

**EFFECT OF CORPORATE GOVERNANCE ON THE FINANCIAL  
PERFORMANCE OF STATE OWNED ENTERPRISES IN ZAMBIA.**

**BY**

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## **DECLARATION**

I SIDNEY CHIKUTA, do hereby declare that am the author of this dissertation and that all the content is my original work and that the works of others in this research have been acknowledged. The dissertation is being submitted for the partial fulfilment of the requirement for the award of the Degree of Master of Business Administration at the University of Zambia and has not been presented before for an award of a degree or diploma at any other institution.

SIGNED

.....DATE.....

**SUPERVISOR: Dr. ATTRIDGE MWEWA**

SIGNED

.....DATE.....

## **CERTIFICATE OF APPROVAL**

The dissertation Sidney Chikuta entitled: “Investigating the effect of Corporate Governance on The Financial Performance of State-Owned Enterprises in Zambia. A Case of SOEs in Lusaka” is approved as fulfilling the requirement for the award of Master of Business Administration General by the University of Zambia.

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## ABSTRACT

Corporate governance is a mix of guidelines, practices and procedures by which organizations are guided and controlled. This study was focused at investigating the effect of Corporate Governance on the Financial Performance of State-Owned Enterprises (SOEs) in Zambia, focusing on State-Owned Enterprises in Lusaka Zambia. Financial performance of SOEs was measured using return on assets while corporate governance attributes used included board composition, independent committees, board size and firm size. A random sample of 165 respondents from SOEs was selected for the study out of which 125 respondents completely answered and returned the questionnaires. This gave a response rate of 75.7% which was very satisfactory. The data was analysed using descriptive statistics and multiple regression analysis. The study found that independent committees, board size and board composition negatively impacted financial performance of SOE's. This is because SOEs spend more money with respect to their size which ends up reducing finances for SOEs. Furthermore, the research found that the bigger the size of the firm, the higher the standings of its financial performance. In addition, the research found a positive correlation between corporate governance and financial performance of SOEs. Therefore this implies that exercising excellent corporate governance enhances financial performance of SOEs and vice versa. The study therefore recommends that SOEs should focus their efforts towards reducing board size, independent committees and board compositions if they want to improve their financial performance. Furthermore, SOEs should continue to invest in projects that will enable them acquire huge market shares which will result in growth in their financial status.

**Keywords:** *Corporate Governance, Financial Performance, State Owned Enterprises*

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## **LIST OF ABBREVIATION AND ACRONYMS**

AOA:	Articles of Association
CSR:	Corporate Social Responsibilities
DBZ:	Development Bank of Zambia
IDC:	Industrial Development Corporation
MOFNP:	Ministry of Finance National Planning
ROA:	Return on Assets
SMEs:	Small scale and Medium sized Enterprises
SOEs:	State Owned Enterprises
ZAMPOST:	Zambia Postal Services Corporation
ZAMTEL:	Zambia Telecommunications Corporation
ZANACO:	Zambian National Commercial Bank
ZCCM-IH:	Zambia Consolidated Copper Mines-Investment Holdings
ZESCO:	Zambia Electricity Supply Corporation
ZNBC:	Zambia National Broadcasting Corporation
ZR:	Zambia Railways

## **CHAPTER ONE: INTRODUCTION**

### **1.1 Introduction**

This chapter provides the background to the research, statement of the problem, main and specific objectives of the research, research questions, significance and scope of the research.

### **1.2 Situation of the Study**

State-possessed enterprises assume a significant job in financial development and the conveyance of basic open administrations, for example, wellbeing, training, water, and vitality. The underperformance of state-claimed enterprises can prompt critical difficulties in general national development and aggressiveness and represent a financial hazard to the legislature. Therefore, improving the presentation of state-claimed companies is a significant issue for both policy makers and investors. Endeavours to fortify corporate administration have been increasing global force as a way to improve the exhibition of state-possessed undertakings. Throughout the most recent 30 years, numerous researchers have affirmed that state-possessed enterprises (SOEs) ought to be privatized while others have opposed that view (World Bank, 2015). Scientists were keen on (administration) possession structure which they accepted was the reason for SOEs' wastefulness. Be that as it may, following many years of research, the two supporters and rivals of privatization have come to understand that the significance of administrative targets and market structure. SOEs have to pay nearer considerations on how to uphold their performance objectives and economic progress (Armstrong, 2015). While supporters of privatization contend that privatization is the best way to realize changes in administrative objectives and towards focused condition, others keep up that it tends to be cultivated by increasingly slow approaches. Approach producers were regularly left with little strategy alternatives yet to proceed with conventional SOE strategies (Armstrong, 2015).

### **1.3 Background to the Study**

The Organization for Economic Corporation and Development (OECD, 2004a) characterized corporate governance as decides and practices that oversee the connection between chiefs, investors, and partners of companies who add to the development and money related dependability of the association. Tadesse, (2004) portrayed corporate governance as the structure, procedures, and instruments of firms coordinated and oversaw to reinforce long haul investor esteem, which will at that point improve firm execution. Ehikioya, (2009).gave an

extensive depiction of corporate governance, proposing that the idea includes each power that bears on the dynamic of the firm. The powers comprise of control privileges of the investors, authoritative understandings and indebtedness forces of obligation holders, and responsibilities with workers, clients, providers, and guidelines approved by legislative offices (Arora and Bodhanwala, 2018).

In August 2006, the Ministry of Finance and National Planning mentioned the World Bank to complete a survey of corporate administration rehearses in the state-claimed undertaking/parastatal division, with the objective of benchmarking the involvement with Zambia against universal great practice. This report was submitted to the experts in April 2007, and a workshop was held in November to talk about the report. At this workshop the World Bank was mentioned to work with the Ministry to draft a system for improving the corporate administration of state-possessed undertakings in Zambia. A progression of gatherings was held in Lusaka between the World Bank group and the Ministry staff, bringing about the diagram of a system and subsequent stages.

This report is intended to be a brief and centered rundown of the reason for change, and an outline that spreads out an underlying methodology. The objective is for this record to frame the premise of further talks between the MOFNP and different partners. The recommendations depend on the Bank's 2007 analytic report, and on the discourses between individuals from the Zambian Ministry of Finance and the World Bank group in March 2008.

Because of the numerous corporate embarrassments that keep hitting the world since the year 2000, corporate administration has become a significant subject of exchange in the created as well as in the creating nations (Kumudin, 2011). Numerous researchers have subsequently concocted different methods for characterizing corporate administration dependent on the qualities of the association under study. The Kenya Capital Market Act (Cap 485A) on corporate administration rules to open organizations in Kenya, characterizes corporate administration as a procedure and structure that aides in coordinating and dealing with the exercises of the association with an extreme objective of amplifying investors riches while assessing other partners' inclinations. As per Heremans, (2007) money related execution alludes to the utilization of monetary markers in seeing if an association has accomplished its goals. It is the general

money related wellbeing proportion of an association that can be contrasted with another association with comparative qualities (Hales, 2005).

While many have reached the resolution that great corporate administration brings about better money related execution of an association (Charkham, 1995; Kihara, 2006) there are some similar to Jarrell et al. (1998) who discovered that budgetary exhibition of association is adversely impacted by corporate administration. Lamport et al. (2010) discovered that there is no distinction on the money related execution between firms with poor and great corporate administration. State Owned Enterprises assume huge jobs to any nation's economy. Like in many nations, in Zambia the arrangement of merchandise and enterprises like wellbeing, water and vitality is presented on the state claimed companies (SOEs) notwithstanding the way that they are frequently hit by colossal losses and wasteful activities.

#### **1.4 Statement of the problem**

Corporate governance practices has become born of contention in Zambia following a series of poor performance of state owned enterprises such as Zambia Telecommunications Corporation (ZAMTEL), Zambia Electricity Supply Corporation (ZESCO), Zambia National Broadcasting Corporation (ZNBC) and Zambia Railways. Absence of sufficient corporate administration in state companies has been proved by the breakdown of a few state enterprises like Zambia Airways, United Bus Company of Zambia (UBZ) that were set up in the mid 1970's. A portion of the recorded proof by Mwanawasa (2016) incorporate among others; absence of survey of Board performance as they never met much of the time as required, the Board never got execution based contracts, misappropriation of state company resources, declining money related performance, late or absence of execution of statutory reviews by the Auditor General office, absence of arraignment of extortion and misusing operators of the state partnerships and reluctance of the administration to make a move to control the gross misappropriation of state resources. This gradually prompted the crumbling of State Owned Enterprises (SOEs) in respect to money related performance, loss of piece of the overall industry, loss of open confidence in the organization and loss of income to the treasury. This study is therefore necessary to investigate the poor financial performance of majority of state owned enterprises in terms of return on assets (ROA).

### **1.5 Aim of the study**

The aim of this study was to establish the relationships between corporate governance and financial performance of State Owned Enterprises (SOEs) in Zambia.

### **1.6 Research Objectives**

The study focused at achieving the outlined objectives:

- 1) To establish the relationship between corporate governance and the financial performance of SOEs in Zambia.
- 2) To examine the effect of the board size composition on the financial performance of the SOEs in Zambia.
- 3) To establish how independent committees of corporate governance influence financial performance of SOEs in Zambia.

### **1.7 Research Questions**

- 1) What is the relationship between corporate governance and the financial performance of SOEs in Zambia?
- 2) What is the effect of the board size composition on the financial performance of the SOEs in Zambia?
- 3) How do the independent committees of corporate governance influence the financial performance of SOEs in Zambia?

### **1.8 Significance of Study**

The findings of this research shall help policy makers to gain value added information on corporate governance as a key to policy formulations that can help the in the running of the SOEs in a better way. The government of Zambia will also be able to understand how politics plays a significant role on the corporate governance of state-owned enterprises. This will help the government to improve on areas that negatively impact corporate governance in SOEs in Zambia. The findings of this study shall also add to the existing body of knowledge. SOEs and other organization will find the information in this study helpful in regard to how they can harmonize corporate governance and financial performance.



### **1.9 Scope of the Study**

This study was carried out in Lusaka Zambia. The reason for selecting Lusaka was due to the fact that all State owned Enterprise have their head offices in Lusaka where key respondents such as directors and managers are easily accessible for data gathering.

### **1.10 Dissertation Organization**

This report is organized as follows: Part One audits applicable writing to the theme under the study. It additionally takes a gander at different writing and different Publications regarding the matter being studied. Section three (3) takes a look at the hypothetical and theoretical systems. Part four (4) contains the approach used to gather and investigate the information. Part five (5) contains data analysis and discoveries of the exploration and lastly sections six (6) contains conclusion of the examination, proposals and further research territories.

