a process of adding value (IoDSA, 2016:36). Arguably mindful application of corporate governance principles would lead to a company's ability to interpret and apply codes of corporate governance in a way that is appropriate for the country, company and company sector in which it operates. This therefore makes King IV more applicable and adoptable by different companies in South Africa but also by other countries in the developing regions, such as Zambia.

While King I, II and III Reports fundamentally and explicitly make use of the term board of directors for companies, the King IV Report uses the term governing body (IoDSA, 2016:10). King IV further explains that governing body members are construed as board of directors. Furthermore, the King IV Report has adopted the use of organisation to denote that there are different sectors to which corporate governance is applicable. For example, the King IV Report views a company as a juristic person incorporated in terms of the Companies Act of 2008. An organisation is viewed as a company, retirement fund, NGO, state-owned entity, municipality, municipal entity, trust, voluntary association and any other juristic person. In this regard, this research study has deliberately adopted the term board as equivalent to governing body and company to represent the term organisation. The adoption of board and company terms is aligned to the research study that focuses on LuSE listed companies that comprise public limited companies only. In this regard, the research study does not in any way represent a departure from the King IV Report but rather uses terms that have relevance to LuSE listed companies while maintaining the principles of King IV.

PriceWaterHouseCoopers (PWC) (2017:1) in their comparison between the King III and King IV reports on corporate governance, find that both similarities and

differences are apparent. The major differences and similarites in the corporate governance principles mainly relate to governing bodies, committees of the governing bodies, group governance and audit committees. For example, Chapter 2 of the King III Report and Part 5 of the King IV Report recommend that a unitary governing body consisting of executive and non-executive members is appropriate for South African companies. Similarly King III and King IV in Chapter 2 and Part 5 respectively recommend that the board should have an appropriate balance of knowledge, skills, experience, diversity and objectivity. Further, the King III and King IV reports recommend that the board should comprise a majority of the non-executive directors, most of whom should be independent. PWC (2017:7) further highlights that both the King III and King IV Reports recommend that the board of directors should hold meetings to improve decision making and sharing of information.

King III and King IV recommend that the board should appoint the chief executive officer and establish a framework for the delegation of authority to well-structured board committees. As such, board committees are recognised as an important element of corporate governance for the companies. Despite the major similarities that exist between the King III and King IV Reports, there are a number of differences between the two reports, in that the two reports make different recommendations regarding the number of meetings to be held per year. King IV does not address the minimum number of meetings that should be held per year, while King III recommended that a board should meet as often as is required, preferably at least four times a year. Furthermore, King III clearly defined a non-executive member of the board as one who is not involved in the management of the company; whereas, King IV does not clearly define who a non-executive member of the board is as King IV applies to different types of organisations. In Part 5.3 of King IV, it is recommended that the board should consider whether or not it is appropriate to establish an audit committee, while King III recommended that a public company as well as a state-owned company, should have an audit committee in place (PWC, 2017:23).

2.6.4.3 Influence of King Reports on developing Countries

West (2006:433) suggests that South Africa, through the King Reports has greatly influenced global corporate governance through its inclusive approach to corporate governance. Miles and Jones (2009:56) contend that South Africa's corporate governance regime is comparable with most developed countries with strong and well-developed financial markets. Thus developments in corporate governance in SA have an influence in the world and in Africa in general, and particularly in Zambia. In this regard, it is paramount to include the King Reports when discussing corporate governance in Zambia. As such, the King Reports are relevant for this study in reviewing the Zambian Listed companies. One of King IV's governance outcomes is good performance to ensure sustainability of the company but also to create value for all stakeholders of the company. As the focus of this study is the performance of listed companies, the King IV, like other King reports, is relevant to this study.

2.6.5 Corporate governance in Zambia

This section discusses the developments in corporate governance, including the institutional arrangements that support the implementation of good corporate governance practices in Zambia. The need for improved corporate governance practices in Zambia is also discussed and emphasised.

2.6.5.1 The economic system change in Zambia

Prior to 1991, Zambia enjoyed a command economy that was controlled by the government. Mariel (2005:1) notes that state-owned companies, called parastatals, dominated the economy and represented 90% of Zambia's exports prior to 1991. From 1964 to 1991, the government under the leadership of Kenneth Kaunda, made efforts to change the economy from a command economy to a free market economy (Mariel, 2005:1; Mulenga, 2013:33). This initiative was faced with resistance from the mining companies in the northern part of the country that dominated the economy

(Mariel, 2005: 1) as they dominated the market and were not willing to have the market open to competition.

Mulenga (2008:19) and Chipwende (2005:17) acknowledge that prior to 1991 the concept of corporate governance was not well developed. Chipwende (2005:22) attributes this to the fact that, like in other African countries, politics played a major role in determining corporate structures and arrangements. Mulenga (2008:21) and Chipwende (2005:22) further add that the managers of the state-owned companies swore allegiance to government and ultimately managers were expected to align their operations to serve the interests of the ruling party. Consequent to this, Mulenga (2008:19) and Chipwende (2005:22) share the view that the following features were commonplace:

- Excessive political interference with day to day operations;

- Overruling board decisions for political expediency;

- Declining company performance; and

- Lack of adherence to company policies and procedures.

The new government that was ushered into power in 1991 had one great agenda to introduce the free market economy resulting in the liberalisation of the economy. According to Mariel (2005:1), the liberalisation brought about privatisation of the state-owned companies, the most significant among them being the mining giants. This was a shift from state ownership of the shares of the companies to placing the shares into the private hands to ensure economic growth in the country. As argued by Mulenga (2008:22), this was done in the spirit of ensuring that the companies are efficiently and effectively run to make the companies more profitable than before privatisation. The biggest challenge remained companies' adoption of best practices in order to reverse the poor performance and report profits (Mulenga, 2008:22). In response to this call, the OECD (2012:8), Mulenga (2008:25), Kaunda (2007:28), Chipwende (2005:19) and IoDZ (2004:4), emphasised the Zambian government's recognition of the importance of entrenching high corporate governance standards in the conduct of business affairs in the Zambian companies. The Zambian government has therefore been eager to develop and improve best practices of corporate

governance by developing institutional arrangements that help to support implementation of best corporate governance practices in the companies.

2.6.5.2   Zambia's social and economic development

At the end of 2017, Zambia's annual population growth was 4.2% with a total population of 16,405,229 (Central Statistics Office (CSO) of Zambia, 2017:10). Like other developing countries in Africa, Zambia faces economic challenges such as the depreciation of the local currency, electricity shortages and poor infrastructure, which considerably affect Zambia's ability to achieve its development goals (World Bank, 2017:1). Additionally, the unemployment and poverty rates remain high at 71.6% and 57.5% of the population, respectively (United Nations Development Programme (UNDP), 2019:38; CSO, 2018:1). In this regard, the poverty rate is viewed as the number of people that live on United States $1.90 or less per day. However, Zambia has developed short-term, medium-term and long-term goals to address its development deficits, ranging from high poverty, unemployment and mortality rates to high inequalities in gender-related income. Zambia has developed the Seventh National Development Plan (7NDP) that aims to reduce poverty through economic diversification and growth (Ministry of National Development Planning, 2017). Furthermore, Zambia has put in place a long-term plan called Vision 2030. Vision 2030 aims to achieve socio-economic transformation to enable Zambia to become a prosperous middle-income country and to provide opportunities for improving the well-being of all its citizens (United Nations Zambia, 2016:9; Government of the Republic of Zambia, 2015:1). Central to achieving these goals is the development of the financial markets in Zambia. The financial performance of listed companies can therefore play a crucial role in reaching the developmental goals of Zambia (refer to Section 3.5).

2.6.5.3   **Institutional frameworks for corporate governance in Zambia**

As discussed in Section 1.2, Zambia is a developing country with great potential for economic growth and development. Corporate governance in Zambia, particularly in the private sector, is still developing. Corporate scandals in Zambia have not been as rampant as in the USA, UK and Asia (Mulenga, 2013:19; Chipwende, 2005:22). According to Mulenga (2013:19), one of the few corporate scandals includes the collapse of Zambia Meridian BIO Bank in the early 1990s, which could now largely be attributed to a lack of good corporate governance practices. Following the change in government in 1991, the Zambian government learnt its lessons and began to develop economic policies to liberalise the economy. Among the economic policy changes was strengthening existing, and establishing, new measures to support good corporate governance in Zambia (Mulenga, 2013:23). The measures include the Companies Act No 26 of 1994, Patents and Company Registration Agency (PACRA), Banking and Financial Services Act (BFSA), SEC, Pensions and Insurance Authority Act administered by Pensions and Insurance Authority (PIA), ZICA and IoDZ.

In Zambia, the Companies Act No 26 of 1994 Chapter 388, constitutes the principal statutory corporate governance framework (Mulenga, 2013:17; OECD, 2011:68). The Companies Act provides regulations for the formation, administration and winding up of registered companies (OECD, 2012:108). According to the OECD (2012:110), the Companies Act set minimum standards relating to corporate governance practices that must be included in the Articles of Association before a company is registered. The Companies Act is administered and implemented by PACRA. The financial institutions in Zambia are regulated under the BFSA and are subject to stringent corporate governance standards that are enforced by the Bank of Zambia (BoZ) (OECD, 2012:108). The SEC regulates the financial market whereas PIA administers and implements the Pensions and Insurance Act of 1997 (OECD, 2012:108). ZICA is a professional institution that regulates the conduct of all professional accountants and auditors (Mulenga, 2013:17; OECD, 2012:108). Other institutional frameworks include IoDZ, a professional body accredited to the UK Institute of Directors, responsible for training in corporate governance to raise awareness on best practices (Mulenga, 2013:17; OECD, 2011:68). The purpose of

the institutional frameworks is to promote good corporate governance for the achievement of company goals and contribution to the improvement of the Zambian economy, leading to improved living standards of Zambian people (OECD, 2012:108). The measures and institutions aim to strengthen Zambia's policy framework for investment and to enable private business to grow (OECD, 2011:5). Additionally, such measures and institutions strengthen governance systems that would enhance accountability and improve company performance (Mulenga, 2013:28; OECD, 2012:7).

The Zambian Companies Act of No 26 of 1994, which is the principal statutory framework of corporate governance (Mulenga, 2013:17; GRZ, 2008:8), mirrors that of the UK. LuSE issued a corporate governance code in 2005 (LuSE, 2013:1; African Development Bank, 2003:25). The code was largely influenced by the South African King Reports on corporate governance (Mulenga, 2013:25). Similar to other countries (USA, UK, Malaysia and South Africa), the introduction of the LuSE Code of Corporate Governance was as a result of a growth in financial markets, changes in international corporate governance codes and the need to improve Zambia's economy. Albeit there have been changes in the Zambian economy, the global economy and international governance codes, the LuSE Code of Corporate Governance has not been revised since its establishment and issuance in 2005 (Mulenga, 2013:29). The need to review and improve the LuSE Code of Corporate Governance has become necessary (Mulenga, 2013:38).

2.6.5.4 The need for improved corporate governance in Zambia

The need for improved corporate governance in the competitive global economy is a challenge that every company must embrace to ensure continued existence of the company (Sarbah & Xiao, 2015:41; Shungu, Ngirande & Ndhlovu, 2014:1). Zambian companies equally face this challenge in order for them to attract and retain investments from local and international investors (Mulenga, 2013:19; OECD, 2012:9). According to the OECD (2012:7), Zambia has scored high on global corporate governance indicators as the country has an effective legal framework to protect shareholder rights. However, the corporate governance practices particularly the board structures, leave much to be desired (Mulenga, 2013:22). This is in the

light of the poor performance of Zambian mining companies that has been attributed to poor business practices and poor management (Kabaila, 2014:5; Lusaka Times, 2013:1).

The Zambian Minister of Commerce, Trade, and Industry has called for good corporate governance to attract significant investment that should in turn lead to industrialisation and employment creation for citizens (Mugala, 2015:28). Consistent with this view, the OECD (2012:10) maintains that the degree to which companies observe basic principles of sound corporate governance is a determinant of investment decisions influencing the confidence of investors and the cost of capital.

The OECD (2012:12) further remarks that observance of best practices determines the overall functioning of the financial markets and ultimately the development of more sustainable sources of financing. The quest for better corporate governance practices for improving the performance of companies in Zambia needs to be addressed. In Zambia, like in other countries in Sub-Saharan Africa, the relatively poor performance of the corporate sector has made corporate governance a catchphrase (Sarbah & Xiao, 2015:45).

The OECD (2011:68) and Mulenga (2013:17) propound that Zambia's Companies Act No 26 of 1994 provides the basis, or authority, for the LuSE corporate governance code and it can therefore be construed that corporate governance is part of the law. The Companies Act outlines the legal duties of directors of companies and as such, directors direct and control companies by discharging their legal duties. It is thus argued that corporate governance has a link to the law of a country. This makes it imperative to discuss the reationship between corporate governance and the law.

2.7   Corporate governance and the law

According to the IoDSA (2009:6), a link exits between good governance and compliance with the law; and good governance is not something that exists separately from the law. As such, it could be inappropriate to unhinge governance from the law (Mulenga, 2013:25). The boards of directors, who are the primary focus

of corporate governance, derive their legal responsibilities from the law (Mulenga, 2013:18; GRZ, 2008:5). The law, as provided in countries' Companies Acts, such as Zambia and South Africa, specifies their duties as the duty of care, skill and diligence, and the fiduciary duties (Mulenga, 2013:9; IoDSA, 2009:6; RSA, 2009:1; GRZ, 2008:12). It is therefore evident that corporate governance cannot be separated from law.

In the USA, the SOX which adopts a rule based approach to corporate governance, is in itself law (Jackson, 2010:22), emphasising that corporate governance is part of the law. In the UK and SA corporate governance takes the form of a principle based approach to corporate governance. However, the legal duties and responsibilities of the directors in the UK and SA are enshrined in the Companies Acts (FRC, 2014:5; KPMG, 2013:22; Institute of Directors United Kingdom (IoDUK), 2010:3) and as such corporate governance in this regard, forms part of the law. FRC (2014:12), KPMG (2013:7) and IoDUK (2010:14) resonate with this and further hold that the Combined Code and the King Reports' developments have been partially informed by the changes in the Companies Acts in both countries. Similarly, in Zambia the legal duties and responsibilities are enshrined in the Zambian Companies Act of 2008 (Mulenga, 2013:9 and GRZ, 2008:14) requiring that companies comply wth the law with regard to governing of the companies through the establishment and maintenance of corporate governance structures. It is thus inferred that corporate governance is part of the law.

2.8   Conclusion

Chapter 2 aimed to discuss the concept of corporate governance in general, while emphasising the different theoretical frameworks on corporate governance, and corporate governance structures including their importance. It has been acknowledged that corporate governance is interdisciplinary in nature, comprising disciplines such as law, finance, economics, organisational behaviour, management, ethics and politics, which have been explored in great detail. The theoretical frameworks have included agency, stewardship, shareholder primacy, stewardship,

stakeholder, transaction cost, resource dependency, social network, political, legitimacy, managerial and class hegemony, imperialism and imperial and socialist theories highlighting their benefits and drawbacks. Furthermore, the chapter has provided the rationale for the adoption of the stakeholder theory that incorporates the stakeholders, cognisant that shareholders are not the only stakeholders of the company. As listed companies have different stakeholders with varied interests, it is argued that such stakeholders can influence the financial performance of LuSE listed companies. In this regard, the stakeholder theory has been argued and motivated to be the appropriate foundation theory for investigating the relationship between corporate governance structures and the financial performance of LuSE listed companies. With the recognition that company performance, particularly long-term success of the company is everyone's responsibility in the company, the importance of corporate governance has been explored. Furthermore, as the study is informed by the stakeholder theory of corporate governance, the questions in the interview schedule (Appendix 3) and SAQ (Appendix 2) are structured on the stakeholder theory.

The chapter further discussed corporate governance approaches that include rules based and principles based approaches. It is argued that the rules based approach is the unique feature and hallmark of USA corporate governance administered through SOX of 2002. The benefits of SOX include improved corporate governance and enhanced independence of auditors, while recognising that the costs of compliance with the SOX Act are high for small companies. The other approach, namely principle based, adopted by the UK, South Africa and Zambia, offers benefits such as contexualised application of the principles, self-regulation and promotion of good corporate governance practices. In addition to the discussion on the rule based and principle based approaches to corporate governance, the chapter has argued that corporate governance cannot be separated from the law as the directors' legal duties are embedded in the respective Companies Acts (for example the UK, South Africa and Zambia).

Chapter 3 discusses the relationship between the corporate governance structures and company financial performance. In order that the relationship between the two is discussed adequately, Chapter 3 will explore theories on company performance with an emphasis on financial performance as measured using financial measures.

CHAPTER 3: COMPANY PERFORMANCE AND CORPORATE GOVERNANCE

3.1 Introduction

This chapter on company performance and corporate governance will cover two key areas of the research. The first section will discuss the company's mission to provide the basis for a detailed discussion on performance theories including measures of company performance. In particular, financial and non-financial measures will be covered; highlighting their benefits and drawbacks with regard to performance evaluation of a company, while providing the motivation for ROCE and Tobin's Q as measures of financial performance for this study. The second part of the chapter will discuss the internal corporate governance structures which include the board of directors and managerial ownership. Finally, the chapter discusses how the identified internal corporate governance structures relate with a company's financial performance. This chapter will mainly focus on the relationship between internal corporate governance structures and financial performance of a company.

3.2 Company performance

Every company has its own mission to explain reason why the company exists. A further explanation denotes that a company's mission guides strategic decisions and provides values and a sense of direction. Once the direction of a company is set, it is important to monitor the attainment of the objectives of the company to assess how well a company is doing in the light of its mission (BPP, 2013:38). Niedritis *et al.* (2011:1) emphasise that having a clear vision and mission of the business is necessary not only to understand the current situation but also, to continue the improvement of business processes. Therefore, companies should monitor their performances with a long-term perspective informed by their mission statements.

The assessment of the performance of a company is critical in ensuring that a company's objectives are achieved. Performance may mean different things to different people or organisations depending on, among other factors, the context in which it is discussed. Neely (2004:79) describes performance as one of those "suitcase" words in which everyone places concepts that suit them, letting the context take care of the definition. According to Elger (2006:11), the word *perform* means to produce valued results. Furthermore, performance relates to a complex series of actions that integrate skills and knowledge to produce a valuable result. Almajali *et al.* (2012:268) resonate with this and further add that company performance is essential to management, as it is an outcome which has been achieved by an individual or a group of individuals in an organisation related to its authority and responsibility. Consistent with this view, Omondi and Muturi (2013:99) and Iswatia and Anshoria (2007:1) have suggested that performance is the function of the ability of an organisation to gain and manage the resources in several different ways to develop competitive advantage. Nuryaman (2012:4) agrees with this view and further claims that performance refers to the description of the level of achievement of the implementation of an activity or programme in realising the goals, objectives, mission and vision of a company. Jean-Francois (2000:6) equates performance to organisational effectiveness and argues that the two are interchangeably used. It is further argued that performance reflects a construct perspective in which the focus is on the definition of the concept in terms of assessment and conceptualisation.

Performance is therefore concerned with outcomes and accomplishments of a company's operations. Elger (2006:14) concludes that performance is a journey but not a destination. This entails that there are many processes that happen, such as learning, to achieve company performance objectives. The foundation of the theory of performance is management accounting, which is influenced by organisational theory (CIMA, 2008:15; Jean-Francois, 2000:3). It is recognised that the contemporary economic environment represents a source of pressure on every aspect of the organisation; including its operations. Although the theory of performance is fundamentally based on management accounting literature, other fields such as organisational theory, operation and production management, psychology, strategic management and finance have contributed to the development

of current knowledge on performance theory (Jean-Francois, 2000:1). This is partly because management accounting is significantly driven by changes in practice (Ittner & Larcker, 2001:349; Jean-Francois, 2000:9). The theory of performance is thus a diverse area and a relative concept requiring judgement and interpretation (Neely, 2004:92).

3.3 Company performance measurement

The world economy has continued to grow in leaps and bounds. With increasing competition in the business environment (Niedritis, Niedrite & Kozmina, 2011:1) coupled with improved technology in the information age (List & Machaczek, 2002:1), it is critical for companies to assess their performances. Ong and Teh (2008:2) resonate with this and further hold that due to the globalisation and liberalisation of world markets, competition faced by organisations becomes more and more intense; and the pressure to perform better is unavoidable. For any business, it is normal practice to consistently measure the performance of its operations over a regular period.

Davies and Callan (2014:3), the Australian Council for International Development (ACFID) (2014:3), Osemeke (2011:178) and Stampini (2011:1), have argued that private sector companies are the main mechanism of economic growth for both developing and developed economies. Osemeke (2011:178) claims that in Africa the private sector contributes to economic growth and development, which aim at proper resource allocation and alleviating poverty. Consistent with this observation, the AfDB (2013:37) adds that the future of African economic growth, and the future of millions of Africans and thousands of African communities, is closely tied to the private sector. It is therefore critical for the private sector to measure its performance to ensure fulfilment of its major role in the economy. As for every organisation, whether public or private, profit or non-profit, the achievement of set objectives is critical for ensuring competitive advantage and continued existence (Marr, 2014:8; Botten, 2008:416; Behn, 2003:586).

The purpose of measuring performance of a business is to gauge achievement against set goals, in an effort to realise the mission of the company. According to Kennerley and Neely (2003:214), the overall aim is to assess the success of the organisation. Behn (2003:599), as well as Kennerley and Neely (2003:213), document that what gets measured, gets done.

Performance measurement has attracted growing attention since the 1990s (Pfefferkorn, Bititci and Jackson, 2017:1; Jean-Francois, 2000:1). Mathews (2011:84) advocates that performance is measured through the use of performance measurement, which is a metric used to quantify the efficiency or effectiveness of an activity. Nuryaman (2012:4) as well as Kurien and Qureshi (2011:20), view performance measurement as the process of quantifying the efficiency and effectiveness of an action. CIMA (2008:1) viewed performance measurement as the process of assessing the proficiency with which a reporting entity succeeds, by the economic acquisition of resources and their efficient and effective deployment in achieving its objectives. The United States Department of Health and Human Services (2011:1) has added that the process includes monitoring important aspects of a company's activities, systems and processes. In these definitions, the word *process* dominates the definitions and according to Jean-Francois (2000:7), performance endorses a process perspective where the focus is on the internal process of quantifying the effectiveness and the efficiency of action with a set of metrics. According to Venanzi (2012:9), performance measurement systems play a key role in developing strategic plans, evaluating the achievement of a company's objectives and rewarding managers. Despite the attention and its growing importance, performance measurement has created challenges for companies particularly when it comes to choice of performance measures to adopt (Venanzi, 2012:9).

As discussed, monitoring of company performance is critical for every company regardless of its size and nature. In the private sector, the survival of a company depends on its ability to both evaluate current performance and identify strategies to improve the quality of planning and control decisions (Ismail, 2007:503). Companies use measures of performance to assess their own performances. According to List and Machaczek (2002:1), measurements are critical, and if it cannot be measured, it cannot be controlled; if it cannot be controlled, it cannot be managed; and if it cannot

be managed, it cannot be improved. CIMA (2002:2) holds that performance measurement is of key importance in ensuring the successful implementation of an organisation's strategy. It is about monitoring an organisation's effectiveness in fulfilling its own predetermined goals or the requirements of stakeholders (CIMA, 2002:2). The development of a performance framework is critical for every company so that its performance is assessed.

The South African Department of Trade and Industry (DTI 2009:8) advises that a good performance framework should focus on the customer and should measure the right things. This is because customers are the reason why companies exist, to produce goods or provide services to the customers at a cost so as to provide a return on investment. Certain key steps need to be followed to ensure strategic objectives of the company are converted into desired standards of performance. The DTI (2009:17) further contends that performance metrics should be developed to compare with actual results, gaps are identified and improvement actions initiated. The key steps as per Figure 5, include to establish key goals, to establish metrics, to understand performance and to initiate improvement.

This study will focus on the relationship of corporate governance structures and financial performance of listed companies. Measuring financial performance of companies results in assessment of how well the company's financial resources have been utilised in meeting the goal of value creation (Ogilve, 2008:4; Potton, 2005:5). In this regard, the intent is to esablish how the internal corporate governance structures reate with the financial performance of a company.

Figure 5:   Key steps in a performance measurement framework

Source: DTI (2009:7).

As this research study focuses on the LuSE listed companies that operate in the capital market discussing the background and importance of the capital market is relevant for this study. This is because the framework within which the LuSE companies function is imperative in understanding their operations but also the motivation for this study in Zambia.

3.4   Capital markets and their importance

According to Jalloh (2009:1), capital markets are markets that mobilise long term debt and equity finance for investments in long term assets. Capital markets also help to strengthen corporate financial structure and improve the general solvency of the financial system (Jalloh, 2009:1). Masoud (2013:789) claims that capital markets are central to the creation and development of strong and competitive economies. Capital markets comprise both equity and bond markets (Spratt, 2009:6). According to Musonera and Safari (2008:63), a stock exchange, or stock market, is an organised market for the trading of shares, bonds and other securities. It is argued that a stock market can provide a mechanism through which companies

can raise capital for expansion purposes by selling and issuing securities (Musonera & Safari, 2008:63).

Ishioro (2013:344) documents that stock markets have played fundamental and pivotal roles in the growth and development of the economies of industrialised, developed and developing countries. Mupeseni (2014:1) holds a similar view and further postulates that a vibrant capital market is a catalyst for enterprise development in any country as it offers opportunities for the local and foreign investors to own shares in companies. In this regard, capital markets are particularly important for spurring economic growth in both developed and developing countries. This is mainly because capital markets provide long term financing for economic growth and development. From the foregoing it is argued that the LuSE stock market is consequently essential for the economic growth and development of Zambia. Accordingly, the performance of LuSE listed companies is of interest to all stakeholders including shareholders, lenders, employees, suppliers, government and communities, amongst others.

3.5   Financial performance of LuSE listed companies

As capital markets, such as LuSE, are essential for economic growth and development (Mupeseni, 2014:1; Ishioro, 2013:344) an evaluation of the financial performance of the LuSE listed companies is important for all the stakeholders who have an interest in the LuSE listed companies. The economic activities of the listed companies operating in different sectors in Zambia play a critical role in the economic growth and development of Zambia. According to LuSE (2016:1) the sampled 19 LuSE companies belong to different sectors of the economy. The 19 LuSE listed companies sampled for this research operate in different sectors as per Appendix 5.

According to Odalo, Achoki and Njuguna (2016:34), stakeholders such as shareholders, suppliers, employees, customers and the government, amongst others, are usually interested in the financial performance of companies. Thus, a company's financial performance is critical to stakeholders and the company's health

and survival (Ayako *et al.,* 2015:84). The interests of the stakeholders are wide-ranging; for example, shareholders and lenders are interested in the return on their investments, while suppliers are interested in continued business and receiving payments on time. Employees are keen to see job security and payment of their salaries and wages, customers hope for provision of quality products and services (Mirza & Javed, 2013:43), whereas the government is concerned about compliance with the laws such as company tax obligations and also about the creation of jobs for its people. It is, therefore, argued that company performance is a multi-faceted phenomenon that involves all categories of stakeholders and represents an essential initiative to control and implement long-term strategies (Vintilă and Nenu, 2015:732).

Omondi and Muturi (2013:99), furthermore, acknowledge that given the increasing trend of sudden corporate failure in both global and local contexts, shareholders and other stakeholders are increasingly becoming concerned about the financial performance of companies. Similarly, Al-Matari *et al.* (2014:26) argue that the measurement of financial performance can offer significant information to allow managements' monitoring of performance, reporting progress, improved improving motivation and communication and the pinpointing of problems. With the wide range of stakeholders of the LuSE listed companies in Zambia and the need to grow and develop Zambia's economy, measuring the financial performance of the companies is vital. Additionally, the growth and development of the Zambian economy is at the heart of Zambia's economic policies - aimed at eradicating poverty and inequalities in income and gender (Ministry of Finance (MoF) Zambia, 2015:1).

The evaluation of the financial performance of LuSE listed companies is not only relevant, but essential for the development of the country as a whole. For this research study only financial performance will be assessed. Consequently the corporate governance structures will be discussed in terms of their relationship with the financial performance of the LuSE listed companies for the financial years from 2009 to 2017.

The LuSE listing requirements prescribe that each company should prepare annual reports that include among other reports, the financial report. The listing requirements do not require LuSE listed companies to prepare social reports such as corporate social responsibility reports. However, some companies do prepare social

responsibility reports as part of their annual reports documenting how they were involved with community, but with inadequate information regarding corporate social responsibility costs. As such, the social performance of the LuSE listed companies has not been included in this research study. However, as discussed in Section 6.13.11 the adjusted framework includes recommendations from the international literature, and more specifically the King IV Report on Corporate Governance, to encourage corporate social responsibility reporting by LuSE listed companies as well as to encourage the application of international best practices.

3.6 Financial performance measurement

The aim of making any investment is to make an acceptable return on it. As mentioned earlier, according to Ogilve (2008:4) and Potton (2005:5), the main strategic objective for a profit-making entity is to optimise the wealth of the owners/shareholders. This could also be achieved by ensuring the interests of other stakeholders such as suppliers, customers, pressure groups and government are met.

Kangarlouei, Azizi, Farahani and Motavassel (2012:407) documented that the measurement of companies' financial performance is one of the most important concerns in the financial and economic world, considering the development and importance of capital markets' role. This is premised on the understanding that one of the most important goals of a company as an enterprise, is to make profit in the short term and increase the owners' wealth in the long term. The aim of measuring financial performance of a company at regular intervals is to monitor progress of the company in terms of meeting the financial objective of maximising the shareholders' wealth (Ogilve, 2008:4), and by extension meeting the interests of other stakeholders.

Traditionally, ratio analysis (accounting ratios) has been employed to analyse the financial performance of the companies (BPP, 2013:540 and Collier, 2006: 87). This measurement method incorporates historical information, for instance measuring the

financial performance of a company over the past year. Other measurement methods have concerned the value of the companies so as to determine whether there has been an improvement or reduction in the value of the investments (Collier, 2006:87). This study focuses on the relationship between corporate governance structures and the financial performance of the listed companies in Zambia. The research study as discussed in Chapter 1 and the subsequent sections will make use of financial measures which include ROCE and Tobin's Q. The two measures will be used as dependent variables and as proxies of financial performance and will be discussed in more detail.

As businesses, companies set objectives in order to fulfil the reason why they exist. In order to check their progress in achieving their objectives they rely on measures of performance. Protiviti (2010:1) documents that many companies face an increasingly complex environment, making the simultaneous execution of strategy and management of risk extremely challenging. As such, companies are challenged on multiple levels to identify and implement the right metrics that will allow the company to measure and monitor performance and risk in a consistent fashion (Protiviti, 2010:1). According to the US Office of Financial Management (OFM) (2009:1), a performance measure or metric is a numeric description of a company's work and results of that work. Niedritis *et al.* (2011:1) and OFM (2009:1) contend that in technical terms a performance measure is a quantifiable expression of the amount, cost, or result of activities that indicates how much, how well, and if progress is being made toward attaining policy or company goals. Performance measures would thus be quantifiable indicators primarily used to assess how a company is doing in relation to achieving its objectives. Mathews (2011:86) stipulates that the real value of performance measures is gained when a company goes through a planning process that identifies the performance measures that are linked to the company's vision, goals and objectives. If the performance measures are used to indicate achievement of a company's objectives they should therefore play a critical role in the operations of the company. In this regard, Mathews (2011:86) claims that performance measures would enable companies to:

- Identify areas of improvement;

- Establish how customers perceive the company's products and service;

- Assess the effectiveness of internal controls of the company; and

- Establish how much value is created for shareholders and other stakeholders.

In order that the expected performance is appropriately measured, the DTI (2009:4) and OFM (2009:4) emphasise that performance measures must be:

- Meaningful, unambiguous and widely understood;

- Managed by the teams within the company;

- Based on a high level of data integrity;

- Such that data collection is embedded within the normal procedures;

- Able to drive performance;

- Linked to critical goals and key drivers of the company; and

- Cost effective – must justify the time and effort to collect, record, display and analyse the data given the measure's value.

General Electric Company (2015:1) echoes this and further claims that good performance measures are those that communicate to senior management whether the company is progressing toward stated goals or not. General Electric Company (2015:1) cautions that one-size-fits-all measures should not be used, but rather multiple measures should be established to measure different important aspects of the operations of a company. As companies differ in size and nature; different measures of performance exist. According to Aliabadi, Dorestani and Balsara (2013:22), the main types of performance measures include financial and non-financial measures, which will be discussed in more detail the next section.

Ong and Teh (2009:23) claim that financial measures have long been the foundation for business performance measurement. Kennerley and Neely (2003:214) echo this and hold that since the Middle Ages, assessment of performance has predominantly been based on financial criteria. Ong and Teh (2009:24) further explain that financial measures express the performance and achievement in monetary terms, included in the chart of accounts, and provide a high level of aggregation of information and more importantly, are well-recognised and follow the rules of Generally Accepted

Accounting Principles (GAAP). Consistent with this view, Alrafadi and Yusuf (2011:618) view financial measures to consist of financial ratios. According to BPP (2010:529), financial measures are based on the annual reports or accounts of the company and basically comprise ratio analysis and value-based measures (Venanzi, 2012:9). The value-based measures such as economic value added (EVA), economic margin (EM) and cash value added (CVA) focus on shareholder value as a primary long term objective of the company.

The use of financial measures is wide-spread. As argued by Ong and Teh (2009:24), financial measures are popular measures of the performance of companies. In this regard, financial measures offer many benefits to companies. According to Ndlovu (2010:2), financial measures are reliable, enable comparability of results among companies and are well accepted by a multiplicity of stakeholders. Neely (2004:20) summarises by stating that financial measures provide substantial insight into the overall influence of the operations of a company. Alrafadi and Yusuf (2011:618), as well as Ong and Teh (2009:23), agree with this and add that financial measures are easy to use by management and stakeholders. Despite the many benefits that the uses of financial measures offer, there are also limitations. According to Aliabadi *et al.* (2013:22) as well as Alrafadi and Yusuf (2011:620), some of the major limitations include:

- Considerable subjectivity as there is no theory as to what should be the appropriate number for the various ratios;

- Some financial measures are based on annual reports that reflect the past only and are not an indication of the future;

- As accounting standards and practices vary across countries, meaningful global comparisons of results are hampered; and

- It encourages short termism (focusing on short term investments at the expense of long term investments) or myopia on the part of management.

The simplicity and comparability of information of ratio analysis makes it a popular measure of performance among companies. As such, ratio analysis is widely used despite its shortcomings. Some of the major financial performance measures can

broadly be classified as accounting-based ratios and value-based (market-based) measures.

3.6.1 Accounting-based ratios

According to BPP (2010:529) accounting-based ratios are based on the financial statements in the annual report of the company and predominantly used to determine trends by comparing the current year with the prior years. Figure 6 provides an analysis of these ratios broadly classified as profitability, liquidity, management efficiency, risk (solvency) and investor ratios (Ongore & Kusa, 2013:1; Almajali, Alamro & Al-Soub, 2012:268; Alrafadi & Yusuf, 2011:1; BPP, 2010:529; Ong & Teh, 2009:3).

As argued by Almajali *et al.* (2012:268) ROCE is a simple ratio that is easily understood by the stakeholders of a company. As such, its simplicity leads to a wide application in assessing a company's financial performance.

Figure 6: **Financial measures in perspective – accounting-based ratios**

Profitability
- Profitability ratios measure the operating success of a company for a given period of time.
- Some examples include gross profit, return on assets, return on equity (ROE) and return on capital employed (ROCE). ROCE measures how efficiently and effectively mangement has deployed the resources available to it.

Liquidity
- Liquidity ratios measure the company's ability to pay its maturing oligations and to meet unexpected cash need in the short run.
- Examples include current and quick ratios.

Management Efficiency
- Management's efficiency in managing a company's working capital is essential to the company continuing operations.
- Examples include debtors collection and creditors payment periods expressed as time to collect cash and make payments respectively.

Solvency (Risk)
- Solvency ratios measure the company's ability to survive over a long period of time.
- Examples include gearing (expressed long term debt divided by long term capital) and interest cover (profit before interest divided by interest charge).

Investment
- Investment ratios are ratios that use the current market price of a share to indicate the return an investor might earn by purchasing that share.
- Examples include earnings per share, price/earnings ratio and dividend yield.

Source: Graphical compilation based on Ongore and Kusa (2013:1), Almajali *et al.*, (2012:268), Alrafadi and Yusuf (2011:1), BPP (2010:529) and Ong and Teh (2009:3).

3.6.1.1   *Return on capital employed (ROCE)*

Omondi and Muturi (2013:99) and Almajali *et al.* (2012:268) point out that there are many measures of financial performance that are fundamentally based on three dimensions. These are the company's productivity and processing efficiency (in terms of its inputs and outputs), profitability and market value. Therefore, a core test of success for a business is whether one dollar invested in the company generates value of more than one dollar in the marketplace (Mauboussin & Callahan, 2014:2). In this regard, success of the company is basically explained by its performance over a certain period of time (Al-Matari *et al.*, 2014:25). It is argued that the financial objective of the company is to maximise the wealth of shareholders through maximisation of profits so that the investments in the company grow. The profitability of a company becomes an essential issue for consideration by various stakeholders. One of the ways of assessing the profitability of a company is through the use of accounting ratios such as the ROCE.

Wallace (2012:3) views ROCE as a measure of business efficiency and a function of profitability and activity. Profitability is a measure of how much a business is earning before interest on debt and tax (earnings before interest and tax or EBIT) (Wallace, 2012:3). According to Hamidah (2015:3) and Weetman (2003:363), ROCE is the ratio which measures the performance of a company as a whole in using all sources of long term financing. Hailemariam and Hagos (2010:5) hold the same view and add that ROCE is a ratio which measures the relationship between profit and long-term capital employed in the company. ROCE reflects the earning power of the company and shows how efficiently a company is using its resources (Hailemariam & Hagos, 2010:5). Similarly, Hamidah (2015:3) states that ROCE links the returns generated to the capital employed. In this regard, given that the company's goal is to increase profits, then the maximum ROCE indicates that the company has been able to improve efficiency in the utilisation of funds and capital (Hamidah, 2015:3).

According to Weetman (2003:363), ROCE can be formulated as the profit before interest and tax used as the numerator in determining the company's operating results or return on capital employed. ROCE is computed as the profit before interest

and tax, divided by the difference between total assets and current liabilities (Hailemariam & Hagos, 2010:5).

As LuSE listed companies are public companies with audited financial reports available on their websites and on the LuSE website, information relating to profit figures and the capital employed values for the financial years from 2009 to 2017 is available and accessible. This will not only enable computations of the ROCE ratio figures for the periods for all the 19 LuSE listed companies but will also enable comparison among the companies and also across sectors of companies over the research period.

In this regard, the chief advantage of ROCE lies in its simplicity given that the formula is easy to understand and to compute. Additionally, the LuSE listed companies prepare financial reports in a standard format as required by the LuSE and use of ROCE will facilitate the assessment of the relationship between corporate governance structures and financial performance of the companies. Many authors (such as Muravyev, Talavera & Weir, 2014:20; Alhaji, Baba & Yusoff 2013:110; Chechet, Yancy & Akanet, 2013:41; Iwu-Egwuonwu, 2010:195; Jackling & Johl, 2009:494; Hu & Izuminda, 2008:73; Alonso-Bonis & Andrés-Alonso, 2007:206; Mak & Kusnadi, 2005:301; Capozza & Seguin, 2003:367; Welch 2003:287; Demsetz & Villalonga, 2001:209) have selected ROCE when investigating the relationship between corporate governance and financial performance in both the developed and developing countries. Consequently with these authors, ROCE has been selected for this research study. In addition, given that the ROCE ratio reflects profitability of the company and considers the total capital employed, interests of stakeholders are considered. Accordingly, ROCE becomes an appropriate measure of performance for this study, given the many and varied stakeholders of LuSE listed companies.

3.6.2 Market and value-based measures

Venanzi (2012:5) has argued that while traditional accounting measures such as earnings per share, return on capital employed and return on investment are the most common performance measures, they have been criticised for not taking into

consideration the cost of capital and for being influenced to a great extent by external reporting rules. In this regard, the market-based and value-based measures should be considered to improve financial measures. The following are considered as the main market and value-based measures:

Market-based measure

- Tobin's Q – is a ratio that refers to a traditional measure of a firm's expected long-run performance which takes into account the maket values of shares, debt and assets of the company (Al-Matari *et al.*, 2014:33). The market values of shares and debt represent the values of shares and debt determined by the stock markets where the companies are listed. In this regard, Tobin's Q is regarded as a market-based measure of financial performance.

Value-based measures

- Economic value added (EVA) – EVA a modified version of residual income: the main modifications consist of accounting adjustments designed to convert accounting income and accounting capital to economic income and economic capital, respectively. EVA equals net operating profit after tax less cost of capital charge multiplied by capital invested.

- Shareholder value added (SVA) - SVA is based on discounted cash flow that takes into account the time value of the investments (funds).

- Economic margin (EM) - based on economic profit to enable managers to focus on value creation for the company.

- Cash value added (CVA) - The CVA is based on a net present value (NPV) model which equally takes into account the time value of money invested into the company.

Venanzi (2012:5) holds that the market and value-based measures serve as improved financial measures that aim to meet the ever evolving needs of different stakeholders of the company. This study will specifically employ Tobin's Q for reasons that will be discussed in the section that follows.

3.6.2.1   Tobin's Q

As LuSE listed companies are public companies whose shares are traded publicly, the prices of their shares are in the public domain. Availability of share price information enables the public to make informed decisions regarding the purchase of the shares once floated on the market; but such information also enables companies to sell the shares. The marketability of the shares is a chief advantage of investing in public companies. Al-Matari *et al.* (2014:33) and Wahla, Shah and Hussain (2012:6-13) contend that market-based measurement is characterised by its forward-looking aspect and its reflection of the expectations of the shareholders concerning the company's future performance, which has its basis on previous or current performance. According to Al-Matari *et al.* (2014:33), Tobin's Q refers to a traditional measure of expected long-run firm's performance. This is premised on the view that the employment of the market value of equity may present the firm's future growth opportunities which could stem from factors exogenous to managerial decisions (Al-Matari *et al.* 2014:33; Shan & McIver, 2011:301).

Sauia and Castro (2002:303) contend that Tobin's Q is the ratio between the market value of the firm's assets and the replacement value of its assets. The company's market value is calculated as being the algebraic sum of the market value of the shares (MVS) plus the market value of the debts (MVD), that is to say, the capital owned by the company plus the capital of third parties. The replacement value of the assets (RVA) is given by the monetary disbursement needed to purchase the production capacity of the company with the most modern technology available for a minimal cost (Sauia & Castro, 2002:303). In this regard, Sauia and Castro (2002:303) expressed Tobin's Q as the sum of MVS and MVD, divided by RVA.

Sauia and Castro (2002:303) further argue that the use of Tobin's Q permits researchers to study not only the results produced in the companies (past performance) but also to point to growth opportunities in accordance with the value of Q (future performance). Shan and McIver (2011:309) highlight the main drawbacks of the use of ROCE that include manipulation of profitability figures and that it is backward looking as it is based on historical data. Investors such as shareholders and lenders of finance may be interested in the market value of the

company as a whole, to determine whether their investments produce expected returns or not. In addition, the current market value of their investments would help investors in their decision making with regard to the expected value growth of their capital if they were to sell their investments. However, Tobin's Q can be problematic. According to Bartlett and Partnoy (2018:1) many of the problems arise because regressions that have, as their dependent variable, a ratio with book value in the denominator are likely to produce biased estimates, due to both omitted assets and time-varying, firm-specific characteristics that can systematically alter a firm's book value. Similarly, Dybvig and Warachka (2013:25) have argued that the existing literature's assumption that a higher Tobin's Q is evidence of better firm performance ignores the impact of managerial scale decisions relating to the quantity of goods to be produced. In particular, the existing literature does not account for the possibility that underinvestment may inflate Tobin's Q (Dybvig & Warachka, 2013:25).

For this study, Tobin's Q will be used to address the weaknesses of ROCE (human manipulation and historical data) and provide assessments of LuSE listed companies based on current market values that are forward looking in nature. The use of Tobin's Q is consistent with current literature in both the developed and developing countries (Alhaji *et al.,* 2013:110; Chechet *et al.*, 2013:41; Shan & McIver, 2011:301; Iwu-Egwuonwu, 2010:195; Jackling & Johl, 2009:494; Hu & Izuminda, 2008:73; Alonso-Bonis & Andrés-Alonso, 2007:206; Mak & Kusnadi, 2005:301; Welch, 2003:287; Demsetz & Villalonga, 2001:209). Vintilă and Nenu (2015:734) conclude that Tobin's Q is by far the most widely used financial performance measurement for listed companies when considering market performance indicators. This research will use Tobin's Q as a market measurement indicator for the LuSE listed companies in investigating the relationship between corporate governance structures and the company's financial performance.

3.7 Non-financial performance measures

Venanzi (2012:10) suggests that the perceived inadequacies in traditional accounting-based performance measures have motivated a variety of performance measurement innovations, ranging from improved financial metrics such as economic value measures to balanced scorecards of integrated financial and non-financial measures. CIMA (2008:4) resonates with this and holds that performance measurement has evolved from purely financial performance measures such as profit, cash flow or ROCE, or ROE, to put greater emphasis on non-financial and multidimensional performance measures, in order to understand and manage the performance of the company to achieve its goals.

Therefore, with the limitations of financial measures discussed in the preceding section, it is essential to consider the non-financial measures to improve the performance measurement of a company. CIMA (2008:533) views non-financial measures as measures of performance based on non-financial information which may originate in, and be used by, companies to monitor and control their activities without accounting input. CIMA (2013:543), Gijsel (2012:3), Neely (2003:1) and Hofmann (2001:27) state that non-financial measures are aimed at measuring the non-financial aspects of the company including internal processes, customers' satisfaction and innovation. The use of such measures is aimed at addressing the limitations of financial measures. From an incentive point of view non-financial measures can be helpful because any combination of performance measures that reduce the risk of conflict of interest of the agent is beneficial to the principal (Hofmann, 2001:1). According to Gijsel (2012:3), non-financial measures have a long term perspective of a company and as such do not encourage short termism where investments are made without a long term focus. In simple terms, this encourages managers to consider investing in long term projects to create value for the company.

Although the use of non-financial measures has many benefits as discussed above, they have drawbacks as well. CIMA (2013:543) and Gijsel (2012:3) highlight the following as the drawbacks of using non-financial measures:

- It is difficult to select the right non-financial measures for the company;

- There is a danger that too many measures may be selected resulting in overloading managers with information that is not truly useful, or the information collected may send conflicting signals of performance evaluation;

- It may ignore what could be the ultimate goal of the company, being to make profit and maximise the wealth of the shareholders; and

- It may lead managers to pursue detailed operational goals and become blind to the overall strategy in which the goals are set.

