



African Journal of Commercial Studies

Publisher's Home Page: <https://ijcsacademia.com/>



Research Paper

Open Access

Effect Of Corporate Governance on the Performance of State-Owned Enterprises in Zambia

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Article Info

Volume 4, Issue 2, March 2024

Accepted : 21 March 2024

Published : 24 March 2024

doi: [10.59413/ajocs/v4.i2.7](https://doi.org/10.59413/ajocs/v4.i2.7)

Ark: ark:/69431/AJoCS.v4i2.7

Abstract

A state-owned enterprise (SOE) is a legal entity created by a government to engage in commercial activities on behalf of the government. State-owned enterprises are an important part of most economies and make an important contribution to national development processes. In Zambia, state-owned enterprises operate in key sectors of the economy, including agriculture, forestry, energy, financial services, manufacturing, mining, real estate, tourism and ICT. The Auditor General's latest report named 13 state-owned companies as having suffered losses of K1,854,902,817 during the reporting period. The 2022 Auditor General's report also highlighted a number of financial and operational challenges, showing that the performance of state-owned enterprises in Zambia remains unsatisfactory. Therefore, this study was formulated to examine the impact of corporate governance on the performance of SOEs. A sample of 147 respondents was selected from 33 state-owned enterprises using the Taro Yamane formula, resulting in a 100% response rate. A mixed methods approach was used and the data was analyzed using SPSS from which correlation and summary coefficients were used to measure the relationship between the variables. The correlation coefficient of 0.612 from the SPSS results indicated that there is a strong positive relationship between the structure and appointment of the board, internal controls and the performance of SOEs. Furthermore, the R-squared (determination coefficient) of 0.375 from the SPSS results suggests that the performance of SOEs is improved by good corporate governance, which is 37.5% influenced by the structure and appointment of the board and internal controls and 62.5% can be linked to other factors that were not taken into account, such as micro and macroeconomic factors, lack of employee motivation and poor work culture in state-owned enterprises, among others. Therefore, the board should consist of members who have knowledge of the industry in which the SOE operates, and they should be appointed according to the policies of the respective SOE so that they can provide strict internal control systems that can benefit the better performance of state-owned companies.

Keywords: Corporate Governance, Board of Directors, Performance, State-Owned Enterprises

1. Introduction

The Institute of Chartered Accountants in England and Wales (ICAEW, 2022) defines Corporate Governance as the way companies are managed and controlled. Boards of Directors (BoD) are responsible for overseeing their companies. Shareholders have a role in governance by appointing directors and auditors and ensuring a proper governance structure is in place.

According to ICAEW (2022), Corporate Governance involves the actions of a company's board and the values it sets, separate from the day-to-day management by full-time executives. Forsythe, B.A (2023) explains that Corporate Governance consists of rules and practices that guide a company's oversight by its Board of Directors and committees. It requires balancing stakeholders' interests with delivering value to shareholders.

A Board of Directors (BoD) is elected by a corporation's shareholders to represent their interests and oversee management decisions. The Chairperson leads the Board as the directors attend meetings, evaluate performance, make key decisions, declare dividends, and determine executive compensation (InvestingAnswers, 2019).

Schmitz (2012) emphasizes the importance of the board's composition in improving an organization's performance. A well-functioning board is crucial for achieving an organization's goals, whether it be fulfilling a mission or succeeding in the market (Leblanc, 2016).

The Organization for Economic Co-operation and Development (OECD) states that the Board of Directors (BoD) is responsible for the performance of State-Owned Enterprises (SOE) through their fiduciary duty. Boards of state-owned institutions now focus on driving performance, setting strategies, and collaborating with management for implementation (OECDiLibrary, 2013).

1.2 State-Owned Enterprises' Definition, Functions and Organizational Structure

A state-owned enterprise (SOE) is a legal entity created by a government to engage in commercial activities on behalf of the government. It may be owned in whole or in part by a government and is typically intended for participation in certain commercial activities (Kenton, 2020). State-owned enterprises (SOEs) are an important part of most economies, including many more advanced economies. State-owned enterprises are most commonly found in strategic sectors such as energy, minerals, infrastructure and other utilities, and in financial services in some countries. The presence of state-owned companies in the global economy has increased significantly in recent years. Today they account for over a fifth of the world's largest companies, in contrast to a decade ago when only one or two state-owned companies could be found at the top of the rankings. This means that high standards of corporate governance of

state-owned enterprises are crucial to ensure financial stability and sustain global growth (OECD, 2018).

The products and services that SOEs use and their roles within them can be complementary. Roles include owner, producer, provider, regulator, intermediary, seller, buyer, consumer and user. The products and services they cover include physical infrastructure, water, electricity, gas, postal delivery, telecommunications, transportation, natural resources, finance, housing, healthcare, and education (OECD, 2017). According to Friend L (Friend, 2019), organizational structure is a framework for establishing a hierarchy within a company. Each job is identified along with its role and internal reporting structure. This structure is intended to define an organization's operations and help it achieve its goals so that it can grow in the future. State-owned enterprises (SOEs), like other large companies, must function with complete hierarchical organizational structures to ensure efficiency and effectiveness in day-to-day operations. Therefore, in this context, it is crucial to define and illustrate the organizational structure of an organization to better understand the impact of corporate governance on the performance of state-owned enterprises.

1.3 Importance of SOEs in Zambia

As one of the most important economic sectors in many African countries, state-owned enterprises (SOEs) play a significant role in the processes of national development. Thanks to state-owned enterprises, citizens can benefit from essential services such as transport, water, electricity, healthcare and sanitation. The competitiveness of small and medium-sized enterprises in the private sector economy also depends heavily on the infrastructure and services that these enterprises offer (OECD, 2014). Similarly, state-owned enterprises employ a significant portion of the formal sector in Zambia and operate in a wide range of industries. Agriculture and forestry, education, energy, financial services, healthcare, information and communications technology, infrastructure, manufacturing, mining, real estate, tourism, transportation and logistics are among the important economic sectors in which they dominate (IDC, 2022). This shows how important it is for the socio-economic development of any country - including Zambia - to have both good corporate governance and effective and efficient management of state-owned enterprises.

1.4 The Role of the Board of Directors in State-Owned Enterprises (SOE)

In his work, Frederick (2011) argues that the board is central to the governance of state-owned enterprises (SOEs). The Board is responsible for the performance of the SOE and has the authority to make decisions that affect performance. In addition, the board acts as a bridge between the state and the SOE and represents the owners. In this respect it functions similarly to a board in the private sector.

