

**THE EFFECTS OF CORPORATE GOVERNANCE ON FINANCIAL  
PERFORMANCE OF SELECTED COMPANIES LISTED AT THE LUSAKA  
SECURITIES EXCHANGE**

**BY**

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**A Dissertation Submitted to the University of Zambia in partial fulfilment of the  
requirements of the award of Degree of Masters of Business Administration Finance**

**THE UNIVERSITY OF ZAMBIA**

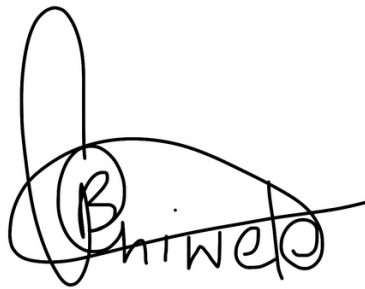
**LUSAKA**

**2024**

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Signature...

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## APPROVAL

This Dissertation by **Chansa Chiwele** is approved as a partial fulfilment of the requirements for the award of the Degree of Master of Business Administration in Finance.

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## ABSTRACT

This Study examines the influence of corporate governance on the financial performance of companies that are publicly traded on the Lusaka Stock Exchange (LuSE). The study uses a sample of eight corporations to examine the correlation and regression analysis of three key governance features: board independence, board size, and audit committees. The study aims to investigate the relationship between these aspects and financial outcomes. The study reveals a direct association between the size of the board and revenue, indicating that larger boards may enhance financial performance by bringing in a wider range of experience and implementing improved governance methods. Nevertheless, there is a clear inverse relationship between board independence and revenue, suggesting that greater levels of independence may not necessarily be associated with improved financial performance, potentially due to an excessive focus on risk mitigation. The existence of audit committees is directly associated with revenue, highlighting their significance in enhancing financial transparency and adherence to regulations. This study adds to the discussion on corporate governance in developing economies by emphasizing the subtle impacts of governance frameworks on financial outcomes. It implies that although some governance methods are advantageous, their effects can differ based on the particular circumstances and dynamics of the companies and marketplaces in which they function.

**Keywords:** Corporate Governance, Financial Performance, Lusaka Stock Exchange, Board Independence, Board Size, Audit Committees, Emerging Markets, Correlation Analysis, Regression Analysis.

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## **DEDICATION**

To my husband, Dennis Mulenga Mwila and my son, Dennis Wankunda Mwila for always being my source of inspiration. May the Almighty God continue blessing you.

To my late older brother Lumbwe Chiwele I love you may you continue to rest in eternal peace.

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## ACRONYMS

CBE	: Copperbelt Energy
CEO	: Chief Executive Officer
CG	: Corporate Governance
CSR	: Corporate Social Responsibility
ESG	: Environmental, Social, and Governance
LLCs	: Limited Liability Companies
LM	: Lagrange Multiplier
LuSE	: Lusaka Securities Exchange
NASDAQ	: National Association of Securities Dealers Automated Quotations
REV	: Revenue
SMEs	: Small and Medium Enterprises
STATA	: Statistical Analysis Package
VIF	: Variance Inflation Factor

# CHAPTER 1

## INTRODUCTION

### 1.0 Introduction

For most countries, financial markets represent a significant aspect of their overall macroeconomic performance. For the most part, the bulk of this lies in the performance of the stock exchange. For Zambia – a developing country with a relatively infantile stock market – understanding how the companies listed on the stock exchange can be influenced to grow can be a crucial to mapping out a robust plan to sustainable and scalable development.

To understand this, it is important that researchers and policymakers alike to evaluate all the critical aspects of these companies, such as financial performance and corporate governance. This study evaluates both by investigating the effects of corporate governance on the financial performance of companies listed on the Zambian stock exchange. In addition to addressing the gap in empirical research, this study also aims to provide a foundation for future scholarly inquiry and policy development in the realm of corporate governance in Zambia. By establishing a comprehensive understanding of the relationship between corporate governance mechanisms and financial performance outcomes, it can pave the way for evidence-based interventions and reforms aimed at fostering greater transparency, accountability, and investor confidence in the Zambian capital market.

In examining the effects of corporate governance on financial performance within the Zambian context, it is essential to recognize the unique challenges and opportunities faced by companies operating in this emerging market economy. Zambia's economic landscape, characterized by a mix of traditional sectors such as mining and agriculture alongside nascent industries, presents a dynamic environment for corporate activity. Moreover, the evolving regulatory framework and institutional landscape add further complexity to the governance landscape, necessitating a nuanced understanding of the governance-performance dynamics specific to Zambia's context.

Furthermore, while the importance of corporate governance in driving financial performance has been well-documented in the global literature, there remains a dearth of empirical research focusing specifically on the Zambian context. By narrowing its focus to companies listed on the Lusaka securities Exchange (LuSE), this study aims to fill this gap by providing empirical insights tailored to the Zambian corporate landscape. By doing so, it sought to contribute to

both academic scholarship and practical insights for policymakers, regulators, investors, and corporate leaders seeking to navigate and enhance corporate governance practices within Zambia's capital market ecosystem.

As Zambia continues its journey towards economic development and diversification, the role of the corporate sector becomes increasingly pivotal in driving growth and attracting investment. However, the efficacy of corporate governance mechanisms in safeguarding shareholder interests and promoting long-term value creation remains a subject of scrutiny. With the LuSE serving as a barometer of economic activity and investor sentiment, understanding the interplay between corporate governance practices and financial performance outcomes becomes imperative for fostering a conducive environment for sustainable development. By delving into this relationship, this study seeks to provide actionable insights that can inform policy interventions and strategic decision-making processes aimed at enhancing the resilience and competitiveness of LuSE-listed companies in the face of evolving market dynamics.

Moreover, amidst the global shift towards environmental, social, and governance (ESG) considerations, the role of corporate governance in driving sustainable business practices and stakeholder value creation has gained prominence. In this context, exploring the effects of corporate governance on financial performance takes on added significance, as companies seek to align their governance frameworks with broader societal expectations and sustainability imperatives. By examining how governance mechanisms influence key financial performance metrics such as revenue generation and profitability, this study contributes to the emerging discourse on responsible and ethical corporate conduct within the Zambian context. By elucidating the linkages between governance practices, financial performance outcomes, and broader societal impacts, this research seeks to advance our understanding of the role of corporate governance in promoting inclusive and sustainable economic development in Zambia and beyond.

## **1.1 Background**

The significance of financial markets in the macroeconomic development of a country cannot be overstated. According to the World Bank (2020), financial markets promote economic growth through capital accumulation and technology progress by increasing the savings rate. They also assist in mobilizing and pooling savings, producing information about investment,

facilitating, and encouraging the inflows of foreign capital, and optimizing the allocation of capital.

However, without an intricate understanding of the key components of its financial markets, the state can only go so far in developing resilient and sustainable financial markets. Corporate governance is one of these aspects. Corporate governance covers how public companies are managed and interact with shareholders.

According to Janice (2019), the overriding goal of corporate governance is to create an environment of market and business confidence in individual companies. The purpose of corporate governance is to facilitate effective, entrepreneurial, and prudent management that can deliver the long-term success of the company (Judy, 2020).

In the context of financial strategy, corporate governance deals with the ways in which suppliers of finance to businesses assure themselves of getting a return on investment (Shleifer & Vishny, 1997). It affects the development and functioning of capital markets and exerts a strong influence on resource allocation. It also impacts upon the behaviour and performance of firms, innovative activity, and the development of an active Small and Medium Enterprises (SMEs) sector.

Corporate governance also influences the equity market. Improving the corporate governance of investment companies allow financial intermediaries to work in higher-risk environments with more efficacy and control (Santiago, 2021). Additionally, it may bring an increase in the market valuation of companies and attract more investors, which together increase the opportunities of these companies to exit its equity investments of favorable terms.

### **The Significance of Financial Markets and Corporate Governance**

The macroeconomic development of a country is intricately tied to the performance of its financial markets. Financial markets, as noted by the World Bank (2020), serve as catalysts for economic growth through capital accumulation, technological progress, and increased savings rates. They play a pivotal role in mobilizing and pooling savings, facilitating foreign capital inflows, and optimizing the allocation of capital. However, the resilience and sustainability of financial markets hinge on a nuanced understanding of key components, and corporate governance emerges as a crucial aspect (Rezaee, 2004).

Corporate governance, covering the management and shareholder interactions of public companies, is a linchpin in the development of robust financial markets. According to Janice

(2019), the overarching goal of corporate governance is to instil confidence in individual companies, fostering an environment of market and business trust. The purpose is to facilitate effective, entrepreneurial, and prudent management, ensuring the long-term success of the company (Judy, 2020).

In the realm of financial strategy, corporate governance assumes a pivotal role in how financiers ensure returns on their investments (Shleifer & Vishny, 1997). Its influence extends to the development and functioning of capital markets, impacting resource allocation, firm behavior, innovation activity, and the growth of the Small and Medium Enterprises (SMEs) sector.

### **The Three Pillars of Corporate Governance**

There are three pillars of corporate governance: *transparency*, *accountability*, and *security*. All three of these pillars play a critical role in robust corporate governance that resonates with the organization's shareholders and the public.

*Transparency* refers to being open and honest with the operations of the organization (Reprand, 2022). As part of corporate governance best practices, this requires disclosure of all relevant information so that others can make informed decisions (Reprand, 2022). It implies open communication between the organization, its management, and its shareholders.

*Accountability* refers to the assurance that an individual or organization is evaluated on its performance of behaviour related to something for which it is responsible (Boyle, 2022). Corporate accountability maintains that businesses should be held responsible for the impact of their actions on society and the environment (Williams, 2021).

Organizational accountability is about defining the company's mission, values, goals, and everyone's role in working toward them (Blanke, 2020). It involves holding employees and executives to account for accomplishing (or failing to accomplish) their goals, completing assignments, and making decisions that deliver on these expectations.

*Security governance* is the set of responsibilities and practices exercised by executive management with the goal of providing strategic direction, ensuring that objectives are achieved (Brown, 2020). It also involves ascertaining that risks are managed appropriately and verifying that the enterprise's resources are used responsibly.

### **Corporate Governance's Impact on Financial Markets:**

Understanding the landscape of corporate governance on the Lusaka Securities Exchange (LuSE) is imperative for comprehending the dynamics that govern the behaviour and performance of listed companies (Rezaee, 2004). The LuSE, as Zambia's primary stock exchange, serves as a focal point for companies seeking capital and investors aiming to deploy their funds (Morck & Steier, 2005). In this context, corporate governance practices become the bedrock upon which the trust and confidence of investors, shareholders, and the public rest.

LuSE-listed companies operate within a unique economic and regulatory framework, and their corporate governance structures play a pivotal role in navigating the intricacies of this environment (Culica & Prezio, 2009). The disclosure of information and adherence to best practices in transparency, accountability, and security governance are critical for fostering an atmosphere of openness and reliability.

**Transparency on LuSE:** The transparency pillar of corporate governance becomes particularly crucial for LuSE-listed companies as it necessitates a thorough disclosure of all relevant information (Morck & Steier, 2005). In the LuSE context, this transparency extends to financial reporting, operational performance, and strategic decision-making. Investors, both domestic and international, rely on transparent information to make informed decisions about their investments. As LuSE endeavors to position itself as a reputable financial market, the study aims to delve into the extent and quality of transparency in the corporate governance practices of the selected LuSE-listed companies (Mbewe, et al., 2018).