3.8   Multiple measures

In the previous section the benefits and drawbacks of both financial and non-financial measures were discussed. It is against that backdrop that it can be argued that the use of either type of measure alone may not bring the desired results that companies would look for in their performance measures. This calls therefore for the use of multiple measures to ensure that all the strategic realities of the company are captured. CIMA (2013:543) advises that although financial measurements do not capture all the strategic realities of the company, failure to consider the financial aspects through ratio analysis of the company can rapidly lead to failure of the business. CIMA (2008:4) resonates with this and holds that performance measurement has evolved from purely financial performance measures such as profit, cash flow or ROCE to a greater emphasis on non-financial and multidimensional performance measures to understand and manage the performance of the company to achieve its goals.

Sims (2014:45), CIMA (2008:1) and Hofmann (2001:1), claim that the balanced scorecard is a tool that has been developed in response to the limitations of financial

and non-financial measures. CIMA (2008:536) considers the balanced scorecard (BS) as an approach for the provision of information to management to assist strategic policy formulation and achievement. According to Sims (2014:45-47), CIMA (2008:536), CIMA (2008:1) and Hofmann (2001:1), the BS focuses on four distinct areas that include financial perspective, customer perspective, internal business perspective and innovation and learning perspective. Figure 7 presents and describes the different components of a balanced scorecard.

Figure 7:   The balanced scorecard

Fianancial Perspective - How should a company create value for its shareholders to succeed financially?

Internal Business Process - what business processes must a company excel at to achieve financial and customer objectives?

Vision and Strategy

Customer perspective - To achieve its vision, how should a company appear to its customers?

Innovation and Learning - How can a company continue to create value and maintain its competitiveness through improvement and change?

Sources: Graphical compilation based on Sims (2014:45), CIMA (2008:536), CIMA (2008:1) and Hofmann (2001:1).

The development of the BS has not only aimed at addressing the limitations of traditional financial measures, but also serves to provide comprehensive information to different stakeholders of the company. In a fast changing business environment and one which is highly competitive, the information needs of the stakeholders are equally evolving. This inevitably compels companies to provide comprehensive information through integrated reporting. According to the International Integrated Reporting Council (IIRC), integrated reporting is a process that results in communication by a company, most visibly a periodic integrated report, about how a company's strategy, governance, performance and prospects lead to the creation of value over the short, medium and long term (PriceWaterHouse Coopers (PWC), 2013:1). This study will use the financial perspective of the Balanced Scorecard in analysing the financial performance of the company. As discussed in Section 1.6 and as will be discussed in the following section, the analysis of financial performance will involve ROCE and Tobin's Q.

3.9   Use of ROCE and Tobin's Q for this study

As discussed in Section 3.6, evaluation of company performance involves the use of both financial measures (accounting and market-based methods) and non-financial measures. As financial performance is critical for all stakeholders of a company, assessing the company in terms of its ability to achieve financial objectives is a core responsibility of the company's management.

As financial reports of the LuSE listed companies are publicly available, the use of ROCE makes evaluation of financial performance easy. ROCE in this regard results in information that is easy to understand by the stakeholders, thereby improving their decision making process. Many scholars have taken advantage of the simplicity of ROCE in assessing the relationship between corporate governance structures and financial performance. The use of ROCE in this study will thus be consistent with existing literature (Hu & Izuminda, 2008:73; Capozza & Seguin, 2003:367; Welch, 2003:287; Demsetz & Villalonga, 2001:209) on corporate governance and company performance. The use of ROCE, as one of the financial measures, will further enable

the application of regression analysis and would facilitate comparisons of the financial performance of the different LuSE listed companies.

Omondi and Muturi (2013:99) point out that the financial performance of companies is a subject that has attracted a lot of attention, comments and interests from financial experts, researchers, the general public and the management of corporate entities, including their stakeholders. Yet, selecting the most successful (in terms of financial performance) companies has always proved to be a difficult task (Omondi and Muturi, 2013:99). Consequently, Alkhatib (2012:175) recognises that in accounting literature it is acknowledged that there are limitations associated with the use of financial ratios, in that ratio analysis is retrospective and not prospective examination; and it is based on accounting rather than economic data. The use of ROCE will comprise an analysis of historical data that is subject to manipulation of management. To ensure that bias that is inherent in ROCE is minimised, this study will use Tobin's Q as a market-based indicator. Consistent with existing research in both the developed and developing countries (Shan & McIver, 2011:301; Hu & Izuminda, 2008:73; Demsetz & Villalonga, 2001:209) Tobin's Q has been used to assess the financial performance of companies. In this regard, ROCE and Tobin's Q will be used as appropriate and relevant measures of financial performance in investigating the relationship between corporate governance structures on financial performance of the LuSE listed companies.

3.10   Corporate governance structures

For any organisation, regardless of its nature and size, there are established structures that guide the operations of the organisation (CIMA, 2002:67). Consequently, at the heart of corporate governance are its structures that are basically the foundation of corporate governance. According to Ferrer *et al.* (2012:124), a corporate governance structure is a closed-loop system of ensuring that decisions are carefully made by the directors, accountability is promoted by the directors and management, and that management is incentivised for better performance. Gill *et al.* (2009:8) further hold that corporate governance structures

are the processes which deal with the ways in which capital providers guarantee investors' returns on their investments. Vintilă and Gherghina (2012:175) echo this view and further argue that the corporate governance structures are designed to reduce the inefficiencies that arise from moral hazards and information asymmetry. Corporate governance structures are used to protect the interests of those that provide the resources essential to the operations of a business entity (Daryaei & Nejad, 2012:200).

Corporate governance structures aim at ensuring that company objectives are achieved by enhancing company performance. In their seminal work, Peters and Bagshaw (2014:108) point out that the corporate governance structure relates to the tools, techniques and instruments used to achieve company objectives through better company performance. Corporate governance structures are structures which stakeholders use for monitoring and shaping behaviour in the company to align with set goals and objectives of the company. Peters and Bagshaw (2014:108), as well as Adekoya (2012:40), further view corporate governance structures as the processes and systems by which a country's company laws and corporate governance codes are enforced.

Al-Malkawi and Pillai (2012:549) hold that the 2008 global economic crisis has put the spotlight on corporate governance structures of companies around the world and therefore, governance is increasingly recognised by the business community, regulators and capital market authorities as a fundamental driver of corporate performance. Vintilă and Gherghina (2012:176) further contend that corporate governance structures broadly aim at harmonising the interests of the managers and stakeholders. Similarly, Ayorinde, Toyin and Leye (2012:33) underscore the importance of processes and structures to improve long term shareholder value by enhancing corporate performance and accountability, while taking into account the interest of other stakeholders.

The corporate governance structures are established to align the interests of managers with those of the shareholders and other stakeholders to ensure value creation of the company and maximising company wealth. Abu-Tapanjeh (2006:102) holds that the corporate governance structures should enable a company to pursue

its strategy effectively and therefore, improve its performance. The structures form the central part of the definition of corporate governance, being the structures that outline the decision making powers, influence management decisions, govern the behaviour and limit the discretionary space of managers (Damak, 2013:63).

Manini and Abdillahi (2015:25) add that as economies are becoming knowledge and technology based, the corporate governance structures are becoming fundamental determinants of a company's current and future performance as well as a firm's value and growth. Thus corporate governance structures play an important role of aligning the interests of managers and shareholders in creating value for the company to benefit all the company stakeholders. Corporate governance structures safeguard the interests of stakeholders of the company (Manini and Abdillahi, 2015:25). Stakeholders such as shareholders, are largely interested in having their wealth maximised (Ogilve, 2008:4; Potton, 2005:5).

Shan and McIver (2011:303) argue that corporate governance structures provide an assurance that shareholders' funds are not expropriated or wasted on wealth reducing projects. From the preceding discussion it can be argued that corporate governance structures are aimed at protecting the interests of principals, who are the shareholders and creating value for them from the holding of shares in the companies and by extension, meeting the expectations and interests of the different stakeholders (that include customers, suppliers, employees, management, government and local communities among others) of the company. Thus corporate governance structures play an important role in corporate governance of the company and its performance. In this regard, Wang *et al.* (2007:264) argue that the structure of corporate governance has a crucial relationship with the performance of a company. Accordingly, managers are expected to act in the best interests of shareholders (Firth, Fung & Rui, 2006:1290).

Sarbah and Xiao (2015:40-57) propose that corporate governance structures comprise internal and external structures, mainly intended to discipline the behaviour of corporate governance actors such as owners, directors and executive management among others. Thus, corporate governance structures should clearly be identified and classified in order to ensure effective control of a company.

3.10.1   Types of corporate governance structures

Apadore and Subaryani (2014:164), as well as the World Bank (2006:3) acknowledge that there are two distinct types of corporate governance structures (also referred to as corporate governance mechanisms) namely internal and external structures.

3.10.1.1   Internal corporate governance structures

Apadore and Subaryani (2014:164), Damak (2013:63), the Centre for International Private Enterprise (CIPE) (2008:5) and World Bank (2006:1) contended that internal corporate governance structures are the measures used in the company that can encourage managers to maximise the company value. As such Damak (2013:63) and Babatunde and Olaniran (2009:334) argued that internal corporate governance structures include among others ownership structure and board of directors. The internal corporate governance structures are therefore the means and tools for controlling the behaviour and limiting the actions of company managers (Gebba 2015:30). It is thus considered that the internal corporate governance structures are classified as such because they are within the control of the board of directors and managers. Al-Malkawi and Pillai (2012:550) conclude that the structures are considered as internal structures, because their usage is solely dependent on the internal decision makers.

3.10.1.2   External corporate governance structures

According to Wu *et al.* (2009:2), external corporate governance structures are structures that monitor and control managers' behaviour by means of external regulations and force. Apadore and Subaryani (2014:164), as well as the World Bank (2006), hold that external corporate governance engages on force and external regulations, in order to control and oversee managers' behaviour. Thus, external corporate governance structures concern market control through the establishment and enforcement of the relevant legal framework. Babatunde and Olaniran

(2009:334) argued that the external corporate governance structures are designed to ensure that competing companies abide by common standards of fairness, transparency, accountability and responsibility to protect shareholders, consumers, workers, the environment and even competitors from abusive practices. As such the external corporate governance structures aim to control potential conflicts that may rise between managers and shareholders and other company stakeholders. In this regard, the control is exercised through financial markets, the markets of goods and services and the labour markets for managers (Damak, 2013:63).

3.10.2   Internal corporate governance structures – research focus

As Apadore and Subaryani (2014:164), as well as the World Bank (2006:6) argue, internal corporate governance structures are under the control of the company, it is much easier to measure their relationship with financial performance than using the external structures. This research study therefore focuses on the influence of internal corporate governance structures (that include the board of directors, composition and processes, internal audit, external audit, and managerial ownership) on company performance. As discussed in Section 1.1, the financial market in Zambia is not fully developed. This makes it difficult for this research to include the external structures. This is because the relationship between external structures and company performance is not significant as the financial market and legal infrastructure are still in the process of being developed in Zambia. This research study, therefore, specifically focuses on internal structures, particularly the board of directors and managerial ownership. The board of directors relate to board size, NEDs, board leadership, frequency of board meetings, board committees, internal audit and external audit. Due to a limited managerial ownership data set, managerial ownership was not considered for regression analysis, but was only considered for the SAQs and interviews.

Firstly, the board of directors is one of the key structures designed to monitor management and are as such, the shareholders' primary mechanism for oversight of managers (Gill *et al.*, 2009: 8). This is because a crisis of corporate governance is

basically a crisis of the board of directors (Ayogu, 2001:308). To a great extent, the agency problem may be minimised by increasing the level of engagement of shareholders in the running of the organisations to ensure the interests of managers are aligned to those of the shareholders (Scholtz, 2009:58). By offering shares to the existing managers who do not own any shares, or by increasing their existing shareholdings, it is hoped that the managers will function in tune with the interests of the shareholders (Scholtz, 2009:58); thus improving goal congruency and resulting in overall good performance of the company. Consequently, this research study investigates the relationship between internal corporate governance structures (board of directors and managerial ownership) and financial performance of the companies listed on the LuSE.

3.11 The need for improved corporate governance structures framework

An effective corporate governance framework is essential for any company's overall safety and soundness (Greene, Jones & Powers, 2004:3). Good corporate governance frameworks help firms and countries improve accountability, efficient use of capital, and attract quality and long-term investors at lower costs. These, in turn, contribute to a country's competitiveness and thereby its development (Atacik & Jarvis, 2006:1). Therefore, it is argued that establishment and maintenance of a framework of corporate governance structures is imperative if LuSE listed companies were to improve financial performance. The LuSE listing rules and the LuSE Code of Corporate Governance do not have a formal governance structure in the form of a framework for LuSE listed companies. As such, this research uses existing corporate governance frameworks and guidelines. These frameworks and guidelines, along with the empirical results and King IV Report on Corporate Governance provisions, are used to suggest a corporate governance framework for Zambia. The problem of poor financial performance of the companies in Zambia is further compounded by the limited research on the relationship between corporate governance structures and financial performance. Consequently, this research study will culminate in the

development of internal corporate governance structures that would relate with the financial performance of the LuSE listed companies in Zambia.

3.12 Corporate governance structures and company financial performance

As discussed in Section 2.6, the corporate governance codes across the world have the main objective of improving the economies of countries through the achievement of long term success of listed companies. The fundamental message in all the corporate governance codes, whether in developed countries or developing countries, consists of the following:

- Achievement of long term success of the company (FRC, 2014:1) and economic growth (Holmstrom & Kaplan, 2003:1);

- Improvement of economic efficiency and investor confidence (OECD, 2004:2); and

- Improvement of national economies, particularly those of the developing countries to improve the living standards of people (OECD, 2004:5).

The performance of a company is a central issue in corporate governance and concerns all stakeholders. According to Kangarlouei *et al.* (2012:407), companies' financial performance measurement is one of the most important concerns in the financial and economic environment. The King II Report encouraged a balance between conformance with governance principles and performance in an entrepreneurial market economy (IoDSA, 2002:1). This denotes the importance of good financial performance of a company for creation of value for the company so as meet the interests of the stakeholders of a company. Similarly Goh, Rasli and Khan (2013:1) claim that corporate governance is often regarded as a main driver of a firm's performance.

As corporate governance has generally attracted attention from public and private sectors, the relationship between the corporate governance structures and company performance has equally been of particular interest to different stakeholders and as such, has created research interest. Todorovic (2013:47) has argued that corporate governance comprises the relationship between companies and its different stakeholders and that this relationship determines the companies' strategic direction and performance. Gregory (2013:31) claims that effective corporate governance systems position boards of directors to make timely and objective decisions in support of successful corporate performance, while preventing the individual self-interest of any participant (manager, director, or owner) from influencing outcomes that would be detrimental to the company's interests. Similarly, Daryaei and Nejad (2012:200), as well as Jerab (2012:1), argue that the presence of corporate governance can result in the improved economic performance of the companies and consequently, desirable economic growth in a country.

The focus of this research study is on the internal corporate governance structures comprising the board of directors and managerial ownership. Company financial performance is used as an internal measure to assess a company's performance to achieve financial objectives and the overall objective of the company. Internal corporate governance structures being within the control of the company, become important in ensuring that the objectives are achieved. In this regard, the focus of this research is on internal corporate governance structures that would help in adjusting the existing framework to enhance financial performance. Additionally, insights about how corporate governance structures directly relate with a company's performance will be received from board members and management.

Babatunde and Olaniran (2009:330) find that there is a renewed interest in the need to strengthen structures to ensure that managers and directors take measures to protect the interests of a company's stakeholders. This is premised on the belief that managers ought to be in control of the company's operations and ensure achievement of company objectives by establishing strong internal corporate governance structures. The internal corporate governance structures represent

mechanisms and actions taken by companies to enforce control and accountability leading to the achievement of company objectives.

As LuSE listed companies are expected to maximise the wealth of shareholders, while meeting the interests of other stakeholders, internal corporate governance structures are essential to the realisation of that objective. This research therefore investigates the relationship between internal corporate structures (board of directors, internal and external audits and managerial ownership) and the company's financial performance, in the realisation of a company's overall objective. Although there are many other internal corporate governance structures, such as the remuneration committee, ownership structures and the ethics committee, among others, this study will only consider the board of directors, internal and external audits and managerial ownership, to investigate the relationship between these variables and company financial performance. In addition, the LuSE Code of Corporate Governance makes reference to the board of directors, audits and managerial ownership as important components of company performance to ensure maximisation of company value (LuSE, 2013:9). Consequently, the employment of these variables makes comparison of the research results among LuSE companies easier and contributes to the reliability and relevance of the research.

3.13   Role and responsibility of the board of directors

For any company, the board of directors is a very important internal corporate governance structure. Balgobin (2008:26) claims that the board is a central governance structure. Gill *et al.* (2009:8) found that boards of directors are the shareholders' primary structure for the oversight of managers; and as such effectiveness of corporate governance practice is a function of the board (Nuryanah & Islam, 2011:20). Gregory (2013:31) recognises that the board and corporate management are accountable for the performance of the company. The board has an oversight function that encompasses a number of responsibilities (Business

Roundtable, 2016:7; Deloitte and Touche, 2013:1). King I and II as well as King IV suggest that the main roles of the board include (IoDSA, 2016:40; IoDSA, 2002:3):

- To retain full and effective control over the company and be responsible for monitoring management in respect of the implementation of board plans and strategies;

- To be fully responsible for the affairs of the company;

- To give strategic direction to the company;

- To be responsible for the appointment of the CEO and succession process;

- To be responsible for identifying risk areas and performance indicators; and

- So far as is practical, the board is responsible for assessing and rectifying issues in respect of the size, diversity and demographics of the company.

The main roles outlined above are consistent with the provisions of the UK's Combined Code on corporate governance (FRC, 2014:2). The FRC (2014:2) argues that the boards of directors are responsible for the governance of the companies, therefore corporate governance is about what the board of a company does and how it sets the strategic direction of the company.

According to Balgobin (2008:26), the board of directors is a device to build and sustain the trust of the stakeholders of an enterprise. Azar and Grimminger (2011:1) resonate with this and assert that a board of directors is at the heart of the governance structure of a well-functioning and well-governed corporation, acting as the ultimate internal monitor. To effectively monitor an organisation requires the establishment and maintenance of an effective board of directors (FRC, 2014:3). Thomas (2005:4) comprehends that an effective board is one that engages in constructive conflict but avoids destructive conflict, works together as a team, knows the appropriate level of strategic involvement and addresses decisions comprehensively. It could be argued that the boards of directors have a huge task and responsibility with regard to corporate governance of their companies.

Farrar (2005:3) expounds that the boards of directors manage and direct management, and additionally play a monitoring role following the separation of

ownership and control within a company (Jensen & Meckling, 1976:305). The King III and King IV Reports (IoDSA, 2016:40; IoDSA, 2009:10) recommend that the board has the responsibility to ensure good governance that requires governing the corporations with integrity and enterprise. Babatunde and Olaniran (2009:334) echo this and argue that the board of directors forms the core internal governance structure, essentially being the bridge between management and owners, other stakeholders and the outside world.

With this recognition of the importance of the board of directors in corporate governance, it is imperative to consider its characteristics in investigating the relationship between the board of directors and the company's performance. Carter and Lorsch (2003:8) find that structure, composition and processes of the board of directors are the explicit design choices every board must make. In addition, the board composition and processes are argued to be the main components of the board's design which must be aligned to the role it intends to play and to the complexity of the company (Adawi & Rwegasira, 2010:154). For this research study the board composition comprises board structure, executive and non-executive directors and board meetings.

3.13.1   Board structure

Adawi and Rwegasira (2010:154) claim that the board structure is concerned with improving corporate governance of the company. IoDSA (2016:40) holds the same view and further stipulates that a board of directors should comprise an appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively. Furthermore, a board of directors should ensure that its arrangements for delegation within its structures promote independent judgement and assist with the balance of power and effective discharge of its duties. Consequently, board structure is a critical component of corporate governance. According to IoDSA (2016:50), King IV principle seven recommends that when determining the requisite number of board members, the following factors should be considered:

- The appropriate mix of knowledge, skills and experience including commercial and industry experience, needed to govern the company;

- The appropriate mix of experienced non-executive and independent non-executive members;

- The need for a sufficient number of members that qualify to serve on committees of the board;

- The need to secure a quorum at meetings;

- Regulatory requirements; and

- Diversity targets relating to the composition of the board.

The type of leadership configuration that is established at the top hierarchal level of the firm is an important consideration in corporate governance (Rebeiz & Salameh, 2006:751). The LuSE Code of Corporate Governance and the King III Report propose that the roles of the chairman and CEO should be held by separate individuals (IoDSA, 2009:5) or where the roles are combined, the board should have an independent director as deputy chairperson (LuSE, 2005:3). The King I, II, III and IV Reports distinguish the roles of Chairman and CEO as follows (IoDSA, 2016:50; IoDSA, 2002:6):

- The chairperson is responsible for the effective functioning of the board, whereas;

- The CEO is responsible for the running of the company's business.

From the King Reports' perspective, it is clear that the roles are different and should not be performed by the same individual. The UK's Combined Code makes a similar recommendation (FRC, 2014:8). The splitting of such roles may affect the company's performance. The separation of the two roles is to ensure the balance of power of the two designations, as well as to avoid conflicts of interest (Shukeri, Shin & Shaari 2012:122), which may negatively relate with the company's performance. Combining

the two roles is referred to as CEO duality (Amba, 2013:1; Mak & Kusnadi 2005:301). Mary (2005:14) claims that non-separation of the two roles may lead to the board being unable to evaluate the CEO. According to the agency theory, Lorsch and MacIver (1989:1) argue that separation of the chairman and CEO roles leads to greater scrutiny of managerial behaviour and thus leads to better performance.

Other scholars hold a different view. Sharma and Braun (2007:111) maintain that performance of the roles by one person leads to higher company performance, as decision making is quick and efficient. However, another school of thought documents that board leadership does not relate with financial performance of the company (Al-Sahafi, Rodrigs & Barnes, 2015:1; Nath, Islam & Saha, 2015:106).

3.13.1.1   Size of the board

In order for a board to function effectively and achieves its objectives it must have the right number of members. Baccar, Mohamed & Bouri (2013:292) assert that much of the literature on board size has called for a smaller board of directors, mainly because smaller groups are more cohesive, productive and can monitor the companies effectively. Some authors such as Baccar, Mohamed & Bouri (2013:292) found that a smaller board is one that comprises not more than twelve members. In this regard, It could be argued that a board bigger than this number might negatively affects the performance of the company in that it leads to less meaningful discussions (Eyenubo, 2013:1; Guest, 2009:385; Lipton & Lorsch, 1992:59). It is further argued that a board of more than 12 members may occupy a more symbolic role rather than fulfilling its role of monitoring and advising management (Garg, 2007:39). Mashayekhi and Bazaz (2008:156) and Eisenberg, Sundgren and Wells (1998:53) attest to this and document that there exists a negative association between board size and company performance. Similarly, Palaniappan (2017:67), Nath, Islam and Saha (2015:106) and Al-Matari *et al.* (2012:244) found that the larger the boards, the poorer the financial performance, suggesting that small boards improve financial performance. This suggests that the smaller the board, the better the performance of the company.

Ferrer *et al.* (2012:124), as well as Kiel and Nicholson (2003:193), do not agree with the view of smaller boards and claim that a greater premium should be placed on large boards because of greater links and access to resources such as expertise and business contacts. Additionally, large boards can be a valuable source of a variety of expertise and opinions (Baccar *et al.*, 2013:292), and are associated with board diversity in terms of experience, skills, gender, race and nationality (Dalton & Dalton, 2005:S95). Such attributes of diversity can improve decision making by the board and thereby improve company performance. Similarly, Das (2017:15), Haider (2017:78), Le and Thi (2016:190), Mohamed, Zhou and Amin (2016:1), Al-Sahafi, Rodrigs and Barnes (2015:1) and Meyer and Wet (2013:19), found that a positive relationship between board size and financial performance. However, Naimah and Hamidah (2017:1) and Guo and Kumara (2012:664) argued that there is no relatioship between board size and financial performance measured either by ROCE or Tobin's Q.

The results of research on board size and company performance are clearly inconclusive. Arguably, this is as a result of the fact that board size is a function of company size, performance and in some cases CEOs' preferences may also be dependent on the nature of the company (Sheikh, Khan, Iqbal, Almed & Masood, 2012:242).

3.13.2   Board composition

In order to reduce the conflicts between agents and principals (and thereby reduce agency costs), the agency theory proposes that the board should comprise executive and non-executive members of the board with the majority of the non-executive members being independent (Gabrielsson, 2007:21; Rebeiz & Salameh, 2006:753). Gabrielsson (2007:21), Rebeiz and Salameh (2006:751), Ho and Williams (2003: 465) as well as Weir, Laing and McKnight (2002:579), further maintain that non-executive directors will facilitate effective monitoring of the managers. According to the King I and II Reports, executive, non-executive and independent directors are defined as follows (IoDSA, 2002:4):

- An executive director is one who is involved in the day to day management of the company;

- A non-executive director is one who is not involved in the day-to-day management of the company; and

- An independent director is one who is not a representative of a shareholder, has not been employed by the company (for at least one year) and has no significant contractual relationship or interest in the company.

In a number of jurisdictions, company acts as part of the law specify the duties of the directors of the public companies. In this regard, company acts such as the UK Companies Act of 2014, Zambia's Companies Act 388 of 2008 and South Africa's Companies Act 71 of 2008 codify the principal fiduciary duties of directors. According to Lord (2018:2) the codification of directors' fiduciary duties acts as a signpost as to the standards of the conduct that the law requires of directors. In this regard, NEDs as directors need to comply with the law to ensure that they do not fail in their fiduciary duties. To ensure that the NEDs carry out their duties effectively and efficiently NEDs are required to sufficient time. Inevitably NEDs need more time and energy particularly when they serve multiple boards in order to be effective representatives of shareholders' interests. NEDs may be highly sought after because of their skills and experience contributing to NEDs having multiple directorships (Rathod, 2018:2). According to Mans-Kemp, Viviers and Collins (2018:220) over-boarding means that NEDs have multiple boards that they serve which may negatively affect their effectiveness in discharging their fiduciary duties given that they may not have adequate time to fulfill their roles.

Similarly, King IV recommends that the board should comprise executive and non-executive members (IoDSA, 2016:51). Non-executive members of the board may be categorised by the board as independent if the board concludes that there is no interest, position, association or relationship which, when judged from the perspective of a reasonable and informed third party, is likely to influence the company or cause bias in decision making in the best interests of the company (IoDSA, 2016:51). Lord (2018:1) argued that the concept of independent NEDs also includes independence of mind as a pattern of behaviour shown during discussions and decision-making that demonstrates the ability of a NED to make his/her own

sound, objective and independent judgments. In essence independence of mind is not a fact but a skill which is integral to the ability of every NED to effectively undertake and fulfill his/her duties (Lord, 2018:1).

The LuSE (2005b:1) views NED as a director of the board who has no contract of service or employment with the company in which he/she is a director, whether or not such a director is appointed or elected by shareholders or other directors of the company. Lewis (2010:4) maintains that a NED is one who ensures that the company is well run but who does not run the company. In this regard, an NED is independent and should not be entangled in the day-to-day operations of the company (Lewis, 2010:4). According to the IoDSA (2009:52; 2016:13), as well as McDonough (2002:4), independence is the absence of undue influence and bias which can be affected by the intensity of the relationship between the director and the company. The IoDSA (2016:13) and McDonough (2002:4) articulate that independence generally means the exercise of objective, unfettered judgment and reflects qualities of experience, insight and force of character. The IoDUK (2010:2) advocates that NEDS are expected to focus on board matters dealing with strategic policies rather than focusing on operational matters. NEDs should therefore inevitably possess required skills and experience that all directors of the board can benefit from, thereby improving decision making and ultimately improving company performance (IoDUK, 2010:2). According to Allott (2001:4) and CIMA (2001:4) NEDs can:

- Broaden the horizons and skills of existing executive directors to improve the operations of the company;

- Facilitate the exchange of ideas, particularly in terms of business strategy and planning; and

- Have a vital part to play in appraising and commenting on a company's investment or expenditure plans.

Ernest and Young (EY) (2015:6) add that NEDs should act as a sounding board to test ideas, either in their areas of expertise or of a general business nature. The NEDs may provide skills and experience to benefit top executive team (Chambers, 2005:24). The importance of an independent boardroom is underscored by the fact

that an inside directorship position implies that management is overseeing management (Rebeiz and Salameh, 2006:747), so as to avoid conflict of interest and reduce the agency problem. Rebeiz and Salameh (2006:747) further posit that the conflict of interest associated with the inside directorship position would stifle the ability of the directors to manoeuvre objectively and autonomously and to make value-added decisions for the supreme interest of the shareholders and other stakeholders.

Annuar (2014:339) holds that there is empirical evidence to signal that the presence of an independent element in the form of NEDs on a board has significantly benefited the board in performing its role. In addition to that, corporate governance researchers have demonstrated that NEDs do perform other roles apart from control that has often been associated with them, and those include involvement in corporate strategy (Annuar, 2014:339). Corporate strategy is at the core of achieving a company's vision and mission and as such plays a critical role in achieving financial objectives. With this view it is can be inferred that independent non-executive directors play a crucial role in corporate strategy to ensure improved financial performance of the company. This is because the independent non-executive directors bring on board various forms of experience and expertise that improve decision making, leading to an improvement in company performance.

Scholars such as Muravyev, Talavera and Weir (2014:20), Alhaji *et al. (*2013:110), Chechet, Yancy and Akane (2013:41), Iwu-Egwuonwu (2010:195), Jackling and Johl (2009:494) and Mak and Kusnadi (2005:301) and claim that having a greater proportion of outside directors (NEDs) has a positive influence on company performance. Similarly, Wang, Jeng and Peng (2007:264) claim that independent non-executive directors positively relate with a company's financial performance. Haider (2017:78) and Al-Sahafi *et al.* (2015:1) share similar view as they found that NEDs positively related with financial performance. Like many other codes, the LuSE Code of Corporate Governance and the King III Report of corporate governance provide that the board of directors should have the balance of power with the majority being non-executive directors. NEDs are envisaged to bring external expertise and objectivity to enhance board decision making. This is because the NEDs are expected to be independent and to provide objectivity in the boardroom. It

can be argued that objectivity in decision making by the board would enhance the strategic planning; and by extension improve the realisation of a company's mission. However, Annuar (2014:339) argues that the independent non-executive directors may in some cases be passive (only active during crisis, times of corporate transition and poor profitability) and not actively involved in influencing the corporate strategy.

The International Centre for Professional Accountants (ICAS) (2009:2) observes that a NED can be very beneficial; however, this is not always the case and it may be an unfulfilling and expensive decision if the role has not been carefully analysed, defined, and communicated beforehand. In order to prevent this, rigorous board member recruitment is required to ensure that the appropriate people with relevant skills and experience are recruited. If the NED recruitment is not carefully conducted, NEDs may not positively relate with the financial performance of the company, as they are not actively involved in the corporate strategy on a regular basis and also if the role is not clearly defined and analysed, they might not understand the company's vision. Similarly, Mweta and Mungai (2018:23), Das (2017:15), Fauzi and Locke (2012:43) and Horváth and Spirollari (2012:470), report that NEDs were negatively related with the financial performance of the company because:

- In some cases there was inadequate information to help NEDS in decision making;
- Sometimes NEDs lack necessary skills and experrience required to contribute to the improvement in financial performance; and
- In some case dominance of ownership concentration prevents the fulfilment of the monitoring and control function of the NEDs.

Weir and Laing (2001:88) did not find empirical evidence to support the positive relationship between non-executive directors and a company's financial performance. This is primarily because:

- NEDs are only employed on a part-time basis and are likely to have other work commitments and as such, NEDs may therefore be unable to devote sufficient time to each company to be effective monitors; and

- NEDs may lack the expertise necessary to understand highly technical business issues.

NEDs may simply not possess sufficient information when being called upon to make key decisions. Similarly, Nath, Islam and Saha (2015:106), Mohamed, Zhou and Amin (2016:1) and Guo and Kumara (2012:664) observe that NEDs do not relate with financial performance proxied by Tobin's Q.

3.13.3   Board meetings

The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively (FRC, 2014:10). The board processes in terms of the frequency of the meetings and the quality of decisions (made with the availability of required information), have a relationship with company performance.

Research outcomes on the relationship between board meetings and company performance have varied. Sahu and Manna (2013:110) found that board meetings are one of the determinants of good corporate performance. This was attributed to the fact that the frequency of the board meetings improved decision making which was needed to improve company performance (Haider, 2017:78; Sahu & Manna, 2013:110). Chen, Firth, Gao and Rui (2006:424) are not in agreement with this argument and contend that frequent meetings of the board of directors lead to ineffective boards and negatively affect company performance. The quality of decisions arising from the frequency of the board meetings are clearly some of the determinants of company performance. The board meetings allow sharing of information and promote constructive debate on strategic matters that pertain to company performance. Consequently, improved decision making arising from frequent meetings may help the board dissect the company's strategic challenges and offer solutions to improve company performance.

3.14   **Board of directors - board processes, committees, internal-and external audits**

Adawi and Rwegasira (2010:157) assert that board processes address issues relating to the decision making activities of directors and how the directors can work together as an effective team. The board processes are therefore concerned with decision making that is the result of meetings that the board of directors holds. Board processes not only affect the quality of decisions made, but they also ultimately affect the company's performance as the managers implement strategic decisions made by the board of directors. In this section, the board processes comprise the board committees, internal audit and external audit.

3.14.1   **Board committees**

The King IV Report recommends that, the board should determine if and when to delegate particular roles and responsibilities to individual members of the board. Additionally, delegation of roles and responsibilities to committees should be recorded by means of formal terms of reference that are approved and reviewed by the board (IoDSA, 2016:54). In this regard, the board should consider the allocation of roles and responsibilities and the composition of membership across committees holistically, so as to achieve the following:

- Effective collaboration across committees;

- Complementary rather than competing approaches in discharging committees' roles; and

- A balanced distribution of power across committees.

The LuSE Code of Corporate Governance provides that the board of directors must appoint appropriate board committees. As a minimum, an audit and remuneration committee should exist or be in place (LuSE, 2005:6). In South Africa King III Report provides that board committees comprising audit, remuneration, risk and nomination

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should exist (KPMG South Africa, 2013:3; IoDSA, 2009:2). According to the King I and II Reports, boards of directors should ensure that board committees are established to aid the board and its directors in giving detailed attention to specific areas of the directors' duties and responsibilities (IoDSA, 2002:6). The Bank of Zambia (2006:10) concurs and adds that board committees are an aid to assist the board of directors in discharging its duties and responsibilities effectively and efficiently. King II advocates that the board committees should be well structured and that, notwithstanding delegation given to them, the board is still accountable for its actions and decisions (IoDSA, 2002:6).

Board committees provide the necessary skills, experience and networking so that the board of directors can fulfill its role and improve company performance. Rebeiz and Salameh (2006:747) claim that the establishment of board committees is a means to channel the many functions of the board to segregated and specialised groups; thereby judiciously leveraging the board's intellectual resources, while forcing discipline and active involvement to improve financial performance. Similarly, Fauzi and Locke (2012:43) claim that board committees could positively relate with financial performance.

3.14.1.1   Audit committee

One of the board committees required by the LuSE is an audit committee. Aanu, Odianonsen and Foyeke (2014:9), Mohuiddin and Karbhari (2010:97) and Kallamu and Saat (2013:210) contend that audit committees are charged with the responsibility to oversee the financial and other reporting processes of companies in order to enable them to show credibility, integrity and transparency in their operations, including financial reporting. The role of the audit committee should be to provide independent oversight of:

- ▪ The effectiveness of the company's assurance functions and services, with particular focus on combined assurance arrangements, including external assurance service providers, internal audits and the finance function; and

- The integrity of the annual financial statements (contained in the annual reports) and to the extent delegated by the board, other external reports issued by the company.

(IoDSA, 2016:55).

Financial reports provide information on the activities of the company for the specified period highlighting how resources of the company have been utilised in ensuring that there is a return on the investments. According to Aanu *et al.* (2014:5), the audit committee role is very important for the protection of shareholders' and other stakeholders' interests. This is mainly because all the stakeholders have different interests in the company and each of the stakeholders would like to assess the company in terms of how their interests are being achieved and realised. The Institute of Internal Auditors (IIA, 2016:2) concludes that the audit committee should provide oversight of financial reporting, risk management, internal control, compliance, ethics, management, internal auditors, and the external auditors.

Souster (2012:7) remarks that the audit committee should comprise only NEDS (as board members who do not have a business relationship with the company). In addition, the majority of the audit committee members should be independent (Gregory, 2013:31). The presence of independent NEDs in the audit committee is of significance to policy makers, practitioners and scholars. In particular, assessing the relationship between independent non-executive directors and the financial performance of the company becomes a more critical and evolving debate in corporate governance because of the skills, experience and the unbiased views that NEDs may have. However, McDonough (2002:4) acknowledges that finding independent non-executive directors involves a balancing act given that there are challenges concerning balancing general business knowledge and specific technical expertise and compensation of the independent non-executive directors. The compensation challenge concerns the risk that when the directors' compensation increases, their independence may be compromised, and they may stop acting as watchdogs for the shareholders (McDonough, 2002:4).

According to Chechet *et al.* (2013:38), the empirical result of the relationship between the audit committee's independence and the firm's performance is ambiguous. Research results have been mixed (Chan & Li, 2008:16; Becht, Bolton & Roell, 2005:1). In some cases the relationship is positive, while in other contexts, there is a negative, or non-existent, relationship. Aanu *et al.* (2014:30) and Kallamu and Saat (2013:210) find that the audit committee is one of the board committees that positively relate with the financial performance through improved internal controls, risk management and quality financial reporting. In this regard, it is argued that improved internal controls and improved financial reporting lead to efficient and effective operations, thereby creating value for the company and improving its profitability. In particular, Kallamu and Saat (2013:225) suggest that the important attributes of the audit committee; which include independence, expertise and experience, regular meetings and committee size, are important in realising the value of the company. Siagian and Tresnaningsih (2011:192) claim that independent audit committees improve company performance because they are not subject to potential conflicts of interest that reduce their monitoring capacity.

Other scholars such as Al-Matari *et al.* (2012:248) do not share the view that the audit committee positively affects a company's financial performance. They reported that no relationship between the audit committee and company financial performance, but mentioned that companies just comply with the need to have an audit committee as stipulated by the listing requirements and other regulations. Annuar (2014:339) resonates with this and argues that the audit committee may just be passive in the company adding no value to the company. Similarly, Naimah and Hamidah (2017:1) and Al-Sahafi *et al.* (2015:1) conclude that an audit committee does not have any relationship with financial performance as proxied by Tobin's Q. In contrast, Das (2017:15) concluded that audit committees negatively related with financial performance.

3.14.1.2 Risk committee

Following the 2008 global financial crisis, many companies in various sectors globally suffered from losses because of failed risk management and governance (Zemzem & Kacem, 2014:185). Deloitte and Touche (2014:1) consider board committees (such as the risk committee) to represent an important element of the governance process and should be established with clearly agreed reporting procedures and a written scope of authority. According to IoDSA (2016:61), principle 11 of the King IV Report stipulates that the board should govern risk in a way that supports the company in setting and achieving its strategic objectives. As such, risk management and control become essential for a company to achieve its overall objectives, including its financial objectives.

The efforts to strengthen risk management and instil appropriate policies and a risk intelligent culture throughout the company have become top priorities for many companies including banks (Srinivas, Dillion, Goradia & Therattil, 2015:1). Accordingly, risk management aims to ensure a company's adaptability to the business environment and business continuity (Zemzem & Kacem, 2014:185; McNeil, Frey & Embrechts, 2005:39). Zemzem and Kacem (2014:189) further observe that to improve corporate governance, companies will need to implement internal controls that include risk management as one of the aspects of internal controls. Similarly, Deloitte and Touche (2014:1) advocate that the formation of a separate risk committee recognises the fact that the identification and management of risks impacting the business, and the disclosure of these to the shareholders, is vital to good governance. McDonough (2002:1) echoes this and adds that effective risk management is based on a foundation of good corporate governance and rigorous internal controls.

Taking calculated risks is part of any business enterprise and as such, companies need to have the technical systems and management processes in place that are necessary not only to identify the risks, but also to effectively measure, monitor and control the risks (McDonough, 2002:2). Although LuSE Code of Corporate does not specifically recommend establishment of risk committee, LuSE listed companies

operate in regulated and technological business environment and hence the need to include risk committees in this research study. The risk committee is a risk governance structure to manage a company's risk appetite, embrace risks and effectively communicate risks with diverse stakeholders (Nahar, Jubb & Mohammed, 2016:250). As such, the board is charged with risk governance which is construed as relating to the rules, processes and procedures that help to identify the risks and take corrective actions accordingly (Nahar *et al.*, 2016:250). As the audit committee may be overwhelmed with the responsibility for the integrity of financial reporting and hence, a separate committee should focus on risk management and control. Consequently, King IV recommends that the board should evaluate and agree with the nature and extent of the risks by approving (IoDSA, 2016:61):

- The company's risk appetite; namely its propensity to take appropriate levels of risks; and

- The limit of the potential loss that the company has the capacity to tolerate.

Like the audit committee, the risk committee's composition is vital when forming the committee. The King IV Report recommends the establishment of a risk committee that comprises non-executive directors as majority members. The engagement of non-executive directors is arguably meant to minimise conflicts of interest and bias in the committee, so to ensure that decisions are made in the best interests of the company (IoDSA, 2016:28).

As companies operate in different complex environments; risk management is essential for the achievement of a company's objectives. According the IoDSA (2016:30), advances in technology happen quickly and can cause significant disruption, opportunities and risks. Consequently, companies should strenghthen the processes that help them anticipate change and to respond by capturing new opportunities and managing emerging risks (IoDSA, 2016:30). As such, the board would benefit from the establishment of a risk committee (Brown & Davis, 2008:16).

Nahar *et al.* (2016:255), Barakat and Hussainey (2013:254), Beltratti and Stulz (2012:1), Ellul and Yerramilli (2011:1757) and McNeil *et al. (*2005:39), found that risk management improves company performance. The risk committee improves the

quality of financial reporting and contributes to the improved financial performance of the company. Srinivas *et al.* (2015:17) conclude that leading risk governance practices have benefits beyond compliance. However, Zemzem and Kacem (2014:189) reported that the risk committee negatively affects the financial performance of the company; particularly as the risk committee is passive and increases operational costs that reduce profitability. Protiviti (2015:1) argues that a separate risk committee is neither a panacea, nor is it a one-size-fits-all solution, but rather it depends on the circumstances that make its establishment appropriate and where it will create value for the company. This entails that risk committee can contribute create value in certain companies where risks are considered to be high. In some cases operating environments are not complex in that the board itself without risk committee can manage the specific risks.

3.14.1.3 Nomination committee

A company should have board committees to ensure that the board effectively discharges its duties. A nomination committee of the board has the primary responsibility of appointing the directors of the board (Ur, Yussoff & Che, 2015:1452). According to Puni (2015:17), the nomination committee assists the board in discharging the responsibility of recommending and presenting new directors. Similarly, Deloitte and Touche (2014:2) advise that the role of the nomination committee is to review, on a regular basis, the composition of the full board, and where it appears that the board is lacking in skills or experience in a certain area, to identify how best to rectify the situation. Consequently, an effective nomination committee needs to ensure the appointment of board members whose interests are aligned with those of the shareholders. In this regard, one of the factors that contribute to the effectiveness of the nomination committee is the nomination committee's impartiality from the executive management of the company (Leong, Paramasivam, Sundarasen & Rajagopalan, 2015:218). Further, the nomination committee is of importance to ensure that the directors are well chosen, so as to improve financial performance of the company (Fauzi, Basyith and Foo, 2018:5).

Ernest and Young (2016:9) suggest that a nomination committee can comprise NEDs only as members. The NEDs in this regard, provide expertise and ensure objectivity in the decision making. However, Ernest and Young (2016:9) claim that while there are obvious benefits associated with NEDs (as the only members of the nomination committee), the risk that arises is the potential lack of questioning and challenge from a director who had not been party to the deliberations. In this regard, there should be a mix of executive and non-executive directors to allow cross-committee conversations to take place (Ernest and Young, 2016:9) which can improve company performance.

As the nominations committee plays a critical role in attracting and retaining best talents, it can indirectly influence the financial performance of a company. This is because employment of skilled and experienced people can improve business operations and can lead to improved financial performance. Similarly, Fauzi *et al.* (2018:1) conclude that nomination committee positively relates with the financial performance of companies. However, Puni (2015:23) in Ghana found that a nomination committee (which comprised minority NEDs) was negatively related with financial performance of companies. Although a nomination committee is a critical component of the board committees, this research study focuses on audit and risk committees in investigating the relationship between the board of directors and financial performance. Although a nomination committee is an important board committee, this research study did not include a nomination committee; but rather considered the number of board committees, which would also include a nomination committee.

3.14.1.4   Remuneration committee

Alkahtani (2015:196) acknowledges that the remuneration committee remains a contentious topic in the field of corporate governance. Remuneration committees play a vital role in preventing conflicts of interests between managers and shareholders. This is because executive directors may determine their own remunerations for their personal interests. Furthermore, the main role of the

remuneration committee is to assist and advise the board of directors on matters relating to the remuneration of the board and senior management, in order to motivate and retain executives and ensure that the company is able to attract the best talents in the market.

The IoDSA (2016:57) and Alkahtani (2015:196) posit that the remuneration committee should have at least three members and be comprised solely of non-executive directors (NED), with the majority of the members being independent non-executive directors. Similarly, Leong *et al.* (2015:220) argue that an independent remuneration committee increases the level of transparency and also determines a more performance-sensitive remuneration package. Consequently, a remuneration committee may relate with financial performance of a company.

Puni (2015:23) does not share the view that the presence of a remuneration committee would have a positive relationship with company performance. Puni's argument (2015:23) is that, despite the use of incentive mechanisms (such as sale of shares to management and directors) in aligning the interest of agents to principals, the chief executive officer and top executives may behave opportunistically to serve their individual interests more than the interests of shareholders. Although the remuneration committee is an important board committee, this research study did not include the remuneration committee as it was included in the overall board committees. Furthermore, the LuSE Code of Corporate Governance only requires that as a minimum require ement,a company should have an audit and remuneration committee (LuSE, 2015:6). In this regard, the LuSE Code of Corporate Governance does not require a separate audit committee and remuneration committee. The review of the financial reports of the LuSE listed companies has revealed that the majority of the LuSE listed companies (14 out of 19 companies representing 74% of the companies for this research study) had an audit committee thereby complying with the LuSE listing requirements. A total of 12 LuSE listed companies representing 63% of the 19 companies did not have a remuneration committee. Five of the LuSE listed companies representing 26% of the companies, had separate remuneration committees while two companies representing 11%, had an audit and remuneration committee as a combined committee. It is evident that the vast majority of the LuSE listed companies did not have remuneration committees. As the LuSE Code of Corporate Governance does not require a separate remuneration committee and

given that the majority of the LuSE listed companies did not have remuneration committees, the study did not include the remuneration committee.