1.5 Statement of the Problem

The World Bank noted in its 2014 periodic publication that low levels of financial and nonfinancial disclosure, few if any requirements for public reporting of their accounts or other information, and weak internal controls and processes are common among many state-owned companies. It was also noted that these companies often have inadequate accounting and auditing practices and inadequate compliance procedures. Many of these problems are caused by the lack of a clearly defined performance monitoring system that would ensure accountability and responsibility for performance, particularly on the part of the Board of Directors and the CEO (WorldBank, 2014).

According to the 2016 Auditor General (AG) report (PMRC Parastatal Analysis, 2017), only two state-owned companies declared dividends totaling K16,760,000. According to PMRC Parastatal Analysis, 14 institutions failed to submit their audited financial reports for the fiscal years, which ended on December 31, 2013 to December 31, 2016. This was noted in the AG's 2016 report. The Public Finance Management Act and the Public Audit Act are being violated, the PMRC added in its statement. Financial reports must be submitted. In addition, the Office of the Auditor General (OAG) is prevented from determining whether funds used by individual departments, parastatals, statutory bodies and private institutions have been used for their intended purposes. Failure to prepare audited annual financial statements therefore represents a violation of the various enabling laws governing institutions and is a breach of good corporate governance. The absence of financial statements results in a formal record of a company's financial activities and financial position, making it difficult to take into account transparency, dividends in the case of parastatals, and the company's ability to meet short-term and long-term obligations. This lack of financial reporting also poses a challenge to the functioning of statutory and parastatal bodies. Like all for-profit organisations, parastatals seek to maximize their profits; However, in the absence of financial reports, this becomes more challenging.

According to Mumba and Kazonga (2021), many SOEs in Zambia have generally experienced subpar financial performance. Therefore, despite their potential to benefit the public, these SOEs were negatively perceived by the general public. Mumba claims that inadequate management and weak corporate governance (CG) are two of the main causes of underperformance of state-owned enterprises. Additionally, the Research Journal mentions that Zambia's state-owned enterprises (SOEs) needed subsidies to stay afloat due to distressed finances. Often these funds are diverted to more pressing national needs such as healthcare and education. Therefore, providing subsidies to state-owned enterprises indicates consumption rather than an increase in Zambia's GDP (Mumba & Kazonga, 2021). The poor performance of Zambia's state-owned enterprises was the problem or challenge that this research study sought to

address or provide solutions to. The shortcomings of this underperformance were brought to light by the concerns raised in Zambia's 2021 and 2022 Auditor General Reports. The only Supreme Audit Institution in Zambia authorized to audit all government agencies, parastatals, statutory bodies, donor-funded organizations and other institutions where public funds have been used is the Office of the Auditor General (OAG-Zambia, 2022).

The financial performance and management of a selection of parastatals and other statutory institutions are highlighted in the Auditor General of Zambia's report on the accounts of these entities for 2021. These topics include contractual, pension fund and loan administration issues; deficiencies in internal control systems; and corporate governance failures, including failure to prepare and audit financial statements. The Auditor General's report on the accounts of parastatals and other statutory institutions for 2022 also identified numerous deficiencies in the way state-owned enterprises (SOEs) handle corporate governance, including inadequate preparation and audit of their accounts, improper handling of loans, pension funds and contracts as well as deficiencies in internal control methods. The specific report found, among other things, failure to do the following: inadequate financial performance, reduced profitability, lack of a board of directors, failure to produce annual reports, and inadequate financial reporting (Office of the Auditor General, 2022).

In the same vein, a public or national print media, the December 14, 2023 newspaper edition of the Zambia Daily Mail, reported that the most recently released report of the Auditor General for the financial year ending 2022 revealed that only five of all state-owned companies had declared dividends worth of K61, 334, 600 and K62, 012, 587 in 2021 and 2022 (Zambia Daily Mail, 2023). This shows that the performance of SOEs in Zambia remains unsatisfactory based on the literature reviewed and the Auditor General's reports of 2021 and 2022.

1.6 Main Hypothesis

The aim of the study was to test the following alternative hypothesis

- H₁ There is a positive relationship between the structure of the Boards of Directors and performance of the SOEs.
- H₂ There is a positive relationship between the appointment of the Boards of Directors and performance of the SOEs.
- H₃ There is a positive relationship between internal controls and performance of the SOEs.

2. Empirical Literature Review

The Industrial Development Corporation (IDC), Zambia's holding company for all state-owned enterprises (SOEs), reports that the country has thirty-three (33) state-

owned enterprises in twelve (12) different sectors including education, energy, financial services, healthcare, infrastructure, manufacturing, Mining, real estate, tourism, transport and logistics. According to the World Bank (2008), some notable state-owned enterprises (SOEs) in Zambia are as follows: Zambia Railways (ZR), Zambia National Commercial Bank (Zanaco), Development Bank of Zambia (DBZ), Zambia Electricity Supply Corporation (ZESCO), Zambia Telecommunications Corporation (ZAMTEL), Zambia Postal Services Corporation (ZAMPOST) and Zambia Consolidated Copper Mines-Investment Holdings (ZCCM-IH). The above-mentioned state-owned enterprises represent the following sectors: mining, energy, financial services, media, transport, information and communications technology and energy.

Prior to 2015, the Ministry of Finance in Zambia owned or oversaw the SOEs as the government of the Republic of Zambia's shareholder, until the shares were transferred to the newly formed Industrial Development Corporation (IDC). All aspects of governance, trading, financing, operations and all matters related to the interests of the state as the majority shareholder are subject to the supervision of the IDC (Lusaka Times, 2015). In Zambia, state-owned enterprises (SOEs) are managed by boards of directors appointed by the government in consultation with members of the private sector. The CEO receives reports from the CEO of the SOE. If the SOE pays dividends, the Ministry of Finance receives payment for it. Before decisions are made, the CEO must formally consult with government officials. The members of the Board of Directors are selected by the Minister from among representatives of the public sector, business and civil society. However, board independence is limited because the majority of most boards are civil servants and board members appointed by the minister from the private sector or civil society can be removed (U.S. Department of State, 2022).