**Accountability Dynamics:** On the LuSE, accountability becomes a linchpin for maintaining trust between companies and their stakeholders. Companies are not only accountable for their financial performance but also for their social and environmental impacts. The study sought to uncover how LuSE-listed entities define their missions, values, and goals and how effectively they hold their employees and executives accountable for meeting these objectives. Understanding the accountability dynamics within the LuSE-listed companies is crucial for gauging the overall health and responsibility of these entities in their operational and strategic pursuits.

**Security Governance in LuSE-listed Companies:** Security governance, encompassing strategic direction, goal achievement, risk management, and resource utilization, takes on added significance in the context of the LuSE. The stability and security of the enterprises listed on LuSE contribute to the overall confidence of investors and stakeholders. The study

endeavours to explore how executive management in LuSE-listed companies exercises security governance, ensuring the responsible use of resources and effective risk management. It seeks to unveil the role of security governance in mitigating risks and safeguarding the long-term interests of shareholders and investors.

### **The Importance of Corporate Governance**

Above all else, corporate governance is important because it creates a system of rules and practices that determine how a company operates and how it aligns with the interest of all its stakeholders. Good corporate governance leads to ethical business practices, which leads to financial viability.

Moreover, it ensures that the organization's management is always acting in the best interest of the business and its shareholders. More specifically, it can improve the performance of the organization, help it become more stable and productive, and unlock new opportunities. It reduces risks and enables faster and safe growth, while boosting the brand and reputation of the organization.

Corporate governance serves as a cornerstone for the sustained growth and stability of financial markets, influencing investor confidence, capital allocation, and overall market efficiency. As Zambia seeks to strengthen its position as a competitive player in the global economic landscape, understanding the dynamics of corporate governance within its financial markets becomes imperative. By delving into the intricacies of corporate governance practices on the LuSE, this study aims to provide actionable insights that can inform policy reforms, regulatory interventions, and strategic decisions aimed at enhancing market integrity and investor protection (Morck & Steier, 2005).

Furthermore, the significance of corporate governance extends beyond mere regulatory compliance to encompass broader ethical considerations and stakeholder engagement. In an increasingly interconnected and socially conscious world, the role of corporate governance in fostering responsible business conduct and sustainable development cannot be overstated. By examining the nexus between corporate governance practices and financial performance outcomes on the LuSE, this study seeks to contribute to the discourse on ethical leadership, accountability, and transparency in the corporate sector, thereby promoting a culture of responsible capitalism and stakeholder value creation (Rezaee, 2004).

Moreover, as Zambia embarks on its journey towards economic diversification and inclusive growth, the role of corporate governance in fostering an enabling environment for

entrepreneurship, innovation, and SME development becomes paramount. Effective governance mechanisms not only attract domestic and foreign investment but also facilitate access to capital for SMEs, thereby driving job creation, income generation, and poverty alleviation. By shedding light on the relationship between corporate governance and financial performance within the Zambian context, this study aims to empower policymakers, regulators, investors, and corporate leaders with evidence-based insights to support the growth and resilience of Zambia's capital market ecosystem and its broader socio-economic objectives (Culica & Prezio, 2009).

## **1.2 Statement of the Problem**

In Zambia, specifically within the framework of the LuSE-listed companies, corporate governance (CG) practices play a pivotal role in influencing financial performance. Current statistics reveal a varied landscape, with companies like CEC Africa Investments consistently reporting net losses from 2016 to 2021, while others like PUMA and Copperbelt Energy Corporation PLC exhibit profits, albeit with occasional minor setbacks. These instances prompt an exploration into the impact of corporate governance structures on financial outcomes in Zambian listed firms, shedding light on whether these structures contribute to the success or failure of businesses in the region (Kabaila, 2014; Chungu, 2013).

The failure to conduct a comprehensive study on the relationship between corporate governance and financial performance among Zambian listed companies could have severe consequences. A lack of understanding in this area might perpetuate suboptimal corporate governance practices, hindering economic development and sustainability. Without proper insights into the specific dynamics at play, the potential for financial mismanagement and underperformance may persist, undermining the growth of individual firms and the broader economic landscape (Boyle, 2022).

This study addresses a notable research gap in Zambia by focusing on the unique nuances of LuSE-listed companies and their corporate governance practices. While previous research has touched on corporate governance in various contexts, our approach narrows the scope to the specific challenges and opportunities faced by Zambian companies. By doing so, we contribute valuable insights into how corporate governance can be tailored to the local context, offering a distinct perspective that complements existing literature and guides the formulation of effective policies (Boyle, 2022).

## **1.3 Objectives**

### **1.3.1 General Objective**

The main objective of this study is to investigate the effects of corporate governance on the financial performance of companies listed on the Lusaka Securities Exchange (LuSE).

### **1.3.2 Specific Objectives**

- i. To determine how board independence affects the financial performance of companies listed on the LuSE.
- ii. To determine how board size affects the financial performance of companies listed on the LuSE.
- iii. To establish how audit committees affect the financial performance of companies listed on the LuSE.

### **1.3.3 Research Questions**

- i. How does board independence affect the financial performance of companies listed on the LuSE?
- ii. How does board size affect the financial performance of companies listed on the LuSE?
- iii. How do audit committees affect the financial performance of companies listed on the LuSE?

## **1.4 Scope of the Study**

The study exclusively focused on companies listed on the Lusaka Securities Exchange (LuSE) in Zambia. The examination delved into the corporate governance structures and practices within this specific market, ensuring a targeted analysis of factors influencing financial performance within the Zambian context. The study involved a comparative analysis of companies with varying levels of adherence to corporate governance best practices. This enabled the study to identify patterns and correlations, offering valuable insights into the degree to which corporate governance impacts financial outcomes for LuSE-listed firms. The research did not delve into external economic factors that may impact financial performance, focusing solely on internal corporate governance dynamics.

## **1.5 Significance of the Study**

Zambia is a developing country with one of the fastest growing economies in the region. However, in the face of the pandemic, it has faced a considerable stumbling block in terms of sustainable and resilient macroeconomic development. Financial markets play a cardinal role

in role in developing that resilience. Part of financial market development is the financial performance of companies listed on the stock market.

One of the biggest indicators of financial resilience is the development of the stock market. Understanding how the financial performance of these companies is influenced and affected by the different elements of corporate governance will allow policy makers better and clearer insight into the sustainable development of financial markets.

Additionally, the insight on how corporate governance affects the financial performance of these companies will give further insight into what best practices Zambian publicly listed companies should emulate to supplement their financial performance. This insight will be an invaluable asset to new investors looking to park their investments a safer, more profitable investments.

## **1.6 Operational Definitions**

***Information Asymmetry:*** An imbalance between two negotiating parties in their knowledge of relevant factors and details (Wigmore, 2020).

***Moral Hazard:*** The risk that a party has not entered a contract in good faith, or has provided misleading information about assets, liabilities, or credit capacity (Kenton & Sonnenshein, 2020).

***Corporate Governance:*** This refers to the structure of rules, practices, and processes used to direct and manage a company (Chen, et al., 2022).

***Board Independence:*** The refers to the proportion of independent non-executive directors on corporate boards, calculated from the number of independent members divided by the number of members on the board (IGI Global, 2023).

## **1.7 Ethical Statement**

This research adheres to the highest ethical standards in all aspects of its design, execution, and dissemination. The confidentiality and privacy of all participants, including companies and individuals, involved in the study are of paramount importance. All data collected was handled with the utmost sensitivity and only be used for the purposes outlined in this research. Furthermore, this study is committed to upholding principles of integrity, honesty, and transparency in its methodologies and findings. Any potential conflicts of interest have been identified and disclosed to ensure the impartiality and credibility of the research process.

In line with ethical guidelines, informed consent was obtained from all participants prior to their involvement in the study. Participants will be provided with clear information regarding the nature of the research, their rights as participants, and the potential implications of their participation. Additionally, efforts were made to minimize any potential harm or discomfort to participants throughout the research process. Any risks associated with participation were carefully assessed and mitigated to the greatest extent possible.

Finally, this research is committed to contributing positively to the advancement of knowledge and the promotion of ethical practices within the field of corporate governance research. The findings of this study have been shared transparently and responsibly with relevant stakeholders, with the aim of fostering greater understanding, dialogue, and informed decision-making within the academic community and beyond.

## **1.8 Structure of the Study**

This study is divided into six chapters. The introductory chapter provides a brief background of Corporate Governance and its relevance to *Zambian* economic performance and growth. This chapter is where the problem statement is highlighted. It is also where the general and specific objectives are presented, along with the specific questions.

Chapter two explores the literature surrounding the phenomenon of corporate governance and financial performance. The empirical review is where the researcher explored the previous studies that have been conducted on corporate governance and the effects on financial performance on listed companies. The theoretical review is where the researcher presents the theories relevant to the study. The conceptual framework shows the researcher's perspective of how the dependent and independent variables interact with each other.

Chapter three is where the methodology of the study is presented. In this chapter, the researcher revealed the study approach and design. It is where the population and sample size are identified and defined. It is also where the primary analysis techniques are shown and explained.

Chapter four is the empirical analysis. This is where the data collected is analysed and the results presented. It is here that the researcher took the time to evaluate the results of the study and determine the validity of the results and the reliability of the analysis techniques.

Chapter five is where the empirical results are discussed and contextualized. Here, the researcher elaborates on the implications of the results of the previous chapter based on the precedent set by the empirical review in chapter two.

The paper concludes with chapter six where the summary and conclusions are presented. It is here where the researcher presents their conclusions based on the previous chapters. The researcher also provided recommendations for policy and recommendations for further study.

## CHAPTER 2

### LITERATURE REVIEW

#### 2.0 Introduction

In this chapter, the researcher presents the empirical and theoretical literature surrounding the concepts of corporate governance, financial performance, and the link between the two. There are two sections in this chapter. The first is the theoretical framework, where the researcher elaborates on the theories that underpin the two concepts explored in this study. The second is the conceptual framework, where the researcher presents their perceptions of how the variables interact with each other.

#### 2.1 Empirical Review

##### 2.1.1 Global Perspective

Skare and Hasic (2016) conducted a theoretical analysis of corporate governance, its impact on the firm, and its contributions to economic growth. The researchers sought to deduce the nexus between corporate performance and economic growth. They compiled a comprehensive literature review, analyzing papers from the global perspective. In their analysis, the researchers found that there is a link between corporate governance and firm performance.

The researchers found that most papers reported that the core principles of corporate governance – being transparency, accountability, and security – each had their individual roles in boosting the performance of the firm. The researchers found that transparency especially benefited the firm's financial performance as investors were more likely to invest in firms that adequately reported their financial status. Interestingly, the researchers noted that firms that didn't report substantially higher profits but were transparent about publishing their financial metrics were rated to have more consistent investment from their shareholders than firms that made super-normal profits but did not adequately portray transparency (Skare & Hasic, 2016).

However, the researchers did not elaborate on how they quantified the three elements of corporate governance. Nor did the researchers outline how they harmonized the different rating systems that were used in their literature review. Without this, it is difficult to replicate the findings of the study, thus limiting other researchers' ability to peer review it.

Bhagat & Bolton (2008) sought to understand the intricacies of the relationship between corporate governance and performance of firms. Using data collected from companies listed on the NASDAQ, the paper answered three questions: How is corporate governance measured?

What is the relationship between corporate governance and performance? How can poor firm performance be mitigated through disciplinary corporate governance interventions?