3.14.2   Internal audit

Soh and Martinov-Bennie (2011:605) observe that in the aftermath of corporate scandals (such as Enron, WorldCom, Global Crossing and Parmalat) and the 2008 global financial crisis, corporate governance has received significant attention from the regulators and public. King IV principle 15 stipulates that the board should ensure that assurance services and functions enable an effective control environment and that these support the integrity of information for internal decision making and of the company's external reports (IoDSA, 2016:68).

The regulatory responses have focused on increasing disclosure requirements relating to corporate governance and this has, in turn, driven increased awareness and demand for internal assurance on corporate governance processes, including internal control and risk management. Consequently, the internal audit function is can provide this assurance and therefore is an integral component of the corporate governance mosaic (Soh & Martinov-Bennie, 2011:605).

The IIA (2016:1) broadly defines internal auditing as an independent, objective assurance and consulting activity, designed to add value and improve a company's operations. An internal audit helps a company accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes (Johl, Subramaniam & Cooper, 2013:784). As such, the internal audit is an internal control established by the company as a monitoring mechanism for the achievement of the company's objectives.

Johl *et al.* (2013:781) view the internal audit as a well-regarded internal monitoring mechanism and as one of the internal corporate governance structures of a company. Similary, Chambers (2015:34) views an internal audit as one of the corporate governance gatekeepers that failed to prevent the 2008 global financial crisis. As such, the internal audit has been become essential in risk management for

a company to prevent such financial crises and to ensure quality financial reporting and risk management that improve financial performance through value addition. In this regard, the internal audit is expected to contribute to the organisation's governance processes by evaluating and improving the process through which values and goals are established and communicated, the accomplishment of goals is monitored, accountability is ensured and values are preserved (Chambers, 2015:34).

Chambers (2015:34) observes that an internal audit needs to move firmly into the corporate governance space by ensuring that it audits corporate governance more effectively, and to provide more dependable assurance to boards of directors. As companies operate in highly regulated environments with complex operations, they face many different risks that can negatively relate with their financial performance.

Johl *et al.* (2013:781) and Gramling, Maletta, Schneider and Church (2004:194), (based on their review of prior surveys and experimental studies), contend that the internal audit function has the potential to affect corporate governance quality, financial reporting quality and the financial performance. Warren, Hannan and Youn (2011:2) resonate with this and hold that, based on four key auditing principles that include assurance, performance improvement, compliance and risk identification, the internal audit function leverages existing activities to continuously monitor, manage and improve business performance. Holt (2016:1) argues that an effective internal audit function can offer new perspectives and provide new ways of gleaning such insights so as to provide value to the company. Holt (2016:1) further attests that companies want a measurable impact from their internal audit functions, particularly around risk management and potential revenue enhancement. In this regard, many scholars such as Holt (2016:1), Awdat (2015:217), Al-Matari *et al.* (2014:34), Johl *et al.* (2013:781), Gramling *et al.* (2004:194), have observed a positive relationship between the internal audit function and financial performance as an internal audit improves earnings, leading to an increase in return on investments for the company.

3.14.3 External audit

The incidence of corporate collapses regarding financial scandals and related frauds, which have dominated scholarly debates around the world, have raised doubts about financial reporting credibility (Ediren, Ekwueme & Edesiri, 2015:220; Adeyemi & Fagbemi, 2010:169) and audit quality (Monye-Emina & Jeroh, 2014:1). External auditing is a corporate governance mechanism that can restrict the managerial discretionary practices and reduce the information asymmetry between the principal and the agent, thereby minimising conflicts of interest (Taktak & Ibtissem, 2014:83). An external audit as external assurance, improves the integrity of financial reports of the company (IoDSA, 2016:69). Farouk and Hassan (2014:2) resonate with this and add that an external audit protects the interests of the various stakeholders by providing a reasonable assurance that management's financial statements are free from material misstatements. Similarly, Kueppers and Sullivan (2010:286) recognise that the audit profession plays an essential role in the functioning of the global capital markets and adds value to the roles played by other stakeholders in the financial reporting process. As such, an external audit plays a critical role in providing assurances of the credibility of the financial reporting. An external audit is arguably a monitoring governance structure that should improve the financial performance of the company. In this regard, the auditors play a key role in contributing to financial performance by reducing the risks of significant misstatements and by ensuring that the financial statements are elaborated according to pre-set rules and regulations (Farouk & Hassan, 2014:2).

Farouk and Hassan (2014:17) also observed that the relationship between audit quality and financial performance is positive and significant and that the greater the degree of an auditor's independence, the greater the propensity of a company making substantial net profit margins. This is premised on the view that the external auditors provide independent advice that include practical recommendations to improve business operations. Improved business operations may lead to improved financial performance. Furthermore expression of independent opinion audit improves quality of financial reports and can have positive impact on the continued existence of the company. As argued by Ferreira (2018:40) the appointment of external auditors is largely influenced by the audit committee. In this regard, although

the audit is performed by an external auditor, is seen a an internal monitoring mechanism used by management to promote transparency and accountability within the companies.

3.15 Managerial ownership

Simoneti and Gregoric (2005:2) hold that shareholdings in a company represent one of the main factors that distinguish European corporate governance system from Anglo-Saxon system of corporate governance. In this regard, Anglo-Saxon corporate governance focuses mainly on shareholders and maximisation of profit, while the European corporate governance system shareholders are seen as one of the type of stakeholders of the company. Managerial ownership helps in alleviating the conflict of interest between the managers and owners of the company. Managerial ownership for this research refers to increasing the shareholding of existing directors and/or selling shares to the directors who do not have shares in the company. Managerial ownership is one way of incentive alignment that puts constraints on managerial discretion to reduce the misallocation of resources in a company. The aim is to align the objective functions of the owners and managers of the company (Mueller & Spitz, 2002:1). This is aimed at reducing the agency costs (arising from the agent-principal relationship) and re-aligning the interests of the directors with those of the shareholders.

As argued by Finegold, Benson and Hecht (2007:865), managerial ownership will ensure that the directors' actions and activities are in tune with the interests of the shareholders (as they are both the owners of the company and the executives of the company), and by extension, meeting the interests of other stakeholders of the company. According to Simoneti and Gregoric (2005:2), the relationship between managerial ownership and company performance is positive as the sale of company shares to managers may align managers' interests to shareholders' interests. Abor and Biekpe (2007:288) concur with this and further add that the aligning of such interests would improve company performance, as the directors aspire to increase shareholders' value from which they will also benefit.

The improvement in company performance is also as a result of managers' significant effort to innovation. Le and Thi (2016:190), Guo and Kumara (2012:664), Horváth and Spirollari (2012:470), Alonso-Bonis and Andrés-Alonso (2007:206) and Welch (2003:287) found a positive relationship between managerial ownership and company performance. Hu and Izuminda (2008:73) propose that the convergence of interests between managers and owners explains the positive effect of managerial ownership leading to superior company performance.

However, other authors disagree with this proposition. Managerial ownership would increase control over managers but may lead to inefficient risk sharing as managers concentrate on their personal risk to increase their wealth (Capozza & Seguin, 2003:367). This might negatively affect company performance (Demsetz & Villalonga, 2001:209). Furthermore, scholars such as Al-Sahafi, Rodrigs and Barnes (2015:1), Surya (2016:48) and Meyer and Wet (2013:19) concluded that managerial ownership negatively affected the Tobin's Q of the company mainly because managers become self-interested. In this regard, managers may serve their interests in pursuing investments in the company at the expense of the majority shareholders.

For public companies such as the LuSE and JSE listed companies, the proposition of managerial ownership to increase control and align the interests of directors to those of other shareholders, might improve the company's performance through the increase in the value of the shareholders, thereby meeting the interests of other stakeholders of the company. This could be achieved through the board's monitoring of management to ensure achievement of set financial and non-financial targets aimed at increasing the value of the company.

3.16   Summary of the relationship between corporate governance structures and financial performance

Table 6 provides the summary of the previous studies conducted on the relationships between corporate governance structures and company's financial performance.

Table 6:   **Summary of previous authors on the relationship between corporate governance structures and company financial performance**

Corporate governance structure	Relationship with financial performance		
	Positive relationship	**Negative Relationship**	**No relationship**
Board structure	Bigger boards have a positive significant relationship with financial performance using ROCE (Ferrer *et al.*, 2012:124; Kiel & Nicholson, 2003:193) in Philippines and Australia respectively.	In Australia, Nigeria, UK and Italy research conducted found that bigger boards negatively relate with financial performance as proxied by ROCE and Tobin's Q (Baccar *et al.*, 2013:292; Eyenubo, 2013:1; Guest, 2009:385; Lipton & Lorsch, 1992:59).	None of the reported studies have shown no significant relationship between board structure and financial performance.

Corporate governance structure	Relationship with financial performance		
	Positive relationship	**Negative Relationship**	**No relationship**
Board composition	Having greater proportion of outside directors (NEDs) have a positive relationship with financial performance as proxied by ROCE and Tobin's Q (Muravyev *et al.*, 2014:20; Alhaji *et al.*, 2013:110; Chechet *et al.*, 2013:41; Iwu-Egwuonwu, 2010:195; Jackling & Johl, 2009:494; Mak & Kusnadi, 2005:301).	NEDs negatively relate with financial performance as they lack business knowledge of a specific company (Annuar, 2014:339) in Malaysia.	No significant relationship exists between NEDs and financial performance proxied by Tobin's Q (Weir & Laing, 2001:88) in UK.
Audit committee	Audit committee as one of the board committees positively and significantly relates with financial performance of the company as proxied by ROCE and Tobin's Q (Aanu *et al.,* 2014:30; Kallamu & Saat, 2013:210; Siagian & Tresnaningsih, 2011:192) in Nigeria, Malaysia and Indonesia.	In Asia, Das (2017:15) has reported that audit committee negatively relates with financial performance proxied by ROCE.	Naimah and Hamidah (2017:1) – Indonesia; Al-Sahafi *et al.* (2015:1)- Saudi Arabia, Annuar (2014:339) - Malaysia and Al-Matari *et al.* (2012:248) – Saudi Arabia - found that presence of audit

Corporate governance structure	Relationship with financial performance		
	Positive relationship	**Negative Relationship**	**No relationship**
			committee does not have any significant relationship with financial performance of the company proxied by ROCE and Tobin's Q.
Risk Committee	Nahar *et al.* (2016:255) - UK, Barakat and Hussainey (2013:254) - Europe, Beltratti and Stulz (2012:1) – Global study, Ellul and Yerramilli (2011:1757) – USA and McNeil *et al. (*2005:39) - USA, record that risk management improves company performance thereby having a positive significant relationship with financial performance as proxied by both ROCE and Tobin's Q.	In Tunisia, Zemzem and Kacem (2014:189) reported that the risk committee negatively affects the financial performance of the company as proxied by ROCE.	None of the reported studies have shown no significant relationship between board structure and financial performance. (proxied ROCE and Tobin's Q).

Corporate governance structure	Relationship with financial performance		
	Positive relationship	**Negative Relationship**	**No relationship**
Nomination committee	Fauzi *et al.* (2018:1) concluded that the nomination committee positively and significantly relates with the financial performance of companies in Indonesia.	In Ghana, Puni (2015:23) has reported that the nomination committee negatively related with the financial performance of companies as proxied by ROCE.	None of the reported studies have shown no significant relationship between board structure and financial performance. (proxied by ROCE and Tobin's Q).
Board processes	In India, Sahu and Manna (2013:110) found that board meetings are one of the determinants of good corporate performance thereby positively affecting financial performance (ROCE and Tobin's Q).	In China, Chen *et al.* (2006:424) found that frequent meetings of the board of directors, lead to ineffective boards and negatively related with company performance (as proxied by ROCE).	None of the reported studies have shown no significant relationship between board structure and financial performance. (proxied by ROCE and Tobin's Q).

Corporate governance structure	Relationship with financial performance		
	Positive relationship	**Negative Relationship**	**No relationship**
Audit (external and internal audit)	Johl *et al.* (2013:781) and Gramling *et al.* (2004:194) in Malaysia argued that internal audit function positively relates with firm performance.	No reported study has shown negative and significant relationship between audit (internal and external audit) and financial performance (proxied by ROCE and Tobin's Q).	None of the reported studies have shown no significant relationship between board structure and financial performance. (proxied by ROCE and Tobin's Q).
Managerial ownership	Abor and Biekpe (2007:288) in Ghana as well as Simoneti and Gregoric in Slovenia (2005:2) posit that the relationship between managerial ownership and company performance is positive as giving managers company shares makes the managers behave like shareholders as their interests become aligned.	Managerial ownership would increase control over managers but may lead to inefficient risk sharing as managers concentrate on their personal risk to increase their wealth, negatively affecting company	None of the reported studies have shown no significant relationship between board structure and financial performance. (proxied by ROCE and Tobin's Q).

Corporate governance structure	Relationship with financial performance		
	Positive relationship	Negative Relationship	No relationship
		financial performance proxied by Tobin's Q (Capozza & Seguin, 2003:367 & Demsetz & Villalonga, 2001:209) following the research conducted in USA.	

Source: Author's compilation

3.17   Conclusion

This chapter has discussed the overall company performance with particular emphasis on the relationship between corporate governance structures and the financial performance of the LuSE listed companies. The chapter explored the different types of corporate governance structures which include internal and external structures that aim at improving long term shareholders' value by enhancing corporate performance and accountability, while considering the interests of other stakeholders. Furthermore, this chapter has discussed the relationship between internal corporate governance and company's financial performance. The discussion has revealed mixed results on the relationship between the internal corporate

governance structures and financial performance have been reported in the extant literature.

Having sufficient board committees such as audit, remuneration, nomination and risk committees; greatly contribute to improving financial performance of the company. Board processes that include the frequency of meetings have equally been argued to have a relationship with financial performance. One view advocates for more frequent meetings to improve performance and the other view arguing that more meetings negatively affect performance (Table 6), leading to mixed results. Both internal and external audits have been argued to contribute positively to the financial performance of the company by enhancing the integrity of financial reporting and value creation. Finally, managerial ownership has been argued to positively relate with company performance as the directors align their interests to those of the shareholders. It is evident that the current literature has mixed results relating to the relationship between corporate governance structures and the financial performance of listed companies.

Having discussed the theories on corporate governance and the relationship between corporate governance structures and company financial performance, Chapter 4 will discuss how data will be collected, analysed and reported.

CHAPTER 4:   RESEARCH DESIGN AND METHODOLOGY

4.1   Introduction

In the first chapter the researcher provided the background to the research by discussing the research problem statement, as well as the main aim of the research and the secondary objectives to achieve the aim. Corporate governance in developing countries, particularly in Zambia, has been explored in Chapters 1, 2 and 3. Having discussed the corporate governance and the relationship between corporate governance structures and financial performance, this chapter aims to discuss the design and methodology for this research study, provide justification for the chosen research design and critically discuss how this empirical research will be conducted.

The discussion of a theoretical framework provides the basis of this research study including how the research was implemented. This chapter will also discuss the relevant research paradigms that include positivism and social constructivism to the extent that they are relevant to this research study. The discussion will include justification of the two paradigms' relevance including the usage of mixed research.

Kothari (2004:1) explains that research refers to a search for knowledge. Research is the process of collecting, analysing, and interpreting data in order to understand a phenomenon (Sedgley, 2007:1; Williams, 2007:65; Kothari, 2004:1; Sekeran, 2003:5). Kothari (2004:1) considers research as a careful investigation or inquiry, especially by searching for new facts in any branch of knowledge. The broad view is that research is the diligent search, studious inquiry, investigation or experimentation aimed at the discovery of new facts and findings facts or evidence (Adams, Khan, Raeside & White, 2007:19).

A research process is thus systematic in that defining the objective, managing the data, and communicating the findings, occur within established frameworks and in

accordance with existing guidelines (Leedy & Ormrod, 2001:7). As such the process provides the framework for the study by describing the research paradigm, how data was collected, analysed and reported in order to achieve the aim of the research. Sedgley (2007:4) echoes this and claims that research is not a neutral process but reflects a range of the researcher's personal interests, values, abilities, assumptions, aims and ambitions. Williams (2007:65) holds that research originates with questions about one phenomenon of interest. The questions help researchers to focus thoughts, manage efforts, and choose the appropriate approach, or perspective from which to make sense of each phenomenon of interest (Williams, 2007:65). Similarly, Struwig and Stead (2013:183) argue that data interpretation focuses on integrating the data to provide an understanding of the themes and categories developed, to provide an understanding of the relationships that exist and to give meaning to the data. Struwig and Stead (2013:177) also advise that the literature review of any reseach provides the foundation on which to base reasonable interpretations of the data. Consistent with this view, the interpretation of the data for this research study will be based on the literature review as discussed in Chapters 2 and 3 to ensure the logical presentation of the findings in Chapter 5.

4.2   Theoretical framework

In order that the aim of this research is achieved, it is of paramount importance that a theoretical framework is established as a basis of the research plan in providing the structure and direction of the research. The phrase *theoretical framework* comprises two concepts, namely theory and framework.

Theory is defined as a set of interrelated propositions, concepts and definitions that present a systematic point of view of specifying relationships between variables with a view to predicting and explaining phenomena (Sharma, 2013:184; Corley Gioia, 2011:20; Fox & Bayat, 2007:1). Similarly, Morrison (2003:3) makes the point that theory is the important link that turns data into knowledge. In this regard, theory becomes a blueprint, a guide for modelling a structure. Sharma (2013:184) is of the opinion that theory is a systematic representation of a valid problem expressed as far

as possible mathematically, in the natural sciences, or logically in the life and social sciences.

Morrison (2003:3) contends that a framework is a structure that provides guidance for the researcher, and as research questions are modified, methods for measuring variables are selected and analyses are planned. As such, theory shapes the questions that are worth asking, which in turn determine a research strategy (Kielmann, Cataldo & Seeley, 2011:7). Imenda (2014:189) holds that a theoretical framework refers to the theory that a researcher chooses to guide him/her in his/her research and is the application of a theory, or a set of concepts drawn from one theory or more than one theory, to explain an event, or shed some light on a particular phenomenon or research problem.

Kielmann *et al.* (2011:7) posit that a theoretical framework is a critical part of one's research and as such, provides both structure and boundaries within which to work. Imenda (2014:190) and Marriam (2001:1) suggest that a theoretical framework:

- Provides assistance to understand what is already known about the topic and what needs to be learned or discovered;

- Aids in revealing patterns or relationships that assist in anticipating events or perceptions and opening up avenues for change or improvement;

- Supports the reader to understand the reasons why a given researcher decides to study a particular topic, the assumptions he/she makes; and

- Provides the researcher with a lens to view the world.

The different theories on corporate governance have been discussed in detail in Chapter 2. The discussion included the justification for the use of different theories that have informed this research study and more importantly the justification of stakeholder theory as the foundation theory for this specific research study. This is the first part of the theoretical framework of this research study. The second part of the theoretical framework includes the research paradigms and methods that are

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discussed in this chapter. As argued by Imenda (2014:190), without a theoretical framework, one's study would lack proper direction and a basis for pursuing a fruitful review of literature, as well as interpreting and explaining the findings accruing from the research. The theoretical frameworks discussed in the following sections therefore provide direction for this research and will also provide the basis for interpreting and explaining the findings. The researcher thus considers the theoretical framework as a critical component of the study.

4.3   Research reasoning methods

When conducting research, it is imperative to understand that there are different styles of reasoning or methods of scientific enquiry. Therefore, the styles of reasoning do inform the research and as such, have a considerable impact on the research outcomes. Adams *et al.* (2007:29) elaborate that there are basically two styles of reasoning in research, namely inductivism and deductivism.

4.3.1 Inductivism

Inductivism is an approach to research that relies on the empirical verification of a general conclusion derived from a finite number of observations (Zalaghi & Khazaei, 2016:24; Adams *et al.*, 2007:29). Hyde (2000:82) and Bhattacherjee (2012:3) concur with this and further hold that inductivism is viewed as a theory building process, starting with observations of specific instances, and seeking to establish generalisations about the phenomenon under investigation. Adams *et al.* (2007:29) add that inductivisim operates from the specific to the general phenomenon where an observation reveals patterns or trends in a specific variable of interest. Establishing the relationship between the board of directors and managerial ownership and company financial performance will involve inductivism to establish trends and relationships between the variables. The trends are then used to formulate a general theory of the nature and behaviour of that variable and often other variables which fall in the same class of phenomena.

For this research study the trends will be used to develop the theories on the relationship between the board of directors and managerial ownership on company financial performance. Thus, inductive researchers believe that one can logically generalise the observations into general and inclusive rules and the scientific assumptions get verified and ratified (Zalaghi & Khazaei, 2016:24; Godfrey & Hodgson, 2010:3). An inductive approach is needed to understand and generate a substantive theory about new and complex phenomena (Golicic & Davis, 2012:732). Furthermore, the inductive approach allows researchers, based on singular facts, to create statements about sets of facts and their future behaviour (Bendassolli, 2013:2). In this regard, analytic induction is an important tenet of qualitative inquiry (Morse & Mitcham, 2002:1). Thus, induction negotiates the relationship between empirical reality and its theorisation, in addition to the production and validation of knowledge (Bendassolli, 2013:2). Knowing facts is equivalent to identifying their causes and effects (Bendassolli, 2013:2).

Qualitative methods (discussed in Sections 4.6 and 4.11) such as interviews, were used to get in-depth insights from the chief executives of the LuSE listed companies on the relationship between corporate governance structures and company financial performance. These interviews also aimed at establishing whether corporate governance in general and corporate governance structures in particular, are important for LuSE listed companies. The aim of the interviews is to gain knowledge from the key role players about the relationship between corporate governance structures and company financial performance. For this research the use of inductivism through interviews helped in understanding the corporate governance theories and principles including the relationship between corporate governance structures and company financial performance.

As the inductive method concerns developing a theory; its main advantage is that there is no necessity for any pre-determined framework or model (Zalaghi & Khazaei, 2016:24). Despite this advantage the approach has some drawbacks. The inductive approach has been criticised as researchers get influenced by their limited knowledge of the relationships and the data of the research (Zalaghi & Khazaei, 2016:24-25; Saghafi, 2014:1). Zalaghi and Khazaei (2016:24) observe that induction as a principle is flawed, because it is based on human observations. Godfrey and

Hodgson (2010:6) share this view and add that empirical observation could be deceptive, as it depends on cultural and social context along with the researcher's knowledge and expectations; these factors are not a reliable basis for scientific laws. Bendassolli (2013:3) observes that in inductivism there is no logical connection between statements, but rather an empirical connection based on repetition of experience, making it difficult that a recurring event will continue to occur. With such criticisms labelled against inductivism, researchers such as Bhattacherjee (2012:3) and Sekaran (2003:27) have argued for an alternative research reasoning that involves testing theories and where the researcher is independent of the inquiry.

4.3.2 Deductivism

Deductivism is the process by which a reasoned conclusion by logical generalisation of a known fact can be determined (Sekaran, 2003:27). In this regard, deductivism concerns developing a logical structure to achieve the objectives based on the definitions and assumptions of the researcher (Zalaghi & Khazaei, 2016:24). The deductive approach constitutes developing an assumption based on the existing theories and forming a research plan to test the assumption (Zalaghi & Khazaei, 2016:24; Bhattacherjee, 2012:3; Wilson, 2012). As inductivism through interviews discussed in Sections 4.3, 4.7 and 4.11 will provide insights on corporate governance and financial performance of LuSE listed companies, deductivism through the use of regression analysis and questionnaires will test the relationship between the variables.

Deductivism, will thus, be used to test the relationship between corporate governance structures and company financial performance of LuSE listed companies. The deductive approach can be explained using the assumption driven from theory. In other words, the deductive approach includes deducing the results from the premises (being available facts) (Zalaghi & Khazaei, 2016:26). The goal of deductivism is theory testing but also refining, improving, and extending theory (Bhattacherjee, 2012:3). Hyde (2000:82) observes that quantitative enquiry generally adopts a deductive process. Thus, for this research deductivism will help in testing the existing theories (regarding the relationship between corporate governance

structures and company financial performance) and those developed through the insights from inductivism (interviews).

4.3.3 Use of both inductivism and deductivism

As argued in Section 4.3, inductivism moves from the "specific to the general" by developing theory, while deductivism moves from generalisation by testing theory (and refining and improving theory) to specifics. This research as discussed in Section 4.6, involves the use of mixed methods (qualitative and quantitative, primary and secondary methods, positivism and social constructivism). Consequently, both inductivism and deductivism as styles of reasoning are used in this research. This is aimed at achieving high quality research results to achieve the aim of the research.

The inductivism and deductivism approaches are complementary (Zalaghi & Khazaei, 2016:28; Bhattacherjee, 2012:3; Adams *et al.*, 2007:29) and as such, they helped in conducting this research and reaching the aims and objectives of the study. Additionally, as argued by Jogulu and Pansiri (2011:688), mixed methods advocate the use of both inductive and deductive approaches, which is a considerable strength as it enables researchers to undertake theory generation and hypothesis testing in a study without compromising one for the other. This is particularly important as inductivism (theory building) and deductivism (theory testing) helped in achieving the research aim of developing a framework of corporate governance structures for enhancing company financial performance.

4.4 Research types

According to the procedural design of a research and the choice among competing research designs should be clearly described. Careful designing of research procedure can help yield objective research results (Cooper & Schindler, 2014:15). As such it is important to consider the research types to be employed in a particular

research study to achieve the research aim and objectives. Some of the common research types include exploratory, descriptive and causal research.

4.4.1 Exploratory research

Wyk (2015:4) and Plooy-Cilliers, Davis and Bezuidenhout (2014:75) acknowledge that exploratory research is the type of research suitable for addressing a research area where there are considerable levels of uncertainty with limited knowledge. While corporate governance is a well-known phenomenon in other countries like South Africa, in Zambia corporate governance is a considerably new phenomenon (Kanyama, 2018:1). This research employed exploratory research through the use of semi-structured interviews. Thus the research study used semi-structured interviews to obtain insights from key role players on corporate governance and the relationship between corporate governance and financial performance. The insights from the key role players were obtained to improve knowledge on corporate governance and financial performance.

4.4.2 Descriptive research

In contrast to exploratory research, descriptive research explains the characteristics of phenomena and relationship between variables (Cooper & Schindler, 2014:134; Plooy-Cilliers *et al.,* 2014:75). Cooper and Schindler (2014:134) assert that descriptive research deals with investigative questions aimed at identifying association among different variables. This research involved both descriptive and inferential statistics. Descriptive statistics provided descriptions or characteristics of the control, independent and dependant variables of this research whereas inferential statistics were used to investigate the relationship between corporate governance structures and financial performance of the LuSE listed companies.

4.4.3 Causal research

In causal research, a researcher is concerned about the causes a certain phenomenon. Plooy-Cilliers *et al.* (2014:76) explain that researchers are required to find explanations for why certain things happen so that solutions are found. The overall purpose of causal research is to clarify how and why there exists a relationship between variables (Plooy-Cilliers *et al.*, 2014:76). Cooper and Schindler (2014:136) attest that the essential element of causation is that A "produces" B. As such casual research include inferences as statements of probability that A "produces" B based on what one observes and measures (Cooper & Schindler, 2014:136). For this research study, inferential statistics were used to identify the relationship between corporate governance structures and financial performance. Furthermore, inferential statistics were used to identify how the corporate governance structures were related to financial performance.

4.5 Research paradigms

The results or the conclusions of the research can be influenced by the perspective of the researcher (Bryman & Bell, 2007:24). Alexander, Wallace and O'Farrell (2009:2) argue that any research is subject to a range of underlying philosophical issues that reflect the researcher's set of ideas and belief system. Philosophy is the pursuit of wisdom and is therefore fundamentally linked to the concept of research. According to Knight and Cross (2012:41), the set of ideas and the belief system are described as the point of view of a researcher. Furthermore, the point of view involves the researcher identifying exactly what he or she wishes to learn. Thus, all research is based on assumptions about how the world is perceived and understood (Trochim, 2002:1).

According to Bryman and Bell (2007:24), as well as McGregor and Murnane (2010:420), a paradigm is a cluster of beliefs and dictates, which for scientists in a particular discipline, influence what should be studied, how research should be

conducted and how results should be interpreted. Alexander *et al.* (2009:2) echo this and add that a research paradigm is the collective range of beliefs, principles, limits and frameworks that define a particular approach to research. Bryman and Bell (2007:25-26) further explain that a research paradigm contains assumptions that can be represented as either:

- Objectivist – there is an external viewpoint from which it is possible to view a company, which comprises consistently real processes and structures; or

- Subjectivist – a company is a socially constructed product, a label used by individuals to make sense of their social experience, so it can be understood only from the point of view of individuals who are directly involved in its activities.

From the aforementioned, it is argued that the philosophical disposition of the researcher has influence on the research. Knight and Cross (2012:41) claim that determining the point-of-view of any research is largely a conceptual process and it is regarded to be of paramount importance since it is where the conceptual validity of the research is established. Alexander *et al.* (2009:2) conclude that the philosophical approach by a researcher affects the following aspects of the research:

- Research design;

- Choice of sample and type of data collected;

- The method of processing the data;

- How the outcomes of the analysis are interpreted;

- How results are converted into conclusions; and

- The extent to which the research contributes to the knowledge base.

The researcher has therefore taken deliberate steps to consider his philosophical disposition and making it clear in this research study as presented in Chapter 1 and this chapter. The discussion of the researcher's philosophical position is of particular importance as it provides the lens through which the researcher sees the world and makes his view clear to others; and how such a view impacts on the research

results. The two dominant research paradigms include positivism and social constructivism.

4.5.1 Positivism

Aliyu, Bello, Kasim and Martin (2014:81), as well as Kielmann *et al.* (2011:7), view positivism as the social science philosophy which is the closest to the theories of reality and knowledge of natural science. Bryman and Bell (2007:16), as well as Alexander *et al.* (2009:2), echo this and add that the underlying foundation of positivism is the logical and scientific analysis of events. Alexander *et al.* (2009:2) further attest that positivism was developed as an approach concerned with the regularities and causal relationships existing in a sample. In this regard, a causal relationship is one where two entities are linked by a relationship, where the action of one causes an effect on the other. Therefore, positivism suggests that reality is something tangible that can be objectively measured with the help of observational and experimental methods (Kielmann *et al.*, 2011:7). Aliyu *et al.* (2014:81) regard positivism as a research strategy and approach that is rooted in the ontological principle and doctrine that truth and reality are free and independent of the viewer and observer. The self-governing, independent and objective existences of truth become the hallmark of positivism (Aliyu *et al.*, 2014:81; Urquhart, 2008:1; Strauss & Corbin, 2007:12).

Implicit in the aim of this research study is the investigation of the relationship between corporate governance structures and the financial performance of the LuSE listed companies in Zambia. As discussed in Chapter 1, the relationship of internal corporate governance structures and financial performance was investigated. This is premised on the positivism paradigm as an objective. As will be discussed in Sections 4.7, the research study used questionnaires to collect and analyse data. This therefore involved quantitative methods through the use of regression analysis.

4.5.2 Social constructivism

According to Aliyu *et al.* (2014:83-84), social constructivism is a broad term for those who do not accept the ontological and epistemological claims of positivism. It is argued that social constructivism holds the view that reality or truth is constructed or formed by the observer or researcher. Ontology refers to individuals' assumptions about how people see the world and is basically concerned about the nature of reality. Epistemology describes the relationship between a researcher and the knowable (Loo & Lowe, 2011:24). Aliyu *et al.* (2014:83) hold that social constructivism focuses on how a researcher makes sense of the social world; how people navigate through it. It is essentially about how people make sense of things and is construed to be subjective. According to Kielmann *et al.* (2011:7), social constructivism suggests that reality is in the eye of the beholder; in other words, that there is no single reality for a given phenomenon, but multiple, relative dimensions of reality which can only be partially captured using subjective, naturalistic methods.

This research study used interviews to collect information as discussed in Section 4.11. This method of data collection is one of the methods associated with this research paradigm. The researcher practices as a chartered accountant and therefore regards himself as a social scientist, influenced by social constructivism as research paradigm with regard to gathering insights from the key role players through interviews.

4.5.3 Use of both paradigms

This research study is informed by both positivism and social constructivism as research paradigms. This will result in triangulation. According to Alexander *et al.* (2009:2), the use of both paradigms strengthens the research as both paradigms are viewed as elements towards the ends of the same continuum. This study employed regression analysis to determine the relationship between corporate governance structures and financial performance. Furthermore SAQs and interviews were used to obtain insights (from key role players) corporate governance and the relationship

between corporate governance structures and financial performance. As regression analysis and SAQs are examples of positivism research view while interviews reflect social constructivism view, the research study therefore employed both positivism and social constructivism to achieve the research aim and objectives. According to Alexander *et al. (*2009:2), the use of both paradigms strengthens the research as both paradigms are viewed as elements towards the ends of the same continuum.

4.6   Research design and strategy

Having discussed the research paradigms, it becomes imperative to discuss how the research will be conducted. Chapter 1 briefly introduced the research design for this research study. In this section, the research design is discussed in depth. According to Cooper and Schindler (2014:125) and Bryman and Bell (2007:40), a research design provides a framework for the collection, measurement and analysis of data. Trochim (2002:14) believes that a research design provides "the glue that holds the research project together". As such, the research design helps the researcher choose appropriate methods for the study (Kielmann *et al.*, 2011:7). The research design provides the blueprint on how the research aim and objectives will be addressed.

As corporate governance is an inter-disciplinary field, a comprehensive, robust and relevant research design must be developed and implemented in order to achieve the aim of the inquiry. According to Johl, Bruce and Binks (2012:6371), a research design for an inquiry includes concurrent use of research methods and sequential methods. Johl *et al.* (2012:6371) further claim that the aim of sequential triangulation research design, is to elaborate the findings of quantitative research method with qualitative method. This study initially involved the review and analysis of the financial reports of the 19 LuSE listed companies for the period 2009 to 2017. As discussed and justified in Section 4.8, the descriptive and inferential statistics as a quantitative method used to analyse the financial reports, will provide analyses about the performance of the LuSE listed companies. In particular as discussed in Section 4.9, the random effects panel regression models tests helped in investigating the relationship between corporate governance structures and financial performance.

Furthermore, insights (from key role players) on corporate governance and the relationship between corporate governance structures and financial performance were obtained through SAQs and interviews. As per Table 7, this research employed a concurrent mixed methods approach through analysis of financial performance, distribution of self-administered questionnaires and conducting interviews. In this regard, the output from one method is not meant to be the input of the other method. Accordingly, regression analysis was independently done from the distribution of self-questionnaires and the conducting of interviews. The different research methods have been discussed and motivated for this research study from Section 4.7 to Section 4.13.

4.6.1 Research methods

The research method is simply the procedure for collecting data (Rajasekar, Philominathan & Chinnathambi, 2013:5; McGregor & Murnane, 2010:420; Bryman & Bell, 2007:40) and thus provides specific steps of action that need to be executed in a certain order (Jonker & Pennink, 2010:26). Research methods are grounded in philosophical views in a discipline that stems from the prevailing paradigm, defined as a basic set of beliefs that guide action (Golicic & Davis, 2012:728).

4.6.2 Research methodology

Knight and Cross (2012:47) and Jonker and Pennink (2010:22) view research methodology as the procedural framework within which the investigation is conducted. Moreover, Jonker & Pennink (2010:26) and McGregor and Murnane (2010:420) maintain that the research methodology refers to the rationale and the philosophical assumptions that underlie any natural, social or human science study. Creswell and Tashakkori (2007:304) concur that research methodology is a broad approach to scientific enquiry, specifying how research questions should be asked and answered, general preferences for design, sampling logic, analytical strategies, inferences made on the basis of findings, and the criteria for establishing research quality.

Developing a suitable research methodology for a research project is a complex process (Goulding, 2002:1; Holden &Lynch, 2004:8). This study on corporate governance is multi-disciplinary in nature, informed by different theories and involving different stakeholders. Accordingly, the use of any research methodology should match the underlying questions being asked (Garcia & Gluesing, 2013:423) and consequently, the researcher views the research methodology as critical in answering the research questions discussed in Section 1.6.3 in order to achieve the aim of the research. Table 7 provides the research design and strategy adopted for this research study.

Table 7:   **Research design and strategy**

	Research Design and Strategy			
	Regression Model - Quantitative Research Method		Concurrent Mixed Research Method	
	Financial Performance - Return on Capital Employed	Financial Performance - Tobin's Q	Self-Administered Questionnaires - Quatitative Research Method	Interviews - Qualiatative Research Method
Development of instrument	Regression Model	Regression Model	Develop a selfadministered questionnaire	Develop interview questions (interview schedule)
Data collection	Data Collection	Data Collection	Data Collection	Data Collection
Data analysis	Data Analysis	Data Analysis	Data Analysis	Data Analysis
Triangulation	Interpretations of the results	Interpretations of the results	Interpretations of the results	Interpretation of Results

Source: Adapted from Johl *et al.* (2012:6375)

In the following Section 4.7, the collection of quantitative data will be discussed.

4.7   Quantitative data collection

Williams (2007:66) claims that quantitative research methods have been in use for a long time, stretching from 1250 to date, and have been driven by investigators with the need to quantify data that involves a numeric or a statistical approach. As such, quantitative research generates statistics through the use of large-scale survey research, using methods such as questionnaires (Dawson, 2002:15). Quantitative research is usually very detailed and structured (Sedgley, 2007:3). The quantitative data collection for this research study involved use of databases for LuSE and individual listed companies including the use of SAQs. In this regard, the use of quantitative methods aims to fragment and delimit phenomena into measurable or common categories that can be applied to all of the subjects, or wider and similar situations (Golafshani, 2003:597; Winter, 2000:3).

The review of the annual reports of the 19 LuSE listed companies for the nine year period from 2009 to 2017 was the starting point of this study and provided analyses and development of trends of the financial performance of the companies. The annual reports included the income statements and statement of financial position for each of the 19 companies for each financial year. The annual reports were obtained from both the companies' websites and the LuSE to ensure that data collected was consistent. In this regard, all the listed companies file their audited annual reports with the LuSE and consequently, the research study made use of the LuSE to obtain the required annual reports for the nine year period under review. Information from the Income Statements, Statement of Financial Position, Changes in Equity and Financial Statements accompanying notes was obtained to help in computing ROCE, Tobin's Q, asset values and gearing.

The collection of financial and corporate governance data for regression involved a number of stages as provided below:

Financial data

- Financial data (ROCE), specifically the profit before interest and tax and the total capital employed values, were obtained from the audited financial statements contained in the annual reports for each of the 19 LuSE listed companies for the nine years (2009 to 2017);

- The financial data was populated in Microsoft Excel and formulas developed to compute the ROCE as shown below:

2009			2010		
Profit Before Interest and Tax	Capital Employed *	ROCE	Profit Before Interest and Tax	Capital Employed *	ROCE
ZMK'Million	ZMK'Million		ZMK'Million	ZMK'Million	
158,943	803,659	19.78%	172,991	868,519	19.92%
92,814	282,830	32.82%	53,036	517,477	10.25%
37,514	24,077	155.81%	49,788	32,509	153.15%
126,008	3,039,455	4.15%	172,295	3,520,020	4.89%
115,024	2,976,606	3.86%	229,744	4,558,742	5.04%

- The process was then repeated for the other variable (Tobin's Q) that involved the collection of share capital and total assets values.

- Similarly, the financial data relating to the control variables (asset values and gearing) were obtained from the audited annual reports. Asset values were collected for each of the 19 LuSE listed companies and for the nine year period.

- Financial data relating to gearing was also collected for each of the 19 LuSE listed companies for the nine year period.

Corporate governance data

- Corporate governance data relating to corporate governance structures were collected from the annual reports of the 19 LuSE listed companies for each of the nine years under review, as shown below:

Year	Board Size	Board Committees	Audit Committee	Risk Committee	Board Leadership	Non-Executive Directors	Board Meetings	Sale of Shares to management
2009	7	2	1	0	1	57%	3	0
2010	7	2	1	0	1	57%	3	0
2011	7	2	1	0	1	57%	3	0
2012	6	1	1	0	1	67%	3	0
2013	6	1	1	0	1	67%	4	0
2014	6	1	1	0	1	67%	4	0
2015	7	1	1	0	1	57%	4	0
2016	7	1	1	0	1	57%	4	0
2017	7	1	1	0	1	57%	4	0

- After gathering the financial and corporate governance data, the data was collected by the statistician and imported to SPSS for the development of the descriptive statistics. The data was imported from Microsoft Excel to SPSS.

- Following the import of data to SPSS, the data was exported from SPSS into the Stata file format to run model analyses for investigating the relationship between corporate governance structures and financial performance.

With regard to the SAQ data, the data was collected from the key role players using SAQs. The data from the SAQs was then populated in SPSS as follows:

- The data from the questionnaire comprising of all the questions are populated in SPSS, while paying attention to Type of data (numeric or string) and Measure (nominal or ordinal).

- The data of all questions for each SAQ respondent was recorded in SPSS.

- To obtain descriptive statistics for the SAQ data, the analyse function was chosen on the menu bar for SPSS, followed by descriptive statistics and the relevant questions on the SAQ was then selected.

- For further analyses that required cross-tabulation, SPSS was used to obtain the required outputs.

4.7.1 Research population and sample

According to Cooper and Schindler (2014:338), a population is the total collection of elements about which a researcher wishes to make some inferences. For this study, the populations with regard to the number of SAQs respondents and the number of LuSE listed companies have been discussed in this section.

The research sample represents the segment of the population that is selected for research (Bryman & Bell, 2007:182). Sreejesh, Mohapatra and Anusree *(*2014:18) remark that sampling is a process that uses a small number of items to draw conclusions regarding the population. Sekeran (2003:266) resonates with this and further adds that sampling is the process of selecting a sufficient number of elements from the population, so that a study of the sample and an understanding of its properties or characteristics would make it possible to generalise such properties or characteristics to the population elements. According to Cooper and Schindler (2014:338), the basic idea of sampling is that by selecting some of the elements in a population, a researcher may draw conclusions about the entire population. Cooper and Schindler (2014:338) advocate that the compelling reasons for sampling include: low cost, accuracy of results, speed of data collection and availability of population elements. As such, sampling becomes one of the most important activities pertaining to the planning phase of the business research process (Sreejesh *et al.*, 2014:18).

The common sampling methods include probability sampling and non-probability sampling. Probability sampling allows elements in the population to have a known chance of being chosen (Sreejesh *et al.*, 2014:18). Non-probability sampling is viewed as a sampling method where the probability of selecting population elements is unknown (Adams *et al.*, 2007:19). Purposive sampling as a non-probality sampling method, is a deliberate selection of particular units of the population for constituting a sample which represents the population. In this regard, population refers to the entire group of people, events, or things of interest that the researcher wishes to investigate (Sreejesh *et al.*, 2014:18; Sekeran, 2003:265).

With regard to descriptive and inferential statistics, the 22 LuSE listed companies comprises the population. From the 22 LuSE listed companies only 20 LuSE listed were listed throughout the period 2009 to 2017. However, as one of the 20 LuSE listed companies did not have complete financial reports. As such the 19 companies became the sample for both the descriptive and inferential statistics for this research study.

Information on the relationship between the corporate structures and financial performance, would have been obtained from senior management and board members of the 19 LuSE listed companies and the five key institutions through SAQs. Non-probabilty sampling (used in this research through the use of purposive sampling) has been used to achieve convenience, efficiency, economy and effectiveness for this study (Cooper & Schindler, 2014:359).

The researcher targeted four SAQs per listed company. The questionnaires targeted two board members (comprising the board chairperson and chairperson of the audit committee) and two senior management members of staff (CFO and the company secretary). The choice of the four directors was to ensure the balance between the board and senior management and to allow involvement of senior management of the listed companies who have detailed operational information with regard to the financial performance. For this research, questionnaires were distributed to the 19 LuSE listed companies for gathering standardised information regarding the relationship between corporate governance structures and the companies' financial performance. Each company received four (4) questionnaires. The selection of the respondents was made through the purposive sampling method, which according to Sreejesh *et al. (*2014:18) and Sekaran (2003:265), involves selecting particular types of respondents, because they could provide the data that the researcher requires. While the board members would provide high level information with regard to corporate governance and financial performance, management would provide insights into the operationalisation of corporate governance and its relationship with financial performance. The response rate for this study for the SAQs is another important consideration. According to Mellahi and Harris (2016:426), the response rate for surveys is the percentage of the respondents out of the total sample that responded. Mundy (2002:1) argues that a response rate of between 60% and 80% is reasonable and acceptable for questionnaires. Consequently, a total of 76 SAQs

were distributed to the participants. This research study achieved a 61% response rate, as 46 SAQs out of the expected 76 SAQs were received.

4.7.2 Operationalisation of variables

This research study comprises control, independent and dependent variables used in investigating the relationship between corporate governance and financial performance of the LuSE listed companies. The control variables consist of asset values and gearing while ROCE and Tobin's Q account for dependent variables. Corporate governance structures consisting of board of directors and managerial ownership have been categorised as the independent variables for this research study. Information relating to all the control, independent and dependent variables were obtained from the annual reports of the LuSE listed companies.

The financial statements from the annual reports provided the information required for the regression analysis for determining the relationship between corporate governance structures and companies' financial performance. The descriptive statistics were used to quantitatively describe the important features of the independent (board of directors) and dependent variables (financial performance using ROCE and Tobin's Q). In addition, company size (value of assets) and company gearing are the control variables for the descriptive and inferential statistics for this research study. In compliance with the Zambia Institute of Chartered Accountants, LuSE Listing Rules and the Companies Act number 71 of 2003, all LuSE listed companies prepare their financial statements in accordance with the International Financial Reporting Standards (IFRS). The assets of the LuSE listed companies for the nine year period under review are recognised at historical cost and adjusted for market values in accordance with IFRS. Table 8 provides the details regarding the operationalisation of control, independent and dependent variables for this research study.

Table 8:   Description of the control, independent and dependent variables

Variable Name	Description/Operationalisation of the variable
Gearing	Defined as amount of long term debt divided by the sum of long term debt and share capital. Actual values as reported in the annual reports were used.
Asset Value	Value of company's assets at the end of the financial year. Actual values as reported in the annual reports were used.
ROCE	Defined as the operating profit divided by the sum of the book value of capital employed at the end of a specific financial year. Expressed in percentage (%) form (Equation 7).
Tobin's Q	The sum of market value of debt and equity divided by market value of the company (Equation 8).
Board Leadership	A binary number of '1' if the roles of CEO and Chairman are separated/ held by different people or '0' if both positions are held by the same person.
Board Committees	The total number of board committees at the end of each financial year.
Board Size	The total number of directors on the board of a firm at the end of each financial year.
Proportion of NEDs	The number of NEDs divided by the number of directors on the board of a firm at the end of each financial year (Proportion/Percentage).
Audit Committee	A binary number of '1' if a firm has an audit committee in place at the end of each financial year or '0' if otherwise.
Risk Committee	A binary number of '1' if a firm has a risk committee in place at the end of each financial year or '0' if otherwise.
Board Meetings	Number of board meetings held during the financial year.