2.1 The Role of the Boards of Directors (BoDs) in Corporate Governance

As mentioned above, the Board of Directors (BoD) is an elected body that represents shareholders. The board of directors is a body that sets guidelines for corporate governance and oversight and typically meets regularly. Every listed company requires a Board of Directors (BoD), which consists of both internal and external members of the company. Additionally, some nonprofit and private organizations have a board of directors (Chen, 2019). According to the Corporate Governance Institute, the primary responsibility of a public company's board of directors is to represent the interests of shareholders. Directors are required by law to put the interests of shareholders ahead of their own. The board members are responsible for monitoring and assessing the company's business activities. Generally, the board acts as a trusted advisor (fiduciary) to shareholders. A board's primary responsibilities include hiring and firing executives, setting

dividend and option policies, and setting executive compensation. The board not only helps the company set comprehensive goals and supports the leadership team's accountability, but also ensures that the company has enough well-managed resources (Corporate Governance Institute, 2023).

A number of committees oversee all work assigned by the Board of Directors in addition to the Board of Directors. A finance committee reviews accounting policies and a governance committee recruits and accepts new members. These committees are represented on most committees. Other committees include the audit, statute, communications and compensation committees. (Corporate Finance Institute, 2023) The Corporate Finance Institute also notes that a board of directors is a gathering of people selected to speak for shareholders. Legally speaking, a board of directors is a must for every public company or state-owned company. Protecting the interests of shareholders, setting management policies, overseeing the governance of the organization or state-owned enterprise, and making important business decisions are all within the purview of a board of directors. The management and direction of a company or organization is overseen by a group of people called the board of directors. A corporate board generally acts as a fiduciary for shareholders. The main important duties and roles of the board include the following:

- Hiring and monitoring of senior management: The board appoints the CEO and other top executives and is responsible for overseeing their work to ensure that they act in the best interests of the organization.
- Monitoring financial performance: The board reviews the company's financial reports to ensure that it is managing its funds wisely.
- Maintaining compliance with legal and ethical standards: The Board is responsible for ensuring that the company complies with all relevant legal requirements and adheres to strict moral principles.
- Guidance and support for management: The board advises management on important business decisions and challenges and supports them when necessary.
- Representing Shareholder Interests: The Board strives to ensure that the Company optimizes shareholder value on behalf of the Company's shareholders.
- Determining the overall course and strategy of the company: The board is responsible for setting the strategic objectives and course of the company and ensuring that management takes the necessary actions to achieve these objectives.

Ultimately, the board is critical to the company's ability to lead responsibly and effectively and provide value to its

stakeholders and shareholders (Corporate Finance Institute, 2023). Good practice dictates that the functions of the board should be spelled out in detail in accordance with general company law and enshrined in law. Boards of state-owned companies should be given a specific mandate, the final say, on issues of corporate performance and independence. Setting goals and communicating them to the boards of state-owned companies is also critical, as this keeps the entire board informed. This is done by the government or its ownership entity. Corporate law requirements are the most common means by which corporate roles and responsibilities are defined and communicated (OECD, 2018).

2.2 Corporate Governance and SOE Performance: Review of Similar Studies

The World Bank Group's (2014) Journal states that prior reform initiatives have demonstrated that, in cases where state-owned enterprises underperform, the issues typically stem from underlying governance issues or issues with the institutions, protocols, and regulations that support them, as well as the relationship between SOE managers and their state owners. These governance issues can include complicated and sometimes contradictory mandates, a lack of clearly identifiable owners, politicized boards and management, a lack of autonomy in day-to-day operational decision-making, and inadequate financial reporting and disclosure practices. These problems are fueled by political interests that distinguish between ownership (by the government on behalf of the country's citizens) and control (by the directors and managers who run the company). In areas where these deficiencies are more common, state-owned enterprises could also be a breeding ground for corruption (World Bank, 2014).

In addition, the World Bank Group notes that many state-owned companies, despite being publicly owned, often have weak internal controls and procedures, substandard accounting and auditing standards, sloppy compliance protocols, low levels of financial and non-financial disclosure, and little public disclosure. There is no obligation at all to make their financial reports and other information publicly available. The lack of a clear performance monitoring system to ensure accountability and responsibility for performance, particularly of the board and CEO, is the root cause of many of these problems. In addition, where these systems are in place, aggregate reporting may not occur and they are often simplified. A lack of openness and disclosure can make it more difficult to track the performance of state-owned companies, limit accountability generally, hide debt that could endanger the financial system, and foster an environment that makes corruption more likely. Infrastructure, natural resources and extractive industries may be particularly vulnerable to corruption risks (World Bank, 2014).

According to Heo's (2018) findings, when state-owned

enterprises perform poorly, the government faces financial risk, which may cause serious obstacles to the country's overall growth and rivalry. Improving the performance of state-owned enterprises therefore remains a top priority for development experts and policymakers. The performance of state-owned enterprises has recently improved as global efforts to strengthen corporate governance accelerate. The purpose of this study was to examine how state-owned enterprise performance and corporate governance are related. The study examined the impact of corporate governance on a range of performance indicators for state-owned enterprises in the Republic of Korea, including financial performance, customer satisfaction and performance evaluation results. The data examined came from 320 of these companies. The results of the empirical study suggest that the efficiency of SOEs is influenced by factors such as board size, corporatization, transparency and disclosure, all of which have a positive relationship with their performance. The independence of the board and the division of duties between board chair and the chief executive officer have little or no impact on certain performance measures. According to these findings, having a larger board, corporatizing state-owned companies, and having more open disclosure policies can be beneficial.

Corporate governance issues are the main reason why SOE governance is still problematic in Zambia. The research journal pointed out the difficulties in corporate governance and recommended conducting empirical studies to improve state-owned enterprises' performance and corporate governance. Therefore, the journal concluded that further studies are needed to create corporate governance policies in Africa. The Journal of Corporate Governance Research noted that knowledge of corporate governance in Zambia is still in its infancy and that there is a lack of empirical research on the functions and composition of the Zambian board of directors as well as corporate governance practices.

The research also showed that many state-owned enterprises in Zambia generally had subpar financial performance. This results in these state-owned enterprises having a poor reputation among the public, despite their potential to benefit the public. According to Mumba, poor management and lax corporate governance (CG) are two of the main causes of underperformance of state-owned enterprises. Mumba's research also mentions that the Zambian government has had to subsidize state-owned companies to keep them afloat due to their subpar financial performance. These funds are often used for other pressing national needs such as education and health. As a result, the provision of subsidies to state-owned enterprises suggests consumption rather than an increase in Zambia's GDP.

