A Strategic Corporate Governance Framework for Malawi State-Owned Enterprises (SOEs)

By

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DECLARATION

I **Elias Kaunda** declare that

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ACKNOWLEDGEMENTS AND DEDICATION

DEDICATION

This project is dedicated to God the almighty and to Him be glory for wisdom and strength comes from Him.

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LIST OF ACRONYMS AND ABBREVIATIONS

ACB:	Anti-Corruption Bureau
ADL:	Airport Developments Limited
ADMARC:	Agricultural Development and Marketing Corporation
BHL:	Blantyre Hotels Limited
BTI:	Bertelsmann Stiftung's Transformation Index
BWB:	Blantyre Water Board
CCDC:	Capital City Development Corporation
CEO:	Chief Executive Officer
CG:	Corporate Governance
CGI:	Corporate Governance Index
CLSA:	Credit Lyonnais Securities Asia
CRWB:	Central Region Water Board
DEA:	Data Envelopment Analysis
DPP:	Democratic Progressive Party
DWH:	Durbin-Wu-Hausman
DSC:	Department of Statutory Corporation
EBIT:	Earnings Before Interest and Taxes
EGENCO:	Electricity Generation Company
ENRM:	Environmental & Natural Resources Management
ESCOM:	Electricity Supply Commission of Malawi
FE:	Fixed Effects
GDP:	Gross Domestic Product
GMM:	Generalised Method of Moments
GNI:	Gross National Income
GNP:	Gross National Product
IDP:	Infrastructure Development Project
IMF:	International Monetary Fund
IoD:	Institute of Directors
KPI:	Key Performance Indicator
LDC:	Least Developed Countries

LF:	Legal Form
LWB:	Lilongwe Water Board
MACRA:	Malawi Communications Regulatory Authority
MANA:	Malawi News Agency
MCC:	Millennium Challenge Corporation
MCP:	Malawi Congress Party
MDC:	Malawi Development Corporation
MERA:	Malawi Energy Regulatory Authority
MHC:	Malawi Housing Corporation
MHL:	Malawi Hotels Limited
MHRC:	Malawi Human Rights Commission
MNREM:	Ministry of Natural Resources Energy and Mining
MoF:	Ministry of Finance
MPC:	Malawi Posts Corporation
MSE:	Malawi Stock Exchange
NED:	Non-Executive Director
NGO:	Non-Governmental Organisation(s)
OECD:	Organisation of Economic Corporation and Development
OLS:	Ordinary Least Squares
OP:	Operating Profit
OPC:	Office of the President and Cabinet
PDI:	Power Dimension Index
PERMU:	Public Enterprise Reform and Monitoring Unit
PRSP:	The Power Sector Reform Project
RE:	Random Effects
ROA:	Return on Assets
ROE:	Return on Equity
ROCE:	Return on Capital Employed
SAICA:	South African Institute of Chartered Accountants
SEBI:	Security Board of India
SOCAM:	Society of Accountants in Malawi
SOE:	State-Owned Enterprise

SOEs:	State-Owned Enterprises
SRWB:	Southern Region Water Board
SAP:	Structural Adjustment Programme
SAPs:	Structural Adjustment Programmes
TCC:	Tobacco Control Commission
TDIC:	Tourism Development and Investment Company
UAI:	Uncertainty Avoidance Index
UDF:	United Democratic Front
UK:	The United Kingdom
UN:	United Nations
USA:	The United States of America
VIF:	Variance Inflation Factor

ABSTRACT

The objective of the study was to develop a strategic corporate governance framework that will enhance performance of SOEs in Malawi. The study followed a critical realism approach as a result, a multi-methodology and mixed design was employed. Quantitative data was collected to identify relationship among variables. This was followed by qualitative data analysis. The sample included all SOEs which had operated from 2000-2016 but excluded regulatory, financial and academic institutions. For intensive design, a multiple case study was employed through replication logic to identify mechanisms and structures in order to provide explanations to the observed performance. Data collection followed the critical realism case study method. Multiple sources of evidence were used as a data collection strategy and these included document review, interviews and use of questionnaire. Findings reveal that large power distance, cronyism and materialistic cultures are entrenched in the society and have a negative impact on corporate governance. Results further reveal that increased shareholders power and multiple principals have a negative effect on performance. On board of the directors, results show that qualified and independent boards have a positive effect on performance. However, board effectiveness was influenced by legal form and shareholders power. Findings further reveal that leverage and disclosure have a positive impact on performance. The study recommended changes to legal form and ownership arrangement. Further recommendations were made to the appointment process and operations of the boards. On disclosure, the study recommended that board should be accountable to ownership entity and National Assembly. The study has contributed to a body knowledge in terms of developing a strategic governance framework for SOEs in Malawi and within its cultural contexts.

Key words: Strategic Corporate governance; Framework of SOEs; State-Owned Enterprises; Malawi.

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CHAPTER 1: INTRODUCTION AND ORIENTATION

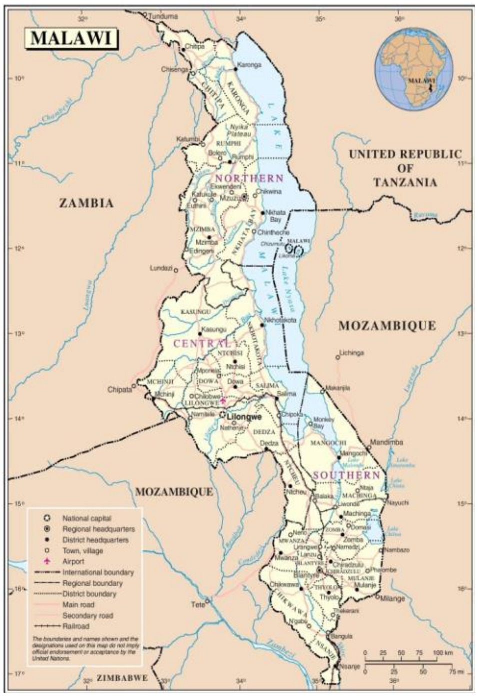
1.1. Background to the study

The creation of State-Owned Enterprises (SOEs) in Malawi like in many other countries was seen as a strategy of enhancing economic growth (Robinett, 2006; Stambuli, 2002). The Organisation of Economic Cooperation and Development (OECD) defines State-owned Enterprises as corporate entities recognised by national law owned by the state or in which the state exercises ownership created for the economic purposes. Some of these may include "joint stock companies, limited liability companies and partnerships limited by shares" (OECD, 2015:14). These enterprises may be "wholly owned or those with minority state ownership" (Robinett & Fremond, 2007:1). In many developing countries, SOEs were meant to boost economic development through industrialisation (Robinett, 2006). Contrary to the popular belief that SOEs are an engine of economic growth, many of these companies have performed poorly worldwide prompting structural reforms to improve their performance (Vagliasindi, 2008). Some of these reforms focused on change of ownership to private sector. Private sector companies were regarded to be more efficient than the SOEs. However, with corporate failures associated with private sectors companies worldwide in the past decades, the focus of performance improvement in SOEs has now shifted to reforms while maintaining public ownership (Vagliasindi, 2008).

SOEs in Malawi have undergone several reforms over the years with the objective of improving financial performance (World Bank, 2003). These reforms have led to commercialisation as well as privatisation of many SOEs (World Bank, 2003). Reforms have not been a panacea to the performance problems experienced by SOEs. Poor performance has also been attributed to poor corporate governance (World Bank, 2007). It is becoming clear that performance of these SOEs cannot improve without reforming their corporate governance (World Bank, 2007). Corporate governance (CG) which is defined as a "system by which companies are directed and controlled" (Cadbury, 1992:15) has attracted unprecedented attention following recent corporate failures.

Malawi has also taken a special interest in corporate governance which has resulted in the introduction of the Code of Best Practice of Corporate Governance in Malawi by Society of

Accountants of Malawi (SOCAM) (Society of Accountants of Malawi, 2001) which was revised to Code II by Institute of Directors Malawi (IoD) (Institute of Directors Malawi, 2010). In addition to Code II, Sector Guidelines for Parastatals Organisations and State-Owned Enterprises were launched in 2011 (Institute of Directors Malawi, 2011). It is against this background that this study is undertaken to investigate the impact of adoption and compliance with corporate governance principles on performance on SOEs with the objective of coming up with a strategic corporate governance framework for SOEs in Malawi.



1.2. Background of SOEs in Malawi

Malawi is one of the least developed nations located in the Southern Africa (United Nations, 2021). With a population of 17.6 (Malawi Government, 2019) and per GDP capita income (GNI) of $331 according to World Bank data of 2018 (World Bank, 2020), the country is regarded as one the poorest countries in the world according to a report by Bertelsmann Stiftung's Transformation Index (BTI) (BTI, 2020:19). The country covers an area of 118484 km and shares borders with Mozambique to the southern and eastern side, Zambia to the western and northern side, and Tanzania to the eastern and northern side. The country attained self-rule in 1964 with Dr Hastings Kamuzu Banda as its first President (Magolowondo, 2007:14). At independence, Malawi had few resources to attract foreign investments. There was need for the newly independent state to grow the economy. Agriculture and agro-based industries were identified as the main avenues to achieve economic growth. The government decided to create parastatals which could be used as engines of growth both for agriculture and manufacturing. Though these parastatals have outlived several political regimes and undergone several reforms, their performance has been dismal. This section presents a brief social-political background to Malawi. A brief history of SOEs is also discussed followed by a review of different reforms that have shaped these SOEs. Lastly, the section presents a review of the development of corporate governance in Malawi and SOEs.

1.2.1. Brief History of Malawi

The history of Malawi dates to the "16th century following the establishment of Maravi Empire" (Magolowondo, 2007:9). Malawi derives its name from Maravi which stands for "land of flames" (Kalinga and Pike, 2000:90). The Maravi kingdoms was established by "a group of chiefly invaders, the Phiri, who came from the Congo basin in the fourteenth century" (Newitt, 1982:148). These people settled in a land north of Zambezi, and occupied the land stretching from eastern Zambia, central and southern Malawi to northern Mozambique (Kalinga, 1998). The Maravi state were ruled by a *Kalonga* which means chief. However, due to rivalry among the chiefs, the state was later fragmented into chiefdoms or states ruled by Kalonga who ruled from Mankhamba in the central region of Malawi, Undi ruled from north Zambezi, a land between the borders Mozambique and Zambia, and Lundu and Kaphwiti ruled from the southern Malawi (Morris, 2006). The people ruled by Lundu and Kaphwiti were later called the *Mang'anja* (Kalinga & Pike, 2000). Further decentralisation or fragmentation of the Maravi states did not help matters because it made the Maravi kingdom an easy prey for the new immigrants who arrived in the kingdom in the 19th century. The arrival of the new immigrants had a significant and lasting effect on the Maravi kingdom. These new immigrants included the Yao, the Swahili, the Ngoni and the missionaries (Phiri, 1988).

The Yao people arrived from Mozambique and settled in the southern region of Lake Malawi and other parts of the central region of Malawi in the 19th century (Kalinga and Pike, 2000). During the same period, the Maravi kingdom was also weakened by the Ngoni tribes who had fled Shaka Zulu in South Africa. One group was led by the Maseko Ngoni and these settled in the southern and central part of Malawi. The other group was led by Zwangendaba and this group settled in the northern and central part of Malawi (Phiri, 1988). In addition to these ethnic groups, the kingdom also witnessed the arrival of the Swahili-Arabs group led by Jumbe. Their leaders were known as the Sultans and they came from Zanzibar. This group settled in Nkhotakota in the Central region of Malawi where they dominated one of the Maravi chiefs, Kanyenda. The Swahili-Arabs were able to overrun and dominate the Chewa because they had firearms (Morris, 2006). The "Sultans" and the Yao people weakened the Maravi kingdom even further due to their trading activities. The Swahili-Arabs and the Yao people were actively involved in slave trade. When the missionaries came to Malawi, they found among others, a fragmented Maravi society overrun and weakened by these slave traders. The British therefore sent missionaries to Nyasaland primarily to end slave trade to the Persian Gulf and to spread Christianity (Pryor, 1990:29). As a result, the land which was formally occupied by the Maravi people, the Ngoni people in the north and the south, the Yao people in south and central and other Tumbuka tribes in the north of Malawi became a British protectorate in 1891 and was called Nyasaland referring to the lake because 20% of the country is covered by Lake Malawi.

Another event that shaped the political landscape of Malawi (Nyasaland) was the Federation of Rhodesia and Nyasaland in 1953. The motivation for this political development was mainly for economic reasons. The creation of federation by the white settlers was considered as a vehicle "to attract investment capital and to facilitate a diversification of economy" for the "British Central Africa" (Rosberg, 1956:98). The other reason for the federation was "to find a counterpoise to the expansion of Afrikaner nationalism north of the Limpopo" (Hyam, 1987:146). This federation brought about a union of three states: Southern Rhodesia, Northern Rhodesia and Nyasaland. This was a union of unequals by all standards. At the time of federation, Southern Rhodesia was more prosperous and had a large population of White settlers (116.000), followed by Northern Rhodesia (62,000 settlers) and then Nyasaland which had 5,600 European settlers (L., 1955). Southern Rhodesia was a "self-governing colony" while the other two states were protectorate under the British rule (L, 1955:540). Compared to economic strength of the Southern and Northern Rhodesia, Nyasaland had little to offer apart from its "abundance of manpower" and agriculture (Albinski, 1957:190). However, Africans were opposed to the idea of federation from the onset (Hyam, 1987). The strong opposition against federation gave birth to African nationalism. In Nyasaland, the African nationalism resulted in the creation of Nyasaland African National Congress (Kirkwood, 1955). This strong opposition lead to violent protests which resulted into arrests of leaders of Nyasaland African National Congress including Dr Hastings Kamuzu Banda. To curb the unrest, a state of emergency was declared on 3rd March 1959 (Murphy, 2010). The Nyasaland African National Congress was also banned during the state of emergency and many of its leaders were imprisoned. The fire of the nationalist movement could not be extinguished by the banning of Nyasaland African Congress. To the contrary, the movement grew stronger. African leaders formed Malawi Congress Party (MCP) to replace the banned Nyasaland African Congress. According to

Palmer (1973:257), the colonial government was “under strenuous attack” by the new nationalist movement.

The quest for freedom culminated into the 1961 election which MCP won with an overwhelming majority (Phiri, 2010:237) but the financial, judicial and security systems were still under the British rule until 1964 when the country gained independence from the British with Dr Hastings Banda as its first President. Malawi become a Republic in 1966 and amended a constitution which among others, declared the Malawi Congress Party as the only political party (Constitution of Malawi, 1966). In 1970 Dr Banda became the life President of MCP and subsequently was declared the life President of the Republic of Malawi in 1971 through an Act of Parliament (Dulani, 2007:64; Phiri, 2010:307).

During this one-party rule of Dr Hastings Kamuzu Banda there was little demarcation between the party, government and the economy (Magolowondo, 2007:15). Though the country was largely considered as a capitalist nation, the power was in the hands of the few elites. With the wave of multiparty democracy which was sweeping across Southern Africa, Malawi was not spared. The country experienced pressure from churches and international organisations such that the one-party state was abandoned in 1993 when people overwhelmingly voted for multiparty democracy. In 1994, the first multiparty government came to power when the United Democratic Front (UDF) won the Presidential and Parliamentary election (Patel & Tostensen, 2007:83-84). A new constitution was adopted in 1994 to embrace new democratic changes. These democratic changes also impacted on the judicial and economic systems.

The new constitution has a provision of an independent judicial system which is based on English model made up of magistrates’ courts and other subordinate courts, high courts and a Supreme Court of Appeal (The Constitution of the Republic of Malawi, 1994; Gloppen & Kanyongolo, 2007:116). Malawi legal system respects “all rights to property”. However, the administration of justice lacks capacity in terms of resources, personnel and training to delivery justice system effectively (The Heritage Foundation, 2016).

The multiparty democracy brought in mixed blessings. While the country enjoyed the freedom of speech long sought for, there was widespread political polarisation such that no major party emerged to govern the country in the first 15 years of multiparty democracy. Interestingly, the party that managed to govern the country was a minority in the National Assembly. For instance, in 1999 Presidential and Parliamentary elections the ruling party United Democratic Front (UDF) got 93 parliamentary seats out of the total 192 seats in the Parliament. In 2004 elections, the situation was worse for the ruling party such that UDF got 49 out of 193 seats in parliament (Patel & Tostensen, 2007:83-84). To survive in such an environment, the parties concerned had to play political games of alliance formation or influencing legislators to cross the flow (Kaunda, 1998).

The issue of “crossing the flow” occupied the legislators time such that there was much debate on the proper interpretation of section 65 of the constitution which has the provisions for “crossing the floor.” The President of the Republic of Malawi asked the Constitutional Court to determine a proper interpretation of section 65(1) of the constitution. This issue came as a result of UDF members of parliament who had expressed interest to join and some had actually joined the new party, Democratic Progressive Party (DPP) were deemed to have crossed the floor (The Centre for Social Concern, 2007).

After the general elections of May 19, 2009, the once a minority political party became a majority in the National Assembly. The ruling Democratic Progressive Party (DPP) under Dr Bingu Wa Muntharika commanded an overwhelming majority in parliament with 112 members out a total of 193, and 60% of presidential vote (Patel & Wahman, 2015:81). What is of interest is whether such a parliamentary configuration improved oversight of the public sector? Are members of Parliament accountable to electorate or to the party? What impact has this structural arrangement in enforcing good political and corporate governance? These questions are central in developing a good national corporate governance system.

Malawi’s constitution provides for an Executive government made up of the President, first and second vice Presidents, and cabinet; National Assembly or Parliament; and an independent judicial system (Constitution of the Republic of Malawi, 1994). According to Patel and Tostensen (2007:98) the power of Parliament is constrained due to the fact that it cannot influence the formation or dismissal of cabinet. As such this has an effect on vertical accountability.

1.2.2. Culture and Religion

This section presents a cultural background of the people of Malawi. Phiri (1983:19) defines culture as “a people's way of life that is reflected in their visual arts and crafts, music and dance, literature, drama, dress, language and religion.” Phiri (1983:19) further states that Malawi “falls within the *Bantu* Cultural Zone. Culturally, Malawi is a pluralistic society in terms of religion and ethnicity. The culture of the people of Malawi has been influenced by the settlers of the earlier kingdoms. The Maravi people who formed the largest organised dwellers during the pre-colonial era, were made up of a centralised government under the *Kalonga*. Their main language was *Nyanja* which later became *Chewa*. The Maravi were deeply religious people with their rain cult and *Nyau* secret societies (Phiri, 1988). The Chewa used *Nyau* and *Chinamwali* as rites of passage for boys and girls (Phiri, 1988). In addition of being a collective and centralised government system, the Chewa were also a matrilineal society and remains so to this day (Kalinga & Pike, 2000). Both the Chewa and Mang’anja people worshipped a supernatural being or God (*Mulungu*). This supernatural being was approached through priests or prophetess. For the Chewa people it was Makewana and the Mang’anja it was M’bona’s wife (Lamba, 1985).

The Yao people had some similarities with the Chewa and Mang’anja people. However, due to the influence of the Swahili-Arab traders, the Yao were converted to Islam and they constitute large Muslim population by tribe in Malawi (Lamba, 1985). Just like the Chewa, the Yao are matrilineal and have centralised governed communities under a chiefdom (Morris, 2006). The Islamic religion appealed to the Yao because it tolerated their tradition beliefs and ceremonies. According to Msiska (1995:70) the Islamic faith “integrated, assimilated and preserved vital indigenous elements” of the local beliefs and customs. Girls’ initiation ceremony of *Chiputu* became *Msondo* and boys’ initiation ceremony of *Lupanda* became *Jando*. Msiska (1995:71-72 further states that these *rites of passage* rituals served, among others, as schools where boys and girls were taught “general traditional etiquette of the Yao, respect for parents and elders and also for agemates, general behaviour of a mature [person] … and also conduct towards others in the community.”

The Ngoni people which occupied the northern and southern region had a centralised government but were a patrilineal society. However, as observed by Phiri (1988:21), the Ngoni were interested in “political control rather than cultural assimilation” of their subjects.

As a result, most of the communities in the central region which were under their control remained matrilineal societies. Before the coming of the Ngoni in the northern region of Malawi, the land was occupied by decentralised communities which formed the Tumbuka – Nkhamanga kingdom. Due to lack of a centralised government, they were easily overrun by the Ngoni. The Tumbuka people were also a highly religious people who believed in God who resided in the sky (*Chiuta wa kuchanya*) who is “far removed from the human beings” (Lamba, 1985:65).

When the missionaries arrived in Malawi, another system of religion was introduced called Christianity. The missionaries not only introduced Christianity but also abolished slave trade and introduced a centralised government. Christianity and Islam became the dominant exotic religions in Malawi. Msiska (1995) observed that the missionaries and the Muslims did not interfere with local beliefs to the extent that people continued to practice the local religions in addition to the exotic religions.

Malawians have remained a predominantly religious people. According to Malawi Government (2019), 83% of the population consists of Christians, 13.8% Muslims and the remainder 8.9% made of other religions as well as those without religious affiliation. Religion has had a great influence in shaping social structures and may have great influence in shaping values of the society in Malawi. Religion has played a major role in political transformation in Malawi (Newell, 1995).

From the foregoing, though Malawi has a pluralistic culture, there are elements that are common among various tribes. Firstly, Malawi is a large power distance culture. All tribes have been ruled by chiefs who served as the owners of the land or tribe and the chiefs’ authority could not be challenged. Secondly, Malawi is a collective or community-based society, albeit made up of different tribes. Thirdly, each tribe believes that a child belongs to the society and not necessarily to its biological parents. This is evident from the fact that initiation ceremonies or *rites of passage* rituals are done at community level whether among the Yao or Chewa. Lastly, Malawi is a highly religious society combining exotic religions (Islam and Christianity) and traditional beliefs. What is yet to be established is whether culture including religion has any influence in shaping corporate ethical behaviour.

1.2.3. History of SOEs in Malawi

The first known company to operate in Malawi was the African Lakes Company which was established in 1878 as Livingstonia Central African Company in Scotland to supply goods and services to the missionaries as well as to help fight slave trade. The company later changed its name to African Lakes Trading Company. Prior to colonisation, the company also acted as an administrator of Nyasaland (Glasgow University Archive Services, 2016). African Lakes Company had controlling interests in natural resources including vast portions of farmland which the company later sold some to British South African Company (Phiri, 2010:13). With the establishment of the British Protectorate in 1891, most of the industries mirrored the industrial structure of Britain. The period after World War II saw the advent of nationalisation of industries in Britain (Myddelton, 2014) motivated by the notion “that public ownership could be managed in a way that could allow the realisation of public goals for the benefit of Britain”(Whincop, 2005:24). Malawi, then Nyasaland, gave the settlers less motivation for development or white settlement due to lack of economic resources except for agricultural land. The country had no mineral resources as a result it could not attract meaningful investments. While agriculture was considered as the only source of economic development, transportation costs were prohibitively high (Pryor, 1990). The colonial government embarked on railway development to arrest transport problem, but this did not solve the problems of transport costs. The railway system was still in private ownership and the owners were accused of subjecting exporters to high freight costs (Pryor, 1990). As a result, the country saw little activities in terms of economic development during the years preceding World War II. After the Second World War, interest grew in developing agriculture due to high world food prices. As a result, agricultural production grew at average rates of 5.6% between 1948 and 1963 (Pryor, 1990:31). The development of agricultural sector gave rise to the establishment of agriculture based public sectors. This development necessitated the establishment of companies like Farmers Marketing Board (FMB) which later became a parastatal, other parastatals that were established before independence include, Central African Railways which was to facilitate transportation of both import and exports. Infrastructure or utility parastatals which were established during the same period included Water Board and Electricity Commission (World Bank, 1967).

When Malawi attained self-rule, nationalisation was at its peak in Britain (Myddelton, 2014). With few sources of income and facing challenges of unemployment the new government, like any other newly independent state, controlled the commanding heights of the economy through the creation of more parastatals. For instance, at independence the government realised that there was virtually little contribution of manufacturing sector to economic development, the government took a deliberate step in January 1964 to establish Malawi Development Corporation (MDC), a parastatal meant to stimulate development of manufacturing sector of the newly independent nation. The establishment of MDC gave rise to several other parastatals in manufacturing and infrastructure sectors (World Bank, 1966). Faced with limited economic resources, Malawi which was and continues to be dependent more on agriculture, "adopted an export-oriented growth strategy" after independence. The expansion of public sector, of which parastatals are part of, was largely a "resource driven phenomenon" due to the fact that the economy relied on its improved fiscal viability and flow of aid (Stambuli, 2002).

While nationalisation of private sector companies was not a foreseen developmental agenda at independence, the performance of parastatals between 1964 and 1979 motivated the government to increase their scope and influence in the economy. The government nationalised the two major commercial banks: Standard and Barclays Banks. In addition, it also increased its influence in the infrastructural and agricultural sectors by buying controlling interests in companies and estates which were once owned by Europeans (Pryor, 1990). This nationalisation and creation of more parastatals was driven by the government's policy of driving economic growth through employment creation and provision of goods and services (Magolowondo, 2007:16). To champion the economic growth strategy, the government created Agriculture Development and Marketing Corporation (ADMARC) Investment Company in addition to MDC. While MDC was created as a government investment vehicle to finance "acquisition of shares in foreign enterprise or completely finance the establishment of new industries" (Stambuli, 2002:10), ADMARC Investments Company, on the other hand, was created for the purpose of "recycling surplus profit from ADMARC into state ownership of various industries" (Stambuli, 2002:10). This period also saw a dominance of a large conglomerate, Press Corporation which was controlled by the state President Dr Hastings Kamuzu Banda.

Malawi enjoyed high levels of economic growth before 1978 (Stambuli, 2002). This period also witnessed increase in level of parastatals influence in the economy to the extent that parastatals accounted for 25% of Gross National Product (GNP) (Lawson & Kaluwa, 1996:748). The performance of parastatals was evident in the industrial output which grew at the rate of 5.7% per year between 1973 and 1979 propelled by increase in domestic demand (World Bank, 1989:20).

Between 1964 and 1978 the economy grew by an annual average of 5.5% measured by real Gross Domestic Product (GDP) (World Bank, 1983:2). Inflation, on the other hand, stood at 7.1 % (Stambuli, 2002) and debt ratio to GDP was at 7% (World Bank, 1983:4).

However, economy faced challenges after 1979 and the country started to witness the reversal of economic growth. Government current account deficit rose to 20% from 8-9% as exports declined due to sharp decrease in commodity prices, debt service ratio rose to 26.3% and economic growth declined to -5.2% by 1981 (Stambuli, 2002; World Bank, 1985:2). A number of factors led to this economic crisis which includes, among others, fluctuation of agriculture commodity prices which Malawi was heavily dependent upon, slow growth in small holder sector which also relied on agriculture and poor performance of parastatals (World Bank 1983; World Bank, 1981).

Parastatals' performance declined in 1980's due a number of factors including economic recession, political turmoil in neighbouring Mozambique which disrupted transport (Stambuli 2002; Lawson & Kaluwa, 1996; World Bank, 1991), and a change in worldwide political landscape signalling the end of Cold War meant that Dr Kamuzu Banda could no longer get the much needed financial support from western countries (Magolowondo, 2007:17) to finance his political and economic agenda. As performance of parastatals declined and government could no longer adequately provide financial support to the loss making public enterpries, structural adjustment reforms were introduced at the behest of the International Monetary Fund (IMF) and World Bank (Magolowondo, 2007:16; World Bank, 1990). This was later followed by more liberalisation and restructuring of parastatals.

1.2.4. SOE Reforms

As the performance of SOEs declined, government embarked on wide ranging reforms to reverse the loss marking trends of these public enterprises. These reforms included restructuring and privatisation of parastatals organisations. The reforms which were introduced under government's Structural Adjustment Programs (SAPs) at the behest of World Bank were carried out in phases. The first structural adjustment program was introduced in June 1981. This involved, inter alia, reviewing the operations of ADMARC to make it more efficient; improving capacity of The Department of Statutory Corporation(DSC), which was established 1980, to make it more effective in assisting SOEs in their planning and financial management; adjusting agricultural prices to ensure profitability of ADMARC and Smallholder authorities (World Bank, 1985:3); and increasing tariffs of services delivered by SOEs. The establishment of DSC started to bear fruits as the financial burden of SOEs on the government budget started to decline (World Bank, 1982). However, despite these reforms, the performance of SOEs continued to decline (World Bank, 1985).

The poor performance of the economy exposed Malawi's economic structural weaknesses. This economic decline which was partly attributed to poor performance of SOEs led to the second phase of Structural Adjustment Program (SAP) which was launched in June 1982. Among other measures undertaken, the program involved further restructuring of ADMARC (World Bank, 1983); empower DSC to review annual operations of SOEs and where possible recommend adjustments of tariffs; and restructuring of Press Holdings which was a semi-private company. This phase saw the reorganisation of ADMARC through swapping of assets with MDC and increase of tariffs for a number of SOEs. The other highlight was the ratification of a new Companies Act in 1984 by Parliament. With this Act, Press Holdings was able to restructure its debt by issuing convertible preferred shares. The restructuring of ADMARC and tariff adjustment for SOEs resulted into improved performance of these public enterprises. Overall, there were positive contributions to the economy due to the SAP. The economy started to grow, and government budgetary deficit dropped to 8.3% in 1984 from 15.9% in 1981(World Bank, 1985:8).

The third SAP was launched in 1985. This program had a wide scope to address inherent weaknesses in the economy. Among other things, it was aimed at arresting continued poor performance of some of the commercial SOEs. This programme involved addressing capital structure of SOEs, building capacity of DSC to discharge its monitoring role effectively, and further restructuring of ADMARC, MDC and Press Holdings (World Bank, 1985).

Despite these structural adjustment programs, the performance of economy was still poor largely attributed to the poor performance of SOEs which controlled most of the economy and industrial sector (World Bank, 1989). By 1990 it was clear that the financial burden shouldered by the government as a result of financial losses sustained by SOEs was not sustainable. From the year 1981 to 1987, commercial oriented SOEs had accumulated losses of MK25 million or approximately US$11.4 million (World Bank, 1990:37). There were loud calls for the government to divest its interests from SOEs and deregulate the economy. In a study conducted by the World Bank (1989), it was revealed that SOEs were the most inefficient of all the sectors. The government began a programme of privatisation to ease the financial burden of subsidising the loss making SOEs. Under the recommendation of donor agencies (World Bank, 1993), a comprehensive privatisation programme was prepared to restructure by way of commercialisation and privatisation of most of the SOEs. The aim was to improve the performance of these institutions. Several reforms were recommended which included, formulating privatisation policy, restructuring ownership arrangements, clarifying and strengthening boards of governance of SOEs and capacity building of SOEs management. By January 1991, there were more than 165 statutory institutions under various ownership arrangements and legal forms. Included in the total statutory bodies, were 12 commercial SOEs and 11 non-commercials which were under DSC's supervision and purview. Some of the commercial SOEs had pyramid structures. For instance, ADMARC and MDC had controlling interest in 18 and 23 statutory institutions respectively (World Bank, 1993).

Despite these reforms, the World Bank in its evaluation report on the First, Second and Third Fiscal Restructuring and Deregulation Programs noted that performance of SOEs had continued to remain dismal and the creation of Parastatal Enterprise Reform and Monitoring Unit (PERMU) had made little impact on contributing to performance of these organisations (World Bank, 2006). While the earlier SOEs reforms focussed on correcting the structural weaknesses in order to turn around the economy, it became apparent that without corporate governance reforms SOEs performance would not improve. The World Bank in its assessment report of 2007 observed that the poor performance of SOEs was, to a large extent, attributed to poor corporate governance (World Bank, 2007). As a result, the issue of corporate governance framework has become the main focus in Malawi not only for the private sector but also for SOEs.

1.2.5. Corporate Governance Development in Malawi

Corporate governance has been at the centre of performance problems in parastatals. From the time these institutions were established, political influence played a central role in shaping corporate governance framework (Magolowondo, 2007:16). Corporate governance models, to a large extent, mirrored the political, social and economic policies of the government of the day.