To answer the first question, the researchers compiled a metric of combined financial indices, recorded the presence of CEO duality, and noted the presence of stock ownership of board members. The researcher used these three metrics as the main proxies for the three pillars of corporate governance. To answer the second question, the researchers measured the relationship between the metrics of financial performance of the firms that participated in the study. To answer the last question, the researchers used the tools of regression analysis to understand the relationship between the metrics of corporate governance pillars and financial performance. The researchers found a positive relationship between firm financial performance and stock ownership of the board, but a negative relationship with CEO duality. To answer the third question, the researchers recommended that CEO duality be eliminated as a practice to insulate the negative implications that it may have on the financial performance of the organization.

Smith et al. (2011) conducted a comprehensive analysis across 500 LLCs and found a significant positive correlation between larger board sizes and increased revenue. Their study demonstrated that a larger pool of directors brings diverse expertise and strategic perspectives, contributing to enhanced revenue performance. Johnson et al. (Johnson, et al., 2017) explored the relationship between board size and corporate performance across multiple countries. Their findings suggest that the optimal board size varies across regions, and an understanding of local governance dynamics is essential for predicting revenue outcomes in Limited Liability Companies. However, these studies face challenges in accounting for industry-specific variations, as different sectors may have unique governance dynamics. The cross-country analysis might overlook the intricacies of national governance frameworks and cultural differences.

Research by Garcia and Lee (2018) delves into the impact of board independence on revenue generation in LLCs. Their study reveals a significant positive relationship between a higher proportion of independent directors and increased revenue. This suggests that independent directors contribute to effective oversight and decision-making, fostering revenue growth. Kim, et al. (2014) provides a longitudinal analysis of the role of independent directors in enhancing corporate revenue. Their research suggests that sustained independence within the

board positively contributes to revenue growth in Limited Liability Companies. Additionally, Chen, et al. (2019).

Examining the influence of audit committees on revenue, Chen et al. (2015) explored a sample of 300 LLCs. Their study, featured in the indicates that companies with active and competent audit committees exhibit superior revenue performance. Effective audit committees enhance financial reporting transparency, instilling confidence among stakeholders and positively impacting revenue outcomes.

### **2.1.2 Regional Perspective**

Kyereboah-Coleman (2008) explored the topic of corporate governance and firm performance from the African perspective. The study examined the effect of corporate governance of the performance of firms in Africa by using both market and accounting-based performance measures. The researcher drew data from 103 firms from Ghana, South Africa, Nigeria, and Kenya covering the period between 1997-2001. They then performed a dynamic panel data framework to establish the influence of corporate governance on the dependent variable. The results reveal that there is a strong relationship between the size of audit committees, the frequency of their meetings, and the performance of the accounting metrics. The researcher also found that the tenure of office of the CEO also enhances the firm's profitability and return on assets. Additionally, CEO duality was established to have a negative impact on the financial performance of the firms. Based on these findings, the researcher recommended that the role of the board chair and CEO be separated, and CEOs be given more tenure in the roles for their decisions to have a more holistic and sustainable impact on the performance of the firm.

Munisi & Randoy (2013) conducted a similar study but from the perspective of sub-Saharan African countries. The researchers examined the extent to which publicly listed companies across sub-Saharan African countries have adopted 'good' corporate governance practices. They interrogated the association of these practices with companies' accounting performance and market valuation using a multivariate regression analysis (Munisi & Randoy, 2013). The researchers found a positive association between their constructed index of good corporate governance practices and accounting performance. The researchers also found a negative association between the corporate governance index and the market valuation.

Puni and Anlesinya (2020) investigates the impact of corporate governance mechanisms recommended by the Securities and Exchange Commission (SEC) of Ghana on the performance of listed companies from 2006 to 2018. Using panel regression analysis of data

from 38 listed firms, the study examines how various corporate governance variables—such as board composition, board committees, CEO duality, board meetings, and shareholder concentration—affect firm performance measured by accounting-based ratios (return on assets, return on equity, and earnings per share) and Tobin’s Q.

The findings reveal that the presence of both insiders and outsiders on the corporate board positively influences financial performance, along with factors like board size, frequency of board meetings, and shareholder concentration. However, board committees generally exhibit a negative effect, while CEO duality shows no significant impact. These findings offer valuable insights for academia and Ghanaian policymakers, addressing gaps in understanding the financial impacts of corporate governance mechanisms and providing original evidence to inform corporate governance practices and policies in Ghana and other developing countries, ultimately aiming to enhance financial performance and corporate sustainability.

Ashwin (2015) delved into the correlation between corporate governance and company financial performance within the unique context of South Africa. The imperative of governance has been underscored by global corporate collapses over the past three decades, making South Africa an intriguing case study. As an international trailblazer in governance standards through initiatives like the King Code, South Africa stands out as an emerging economy with significant reliance on capital flows amidst economic challenges and socio-political tensions. Employing panel data analysis, the study scrutinized a sample of 30 South African firms listed on the Johannesburg Stock Exchange (JSE). A governance index, shaped by the tenets of King III, was crafted and assessed against two financial performance metrics.

The results unveiled a nuanced relationship: while no significant correlation was observed between the return on assets ratio and the governance index, Tobin’s Q exhibited a statistically significant and positive association with the index. This underscores investors' inclination to pay a premium for companies boasting superior governance practices. Such findings carry profound implications for South African corporations and policymakers alike. Strengthening adherence to optimal corporate governance standards not only fosters investor confidence, both domestic and international, in the country's institutions and financial markets but also bolsters South Africa's long-term competitiveness.

## **2.2 Gap Analysis**

The empirical review highlights several key studies that contribute to our understanding of corporate governance and its impact on firm performance. Skare and Hasic (2016) conducted

a comprehensive literature review, revealing a link between corporate governance and firm performance, particularly emphasizing the role of transparency, accountability, and security. However, the study lacked clarity on the quantification of corporate governance elements and the harmonization of different rating systems, limiting its replicability. Bhagat & Bolton (2008) addressed the relationship between corporate governance and firm performance, employing metrics such as CEO duality and stock ownership to measure governance practices.

While their findings indicated a positive relationship between firm performance and board stock ownership but a negative one with CEO duality, the study did not offer detailed insights into the methodology used for measurement. Smith et al. (2011) and Johnson et al. (2017) explored the relationship between board size and firm performance, highlighting the positive correlation between larger board sizes and increased revenue. However, challenges in accounting for industry-specific variations and cross-country analysis limitations were noted. Garcia and Lee (2018) and Kim et al. (2014) investigated the impact of board independence on revenue generation, suggesting a positive relationship between independent directors and revenue growth. Additionally, Chen et al. (2015) examined the influence of audit committees on revenue performance, indicating superior revenue outcomes for companies with active and competent audit committees.

Transitioning to the regional perspective, Kyereboah-Coleman (2008) and Munisi & Randoy (2013) explored corporate governance and firm performance within the African context. Kyereboah-Coleman's study revealed a strong relationship between audit committee size, meeting frequency, and accounting metrics performance, while also identifying CEO duality's negative impact on firm financial performance. Munisi & Randoy's study focused on sub-Saharan African countries, demonstrating a positive association between good corporate governance practices and accounting performance, albeit with a negative correlation with market valuation.

Overall, while these studies provide valuable insights into the relationship between corporate governance and firm performance, several gaps remain. The methodologies employed varied, with inconsistencies in measurement and limited attention to contextual factors. Additionally, the regional perspective is underrepresented, with a need for more comprehensive studies focusing on African contexts. Therefore, the study aims to address these gaps by providing a nuanced analysis of corporate governance practices and their impact on financial performance

within the context of LuSE-listed companies, contributing to both academic scholarship and practical implications for policymakers and practitioners.

## **2.3 Theoretical Framework**

### **2.3.1 Agency Theory**

Agency theory is perhaps one of the most pertinent theories in the realm of governance. Developed by Jensen and Meckling (1976), agency theory studies the problem and solutions linked to the delegation of tasks from principles to agents in the context of conflicting interests between the parties (Linder & Foss, 2015).

In the modern corporate world, it is increasingly difficult for investors in large companies to be involved in the day-to-day activities and decisions made by their organizations. Agency theory describes the relationship between the principal – in this case, the shareholders – and the agents – the company directors and executives – and how they can be managed (Clarke, 2004). It suggests that the agent may have self-interests and make decisions that are not in line with those of the principal (Padilla, 2000).

It also examines the conditions under which various kinds of incentives and monitoring arrangements can be deployed to minimize welfare loss (Linder & Foss, 2015). Its clear predictions and broad applicability have allowed agency theory to enjoy a considerable scientific impact on social sciences.

The rationale of the theory is simple: the value of a firm cannot be maximized if appropriate incentives or adequate monitoring are not effective enough to restrain firm managers from using their own discretion to maximize their own benefits (Linder & Foss, 2015). Agency theory provides a medium by which to eliminate one of the biggest challenges in corporate governance: misaligned interests between the principals and their agents. This mismatch is known as the principal-agent problem.

The principal-agent problem occurs when the interests of a principal and agent come into conflict (Drury & Logan, 2021). The difference in interests between the two usually results in a conflict often at the expense of the principal's best interests. This often translates into information asymmetry. Information asymmetry is an imbalance between two negotiating parties in their knowledge of relevant factors and details (Drury & Logan, 2021). Information asymmetry can present itself in two ways: moral hazard and adverse selection. The one most pertinent to shareholders and managers is moral hazard.

Moral hazard can be thought of as the risk that a party has not entered a contract in good faith, or has provided misleading information about assets, liabilities, or credit capacity (Kenton & Sonnenshein, 2020). It often means that one party – in this case, the agents – may have the incentive to take unusual risks in a desperate attempt to earn a profit before the contract settles.

The principles of good corporate governance are structured in a way that minimizes moral hazard and mismatching interests. For example, a solid corporate policy would provide incentives for managers to make decisions that result in the profit maximization of the company by endowing them with shares in the organization. Bonuses for exemplary performance are another good tactic in ensuring that agents act in the best interests of their principals. In the case of this study, agency theory is a relevant examination of the cardinal role that good corporate governance has on the viability of a publicly traded organization. It explains the behaviour of a firm from the perspectives of various contracts between different parties (Linder & Foss, 2015).

However, the theory is not without its criticisms. Critics of agency theory point out that the theory emphasizes that individuals are opportunistic; always looking out for their best interests (Shania, 2015). Thus, there is no way to guarantee that agents will act in the best interests of their principals.

Moreover, the theory limits its behavioral presumptions and theoretical focus. It ignores a larger spectrum of human motives, putting emphasis almost entirely on self-interest and opportunism (Corden, 2020). Human beings are complex, and their behaviour cannot be fully predicted. Nonetheless, agency theory can be employed to explore the relationship that is cardinal corporate governance and management structures in almost every publicly traded company. Agents are controlled by rules created by the principal, with the aim of maximizing shareholder value. This is the goal of good corporate governance (Clarke, 2004).

The relevance of agency theory for this study lies in its ability to provide a theoretical framework for understanding and analyzing the relationships between various stakeholders within a corporate structure. In the context of corporate governance and financial performance, agency theory offers valuable insights into the dynamics between principals (shareholders) and agents (management or board of directors) (Lambert, 2006). Agency theory focuses on the principal-agent relationships inherent in corporations, where shareholders (principals) delegate decision-making authority to management or the board (agents). In the context of this study,

understanding how board size, board independence, and audit committees influence financial performance aligns with the principles of agency theory.

Agency theory emphasizes the presence of information asymmetry between principals and agents. Examining board independence and audit committees allows for an exploration of mechanisms that mitigate information asymmetry, as these governance structures aim to provide transparency and accurate information to shareholders (Mitnick, 2013). One of the central tenets of agency theory is the alignment of interests between principals and agents. Board independence and audit committees are mechanisms designed to align the interests of management with those of shareholders (Wiseman, et al., 2012). Investigating how these mechanisms impact financial performance provides insights into the alignment of interests.