Source: Researcher's own construct

The study consists of independent and dependent variables. The performance of the company is the dependent variable and is represented by ROCE and Tobin's Q, whereas the independent variable consists of corporate governance structures as discussed and motivated in Chapter 3. In this regard, the conceptual framework being the basis for understanding the correlational patterns of interconnections across events, ideas, observations, concepts, knowledge, interpretations and other components of experience (Svinicki, 2010:5), is presented in Figure 8. The conceptual framework provides the basis for establishing the relationship between corporate governance structures (the board of directors) and company financial performance.

4.7.2.1 Financial and corporate governance data

The data relating to the financial performance (proxied by ROCE and Tobin's Q) was obtained from the financial statements contained in the annual reports of the LuSE listed companies. In this regard, the income statements and statements of the financial position of the LuSE listed companies for each of the financial year provided the required data for computing ROCE and Tobin's Q. The income statements and statements of the financial position also provided data for computing gearing and compiling aset values for the period 2009 to 2017. The annual reports of the LuSE listed companies incorporated a section on corporate governance. Consequently, data relating to independent variables (board of directors) were obtained from the annual reports of the companies as provided in Table 8.

Figure 8:   Conceptual framework
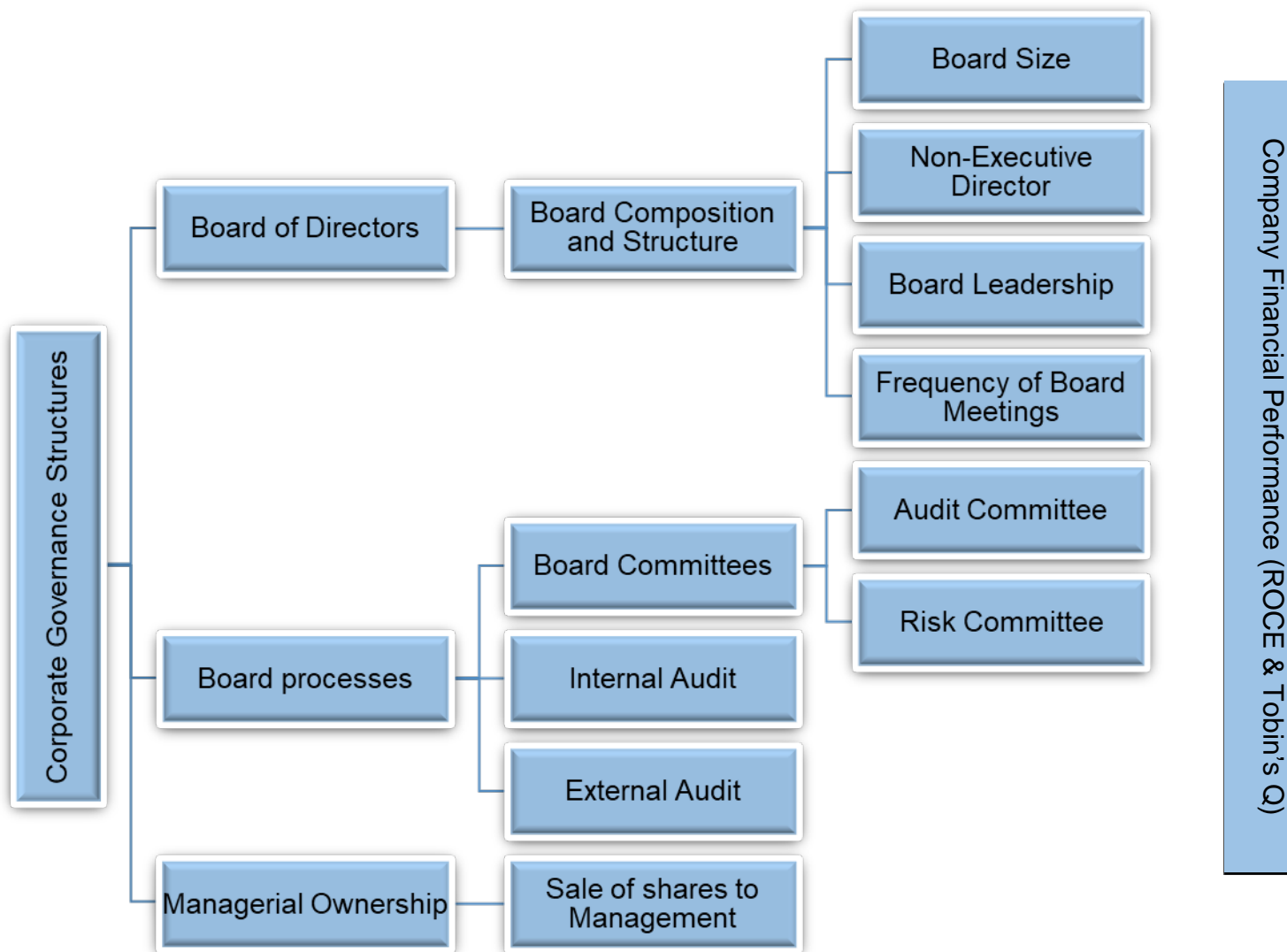
Source: Researcher's own construct

4.7.3 Use of SAQs

Cooper and Schindler (2014:312) advise that the tools of data collection should be adapted to the research problem and not the other way round. This means that crafting an instrument to answer the research questions posed in Chapter 1 is of paramount importance for this research study.

According to Sreevidya and Sunitha (2011:49), a questionnaire is a document containing a list of questions designed to solicit information from respondents that would be appropriate for analysis. This research study made use of questionnaires to gather standardised information regarding the relationship between corporate governance structures and LuSE listed companies' financial performance. As per Appendix 2, the questionnaire is a self-administered questionnaire which was completed by the respondent. According to Bryman & Bell (2007:240), the aim of the questionnaires is to obtain objective and standardised data. In this regard, the respondent reads the questions and gives his/her answers on his/her own (Sreevidya & Sunitha, 2011:49; Bryman & Bell, 2007:240). The researcher emailed the questionnaires to be completed. The respondents, identified as key role players, then sent the questionnaires back to the researcher. The questions were mostly closed-ended questions so that the responses could be quantified in terms descriptive statistics.

The use of SAQs for this research study had benefits that included relatively cost-effective to administer, it is quick to administer and finally the convenience for the respondents to answer the questions (Bryman & Bell, 2007:241). Despite these benefits Bryman and Bell (2007:242), caution that the general drawbacks of the use of questionnaires include the lack of follow-up questions to the particular respondent and some questions may not be appropriate for some respondents because of their level of education. Long questionnaires may not be appropriate for the respondents which may lead to a lower response rate. In order to address the limitations associated with questionnaires, the researcher carefully designed the questions

based on the primary and secondary research objectives. As such the SAQ was designed by ensuring that it included an introduction of the researcher and the purpose of the research. Furthermore, the SAQ was designed to enable collection of information relating to the participants' background, corporate governance theories, corporate governance structures and the relationship between corporate governance structures and financial performance in order to achieve the research objectives. The SAQs were administered concurrently with interviews from July 2017 to November 2017.

For any research, the quality of the respondents' responses is critical to achieve the aim of the research. In this regard, a researcher can improve the quality of expected answers by respondents by modifying the administrative process by asking questions aligned to the research aim and objectives. Building rapport with the respondents and exploring alternative response strategies can improve the research results (Cooper & Schindler, 2014:323). The researcher aligned the questions in the questionnaires to the research aim, objectives and questions thereby addressing the drawbacks of the questionnaires' administration.

4.7.4 Quantitative data analysis

Data analysis entails organising and interrogating data in ways that allow researchers to see patterns, identify themes, discover relationships, develop explanations, or generate theories. The analysis of the financial performance was done from a positivist approach. As with many studies in corporate governance and company performance (Benjamin, 2009:231; Abor & Biekpe, 2007:288; Villalonga & Amit, 2006:385; Mishra *et al.*, 2001:235), this research study made use of descriptive statistics and regression analysis.

Cooper and Schindler (2014:86) observe that data analysis involves sythesising accumulated data to a manageable size, developing summaries, looking for patterns and applying statistical techniques. Jonker and Pennink (2010:142), as well as Hatch, (2002:20), concur with this proposition and further assert that the analysis is a continuous, iterative process that includes data reduction, display and conclusion.

Data reduction refers to the process of selecting, simplifying, abstracting and transforming the data that appear in written-up field notes or transcriptions, whereas data display is an organised, compressed assembly of information that permits conclusion drawing and action (Jonker & Pennink, 2010:142). Consequently, as argued by De Vos (2002:339) data analysis is important, as it is the process of bringing "order, structure and meaning to the mass of collected data."

According to Bryman and Bell (2007:45), quantitative data gathered as numbers or turned into numbers is analysed through statistical methods to identify the relative frequency of particular phenomena. This study employed both descriptive and inferential statistics.

4.7.4.1   Descriptive data analysis

Descriptive statistics describe the collected data aimed at developing trends. Therefore, descriptive statistics revealed trends of the financial performance of the LuSE listed companies. The descriptive statistics also enabled compilation of statistical mean, minimum value, maximum value, standard deviation and number of observations. The use of descriptive statistics thus helps in summarising the data collected. Descriptive statistics also help in developing patterns in terms of the relationship between corporate governance structures and financial performance and help in adjusting the existing framework of corporate structures to enhance the financial performance of the LuSE listed companies.

4.7.4.2   Inferential data analysis

The inferential data analysis involved use of regression analysis in determining the relationship between corporate governance structures and financial performance. According to Gujarati (2003:57) panel data is pooled data in which the same cross-sectional unit is surveyed over time. Although panel data has its advantages, it can also give rise to statistical problems in regression analysis. As such, it is important to determine whether there are fixed effects present in the variables (Fakoya, 2017:11; Wellalage, 2012:48). In this regard, Hausman's specification test was used to differentiate between the random and fixed effects models for this study.

Consequently, this research study employed the Durbin-Wu-Hausman (DWH) econometric test to identify the endogeneity effect of corporate governance variables used in this research study. In principle Hausman's specification test differentiates between random and fixed effects panel regression models by testing for relationship between the variables (x) and the individual random effects (εi). The fixed effects model explores the relationship between predictor and outcome variables within an entity. The fixed effects model assumes that something within the individual can influence outcome variables and thus needs to be controlled for (Gujarat, 2001:39; Fakoya, 2017:11).

Unlike the fixed effects model Section 4.9, the random effects model assumes the variation across entities is to be random and uncorrelated with the independent variables included in the model (Ferede, 2012:67). The Hausman regression tests were run for both ROCE and Tobin's Q. As discussed in Section 4.9, the random effect model was adopted for this research study.

4.7.4.3   SAQ data analysis

With regard to self-administered questionnaires (SAQs) respondents, each of the respondents was given a unique code for identification. Responses to the questions in the questionnaires were entered into SPSS for each participant. This was done to facilitate the grouping of responses into themes and tabulating them to allow presentation and interpretation of the results. In this regard, Cronbach's alpha was used for internal consistency reliability. According to Bonett and Wright (2014:1), Cronbach's alpha is one of the most widely used measures of reliability, describing the reliability of questionnaire items. Furthermore, the SAQ responses were loaded into SPSS to develop descriptive statistics and to weight the responses. The weighted responses would then be analysed and ranked based on the weightings (using percentages) provided to the SAQ items relating to the questions. This research distributed and received a total of 46 questionnaires.

4.7.5 Regression analysis for the research study

Regression analysis is a method for determining the mathematical formula relating to variables (Targett, 2001:1). This study aims at establishing the relationships between corporate governance structures and company performance so as to adjust and improve the existing framework of corporate governance structures in order to enhance a company's financial performance. In this regard, regression was used to measure the relationships. Consequently, the research study focused on the relationships between the variables and as such, did not test the causality of corporate governance and financial performance. Consistent with Aldalayeen (2017:127), Manini and Abdillahi (2015:34), Abor and Biekpe (2007:288) and Mishra, Randoy and Jenssen (2001:235), regression analysis through the use of Pearson's correlation co-efficient was used to assess the strength of the relationship between the independent (internal corporate governance structures) and dependent variable (financial performance). According to Marczyk, Dematteo and Festinger (2005:58), the regression analysis shows the degree of association between independent and dependent variables. In this regard, the regression analysis helped in establishing the relationship between the board of directors and managerial ownership and the financial performance of the 19 LuSE listed companies. Thus, regression was used to determine the relationship between corporate governance structures and financial performance.

As multiple variables are involved in this research study, a panel regression model that involves different years and multiple variables was used to investigate the relationship between corporate governance structures and financial performance. In this regard, Stata Version 13 using random effects panel regression model tests was used to investigate the relationship between corporate governance structures and the financial performance of the LuSE listed companies.

4.7.5.1   The model specification for the study

According to Targett (2001:7), building a model is a "mathematical-sounding expression for a specific task". As such the aim of building a regression model is

essentially to find a pattern in the numbers. In this regard, model specification refers to the determination of which independent variables should be included in, or excluded from, a regression equation. In general, the specification of a regression model should be based primarily on theoretical considerations of the research that include the theoretical framework and the research methods. As such, model specification involves relationships of variables, the specification of the variables that participate in each relationship, and the mathematical function representing each relationship.

Consistent with the views of Gujarati (2003:37), balanced panel data was used, because it has the following advantages:

- It provides a greater degree of freedom;

- It provides less collinearity among variables;

- It provides more cross-sectional and time series variability;

- It provides more asymptotic efficiency;

- It provides more informative data; and

- It accounts for observable and unobservable firm-level heterogeneity in individual-specific variables.

To investigate the relationship between corporate governance structures and financial performance, it is important that an appropriate statistical model is chosen.

4.7.5.2   Hausman tests for random and fixed effects models

The regression analysis was conducted to determine the nature of the relationship between the corporate governance structures and company financial performance for the period 2009 to 2017. For this research study, the financial performance of the listed companies is the dependent variable measured by ROCE and Tobin's Q. Researchers such as Benjamin (2009:231), Villalonga and Amit (2006:385), Abor and Biekpe (2007:288), as well as Mishra *et al.* (2001:235) have used regression

models to establish the relationship between corporate governance and financial performance. The regression analysis involved the use of inferential statistics from which the data was analysed using the Stata Version 13.

Clark and Linzer (2015:399) argued that empirical analyses from grouped quantitative data require researchers to account for group-level variation and improve model fit by carefully choosing relevant estimation techniques. The two most commonly used estimation techniques are fixed effects and random effects models (Chang, 2015:59). One of the assumptions in the fixed effects model is that the true effect size is the same in all studies (Borenstein, Hedges, Higgins & Rothstein, 2009:112). Clark and Linzer (2015:402) observe that the fixed effects model may produce estimates that are considerably sensitive to the random error in a given dataset. While the random effect model may not be subject to sample dependence, there may be bias in the coefficient estimates (Clark & Linzer, 2015:402) and as such it is important to conduct Hausman tests.

This research study conducted Hausman tests for both ROCE and Tobin's Q to determine the appropriate model. According Green (2012:420) choosing between fixed or random effects model entails conducting a Hausman test where the null hypothesis is that the preferred model is random effects versus the alternative fixed effects model. The Hausman tests determine whether the unique errors are related with the regressors, the null hypothesis if they are not (Greene, 2012:420; Torres-Reyna 2007:27). Greene (2012:420) and Torres-Reyna (2007:27) agree that if the probability of chi-squared is less than 0.05 (that is significant) then fixed effects model may be used otherwise use random effects.

In order to carry out the Hausman Test, it is required to calculate $\hat{\beta}_{RE} - \hat{\beta}_{FE}$ and its covariance. The covariance of an efficient estimator and its difference from an inefficient estimator, should be zero. If there is no relationship between the independent variables and the unit effects, then estimates of β in the fixed effects model ($\hat{\beta}_{FE}$) should be similar to estimates of β in the random effects model ($\hat{\beta}_{RE}$). The Hausman test statistical formula is given as follows (Greene, 2012:420; Torres-Reyna 2007:27):

Equation 1:   Hausman statistical formula

$$W= (\hat{\beta}_{RE} - \hat{\beta}_{FE})'[Var(\hat{\beta}_{FE}) - Var(\hat{\beta}_{RE})]^{-1} =(\hat{\beta}_{RE} - \hat{\beta}_{FE})\dots\dots\dots\dots\dots\dots\dots\dots\dots(1)$$

Where:

W is distributed chi-square with degrees of freedom equal to the number of regressors in the model,

$\hat{\beta}$ is beta

RE is Random Effect model

FE is Fixed Effects model

Var is Variance

Under the null hypothesis of orthogonality, W is the distributed chi-square with degrees of freedom equal to the number of regressors in the model. If W is significant, the random effects estimator should not be used (Green, 2012:420).

A number of tests were conducted to ensure that the assumptions underlying regression are not violated. As such, different tests were conducted to address the specification errors for the regression models. With regard to autocorrelation (serial correlation), this research study, using the xtserial command in Stata, revealed that autocorrelation did not exist. A residue normality test was done using the Shapiro-Wilk test which is available in the Stata package. The null hypothesis for this test is that the data are normally distributed. When the test was run for both dependent variables, with the chosen alpha level being 0.05, the p-values were greater than 0.05, entailing that the null hypothesis could not be rejected as the data was normally distributed.

The multi-collinearity test was conducted to determine whether the independent (X) variables were related. The test results showed that none of the bivariate correlations were greater than 0.7, indicating that there was no multi-collinearity. This was confirmed by the fact that results from auxiliary regressions of the X variables results of which resulted in variance inflation factors (VIF) which was below 10. Furthermore, heteroscedasticity test revealed that heteroscedasticity was present. Using graph and Breusch-pagan tests, the results showed that the explanatory variables had an effect on the variance of the error term, entailing that

heteroscedasticity existed. As a remedy to this, robust standard errors were used to control for heteroscedasticity. The diagnostic test (heteroscedasticity test) using the Stata package was an important test conducted to control for heteroscedasticity. Unless specified, econometric packages automatically assume that the condition of the error term in a regression model is constant (homoscedasticity) and will calculate the sample variance of an estimator based on the constant variance assumption. When heteroscedasticity is present in the data, the variance differs across the values of the explanatory variables and violates the homoscedasticity assumption, making the estimator unreliable due to bias (Greene, 2012:431). Therefore, the test for heteroscedasticity is imperative when running a regression model.

The Breusch-pagan test was used to help detect heteroscedasticities. As the Stata package has an imbedded robust standard errors module it becomes easy to control for heteroscedasticity, as it becomes part of the procedure in running the regression model. Heteroscedasticity tests use the standard errors obtained from the regression results (Greene, 2012:429). Using Stata, the regression was run, including the test procedure line. The result from the test procedure showed that the probability value of the chi-square statistic was less than 0.05, which meant that the null hypothesis of constant variance was rejected at 5% level of significance. This implied the presence of heteroscedasticity in the residues. In order to correct for heteroscedasticity, the robust standards errors command was used by adding the robust option in the regression command. Thus, the problem of heteroscedasticity was not present after running the robust error module. Consequently, the regression model test results in Tables 24 and 25 are after taking heteroscedasticity into account.

As per Table 9 the Hausman test using ROCE revealed that that prob>chi^2 was 0.22 which is greater than 0.05. In this regard, the fixed effects model was rejected. Consequently, the random effect model was adopted as the appropriate model for ROCE.

Table 9: **Hausman test for ROCE**

Variable	Coefficients			
	(b)	(B)	(b-B)	Sqrt (diag (V_b-V_B))
	Fixed	Random	Difference	Standard Error
Asset value	-0.17	-0.49	0.32	0.28
Gearing	-0.13	-0.18	0.05	0.03
Board size	-3.08	-4.10	1.02	1.27
Board committees	1.41	-0.17	1.58	4.21
Audit committee	-46.70	-29.45	-17.25	6.95
Risk committee	3.97	1.50	2.47	13.00
Non-executive director	0.16	0.10	0.06	0.12
Board meetings	1.91	1.94	-0.04	0.67
Prob>chi2= 0.22				

Table 10 the Hausman test using Tobin's Q revealed that the prob>chi2 was 0.83 which is greater than 0.05 thereby rejecting the fixed effects model. Consequently the random effect model was adopted as the appropriate model for Tobin's Q.

Table 10:   Hausman test for Tobin's Q

Variable	Coefficients			
	(b)	(B)	(b-B)	sqrt (diag(V_b-V_B))
	Fixed	Random	Difference	Standard Error
Asset value	0.00	0.00	0.00	0.00
Gearing	-0.01	-0.01	0.00	0.00
Board size	-0.01	0.00	-0.01	0.13
Board committees	-0.61	-0.02	-0.58	0.03
Audit committee	0.26	0.14	0.12	0.07
Risk committee	-0.04	-0.60	0.56	0.11
Non-executive director	0.00	0.00	0.00	0.00
Board meetings	0.03	0.02	0.00	0.01
Prob>chi2= 0.83				

From the Hausman tests the study adopted the random effects model for both ROCE and Tobin's Q as financial performance proxies. In this regard, the random effects model was used in investigating the relationship between corporate governance and financial performance of the 19 LuSE listed companies for nine year period.

4.7.5.3   The random effects

The panel data provided information on individual behaviour, both across individual companies and over time (the between and within variations). Furthermore, panel data is balanced when all individuals are observed for all time periods ($T_i = T$ for all i) or unbalanced when individuals are not observed in all time periods ($T_i \neq T$). In this research study, one company did not have complete financial information and was thus excluded from the study. The remainder of 19 LuSE listed companies had complete financial information for the nine years. In this regard, the 19 LuSE listed companies represented balanced panel data for this research study.

The following panel data using random effects model has been employed in investigating the relationship between corporate governance structures and financial performance of LuSE listed companies in Zambia:

Equation 2:   Random effect model

$$Yit = a + bXit + \varepsilon it \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots \quad (2)$$

Where:

Y is the dependent variable (financial performance);

X represents both independent and control variables;

a and b are coefficients

i and t are indices for individuals and time; and:

ε is the error term.

In the above model, Y represents financial performance as proxied by ROCE and Tobin's Q. The independent variables are board size, board composition, board leadership, audit committee, risk committee, board meetings and sale of shares to management. Furthermore, the research study also uses X to represent control variables. The control variables consist of company asset values and gearing and have been employed to avoid bias in the results of the research.

As this research investigated the relationship between corporate governance structures and the financial performance of the LuSE listed companies, the panel

data model investigated the relationship by drawing inferences. The inferences comprised the level of association of financial performance and corporate governance structures. Consequently, the panel data model considered two major elements of analysis that include statistical significance and level of influence. The statistical significance was measured against confidence levels set at 1%, 5% and 10%.

For this specific study, the assumption is that a relationship exists between the types of variables as shown in Models 1 and 2 on pages 230 to 234. As discussed in Chapter 1, company financial performance may not only be influenced by corporate governance structures but also by other factors such as company assets and gearing. According to Otman (2014:161), control variables are considered fundamental for ensuring that the tests concentrate more accurately on the differences created by variations in corporate governance. For this research, company assets represent the value of assets that a company has at the end of each financial year. The total assets of a company translate to company size and in this regard, company size has may have a relationship with a company's financial performance. Azeez (2015:184) holds that larger companies, as measured by total assets, may perform better, because they utilise economies of scale.

The other important control variable is gearing which is also called leverage. Gearing, which is defined as the amount of long term debt divided by the sum of long term debt and share capital, affects a company's financial performance. Azeez (2015:184), Otman (2014:161), Vintilă and Gherghina (2012:179), Haniffa and Hudaib, (2006:1045) agree that debt affects company performance as it reduces the free cash-flow. Azeez (2015:184) further highlights that highly leveraged companies are more closely monitored by debt providers, who may put pressure on the companies to adopt good governance practices leading to improved company financial performance. Although the LuSE listed companies comprise companies from different sectors as per Appendix 5 therefore have different capital structure, gearing levels affect company financial performance. In this regard, gearing has been included as one of the control variables. In addition, the different sectors to which the companies belong have different sector regulations and laws. For this research study, the Companies Act and LuSE Code of Corporate Governance are

the principle regulations and documents applicable to all the LuSE listed companies to enable comparison of results across the LuSE listed companies.

The two control variables (assets value and gearing) may have a relationship with a company's financial performance (as measured by ROCE and Tobin's Q) and are thus used as the control variables for this research study. In this regard, consistent with many researchers on corporate governance and company performance, ROCE as a dependant variable, is a function of the internal corporate governance structures comprising the board and managerial ownership. As such this research investigated the relationship between the control variables (asset values and gearing) and financial performance of the LuSE listed companies. In this regard, the research study did not test the causality of corporate governance structures and the financial performance of LuSE listed companies.

Model 1

Equation 3:   ROCE summarised equation as a proxy of financial performance

$$ROCE = f(BOD, ASS, GEAR) \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots \quad (3)$$

Equation 4:   ROCE detailed equation as a proxy of financial performance

$$ROCE = \beta 0 + \beta 1 BODt\big((BST(BS + BL) + BC + BM) + BP\big) + \beta 2(ASS) + \beta 3(GEAR)\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots \quad (4)$$

Where

- **ROCE** represents Return on Capital Employed;

- f represents function;

- **BOD** represents the Board of Directors;

- $\beta 0$ is the intercept;

- $\beta 1$ is the coefficient of the Board of Directors;

- β_2 is the coefficient of Managerial Ownership (this measures the strength of the relationship);

- β_3 is the coefficient of Assets (Value of Assets);

- β_4 is the coefficient of Gearing;

- t is time representing the year;

- **BST** is Board Structure;

- **BS** is Board size;

- **BL** is Board Leadership;

- **BC** is Board Committees;

- **BM** is Board Meetings;

- **BP** is Board Processes;

- **ASS** is value of Assets (company size); and

- **GEAR** is Gearing (Leverage).

For this research study, Model 1 represents financial performance measured by ROCE. In this regard, ROCE is the function of the board characteristics and managerial ownership. Thus ROCE for each of the years from 2009 to 2017 for all 19 LuSE listed companies was computed to help in investigating the relationship between the corporate governance structures and the financial performance of the companies. Board characteristics refer to the board structure, composition and processes. The descriptive and inferential statistics results have been discussed in Chapter 5. Consequently, models 1 and 2 will inform Chapter 5 regarding the results of the analysis of secondary data gathered from the financial statements of the 19 LuSE companies for the period of nine years spanning from 2009 to 2017 with a view to investigate the relationship between corporate governance structures on financial performance measured by ROCE and Tobin's Q. Consequently, Model 2 is

concerned about the financial performance measured by the Q Ratio which is influenced by the internal corporate governance structures.

Model 2

Equation 5:   Tobin's Q summarised equation as a proxy of financial performance

$$Tobin's\ Q = f(BOD, ASS, GEAR)\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\quad (5)$$

Equation 6:   Tobin's Q detailed equation as a proxy of financial performance

$$Tobin's\ Q = \beta0 + \beta1BODt\big((BST(BS + BL) + BC + BM) + BP\big) + \beta2(ASS) \\ + \beta3(GEAR)$$
$$\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\quad (6)$$

Tobin's Q is expressed as the ratio of the market value of common shares plus total debt divided by the book value of total assets of the company.

Many studies (Al-Matari et al., 2012:244; Ferrer *et al.*, 2012:130; Vintilă & Gherghina, 2012:179; Tan *et al.*, 2010:736; Abdelkarim & Alawneh, 2009:105; Harjoto & Jo, 2008:146; Garg, 2007:42; Haniffa & Hudaib, 2006:1045; Florackis, 2005:213) have employed regression models to analyse the relationship between corporate governance and financial performance. This study used the above models to analyse the relationship between corporate governance structures and company financial performance.

4.7.6   Dependant variables and data analysis

The dependant variables for this study include ROCE and Tobin's Q.

4.7.6.1   ROCE

As discussed in Chapter 3, there are a number of financial performance measures that include the ROA, ROE and the ROCE amongst others. This research study

employs the ROCE as a measure of how effectively and efficiently the investments have been utilised by the companies. According to Cheung, Liang, Liampaphayom and Lu (2010:5), the ROCE is defined as the operating profit divided by the sum of the book value of capital employed at the end of a specific financial year. The choice of ROCE for this research is because it is easy to calculate ROCE, the availability of information as well as the easy comparison among the LuSE listed companies. Dehaene, DeVuyst and Ooghe (2001:383) maintain that the ROCE ratio is the most frequently used as the accounting-based measure of performance in corporate governance research.

The ROCE ratio is a measure that shows investors the profit generated from the money invested by the investors (Epps & Cereola, 2008:1138). Many researchers (Al-Matari *et al.*, 2012:244; Ferrer *et al.*, 2012:130; Vintilă & Gherghina, 2012:179; Tan *et al.*, 2010:736; Abdelkarim & Alawneh, 2009:105; Harjoto & Jo, 2008:146; Garg, 2007:42; Haniffa & Hudaib, 2006:1045; Florackis, 2005:213) have found ROCE to be useful and relevant in determining the relationship between corporate governance and company performance. In this regard, as the financial information required for the calculation of ROCE is easily available from the financial reports, comparison of ROCE, across the periods of the same company and also across companies, can easily be made. According to Sumiyana and Hendrian (2011:9), the operating profit demonstrates wealth creation, a measure that is used to assess performance of management in achieving financial objectives of the company. Consistent with existing research on corporate governance (Hamidah, 2015:3; Hailemariam & Hagos, 2010:5) the formula for the ROCE for this research study is:

Equation 7:   ROCE formula

$$\text{ROCE} = \text{Profit before interest } and \text{ tax} \div \text{Capital employed (Shareholders'equity } + \text{non} - \text{current liabilities)}$$

……………………………………………………………………………………………   (7)

4.7.6.2   Tobin's Q

Shan and McIver (2011:309) contend that the ROCE ratio is backward looking as it is based on historical data. One of the ways of addressing the limitations of the ROCE ratio is the inclusion of the use of Tobin's Q in this research study. According to Gompers, Ishii and Metrick (2003:1), Tobin's Q (hereafter also referred to as the Q-ratio) is defined as the market value of total assets divided by the book value of total assets, where the market value of total assets is measured by the market value of equity plus the book value of total assets minus the book value of equity. Thus the formula is:

Equation 8:   Tobin's Q formula

$$Tobin's\ Q = Market\ value\ of\ debt\ and\ equity\ \div\ Market\ value\ of\ the\ company$$
....   (8)

The Q-ratio uses market values that investors assign to a company's tangible and intangible assets based on predicted future revenue and cost streams (Shan and McIver, 2011:309). The replacement value for this research will comprise the book values of the company's assets. For example the value of the ordinary shares will be the value of the shares at which they were issued and recorded as book values in the financial statements. In this regard, this research study has adopted Tobin's Q to be the sum of the market values of debt and equity divided by the replacement value of the company.

4.7.7   Reliability and validity

To ensure that the aim and the objectives of the research are well addressed, research questions were formulated in Chapter 1. In order to address each of the questions in a logical manner the researcher should be certain that the research method adopted is appropriate and compatible with the research (Alexander *et al.,* 2009:37). An important consideration regarding the research method adopted includes the following factors:

- Reliability – a measure of the extent to which a set of results can be regarded as trusted results (Alexander *et al.,* 2009). According to Middleton (2019:1), Bryman and Bell (2007:40), Golafshani (2003:597) and Winter (2000:3), reliability is concerned with issues of consistency of measures and whether the results of the study are repeatable. In this regard, the greater the degree of replicability, the greater the reliability of the research results. Reliability is concerned about the accuracy and precision of the measurement procedure (Cooper and Schindler, 2014:257; Drost, 2012:105). The SAQs were pilot tested by distributing them to key informants who were not part of the research study. This was aimed at testing the consistency of the SAQs and the responses. Furthermore, this research study obtained audited financial statements from LuSE website and targeted key informants consistently in all the LuSE listed companies. This enabled the comparison of findings for a company across years as well as comparisons amongst companies, thereby facilitating inferences to be made. In this regard, the use of ROCE and Tobin's Q across all 19 LuSE listed companies for the nine year period improved the reliability of the research results for consistency (test-retest and internal consistency relaibility); and

- Validity – a measure of how well the results can be justified and considered to be a true and accurate reflection of reality (Middleton, 2019:1, Alexander *et al.*, 2009:37 and Drost, 2012:105). Bryman and Bell (2007:41) and Cooper and Schindler (2014:125) agree with this view and add that validity entails data's ability to be generalised across persons, settings and times. Drost (2012:105), as well as Bryman and Bell (2007:41) conclude that validity is concerned with the integrity of the conclusions of the research. The questions in the SAQ related to corporate governance principles and theories, financial performance and the relationship between corporate governance structures and financial performance. This was designed to ensure SAQ covered all aspects of the research study to achieve the research objectives. Furthermore, consistent with current research, regression model analysis was performed through the use of financial data. Thus, the use of regression analysis was consistent with existing research (Baccar *et al.*, 2013:292; Eyenubo, 2013:1; Ferrer *et al.*, 2012:124; Guest, 2009:385; Kiel & Nicholson,

2003:193; Lipton & Lorsch, 1992:59) when investigating corporate governance and financial performance. This research study developed the SAQ questions based on the stakeholder theory and the literature review discussed in Chapters 1, 2 and 3 to ensure that relevant and valid questions were asked to achieve the research objectives. Purposive sampling that involved targeting key role players to provide insights to the research helped in obtaining accurate and relevant information relating to the research study. With the SAQs, Cronbach's alpha was used to test the internal coherence of the responses from the participants, thereby improving the validity of the research results. Furthermore, use of regression analysis and standardised data from the SAQs helped this research to compare results, thereby improving the integrity of the research results. Consequently, regression analysis and SAQs as measures achieved validity as the measures covered all aspects of the research study (content validity) and were consistent with current research (construct validity).

This research study has employed quantitative research methods approach through regression analysis and SAQs as reliable, valid and practical research methods approach for investigating the relationship between corporate governance structures and financial performance.

4.8   Qualitative data collection

Unlike quantitative methods that attempt precise measurement of a variable, qualitative method concerns the researcher's immersion in the phenomenon to be studied (Cooper & Schindler, 2014:147) in order to obtain insights about the relationship between corporate governance and financial performance. The qualitative method was the research strategy used for emphasising words, rather than quantification in the collection data on corporate governance and financial performance from the interviewees (Bryman & Bell, 2007:402). In this regard, semi-structured interviews were held through face to face and by telephone to obtain insights on corporate governance and the relationship between corporate governance structures and financial performance.

Consistent the views of McGregor and Murnane (2010:420), as well as Shah and Corley (2006:1821), describe qualitative method was used as an interpretive technique that sought to describe, decode and translate the relationship between corporate governance structures and financial performance. Similar to the proposition of Dawson (2002:14) and Hyde (2000:82) using qualitative research the researcher explored experiences of interviewees with regard to corporate governance and the relationship between corporate governance structures and financial performance. Consequently, qualitative method helped this research study to explore relationships between corporate governance structures and financial performance of LuSE listed companies in Zambia as experienced by the respondents (Adams *et al.*, 2007:26).

4.8.1   Research population and sample

The population for the interviews comprised all members of staff of senior management of the 19 the LuSE listed companies and key institutions selected for this research study. However, conducting interviews with all members of staff of senior management of the 19 LuSE listed companies and key institutions would not only have proved expensive to the researcher but would also have taken a longer period than envisaged, and would not have resulted in timely conclusions and recommendations for the research study.

The interviews targeted key members of staff, which included the CEOs of the five relevant institutions (LuSE, ZICA, IoDZ, EAZ and the SEC) and the 19 LuSE listed companies. The interviewees were selected through purposive sampling to provide insight into corporate governance structures and their relationship with financial performance. In this regard, emails were sent to and received from the 24 key role players, requesting their approval to conduct the research in their companies, including their participation in the study. The communication to the CEOs of the companies was made through the company secretaries, as they were the official contact persons for the LuSE listed companies. The emails were also sent to the five CEOs of the key organisations (ZICA, LuSE, SEC, IoDZ and EAZ) for the study.

Following the nature of the research study, some participants expressed concerns over the sensitivity of the information requested through the interview schedule that was sent in advance of the interview. This was despite the informed consent form that was initially distributed to the participants. The researcher took deliberate steps to explain the contents of the consent form, while emphasising that the research study was for academic purposes only. In spite of these steps, the first three interviewees did not agree to have the interviews recorded. As such, it was decided that interviews were not to be recorded, in order to make the interviewees more comfortable. Unfortunately, this decision resulted in interviews taking as long as an hour or more per interview, in order to allow the researcher to type the responses in an efficient and effective manner to achieve the research aim and objectives. A total of 15 interviews were held with the CEOs.

Other participants explained that questionnaires distributed to the Company Secretary, the Chief Finance Officer, the Board Chairperson and the Audit Committee Chairperson accounted for adequate and appropriate participation by the company. In some cases the participants delegated the interviews to the Director of Operations and the Director of Corporate Affairs for the companies. In this regard, a total of five participants comprising three Directors of Operations and two Directors of Corporate Affairs for the interviews were delegated to participate in the study by their CEOs. As the Director of Operations and Director of Corporate Affairs were knowledgeable about the operations of their companies, including the companies' corporate governance, the researcher was satisfied that collecting data from these designated participants would be sufficient.

4.8.2 Interviews

Cooper and Schindler (2014:153) argue that an interview is the primary data collection technique for gathering data in qualitative methodologies. Two types of interviews are mainly used, namely unstructured interviews and semi-structured interviews (Bryman & Bell, 2007:474). It can be inferred that in an unstructured interview, one question may be asked and the interviewee is then allowed to respond freely as the interview tends to be very similar in character to a conversation. In a case of a semi-structured interview the researcher has a list of questions on fairly

specific topics to be covered. The list of questions is referred to as an interview schedule and the interviewee has a considerable leeway in how to respond to the questions. The researcher ensured that interview schedule included information relating to participants

The semi-structured interviews were conducted face-to-face for those companies whose head offices are in Lusaka (where the researcher resides) and by telephone for those that are headquartered outside Lusaka. The interviews were conducted from July 2017 to November 2017. The use of both face-to-face and telephone interviews has been considered in the light of cost of travel and the time that would be required for such interviews. Despite the benefits of telephone interviews, conversations may not be clear due to message distortion and the telephone network may be poor at the time of the interview. The researcher ensured that where the network was poor another time was arranged for the interview.

As obtaining insights into corporate governance and company performance is critical for this research study, the researcher employed semi-structured interviews, gathering information from key role players comprising the managing directors of the key institutions and the LuSE listed companies. The interview schedule (refer to Appendix 3) consists of key questions which were asked during the interviews. As discussed in Sections 2.3 and 2.4, the interview questions were developed based on the stakeholder theory that was adopted and motivated for this research study. Firstly, the interview schedule was introduced to the interviewee of the research study, as well as the researcher and the purpose of the research study. Secondly, based on the primary and secondary research objectives, questions were developed relating to corporate governance in general and the relationship between corporate governance structures and financial performance. Furthermore, the questions in the interview schedule were based on the literature review as discussed in Chapters 1, 2 and 3. In this regard, the interview questions were aimed at obtaining insights from interviewees to help in answering the research questions and overall to contribute to the achievement of the research objectives. This helped in ensuring that the interviews were relevant to the research study and that similar questions were asked across interviewees. In addition, the use of semi-structured interviews allowed interviewees to freely answer the questions and provide more information with regard to corporate governance and company performance. As such, the researcher

was interested in what the interviewees thought about corporate governance and financial performance (Bryman & Bell, 2007:489).

In order to ensure confidentiality of the data and anonymity of the key role players, the participants were identified through numbering. In this regard, each participant was given a number; for example the first participant was named Participant 1. The actual names of the participants were not disclosed. Finally, the questions and their responses were categorised into relevant themes, which are based on the research objectives.

4.8.3 Qualitative data analysis

The interview data had quantitative data that required quantitative data analysis. Abeyasekera (2000:1) postulates that the quantitative method of data analysis can be of great value to the researcher who attempts to draw meaningful results from a large body of qualitative data. The interview questions were broken down into four sections; namely background information, corporate governance principles, financial performance and corporate governance structures and financial performance. Bryman and Bell (2007:579) acknowledge that one of the main difficulties with qualitative research is that it rapidly generates a large, cumbersome database. As per Table 7, this study generated considerable data from the interviewees that required interpretation. As such the data was coded by breaking it down to component parts of the corporate governance structures and financial performance based on the four sections of the interview. The coding of data provided a framework for data analysis that contributed to the achievement of the research aim and objectives. The data obtained through interviews involved taking notes and data analysis in order to develop themes through thematic analysis and ensure that research results are improved (Cooper & Schindler, 2014:379).

The first component, background information, provided the characteristics of participants regarding their gender, qualification, age, position and experience. As such understanding the demographics of the respondents was critical for this research and helped to understand the insights on corporate governance and

financial performance from the respondents. Like the first component, insights from the respondents were obtained with regard to corporate governance principles and the relationship between corporate governance structures and financial performance. The data obtained was analysed based on the sections of the interview.

As the data collected from interviews was rich, descriptive statistics of the data summarised it into a form that was manageable, but which did not distort the insights on corporate governance. The data, relating to the participants and their responses, was entered into a Microsoft Excel spreadsheet. In this regard, the participants were given codes for identification and for analysing responses from the participants. Each question was furthermore given a code to allow analysis through the use of SPSS. The data collected through the SAQs was imported into SPSS. The following were the steps that were followed in analysing the interview data:

1. Interview questions from the interview schedule that contained quantitative data were entered into Microsoft Excel spreadsheet;

2. For the questions that did not entail statistical analysis, the researcher recorded responses in Microsoft Word to ensure that responses were provided as quotes in the report;

3. Responses that contained quantitative data were captured in Microsoft Excel. Examples including responses to questions A1.2, A1.3, A1.4, B2.2, B2.4, C3.2, D4.1, D4.2 and D4.4 provided a basis for descriptive statistics and helped in understanding the demographics of the interviewees;

4. The Microsoft Excel spreadsheet was imported into the SPSS programme for analysis; and

5. Different reports such as descriptive statistics were run from SPSS to help in analysing the interview data.

The data was presented graphically and numerically to provide the general overview of the data. Furthermore, the analysis of interview data through SPSS helped in aggregating responses as insights on corporate governance. The analysis helped in the understanding, description and interpretation of the respondents' experiences and perceptions relating to corporate governance. Furthermore, patterns were

developed regarding the definition of corporate governance and the types of corporate governance structures that LuSE listed companies use. With regard to the relationship between corporate governance structures and financial performance, aggregate responses were utilised to ascertain the relationship. As such, insights from the interviewees were used to establish whether there exist relationships between corporate governance structures and financial performance. In addition, insights were used to ascertain how corporate governance structures relate with financial performance. Therefore, the thematic analysis of interview data helped in answering research questions, but more importantly, in ascertaining the relationships between corporate governance structures and financial performance as discussed in Section 5.3.4.

4.8.4 Quality criteria for qualitative data

In qualitative research trustworthiness is the criterion used to find out if the research results can be trusted by others who were not involved in the research. According to qualitative researchers are concerned about whether the findings in the qualitative research can be trusted (Korstjens & Moser, 2018:121). Korstjens and Moser, (2018:121) as well as Lincoln and Guba (1985) acknowledged that the criteria for trustworthiness (as quality criteria) are credibility, transferability, dependability and confirmability.

Credibility is the confidence that can be placed in the truth of the research findings. Consequently, credibility establishes whether the research findings represent plausible information drawn from the participants' original data and is a correct interpretation of the participants' original views (Korstjens & Moser, 2018:121; Anney, 2014:276). For this research study the researcher had engagement with the respondents in the field therefore invested time to become familiar with the contexts of LuSE companies. Furthermore, the researcher built trust with the respondents and got to know the rich data to improve credibility of interview data. Coding the data into the four components of the interview helped the researcher to obtain insights on corporate governance to achieve the aim and objectives of the research. Finally

careful selection of key role players to provide insights on corporate governance and financial performance improved credibility of the research results.

The other quality component of qualitative research is transferability. Transferability refers to the extent to which the results of qualitative research can be transferred to other contexts with other respondents (Anney, 2014:277; Bitsch 2005:75; Tobin & Begley, 2004:388). Through the semi-structured interviwes the research study provided detailed description of corporate governance and the relationship between corporate governance structures and financial performance. The purposive selection of interviewees including the subsequent detailed description has created possibility of transferability of the qualitative results of this research study to other developing countries.

Dependability refers to the ability of the researcher to account for the changing conditions of a particular phenomenon studied (Korstjens & Moser, 2018:122). According to dependability allows reviewers of the research study to evaluate the findings, interpretation and interpretation of the research study to ensure that they are supported. For this research study, audit trail comprising the interview process ragarding the data collection and analysis established dependability of qualitative results.

Finally, confirmability is another quality criterion of qualitative research. Confirmability is concerned with the extent to which the results of an inquiry could be corraborated by other researchers (Anney, 2014:279; Tobin & Begley, 2004:392; Baxter & Eyles 1997). This research study provided audit trail such as interviewees own words quoted in the research findings as evidence of data collected. As confirmability is concerned about neutrality of the data, the researcher the results of the qualitative research were based on the data collected from the interviewees and not based on the researcher's imagination.

4.9 Ethical considerations

As discussed in Section 1.9, ethical considerations included access to information, confidentiality of information and UFS code of ethics. The researcher obtained

approval from LuSE listed companies to conduct research. Furthermore, all participants of the research study were assured of confidentiality of information obtained and that no name of participant has been mentioned in this dissertation. The research study obtained approval from the UFS research committee. However, recording of interviews was an ethical issue for this research study. Some participants expressed concerns over the sensitivity of the information requested through the interview schedule that was sent in advance of the interview. As such, it was decided that interviews were not to be recorded, in order to make the interviewees more comfortable. Unfortunately, this decision resulted in interviews taking as long as an hour or more per interview, in order to allow the researcher to type the responses in an efficient and effective manner to achieve the research aim and objectives.

4.10   Summary of mixed methods approach

Jogulu and Pansiri (2011:687) stress the point that management research is becoming increasingly complex and intricate, requiring new techniques for examining research problems and analysing data to explain and clarify social phenomena. As corporate governance and financial performance of a company draw concepts from management, this study presents a phenomenon that is intricate and complex, requiring a comprehensive research approach (Johl *et al.*, 2012:6370). According to Johnson, Onwuegbuzie and Lisa (2007:124), as well as Golicic and Davis (2012:727), a mixed research method combines elements of qualitative and quantitative research approaches to improve research results. As such the mixed method focuses on developing and using strategies for collecting, analysing, and interpreting multiple types of quantitative and qualitative data (Creswell & Tashakkori, 2007:303; Yin, 2006:47).