An ideal corporate governance model for SOEs in Zambia was developed by Luputa, S. and Mwanza, J. through an examination of the state of corporate governance in the SOEs. According to the researchers, the lack of sound corporate governance practices in state-owned

companies is exacerbated by Zambia's complicated legal system. Major shareholders have greater influence on the composition of the board and even the direction the company should take. State-owned companies are subject to restrictions such as: Requirements for public services and low financing from their owners. Owners set restrictions in various ways. It may be possible to develop standard operating procedures and a framework suitable for a particular context by better understanding how shareholders currently decide on corporate governance policies. It would be useful to explore strategies to ensure the implementation of corporate governance. Analysis of the data collected revealed numerous deficiencies in Zambia's corporate governance processes and frameworks. The deficiencies were divided into six groups, according to [Luputa, S. and Mwanza, J. \(2022\)](#): inadequate or nonexistent corporate governance provisions; lack of ownership involvement in SOE financing and public service obligations; legal framework; owners' greater power to determine board composition; and owners' imposition of restrictions.

Sharifah and colleagues assume that the collective entity called the board of directors is tasked with acting in the best interests of shareholders. It is considered necessary that the board consists of a mix of executive and non-executive directors to promote the interests of shareholders. The effectiveness of non-executive directors in carrying out their duties depends on their independence from management and their commitment to impartial business judgment. Independent directors, appointed by shareholders to act on their behalf, play a role in mitigating agency problems. Both the corporate governance code and regulators encourage a balanced composition of the board, including independent directors. However, following these recommendations alone is not enough if independent directors do not carry out their duties effectively. Several countries have conducted studies examining the relationship between board independence and corporate performance, yielding mixed results. Even if a company has a high number of independent directors, this is no guarantee of improved company performance. Consequently, close monitoring of independent directors on the board is necessary to generate positive shareholder value ([Sharifa et al, 2015](#)).

Moreover, a study conducted by [Awad and Ghanem](#) delves into the diverse characteristics of audit committees and the impact of Boards of Directors on firm performance. The study specifically evaluates factors such as board size, independence, audit committee composition, size, independence, financial expertise, and meeting frequency. The research explores the resource dependency theory, which posits a positive correlation between non-independent directors and firm performance. Conversely, findings from the study indicate that the agency theory suggests superior performance with a more independent board. Over the past few decades, numerous accounting

scandals and governance failures worldwide have adversely affected stakeholders and economies. In response to such incidents, the United States introduced the Sarbanes-Oxley Act (SOX), elevating the responsibilities of corporate Boards of Directors. This legislation aims to uphold fairness for both shareholders and stakeholders by mandating listed companies to appoint independent, knowledgeable, and proactive audit committees and directors, emphasizing the protection of investors and stakeholders. Analyzing a sample of 96 companies, the study reveals a positive correlation between an extensive and independent board and favorable business outcomes, as well as a similar effect from the presence of an effective audit committee. Nonetheless, no significant relationship was found between various audit committee characteristics and firm performance. Despite this, the study's outcomes shed light on the functioning of corporate governance within companies ([Awad, G. & Ghanem, M.G., 2023](#)).

3. Theoretical and Conceptual Framework

3.1. Theoretical Framework

Agency Theory

The concept of agency theory states that shareholders as principals' contract with company managers as agents to carry out tasks on their behalf. The agent's job is to act in the best interests of the principal in business transactions, putting the principal's goals above his own interest. Nevertheless, conflicts may arise due to different interests between principals and agents, potentially leading to misunderstandings, disputes, inefficiencies and financial losses within organizations ([Gazprom, 2021](#)).

Stewardship Theory

According to this theory, an administrator - a manager - makes decisions and represents the interests of the owners or shareholders. In order to enable shareholders to prosper, their goal is to build and run a profitable company. According to this theory, companies combine the duties of the CEO and chairman of the board under one executive, and the board is composed primarily of employees. This methodology enables a deeper understanding of organizational functions and a deeper commitment to performance ([Gazprom, 2021](#)).

Stakeholder Theory

According to stakeholder theory, an organization has obligations to more than just its shareholders. Stakeholder theory was first popularized by Edward Freeman, who viewed it as a fundamental component of corporate social responsibility (CSR), a concept that some of the world's largest companies claim to be core to their business strategy. This relates to the main tenet of stakeholder theory, which states that no interest group has dominance over another and that the interests of all stakeholders have intrinsic value ([Gazprom, 2021](#)).

Shareholder Theory

Shareholder theory states that a company's primary mission is to maximize profits for its shareholders. This perspective is based on the belief that individuals invest in companies solely to achieve the highest return on their investments. If a company deviates from this goal and engages in activities that do not contribute to profitability, shareholders may take action by removing the board of directors or selling their shares to invest in a more profit-oriented company (AccountingTools, 2022).

Political Theory

Political theory is concerned with the effects of political structures on the governance framework of companies. This influence can be observed in the form of laws of political structures that have a significant impact on corporate governance, or in the participation of the state in the capital of companies (Monica-Violeta, 2013).

3.2. Conceptual framework

A conceptual framework, according to Swaen, B. and George, T., is a representation of the relationship one wants to observe between variables or the characteristics or attributes one wants to study. An example of an expected relationship between variables is a conceptual framework. It sets out the relevant objectives for the investigation and shows how they are linked to reach logical conclusions. Before beginning any data collection process, a conceptual framework should be created. Conceptual frameworks show cause-and-effect relationships and are often represented visually (Swaen, B. and George, T., 2022).

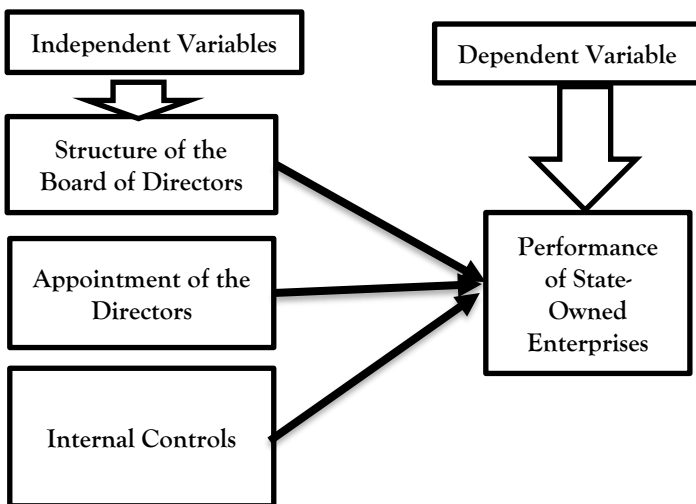


Figure 1: Conceptual framework

4. Research Methodology

This section describes the research methodological procedures that were used to answer the research questions which were developed from the set research objectives of this study.