### **1.11 Chapter Summary**

The first chapter of this research opens with the background of the study and further describes the statement of the problem and aim of the study. This is followed by the research objectives, research questions and significance of the study. The chapter concludes with the organization of the research. The next chapter therefore looks at the literature review.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.0 Introduction**

The chapter briefly presents the overview of corporate governance, financial performance and the literature reviewed on similar studies. This chapter also reviews significant theories in corporate governance which are relevant to this study. The relevant theories include agency theory, stewardship theory, stakeholder theory and resource dependency theory. This chapter also provides the conceptual framework of the study.

### **2.1 State Owned Enterprises (SOEs) in Zambia and their importance**

Over time, the role of the State in the Zambian economy has been significantly reduced due to their continued poor performance in delivering goods and services to customers. As the result of a significant privatization program, 240 entities were privatized or liquidated since 1991. However, as in many countries, the past several years has seen changing political support for privatization in many countries. This was largely the result of several trends, including some very public privatization problems, particularly in the mining sector, and a drop-in number of easy-to-privatize companies. The remaining portfolio consists of companies that are either “strategic” (i.e. considered off-limits to the privatization process), or companies that have a variety of issues or problems that make them unattractive to private investors (Mwanawasa, 2016).

Today, SOEs continue to play an important role in the Zambian economy. SOEs in Zambia operate in a range of industries and include some of the largest formal sector employers. They dominate key sectors, including energy, communications, transportation, and media. SOEs also play a major role in finance and mining. Significant SOEs include Zambia Electricity Supply Corporation (ZESCO), Zambia Telecommunications Corporation (ZAMTEL), Zambia Postal Services Corporation (ZAMPOST), Zambia Railways (ZR), Zambian National Commercial Bank (Zanaco), Development Bank of Zambia (DBZ), Zambia National Broadcasting Corporation (ZNBC), and Zambia Consolidated Copper Mines-Investment Holdings (ZCCM-IH). The government is the sole owner of 26 companies, with 25 held at the national level. The government shares ownership in 14 SOEs (with a minority stake in 7) (Mwanawasa, 2016). Under current plans most of these companies will remain under state ownership for the indefinite future.

According to Armstrong (2015), a well-run state-owned enterprise can offer tremendous potential as a driver of inclusive economic growth and development in emerging markets. However, governing and managing SOE's well, represents a huge challenge not just for emerging markets but also for developed nations. In theory, many SOE's may have been for the benefit of the citizenry yet in reality many of these enterprises are only accountable to the political party in power. Furthermore, mixing ownership and regulatory roles can cause conflict of interest, for example a minister may make decision in the interest of their political party rather than the SOE.

### **2.1.1 The Industrial Development Corporation of Zambia and Its role**

The Industrial Development Corporation (IDC) was incorporated in January 2014 and is wholly owned by the government through the Minister of Finance pursuant to the Minister of Finance (Incorporation) Act Cap 349 of the Laws of Zambia. IDC's corporate Strategy for 2017 outlines its strategic focus and it is governed by principles such as active investor and shareholder, forward looking and institution trusted-steward. The President of the Republic of Zambia chairs all board meetings and has the power to appoint, reappoint, or remove Board members. The Board is accountable to the President to ensure that every disposal of investment is transacted at fair market value. The Board comprises Cabinet Ministers of Finance, Commerce Trade and Industry, and Agriculture [3]; civil servants [2], the Secretary to the Treasury and Permanent Secretary for Commerce Trade and Industry; private sector members [7] and Executive Directors of the IDC as ex-officio members [3] (KPMG, 2018).

The main role of IDC is to enhance industrial capability of Zambia thereby boosting economic growth and industrial development as well as to oversee the functions of state owned enterprises so that they deliver or operate effectively and efficiently (Mwanawasa, 2016). Although IDC may claim to have independent directors, this may be in name only as undue political influence is involved such that directors are given positions on the board based on their political connections rather than skill and expertise. This causes governance from the independent director's point of view so difficult to make informed and independent decisions. These governance challenges affect the industry performance.

## **2.2 The concept of Corporate Governance**

The show on the Organization for Economic Co-activity and improvement 2004(OECD) characterizes corporate administration in wording the connections between the associations executives, the administration and all partners.' In different discussions corporate administration has been characterized as a blend of the two procedures and frameworks used to direct and control associations just as making them responsible. Corporate Governance along these lines, can be taken a gander at as the manner by which firms practice their compelling in the stewardship of the organization's resources and assets with the point of augmenting investors' riches while mulling over of different partners with regards to SOCs (PSCGT, 1999).

In an increasingly intricate manner corporate administration is a mix of guidelines, practices and procedures by which associations are guided and controlled as they endeavours to adjust the enthusiasm of every one of their partners. As indicated by Bauer et al. (2004) corporate administration includes coordinating and dealing with the exercises of the association with the point of expanding the investors' riches while placing into thought other partners' inclinations.

Corporate administration may consequently be seen as the arrangement of decides and guidelines that oversee the partnerships' administration conduct every day. These principles incorporate individual hierarchical culture and different practices that enable it to keep up great administration rehearses even without solid checking foundations. The practices among others incorporate the accompanying; the partnership's directorate qualities, the possession structure of the organization, money related straightforwardness and data divulgence (Wasike, 2012).

### **2.2.1 Corporate Governance and Financial performance**

Financial performance alludes to the degree which an association accomplishes its money related objectives and targets. It essentially implies estimating the organization strategies and activities in money related terms. It is the general budgetary wellbeing proportion of an association that can be contrasted with another association with comparable attributes (Hales, 2005). As per Rutagi (1997) budgetary execution of an association is the way well that association is performing while Namis, (2002) characterized execution as the degree to which associations meets its objectives. This type performance is also measured in terms of solvency, profitability, liquidity, financial efficiency and how fast the organization repays its obligations (Brealey et al., 2009). The financial performance measure used for this study is the return on assets (ROA).

ROA measures how an organization converts its assets into earnings. It shows how efficient the management is using the organizations assets to generate revenues. Pandey (2010) states that corporate governance through the size of board can affect the financial position of the SOEs in two distinctive ways; the first way is that when the board size is big, more money is paid to the members of the board which as result will decrease the profitability of the state owned enterprises. The second way is that the financial position goes up when the board size is reduced. This therefore shows how important it is to have corporate governance managed effectively.

### **2.2.2 Corporate Governance and Firm Performance**

The financial achievement of an association isn't just subject to proficiency, advancement and quality administration yet additionally on consistence of corporate administration standards (Goel, 2018). Usage of corporate administration measures improves budgetary execution of the organization just as emphatically impacts interior proficiency of the organizations (Tadesse, 2004) in created economies. In any case, absence of straightforwardness and poor divulgence rehearses diminish viability of corporate administration system. However, worldwide money related emergency and major corporate embarrassments have fortified the value of good corporate administration structures in improving firms' presentation and manageability over the long haul (Ehikioya, 2009).

Corporate administration targets encouraging viable checking and proficient control of business. Its pith lies in reasonableness and straightforwardness in tasks and upgraded divulgences for securing enthusiasm of various partners (Arora and Bodhanwala, 2018). Corporate administration structures are relied upon to enable the firm to perform better through quality dynamic (Shivani et al. 2017). A more extensive definition given by Maier (2005) states that "Corporate administration characterizes a lot of connections between an organization's administration, its board, its investors and its partners." Good corporate administration "guarantees that enterprises consider the premiums of a wide scope of bodies electorate, just as of the networks inside which they work, and that their sheets are responsible to the organization and the investors" (Organization for Economic Cooperation and Developement, 1999). Corporate administration was initially evolved to ensure investor's advantage yet continuously it has picked up significance for different partners and society (Jizi, Salama, Dixon, Startling, 2014).

Corporate administration recognizes the job of executives and evaluators towards investors and different partners. Corporate administration is huge for investors as it builds trust in the organization for better quantifiable profit. For different partners like workers, clients, providers, network and condition, corporate administration guarantees that organization carry on in a dependable way towards society and condition (Kolk and Pinkse, 2010). In this way, corporate administration isn't just about board responsibility yet in addition incorporate parts of social and condition duty. Indeed a great deal of consideration has been given to corporate governance because of the conviction that corporate governance affects the performance of the organization, put distinctively firms with great administration usually perform superior to those that have none (Ozkan, 2007). This contention holds that the administration structure of an association influences its capacity to react to its outside condition which influences its presentation and along these lines great corporate administration is basic for any association (Brown and Caylor, 2004). Claessens et al. (2003) contends that a decent corporate administration structure benefits the association in effectively getting to modest financing in this manner expanding its presentation. They additionally contend that associations with frail corporate administration regularly result to terrible showing. Donaldson (2003) says that great corporate administration prompts an expansion in the financial specialists' certainty on the association and furthermore improves its market liquidity.

### **2.3 Determinants of the Financial Performance of State-owned Corporations**

Prior research by (Ozkan, 2007) has documented that corporate governance play a significant role in the financial performance of SOCs. Consequently, the performance of SOCs to a greater extent reflects the performance of a nation. Several determinants have been used by different scholars to determine the financial performance of a firm. Guzeh (2012) looked at board size, multiple directorship and ownership structure while (Njuguna, 2012) looked at the independence of directors, independence of committees, board size, duality problem and board meetings. This research focused on four governance attributes; board size, board composition, independence of committee's CEO duality and the size of the firm.

#### **2.3.1 Board size and Firm Performance**

Yermack (1996) states that small board size of executives are powerful, and that organizations with small size accomplish higher market esteem. Supporting the adequacy of little board in

improving firm execution observational ponders (Mak and Li, 2000; Cheng, 2008; Guest, 2009) report that enormous board size is connected to low firm execution and high income the executives. As opposed to the viability of smaller board size, different examinations accept that bigger board sizes furnish firms with better checking as they for the most part have additional time and experience than smaller board sizes (Monks and Minow, 1995; Uadiale, 2010). Reddy et al. (2010) bolster this affirmation showing that board checking is legitimately connected with bigger board size because of their capacity to share outstanding burden over a more prominent number of executives. Enormous sheets are firmly identified with lower levels of profit the board (Peasnell et al., 2000; Bedard et al., 2004; Xie et al., 2008).

Further research on the impact of body size on firm execution has reported blended perspectives from different researchers. The greater part of the researchers discovered that there is a negative connection between the money related execution of a firm and its body size, (Lipton and Lorch, 1992; Yermack, 1996; Sundgren and Wells, 1998). These researchers contend that such a large number of individuals on a board may make organization better, and a few individuals might be viewed as free rider without relating effect to pertinent basic leadership. They hold the idea that bigger boards are disadvantageous and costly to the firm.