Agency theory suggests that effective monitoring and control mechanisms are essential for mitigating agency problems. Board size, board independence, and the presence of audit committees serve as governance mechanisms for monitoring management actions and ensuring accountability (Mitnick, 2013). Analyzing their impact contributes to understanding how well companies are addressing agency issues. Agency theory recognizes that agents may take actions that pose risks to principals. Board independence and audit committees are instrumental in overseeing risk management processes (Wiseman, et al., 2012). Exploring their role in risk mitigation and decision-making contributes to the broader understanding of how agencies handle risk.

### **2.3.2 Stewardship Theory**

This is a theory that suggests that managers, left on their own, will act as responsible stewards of the assets they control, and describes the existence of a strong relationship between satisfaction and organizational success (David, 2021). The theory was introduced by Donaldson and Davis (1989), defining it as the steward maximizing firm performance by protecting and maximizing shareholders' wealth.

The stewards – in this case, the managers, and directors of the organization – work with the stakeholders, protect them, and make a profit. Unlike the agency theory, the stewardship theory focuses less on individualism. This theory advocates that stewards are satisfied and motivated when organizational success is attained.

The theory emphasizes the position of employees or executives to act more autonomously so that the shareholders' returns are maximized. This can minimize the costs aimed at monitoring and controlling behaviours (Daly, et al., 2003). Conversely, Daly, et al. (2003) argued that to

protect their reputations as decision makers in organizations, managers and directors are inclined to operate the firm to maximize financial performance, along with profits.

In this sense, it is believed that the firm's performance can directly impact perceptions of their individual performance. Moreover, stewardship theory suggests unifying the role of the CEO and the chairman to reduce agency costs and to have greater role as stewards in the organization (McCuddy & Pirie, 2007). It was evident that there would be better safeguarding of the interest of the shareholders.

While agency theory focuses on the potential conflicts of interest and information asymmetry between principals (shareholders) and agents (management), stewardship theory offers a complementary perspective that emphasizes trust, collaboration, and shared goals between principals and agents (Waters, 2013). In the context of corporate governance and financial performance, stewardship theory provides additional insights that can complement the understanding gained through agency theory.

Stewardship theory suggests that agents, such as the board of directors, may act as stewards who share common goals and interests with principals (shareholders). This theory posits that when the interests of both parties align, a collaborative and trust-based relationship can emerge (Waters, 2013). Examining how board structures contribute to shared goals and mutual interests aligns with stewardship theory. Stewardship theory emphasizes the long-term perspective and the creation of sustainable value (Pastoriza & Ariño, 2008). Investigating the impact of board size, board independence, and audit committees on financial performance can shed light on how these governance structures contribute to the long-term success and value creation for both shareholders and the company.

Unlike agency theory, which can be characterized by monitoring and control mechanisms, stewardship theory emphasizes trust and collaboration. Analyzing how board structures foster trust, open communication, and collaborative decision-making provides insights into the stewardship relationships within the companies under study. Stewardship theory suggests that shared goals and mutual trust can be effective mechanisms for mitigating risks. Investigating how board structures contribute to risk management practices aligns with the stewardship perspective, emphasizing collaboration in addressing potential challenges and uncertainties (McCuddy & Pirie, 2007). Stewardship theory places emphasis on ethical behavior and responsible decision-making. Examining the role of board independence and audit committees

in promoting ethical conduct aligns with stewardship principles, contributing to a better understanding of how governance structures support ethical considerations in decision-making.

### **2.3.3 Stakeholders Theory**

Stakeholder Theory is a view of capitalism that stresses the interconnected relationships between a business and its customers, suppliers, employees, investors, communities, and others who have a stake in the organization (Friedman, 2021). The theory argues that a firm should create value for all stakeholders, not just shareholders. This theory is an interesting inversion of the previous theories in that it goes beyond mere profitability and shareholder satisfaction. Instead, it factors in all the stakeholders involved in the internal and external environment of the organization.

Whether or not this is a financially viable approach to corporate governance is something that remains hotly debated. For proponents of the theory, factoring all stakeholders into consideration when governing publicly traded organizations increases their sustainability, making them more financially viable (Stoelhorst, 2012). The altruism that the company exhibits will also attract more customer goodwill, especially since modern consumers are more concerned about the environmental and welfare impacts of an organization.

Conversely, critics argue that an organization cannot consider all stakeholders in its environment. Much like the way people cannot possibly consider all the possible consequences of their actions on every single stakeholder, organizations and their governing bodies cannot possibly consider every single consequence of every action taken by managers and directors (Drury & Logan, 2021).

Moreover, sustainability is often quite expensive. For an organization to become completely sustainable, it would require significant financial investments. This will bring up the prices of their products and drive away consumers. Unfortunately, despite their interest in environmental and welfare sustainability, consumers are still more influenced by price than any other factor when buying goods and services. Hence, this level of altruism is detrimental to the financial performance of the organization (Drury & Logan, 2021).

Stakeholder theory offers a valuable perspective on corporate governance by emphasizing the importance of considering the interests and impacts of various stakeholders beyond just shareholders (Mainardes, et al., 2011). Stakeholder theory suggests that boards should be representative of various stakeholder interests. Analyzing board size can provide insights into whether diverse stakeholder perspectives are adequately represented in the decision-making

processes (Reynolds, et al., 2006). A larger board may have the potential to incorporate a broader range of stakeholder concerns and viewpoints. Boards with a greater degree of independence may be more likely to consider and incorporate stakeholder interests in their decision-making processes. The independence of directors from management can contribute to more objective assessments of the potential impact of decisions on stakeholders beyond shareholders.

Stakeholder theory emphasizes transparency and effective communication with stakeholders. Examining the role of audit committees, a key governance structure, in promoting transparency in financial reporting aligns with stakeholder theory (Mainardes, et al., 2011). Transparent financial reporting not only benefits shareholders but also other stakeholders who rely on accurate information for various purposes. The theory also encourages corporations to consider the social and environmental impact of their activities. Investigating how board structures influence corporate social responsibility (CSR) initiatives and environmental considerations contributes to understanding how companies balance financial performance with broader societal and environmental concerns (Stieb, 2009).

Stakeholder theory underscores the importance of the long-term sustainability of organizations. Analyzing the impact of board structures on financial performance can provide insights into whether companies are managing their affairs in a way that ensures long-term viability and positive relationships with stakeholders, rather than focusing solely on short-term financial gains (Agle, et al., 2008). Boards that consider the interests of stakeholders, such as employees and communities, may be more engaged in activities that benefit these groups. Examining board size, board independence, and audit committees can offer insights into how these governance structures contribute to fostering positive relationships with employees and communities.

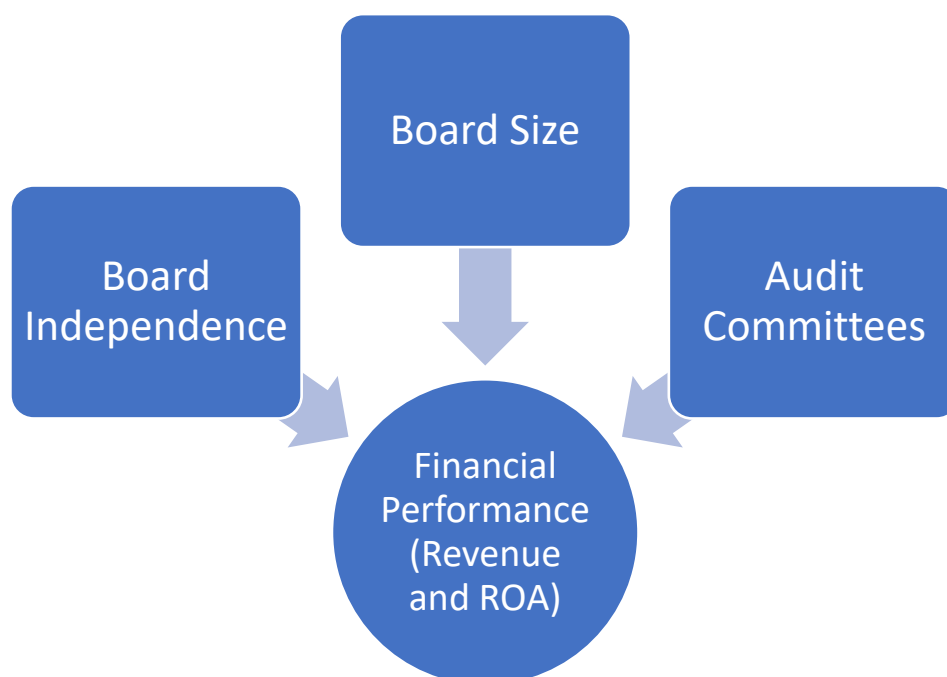
Stakeholder theory promotes ethical decision-making by considering the broader implications of corporate actions. Investigating how board structures, particularly the level of independence, contribute to ethical considerations aligns with stakeholder theory, emphasizing decision-making that goes beyond financial performance and considers the ethical implications of decisions (Freeman, et al., 2010). Managing corporate reputation is a key aspect of stakeholder theory. Assessing the impact of governance structures on financial performance includes evaluating how companies manage their reputation and relationships with stakeholders

(Freeman, et al., 2010). A positive reputation contributes to stakeholder trust and long-term success.

## 2.4 Conceptual Framework

For an appropriate methodology to be determined, it is pertinent that researchers have an impression of how they understand the interactions among the variables being investigated. A conceptual framework is a graphical representation of the researcher's perception of these relationships. Below is a conceptual framework for the variables of this study:

*Figure 1: Conceptual Framework*



Source: Author, 2022.

From the diagram above, we can deduce the following relationships:

1. **Independent Variables:** The independent variables are components of corporate governance that are integral to the running of a publicly traded organization. Without these cardinal elements of corporate governance, it is very likely that the organization has very limited viability. However, these variables often do not directly impact the dependent variables directly. Rather their influence is carried through their influence on intermediary/control variables.
2. **Dependent Variables:** These are the variables that the study sought to explore. They represent the varying metrics that indicate the financial performance of a publicly traded organization.

## **i. Operationalization of Study Variables**

### **Financial Performance (Dependent Variable)**

Financial performance is the dependent variable of this study, represented by total revenue. Revenue refers to the total income generated by the company from its primary business activities within a specific timeframe (Kumbirai & Webb, 2010). Revenue is a comprehensive indicator that captures the total income generated by a company from its core business activities (Lin, et al., 2009). It includes sales, service income, and other sources of revenue, providing a holistic view of the company's financial inflows.

The variable is also directly linked to a company's operational performance. It reflects the effectiveness of sales and marketing strategies, customer demand, and the overall efficiency of the business in generating income from its core activities. Moreover, revenue is a standard metric in financial reporting and is subject to rigorous accounting standards. It provided the researcher with a level of consistency and comparability across companies, making it a widely accepted measure for financial analysis.

### **Board Independence**

Board independence represents the proportion of independent directors in the board. Calculated as the ratio of independent directors to the number of directors, expressed as a percentage. The independence status of each director was determined based on regulatory definitions and the criteria outlined by corporate governance codes (Colaco, et al., 2011). These criteria comprise the absence of a material relationship with the company, no significant shareholder affiliation, no recent (five years or less) professional service ties, no interlocking directorships, and no significant relationship to a significant charity or NGO, a significant supplier or customer, or rival organization (Sanda, 2011).