The section begins by providing the chosen research philosophy, approach, methodological choice, strategy, time

horizon as well as data collection and data analysis. The aforementioned steps chosen by the researcher are encapsulated in what is known as the 'Research Onion' which was developed by Saunders et al (Saunders, et al., 2007) and Ilukena et al (2023). According to Saunders et al, and Ilukena et al (2023), the research onion describes the stages through which a researcher must pass when developing an effective methodology.

Thereafter, this section provides the study area, target population and sample size. The section concludes with explicating the reliability, validity and limitations of the chosen research strategy as well as providing adherence to ethical considerations.

In the figure below is a depiction of the Research Onion Model by (Saunders, et al., 2007)

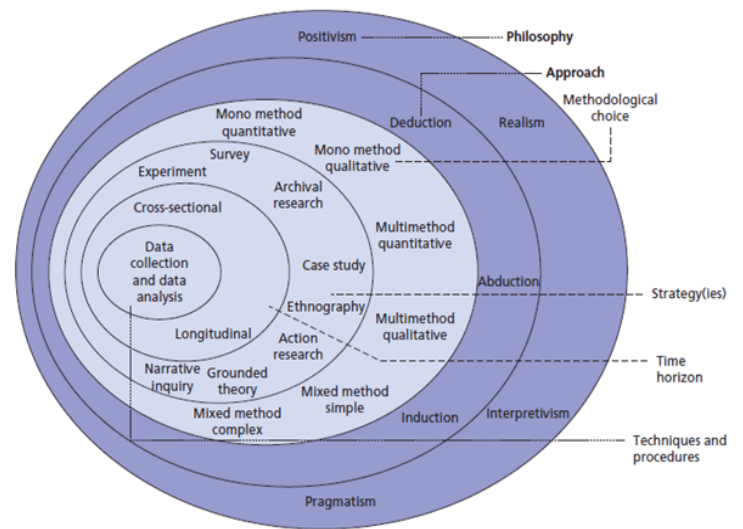


Figure 2: Research Onion Model

Source: (Saunders, et al., 2007)

4.1. Research Philosophy

The concept of research philosophy pertains to a set of beliefs and assumptions concerning the acquisition of knowledge. It encapsulates the fundamental nature of research endeavors, which essentially involve the cultivation of knowledge within a specific domain (Saunders, et al., 2007).

According to Pranas et al, there exist four primary trends in research philosophy that have been identified and deliberated upon by numerous scholars. These trends encompass the positivist, interpretivist, pragmatist, and realistic research philosophies. Each researcher is inclined towards a particular approach to conducting research (Pranas et al, 2018).

The investigator in this particular study opted for a pragmatic stance. Pranas et al expound that pragmatism in research philosophy focuses on empirical evidence. It asserts that the selection of a research philosophy is predominantly

influenced by the research quandary at hand. Practical outcomes hold significance within this philosophical framework. Moreover, pragmatism, as outlined by Pranas et al, is not confined to any specific philosophical doctrine or reality. Researchers enjoy autonomy in their decision-making process. They have the liberty to select the methodologies, tools, and protocols that align best with their requirements and scientific research objectives (Pranas et al, 2018).

Additionally, Alleman et al propose that pragmatism, as a paradigm or research philosophy, revolves around the principle of employing optimal methodologies to explore real-world issues. This approach permits the utilization of diverse data sources and knowledge bases to address research inquiries. Pragmatists deploy the most suitable research techniques to tackle prevailing challenges, especially in scenarios where intricate social dilemmas necessitate multifaceted solutions (Allemang et al, 2022).

Hence, it is for the reasons elucidated above that the investigator adopted the pragmatic research philosophy to address the research queries in this study.

4.2. Research Approach

According to Saunders et al (2007), the Research Approach, which constitutes the second layer of the 'Research Onion' model, encompasses both the Inductive and Deductive Research Approaches. The Inductive Approach focuses on formulating a new theory through research data, while the Deductive Approach aims at either testing or expanding upon an existing theory using research data (Raimo, S, 2019).

The selection of the Deductive Research Approach for this study was based on the aim of addressing a specific question or statement readily available. Furthermore, the study commences with a theory derived from the literature review and subsequently develops a research strategy to evaluate the pre-existing theory.

4.3. Research Strategy

The Research strategy delineates the overall research direction and the manner in which the research is executed, establishing the general research trajectory. It represents a key component of research methodology (Wedawatta, GSD et al, 2011).

As indicated by Saunders et al (2007), the research strategy pertains to the identification of an appropriate research style to facilitate the selection of data collection and analysis techniques, as well as the utilization of the acquired data within the report. Researchers can choose from seven distinct styles, including experiment, survey, case study, action research, grounded theory, ethnography, and archival research (Saunders, et al., 2007).

In this study, a survey research method was employed to scrutinize the research objectives and inquiries. Survey

research designs are methodologies in quantitative research where researchers administer surveys to a sample or the entire population to depict the attitudes, opinions, behaviors, or characteristics of the population (Saunders, et al., 2007).

4.4. Research Choice

Research choice pertains to the study's nature and is intricately linked to the type of research being conducted, categorizing research choices into three primary elements: qualitative, quantitative, or a combination of both known as mixed methods (Saunders, et al., 2007).

Quantitative research involves the utilization of numerical data, with particular emphasis on employing statistical tools, while qualitative research delves into opinions, thought processes, and emotions (Saunders, et al., 2007).

For this study, a 'Mixed-method' research design was selected, incorporating both quantitative and qualitative data collection techniques. Saunders et al highlight that the primary advantage of using mixed methods over mono-methods is the possibility of triangulation (Saunders, et al., 2007).