During the pre-multiparty democracy, the party and government operated as one entity with Dr Kamuzu Banda having proprietary rights to these state institutions. Some parastatals were created as corporations through Acts of Parliament while others operated as departments under the various ministries for example, Department of Post and Telecommunications. During this era, corporate governance structure of parastatals was driven by political culture. As the state dominated ownership of various industries, management and control of these public enterprises were also under the dominance of few individuals who had close ties with Dr Kamuzu Banda (Magolowondo, 2007:16). For instance, New Building Society, Commercial Bank of Malawi, Press Corporation, and other companies owned by the state were under the chairmanship of John Tembo[1] (Stambuli, 2002). Consequently, it was common to have bad debts of parastatals and other financial losses covered by government bonds. For one to talk about corporate governance reform during this era was an anathema. Corporate governance reforms in parastatals could only come as a result of political reform or external pressure. As a result, the Malawi public sector was faced with gross inefficiencies, corruption, and over staffing (Tambulasi & Kayuni, 2007:333-335).

According to Lawson and Kaluwa (1996:49), the governance framework of parastatals during the one-party state of Dr Kamuzu Banda was characterised by multiple principals, and multiple objectives. The boards were dominated by a few individuals who had strong connections to the sole political party, MCP. Boards of directors were appointed by the state

[1] John Tembo was one of the most powerful politicians during Dr Hastings Kamuzu Banda era. He served in several key ministerial positions including Finance. He is the uncle to Cecilia Kadzamira, who served as official hostess under Dr Kamuzu Banda.

President (Magolowondo, 2007:16; Stambuli, 2002). The existence of multiple principals is identified as one of the causes of inefficiencies (Lawson & Kaluwa, 1996).

Due to external factors that affected performance of the economy as well as reduction in aid inflow, losses from parastatals could no longer be covered by state subvention, government then shifted the burden to banks which were under state control (Stambuli, 2002). However, as the budget deficit grew the country could not do without aid as such Malawi had to seek financial help from The IMF and World Bank. As a condition to receive aid, Malawi agreed to introduce Structural Adjustment Programmes (SAP) which, among other things, involved reforming parastatals to make them “more independent, market oriented, efficient and competitive” (Stambuli, 2002:25).

As a result of SAP, 13 parastatals were privatised between 1980 and 1993 (Stambuli, 2002:28). However, in the early 1990’s donors withdrew from providing aid to Malawi in order to pressurise the government to reform its political policies and introduce multiparty democracy (Magolowondo, 2007:17; Stambuli, 2002). Parastatals once again relied on domestic borrowing. Very little was achieved in terms of reforming corporate governance framework of the remaining parastatals.

In 1994 a new government took over under the leadership of President Bakili Muluzi. In order to attract foreign aid, the government continued with reforms of public sector which had been initiated during Banda’s era. With the passing of the privatisation law by Parliament called Privatisation Act, an institution was created called Privatisation Commission in 1996 with the “purpose of fostering efficiency in the economy, promoting competition and raising revenue for the government” (Tambulasi & Kayuni, 2007:341). As a result, 40 parastatals out of the 100 approved in 1997 were privatised by 1999 (World Bank, 2000:11). In addition, more trade liberalisation policies were introduced which included government withdrawal from the banking sector, thus freeing financial resources to be accessed by private sector (Stambuli, 2002).

The government also established the Public Enterprise Reform and Monitoring Unit (PERMU) in order “to carry out continuous scrutiny of the financial performance of public enterprises and coordinate the reforms efforts” (Tambulasi & Kayuni, 2007:341). There were positive developments in the private sector regarding formulation and adoption of corporate governance code. The first Code of Best Practice for Corporate Governance in Malawi was launched in 2001 focussed mainly on private sector corporations (SOCAM, 2001). Despite these positive developments, parastatals lagged in governance reform hence they continued to perform dismally.

The era of Bakili Muluzi lasted for a decade from 1994 to 2004. By the time Muluzi was leaving office; most donors had withdrawn their financial support amid allegations of fiscal indiscipline and corruption in the public sector (Patel & Hajat, 2007:391). The new regime that succeeded Muluzi was that of Dr Bingu Wa Mutharika who came to power under the ticket of UDF. No major policy changes were experienced during this regime. The corporate governance structure mirrored that of the first republic with the office of the President exerting strong influence in the appointment and dismissal of the boards of directors. The corporate governance structure was also characterised by multiple principals: ministries and departments. Parliament's role was limited to budget approval as well as briefing.

Privatisation that was introduced during Dr Bakili Muluzi after the passing of privatisation law in 1996 (Tambulasi & Kayuni, 2007:341) continued to be pursued during the first term of Mutharika's reign. However, few parastatals were privatised. Parastatals continued to play a major role in the economy. In 2008, the assets of ten commercial parastatals represented 20% of the GDP. On the other hand, their liabilities represented 13% of the GDP. The performance of these SOEs has remained dismal as shown in figure 1.1 below. Corporate governance guidelines which were launched in 2001 did not necessarily address specific issues faced by SOEs (World Bank, 2007). This prompted the revision of Malawi Corporate Governance Code I. The revision culminated into the launching of Malawi Code II which is The Code of Best Practice for Corporate Governance in Malawi. This was officially launched on June 1, 2010 (IoD, 2010). Another milestone in addressing corporate governance of parastatals was the launching of sector guidelines for SOEs (IoD, 2011). Despite these efforts, the performance of SOEs has not improved significantly. Some SOEs continue to post losses. Figure 1.1 below shows the performance of 10 leading SOEs.

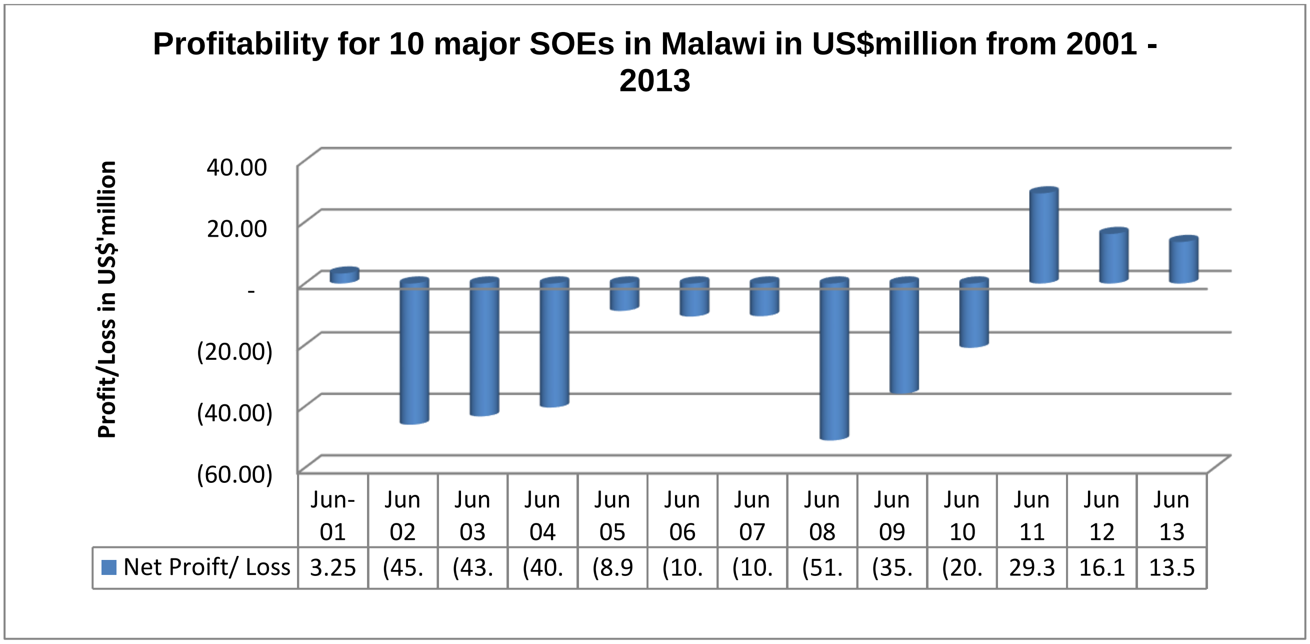


Figure 1.1. Performance of 10 leading SOEs

Source: Ministry of Finance and Economic Development, Public Sector Investment Programme reports (2001-2013).

In figure 1.1. poor performance of the leading SOEs is attributed to poor corporate governance framework or its application. While there has been limited scholarly work in corporate governance of private sector companies in Malawi, literature on corporate governance for SOEs in Malawi is virtually absent. The current study will fill that gap in investigating the efficacy of corporate governance to the performance of SOEs in Malawi.

1.3. The Study Problem

Performance of State-owned Enterprises (SOEs) in Africa and indeed in Malawi has been poor (World Bank, 2005). This has led to several reforms culminating into privatisation or liquidation of these enterprises. Many reasons have been advanced for the dismal performance of these organisations which include, but not limited to, political interference and poor corporate governance systems. In Malawi, SOEs have performed poorly during the past three political regimes. At the centre of this poor performance is a corporate governance framework which, to a large extent, has been regarded as ineffective; characterised by weak boards, lack of disclosure, multiple principals and objectives coupled with unclear ownership policy and 'absent fiat' from the principals. SOEs continue to play an important role in Malawi but performance of these organisations cannot improve without incorporating good corporate governance system. The study therefore investigates factors that impact on good corporate governance, examines the influence of corporate governance on performance of SOEs in Malawi and develops a strategic corporate governance framework for them.

1.4. Objectives of study

The purposes of this study are:

1.4.1. To identify factors that impact on corporate governance of SOEs in Malawi

1.4.2. To determine the effects of corporate governance on performance of SOEs in Malawi

1.4.3. To develop a strategic corporate governance framework that will enhance the performance of SOEs in Malawi

1.5. Significance of the Study

While there has been an increased attention on performance of State-Owned Enterprises in Africa which has led to various structural reforms at the behest of multilateral financial institutions, there has been little emphasis on investigating the effect of corporate governance on SOEs performance. Most of corporate governance studies on SOEs have been conducted in the developed world, emerging economies and developing economies (Daiser, Ysa & Schmitt, 2017). Despite the growing interest in SOE corporate governance scholarship in developed and emerging economy countries, research in corporate governance in SOEs is still in infant stage (Daiser, et al., 2017). This study was conducted in Malawi, a least developed country (LDC) that has different social–cultural values from those of the developed countries. More than 75% of the 46 countries categorised as least developed countries are found in Africa (UN, 2021). Least developed countries also face challenges of availability of data as such organisations in these countries can only be effectively studied in their natural settings. This study is a pioneering work on the impact of corporate governance on the performance of SOEs in Malawi. Research is therefore needed to develop a strategic corporate governance framework that will enhance the performance of SOEs in Malawi.

To measure the effectiveness of the strategic corporate governance framework, the researcher compared corporate governance of the best performing SOEs with the worst performers to identify contributing governance factors that have significant influence. The researcher then compared the model with the quality of adoption or application of corporate governance by the best performing SOEs to measure effectiveness of the model if applied in real world. Gap analysis was conducted between corporate governance factors of best performers and factors in the model. The researcher has made recommendations on how SOEs can further enhance their performance by adopting and applying the developed strategic corporate governance framework.

To this effect the study will assist government policy makers to formulate policies that will create an enabling environment for creation of value in these SOEs. The study will also assist shareholders, boards and management of SOEs to implement suitable corporate governance framework. The results of the research will also contribute to a growing body of knowledge in the field of corporate governance and performance of SOEs particularly in least developed countries.

1.6. Research Questions

1.6.1. What factors influence the effectiveness of corporate governance of SOEs in Malawi?

1.6.2. What has been the impact of corporate governance on the performance of State-Owned Enterprises?

1.6.3. What corporate governance framework is most suitable to address SOEs performance in Malawi?

1.7. Hypothesis

1.7.1. High religiosity cultures have a positive influence on company level corporate governance systems.

1.7.2. Good corporate governance practices have a positive influence on SOE performance.

1.8. Application of theory

This section provides concepts and the relationship of these concepts in the theory of corporate governance. Figure 1.2. below shows a conceptual framework of SOE.

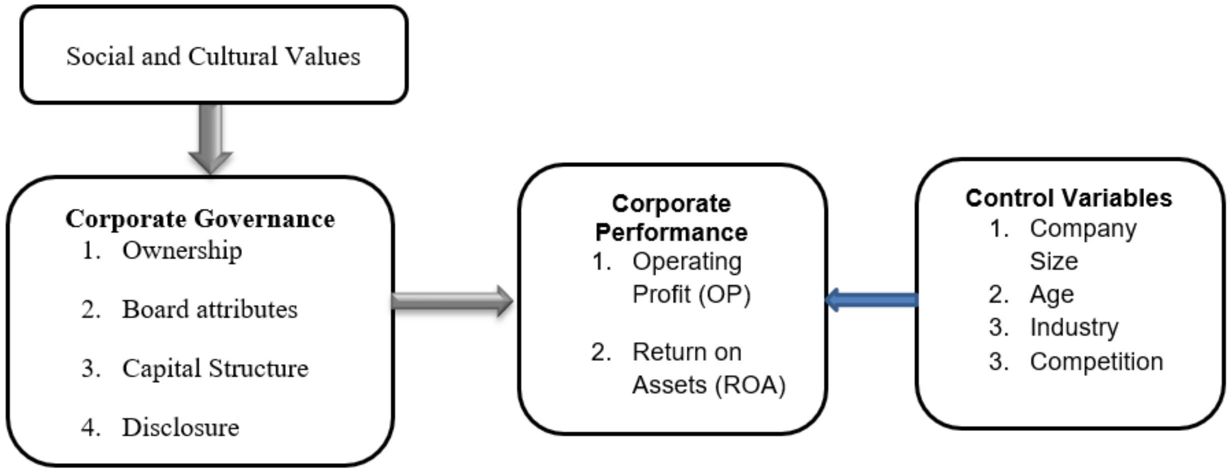


Figure 1.2. Conceptual Framework of SOE

Source: Researcher' own concept (2015)

1.8.1. In figure 1.2 the study investigates the impact of social and cultural values on corporate governance; the influence of corporate governance on corporate performance while controlling for company size, company age, industry and competition as control variables.

1.8.2. The study through the above conceptual framework investigated the effect of social and cultural values on the effectiveness of corporate governance system. Effectiveness is measured by disclosure as well as adoption and compliance with corporate governance codes by SOEs. The research investigates whether belief systems or "Moral Capital" have an impact on corporate governance in Malawi. This could provide an explanation as to why corporate governance practices may differ from country to country. Social and cultural issues are receiving a considerable research attention regarding their contribution to business ethics (Nadler, 2002). Kimber and Lipton (2005) observe that corporate governance is receiving more influence from social and cultural factors than legal and regulatory framework. Religion in particular is gaining a lot of interest in business research (Nadler, 2002).

1.8.3. The study examined the impact of corporate governance on SOEs performance. Previous studies have commonly used stock market based performance measures and accounting based performance measures (Bhagat & Bolton, 2008; Siddiqui, 2015; Mishra & Kapil, 2018) This study used accounting ratios of Operating Profit (OP) and Return On

Assets (ROA) because most of the companies in the sample are not listed. Operating profit in this study denoted Earnings Before Interest and Tax (EBIT).

1.8.4. Performance (OP and ROA) of SOE is dependent on corporate governance variables (Ownership + Board composition +Board characteristics + Board processes + Board structures + Disclosure +Capital Structure).

1.8.5. Corporate performance may depend upon other factors apart from those identified above. Consistent with other studies, this study controlled for size and age of the company (Nguyen, Stuart & Krishna, 2014; Ameer, Ramli & Zakaria 2010). The study also controlled for Industry of the SOE and competition, that is whether the SOE operates in a competitive environment or in a monopoly.

1.9. Organisation of the study

This study is organized into 7 chapters as follows: chapter one serves as an introduction. The chapter presents background to the study and problem statement. The chapter also highlights the aims and objectives of the study and research questions. The chapter ends with organisation of the study and summary of the chapter.

Chapter two discusses literature review. Theories behind the study are discussed. The presentation is guided by a conceptual framework introduced in chapter 1.

Chapter three presents research design and methodology. The chapter provides the philosophical background of the study; research methodology and its research design; sampling and data collection techniques; data analysis techniques; reliability and validity of the study; and finally, ethical consideration of the study.

Chapter four presents data that has been collected following a critical realism case study method. Results from quantitative data are analysed and this is followed by qualitative data analysis. The chapter ends with identification of emerged themes and generative mechanisms.

Chapter five analyses selected cases by applying structures and generative mechanisms identified in chapter 4. Four cases are selected based on their performance using a replication logic.

Chapter six discusses findings of the study by comparing with existing literature. The findings from this study are linked to research objectives, research questions and hypothesis of the study. The chapter discusses findings on factors that influence corporate governance; findings on effects of corporate governance on performance of SOEs in Malawi context; and finally, the chapter proposes a strategic corporate governance framework for Malawi SOEs.

Chapter seven presents summary of the study conclusion and recommendations. The chapter covers summaries for each chapter of the study; conclusions based on key findings of the study; recommendations to various stakeholders; and finally, outlines limitations of the study and recommendations for areas of further study.

1.10.Summary of chapter

This chapter presented the background to the study, study problem, objectives and research questions. The chapter also presented significant of the study and conceptual framework. Finally, an outline of the study was presented. Next is chapter 2 which focuses on theories that form the basis of the study.

CHAPTER 2: LITERATURE REVIEW

2.1. Introduction

This chapter discusses theories that form the background to the study of corporate governance, particularly focussing on agency and stewardship theories. The contribution of these theories to the current study is being examined. Special emphasis is being placed on the effect of these theories on corporate governance variables in this study. The chapter is structured as follows: Section 2.2 provides theoretical foundation of this study; Section 2.3 discusses social-cultural values and corporate governance; Section 2.4 discusses corporate governance and corporate performance; Section 2.5 provides empirical evidence; and Section 2.6 summarizes the chapter.

2.2. Theoretical Foundation of the Study

There are many theories that have made an impact on corporate governance. This section reviews some of these theories in relation to their contribution to corporate governance. The main theories reviewed included agency and stewardship.

2.2.1. Agency Theory

Agency theory is defined as a contractual relationship between the principal and the agent (Perrow, 1986). The principal in this case is the employer or shareholder who has ownership rights of the property and the agent is the employee or manager who is entrusted with the responsibility of taking care of an enterprise on behalf of the principal (Donaldson & Davis, 1991). According to Perrow (1986:12), agency theory is based on three assumptions. Firstly, “individuals tend to maximise their own interest.” Secondly, “social life is a series of contracts that are governed by competitive self-interests” and lastly, “that monitoring of contracts is costly and ineffective.”

Organisational theorists postulate that agency theory is based on McGregor’s motivational theory, particularly X theory, which claims that individuals are self-regarding as such they need to be controlled if they have to act in the interest of the principal (Tosi, Brownlee, Silva & Katz, 2003:2054).

Agency theory finds its origin in Theory of the Firm by Jensen and Meckling (1976). In order to understand agency theory, it is important to briefly discuss the Theory of the Firm.

According to Jensen and Meckling (1976:8), organisations are considered as "legal fictions which serve as a set of contracting relationship among individuals". The contracting individuals are the principals (owners) on one hand and the agents (managers/employees) on the other hand. Where there is separation of ownership and control, individuals identified above have divergent interests. In order to protect their interests, the principals incur agency costs to monitor contracts entered with agents. Some of the agency costs that the principal incurs in the contractual relationship include "monitoring expenditures by the principal; bonding expenditures by the agent; and the residual loss" (Jensen & Meckling, 1976:6). Agents place their own interests above those of shareholders (Florackis & Ozkan, 2009; Fama & Jensen, 1983; Jensen & Meckling, 1976). Agents achieve this because information in the organisation is incomplete, rendering ineffective monitoring of contracts between principals and their agents (Asher, Mahoney & Mahoney, 2005; Williamson, 2000). If the owners cannot effectively monitor the behaviour of agents, then agents may be involved in investments which may not be in the interest of shareholders (owners).

2.2.1.1. Agency Theory and Ownership Structure

The separation of ownership and control has received considerable interest in corporate governance scholarship. Agency theory posits that an appropriate ownership structure can assist in reducing agency problems. Ownership structure in literature is generally categorised into two: dispersed and concentrated ownership (Mishra & Kapil, 2017 Caixe & Krauter, 2013; Mollah, Farooque & Karim, 2012; Bokpin & Arko, 2009; Lazarides, Drimpetas & Dimitrios, 2009; Grosfeld, 2006; Coffee, 2001; Shleifer & Vishny, 1997). Ownership, according to scholars, seems to have a direct effect on the behaviour of managers in their conduct of business transactions (Ramaswamy, Li & Veliyath, 2002). In concentrated ownership, where the principal (shareholder) holds a large interest in an organisation, some authors posit agents are under considerable pressure to perform in the interest of their principals, that is, maximizing shareholders value (Grosfeld, 2006; Ramaswamy et al., 2002). In dispersed ownership, there is lack of motivation for individual owners to monitor the behaviour of agents. Consequently, agency costs tend to increase (Edwards & Weichenrieder, 2004; Jensen & Meckling, 1976). While concentrated ownership appears to minimize agency costs due to perceived effective monitoring of agents, research on the relationship between ownership concentration and company value has produced mixed results rendering limited support for its universal application (Mishra and Kapil, 2017;

Nguyen, Locke & Reddy, 2015; Lazarides *et al*., 2009). Contrary to expectation of agency theory on ownership concentration, a study by Al-Saidi and Al-Shammari (2015) on Kuwait listed companies did not find positive relationship between ownership concentration of large shareholders and company value.

Ownership concentration is more complex when the issue of forms of structure is brought into the picture. One of the forms of ownership structure is state or government ownership which is also referred to as public ownership. State ownership is considered to be the most inefficient form of ownership structure (Shleifer & Vishny, 1997). The reason for this is because of the lack of direct principal–agent relationship in SOEs. State-Owned Enterprises suffer from multiple principals and agents. While the taxpayers or the citizens of a country are the actual owners of these enterprises in which they are domiciled, the power to manage is delegated to politicians and bureaucrats who have their own interests to safeguard. In this case, SOEs appear to have dispersed "absent owners" as well as poor agents who have multiple objectives (Wong, 2004:8). Contrary to the expectation of agency theory that government ownership increases agency costs; studies in some developing countries have revealed a positive relationship between government ownership and company performance (Rakhman, 2018; Al-Saidi & Al-Shammari, 2015; Nguyen et al., 2015). Agency theorists postulate that dispersed ownership gives managers more control over the affairs of the organisation, and since managers are considered as self-interested, they are assumed to maximize their own utility (Xu & Wang, 1999:95). However, dispersed ownership is seen to work in countries where "market for corporate control" provides an appropriate "disciplinary mechanism" for managers (Coffee, 2001:20).

2.2.1.2. Agency Theory and Capital Structure

Capital structure in an organisation is closely related to ownership structure. Both concepts deal with suppliers of finance to an organisation. However, the difference between the two is that while ownership structure defines the property rights of the equity holders of an organisation, capital structure on the other hand, has to do with the proportion of debt to equity in an organisation. Agency theorists argue that capital structure decisions are made in the interest of corporate managers (Pindado & De La Torre, 2011). When companies are established, research has shown that shareholders are not able to come up with comprehensive contracts that specify how future financing decisions should look like (Garvey

& Hanka, 1999), implying that future financing decisions are made by the managers. If capital decisions are made by managers, the fundamental question is in whose interest are these decisions made? Managers as agents tend to avoid debt as a financing strategy even though the use of debt may be beneficial to the corporation. One of the reasons is that the use of debt limits corporate managers' control over corporations (Garvey & Hanka, 1999; Berger, Ofek and Yermack, 1997). Managers, who assume control of corporation due to "absentee owners" as is the case in diffused ownership, may be uncomfortable to use debt where its use will subject them to external control (Berger *et al*., 1997). Managers also avoid debt because of fear of being forced out of the corporate positions in the event their company is threatened with bankruptcy (Fosberg, 2004; Brigham & Gapenski, 1997). Contrary to earlier assertions by agency theorists that corporations with entrenched managers tend to have lower debt ratios (Berger *et al*., 1997; Friend & Lang, 1988), other studies have shown that entrenched managers use more debt in their financing structure (John & Litov, 2010).

Agency theory therefore considered managers as self-regarding in decisions of capital structures of their companies. The use of debt therefore is seen as deterrent to corporate "moral hazards" which may result from lack of effective monitoring of corporate managers in the discharge of their duties.

The use of debt does not in itself translate into improved performance. While the use of debt may provide tax shield benefit to a company, the downside of it is that its use may lead to bankruptcy. Brigham and Gapenski (1997:578) argue that "whenever expected return on assets… [is lower than the] interest rate on debt" it becomes a risk for a corporation to use debt.

2.2.1.3. Agency Theory and Board of Directors

Where there is a separation of ownership and control, the interests of principals and agents do not converge. Agency theory argues that agents are concerned with their own interests rather than the interests of principals (Pastoriza & Ariño, 2008; Donaldson & Davis, 1991) To align shareholders' interests and those of management, a structural mechanism is recommended to be put in place that would ensure that there is separation of "decision management and decision control" (Fama &Jensen, 1983:304). Such a structural mechanism is called the Board of Directors. The Board's role is to ratify and control the decisions of top management (Byrd & Hickman, 1992; Fama & Jensen, 1983) as well as to perform an oversight function (Laux, 2009; Stout, 2003). The Board is perceived to be a focal point in the corporate governance system with ultimate accountability for corporate conformance and performance (King Report II, 2002).

To carry out their oversight role effectively, the board of directors should be independent from management and as much as possible serve the interests of shareholders. Studies on the Board of Directors have centred on board composition, structures, processes and characteristics (Korac-Kakabadse, Kakabadse, & Kouzmin, 2001).

Agency theory recommends that the board should have be dominated by independent outside directors. This independence should be prevalent in all its composition and structures. Such board governance would lead to effective monitoring of agent's decisions which consequently will lead to increase shareholders value.

2.2.2. Stewardship Theory

The proponents of this theory posit that managers are not self-serving. This theory is based on Y theory of McGregory motivational theory which states that employees are interested in work and are self-controlled (Robbins, 1998:171). Viewed from a corporate governance perspective, managers as stewards are considered to be "collectivists, pro-organisational and trustworthy" (Chen, 2014:66; Tosi *et al*., 2003:2055). Stewards according to the theory, "are intrinsically motivated to make decisions" in the interest of the company. By acting in the best interest of the company, stewards end up achieving personal benefits such as "growth and achievement" (Tosi *et al*., 2003:2055).

While agency theorists believe in the use of monitoring mechanism and incentive to align the interests of agents to that of the principals(Fama & Jensen, 1983), stewardship theorists suggest that there is an alignment of interest between principals interests and the agents (Tosi *et al*., 2003:2056) such that the use of "control mechanism" as postulated by agency theory is "counter-productive" because it undermines the pro-organisational behaviour of the stewards (Chen, 2014; Davis, Schoorman & Donaldson, 1997).

The assumption that stewards act in the best interest of their company, consequently, in the best interest of shareholders, presupposes that the issue of share ownership structure is of no effect. Whether shareholding is concentrated or dispersed would not result in any change of managerial behaviour as management is intrinsically motivated to operate in the best interest of shareholders.

According to agency theory, debt is used to constrain the behaviour of management in their investment decisions because of restricted covenants in the debt agreements (Jensen & Meckling, 1976). Conversely, stewardship theory believes that with the shift of control from owners to professional managers and because of the trust that shareholders have over management (Muth & Donaldson, 1998), capital structure decisions are taken by management in the best interest of their corporations. The use of debt may therefore be treated as irrelevant according Modigliani and Miller (1958) since it does not have effect on shareholders' value.

The proponents of stewardship theory have focused on board governance in their criticism of agency theory as mechanism of control. In presenting an alternative theory to board governance, proponents of stewardship theory have focused on board leadership: Chief Executive Officer (CEO) duality, outside directors, board size and board independence as they impact on corporate performance (Muth & Donaldson, 1998; Davis *et al*., 1997; Donaldson & Davis, 1991; Tosi *et al*., 2003). CEO duality is where the chief executive officer is both the head of company and the chairman of the board of directors. The stewardship theory proposes that CEO duality, higher representation of executives or insiders in the board, smaller boards, directors with longer tenure and boards with lower level of independence lead to higher corporate performance (Kiel & Nicholson, 2003; Muth & Donaldson, 1998).

Despite the limitations in stewardship theory, some studies have shown support for the theory (Tosi *et al*., 2003). According to these studies, when agents pursue diversification strategy, it is because they want to deal with performance problem and not because of the desire for personal interests. Additionally, it has been observed that CEO duality and less independent boards contributed to increased shareholders wealth (Tosi *et al*., 2003).

However, some scholars have criticised the merits of stewardship theory on the grounds that studies conducted by stewardship theorists used archival data. Such research, scholars argue, "is unable to examine the phenomenon of interests' (Tosi *et al*., 2003:2057). According to Whittred (1993), the originators of stewardship theory failed to define dependent variable especially performance variable and also confounding variables. He argues that Donaldson and Davis do not explicitly state whether profit is after tax, extra-ordinaries and minority interests or before tax and other elements. Leverage is also overlooked in the calculation of return on equity.

Despite these shortcomings, stewardship theory seems to have had support especially in the eastern countries. For example, in a study in Taiwan, Lin (2005) found that stewardship theory was supported in CEO duality. Lee and O'neill (2003) found differences between ownership structures and research and development between USA and Japan. In their study, the American companies were largely influenced by agency theory while the Japanese companies were influenced by stewardship theory. In another study conducted on Chinese companies, Tian and Lau (2001) found that CEO duality had a positive effect on performance. Another study which supported stewardship theory was conducted by Ahmadi, Nakaa and Bouri (2018) on French CAC listed companies. The study found that CEO duality is highly related with company performance.

While the contribution of stewardship theory to corporate governance is appreciated, this study has used agency theory for analysis of corporate governance because most governance codes have used agency perspective.

2.3. Socio-cultural Values and Corporate Governance

While the world has seen an increased interest in formulation and adoption of codes of corporate governance that began with the launching of The Cadbury Report of 1992 (Cicon, Ferris, Kammel and Noronha, 2012), for instance, codes like OECD Corporate Governance Principles (OECD, 2015 & 2004) and King Report III (South African Institute of Chartered Accountants (SAICA), 2009), it has become apparent that effective application of these codes in different countries cannot be achieved through the "cut and paste" approach. Differences in governance structures are already emerging and it is becoming evident that these differences are due to variations in socio-cultural factors across countries (Griffin et al., 2018; Li & Harrison, 2008). To understand socio-cultural values and their effect on corporate governance, one need to have an understanding of what culture is. The study of culture is an old, broad and complex subject which is not within the context of this study. The complexity of cultural studies is attributed to different fields that have contributed to this subject. Cultural research has for a long time been a dominant theme in the many human sciences and social science fields including, but not limited to, Anthropology, Sociology, Political Economics and Psychology (Maridal, 2013). Consequently, finding a common acceptable definition of culture has been a challenge. However, it is important to have a working definition in line with the current study. According to Hofstede (2011:3) culture is defined as "the collective programming of the mind that distinguishes the members of one group or category of people from others." Guiso, Sapienza and Zingales (2006:23) "define culture as those customary beliefs and values that ethnic, religious, and social groups transmit fairly unchanged from generation to generation." Culture is also viewed as "complex of meanings, symbols, and assumptions about what is good or bad, legitimate or illegitimate that underlie the prevailing practices and norms in a society" (Licht, Goldschmidt & Schwartz, 2005:233). Taking a broader view, culture has been defined "as values, beliefs, norms, and behavioural patterns of a national group" (Leung, Bhagat, Buchan & Gibson, 2005:357). Consistent with the above definitions, culture in this study has been defined as acceptable lived values, beliefs, and norms that determine individuals' actions and behaviours within their society. These values, beliefs and norms are transmitted from generation to generation. The definitions above underscore the importance of culture in as far as influencing behaviours of members of a particular society. According to Segun (2012) culture is believed to influence behaviour in an environment.