### **2.3.2 Board composition and performance**

Board composition is important in the performance of State Owned Enterprises because collectively they are responsible for choosing company's direction in regard to achievement of company's defined goals. Furthermore, John and Senbet (1998), states that expanding in the quantity of Non-official chiefs in the board builds the board's independency. Ochola (2013) discovered that extent of insider to untouchable executives adversely influences the Return on Equity (ROE). Sheppard (1994) contend that non-official executives expands the adaptability of the board towards outer ecological changes a significant motivation to corporate decay. Non-official chiefs generally will act towards amplification of investor's premium in this manner protecting the proprietors from supervisors' personal circumstances. The board should be composed in such a manner that ensures proper balance of power such that no individual can determine the finality in decision making.

### **2.3.3 Independence of committee and firm performance**

Autonomy alludes to being uninfluenced by other invested individuals or being free from any sort of impact that would confine anybody from going in the correct direction. It is the capacity to remain steadfast without yielding to improper impacts and along these lines have the option to settle on the choices given an issue (CMA, 2002). The directorate inside the order of Articles of Association (AOA) can assign its capacities to free panels made up of board individuals or potentially administrative staff whose activities will tie on them. These boards of trustees may include: Audit council, Ethics Committee, Nomination Committee, Remuneration and Corporate Governance Committee e.t c relying upon numerous elements of the association.

As indicated by Klein (1998) and Senbet (1998) free checking boards of trustees are progressively viable in their commands. Shivdasani and Yermack, (1999) discovered that responses on arrangement of autonomous chiefs on securities exchange are progressively positive if the procedure saw free of any obstruction from the CEO.

### **2.3.4 Firm Size**

Firm size has consistently been related with firm execution. This is on the grounds that greater firms have the bit of leeway to broaden their tasks so as to increase a preferred position over little firms. Bigger firms likewise have the favourable position to purchase on huge scale profit extraordinary amount limits and in this way decreasing the unit cost of creation which thusly brings down the deal cost not at all like little firms. Bigger firms additionally have the capacity of utilizing praiseworthy HR that can support the exhibition of the firm (Penrose, 1959). As per Majocchi et al. (2005) individuals give little firm a higher danger of observation than bigger firms due to the restricted assets like labour, access to capital in addition to other things the way that their economies of scale are a lot of lower than those of contending bigger firms.

## **2.4 Corporate governance reforms and firm performance**

Corporate governance is viewed as a noteworthy variable affecting development possibilities of an economy since best administration rehearses lessen chance for speculators, improves money related execution and aides in drawing in financial specialists (Spanos, 2005). Monda and Giorgino (2013) report better corporate administration brings about higher market valuation and ROA for organizations recorded in France, Italy, Japan, UK and US. Cheung et al. (2010) affirm that organizations which have received corporate administration changes seem to have better



hazard return exchange off for financial specialists in Hong-Kong securities exchange. Bae and Goyal (2010) locate that great corporate administration practice embraced by Korean firms have brought about improved value added performance and possession of assets in organizations. Yang, and Yang (2012) express that improved corporate administration revelations by US firms help in diminishing expense of value. Botosan (2006) additionally validated in a broad writing survey that appropriate exposure of budgetary detailing and corporate administration rehearses help in diminishing the expense of value capital. There have been a couple of studies which negate the previously mentioned discoveries. For example, Bhagat and Bolton (2008) find corporate administration measures not related to future financial exchange performance for NYSE recorded firms while Roodposhti and Chashmi (2010) report a negative relationship among's possession and autonomous board and income of the organizations in Iran.

#### **2.4.1 Corporate governance reforms on different sectors**

There is a huge effect of corporate administration on firm execution in material part (Ashraf et al. 2017) and in Banking and Financial administrations division (Arif and Syed, 2015) in Pakistan. While looking at changed divisions, Banking, Insurance and Service segment organizations recorded in Amman stock trade perform better after the presentation of corporate administration changes in Jordan (Mansur and Tangl, 2018). Jizi et al. (2014) discover board autonomy and board size fundamentally identified with improved CSR exposures for banking part in US. Okoye, et al., (2016) report a huge effect of corporate administration on banking part in Nigeria. Palaniappan and Rao (2015) report critical effect of corporate administration exposures on firm execution for assembling organizations taking just one organization from ten unique areas in India.

Numerous investigations have been led trying the effect of corporate administration on firm execution taking a lot of recorded organizations in shifted stock trades across various economies. Gompers et al., (2003) report better represented firms recorded in New York Stock Exchange (NYSE) show higher market valuation and low consumption. Bauer et al. (2004) uncover similar outcomes for organizations in Financial Times Stock Exchange (FTSE), Eurotop 300 file giving higher stock returns and improved firm valuation for the better administered organizations. Studies on US recorded firms additionally feature positive connection between corporate administration rankings and Tobin Q (Klapper and Love, 2004; Durnev and Kim, 2005).

Comparable discoveries are likewise revealed in examines directed on Italian (Abatecola et al., 2012) and Swiss (Beiner et al., 2006) firms which affirm that corporate administration has a huge measurable relationship with corporate execution factors like Return on Capital (ROC), Return on Assets (ROA).

## **2.5 Review of similar studies**

Kalungu (2008) did an investigation on the effect of corporate administration practice on money related execution of the business banking industry in Kenya. The examination depended on a multi-year time frame between years 2006 to 2010 and was an enumeration of all the bank's in Kenya. The discoveries of this examination show that there exists is a constructive outcome of corporate administration on the budgetary exhibition of banks. It additionally uncovered that there is a positive relationship between creation of executives and the money related execution of Kenya business banks. As per relapse examination aftereffects of this investigation both board structure and board size influence the money related execution of the bank. The board creation property decidedly influences the ROA while board size negatively affects ROA. From this examination there was no duality in all banks aside from one.

Otieno (2010) contemplated the impact of corporate administration on the exhibition of organizations recorded at the Nairobi Securities Exchange (NSE), discovered that there is a positive connection among execution and board arrangement, administration exposure issues, investor rights and pay.

Opiyo (2011) did a research on connection between Corporate Governance and budgetary execution of SOEs in Nairobi, Kenya. The example size was of this examination was ninety-eight Sacco's from a complete populace of one hundred and thirty-one. The administration traits analysed under this examination were number of executive gatherings, sexual orientation board synthesis, CEO duality and the review advisory group which were autonomous factors. The needy factors utilized this examination were the arrival on resources and profit for speculations' while the investigation was finished utilizing relapse examination. The examination discoveries show that there exists no noteworthy impact of corporate administration on return on resources, however found a huge relationship between corporate administrations utilized in the investigation with return on speculations. Among the administration qualities, the investigation discovered that review advisory group recorded the most noteworthy positive connection with

return of ventures' while number of executive gatherings enrolled a negative association with ROI.

Maranga (2012) did an examination on the impact of corporate administration on money related execution of little and medium ventures in Nairobi County, Kenya. In particular, the examination analyzed presence of the different corporate administration rehearses in the inspected SMEs in Nairobi County, for example, CEO duality, size of the board, number of board sub-councils, and number of subcommittee gatherings and size, age of the SMEs and how they influence their money related execution. The populace incorporated all the SMEs in Nairobi County working as at 30th December 2013 and an example from every classification of business was recognized and used to gather data. Utilizing essential information gathered utilizing the polls and dissected utilizing a different straight relapse model, the investigation uncovered the accompanying. There is a critical solid connection between the SME's money related execution and corporate Governance. The quantity of Board gatherings, number of board sub-committees' gatherings, and the measure and age of the SMEs were found to altogether influence the money related execution of SMEs in a positive bearing. The CEO duality was anyway noted to be normal in many SMEs.

Akeyo (2012) in his investigation on the impact of corporate administration on execution of International Non-Governmental in Somalia found a positive connection between corporate administration and their presentation. The goal of his examination was to build up the corporate administration rehearses and their effect on execution. The investigation discovered that the vast majority of the INGOs rehearsed different administration rehearses. The examination broke down every one of the four corporate administration rehearses (review council, straightforwardness and exposure, executive gatherings, board estimate and board arrangement) independently and every one of them together. Independently, the investigation uncovered that, there is a positive relationship between corporate administration and execution of the INGOs.

## **2.6 Theoretical framework**

A theory is a framework for clarifying a lot of marvels that indicates the key ideas that are usable in the wonders and the laws that relate the ideas to one another (Torraco, 2014). Dubin (2016) characterizes hypothesis as an endeavour of man to display some part of the exact world. The hidden intention in this demonstrating is (1) that this present reality is so intricate it should be

theoretically rearranged so as to get it, or (2) that perception without anyone else doesn't uncover requested connections among observationally identified elements. A theory, in this way, attempts to bode well out of the detectable world by requesting the connections among components that comprise the scholar's focal point of consideration in reality (Dubin, 2016). Below are the theories considered to be appropriate for this research.

### **2.6.1 The resource dependence Theory**

Asset reliance hypothesis was first contributed by Penrose (1959) with Chandler (1962) making huge commitments to it. These researchers contended that hierarchical assets are basic and essentially influence the organization execution by making an upper hand over different firm. Jonson et al. (1996) says that the hypothesis depends on the possibility that outer chiefs to the organization carry important skill to the association. As indicated by him the association fundamentally benefits for nothing out of pocket or at lower expense the ability that it would some way or another generously compensated for to get. For instance, an outside chief who is a legal counselor offering free lawful exhortation to the firm.

Hilman et al. (2000) says that executives assume a significant job in getting to assets that are basic to the firm through their linkages to the outside condition. As per his contention chiefs selected to the firm ought to be based on what favourable position are they bringing to the firm. Harmony et al. (2012) contend that it is in the organizations chiefs that hierarchical intensity can be accomplished and supported while Eisenhardt and Martin (2000) include saying that an association must be aggressive if its assets are significant, exceptional as in can't be duplicated and non-substitutable. This theory is relevant to this study in the sense that it gives an understanding of how important resources such as finances to the organization hence the need to have the firm use those resources at its disposal wisely.

### **2.6.2 The Stewardship Theory**

This hypothesis was first added to by Donaldson and Davis (1991). As indicated by this hypothesis troughs are reliable people who are propelled by accomplishments and opportunity supported to them in running the issues of the association. Along these lines' troughs will consistently endeavour to boost the investors riches by ensuring they register most extreme benefits in the association. As indicated by Donaldson (2015) official chiefs perform superior to non-official executives since they comprehend the hierarchical issues in a more extensive range

than their partners. Pfeffer (2012) includes that outer chiefs have more impact on different partners of the association than on investors. They will for instance ensure that the association pursues all guidelines overseeing it to guarantee endurance and going concern. Argyris (2014) takes note of that nearby checking supported for in the office hypothesis to determine struggle can't be applied to this hypothesis since it will dissolve administrators' opportunity in basic leadership along these lines disheartening them in their work therefore won't expand the estimation of the association.