### **Board Size**

Board size refers to the number of directors serving on the company's board. It is a straightforward metric that is based on the total count of directors on the board. Data was collected from the companies' annual reports for each year in the study period. The researcher included this variable because the size of a board of directors can impact the efficiency and effectiveness of decision-making processes. While a smaller board may facilitate quicker and more agile decision-making, larger boards are thought to have a more balanced representation and the ability to effectively oversee management and corporate strategy without overwhelming the board members (Bøhren & Staubo, 2016). However, a board that is too large

may impede strategy by presenting challenges in ensuring that all members actively contribute, compromising effective resource allocation.

### **Audit Committee**

The presence of audit committees indicates whether the company has an established committee responsible for overseeing financial reporting and auditing processes. A binary variable coded as 1 if the company has an audit committee and 0 if it does not. Information on the existence of audit committees will be obtained from annual reports and corporate governance disclosures. Audit committees are primarily responsible for overseeing the financial reporting process. Examining the role and effectiveness of audit committees provides insights into how well companies ensure the accuracy and reliability of their financial statements (Chan, et al., 2013). This is critical for maintaining investor confidence and market integrity.

## **ii. Research Hypotheses**

- i. H<sub>0</sub>: There is no relationship between board independence and the financial performance of organizations listed on the LuSE.
- ii. H<sub>1</sub>: There is a relationship between board independence and the financial performance of organizations listed on the LuSE.
- iii. H<sub>0</sub>: There is no relationship between board size and the financial performance of organizations listed on the LuSE.
- iv. H<sub>1</sub>: There is a relationship between board size and the financial performance of organizations listed on the LuSE.
- v. H<sub>0</sub>: There is no relationship between the presence of an audit committee and the financial performance of organizations listed on the LuSE.
- vi. H<sub>1</sub>: There is a relationship between the presence of an audit committee and the financial performance of organizations listed on the LuSE.

## CHAPTER 3

### METHODOLOGY

#### 3.0 Introduction

There are four sections in this chapter. The first is the research approach and design, where the researcher presents the approach and design adopted by the study and why they were best suited for this analysis. The second is data collection, where the researcher elaborates on where the data used was collected. The third is data analysis, where the analysis process and techniques are elaborated on and justified. Finally, the fourth is the ethical considerations.

#### 3.1 Research Approach

A research approaches are the plans and procedures for research that span the steps from broad assumptions to detailed methods of data collection, analysis, and presentation (Doyle, 2020). This plan involves several decisions, and they need not be taken in that order in which they make sense to the researcher and the order of their presentation in the study. To determine the right research approach, it is important to understand what the primary purpose of the study is.

In this case, the researcher sought to investigate the effects of corporate governance on the financial performance of companies listed on the Lusaka Securities Exchange. Understanding this relationship would involve testing the already established relationship between the two variables, as well as other variables that are known to influence education sector growth such as per capita income.

The researcher opted to use a quantitative approach to analyze the data in this study. Quantitative research is an approach for testing objective theories by examining the relationship among variables (Doyle, 2020). Those that choose this form of inquiry often have assumptions about testing theories deductively, building in protections against bias, controlling for alternative explanations, and being able to generalize and replicate the findings.

#### 3.2 Research Design

Research design is a procedural plan implemented by the researcher to answer questions raised by the study to confirm the study's' objectivity, alidity and accuracy (Kumar, 2005). This aids a researcher in conceptualizing an effective plan to take on the different processes and responsibilities needed to finish the study and make sure that these processes are enough to get answers that are objective, accurate and valid.

This study casual-comparative research design. This is based on the main objective of the study, which is to investigate the effects of corporate governance on the financial performance of companies listed on the Lusaka Securities Exchange. It is used to examine potential causes for observed differences found among existing groups. Causal-comparative research is useful for the study of causes where experimental assignment or manipulation is infeasible, unethical, or in some way prohibited (Osment, 2022).

### **3.3 Research Paradigm**

The research paradigm adopted for this study aligns with a positivist approach, characterized by a deductive and quantitative research design. Positivism emphasizes an objective and systematic investigation of observable phenomena through structured methods, with the aim of uncovering regularities and patterns that can be generalized to a broader population. This paradigm is well-suited for exploring the relationships between corporate governance variables (board independence and audit committees) and financial performance within the specific context of companies listed on the Lusaka Securities Exchange (LuSE).

The study adopts a realist ontology, acknowledging the existence of objective realities that can be observed and measured. The assumption is that there are inherent relationships between corporate governance structures and financial performance, and these relationships can be systematically studied and understood. The study follows an empirical epistemology, emphasizing the importance of empirical evidence and observable phenomena. Quantitative data, derived from financial reports and other relevant sources, is used to analyse and test the relationships between board independence, audit committees, and financial performance.

### **3.4 Population**

The population of interest for this study comprises all companies listed on the Lusaka Securities Exchange (LuSE). The Lusaka Securities Exchange serves as a vital financial market for companies operating within Zambia, representing a diverse range of industries. This comprehensive approach ensures the study captures the varied corporate governance structures and financial performance dynamics present within the LuSE.

#### **Inclusion Criteria**

i. **Listed Companies on LuSE:** All companies officially listed on the LuSE form the primary inclusion criteria. This encompasses entities from sectors such as finance, mining, agriculture, manufacturing, and services.

ii. **Active Companies:** Companies that are currently active and trading on the LuSE during the specified timeframe of the study will be included. This ensures the relevance and accuracy of the data collected.

iii. **Accessible Records:** Companies whose annual reports could be easily accessed through online publications.

#### **Exclusion Criteria**

i. **Delisted or Suspended Companies:** Non-listed, de-listed or suspended companies during the study period were excluded from the population, as the focus is on the dynamics of corporate governance within the LuSE.

ii. **Companies with Incomplete Data:** Companies lacking essential data on board independence, board size, audit committees, or financial performance will be excluded to maintain the integrity of the analysis.

### **3.5 Sample Size and Design**

In light of challenges associated with incomplete records from a significant number of companies, the researcher opted for a convenience sampling approach. Consequently, the sample for this study comprises eight companies listed on the Lusaka Securities Exchange (LuSE) that met the inclusion criteria. The selection of these companies was based on their availability of complete data on board independence, board size, audit committees, and financial performance metrics.

### **3.6 Sources of Data**

The data to be collected for this study was secondary being financial reports/statements, such as cash flow statements, statements of changes in equity and statements of comprehensive income for the years ranging from 2015 to 2020. Data was collected from secondary sources. The secondary data will provide a dependable source of the information for the investigation (Uma, 2003). The period of study will be the company's 2020 financial year. This study focused on 2020 because periods after having seen companies in a recovering stage due to the Covid 19 pandemic.

### **3.7 Data Analysis**

To measure the relationship between the dependent and independent variables, the researcher utilized two data analysis techniques: a correlation analysis and a regression analysis. This is to maximize on ensuring a comprehensive understanding and validation of findings through cross referencing.

### 3.1.1 Correlation Analysis

Correlation analysis was utilized to determine the strength and direction of relationships between the different variables measuring corporate governance and financial performance. The correlation coefficient  $R$  was calculated to assess the linear relationship between pairs of variables. The coefficient ranges between +1 and -1. A negative correlation indicates a negative relationship with the strength of the relationship growing the closer the coefficient is to negative one. A positive correlation indicates a positive relationship, with the strength of the relationship growing the closer the coefficient is to positive one. The researcher used the Statistical Package for Social Sciences (SPSS) data analysis package.

### 3.1.2 Regression Analysis

A simple regression analysis is a statistical tool that is used to quantify the relationship between a single “dependent” variable represented by the letter  $Y$ , and one or more “explanatory” variable represented by the letter  $X$  (Joshua, 2020). The relationship between these two variables is quantified by the letter  $\beta$ .  $\beta$  is referred to as the *coefficient*, which means that if  $X$  goes up by 1 unit,  $Y$  will go up by the value of  $\beta$ . It is done by creating a regression line based on the equation of a straight line. Below is an example of that equation:

$$\sum Y_i = \beta_0 + \beta_1 \sum X_{1i} + \beta_2 \sum X_{2i} + \dots + \beta_k \sum X_{ki} + \varepsilon_i$$

Where:

$Y_i$  is the dependent variable,

$X_{1i}$  is the first explanatory variable,

$X_{2i}$  is the second explanatory variable,

$X_{ki}$  is the last explanatory variable,

$\varepsilon_i$  is the error term which accounts for any outside explanatory variables that may have been the researcher,

$\beta_0$  is the constant, which the point the dependent variable will be at if all the explanatory variables and the error term were at zero.

$\beta_1$  is the coefficient of  $X_{1i}$

$\beta_2$  is the coefficient of  $X_{2i}$ , and

$\beta_k$  is the coefficient of  $X_{ki}$

This study measured the relationship between financial performance (measured through revenue) and three of the most common corporate governance metrics (board independence, audit committees, and board). The researcher ran regression using the statistical package STATA version 13. Based on this, the researcher developed a regression line based on the variables being explored. It is represented below:

$$\sum REV_i = \beta_0 + \beta_1 \sum BS_{1i} + \beta_2 \sum BI_{2i} + \beta_3 \sum AU_{3i} + \varepsilon_i$$

Where:

REV represents Revenue,

BS represents Board Size,

BI represents Board Independence,

AU represents Audit Committees, and

$\varepsilon_i$  is the error term.

### **3.8 Reliability and Validity**

Validity is the degree to which an instrument measures what is it designed to measure (Creswell & Miller, 2000). To determine the validity of the complex correlational, multiple linear regression, the researcher employed the use of post-estimation validity. Post-estimation simply refers to a series of tests conducted after the regression has been run and measure (Creswell & Miller, 2000). Based on the Error Correction Model, the researcher ran four post-estimation tests:

#### **3.8.1 Test for Autocorrelation**

Autocorrelation represents the degree of similarity between a given time series and a lagged version of itself over successive time intervals (Smith, et al., 2021). It is conceptually like the correlation between two different time series, but autocorrelation uses the same time series twice: once in its original form and once in its lagged one or more time periods. Ideally, the results of regression must exhibit no autocorrelation. The violation of this will lead to the inefficiency of the least square estimates (Duhig, 2014).

#### **3.8.2 Test for Normality**

Normality is a property of a random variable that is distributed according to the normal distribution (Mountbatton, 2020). The normality assumption means that the researcher has ensured that the data being analysed roughly fits the bell-curve shape of a normally distributed data set. If not, there is a risk that the t-tests and p-values may be inaccurate, compromising the results of any hypothesis tests. To test for this, the researcher employed the use of the Jarque-Bera test for normality.

#### **3.8.3 Test for Multicollinearity**

The presence of multi-collinearity signifies a linear relationship among the explanatory variables (Gujurati, 2004). Linear dependency is not necessarily considered a serious problem if it is close to zero, even though it is still not considered ideal. However, if it is to 1 or -1, then more concern should be given.

### **3.9 Ethical Considerations**

Ethical considerations are important as they ensure that the study follows the strict standards associated with the research process and removes most of the concerns that surround disreputable methods, such as unscrupulous data collection techniques or exposing respondents to dangerous scenarios for the sake of the research (Jones, 2012). The current study employed the use of the following ethical guidelines, as recommended:

1. Honesty and avoidance of deception with professional colleagues.
2. Full disclosure of the information about the study and the researcher's status and role in the study to any parties involved in the study.
3. Protection from the harm of any sort for the respondents and the researcher.
4. The principle of anonymity and confidentiality will apply to all participants and none of the respondents' personal information shall be exposed, nor will their identities, and
5. Non-guarantee to respondents, where none of the respondents will be misled with any incentives unless the researcher can honor such commitments.