Bulsara (2012:6) purports that the purpose of using mixed methods approach is that both qualitative and quantitative research provide a better understanding of a research problem or issue. The sole use of quantitative methods in a research study has the potential to idolise numbers and may thus fail to reveal meanings that study respondents ascribe to, whereas the qualitative research method focuses more on

descriptive narratives than on statistical categorisation of events (Neuman, 2000:135; Silverman, 2000:331. The use mixed methods approach improves reliability and validity of the quantitative data and rigour of the qualitative findings, reduces bias that exists in any single research method and finally experience of both quantitative and qualitative approaches develops the researcher's knowledge base in management research (Jogulu & Pansiri, 2011:688; Johl *et al.*, 2012:6370). With the complexity of the research study and dynamism of the topical issue of corporate governance, the use of mixed research methods approach and paradigms becomes appropriate and relevant to this study.

Knight and Cross (2012:47), as well as Trochim (2002:5), contend that quantitative data is based upon qualitative judgment and qualitative data can be described and manipulated numerically; a notion that suggests quantitative and qualitative research approaches are merely two can be employed in a single research to improve research results. Alexander *et al. (*2009:35) attest that a research argument is significantly strengthened if the results that lead to that argument include a combination of statistics and more subjective interview results. According to Creswell and Clark (2007:3), with the mixed method, the researcher collects and analyses quantitative and qualitative data separately on the same phenomenon. The different results are then converged (by comparing and contrasting results) during the interpretation (Creswell & Clark, 2007:10).

In triangulating data sources and research methods approach, the researcher will pay particular attention to the sequence of the use of the methods. As discussed in the previous section, this research study started by reviewing the financial statements and developing questionnaires as a quantitative method followed by qualitative method through use of interviews. According to Creswell and Clark (2007:32), this can be achieved via a two staged process by making quantitative and qualitative analysis clearly distinguished.

4.11   Pilot testing of the research instruments

In Chapter 1, the researcher motivated the pilot testing of questionnaires and interview schedules for improving the quality of research results. The questionnaires and interview schedules were circulated conveniently to four respondents at ZICA, IoDZ, LuSE and Zambia National Commercial Bank who have expert knowledge in corporate governance and financial performance. The four respondents did not take part in the actual research but were just involved in the pilot test stage of the research. In this regard, the respondents provided feedback that was incorporated into the questionnaires and interview schedules.

4.12   Conclusion

Corporate governance is a topical issue for both developed and developing countries. In particular, in developing countries such as Zambia, research on the relationship between corporate governance and financial performance has become critical in order to attract and retain both local and international investments. This research on a complex topic, requires that a solid theoretical framework comprising theories (that inform corporate governance) and research design (that consists of how data is collected, analysed and reported), is discussed and justified.

The use of both positivism and social constructivism has been discussed and argued to provide a good foundation for the direction and implementation of this research. The collection and analysis of data from questionnaires use positivism as a research paradigm. In this regard, standardised data from the 46 respondents was collected and analysed using SPSS. This allowed trend analysis and the development of themes with regard to the relationship between corporate governance structures (board of directors, internal and external audits, and managerial ownership) and company financial performance using the ROCE ratio and Tobin's Q ratio as proxies for performance.

Descriptive and inferential statistics allowed the description of data or its summary and establishment of estimates respectively. The semi-structured interviews provided insights into corporate governance based on the perspectives of Chief Executives. The researcher developed themes based interviewees' responses from the semi-structured interviews.

Pilot testing of the questions in the questionnaires and the interview schedule was conducted to improve the research results for this study. This research study used inductivism and deductivism research approaches, primary and secondary sources of data, positivism and social constructivism, qualitative and quantitative methods of data collection and analysis as an approach to implementing the study. This improved research results and led to the adjustment of the existing framework of corporate governance structures to enhance the financial performance of the LuSE listed companies in Zambia.

In Chapter 5, the empirical findings will be presented.

CHAPTER 5: REPORTING AND INTERPRETATION OF EMPIRICAL FINDINGS

5.1 Introduction

Chapter 4 provided detail on how data was collected and analysed including the research methods approach and data collection tools. Chapter 5 discusses in detail the research findings, including the interpretations of the findings from the descriptive and inferential statistics, SAQs and interviews of this research study. Furthermore, Chapter 5 presents interpretation of the findings with the regard to corporate governance and the relationship between corporate governance structures and financial performance of LuSE listed companies.

5.2 Research participants' demographics and categories

The research participants' demographics for the SAQs and interviews are provided in Table 11. In terms of gender, Table 11 shows that the majority (52%) of the SAQ respondents were male whereas the majority of interviewees were female.

Table 11: Respondents' and interviewees' demographics and categories

		SAQs		Interviews	
		Number	*%*	*Number*	*%*
Gender	Male	24	52%	6	40%
	Female	22	48%	9	60%
	Total	46	100%	15	100%
Qualifications	Bachelor's Degree	13	28%	5	33%
	Master's Degree	25	54%	10	67%
	Professional	6	13%	0	0%
	Other (Grade 12 Certificate)	2	4%	0	0%
	Total	46	100%	15	100%

		SAQs		Interviews	
		Number	*%*	*Number*	*%*
Category	Executive Board	8	17%	10	67%
	Non-Executive Board	8	17%	0	0%
	Management	30	65%	5	33%
	Total	**46**	**100%**	**15**	**100%**
The SAQs respondents were not the same as the interview participants					

From Table 11, it is evident that the respondents of the SAQs and interview participants indicated had tertiary levels of education that allowed them to understand and respond to the questions in the questionnaire and interviews with regard to corporate governance and financial performance of LuSE listed companies in Zambia. The study also categorised the participants into executive board, non-executive and management so as to appreciate their insights on corporate governance and financial performance, based on their positions in the company. As per Table 11, in the SAQs results of the 46 respondents the majority were males and the majority having attained tertiary education. In addition the majority of the SAQs respondents were from management. As regards interviews the majority were females and that majority of the interviews were from the executive boards.

5.3   Data results and interpretation

The research findings and their interpretation are grouped into four sections:

- Descriptive statistics;

- Inferential statistics;

- SAQs; and

- Interviews.

5.3.1 Descriptive statistics

The descriptive statistics for the dependent variables (ROCE and Tobin's Q), dependent variables (board of directors and managerial ownership) and control variables (the value of assets and gearing) were computed based on the 19 LuSE listed companies for nine financial years from 2009 to 2017. This resulted in 171 observations.

5.3.1.1   Descriptive statistics for the dependent variables

The dependent variables for this research are ROCE and Tobin's Q. The descriptive statistics for ROCE for the overall nine years are provided in Table 12.

Table 12:   Descriptive statistics for ROCE for the period 2009 to 2017 based on the audited financial statements

Dependent variable	Period	Mean	Standard deviation	Minimum	Maximum	Number of observations
ROCE (%)	**2009 - 2017**	**24.66**	**43.70**	**-33.40**	**246.88**	**171**
	2009	28.20	45.77	-5.25	155.81	19
	2010	26.66	43.76	-3.47	153.15	19
	2011	31.38	44.05	-5.33	157.43	19
	2012	32.01	46.74	-4.87	168.36	19
	2013	23.18	37.66	-1.65	172.23	19
	2014	21.61	41.52	-7.15	187.88	19
	2015	30.56	63.57	-33.40	246.88	19
	2016	17.79	45.28	-19.96	197.41	19
	2017	10.55	15.57	-23.2	49.40	19

The study has revealed that the minimum ROCE of -33.40% reduced the value of company's investments (through reduction in capital and reserves), as an operating loss was incurred by one of the companies. This means that during the nine year period of the financial performance review, one of the LuSE listed companies recorded a -33.40% ROCE. This may be attributed to the fact that LuSE listed companies operate in different sectors and for the period under review, the financial performance of the concerned sector was poor. Furthermore, the study reveals that one of the 19 companies made a profit that resulted in a ROCE of 246.87% recorded in 2015, and this is the maximum value for the period under review. Conversely, the mean ROCE considerably decreased from 17.79% in 2016 to 10.55% in 2017 mainly because of the depreciation of the Zambian Kwacha as one of the economic fundamentals. On average, all the LuSE listed companies achieved a ROCE of 24.66% which demonstrates that there have been positive returns on the investments for the LuSE listed companies. The average ROCE of 24.87% indicates that different LuSE companies in the different sectors performed well in terms of revenue generation and managing operational costs. The positive return demonstrated by ROCE of 24.66% implies that the investments in the LuSE listed companies are yielding positive results for investors, on average.

Consistent with the views of Hamidah (2015:3), Wallace (2012:13), Sumiyana and Hendrian (2011:9) and Hailemariam and Hagos (2010:5) a high ROCE demonstrates wealth creation and as such, the wealth of the company increased. Thus, the average ROCE of 24.66% indicates increased company value. As profitability is one of the financial metrics that investors use to assess financial performance of the companies, investors of the LuSE listed companies would therefore be pleased with the average ROCE of 24.66% as their wealth might increase in value.

Furthermore, the average ROCE of 24.66% might demonstrate that senior management structures of the LuSE listed companies were prudent in the utilisation of the resources of the companies. With an average ROCE of 24.66%, existing investors might wish to retain their investments while potential investors may be willing to invest in the companies. Furthermore, debt providers may have comfort in that interest payments will be made given that the companies are profitable. As companies remain profitable, they have ability to generate cash that can be used to pay interest on the debt. With regard to the descriptive statistics for Tobin's Q, the

results are provided in Table 13. The results are for the overall period of nine years for the 19 LuSE listed companies.

According to Sauia and Castro (2002:303), a Tobin's Q value of close to and/or more than 1 represents growth opportunities for investments. With the minimum value of Tobin's Q at -0.02, this indicates that the assets of a company were not utilised prudently to increase the wealth of the company. The maximum Tobin's Q value of 1.96 demonstrates that the market value of the assets is greater than the replacement value of the assets of one of the LuSE companies. The average Tobin's Q of 0.51 is not close to the value of 1. This means that the average company's market value is less than the value of its assets. In this regard, LuSE listed companies have not created much value for the investors for the nine year period under review as the market value of the companies was, on average, less than the replacement cost.

Table 13:   Descriptive statistics for Tobin's Q

Dependent variable	Period	Mean	Standard deviation	Minimum	Maximum	Number of observations
2009 – 2017	**2009 – 2017**	**0.51**	**0.32**	**-0.02**	**1.96**	**171**
Tobin's Q (number)	2009	0.43	0.30	0.07	1.00	19
	2010	0.43	0.28	0.01	1.00	19
	2011	0.50	0.27	0.07	1.00	19
	2012	0.52	0.26	0.06	1.00	19
	2013	0.54	0.26	0.06	1.00	19
	2014	0.51	0.29	0.05	1.00	19
	2015	0.52	0.33	0.02	1.00	19
	2016	0.59	0.45	0.09	1.96	19
	2017	0.53	0.40	-0.02	1.52	19

With low market value, existing shareholders may not sell the shares at prices that would lead to capital gain. The undervalued companies may interest new investors to buy shares at low prices and as such the new investors may find purchase of the shares of the undervalued companies considerably attractive. Consequently, it is

evident from the results that assets employed during the period under review did not generate the profits required to increase existing shareholder wealth as the average Tobin's Q was 0.51 for the nine years period. This has implications for this study, as the results suggest that the listed companies did not use the investments efficiently and effectively to provide the required return on the investments. In addition, the other implications may be that the LuSE market for the nine year period may have been undervalued thereby accounting for the average Tobin's Q of 0.51. However, the increasing trend in the mean value of Tobin's Q may reflect the improved market value of the LuSE listed companies. The increased market value could be attributed to increased demand for public stocks (shares and debt) through increased awareness on investment in the LuSE.

5.3.1.2 Descriptive statistics for the independent variables

In this section, the results of the descriptive statistics of the independent variables consisting of board size, NEDs, board leadership, number of board meetings, number of board committees, audit committee, risk committee and sale of shares to management.

5.3.1.2.1 Board size

Board size is one of the independent variables. The descriptive statistics for board size are detailed in Table 14

Table 14:   Descriptive statistics for board size

Dependent variable	Period	Mean	Standard deviation	Minimum	Maximum	Number of observations
	2009 - 2017	**7**	**2.41**	**4**	**14**	**171**
Board size (number)	2009	7	2.80	4	13	19
	2010	7	2.69	4	13	19
	2011	7	2.87	4	14	19
	2012	7	2.55	4	13	19
	2013	7	2.43	4	13	19
	2014	7	2.31	4	12	19
	2015	7	2.09	4	12	19
	2016	7	2.07	4	12	19
	2017	7	2.23	4	12	19

This research had the proposition that a small board, comprising six to 12 members, improves financial performance as the number of board members eases decision making. Consequently, the results show that LuSE listed companies prefer small boards of seven board members. Furthermore, an odd number of directors may be particularly critical when decision making requires a vote to determine the outcome (Deng, Gao and Liu 2012:1). The research study suggests that a minimum of four board members has been the practice in the LuSE listed companies. The implication is that LuSE listed companies may find it difficult to maintain the two committees (Audit and Remuneration Committees), as minimum board committees required by LuSE, if the board comprises only four board members.

5.3.1.2.2   Non-executive directors

The descriptive statistics for non-executive directors showed that with the total of 171 observations (based on the 19 companies and the nine year period as obtained from annual reports), the non-executive directors' overall mean, standard deviation, minimum and maximum values are as detailed in Table 15.

As per Table 15, the overall average results indicate that 71.13% of the boards of directors comprise Non-Executive Directors, while in some companies all the members of the board are NEDs. This demonstrates that NEDs in the LuSE listed companies are in the majority, as they account for more than 50% of the board composition. Consequently, the companies complied with the LuSE Code of Corporate Governance for the period under review. Consistent with the views of Rebeiz and Salameh (2006:751), Gabrielsson (2007:21), Ho and Williams (2003:465) as well as Weir *et al.* (2002:579), this research study results may be construed that Non-Executive Directors are important as they facilitate effective monitoring of the managers. The research study, therefore, suggests that LuSE listed companies should continue maintaining NEDs as the majority of the board for compliance with LuSE listing rules and to maintain objectivity in decision making by the board.

Table 15:   Descriptive statistics for non-executive directors

Dependent variable	Period	Mean	Standard deviation	Minimum	Maximum	Number of observations
	2009 - 2017	**71.13**	**20.24**	**0.00**	**100.00**	**171**
	2009	70.33	21.34	0.00	100.00	19
	2010	70.60	21.26	0.00	100.00	19
	2011	72.53	20.33	0.00	100.00	19
Non-executive directors (%)	2012	69.36	20.50	0.00	90.91	19
	2013	71.63	20.03	0.00	90.91	19
	2014	72.54	20.93	0.00	100.00	19
	2015	71.50	20.91	0.00	91.67	19
	2016	69.62	20.41	0.00	91.67	19
	2017	72.01	20.58	0.00	91.67	19

5.3.1.2.3   Board leadership

The descriptive statistics for board leadership show that with the total of 171 observations, the board leadership overall mean, standard deviation, minimum and maximum values are as detailed in Table 16.

Table 16:   Descriptive statistics for board leadership

Dependent variable	Period	Mean	Standard deviation	Minimum	Maximum	Number of observations
Board leadership	**2009 - 2017**	**0.91**	**0.28**	**0**	**1**	**171**
	2009	0.89	0.32	0	1	19
	2010	0.89	0.32	0	1	19
	2011	0.89	0.32	0	1	19
	2012	0.89	0.32	0	1	19
	2013	0.89	0.32	0	1	19
	2014	0.89	0.32	0	1	19
	2015	0.95	0.23	0	1	19
	2016	0.95	0.23	0	1	19
	2017	0.95	0.23	0	1	19
1 = Yes the two roles (CEO and board chairperson) are separated, 0 = No, the two roles are not separated						

The study has revealed that 17 out of the 19 companies (representing 91% of the sampled companies) had the roles of Chief Executive and Board Chairperson separated, while two companies (representing 9%) did not separate the two roles. Consistent with the general requirements the LuSE Code of Corporate Governance for listed companies, the results show that the majority of the companies (17 companies out of 19 companies) have the roles of CEO and Board Chairperson occupied by two different persons. The other two companies that have not separated the roles, are still in compliance as the LuSE Code of Corporate Governance stipulates that the two roles can be combined and held by one person provided that the deputy chairperson is an independent non-executive director and that NEDs are involved in the performance evaluation of the Chairperson of the Board (Lusaka

Stock Exchange, 2005:6). The review of the annual reports showed that the two companies that had the roles of CEO and Board Chairperson combined, had NEDs as deputy chairpersons.

5.3.1.2.4   Number of board meetings

The descriptive statistics for board meetings show that with a total of 171 observations, the board leadership overall mean, standard deviation, minimum and maximum values were as detailed in Table 17.

Table 17:   Descriptive statistics for number of board meetings

Dependent variable	Period	Mean	Standard deviation	Minimum	Maximum	Number of observations
	2009 - 2017	**4**	**2.06**	**1**	**11**	**171**
Board meetings (number)	2009	3	1.58	1	7	19
	2010	4	1.95	1	8	19
	2011	3	1.67	1	7	19
	2012	3	1.45	1	6	19
	2013	4	2.09	1	8	19
	2014	4	2.59	1	11	19
	2015	4	2.53	1	11	19
	2016	4	2.35	1	11	19
	2017	4	2.16	1	10	19

Table 17 reveals that on average the LuSE listed companies had four meetings per year. Each of the LuSE listed companies had at least one board meeting in a year. Frequent meetings demonstrate that timely decisions are made to improve the strategic operations of the companies and to allow sharing of expertise among board members. The study reveals that 11 companies, representing 58%, failed to meet the minimum requirements of the LuSE Code of Corporate Governance that requires that a minimum of four board meetings (one board meeting per quarter) must be held (LuSE, 2005:6) for the period under review. The LuSE listed companies may have

failed the minimum requirements because of possible inability to finance the board meeting costs. Furthermore, the companies may have found it difficult for the board of directors to meet quarterly, given that the board of directors is drawn from different parts of the country with some of the directors residing out of the country.

5.3.1.2.5 Number of board committees

The descriptive statistics for the number of board committees show that with a total of 171 observations, the number of board committees' overall mean, standard deviation, minimum and maximum values are as detailed in Table 18.

Table 18:   Descriptive statistics for number of board committees

Dependent variable	Period	Mean	Standard deviation	Minimum	Maximum	Number of observations
Board committees (number)	**2009 - 2017**	**2**	**1.91**	**0**	**7**	**171**
	2009	2	1.81	0	6	19
	2010	2	1.96	0	6	19
	2011	2	1.94	0	6	19
	2012	2	2.00	0	6	19
	2013	2	2.00	0	6	19
	2014	2	2.00	0	6	19
	2015	2	1.96	0	7	19
	2016	2	2.00	0	7	19
	2017	2	1.95	0	7	19

The study has revealed that for the 19 companies and for the nine year period, the companies had two board committees on average and that the highest number of committees was seven. Furthermore, some companies did not have board committees, particularly because board members were as few as four in some companies. This implied that the few members of the board assumed overall responsibilities that would ordinarily have been discharged by the dedicated committees. Furthermore, the study revealed that two board committees was the

average number of committees. The LuSE Code of Corporate Governance provides that a minimum of two board committees should be established and maintained (LuSE, 2005:6). Consequently, the number of board committees for the 19 LuSE listed companies complies with the LuSE Code of Corporate Governance. However, as the corporate governance landscape in Zambia is largely influenced by the King Reports on Corporate Governance, the average results of two board committees are not in compliance with King I, II, III and IV reports that require that at least four board committees consisting of an audit, remuneration, risk and nomination should exist (KPMG South Africa, 2013:3; IoDSA, 2009:2). In addition to the four board committees, the King IV Report recommends social and ethics board committee (IoDSA, 2016:35). Having more board committees entails board members with different expertise to deal with strategic issues of the LuSE listed companies in a timely manner, thereby improving decision making by the boards.

5.3.1.2.6   Establishment of audit committee

The descriptive statistics for the establishment of an audit committee shows that with the total of 171 observations, the number of board committees' overall mean, standard deviation, minimum and maximum values are as detailed in Table 19.

The study has revealed that 14 of the 19 companies (representing 74% of the sampled companies) had an audit committee in place, while five (representing 26%) did not have an audit committee. The findings imply that the majority of the companies recognise the importance of an audit committee in ensuring accountability and the economic, efficient and effective use of companies' resources. In this regard, the majority of the LuSE listed companies established an audit committee to improve financial reporting and ensuring economic, efficient and effective use of the companies' financial and non-financial resources.

Table 19:   Descriptive statistics for establishment of audit committee

Dependent variable	Period	Mean	Standard deviation	Minimum	Maximum	Number of observations
	2009 - 2017	**0.74**	**0.44**	**0**	**1**	**171**
	2009	0.68	0.48	0	1	19
	2010	0.68	0.48	0	1	19
	2011	0.74	0.45	0	1	19
	2012	0.74	0.45	0	1	19
Audit committee	2013	0.74	0.45	0	1	19
	2014	0.74	0.45	0	1	19
	2015	0.79	0.42	0	1	19
	2016	0.79	0.42	0	1	19
	2017	0.84	0.37	0	1	19
1 = Yes, audit committee was established, 0 = No, audit committee not established						

The study's results resonate with the views of Aanu *et al.* (2014:9), Kallamu and Saat (2013:210) and Mohuiddin and Karbhari (2010:97) who contend that audit committees have the responsibility to oversee the financial and other reporting processes of companies in order to enable them to show credibility, integrity and transparency in their operations. As argued by Bansal and Sharm (2016:103), accurate financial information is the basis on which investment decisions are made. Furthermore, the majority of the companies (74% of the sampled companies) have complied with the requirements of the LuSE Code of Corporate Governance that requires the establishment of an audit committee. As LuSE listed companies operate in highly regulated and competitive environments, establishment and maintenance of the audit committee was essential for the LuSE listed companies. However, for LuSE listed companies that had small boards, for example four members, having an audit committee was not cost effective but instead the board as a whole would discuss various issues that the audit committee would ordinarily have discussed.

5.3.1.2.7   Establishment of risk committee

The descriptive statistics for the establishment of a risk committee are detailed in Table 20.

Table 20:   Descriptive statistics for establishment of risk committee

Dependent variable	Period	Mean	Standard deviation	Minimum	Maximum	Number of observation
	2009 - 2017	**0.20**	**0.40**	**0**	**1**	**171**
	2009	0.16	0.37	0	1	19
	2010	0.16	0.37	0	1	19
	2011	0.16	0.37	0	1	19
	2012	0.16	0.37	0	1	19
Risk committee	2013	0.16	0.37	0	1	19
	2014	0.16	0.37	0	1	19
	2015	0.26	0.45	0	1	19
	2016	0.26	0.45	0	1	19
	2017	0.26	0.45	0	1	19
1 = Yes, risk committee was established, 0 = No, risk committee not established						

The study reveals that four of the 19 companies (representing 20% of the sampled companies) had a risk committee in place, while 15 (representing 80%) did not have a risk committee. Risk is an integral feature of business activity and that effective risk management not only helps companies avoid costly financial distress and sustain investment programmes, but also improves company-wide decision making (McNulty, Florackis & Ormrod 2012:8). It is evident that for the companies that did not have risk committees, but had an audit committee, the responsibility for risk management rested with the audit committee, as risk management is critical regardless of the nature of the business of the company. This fits into the King IV principle of proportionality where boards may decide to proportionally apply

corporate governance principles based on their individual needs and context (IoDSA, 2016:37).

5.3.1.2.8   Sale of shares to management (managerial ownership)

Following the presentation and analysis of the findings of the board of directors the following section discusses the findings of managerial ownership. The descriptive statistics for sale of shares to management are shown in Table 21.

Table 21:   Descriptive statistics for sale of shares to management (managerial ownership)

Dependent variable	Period	Mean	Standard deviation	Minimum	Maximum	Number of observations
Managerial ownership	**2009 - 2017**	**0.03**	**0.17**	**0**	**1**	**171**
	2009	0.05	0.23	0	1	19
	2010	0.00	0.00	0	0	19
	2011	0.05	0.23	0	1	19
	2012	0.05	0.23	0	1	19
	2013	0.05	0.23	0	1	19
	2014	0.05	0.23	0	1	19
	2015	0.00	0.00	0	0	19
	2016	0.00	0.00	0	0	19
	2017	0.00	0.00	0	0	19
1 = Yes, shares were sold to management, 0 = No, shares were not sold to management						

As per Table 21, with regard to sale of shares to management, the study reveals that one out of the 19 companies (representing 5% of the sampled companies) sold shares to management in the period under review, while 18 companies (representing 95%) did not sell shares to management. The results indicate that selling of shares to management was not an important corporate governance structure. The results are at variance with the views of the agency theory that advocate for the sale of shares to management to ensure that the interests of management are aligned with

the interests of shareholders so that financial performance is enhanced (Simoneti & Gregoric, 2005:2; Mueller & Spitz, 2002:1).

5.3.1.3   Descriptive statistics for the control variables

The descriptive overview of the control variables will now be discussed. Company size (asset values) and gearing were used as control variables for this research study. The results of descriptive statistics for the values of assets are expressed in Table 22.

The minimum value of assets is Zambian Kwacha of 0.02 billion, while the maximum value stood at Zambian Kwacha of 535.90 billion. The mean of the asset value stood at Zambia Kwacha of 6.82 billion. As the companies are in different sectors, the asset values differ greatly.

Table 22:   Descriptive statistics for value of assets

Dependent variable	Period	Mean	Standard deviation	Minimum	Maximum	Number of observations
	2009 - 2017	**6.82**	**46.83**	**0.02**	**535.9**	**171**
	2009	0.92	1.06	0.02	3.04	19
	2010	1.12	1.35	0.03	4.56	19
	2011	17.30	69.06	0.03	302.4	19
	2012	30.20	122.5	0.04	535.9	19
Value of assets (ZMW' Billions)	2013	3.09	5.94	0.05	25.73	19
	2014	2.36	2.77	0.04	8.85	19
	2015	2.10	2.5	0.05	8.21	19
	2016	2.03	2.5	0.02	8.21	19
	2017	2.30	2.95	0.02	9.54	19

This is mainly attributed to the view that the capital requirements of the sectors are different, as some sectors are capital intensive while others are not. In this regard, the results indicate that some companies (with a minimum value of assets standing at ZMW0.020 billion) are able to manage their operations whereas other companies

require a high value of assets amounting to ZMW535.90 billion to sustain their operations. In this regard, it may be construed that with assets valued at ZMW0.020 the company was able manage its business operationally. It is evident from the descriptive statistics that the value of assets considerably varied from one company to the other. Therefore, it is argued that for the LuSE listed companies, like any other business, how the assets are utilised is critical when considering financial performance.

The descriptive statistics for the results of the gearing as the control variable are expressed in Table 23.

Table 23:   Descriptive statistics for gearing

Dependent variable	Period	Mean	Standard deviation	Minimum	Maximum	Number of observations
	2009 - 2017	**38.77**	**32.10**	**0.00**	**99.78**	**171**
	2009	44.00	33.58	0.00	92.90	19
	2010	43.43	35.28	0.36	99.42	19
	2011	39.57	33.20	4.24	99.78	19
	2012	30.66	29.26	0.00	93.65	19
Gearing (%)	2013	33.81	31.38	3.45	93.75	19
	2014	40.31	30.62	0.00	94.74	19
	2015	38.42	33.01	0.00	98.13	19
	2016	38.75	32.93	0.00	91.02	19
	2017	39.97	33.74	-0.19	93.49	19

The study has revealed that on average, the companies are geared at 38.77%, with minimum and maximum values of 0% and 99.78%. The minimum value of 0% indicates that companies that did not have debt financing as part of their total capital at different times. In this research two companies did not have debt finance as part of their capital employed. One company did not have long-term debt in 2009 but had long-term debt from 2010 to 2017. The other company had long-term debt from 2009 to 2016 but did not have long-term debt in 2017. The study has shown that one of the LuSE companies had gearing of 99.78%, implying that 99.78% of its capital was

financed by debt. With high gearing a company has tax benefit as the interest paid is a tax allowable expense (Howson, 2013:47). At the gearing level of 99.78% as debt capital, the company is highly geared (99.78% debt, whereas only 0.22% was equity). According to Howson (2013:47) and Cornelius (2002:22) gearing at 50% or more than 50% may increase the cost of capital and may cause financial distress. In this regard, companies may fail to pay debt as it falls due. The average gearing at 38.77% indicates that on average the companies were financed by both ordinary shares and debt. Thus, based on the average results (with the mean of 38.77%) companies can still attract debt financing to reach the level of 50% before they are considered highly geared - where debt financing is higher than the equity financing (Howson, 2013:47;Cornelius, 2002:22). The study, therefore, indicates that companies prefer to use internally generated financing rather than opting for debt finance, as the average gearing is 38.77%.

Debt financing attracts high interest rates that can reduce the profitability of the company, thereby reducing the return on the investment made by ordinary shareholders. However, at the gearing level of 38.77% companies it is evident that companies did not contract considerable debt thereby failing to take advantage of available debt finance to grow the companies. The average results of 38.77% deviate from the views of Yaseen and Al-Amarneh (2015:187) who found that gearing of between 50% and 70% enables the provision of additional finance at a lower cost of capital to the company. In the period under review, the LuSE listed companies therefore did not take advantage of debt financing as a cheap form of financing for their capital. In practice, the use of internally generated resources other than debt, leads to lost opportunities to use debt finance that offers tax relief on the interest paid on the loan. Furthermore, profits generated by internal funds are subjected to corporation tax that not only increases the administative tax burden for the company but also requires timely payment of corporation tax (Ogilve, 2008:17).

5.3.2 Inferential statistics

As discussed in Section 4.9, random effects model was adopted for this research study. In this regard, the random effects panel regression model was used to determine the relationship between corporate governance structures and financial

performance. The random effects panel regression model was conducted for 19 LuSE listed companies for the period 2009 to 2017 using the audited financial statements from the annual reports. Tables 24 and 25 provide the regression results for ROCE and Tobin's Q respectively. To ensure logical presentation of the regression results, adapted tables for independent and control variables are presented individually to analyse the relationship between corporate governance structures and financial performance.

The random effects regression model conducted for all the variables are shown in Tables 24 and 26. The p-value represents the significance of the relationship between the values of assets on financial performance. The p-value obtained is compared with the confidence levels of 0.01, 0.05 and 0.1 to determine whether the relationship is significant or not. The random effects figure indicates the degree or the extent to which corporate governance structures, value of assets and gearing relate to financial performance. If the p-value obtained is greater than 0.01, 0.05 and 0.1 confidence levels, then the result means that the value of assets, gearing and the concerned corporate governance structure do not relate to financial performance in a significant way. In this regard, for corporate governance structures the result would mean that a change in the corporate governance structure does not affect financial performance. If the p-value is larger than 0.1 confidence levels, the result implies that there exists significant relationship between corporate governance structure and financial performance of LuSE listed companies. As this research adopted the Random Effects Model in Section 4.7.5.3, the t-values are used in the Random Effects Model results only. In this regard, the results of other models as per Tables 24 and 25, do not include t-values.

As per Table 24, random effects regression model was conducted to investigate the relationship between different variables (control and independent variables) and dependent variable (financial performance - ROCE). However, this research study did not test the causality of corporate governance structures and the financial performance of LuSE listed companies. In this regard, the following relationships were tested: value of assets and ROCE, gearing and ROCE, board size and ROCE, board committees and ROCE, audit committee and ROCE, board leadership and ROCE, NEDs and ROCE, board meetings and ROCE and sale of shares and ROCE. As only one company sold shares to employees, the regression results on the

relationship between managerial ownership and financial performance are not discussed. In addition discussion of the regression results on managerial ownership and financial performance would result in limited applicability thereby adding little value to this research study. The specific results are discussed in the subsequent different sections in this chapter.

In Table 25 the random effects regression model results of the relationship between different variables (control and independent variables) and the dependent variable (financial performance – Tobin's Q) are presented. In this regard, the results of the following relationships are shown: value of assets and Tobin's Q, gearing and Tobin's Q, board size and Tobin's Q, board committees and Tobin's Q, audit committee and Tobin's Q, board leadership and Tobin's Q, NEDs and Tobin's Q, board meetings and Tobin's Q and sale of shares and Tobin's Q. The specific results are discussed in the different subsequent sections in this chapter.

As discussed in Section 4.7.5.2, heteroscedasticity was identified as part of the process of conducting a regression analysis. Using Stata, the regression was run including the test procedure line. The result from the test procedure showed that the probability value of the chi-square statistic was less than 0.05, which meant that the null hypothesis of constant variance was rejected at 5% level of significance. This implied the presence of heteroscedasticity in the residues. In order to correct for heteroscedasticity, the robust standards errors command was used by adding the robust option in the regression command. Thus, the problem of heteroscedasticity was not present after running the robust error module. Consequently, the regression model test results in Tables 24 and 25 are after taking heteroscedasticity into account. In this regard, the heteroscedasticity test as a diagnostic test using the robust errors command in Stata Version 13 was conducted and resulted in the elimination of the presence of the heteroscedasticity error. Thus, the final results of the regression analysis were produced after taking into account the heteroscedasticity.

Table 24: Random effects panel regression model tests on ROCE

VARIABLES	Pooled Ordinary Least Squares (OLS)		Between (be)		First difference (fd)		Within or Fixed effects (fe)		Random effects (RE)		
	Pooled OLS	p-val	Be	p-val	Fd	p-val	Fe	p-val	RE	t-value	p-val
Return on capital employed	.	.	.	.	.	.	.	.	.		.
Value of assets	-2.658*	0.062	-2.441	0.769	1.135	0.262	-0.17	0.892	-0.49	-0.402	0.688
Gearing ratio	-0.499***	0.000	-1.028	0.192	-0.395***	0.001	-0.134	0.241	-0.183*	-1.669	0.095
Board Size	-7.732***	0.000	-10.303	0.115	0.179	0.945	-3.082	0.238	-4.098*	-1.808	0.071
Board Committees	0.565	0.865	5.555	0.718	-9.183	0.175	1.406	0.809	-0.174	-0.043	0.965
Audit Committee	16.343	0.159	17.614	0.721	13.003	0.456	-46.698***	0.002	-29.449**	-2.193	0.028
Risk Committee	9.846	0.455	28.062	0.641	-10.093	0.719	3.975	0.847	1.5	0.094	0.925
Board Leadership	22.927	0.455	39.721	0.772	24.2	0.567	-	-	32.389	0.682	0.495
Non-Executive Directors	-0.086	0.793	-0.382	0.807	-0.583*	0.051	0.16	0.646	0.102	0.311	0.755
Board Meetings	2.314	0.308	2.728	0.792	-1.680	0.439	1.906	0.428	1.944	0.843	0.399
Constant	62.140***	0.000	89.858	0.145			63.437*	0.075	37.239	0.972	0.331
Observations	171		171		171		171		171		
R-squared	0.269		0.553		0.126		0.12		0.0545		
Number of companies	19		19				19		19		
Statistical Significance *** p<0.01, ** p<0.05, * p<0.1.[1]											

Table 25:   Random effects panel regression model tests on Tobin's Q

VARIABLES	Ordinary Least Squares (OLS)		Between (be)		First difference (fd)		Within or Fixed effects (fe)		Random effects (RE)		
	Pooled OLS	p-val	Be	p-val	Fd	p-val	Fe	p-val	RE	t-value	p-val
Tobin's Q	.	.	.	.	.	.	.	.	.		.
Value of assets	-0.008	0.295	-0.029	0.436	0.001	0.895	-0.001	0.904	-0.004	-0.431	0.666
Gearing ratio	-0.006***	0.000	-0.004	0.198	-0.004***	0.000	-0.007***	0.000	-0.007***	-9.029	0.000
Board Size	0.004	0.681	0.005	0.842	-0.004	0.834	-0.009	0.642	0.000	0.019	0.985
Board Committees	0.006	0.757	0.033	0.629	-0.045	0.378	-0.061	0.144	-0.024	-1.000	0.317
Audit Committee	0.003	0.957	-0.142	0.520	0.132	0.323	0.257**	0.018	0.138*	1.646	0.100
Risk Committee	-0.141*	0.054	-0.315	0.254	-0.021	0.922	-0.044	0.766	-0.060	-0.632	0.528
Board Leadership	-0.072	0.672	0.151	0.804	0.103	0.750	-	-	-0.136	-0.558	0.577
Non-Executive Directors	-0.003	0.158	-0.005	0.496	-0.004*	0.077	-0.004	0.128	-0.003	-1.191	0.233
Board Meetings	0.024*	0.058	0.046	0.324	0.018	0.278	0.028*	0.098	0.025	1.639	0.101
Constant	0.923***	0.000	0.834***	0.010			0.937***	0.000	0.946***	5.485	0.000
Observations	171		171		171		171		171		
R-squared	0.573		0.797		0.188		0.372		0.552		
Number of companies			19				19		19		
Statistical Significance *** p<0.01, ** p<0.05, * p<0.1. [2]											

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[2] The results took into account heteroscedasticity using robust standard errors command imbedded in Stata.

5.3.2.1   Inferential statistics for the value of assets

The study investigated the relationship between the value of assets and financial performance (ROCE and Tobin's Q) using the random effects regression model test. The results for the value of assets and ROCE are in Table 24.

The p-value of the value of assets was 0.688, which is greater than significance level of 0.1. Therefore, the results reveal that the value of assets does not have a statistically significant relationship with ROCE. The results contradict the findings of Azeez (2015:187), which indicated that the value of assets of a company significantly and positively affects the financial performance of the company. The major implication of the results for this research study is that investments in assets have no bearing on the financial performance of the LuSE listed companies.

With regard to the relationship between value of assets and financial performance proxied by Tobin's Q, Table 25 presents the results of the random effects regression model. The results have revealed that the value of assets did not have a statistically significant relationship with Tobin's Q. The results suggest that regardless of how many assets a company has, financial performance will not be affected. As such, the results suggest that the value of assets does not significantly affect the financial performance of the company. The study's findings suggest that investments in assets neither positively nor negatively related to financial performance of the LuSE listed companies.

5.3.2.2   Inferential statistics for gearing

The random effects test's results for the relationship between gearing and ROCE are shown in Table 24. The findings revealed that gearing had a p-value of 0.095, which is less than the confidence level of 0.1. The relationship between gearing and ROCE is significant as revealed by the statistical significance of 0.095; demonstrating that gearing relates with the financial performance of the company. In other words, there is 90.5% confidence that gearing negatively relates with the financial performance of the LuSE listed companies.

Similarly, in Ghana using the listed companies for the period from 2000 to 2009, Owusu (2012:242) found that gearing significantly and negatively related with financial performance as proxied by ROCE. For this study, the relationship is such that an increase in gearing results in an 18.29% reduction in ROCE. Consequently, the results show that gearing negatively affects ROCE in that the more debt a company contracts, the lower the ROCE. In this regard, gearing has a significantly negative relationship with ROCE. The research study's results are inconsistent with the views of Vintilă & Gherghina (2012:180) who found that gearing has a positive relationship with financial performance, in that with more debt financing, profitability improves, thereby improving the return on capital employed. Higher gearing of between 50% and 70%, improves ROCE by limiting managerial misbehaviour (Vintilă & Gherghina, 2012:180).

This study therefore reveals that gearing has negatively related with the financial performance of the LuSE listed companies for the nine year period under review. This means that companies may need to evaluate their strategic financial decisions relating to contracting debt finance as this study has revealed that debt may not be required to improve financial performance of the LuSE listed companies.

In Table 25, the results of the random effects panel regression model tests on the relationship between gearing and Tobin's Q are presented. The relationship between gearing and Tobin's Q is highly significant, demonstrating that gearing is negatively related to the financial performance of the company. The relationship is such that an increase in gearing results in a 0.007% reduction in Tobin's Q value. Consequently, the results show that gearing negatively affects Tobin's Q in that the more debt a company contracts, the lower the Tobin's Q. In this regard, gearing has a significantly negative relationship with Tobin's Q. The results are consistent with results found by Vintilă and Gherghina (2012:180), who concluded that when Tobin's Q is used as the measure of financial performance, gearing negatively relates with financial performance. As such, this study has shown that gearing negatively relates with financial performance of the LuSE companies. This has the implication that equity capital and internally generated funds may be considered as better options for financing listed companies in order to enhance financial performance.

5.3.2.3 Inferential statistics for board size

The random effects panel regression model tests were conducted to determine the relationship between board size and financial performance. Table 24 provides the results of the relationship between board size and ROCE. The results reveal that board size has statistically significant negative relationship with ROCE. The significant and negative relationship may be attributed to the view that having more board members can prove costly to the LuSE companies, particularly the companies that are small in size and annual revenue. In this regard, at the p-value of 0.071 the relationship is such that board size accounted for a 4.098% reduction in ROCE.

With regard to the relationship between board size and Tobin's Q, Table 25 details the results of the random effects panel regression model. The results have revealed that, at the p-value of 0.985, board size did not have statistically significant relationship with Tobin's Q. In this regard, board size did not relate with the financial performance of the LuSE listed companies for the nine year period under review.

The random effects panel regression model using ROCE and consistent with the findings by Al-Matari *et al.* (2012:244), Nath, Islam and Saha (2015:106) and Palaniappan (2017:67), has revealed that the larger the boards, the poorer the financial performance as proxied by ROCE, suggesting that small boards improve financial performance. Contrary to the findings of the random effects panel regression model using ROCE, the results of Tobin's Q, consistent with the findings of Naimah and Hamidah (2017:1) and Guo and Kumara (2012:664), have indicated that board size did not relate to financial performance as proxied by Tobin's Q.

The foregoing research results have implications for this research study and the LuSE listed companies. As LuSE listed companies operate in a competitive and technologically advanced environment it is important that LuSE listed companies recruit board members that will help the companies achieve their goals. Small boards comprising seven board members may not be adequate for large organisations that require more board members to strategically manage the companies and achieve the goals of the companies.

5.3.2.4   Inferential statistics for NEDs

The results of random effects regression model for determining the relationship between NEDs and financial performance proxied by ROCE and Tobin's Q are shown in Tables 24 and 25 respectively.

As per Table 24 the results revealed that the number of NEDs on the board does not have a significant relationship with ROCE. In this regard, the ratio between executive and non-executive directors did not play a role in influencing the financial performance of the LuSE listed companies during the nine year period under review.

In Table 25, results have revealed that the number of NEDs did not have a significant statistical relationship with Tobin's Q. The study demonstrates that NEDs as part of the internal corporate governance structure did not relate with the financial performance of the LuSE listed companies for the nine year period under review.

The results of random effects panel regression model using both ROCE and Tobin's Q have revealed that NEDs do not relate with the financial performance of the LuSE listed companies. The overall results deviate from the results of existing literature by Muravyev *et al*. (2014:20), Alhaji, Baba and Yusoff, *(*2013:110), Chechet *et al*. (2013:41), Iwu-Egwuonwu (2010:195), Jackling and Johl (2009:494) and Mak and Kusnadi (2005:301) found that having a greater proportion of NEDs has a positive relationship with company performance as proxied by ROCE and Tobin's Q. The findings have implications for the study in that NEDs may be viewed as irrelevant, as NEDs do not seem to directly add value to LuSE listed companies with regard to financial performance. This could suggest that LuSE listed companies have majority board members as NEDs in order to comply with the LuSE listing rules, LuSE Code of Corporate Governance and meeting international corporate governance practices.

5.3.2.5   Inferential statistics for board leadership

The results of the relationship between board leadership and financial performance (ROCE and Tobin's Q) are presented in Tables 24 and 25. In Table 24, the results

revealed that separating the roles of CEO and the Board Chairperson does not have a significant statistical relationship with ROCE. The finding could suggest that separating the roles of CEO and the Board Chairperson in LuSE listed companies is merely a tick-the-box exercise to comply with the LuSE listing rules, LuSE Code of Corporate Governance and meeting the international corporate governance practices. Consequently, the study reveals that there is no statistically significant relationship between board leadership and financial performance.

The study further conducted random effects panel regression model test on the relationship between board leadership and Tobin's Q. As per Table 25, the results revealed that, with the p-value at 0.577, board leadership (separation of the roles of CEO and Board Chairperson) did not have a significant statistical relationship with Tobin's Q. Consequently, the study reveals that there is no statistically significant relationship between board leadership and financial performance. The findings have implications for the study in that separation of the roles of CEO and Board Chairperson may be viewed as irrelevant; suggesting that LuSE listed companies separate the two roles in order to comply with the LuSE listing rules and meet the international corporate governance practices.

The results random effects panel regression model for both ROCE and Tobin's Q, have implications for this study. Firstly, the descriptive statistics have revealed that 89% of the LuSE listed companies (17 out of the 19 companies) had the two roles separated suggesting that LuSE companies should continue separating the CEO and board chairperson roles to continue complying with the LuSE Code of Corporate Governance. Conversely, the panel regression results using both ROCE and Tobin's Q have shown that separation of the CEO and board chairperson roles does not relate to financial performance of the LuSE listed companies. The results suggest that separation of the two roles may be viewed as irrelevant, as the separation of the two roles does not seem to directly add value to LuSE listed companies with regard to financial performance.

5.3.2.6   Inferential statistics for number of board meetings

Tables 24 and 25, provide the details regarding the random effects regression tests on the relationship between the number of meetings and financial performance. With regard to the number of board meetings and ROCE, as per Table 24, the number of board meetings as an independent variable, had a p-value of 0.399 which is greater than 0.1 confidence level. Therefore, the results have revealed that the number of board meetings did not have a significant statistical relationship with ROCE. Thus, the study reveals that board meetings do not significantly relate with financial performance.

As per Table 25, the number of board meetings as an independent variable, had a p-value of 0.101 which is greater than the 0.1 confidence levels. Therefore, the results have revealed that the number of board meetings did not have a significant statistical relationship with Tobin's Q. In this regard, the number of board meetings did not affect the financial performance of the LuSE listed companies for the nine year period under review.

The findings of both ROCE and Tobin's Q contradict the findings of Sahu and Manna (2013:110), which revealed that the number of board meetings has a positive and significant relationship with financial performance. The findings of both ROCE and Tobin's Q have implications for this study. The findings suggest that the number of board meetings held does not directly add value to the financial performance of the LuSE listed companies. This could suggest that the number of board meetings that LuSE listed companies should consider may not be a relevant factor to improve financial performance. However, failure to hold quarterly board meetings demonstrates non-compliance with the LuSE Code of Corporate Governance. Consistent with the findings of Chen *et al.* (2006:424), the study suggests that the number of board meetings does not positively and significantly relate to financial performance of listed companies.

5.3.2.7   Inferential statistics for number of board committees

The random effects regression model tests were conducted to determine the relationship between the number of board committees and financial performance. The tests were conducted to determine the relationship between number of board committees and ROCE as well as the relationship between number of board committees and Tobin's Q.

As presented in Table 24, the results showed that board committees did not have a statistically significant relationship with ROCE. Thus, for the period under review, board committees did not relate with the financial performance of the LuSE listed companies. As per Table 25, the results revealed that board committees did not have a statistically significant relationship with Tobin's Q. Thus, for the period under review, the number of board committees did not relate with the financial performance of the LuSE listed companies.