Stewardship theory's relevant to this research is on the basis that a company's performance may not be affected by the alterations in the roles of the directors both outside and inside the firm hence in such a case, stewardship theory comes into force.

### **2.6.3 The Agency Theory**

Agency theory was created by Berle and Means (1932) and turned out to be broadly acknowledged when Jensen and Meckling (1976) planned the office issues in the administration of firms. As per this hypothesis directors some of the time demonstrates to their greatest advantage instead of in light of a legitimate concern for the investors of the association. Jensen and Reeback (2003) contend that administrators will on occasion utilize overabundance incomes for their very own needs as opposed to expanding the investors' riches. Himmelberg (1999) says that office issue results when their laxity in the supervision of the supervisor's exercises by the proprietors of the association who are the investors. They add that answer for office issue is to give troughs shareholding in the organization as a method for realigning their inclinations to those of the investors of the association. Grawal and Knoeber (2016) express that notwithstanding giving value stake to administrators, utilization of obligation financing is likewise an answer for organization issue. To them they utilization of obligation will move the supervision job or rather share it with the moneylenders of cash who will consistently screen the activities of the chiefs to guarantee that their speculation choices are gainful enough to take care of their credit with premium. Jansen (2013) likewise accepts that organization cost, for example, review of administrators' work can likewise altogether limit the contention.

The agency theory is important to this study as it explains the roles of directors in relation to management. It gives exclusive insights into corporate systems, outputs, incentives and risks. It also helps settle any problem that might arise between the principals and the agents.

#### **2.6.4 The Stakeholder Theory**

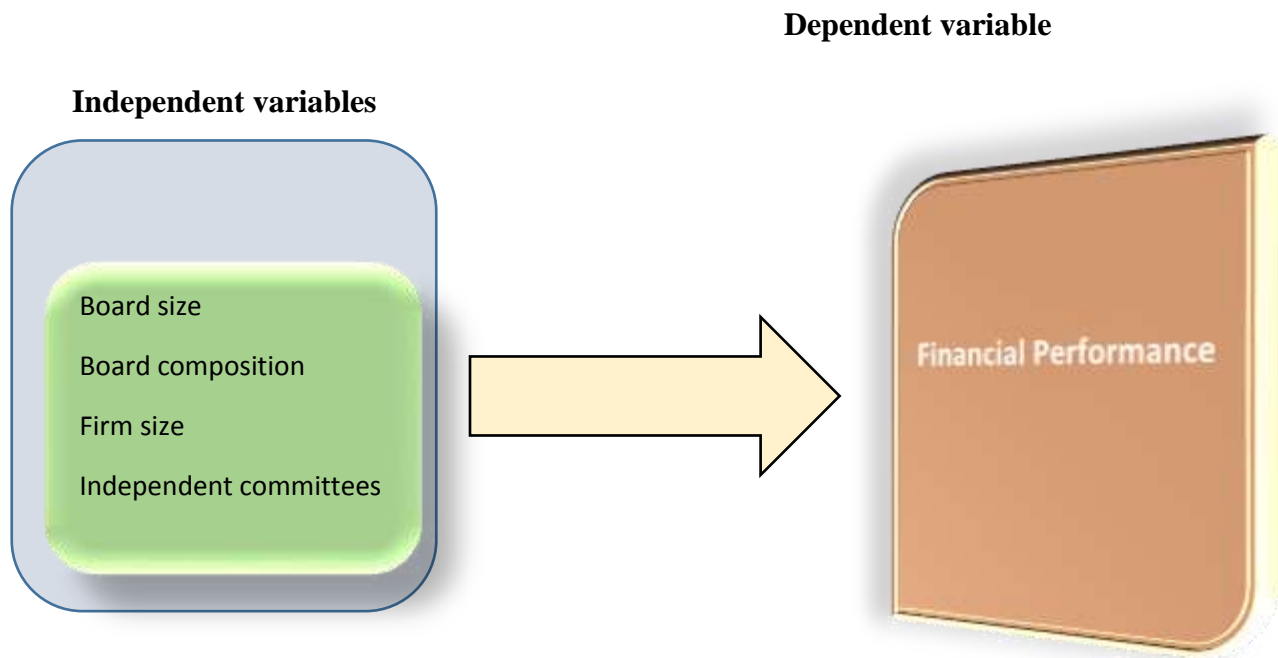
This is a hypothesis created by Freeman (2014). In his view the firm has a more extensive target of amplifying the abundance of all partner as opposed to simply investors. He supported for Corporate Social Responsibilities (CSR) by the association a theme that would hit the corporate world numerous years after the fact. Clarkson (2014) include that it is the obligation of the firm to engage every one of its partners who give and control assets to it by transforming their stake in the firm into esteem. Keasey (2017) underpins the hypothesis by contending that moral treatment of all partners will profit the association due to more grounded trust relationship that will be created among partners. As indicated by Blair (2015) associations ought to realign their targets of amplifying the investors' advantages with those of outside latent investors (different partners) who likewise add to the presentation of the association by giving them proprietorship like motivating forces. A thought bolstered by Freeman et al (2004) who said that objective of the organization ought to be to prospering the organization together with the entirety of its key partners.

This theory is relevant to this study in that it emphasizes or makes firms to make enhanced proper decision making processes that protect the interest of all the stakeholders. In addition, this theory helps SOEs understand that they can attain stability when the interests of both the internal and external stakeholders are met through proper stakeholder engagement mechanisms.

#### **2.7 Conceptual framework**

A conceptual system is a structure which the researcher accepts can best clarify the regular movement of the marvel to be contemplated (Camp, 2001). It is connected with the ideas, experimental research and significant hypotheses utilized in advancing and systemizing the information upheld by the researcher (Peshkin, 2013). It is the researcher's clarification of how the examination issue would be investigated. The reasonable system exhibits a coordinated method for taking a gander at an issue under study (Liehr and Smith, 2009). In a factual point of view, the applied structure portrays the connection between the fundamental ideas of an investigation. This is a conceptual scheme in which the researcher manipulates the independent variable to achieve certain goals (Mugenda and Mugenda, 2003). For the case of dependent variable, the researchers use it to show how it is influenced by the changes or variability of independent ones.

## Conceptual Model



**Figure 2.1. Conceptual framework**

**Source: Author 2019**

### 2.8.1 Hypotheses

Two tailed T-test will be performed to test the significance of the coefficients on the hypothesis

#### **Hypothesis 1:**

Ho<sub>1</sub>: There is a relationship between Board size and Financial Performance of SOEs in Zambia.

Ho<sub>2</sub>: There is a relationship between Board composition and financial performance of SOEs in Zambia.

Ho<sub>3</sub>: There is a relationship between Firm size and financial performance of SOEs in Zambia.

Ho<sub>4</sub>: There is a relationship between Independent committees and financial performance of SOEs in Zambia.

### 2.9 Chapter Summary

There is proof from the different observational examinations looked into that corporate administration rehearses have an effect on the budgetary presentation any of organizations.

Anyway, the degree of relationship differs from one association/industry to another. It is additionally noted from the survey that having the CEO and administrator of the board as one individual makes it hard to evacuate a non-performing CEO consequently decreasing the adaptability of the board in tending to execution decays. The examinations likewise uncovered that little size board size is by all accounts progressively viable as it will in general utilize board individuals whose aptitude are required by the firm in a powerful way instead of countless board enrolment which may breed inadequacy and may give extra cost to the firm without a comparing efficiency level as the issue of free rider may exist. The survey likewise uncover that sheets are progressively autonomous when the quantity of non-official executives increments. On the issue of autonomy of councils, the survey shows that the nearness of autonomous board advisory groups, for example, the review panel brings to the association more oversight. This chapter also talked about the significance of hypothetical and reasonable systems in an exploration. It has given enough justifications on why their incorporation in an exploration is crucial in light of the fact that they elevate the nature of an examination. Additionally, it has completely clarified the implications of the two systems, their unmistakable jobs that they play in the exploration procedure, their disparities, how they are developed and where they should be exhibited in an exposition or theory examine review. Specialists and understudies should carefully join hypothetical and additionally theoretical structure in their exploration asks to expand their power in the entirety of its perspectives.



## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter introduces the strategy applied in accomplishing the planned objective of this research. The chapter looked at the research design (section 3.2), population of the study (section 3.3), sampling design (section 3.4), research approach (section 3.5), data collection (section 3.6), data analysis (section 3.7) and validity and reliability of data (section 3.8).

### **3.2 Research design and approach**

Descriptive research design was used in this research. The suitability of this plan was that it enabled the researcher to utilize quantitative information in attempting to build up the impact of corporate administration on the money related execution of SOEs in Zambia. Descriptive survey structures was utilized by the researcher to assemble data, abridge, display and translate it so as to get more explanation on issues. This investigation along these lines had the option to sum up the discoveries to the entire populace of study. The Quantitative methodology was utilized in this research. This approach does help accumulate information in a numerical structure which can be placed into classes, or in rank request, or estimated in units of estimation (Denzin, 2014). This kind of information can be utilized to build diagrams and tables of crude information.

### **3.3 Population of the Study**

Saunders, Lewis and Thorn (2003) refers to population as a gathering of individuals, articles, people or things on which an example is separated for investigation and from which speculation can be made of the entire population. The population of this study consisted of all the 33 SOEs in Zambia. The employees in top management in SOEs formed the target population for this study because they were considered to be well vested on corporate governance matters and therefore well placed to properly answer the questionnaire.

### **3.4 Sampling design**

There are basically two types of sampling methods, namely; probability sampling and Convenient sampling (non-probability sampling). Probability sampling involves each individual firm in a sample having an equal chance of inclusion (Bryman, 2018). Convenient sampling (otherwise called accessibility testing or non-probability sampling) is a particular sort of non-likelihood inspecting strategy that depends on information assortment from populace individuals who are advantageously accessible to take an interest in study. Facebook surveys or questions

can be referenced as a well-known model for comfort testing. Convenient sampling is a sort of testing where the most readily accessible essential information source will be utilized for the exploration without extra prerequisites (Dawson, 2013). As it were, this examining technique included getting members from any place you can discover them and ordinarily any place is helpful. In accommodation examining no incorporation standards distinguished preceding the determination of subjects. All subjects were welcome to take an interest. The researcher selected 165 respondents in management positions from the 33 SOEs for the study. Simple convenient sampling was applied in selecting 5 top management's respondents from each of the 33 SOEs. Convenient sampling was done based on the fact that the needed respondents were those holding management positions.