There has been increased interest in study of culture in organisations with the landmark work of cultural dimensions by Geert Hofstede of 1980 which has now been updated from four dimensions to six cultural dimensions (Hofstede, 2011). Building on the works of Hofstede, many studies in the developed world and the emerging economies have been undertaken to find the impact of national culture on corporate governance. However, there is no record of any research in the same area covering Malawi except for the work of Mbeta (2007:2) who studied "the effect of national culture on management behavioural norms in Malawi". While the study by Mbeta centred on effect of national culture on organisation behaviour, it did not cover corporate governance issues. This research therefore is aimed at filling this gap in the literature by examining the impact of national culture on corporate governance in Malawi context. The next section reviews literature on culture and corporate governance.

2.3.1. Culture and Corporate Governance

The importance of corporate governance codes for the past two decades has been heightened by corporate scandals which have rocked many corporations in different countries. These scandals necessitated the need to change “regulatory structure” (Zalewska, 2014:1). However, there are variations both in corporate governance structures as well as in the effectiveness of the corporate governance codes in various regions and countries of the world. Some studies have attributed these variations to differences in socio-cultural values (Griffin et al., 2018; Duong, Kang, & Salter, 2015; Li & Harrison, 2008). The importance of culture and corporate governance in Malawi cannot be over emphasized. If culture is the way of life (Nadler, 2002), then Malawian corporate culture is characterised by unethical corporate behaviour. Malawi has been experiencing corporate scandals involving the plunder of public resources with impunity for the past two decades. The financial scandals that have rocked the nation now called “Cashgate scandal” have resulted in loss of trust in the whole corporate system in Malawi. Cashgate scandal in Malawi which involves “looting, theft and corruption” came into public eye during the reign of President Joyce Banda between 2012 and 2014. During her short reign, more than MK20 billion was looted within a period of six months from state coffers (Matonga, 2014). Not long after the public was still trying to come to terms with the public plunder of MK20 billion did it become clear that this unethical behaviour has become a way of life as another scandal started to roll in the media. This is another Cashgate scandal which involved more than MK577 billion looted from government coffers between 2009 and 2014 (Chimjeka, 2015). It appears that Cashgate scandals are a way of life in public and private sector in Malawi. There are reports that Cashgate types of financial scandals were prevalent during the first democratically elected government of Bakili Muluzi which was ushered into office in 1994 (Lwanda & Chanika, 2017). The cases of financial scandals cited above have overshadowed the African culture of *Ubuntu* known for its values of caring and honesty (Khomba & Vermaak, 2012).

Reflecting on the “Cashgate scandals” cited above, one would wonder as to what relationship these scandals have with culture and Corporate governance. Culture sanctions behaviour of individuals in a particular society. It shapes peoples’ values and behaviours. It is linked to society's ethical principles (Nadler, 2002). Boytsun, Deloof and Matthyssens (2011:56) argue that societies that uphold high ethical principles "may refuse to cooperate" with any member of their community who does not live by such standards. Few studies have been conducted in least developed countries that link culture and corporate governance. In Malawi a few studies that have been conducted have not necessarily addressed the impact of culture on corporate governance. For instance, in his research on national culture on Management Behavioural Norms in Malawi, Mbeta (2007) used Hofstede and Hofstede's (2005), and Cooke and Lafferty's (1989) instruments for collecting data from indigenous managers in Lilongwe and Blantyre. The study found a limited link between national culture and management behaviour norms. However, since the study was purely quantitative as a result it was not able to provide reasons for the particular study results. The study had a limited sample and did not look at cultural diversities of Malawi. Lastly, Mbeta did not address corporate governance issues which this present study intends to focus on.

In another study, Khomba and Vermaak (2012) established that the African *Ubuntu* philosophy resonates with the inclusive stakeholders' approach of corporate governance framework. The research did not go into details to explain the effect of culture on corporate governance. However, it has brought in a new dimension of *Ubuntu* in explaining human relationship in Africa. The current study relied on cultural dimension by Hofstede which has been used widely and accepted across the world (Nadler, 2002; Franke & Nadler, 2008; Chan & Cheung, 2012; Matoussi & Jardak, 2012). However, Mbeta (2007) observed that few African countries were included in Hofstede's studies. Malawi was not included in the initial studies even though some data has now been obtained from private studies (Hofstede n.d.). This section therefore reviews cultural dimensions according to Hofstede (2011) and how these dimensions impact on the effectiveness of corporate governance systems.

2.3.1.1. Power Distance

Hofstede (2011:9) defines Power Distance "as the extent to which the less powerful members of institutions and organisations within a country expect and accept that power is distributed unequally." In large power distance societies, subordinates are expected to obey orders (Franke & Nadler, 2008). These societies are also characterised by autocratic governments. Such societies are characterised by high levels of corruption and a culture of secrecy (Hofstede, 2011). Subordinates in large power distance cultures also accept that “superiors are entitled to special privileges” (Nadler, 2002:27). Consequently, these large power distance cultures are characterised by large differences in salaries as a matter of status. Large power distance cultures “prefer strong authority and steep hierarchies" because this helps to preserve peace and social order (Li & Harrison, 2008:612). On the contrary, people in low distance societies question their superiors and want to be consulted by superiors for any decision that affects them (Franke & Nadler, 2008). Power in these low distance cultures are used legitimately. As opposed to high power distance societies, low power distances cultures are also characterised by low levels of corruption (Akbar & Vujić, 2014; Hofstede, 2011).

Studies on power distance and corporate governance have revealed that large power distance societies prefer consolidated leadership structure or CEO duality as a leadership structure (Li & Harrison, 2008). Low power distance cultures on the other hand are seen to be more accountable societies (Velayutham & Perera, 2004). Low power distance societies are also associated with good corporate governance practices (Griffin *et al*., 2018). Consistent with these findings, Daniel, Cieslewicz, and Pourjalali (2012) revealed that large power distance is negatively associated with good governance practices. Large power distance cultures are less transparent and very secretive in terms of disclosures (Qu & Leung, 2006).

Malawi is characterised by large power distance with a Power Distance Index (PDI) score of 70. Societies with high PDI are regarded as hierarchical societies (Hofstede, n.d.). Such societies have consolidated leadership (Li & Harrison, 2008) and are less accountable than low power distance culture (Velayutham & Perera, 2004) and are prone to corruption due to consolidation of power at the top. The study investigated whether PDI score has any effect on effectiveness on corporate governance system in Malawi.

2.3.1.2. Individualism

This dimension describes “the degree to which people in a society are integrated into groups” (Hofstede, 2011:11). In individualist societies, people are less integrated as opposed to collectivist societies. They tend to care for themselves and their immediate family members. However, in collectivist societies, there is more group cohesiveness and people are loyal to the group or society. Violation of society norms leads to guilt feelings in high individualist societies while in collective societies, violations of norms leads to a feeling of shame (Hofstede, 2011). Chan and Cheung (2012) observe that people in high individualist societies think for themselves, act independently and are responsible for their actions.

Past research on individualism and corporate governance has revealed that high individualist societies prefer CEO duality in terms of leadership structure while collective societies on the other hand, tend to favour “more inclusive board” (Li & Harrison, 2008:613). High individualist cultures also exhibit good corporate governance practices measured by high corporate governance score (Griffin *et al*., 2018; Chan & Cheung, 2012). High individualist cultures are also perceived to be more accountable (Velayutham & Perera, 2004). These societies also exhibit low levels of corruption (Akbar & Vujić, 2014). On capital structure, high individualist societies tend to use more debt in their capital structure (Fauver & McDonald, 2015). On quality of financial reporting, individualist cultures were also found to mitigate earnings management (Licht, 2014; Callen, Morel & Richardson, 2011; Desender, Castro & De Leon, 2011). Earnings management is defined as” the act of obfuscating financial reports made to external stakeholders” (Desender, et al., 2011:642). Matoussi and Jardak (2012) argue that individualist cultures provide more protection to investors. These societies promote the rule of law as a result this also creates an enabling environment for the development of financial markets. Individualist societies as opposed to collectivist societies promote voluntary internal control disclosures. Managers in these societies are concerned about their reputation and careers. Shareholders on the other hand, tend to demand more information in order to monitor the behaviour of the managers (Hooghiemstra, Hermes & Emanuels, 2015).

Based of cultural dimension of Hofstede, Malawi is considered as a collectivist society with a low score of 30 on the Individualism index (Hofestede, n.d.). The study examined the effect of this cultural disposition on the effectiveness of corporate governance system in Malawi.

2.3.1.3. Masculinity

Masculine dimension refers to the degree to which people are “driven by competition, achievement and success” (Hofstede, n.d.). This is opposed to feminine dimension which defines the degree to which members in society exhibit values of caring for one another. Masculine cultures tend to strive for “wealth, success, ambition, material things, and achievement" (Hofstede, 2011:12). Nadler (2002) observes that feminine cultures tend to care more for human relationship than striving for achievement and success. Studies on culture and corporate governance reveal that high masculinity cultures tend to prefer consolidated leadership (Li & Harrison, 2008). Low masculinity cultures on the other hand, exhibit good corporate governance practices (Chan & Cheung, 2012). Contrary to previous studies on ethical sensitivity, Nadler (2002) study did not find any support that high masculine cultures are less ethical. These findings are supported by Franke and Nadler (2008).

Hofestede (n.d.) score places Malawi in the category of feminine societies at a score of 40. The study investigated the effect of this cultural disposition on the effectiveness of corporate governance in Malawi.

2.3.1.4. Uncertainty Avoidance

Uncertainty Avoidance is defined as "the extent to which the members of a culture feel threatened by ambiguous or unknown situations…". "Ambiguity brings anxiety with it, and different cultures have learnt to deal with this anxiety in different ways" (Hofstede, n.d.). High uncertainty avoidance cultures are associated with reliance on clear set rules and procedures meant to reduce discomfort (Li & Harrison, 2008). People in high uncertainty avoidance cultures tend to avoid changing the existing management system. Managers of high uncertainty avoidance cultures tend to be intolerance of person challenging the status quo or those bringing new ideas (Hofstede, 2011). However, those in low uncertainty avoidance cultures are comfortable with change (Chan & Cheung, 2012). High uncertainty avoidance is also related to increase in secrecy to the extent that individuals operating in these cultures are not prepared to disclose material information to stakeholders (Qu & Leung, 2006). High uncertainty avoidance cultures avoid disclosure due to fear of competition and litigation arising from incorrect information. In relation to risk, Hooghiemstra *et al*. (2015) observe that high uncertainty avoidant culture is also related to risk averse behaviours. As a consequence of high levels of secrecy in uncertainty avoidance cultures, disclosure is at low levels and this may create a favourable environment for incidents of corruption. Secretive culture in uncertainty avoidance cultures is also promoted by the behaviour of subordinates in such societies who perceive that power belongs to the authorities. Licht *et al*. (2005) posit that tolerance of power of authorities by subordinates arises from the assumption that authorities are better guardians of the society.

Past studies on culture and corporate governance reveal a negative relationship between uncertainty avoidance and corporate governance practices (Griffin *et al*., 2018; Chan & Cheung, 2012). Corporate governance practices here refer to a set of guidelines and not formal rules. Chang, Wee and Yi (2012) argue that people in high uncertainty avoidance cultures do rely on formal rules, regulations, and controls to avoid ambiguous circumstances. Li and Harrison (2008:613) posit that high uncertainty avoidance is related to separated leadership. This is due to the fact that people are more sensitive to risks and as a result they require more information to "reduce the uncertainty." A study by Velayutham and Perera (2004) found that low uncertainty avoidance cultures are more accountable than those with high uncertainty avoidance. Studies on capital structure found that companies located in high uncertainty avoidant cultures tend to use less long term debt rather they use more short term debt (Fauver and McDonald, 2015; Frijns, Gilbert, Lehnert & Tourani-Rad, 2013; Chang *et al*, 2012). These studies further observe that the preference of short-term debt is actually from the lenders rather than the borrower. The lender is comfortable in short term debt for ease of close monitoring in a short horizon than that of a long-term debt (Chang *et al*., 2012). The borrower on the other hand is more comfortable with long-term debt.

Malawian society is considered neither high nor low uncertainty avoidance culture based on the UAI score of 50 (Hofstede, n.d.). The current study investigates whether the UAI score has any effect on the effectiveness of corporate governance in Malawi.

2.3.1.5. Long Term Orientation

This dimension refers to the degree to which people in the society link their past to formulate strategies to deal with the present and future challenges. Societies with a low score on this dimension do not like change; they prefer to maintain the status quo (Hofstede, n.d.). Those with a culture which scores high on this dimension, on the other hand, have a future orientation. They believe in hard work both in academic life as well as in business to better prepare for the future (Hofstede, 2011). Long-Term dimension was not in the original work of Hofstede in his IBM study. However, it was incorporated as fifth dimension from the work of Michael Harris Bond who used questionnaires by Chinese scholars on 23 countries. Bond called his work *Confucian Work Dynamism.* Hofstede later renamed Bond's work as Long Term versus Short Term Orientations (Hofstede, 2011). Since this cultural dimension has not been used widely (Franke & Nadler, 2008), this current study did not use it as a cultural construct. Among the culture proxies used for studies in Malawian cultural study, there are no scores (Hofstede, n.d.)

2.3.1.6. Indulgence

In indulgence is the sixth cultural dimension which was included in 2010 after the work of Minkov which he called Indulgence and Restraint (Hofstede, 2011:15). Indulgence is defined as the "extent to which people try to control their desires and impulses, based on the way they were raised." (Hofstede, n.d.). Though indulgence cultural construct is available in more than 90 countries, this present study did not include the sixth dimension as a national cultural construct since official scores for Malawi are not yet available (Hofstede, n.d.).

The literature reviewed above has revealed the importance of culture in the organisational research and indeed in the emerging field of corporate governance. The current study used the first four dimensions of culture according to Hofstede which are Power Distance, Individualism/Collectivism, Masculine/Feminine, and Uncertainty Avoidance.

While cultural influence may be a driving force in behavioural studies, Nalder (2002) observes that religious beliefs and ethical sensitivity play an important role in shaping human behaviour. Nadler (2002) further notes that there is a strong link between religious beliefs and national culture.

2.3.2. Religiosity and Corporate Governance

Religion as a construct has been studied widely but as observed by Nadler (2002), its effect on human behaviour is yet to be conclusively established. The influence of religion on individual's behaviour is as a result of one's desire to comply with the social norms of a particular group (Kim & Daniel, 2016). Compliance comes as a result of fear of being ostracised by the society or the group to which an individual is affiliated (Rashid & Ibrahim, 2008). Religion defines values and culture of individuals in a particular community (Nadler, 2002:24). Johnstone (cited by Lung & Chai, 2010:226) defines religion as "a system of beliefs and practices on how people responds and interprets what they feel is supernatural and sacred." Baxamusa and Jalal (2014:114) observe that "religion consists of beliefs, values and behaviour." In relation to culture, religion is considered to be one of the most important proxies of culture (Stulz & Williamson, 2003). Elzein (2013) defines religion "as a social institution of beliefs and practices of sacred things." Studies on religion have focussed on measuring an individual's commitment to his/her religious beliefs.

While religion has been defined as a set of beliefs and values, religiosity on the other hand is defined as an individual's "commitment to follow principles set by God" (Vitell, 2009:156). According to Lung and Chai (2010:226), religiosity defines the degree of one's commitment to the religion and teachings that one professes. This commitment is reflected by the individual's attitudes and behaviours. There are several measurements that have been developed to measure religiosity. One of such measurements was developed by Allport (1950) which he called intrinsic and extrinsic religiosities. Intrinsic religiosity is defined as "religion as meaning-endowing framework in terms of which all life is understood." Extrinsic religiosity on the other hand refers to "the religion of comfort and social convention, a self-serving, instrumental approach shaped to serve oneself" (as cited by Lung & Chai, 2010:226). According to Vitell (2009:157), a person who is "intrinsically motivated lives his religion" while the one who is "extrinsically motivated uses his religion". Boytsun, *et al*. (2011:48) measured religiosity as a number of religious organisations per one million people in a particular country. The other measurement of religiosity which has been used widely though not universally accepted is Religious Commitment Inventory (RCI – 10) scale which was developed by Worthington, Wade, Hight, Ripley, McCullough, Berry, Schmitt, Berry, Bursley and O'Conner (2003). This measurement has two dimensions: interpersonal and intrapersonal religious commitments. Intrapersonal dimension refers to one's religious beliefs while interpersonal dimension refers to the focus on "the level of activity in organized religious organisation" (Lung & Chai, 2010:228). Some studies have also used Universal Religious Personality Inventory (URPI) and Religious Personality Inventory to measure religiosity (Hage & Posner, 2015)

There is been a growing interest to study religiosity and its effect on human behaviour. Most of these studies have been carried bout in developed countries and emerging economies. However, the current study has reviewed literature on religion and religiosity and corporate governance. Studies on religiosity and corporate governance practices have been influenced by Agency Theory. Research conducted by Stulz and Williamson (2003) found that more religious societies offer stronger protection to creditors. However, there was variation in the degree of protection of creditors' rights. Protestant communities were found to offer more protection to creditors' rights than catholic communities. While the research discussed other religions, it was more focussed on Christian religion. Using the religiosity dimensions as defined by Allport, Lung and Chai (2010) found that "intrapersonal religiosity was positively correlated with business ethics." This is because highly religious people are expected to be more ethical in their behaviour which is defined by their beliefs. These findings are consistent with the findings of Donahue (1985). Rashid and Ibrahim (2008) argued in their study that high religiosity does not in itself translate to high ethical values. This is due to other cultural variables. On investment and financial decisions, Hilary and Hui (2009) found that a high degree of religiosity lowers the level of risk exposure. The study also found that religiosity had an effect on CEO choice of companies to work for when switching jobs. Kim and Daniel (2016) conducted a study on religion and corporate governance involving 32 countries from 2006-2010. The study compared major religious denominations of the countries which were reported in GMI ratings. The study revealed that protestants have more positive influence on corporate governance than Catholics. Higher proportion of protestants is associated with better corporate governance practices. There was better board accountability in high protestants communities than in catholic communities. Authors observed that while agency-principal conflict is associated with agency problem in developed markets, this conflict was also prevalent in emerging markets. Developed markets were also associated with protestant religion and formal institutions. In emerging markets, the prevalence of informal institutions has resulted into weak corporate governance practices. These markets are also characterised by lack of regulatory environment and enforcement of laws where laws exist.

Where there is lack of formal institutions, Boytsun *et al*. (2011) propose that informal constraints such religion can work as alternative mechanism to improve corporate governance practices. This proposal is consistent with findings of Du (2013) in his study on Chinese companies who posits that religion can be used to mitigate owner –manager agent costs. It is worth noting that religion in China is predominantly Buddhism, as such the measurements that have been used in studies in the west could not apply in the Chinese study.

On financial reporting, a study by Dyreng, Mayew and Williams (2012) found that high religiosity is associated with low incidence of financial restatements and low risk of financial misrepresentation. Their findings were irrespective of denomination. An interesting finding made by Callen *et al*. (2011) was that religiosity is not associated with earnings management. They observed that religious adherents do not manipulate earnings management.

Studies conducted on religion and capital structure have revealed that companies that are located in protestant dominated societies tend to use more debt than those in Catholic societies (Baxamusa & Jalal, 2014).

While some studies have shown a positive relationship between religiosity and ethical behaviour (Grullon, Kanatas & Weston, 2009; Hilary & Hui, 2009; Lung & Chai, 2010; Boytsun *et al*, 2011; Dyreng et al., 2012; Kim & Daniel,2016), other studies have not found any relationship between religiosity and ethical behaviour (Callen *et al.*, 2011). Studies on religiosity and caring have not produced promising results. Arli and Lasmono, (2015) found that religiosity does not influence the attitude of people in helping others. One of the challenges with religiosity studies and organisational behaviour is due to different measurement used to measure religiosity as cited earlier, as well as the diversity of religions that informed different studies. Research on religiosity and corporate governance is still in its infancy. Much of the studies have been conducted in developed and emerging economies.

Studies on religiosity in Malawi and in Africa have focused mainly on population studies (Yeatman & Trinitapoli, 2008), health related issues (Adams & Trinitapoli, 2009) and cultural issues (Chism, 2013; Mphande, 2011; Lwanda, 2008; Mphande, 1996). Mbeta (2007) observed that Malawian culture is influenced, among other factors, by religious beliefs. Malawi is considered as one of the most religious countries with over 90% of population having religious affiliation (Most Religious Countries in the World, n.d.). This current study investigates the effect of religiosity on corporate governance. The study used RCI-10 scale of religiosity developed by Worthington *et al*. (2003).

2.4. Corporate Governance and Corporate Performance

This section reviews corporate governance variables and enterprise performance.

2.4.1. Ownership Structure

Ownership structure is one of the most important internal governance mechanisms beside board structure (Munisi, Hermes & Randøy 2014; Hu, Tam & Tan, 2010). It defines the way owners of a company exercise their property rights. The claim exercised by the corporate owners is relative to the degree of their ownership in the company (Jensen & Meckling, 1976). Following the seminal work of "*The Modern Corporation and Private Property*" published by Berle and Means in 1932 (as cited by Bratton, 2001; Williams, 2011), the issue of agency costs resulting from "separation of ownership and control" in corporations has received considerable attention. The authors noted that as corporations grew in size, there was need for specialised skilled managers who would have control over the enterprise without exacting residual claim. The growth of securities markets resulted into diffused owners who did not have control over their companies. This has brought in the enduring debate of conflict of interest between agents and principals (Sonza & Kloeckner, 2014). The rise of large corporations and the resultant loss of control by share owners over their shareholding due to diffused ownership structure led to debates by scholars over issues of ownership structure and its influence on corporate performance (Williams, 2011; Delios, Wu & Zhou, 2006). Berle and Means advocated regulation of markets to limit the managerial control over dispersed shareholders (as cited by Bratton, 2001).

Literature on corporate ownership has focussed on ownership structure and performance. However, of late the issue of ownership identity and performance has become an area of research interest (Hovey & Naughton, 2007; Delios *et al*., 2006). Studies on ownership structures have categorised this governance element into dispersed and concentrated ownership (Mollah *et al*., 2012, Bokpin & Arko, 2009; Lazarides et al., 2009; Grosfeld, 2006; Coffee, 2001; Shleifer & Vishny, 1997).

Dispersed ownership is a share ownership arrangement where shareholding in a corporation is held by a large number of small owners. As observed by Berle and Means (*as cited by* Bratton, 2001), the dispersed ownership structure gave power to managers to control the corporation without residual claims. With the rise of power of corporate management, agency theorists noted that these managers departed from shareholders goal of profit maximisation. Managers started to pursue their own interests (Jensen & Meckling, 1976) giving rise to conflict of interest between managers and owners. To reduce this divergence in interests between agents and principals, several mechanisms have been proposed including concentrated ownership structure. According to Nguyen *et al*. (2015) ownership concentration is considered as an internal governance structure aimed at reducing agency costs that rise from separation of ownership and control.

Concentrated ownership structure is a shareholding pattern where a few individuals control the majority of shareholding in a corporation. In some counties, concentrated ownership is when the largest shareholder has 5% or more of the shareholding of the company (Rapp & Trinchera, 2011). Concentrated ownership is believed to provide both motivation and ability of shareholders to control managerial opportunism thereby reducing agency problems (Gaur, Bathula & Singh, 2015).

A survey of literature across the globe reveals not one structure is preferred or common in all countries. In common law countries such as United Kingdom and Ireland, ownership structure is more dispersed while the rest of European countries who are predominantly civil law countries are found to be highly concentrated (Rapp & Trinchera, 2011; De-Foronda, Iturriaga & Mariscal, 2007). The securities markets in United States of America (USA) are also highly diffused just like in the United Kingdom (UK) which have the same legal framework (Nguyen *et al*., 2015; Aguilera & Williams, 2009). Studies have found that most Eastern Asian countries reveal high concentrated ownership structures (van Essen, van Oosterhout & Carney, 2012). A study on Singapore and Vietnam by Nguyen et al. (2015) revealed a highly concentrated structure. Xu and Wang (1999) found that Chinese public listed companies are highly concentrated. Highly concentrated ownership structures are also common in Malaysia (Ramli, 2010). In Latin America, studies have found that ownership structures are also highly concentrated. For example, Rogers, Dami, Ribeiro and Sousa (2007) noted that Brazil had a highly concentrated ownership structure. Similarly, Mexico markets are also characterised by high concentrated ownership structure (Reyna, Vázquez & Valdés, 2012).

From the studies reviewed, concentrated ownership structure is seen as the most favoured structure. The popularity of concentrated structure among agency theorists comes against the background of managerial opportunism and self-regarding behaviour due to lack of control by diffused shareholders. A concentrated ownership structure is regarded as a mechanism to control and discipline free–rider managers. Past studies on relationship between corporate ownership structure and corporate performance have revealed mixed results. While some studies have revealed that ownership structure exerts influence on performance (Gaur *et al*., 2015; Nguyen *et al*, 2015; Meca & Ballesta, 2011; Zeitun & Tian, 2007), other studies have found no significant relationship between ownership structure and performance. In a study on Brazilian Market, Rogers, et al. (2007) did not find any relationship between ownership structure and financial performance. Demsetz and Villalonga (2001:230) argue that ownership structure does not influence corporate performance regardless of whether the structure is concentrated or dispersed. These authors further observed that ownership structure is endogenous. Markets for corporate control, they noted, have an impact on ownership structure.

If ownership structure has an impact on performance, which structure produces optimal results? As observed in the above reviewed studies, the most common ownership structure in the world is concentrated structure. However, in common law countries like UK and USA, dispersed or diffused structure is common (Ballesta & Meca, 2007; Kaserer & Moldenhauer, 2007). It is also noted that a dispersed structure produces optimum results where markets for corporate control are efficient. These markets serve as external mechanisms to discipline and control managers behaviour in the absence of control interests from shareholders. Where markets are inefficient, like in most developing and emerging economies, studies have advocated a concentrated ownership structure as an internal governance mechanism to control managers. A study conducted by Munisi, et, al. (2014) on Sub-Saharan African markets revealed that ownership concentration is an important internal mechanism in the absence of efficient market. Since concentrated ownership structure is common in many countries, does it produce optimal results to shareholders? This is an important question which needs to be considered.

A review of literature on the relationship of ownership concentration and company performance revealed mixed results. Ma, Naughton and Tian (2010) in their study of Chinese listed companies found that ownership concentration has high impact on company performance. When non-tradable concentrated ownership was compared to tradable concentrated ownership, the latter had a more significant impact on performance than the former. Similar results were obtained by Shao (2019) who posits that ownership concentration is positively related to company performance though not significant.

A study on Indian companies by Singal and Singal (2011) revealed a positive relationship between ownership concentration and company value. However, the study did not find any relationship between concentration type and performance. Hu and Izumida (2008) found that ownership concentration had influence on company value in a U-shape for manufacturing companies in Japan. The U-shaped relationship indicates two characteristics of concentrated ownership: that of expropriation effect resulting in depressed value, and monitoring effect resulting in high corporate value. In a study on non-publicly listed companies in Central and Eastern Europe, Balsmeier and Czarnitzki (2015) found an inverted U-shape relationship between concentration and performance. Authors noted that there was an increase in performance as ownership increased but up to 55% where it started declining signifying an expropriation effect. These findings are shared by Meca and Ballesta (2011) in their study on Spanish capital market where they found that concentrated ownership increases performance but up to 60% thereafter value decreases due to expropriation of minority interests. The finding of this study is contrary to earlier results obtained by Vera and Ugedo (2007) in the same market.

Other studies have found either positive or negative relationship between concentrated ownership and company value. Perrini, Rossi and Rovetta (2008) found that concentrated ownership of the five largest shareholders has a significant positive impact on performance of Italian companies. Similar results were observed by Thomsen and Pedersen (2000) in their study on European largest companies. The study on New Zealand companies by Gaur *et al*. (2015) had also similar results. However, Boubraki, Bozec, Laurin, and Rousseau (2011) in their study on Canadian companies incorporated in Quebec found that high concentration produces a negative effect on shareholders' value which is consistent with expropriation effect. These findings from the Canadian study are similar with results obtained elsewhere. For instance, Turki and Sedrine (2012) in Tunisia; and Mollah *et al*. (2012) in Botswana revealed that concentrated ownership negatively affects shareholders value. In a study on Kuwait listed non-financial companies, Al-Saidi and Al-Shammari (2015) found no significant relationship between ownership concentration and financial performance.

Contrary to the findings in the above cited studies, the relationship between ownership and performance is not common to all countries. Other studies have not found any significant relationship between ownership concentration and performance. For instance, studies on Spanish companies by Vera and Ugedo (2007); Al-Saidi and Al-Shammari (2015) on Kuwait non-financial listed companies; Rogers *et al*. (2007) on Brazilian companies, and Lazarides *et al*. (2009) on Greek companies found no significant relationship between ownership concentration and company performance. These results reveal that ownership structure cannot be treated on “one size fits all” approach. As noted by De-Foronda *et al*. (2007:1140) impact of ownership structure on performance depends, inter alia, “on the legal and institutional settings”.

While many studies on ownership structure have focussed on dispersed and concentrated structures, there is now great interest in the study of ownership identities and their impact on performance. Literature has placed these ownership identities in different categories. Delios *et al*. (2006) used three major categories: government owners, marketised corporation and private owners. This grouping is consistence with studies carried out in China on ownership concentration. Thomsen and Pedersen (2000) placed large shareowners in several categories which include family, bank, institutional investor, government, and other companies. Identity or ownership types are playing an important role in governance practices of companies as well as influencing performance of such companies. In the study of companies’ ownership concentration, research has identified ownership type as a major contributing factor to shareholders value. Munisi *et al*. (2014) observed that while it is important to study ownership structure as a mechanism to control agency problems, such study should also focus on ownership types. Li, Lu, Mittoo & Zhang (2015) in their study of Chinese companies also noted that ownership types or identifies play an important role in contributing to board effectiveness. While a growing number of studies have focussed on the important role played by ownership types in company performance, not all of these studies agree on which ownership type is more effective. Different ownership types have different influences on company performance. A study by Choi, Park and Hong (2012) revealed that institutional and foreign ownership types play an important role in technology innovation performance of Korean companies. Wu (2011) found that highly concentrated state ownership destroys shareholders value of Taiwanese companies. This finding is supported by Zeitun and Tian (2007) on Jordanian companies; Mollah *et al*. (2012) on Botswana listed companies; and Hovey and Naughton (2007) on Chinese SOEs.

Contrary to the above findings, other studies have found that the presence of government ownership increases monitoring mechanism and performance of companies (Ghazali, 2010; Phung & Mishra, 2016). According to Munisi *et al.* (2014) some level of government ownership may be beneficial in emerging economies. De-Foronda *et al*. (2007:1130) argue that effectiveness of ownership structure as a control mechanism depends on the "legal and institutional setting" of a particular country. In a study on Indonesian SOE companies, Rakhman (2018) observed that some partially privatised companies performed better than private firms. The improved performance in these partially privatised companies is attributed to improved monitoring mechanism and reduction in levels political interference.

The influence of ownership structure on poor performance of SOEs cannot be over emphasised. Past studies on ownership structure of SOEs have largely focused on comparing performance of private and public sector companies to justify reasons for privatisation (Anidi, 2005; Shleifer, 1998; Nellis, 1994; Shirley, 1989); state ownership and political interference (Chang & Wong, 2004); state ownership, private participation and performance implications (Nellis, 2007). Recent studies on ownership structure have focussed on reforms of SOEs legal form as a strategy to improve performance of these organisations while under state ownership (World Bank, 2014a; Hovey & Naughton, 2007; Delios *et al*., 2006; Robinett, 2006). What is evident in these studies is that ownership structure matters in SOEs reform. Poor performance of SOEs has been attributed, partly, to ownership effects (Smith &Trebilcock, 2001). Notwithstanding the dismal performance of SOEs across the globe, these organisations are still common and play a major role in developing and emerging economies (World Bank, 2014a; Pargendler, 2011). After decades of unsuccessful attempts to reform SOEs, the focus has now changed to reform SOEs while maintaining public ownership (Vagliasindi, 2008). To reform ownership structure of SOEs, recent studies as cited above have advocated change of legal forms.

2.4.1.1. Legal form and SOEs Performance

The legal form of SOE defines its legal status and can be found in laws and regulation of how the state exercises its ownership rights within the SOEs (World Bank, 2014a). Under pressure from the developmental partners as well as from funding agencies to reform poor performing SOEs, many countries in the 1980s and 1990s embarked on reform processes which included ownership restructuring (Robinett, 2006). Part of this restructuring involved restructuring legal form.