4.5. Time Horizon

Alamgeer explicates that the time horizon within the research onion pertains to the specific timeframe relevant to the research endeavor. It denotes the duration during which the researcher aims to investigate the target population. The determination of the time horizon is contingent upon the research objectives and the nature of the inquiry being conducted. The researcher's interest may lie in examining the population at a particular instant or observing the population over an extended period of time (Alamgeer, Z, 2022). Depending on the time horizon, research can be classified into two categories, namely longitudinal research and cross-sectional research. Cross-sectional research refers to investigations where samples are studied at a specific point in time, while longitudinal research entails studies conducted over a prolonged duration (Alamgeer, Z, 2022).

Therefore, the researcher opted for a cross-sectional research design for this particular study, as the focus was on a decade-long period spanning from 2013 to 2023.

4.6. Data Collection and Data Analysis

The pivotal stage of the research onion model is the data collection and data analysis phase. This phase is where the researcher engages in the practical aspects of the research, making informed decisions regarding the selection of specific methodologies and procedures. Practically, the researcher must determine the data to be gathered, the sampling techniques to be employed, the data collection methods, and the strategies for data analysis (Phair et al, 2021).

In this study, survey research methodology was utilized for data collection, with questionnaires distributed to board members. The study area, target population, sample size, and sampling technique are outlined below.

4.7. Study Area

Roodnick C defines the study area as the depiction of a specific field of study or a chosen area of scholarly focus. It serves to delineate a distinct region designated for deliberate and intensive examination (Roodnick C, 2022).

In essence, the study area represents the specific area under scrutiny that directly relates to the research. In this instance, the selected study area was Corporate Governance, which was the focal point of this study. As indicated by the research title, the examination centered on evaluating the impact of Corporate Governance on the performance of State-Owned Enterprises in Zambia.

4.8. Target Population

According to McLeod, S. A., the target population refers to the complete set of individuals from which a sample could potentially be drawn (McLeod, S. A., 2019). Other scholars assert that the target population encompasses the entire group that researchers are keen on investigating and analyzing. A sampling frame is then derived from this target population (DJS Research, 2023). For this study, the target population consisted of the 33 State-Owned Enterprises (SOEs) in Zambia.

4.9. Sample Size

Kenton W, suggests that a sample can be defined as a reduced, manageable representation of a larger collective. It encompasses the characteristics of the broader population. Samples are utilized in statistical analysis when the size of the population exceeds the capacity to include all potential members or observations in the test. A sample ought to accurately mirror the entire population without exhibiting any partiality towards a specific attribute (Kenton W, 2022). Hence, the term "Sample Size" denotes the count of participants or observations incorporated in a research study (Institute for Work and Health, 2008).

The sample size utilized in this research was determined based on 33 state-owned enterprises (SOEs). These 33 state-owned firms have an estimated total membership or population of 231 Directors on their Boards, averaging 7 members per enterprise. Employing the Taro Yamane formula provided below, with a 5% margin of error, a sample of 147 members was randomly selected to respond to questionnaires.

$$n = \frac{N}{1+N(e)^2} = \frac{231}{1+231(0.05)^2} = 147$$

4.10. Sampling Technique

As indicated by Amadebai E, the sampling technique signifies the approach taken to select a sample from a given population (Amadebai E, 2023). In this particular study, the researcher adopted both purposive and random sampling techniques. The selection of the target population was purposive since the focus was solely on examining the impact of Corporate Governance on the performance of SOEs. Conversely, the sample size was chosen randomly from the Boards of Directors in the SOEs through the simple random sampling method to ensure equal opportunities for all respondents to be chosen. Thomas, L explains that a simple random sample entails a randomly chosen subset of a population. Every member of the population has an identical likelihood of being selected with this sampling technique. It stands out as the most uncomplicated among all probability sampling methods, involving a single random selection and minimal prior knowledge about the population (Thomas, L, 2020).

4.11. Reliability and Validity

According to Salamao, A., the reliability of a study depends on how well its results can be replicated. This concerns the reliability and consistency of data collected using a research tool such as a survey questionnaire. When a reliable research tool is repeatedly administered to the same group of participants, it should produce consistent results (Salamao, A, 2023).

The author or researcher developed a standard survey questionnaire that represented the theories of Corporate Governance and the research questions. This enabled the researcher to get consistent results from the different board members or respondents that the questionnaire was distributed to because of the consistency of the subject matter of the questionnaire which was premised on adherence to Corporate Governance principles by the Boards of Directors in the SOEs. Furthermore, the researcher undertook a Test-Retest Reliability test to measure whether the questionnaire would bring out the same results when administered on different occasions. The researcher achieved this by sending out the questionnaires to different board members at different times and the responses that were derived from the questionnaires were consistent.

According to Jansen, D. and Kerry, W., the main factor determining the validity of a research instrument is whether or not it measures what it is intended to measure. In quantitative research, it is common for the researcher or survey designer's interpretation of a question or statement to differ from the study participants' interpretation. Such misunderstandings are common because survey participants are not given the opportunity to ask clarifying questions. It goes without saying that the information provided by respondents is of little use if they answer the question incorrectly. Therefore, it is crucial to confirm that the measurement tools used in a study are valid or that the data

they collect correspond to the intended data (Jansen, D and Kerry, W, 2023).

In this regard, the researcher paid particular attention to the creation of the questionnaire which was the main research instrument that was used to collect data for this study. Consequently, the questionnaire was developed from the realm of Corporate Governance which is the underlying theme for this study in its effect on the performance of SOEs in Zambia. The researcher then developed the questions and the statements in the questionnaire from the problem statement, research objectives and research questions in order to come up with a holistic document that could solicit responses that would adequately inform and answer the purpose of the study.

The questionnaire was developed in such a way that it was tightly aligned to the Research Questions that were developed for this study as elucidated in Chapter One as well as the key theories that were identified in the Theoretical Framework in Chapter Three. To this effect, the researchers conducted a Content Validity test to ensure that the questionnaire carried or represented all the particular theories of Corporate Governance captured in this study. The researcher achieved this by reviewing and assessing the questions and statements in the questionnaire to check whether they covered all the aspects of Corporate Governance principles.

4.12. Limitations of the Study

The biggest limitation of the study was that time was insufficient for data collection regarding the effect of Corporate Governance on the performance of State-Owned Enterprises (SOEs) in Zambia because most board members were not directly accessible at all times unless upon individual appointments.