The findings of both ROCE and Tobin's Q resonate with the results of Puni (2015:14) who found that board committees do not positively and significantly relate to financial performance as proxied by ROCE and Tobin's Q. However, the findings contradict the views of Fauzi and Locke (2012:43) and Rebeiz and Salameh (2006:747), who found that board committees had a positive and significant relationship with financial performance. The findings of both ROCE and Tobin's Q have implications for this study. Consistent with Puni (2015:14), the findings suggest that the establishment of board committees does not directly add value to the financial performance of the LuSE listed companies. This could suggest that the establishment and maintenance of the number of board committees by LuSE listed companies may not be a relevant factor to improve financial performance. However, failure to establish and maintain appropriate board committees (at least one committee – audit and remuneration committee) demonstrates non-compliance with the LuSE Code of Corporate Governance.

5.3.2.8 Inferential statistics for establishment of audit committees

The audit committees comprised one of the independent variables for this research study. The random effects regression model tests were conducted to determine how audit committees are related to ROCE and Tobin's Q.

In Table 24, the results revealed that there was a statistically significant negative relationship between the establishment of an audit committee and ROCE. The results further reveal that with a p-value of 0.028, the presence of an audit committee accounted for the reduction of a 28.449% ROCE, compared to the companies that did not have an audit committee. Consequently, the results mean that there is a negative relationship between the presence of an audit committee and ROCE (financial performance), as companies without audit committees reported higher average ROCE than those that had the audit committees. The results of the study are inconsistent with Al-Matari *et al.* (2012:248) who found that there was no relationship between audit committees and financial performance (ROCE), as companies just comply with the need to have an audit committee as stipulated by listing rules and other regulations.

The statistically significant negative relationship between an audit committee and financial performance may be premised on the view that the audit committee may just be passive without adding value to the company (Annuar, 2014:339). Furthermore, the results are inconsistent with the findings of Kallamu and Saat (2013:225) and Siagian and Tresnaningsih (2011:192), which revealed that audit committees improve company performance because they are not subject to potential conflicts of interest that reduce their monitoring capacity. Consequently, the study suggests that audit committees may not be relevant as audit committees negatively relate to financial performance. In this regard, future research is required particularly for a period longer than nine years and for a sample size that is greater than 19 companies. This has implications for LuSE listed companies in that if an audit committee is not established and maintained, the companies will not be complying with LuSE listing rules and LuSE corporate governance code.

As per Table 25, results showed that there was a statistically significant positive relationship between audit committees and Tobin's Q. In this regard, consistent with the findings of Fauzi and Locke (2012:43), the results show that the presence of an audit committee significantly and positively relates with the financial performance of the company as proxied by Tobin's Q. The results further reveal that with a p-value of 0.100, the presence of an audit committee could have accounted for an increase of 0.138% Tobin's Q, compared to the companies that did not have an audit committee. However, the results deviate from the findings by Al-Sahafi, Rodrigs and Barnes (2015:1) and Naimah and Hamidah (2017:1), who indicate that an audit committee did not have any relationship with financial performance as proxied by Tobin's Q. Furthermore, the study's results are inconsistent with the results of Das (2017:15) who concludes that an audit committee negatively related with financial performance. The overall results therefore, suggest that an audit committee is an important corporate governance structure in enhancing financial performance of LuSE listed companies. In particular, the quality of financial reporting, including the economic, efficient and effective utilisation of resources (whose responsibility rests on an audit committee), can thus be directly linked to improved financial performance of the LuSE listed companies. The results therefore suggest that audit committees should be in place to improve the financial performance of the LuSE listed companies.

The foregoing mixed results have implications for this study. Consistent with the views of Das (2017:15), the results of the panel regression test using ROCE show that the establishment of an audit committee negatively related to the financial performance of the LuSE listed companies for the nine year period under review. The negative relationship is premised on the view that an audit committee may not play an active role in monitoring company reporting. The panel regression results using Tobin's Q showed that an audit committee had a statistically significant positive relationship with financial performance as proxied by Tobin's Q. Having an audit committee complies with the LuSE Code of Corporate Governance and meets the international corporate governance practices.

5.3.2.9   Inferential statistics for establishment of risk committees

Random effects regression model tests using ROCE were run to investigate the relationship between the establishment of a risk committee and financial performance (ROCE and Tobin's Q) for 19 LuSE listed companies for the period 2009 to 2017. The results of ROCE are shown in Table 24. The results revealed that the establishment of a risk committee did not have a statistically significant relationship with ROCE. Consequently, the study reveals that a risk committee does not relate with financial performance.

The result is consistent with research conducted by Protiviti (2015:1) who found that establishment and maintenance of risk committee did no relate with ROCE as a measure of financial performance. However, the results differ from the findings of Nahar *et al.* (2016:255), Barakat and Hussainey (2013:254), Beltratti and Stulz (2012:1), Ellul and Yerramilli (2011:1757) and McNeil *et al. (*2005:39), which claim that risk committees improve company performance as proxied by ROCE. This is premised on the view that a risk committee improves the quality of financial reporting and that the establishment of a risk committee ensures compliance with regulations and laws. The results are also inconsistent with the findings of Zemzem and Kacem (2014:189), who indicate that the risk committee negatively affects the financial performance of the company as proxied by ROCE. As such, the study has revealed that presence of a risk committee does not have a direct link with financial performance of the LuSE listed companies. In this regard, LuSE companies can establish an audit committee but such a committee may not have a statistically significant relationship with their financial performance. In addition, the risk committee neither positively nor negatively relate with the financial performance of the companies. The establishment of a risk committee in the LuSE listed companies will, however, ensure efficient risk management and is also in tandem with international developments in corporate governance such as recommended by the King IV Report in South Africa (IoDS, 2016:2).

The results of the the relationship between the establishment of a risk committee and Tobin's Q are shown in Table 25. The results revealed that the establishment of a risk committee did not have a statistically significant relationship with Tobin's Q.

Overall, the results contradict the views of Fauzi and Locke (2012:43), who argued that presence of a risk committee positively relates with the financial performance of the company proxied by Tobin's Q and Return on Assets. In this regard, the research study has revealed that the presence of a risk committee in the LuSE listed companies does not significantly affect financial performance of the LuSE listed companies.

If an audit committee exists, the role of risk management can be played by the audit committee. Furthemore, as companies operate in a highly regulated and competitive environment, risk management is considered the responsibility of the overall board and management is charged with identifying a specific department to be responsible for risk management in the company.

5.3.3 SAQs

The SAQs helped in obtaining insights from the key role players on corporate governance theories and principles. The key role players also provided insights on the relationships between different corporate governance structures and financial performance in Zambia for the 19 LuSE companies.

5.3.3.1   SAQs results on corporate governance

In this research study, participants of the SAQs were required to provide their views and insights regarding their understanding of corporate governance as it relates to their companies. In this regard, the participants were required to select one definition from the three provided definitions in the questionnaire and the results are shown in Figure 9.

Figure 9:   Definition of corporate governance
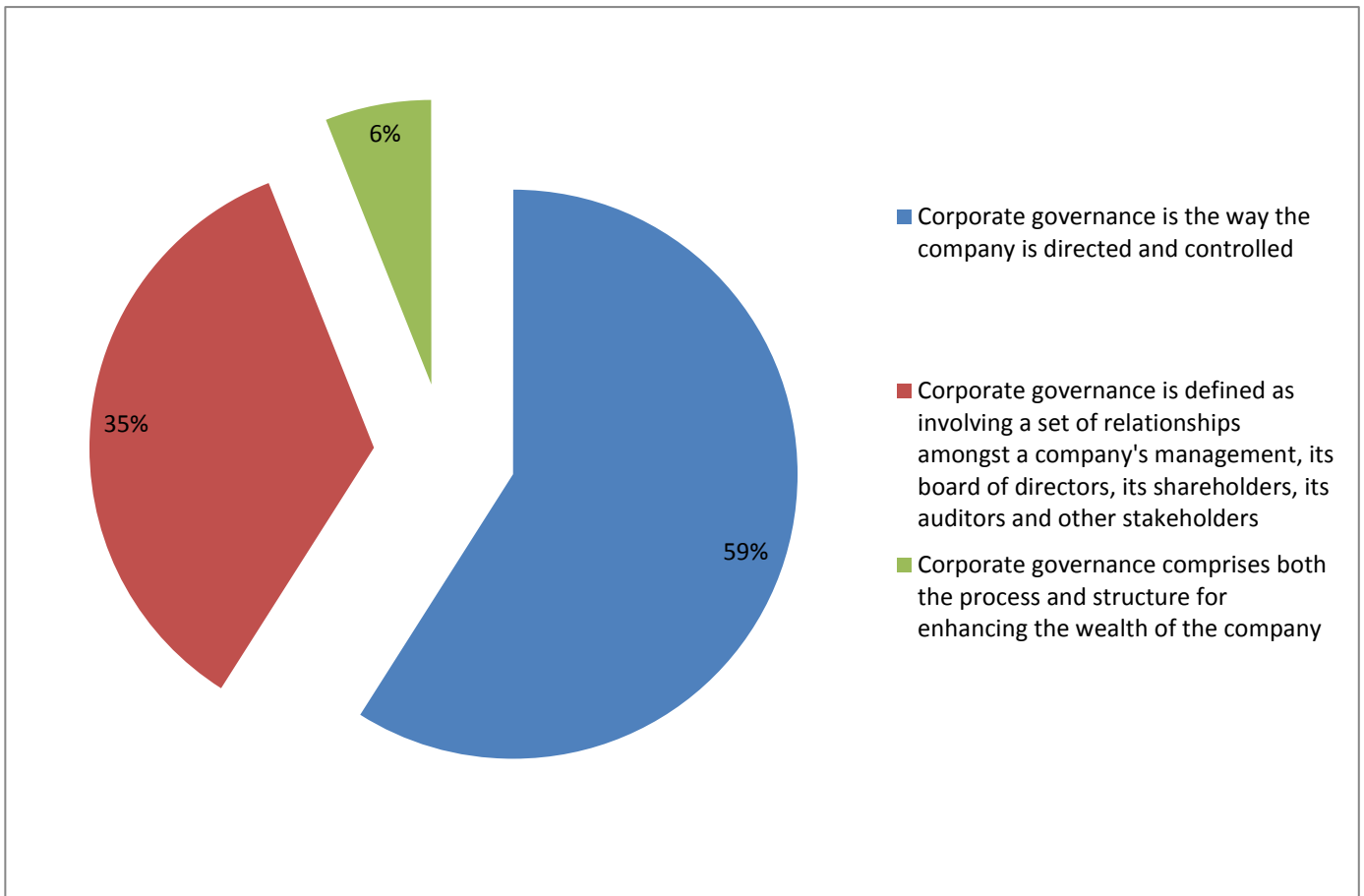
From Figure 9, the majority of the SAQ respondents viewed corporate governance as the way their companies were directed and controlled. It is thus evident that the majority of SAQ respondents had a basic understanding of corporate governance.

Consistent with Nuryama (2012:3) and Hough *et al.* (2005:26), the study has shown that corporate governance is concerned with the way a company is directed and controlled. Consistent with the views of Vintilă and Gherghina (2012:175), Mishra and Bhattacharya (2011:71), Pandya (2011:5) and Rwegasira (2000:258), the study has revealed that the definition of corporate governance (as defined by 35% of the respondents) is a set of relationships amongst a company's management, its board of directors, its shareholders, its auditors and other stakeholders. The study has also revealed that the respondents (comprising executive board members, non-executive directors and management staff) of the companies had some form of appreciation and understanding of the corporate governance principles.

With regard to the importance of corporate governance, the study has indicated that the respondents viewed corporate governance to be important or highly important in their companies. Consistent with the views of Hendrikse and Hefer-Hendrikse (2012:104), Rossouw (2005:95), Okeahalam (2004:359) and Armstrong (2003:12), the study has indicated that corporate governance is important regardless of the sector in which a company operates, as evidenced by participants from different LuSE listed companies operating in different sectors.

The SAQ respondents were asked to consider the reasons why corporate governance was viewed as important and/or highly important and also to rank these reasons. The results are presented in Table 26.

Table 26:   Reasons Why Corporate Governance is Important

Reason	Percentage (%)				Statistics	Cronbach's Alpha	Ranking
	Strongly Agree (SA)	Agree (A)	Uncertain (U)	Disagree (D)	Mean		
It is a key element in improving economic efficiency	91% (42)	9% (4)	0% (0)	0% (0)	1.09		1
It is a key element in improving investor confidence in the company	91% (42)	9% (4)	0% (0)	0% (0)	1.09		1
Corporate governance contributes to market discipline	91% (42)	9% (4)	0% (0)	0% (0)	1.09		1

Reason	Percentage (%)				Statistics	Cronbach's Alpha	Ranking
	Strongly Agree (SA)	Agree (A)	Uncertain (U)	Disagree (D)	Mean		
Corporate governance is one factor that investors consider before making investments in our company	85% (39)	13% (6)	2% (1)	0% (0)	1.17	0.799	2
To ensure that our company complies with listing rules of LuSE	83% (38)	17% (8)	0% (0)	0% (0)	1.20		3
Corporate governance acts as a deterrent to corruption in our company	83% (38)	17% (8)	0% (0)	0% (0)	1.20		3
Corporate governance acts as a deterrent to unethical business practices in our company	78% (36)	22% (10)	0% (0)	0% (0)	1.22		4
Corporate governance improves strategic thinking at top management level	72% (33)	24% (11)	4% (2)	0% (0)	1.33		5
Ranking is based on the percentage points indicating the order of responses, Cronbach's Alpha represents internal consistency reliability							

From the results, it is evident that with a Cronbach's alpha at 0.799 it is construed that the internal consistency reliability for this likert scale is acceptable as it is considerably close to 1. The SAQ responses were added into SPSS to develop descriptive statistics and weight the responses. The weighted responses were

ranked based on the weightings (using percentages) provided to the SAQ items relating to the questions. Furthermore, the results of SAQs revealed that corporate governance was regarded as important in the LuSE listed companies, as corporate governance improves economic efficiency, investor confidence and market discipline. Consequently, from the study results, it can be inferred that economic efficiency, investor confidence and market discipline can contribute to promotion of economic growth of Zambia and hence the reason why good corporate governance is critical for LuSE listed companies.

The question concerning the corporate governance structures had interesting responses. Following the responses on why corporate governance was important in LuSE listed companies, it was imperative to obtain the views of participants with regard to corporate governance structures. In this regard, the SAQ participants were required to select the appropriate definitions of corporate governance structures.

For all the identified definitions, the respondents agreed with the listed definitions with regard to corporate governance structures. As the responses (uncertain, disagree and strongly disagree) other than strongly agree and agree were not important, the research study combined such responses in the category *Other*. As per Table 27, the highest ranked definitions were the following:

- Corporate governance structures are structures designed to achieve transparency in the company;

- Corporate governance structures are structures designed to achieve independence in the company; and

- Corporate governance structures are structures designed to achieve integrity in the company.

Table 27:   Definitions of corporate governance structures

Definition	Percentage (%) Agreed and Strongly agreed	Other	Mean	Cronbach's Alpha	Ranking
Corporate governance structures are structures designed to achieve integrity in the company	100% (46)	0% (0)	1.09		1
Corporate governance structures are structures designed to achieve transparency in the company	100% (46)	0% (0)	1.13		1
Corporate governance structures are structures designed to achieve independence in the company	100% (46)	0% (0)	1.28		1
Corporate governance structures are structures designed to achieve accountability in the company	98% (45)	2% (1)	1.30	0.603	2
Corporate governance structures are structures designed to achieve responsibility in the company	96% (44)	4% (2)	1.31		3
Corporate governance structures are structures designed to achieve social responsibility in the company	96% (44)	4% (2)	1.32		3
A corporate governance structure is a system that ensures board decisions are carefully made	89% (41)	11% (5)	1.34		4
Corporate governance structures are structures designed to achieve fairness in the company	89% (41)	11% (5)	1.35		4
Corporate governance structures are structures designed to achieve board competence in the company	89% (41)	11% (5)	1.41		4
Corporate governance structures are the mechanisms which deal with the ways in which companies guarantee investors' returns on their investments in a company	76% (35)	24% (11)	1.74		5

It is evident from the results of the SAQs that the respondents viewed corporate governance structures in different ways. Consistent with the views, a Cronbach's alpha at 0.603 is construed to mean that internal consistency reliability is within an acceptable range of internal reliability (Bryman & Bell, 2007:164). The corporate governance and its structures are premised on concepts from different academic disciplines. At the SAQ response rate of 100%, the respondents viewed the corporate governance structures as follows:

- Corporate governance structures are structures designed to achieve transparency in the company;

- Corporate governance structures are structures designed to achieve independence in the company; and

- Corporate governance structures are structures designed to achieve integrity in the company.

The definitions are consistent with the definitions as provided by Ferrer *et al.* (2012:124) and FRC (2014:5). As argued by Rwegasira (2000:258), corporate governance is multi-disciplinary in nature consisting of law, economics, finance, organisational behaviour, management, ethics and politics among others. This study has found that different definitions on corporate governance and corporate governance structures exist in the LuSE listed companies. As such the study's results are consistent with the views of Rwegasira (2000:258).

With regard to the composition of corporate governance structures, participants of SAQs were asked whether corporate governance comprises both internal and external structures. The results revealed that 96% of the total respondents responded in the affirmative while two respondents (representing 4%) were not sure.

Table 28: **Cross-tabulation- internal and external corporate Governance structures**

Status of the respondent	Yes	Not sure	Total
Executive Board Member	8	0	8
Non-Executive Board Member	8	0	8
Management Team Member	28	2	30
Total	**44**	**2**	**46**

The cross tabulation of the responses on whether corporate governance structures comprised both internal and external corporate governance structures as practices in the companies of the respondents, revealed that all the executive directors and NEDs responded in the affirmative (Table 28). Similarly, 93% (28 out of 30 management team members) of the SAQ participants from the management category agreed that corporate governance structures comprised both internal and external structures. Consequently the results of the SAQs have revealed that only two participants (7%) from the category of management team were not sure whether corporate governance comprises internal and external corporate governance structures.

The CEOs, as key role players, are more knowledgeable about corporate governance of their companies than any other member of staff. As such, there are differences in the results with regard to the types of corporate governance structures that exist in the LuSE listed companies.

The SAQ respondents agreed that internal corporate governance structures comprise board of directors and managerial ownership. In addition the SAQ respondents identified shareholders and the government as the other internal and external corporate governance structures which were not listed in the questionnaire. However, as this study focuses on the board of directors and managerial ownership as internal corporate governance structures, government as a key stakeholder is outside the scope of this study and therefore not discussed in this research study. Furthermore, although remuneration and nominations committees are important

committees, the study only considers audit and risk committees as common internal corporate governance structures in the LuSE listed companies.

The findings replicate the views of Apadore and Subaryani (2014:164), as well as the World Bank (2006:3), who suggest that corporate governance includes two types of structures, namely internal and external corporate governance structures. The study, therefore, recognises that there are different stakeholders of the company. As such both internal and external corporate governance structures must exist, not only to improve economic efficiency, investor confidence, and market discipline and to comply with the rules and regulations, but also to meet the interests of different stakeholders thereby achieving the company's goals. Furthermore, consistent with the findings of Apadore and Subaryani (2014:164) and World Bank (2006:3), the study has also shown that corporate governance structures comprise both internal and external structures designed to create value for the companies. Similarly, consistent with the stakeholder approach to corporate governance, as espoused by Peters and Bagshaw (2014:110), Ferede (2012:14), as well as Freeman, Wicks and Parmar (2004:364), the study has revealed that corporate governance structures are critical when considering the varied interests of the stakeholders of the LuSE listed companies. Furthermore, corporate governance is regarded as important mainly because it is one of the listing requirements. In addition, the recognition of the importance of corporate governance in LuSE listed companies demonstrate accountability and the need to keep abreast with international development in corporate governance practices.

5.3.3.2   Corporate governance structures and financial performance

When asked if a relationship existed between corporate governance structures and financial performance, all (100%) of the respondents of both SAQs and interviews responded in the affirmative. As revealed in Section 5.3.3 all the participants of the study had knowledge about corporate governance and participants acknowledged that corporate governance is important in their companies. All the respondents indicated that corporate governance structures had a positive relationship with the

financial performance of their company. Furthermore, all the respondents indicated that the relationship between corporate governance structures and financial performance in their companies was important.

Furthermore, the respondents highlighted the following as the main reasons why corporate governance structures positively relates with financial performance of the LuSE listed companies:

- Internal audits improve the management of risks leading to reduced risks and reduced costs (44 (96%) of the respondents selected this option as one of the chosen reasons);

- Reduced costs entail increased profitability (44 (96%) of the respondents selected this option as one of the chosen reasons);

- Internal corporate governance structures provide checks and balances within the board and management; thereby positively influencing company performance (40 respondents (87%) selected this option as one of the chosen reasons); and

- Strong internal corporate governance structures attract investment thereby improving financial resources for the LuSE listed companies (39 (85%) selected this option as one of the chosen reasons).

The results of the SAQs have shown that there is positive relationship between corporate governance structures and financial performance of the LuSE listed companies.

5.3.3.3   Board composition and structure

As discussed in Chapters 1 and 4, the board composition and structure for this research relate to board size, non-executive directors, board leadership and the number of board meetings. The following section discusses the SAQs results on the relationship between corporate governance and financial performance of the LuSE listed companies.

5.3.3.3.1   Board size

The results of the SAQs revealed that the board size, although ranked the least important internal corporate governance structure, positively influenced the financial performance of LuSE listed companies. The view of the participants that board size is positively related with financial performance is consistent with the results of Das (2017:15), Haider (2017:78), Mohamed, Le and Thi (2016:190), Zhou and Amin (2016:1), Al-Sahafi, Rodrigs and Barnes (2015:1) and Meyer and Wet (2013:19) who found that board size positively relates with financial performance.

The SAQs results, that showed that there was positive relationship between board size and financial performance, contradict the research findings by Al-Matari *et al.* (2012:244), Nath, Islam and Saha (2015:106) and Palaniappan (2017:67), which revealed that the larger the boards, the poorer the financial performance suggesting that small boards improve financial performance. The SAQ results have implications for this research study and the LuSE listed companies. Boards comprising more than seven members may be too large for small companies that currently have four board members, resulting in delayed decision making and increases in administrative costs that include board recruitment and meeting costs.

5.3.3.3.2   Non-executive directors

The results of the SAQs revealed that all the participants agreed that NEDs had a relationship with the financial performance of the LuSE listed companies. In this regard, NEDs as one of the internal corporate governance structures played a critical role in influencing the financial performance of the LuSE listed companies in that NEDs contributed to good financial performance. The result that NEDs positively relate with the financial performance of companies is consistent with the results found by Muravyev *et al.* (2014:20), Alhaji *et al. (*2013:110), Chechet *et al.* (2013:41), Iwu-Egwuonwu (2010:195), Jackling and Johl (2009:494) and Mak and Kusnadi (2005:301).

The study's results have implications for the LuSE listed companies. It can be inferred from the results that insights from key role players reflect the need to comply with the LuSE and justify that there is value in maintaining NEDs as the majority. The results of SAQs, therefore, have revealed that having NEDs as the majority of board members is indeed a common practice in the LuSE listed companies in Zambia. The study, therefore, suggests that having a majority NEDs on the boards only achieves compliance with LuSE listing companies. In order to be compliant with LuSE listing rules and international best practice, the listed companies should maintain the majority of NEDs.

5.3.3.3.3   Board leadership

The SAQs respondents were requested to state how board leadership (separation of CEO and board chairperson roles) related with the financial performance of their companies. The results showed that all the participants (100%) perceived that separation of the position of CEO from Board Chairman may improve financial performance. The review of the annual reports has shown that two of the LuSE listed companies in this study did not have the roles of CEO and Board Chairperson separated. It is evident that the difference in the SAQ and financial reports review results is mainly because the key role players of the two companies (that did not separate the roles) wanted to demonstrate that their views complied with the LuSE Code of Corporate Governance. In this regard, separation of CEO role from that of the Board Chairperson may play a critical role in the good financial performance of LuSE listed companies as there may be no conflict of interest.

Consistent with the agency theory (Lorsch and MacIver, 1989) and the findings of Amba (2013:1), Shukeri *et al.* (2012:122), Mak and Kusnadi (2005:301) and Mary (2005:14), separation of the two roles improves financial performance because:

- There is greater scrutiny of managerial behaviours;

- The balance of power of the two designations is maintained; and

- Conflict of interests is avoided.

However, the results of the SAQs are inconsistent with the findings of Sharma and Braun (2007:111), who documented that performance of the roles by one person leads to higher company performance because decision making is quick and efficient. Furthermore, the study's SAQ results are inconsistent with the views of Al-Sahafi, Rodrigs and Barnes (2015:1) and Nath, Islam and Saha (2015:106), who found that board leadership does not relate with financial performance of the company. Consequently, the SAQs results suggest that the LuSE listed companies should have the two roles held by two different people in order not only to comply with LuSE listing rules but also to improve the financial performance of the companies. In the LuSE listed companies, separation of the two roles may enable scrutiny of management, maintains balance of power between the two roles and avoids the conflict of interests in the board room. This may lead to improved financial performance of the LuSE listed companies.

The SAQ results are inconsistent with the findings by Nath, Islam and Saha (2015:106) and Al-Sahafi, Rodrigs and Barnes (2015:1) which show that separation of the CEO and board chairperson roles does not significantly relate with financial performance. However, the SAQs results resonate the findings by Amba (2013:1), Baccar *et al.* (2013:291), Shukeri *et al.* (2012:122), Sharma and Braun (2007:111) and Mak and Kusnadi (2005:301) that suggest that separation of the two roles have a positive impact on the financial performance of the companies.

The results of the SAQs have implications for this study in that the insights from the key role players suggest that LuSE listed companies should continue separating the CEO and board chairperson roles as this does not only comply with the LuSE Code of Corporate Governance, but also improves the financial performance of the LuSE listed companies.

5.3.3.3.4   Number of board meetings

In order to investigate the relationship between board meetings on the financial performance the study employed SAQs. The SAQs respondents were requested to

state how the board meetings related with the financial performance of the LuSE listed companies thereby demonstrating a positive relation between board meetings and financial performance. The results revealed that all the participants agreed that board meetings positively related with financial performance as the board meetings facilitated informed decision making and promoted constructive debate in the boardrooms.

The results of the SAQs are consistent with the findings of the current literature (Sahu & Manna, 2013:110 and Chen *et al.*, 2006:424) that conclude that the number of board meetings have positive and significant with financial performance. In their study Sahu and Manna (2013:110) found that the more frequent board meetings were held, the better the decision making by the board leading to better financial performance; thereby positively influencing financial performance. However, the results of the SAQs depart from the findings of Chen *et al.* (2006:424) who conclude that frequent meetings of the board of directors led to ineffective boards that negatively affected financial performance.

5.3.3.4 Board processes

The board processes for this research, as discussed in Chapters 1 and 4, relate to board committees, audit committee, risk committee, internal and external audits. The following section provides the results and analysis of board processes.

5.3.3.4.1 Number of board committees

The insights obtained from the key role players through SAQs reveal that all the participants (representing 100%) agree that the number of board committees established in the companies improves financial performance of the LuSE listed companies. This was premised on the view that responsibilities and roles are appropriately allocated to competent board members that help the board discharge its duties diligently to improve company performance.

The results of SAQs are consistent with the results of Rebeiz and Salameh (2006:747), who suggest that the number of board committees positively relates with the financial performance of companies through the proper discharge of a board's duties as delegated to the board committees. The establishment of board committees is aimed at providing the necessary skills, experience and networking to boards of directors so that the boards of directors can fulfill their roles and improve financial performance (IoDSA, 2016:55; IoDSA, 2009:2; LuSE, 2005:6). It is evident that the insights from the SAQs are premised on the view that the existence of different board committees improves decision making and financial performance. In addition, the insights from the SAQs represent the views and perceptions of senior management on the relationship between the existence of board committees and financial performance. In this regard, the number of board committees does not only ensure compliance with the LuSE Code of Corporate Governance, but also reflects international best practice on corporate governance.

5.3.3.4.2   Establishment of audit committee

The insights obtained from the key role players through the SAQs revealed that all the participants (representing 100%) agreed that the establishment of an audit committee in the LuSE listed companies improves financial performance of the LuSE listed companies, because an audit committee provides independent oversight of company reports. Similarly, the results of interviews show that the establishment of an audit committee relates with the financial performance of LuSE listed companies as an audit committee charged with risk management improves internal control systems leading to improved profitability. However, as five companies did not have audit committees, it can be construed that the key role players from the companies tailored their responses to meet the requirements of the LuSE Code of Corporate Governance, as in reality they did not have audit committees.

The study results of the SAQs are consistent with the findings of Fauzi and Locke (2012:43) who found that the establishment of an audit committee positively relates with the financial performance of companies. The SAQ results of the SAQs advocate for the presence of an audit committee because audit committees can improve the

quality of financial reporting including the economic, efficient and effective utilisation of resources; thereby improving the financial performance of the LuSE listed companies.

5.3.3.4.3   Establishment of a risk committee

The SAQs results revealed that 44 of the 46 participants (representing 96%) agreed that the establishment of a risk committee in the LuSE listed companies improves the financial performance of the LuSE listed companies because risk management is critical in today's complex and technologically advanced business environment.

The results of the SAQs suggest that establishment of risk committee is critical to manage the risks that the LuSE listed companies are exposed to as they operate in a highly regulated and competitive business environment. As such, unless an audit committee exists, the non-establishment of a risk committee would result in failure to manage risks; thereby negatively affecting the financial performance of the LuSE listed companies.

5.3.3.4.4   Internal audit

The internal audit has been identified as another corporate governance structure. The SAQs respondents were requested to describe how an internal audit affects the financial performance of their companies. All the respondents agreed that an internal audit improved the quality of financial reporting; thereby improving the financial performance of the companies of the respondents. A total of 44 respondents, representing 96%, agreed that internal audits contributed to the increase in revenue through effective internal controls, thereby improving financial performance of the respondents' companies. The results have implications for the study in that LuSE listed companies that do not have an internal audit function are encouraged to consider establishing one to improve the financial performance of the LuSE listed companies.

5.3.3.4.5　　External audit

The respondents of the SAQs were asked to describe the relationship between an external audit and the financial performance of the LuSE listed companies. All the respondents - representing 100% of the respondents - affirmed that an external audit improves the quality of financial reporting and that improved financial reporting contributes to good financial performance. The results imply that LuSE listed companies should continue to be audited annually by external auditors regardless of the costs associated with the external audit.

5.3.3.5　　Managerial ownership

The insights obtained from the key role players through SAQs reveal that a total of 45 respondents, representing 98% of the respondents, agreed that selling shares to company employees may improve the financial performance of their companies, making this choice rank first among the three choices. Further, a total of 43 respondents (representing 94%) perceived that selling of 5% to 10% of company shares to board members improves financial performance. As such insights from the SAQs suggest that there may be a positive relationship between managerial ownership and financial performance.

5.3.4　Interviews

The aim of conducting interviews was to obtain insights from the key role players on corporate governance theories and principles. The key role players also provided insights on the relationships between different corporate governance structures and financial performance in Zambia for the 19 LuSE companies.

5.3.4.1 Interviews' results on corporate governance

The interviews revealed that all the participants had a common understanding that corporate governance refers to the way a company is directed and controlled. Participant 1 viewed corporate governance as:

"The way an entity is governed including the processes and systems put in place to optimise use of resources and achieve company's goal."

Similarly, Participant 10 defined corporate governance as follows:

"Corporate governance comprises corporate principles and practices that set out the management of the company in order to achieve shareholder value while taking into account the interests of other stakeholders of the company."

Other participants of the interviews echoed definitions provided by participants 1 and 10 and emphasised that control and oversight are key words when defining corporate governance. Participant 15 stated that corporate governance entails forms of laws and procedures relating to how the LuSE listed companies should be directed and controlled. However, other participants, in addition to oversight and control, indicated that corporate governance relates to structures and relationships in LuSE listed companies. In this regard, Participant 13 viewed corporate governance as the way a company is directed and controlled, including the relationships of the company's management, board of directors, shareholders, auditors, suppliers and customers who work together to achieve the company's goals. Similarly, Participant 4 stated that corporate governance is mainly about the processes and structures to enable LuSE listed companies to enhance the wealth of the company ensuring that there is a return on investment, suppliers are paid promptly, employees' jobs are maintained and there is compliance with rules and regulations.

With regard to the interview responses, the participants identified various reasons why they regard corporate governance to be important in LuSE listed companies in Zambia. The major reasons were as follows:

- To ensure control of the company;

- To protect investors' investments;

- To comply with LuSE listing rules;

- To provide checks and balances in the company;

- To promote ethical leadership and promote transparency and accountability; and

- To define roles of company's stakeholders.

Participant 15 stated that corporate governance ensures control of the company particularly as monitoring the use of public funds in listed companies, is critical. Participant 1 echoed this statement and emphasised that shareholders of the public companies, which are listed companies, rely on the processes and structures that have been put in place to achieve the goals of the companies. Similarly, Participants 2, 3, 7 and 14 emphasised that as listed companies are public companies, compliance with SEC and LuSE regulations are essential. Participant 12 echoed the sentiments from Participants 2, 3, 7 and 14 and stated that:

"Corporate governance is particularly important because it ensures that the different interests of different stakeholders of the LuSE listed companies are served to enable creation of wealth for the companies."

The view that corporate governance ensures that interests of different stakeholders are met, is consistent with existing literature on corporate governance (Vintilă & Gherghina, 2012:176; Mishra & Bhattacharya, 2011:71; Pandya, 2011:5; Rwegasira, 2000:258). Furthermore, similar to SAQs results, the interviews revealed that corporate governance was regarded as important in the LuSE listed companies.

The question concerning the corporate governance structures had similar responses from the participants of interviews as those from SAQs discussed in Section 5.3.3.1. Participant 15 stated that corporate governance principally comprises the board of directors, senior management, shareholders and other stakeholders with a vested

interest in the company. Participants 5, 6, 7, 8 and 9 echoed the views of Participant 15 and emphasised that corporate governance structures include the rights and responsibilities of stakeholders of the companies. In particular, Participant 6 viewed corporate governance structures as defined layers of responsibilities (for example, shareholders, board of directors, management and government) designed to create value for the LuSE listed companies in Zambia. Similarly, Participants 11 and 12 emphasised that corporate governance structures include management, employees, board committees, internal and external audit.

The interview responses to the question regarding whether corporate governance comprises both internal and external governance were quite different from SAQs responses. The results of the interviews revealed that all the interview participants indicated that corporate governance structures comprised both internal and external structures. It is evident that the participants acknowledged that corporate governance structures, relating to LuSE listed companies, comprised both internal and external structures. Like the SAQ respondents, the interview participants agreed that internal corporate governance structures comprised board of directors and managerial ownership in the LuSE listed companies.

Similar to SAQ results in Section 5.3.3.1 and consistent with the stakeholder approach to corporate governance, as espoused by Peters and Bagshaw (2014:110) the interview results have revealed that corporate governance structures are critical in meeting the varied interests of the stakeholders of the LuSE listed companies.

5.3.4.2   Corporate governance structures and financial performance

Consistent with SAQs results, all the interview participants indicated that the relationship between corporate governance structures and financial performance existed. Furthermore, the interview participants acknowledged that the relationship between corporate governance and financial performance of their companies was important. In particular participants acknowledged that their corporate governance structures relate with financial performance of the LuSE listed companies. For example, one participant echoing the sentiments of other participants stated that:

"Obviously a positive relationship between corporate governance and financial performance exists. Corporate governance structures improve financial management thereby improving profitability. Improved profitability leads to improved prospects for dividend declaration and this improves return on investments."

Similarly, Participant 11 said that:

"Strong internal corporate governance structures positively influence the financial performance of the LuSE listed companies while on the other hand weak internal corporate governance structures negatively influence the financial performance of these companies."

Echoing this view Participant 8 said:

"Weak internal corporate governance structures will promote fraud and financial misappropriation including embezzlement of funds while strong internal corporate governance structures will attract investments into the LuSE listed companies."

Participants 6, 7 and 15 pointed out that although good internal corporate governance structures positively relate with financial performance, it must be recognised that establishment and maintenance of these internal corporate structures come at a cost to the company. In this regard, costs may include emoluments for the board members, meeting expenses and administration costs. In this regard and according to agency theory, the costs arise from the agent and principal relationship. Similarly, Participants 2 and 3 emphasised that in general corporate governance principles require financial resources which in the short term can negatively affect profitability. In this regard, the study has revealed that a relationship between corporate governance structures the financial performance of the LuSE listed companies in Zambia existed. Consequently, the results echo the arguments by Goh, Rasli and Khan (2013:1) who found that corporate governance structures had negative relationship with financial performance of the company.

The results of the interviews reveal that the perceptions of the participants indicate that corporate governance positively relates with financial performance of the LuSE listed companies in Zambia. The positive relationship was important for the companies. The results of the study reveal that although the internal corporate

governance structures have a positive relationship with the financial performance of LuSE listed companies, LuSE listed companies are aware that establishing and maintaining internal corporate governance structures require that companies expend resources. The study's findings are consistent with Le and Thi (2016:190), Guo and Kumara (2012:664), Horváth and Spirollari (2012:470), Simoneti and Gregoric (2005:2) and Welch (2003:287) who found that corporate governance had positive relationship with financial performance. The study has further revealed that, whereas strong internal corporate governance structures positively relate with financial performance, weak internal corporate governance structures negatively affects their relationship with the financial performance of the LuSE listed companies in Zambia. Consequently, strong internal corporate governance structures are critical for improved financial performance in the LuSE listed companies. The study's results therefore suggest that internal corporate governance structures should be established and maintained in the LuSE listed companies. As the board of directors are responsible for the effective corporate governance of the companies, the study's results imply that the board of directors should demonstrate that such internal corporate governance structures are established and maintained for improved financial performance.

On the contrary, weak internal corporate governance can lead to fraud, embezzlement, and inefficient and ineffective use of company resources. Furthermore, some of the corporate scandals such as Enron, Parmalat, KPMG 2017, and the Steinhoff 2017 corporate scandal in South Africa, could be attributed to weak internal corporate governance structures. As such, with weak internal corporate governance structures, LuSE listed companies may not be able to achieve their financial and non-financial objectives. In particular, financial performance will be negatively affected leading to a reduction in shareholder's wealth and loss of value for stakeholders of the LuSE listed companies. With weak internal controls, management may not be transparent and accountable to stakeholders, thereby negatively impacting on financial performance. As such, the study recommends that strong internal corporate governance structures should be established and maintained to ensure that LuSE listed companies increase shareholders' wealth. Furthermore, strong internal corporate governance structures promote the spirit of

accountability that increases investors' confidence in management and improves financial performance.

5.3.4.3   Board size

The interviews showed interesting results with regard to board size given that there were variations among the results. As one of the internal corporate governance structures the interviews' participants were asked to state, in their opinion, the ideal size of the board. A total of ten participants (67% of the participants) indicated that a small board consisting of six to 12 board members is ideal for the LuSE listed companies. On the other hand, three participants representing 20%, indicated that the ideal size of the board is four to five board members. Finally, two interviewees suggested that the ideal board should comprise 12 to 16 board members.

Participants 1, 9 and 15 emphasised that the number of board members should be an odd number; for example 7, 9, or 11 to help in decision making particularly where there is a tie. The participants further stated that an odd number helps in decision making particularly where there is a tie and a decision has to be made urgently. However, the participants cautioned that the number of board members "does not really matter", provided the board in place has the appropriate mix of skill and experience. In particular Participant 6 said:

"The size of the board may not matter as a competent board is what is required for LuSE listed companies."

Participant 1 echoed the views of Participant 6 and said:

"The size of the board may not matter as long as the board reflects the expertise required for the LuSE listed company."
Similarly participant 15 said that:

"Fundamentally the board size is dependent on the size of the company, the sector and nature of the business of the company."

5.3.4.4   Internal audit

The interview participants revealed that the presence of an internal audit improves the financial performance, as an internal audit improves the management of risks leading to reduced risks and reduced costs. In particular one participant stated that:

"In a highly competitive and technological business environment, in which LuSE listed companies operate, establishment and maintenance of internal audit as an internal control becomes inevitable."

Another participant who resonated with the above, sentiment stated that:

"Internal audit is purposed to help management to ensure that adequate internal controls are in place to provide assurance that company's resources are managed efficiently and effectively. In this regard, effectiveness is construed to entail achieving company goals and objectives that include financial objectives. For LuSE companies the financial goals include improved financial performance through increased profitability and return on investments. As such internal audit plays a great role in achieving the company's financial objectives."

The results of the interviews have shown that an internal audit improves financial reporting. This is premised on the view that an internal audit ensures the establishment and implementation of internal controls that promote timely and reliable reporting of company's results. Consistent with the views of Holt (2016:1), Awdat (2015:217), Al-Swidi and Fadzil (2014:34), Johl *et al.* (2013:781) and Gramling *et al.* (2004:194) the study has revealed that an internal audit can contribute to the good financial performance of the company.

5.3.4.5   External audit

The results of the interviews revealed that an external audit improves financial performance, as an external audit improves the integrity of the financial statements of the LuSE listed companies, thereby improving company value. In particular one participant stated that:

"External audit is a requirement by Companies Act of 1994 of the laws of Zambia that every registered company should have its financial statements audited by certified and independent auditors. Consequently, the LuSE listed companies need to comply with the laws of Zambia with regard to the audit requirement. In addition, the audit provides opportunity for stakeholders such as shareholders and customers among others, to assess the financial performance of the LuSE listed companies. As such audit of financial statements improves the financial performance as the audit does highlight areas of improvements in internal controls thereby improving financial performance of companies."

In this regard, the company value increases as a result of good financial performance.

The study results of interviews have shown that an external audit improves financial reporting; thereby improving financial performance of the companies listed on LuSE. As observed by Farouk and Hassan (2014:17), an external audit has a positive and significant relationship with the financial performance of the companies. This is premised on the view that an external audit can restrict the managerial discretionary practices and reduce the information asymmetry between the principal and the agent, thereby minimising conflicts of interest (Farouk and Hassan, 2014:17). Furthermore, an external audit protects the interests of the various stakeholders by providing a reasonable assurance that management's financial statements are free from material misstatements (IoDSA, 2016:69; Farouk & Hassan, 2014:2; Taktak & Ibtissem, 2014:83;). The stakeholders of the LuSE listed companies pay attention to the audit opinion expressed by the external auditors to assess the performance of the company. The external audit, through management letters, provides

recommendations for improving financial management. Having financial statements audited by external auditors does not only comply with LuSE listing rules, but also improves the credibility of the financial statement. Furthermore, subjecting the financial statements to external audits complies with the Zambia's Companies Act of 1994 that require LuSE listed companies to be externally audited annually.

5.3.4.6   Managerial ownership

The results of the interviews show that the sale of shares to management positively affects the financial performance of the companies, as avoidance of conflict of interests improves decision making that is critical to company performance. In this regard, consistent with the research conducted by Simoneti and Gregoric (2005:2) and Mueller and Spitz (2002:1), the results of the interviews reveal that selling of shares to management improves financial performance of the LuSE listed companies because managers' interests become aligned with those of shareholders that espouse increasing shareholders' wealth. As managers buy shares in the companies, their interests may be aligned to the interests of existing shareholders as managers are now part of the shareholders. However, from the review of the annual reports it is evident that selling of shares to management is not a common practice as it was only practiced in one listed company. The rare selling of shares to management demonstrates that participants from the interviews from the 19 companies, agreed that managerial ownership positively related with financial performance. As in practice only one company sold shares to management, it is evident that the key role players of the 19 LuSE listed companies were in agreement in order to show that the companies complied with the LuSE Code of Corporate Governance. The study results do not reflect what actually happened in terms of sale of shares to management in the LuSE listed companies during the nine years period.

5.4   Framework of corporate governance structures

The aim of this research study was to adjust existing international frameworks and guidelines of corporate governance structures to enhance the financial performance of listed companies in Zambia. The empirical results in the previous sections, using regression analysis, SAQs and interviews, have informed the development of the framework of corporate governance structures. The aim of this framework is to enhance the financial performance of LuSE listed companies in Zambia. The framework is based on the current corporate governance structure and therefore improves on the existing framework of corporate governance structures to enhance financial performance of LuSE listed companies. Although the framework uses some of the principles of corporate governance elucidated in the King IV Report, it has not solely been developed using the King IV Report. The King IV Report was developed in 2016 and is applicable to listed companies with a financial year starting 1 April 2017. As such, full adoption of the King IV Report into the framework would not be appropriate for the empirical portion of the research study that covers the period 2009 to 2017. However, due to the importance of the corporate governance practices contained in the King IV Report, this report was utilised to expand on the conceptual framework developed from the empirical findings. Furthermore, the framework adjusted by this research study uses existing corporate governance structures. In this regard, the framework improves on the existing corporate governance structures in Zambia to enhance the financial performance of the LuSE listed companies. As such, the author recommends that the framework should take into account both the empirical findings of this study and the theoretical aspects as provided in the King IV Report. In this regard, the theoretical aspects include provisions from the King IV Report and comprise the following:

- Board committees: Remuneration, risk and social and ethics committees;
- Board demographics in terms of tenure, sex, skills and knowledge of board members; and
- Other factors such as integrated reporting, performance evaluation of board and committee members, information technology, shareholder activism, the stakeholder relationships and the management of stakeholder relationships should be considered.

It is thus argued that such theoretical aspects and provisions in the King IV Report can influence the financial performance of LuSE listed companies in Zambia.

5.4.1 Corporate governance structures for enhanced financial performance

Following the discussion and conclusions drawn on the relationship between corporate governance structures and the financial performance of LuSE listed companies in Zambia, this research study proposed that a framework of internal corporate governance structures is essential for enhancing the financial performance of LuSE listed companies in Zambia. The adjustment of the existing framework of internal corporate governance structures comprising the board of directors and managerial ownership culminates in the contribution to solving the research problem of this research study. The framework, therefore, outlines the relationship between each of the internal corporate governance structures and the financial performance of LuSE listed companies; highlighting how each of the internal corporate governance structure should be designed and operated to enhance the financial performance of the LuSE listed companies.

5.4.2 Board of directors

The study has shown that the board of directors, as an internal corporate governance structure, relate with financial performance in different ways. The board composition relating to board size and non-executive directors, relate to the financial performance of LuSE listed companies in different ways. The study has revealed that the random effects panel regression model tests using ROCE, have shown that that board size has a statistically significant negative relationship with financial performance in that the smaller the board the better the financial performance. Given the simplicity and frequent use of ROCE for measuring financial performance, the study recommends that LuSE listed companies maintain smaller boards, averaging seven board members, to improve financial performance. The recommendation has implications for this research study and the LuSE listed companies. As LuSE listed companies operate in a competitive and technologically advanced environment it is important that LuSE listed companies recruit board members that will help the

companies achieve their goals. Small boards comprising seven board members may not be adequate for large organisations that require more board members to strategically manage the companies and achieve the goals of the companies. Conversely, large boards (of 12 or more board members) may be too large for small companies that currently have four board members, resulting in delayed decision making and increases in administrative costs that include board recruitment and meeting costs. The study has shown that the average board comprising seven members has been a practice within the LuSE listed companies for the period from 2009 to 2017. The average number of seven individuals as board members is consistent with the current corporate governance practice in the developing countries and as such, is in tandem with international best practice. Thus, LuSE listed companies should continue to maintain the current board size as their average board membership. Furthermore, with the contradictory results from the random effects tests and SAQs, future research is recommended to investigate the relationship between board size and financial performance.