The change of legal form of SOEs, it was envisaged, would lead to performance improvement. There are wide variations among countries in terms of the range of legal forms of SOEs. Robinett (2006) observes that legal forms range from wholly owned by government which includes activities undertaken by certain departments, statutory corporations established by an official Act and governmental limited liability. The World Bank (2014b) in its report on Corporate Governance of SOEs in Latin America noted that some variations in legal forms are due to the moment of their creation. The World Bank (2014a) observed that the variations in legal forms bring about challenges in governance framework. Robinett (2006) also notes that having a wide range of legal form at national level complicates ownership policy. The author argues that one of the major differences among SOEs is their legal form. Some of the SOEs may be wholly owned by the state; in others the state may have majority or minority ownership. SOEs may also be listed on the stock exchange. Further still, some of SOEs may be defined as "government linked', this is a situation where government agencies or bodies like pension funds own part of the shares. OECD guidelines on State-Owned Enterprises encourage governments to "simplify and standardise the legal forms under which SOEs operate". The standardisation should be based on corporate law that applies to private companies (OECD, 2015:18).

In addition to change of legal forms, the reforms for SOEs should also focus on restructuring ownership arrangements. The World Bank (2014a:70) define ownership arrangement "as a way in which the state organises itself to exercise its ownership" in the SOEs. Ownership arrangements ensure that there is separation between ownership function and, policy and regulatory function (World Bank, 2014a). The separation of these critical functions is to ensure that there is a "level playing field" and that the SOE is not insulated from competition from other private sector players (OECD, 2015:20; Robinett, 2006:33). There are many ways by which governments exercises their ownership rights in SOEs.

Literature has placed ownership arrangements into four major categories (World Bank, 2014a:70). The four categories include the following: (1) *Decentralised model:* in this model ownership is distributed among different line ministries, (2)*Dual model:* one ministry or specialised body is given ownership responsibilities in addition to a line ministry which performs other functions, (3) *Advisory model:* ownership is dispersed but a body is created to perform advisory role on ownership matters, (4) *Centralised model:* ownership responsibility is centralised in a single entity or entities that may be independent or fall under the government.

A decentralised arrangement is a traditional model which has evolved from government departments. The World Bank (2014a:71) observes that under government departments, there were gross inefficiencies in service delivery, misuse of resources and lack of accountability. Many governments decided to carry out reforms by way of corporatisation to address these problems. Through this process, SOEs were established to be responsible for service provision while line ministries played an oversight role. Many countries including China are still at decentralised stage of the reform (Robinett, 2006). This model is characterised by lack of separation between service provision and regulatory functions. As observed by the World Bank (2014a), decentralised model promotes chances of misuse of state resources for political purposes. In addition, the system does not have sufficient ownership capacity to monitor financial performance of the SOEs. The distribution of ownership responsibilities and accountability among various line ministries resulted into lack of focus. Despite these shortcomings some scholars have noted performance improvement due to corporatisation even without privatisation (Aivazian, Ge & Qiu, 2005). To reform the decentralised system, some governments decided to move to dual model which is a variation of the former system.

In a dual model, line ministries control SOEs but the ownership function is vested into an independent body or ministry, for instance Ministry of Finance (Balbuena, 2014). Robinett (2006) observes that the ministry or body with ownership function can either perform centralised function or may perform an advisory function without direct control over the SOE. Like in the case of decentralised model, the dual model is characterised by lack of focus and accountability (World Bank, 2014a). Many countries are at this stage of reforms or its variation. Some of the examples of dual model are found in Brazil, India, Kenya, Turkey and

Mexico (Robinett, 2006). In the Southern Africa region, some examples of countries still using dual model include Angola, Zambia, Namibia, Swaziland, DR Congo (Balbuena, 2014). South Africa and DR Congo have elements for centralised and dual system (Balbuena, 2014; World Bank, 2014a; Robinett, 2006). The inherent lack of ownership focus and accountability in the dual model has put pressure on countries to move to fully centralised model.

The centralised model ownership function is concentrated into a single entity. This entity exercises all ownership functions on behalf of the state as the owner while line ministries are responsible for policy and regulatory functions (World Bank, 2014a). However, as observed by the World Bank (2014a), centralised model in itself is not a panacea to protecting SOE from political interference. Centralised body may also lack power and authority to the extent that it can be relegated to a passive advisor. These weaknesses may be exacerbated by lack of capacity of the entity. To minimise these weaknesses and risks, the World Bank (2014a:97) proposes the following steps:

a) Ensuring high level of political support and public attention.

b) Providing a clear and focused mandate with a high degree of autonomy.

c) Appointing highly qualified professionals.

d) Developing clear ownership policies and guidelines.

The main objective of these ownership reforms is to improve performance of SOEs by improving corporate governance systems. Research on the impact of ownership restructuring or change of legal form has produced mixed results. Some studies have revealed that restructuring ownership results in significant positive impact on performance (Gao, 2010; Aivazian *et al*., 2005; Wang, 2009; World Bank, 2014a). Other studies, however, have found a negative effect on performance (Smith and Trebilcock, 2001). A study by Costa and Jaime (2008) on Spanish SOEs revealed that changes in organisational status did not produce significant impact on economic performance. These authors argue that a mere change of status does not lead into improvement in performance if that change does not involve changes in principal and agent. The negative performance of SOEs has resulted in calls for complete privatisation of state assets. While too much state ownership is considered destructive to company value, Wu (2011) argues that the absence of state ownership may also be harmful depending on legal and institutional framework in a country. Similarly, Munisi *et al.*, (2014) advocate that some level of state ownership may be used in emerging economies to improve corporate governance system. Ramaswamy (2001) argues that the difference in performance between private sector and public sector corporations is not necessarily due to ownership type but due to competitive intensity of the market. In a study conducted by Bozec, Dia and Breton (2006) on Canadian SOEs, results showed that privatisation did not have significant impact on technical performance. In a study covering 477 SOEs from 66 developed and emerging economies, Lazzarini and Musacchio (2018) found that private companies did not perform better than SOEs.

This study investigates the impact of legal change on performance of SOEs in Malawi. Additionally, it also investigates the effect of ownership arrangements on performance of SOEs in Malawi.

2.4.2. Board of Directors

The importance of board of directors, also referred to as "board" in corporate governance cannot be overemphasised. The structure of the board of directors is considered as one of the important internal governance mechanisms aimed at arresting agency problems (Merendino & Melville, 2019:509; Munisi *et al.*, 2014:794). Boards are important for both private and public entities. According to OECD (2015:26), "the boards of SOEs should have the necessary authority, competencies and objectivity to carry out their functions of strategic guidance and monitoring of management. They should act with integrity and be held accountable for their actions." This is consistent with OECD Principles of Corporate Governance (OECD, 2015a:45) which state that "the corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders." While there are variations as regards to structures and procedures of Boards, it is worth noting that the principle function of the board is to govern and monitor management of enterprises (OECD, 2015:70). For boards to perform their tasks effectively, they should have a clear mandate as defined by the law; should be vested with authority over executive management including the appointment of CEO; should have diversity in their composition with the ability to exercise independent judgment; SOEs board should be insulated from political interference; there should be separation of power between board chair and CEO functions; and there should be a mix of skills, among others attributes (OECD, 2015:71).

The importance of board of directors has been heightened by corporate failures in the last two decades. The failures of Enron and a number of other organisations across the globe (Laux, 2009; Vinten, 2002; Zandstra, 2002) have put to question the effective role of the board. Zandstra (2002) noted that the failure of Enron has raised an important issue in corporate governance practices, that of moral failure. The author argues that corporate governance is not just a check box of compliance but that of moral standing of the board and executive. He cites an example of Enron which had people of impeccable qualifications on face value but who failed to discharge their “fiduciary” responsibility (Zandstra, 2002:17). In most of the corporate failures which have been attributed to weak corporate governance structures, for example the case of Enron, WorldCom and Global Crossing, the question that people have been asking is where was the board? (Abidin, Kamal & Jusoff, 2009). The board of directors therefore represents a vital constituency in the corporate governance structures. It is no wonder that every corporate governance code identifies an effective board as an important element of corporate performance

Most studies on board of directors have focused on four attributes which Korac-Kakabadse *et al*. (2001) has identified as board composition, structures, processes and characteristics. Many studies have used the board composition, structures or characteristics to represent all board attributes. This study used the classification of board attributes according to Korac-Kakabadse *et al.* (2001) and Wei (2005).

2.4.2.1. Board Composition

Board composition refers to board size and board demographics which include a mix of inside / outside, female / male, foreign and local (Korac-Kakabadse *et al*., 2001). Board size has been considered as an important concept by agency theorists because it provides a mix of skills as well as an effective monitoring mechanism of management. Board size is the total number of directors on the board of an organisation (Ameer, et al., 2010).

Corporate governance codes advocate appropriate board size, and higher ratio of non-executive board in the board composition. In addition to non-executive directors, governance principles advocate the board should be composed of a balance of executive, non-executive and independent directors (OECD, 2015); The King III Report, 2010(SAICA, 2009); UK Corporate Governance Code, 2010(Financial Reporting Council, 2010).

Executive directors are those that are serving as executive or senior managers of an organisation and they include the CEO. These are employees / managers of the organisation. As employees of the organisation they serve as agents to the principal (shareholder). Agency theory considers these managers to be opportunists and self-regarding (Jensen & Meckling, 1976). Corporate failures have been attributed to lack of monitoring and control of these managers. Stewardship theory on the other hand considers these managers as trustworthy and working to maximise shareholders value (Tosi *et al* 2003; Chen, 2014). Since self-regarding agents cannot be trusted, good corporate governance principles advocate "a balance of executive and non-executive directors (NED) with the majority as non-executive directors" (SAICA, 2009:11; Financial Reporting Council, 2010). Non-executive directors are not employed in the organisation where they serve. It is worth noting that all NEDs may not necessary be regarded as independent directors. Different jurisdictions define independent directors differently. Some define board independence to mean only non- executive directors while to others, independence means being independent from both management and business relationship; and still to others it may mean disinterested in transactions (Vagliasindi, 2008:6). According to King III report on corporate governance, an independent non-executive director is the one that does not represent the shareholder; does not have interest in the organisation; was not employed by the company for the past three years and does not have business or family relationship with any of the company or those linked to the company he / she is representing (SAICA, 2009:17). Independent and non-executive directors are perceived to perform their duties of directing and controlling effectively because they do represent shareholders interest and are not aligned to managers where there is separation of ownership and control. Having more NEDs and independent directors on the board may reduce agency problems and managerial self-dealing (Liu, Miletkov, Wei & Yang, 2015). However, these directors may have challenges of information asymmetry since they do not have control over the day to day duties (Volonté, 2015).

Results from prior research on the relationship between board composition and company performance are inconclusive. Some studies have revealed that board size and a higher proportional of non-executive board had a positive relationship to company performance (Chamberlain, 2010; Abidin *et al*., 2009; Chen, 2015). Increase in the number of non-executive directors in a board in the UK was related to company performance (Dahya & McConnell, 2007). This was consistent with results obtained by Kahle, Wang and Wu (2014) where the authors found a significant positive impact of board size and independence on performance of UK companies. Similar results were obtained in India by (Mishra & Kapil, 2018); on Chile companies by Lefort and Urzua (2010); on French CAC listed companies by Ahmadi et al. (2018); and on Taiwanese companies by Chiang and Lin (2011). In a related study on Sri Lankan companies, Dharmadasa, Gamage and Herath (2014) found a positive relationship between board independence and company performance. A study on board reforms across the globe by Fauver, Hung and Taboada (2017) revealed that board independence has a positive impact on company performance.

On the contrary, other studies have found negative relationship between board size and company performance (Orozco, Vargas & Galindo-Dorado, 2018; Dharmadasa *et al*., 2014; Kiel & Nicholson, 2003; Hermalin & Weisbach, 2000); preponderance of non-executive board and company performance (Kiel & Nicholson, 2003). A study by Merendino and Melville (2019) on Italian listed companies had mixed results. Lower level board size had a positive relationship with financial performance. However, higher levels of board size resulted into negative relationship. Bonn (2004) on Australian companies did not find any consistent relationship between board size and performance. While board size was found to have a positive impact on Tobin Q, it had a negative impact on shareholder's value and no effect on operating profit.

Research by Dey and Chauhan (2009) on Indian listed companies which included public sector enterprises found that board size is not a significant measure of determining corporate performance. This result was supported by a study conducted by Chiang and Lin (2011) on Taiwanese companies and Yammeesri and Herath (2010) on Thai companies. Large board sizes are also found to be less effective than smaller boards. Dey and Chauhan, (2009) argue large board sizes suffer from communication gap, are less dynamic and appear to be less coordinated. This argument on communication is supported by Khan, Al-Jabri and Saif (2019). In a study on Chinese listed companies, Shao (2019) found that board size and board independence does not have effect on company performance. In a study on Australian companies, Nguyen, Rahman, Tong & Zhao (2016) observed a significant negative relationship between board size and company performance. However, authors noted that the relationship between board and company performance was contingent upon the size of the company.

Board independence did not appear to influence performance (Dey & Chauhan, 2009; Yammeesri & Herath, 2010; Rashid, 2018). These findings on board independence are consistent with those of Abdullah (2004) on Malaysian companies; Haldar, Shah, Rao, Stokes, Demirbas and Dardour (2018) on Indian companies. Similar results were obtained on a study on UK companies where Hsu and Wu (2014) found that while independent boards were seen to be effective in monitoring of managerial performance, their presence was related to higher incidents of corporate failure. Christensen, Kent and Stewart (2010) caution that while independent directors may effectively perform their monitoring role, this should not come at the expense of company performance.

Directorate interlock is another board composition attributes that has received a lot of research interest (Peng, Mutlu, Sauerwald, Au & Wang, 2015). Interlocking directorship is a situation where a director of one company is appointed to the board of another company or companies. Viewed from resource dependence theory perspective, interlock directors are considered as a vital element to an organisation in terms of skills and knowledge acquisition (Barka & Dardour, 2015). Interlocking improves board effectiveness in monitoring skills (Dharmadasa *et al*., 2014). Interlocking also enhances strategic networking skills of the board (Peng *et al.,* 2015). While interlocking can be considered as advantageous in terms of skills sharing, this strategic network does not seem to benefit shareholders' interests as it may lead to collusion of managers from different companies with the CEO of the company where they hold directorship (Drago, Millo, Ricciuti & Santella, 2015). The apparent collusion may weaken the independence of outside director while at the same time increasing the power of the executive. Board interlocks may also lead to ineffectiveness of board monitoring role due to directors' busyness which consequently may have a negative effect on company performance (Falato, Kadyrzhanova & Lel, 2014). Studies on the impact of board busyness on company performance have produced mixed results. A research by Pombo and Gutiérrez (2011) on Colombian companies revealed that interlocking outside directors has a positive impact on performance. However, the contribution of these interlock directors to board effectiveness diminishes with the increase in number of appointments per director. The result is supported by a study on Indian companies by Sarkar and Sarkar (2009). The authors, however, found that board interlock by insider directors had a negative impact on company value. While some studies have found a positive relationship between board interlock and company performance, other studies have revealed contrary results. A study by Cashman, Gillan and Jun (2012) found that board interlock of independent directors has a negative effect on company performance. These results are supported by Muller-Kahle and Lewellyn (2011) who found that board interlock does not lead to board effectiveness. However, other studies have not found any relationship between interlock of directors and performance. In a study conducted on companies listed on Colombo Stock Exchange, Dharmadasa *et al*. (2014) did not find any significant relationship between interlocking directorship and performance.

State-owned enterprises have much need of good corporate governance just as privately owned companies. Governance codes therefore advocate a well composed board of independent directors and limited size (OECD, 2015; World Bank, 2014a). The composition of boards of directors varies from country to country based on SOE legal form and its ownership arrangements (World Bank, 2014a). Consistent with the requirement of corporate governance codes on board composition, Bozec and Dia (2007) found that board size and board independence were related to technical efficiency in Canadian companies. However, the study found that the presence of public servants on the board had a negative relation to performance. The positive relationship was experienced when SOEs were exposed to market discipline like private sector companies. Other corporate governance authors advocate that civil servants should not be appointed to the SOE board (Mako & Zhang, 2002).

Contrary to the above requirements and findings on board composition and SOEs performance, other studies have cast doubt on the efficacy of the independent directors on SOEs boards. In a study on Italian SOEs, Menozzi, Urtiaga and Vannoni (2012) found that a higher proportion of independent directors on board were negatively related performance. In a study on Indonesian SOEs, Hermawan and Adinda (2012) found that board size did not have any impact on quality of earnings. However, increase in the level of independence had an influence on reducing earnings management.

According to corporate governance best practice (World Bank, 2014a), civil servants or public servants are not supposed to sit on SOE board. Public servants are government representative and can either be minister or his representative. In a study on the impact of proportion of public servants on technical efficiency of Canadian SOEs, Bozec and Dia (2007:1747) found that preponderance of public servants is negatively related to technical efficiency when SOEs are subjected to "market discipline." Appointment of public servants or civil servants into executive positions may lead to asymmetry of information. Information asymmetry leads to lack of proper monitoring which may provide an incentive for managers of SOEs "to manipulate actual profit figures" (Choe & Yin, 2000:283-4). Contrary to this recommendation, Bozec (2005) in a study on Canadian SOEs, found that the presence of public servants on the board of an SOE is positively associated with company performance.

Good corporate governance practice discourages the appointment of politically connected directors to SOEs. The presence of such directors promotes political interference in these organisations. Political interference has been cited as one the reasons for the poor performance of SOEs (World Bank, 2014a). Consistent with this recommendation, studies have found a negative effect of the presence of politically connected directors on SOEs performance (Chang & Wong, 2004; Wong, 2004). This is supported by findings by Menozzi *et al*. (2012) on Italian companies. Political alignment between CEOs and independent directors insulate CEOs from being dismissed due to poor performance (Lee, Lee & Nagarajan, 2014). To protect SOEs from political interference, some authors have proposed the appointment of professional independent directors whose role includes appointing CEO (Wong, 2004). Lee *et al*. (2014) propose that independent directors should have political beliefs that are different from those of the CEO. Qiang (2003) observed that the performance of public listed SOEs in China is weak due to poor governance structures which are politically and ideologically influenced. Sun, Mellahi and Liu (2011) posit that political connectedness also encourages managerial opportunism because of lack of strong governance systems.

Contrary to the above recommendation, studies by Hu and Leung (2012) on Chinese SOEs found that the appointment of politically connected top executives has a positive impact on company performance and improved corporate governance structures. In a related study, He, Wan & Zhou (2014) found a strong relationship between the appointment of a CEO who is politically connected and company performance. Chen, Luo and Li (2014) observed that politically connected companies showed positive performance due to their ease of access into markets with high barriers. However, it should be noted that all these studies were conducted on Chinese companies. It would be interesting to investigate how political connectedness of NEDs and executives influence the performance of SOEs in developing and least developed nations. Kakabadse, Yang and Sanders (2010) argue that it is practically impossible to have a truly independent NEDs in SOEs. The authors cite example of China where in a one way or another, directors are politically connected to senior managers of SOEs. This observation is supported by Favaro, Smits and Bakanova (2012) who posit that political interference is difficult to be avoided where the state is a major shareholder.

2.4.2.2. Board Structures

Board structure refers to board leadership such as the role of chair and CEO, board organisation; the role of board committees and flow of information between boards structures (Kakabadse *et al*., 2001:25). Board structure may be unitary or two- tier. Most of corporate governance codes recommend the separation of power of CEO and Chair in other words dual leadership (Financial Reporting Council (FRC), 2018; SAICA, 2009; IoD Malawi, 2010). Such a separation of power, it is perceived, will reduce agency problems that result from managerial entrenchment. Managerial entrenchment is a situation when management of companies have so much power to the extent that they further their own interests instead of maximising shareholders interest. CEO duality, where the CEO is both chair and CEO, is believed to increase incidences of managerial entrenchments. According to Florackis and Ozkan (2009), a higher managerial entrenchment leads to increased agency costs. To align the interests of shareholders to those of managers, good governance practices recommend separation of chair and CEO power. Governance codes also recommend that a NED should hold the position of chair to strengthen control and monitoring mechanism of the managers (FRC, 2018; OECD, 2015; SAICA, 2009). This separation of power is much applicable for single tier or unitary boards than two tier boards. In two tier boards, there is supervisory board which is composed of NEDs and management board which is composed of executive managers (OECD, 2015).

In support of the recommendation for separation of power of board chair and CEO, a study by Ehikioya (2009) found that CEO duality had a negative impact on company performance of Nigerian companies. Similar results were obtained by Shao (2019) on Chinese listed companies. These results were supported by Chiang and Lin (2011) on Taiwanese listed companies, Bozec (2005) on Canadian SOEs; Varshney, Kaul and Vasal (2012) on Indian companies and Yammeesri & Herath (2010) on Thai companies. Similar results were obtained by Ammari, Kadria and Ellouze (2014) in a study on French listed companies.

Contrary to the recommendation by corporate governance codes and agency theory against CEO duality, a study by Abdullah (2004) on Malaysian companies, did not find any relationship between CEO duality and company performance. Similar results were obtained by Zheka (2006) on Ukrainian companies and Dharmadasa *et al*. (2014) on Sri Lankan companies. Dalton, Daily, Ellstrand, and Johnson (1998) did not find a significant relationship between leadership structure and company performance. The findings from the above studies were consistent with a study by Dahya and McConnell (2007) on UK companies where they found that the separation of CEO and chair had no effect on company performance. Recent studies by Fauver et al. (2017) conducted on companies across the globe found that separation of CEO and chairman roles did not result into increased company performance. Other studies revealed that CEO duality had positive influence on company performance (Ahmadi, et al., 2018)

Apart from CEO duality, the other board structures that are gaining importance are board subcommittees. Good corporate governance practices recommend that Audit, nominating and remuneration committees should be composed of NEDs (Munisi & Randøy, 2013). Audit committee is a subcommittee of the board. One of its principal roles is to provide assurance, monitor and review financial statements of the company (Fama and Jensen, 1983). The role of nominating committee is to provide assurance and monitor the quality of appointments on board and executive management. The remuneration committee, on the other hand, ensures that there is alignment between the interest of shareholders and managers regarding the issue of senior managers' remuneration (Yammeesri & Herath, 2010). The presence of these committees is associated with positive company performance. The reasoning is that where these committees are composed of only of NEDs or independent directors, they are more effective in making performance related decisions. In the event that these committees are dominated by executives, Hearn (2013) observes that the NEDs will have limited power to discharge their monitoring responsibilities. Upadhyay (2007) found that the presence of committees enhances the role of larger boards. The challenges of large boards are that they face coordination and communication problems. However, the effectiveness of these large boards is enhanced using committees.

The presence of NEDs on board committees is in line with agency theorists who argue that the presence of independent directors and NEDs brings alignment of managerial interests to those of shareholders. According to Leung, Richardson & Jaggi (2014:17) board committees which comprise of independent directors improve the effectiveness of the board's monitoring role. Independent directors are able to provide "unbiased" advice to executives. Christensen *et al*. (2010) observe that markets also react positively to the presence of NEDs on nominating and remuneration committees. Consistent with agency theorists, a study conducted by Munisi and Randøy (2013) on Sub-Sahara African companies revealed that The Audit Committee is significant and positively related to the accounting performance measure of ROA but is negatively related to market performance measure of Tobin Q. In a study conducted on Hong Kong companies, Leung et al. (2014) found a positive relationship between board committees and company performance of non-family owned companies. The results were different for family owned companies. Regarding the effect of The Audit committee on corporate disclosure, a study by Madi, Ishak and Manaf (2014) on Malaysian companies supported the agency theory that having independent directors on the committee enhances the effectiveness of the board in terms of improving corporate disclosure. Similar results were obtained in prior studies in Malaysia and Singapore by Bradbury, Mak and Tan (2006). The authors found that the presence of independent directors improves accounting quality which is measured by degree of abnormal accruals. It was observed that the higher the proportion of independent directors on the board committees, the lower the abnormal accruals recorded.

Conversely, having the presence of NEDs on board committees does not seem to have any impact on company performance according to study conducted by Yammeesri and Herath (2010) on Thai companies. This finding was supported by earlier study by Cotter and Silvester (2003) on Australian companies. Similar results were obtained by Hayes, Mehran and Schaefer (2004) on S&P 500 companies. Authors have observed that the presence of committee is treated much more as compliance issue recommended by the regulators. While codes of corporate governance recommend that only NEDs or independent directors should sit on the audit committee to enhance monitoring of financial controls and financial reporting, this requirement has not received significant literature support. Klein (2002) found a non-linear negative association between audit committee and earnings management with a significant relationship revealed when audit committee had less NEDs or independent boards. In a study on Ghana listed company by Puni, Osei and Ofei (2014) found that the presence of NEDs on the nominating committee had negative effect on financial performance. The presence of NEDs on The Audit committee did not have any significant effect on performance contrary to agency theorists' assertion.

The need for internal governance structures like committees in SOEs cannot be overemphasised. While private sector companies have external governance mechanism that of markets for corporate control, most SOEs rely on internal governance structures as control mechanism (Bozec *et al*., 2004).

Despite the overwhelming support for the recommendation to set up committees with independent directors in SOEs, results from literature on the relationship of between board committees and company value have not been conclusive. Hermawan and Adinda (2012) in their study of Indonesian SOEs, found no significant relationship between board committees and company value. One of the reasons advanced by Hermawan and Adinda (2012:22) on their no-relationship finding is that there is lack of "specific obligations" imposed by the shareholder on the need of The Audit Committee.

2.4.2.3. Board Processes

Kakabadse *et al*. (2001:25) define board process as "decision making activities; styles of board; the frequency and the length of board meetings; the formality of board proceedings and board culture on evaluation of director's performance." Consistent with the above definition, this study examined board process in terms of frequency of meetings, formality of board proceedings and board evaluation.

Board meeting activities measured by the number of meetings held per year are associated with effective control mechanism (Chen, Firth, Gao & Rui, 2006). According to Xie, Davidson and DaDalt (2003) found that board activity is a mechanism to reduce incidence of earnings management. The frequency of The Audit Committee meeting is perceived as a mechanism to improve financial reporting. Board members are able to discover problems and corrective actions are taken before things get worse (Yunos, Ahmad & Sulaiman, 2014). However, board meeting activities are prompted by past events which include, inter alia, poor performance. Brick and Chidambaran (2007) found that increased monitoring activities following poor performance led to improved performance in the subsequent periods. There was weak inverse relationship between board meeting frequency and company performance of Indian companies (Varshney *et al*., 2012). This is supported by Christensen ***et al.*** (2010) in their study on Australian companies. Fernandez, Alonso and Rodriguez (2014) in their study on Spanish companies, found a negative relationship between board meetings and company performance. The authors noted that Spanish companies have a higher frequency of meetings compared to other countries. Markets tend to associate more frequent meetings with a sign of inefficiencies or operational problems. Frequent meetings or board activities are associated with acts of fraud committed in an organisation. Board members therefore spend considerable amount of time to deliberate on issues of crime and how to resolve issues related to fraud (Chen *et al*., 2006). Contrary to the above findings, Puni and Anlesinya (2020) in their study on Ghanian listed companies, found that frequent meetings were beneficial to the performance of a company.

The board should carry out annual evaluation of its performance (Van den Berghe & Levrau, 2004). This evaluation would assist the board to assess its areas of board failure during the year and where the board can improve on. Kiel and Nicholson (2005:614) has outlined four categories of board failures which include "strategic failure …, control failure…, ethical failure…, and interpersonal relationship failure". In an evaluation process, good corporate governance practice advocates that this exercise should include an evaluation of board competences, right mix of skills and experience (OECD, 2015a; OECD, 2015b; IoD Malawi, 2011) to support the organisational strategy. A director could have acquired requisite skills prior to joining the board or additional skills and competences could be developed while in the board through board training and development. Minichilli, Gabrielsson and Huse (2007) underscore the importance of board evaluation that it contributes to board effectiveness which leads to better company performance.

2.4.2.4. Board Characteristics

"Effective board membership requires high levels of intellectual ability, experience, soundness of judgment and integrity. There is also the question of the collective capacity of the board in terms of the mix of abilities, experiences and personalities that best make up the board as a collective body" (as cited by Walt & Ingley, 2003:226)

Board characteristics include attributes like "director's backgrounds, such as director's experience; tenure; and functional background," among other variables that have an impact on the effectiveness of board performance (Korac-Kakabadse *et al*, 2001:25). The issues that need investigating about board characteristics include: does directors academic or professional experience matter in corporate financial performance? Does the level of tenure have any impact on the effectiveness of the board and corporate performance? This study examined directors' experience and functional background; and tenure to determine their impact on performance.

Director's experience and professional background have been cited as one of the important elements contributing to boards' performance. Corporate failures have been attributed to, a large extent, board failure (Kiel & Nicholson, 2005). It is therefore important that the board should be made of directors with requisite background experience. Studies on corporate failure have cast doubt on the efficacy of professional background. Zandstra (2002) has cited the example of Enron whole failure was not necessarily due to lack of professional background but more of moral failure.

The importance of directors' tenure has also received scholarly interest. Proponents for long tenure argue that it helps directors gain the necessary knowledge and experience thereby making them more effective in their monitoring responsibilities. Kim, et al. (2014) found that directors monitoring experience is enhanced by longer tenure. Shorter tenures, on the other hand, are associated with lack of experience on the part of the director as evidenced by increased incidents of fraud (Chen *et al*., 2006). Others have argued that the longer the director stays, the greater the possibility of getting entrenched, and the less effective he / she becomes (Chamberlain, 2010; Chen *et al*., 2006). Some studies had found a positive relationship between be directors' tenure and company performance (Chamberlain, 2010; Kim *et al*., 2014). McIntyre, Murphy and Mitchell (2007) noted that longer tenure is necessary for directors to gain experience and contribute positively. Longer tenure also assists the board to "reduce information asymmetry" thereby improve in their governance responsibilities (Kim *et al*., 2014:111). However, directors' contribution to organisation performance decreases as tenure increases beyond a certain level.

Research on the effect of board attributes on performance is still inconclusive and may vary depending on social and cultural factors (Abidin *et al*., 2009) as well the measure used for company performance. Most of the studies on board attributes cited above have been conducted in developed, emerging and developing economies. There has been limited research in least developed countries like Malawi due to lack of data and undeveloped markets. The present study focused on the influence of board attributes (composition, structure, processes and characteristics) on performance of State-owned enterprise in Malawi.

2.4.3. Capital structure

The use of capital structure as a limiting device on the power of agents has received its fair share of research interest. The use of debt is believed to force managers "to act more in the interest of shareholders" (Berger & di Patti, 2006:1096). However, to what extent capital structure affects company performance is yet to be conclusively established. Contrary to the assertion by Franco Modigliani and Merton Miller of 1958 that capital structure is not relevant at zero tax (*as cited* in Brigham & Gapenski, 1997:580), recent studies have argued that a direct relationship exists between capital structure and company performance but with mixed results. In a study on USA commercial banks, Berger and di Patti (2006:1097) found that highly leveraged companies performed better than their counterparts. These findings are supported by the results of a study on Micro Finance in Sub-Saharan Africa conducted by Coleman (2007). The above results are consistent with corporate governance theory which predicts that increase in leverage acts as a disciplinary mechanism and lowers manager's propensity to opportunism. Managers would therefore tend to avoid debt especially long-term debt since debt financing would subject them to external monitoring mechanism (Ganguli, 2013:57). Studies reveal that ownership has an impact on capital structure (Wellalage & Locke, 2015:135; Pindado & De La Torre, 2011:222). In diffused ownership structure, managers take control of capital structure decisions; there is less debt usage as a means of financing. However, where ownership is concentrated, there is evidence of increased use of debt in the company's capital structure (Pindado & De La Torre, 2011:222).

However, other studies have found negative relationship between capital structure and corporate value (Le & Phan, 2017; Dawar, 2014; Sheikh & Wang, 2013). Most of the studies on the impact of capital structure on company performance have been conducted in developed economies (Dawar, 2014). Developing and emerging economies are affected by different environmental challenges which include inefficient banking systems (Qian & Yeung, 2015; Barth, Caprio & Levine, 2001) and underdeveloped external markets for corporate control which reduce disciplinary power on managers. The banking sector in developing and emerging economies is, to a large extent, affected by the presence of state ownership (Qian & Yeung, 2015; Dawar, 2014; Barth *et al*., 2001).