Furthermore, the study was limited only to members of the Boards of Directors in SOEs in Zambia. It did not include other stakeholders such as the appointing authorities, management staff, employees and union members. Therefore, the findings may be biased as the aforementioned did not include their reflections and evaluation of the process. However, the researcher is of the considered view that the findings are transferable to any SOE in Zambia because the Boards of Directors which constituted the respondents for the survey, is composed of individuals who oversee the operations of SOEs.

4.13. Ethical Considerations

The investigation was entirely and solely of an academic nature, with any consequent outcomes being handled accordingly. Consequently, the contents and discoveries are not intended for any use other than academic purposes. The highest standard of ethical code was upheld by obtaining consent from all participants. There was no coercion or pressure to involve individuals in the research. The rights

and confidentiality of all participants were rigorously upheld, ensuring anonymity in the surveys and using only codes for data analysis to prevent any identification of individuals.

Concerning the methods of data collection, there exist several ethical principles to which the researcher strictly adhered. Ethics pertain to the distinction between right and wrong. In this study, the researcher took great care not to cause harm to participants or infringe upon their privacy. Questions posed to respondents were carefully designed to avoid causing harm or invading their privacy beyond the agreed-upon boundaries.

Moreover, the researcher obtained clearance from the Directorate of Research and Graduate Studies (DRGS) at the University of Zambia before commencing data collection. The Graduate School of Business at the University of Zambia also provided an introductory letter to acquaint the researcher with the participants.

5. Research Results and Analysis

This chapter presents the data and analyzes how corporate governance affects the performance of Zambia's state-owned enterprises. The Statistical Package for Social Scientists, also known by the acronym SPSS, was used to conduct the analysis. Internal controls in SOEs, board composition and its appointment were the variables observed.

5.1. Demographic information

As indicated in the table 1 below, gender under demographic information revealed that 104 out of 147 respondents are male, accounting for 70.07 percent of the total respondents, and 43 out of 147 respondents are female, accounting for 29.3 percent of the total respondents.

Table 1: Gender

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Male	104	70.7	70.7	70.7
Female	43	29.3	29.3	100.0
Total	147	100.0	100.0	

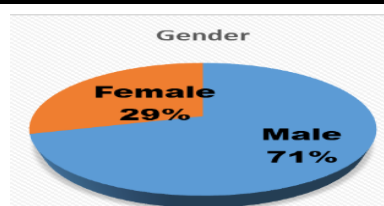


Figure 3: Gender Distribution

5.2. Educational level

According to the level of education of the respondents, degree holders are the most frequent respondents (86 out of

147, or 58.5 percent) and the highest represented education level of the respondents. Diploma level is the least represented on the Board of Directors with 18 out of 147, or 12.24 percent. This implies that the majority of the parastatal's board members are degree holders.

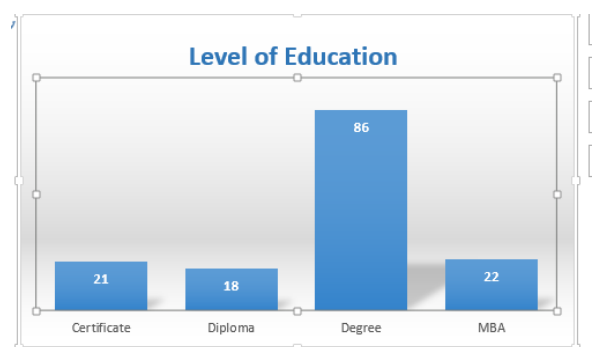


Figure 4: Level of Education of Respondents

5.3. Inferential Statistics

The inferential statistics used the correlation of coefficient to help determine if there is a relationship among the variables. The objectives and research questions were key to help identify the variables to be measured. Therefore, the relationship between the structure of the Board of Directors and the performance of the SOESs, the relationship between the appointment of the Board of Directors and the performance of the SOEs, and the relationship between internal controls and the performance of the SOEs were examined.

The Relationship between the Structure of the Board of Directors and the performance of SOEs

There is a significant relationship between the Structure of the Board of Directors and the performance of the SOEs since the P-Value from the SPSS output is below 0.01 which is the level of significance. The coefficient of correlation of 0.742 suggests that there is a strong positive relationship between the Structure of the Board of Directors and the performance of the SOEs. This indicates that the structure of the Board of Directors (Corporate Governance) influences significantly on the performance of the SOEs. Therefore, a poor board structure would lead to poor performance of the SOEs while a well-organized board structure would lead to good corporate governance in the SOEs which would in turn enhance the performance of the SOEs.

Table 3: Correlations between Structure of Board of Directors and SOE Performance

	Structure of Board of Directors	SOE Performance
Structure of Board of Directors	1	.742**
	Sig. (2-tailed)	.000
	N	147
SOE Performance	.742**	1
	Sig. (2-tailed)	.000
	N	147

** . Correlation is significant at the 0.01 level (2-tailed).

The Relationship between the Appointment of the Board of Directors and the Performance of the SOEs

There is a significant relationship between the appointment of the Board of Directors and the performance of the SOEs since the P-Value from the SPSS output is below 0.01 which is the level of significance. The coefficient of correlation of 0.679 suggests that there is a strong positive relationship between the appointment of the Board of Directors and the performance of the SOEs. This indicates that the appointment of the Board of Directors (Corporate Governance) has significant influence on the performance of the SOEs. Therefore, poor selection or appointment of the Board of Directors would lead to poor performance of the SOEs and a well-appointed Board of Directors would lead to better performance of the SOEs.

Table 4: Correlations between Appointment of Directors and SOE Performance

	Appointment of Board of Directors	SOE Performance
Appointment of Board of Directors	1	.679**
	Sig. (2-tailed)	.000
	N	147
SOE Performance	.679**	1
	Sig. (2-tailed)	.000
	N	147

** . Correlation is significant at the 0.01 level (2-tailed).

The Relationship between Internal Controls and the Performance of the SOEs

There is a significant relationship between Internal Controls and the performance of the SOEs since the P-Value from the SPSS output is below 0.01 which is the level of significance. The coefficient of correlation of 0.678 suggests that there is a strong positive relationship between

Internal Controls and the performance of SOEs. This indicates that Internal Controls (Corporate Governance) influence significantly on the performance of SOEs. Therefore, lack of stringent or reliable internal control systems would lead to poor SOE performance while systematic and reliable Internal Control systems would lead to enhanced performance of the SOEs.