### **3.5 Data Collection**

The study used both primary and secondary data. Secondary data on financial performance, corporate governance and firm size was obtained from the financial statements and other annual published reports for the five year period. The primary data was collected by use of structured questionnaire using the Likert Scale. The targeted respondents in this study were; board members, managers and senior staff of the sampled SOEs. This is because they were involved in the management of the organizations and have a broad understanding of the affairs of the organizations.

### **3.6 Data Analysis**

Once the data is collected using questionnaires, the researcher did clear and validate the data for analysis. Descriptive analysis of quantitative data was done using MS excel and SPSS.

#### **3.6.1 Analytical Model**

An Analytical model is principally quantitative or computational in nature and speaks to the framework regarding a lot of numerical conditions that indicate parametric connections and their related boundary esteems as an element of time, space, or potentially other framework boundaries (Mugenda and Mugenda, 2013). This is normally done by demonstrating the fundamental marvels to anticipate or evaluate how well the framework performs or other framework qualities. The investigation looked to set up the connection between corporate administration as an informative variable and ROA as a needy variable.

The condition used to set up the relationship was as per the following model cited by Kotler (2003):

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

Where;

Y = Financial execution estimated by ROA.

$\beta_1, \beta_2, \beta_3$ , speak to the co-efficient of corporate administration and  $\beta_4$  firm size

X1 = Firm size =log (Total Assets)

X2 = Board size (Measured by the quantity of executives sitting in a board)

X3 = Independent advisory groups (Measured by the quantity of boards of trustees in the association)

X4 = Board composition (Measured by the extent of insider executives to outside chiefs)

$\alpha$  = Constant term speaking to different factors other than the above corporate administration which are not characterized in the model.

e = Error term

### **3.6.2 Inferential Statistics**

F – Test (ANOVA-examination of difference) and t-test were used at 95% certainty level to set up the measurable hugeness of the entire model and the centrality of the free factors as per Kotler (2003). As per Kotler (2003), the intention was to guarantee that no multi co-linearity existed between the factors with the point of remembering them for the various relapse investigation just as deciding the ones that had noteworthy impact on ROA the money related execution measurement utilized in the examination.

### **3.7 Validity and Reliability of Data**

Legitimacy of an exploration instrument is concerned about the precision with which the instrument estimates what it should (Mugenda and Mugenda, 2013). This investigation utilized a poll and tests its legitimacy by utilization of substance legitimacy, which is a procedure of consistent examination that includes cautious and basic assessment of things in the exploration

survey. A couple of supervisors from chosen SOEs were given the polls to take care of so as to guarantee that they convey legitimate content.

The exploration questionnaire was utilized in this examination to give dependable data that was utilized in basic leadership. It ought to in this manner have the option to create similar outcomes whenever utilized by different researchers. To decide the dependability of the exploration poll, a pre-trial of the equivalent was done among few SOEs.

### **3.8 Ethical Consideration**

This exploration likely raised a great deal of moral contemplations as it included disturbance of individuals in their very own normal living space. Research that includes other individuals disturbs or mediates with their own ordinary exercises. The respondent's names were not composed on the questionnaires and the data that was gathered was treated with exacting classification. This is as per the Academy of Management Code of Ethical Conducts which expresses that, it is the obligation of a specialist to save and ensure the security, poise, prosperity and opportunity of research members. This obligation requires cautious research structure and educated assent. This implies disclosing to potential research members the nature and motivation behind research so they can pick uninhibitedly whether to get included (Bryman, 2018). In accordance with the above implicit rules and so as to accomplish things right and maintain worldwide best practice, the study consented to deliberate cooperation as no member was forced to take part in the study.

### **3.9 Limitations of the study**

Most of the respondents were hesitant in responding to the questionnaire thinking that the information given will be used for other purposes since SOEs mirrored with politics hence the collection of data too longer than anticipated. The findings generated as a result of the research are not themselves conclusive as the study cantered only on the four attributes of corporate governance which were firm size, independent committees, board size and board composition deemed necessary for this research by the researcher. Therefore caution should be exercised because performance of SOEs does not solely depend on the four attributes used in the research. Given the fact that the researcher is an employee and not full a time student, allocating time to school related things like this research was a very big challenge. However, these limitations did not any way affect the quality of this research.

### **3.10 Chapter Summary**

The chapter looked at among others; research design and approach, population of the study, sample design, data collection instruments, validity and reliability of the data, ethical consideration when doing the study and finally the limitations encountered when doing the research. The next chapter looks at the data analysis and discussion of the findings.

## CHAPTER FOUR: RESULTS AND DISCUSSION

### 4.1 Introduction

This chapter comprises data analysis, presentation and discussion of the findings. The data presented includes response rate, background information of the respondents and a presentation of the findings against each individual objective of the study. The analysed and presented data was built on the responses to the items contained in the questionnaires. Descriptive statistics are equally used in analysing the results of this research.

### 4.2 Response Rate

The study issued 165 questionnaires to the 33 State Owned Enterprises. From the 165 questionnaire, 125 were completely answered and returned to the researcher, 9 were partially filled and 30 questionnaires were not returned. This gave a response rate of 75.76% as presented in table 4.1.

**Table 4.1: Response Rate**

Questionnaires	Frequency	Percentage
Returned fully Answered	125	75.76
Returned partially Answered	9	5.45
Unreturned	30	18.79
<b>Total</b>	<b>165</b>	<b>100</b>

### 4.3 Demographic information

#### 4.3.1 Gender of the respondents

The study sought to establish the representation of either gender in this area. Data as regards the gender of the respondents was accordingly collected, analysed and presented in the table 4.2.

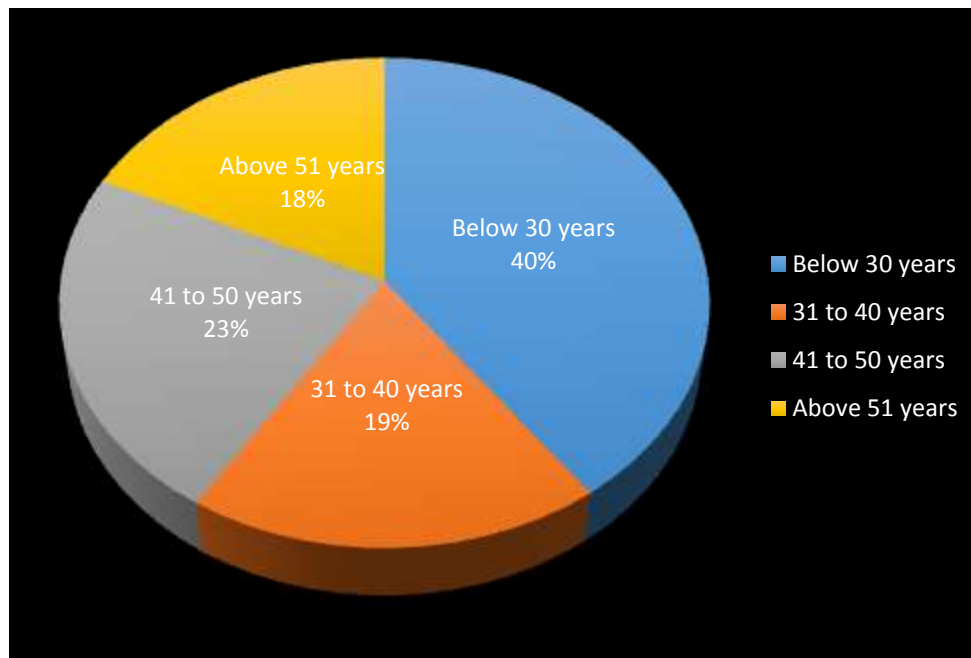
**Table 4.2: Gender of the respondents**

Gender	Frequency	Percentage
Male	78	62.4
Female	47	37.6
<b>Total</b>	<b>125</b>	<b>100</b>

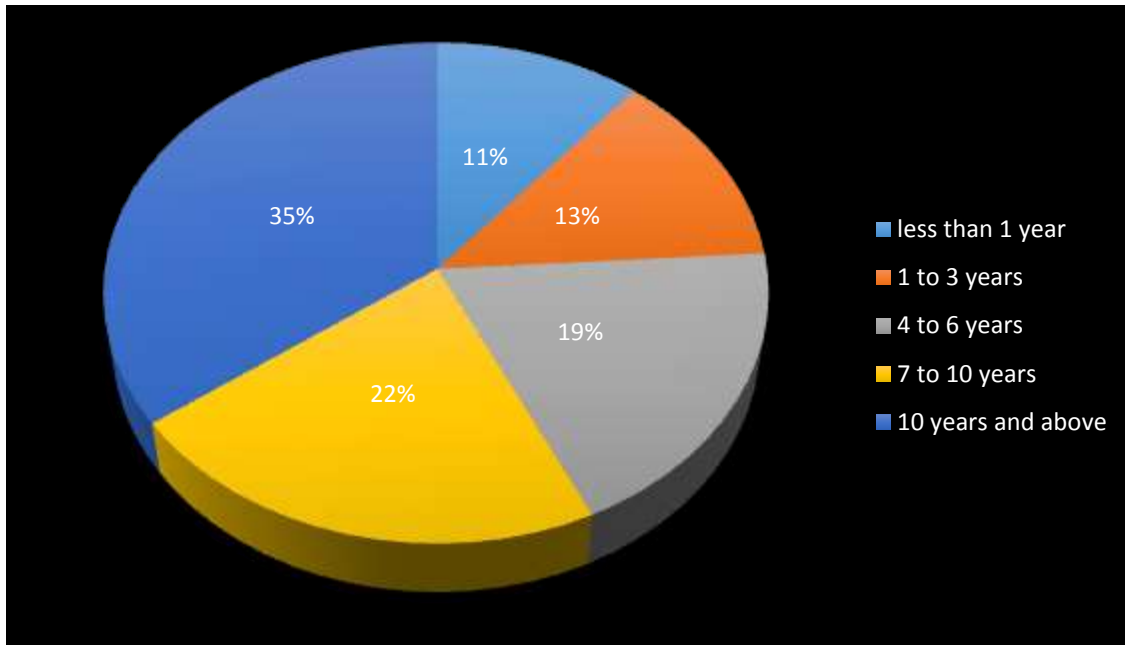
The findings of the research as shown in table 4.2 suggest that seventy eight of the respondents accounting for 62.4% of the respondents were male while forty seven of the respondents representing 37.6% of the respondents were female. This implies that SOEs in Zambia has more male involvement than female.

#### **4.3.2 Age range of the respondents and experience in the industry**

The research gathered information on the respondents' age and period of familiarity within the industry as a display of their level of experience whereby 40% of the respondents were below the age of 30 years, 19% were between the age of 31 to 40 years, 23% were between 41 to 50 years and 18% of the respondents were above the age of 51 years. This means that SOEs in Zambia have a youthful work force ideal for enhanced productivity as presented in figure 4.1.