SOEs face different challenges in terms of choices of capital structure. In a study of government corporations in Australia, Whincop (2005) observed that while there is a belief that debt financing exert the same disciplinary effect on managers as revealed in business corporations, its effect is reduced in government corporations because of the tendency of governments to intervene to prevent bankruptcy of government corporations. Where government corporations face "hard budget constraints" the use of debt exerts stronger discipline on management. However, softening the budget constraints is one of the factors that may contribute to poor company performance (Choe & Yin, 2000:283). One way for softening budget constraints is when a government acts as a guarantee to loans advanced to a SOE (Tian & Estrin, 2007). In a study on Chinese publicly listed SOEs Tian and Estrin (2007) found that increase in bank loans had a negative effect on SOEs' efficiency. This is consistent with earlier findings by Claessens and Peters (1997) on Bulgaria SOEs where they found that companies that were not subjected to financial discipline due to softening of budget constraints continued to make losses. It is important therefore to determine how capital structure in a least developed country like Malawi affects performance of SOEs.

2.4.4. Transparency and Disclosures

Disclosure is an important element where there is a separation of ownership and control. Transparency and disclosure reduce agency costs because it leads agents to be more accountable to their principals. Disclosure is viewed as an important element of corporate governance to enhance monitoring of agents and increase levels of accountability (OECD, 2018). Disclosure is also seen as a vital tool to constraint agents' tendencies towards self-interested behaviour (Fong & Shek, 2009). In a study on Brazilian and Indian companies on corporate debt, Marques, Ribeiro and Barboza (2018) observed that lack of proper disclosure increases costs as companies are not able to access loans on capital markets.

While transparency and disclosures are regarded as best practice by corporate governance codes, studies on the relationship between disclosure and company performance reveal mixed results. A study by Heo (2018) on South Korea SOEs show that transparency and disclosure are positively associated with improved performance. However, Li, Miao, Zheng and Tang (2019) found that transparency is negatively associated with SOEs performance in China. Another study conducted by Gupta and Sharma (2014) on Indian and South Korean companies revealed that there is a limited relationship between corporate governance practices which include disclosure and company performance. In a study on Turkish manufacturing companies, Uyar and Kılıç (2012) found inconclusive results. While there was a positive association between disclosure and market value, the study did not find a significant relationship when the company value used the ratio of market value to book value of equity. In a study on Indian companies, Assankutty, Fatima and Kuntluru (2019) observed mixed results. While the study revealed positive relationship between disclosure and market valuation, there was negative relationship with accounting measures of ROA and ROE.

Despite findings on the importance of disclosure, some studies reveal that disclosure may not necessarily lead to significant financial performance. Quality disclosure according to Wu, Quan and Xu (2011:94), reduces "over-time variability of firm performance". In a study conducted on Saudi Arabian companies, Elbarrad (2014) observed that there was positive relationship between disclosure and company performance. These results are supported by the study on Hong Kong companies by Fong and Shek (2009). However, the adoption of disclosure principle may vary depending on legal forms with SOEs exhibiting low levels of disclosure according to the study conducted in China by Huafang and Yuan (2007).

Transparency and disclosures are as important to private sector companies as it is to SOEs (OECD, 2015). According to Heo (2018), transparency and disclosure is associated with improved performance. Phuong, Nguyen and Vu (2020) observes that transparency and disclosures are important governance mechanisms to monitor company performance. Transparency also works as a mechanism to inhibit corrupt practices by agents (Andres, Guasch & Azumendi, 2011).

One of the challenges of SOEs in less developed countries is the level of disclosure. The World Bank (2014a) noted that SOEs have low levels of disclosure and accountability. Faced with an environment of multiple principals and agents, political interference and absent or passive owners, lack of disclosure may promote moral hazards by multiple agents.

This study examined the impact of disclosure and performance in the different legal forms of SOEs in Malawi.

2.5. Empirical Evidence

The section below presents empirical evidence for culture and corporate governance, and corporate governance variables and company performance.

2.5.1. Culture and Corporate governance

Corporate scandals that have rocked the world in the past two decades have heightened the importance of corporate governance (Zalewska, 2014). However, despite the overwhelming interest, the level of application and adoption of corporate governance codes by different countries has cast doubt on the universality as well as their effectiveness. Different governance frameworks have emerged with marked variations. These variations have been attributed to differences in national culture (Li and Harrison, 2008). There is growing interest to study the effect of culture on corporate governance. The challenge of cultural studies arises from the varied definitions and disciplines where culture originates. Studies on culture and corporate governance have used cultural dimensions of Hofstede (Franke & Nadler, 2008; Bae, Chang & Kang, 2012) and the Schwartz data (Desender *et al.,* 2011; Licht *et al*., 2005). However, Hofstede work has been considered to be the most popular (Bae *et al*., 2012). This section reviews some empirical work on culture and corporate governance.

Chan and Cheung (2012) examined differences in corporate governance across different countries. This study was conducted on data obtained by Corporate Governance Survey of

Credit Lyonnais Securities Asia (CLSA). Twelve countries which had complete data for CG and cultural dimensions in 2001 and 2010 were included in the sample. The study covered 271 observations. Independent variables in this study were the first four culture dimensions obtained from Hofstede study, namely "Power Distance Index (PDI), Individuality (IDV), Masculinity (MAS) and Uncertainty Avoidance Index (UAI)" (Chan & Cheung, 2012:48). Dependent variables were measured as Quality of Corporate Governance as CG Scores as per CG factors in the CLSA survey. The study used Hofstede cultural dimensions because they are the mostly available and used study on culture. Control variables in this study included Macroeconomic factors: GDP per capita and GDP growth rate; Legal factors: Common Law countries; and company specific factors: company size, dividend yield and market to book ratio. Results of the study revealed that high IDV, low UAI, low MAS and three control variables: log (GDP per capita), common-law and market to book ratio had higher CG Scores. However, there was no significant relationship between PDI and CG scores after including control variables (Chan & Cheung, 2012). The study did not include more observations covering the 10-year period due to data unavailability. The results of this study are partially supported by another study conducted by Matoussi and Jardak (2012) who found that high IDV, low UAI, and low PDI were related to better investor protection measured by disclosure index, director liability index and shareholders' ability to sue managers and directors for misconduct. The study also included religion as a cultural variable. However, religion and MAS were not supported as determinants of quality corporate governance practice. Similar results were obtained in another study conducted by Griffin *et al*. (2018) who found that high IDV and low UAI related to better company-level good governance practices. In this study, authors used Governance Metric International index as a measure of good corporate governance practice.

In an earlier study, Li and Harrison (2008) examined the influence of ownership structure and national culture on corporate governance. The authors studied 15 countries and 399 different companies. Hofstede cultural dimensions were used as independent variables in addition to ownership structure. For dependent variables, corporate governance, the study used board size and CEO duality. The study found that high PDI, high IDV, high MAS tend to prefer consolidated leadership or CEO duality. The study also found that high IDV was related to a small board. Other studies have revealed that both cultural dimensions and religion have an influence on corporate governance practices. Studies by Kim and Daniel (2016) found that religiosity was related to better governance practices.

Consistent with empirical studies, the current study used four cultural dimensions of Hofstede: PDI, IDV, UAI and MAS, whose scores are available for Malawi, as independent variables. For dependent variables, study used quality of governance measured by governance scores. These scores were obtained by adapting questions from GMI and applying to Malawi's Code of Corporate Governance. The other independent variable is religiosity whose scores were obtained through a survey using an instrument developed by Worthington *et al*. (2003:84). The study also controlled for size of the company, performance and capital structure consistent with Li & Harrison (2008). While studies cited above have been conducted in developed and emerging markets and across countries, this study involved a single country. The current study also focused on SOEs companies which have received less scholarship in relation to culture and corporate governance. The use of a single country is similar to the study by Haniffa and Cooke (2005) who examined relationship between culture and disclosure in Malaysian companies. However, Haniffa and Cooke did not combine cultural dimensions and religiosity in their study.

2.5.2. Corporate Governance of SOE

SOE reforms and restructuring that have taken place during the past two decades across the globe presents some empirical evidence on the effects of corporate governance and its performance consequences. While SOEs are common phenomenon in the least developing countries and have faced pressure from both international donor agencies for reforms including privatisation, there is lack of empirical evidence on the how reforms in corporate governance have impacted on performance. Most empirical studies on corporate governance of SOEs have been conducted in developed and emerging economies.

One of the comprehensive studies on SOEs corporate governance and performance was conducted by Aivazian *et al*. (2005) on Chinese SOEs. The study examined the effect of corporatisation without change of ownership on performance. The sample comprised 308 corporatised SOEs and 121 non- corporatised SOEs between the periods from 1995 to 2000. The study revealed that corporate governance reforms had a positive impact on SOEs performance without privatisation. The study did not cover the effect of ownership structure reforms, capital structure and disclosure on SOEs performance. Fixed and random effects were used as estimation methods. While the use of fixed effects deals with “endogeneity due to unobserved, time-invariant heterogeneities” Liu *et al*. (2015:228-229) observe that fixed effects (FE) estimation does not address bias arising from potential endogeneity such as “time-varying heterogeneities, simultaneity, or reverse causality.” According to Wintoki, Linck and Netter (2012) one source of endogeneity may arise where current corporate governance variables are affected by past performance. Endogeneity problems can be addressed by the use of dynamic Generalized Method of Moments (GMM) proposed by Blundell and Bond (1998) (Nguyeng *et al.*, 2014; Wintoki et al., 2012).

Wang (2009) discusses the effect of ownership structure reform on SOEs performance. The study revealed significant performance improvement for SOEs whose shareholding was transferred from government agency to SOEs. Improved performance was attributed to improvement in corporate governance and related party transactions. The findings of the study reinforced the proposition that SOEs performance can improve through ownership structure reforms without necessarily going through privatisation. This study did not cover board of directors and capital structure as corporate governance variables. Li *et al*. (2012) discussed the effect of transforming SOEs by changing ownership control rights. Their study revealed that SOEs without state control outperformed those under state control. The study only focussed on manufacturing companies and did not cover service industry. Contrary to the findings of the above studies, a study of Spanish government hotels by Costa and Jaime (2008) did not find any significant improvement in performance as a result of corporatisation. Lazzarini and Musacchio (2018) argue that SOEs do not perform worse than private companies. They further add that local environmental factors contribute to the performance of these SOEs.

Boards are considered as an important internal governance structure in mitigating agency problems (Bozec, 2005). Most of the corporate governance codes on SOEs boards have been influenced by agency theory which considers that agents need to be monitored if their interests are to be aligned to those of their principals. Most of the studies on boards are based on private sector companies. Empirical evidence on boards and SOEs performance is in its infancy in least developed countries, however, there is a growing interest in emerging economies and a few developed countries on the study of the influence of boards on SOEs performance. A review of empirical studies below reveals that findings on relationship between boards and SOEs performance are inconclusive.

Consistent with agency theory, Liu *et al.* (2015) found that the appointment of independent directors had a positive impact on company performance. This was one of the comprehensive studies covering the role of independent directors in performance improvement. While the study covered more variables of board composition and board structure like board size, CEO duality, and board meetings, not all board composition variables were included. In addition to variables covered by Liu *et al*. (2015), the current study also discussed the effect of director interlocking, appointment of public servants, board committees, and board evaluation on SOEs performance which was not covered by their study.

In a study on Canadian SOEs, Bozec (2005) found that board independence is negatively related to company performance where SOEs are subjected to competition. The study also found a negative relationship between board size and CEO duality on performance. While good corporate governance codes recommend that civil servants should not serve on SOEs board, this study found that there is a positive relationship between the involvement of public servants on SOE board and performance. On board committees, the study did not find any relationship between remuneration and nomination committees and SOE performance. However, the study found a negative relationship between The Audit Committee and company performance. In another study using different measurement tools, Bozec and Dia (2007) found a positive relationship between board size, board independence and technical efficiency of Canadian SOEs which are exposed to market discipline. The study also found negative relationship between the presence of public servants and company efficiency which is contrary to the earlier findings. Data Envelopment Analysis (DEA) was used to measure performance. According to Díaz, Poyato and Luque (2004:135), “DEA is a linear programming technique to determine the relative efficiencies of a company when the inputs and outputs of production units within the company are known, but the productive process itself is not.” These studies did not try to measure any causal relationship between board and SOEs performance. The DEA had some limitations as a result the authors had to use some financial analysis as a supplementary tool. The study also failed to account for endogenous factors in the relationship between board and SOE performance. Ownership structure has been found to have an influence on board of SOEs (Kakabadse *et al*., 2010).

In related studies on the relationship between board committees and SOE value, Hermawan and Adinda (2012) did not find any significant relationship between board committees and company value of Indonesian SOEs.

While agency theory advocates majority of NEDs in boards, a study by Kakabadse *et al*. (2010) found that NEDs were not effective monitors of SOEs in China owing to lack of quality information to discharge their monitoring responsibilities.

Director's experience, tenure, interlocking and functional background have attracted governance scholarship interest. A review of literature shows that much of this work had been conducted in private sector companies. Literature on SOE corporate governance for these board attributes is still in infancy and inconclusive. Kim *et al*. (2014) found that longer tenure for outside directors is useful for their role of advising and monitoring. This is supported by an earlier study by McIntyre *et al*. (2007) on Canadian companies who revealed that longer tenure is necessary for directors to perform effectively. However, Chamberlain (2010) noted the value of tenure diminishes as director serves for a much longer period. On director interlocking, McIntyre *et al.* (2007) found director's busyness is associated with decrease in company performance. Kiel and Nicholson (2003) did not find significant relationship between board interlock and company performance. While good corporate governance best practice advocates that directors should have necessary professional background, empirical evidence cast doubt on the impact of professional background on company performance (Zandstra, 2002).

Agency theorists posit that the use of debt as a financing source is also treated as a governance control mechanism. Debt covenants tend to force managers to act in the interest of shareholders. If debt really constraints managers, an increase of debt in the capital structure should reduce agency problems which come as a result of risky investment decisions taken by managers. However, the downside of debt as a financing source is that it may restrict managers' entrepreneurial spirit. Empirical evidence on the effect of capital structure on company performance has raised a number of enduring debates on the role of debt. A study on Pakistan companies by Sheikh and Wang (2013) found that capital structure was negatively related to company performance. The authors noted that the increase of debt in capital structure had a negative influence on company performance. Further, they observed that lenders are willing to provide short term debt to reduce their risk. Higher leverage appeared to restrict managers' operational effectiveness. The study was conducted in Pakistan where the market for corporate control is not developed and efficient. The use of fixed effects estimation and a single governance variable to measure performance failed to take into account endogeneity issues arising from interrelationship among governance variables. Empirical studies have revealed that capital structure can also be affected by other factors such as ownership structure (Pindado and De La Torre, 2011); board composition and capital structure (Alves, Couto & Francisco, 2015). Dawar (2014) found that capital structure has a significant influence on company performance in India. This is contrary to agency theory which posits that debt can be used a disciplinary device on managerial behaviour. The author noted that findings of the study may have been influenced by environmental factors. This study was conducted in India which is considered as an emerging market. The Indian financial market is underdeveloped and dominated by SOEs financial institutions which by nature are considered as ineffective control devices to limit managerial "discretionary behaviour". The study employed fixed effects method of estimation. While the study controlled for exogenous factors such as age and size of the company, it did not account for endogeneity effect inherent in FE method. Capital structure may be influenced by other corporate governance factors such ownership structure (Pindado & De La Torre, 2011; Ganguli, 2013). In a study on New Zealand companies, Wellalage and Locke (2015) found a bi-directional influence between managerial ownership and capital structure.

Other studies on capital structure, however, are in support of agency theory as a mitigating factor in the conflict between managers and shareholders. Kyereboah-Coleman (2007) found that high leverage has a positive effect on performance of microfinance companies in Ghana. Most of the studies on capital structure have been conducted in developed and emerging markets. The current study was conducted in Malawi, an LDC where literature is not available on the effect of capital structure and company performance.

Disclosure is as important to privately owned companies as it is to publicly owned companies. Disclosure promotes transparency which in turns ensures accountability. Robinett (2006:19) has grouped disclosure into two categories: ex-ante reporting and ex-post reporting. These disclosure categories have been used in formulating Disclosure Index scores. Empirical evidence on the relationship between disclosure and financial performance reveal that disclosure has a positive influence on financial performance. In a study on Indian companies listed on the Securities Board of India (SEBI), Assankutty et al. (2019:10) found that Corporate Governance Index(CGI) was related to company performance measured by Tobin Q but the study found negative relationship between CGI and financial performance measured by accounting measure of ROE. The author observed that investors consider disclosures as an important element for company valuation. The study used self-constructed Corporate Governance Index using disclosure made in annual reports (Assankutty et al., 2019. The study did not account for influence of other corporate governance variables on disclosure which would have an impact on company valuation.

Luo and Salterio (2014:475) in a study on Canadian companies which used "comply or explain" governance regime found that "tailor- made" governance practices is significantly associated with company value measured by Tobin's Q, but had weak association with operational performance measured by return on equity (ROE). One of the weaknesses of the study is that it used data for one year resulting from failure to account for endogeneity factors which arise from past events. In addition, the study did not also account for simultaneity and reverse causality endogeneity which may result from company performance having an influence on disclosure. Quayes and Hasan (2014) in a study on Microfinance institutions found that company performance had an impact on disclosure. However, Luo and Salterio (2014) study has provided valuable information for the study of "comply or explain" governance regime to determine its impact on performance. Consistent with the above studies, the current study investigated the impact of disclosure on performance. Since the unit of analysis is SOEs, which inherently faces challenges of availability of CGI scores, the study used self-constructed governance index developed from Malawi Code II of best practice of corporate governance. In addition, the current study employed a longitudinal panel data approach. The study used GMM estimation to account for endogeneity factors.

2.6. Summary

This chapter reviewed theories that form the background to the study of corporate governance, particularly focussing on agency and stewardship theories. Contribution of these theories to the corporate governance studies have been discussed. The chapter also reviewed studies on social-cultural values and their impact on corporate governance. Literature on corporate governance and its impact on company performance was reviewed. The chapter presented empirical evidence on social-cultural values and their influence on effectiveness of corporate governance, and the influence of corporate governance on performance. Finally, a summary of the chapter was presented.

Next is chapter 3 which builds on the empirical evidence presented in this chapter to develop the research design and methodology.

CHAPTER 3: RESEARCH DESIGN AND METHODOLOGY

3.1. Introduction

This chapter builds on the previous chapter which has carried out a detailed review of literature on corporate governance of SOEs and its effect on performance. The chapter discusses research methodology underpinning the current study. The purpose of research methodology is to provide guidelines on how research should be conducted. The chapter provides a relationship between research methods, objectives and research questions. This chapter is structured as follows: section 3.2 provides the philosophical background of the study; section 3.3 discusses research methodology; section 3.4 covers research design; section 3.5 presents sampling technique of the study; section 3.6 covers data collection techniques; section 3.7 discusses data analysis techniques; section 3.8 discusses reliability and validity of the study; section 3.9 provides ethical consideration of the study; and section 3.10 summarises the chapter.

3.2. Philosophy of Science

Ponterotto (2005:127) defines science as the pursuit of knowledge "through systematic observation and reasoning" (Rosanas, 2007:1). Philosophy of science on the other hand deals with the study of reality and development of knowledge. It incorporates beliefs or assumptions of reality, study of knowledge and research process. It is also concerned with the role of social values in the research process (Saunders, Lewis & Thornhill, 2007:101). Research philosophy influences research methods and strategy that an investigator adopts when conducting a research project. A conceptual research framework that integrates the nature of reality (ontology), the study of knowledge (epistemology), the role and values in research, and the process of conducting research is called a research paradigm (Sobh & Perry, 2006:1194). Filstead defines research paradigm as a "set of interrelated assumptions about the social world which provides a philosophical and conceptual framework for the organised study of that world" (as cited in Ponterotto, 2005:127). According to Guba and Lincoln (1994:107) "paradigms are basic beliefs systems based on ontological, epistemological and methodological assumptions."

Philosophy of science is therefore influenced by the researcher's worldview or paradigms which are underpinned by their ontological, epistemological, axiological and methodological assumptions (Guba & Lincoln, 1998:200; Ponterotto, 2005:127). This section discusses the major components of research paradigm and how they affect research process.

3.2.1. Ontology

This is a philosophical science which involves the study of being or what exists (Fleetwood, 2004). It is concerned with reality or what is to be known, whether social or political (Masadeh, 2012; Scotland, 2012; Saunders *et al*., 2007; Sobh & Perry, 2006; Ponterotto, 2005). Reality can be perceived objectively or subjectively (Saunders *et al.,* 2007). Those who view reality with objective lenses believe that "social entities exist in reality external to social" while the subjectivists believe "social phenomena are created from perceptions and… actions of social actors" (Saunders *et al*., 2007:108)

The objectivist believes reality exists and can be known through research. This ontological position is linked to positivism paradigm which argues that reality or authentic knowledge can also be discovered through scientific method of research which begins with theory and uses deductive reasoning and then tests hypotheses from theory. According to Ponterotto (2005:130) the positivists argue that there is "one true reality" that can be identified and measured. This view is also considered as "*naïve realism."* The objectivist also believes that the researcher's feelings and values do not have any effect in the research process. In other words, "research should be objective and value free" (Saliya, 2017:98). A similar ontological view to positivist which is somewhat different is called post-positivist position. The post-positivists argue that there is reality out there independent of the researcher. However, this reality can only be "measured imperfectly." This is also called "critical realism" (Ponterotto, 2005:130).

The subjectivist on the other hand believes that there are multiple realities that exist in the world of research. This ontological position is known as "relativist ontology" and is linked to interpretivist paradigm. To the interpretivist, reality is socially constructed and does not exist without the researcher (Saunders *et al*., 2007:108; Saliya, 2017:98). According to Guba and Lincoln (1994) realities are not absolutes. Realities can be altered depending on the social actors' construction. In other words, there are multiple realities originating from "multiple interpretation of data" by various social actors (Ponterotto, 2005:130). The Interpretivist research is value laden (Ponterotto, 2005:131) as opposed to the positivist research which is value free (Sobh &Perry, 2006:1196).

Besides these opposite polar philosophical positions, there is pragmatism which tends to avoid the extreme views. According to Saunders *et al.* (2007) pragmatists consider research questions to be more important than debates about truth or realities. While ontology is considered as reality, epistemology deals with the relationship between "reality and the researcher" (Sobh & Perry, 2006:1194). Ontology has an influence on epistemology, researcher's worldview and research methods.

3.2.2. Epistemology

This is a philosophical science that studies the nature of knowledge and what constitutes acceptable knowledge in a particular field of study (Saunders *et al*., 2007:102). It is also referred to as a research process by which the researcher wants to know the truth or reality (Antwi & Hamsa, 2015). It is concerned with the process of knowledge acquisition (Ponterotto, 2005). According to Guba and Lincoln (1994:108) epistemology deals with the question "what is the nature of relationship between the knower… and what can be known?" If the reality or truth is assumed to exist, then the researcher takes an objective position to reality. Just as ontological polar positions of reality, epistemology also shares the two opposite views of how the researcher comes to know the truth or develops knowledge. On one end of the continuum is the researcher who holds a positivist position of knowledge development and on the other end is the interpretivist (Saunders *et al*., 2007:103).

3.2.3. Research Paradigms

Kjesrud (2015:35) defines a paradigm "as a set of assumptions that influences research methods and theoretical approach." According to Saunders *et al.* (2007:110) a research paradigm is "a way of examining social phenomena from which particular understandings of these phenomena can be gained and explanations attempted." Guba and Lincoln (1994:105) define a paradigm as "belief system or worldview that guides the investigator, not only in choices of method but in ontologically and epistemologically fundamental ways." There are many categories of paradigms based on different schools of thoughts or disciplines. The widely accepted categorisations are those of Burrell and Morgan (1979) and Guba and Lincoln (1994). Burrell and Morgan (1979:22) has summarised paradigms into four classes based on sociological view. These include radical humanist, radical structuralist, interprevite and functionalist. In a later study, Guba and Lincoln (1994:108-109) categorised these into four slightly different categories namely, positivism, post-positivism, critical theory *et al*, and constructivism. Other categories include that of Crotty which differs slightly from those of Guba and Lincoln (Brand, 2009). What is common among these typologies is that in each category, there is positivism on one polar side of the continuum and interpretivism / constructivism on the other polar. For the interest of this study the following paradigms are discussed: positivism, interpretivism, realism / post-positivism, and critical theory *et al*.

3.2.3.1. Positivism

This is a philosophy of science which deals with scientific methods. It was developed by Augustine Conte in the 19th century (Saliya, 2017; Masadeh, 2012; Scotland, 2012). This paradigm involves systematic observation of phenomena within the context of a theory (Ponterotto, 2005). Positivism has been a dominant worldview in natural sciences. According to positivists, research should be approached objectively and verified using scientific methods (Brand, 2009). Reality according to a positivist is fixed and can be known. Theories about reality can be logically developed and such theories can be empirically verified (Westhues, Cadell, Karabanow, Maxwell & Sanchez, 1999). Since natural sciences predominately use positivism philosophy of science, the advocates of this worldview believe that social science should share the same goal hence the same paradigm (Ponterotto, 2005). The purported successful application of positivism in natural science has led to its advocates to believe that it can also be applied to organisational studies in similar manner (Fleetwood, 2014).

On ontological position, a positivist believes that there is reality or “real world” that exist independent of the actors. This reality can be discovered using deductive logic (Saliya, 2017:97; Brand, 2009:432). In other words, a positivist holds a realist ontological position (Scotland, 2012:10).

The epistemological position of a positivist is that of objectivism. The positivists believe that there is absolute knowledge about reality that is independent of social actors and this can be verified using scientific method (Scotland, 2012). The positivist contends that research should be “value free”. In other words, researcher’s feelings should not influence research process (Saliya, 2017:98). According to Fleetwood (2014:195) the positivist believes in “event regularities.” Problems are treated as technical and can be resolved by use of scientific method and through formulation of hypothesis. The positivist predominantly uses quantitative data. Burrell and Morgan (1979:5) posit that positivists “seek to explain and predict what happens in the social world by searching for regularities and causal relationships between its constituent elements” (Machado & Laffin, 2014:202).

The methodological approach of the positivist is that for research to be generalised it should be quantified (Crossan, 2003). The approach is “experimental and manipulative” by testing hypothesis and any “confounding” condition is controlled to prevent it from influencing the outcome of the research process (Guba & Lincoln, 1998:204). As a result of a controlled condition, a positivist operates in a closed system (Williams, Rycroft-Malone & Burton, 2017). A “hypothetico-deductive, inductive-statistical and a covering law model” is followed to explain and predict the outcome of phenomena (Fleetwood, 2014:195; Ponterotto, 2005:128). The methodology employed by the positivist generally aims at explaining relationship by the use of correlations and experimentation (Scotland, 2012:10). This paradigm largely uses quantitative methods which employ statistical analysis (Saunders *et al*., 2007:104).

While positivism has been a dominant philosophy of social science which includes business management over the century (Sobh & Perry, 2006:1196), it has not been without criticism. One of the major criticisms is the conflation of explanation and prediction. Fleetwood (2014:196) contends that “prediction does not constitute explanation”. Prediction is based on past event regularities. However, “to explain is to give causal history.” Fleetwood (2014:196) further argues that “if causality is reduced to mere event regularity, then explanation is reduced to merely providing information on a succession of events”.

Critics of positivism also find fault not only in its ontology of events (Fleetwood, 2014:197) but also insistent of absolute truth or reality (Crow & Lockhart, 2014). Business management as a field of study is a social science. Denying the influence of social actors’ interpretation of phenomena as advanced by positivism negates the role of humans in business research. Such a position is also simplistic in nature and does not account for the complexity of business organisation (Saunders *et al*., 2007:107). Business organisation is a “complex social science phenomenon”; the use of positivism to study such a phenomenon is considered inappropriate by critics (Sobh & Perry, 2006:1197).

Positivism has also been the dominant paradigm in corporate governance research. The use of positivism philosophy has influenced agency theory in the corporate governance research (Zattoni, Douglas & Judge, 2013). Much of the research in corporate governance discipline has focussed on the relationship between corporate governance and performance (Crow, Lockhart & Lewis, 2013). Literature on governance has focussed on the role of the board in influencing performance. The relationship between board’s attributes and performance has led to conjectures that correlations lead to explanation. The insistence on an absolute truth has also been put to question. Crow and Lockhart (2014) contend that many of the correlations of corporate governance reported in the literature have been inconclusive. Many of the assertions have also been falsified elsewhere. For instance, while many scholars have found a positive relationship between board attributes and performance (Liu et al., 2015), others have found that relationship not conclusive (Abidin et al., 2009). Other scholars have criticised positivism for its reliance on ‘archival data” and its assumption that this data is “flawless”, however, Rebeiz (2018:89) contends that archival data is inherently imperfect and quite often “impair the validity and reliability of the empirical findings.”

Despite these limitations, Crow and Lockhart (2014) observe that the use of correlation by positivism help in knowledge creation. The criticism facing positivism and its insistence on absolute truth, deductive method and value free research, led authors to the use of interpretivism as an alternate research paradigm.

3.2.3.2. Interpretivism

This philosophy of science rejects the belief in absolute truth. Interpretivists hold the position of relativity and believe in multiple realities as opposed to single reality as advanced by the positivists (Ponterotto, 2005). Interpretivism also referred to as constructivism is a belief system “that reality is socially constructed” by social actors (Ponterotto, 2005:131; Sobh & Perry, 2006). The origin of constructivism is traced to Kant’s work who stated that “you cannot partition an objective reality from the person ... who is experiencing" the reality (Ponterotto, 2005:129).

The interpretivists hold "relativist ontology" (Guba & Lincoln, 1998:186). According to this philosophy, realities are dependent on human constructions which are subjective and not fixed. These constructions and "their associated realities" can be altered (Guba & Lincoln, 1994:111).

The epistemological position of interpretivists is that of subjectivism. This philosophy believes in "lived experience" of social actors (Ponterotto, 2005:131). Construction of realities is achieved through the interactive link between the researcher and the object of research (Denzin & Lincoln 1998:2007). If reality is socially constructed, Fleetwood (2014:199) argues, then "it is constructed from the very discourse … used to make knowledge claims". Interpretivism therefore negates the separation between ontology and epistemology.

Interpretivists hold a "Hermeneutical and dialectical" methodology. There is a continuous dialogue and interactions between the social actor and its subject of inquiry with the intention of moving from unknown to known (Guba & Lincoln, 1998:207). Since interpretivists believe in multiple realities, dialogue and negotiations help them to achieve shared understanding of these realities (Sobh & Perry, 2006). Through understanding, the interpretivist is able to provide meaning or an explanation of an action and how ideas influenced the social actor's action (Hay, 2011; Schwandt, 1998). Researchers who follow this paradigm use inductive method to develop theory as they interpret what others hold of social realities (Creswell, 2007). Interpretivists use qualitative method for data collection and analysis (Creswell, 2007). Interpretivists carry out their research in natural settings within the socio-cultural context. Some of the methodologies that have been used in this paradigm include case studies, phenomenology, hermeneutics, and ethnography (Scotland, 2012:12).

Interpretivism has been considered as an alternative paradigm to positivism in corporate governance research. Following failures of positivism, many researchers have questioned agency theory as advanced by the positivists. The belief that organisations are complex social structures, interpretivists argue that such social structures cannot be understood by reductionist approach which is used by positivists (Ponterotto, 2005). Othman and Rahman (2011) contend that corporate governance is a subjective and complex issue and can only be understood through interpretivist approach. This has led to the use of qualitative method by corporate governance scholars to understand the world in which the corporate governance players live especially the board of directors. Crow and Lockhart (2014) posit that a board of directors which is an important element of corporate governance is a social dynamic and complex entity whose activities can better be understood by the use of "inductive mode of inference". This assertion is at the heart of interpretivists who argue that governance cannot be understood without understanding the actions and meanings of individuals involved. Understanding ideas and shared values of governance players, helps the researcher to understand how decision makers create and develop policies (Detomasi, 2006).