Table 5: Correlations between Internal Controls and SOE Performance

		Internal Controls	SOE Performance
Internal Controls	Pearson Correlation	1	.678**
	Sig. (2-tailed)		.000
	N	147	147
SOE Performance	Pearson Correlation	.678**	1
	Sig. (2-tailed)	.000	
	N	147	147

** . Correlation is significant at the 0.01 level (2-tailed).

Model Summary using the Coefficient of Determination

The overall coefficient of correlation of 0.612 in the table below from the SPSS results suggests that there is a strong positive relationship between Corporate Governance and the performance of the SOEs which has been established through the testing of the following variables; structure, and appointment of the boards of directors, and internal controls in the SOEs. The R-Square (coefficient of determination) of 0.375 suggests that the performance of the SOEs is influenced 37.5% by Corporate Governance through the structure, and appointment of the Boards of Directors as well as systematic internal controls in the SOEs. The remaining 62.5 % can be associated with other factors that were not considered. The other factors that were not considered could be micro and macro-economic indicators, lack of employee motivation in the SOEs and poor work culture, among others.

Table 6: Summary Model

Model	R	R-Square	Adjusted R Square	Std. Error of the Estimate
1	.612 ⁸⁸	.375	.419	.75247

5.4. Discussion of Findings

According to the study by [Luputa and Mwanza, \(2022\)](#), “the Ideal Corporate Governance Model for State-Owned Enterprises in Zambia,” revealed that most SOEs do not have good Corporate Governance structures in Zambia and this could be one of the major factors leading to poor

performance.

Therefore, the results from this study are consistent with [Luputa and Mwanza](#), as there is a significant relationship between the Structure of the Board of Directors and the performance of the SOEs since the P-Value from the SPSS output is below 0.01 which is the level of significance. The coefficient of correlation of 0.742 suggested that there is a strong positive relationship between the Structure of Board of Directors and the performance of SOEs. This suggested further that the structure of the Board of Directors has a significant impact on the performance of the SOEs. As a result, a poor structure will result in poor SOE performance, whereas a well-organized structure will result in good SOE performance.

As [Sharifa et al \(2015\)](#) states, the Code of Corporate Governance and regulators recommend that the composition of board members should be balanced and consist of independent directors. However, mere compliance with the recommendations is not enough if the independent directors fail to exercise their functions effectively. From this study a coefficient of correlation of 0.679 suggested that there is a strong positive relationship between the appointment of the Board of Directors and the performance of the SOEs. This indicates that the appointment of the Board of Directors (corporate governance) has significant influence on the performance of the SOEs. Therefore, poor selection or appointment of the Board of Directors would lead to poor SOE performance and a well-appointed Board of Directors would lead to better or enhanced SOE performance.

The [World Bank noted in its 2014](#) Periodical Release that low levels of financial and non-financial disclosure, few, if any, requirements for publicly reporting their accounts or other information, and weak internal controls and processes are common among many SOEs. It also noted that these entities frequently have inadequate accounting and auditing practices and weak compliance procedures. A lot of these issues are caused by the absence of a clear system for performance monitoring that would guarantee accountability and responsibility for performance, especially from the CEO and the board ([WorldBank, 2014](#)). The findings from this study are in tandem with the conclusions from the World Bank Periodical Release of 2014. This is because this study found that there is a significant relationship between Internal Controls and SOE performance since the P-Value from the SPSS output was below 0.01 which is the level of significance. The coefficient of correlation of 0.678 suggested that there is a strong positive relationship between Internal Controls and SOE performance. This indicated that Internal Controls (Corporate Governance) have a significant influence on SOE performance. Therefore, unreliable Internal Controls would lead to poor SOE performance while reliable Internal Controls would lead to improved SOE performance.

6. Summary, Conclusions and Recommendations

6.1. Summary of Findings

The overall coefficient of correlation of 0.612 from the SPSS results suggests that there is a strong positive relationship between SOE performance and Corporate Governance which was examined through the structure and appointment of the boards of directors, and internal controls in the SOEs. The results assert that adherence to the tenets of Corporate Governance by the SOEs can lead to improved performance.

6.2. Conclusions

The R-Square (coefficient of determination) of 0.375 suggested that the performance of the SOEs is influenced 37.5% by Corporate Governance through the structure, and appointment of the Boards of Directors as well as systematic internal controls in the SOEs. The remaining 62.5 % can be associated with other factors that were not considered. The other factors that were not considered could be micro and macro-economic indicators, lack of employee motivation in the SOEs and poor work culture, among others.

6.3. Recommendations

The structure of the Board of Directors should constitute personnel with experience in the same line of business that the SOE is in. The board's role in strategic planning entails identifying priorities, establishing goals and objectives, locating resources, and allocating funds to support strategic planning decisions. The board is also in charge of overseeing the SOEs' strategic plans'

implementation. This is the reason why board members should have knowledge of the business and the necessary skills required to execute their duties diligently.

The appointment of the Board of Directors in the State-Owned Enterprises should follow proper channels to ensure good corporate governance which may in turn lead to improved SOE performance. The government must follow laid down procedures on how the board members should be appointed in an unbiased manner which would lead to quality delivery of their duties.

The Board of Directors in the SOEs should ensure that they put in place stringent internal control systems to help sustain the operations of the State-Owned Enterprises and improve performance. This should be outlined as the board members are having strategic meetings of the company's operations.

Furthermore, most SOEs do not have Board Charters in place as reported by the Auditor General's Report of 2021 and 2022 which is an abrogation of the standard requirements of a State-Owned Enterprise. This is one of the reasons why most SOEs do not produce financial statements on time because this requirement of supervision and approval of financial statements of the SOEs is the role of the Board of Directors as stipulated in the Board Charter. It should also be noted that failure to provide financial statements by a State-Owned Enterprise is a violation of the Public Finance Management Act and the Public Audit Act. Therefore, a well-performing SOE is expected to have a board charter in place to ensure that the roles of the Board of Directors are clearly defined in order to enhance performance of the SOE.

Acknowledgment

We would like to express our gratitude to the journal editor and the anonymous reviewers for their valuable comments and suggestions that significantly improved the quality of this manuscript.

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Cite this article as: Chisha Popopo Mulenga (2024). [Effect Of Corporate Governance on the Performance of State-Owned Enterprises in Zambia](#). *African Journal of Commercial Studies*. 4(2),131-153. doi: 10.59413/ajocs/v4.i2.7