The results suggesting that majority NEDs on boards, board leadership (separation of CEO and board chairperson roles) and number of meetings do not influence financial performance require further investigation. Further research is required as the findings are inconsistent with existing literature and current international practice in corporate governance. In particular, although NEDs do not have a statistically significant influence on financial performance, insights from the key role players have revealed that NEDs improve financial performance. In this regard, maintaining NEDs as the majority members of the boards has been the current practice in the LuSE listed companies and is in tandem with international corporate governance practices. Consequently, the study recommends that boards should comprise NEDs as majority members of the boards of the LuSE listed companies. Similarly, separation of the roles of CEO and board chairperson should be maintained in the LuSE listed companies despite the fact that the random effects tests prove that the separation of the two roles does not have a relationship with financial performance. This is because insights from the role players suggest that the separation of the two roles does not only reflect current practice in the LuSE listed companies and is in tandem with international corporate governance practice but indirectly improves financial

performance. Finally, separation of the two roles is the requirement as provided for in the LuSE Code of Corporate Governance.

With regard to board meetings random effects tests using ROCE and Tobin's Q, have revealed that the number of board meetings did not have any significant relationship with the financial performance of the LuSE listed companies for the period 2009 to 2017. On the contrary, insights from the SAQs suggest that holding of quarterly board meetings improves decision making and thereby entailing existence of a positive relation between board meetings and financial performance. As such, the study recommends that quarterly board meetings be held in the LuSE listed companies. Holding of quarterly meetings reflects current practices of the majority of LuSE listed companies. Furthermore, holding quarterly board meetings is compliant with the LuSE listing requirements as provided for in the LuSE Code of Corporate Governance.

The board processes such as the number of board committees, establishment of audit and risk committees and internal and external audits, relate with the financial performance of LuSE listed companies in different ways. The audit committee, internal and external audits as internal corporate governance structures, have a positive relationship with the financial performance of LuSE listed companies. In this regard, the study recommends that all LuSE listed companies should establish and maintain internal and external audits. Internal audits as an internal control provide assurances on the adequacy of internal controls for improving financial performance. The external audits are required by the Companies Act of 1994. Similarly, external audits provide mechanisms for assessing the financial performance of LuSE listed companies and provide recommendations for improving financial performance. Furthermore, all LuSE listed companies should have internal and external audits to comply with the LuSE Code of Corporate Governance and improve financial performance.

Having LuSE companies' financial statements audited by external auditors does not only improve the credibility of the financial statements, but also improves the financial performance of the companies. On the contrary, the results of the study have shown that the establishment of board committees as a whole and the establishment of risk committee did not have a relationship with the financial

performance of the LuSE listed companies. The results therefore suggest that when investing in individual board committees, there are variations in terms of the relationships between the individual board committees and financial performance.

Where a risk committee has not been established, it is critical that LuSE listed companies establish and maintain audit committees, particularly because LuSE listed companies operate in a complex and technologically advanced business environment. In this regard, audit committees should be established and maintained in the LuSE listed companies.

5.4.3 Managerial ownership

The sale of shares to management, as part of the internal corporate structures, aims at aligning the interests of managers to the interests of shareholders, in order to improve financial performance. The results of SAQs and interviews revealed that managerial ownership positively relates with financial performance as managers align their interests with shareholders' interests. However, it is evident from the financial reports for the period under review that managerial ownership was not a common practice as only one company issued shares to management. In this regard, due to limitation in the number of companies that sold shares to management, random effects test results were not discussed. As managerial ownership was not a common practice in LuSE listed companies for the period, the study recommends that managerial ownership does not have to be a common practice for improving financial performance.

5.5   Conclusion

This research study was conducted using secondary and primary data and mixed methods (through the use of quantitative and qualitative methods). As the mixed research method was used, different research instruments such as SAQs, interviews and regression analysis were employed.

Corporate governance is viewed as the way a company is directed and controlled. Consistent with the views of Vintilă and Gherghina (2012:175), Mishra and Bhattacharya (2011:71), Pandya (2011:5), Rwegasira (2000:258), the study revealed that corporate governance is a set of relationships amongst a company's management, its board of directors, its shareholders, its auditors and other stakeholders. Corporate governance structures, which are defined as layers of responsibilities, are designed to create value for the LuSE listed companies in Zambia. The corporate governance structures that include shareholders, the board of directors, management and government consist of internal and external structures. The internal corporate governance structures include board composition and processes and managerial ownership.

The study has revealed that internal corporate governance structures relate with financial performance in different ways. The board composition relating to non-executive directors does not relate with the financial performance of LuSE listed companies. Conversely, board composition relating to board size has a negative relationship with financial performance. Furthermore, the study has shown that an average board of seven members has been a practice within the LuSE listed companies for the period from 2009 to 2017. As such LuSE listed companies should continue maintaining their current board size of seven board members to improve financial performance and comply with international best practice on corporate governance structures.

Although a majority of NEDs on the board, board leadership (separation of CEO and board chairperson roles) and number of meetings do not have statistically significant relationships with the financial performance of LuSE listed companies, the study recommends that the board should have a majority as NEDs, roles of CEO and board chairperson be split with quarterly board meetings held per year. This is premised on the insights from key role players that have revealed that separation of the CEO and board chairperson, holding of quarterly board meetings and maintaining of NEDs as majority board members, improve the financial performance of the LuSE listed companies. Similarly, separation of the CEO and board chairperson, holding of quarterly board meetings and maintaining of NEDs as majority board members, reflect current practice in the LuSE listed companies and such practices resonate with current international corporate governance practices.

Replicating the views of Holt (2016:1), Awdat (2015:217), Al-Swidi and Fadzil (2014:34), Johl *et al.* (2013:781) and Gramling *et al.* (2004:194), the study has revealed that an audit committee as well as internal and external audits, as internal corporate governance structures, have a positive relationship with the financial performance of LuSE listed companies.

The research study has thus culminated into the development of a framework of internal corporate governance structures to enhance the financial performance of LuSE listed companies. The framework utilises the existing corporate governance structures and improves on them to enhance the financial performance of the LuSE listed companies. The framework provides guidelines on the design and operation of internal corporate governance structures aimed at ensuring compliance with the LuSE Code of Corporate Governance and enhancing the financial performance of the LuSE listed companies in Zambia.

Having discussed the research findings and their interpretation, Chapter 6 provides the major conclusions of the research study. Furthermore, Chapter 6 discusses the recommendations of the research study including the areas for further research.

CHAPTER 6:   CONCLUSIONS AND RECOMMENDATIONS

6.1   Introduction

In the preceding chapter, Chapter 5, the findings and their interpretations were discussed culminating in the development of internal corporate governance structures that would enhance the financial performance of the LuSE listed companies in Zambia. Chapter 6 provides an overview of the research aim and research objectives as well as explaining the main conclusions of the research study on the financial performance of LuSE listed companies in Zambia. Additionally, Chapter 6 presents the contribution that the study has made to both knowledge and practice. The study's limitations have also been discussed in this chapter including the recommendations of the study. The recommendations made have been considered taking into account Zambia as a developing country, its context and the academic concepts on corporate governance and financial performance so that recommendations are not only feasible but also have academic rigour.

6.2   Research study's overview

Corporate governance has been globally recognised amidst corporate scandals and corporate failures and poor financial performance (refer to Chapter 1). In this regard, Tosuni (2013:209) argues that developing countries have realised the importance of corporate governance for the proper functioning of capital markets and ensuring investor confidence. As discussed in Chapter 1 and in accordance with the King I, II, III and IV Reports, corporate governance has evolved over time and necessitated the changes and evolution of the King reports. There have been significant corporate governance and regulatory developments both locally and internationally following corporate scandals such as Enron, Parmalat and WorldCom among others. The corporate governance and regulatory environment have meant that no industry or company anywhere in the world is immune to inadequate corporate governance practices (refer to Chapter 1).

The state of corporate governance structures that potentially relate with the financial performance of listed companies in Zambia is problematic. In this regard the weak corporate governance structures have contributed to the poor financial performance of companies. Corporate governance structures are fundamental to financial performance and arguably could underpin the good practices of corporate governance and enhance companies' financial performance by meeting financial objectives.

In developed economies such as USA, UK and Australia, considerable body of knowledge exists on the relationship between corporate governance structures and company performance exists. This research has arisen as a result of the importance of corporate governance in general and corporate governance structures in particular. Corporate scandals such as Enron, WorldCom in the USA and Parmalat in Europe have led to such empirical research to be conducted. Despite the large number and frequency of this research on the relationship between corporate governance structures and the financial performance of companies, the research outcomes have been mixed and contradictory in some instances.

In developing African countries, research on corporate governance has been limited. Research conducted in Asia is not directly applicable to developing economies in Africa. This is because of differences in economic conditions, political conditions and the infrastructure of African countries. In sub-Saharan Africa, research on this subject has mainly been conducted in Ghana, South Africa, Nigeria and Kenya. In Zambia, research on the relationship between corporate governance structures and financial performance is limited, despite the growth of economic activities and the creation of capital market regulations by the SEC and the LuSE.

Poor financial performances of companies that result from poor corporate governance structures affect the going concern or survival of the companies. Poor corporate governance practices and structures in the Zambian companies have contributed to the poor financial performances of the companies (refer to Chapter 1). For example, minority shareholders of Zambia Consolidated Copper Mines – Investment Holding (ZCCM-IH), one of the listed companies, have complained about the poor corporate governance of the company. In Zimbabwe poor corporate

governance has contributed to the delisting of companies, thereby reducing investment and investor confidence. Furthermore, the recent Steinhoff corporate scandal in South Africa in 2017 illuminated the impacts of poor corporate governance (refer to Chapter 1). As such, poor corporate governance poses a challenge to the public companies listed on African stock markets, in particular the LuSE in Zambia. Emerging from the existence of poor corporate governance is the fundamental problem of how corporate governance in companies should be structured and operated to improve financial performance of the listed companies in Zambia. In this regard, the adjustment of the existing framework of corporate governance structures becomes paramount in order to enhance financial performance of LuSE listed companies in Zambia.

6.3   Corporate governance theories

The study reveals that corporate governance simply refers to the way a company is directed and controlled (refer to Chapter 2). The results have further revealed that the more encompassing definition of corporate governance incorporates structures and relationships that exist in a company (refer to Chapter 5). The study considers company's stakeholders as relevant stakeholders interested in the creation of wealth and value for the company. In this regard, corporate governance is important for all the LuSE listed companies regardless of the sector in which an individual company operates. As such, the study highlights corporate governance as important for LuSE listed companies in Zambia in order to ensure control of the company, protect investor's investments, comply with LuSE listing rules, promote ethical leadership and promote transparency and accountability and define the roles of the company's stakeholders.

Corporate governance is an amalgam of different disciplines (refer to Chapter 2). In this regard, different theories exist that inform the foundation of corporate governance influenced by the different disciplines (refer to Chapter 2). The corporate governance theories include the following: agency, shareholder primacy, stewardship, stakeholder, transaction cost economics, resource dependency, social

network, political, legitimacy, managerial and class hegemony, imperialism and imperial model, socialist theories and engaged shareholder.

The agency theory concerns the relationship that comprises control and ownership involving agent and principal, where the principal who is the shareholder appoints an agent (management) to discharge responsibilities delegated to them by the principals. While agency theory is conceptually simple, agency theory can make agents succumb to self-interest, opportunistic behaviour and falling short of congruence of agents' and principals' goals. In this regard, the agency theory has been explained and motivated as the starting point for discussing corporate governance.

Stakeholder theory is fundamentally premised on the grounds that there are many stakeholders in a company who are interested in the company, whose actions affect the operations of the company and who get affected by the activities of the company. The stakeholder theory aims at ensuring that companies are well directed and controlled to achieve good company performance. This research has taken cognisance of different stakeholders involving the boards of directors (some of whom are shareholders), company employees, CEOs of relevant institutions such as ZICA, LuSE, SEC and IoDZ among others, who were involved in this research study. Furthermore, as different stakeholders have different roles such as provision of capital (shareholders and banks), short-term finance (banks and suppliers), revenue (customers) and tax collection (government), stakeholders can influence the financial performance of the LuSE listed companies. In this regard, the study has adopted the stakeholder theory (that considers all material stakeholders) to investigate the relationship between corporate governance structures and the financial performance of the LuSE listed companies.

6.4   Corporate governance structures

At the centre of corporate governance are its structures. Thus, regardless of the type and size of a company, all companies have structures that guide the operations of

the companies. It is therefore argued that a corporate governance structure is a closed-loop system of ensuring that decisions are carefully made by the directors, accountability is in full force and effected by the directors and management, and incentives are to be provided to management as a result of better performance. Similarly, corporate governance structures can be viewed as processes which deal with the ways in which capital providers guarantee investors' returns on their investments. In this regard, corporate governance structures ensure that company objectives are achieved by enhancing company performance. Therefore, corporate governance structures align the interests of managers with those of shareholders and other stakeholders.

There are two main types of corporate governance structures; namely, internal and external corporate governance structures. Internal corporate governance structures comprise the board of directors and managerial ownership, which encourage managers to maximise the company value. The external corporate governance structures are structures that monitor and control managers' behaviour through external regulation and force. As internal corporate governance structures are under the control of the company, it is more feasible to measure the extent of the relationship between corporate governance and financial performance than using the external structures. Furthermore, the board of directors is one of the key structures designed to monitor management and are the shareholders' primary mechanism for oversight of managers. It is contended that a crisis of corporate governance is basically a crisis of the board of directors. The offering of shares to the existing managers who do not own any shares, or by increasing their existing shareholdings, may provide opportunity that the managers will function in tune with the interests of the shareholders, thereby improving goal congruency and resulting in overall good performance of the company. This research study therefore focused on relationships between internal corporate governance structures (that include the board of directors, composition and processes, internal audit, external audit, and managerial ownership) and the financial performance of LuSE listed companies.

6.5 Financial performance

As companies have different goals, it is important that the assessment of the performance of companies is conducted regularly to determine how companies are achieving their goals. In particular, investments made in the companies require a return on investments. As such, measuring a company's financial performance is one of the most important concerns in the financial and economic world. It is contended that financial measures have been the foundation for measuring business performance. The financial measures express the performance and achievement in monetary terms through the use of financial ratios derived from ratio analysis and market-based measures. As financial measures are reliable, they enable comparability of results among companies and are well accepted by a multiplicity of stakeholders. For this study the financial measures included ROCE and Tobin's Q.

6.5.1 ROCE

ROCE as a financial measure of company performance is seen as a measure of business efficiency and a function of profitability and activity. Therefore, ROCE measures the relationship between profit and capital employed in the company. ROCE reflects the earning power of the company and demonstrates how efficiently a company is utilising resources. In general ROCE links the returns generated to the capital employed. As a company's goal is to increase profits, a positive ROCE indicates that the company has been able to improve efficiency in the use of funds and capital.

6.5.2 Tobin's Q

Tobin's Q, as a market-based measurement, is characterised by its forward-looking aspect and its reflection of the expectations of the shareholders concerning the company's future performance. In this case, Tobin's Q refers to a traditional measure of expected long-run firm performance premised on the view that employment of market value of equity may present the firm's future growth opportunities which could stem from factors exogenous to managerial decisions. Tobin's Q has been

expressed as sum of market value of shares and market value of debt divided by replacement value of assets. This research has utilised Tobin's Q primarily to address the weaknesses of ROCE (human manipulation and out of date/historical data) and provide assessments of LuSE listed companies based on current market values that are forward looking in nature.

6.5.3 ROCE and Tobin's Q for this study

The current literature provides that, as financial performance is critical for all stakeholders of a company, assessing financial performance is critical for all companies. Use of ROCE provides information that can easily be understood by stakeholders; thereby improving decision making by stakeholders. Tobin's Q has been used in the study to reduce the bias and subjectivity of ROCE results. In this regard, ROCE and Tobin's Q have been used as complementary measures of financial performance for investigating the relationship between corporate governance structures and financial performance of the LuSE listed companies.

6.6 Company financial performance and corporate governance structures

Current literature argues that company financial performance is used as an internal measure to assess a company's performance to achieve financial objectives. Furthermore, internal corporate governance structures being within the control of the company, become important in ensuring that the objectives are achieved. Internal corporate governance structures broadly consisting of the board of directors and managerial ownership, have been used for investigating the relationship between corporate governance and the financial performance of the LuSE listed companies in Zambia. It is argued that there is a renewed interest in the need to strengthen corporate governance structures to ensure managers and directors take measures to protect the interests of a company's stakeholders. As such, the board of directors and managerial ownership as internal corporate governance structures represent mechanisms and actions taken by companies to enforce control and accountability, which should lead to the achievement of company objectives.

6.6.1   Board of directors

The board of directors is a very important internal corporate governance structure for companies. The board of directors is a device to build and sustain the trust of the stakeholders of a company.

Current literature claims that the results on the relationship between board size and the financial performance are mixed. Smaller boards comprising less than 12 members, positively relate with financial performance whereas a board that has more than 12 members negatively relates with financial performance. By contrast, some scholars have argued that the size of the board has no relationship with financial performance. With regard to board leadership, one strand of the current literature suggests that the separation of the CEO and board chairperson roles improves financial performance as there is a balance of power and avoidance of conflict of interest. Another strand from current literature suggests that separation of the two roles negatively relates with financial performance, as the board chairperson may not have the requisite knowledge and experience to steer the company to improved financial performance.

Similar to the results of the board size and leadership, current literature provides that NEDs and board meetings relate with financial performance in different ways. It could be construed that having NEDs as majority members of the board can improve financial performance as they are independent, possess different and valued experience which improves decision making by the board. Some scholars have found that NEDs neither positively nor negatively relates with the financial performance. Some contend that NEDs negatively relate with financial performance, as NEDs in some cases lack knowledge and experience and furthermore, NEDs may not actively be involved in the corporate strategy on a regular basis. Some authors argue that the number of board meetings positively relate with financial performance of companies, as meetings improve decision making by the board. On the contrary, frequent board meetings lead to ineffective boards, thereby negatively influencing financial performance.

The board processes that include the number of board committees, presence of audit and risk committees, the internal audit function and external audits, relate with financial performance in different ways. The current literature reveals that the relationship between audit committees and financial performance is ambiguous as in certain cases the relationship is positive while in other cases there is a negative relationship. An audit committee could negatively relate with financial performance as an audit committee may lack knowledge of the business that is critical for decision making by the board. With regard to a risk committee, the current literature suggests that the presence of a risk committee improves financial management as the risk committee provides strategic guidance on risk identification, management and control. By contrast, a risk committee could negatively relate with financial performance, particularly where the risk committee is passive and increases operational costs, thereby reducing a company's profitability. Similarly, current literature finds that the internal audit function and the external audit relate with financial performance. One finding of the current literature suggests that the internal audit function positively relates with financial performance as an internal audit improves the quality of earnings, thereby increasing the return on investments. In this regard, the internal audit function leverages existing activities to continuously monitor, manage and improve business performance. The current literature findings suggest that an external audit improves financial performance as it provides independent assurances with regard to the financial performance of the company.

6.6.2   Managerial ownership

The selling of shares referred to as managerial ownership has mixed results in terms of its relationship with financial performance. In some cases, the literary findings conclude that managerial ownership improves financial performance as management aspires to increase shareholders' wealth and their own wealth. Contrary to this finding, in some cases the literature suggests that managerial ownership negatively relates with financial performance as managers may concentrate on maximising their own wealth and not that of all shareholders.

6.7   Research design and strategy

Positivism and social constructivism have formed the foundation for the direction and implementation of this research study. As corporate governance is an inter-disciplinary field a comprehensive, robust and relevant research methodology was developed. As such this study employed a mixed methods approach involving qualitative and quantitative research methods approach for data collection and analysis.

Based on the 19 LuSE listed companies, information relating to corporate governance and financial performance was collected from the audited annual reports from LuSE and individual company websites. In addition, SAQs were used to obtain insights from the key role players of the LuSE listed companies and the key institutions with regard to corporate governance and financial performance. The collection of data using SAQs and audited annual reports was informed by positivism as the research paradigm. Quantitative research criteria relating to reliability, validity and practicality was considered when deciding to employ regression and SAQs. Reliability was a measure of the extent to which quantitative data could be trusted while validity related to how the quantitative research results could be justified and considered accurate. Furthermore, practicality was concerned about the cost and convenience of adopted quantitative research method and instruments. With SAQs, standardised data from the 46 respondents was collected between July and November 2017.

Social constructivism was motivated as research paradigm for the qualitative research method thereby employing interviews as data collection instrument. A total of 15 interviews were conducted and used to obtain insights from key role players comprising CEOs between July and November 2017. Furthermore, the research trustworthiness of qualitative data was considered. In this regard, trustworthiness of interview data comprised credibility, transferability, dependability and confirmability. In particular credibility was concerned about the confidence that could be placed in the interview findings while transferability related to the extent to which the results of interview findings on corporate governance and financial performance could be transferred to other contexts. Dependability allows reviewers of the research study to

evaluate the findings, interpretation and interpretation of the research study to ensure that they are supported. Finally, confirmability is concerned with the extent to which the results of an inquiry could be corroborated by other researchers by utilising the research results into their studies.

The data collected from the audited annual reports, SAQs and interviews was analysed using different data analysis methods. The quantitative data from the annual reports and SAQs was analysed using Stata Version 13 and SPSS respectively. Stata Version 13 provided descriptive statistics and inferential statistics. Descriptive statistics were used to develop trends relating to this research study's dependent, independent and control variables. The inferential data analysis through random effects panel regression model tests were employed to determine the relationship between corporate governance structures and financial performance. The use of SPSS allowed the development of trend analysis with regard to the relationship between corporate governance structures (board of directors, internal and external audits, and managerial ownership) and company financial performance, using the ROCE ratio and Tobin's Q ratio as proxies for performance. Consequently, random effects panel regression model helped to determine whether the financial performance, as a dependent variable, could be explained by corporate governance structures. With regard to interview data, SPSS was used to describe interview responses statistically. The rich interview data was analysed through themes based on the interview question categories.

Ethical considerations comprised an important component of this research study. As such the study has highligted access to information, confidentiality of information and UFS code of ethics as ethical considerations. The researcher obtained approval from LuSE listed companies to conduct research. Furthermore, all participants of the research study were assured of confidentiality of information obtained and that no name of participant has been mentioned in this dissertation. As such the researcher obtained approval from the UFS research committee.

Use of quantitative and qualitative research methods approach, primary and secondary data accounted for triangulation for this study. Triangulation contributed to the quality of the results of this research study. Ultimately, triangulation has contributed and informed the adjustment of the existing framework of corporate

governance structures to enhance the financial performance of the LuSE listed companies in Zambia.

6.8   Research findings and recommendations

This research study was aimed at adjusting the existing framework of internal corporate governance structures to enhance the financial performance of LuSE listed in Zambia. Consequently, the research study makes various recommendations based on the results of the study. The research study therefore makes recommendations with regard to the framework of internal corporate governance structures, as well as for practical application and further research. Table 29 summarises the results of the random effects panel regression model analysis.

Table 29:   Relationship between internal corporate governance structures and financial performance

Corporate Governance Structure	ROCE – Random effects model	Tobin – Random effects model
Board size	Statistical relationship	No statistical relationship
Non-executive directors	No statistical relationship	No statistical relationship
Board leadership	No statistical relationship	No statistical relationship
Number of board meetings	No statistical relationship	No statistical relationship
Number of board committees	No statistical relationship	No statistical relationship
Audit committee	Statistical relationship	Statistical relationship
Risk committee	No statistical relationship	No statistical relationship

The main findings of the research study are now discussed including recommendations proposed for specific institutions and target groups.

6.8.1 Findings and recommendations for shareholders of LuSE companies

- **Finding:** The study has shown that the majority of the LuSE listed companies representing 91% of the companies, had the roles of CEO and board chairperson separated, demonstrating that the practice was common in the LuSE listed companies in the period under review. All the SAQ participants

(100%) indicated that separation of the CEO and board chairperson roles improved financial performance. The panel regression model results using ROCE and Tobin's Q showed that separation of CEO and board chairperson roles had neither positive nor negative statistically significant relationship with financial performance of LuSE listed companies.

Recommendation: The study recommends that during the annual general meeting, the shareholders of the two LuSE listed companies could pass resolutions pertaining to board charter approving the separation of the CEO and board chairperson roles so that at a minimum, the LuSE listed companies comply with the LuSE Code of Corporate Governance and King IV Report to reflect international best practice on corporate governance. Furthermore, splitting the roles of CEO and board chairperson reflects current practice in the LuSE listed companies, as the majority of the companies (17 out of 19 companies) under the period of review maintained the two roles as separate roles to avoid conflicts of interest.

- **Finding:** All the participants from the SAQs and interviews that comprised key role players agreed that an external audit improved financial performance of the LuSE listed companies through improved financial reporting.

Recommendation: The insights from both the SAQs and interviews show that it is critical for all the LuSE listed companies to commit to an external audit and therefore the study recommends that shareholders continue participating in the appointment of external auditors during the annual general meetings (AGM). Having financial statements audited by external auditors does not only comply with LuSE listing rules, but also improves the credibility of the financial statement, thereby contributing to the financial performance of the companies. External auditors provide practical recommendations arising from audit findings to improve operations and ultimately to improve financial performance. Furthermore, having external audits complies with Companies Act of 1994 that requires all public companies to be externally audited annually.

6.8.2 Findings and recommendations for board of directors and senior management of LuSE listed companies

- **Finding:** The study shows that the majority of the LuSE listed companies representing 71.13% of the companies had NEDs as majority members of the boards. The finding demonstrates that NEDs making up the majority of the boards was a common practice in the LuSE listed companies. The insights from the key role players obtained through SAQs showed that the establishment and maintenance of NEDs on the boards improved financial performance. The panel regression model results using ROCE and Tobin's Q showed p-values of 0.755 and 0.233, concluding that NEDs neither positively nor negatively related to financial performance (ROCE and Tobin's Q) of LuSE listed companies.

  Recommendation: In order to be compliant with LuSE listing rules and international best practice, the listed companies should maintain the majority of NEDs. In this regard, the study recommends that senior management should play an advisory role to the board through the CEO to ensure that the boards of directors have the majority NEDs. Furthermore, the study recommends that board of directors through the board chairperson should ensure that a greater proportion of NEDs form the boards in the LuSE listed companies. In this regard, boards that do not currently meet this requirement should pay attention to this as they recruit or replace board members in future. Having NEDS as majority board members (more than 50%) is aimed at ensuring objectivity and avoidance of conflict of interests.

- **Finding:** The study has shown that the majority of the LuSE listed companies representing 91% of the companies, had the roles of CEO and board chairperson separated, demonstrating that the practice was common in the LuSE listed companies in the period under review. All the SAQ participants (100%) indicated that separation of the CEO and board chairperson roles improved financial performance. The panel regression model results using ROCE and Tobin's Q showed that separation of CEO and board chairperson

roles did not any statistically significant relationship with financial performance of LuSE listed companies as proxied by ROCE and Tobin's Q.

Recommendation: The study therefore recommends that the board of directors of the 19 LuSE listed companies should continue separating the two roles. For the two LuSE listed companies that have the two roles combined and occupied by one person, the study recommends that the boards of directors such companies should consider separating the two roles so that the roles are held by two different people to avoid conflicts of interest. Furthermore, the separation of the two roles will help the companies comply with LuSE listing rules.

▪ **Finding:** The study reveals that on average the LuSE listed companies had three meetings per year, with one meeting and 11 meetings as the minimum and maximum board meetings respectively per year, demonstrating that holding board meetings was important for LuSE listed companies. All the SAQ participants (100%) indicated that holding of quarterly board meetings improved financial performance. The panel regression model results using ROCE and Tobin's Q showed that holding of board meetings statistically neither positively nor negatively related with financial performance of LuSE listed companies as proxied by ROCE and Tobin's.

Recommendation: The study recommends that senior management through the CEO should facilitate the holding of the four board meetings per year. As LuSE Code of Corporate Governance requires that a minimum of four board meetings are held per year, the study recommends that the board of directors should hold a minimum of four board meetings per year. In addition, holding of quarterly board meetings would improve decision making by the board through constructive debate and sharing of information by board members.

▪ **Finding:** The study reveals that on average the LuSE listed companies had two board committees. Furthermore, all the SAQ participants (100%) indicated that the number of board committees improved financial performance. The panel regression model results using ROCE and Tobin's Q showed that the

number of board committees neither positively nor negatively related with financial performance (ROCE and Tobin's Q) of LuSE listed companies.

Recommendation: The study recommends that board of directors of the LuSE companies should maintain, at a minimum, an audit committee to comply with the LuSE Code of Corporate Governance, the King IV Report as well as international corporate governance best practices.

▪ **Finding:** The study indicates that 14 of the 19 companies (representing 74% of the sampled companies) had an audit committee in place, while five (representing 26%) did not have audit committees. It is clear from this finding that the establishment and maintenance of an audit committee was a common practice in the majority of the LuSE listed companies. Furthermore, the insights obtained from the key role players through SAQs and interviews revealed that the establishment of an audit committee in the LuSE listed companies improved financial performance of the LuSE listed companies, because audit committees provided independent oversight of company reports. The panel regression model results using Tobin's Q showed that the establishment of audit committee positively related with financial performance as proxied by Tobin's Q) of LuSE listed companies. The positive relationship between an audit committee and financial performance is premised on the view that an audit committee can improve the quality of financial reporting including the economic, efficient and effective utilisation of resources. By contrast, the results of random effects tests using ROCE have shown that the establishment of audit committees negatively relates with financial performance (ROCE) mainly because an audit committee may just be passive without adding value to the company.

Recommendation: The study recommends that board of directors of the five LuSE listed companies that do not have audit committees should establish and maintain audit committees to improve financial performance. Audit committees enable the board to efficiently and effectively discharge its duties and to comply with LuSE listing rules. Furthermore, the study recommends

that for the 14 companies that have already established audit committees, they should continue maintaining the audit committees.

- **Finding:** All the participants from the SAQs and interviews which comprised key role players agreed that the establishment of an internal audit function improved financial performance of the LuSE listed companies. Further, 44 of the 46 SAQ participants (95.7%) agreed that internal audits enhanced revenue, thereby improving financial performance of the LuSE listed companies. The positive relationship between establishment of an internal audit and financial performance was also premised on the view that internal audit can lead to effective internal control systems that improve operational effectiveness thereby improving financial performance.

  Recommendation: The study recommends that senior management of the LuSE listed companies should establish and maintain an internal audit function for monitoring the effectiveness of internal controls to improve company performance. An internal audit provides assurances regarding the effectiveness of the systems of internal control (thereby improving risk management and assurance) including the integrity of financial reports of the listed companies thereby improving financial performance. Lack of effective internal controls does not only increase exposure to risks but can also lead to non-compliance with company laws relating to company reporting and payment of statutory obligations.

- **Finding:** The study reveals that three of the 19 companies (representing 19% of the sampled companies) had a risk committee in place, while 16 (representing 81%) did not have a risk committee. The finding implies that the establishment and maintenance of a risk committee is not a common practice in the LuSE listed companies. The majority of the SAQ participants (96%) agreed that risk committees had positive relationship with the financial performance of LuSE listed companies given that the companies operated in a competitive and technologically advanced environment. The panel regression model results using ROCE and Tobin's Q, revealed that the establishment and maintenance of risk committees were neither positively nor negatively related

with the financial performance (as proxied by ROCE and Tobin's Q) of the LuSE listed companies.

Recommendation: Unless an audit committee exists, the non-establishment of a risk committee may result in failure to manage risks. The study, therefore, recommends that where there is no risk committee, board of directors should establish and maintain an audit committee which is responsible for risk management for the LuSE listed companies, particularly as LuSE companies operate in complex and high risk business environments.

▪ **Finding:** The study reveals that internal corporate governance comprising the board of directors and managerial ownership, relate to financial performance differently. For example, gearing negatively related with the financial performance of LuSE listed companies. Other internal corporate governance structures such as majority NEDS, separation of the roles of CEO and board chairperson and number of board committees and presence of risk committees did not have any statistically significant relationship with the financial performance of the LuSE listed companies. Conversely, the establishment and maintenance of an audit committee, internal audits and external audits positively relate to financial performance. Furthermore, the study shows that the test results of random effects panel regression model using ROCE prove that board size has statistically significant negative relationship with financial performance (ROCE) in that the smaller the board, the better the financial performance. Consequently, the way corporate governance is structured and operated is critical for LuSE listed companies in order to improve financial performance.

Recommendation: The study recommends that senior management of LuSE listed companies should review this research study's framework of corporate governance and recommend it to the board of directors for approval of its use in the LuSE listed companies. Furthermore, the study recommends that board of directors of LuSE listed companies should review the framework and possibly adopt the framework as a guideline to improve existing corporate governance structures to enhance company's financial performance. The guidelines in the framework are simple and easy to understand and apply in

practice, as they consist of practitioners' views and insights into the relationship between internal corporate governance structures and financial performance.

6.8.3 Findings and recommendations for practitioners

- **Finding:** The study reveals that internal corporate governance comprising the board of directors and managerial ownership relate with financial performance in different ways. For example, gearing had statistically significant negative relationship with the financial performance of LuSE listed companies. Other internal corporate governance structures such as majority NEDS, separation of the roles of CEO and board chairperson and number of board committees and presence of risk committees did not have any statistically significant relationship with financial performance of the LuSE listed companies. Conversely, insights from role key players revealed that the establishment and maintenance of an audit committee, internal audits and external audits were positively related with financial performance. Furthermore, the study shows that the test results of random effects panel regression model using ROCE prove that board size has a statistically significant negative relationship with financial performance (as proxied by ROCE) in that the smaller the board, the better the financial performance. Consequently, the way corporate governance is structured and operated is critical for LuSE listed companies in order to improve financial performance.

  Recommendation: The LuSE Code of Corporate Governance was last up-dated in 2003. In this regard, despite the growth in the capital market and the developments in corporate governance, the code on corporate governance has not been revised to align itself with current local and international good corporate governance practices. The research study therefore recommends that SEC, through the LuSE collaborating with the Institute of Directors in Zambia, should use the research report, in particular the framework, as one of the key documents that would inform the revision of the Code on Corporate Governance in Zambia. This would help the SEC and the LuSE to have an updated Code of Corporate Governance that takes into account current

developments on corporate governance; but particularly one that highlights the specific internal corporate governance structures that enhance financial performance of LuSE listed companies. Furthermore, the research study recommends that the LuSE should consider revising the listing rules to incorporate the adjusted existing framework of corporate governance that has been informed by the empirical findings and best practices as provided in the King IV Report of South Africa.

6.8.4 Finding and recommendation for academics

- **Finding:** The random effects panel regression model tests results reveal that board size has statistically significant negative relationship with ROCE whereas board size did not have statistically significant relationship with Tobin's Q. Insights from self-administered questionnaires and interviews revealed that board size positively relates with financial performance in that the bigger the board the better the financial performance.

  Recommendation: With the contrasting findings and results, future research is critical to investigate the relationship between board size and financial performance particularly for a period longer than nine years and for a large sample size of more than 19 LuSE listed companies.

6.9   Research contribution

Following the corporate scandals of Enron, WorldCom, Parmalat among others in the late 1990s through to the late 2000s and the financial crisis of 2008, the importance of corporate governance for the proper functioning of capital markets and ensuring investor confidence has been well established in the last two decades. Similarly, in Zambia corporate governance is important for all the LuSE listed companies. With a poor state of corporate governance that negatively affects the financial performance

of LuSE listed companies, this study has made a contribution to both knowledge and practice in a number of ways:

- As discussed in Chapter 1, there has been limited research on corporate governance of LuSE listed companies in Zambia. This research on the relationship between corporate governance structures and financial performance represents the first research ever to be conducted in Zambia, thereby bridging the existing research gap. This research study has contributed to the debate on corporate governance and financial performance in Zambia and could thus form the basis for further research in Zambia. The study has also contributed to a better understanding of corporate governance particularly for Zambia's capital market, which plays an important role in the economic growth and development of Zambia.

- In sub-Saharan Africa and other developing countries in Asia, limited research has been conducted to investigate the relationship between corporate governance structures and financial performance of listed companies. As such there exists a research gap in Africa. This study conducted in Zambia as one of the developing countries in sub-Saharan Africa, has therefore contributed to the understanding of corporate governance in Zambia and sub-Saharan Africa, but particularly the discourse on the relationship between corporate governance structures and the financial performance of listed companies.

- This research study has led to the adjustment of the existing framework of internal corporate governance structures for enhancing financial performance of the LuSE listed companies. The framework consists of guidelines with regard to the board of directors and managerial ownership. Hence overall, the framework of internal corporate governance structures contributes to the understanding of corporate governance theory and principles.

- The current research has focused on investigating the relationship between corporate governance and the financial performance of companies through the use of inferential statistics. This research employed a mixed research method comprising quantitative and qualitative methods through the use of descriptive statistics, inferential statistics, administration of questionnaires and

interviews. The mixed research method has not only contributed to the quality of the research results, but has also extended the investigation on corporate governance and financial performance by obtaining insights and views from key role players. This research therefore adds another dimension to the research on corporate governance that has been dominated by the use of the quantitative method (regression analysis), thereby making a theoretical contribution to the research methodology on corporate governance and financial performance.

- Corporate governance has been highlighted as the critical component in the business of LuSE listed companies. Overall insights from the SAQs and interviews have shown that corporate governance structures positively relate with the financial performance of LuSE listed companies. In this regard, this research study makes a significant contribution to practice by improving current understanding on how corporate governance enhances the financial performance of LuSE listed companies through awareness raising and the adjustment of the existing framework of internal corporate governance structures.

6.10   Limitations of the study

This research study had unique limitations including:

1. The amount of financial information for LuSE entities is limited due to the relatively young age of the exchange, as well as the small number of listed companies on the exchange (22);

2. The fact that the country is classified as a developing country, may cause the results of the quantitative analysis to show limited or no results given the small number of LuSE listed companies;

3. The developing nature of the country may further show contradictory results to international best practices in terms of corporate governance;

4. The limited amount of quantitative data may indicate contrary results from qualitative data which is based on insights from key role players; and

5. The relatively positive financial results yielded by the companies listed on the LuSE, may indicate that the worldwide recession may not have considerably and directly impacted on the companies to a large extent, as it did in other countries. This may be as a result of the young age of the exchange. It may also contribute towards potentially contradictory results of the study with international best practices.

6. The research only considered the number of board meetings and did not include meeting attendance by the board of directors.

Following the overall results and the study's limitations in Section 6.10, this research study makes a number of recommendations for future research.

6.11   Recommendations for future research

The study's results and limitations provide a stimulus for further research and wider debate about how LuSE listed companies in Zambia should structure their corporate governance in order to enhance their financial performance. Consequently, the areas for further research range from inclusion of other corporate governance structures, private sector companies and state owned enterprises, comparative study with other developing countries, further research on managerial ownership and inclusion of companies listed on both the main and alternative LuSE markets. The main areas for future research include:

- The descriptive and inferential statistics (through random effects panel regression model) were conducted on the 19 LuSE listed companies and for the period of nine years as motivated in Chapter 4. Given the limitation in sample size and the period of nine years for regression analysis, future research is required when the number of LuSE listed companies has increased. A period longer than nine years can then be considered.

- The sample of 19 companies consisted of the companies listed on the main market. In 2016 an alternative market known as the LuSE Alternative Market was established. Corporate governance is important regardless of the size and nature of the companies and in this case corporate governance is also important for companies listed on the alternative market. In this regard, future research is required to include companies listed on both markets to investigate the relationship between corporate governance structures and financial performance.

- This research study was conducted in Zambia as a developing country in Africa. As the first study in Zambia that has specifically investigated the relationship between corporate governance and financial performance, the research study has contributed to bridging the research gap in Zambia. In order to obtain more insights in other developing countries; a comparative study is recommended. In this regard, a case study is required as a comparative study, for example corporate governance in Zambia (LuSE listed companies) and South Africa (Johannesburg Stock Exchange listed companies). Thus, the comparative study would allow the study to obtain insights on the dynamics of the relationship between corporate governance structures and financial performance in the developing countries to compare and contrast the findings from the two countries.

- The study has revealed that corporate governance is important for all companies, regardless of the sectors in which they operate. In Zambia like in other developing countries, the private sector and state owned entities (SOEs) are critical for economic growth and development of Zambia. In this regard, as this research only focused on LuSE listed companies, further research investigating the relationship between corporate governance structures and the financial performance of the private sector companies and SOEs is recommended.

- This research study has investigated the relationship between internal corporate governance structures and the financial performance of LuSE listed companies in Zambia. The internal corporate governance structures studied comprised the board of directors and managerial ownership. In this regard,

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other internal corporate governance structures (such as gender of board members) and external corporate governance structures were not included in this study. As the excluded corporate governance structures are also important, further research is required to investigate the relationship between internal and external corporate governance structures and the financial performance of LuSE listed companies in Zambia. This would improve research results and add to the body of knowledge on corporate governance and financial performance.

▪ The study has revealed contradictory results with regard to how board size relates to the financial performance of LuSE listed companies. The random effects panel regression model tests using ROCE have revealed that the smaller the board the better the financial performance, whereas random effects panel regression model tests using Tobin's Q showed that board size neither positively nor negatively related with financial performance of LuSE listed companies. In addition, the insights from SAQs revealed that that board size was positively related to financial performance in that the larger the board the better the financial performance. With such contrasting results, future research is critical to investigate the relationship between board size and financial performance particularly for a period longer than nine years and for a large sample size of more than 19 LuSE listed companies.

▪ Future research can be considered to investigate how the meeting attendance of the board of directors relates to the financial performance of LuSE listed companies.

▪ This research study considered board committees in general and audit and risk committees in particular. As per the King IV Report, other committees such as the remuneration committee, social and ethics committee are critical board committees. In this regard, future research can be considered to investigate the relationship between such committees and the financial performance of LuSE listed companies.

▪ Future research can be considered to investigate how integrated reporting, performance evaluation of board and committee members, information technology, board demographics, shareholder activism and stakeholder

relationships and the management of stakeholder relationships relate to the financial performance of LuSE listed companies in Zambia.

- As this research investigated the relationship between corporate governance structures and financial performance, future research can be considered to investigate the causality of the variables (corporate governance structures and financial performance).

6.12   Achievement of secondary research objectives

The primary objective of this research was to adjust the existing framework of corporate governance structures in order to enhance the financial performance of listed companies in Zambia. To achieve the primary objective this research study had six research objectives as discussed in Chapter 1. This section discusses the achievement of each of the six secondary research objectives leading to the achievement of the primary objective.

6.12.1   Research objective 1: To conceptualise corporate governance in general

The study shows that the majority of the SAQ respondents at 59%, viewed corporate governance as the way their companies were directed and controlled. Furthermore, 96% of the total SAQ respondents and all the interview participants agreed that corporate governance structures comprise both internal and external structures. Therefore, the insights from interviews and SAQs reveal that participants of this research have good knowledge of corporate governance in general and specifically as it related to their LuSE listed companies. The insights from the key role players reveal that corporate governance is important for LuSE listed companies mainly because of the following reasons:

- It is a key element in improving economic efficiency;

- It is a key element in improving investor confidence in the company; and

- It contributes to market discipline.

6.12.2 Research objective 2: To identify the key determinants of corporate governance in terms of structure

The results of the interviews reveal that all the interview participants – representing 100% of the interviewees, indicated that corporate governance structures comprised both internal and external structures. Furthermore, 96% of the SAQ respondents agreed that corporate governance of the LuSE listed companies consisted of internal and external structures. The insights from key role players reveal that internal corporate governance structures comprise the board of directors and managerial ownership. Therefore, the board of directors and managerial ownership are identified as the main internal corporate governance structures for LuSE listed companies in Zambia.

6.12.3 Research objective 3: To analyse current corporate governance structures of the LuSE listed companies

The study reveals that internal corporate governance structures for the LuSE listed companies consist of board composition and structure, board processes and managerial ownership. Board composition and structure relate to board size, NEDs, board leadership and number of board meetings. The study reveals that the average number of board members in the LuSE listed companies for the period under review stood at seven with the smallest and biggest board standing at four and 14 board members respectively. Consequently, small boards averaging seven members reflect the current practice in the LuSE listed companies. During the nine year period on average, NEDs comprised 71% of the board while in one company all the board members were NEDs. Furthermore, 17 out of the 19 companies (representing 90% of the sampled companies) had the roles of Chief Executive and board chairperson separated while two companies (representing 10%) did not separate the two roles. The 17 out of 19 companies demonstrate that the majority of the companies had the two roles separated in order to comply with the LuSE Code of Corporate

Governance. In terms of board meetings, a total average of four meetings were held while in one company a maximum of 11 meetings were held in a year. It is evident that frequent meetings, with a minimum of four meetings, are essential for decision making and to comply with the LuSE Code of Corporate Governance.

Board processes relate to the number of board committees, and the presence of audit and risk committees. The study reveals that the LuSE listed companies had an average of two board committees with one company having seven board committees. The study further shows that 14 of the 19 companies (representing 74% of the sampled companies) had an audit committee in place, while five (representing 26%) did not have an audit committee. The findings imply that the majority of the companies recognise the importance of an audit committee in ensuring accountability and the economic, efficient and effective use of companies' resources. With regard to a risk committee, the study reveals that three of the 19 companies (representing 16% of the sampled companies) had a risk committee in place, while 16 (representing 84%) did not have a risk committee. It is evident that for the companies that did not have risk committees, but had an audit committee, the responsibility for risk management rested with the audit committee, as risk management is critical regardless of the nature of the business of the company.

For the period under review, the study reveals that with regard to sale of shares to management, one out of the 19 companies (representing 5% of the sampled companies) sold shares to management in the period under review, while 18 companies (representing 95%) did not sell shares to management. The results indicate that selling of shares to management is not a common practice in the LuSE listed companies in Zambia.

6.12.4   Research objective 4: To analyse the financial performance of the companies that are listed on the Zambia Stock Exchange

The financial performance of the 19 LuSE listed companies for the nine year period from 2009 to 2017 was analysed by using ROCE and Tobin's Q. The study reveals that the minimum, maximum and average ROCE of -33.40%, 246.87% and 24.66% respectively have been recorded for the LuSE listed companies for the period under review. The minimum ROCE of -33.40% implies that one of the LuSE listed

companies incurred an operating loss that reduced the value of the company. Conversely, one of the LuSE companies made a profit that resulted in a ROCE of 246.87%, thereby increasing the value of the company. On average, all the LuSE listed companies achieved a ROCE of 24.66% which demonstrates that there have been positive returns on the investments for the shareholders of the LuSE listed companies. With the average ROCE of 24.66%, it is evident that the investments in the LuSE listed companies are yielding positive and attractive results for investors.