Interpretivism approach is not without criticism. One of the major criticisms is that of its lack of transferability of knowledge due to various interpretations resulting from many social actors. In addition, to knowledge transferability, Scotland (2012) also observes that interpretivism lacks generalisation which is an important tenet of research. Limitation to generalisation is due to multiple interpretations of individual qualitative data by social constructors. Notwithstanding these limitations, interpretivism has contributed to the foundation of qualitative methods (Ponterotto, 2005:129).

3.2.3.3. Critical Theory *et al*

Like interpretivism, critical theory and its variants were developed as an alternative to positivism which advocates a single truth or reality. Critical theory believes in multiple constructed realities within social-historical context (Sobh & Perry, 2006:1202; Ponterotto, 2005:130). Unlike a positivist who is considered a "disinterested" researcher (Guba & Lincoln, 1998:215), a critical theorist argues that you cannot separate a researcher from the research object and participants. While there are marked similarities between interpretivism and critical theory, there are also differences. One of the major differences is that critical theory is considered as a transformative and emancipative theory. It views reality in the context of power relations (Ponterotto, 2005:129-130). Critical theorists seek to "address issues of social justice and marginalism" through its emancipatory approach (Scotland, 2012:13). Saliya (2017:97) states that the main goal of critical theory is "to criticise social reality, emancipate, empower and liberate people, and propose solutions to social problems." There is no single definition of critical theory because the theory represents variants forms of theories. According to Guba and Lincoln (1998:202) critical theory is a blanket term that represents "several alternative paradigms including … neo-Marxism, feminism, materialism, and participatory inquiry". Its origin is traced to the Institute of Social Research at the University of Frankfurt in the 1920s whose scholars were influenced by philosopher like Marx, Kant, Hegel, and Weber (Ponterotto, 2005:129; Denhardt, 1981:629; Kellner, 1990:13).

Criticists hold a "historical realism ontology which was once plastic"" but has now been crystallised into "real structures". Reality is shaped by "social, political, cultural, economic, ethnic and gender factors" (Guba & Lincoln, 1998:205). The multiple constructed realities are "under constant internal influence" (Scotland, 2012:13).

The critical theorists hold a transactional and subjectivism epistemology. The researcher and the object are "interactively linked" driven by the values of the researcher. Research "findings are therefore value mediated" (Guba & Lincoln, 1998:206). Since knowledge is "influenced by relations from within the society', it follows therefore that what is deemed as knowledge or reality is through the lens of those in the "positional power" (Scotland, 2012:13).

The methodology followed by the critical theorists is that of "dialogical and dialectical." The objective of transactional dialogue that is conducted between the researcher and the object of research is "to transform ignorance and misapprehensions … into transformed intellectuals" (Guba & Lincoln, 1998:206). According to Scotland (2012) research is about giving freedom to the marginalised or oppressed in the society. The researcher approaches the inquiry from an ideological position. Since the researcher enters the inquiry with preconceived idea that he/she is aware of the condition of the subjects, the researcher feels that he/she has the obligation to make the subjects of research aware of their situation with the aim of bringing social change. Scotland (2012:14) further states that in the methodology of critical theorists, "participants and researchers are both subjects in the dialectical task of unveiling reality, critically analysing it, and recreating that knowledge." The research process is not complete without the involvement of participants. Examples of critical theory methodologies include critical discourse analysis, critical ethnography, action research and ideology critique.

While this paradigm has not found much support from corporate governance discipline, there is increased awareness among researchers that variations in corporate governance can be attributed to socio-cultural values (Li & Harrison, 2008). As a result, scholars believe that there is no single corporate governance code that can fit all cultures or societies. Corporate governance has to be studied within its social-cultural context.

Just like interpretivism, this paradigm has faced criticism from positivism for its lack of research rigor of internal validity, external validity, reliability and objectivity which form the foundation of research quality according to positivists (Guba & Lincoln, 1998:213). However, critical theorists argue that the criteria for judging its quality should be based on its "historical situatedness". Since criticists believe in multiple realities, positivists argue that this is one of the major weaknesses because such reality cannot be generalised (Guba & Lincoln, 1998:213). Critics also find fault in the critical theorists' methodology of dialogue. "A dialogue of equals is impossible" where power differentials exist "between researchers and participants" (Scotland, 2012:14). The preconception that the researcher has about the participants results in their stereotyping of the participants. This also leads to wrong conclusions that the researcher draws from the research project.

3.2.3.4. Critical Realism

The origin of this paradigm is associated with the work of a British philosopher, Roy Bhaskar in the late 1970s (Schiller, 2016; Fleetwood, 2014:182; Mingers, Mutch & Willcocks, 2013; Tsang & Kwan, 1999). While the modern version of this philosophy is attributed to Bhaskar, some authors have argued that critical realism was there before Bhaskar. Gorski (2013:658) states that certain aspects of modern critical realism philosophy have been developed by other philosophers such as Margaret Archer, Mervyn Hartwig, Tony Lawson, Alan Norrie, and Andrew Sayer. Critical realism is also known as or associated with post-positivism (Masadeh, 2012:129; Guba & Lincoln, 1998:205). Other scholars have also loosely referred to it as realism (Sobh & Perry, 2006). Critical realism (post-positivism) arose out of frustration with the infallibility stance of positivism (Ponterotto, 2005:129) as well as positivism's "lack of attention to social nature of knowledge"(Gul, 2011:12216), rejection of relativism ontology of interpretivists and judgmental relativism of idealists (Fleetwood, 2014:207; Mingers *et al*., 2013:795; Miller & Tsang, 2010:144; Mingers, 2000:1267). According to Bhaskar (as cited in Williams *et al.,* 2016:3), positivists commit "epistemic fallacy" that is collapsing ontology into epistemology. On constructivism, critics have cited its "lack of depth in understanding 'constraining and enabling social structures and mechanisms'."

Critical realism is a philosophy of social science that holds a realist ontology (Mingers *et al.,* 2013:795; Williams *et al*., 2016:2) which "is characterised by stratified, emergent, and transformational entities, relations, and processes" (Fleetwood, 2014:182). Critical realists also hold an intransitive reality: a belief that there is a reality that exists independent of social actors or human beings (Mingers *et al*., 2013:796). According Fleetwood (2014:205), the stratified ontology is a fusion of three domains: the empirical, the actual and the deep or real domains. Critical realists also hold an emergent ontology that is to say, "entities existing at one 'level' are rooted in, but irreducible to, entities existing at another level." While critical realists share some similarities with positivists in terms of reality, Tsang and Kwan (1999:762) contend that reality postulated by critical realist is that of "the structures and mechanism of the world rather than [that] of empirical events" as advanced by the positivists. Reality in critical realism has different forms: material, ideal, artefactual, and social (Fleetwood, 2014:204).

It is important to understand what structures and mechanism mean for one to appreciate reality in the lens of a critical realist. Sayer defines structures as "a set of internally related objects or practices" (Wynn & Williams, 2012:790; Tsang & Kwan, 1999:762). Some of "these structures may be physical, social and conceptual." However, not all of the structures are observable (Minger, 2006:204). Each structure is influenced by a different set of "emergent properties, powers and tendencies" (Wynn & Williams, 2012:803). The activation of causal powers and tendencies are dependent either on factors inherent in the object or those that are external to the objects but have an effect on the functioning of mechanisms (Tsang & Kwan, 1999). Causal powers are defined as "dispositions, capacities, and potentials to do certain things, but not others that arise from the essential nature of the entities themselves" (Wynn & Williams, 2012:791). Mechanism is defined as "an element of reasoning and reactions of (an) individual or collective agent(s) in regard of the resources available in a given context to bring about changes through the implementation of an intervention" (Lacouture, Breton, Guichard & Ridde, 2015:8). Mechanism is also referred to as the "ways of acting of things". Structures and mechanisms reside in the "real domain." These structures and generative mechanism produced events in the *actual domain* (Miller & Tsang, 2011:144). Events produced by generative mechanisms are dependent upon "ambient contingent conditions" (Kwan & Tsang, 2001:1166). These events may be experienced through direct and indirect observations in the empirical domain (Miller & Tsang, 2010:144). Kwan & Tsang (1999:762) argue that "the absence of observable events does not" negate the presence of the generative mechanism. One of the characteristics of generative mechanisms is that they are temporary in nature dependent on context and "localised in time and space" (Mingers et al., 2013:798; Johnston & Smith, 2010:30).

Critical realism holds an epistemological relativism which is different from the idealist judgmental relativism. According to de Souza (2014:143), epistemological relativism is a belief system "where rival theories about events and things in research activity are spoken and known through certain descriptions that are not neutral but are somewhat determined by the theoretical frameworks used". On the contrary, in judgmental relativism, all belief systems are valid. Critical realists posit that knowledge is socially understood. In other words, critical realism "holds to a fallibilist epistemology" (Miller & Tsang, 2011:143) and is "historical and cultural relative" (Mingers, 2006:204). Critical realists argue that the development of knowledge is not about the regularity of events but about the investigations of structures and generative mechanism that cause the events to happen. Critical realists also postulate a single reality just like positivists. However, unlike positivists, critical realists believe that there are different discourses that act as interpretations of a single reality (Fleetwood, 2014:208).

On methodology, critical realists believe that science is not necessarily about predicting certain outcomes of events or its description but rather "about explanation, understanding and interpretation" of causes or generative mechanisms that produce some events (Mingers, 2006:204; Wynn & Williams, 2012:793). Critical realism follows a retroductive methodology whose objective is to explain events by "hypothesising causal mechanisms." Mingers *et al*., (2013:797) state that by retroduction, one "move[s] from description of empirical events [in the empirical domain] to potential causal mechanisms" in the real domain. Retroduction is defined as "the mode of inferential reasoning that reconstructs the conditions for the occurrence of an empirical phenomenon." Its objective is "to identify the generative mechanisms that generalise beyond the immediate instance of the phenomenon and are critical to its occurrence" (Miller & Tsang, 2011:146-147). The use of retroduction methodology is viewed as appropriate for social systems (Williams *et al*., 2016:4) because such systems are considered as "complex, evolving and subject to human agents." Social-economic systems "cannot be induced, logically deduced, or predicted" (Fleetwood, 2014:207). According to Mingers (2006:208) social systems are always "open to historical change and accidents." Organisations, which are subject to human agents, are open systems (Fleetwood, 2014). Such organisations or entities can best be studied using critical realist method. The pluralist nature of critical realism leads to the use of multimethodology and mixed designs (Mingers, 2006). Through retroduction, both extensive design and intensive designs (research strategies) are used. Extensive research design uses quantitative method while intensive research design uses qualitative methods (Miller & Tsang, 2011:151-152). Unlike interpretivism, critical realism uses prior theory in its research design (Sobh & Perry, 2005). Wynn and Williams (2012:788) considers case study research as the most appropriate strategy "to develop causal explanations" in a complex and dynamic social world such as organisations.

Most of corporate governance studies have predominantly used positivism paradigm (Crow & Lockhart, 2014; Rebeiz, 2018:83), however, the use of positivism has inherent weaknesses. One of the major weaknesses is the lack of appreciation of the social nature of organisation where corporate governance is studied. Due to the complex and dynamic nature of corporate governance, critical realism which employs longitudinal case study strategy is considered the most appropriate paradigm to address the limitations of positivism and interpretivism (Crow & Lockhart, 2014). Rebeiz (2018:89) calls for a "pluralistic methodological approach" which is like the critical realism approach.

Despite the promises of critical realism to address the gap in organisation studies, the paradigm has not escaped criticism. One of the major criticisms is that critical realism "lacks an elaborate epistemology." Critics argue that critical realism is weak in explanatory power (Fleetwood, 2005:2, 12). However, proponents of critical realism contend that positivists confuse explanatory power and event regularity. They argue that to predict is not to explain. Causality has nothing to do with event regularity (Williams & Karahanna, 2013). "To explain a phenomenon is [actually] to give an account of its causal history" (Fleetwood, 2005:13). If anything, critical realism offers the best solution to explanatory power than positivism.

3.2.4. Philosophical Assumptions Adopted in this Study

The objective of this study is to determine the influence of corporate governance on performance of SOEs in Malawi; identify factors that impact on the effectiveness of corporate governance in the Malawi's context and develop a strategic corporate governance framework that can enhance the performance of SOEs. It is in line with these objectives that an appropriate philosophical assumption should be chosen to give guidance to the study. The philosophical assumption is defined in the belief system or worldview of the research process. This is what is referred to as research paradigm. The choice of the research paradigm is partly influenced by the nature of study. This study is about corporate governance of SOEs.

Corporate governance which has been referred to as the "system by which companies are directed and controlled" (Cadbury, 1992) is a socially "complex and dynamic" system (Crow & Lockhart, 2014). It is composed of different social players with the board as one of its important elements. Social systems are open systems because they are influenced by "human actions" (Tsang & Kwan, 1999:763). Such systems cannot adequately be explained using hypothetico-deductive method which is employed in positivism. Notwithstanding this limitation, positivism has been a dominant paradigm that has influenced research process in corporate governance (Zattoni *et al*., 2013). There is a growing interest in corporate governance scholarship to use interpretivist paradigm which advocates socially constructed reality. Interpretivism employs qualitative research method. The socially dynamic nature of organisations makes inductive study more appropriate than deductive method (Crow *et al*., 2013). Interpretivism also fails into its own traps of relativism to the extent that corporate governance becomes an issue of individual interpretation (Crow & Lockhart, 2014). An alternative paradigm to interpretivism and positivism is therefore appropriate to suit the present study. This study has chosen critical realism as a philosophical perspective.

The rationale for the choice of critical realism as a suitable research paradigm for the current study is premised on the following reasons: Firstly, corporate governance as a discipline falls under social science which is influenced by human agency. Such a discipline cannot be easily understood by positivism which by nature is under-deterministic (Sobh & Perry, 2006). Positivism uses a nomothetic approach or “a law-like-generalisations in material or social setting” (Easton, 2010:118). The event regularity which is a core tenet of positivism knowledge development operates in a state of closure which is not possible in social science (Miller & Tsang, 2011; Fleetwood, 2014). In testing theory, positivism relies on correlations between variables as a result prediction from these correlations is conflated with explanations or causes (Crow & Lockhart, 2014; Fleetwood, 2014). Organisations as social systems operate in open complex dynamic environment. Consequently, such systems require “multiple levels of analysis” (Miller & Tsang, 2011:140) thus rendering positivism, which relies on observable events, inappropriate. Dulewicz and Herbert (2004) argue that the use of pure positivism approach to corporate governance studies “has been limited to identification of at times implausible, or at best tenuous, relationships between observable variables of interest” (as cited in Crow & Lockhart, 2014). Such approaches or studies in corporate governance have led to inconclusive findings. The dynamic nature of corporate governance system makes qualitative method and “inductive mode of inference” appropriate and necessarily to develop new knowledge. Donaldson (2012:266) summarises the inadequacy of pure positive theory. He argues that the theory of corporate governance has to do with “good” or “bad” corporate governance. The good or bad is based on human values. He continues to say that even the very popular agency theory is based on normative philosophy.

Secondly, the interpretivism approach to corporate governance faces a challenge because of the belief of multiple truths or realities by interpretivists. The problem of interpretivists is that there is no generalisation of research findings though generalising is considered desirable in research findings (Crow & Lockhart, 2014). Interpretivists share the same beliefs with critical theorists. Both worldviews believe in socially constructed multiple realities. Fleetwood (2014:200) argue that constructing realities is not the same as interpreting realities. While interpretivists believe that reality is “socially constructed”, their belief that reality is as conceived in the mind of individuals make void the existence of any reality at all. According to Mingers (2006:204), explanations cannot be limited to “individual’s beliefs and actions; such a presupposition suggests that society does not exist. Consequently, interpretivism is not appropriate for corporate governance which is influenced by the decisions of many players who operate as a community. In this case the community is the organisation or company itself where corporate governance system is studied. Interpretivists also reject the existence of prior theory.

Lastly, critical realism embraces some aspects of positivist's ontology that is the belief that there is reality in the research world which is independent of social actors. However, reality according to critical realists is "stratified, emergent and transformed by agents" (Fleetwood, 2014:205). Contrary to positivists who only believe in reality that is through observable events at the empirical and actual domain level (Fleetwood, 2014:194), critical realists believe in reality at the deep or real domain where structures and mechanism reside (Fleetwood, 2014, Tsang & Kwan, 1999). Organisations under social science are open systems which by nature are explanatory and not predictive (Tsang & Kwan, 1999:763). The events that are observed in the empirical domain are a reproduction of structures and mechanism which are found in the real domain. These structures and mechanisms are subject to causal powers. Tsang & Kwan (1999:762) argue that causality is not about relationship of events or some variables but the causal power of structures and mechanism. Explanation is not about the relationship of discrete events but about the causal powers of structures and mechanism of a given phenomenon. Correlations of variables in corporate governance are therefore as a result of "some underlying [causal] power" (Crow & Lockhart, 2014). Critical realists also share some interpretive epistemology that is value laden. Critical realists believe in subjective epistemology which requires qualitative method to understand causes of a particular phenomenon (Mingers, 2006:215). While the interpretivists believe that reality is socially constructed, critical realists believe that reality is socially understood or interpreted (Easton, 2010:122).

3.3. Research Methodology

Research methodology and methods have been used interchangeably in most research works (Saunders *et al*., 2007:2). However, the two concepts do not necessarily mean the same thing. Methodology refers to "science and study of methods and the assumptions about the ways in which knowledge is produced" (Downward & Mearman, 2007:79). Creswell (2003:4) defines methodology as a "strategy or plan of action that links methods to outcomes, governs our choice and use of methods." Research methods on the other hand are referred to as procedures and "techniques of data collection and transformation" (Downward & Mearman, 2007:79).

Saunders *et al*. (2007:602) make a clear distinction between the two terms where methodology is referred to “the theory of how research should be undertaken, including the theoretical and philosophical assumptions upon which research is based and the implications of these for the method or methods adopted” but method on the other hand is defined as “the techniques and procedures used to obtain and analyse research data, including for example questionnaires, observation, interviews, and statistical and non-statistical techniques.”

Research methodology is an important element of research paradigm. It is influenced by research ontology and epistemology. While the ontology is concerned with “nature of reality”(Ponterrotto, 2005:130) and epistemology deals with relationship between the researcher and the development of knowledge, research methodology deals with the process or procedures of developing or gaining knowledge (Guba & Lincoln, 1998:185). Reality can either be viewed objectively or subjectively. The objectivists believe in external reality independent of social actors while the subjectivists believe that reality is the creation of the human agency (Saunders *et al*., 2007:108). The objectivists, who hold positivist ontology, believe in a single external reality and that this reality can be discovered by the use of scientific method or quantitative method (Scotland, 2012:10). On the contrary, the subjectivists who hold “relativist ontology” believe in multiple realities (Ponterotto, 2005:130) that are a construction of human actors. Interpretivists are, to a large extent, linked to subjectivists and they use qualitative method as the most appropriate in gaining knowledge.

The current research which used critical realism applied multi-methodology. Critical realism does not accept pure deductive method of positivists and pure inductive method of interpretivists. As a pluralist paradigm, critical realism is also a highly pluralistic in terms of research methods (Miller & Tsang, 2011). The paradigm uses multi-methodology and mixed design in its methodology (Mingers, 2006). This research which is based on critical realism has combine quantitative and qualitative methods.

Critical realism followed a retroduction methodology which has used extensive and intensive designs to move from prior theory in corporate governance and performance to structures and mechanism and explanation of how governance affects performance within the environmental contexts. The next section discusses in detail the design methods that were employed in the study.

3.4. Research Design

A research design is defined as a "blue print" for a research project and deals with how the research will answer research questions, data collection and data analysis, and how to deal with ethical issues affecting the research (Yin, 2009:26; Saunders *et al*., 2007:131). Cooper and Schindler (1998:130) define research design as a "plan and structure of investigation" whose objective is to answer research questions of the study. Each research design is guided by a research strategy. A choice of a clear research strategy is important for a successful project. A strategy is defined as a "roadmap, an overall plan for undertaking a systematic exploration of the phenomenon of interest" (Marshall & Rossman, 1995:40). Each research strategy follows a particular research purpose which may be exploratory, descriptive or explanatory depending on the research questions (Saunders *et al*., 2007:133-134). Some of the "research strategies include experiment, survey, case study, action research, grounded theory, ethnography, archival research" (Saunders *et al*., 2007:135). The strategy uses methods as tools to conduct the explorations. Creswell (2003) identifies three approaches to research methods namely qualitative, quantitative and mixed methods. Below is a brief description of each strategy and the rationale for the choice of a particular strategy for this research project.

3.4.1. Experimental research

This is a quantitative design that is linked to natural sciences even though it is also popular in social sciences. This strategy is most suitable for positivist paradigm. Its purpose is to establish "causal links" in research study. The investigator attempts to establish whether a change in independent variable produces a change in a dependent variable in a "highly controlled context" (Saunders *et al*., 2007:139). Experiments are suitable for exploratory and explanatory studies where the objective of the project is "to answer 'how' and 'why' questions" (Saunders *et al.*, 2007:136). However, Fleetwood (2014:197) faults positivism's conflating of prediction with an explanation. Experiment strategy which operates in closed system, while it is able to predict through law of "event regularity" lacks explanation power. Organisations are open systems and can better be studied using strategies that recognise the influence of human agency. Saunders *et al*. (2007:137) observe that experiment strategy is not suitable for business management research for ethical reasons.

3.4.2. Survey Research

This is the most common quantitative research method in business and management research. It is most suitable for answering who, what, how, where, how much and how many types of questions (Saunders *et al*., 2007:138). Survey strategy is a positivist strategy which has strong predictive power but lacks explanatory capacity. Survey method predominantly uses quantitative analysis of data using "descriptive and inferential statistics." The advantage of survey method is that it is regarded as a low-cost method of generating research "findings that are representative of the whole population" (Saunders, *et al.,* 2007:138).

3.4.3. Case Study Research

This strategy is most suitable where the objective is to answer 'how" and 'why' research questions (Yin, 2009:9). Case studies are explanatory in nature and mostly use qualitative methods to generate research findings (Sobh & Perry, 2006). This strategy is most suitable for critical realism paradigm (Wynn & Williams, 2012). Case studies strategy focuses on contemporary events but does not have control over behaviour events (Yin, 2009:11). While it is predominantly a qualitative method, case studies strategy can combine both qualitative and quantitative methods in one project.

3.4.4. Action Research

This is a qualitative strategy which is linked to constructivism and critical theory paradigm. The investigator is a "transformative intellectual" whose goal is to bring "change to social world where people live" (Sobh & Perry, 2006:1195). In business management research, the strategy is mainly used for change management. Its strength is derived from the fact that there is high ownership in terms of the subjects because they are involved in the design of research. However, its weakness is on lack of generalisability of research findings (Mouton, 2001:151).

3.4.5. Grounded Theory Research

This is a qualitative design that does not use prior theory but relies on accumulation of data to construct theory (Sobh & Perry, 2006:1201). Grounded theory is linked to constructivism or interpretivism (Sobh & Perry, 2006:1195). While the strategy is believed to be an inductive design, it can also use a deductive design in theory building. It is used in business management to predict and explain people's behaviours (Saunders *et al*., 2007:142).

3.4.6. Ethnography Research

This strategy is suitable for qualitative studies and is linked to constructivism It is useful when an investigator wishes "to gain insights about a particular context and better understand and interpret it from the perspective(s) of those involved" (Saunders *et al*., 2006:143). According to Creswell (2014:42) the research in this strategy "studies the shared patterns of behaviours, language, and actions of an intact cultural group in a natural setting over a prolonged period of time." Ethnographic studies lack generalisation.

3.4.7. Archival Research

This is most suitable for answering 'who', 'what', 'where', 'how many' and 'how much' questions. The research strategy does not require control over behaviour events. (Yin, 2009:8). Archival studies can either be "exploratory, descriptive or explanatory studies." One of the major limitations is the availability of suitable data to answer research question due to the fact that data available in an organisation may have been collected for a different administrative purpose (Saunders *et al*., 2007:143).

3.4.8. Rationale for the choice of Case Study strategy

The current study has chosen case study as a preferred strategy. This section presents a rationale behind the choice of case study.

Easton (2010:119) defines case study as a "research method that involves investigating one or small number of social entities or situations about which data are collected using multiple sources." According to Yin (2009:18) "a case study is an empirical inquiry that investigates a contemporary phenomenon in depth and within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident."

A case study strategy is important where one wants “to gain a rich understanding of a context of the research” and its processes (Saunders et al., 2007:139).

Yin (2009:21) identifies three forms of case study research, namely, exploratory case studies, descriptive case studies and explanatory case studies. The choice of a case study strategy is dependent on the type of research question. According to Yin (2009:9-10), “what” questions are usually associated with exploratory case studies, while questions like “how” and “why” are more explanatory, therefore they are more useful in explanatory case studies.

The current study which uses a critical realism research philosophy has used a case study method. Case study is a recommended methodology where one is dealing with a “critical realist search for causal mechanism” (Williams & Karahanna, 2013:936).

A critical realist case study is most suitable in studying complex phenomena like organisations (Easton, 2009:123). Case studies are also suitable when dealing with “how” and “why” questions (Yin, 2009:9). According to Easton (2009:123) if the nature of the question has to do with “what caused the events for the phenomenon to occur” such a research question requires the use of critical realist case study. Case study method is also appropriate where the sample is too small to carry out positivism study.

The current study aims at investigating effects of corporate governance on performance of SOEs in Malawi with the aim of developing a strategic governance framework. To achieve this, the current study has employed a critical realist case study methodology. Critical realist case study employs mixed design as a suitable methodology. The next section discusses in detail the critical realist case study research design process for the current study. Following critical realism multi-methodology, the section also discusses extensive and intensive designs which are important design elements in a mixed design of a case study.

3.4.9. Extensive design

The first part of the study used extensive design. This part used was achieved through the use of quantitative methods. While critical realism is predominantly a qualitative method because the quantitative summaries and correlations are not appropriate for causal explanation (Wynn & Williams, 2012:788; Zachariadis, Scott & Barrett, 2013:862), extensive design through the use of quantitative method was used to identify patterns and association among variables in the corporate governance (Crow & Lockhart, 2014). Unlike in positivism where the use of the quantitative is meant to “make causal statements” (Zachariadis *et al*., 2013:862), the use of quantitative method in this study is aimed at determining relationship between corporate governance variables and performance measures in SOEs in Malawi. Additionally, quantitative method was used to investigate the influence of corporate governance on performance of these enterprises in Malawi. The results of the quantitative study were used to guide the next step of the research design which is intensive design. The main objective of intensive design was to “uncover the mechanisms, agencies, and social structures that produce the behaviour observed” or events (Zachariadis *et al*., 2013:864). The extensive design involved the use of interviews and archival historical data. The extensive design used a longitudinal case study to determine the relationship between corporate governance variables and performance.

Longitudinal study involves studying a “phenomenon over an extended period” (Saunders *et al*., 2007:601). Longitudinal studies are categorised as time horizon design strategies (Cooper & Schindler, 1998). The other time-based design strategy is cross-sectional studies. While Longitudinal study is carried out over a period of time, cross sectional is considered as a “snapshot”, which is a study over a particular period (Saunders *et al*., 2007:148). While many studies on business related field have used cross sectional studies, the use of cross-sectional studies does not capture cause and effect relationship effectively (Janke, Mahlendorf & Weber, 2014). The weakness of using cross sectional design is due to its failure to recognize endogeneity problems in corporate governance and performance relationship (Hermalin & Weisbach, 2000:17). To control for endogeneity problems, longitudinal study design has been chosen as a preferred method. Longitudinal studies can either be panel or cohort studies. In panel study same subjects are studied over a period of time while in cohort study different subjects are studies over a period of time (Cooper & Schindler, 1998). Cohort studies are also considered as cross-sectional studies over a period of time.

The study employed panel study which is an element of longitudinal design to address objectives 2 and 3 of the study. Longitudinal panel study is a preferred research design when studying organisation change over time (Saunders *et al*., 2007; Cooper & Schindler, 1998). This is supported by Mintzberg and Waters (1985) who argue that management actions and their consequences are better understood over a period of time. While most studies in business management have used cross sectional studies, Salthouse (2011:797) observes that longitudinal studies are "better alternative" for "causal inference". The choice of the research design is in line with the objectives which include determining the effect of corporate governance on the performance of SOEs. The sample was made up of all commercial SOEs which are non-financial.

3.4.10. Hypothesis Development

As presented in the previous chapter of literature review, the present study aims at investigating relationship between corporate governance and performance; and identifies factors that affect effectiveness of corporate governance in Malawi SOEs in order to develop a strategic corporate governance framework. This section presents hypotheses that are aimed at addressing research questions 1 and 2.

3.4.11. Factors impacting on corporate governance

As articulated in literature review, while there has been a need to adopt corporate governance codes worldwide to address moral hazards that have contributed to poor performance and bankruptcies of many companies, the chapter has revealed that it is impossible to come up with "one size fits all" approach in terms of corporate governance framework. Variations in governances across the globe have been attributed to socio-cultural values (Li & Harrison, 2008). While the influence of these factors cannot be overlooked, there is lack of literature on the effect of socio-cultural factors on the effectiveness of corporate governance particularly in least developed countries. Studies on socio-cultural values have used cultural dimensions of Hofstede and religiosity of Worthington et al (2003) to investigate their impact on corporate governance. Consistent with these studies, the current study used the first four cultural dimension of Hofstede, and RCI-10 scale of religiosity developed by Worthington et al. (2003) to investigate their effect on corporate governance. The Hofstede scores are national scores and as a result, these scores were common to all organisations within Malawi at the point of this study. Cultural dimension variables were used in the qualitative or intensive design to identify effectiveness of corporate governance or quality of corporate governance in SOEs in Malawi. For the extensive study, the study developed the following hypothesis in order to identify the factors that impact on the effectiveness of corporate governance.

Hypothesis 1: High religiosity cultures have a positive influence on company level corporate governance systems.

The study used a regression analysis. The empirical model that was employed for hypothesis 1 above is stated below:

$$Govscore_i = \alpha+\beta_1 REL_i + Z_1 LnCsize_i + Z_2 Lev_i + Z_3 LF_i + \eta_i + \varepsilon_i$$

In this study governance scores (Govscore) is a dependent variable and was obtained from respective firms using a survey instrument. A higher governance score represents good quality governance systems in a particular company and aggregate for the whole sector. The following are the representation of the symbols in the model, (α) represents a constant; (β_1) represents independent variable parameters; (z_1:z_3) represents parameters of control variables; (ε) denotes error or disturbance in the model which varies with individual SOE; (i) stands for individual SOE; REL denotes religiosity. The study controlled for company size (CSize) which is represented by logarithm of SOE assets; also controlled for leverage ratio (Lev) calculated as debt to total assets; and finally controlled for Legal form (LF) which is represented by a dummy variable with a value of 1 if SOE is trading as a limited company, 0 if otherwise. The model uses ordinary least squares to analyse the impact of independent variables on governance systems within individual SOE.

3.4.11.1. Corporate governance and SOE Performance

The second research question is aimed at investigating the effect of corporate governance variables on SOEs performance. This study has identified the following corporate governance variables: legal form; board attributes; capital structure and disclosure.

3.4.11.1.1. Ownership Structure

Change of status which involves legal form has been identified as one of the reforms that have been undertaken by SOEs to improve performance of these companies. Legal forms of SOEs come in different types and these include wholly owned, partially owned and even listed SOEs. Studies have shown that wholly owned state enterprises have performed poorly than those with minority state ownership (Wu, 2011). Some level of state ownership is advocated for shareholders protection in emerging markets (Munisi et al. 2014). The other governance reforms in SOEs involve change of ownership arrangement. Various forms of ownership arrangements have been reviewed. Four ownership arrangements have been identified and these include, decentralised, dual, advisory and centralised. Studies have shown variations in performance as a result of ownership arrangement.

3.4.11.1.2. Board attributes

Boards of directors are considered as one of vital elements in corporate governance mechanism. While this concept has attracted a lot of scholarly interest, studies on the effect of board attributes have produced mixed results. However, these studies tend to agree that an effective board leads to better corporate governance and performance.