**Figure: 4.1: Age of respondents**



**Figure: 4.2: Work experience of respondents**

In regards to experience in the industry, 11% of the respondents had been in the industry for less than 1 year, 13% had an experience of between 1 to 3 years, 19% had familiarity of between 4 to 6 years, 22% an experience of between 7 to 10 years. Finally, the majority of the respondents account for 35% of the respondents had an experience of 10 years and above. Maina (2017), Knowing work experience of the respondents is important in accessing the credibility of the information being given by them and also it is important to the researcher's validation of the information given. In other words, it gives confidence to the researcher that the respondents in the research are knowledgeable about what is being asked of them as presented in figure 4.2.

#### **4.3.3 Respondents level of education**

The researcher as well sought to establish the level of literacy of the respondents as was represented by the degree of their highest formal education. The research sought to establish facts on this particular phenomenon as an indication of the respondents' individual capabilities of understanding and responding to the contents of the questionnaire. The findings to this were analysed and presented as captured in table 4.3.



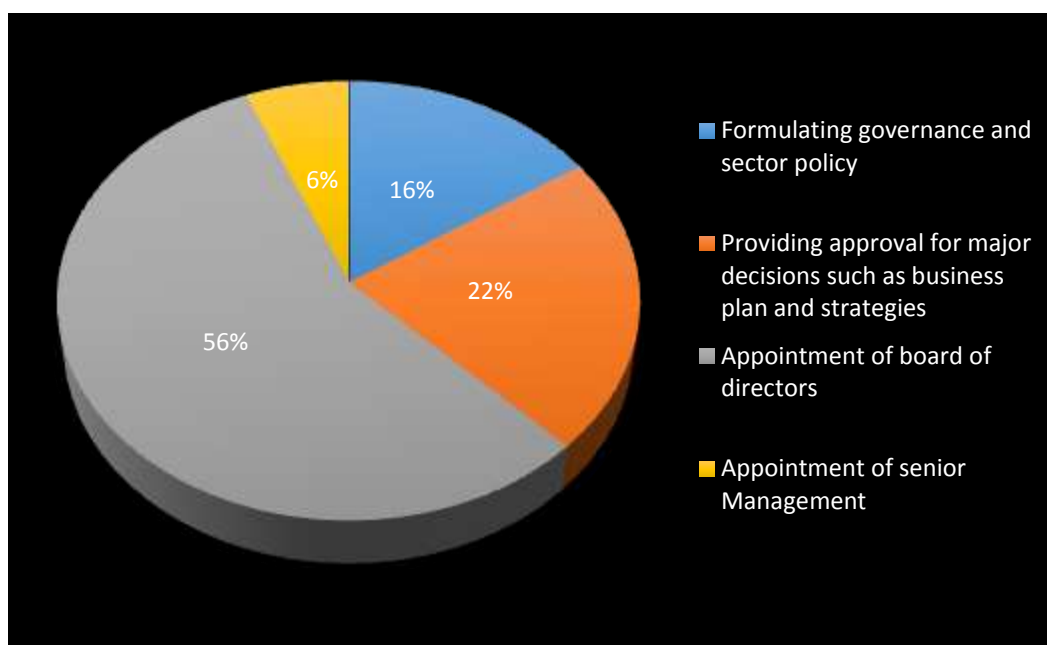
**Table 4.3: Respondents Level of Education**

<b>Qualification</b>	<b>Frequency</b>	<b>Percentage</b>
Certificate	31	24.8
Diploma	44	35.2
Degree	28	22.4
Masters	14	11.2
PhD	8	6.4
<b>Total</b>	<b>125</b>	<b>100</b>

Table 4.3 suggest that 24.8% of the respondents had their academic qualification at certificate level and Majority of the respondents accounting for 35.2% were diploma holders; degree holders accounted for 22.4% of the respondents, 11.2% had master's degree while 6.4% had PhDs. This indicated that a large number of the respondents who are employed by SOEs in Zambia their formal level of education at diploma level and below an indication that a majority of the population in the Zambia had an opportunity to advance their academic scales to higher levels in order to secure formal employment. The research discovered that most of the Bachelor's, Master's and PhDs holders were either managers or directors which meant that the sector engaged professionals as employees or in elective positions. These results are in line with Yang and Cheng (2009) who found that most key positions in SOEs in China were held by people with Bachelor's, Master's and PhDs.

#### **4.3.4 Respondents management level**

The research gathered information on the respondents' management level whereby 45% of the respondents occupied lower management positions, 28% occupied middle management level, and 17% of the respondents occupied top management level and 10% occupied other positions such as managing directors. The level of management implies that the respondents have access to the information needed by the researcher hence this makes their answers to be reliable. This information is illustrated in figure 4.3.



**Figure: 4.3: Respondents management level**

#### 4.3.5 Organization Ownership Structure

The researcher as well sought to establish who owns and controls these SOEs in Zambia. The research sought to establish facts on this particular phenomenon as an indication of the majority of stake ownership in these SOEs. The findings to this were analysed and presented as captured in table 4.4.

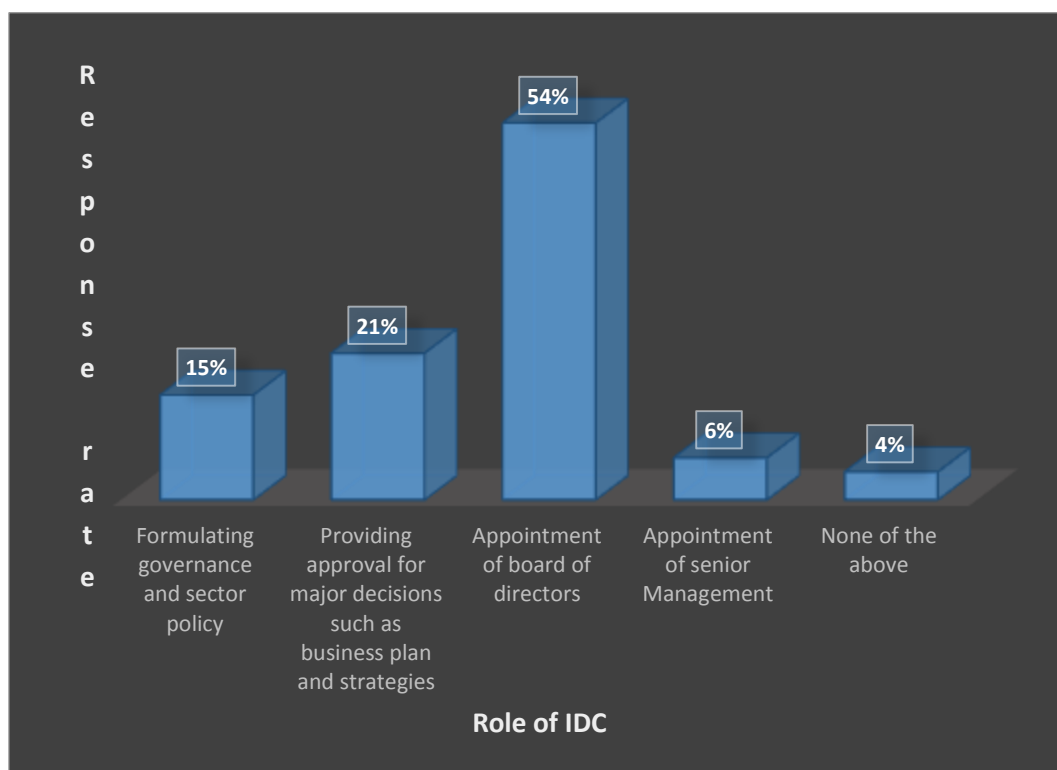
**Table 4.4: Organization Ownership Structure**

Organization Ownership Structure	Frequency	Percentage
Government is the largest shareholder and substantial voting	57	45.6
Government and two or more institutional shareholders control the organization	33	26.4
The organization is wholly owned by the government	19	15.2
The organization is mainly owned by investors/ financial institutions	16	12.8
<b>Total</b>	<b>125</b>	<b>100</b>

Table 4.4 suggest that majority of the respondents accounting 47.6 % stated that in their SOEs, Government is the largest shareholder and substantial voting level, 26.4% stated that Government and two or more institutional shareholders control the organization, 15.2% of the respondents stated that the organization is wholly owned by the government while 12.8% of the respondents said that the organization is mainly owned by investors/ financial institutions. The results therefore show that in Zambia, SOEs largest shareholder is the government. The findings are in line with Yang and Cheng (2009) found that Government of China had the largest shareholding in all SOEs in China.

#### 4.3.6 The role IDC play in the organization

The researcher as well sought to establish the role which IDC plays in these SOEs in Zambia. The findings to this were analysed and presented as captured in figure 4.4.



**Figure: 4.4: IDC's role in SOEs**

As suggested in figure 4.4, 15% of the respondents said that IDC in their organization is responsible for Formulating governance and sector policy, 21% said that providing approval for major decisions such as business plan and strategies is the role being played by IDC. Majority of

the respondents accounting for 54% stated that IDC is involved in appointing board of directors in their SOE. 6% of the respondents said that IDC is the one involved in appointing senior management staff while 4% of the respondents said that IDC is not involved at all in their organisation. This implies that in Zambia IDC is involved very much in the operations of State Owned Enterprises.

#### 4.4 Descriptive statistics for the objectives

The analysis of the study variables was done according to the responses obtained from the research as per the research questionnaire. The variables were assessed based on a Likert scale analysis which rated each of the statement based on the level at which the respondents agreed with it where 1= strongly disagree, 2 = disagree, 3 = neutral, 4 = agree and 5 = strongly agree.

##### 4.4.1 Effect of the Board Size on the Financial Performance of the SOEs in Zambia

**Table 4.5: Effect of the Board Size on the Financial Performance of the SOEs in Zambia**

Description	N	Mean	Std. Deviation	Skewness	Kurtosis
	Statistic	Statistic	Statistic	Statistic	Statistic
Top management staff that is bigger in size may need to manage more clashes among board individuals and in this way experience issues arriving at accord.	125	3.09	1.149	-.100	-.406
Large boards are disadvantageous and expensive to the firm	125	2.97	1.217	.037	-.929
Too many members on a board may create agency problem	125	2.93	1.120	.024	-.521
Huge boards improve board execution by diminishing CEO mastery of the board.	125	2.79	1.303	.294	-.975
Small boards may not have the necessary experience and expertise to run the affairs of organisation	125	2.77	1.367	.304	-1.158
Bigger boards advantage firms by giving powerful oversight of the executives and accessible important assets with the goal that bigger boards may help in improving execution of an association	125	2.66	1.314	.263	-1.006
Valid N (list wise)	125				

From the study findings in table 4.5, it was found that top managerial staff that is bigger in size may need to manage more clashes among board individuals and, in this way, experience issues arriving at an agreement in SOEs as was indicated by an average ranking of 3.09 with a standard deviation of 1.149. As to whether larger boards are disadvantageous and expensive to SOEs, the study found that they were adding to costs as indicated by an average ranking of (mean = 2.97) in table 4.5. The results are line with the findings of Lipton (2012) who found a negative relation between board size and financial performance of SOEs in Kenya. On whether too many members on a board may create agency problem, the study established that many members on board moderately creates agency problems as shown by a mean of 2.93.