With regard to Tobin's Q, the study reveals that the minimum value of Tobin's Q stands at 0.005 whereas the maximum Tobin's Q stands at 1.96. The average Tobin's Q stands at 0.51 which is not close to 1, which would demonstrate value creation. Therefore, the study reveals that through the use of Tobin's Q, LuSE companies did not use their assets prudently to create value for the investors for the period 2009 to 2017. However, the results could have been affected particularly if the stock market was undervalued.

6.12.5 Research objective 5: To investigate the relationship between corporate governance structures and company financial performance

The study made use of and random effects panel regression model tests, SAQs and interviews for investigating the relationship between internal corporate governance structures and the financial performance of LuSE listed companies in Zambia. Using random effects tests through ROCE the study reveals that with a p-value of 0.071, large board sizes negatively relate with financial performance of LuSE listed companies. The insights from SAQs respondents reveal that board size positively affects financial performance in that the bigger the board the better the financial performance and the smaller the board the poorer the financial performance. However, the Tobin's Q random effects panel regression model tests reveal that board size neither positively nor negatively relates with financial performance. Furthermore, with p-values of 0.755 and 0.233 for ROCE and Tobin's Q random effects tests respectively, the study reveals that having NEDs as the majority board members do not have a statistically significant relationship with financial performance of LuSE listed companies. On the contrary, the results of the SAQs revealed that all

the participants agreed that NEDs are positively related to the financial performance of the LuSE listed companies.

With regard to board leadership, the random effects tests using ROCE (p-value of 0.495) revealed that board leadership does not have statistically significant relationship with the financial performance of LuSE listed companies. Similarly, with a p-value of 0.577, the random effects tests using Tobin's Q demonstrate that board leadership neither positively nor negatively relates to financial performance. However, SAQ results show that all the participants (100%) agreed that separation of the positions of CEO and board chairman positively relates with financial performance. The insights from SAQs mainly reflect the need to comply with the LuSE Code of Corporate Governance.

Using random effects tests with ROCE as the proxy for financial performance (p-value of 0.399), the number of board meetings does not have statistically significant relationship with financial performance. Similarly, with a p-value of 0.101 the random effects tests using Tobin's Q show that number of board meetings does not statistically and significantly relate with financial performance. Conversely, the study reveals that all the participants (100%) agreed that board meetings positively relate with financial performance as the board meetings facilitated informed decision making and promoted constructive debate in the boardrooms.

The random effects tests using ROCE and Tobin's Q reveal that the number of board committees with p-values at 0.965 and 0.317 respectively, does not have a statistically significant relationship with financial performance. On the contrary, the insights obtained from the key role players through SAQs reveal that all the participants (representing 100%) agreed that the number of board committees established in the companies had positive relationship with the financial performance of the LuSE listed companies. This was premised on the view that responsibilities and roles are appropriately allocated to competent board members that help the board discharge its duties diligently to improve company's financial performance.

The study reveals mixed results on the relationship between the presence of audit and risk committees and financial performance. While random effects tests using Tobin's Q with a p-value of 0.100 reveals that the presence of an audit committee has a statistically significant positive relationship with financial performance, random

effects tests using ROCE reveal that the presence of an audit committee negatively affected financial performance. Similar to random effects tests using Tobin's Q, the insights from SAQs and interview participants reveal that the presence of an audit committee have positive relationship with financial performance.

The insights obtained from the key role players through the SAQs revealed that 44 of the 46 participants (representing 96%) agreed that the presence of a risk committee in the LuSE listed companies improves financial performance of the LuSE listed companies because risk management is critical in today's complex and technologically advanced business environment. On the contrary, the results of the random effects tests using both ROCE and Tobin's Q (p-values 0.925 and 0.528 respectively) reveal that the presence of a risk committee does not have any statistically significant relationship with financial performance.

Given that there was only one company that sold shares to management the random effects tests using ROCE and Tobin's Q had limited applicability. The insights obtained from the key role players through SAQs and interviews reveal that managerial ownership had positive relationship with the financial performance. The study reveals that a total of 45 SAQ respondents, representing 98% of the respondents, agreed that selling shares to company employees improves the financial performance of their companies.

6.12.6 Research objective 6: To adjust international guidelines of corporate governance structures to enhance financial performance of listed companies in Zambia

The aim of this research study was to adjust international guidelines of corporate governance structures in order to enhance financial performance of listed companies in Zambia. The framework discussed in Section 6.13 comprises guidelines on board composition and structure and board processes.

6.13 Framework of internal corporate governance structures to enhance financial performance

The adjustment of the existing corporate governance framework to enhance financial performance of the LuSE listed companies is the overall aim of this research study. The framework consists of guidelines reflecting principles rather than rules to be followed. The fact that the LuSE is situated in a developing country, as well as the fact that the LuSE is relatively young, the risk existed that the statistical results in this study would not yield the anticipated results owing to limited financial data, number of listed companies and period. Furthermore, the study also indicated that on several aspects, the results of the quantitative research and qualitative research differed. The qualitative results, yielded from the SAQs reflected the desire by the key role players, in keeping with international best practices. For this reason, where contradictory or limited results were identified in the qualitative data, the recommendations made for the framework are based on the qualitative data which is reflect the international best practices. The framework which is basically a model of internal corporate governance structures consists of guidelines for enhancing the financial performance of LuSE listed companies in Zambia. The framework is shown below (Figure 10):

Because the King IV Report on Corporate Governance is only applicable on entities with a financial year starting on 1 April 2017, corporate governance structures included in this report, that are not currently applied in Zambia, have not been included in the empirical portion of the study. However, there are important corporate governance practices in this thesis that should be considered by Zambian companies in future.

Figure 10:   Framework of internal corporate governance structures to enhance financial performance
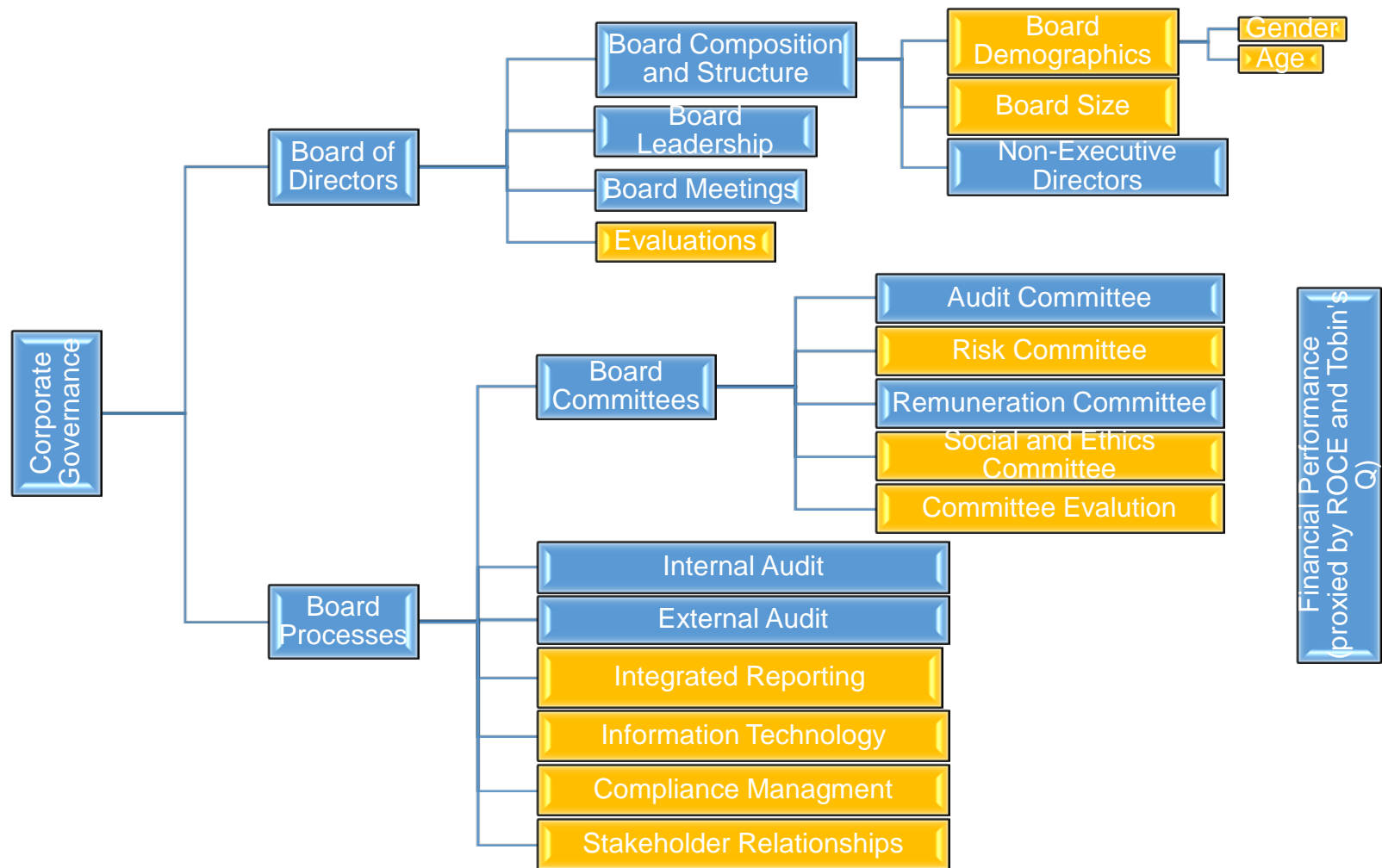
Source: Researcher's own construct (Blue represent aspects evident from the empirical results and orange represent aspects from the literature review)

The mixed results of the relationship between corporate governance structures and financial performance, as well as LuSE companies' current practice and international practice in corporate governance have informed the framework on the corporate governance structures aimed at enhancing financial performance. In this regard, corporate governance structures include board composition and structure, board processes and managerial ownership. Board composition and structure comprise board size, NEDs, board leadership and board meetings, whereas board processes consist of board committees, internal audits and external audits.

6.13.1   Board size

Board size relating to the number of members of the board of directors in LuSE listed companies has a significant relationship with the financial performance. The size of the board affects financial performance in that the smaller the board the better the financial performance of the LuSE listed companies. In this regard, a board of directors comprising seven members is recommended as an appropriate board size to improve financial performance. Board size comprising seven members improves decision making in that decisions may be made timeously thereby improving financial performance. In addition, the study shows that the average board comprising seven members has been a common practice within the LuSE listed companies for the period from 2009 to 2017. The average number of seven individuals as board members is consistent with the current corporate governance practices in the developing countries and as such, is in tandem with international best practice. As such, LuSE listed companies should continue to maintain the current board size as their average board membership.

6.13.2   Non-executive directors (NEDS)

NEDs comprise an important variable of the board composition and structure for LuSE listed companies. However, the study reveals that having NEDs as majority members of the board does not have a statistically significant relationship with the financial performance of LuSE listed companies. The study suggests that having a majority of NEDs on the boards only achieves compliance with LuSE listed

companies but does not have statistically significant relationship with financial performance. To comply with LuSE listing rules and international best practice, the listed companies should maintain a majority of NEDs. Consequently, this research study recommends that a greater proportion of NEDs should form the boards in the LuSE listed companies. Having NEDS as majority board members (more than 50%) is aimed at ensuring objectivity and avoidance of conflicts of interest.

6.13.3   Board leadership

Board leadership concerns separation of the CEO and board chairperson roles. It is an essential element of modern corporate governance, particularly for LuSE listed companies in Zambia. The separation of the CEO and board chairperson roles did not have statistically significant relationship with the financial performance of LuSE listed companies. However, splitting the roles of CEO and board chairperson reflects current best practice in the LuSE listed companies as the majority of the companies under the period of review maintained the two roles as separate roles to avoid conflicts of interest. The study therefore recommends that the LuSE listed companies should continue separating the two roles.

6.13.4   Board meetings

The board meetings facilitate constructive debate and decision making in companies. However, the study reveals that the frequency of board meetings does not have a statistically significant relationship with the financial performance of LuSE listed companies. In the period under review frequent board meetings of at least three times annually were held and in some cases 11 board meetings were held. In this regard, the study recommends that regular board meetings at least four times a year should be held in order not only to comply with the code on corporate governance but also to improve decision making.

6.13.5   Number of board committees

In order to discharge the board's responsibilities appropriately, board committees are essential in corporate governance. The study's results indicate that the number of board committees does not have statistically significant relationship with the financial performance of the LuSE listed companies. The LuSE Code of Corporate Governance requires a minimum of two board committees to be established and maintained. In order to comply with the LuSE Code of Corporate Governance, the study recommends that at least audit committee should be in place in all LuSE listed companies.

6.13.6   Presence of audit committee

The presence of an audit committee on the board has a statistically significant positive relationship with the financial performance of LuSE listed companies. The study suggests that LuSE listed companies should establish and maintain audit committees to improve financial performance. Audit committees enable the board to efficiently and effectively discharge its duties and to comply with LuSE listing rules. Consequently, the study recommends that for the companies that have already established audit committees, they should continue maintaining the audit committees while the companies that do not have audit committees should establish and maintain audit committees.

6.13.7   Presence of risk committee

Despite LuSE listed companies operating in a complex and risky environment, the study reveals that the presence of a risk committee does not have a statistically significant relationship with the financial performance of the companies. Unless an audit committee exists, the non-establishment of a risk committee would result in failure to manage risks. The study therefore recommends that where there is no risk

committee an audit committee should be in place, to be responsible for risk management for the LuSE listed companies.

6.13.8 Internal audit

The insights from key role players reveal that an internal audit as part of the internal control systems of the LuSE listed companies positively affects financial performance. The study, therefore, recommends that LuSE listed companies should have an internal audit in place for monitoring the effectiveness of internal controls to improve company performance. Internal audits provide assurances regarding the effectiveness of the systems of internal control including the integrity of financial reports of the listed companies that may lead to operational efficiency and effectiveness thereby improving financial performance.

6.13.9 External audit

External audits play an important role in corporate governance with regard to accountability. The insights from the key role players of this research study suggest that an external audit positively affects financial performance of the LuSE listed companies in Zambia. In this regard, the study recommends that all LuSE listed companies should continue having external audits. Having financial statements audited by external auditors does not only comply with LuSE listing rules, but also improves the credibility of the financial statements. Furthermore, through management letters, external audits provide recommendations for improving financial management, thereby contributing to the improved financial performance of the companies.

6.13.10 Managerial ownership

For this research study, managerial ownership is viewed as the sale of shares to the management of LuSE listed companies in Zambia. As the review of the annual reports revealed that only one company sold shares to management during the

period under review, it is evident that the sale of shares to management is a rare practice in LuSE listed companies. The study, therefore, recommends that the sale of shares does not have to be a common feature in the LuSE listed companies as it does not have a relationship with the financial performance of the LuSE listed companies. It is, however, recognised that as an international best practice, managerial ownership may, in future influence financial performance and companies are not discouraged from implementing this international best practice.

6.13.11   Theoretical aspects

Although the King IV Report on Corporate Governance is only applicable to companies with a financial year starting on or after 1 April 2017, the following corporate governance aspects should also be considered in the Zambian framework:

6.13.11.1   Remuneration committee

According to IoDSA (2016:57) and Alkahtani (2015:196), a remuneration committee should have at least three members and be comprised solely of non-executive directors (NEDs), with the majority of the members being independent non-executive directors. It is construed that independent NEDs would play a vital role in preventing conflicts of interest between managers and shareholders, thereby facilitating independent decision making.

6.13.11.2   Social and ethics committee

The King IV Report provides that where establishment of a social and ethics committee is not a statutory requirement, a company should establish the committee to be responsible for oversight of, and reporting on, organisational ethics, responsible corporate citizenship, sustainable development and stakeholder relationships. If a social and ethics committee is not established, a company should

consider the responsibilities of such a committee to be discharged by another board committee deemed appropriate by the company (IoDSA, 2016:57). Furthermore, the King IV Report provides that subject to legal provisions or requirements, a social and ethics committee should have both executive and non-executive members, with the majority comprising non-executive members of the board. This is premised on the view that the composition of both executive and non-executive board members aims to promote independent judgement and assists with the balance of power and the effective discharge of the board's decisions (IoDSA, 2016:54).

6.13.11.3   Risk committee

Deloitte and Touche (2014:1) consider board committees (such as the risk committee) to represent an important element of the governance process and should be established with clearly agreed reporting procedures and a written scope of authority. According to IoDSA (2016:61), Principle 11 of the King IV Report stipulates that the board should govern risk in a way that supports the company in setting and achieving its strategic objectives. The King IV Report recommends that the board of directors (governing body) should consider allocating the oversight of risk governance to a dedicated committee called the risk committee or adding it to the responsibilities of another committee as deemed appropriate by the company. The risk committee should have both executive and non-executive members with the majority comprising non-executive board members (IoDSA, 2016:57).

6.13.11.3   Other aspects

The remuneration, risk, social and ethics committees can arguably impact financial performance. However, there are other factors of corporate governance that can also influence the financial performance of listed companies. These corporate governance factors include integrated reporting, performance evaluation of the board and committee members, information technology, shareholder activism and the managing of stakeholder relationships. Furthermore, it can be argued that the

demographics of the board such as gender and ethnicity, as well as board tenure, skills and knowledge, may influence the financial performance of the listed companies. In this regard, it becomes of paramount importance that such theoretical aspects and corporate governance practices should be included in the corporate governance structures framework to enhance the financial performance of listed companies in Zambia.

6.14 Concluding remarks

Corporate governance, which is basically viewed as the way a company is directed and controlled, is critical for all LuSE listed companies in Zambia. In particular corporate governance is important because:

- Corporate governance is a key element in improving investor confidence in the company;

- Corporate governance contributes to market discipline;

- Corporate governance is one factor that investors consider before making investments in a company;

- It ensures that a company complies with the listing rules of the LuSE;

- Corporate governance acts as a deterrent to unethical business practices in a company.

As such the study suggests that the way corporate governance is structured and operated is paramount; particularly with regard to internal corporate governance structures. In general, the study through SAQs and interviews, has revealed that the internal corporate governance relate positively with financial performance in different ways. The random effects test results are mixed but largely showing that the board of directors do not have a statistically significant relationship with financial performance of LuSE listed companies. In particular, board size has a statistically significant negative relationship with the financial performance while audit committees statistically and positively affect the financial performance of LuSE listed companies. The majority of the internal corporate governance structures comprising

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NEDs, board leadership, board meetings, number of board committees, and the presence of audit and risk committees do not have any statistically significant relationship with financial performance. The lack of the relationship between the majority of the internal corporate governance structures and financial performance could mainly be attributed to limitations in sample size, the period of the study and relative young age of the LuSE.

Following the mixed results, the research study has culminated in the adjustment of the existing corporate governance framework of internal corporate governance structures comprising the board of directors and managerial ownership that aim at enhancing the financial performance of LuSE listed companies in Zambia. The study recommends the use of the internal corporate governance framework and revision of the LuSE Corporate Governance Code for enhanced financial performance of LuSE listed companies. The study further recommends additional research to include all the listed companies and extend to state owned enterprises and private companies.

Finally the research study makes major contributions to the body of knowledge. Firstly, the research study has culminated in a framework of internal corporate governance structures to enhance the financial performance of the LuSE listed companies, thereby largely bridging the existing research gap. The framework of the internal corporate governance structures comprises guidelines for enhancing financial performance of listed companies in Zambia. The framework has been informed by the empirical findings and the King IV Report provisions to enhance the financial performance of LuSE listed companies in Zambia. Given that the existing research has largely employed quantitative research methods, the use of a mixed research methods approach for this study contributes to the body of knowledge with regard to a methodological approach to research on corporate governance and financial performance both in the developed and developing countries. Furthermore, the use of triangulation has contributed to the quality of the research results and has positively contributed to the quality of the current diversity of mixed results in the research on the relationship between corporate governance and financial performance. Given the importance of the results of this research study, LuSE listed companies' leadership comprising the board of directors and senior management, are encouraged to consider the study's recommendations in order to improve the

existing corporate governance structures that could improve the financial performance of the companies.

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APPENDIX 1:   REQUEST FOR APPROVAL

1st June 2017

Chief Executive Officer

Zambia

Dear Sir,

REQUEST FOR PARTICIPATION IN THE RESEARCH STUDY

I am **Zondwayo Banda,** a Doctor of Philosophy (PhD) in Business Administration student at the University of the Free State in South Africa and I am currently conducting a research study on the influence of corporate governance structures on the financial performance of Lusaka Stock Exchange listed companies. This study is entitled "**Corporate governance structures: the performance of Zambian listed companies".** The aim of this study is to adjust the existing framework of corporate governance structures in order to enhance financial performance of listed companies in Zambia. The reason for writing this letter is to seek your approval for your company to be part of this study. The research study will involve administering questionnaires to two board members (Board Chairperson and Chairperson of Audit Committee) and two senior management staff consisting of Chief Finance Officer and Company Secretary. The research study will also involve conducting semi-structured interviews with you and reviewing the audited annual reports while the questionnaires will be distributed to Board Chairperson, Audit Committee Chairperson, Chief Finance Officer and Company Secretary. Please note that the questionnaire administration and interviews will be done at different times.

The results of the research will be used solely for academic purposes and as such confidentiality and integrity of the information that your company will provide is

assured. The researcher will also ensure that anonymity of individual responses is maintained in the study. In addition the study will not solicit for sensitive information. The results will be included in the thesis that will be made available at the University of the Free State library and also some aspects will be disseminated in aggregate through possible conference presentations or professional and academic journal articles. Please note that the company name will not be mentioned or quoted in the report or conference presentations. Please note that the sharing of information during the interviews and the questionnaire administration should be in line with your organisation's policy regarding sharing company information.

The questionnaire and interviews are anticipated to take 30 minutes each. Your participation and approval would be much appreciated. Should you have any other questions regarding the research, please do not hesitate to contact me using the contact details given below.

I look forward to hearing from you.

Yours sincerely,

Zondwayo Banda
Contact Details: Email: bandazondwayo@gmail.com
                 Tel: +260977890465

PART A: BACKGROUND INFORMATION

Part 1 of this questionnaire relates to the background information. Provide responses by typing and/or marking an X against the number that best describes your response.

A1.1   What is your name? (To be held Confidential).

First Name	
Surname	

A1.2   What is your gender?

Male	1
Female	2

A1.3   What is your age?

20-35 years	1
36-50 years	2
Above 50 years	3

A1.4   What is your highest qualification?

Doctorate Level	1
Master Level	2
Degree Level	3
Professional Course	4
Other	5

A1.5   In which sector does your company operate?

Agriculture	1
Banking and finance	2
Energy	3
Hospitality	4
Investments	5
Manufacturing	6
Mining	7
Mobile telecommunication	8
Property	9
Retail	10

A1.6   What is your position in the company?

Executive Board member	1
Non-Executive Board member	2
Management team member	3
Both board member and management team member	4

A1.7   How long have you served as an executive board member?

0-5 years	1
5-10 Years	2
Over 10 years	3

A1.8 How long have you served as a non-executive board member?

0-5 years	1
5-10 Years	2
Over 10 years	3

A1.9 How long have you been in management position?

0-5 years	1
5-10 Years	2
Over 10 years	3

A1.10 From the list below, indicate the top 4 stakeholders of your company. Please number them from 1 to 4, where 1 is most important and 4 is least important.

Employees	
Shareholders	
Customers	
Lenders	
Pressure groups	
The community	
The government	
Suppliers	
Non-Executive Director	
Other – please specify	

PART B: CORPORATE GOVERNANCE PRINCIPLES

B2.1 In your opinion which one of the following provides the best definition of corporate governance?

Corporate governance is the way a company is directed and controlled	1
Corporate governance is defined as involving a set of relationships amongst a company's management, its board of directors, its shareholders, its auditors and other stakeholders	2

Corporate governance comprises both the process and structure for enhancing the wealth of the company	3

B2.2 Do you think corporate governance is important in your company?

Highly important	1
Important	2
Unimportant	3
Highly unimportant	4

B2.3 If your answer to question B2.2 is that corporate governance is extremely important or important (otherwise skip this question), on the scale of 1-5, rate the following reasons why corporate governance is highly important or important in your company?

1	2	3	4	5
Strongly Agree (SA)	Agree (A)	Uncertain (U)	Disagree (D)	Strongly Disagree (SD)

	SA	A	U	D	SD
To ensure that our company complies with listing rules of LuSE	1	2	3	4	5
It is a key element in improving economic efficiency	1	2	3	4	5
It is a key element in improving investor confidence in the company	1	2	3	4	5
Corporate governance is one factor that investors consider before making investments in our company	1	2	3	4	5
Corporate governance contributes to market discipline	1	2	3	4	5

	SA	A	U	D	SD
Corporate governance acts as a deterrent to corruption in our company	1	2	3	4	5
Corporate governance acts as a deterrent to unethical business practices in our company	1	2	3	4	5
Corporate governance improves strategic thinking at top management level	1	2	3	4	5

B2.4 If your answer to question B2.2 is that corporate governance is highly unimportant or unimportant (otherwise skip this question), on the scale of 1-5, rate the following reasons why corporate governance is highly unimportant or unimportant in your company?

1	2	3	4	5
Strongly Agree (SA)	Agree (A)	Uncertain (U)	Disagree (D)	Strongly Disagree (SD)

	SA	A	U	D	SD
The establishment of corporate governance in the company is costly to the company	1	2	3	4	5
The implementation of corporate governance in the company is costly to the company	1	2	3	4	5
Corporate governance involves many stakeholders making it rather difficult for our company to manage their interests and relationships	1	2	3	4	5
Corporate governance promotes insider dealing at the expense of shareholders leading to conflict of interest for those charged with corporate governance of the company	1	2	3	4	5

B2.5   What are the corporate governance structures in corporate governance? Use the following scale of 1-5, to answer this question.

1	2	3	4	5
Strongly Agree (SA)	Agree (A)	Uncertain (U)	Disagree (D)	Strongly Disagree (SD)

	SA	A	U	D	SD
A corporate governance structure is a system that ensures board decisions are carefully made	1	2	3	4	5
Corporate governance structures are the mechanisms which deal with the ways in which companies guarantee investors' returns on their investments in a company	1	2	3	4	5
Corporate governance structures are structures designed to achieve accountability in the company	1	2	3	4	5
Corporate governance structures are structures designed to achieve transparency in the company	1	2	3	4	5
Corporate governance structures are structures designed to achieve fairness in the company	1	2	3	4	5
Corporate governance structures are structures designed to achieve responsibility in the company	1	2	3	4	5
Corporate governance structures are structures designed to achieve social responsibility in the company	1	2	3	4	5
Corporate governance structures are structures designed to achieve independence in the company	1	2	3	4	5

Corporate governance structures are structures designed to achieve integrity in the company	1	2	3	4	5
Corporate governance structures are structures designed to achieve board competence in the company	1	2	3	4	5

B2.6 Does corporate governance in your company comprise both internal and external structures?

Yes	1
No	2
Not sure	3

B2.7 What corporate governance structures do you use in your company? You may select all the relevant structures.

Board of Directors	
Independent Non-Executive Directors	
Non-Executive Directors	
Nomination Committees	
Remuneration Committee	
Audit Committee	
Risk Committee	
Internal Audit Function	
External Audit	
Managerial Ownership	
Other – please specify	

PART C: FINANCIAL PERFORMANCE

C3.1 Which of the following are used as financial performance measures in your company?

Return On Capital Employed	
Return On Equity	
Return On Assets	
Current Ratio	
Quick Ratio	
Gearing	
Interest Cover	
Shareholder Value	
Economic Value Added	
Tobin's Q	
Balanced Score Card	
Other – please specify	

C3.2 To what extent does financial performance measurement contribute towards reaching your company's goals?

Significant contribution	1
Insignificant contribution	2
No contribution	3

PART D: CORPORATE GOVERNANCE STRUCTURES AND FINANCIAL PERFORMANCE

D4.1 In your opinion, is there any relationship between corporate governance structures and financial performance of the company?

Positive relationship	1
Negative relationship	2
No relationship	3

D4.2 In your opinion does the relationship between internal corporate governance structures and financial performance matter?

The relationship is important	1
The relationship is less important	2
The relationship is not important	3

D4.3 In your opinion, what is the ideal size of the Board of Directors for your company?

0-5 members	1
6-9 members	2
10-12 members	3
13-20 members	4
21 or more	5

D4.4 Please complete the following information in terms of your internal governance structures:

Internal governance structure	Total number of members	Number of Executive Members	Number of Non-Executive Members	Number of Independent Non-Executive Members	External Experts
Board of Directors					
Audit Committee					
Risk Committee					
Nominations Committee					
Remuneration Committee					

D4.5 Using the scale below of 1-5, how do the internal corporate governance structures impact your company's financial performance?

	1	2	3	4	5

	Strongly Agree (SA)	Agree (A)	Uncertain (U)	Disagree (D)	Strongly Disagree (SD)
4.5.1 Board Structure					
Separation of the position of CEO from Board Chairman improves financial performance	1	2	3	4	5
Smaller boards improve financial performance	1	2	3	4	5
Establishment of a board committees improve financial performance	1	2	3	4	5
Non-executive directors improve financial performance	1	2	3	4	5
Independent non-executive board members improve financial performance of the company	1	2	3	4	5
Establishment of an Audit Committee improves financial performance through provision of independent oversight of company reports	1	2	3	4	5
Establishment of an Internal Audit function improves financial performance	1	2	3	4	5
Establishment of a Risk Committee improves financial performance	1	2	3	4	5
4.5.2 Board Composition					
A Board that comprises both executive and non-executive directors improves financial performance	1	2	3	4	5
A Board that has more than 50% of the board members as non-executive directors improves financial performance	1	2	3	4	5
Non-executive directors without business relationships with the companies improve financial performance	1	2	3	4	5

	1	**2**	**3**	**4**	**5**
	Strongly Agree (SA)	Agree (A)	Uncertain (U)	Disagree (D)	Strongly Disagree (SD)
A Board that consists of the correct mix of skills, knowledge and experience, improve financial performance	1	2	3	4	5
4.5.3 Board processes					
A board of directors with the relevant information improves decision making	1	2	3	4	5
A well informed board positively affects the financial performance of a company	1	2	3	4	5
Promoting constructive debate in board room improves decision making thereby improving financial performance	1	2	3	4	5
4.5.4 Internal Audit					
Internal Audit improves the quality of financial reporting thereby improving financial performance	1	2	3	4	5

	1	2	3	4	5
	Strongly Agree (SA)	**Agree (A)**	**Uncertain (U)**	**Disagree (D)**	**Strongly Disagree (SD)**
Internal Audit enhances revenue thereby improving financial performance	1	2	3	4	5
4.5.5 External Audit					
External Audit improves quality of financial reporting	1	2	3	4	5
Improved financial reporting contributes to good financial performance	1	2	3	4	5
4.5.6 Managerial ownership					
Selling shares to board members improves financial performance	1	2	3	4	5
Selling shares to company employees improves company financial performance	1	2	3	4	5

	1	2	3	4	5
	Strongly Agree (SA)	Agree (A)	Uncertain (U)	Disagree (D)	Strongly Disagree (SD)
Selling of 5-10% of company shares to board members and employees improves financial performance	1	2	3	4	5

D4.6 On a scale of 1-5 stated below, in your company how should corporate governance be structured to improve the financial performance of your company?

	1	2	3	4	5
	Strongly Agree (SA)	Agree (A)	Uncertain (U)	Disagree (D)	Strongly Disagree (SD)
	SA	A	U	D	SD
4.6.1 Board Structure					
Positions of Chief Executive Officer and the Board Chairperson should be held by two different people	1	2	3	4	5
Smaller boards of between 9 to 12 members should exist	1	2	3	4	5
Board of directors should comprise appropriate balance of knowledge, skills, experience, diversity and independence	1	2	3	4	5
Board Committees that include Audit, Remuneration, Nominations and Risk Committees should be established	1	2	3	4	5
4.6.2 Board Composition					
Board to comprise both executive and non-executive directors	1	2	3	4	5
The board should have appropriate mix of experienced non-executive members	1	2	3	4	5

	Strongly Agree (SA)	Agree (A)	Uncertain (U)	Disagree (D)	Strongly Disagree (SD)
	1	**2**	**3**	**4**	**5**
	SA	**A**	**U**	**D**	**SD**
The board should have appropriate mix of experienced independent non-executive members	1	2	3	4	5
The non-executive directors should be independent of the company (should not have business relations with the company)	1	2	3	4	5
4.6.3 Board processes					
The need to secure a quorum at meetings	1	2	3	4	5
More frequent board meetings held	1	2	3	4	5
Constructive debate promoted	1	2	3	4	5
Change in the board culture encouraged	1	2	3	4	5
4.6.4 Managerial ownership					
Selling of shares to the existing board members to align their interests with shareholders' interests	1	2	3	4	5
Selling of shares to the existing employees to align their interests with shareholders' interests	1	2	3	4	5

Thank you once again for your co-operation in completing this questionnaire. Your time and efforts are deeply appreciated. If you have any comments, please state them in the space provided below.

Once completed as agreed with the researcher, the researcher will collect the completed questionnaires.

APPENDIX 3: INTERVIEW SCHEDULE

Dear Sir/Madam,

I am **Zondwayo Banda,** a Doctor of Philosophy (PhD) in Business Administration student at the University of the Free State in South Africa. The interview that the researcher will have with you is part of the requirements for the research process for obtaining a PhD degree in Business Administration at the University of the Free State. This study is entitled "**Corporate governance structures: the performance of Zambian listed companies".** The aim of this study is to adjust the existing framework of corporate governance structures in order to enhance financial performance of listed companies in Zambia. This aim is anticipated to be achieved by investigating the relationship of corporate governance structures on the financial performance of the Zambian listed companies. As the Chief Executive you have been identified as a key role player to provide insights on the corporate governance and financial performance. The interview will take approximately 30 minutes. The researcher will thus appreciate your participation in this study. Any information you provide will be analysed and used purely for academic purposes. Please note that the sharing of information through the interview should be in line with your organisation's policy regarding sharing company information. In this regard, the study **will not** solicit for sensitive information. Please note that you are not under any obligation to answer all the interview questions and that after the interview there will not be any obligations created arising thereof. In addition, your entire responses will be anonymous and confidential. Consequently, the researcher assures you of highest confidentiality and integrity of the information.

Thank you very much in participating in this interview.

Kind regards,

Zondwayo Banda

Contact Details: Email: bandazondwayo@gmail.com

Tel: +260977890465

PART A: BACKGROUND INFORMATION

A1.1   What is your name? (To be held Confidential).

A1.2   What is your gender?

A1.3   What is your age?

A1.4   What is your highest qualification?

A1.5   What is your position in the company?

A1.6   How long have you served in this position?

PART B: CORPORATE GOVERNANCE PRINCIPLES

B2.1   In your opinion what is corporate governance?

B2.2   Do you think corporate governance is important in your company? Give reason(s) for your answer.

B2.3   What are the corporate governance structures in corporate governance?

B2.4   Does corporate governance comprise both internal and external structures?

B2.5   What corporate governance structures do you use in your company?

PART C: FINANCIAL PERFORMANCE

C3.1   How is financial performance described in your company?

C3.2   Are you involved in the financial performance of your company?

C3.3   In your company does financial performance form part of the overall reporting of the company?

C3.4   Does an evaluation of the financial performance of your company contribute to the achievement of your company goals?

C3.5   Is financial performance evaluation important in your company?

PART D: CORPORATE GOVERNANCE STRUCTURES AND FINANCIAL PERFORMANCE

D4.1   In your opinion, is there any relationship between corporate governance structures and financial performance of the company?

D4.2   Do the internal corporate governance structures (board of directors, internal and external audits and managerial ownership) impact on the financial performance of your company?

D4.3   How do the internal corporate governance structures impact your company's financial performance?

D4.4   In your opinion, what is the ideal size of the Board of Directors for your company?

D4.5   In summary in your opinion, how does corporate governance influence the financial performance of your company?

Do you have any questions or would you like to add anything else to your responses?

Thank you once again for your co-operation during this interview. Your time and efforts are deeply appreciated. If you have any comments, please do make the comments.

APPENDIX 4: INFORMED CONSENT FORM

To Whom It May Concern

The purpose of this study is to obtain your views regarding corporate governance and its structures for companies listed on the Lusaka Stock Exchange (LuSE). In addition the study aims to gather your views on the relationship between corporate governance structures and the financial performance of LuSE listed companies. Please take note of the following:

- The answers provided are in no way creating obligations between you and the promoter and the researcher but will rather be used for academic purpose only.

- Your anonymity will be ensured. We will not require you to provide us with any information that will be used to identify you.

- The answers provided to the questions will only be used for the purposes of the research project. Hence the study is for academic purpose and not for commercial purposes.

- The information obtained from this study may also be published. However, only results related to the total sample will be communicated. We will not communicate case-specific/personal information. In this regard, no individual industry and company will be mentioned in the report.

- Participation in the study will involve analysis of information that may affect the reputation of the company, relationships among senior management and the board, and that you will need time of about 30 minutes to fill in the questionnaire and participate in the interview. In this regard, the researcher assures you that information collected will be held confidential and only for academic purposes. In addition the questionnaires will not be administered at the same time and that participants will be given ample time to fill in the questionnaires and interviews will be set at times convenient to the participants. Furthermore, no individual names of employees or companies will be reported in the research report and that anonymity in this regard will be maintained. Please also note that the results will not mention any specific industry or company, but rather aggregated findings and results will be

reported. Participants will only participate after approval by their CEO to allow the research to be conducted in the company. Please note that sharing information during the interviews and the study should be in line with your organisation's policy regarding sharing company information. Please note that the CEO cannot safeguard participants if they divulge sensitive information regarding the functioning of the board and the corporate governance if it is in contravention of signed confidentiality agreements.

This study will only investigate the relationship between corporate governance structures and financial performance using public annual reports and through the administration of questionnaires and conducting interviews. While the annual reports are public documents whose use may not give rise to legal consequences; collection of data through questionnaires and interviews do pose risks. The following are the potential risks:

1. Participants such as non-executive directors could feel that they are divulging sensitive information of their companies;

2. Both non-executive and senior management staff could be vulnerable participants whose relationship with appointing authority may be jeopardised for giving honest and valid answers and insights about the companies with regard to corporate governance and financial performance;

3. Participants' perception that the study is used for commercial purposes that could lead to loss of competitive advantage for their companies;

4. Incorrect interpretation of responses from the interviews negatively impacting on the research results; and

5. Participants may feel that participation may be onerous and may represent great responsibility as the outcome of the research will be informed by their responses.

In order to mitigate the identified risks the study will ensure that information collected will be held with highest level of confidentiality and that only the relevant information as asked in the questionnaires and interview schedule will be collected for the study. Firstly, the research will not solicit sensitive information. The information that will be disclosed or collected through the questionnaires and interviews will only be for academic purposes and will be kept as such. With regard to the interviewees, no

single name of the participant will be reported in the study and anonymity will be maintained at all times. Further, neither specific industry nor sector will be mentioned in the findings and results. This will ensure that that the reputation of the companies is not negatively affected. The study will ensure that the information collected is for academic purposes only and not for any commercial use. With the interviews the researcher will record the interviews only after the interviewer has consented and that the responses have to be validated by the participants to ensure that they represent participants' views. Finally, the researcher will explain the rationale for involving the participants to provide insights on corporate governance and financial performance highlighting the benefits to their companies. The study is anticipated to improve the current corporate governance structures that would improve the financial performance of the listed companies; thereby by extension improving their reputation. In addition the results will not specify any specific industry or company but rather report on aggregate results. In this regard, no result will be attributed to any specific industry or company. In addition the results or findings will not be linked to any individual participant.

The researcher has clearly stated in the questionnaires that the involvement of the participants does not create obligations for the participant. The questions in the questionnaire and the interview schedule do not give rise to disclosure of sensitive information but rather seek to obtain insights on corporate governance, corporate governance structures and financial performance. In this regard, the questions raised do not solicit for sensitive information from the participants, but rather information that would easily be made available to the public as the companies are public entities.
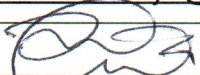
- You are under no obligation to participate in this project. You have the right to refuse.
- **If you agree to participate in this study, please sign and date this document.**

If you have any additional questions regarding this project, please feel free to contact (any of) the researcher(s). We appreciate your willingness to assist us in understanding the impact of corporate governance structures on company financial performance.

Promoter

Name and Surname	Liezel Alsemgeest
Email Address	AlsemgeestL@ufs.ac.za
Signature	

Researcher

Name and Surname	Zondwayo Banda
Email Address	bandazondwayo@gmail.com
Signature	

Informed Consent Participant	Signature		Date	

APPENDIX 5: LuSE LISTED COMPANIES – LISTING DATES AND BY SECTOR

	Company	Listing Date	Sector
1	Lafarge Zambia public limited company (Plc)	22 May 1995	Manufacturing
2	British American Tobacco (Z) Ltd	15 December 1995	Retail Trading
3	Zambia Sugar Plc	27 September 1996	Agriculture processing
4	Real Estate Investments Zambia Plc	28 August 1996	Property
5	Zambian Breweries Plc	9 June 1997	Manufacturing
6	National Breweries Plc	16 March 1998	Manufacturing
7	Standard Chartered Bank Plc	30 November 1998	Banking
8	Zambia Consolidated Copper Mine-Investment Holdings Plc	12 January 2000	Investments
9	Taj Pamodzi Hotels Plc	24 December 2001	Hospitality
10	Puma Energy (Z) Plc	18 June 2002	Oil Marketing
11	Zambia Metal Fabricators (ZAMEFA) Plc	8 September 2004	Manufacturing
12	Zambia Beef Products (ZAMBEEF) Plc	5 April 2005	Agriculture Processing
13	AEL Mining Services (Z) Plc	23 October 2006	Mining
14	Cavmont Capital Holdings Plc	13 September 2006	Investments
15	Investrust Bank Plc	18 June 2007	Banking
16	Copperbelt Energy Corporation Plc	21 January 2008	Energy
17	Zambia National Commercial Bank Plc	27 November 2008	Banking
18	Airtel Networks Plc	11 June 2008	Mobile Telecommunication
19	Zambia Bata Shoe Plc	31 March 2009	Manufacturing

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CORPORATE GOVERNANCE STRUCTURES: THE PERFORMANCE OF ZAMBIAN LISTED COMPANIES ZONDWAYO BANDA Submitted in fulfillment of the requirements for the degree Philosophiae Doctor (Business Administration) at the UFS Business School Faculty of Economic and Management Sciences UNIVERSITY OF THE FREE STATE PROMOTER: DR. LIEZEL ALSEMGEEST CO-PROMOTER: DR. CORNELIE CROUS May 2019 Bloemfontein DECLARATION I, Zondwayo Banda (UFS student number 2013088626), declare that the thesis that I herewith submit for the Doctoral Degree Philosophiae Doctor (Business Administration) at the University of the Free State, is my independent work, and that I have not previously submitted it for a qualification at another Institution of Higher Education. I, Zondwayo Banda, hereby declare that I am aware that the copyright is vested in the University of the Free State. I, Zondwayo Banda, hereby declare that all royalties as regards intellectual property that was developed during the course of and/or in connection with the study at the University of the Free State will accrue to the University. Zondwayo Banda 19th May 2019 Name and Surname Signature Date i ABSTRACT While corporate governance, which hinges on integrity, transparency and accountability, has been globally recognised, corporate scandals and corporate failures and poor financial performance of companies have continued to affect the corporate and non-corporate world and thus corporate governance has become a topical issue. The state of corporate governance in Zambia has been identified as the research problem. In addition, there has been limited research on the relationship between corporate governance structures and the financial performance of listed companies in Zambia. This research, therefore, investigated the relationship between corporate governance structures and the financial performance of the Lusaka Stock Exchange listed companies for the nine year period from 2009 to 2017. Consequently, the aim of the research was to develop a framework of corporate governance structures that would enhance the financial performance of the Lusaka Stock Exchange listed companies. This research study has adopted the stakeholder theory to corporate governance, as there are many stakeholders interested in corporate governance. In addition, stakeholder theory, departing from agency theory, espouses that the company's ability to create value for itself depends on its ability to create value for suppliers, customers and creditors among many others. The study employed mixed research methods through triangulation that involved the use of secondary and primary data, quantitative and qualitative data gathering and analysis. A total of 19 Lusaka Stock Exchange listed companies were used in the descriptive and inferential statistics while 46 self-administered questionnaires were received from 46 respondents. A total of 15 interviews were held with key role players. The regression analysis through random effects panel data regression model was used to investigate the relationship between corporate governance

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14 Carlisle St

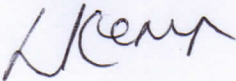Mount Croix

Port Elizabeth

6001

14 January 2019

082 723 5408

TO WHOM IT MAY CONCERN

EDITING OF TREATISE: Mr Zondwayo Banda (s2013088626)

This serves to confirm that I edited Mr Banda's PhD (Business Administration) Thesis.

The editing covered all aspects of language, punctuation and layout. I also crosschecked in-text referencing against the reference list.

Yours faithfully

Ms L. Kemp

B. A. (Hons English); MBA

Editing Service: Lee Kemp

14 Carlisle St

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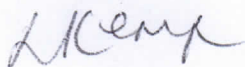6001

09 October 2019

082 723 5408

TO WHOM IT MAY CONCERN

EDITING OF THESIS: Mr Zondwayo Banda

This serves to confirm that I re-edited new additions to Mr Banda's PhD in Business Administration Thesis.

The editing covered all aspects of language and punctuation.

Yours faithfully

Ms L. Kemp

B. A. (Hons English); MBA

Faculty of Economic and Management Sciences

16-May-2017

Dear **Mr Zondwayo Banda**

Ethics Clearance: **CORPORATE GOVERNANCE STRUCTURES: THE PERFORMANCE OF ZAMBIAN LISTED COMPANIES**

Principal Investigator: **Mr Zondwayo Banda**

Department: **Univ of the Free State:Business School (Bloemfontein Campus)**

APPLICATION APPROVED

With reference to you application for ethical clearance with the Faculty of Economic & Management Sciences, I am pleased to inform you on behalf of the Ethics Committee of the faculty that you have been granted ethical clearance for your research.

Your ethical clearance number, to be used in all correspondence is: **UFS-HSD2017/0031**

This ethical clearance number is valid from **16-May-2017** to **17-May-2022**. Should you require more time to complete this research, please apply for an extension.

We request that any changes that may take place during the course of your research project be submitted to the ethics office to ensure we are kept up to date with your progress and any ethical implications that may arise.

Thank you for submitting this proposal for ethical clearance and we wish you every success with your research.

Yours Sincerely

Dr. Petrus Nel
Chairperson: Ethics Committee Faculty of Economic & Management Sciences