3.4.11.1.3. Capital structure

Capital structure is considered as one of the governance mechanisms to control discretionary behaviour of management. Studies on the effect of capital structure on performance have produced mixed results. This is due to environmental factors that seem to moderate the postulated positive effects (Dawar, 2014; Qian & Yeung, 2015; Barth, Caprio & Levine, 2001). SOEs on their part face additional issues in relation to debt which in turn affect the expected disciplinary power over managers. Soft budget constraints have a negative effect on debts as a disciplinary tool. However, to control the behaviour of agents this study theorised that leverage leads to better performance but soft budget constraint on the other hand leads to poor performance.

3.4.11.1.4. Disclosure & Transparency

Disclosure promotes accountability which leads to improved performance. However, some have questioned the importance of disclosure as it is considered a window dressing mechanisms or public image instrument. Studies have shown that disclosure is positively related to performance (Heo 2018).

An effective corporate governance framework requires the following factors: ownership structure, effective board of governance, capital structure and adequate disclosure which ensures accountability. To investigate the effect of corporate governance variables on performance, the study developed the following hypothesis:

Hypothesis 2: Good corporate governance practices have a positive influence on SOE performance.

The study used the multiple regression analysis to test the above hypothesis. The following model was used.

$$Y_{it-1} = \alpha + \beta_1 LF_{it} + \beta_2 OAR_{it} + \beta_3 Contract_{it} + \beta_4 Bsize_{it} + \beta_5 NED_{it} + \beta_6 PAf_{it} + \beta_7 Civil_{it} + \beta_8 BInt_{it} + \beta_9 Dual_{it} + \beta_{10} BAud_{it} + \beta_{11} Comp_{it} + \beta_{12} Risk_{it} + \beta_{13} Nom_{it} + \beta_{14} Eval_{it} + \beta_{15} Freq_{it} + \beta_{16} CApp_{it} + \beta_{17} BApp_{it} + \beta_{18} Tenure_{it} + \beta_{19} GC_{it} + \beta_{20} ExtAud_{it} + \beta_{21} Third_{it} + \beta_{22} Conflict_{it} + \beta_{23} AnRpt_{it} + \beta_{24} Lev_{it} + \beta_{25} Grants_{it} + Z_1 LnAssets_{it} + Z_3 LnAge_{it} + Z_3 Industry_{it} + Z_4 COMPETE_{it} + \eta_i + \varepsilon_{it}$$

Where (Y) stands for SOE performances which are dependent variables and are represented by Earnings Before Interest and Tax (EBIT) and Return On Assets (ROA); α is a constant and (β_1:β_{27}) denotes independent variables parameters; (Z_1:Z_4) stands for control variables parameters; symbol (i) represents SOE number; (t-1) represents time period in years with a lag of 1 year; η stands for unobservable individual heterogeneity; (ε) represents the error or disturbance in regression model which varies with individual SOE and time; independent variables are represented by the following symbols, legal form (LF), ownership arrangements (OAR), performance agreement (CONTRACT), Board size (BSize), proportion of Non-Executive Directors (NED), Directors who are affiliated to the governing party (PAf), public servants appointed to the board of SOE (Civil), Directors who serve in multiple boards or interlocking directorship (BInter), Chief Executive Officer who serves as a chairman of the board (Dual), Board Audit Committee composed of NED(BAudit), Remuneration and Compensation of the board (Comp), Risk Management Committee of the board (Risk), Nomination committee (Nom), Board Evaluation (Eval), Frequency of board meetings (Freq), appointment process of CEO (CApp), Board appointment process (BApp), Board tenure (Tenure), Directors with governance and financial skills (GC), debt to equity ratio (Lev), Where the SOE received grants from state or state related institutions (Grants), where external audits are conducted annually (ExtAudit), disclosure of third party transactions (Third), disclosure of conflict of interest (Conflict), availability of annual report (AnRpt), the study controlled for the size of the SOE in terms of its assets (LnCSize), control for the age of the SOE (LnAge), control for the SOE industry(Industry) and control for competition.

A stepwise regression was applied to the full model both as a dimensionality reduction technique as well as to eliminate multicollinearity in the independent variables. A final model was selected that best explains the impact between governance variables and SOE performance.

The final model assumed a dynamic relationship between corporate governance variables and SOE performance which is consistent with Nguyen et al. (2014). The variables in the model above have been summarised under the section key variables below. A table for data collection for this question has been presented in Appendix 3.

To identify mechanisms and structures that caused the observed performance, an intensive design was undertaken on a selected case and this was achieved through the use qualitative case study.

3.4.12. Intensive design

This design used qualitative method to identify generative mechanisms and structures that provided explanations to the occurrence of the observed events or causes of performance in SOEs. This design phase used retroductive method to postulate generative mechanisms that have produced observed events identified by the extensive design (Zachariadis *et al*., 2013). These events are observed in empirical domain. A purposive sample was used to select cases. Four cases in total were selected. These cases were selected based on their performance and their industrial diversity. An in-depth study was performed to "understand the underlying powers [or structures] and the mechanisms" (Crow & Lockhart, 2014) that produced the observed performance. One case with good performance was studied in depth then replicated once to examine whether similar results could be obtained for the same "predictable reasons". Thereafter, the case was replicated twice in order to check if "contrary results" could be obtained "for predictable reasons" (Sobh & Perry, 2006:1203) from cases exhibiting poor performance. The intensive design also used a longitudinal case study on the selected cases. The identified generative mechanism and structures were then tested for "their causal effects" (Miller & Tsang, 2011:149) between corporate governance and the performance on selected SOEs. The study adopted a mixed method framework for retroductive research design as developed by Zachariadis *et al*. (2013:867) as per figure 3.1. In figure 3.1 is a mixed method retroductive design.

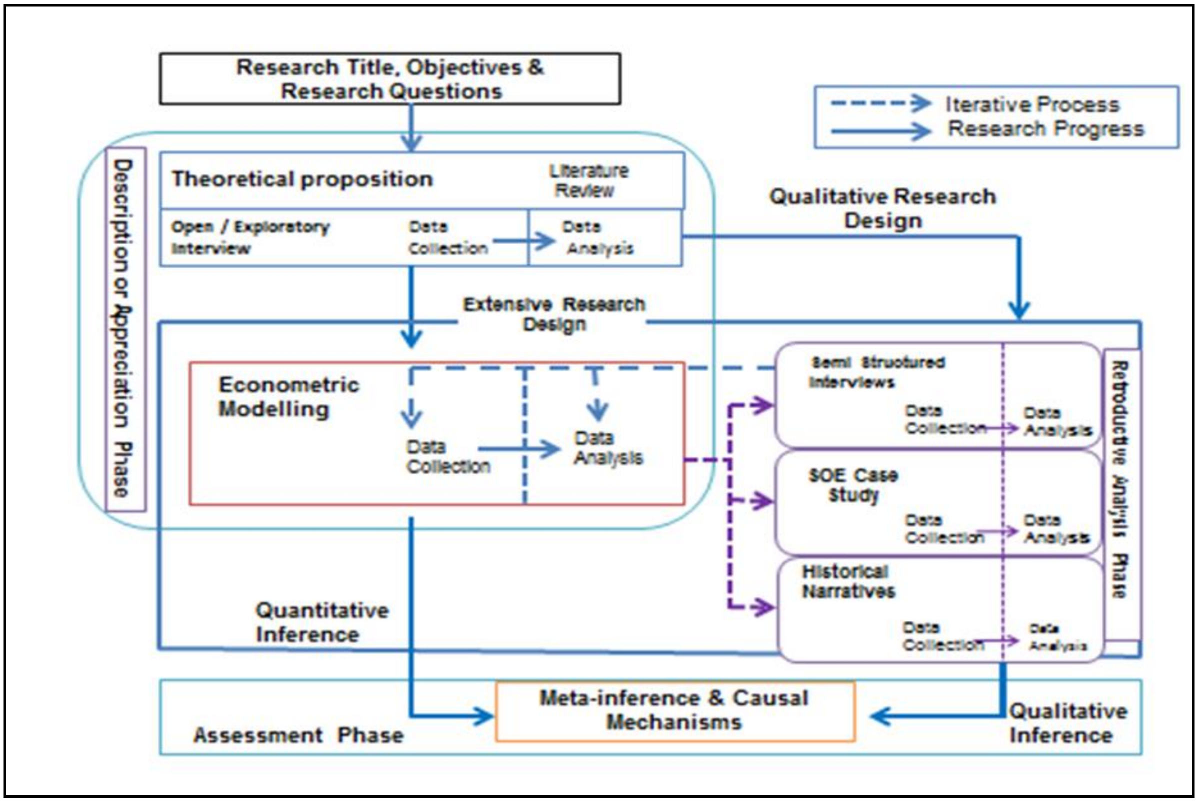


Figure 3.1 - Mixed-method retroductive research design. Adapted from Zachariadis et al., (2013:867).

Following a mixed-method retroductive research design as shown in figure 3.1, Zachariadis et al., (2013:867) in their research on the impact of ICT adoption on bank performance used critical research method to explain the causes of performance after introducing an innovative financial telecommunication system known as the "Society for Worldwide Interbank Financial Telecommunications (SWIFT)." A three-phased approach was used to conduct a mixed-method retroductive research design. These phases include, appreciation phase that predominately uses quantitative method, retroduction phase which involves qualitative method and thirdly, assessment phase which include both qualitative and quantitative inferences. Table 3.1presents a summary of how mixed method has be used in this current study.

Table 3.1 below shows retroductive process used in critical realism methodology.

Table 3.1. Retroductive Research Process

Method	Objectives	Data Collection	Retroductive Emphasis
Exploratory Study	• Identify CG theories that impact on performance • To identify factors that contribute to the effectiveness of corporate governance.	Literature Review; open and exploratory interviews	Preliminary analysis on theories of CG and factors that impact on CG effectiveness.
Econometric Modelling (Quantitative study)	• To identify relationships between CG variables and performance using regression analysis. • To identify structures related to CG of SOEs	Documents review; Interviews	Appreciation and retroductive analysis
Interviews and Historical Analysis (Qualitative study)	• To identify generative mechanisms that contributed to the performance of SOEs. • Postulate CG mechanisms that explain cause of performance in SOEs.	Semi-structured Interviews; Historical narratives	Retroduction analysis
Econometric modelling (Quantitative study)	• To identify relationship between CG generative mechanisms and SOEs performance.	Document analysis	Retroduction analysis
Case Study of selected SOEs	• Identify best mechanisms to explain causes to performance through a study of selected SOEs.	Document analysis; Interviews	Retroduction analysis

	• Eliminate competing explanations and choose the best alternatives that explain theories.		

Adapted from Zachariadis et al. (2013:868)

The table above is a representation of retroduction analysis. Retroductive analysis is an iterative process as a result the study moved between qualitative and quantitative method.

3.5. The sample

Sampling techniques for this study are influenced by the research methodology and its design. The current study uses a mixed design strategy as a result the study had two sampling techniques. The first section defines sampling method for the extensive research design which used quantitative method. This is followed by a sampling method for qualitative portion of the study.

3.5.1. Sampling for extensive design

The population of the current study is defined as all SOEs in Malawi as of June 30, 2016. The sample frame included all commercial SOEs registered with the Registrar of Companies and established through the Acts of Parliament which were active between 2000 and 2016. The sampling frame excluded regulatory SOEs which are not fully commercial. Training institutions were also excluded from the sample. Finally, the sample did not include financial commercial institutions because they are affected by their own regulatory and governance instruments. The exclusion of financial institutions is consistent with the study by Kuzman, Talavera and Bellos (2018). The final sample included 13 listed and non-listed commercial SOEs. The study had 221 expected observations from 13 commercial SOEs in Malawi to investigate relationship between governance and company performance. Data used for the period from 2000 to 2016 was collected from annual reports and other organisational documents. Other board attributes were collected by use of a questionnaire.

3.5.1.1. Key Variables

The table below presents key variables covered in the study.

Table 3.2 Definition of study variables

Variable	**Code**	**Definition**
Independent Variable		
Legal Framework	LF	A dummy variable that has value of 1 if the legal form is limited company and 0 if otherwise
Ownership arrangement	OAR	A dummy variable that has a value of 1 if ownership is either dual or centralised, 0 if otherwise
Monitoring	Contract	A dummy variable that has 1 if there was performance agreement, 0 otherwise
Board Independence	NED	Percentage of directors who are non-executive members
Board Size	BSize	Number of directors on the board
Political Affiliation	PAF	Percentage of directors affiliated to the governing party
Directors appointed from Civil Service	CIVIL	Percentage of directors appointed from civil service
Board Interlock	BINTER	A dummy variable that has a value 1 where there is no presence of Board interlock, 0 otherwise
CEO Duality	Dual	A dummy variable that has 1 for separate CEO and chairperson roles, 0 otherwise
Audit Committee	BAud	A dummy variable that has 1 for presence of Audit committee, 0 otherwise.
Compensation Committee	Comp	A dummy variable that has 1 for presence of Compensation Committee, 0 otherwise
Risk Management Committee	RISK	A dummy variable that has 1 for presence of Risk Committee, 0 otherwise

Nominating Committee	NOM	A dummy variable that has 1 for presence of Nominating Committee, 0 otherwise
Board Evaluation	EVAL	A dummy variable that has 1 if individual director and CEO are evaluated at least once a year, 0 otherwise
Meeting Frequency	FREQ	Number of meeting per year
CEO Appointment	C_APP	A dummy variable that has 1 if CEO is appointed by board, 0 otherwise
Board Appointment	BAPP	A dummy variable that has 1, if board appointed through open selection, 0 otherwise
Board Tenure	TENURE	Number of the years directors serving in the board
Board with Governance skills	GC	Percentage of Directors with governance skills
External Audit	EXAUDIT	A dummy variable that has 1 if external Audits are conducted annually, 0 otherwise
Annual Company Performance Report	AnRPT	A dummy variable that has 1 for availability of annual report, 0 otherwise
Third Party Transactions	THIRD	1 represents disclosure of third-party transaction, 0 otherwise
Conflict of Interest	CONFLICT	1 represents disclosure of conflict of interest, 0 otherwise
Debt to Equity	LEV	The ratio of debt to equity
Government grants	GRANTS	1 for no government grants, 0 otherwise
Dependent Variables		
Operating Profit	EBIT	Earnings Before Interest and Tax
Return on Assets	ROA	Operating Profit / Average Total Assets
Control Variables		
Size of Company	CSIZE	Logarithm of Book Value of Assets
Age of Company	AGE	Logarithm of number of years since company was established as an SOE
Industry Dummies	INDUSTRY	Industry dummy for each industry

Competition	COMPETE	A dummy variable that has 1 if the SOE is in a competitive environment, 0 if it's a monopoly.

Source: Researcher's own construction (2015)

3.5.2. Sampling technique of intensive design

Intensive design uses qualitative method for data collection and analysis. The current study uses a purposive sampling technique to select cases from all non-financial commercial SOEs for the period from 2000 to 2016. Yin (2009) recommends the use of multiple-case design against a single case design. Multiple-case design can enhance external validity through replication logic (Yin, 2009:41). There is no ideal number of cases but through experiences authors have recommended that for one to get maximum benefit cases should be between a minimum of four and a maximum of ten (Easton, 2010; Stake, 2006). Stake (2006:23) provides criteria for selecting cases. First, the selected case should "be relevant to the quintain" [or phenomenon under study]; second, the case should "provide diversity across contexts." Finally, the case should "provide a good opportunity to learn about complexity and contexts." For the purpose of the current study, four cases were chosen from a population of 13 non-financial SOEs. These cases were selected based on performance, complexity, diversity and as well as their relevance to the phenomenon under study, a criterion that is in line with Stake (2006:23).

3.6. Data collection

For the purpose of this study the following data collection methods have been used.

3.6.1. **Questionnaire** – use of structured and semi-structure questions.

3.6.2. **Document Review** –Some of the documents that were reviewed include annual reports, memoranda, strategic plans, performance reviews, and developmental policies.

3.6.3. **Archival records**: these included organisational documents like budgets and list of names of former directors of SOEs.

3.6.4. **Interviewing**: The following groups of people were interviewed: board members, executive directors, company secretaries, senior government officials involved in SOEs administration, members of parliament in public finance and appointment committees and directors of Non-governmental organisations (NGOs).

3.6.5. **Direct Observation:** To increase reliability in observation, Yin (2009) advises that one observer should make all observations. The researcher also observed the sites to learn about the operating culture of organisation. However, there was no opportunity to observe or attend board meetings in session.

3.7. Data Analysis

3.7.1. Data Collation

Data was collated based on hypothesis for quantitative analysis and themes for qualitative analysis. The study tested the effect of corporate governance variables on performance. Corporate performance be measured as follows: Profitability – Earnings Before Interest and Tax (EBIT) and Return on Assets (ROA). See appendix 3 for some data collection instruments. Collation process involved coding data, developing a database for each case and tabulating data in spread sheets. Various worksheets were used to collate data.

3.7.2. Quantitative and Qualitative Data analysis

The study used quantitative data analysis to analyse relationship between corporate governance variables and performance. In addition, the study analysed relationship between socio-cultural variables and quality of corporate governance.

Quantitative method employed a longitudinal panel study. The use of panel data analysis fixed effects regression analysis was identified as an appropriate statistical analysis tool to carry out time-series data analysis. This is due to the fact that data for the study was drawn from a single country. Hausman specification test was carried out to check the suitability of random effects model consistent with the study by Ibrahimy and Ahmad (2012). Fixed effects estimation has its own weaknesses as it suffers from biases one of which is the assumption that current observations are not dependent upon past events (Wintoki *et al.,* 2012). To minimize this bias, the study considered the use of a dynamic Generalised Method of Moments (GMM) estimation (Wintoki et al., 2012). This was achieved by running Arellano-Bover/ Blundell - Bond (1998) estimation in STATA. To test the suitability of GMM, the study conducted a Durbin-Wu-Hausman (DWH) that is used to check for the presence of endogeneity among regressors, this is in line with the study by Nguyen, et al. (2014). The results of this test led to the choice of either static models of Ordinary Least Squares (OLS), fixed effects and random effects or the dynamic model of GMM.

The second stage involved qualitative analysis using critical realism case study method. Collected data has been categorised according to themes or research questions. Codes were assigned to data for ease of reduction. The critical realism data analysis used retroduction to identify structures and generative mechanisms which is a similar approach used by Miller & Tsang (2011).

The following steps and components which have loosely been adapted from Yin (2009:27), Zachariadis et al. (2013:867) and Easton (2010:122) were used in qualitative data analysis.

a) Unit of analysis - SOE as an organisation.
b) Sub-units of analysis – major governance actors which included but not limited to shareholders, board, management, government, parliament and NGOs.
c) Relationship among the governance actors.
d) Internal structures. Subunits which are entities have structures and causal power that produce or inhibit the realisation of an observable event in this case performance. Internal structures included inter alia, systems, processes and social-cultural values.
e) Possible generative mechanisms – identification of mechanisms that are a cause to the observed performance were vital to arrive at the causal explanation. Each mechanism was evaluated as to how it relates to the governance actors, structures within a given condition or context to produce a particular event or performance.
f) Elimination of less important mechanisms to arrive at best alternatives in terms of causal mechanisms that give reasons for the observed performance.

In line with case study analysis, pattern matching across the selected cases were used as analytical technique (Yin, 2009). These patterns were those relevant to “underlying structures and mechanisms” that caused observed performance (Sobh & Perry, 2006:1205).

Data display in critical realism case study follows the conceptual framework of the study. Sobh and Perry (2006:1205-1206) provides four guidelines to data display in critical realism. First, data display should concentrate on interpretations and not on “numerical frequencies of empirical experiences… Second, every observation should have an explanation of why the observation occurred.” Third, quotations that render “support of explanations should occur frequently in the text with links to the respondent ... to provide in depth understanding" required by the critical realism study.

Finally, unlike constructivism and critical theorist which relies on "computer software like NUD*IST" for data analysis, critical realism is "concerned with … perceptions about external, objective reality." Critical "realism research focuses on relationships, connections and creativity" as a result, computer software would be less useful.

3.8. Validity and Reliability of study

Research quality is influenced by a particular paradigm that a study adopts. The quality of the study is measured by its reliability and validity in terms of its evidence. There are enduring debates on the quality of research between positivists and constructivists regarding reliability and validity of research. Positivists judge the quality of research based on internal validity, external validity, reliability and objectivity (Guba & Lincoln, 1998:186). The constructivists on the other hand, have two sets of criteria for a quality research and these include trustworthiness and authenticity. Trustworthiness has quality attributes which matches those found in positivism. These include credibility which parallels internal validity, transferability which parallels external validity, dependability which parallels reliability, and confirmability which parallels objectivity (Guba & Lincoln, 1998:213). Authenticity denotes a quality of "fair, honest, and balanced account of social life from the viewpoint of the people who live it every day" (Neuman, 2014:218). The current study has adopted a critical realistic paradigm which is a pluralist philosophy. The study combined quantitative and qualitative methods. This section discusses how research quality was achieved in a pluralistic environment. Consistent with Venkatesh, Brown and Bala (2013:40), quantitative and qualitative validation are discussed separately. The first part of the section presents research quality based on the quantitative method. The second part discusses research quality based on qualitative method. Lastly, the section discusses biases that may arise and strategies that were employed to minimize threats to research quality.

3.8.1. Quantitative validation

Validity and reliability are measures of research quality by positivists which employ a quantitative method. According to Saunders et al. (2007: 150) validity "is concerned with whether the findings are really about what they appear to be about." There are several types of validity that define research quality. Some of which include measurement validity, internal and external validity (Saunders et al., 2007:164).

3.8.1.1. Measurement validity

This validity refers to the extent where "parts of the measure are consistently related to other measures that are conceptually similar and distinct from measures that are conceptually dissimilar" (Johnston & Smith, 2014:8). There are several types of measurement validity. These include face validity, content validity, predictive validity and construct validity (Neuman, 2014).

3.8.1.2. Face validity

This refers to the extent to which a question, scale, or measure appears logically to reflect accurately what it was intended to measure (Saunders et al., 2007:598). To achieve face validity, a pilot test of the questionnaire was conducted to ensure that the instrument makes sense. The study has also used the Likert Scale for its survey instrument. Likert Scale is considered as one of the most used scale and valid "variation of the summative rating scale" (Cooper & Schindler, 1998:189). These questions relate to religiosity and quality of governance measure.

3.8.1.3. Content validity

This refers to the extent to which the measurement question in a questionnaire provides adequate coverage of investigative questions (Saunders et al., 2007:366). To achieve content validity questions have been particularly developed following the main topics of the study. Cooper and Schindler (1998:168) argue that "determination of content validity is judgemental" and is dependent on the mind of the researcher. Judgment of "adequate coverage" has been achieved through the topics that have been covered in detailed literature review. Saunders et al. (2007:366) outline some ways of achieving adequate coverage which include "careful definition of research through the literature reviewed", having a peer review or discussing the instrument with others, and have a panel to review the usefulness of the instrument in relation to the study.

3.8.1.4. Predictive validity

Predictive refers to the ability of a statistical test to make accurate prediction (Saunders et al., 2007:595) about "a future event or behaviour that is logically consistent to verify the indicator of a construct" (Neuman, 2014:217). To achieve predictive validity which is also known as criterion-related validity (Saunders et al., 2007), the study has adopted the following strategies. In question 1, a questionnaire was adopted from measure of religiosity by Worthington, et al. (2003) which has been widely used and accepted (Appendix 1.1). This instrument was chosen because it is neutral in terms of belief system and it is free from faith bias. In addition, the instrument has used widely accepted Likert scale. One of the criteria of predictive validity is that it should "stable or reproducible" (Cooper & Schindler, 1998:169). Just like in other measurement validity, these instruments were pilot tested to ensure that they produce the expected outcome.

3.8.1.5. Construct validity

This refers to the extent to which measurement questions measure the presence of those constructs that are intended to be measured *(*Saunders et al., 2007:367). Construct validity is made up of two subsets. It measures "how well indicators of a construct converge" or how well such indicators diverge (Neuman, 2014:217). This measure of quality was achieved through the use of multiple sources of evidence. For instance, in addition to a questionnaire and interviews, archival data of SOEs was used to collect data on key governance variables.

3.8.1.6. Internal validity

This refers to the "extent to which findings can be attributed to interventions rather than any flaws in your research design" (Saunders *et al.,* 2007:600*).* This measure assumes that only an independent variable has an effect on a dependent variable and that there are no other factors that have an influence on a dependent variable which could pose a threat to this measure of quality (Neuman, 2014:298-299). This validity is appropriate for explanatory or causal studies only (Yin, 2009:40). Internal validity was achieved through several strategies. Consistent with previous studies on corporate governance and performance, the current study controlled for some variables that could otherwise influence the outcome of the study and affect the behaviour of independent variables on dependent variables. The study controlled for company size, age of the company, industry and competition. These variables may influence the dependent variables. To minimise effect of "unobserved, time-invariant heterogeneities" the study used fixed effects estimation. In addition to fixed effects estimation, the use GMM estimation addressed effects of time-variant heterogeneities, interrelationship among governance variables. While quantitative studies in positivism is meant to "make causal statements" (Zachariadis et al., 2013:862), such an assertion is at variance with critical realism. Consistent with critical realism, quantitative method in the current study was used to determine relationship firstly, between socio-cultural variables and quality of corporate governance; and secondly between corporate governance variables and SOE performance. The results were used to identify generative mechanism which are discussed through qualitative method which in this case used critical realism case study strategy.

3.8.1.7. External validity

This validity defines the domain to which study findings can be generalised (Yin, 2009:40). Positivists are critical of the constructivists in that the latter's research findings lack generalisation. According to the Saunders et al. (2007:137) external validity is achieved where sample is large and representative. While external validity has been associated with positivism, studies such as laboratory experiments tend to have low external validity because they have small samples. Some have argued that "generalising from an experiment to natural, real-life settings [may]...not [be] a goal for many experiments" (Neuman, 2014:306). The complexity of external validity is due to its various forms of generalisation. Neuman (2014:306-307) categorises external validity generalisation in three forms: population, naturalistic and theoretical. Population generalisation is the ability to generalise a study findings to the entire population; naturalistic generalisation is where findings from a controlled study or experiment are generalised to a real life, natural situation; and theoretical generalisation is where empirical data about a theory are generalised to an abstract theory. Theoretical generalisation is the most difficult one to achieve. Yin (2009:41) argues that generalisation is applicable both quantitative studies and qualitative studies. The author categorises generalisation into statistical and analytical generalisation. Statistical generalisation is where empirical data from a random sample is generalised to a population (Yin, 2009:38). Analytical generalisation on the hand is where a certain set of results are generalised to a broader theory (Yin, 2009:43).

The current study is based on a critical realism philosophy. Critical realism assumes a stratified ontology. Whereas the positivist views generalisation of the observed events in the empirical domain, critical realism presupposes a generalisation where a generative mechanism or mechanisms causes the observable events in "specific research setting and under certain circumstances" also cause "similar or even different outcomes in other domains" (Zachariadis et al., 2013:859). While positivists use correlations to make explanation from quantitative data thereby conflating prediction with explanation (Fleetwood, 2014:193), critical realists believe that explanation is only obtained from generative mechanisms that produce events. Critical realists reject the generalisation at empirical domain level (Zachariadis et al., 2013:864). Generalisation from a critical realist point of view can only be that of generative mechanisms.

3.8.2. Reliability

Another measure of research quality in quantitative studies is reliability. This measure refers to the "extent to which data collection technique or techniques will yield consistent findings, similar observations would be made, or conclusions reached by other researchers…" (Saunders et al., 2007:609). It assumes that the operations of a study are dependable and consistent to the extent that when they are repeated under identical situations, they produce similar results. Neuman (2014:212) identifies three types of reliability: stability, representative, and equivalence. Stability reliability is a measurement that produces consistent results over time when used on the same objects e.g. organisations or people; representative reliability is when a measurement produces the same answer across subgroups; and finally equivalence reliability is when a measurement produces consistent results using different indicators. To achieve reliability, this study followed Neuman's proposal (2014:213-214) as follows: 1) separate measure has been used for each concept; 2) levels of measurements have been refined where applicable. For instance, on religiosity measure a five-point level has been applied measuring "not at all true" to "truly true"; 3) multiple indicators of variables have been used where applicable (Appendix 1.1). For instance, in question 2, multiple independent variables were used to investigate relationship between these variables and dependent variables of EBIT and ROA; and lastly this study has adopted a measure used in the past studies to measure religiosity. The religiosity questionnaire had ten items. The researcher performed a Cronbach Alpha to test reliability of the measurement instrument. Table 3.3 below presents results of reliability test.

Table 3.3 Cronbach Alpha test

Reliability Statistics		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.904	.905	10

Source: Researcher's investigative results (2020)

The results of the Cronbach Alpha test revealed that the instrument used in question 1, is highly reliable thereby passing reliability test with a test result of 0.90

3.8.3. Qualitative validation

Following a mixed method approach and consistent with Venkatesh et al. (2013) proposal, the qualitative validation followed the quantitative method validation. The study used a concurrent strategy of mixed method where quantitative and qualitative data were collected concurrently. Validation in qualitative method mirrors that of quantitative method of validity and reliability. However, qualitative uses different terms. This study adopted validation proposed by Venkatesh et al. (2013) and Guba and Lincoln (1998). Venkatesh et al. (2013:33) has categorised qualitative measures into three groups: *design validity* which include descriptive validity, credibility and transferability; *analytical validity* which consists of theoretical, dependability, consistency and plausibility; and *inferential validity* which include interpretative validity and confirmability validity. Table 3.4 presents qualitative validation.

Table 3.4 Qualitative Validity

Category	Validity and Description
Design Validity	**Descriptive validity**: The accuracy of what is reported which include events, objects, behaviours, settings. **Credibility*:*** "research findings are credible from the perspective of the participants in the research to convincingly rule out alternative explanations". **Transferability:** Research findings "can be generalised to other contexts or settings".
Analytical Validity	**Theoretical validity*:*** "theoretical explanation developed fits the data and, therefore, is credible and defensible". **Dependability*:*** "Emphasises the need for the researcher to describe the changes that occur in the setting and how these changes affected the way the researcher approached the study". **Consistency*:*** this is "the process of verifying steps of qualitative research". **Plausibility*:*** to verify whether the findings of the study, "in the form of description, explanation, or theory, fit the data from which they are derived".
Inferential Validity	**Interpretive validity**: The accuracy of interpretation of "participants' views, thoughts, feelings, intentions, and experiences". **Confirmability:** "The degree to which the results could be confirmed" others.

Adopted from Venkatesh et al. (2013:33), Zachariadis et al. (2013:860)

In line with the paradigmatic posture of the current study, qualitative validation was achieved through the steps outlined below which have been adapted from Venkatesh et al. (2013) and Zachariadis et al. (2013).

3.8.3.1. Design validity

The use of qualitative method like case studies is believed to be "epistemologically valid" (Zachariadis et al., 2013:863). The authors argue that social structures are open systems as a result they cannot be explained empirically. To achieve design validity, the study used multiple sources of evidence in the case study to provide descriptions and valid narratives. Semi-structured questions have been prepared to guide the data collection in the intensive design stage. Historical narratives and archival research were also employed to provide rich narratives. Some informants provided written answers to questions and this was followed up by face to face interview to test the credibility of the assertions. To achieve transferability validity, critical realism underscores the importance of "contextual factors" that are "time and space dependent in creating knowledge and generalising findings (Zachariadis et al., 2013:863). The study used replication logic to achieve analytical generalisation (Yin, 2009:41).

3.8.3.2. Analytical validity

Unlike the positivists who believe that causal explanations come from event regularities, critical realists argue that causality comes from generative mechanisms. The intensive method was used to identify generative mechanisms that produce observable events. As a result of this process, theoretical validity was achieved by using prior theory to identify generative mechanisms and provide explanations for the cause of SOE performance as proposed by Zachariadis et al. (2013). While quantitative method considers reliability as one of the vital elements in measuring research quality, qualitative method on the other hand, considers dependability as an important component which "parallels reliability" (Guba & Lincoln, 1998:213). Dependability in this study was achieved through the retroductive process and the identification of contingent factors that cause events to happen within "time-space." Contingent factors may be geographical or historical (Zachariadis et al., 2013:863). The study identified "demi-regularities" also known as "partial event regularities … which [shows] the actualisation of mechanisms or tendency, over a definite region of time-space" (Zachariadis et al., 2013:862). In investigating the effects of corporate governance on SOE performance, the research has delimited its boundaries within Malawi SOE. These SOEs are commercial government owned or controlled enterprises excluding financial institutions which operated from 2000-2016. The role of demi-regularities is meant to set boundaries and focus on only particular generative mechanisms that are a cause to the observed performance within time-space. This process therefore ensured dependability of the research findings by taking in account the situation and context that is ever changing. Miller and Tsang (2011:140) observe that "organisations are diverse, complex, and changing social phenomena, with multiple levels of analysis, as well as multiple and contingent causal processes." Consistency validity was achieved throughout the research process from data collection where the researcher sought corroboration of evidence collected through interviews and other sources. Internal consistency was achieved through coding process of evidence (Neuman, 2014:375).