As to whether Boards improve board performance by diminishing CEO mastery of the board, the study discovered that doesn't improve board execution as shown by a mean of 2.79. However, the study also found that small boards may not have the necessary experience and expertise to run on the affairs of organization as indicated by an average ranking of 2.77. Lastly, the study found that Bigger Boards does not advantage firms by giving powerful oversight of the executives and accessible important assets with the goal that bigger Boards may help in improving execution of an organization as indicated by a mean of 2.66.

#### **4.4.2 Effect of the Board Composition on the Financial Performance of SOEs in Zambia.**

**Table 4.6: Effect of the Board Composition on the Financial Performance of the SOEs in Zambia**

Description	N	Mean	Std. Deviation	Skewness	Kurtosis
	Statistic	Statistic	Statistic	Statistic	Statistic
Official chiefs are better set in taking care of the issues of the organisation since they have more profound comprehension of organisations activities	125	3.06	1.162	-.219	-.533
Non-executive chiefs can enhance firms by widening the officials aptitude and point of view	125	3.01	1.172	.037	-.766
The board is progressively free when the extent of outside chiefs increments	125	2.68	1.298	.393	-.976
The quantities of non-official chiefs is higher than that of executive directors	125	2.66	1.176	.179	-.640
Valid N (list wise)	125				

Under Board Composition in table 4.6, the study found that those in management position such as directors, managers, and chief executives are better positioned to take care of issues of the organization given the fact that they have more profound comprehension of the firm's activities as indicated by an average ranking of 3.06. On whether non-executives on the board can enhance the firm by widening those in management (Officials)'s aptitude and point of view, the study found that non-executives on the board can moderately enhance the firm performance as indicated by a mean of 3.01. These findings are not in line with those of Yermach (2016) who found that board composition reduces the financial status of any organization. The study further found that the number of those in management positions were more than those from outside the management on board composition as indicated by an average of 2.66.

#### **4.4.3. Effects of Independent Committees on Corporate Governance's Financial Performance of SOEs in Zambia**

**Table 4.7: Effect of Independent Committees on the Financial Performance of the SOEs in Zambia**

Description	N	Mean	Std. Deviation	Skewness	Kurtosis
	Statistic	Statistic	Statistic	Statistic	Statistic
The presence of autonomous advisory groups improves money related execution of the organisation	125	4.64	1.062	-2.791	6.235
Autonomous councils would concentrate on improving the organisation execution and aggressiveness	125	3.92	1.115	.154	-.525
Review advisory groups are relied upon to administer corporate administration, money related announcing, inside control structure, inner review capacities, and outside review administrations	125	2.91	1.239	.237	-.962
The review advisory group is autonomous, skilful, monetarily educated, satisfactorily resourced and appropriately redressed	125	2.82	1.149	.047	-.701
There is a review advisory group set up on the board	125	2.79	1.323	.295	-1.075
Concerns of possible blame or responsibility when their views turn out to be wrong in future	125	2.78	1.353	.201	-.1090
Valid N (list wise)	125				

In table 4.7, Independent committee's statements with highest mean were the presence of autonomous advisory groups improves money related execution of the organization (mean of 4.64), Autonomous councils would concentrate on improving the organization execution and aggressiveness (mean of 3.92) and Review advisory groups are relied upon to administer corporate administration, money related announcing, inside control structure, inner review capacities, and outside review administrations (mean of 2.91). The higher mean indicates that respondents were in strong agreement with these statements. On the other hand, statements that obtained lower mean were the review advisory group is autonomous, skilful, monetarily educated, satisfactorily resourced and appropriately redressed (mean = 2.82), There is a review advisory group set up on the board (mean = 2.79) and Concerns of possible blame or responsibility when their views turn out to be wrong in future (mean = 2.78). The low mean indicates that respondents were in lesser agreement with these statements. These results are in line with those of Jones (2014) and Mansfield (1962) who found that overall, independent committees have a negative impact on the financial performance of SOEs as more money gets spent on them every time they meet.

#### 4.4.4 Financial Performance of SOEs in Zambia in the Last Five Years

**Table 4.8: Financial Performance of SOEs in Zambia in the Last Five Years**

Description	N	Mean	Std. Deviation	Skewness	Kurtosis
	Statistic	Statistic	Statistic	Statistic	Statistic
The organisational revenue has increased in the last five years	125	4.64	1.062	-2.791	6.235
The organisation has made some significant improvement on return on its return on equity	125	4.60	1.018	-2.170	2.786
The organisations liquidity position has increased over the last five years	125	4.33	1.462	-1.827	1.431
The organisations profitability has increased over the last five years	125	4.04	.894	-.085	-1.757
The organisation has a better return on assets than industry average	125	2.91	1.239	.237	-.962
The organisation has made a good improvement on return on assets	125	2.82	1.149	.047	-.701
Valid N (list wise)	125				

In table 4.8, Statements under financial performance of SOEs in Zambia in the last five years which had the highest mean were the organizational revenue has increased in the last five years (mean of 4.64), the organization has made some significant improvement on its Return on Equity (mean of 4.60), and the organization's liquidity position has increased over the last five years (mean of 4.33) and the organization profitability has increased over the last five years (mean of 4.04). The higher mean indicates that respondents were in strong agreement with these declarations.

On the other hand, statements that obtained lower mean were the organization has a better Return on Assets than industry average (mean = 2.82) and the organization has made a good improvement on Return on Assets (mean = 2.81). The low mean indicates that respondents were in lesser agreement with these statements.

#### 4.5 Correlation Analysis

**Table 4.9: Correlation Analysis**

Description	Statistic technique	Board size	Board composition	Firm size	Independent committees
Board size	Pearson Correlation	1			
	N	125			
Board composition	Pearson Correlation	.269	1		
	Sig.(2-tailed)	.003			
	N	125	125		
Firm size	Pearson Correlation	.210	-.002	1	
	Sig.(2-tailed)	.023	.983		
	N	125	125	125	
Independent committees	Pearson Correlation	.165	.262	.056	1
	Sig.(2-tailed)	.075	.004	.547	
	N	117	125	125	125
ROA	Pearson Correlation	-.165	-.084	.082	-.183
	Sig.(2-tailed)	.076	.366	.382	.048
	N	125	125	125	125



In table 4.9, Pearson's correlation statistical technique was used to test the significance or important of the relationship between governance factors and the financial performance SOEs in Zambia. From the study results, the following relationships were observed through correlation analysis. Pearson's correlation statistical technique was used to test the significance or important of the relationship between governance factors and the financial performance SOEs in Zambia. The results in the table above show that board size has a negative relationship with financial performance (ROA) of SOEs as indicated by  $r = -.165$ ,  $P > 0.05$ . The results disagrees with those of copper (2010) cited in Maina (2017) who stated that board size has positive impact on financial performance of organization. However, the results are in line with those of Lipton (2012) who found a negative relation between board size and financial performance of SOEs in Kenya.

In addition, the Pearson's correlation coefficient for board composition showed a negative relationship with financial performance of SOEs as displayed by  $r = -.084$ ,  $P > 0.05$ . Pearson's correlation coefficient for firm size displayed a positive relationship with financial performance of SOEs where  $r = .082$ ,  $P < 0.05$ . This result is in line or confirms with the findings of Kellies (2013) who did a study on how firm size contributes to the profitability of modern organizations in Ghana. His study found that most organizations who were bigger in size exhibited higher revenue compared to those smaller in size such as SMEs.

#### 4.6 Regression analysis to address all the objectives

Multiple regression analysis was used to analyse the relationship between financial performance of SOEs and corporate governance in Zambia.

**Table 4.10: Model summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.233 <sup>a</sup>	.054	.020	.188

a. Predictors: (Constant), Independent committees, Firm size, Board size, Board composition

From the results shown in table 4.10, correlation value of (R) 0.233 means that there is some level of dependence of ROA on corporate governance. R square of 0.054 means that only 5.4% of ROA is influenced by corporate governance factors under the study while 94.6% is influenced by other factors outside the research. Adjusted R squared of 0.020 implies that independent committees, firm size, board size and board composition also explains 2% of changes in ROA as a result of a unit change in corporate governance and 98% is influenced by other factors. 0.188 standard error entails that the model has only an error of 18%. This is in line with Maina (2017)'s model which had an error of 0.1765 (17.56%).

### The ANOVA

The table 4.11 of the ANOVA shows a P-value of 0.002 which implies that the model is statistically significant since the P-value is less than 0.005 as the significance level for this regression analysis was carried out at 95% confidence level.

**Table 4.11**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9.051	4	2.134	1.603	.002 <sup>b</sup>
	Residue	158.145	121	1.417		
	Total	167.197	125			

a. Dependent variable: ROA

b. Predictors: (Constant), Independent committees, Firm size, Board size, Board composition

**Table 4.12: Regression coefficients**

Model		Unstandardized Coefficients		standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.339	.464		7.197	.000
	Board size	-.146	.113	-.126	-1.287	.201
	Board composition	-.011	.115	-.009	-.093	.926
	Firm size	.052	.106	.046	.491	.625
	Independent Committees	-.183	.112	-.157	-1.642	.103

a. Dependent variable

As per generated regression in the table 4.12, the formula below cited by Kotler (2003):

which was explained in chapter four will be used to fully explain the above results in the table.

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

Where;

Y = Financial execution estimated by ROA.

$\beta_1, \beta_2, \beta_3, \beta_4$  speak to the co-efficient of corporate administration

X1 = Firm size =log (Total Assets)

X2 = Board size (Measured by the quantity of executives sitting in a board)

X3 = Independent advisory groups (Measured by the quantity of boards of trustees in the association)

X4 = Board composition (Measured by the extent of insider executives to outside chiefs)

$\alpha$  = Constant term speaking to different factors other than the above corporate administration which are not characterized in the model.

e = Error term

$$Y = 3.339 + 0.052 \times \text{firm size} - 0.146 \times \text{Board size} - 0.183 \times \text{Independent committees} - 0.011 \times \text{board composition} + e$$

As per results in the table 4.11, when all governance factors in the research are of zero value then return on asset of SOE, will be 3.339. The error term was 0.188. A unit increase in firm size will increase ROA by 0.052, unit increase in Board size will reduce ROA of SOEs by 0.146. Furthermore, a unit increase in independent committees will decrease SOEs ROA by 0.183 and lastly a single unit increase in board composition will decrease ROA of SOEs by 0.011. At 5% significance level and 95% confidence level, firm size had significance level of 0.052, Board size

had 0.146, independent committees had 0.183 and board composition had significance level of 0.011.