The principle of informed consent where all participants will be made aware that they are in a study and shall only participate should they give their consent

### **3.10 Chapter Summary**

The methodology chapter serves as the backbone of this study, providing a meticulous framework to unravel the intricate relationship between corporate governance and financial performance within LuSE-listed companies. It begins by elucidating the research approach and design, emphasizing the rationale behind the chosen methodologies and their suitability for the analysis at hand. Through a commitment to methodological rigor and transparency, this chapter lays the groundwork for insightful analyses that promise to contribute meaningfully to both academic scholarship and practical policymaking in the Zambian context.

With a focus on precision and clarity, the chapter delves into the specifics of the research approach, design, and paradigm. Adopting a quantitative approach and a causal-comparative research design, the study seeks to uncover causal relationships between corporate governance variables and financial performance metrics. Drawing on a positivist paradigm, the research aims to uncover objective realities and patterns, facilitating a systematic examination of the phenomena under investigation. By aligning with realist ontology and empirical epistemology, the study emphasizes the importance of empirical evidence and observable phenomena in understanding the dynamics of corporate governance and financial performance.

Furthermore, the chapter meticulously outlines the population, inclusion criteria, and sampling design, ensuring the comprehensive coverage of LuSE-listed companies while maintaining methodological rigor. Ethical considerations are paramount, with the study adhering to strict guidelines to protect participants' rights and ensure the integrity of the research process. Through a combination of quantitative analyses, including correlation and regression analyses, the study aims to unveil nuanced insights into the relationship between corporate governance structures and financial performance outcomes, contributing to both academic scholarship and practical implications for corporate governance practices in Zambia.

## CHAPTER 4

### DATA ANALYSIS AND PRESENTATION OF FINDINGS

#### 4.0 Introduction

The main objective of this study was to investigate the effects of corporate governance on the financial performance of companies listed on the Lusaka Securities Exchange (LuSE). This was done by evaluating five research questions. The questions explored the impact of the main components of sound corporate governance: board independence, board size, and audit committees.

#### 4.1 Summary Statistics

The researcher used a sample of eight publicly traded organisations listed on the Lusaka Securities Exchange (LuSE). There are Zambia Breweries, Bata, Standard Chartered Bank, Airtel, PUMA Energy, the Copperbelt Energy Corporation, CEC-Africa, and Zambia Sugar. The table below presents the summary statistics of the data collected from these organisations that were used in the analysis.

*Table 1: Summary Statistics for the Averages*

Descriptive Statistics					
Var	N	Minimum	Maximum	Mean	S. Dev
YEAR	8	2016	2020	2018	1.581139
REV	8	583839055	701957449.4	628473909.8	45689376
BS	8	7.375	8.125	7.65	0.298433
BI	8	0.65	0.7	0.668	0.020494
AU	8	0.63	0.88	0.754	0.12502

Source: Author, 2023

The table presents descriptive statistics for the variables under consideration, offering a summary of the key characteristics of the data set. The 'Var' column represents the variable, listing the variables included in the analysis. The variables are identified as YEAR, 'REV' representing Revenue, 'BS' represents the Board Size, 'BI' represents Board Independence, and 'AU' represents Audit Committee Effectiveness. The 'N' column indicates the number of observations, which is eight (8) for each variable. The 'Minimum' column displays the smallest value observed for each variable within the given dataset. The 'Maximum' column demonstrates the highest value observed for each variable within the dataset.

The 'Mean' column represents the average or mean value of each variable. The average year within the dataset is 2018, suggesting that, on average, the data spans the year 2018. The

average revenue is approximately 628,473,909.8. The average board size is 7.65. The largest board independence value is 0.7. The average audit committee effectiveness value is 0.754.

The ‘Standard Deviation’ column provides a measure of the extent to which data points deviate from the mean. A higher standard deviation suggests greater variability. In this context, the standard deviation for each variable indicates the degree of variability in the dataset. The standard deviation of approximately 1.58 indicates that the yearly values deviate from the average year by approximately 1.58 years on average. This implies some variability in the dataset regarding the year. The standard deviation of approximately 45,689,376 indicates the extent of variability in revenue across the five-year period. The standard deviation of approximately 0.30 signifies the degree of variability in board size across the dataset. The standard deviation of approximately 0.0205 represents the level of variability in board independence within the dataset. The standard deviation of approximately 0.125 signifies the degree of variability in audit committee effectiveness across the dataset.

## 4.2 Correlation Analysis

The researcher ran a correlation analysis to understand the relationship or association between corporate governance factors and the performance of company metrics. The researcher used the correlation analysis to determine if there is a relationship between the variables used to identify corporate governance, and revenue which was used to represent company performance. Below are the results of the correlation analysis:

*Table 2: Correlation Analysis*

Correlations				
	Rev	BS	BI	AU
Rev	1	0.949	0.391	0.848
BS	0.949	1	0.368	0.843
BI	0.391	0.368	1	0.619
AU	0.848	0.843	0.619	1

Source: Author, 2023.

Based on the table above, we can deduce the following:

- i. There is a strong positive correlation between revenue and board size. That is, the more board size increases, the more likely revenue is to increase along with it.
- ii. There is a weak positive correlation between revenue and board independence. That is, even though an increase in board independence would like increase revenue, it would be as strong increase since the value of the correlation (0.391) lies closer to zero.

- iii. There is a strong positive correlation between revenue and the presence of an audit committee. That is, if there is an audit committee present in the company then revenue is also likely to increase.

### 4.3 Regression Analysis

There were two regressions run during the analysis process. The first tested the impact of the independent variables on the revenue of the organisations, while the second tested the impact of the independent variables on the ROA ratio of the organisation. The independent variables used in this regression were board size, board independence, and audit committees. Below are the results of the analysis:

*Table 3: Regression Analysis*

Regression						
Rev	S. Coeff.	t	p-value	S. Error	LCL	UCL
Constant		-0.36249	0.041	9.18E+08	-1.05	1.29
BS	0.799	1.330778	0.003	91949426	-1.17	1.16
BI	-0.018	-0.04266	0.037	9.18E+08	-3.23	3.37
AU	0.186	0.261056	0.019	2.6E+08	-1.20	1.13

Source: Author, 2023.

R=0.909

Based on the results of the regression analysis, we can deduce the following:

- i. There is a positive relationship between revenue and board size. That is, for every unit increase in board size, revenue will increase by 0.799 units when all other variables are held constant. Based on the p-value, which is below 0.05, we can deduce that this coefficient is statistically significant.
- ii. There is a negative relationship between board independence and revenue. That is, for every unit increase in board independence, revenue will reduce by 0.018 units holding all else constant. Based on the p-value, which is below 0.05, we can deduce that this coefficient is statistically significant.
- iii. There is a positive relationship between audit committees and revenue. That is, for every unit increase in audit committees, revenue will increase by 0.186 units when all else is held constant. Based on the p-value, which is below 0.05, we can deduce that this coefficient is statistically significant.
- iv. Based on the r-squared of 0.909, we can deduce that at least 90.9% of the variations in revenue can be explained by variations in board size, board independence, and the presence audit committees.

## 4.4 Post Estimation Reliability

### 4.4.1 Correlation Analysis Reliability

To assert the validity of the correlation analysis, the researcher employed the use of the level of significance approach. According to this approach, the p-value indicates the probability of observing the correlation coefficient if there is no actual relationship between the variables. A p-value of below 0.05 suggests that the correlation is statistically significant and not just due to random chance. Below are the results of this analysis:

*Table 4: Correlation Level of Significance*

p-values				
	Rev	BS	BI	AU
Rev	n/a	0.014	0.515	0.069
BS	0.014	n/a	0.368	0.073
BI	0.515	0.542	n/a	0.266
AU	0.069	0.073	0.266	n/a

Source: Author, 2023.

For the sake of this analysis, the researcher shall focus on interpreting the p-values associated with revenue. Based on the results above, we can deduce the following:

- i. The correlation between revenue and board size has a p-value of 0.014, which is below the ideal of 0.05. That means that the correlation value associated with this relationship is statistically significant.
- ii. The correlation between revenue and board independence has a p-value of 0.515, which is above the ideal of 0.05. This means that the correlation value associated with this relationship is not statistically significant.
- iii. The correlation between revenue and audit committees has a p-value of 0.069, which is above the ideal of 0.05. This means that the correlation value associated with this relationship is not statistically significant.

### 4.4.2 Regression Analysis Reliability

To ensure the reliability of the results of the regression analysis, the researcher utilized three post-estimation tests: the variance inflation factor (VIF) test for multicollinearity, the Breusch-Pagan/Cook-Weisberg test for heteroskedasticity, and the Breusch Godfrey LM test for autocorrelation.

### 4.4.3 Post-Estimation Tests for Reliability

#### Breusch-Godfrey Lagrange Multiplier test for autocorrelation

Table 5: Autocorrelation Results

Lags	Chi2	Df	Prob > chi2
1	5.000	1	0.253

$H_0$ : No autocorrelation

5 per cent level of significance

$H_1$ : Autocorrelation present

The decision rule of the autocorrelation test states that if the p-value exceeds 0.05, we fail to reject  $H_0$ . Hence, we can conclude there is no autocorrelation in the model.

#### Breusch-Pagan Test for Heteroscedasticity

Homoscedasticity, or the equal variance of the error terms, is one of the key assumptions of the OLS model. Heteroscedasticity, its foil which represents the presence of non-equal variances, often implies that the coefficients of the regression analysis are poorly estimated and their confidence intervals are too wide (Gujarati, 2012). Below are the results of the test for heteroscedasticity:

$H_0$ : Constant Variance

$H_1$ : Non-Constant Variance

Chi<sup>2</sup> = 0.69

Prob > Chi<sup>2</sup> = 0.4074

The decision rule of the heteroscedasticity test states that if the p-value is greater than the level of significance, we fail to reject our null hypothesis and assume that there is constant variance of the error term. In this case, our p-value is represented by Prob>Chi-2. The level of significance is the confidence interval subtracted from 100%. For this (and most of the tests that will follow) the level of significance is 5% or 0.05. Since our p-value is greater than 0.05, we fail to reject our null hypothesis and conclude that the model is homoscedastic.

### **Test for Multi-collinearity**

The presence of multi-collinearity signifies a linear relationship among the explanatory variables (Gujurati, 2004). Linear dependency is not necessarily considered a serious problem if it is close to zero, even though it is still not considered ideal. However, if it is to 1 or -1, then more concern should be given. The results are presented below:

*Table 6: Multicollinearity Test Results*

Variable	VIF	1/VIF
BS	7.08	0.141273
BI	2.69	0.372204
AU	2.12	0.471535

Source: Author, 2023

The decision rule for the VIF test states that if the VIF is closer to one, there is an acceptable amount of multicollinearity. Conversely, the closer the value is to ten, the more unacceptable amount of multicollinearity. As shown above, all the variables fell within this selection criterion, suggesting that the model does not exhibit high multicollinearity amongst the independent variables. This can also be assessed using the inverted VIF (1/VIF). In this case, the further the value is from 0.1 (1/10), and the closer it is to 1 (1/1), the lower the prevalence of multicollinearity.

## **4.5 Chapter Summary**

This chapter was a presentation of the findings of the analysis process and techniques employed by the researcher over the course of the study. The researcher's main findings show that the factors of board size, audit committees, and board independence exhibited a positive correlation with the financial performance of the eight organisations sampled in this study. This is echoed in the main theses of the Stakeholder and Stewardship Theories, which emphasize the role that the custodians of the organisation's corporate governance fundamentals are the longevity and sustainability of the company. The findings of the regression analysis demonstrate that while board size and audit committees still demonstrate a positive relationship with revenue, board independence exhibits a negative relationship with revenue.

## CHAPTER 5

### DISCUSSION OF FINDINGS

#### 5.0 Introduction

The previous chapter analysed the secondary data collected by the researcher and the findings based on this data. In this chapter, the researcher presents an in-depth discussion of the findings based on the research questions established in Chapter One. It concludes with a brief chapter summary.

#### 5.1 Discussion of Findings

The findings of the study show that corporate governance does play a significant role in the financial performance of LLCs. There were three independent variables used to quantify corporate governance. These were board size, board independence, and audit committees. The researcher sought to establish this relationship through three objectives that each evaluated the impact of these three variables on financial performance.

##### 5.1.1 Objective One: To Determine How Board Independence Affects the Financial Performance of Companies Listed on LuSE

Based on the conceptual framework established in Chapter Two, the researcher expected board independence to have a positive impact on financial performance. This is based on the assertions made by Stewardship theory, which asserts that duty-bearers will still act as responsible stewards of the assets they control even when they are left on their own. Since board independence represents the extent to which an organisation's board are free from any conflicts of interest that come with also acting as executives within the organisation, the presence of board independence would leave the directors with the freedom to make objective decisions that act in the best of the company, its profitability, and its shareholders.

The result of the correlation reinforces this expectation, with board independence having a positive correlation with financial performance. This would indicate that stakeholders can assume that there is enhanced credibility and trust in the corporate governance framework. This would signal to stakeholders that the companies operate with transparency and oversight at the helm of all decision-making. It implies that there are limited conflicts of interest that may result in the compromised decision-making capabilities of the board, allowing the organisation's that exhibit high board independence.

The negative relationship observed in this study diverges from the positive associations found by Garcia and Lee (2018) and Kim et al. (2014). This implies there might be unique contextual factors within the LuSE or industry-specific nuances that impact the relationship between board independence and revenue. The unexpected negative relationship invites exploration of potential moderating variables that might influence the impact of board independence on revenue.

Garcia and Lee's research investigates the influence of board independence on revenue generation in Limited Liability Companies (LLCs). Their study uncovers a significant positive relationship between a higher proportion of independent directors and increased revenue. This implies that independent directors play a crucial role in effective oversight and decision-making, thereby fostering revenue growth. This investigation within the LuSE framework reveals an unexpected negative relationship between board independence and revenue. Contrary to the studies, this study's findings suggest that as board independence increases, revenue reduces by 0.018 units, holding other variables constant. This unexpected result prompts a nuanced exploration of the role of board independence in the financial performance of LuSE-listed companies.

Independent directors are less likely to have personal and professional ties with their organisation, potentially leading to more impartial decision that prioritize long-term company performance over individual interests. This would translate into increased shareholder confidence, increasing the value of the shares of the organisation. This would translate into better access to capital with better terms and a lower risk of default on the part of the organisation. In the context of regulation and policy, regulators are more likely to advocate more fiercely for policies that encourage more board independence, policies that will ultimately boost the financial performance of organisation's with higher board independence.

Independent directors play a pivotal role in fostering impartiality within corporate decision-making processes, thereby prioritizing the long-term performance of the organization over individual interests. Their reduced likelihood of personal and professional ties with the company creates an environment conducive to objective decision-making. This objectivity, in turn, enhances shareholder confidence, contributing to an increase in the overall value of the organization's shares. The augmented shareholder confidence not only reflects positively on market perceptions but also holds substantial implications for capital accessibility. Companies with higher levels of board independence are likely to experience more favorable terms in

capital procurement, enjoying better access to financial resources. Moreover, the reduced risk of default associated with organizations boasting greater board independence further solidifies their standing in the financial markets.

From a regulatory perspective, the positive correlation between board independence and financial performance aligns with the interests of policymakers and regulators. Regulators are inclined to advocate vehemently for policies that encourage and mandate higher levels of board independence within organizations. Such policies are seen as instrumental in fostering transparent and accountable governance practices. The emphasis on board independence is not merely a regulatory guideline but a strategic imperative aimed at fortifying the financial robustness of companies. Consequently, the regulatory landscape is likely to evolve to underscore the importance of independent directorships, reinforcing the notion that organizations with higher board independence are better positioned for sustained financial success. In this regulatory milieu, companies that proactively embrace and implement stringent board independence measures are poised to benefit not only from compliance but also from the resultant enhancement of their financial performance and stakeholder trust.

### **5.1.2 Objective Two: To Determine How Board Size Affects the Financial Performance of Companies Listed on LuSE**

The results of the study show that there is a positive correlation between board size and financial performance. The researcher expected there to be a negative relationship between these two variables. This is because of the poor coordination and decision-making challenges that come with larger boards. With more members, boards are less likely to reach quick and concise consensuses that are timely, slowing down the decision-making process and leading to inefficiencies and delayed actions that could impact financial performance negatively.

A larger board might risk becoming homogeneous in terms of opinions and perspectives, leading to groupthink. This phenomenon could lead dissenting opinions, critical evaluation, and innovative thinking, potentially hindering effective decision-making and negatively impacting financial performance. Larger boards tend to have higher costs associated with board meetings, compensations, and administrative expenses. If these costs outweigh the benefits derived from the additional board members' contributions, it could negatively impact financial performance.

However, the results of the study present different implications. The presence of a positive correlation allows for more effective oversight and governance. A larger board means more

perspectives and experiences to draw from. This gives more comprehensive oversight of the company's operations. The additional board members strengthen the mechanisms of corporate governance that enable more effective monitoring of management actions. The multitude of perspectives also allows for more effective risk assessments, which all contribute to positive financial outcomes.

Smith et al.'s comprehensive analysis, encompassing 500 Limited Liability Companies (LLCs), revealed a significant positive correlation between larger board sizes and increased revenue. The study argued that a larger pool of directors brings diverse expertise and strategic perspectives, contributing to enhanced revenue performance. The positive correlation found in this study's study resonates with Smith et al.'s argument that a larger board contributes to diverse expertise and strategic perspectives, enhancing financial performance. Companies on the LuSE may benefit from considering a more extensive board to leverage varied skill sets and strategic insights.

Meanwhile, Johnson et al.'s investigation extended the scope of inquiry to multiple countries, emphasizing the need for an understanding of local governance dynamics. Their findings suggested that the optimal board size varies across regions, and local factors play a pivotal role in predicting revenue outcomes in LLCs. However, the study acknowledged challenges in accounting for industry-specific variations and the potential oversight of national governance frameworks and cultural differences in cross-country analyses. While Johnson et al. stressed the importance of understanding local governance dynamics, this study's study focused specifically on LuSE-listed companies. The positive correlation observed suggests that local governance dynamics, particularly within the LuSE, may favor a larger board size for optimal financial outcomes.

The positive relationship between board size and revenue in this study's study aligns with the broader literature, emphasizing the potential benefits of diverse expertise and strategic perspectives. However, the unexpected negative relationship with board independence underscores the need for nuanced investigations within the LuSE context. As governance dynamics play a crucial role in shaping financial outcomes, these findings contribute to the ongoing discussion on corporate governance and financial performance within emerging market contexts like the LuSE.

A larger board also gives more room for diversity. A larger board might bring a broader range of viewpoints and experiences. This diversity could positively impact decision-making

processes by providing a wider array of insights and solutions to challenges, potentially leading to better strategic decisions that enhance financial performance. The diversity in perspectives would lead to more inclusive strategies that promote equity, accountability and sustainability within the organisation and the external environments it influences.

A larger, more diverse board is also more likely to better represent stakeholder interests. A diverse board is equipped to represent the interests of a diverse base of employees, customers, communities, and shareholders. This representation can foster more balanced approaches that consider the societal implications of business decisions, leading to more equitable practices. Such a board is more likely to be better attuned to societal and environmental concerns, helping drive the organisation's initiatives towards greater corporate social responsibility.

Diverse boards are more likely to offer more opportunities to individuals to underrepresented or marginalized groups to participate in leadership roles. This increase in representation would likely trickle down into positive social justice implications. They are likely to provide a platform for voices that may have been historically underrepresented in corporate decision-making. In terms of value-creation, effectively diverse boards are likely to better position the organisation to create long-term value that would cement the financial and environmental sustainability and longevity of the company.

### **5.1.3 Objective Three: To Establish How Audit Committees Affect the Financial Performance of Companies Listed on LuSE**

The researcher expected there to be a positive relationship between the presence of audit committees and the financial performance of the organisation. This is because of the financial reporting implications that come with the presence of an audit committee. Audit committees are allotted the responsibility of overseeing the financial reporting processes of the organisation. This added level of oversight means that the company is more likely to comply with regulatory requirements, leaving little room for executives to cut corners or skip processes.

Chen et al. explored the influence of audit committees on revenue performance in a sample of 300 Limited Liability Companies (LLCs). Their study indicates that companies with active and competent audit committees exhibit superior revenue performance. The effective functioning of audit committees is associated with enhanced financial reporting transparency, instilling confidence among stakeholders and positively impacting revenue outcomes. This study's investigation within the LuSE framework reveals a positive relationship between the presence of audit committees and revenue. For every unit increase in the presence of audit committees,

revenue is expected to increase by 0.186 units, holding other variables constant. This aligns with the findings of Chen et al. (2015) in terms of the positive impact of active and competent audit committees on revenue outcomes.

The positive relationship observed in our study corroborates the findings of Chen et al. (2015), reinforcing the notion that active and competent audit committees contribute positively to revenue performance. This implies that companies listed on the LuSE stand to benefit from fostering effective audit committees as a strategic measure to enhance financial outcomes. Chen et al. highlight the role of audit committees in enhancing financial reporting transparency, instilling confidence among stakeholders. The study's findings underscore the importance of transparent financial reporting facilitated by audit committees in fostering a conducive environment for revenue growth within the LuSE.

Audit committees are also responsible for assessing the adequacy of internal financial control systems. The strengthening of internal financial controls can ensure that phenomena like fraud, mismanagement, embezzlement, misappropriation, and errors in reporting are eliminated and their consequences minimized. This ensures that assets are safeguarded, further bolstering the financial viability of the organisation. Moreover, audit committees play a crucial role in risk management and oversight. By identifying, assessing, and monitoring risks, they help in mitigating potential threats to the company's financial stability. This proactive risk management can positively influence financial performance by reducing unexpected financial losses.

The results of the study reassert this expectation and reveal a positive correlation between audit committees and financial performance. This implies that the enhanced financial reporting quality is offered by the presence of an audit committee. Additionally, a well-functioning committee ensures that the financial reporting process of the organisation is accurate, transparent, and reliable.

Audit committees, as highlighted in the empirical literature, play a critical role in assessing the adequacy of internal financial control systems. This responsibility is instrumental in fortifying the organization against various risks, including fraud, mismanagement, embezzlement, misappropriation, and errors in financial reporting. The findings from the discussed studies resonate with this argument, revealing a positive correlation between the presence of audit committees and financial performance. This positive association underscores the effectiveness of audit committees in minimizing the consequences of financial irregularities and ensuring the

safeguarding of assets. As these committees contribute to the elimination of fraudulent activities and errors, the financial viability of the organization is bolstered. This, in turn, aligns with the broader literature that emphasizes the role of audit committees in enhancing the overall financial health of companies.