The negative relationship found between financial performance of SOEs and board size, board composition and independent committees were in agreement with the reviewed literature that there is a negative relationship found between financial performance of SOEs and board size, board composition and independent committees (lipton, 2012; Yermarch, 2016 and Jones, 2014). Furthermore, the research found a positive relationship between firm size and financial performance of SOEs thereby agreeing with Mansfield (1962) cited in Maina (2017) that bigger organizations take advantage of economies of scale and therefore perform much better than the smaller ones. The results are however in contrary with the findings of Yang and Cheng (2009) cited in Maina (2017) who stated that firms that are small in size exhibit flexibility which is idea in changing business environment hence performing far much better that bigger firms.

## **CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS**

### **5.1 introduction**

The main aim of this chapter was to provide a summary, conclusion and make necessary recommendations based on the findings in this research. It also outlines the contribution to the body of knowledge and suggestions for further study. The research's conclusions and recommendations driven were aimed at attending or addressing the main goal of this research which was to assess the Effect of Corporate Governance on The Financial Performance of State-Owned Enterprises in Zambia. A Case of SOEs in Lusaka.

### **5.2 Summary of the research**

As stated by Maina (2017), State owned enterprises are set up by government to provide goods and services to the general public which private sector cannot provide much especially at lower cost. That being said, the research found that for SOEs in Zambia, Government is the largest shareholder and substantial voting level and that IDC is involved in appointing board of directors. The research discovered that holding other things constant, corporate governance plays an important role in the financial performance of SOEs.

Correlation and regression analysis carried out on the research variables discovered that all the study variables apart from firm size had a negative relationship with financial performance of SOEs in Zambia. The findings are contrary to those of Maina (2017), Uadiale (2010) and Armstrong (2011) who found all corporate governance attributes influence positively financial performance of organizations.

The negative relationship found between financial performance of SOEs and board size, board composition and independent committees were in agreement with the reviewed literature that there is a negative relationship found between financial performance of SOEs and board size, board composition and independent committees (lipton, 2012; Yermarch, 2016 and Jones, 2014). Furthermore, the research found a positive relationship between firm size and financial performance of SOEs thereby agreeing with Mansfield (1962) cited in Maina (2017) that bigger organizations take advantage of economies of scale and therefore perform much better than the smaller ones. The results are however contrary with the findings of Yang and Cheng (2009) cited in Maina (2017) who stated that firms that are small in size exhibit flexibility which is idea in changing business environment hence performing far much better that bigger firms.

### **5.3 Conclusion**

The research focused on the effect of Corporate Governance on The Financial Performance of State-Owned Enterprises in Zambia. A Case of SOEs in Lusaka. The corporate governance attributes applied in this research composed of firm size, board size, independent committees and board composition.

The study found that there is a positive relationship between firm size and financial performance of SOEs thereby agreeing with Mansfield (1962) cited in Maina (2017) that bigger organizations take advantage of economies of scale and therefore perform much better than the smaller ones. The study findings just as was conceptualized in the empirical and theoretical framework show that there is an influence of corporate governance on the financial performance of SOEs in Zambia just as was theorized in stakeholder theory. The research also found that there is a negative relationship between board size, independent committees and body compositions with financial performance of SOEs in respect to ROA. These results do not resonates with those of Otieno (2010) who contemplated the impact of corporate administration on the exhibition of organizations recorded at the Nairobi Securities Exchange (NSE), discovered that there is a positive connection among execution and board arrangement, administration exposure issues, investor rights and pay.

The research therefore concludes that excellent corporate governance practices are positively correlated to the performance of State Owned Enterprises. The research also concludes that SOEs in Zambia should focus their efforts towards these variables if they want to improve their financial performance, however caution must be exercised because there other factors outside the parameters of corporate governance that could significantly impact the performance of SOEs.

### **5.4 Recommendations**

Based on the findings of this research, the following are the recommendations;

- SOEs should focus their efforts towards board size, independent committees and board compositions if they want to improve their financial performance as these showed a negative impact on Return on Assets for the SOEs.
- Decrease Finance regulatory cost (Finance Leadership)
- Permanent survey of Gross Margins (Financial Planning)

- Cost regulation projects (following framework) (Controllershship)
- State owned enterprises should continue to invest in project that will enable them to grow as the research found that firm size has positive impact on the financial performance of organizations.
- To the policy formulation agencies; just as suggested by Maina (2017), good corporate governance practices is an important attributes of every established organization either owned by the government or fully private, profit making or not for profit making therefore SOEs should continue carrying out corporate governance practice.
- Administrators should look at their organizations current Corporate Governance procedures to decide in the event that they are successful in arriving at authoritative objectives or if changes are expected to improve authoritative execution
- Senior-level administrators and every day operational administration ought to be required to take at least 20 hours of proceeding with instruction courses in Corporate Governance for their industry.

## **5.6 Suggestion for further studies**

Further study can be done on the relationship between corporate governance and performance of international non-governmental organizations operating in Zambia. Another research can also be done on corporate governance problems faced by Zambian parastatals.

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## Appendix

### Dear Respondents;

My name is Sydney Chikuta, A Master of Business Administration student at the University of Zambia. I am at present carrying out an exploration with the theme, “The **Effect of Corporate Governance on The Financial Performance of State-Owned Enterprises in Zambia. A Case of SOEs in Lusaka** ". The research is being done in partial satisfaction of the prerequisite for the award of a Master of Business Administration by the University of Zambia.

I would like to request you to respond to the questions in this questionnaire as honestly as possible. The reactions being requested will not be utilized for any business or exclusive purposes. Significant levels of regard and privacy will be seen in the organization of this poll and it will remain the property of the researcher and the University of Zambia.

Sydney Chikuta

### SECTION A: DEMOGRAPHIC INFORMATION

(Tick where appropriate)

1. **Gender**      a) Male (   )                                      b) Female (   )
  
2. **Age Range:**  
    (a) 30 years and below (   )      (b) 31 to 40 years (   )  
    (c) 41 to 50 years (   )              (d) Above 51 years (   )
  
3. **Education Level of respondents**  
    (a) Certificate (   )                      (b) Diploma (   )  
    (c) Degree (   )                          (d) Masters (   )  
    (e) PhD (   )
  
4. **Management Level**  
    (a) Lower Management (   )      (b) Middle Management (   )

- (c) Top Management ( ) (d) Other ( )

### 5. Working Experience for the respondents

- (a) Less than 1 Year ( ) (b) 1-3 Years ( ) (c) 4-6 years ( )  
(d) 7-10 years ( ) (e) above 10 years ( )

### 6. Organization Ownership Structure

- (a) Government is the largest shareholder and substantial voting rights ( )  
(b) Government and two or more institutional shareholders control the organization ( )  
(c) The organization is wholly owned by the government ( )  
(d) The organization is mainly owned by investors/ financial institutions ( )

### 7. What role does IDC play in your organization?

- (a) Formulating governance and sector policy ( )  
(b) Providing approval for major decisions such as business plan and strategies ( )  
(c) Appointment of board of directors ( )  
(d) Appointment of senior Management ( )  
(e) None of the above ( )

## SECTION B: EFFECT OF THE BOARD SIZE ON THE FINANCIAL PERFORMANCE OF THE SOES IN ZAMBIA.

<i>To what extent do you agree with the following statements? 1-Strongly disagree 2-Disagree 3-Neutral 4-Agree 5-Strongly Agree</i>						
	Statement	1	2	3	4	5
1	Too many members on a board may create agency problem					
2	Larger boards are disadvantageous and expensive to the firm					

3	Small boards may not have the necessary experience and expertise to run on the affairs of organization.					
4	Bigger Boards advantage firms by giving powerful oversight of the executives and accessible important assets with the goal that bigger Boards may help in improving execution of an association					
5	Top managerial staff that is bigger in size may need to manage more clashes among board individuals and, in this way, experience issues arriving at accord					
6	Huge Boards improve board execution by diminishing CEO mastery of the board					

### SECTION C: EFFECT OF THE BOARD COMPOSITION ON THE FINANCIAL PERFORMANCE OF SOES IN ZAMBIA.

*To what extent do you agree with the following statements? 1-Strongly disagree 2-Disagree 3-Neutral 4-Agree 5-Strongly Agree*

	STATEMENT	1	2	3	4	5
1	Official chiefs are better set in taking care of the issues of the organization since they have a more profound comprehension of the organization's activities					
2	Non-Executive chiefs can enhance firms by widening the officials' aptitude and point of view.					
3	The board is progressively free when the extent of outside chiefs' increments					
4	The quantity of Non-official chiefs is higher than that of Executive directors					

### SECTION D: EFFECTS OF INDEPENDENT COMMITTEES ON CORPORATE

<b>GOVERNANCE'S INFLUENCE ON FINANCIAL PERFORMANCE OF SOES IN ZAMBIA</b>						
<i>To what extent do you agree with the following statements? 1-Strongly disagree 2-Disagree 3-Neutral 4-Agree 5-Strongly Agree</i>						
	<b>STATEMENTS</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
1	There is a review advisory group set up on the board					
2	Concerns of possible blame or responsibility when their views turn out to be wrong in future					
3	Autonomous councils would concentrate on improving the organization execution and aggressiveness					
4	The review advisory group is autonomous, skillful, monetarily educated, satisfactorily resourced and appropriately redressed					
5	Review advisory groups are relied upon to administer corporate administration, money related announcing, inside control structure, inner review capacities, and outside review administrations					
6	The presence of autonomous advisory groups improves money related execution of the organization					
<b>SECTION E: FINANCIAL PERFORMANCE OF SOES IN ZAMBIA IN THE LAST FIVE YEARS</b>						
<i>To what extent do you agree with the following statements? 1-Strongly disagree 2-Disagree 3-Neutral 4-Agree 5-Strongly Agree</i>						
	<b>STATEMENTS</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
1	The organization has made a good improvement on Return on Assets					
2	The organization has a better Return on Assets than industry average					
3	The organizational revenue has increased in the last five					



	years					
4	The organization has made some significant improvement on its Return on Equity					
5	The organization profitability has increased over the last five years					
6	The organization's liquidity position has increased over the last five years					

**Thank You for Taking Time to Answer the Questionnaire**