In addition to internal financial controls, audit committees play a crucial role in risk management and oversight. The proactive identification, assessment, and monitoring of risks contribute to mitigating potential threats to the financial stability of the organization. This proactive risk management aspect is consistent with the empirical findings, demonstrating a positive correlation between the presence of audit committees and financial performance. The results affirm the expectation that effective risk management, facilitated by audit committees, positively influences financial outcomes by reducing unexpected financial losses. By actively engaging in risk oversight, audit committees contribute to a more resilient financial framework, aligning with the recommendations in the existing literature that highlight the importance of risk-aware governance structures.

## **5.2 Chapter Summary**

This chapter was an in-depth analysis of the findings of the study. There were five research questions answered and analysed in this chapter. The researcher took the time to compare the results of the study against the expectations set in chapters one and two. The data analysed was collected from the annual reports published by the organisations . Each subsection explored a specific research question.

## CHAPTER 6

### CONCLUSION AND RECOMMENDATIONS

#### 6.0 Introduction

The previous chapter presented an in-depth discussion of the results of the analysis. This chapter presents the main conclusions of the study based on those discussions. There are three sections in this chapter.

#### 6.1 Main Summary

This study investigated the effects of corporate governance on the financial performance of companies listed on the Lusaka Securities Exchange. This was done by answering five research questions based on the principles of sound corporate governance. The first queried the effect of board independence on the financial performance of the companies. The second questioned the influence of board size on the financial performance of the companies. Finally, the third examined the influence of the presence of audit committees on the financial performance of the companies.

The rationale of the study was premised on three theories. The first is Agency Theory, which examines the agency problem. The second Stewardship Theory, which suggests that managers, left on their own, will act as responsible stewards of the assets they control, and describes the existence of a strong relationship between satisfaction and organisational success (David, 2021). The third is Stakeholder Theory, which argues that a firm should create value for all stakeholders, not just shareholders, to maximize its financial returns.

Using the tools of correlation and regression analysis, the researcher established the direction and strength of the relationships that the independent variables have with the dependent variable. The findings of the study demonstrate a positive correlation between all the independent variables and the dependent variable. However, the results of the regression analysis reveal that even though audit committees and board size have a positive impact on financial performance, board independence has a negative impact on financial performance.

#### 6.2 Conclusions of the Study

The regression analysis indicates a positive relationship between revenue and board size. Specifically, for every unit increase in board size, revenue is expected to increase by 0.799 units, holding all other variables constant. The statistical significance of the coefficient, supported by a p-value below 0.05, reinforces the credibility of this relationship. This suggests

that the size of the board significantly influences the revenue of the companies under consideration.

The analysis reveals a negative relationship between board independence and revenue. For every unit increase in board independence, revenue is expected to decrease by 0.018 units, holding all other variables constant. The statistical significance of the coefficient, with a p-value below 0.05, supports the conclusion that board independence has a significant impact on reducing revenue. This implies that as boards become more independent, there is a negative effect on the revenue of the companies.

The analysis suggests a positive relationship between the presence of audit committees and revenue. For every unit increase in the presence of audit committees, revenue is expected to increase by 0.186 units, holding all other variables constant. The statistical significance of the coefficient, with a p-value below 0.05, indicates that the presence of audit committees significantly influences revenue. This suggests that effective audit committees contribute positively to the revenue generation of the companies under examination.

The R-squared value of 0.909 is substantial, indicating that approximately 90.9% of the variations in revenue can be explained by variations in board size, board independence, and the presence of audit committees. This high R-squared value suggests that the chosen independent variables collectively provide a strong explanatory power for the observed variations in revenue. Therefore, the model is effective in capturing the factors influencing revenue, and it is a robust representation of the relationship between the specified independent variables and revenue.

The correlation between revenue and board size has a statistically significant p-value of 0.014, which is below the commonly accepted threshold of 0.05. This implies that there is a significant correlation between revenue and board size. The direction of the correlation (positive or negative) is not explicitly mentioned in the information provided, but the statistically significant p-value indicates that changes in board size are associated with changes in revenue.

The correlation between revenue and board independence has a p-value of 0.515, which is above the threshold of 0.05. This indicates that the correlation value associated with the relationship between revenue and board independence is not statistically significant. In other words, there is insufficient evidence to conclude that changes in revenue are correlated with changes in board independence.

The correlation between revenue and audit committees has a p-value of 0.069, which is above the ideal threshold of 0.05. Like the correlation with board independence, the correlation value associated with the relationship between revenue and audit committees is not statistically significant. The evidence is insufficient to conclude that changes in revenue are correlated with changes in the presence of audit committees.

### **6.3 Limitations of the Study**

This study also encountered the following limitations:

- i. The findings might be limited due to the sample size. Only 8 companies were incorporated into the data analysis process, compromising the representativeness of the sample.
- ii. This study was not able to consider the contextual factors unique to the Lusaka securities exchange. These include the socio-economic, political, or industry-specific conditions that impact the corporate governance practices that these companies might opt to adopt. All these factors have their unique implications on the financial performance of these companies.
- iii. Due to a lack of consistent reporting standards, the researcher faced a tough time collecting consistent data from the companies. This led the researcher to consistently drop the sample size, limiting the generalizability of the study results.
- iv. The study did not consider the external influence of macroeconomic conditions on the financial performance of these organisations. External factors such as economic cycles, market volatility, and fluctuations in the operational environment may also influence financial performance in ways that are imperceptible to the measurements used in this study
- v. Also because the researcher used secondary data there was a lack of an impersonal feel as actual people from the three selected organizations were not interviewed.
- vi. During the study challenge was encountered in managing the data collection process during the analysis of the secondary data. They had to work with information that had been collected and documented previously, which was beyond their control. This preexisting data might not have perfectly aligned with their specific research objectives.

## 6.4 Implications and Recommendations for Policy

Based on the results of the study, the researcher makes the following recommendations for policy:

**Enhancing Board Independence:** The results of the study demonstrate a positive correlation between board independence and financial performance. This emphasizes the importance of increasing the proportion of independent directors on the boards of publicly traded companies. The researcher recommends that regulators set minimum requirements for independent directors and provide incentives for companies to diversify their boards. This will not only enhance the financial performance of the organisations, but also improve the financial sustainability of the industry.

**Strengthening Audit Committee Oversight:** The results of the study demonstrate a strong positive relationship between financial performance and the presence of audit committees. The researcher recommends that policy interventions focus on increasing the efficacy of these audit committees, their structure, and their functions. These guidelines would be designed to enhance their composition, refine their responsibilities, and stipulate the relevant qualifications of audit committee members, ensuring they possess the necessary expertise to fulfil their oversight roles effectively.

**Capacity Building and Training of Potential Board Members:** The results of the study show a positive relationship between board size and financial performance. However, the researcher deduces that this would only be the case if the board members are diverse with relevant experience, expertise, and perspectives. However, companies must not shun away from electing more board members as they see fit. Hence, the researcher recommends that capacity building initiatives aimed at enhancing the skills and knowledge of potential board members. These should be particularly in areas related to risk management, financial oversight, and operational and environmental sustainability to ensure more comprehensive oversight. Additionally, the researcher recommends that these training programs be mandated on a periodic basis, with training content updated to fit the context of the current operational environment.

## 6.5 Recommendations for Further Study

- i. The researcher focused almost entirely on eight organisation's listed on LuSE. Though the findings of the analysis of their financial statement do present interesting implications, this is not enough to accurately represent the larger market. Unfortunately,

due to erratic publishing practices, it was difficult for the researcher to compile financial statements of a proper majority of the publicly listed companies on LuSE.

- ii. Hence, the researcher recommends a more detailed study be conducted from this perspective. It is important that more effort is channeled into understanding the role of corporate governance on the financial performance of publicly traded companies in developing countries to protect the sustainability and inclusive growth of our burgeoning financial markets.
- iii. Moreover, Zambia's current macroeconomic and investment climate demonstrates the cardinal gap in capital market growth and academic knowledge of the phenomenon. In the wake of the instability that was borne of the pandemic, this gap is as malicious as ever as it leaves our capital markets vulnerable to systemic shocks – such as those experienced during the 2007/8 recession. Shocks that can be easily mitigated with the right policies and expertise.

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## APPENDIX

**Appendix One: Literature Review Matrix**

Author/ Date	Theoretical/ Conceptual Framework	Research Question(s)/ Hypotheses	Methodology	Analysis & Results	Conclusions	Implications for Future research	Implications For practice
Skare & Hasic, 2016	Stakeholders Theory	The researchers sought to deduce the nexus between corporate performance and economic growth.	They compiled a comprehensive literature review, analysing papers from a global perspective.	The researchers found that transparency significantly benefited the firm's financial performance as investors were more likely to invest in firms that adequately reported their financial status.	The researchers concluded that most papers reported that the core principles of corporate governance – transparency, accountability, and security – each had their individual roles in boosting the performance of the firm.	There is a need for more studies to quantify the three elements of corporate governance to establish the causal relationship between the variables and the financial performance of firms.	Firms need to invest more in portraying their dedication to transparency. This can be through publishing more elaborate financial analyses or increasing the frequency of their reports to portray more dedication to keeping

							investors informed.
Bhagat & Bolton, 2008	Stewardship Theory	The researchers sought to answer three questions:  How is corporate governance measured? What is the relationship between corporate governance and performance? How can poor firm performance be mitigated through disciplinary corporate governance interventions?	A multivariate time series analysis.	The researchers measured the relationship between the metrics of financial performance of the firms that participated in the study. To answer the last question, the researchers used the tools of regression analysis to understand the relationship	The researchers concluded that there is a significant influence on the role of CEOs and other officers in similar roles in the organization.	The researcher did not have access to the part of the paper that presented the limitations and recommendations for further research.	To answer the third question, the researchers recommended that CEO duality be eliminated as a practice to insulate the negative implications that it may have on the financial performance of the organization.

				<p>between the metrics of corporate governance pillars and financial performance. The researchers found a positive relationship between firm financial performance and stock ownership of the board, but a negative relationship with CEO duality.</p>			
	Stakeholder and	The study examined the effect of	The researcher drew data from 103 firms from Ghana,	The results reveal that there is a strong	The researcher concluded that the efficacy of the	The researcher recommended	

Kyereboah-Coleman, 2008.	Stewardship Theory	corporate governance of the performance of firms in Africa by using both market and accounting based performance measures.	South Africa, Nigeria, and Kenya covering the period between 1997-2001. They then performed a dynamic panel data framework to establish the influence of corporate governance on the dependent variable.	relationship between the size of audit committees, the frequency of their meetings, and the performance of the accounting metrics. The researcher also found that the tenure of office of the CEO also enhances the firm's profitability and return on assets. Additionally, CEO duality was established to have a negative impact on the financial performance of the firms.	board has a significant impact on the performance of the organization, especially in the long run.	that the role of the board chair and CEO be separated, and CEOs be given more tenure in the roles for their decisions to have a more holistic and sustainable impact on the performance of the firm.	
	Agency Theory	The researchers	The researcher used the tools of		The researcher concluded that	The researcher did not have	

<p>Munisi &amp; Randoy, 2013</p>		<p>examined the extent to which publicly listed companies across sub-Saharan African countries have adopted 'good' corporate governance practices. The interrogated the association of these practices with companies' accounting performance and market valuation</p>	<p>multivariate regression analysis to explore the topic from the perspective of numerous independent variables.</p>	<p>The researchers found a positive association between their constructed index of good corporate governance practices and accounting performance. The researchers also found a negative association between the corporate governance index and the market valuation.</p>	<p>corporate governance has a mixed relationship with firm performance based on the variables analysed.</p>	<p>access to the part of the paper that presented the limitations and recommendations for further research.</p>	
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