3.8.3.3. Inferential validity

The last set of validity has to do with interpretation and confirmability. Interpretation and confirmability are particularly useful within critical realism than in positivism. To achieve confirmability documentation of evidence was maintained so that decisions made from the "qualitative research can provide information about the mechanisms that cause events [observed] at the empirical level" (Zachariadis et al., 2013:860). The researcher maintained a database for each selected case.

While the use of mixed method tends to minimise biases to research quality that results from the use of either quantitative or qualitative method, some biases still exist. The last part of this section discusses some of the biases that arose and strategies that were used to minimise the identified biases.

3.8.4. Bias

Biases in this study might have arisen from use of research instrument. While bias as a result of time-invariant heterogeneities used fixed effect estimator, endogeneity problems arising from the effect of past performance on current performance was minimised by using Generalised Method of Moments estimator (Nguyen *et al.,* 2014; Wintoki *et al*., 2012), bias resulting from poorly formulated questions when using interviewing method as a source of evidence was minimized by use of multiple sources of evidence (Yin, 2009). Since organisations are complex and dynamic systems, one needs to pay attention to past events that may have taken place in an organisation that may affect internal validity. Corroborating of evidence from various sources minimises these biases. Threats to content validity have been addressed using a measurement instrument that has been designed in such a way that it provides adequate coverage of the topic (Saunders et al., 2007:367).

3.9. Ethical considerations

Critical realism case study involves conducting research in a natural setting where personal interaction with research participants is a key element in data collection. Research which involves human interactions raises issues of ethical consideration. Saunders et al. (2007:181) identifies several ethical issues pertaining to research which include: "*privacy of possible and actual participants; voluntary nature of participation and the right to withdraw maintenance of the confidentiality of data provided by individuals or identifiable participants and their anonymity reactions of participants to the way in which you seek to collect data, including embarrassment, stress, discomfort, pain and harm; and effects on participants of the way in which you use, analyse and report your data, in particular the avoidance of embarrassment, stress, discomfort, pain and harm*."

The current study focused on SOEs which are political in nature; the researcher ensured that rights of confidentiality and privacy of organisations and individuals were protected. The researcher avoided deception of any form and consent of the respondents was sought before conducting the research. Permission was also obtained from the Departmental of Statutory Corporation before visiting individual SOEs. In addition, permission was sought from various SOEs included in the study.

3.10. Summary

This chapter has discussed research methodology which was used in this study. It has discussed the rationale behind the choice of the methodology. The first section of the chapter introduced the philosophy of science and rationale behind the choice of a particular worldview.

The second section of the chapter has discussed research methodology. Different methodologies and methods have been reviewed. Guided by research philosophy of critical realism, a multi-methodology has been proposed as suitable for the current study. The next sections have discussed sampling techniques, data collection, data analysis and reliability of the study in line with the choice of a particular methodology. Lastly, the chapter has discussed ethical consideration and how participants' confidentiality was protected. Next is chapter 4 which presents results and analysis of findings.

CHAPTER 4: PRESENTATION OF RESULTS AND ANALYSIS OF FINDINGS

4.1. Introduction

This chapter follows on the previous chapter which had focussed on research methods. The previous chapter identified research philosophy, research methodology and design, sample and sampling techniques, data collection and data analysis techniques.

The focus of this chapter is to present results and analysis of findings following a critical realism case study method. Results are being presented in two stages. The first stage presents results from extensive design which uses quantitative analysis. Data in this stage was collected through document analysis, interviews and structured questionnaires. The second stage presents results from using intensive design which has used qualitative method. In this stage results are from data that was collected through interviews and further document reviews

This chapter has been organised as follows: section 4.2. presents quantitative results from econometric models; section 4.3 shows qualitative results which are presented thematically following the case study method that has been adopted; section 4.4 analyses emergent themes and generative mechanisms that were identified from the study; section 4.5 summaries the chapter.

4.2. Quantitative data analysis

4.2.1. Factors Impacting on corporate governance

To identify factors that influence the effectiveness of corporate governance of SOEs in Malawi, a model was developed from a hypothesis meant to test the influence of religiosity on corporate governance. A model was developed as shown below.

$$Govscorei = \alpha+\beta 1RELi+ Z1LnCsizei + Z2Levi + Z3LFi +\eta i + \varepsilon i.$$

A structured questionnaire was administered to all 13 SOEs to obtain scores for quality of governance (see appendix 3.1). Another structured questionnaire was administered to obtained data for religiosity (see appendix 3.2). Only 9 SOEs responded with complete data. These 9 SOEs represented all major industries which include Tourism, Water Utilities, Telecommunications, Energy and Property Development.

4.2.1.1. Descriptive statistics - Factors Impacting on Corporate Governance

Table 4.1 presents summary statistics for the 9 SOEs. The results show that mean value of governance score (Govscore) is 69.44 while the maximum and minimum scores are 84 and 46 respectively. The standard deviation for Govscore is 10.31. The results show that the quality of governance for the sampled SOEs are slightly above average indicating an above average compliance with corporate governance principles. The standard deviation shows a high variability from the mean (figure 4.1) indicating that there is wide variation between SOEs with poor quality governance and those with good quality governance score. The religiosity (REL) findings show the mean value of 36.44 with the maximum and minimum values of 41.86 and 22 respectively. With the possible maximum score of 50, the results show an average of 73% of respondents adhere to religious values and this confirms that Malawi is a religious country. The standard deviation for REL is 6.30. Three control variables were used in this model Csize, Lev and LF, their mean values are 7.48, 1.56 and 0.33 respectively.

Table 4.1 Descriptive Statistics – cultural values vs corporate governance

Variable		Obs.	Mean	Std. Dev.	Min	Max
Dependent Variable						
	GovScore	9	69.44	10.31	46	84
Independent Variable						
	REL	9	36.77	611	22	41.86
Control Variable						
	LF	9	0.67	0.5	0	1
	LEV	9	1.56	2.7	0.04	8.6
	CSIZE	9	7.48	0.29	7.14	8

Source: Researcher's investigative results (2021)

Notes: The table above shows descriptive results of cultural values of religiosity and quality of corporate governance. Quality of governance scores represented by GOVSCORE were collected from 9 SOEs using a questionnaire. Religiosity is the average score per SOE collected through a questionnaire administered to directors and senior managers. Control variables include legal form, leverage and company size obtained from company records including annual reports. For LF, 1 represent SOEs established under The Companies Act, 0 for otherwise. LEV standards for a ratio of debt to total assets while Csize stands for logarithm of SOE assets. The data is for 2016.

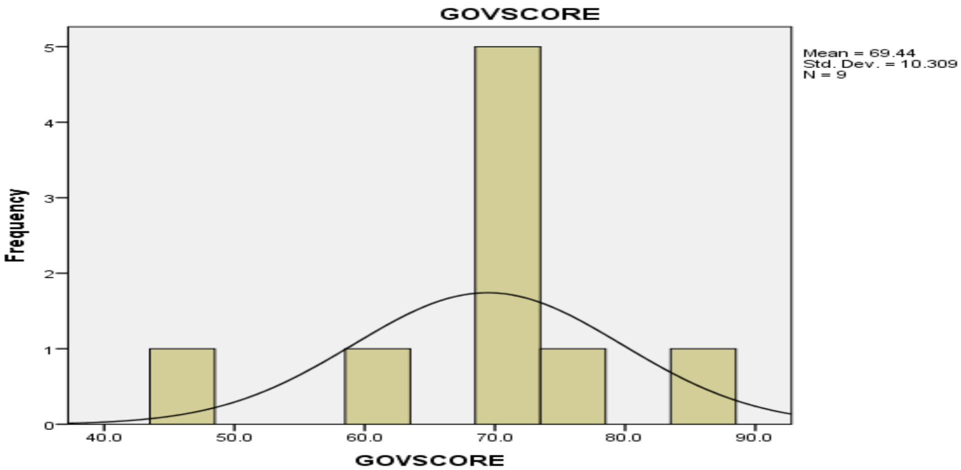


Fig 4.1 Frequency distribution of quality of governance score among SOEs.

4.2.1.2. Correlation Matrix - factors impacting on corporate governance

A correlation matrix is an econometric tool that reveals the significance of the relationship between variables in the study. According to Moore, McCabe, Alwan and Craig (2016:75). Correlation "measures the direction and strength of the linear relationship between two quantitative variables"

Table 4.2 below presents Pearson Correlation Matrix between quality of corporate governance score as depedent variable and religiosity as independent variable controlled for legal form, leverage and company size. The results show a weak and insignificant negative relationship between religiosity and governance score. However, governance score is positively related to legal form, leverage and company size but the relationship is weak and insignificant.

Table 4.2 Pearson Correlation Matrix – REL and GovScore

VARIABLES	GOVSCORE	REL	LF	LEV	CSIZE
GOVSCORE	1				
p-value					
REL	(0.54)	1			
p-value	0.13				
LF	0.31	(0.33)	1		
p-value	0.42	0.39			
LEV	.104	-.216	-.308	1	
p-value	.790	.577	.419		
CSIZE	.121	.375	.188	-.068	1
p-value	.756	.321	.627	.862	

Source: Researcher's investigative results (2021)

Notes: The correlation matrix above shows that Religiosity and control variables of Legal Form, Leverage and company size are not significantly related to governance score. The p-values of REL (p=.13); LF (p=.42); LEV (P=.79) and CSIZE (p=.756) are all above the threshold of p<0.05.

4.2.1.3. Multiple Regression – factors impacting on corporate governance

This section presents results of regression analysis. Regression "describes a relationship between an explanatory variable and a response variable" (Moore, McCabe, Alwan & Craig, 2016:80). In other words, regression describes how an explanatory variable also called independent variable is related to a dependent variable.

Table 4.3 presents results from regression analysis for factors that influence quality of corporate governance measured by governance score.

Table 4.3 Regression Analysis – Cultural values and GovScore

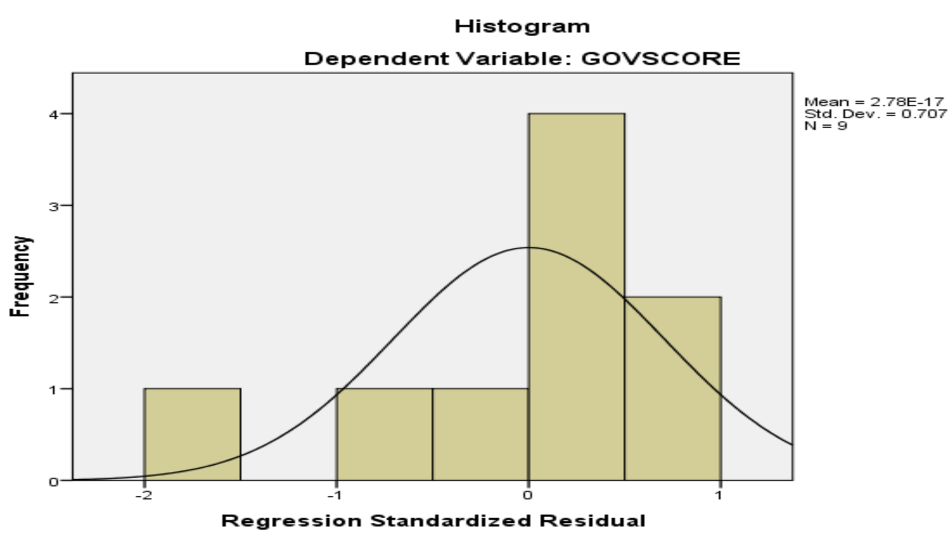
Govscore	Coef.	p> t	VIF
(Constant)	13.99	0.90	
REL	(1.14)	0.25	1.70
LF	(0.28)	0.98	1.59
LEV	(0.05)	0.98	1.31
CSIZE	13.05	0.46	1.38
No of obs		9	
R		0.642	
R Square		0.412	
Adj. R Square		-0.176	
F		.701	
P>(t)		0.63	

Source: Researcher's investigative results (2021)

Notes: P-value for GovScore is 0.63 which is greater than 0.05 showing that religiosity as an independent variable is not able to predict the outcome of quality of governance in the sampled SOEs.

The OLS results in Table 4.3 fail to support hypothesis 1 that religiosity has any significant influence on the quality of corporate governance after controlling for legal form, leverage and company size. Holding all factors constant, results show that the governance score coefficient is 13.99. R^2 is just below average at 41% indicating a lower explanatory power of the independent variable on governance score. The p-value for the model is higher at .63 indicating that the model does not explain the influence between governance score and religiosity. The p-value for religiosity at 0.25 holding all other factors constant, shows that religiosity does not have any influence on governance score. Therefore, the study accepts the null hypothesis.

OLS has inherent limitation. One of such limitations is the assumption that there is a linear relationship between variables and "that dependent variable is normally distributed" (Paniagua, Rivelles, & Sapena, 2018:3). As shown from the figure 4.2, the dependant variable does not have a normal distribution curve. To overcome this limitation, the study used poisson regression. Table 4.4 presents results of the poisson regression. After running the test, results do not support the hypothesis that independent variables of religiosity have any influence on quality of governance.



Notes: Fig 4.2. Histogram showing the distribution of governance score. The graph shows that data is not normally distributed but skewed to the left.

Table 4:4. Multiple Regression - Poisson model

. poisson GOVSCORE REL LEV CSIZE LF

Iteration 0:	Log Likelihood =	-32.8787
Iteration 1:	Log Likelihood =	-32.8787

Poisson Regression		Number of Obs =	9
		LR chi2(4) =	2.01
		Prob > chi2 =	0.7346
Log likelihood =	-32.8787	Pseudo R2 =	0.0296

GOVSCORE	Coef.	Std. Err.	z	P> [z]	[95% conf. Interval]	
REL	-0.00444	0.00855	-0.520	0.6040	-0.0212	0.0123
LEV	0.01136	0.01636	0.690	0.4880	-0.0207	0.0434
CSIZE	0.09077	0.18423	0.490	0.6220	-0.2703	0.4519
LF	-0.08345	0.10102	-0.830	0.4090	-0.2815	0.1146
cons	3.75935	1.242159	3.030	0.0020	1.3248	6.194

4.2.2. Corporate governance and SOE performance

This section presents statistical results in answer to question two of research study. The aim of this research question was to investigate the impact of corporate governance on the performance of State-Owned Enterprises in Malawi. Four groups of corporate governance variables were identified as legal form, board attributes, capital structure, and disclosure & transparency. Two SOE performance measures were identified as dependent variables and these are EBIT and ROA. The following initial model was developed to collect and analyse data:

$$Y_{it-1} = \alpha+\beta_1 LF_{it}+ \beta_2 OAR_{it}+ \beta_3 Contract_{it+} \beta_4 Bsize_{it+} \beta_5 NED_{it+}\beta_6 PAf_{it+} \beta_7 Civil_{it+} \beta_8 BInt_{it+} \beta_9 Dual_{it+} \beta_{10} BAud_{it+} \beta_{11} Comp_{it+} \beta_{12} Risk_{it+} \beta_{13} Nom_{it+}\beta_{14} Eval_{it+}\beta_{15} Freq_{it+}\beta_{16} CApp_{it+} \beta_{17} BApp_{it+}\beta_{18} Tenure_{it+}\beta_{19} GC_{it+}\beta_{20} ExtAud_{it+}\beta_{21} Third_{it+}\beta_{22} Conflict_{it+}\beta_{23} AnRpt_{it+}\beta_{24} Lev_{it+} \beta_{25} Grants_{it+} Z_1 LnAssets_{it+} Z_3 LnAge_{it+} Z_3 Industry_{it+} Z_4 COMPETE_{it+} \eta_{i+}\varepsilon_{it}$$

Data was collected from nine (9) SOEs through document review of annual reports, interviews using a semi structured questionnaire which was used a guide (Appendix 3.3).

Stepwise OLS was applied to the full initial model to reduce the number of independent variables in order to establish those that have better explanatory power. The other reason of applying stepwise was to avoid multicollinearity. This is consistent with the study conducted by Hussain, Rigoni and Orij (2018). After applying Stepwise, the following model was developed.

$$Yit = \alpha+\beta 1LFit+ \beta 2Bsizeit+ \beta 3PAfit+ \beta 4Riskit++\beta 5Freqit+\beta 6Tenureit+ \beta 7Civilit+\beta 8Thirdit+ \beta 9Conflictit+\beta 10AnRptit+ \beta 11Levit+ Z1LnAssetsit+ Z3LnAgeit+ Z3Industryit+ Z4COMPETEit+ \eta i+\varepsilon it$$

Table 4.5 presents reasons why some independent variables were omitted from the study.

Table 4.5 – Variables Excluded due to Multicollinearity

Independent variable	Reasons for dropping
OAR	Multicollinearity
Contract	Multicollinearity
BIND	Not significant because all sampled SOEs had 100% NED
Dual	All sampled SOEs had similar scores – No CEO duality
Baud	Similar scores for all SOEs – Committee available
Comp	Similar scores for all SOEs – Committee available
NOM	Similar scores for all SOEs – Committee available
EVAL	Multicollinearity
C_APP	Similar scores for all SOEs – CEO not appointed by board
BAPP	Similar scores for all SOEs – Board not appointed through open process.
GC	Unavailability of data – only 3 SOEs had data on governance skills
EXAUDIT	Similar scores for all SOEs – all sampled SOEs had external audit reports
GRANTS	Multicollinearity

Table 4.5 presents variables that were dropped and the reasons for dropping these variables after doing Stepwise. Most of the variables were dropped due to the fact they were constant or had similar scores for all sampled SOEs. In addition to similar scores, other independent variables were dropped due to multicollinearity. The next section below presents descriptive statistics for the remaining variables.

4.2.2.1. Descriptive statistics – Corporate governance and SOE performance

Table 4.6 presents a summary or descriptive statistics from 9 SOEs covering the period from 2000 to 2016. There are 25 dependent variables that were measured and 4 control variables. The results also show there were 133 observations from a maximum expected number of 144 observations.

Results show that mean of EBIT is MK472.158 million, while the maximum and minimum are MK16.150914 billion and MK-2.432075 billion respectively. The standard deviation for EBIT is K2.117971billion. Results for ROA show that the mean is 0.4% while the maximum and minimum ROA are 21.8% and -46%. The standard deviation for ROA is 8.5%. The high standard deviation for both EBIT and ROA shows the performance of SOEs is widely spread from the mean indicating high variability from good performing SOEs to poor performing SOEs.

Table 4. 6 - Descriptive Statistics OLS: corporate governance and performance

Variable	Obs.	Mean	Std. Dev.	Min.	Max.
Dependent Variable					
EBIT	133	472,158	2,117,971	(2,432,075)	16,150,914
ROA	133	0.00	0.08	(0.46)	0.22
Independent Variable					
LF	133	0.28	0.45	-	1.00
BSize	128	11.72	2.95	5.00	19.00
PAF	128	0.57	0.14	0.20	0.80
RISK	133	0.10	0.30	-	1.00
FREQ	132	4.04	0.31	4.00	7.00
TENURE	128	2.15	1.37	-	5.00
CIVIL	128	0.33	0.07	0.20	0.58
AnRPT	133	0.36	0.48	-	1.00
THIRD	133	0.14	0.35	-	1.00
CONFLICT	132	0.11	0.31	-	1.00
LEV	132	1.73	7.89	(35.19)	65.99
Control Variables					
LnCSIZE	131	6.68	1.17	-	7.98
LnAGE	133	1.32	0.44	-	1.94
INDUSTRY	133	2.84	1.14	1.00	5.00
COMPETE	133	0.32	0.47	-	1.00

Source: Researcher's investigative results (2021)

Notes: The table above represents descriptive statistics for corporate governance as independent variables and accounting performance of EBIT and ROA. These data were obtained from annual reports and company documents including interviews. The results cover a period from 2000 to 2016 for 9 SOEs. The panel is unbalanced as some SOEs did not have complete records for all the years.

On ownership structure, results show that LF had an average of 0.28 with standard deviation at .45. Over 80% of the sampled SOEs are established under The Acts of Parliament and are wholly owned by the government (figure 4.3).

The current study found that on average the board size is 11.72 and its standard deviation is 2.95 revealing that most of the boards of directors are close to the average. The maximum board size is 19 while the minimum size is at 5. While the minimum and average is within the recommended board size, the results show that 36.8% are between 13 and 19 (figure 4.4) which is above the recommended. Overall, the results show a compliance to good corporate governance principles in terms of board size. Results also show that an average of 57% of board members are affiliated to governing political party, a standard deviation of 14%. The minimum is 20% and maximum 80%. The results show that the board representation is highly politicised with over 65% of the board above average (Figure 4.5). A politicised board leads to political interference and consequently to poor corporate governance practice. On boards with risk management committees in their board, on average 10% of the boards have risk management committees with a standard deviation of 30%, and 90% of the board did not have risk management committee (figure 4.6). Results show that meetings were held as per requirements. On average 4.04 board meetings were held per SOEs per annum, with the maximum and minimum of 7 and 4 respectively. The standard deviation for frequency of board meetings is 0.31. About 98% (figure 4.7) of the meetings were held as per requirement that stipulates 4 sittings per year. Board tenure was averaged at 2.15 years with a standard deviation of 1.37 while the maximum was 5 years. The results show that the boards had short tenure with about 68% having tenure of 2 years or less (figure 4.8). Civil represents a percentage of board with representation of directors from civil service. The results show that an average of 33% of the board were appointed from the civil service with a standard deviation of 0.7% while the maximum and minimum were 58% and 20% respectively (Figure 4.9).

On annual reports (Anrpt), the results show that on average 36% of the sampled SOEs prepared their annual reports with a standard deviation of 48%. Figure 4.10 shows that approximately 64% of period, annual reports were not prepared by some SOEs. On third party disclosure, results show that on average 14% of the SOEs had third party disclosure with a standard deviation of 35%. Figure 4.11 shows that 86% did not have third party disclosure in their annual reports or financial statements. On disclosure of conflict of interest, results show that an average of 11% had disclosure of conflict of interest with a standard deviation of 31%. Approximately 89% of the annual and financial reports had no disclosure of conflict of interest (Figure 4.12). Quality of disclosure as of a measure of compliance and accountability. As shown from the results above, most of the SOEs do not comply with corporate governance principles because of lack of disclosure.

On capital structure, results show that leverage had an average of 1.73 with a standard deviation of 7.89 while the maximum and minimum were 65.99 and -35.19 respectively. The results show that the SOEs are highly leveraged.

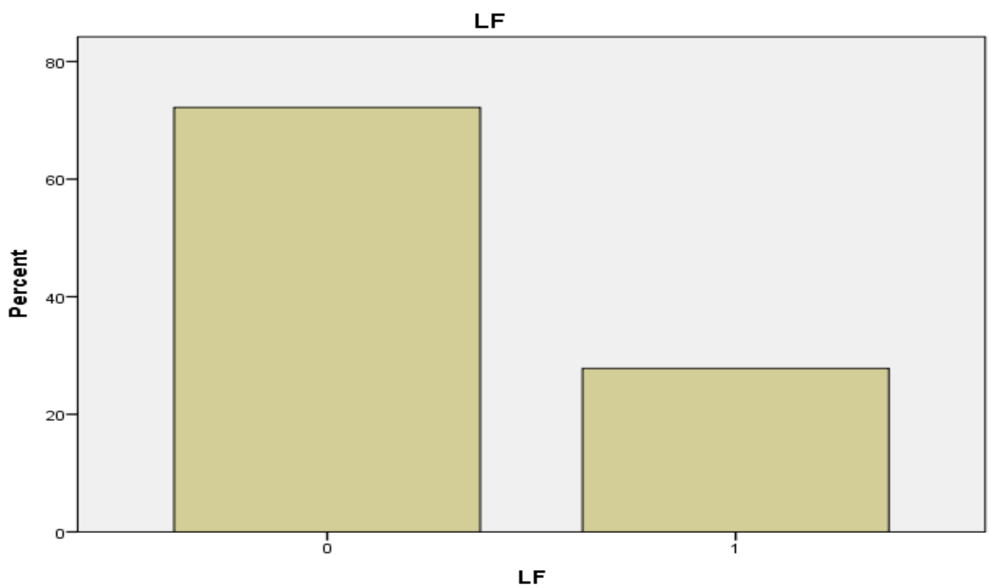


Fig 4.3. Frequency of Legal form

Notes: The figure above represents distribution of sampled SOEs per legal form ranging from 0 to 1. With 1 representing SOEs established under the Companies Act while 0 is for other legal forms.

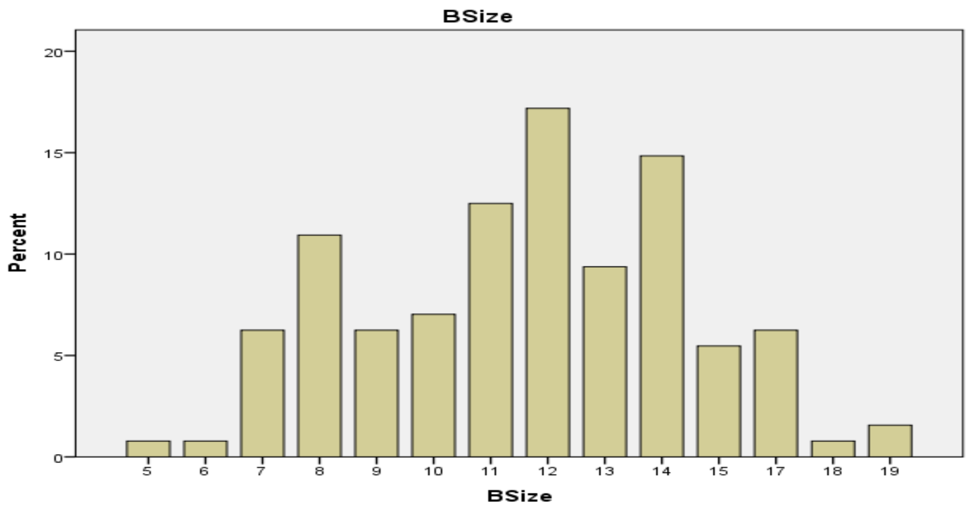


Figure 4.4 Board size Distribution

Notes: The above figure shows board size in terms of numbers from 5 per board to 19.

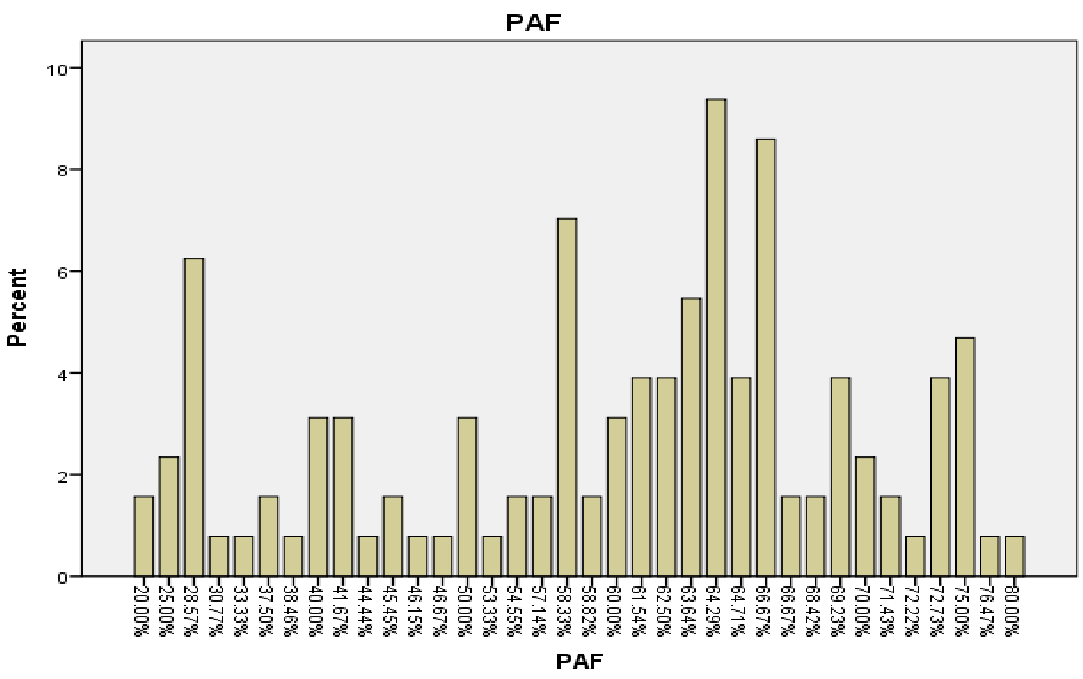


Figure 4.5. Frequency Distribution of PAF.

Notes: The figure represents percentage distribution of political affiliated directors as a percentage of the total number of directors.

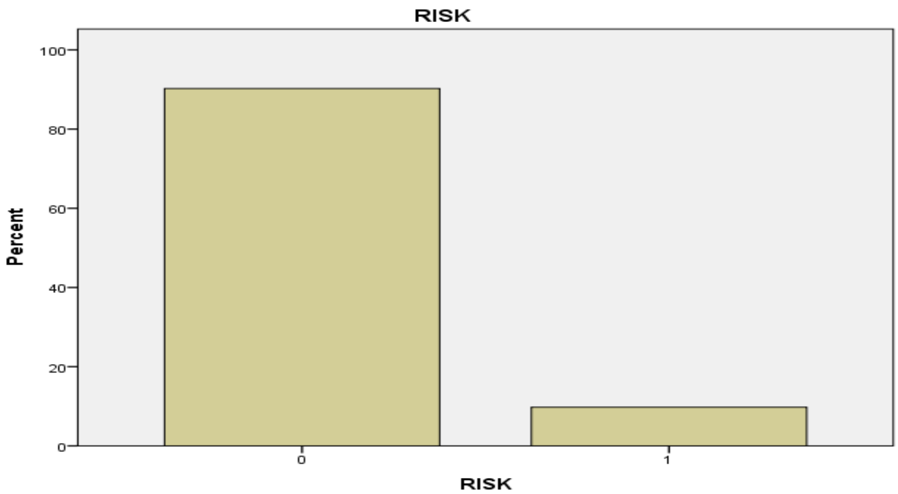


Figure 4.6 Percentage Distribution of Board with Risk Management Committee.

Notes: The figure above shows the percentage of SOEs with Risk Management Committee in their boards with 1 resenting board with Risk management committee and 0 having no Risk committee.

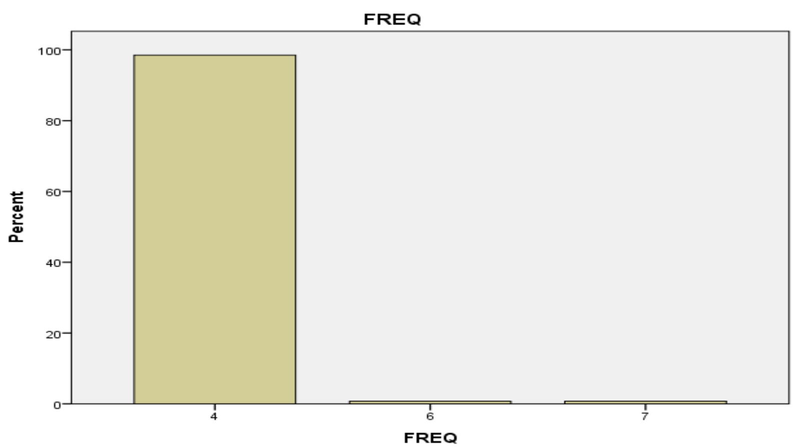


Figure 4.7 Frequency of Board meetings

Notes: The figure above shows percentage distribution of frequency of board meetings.

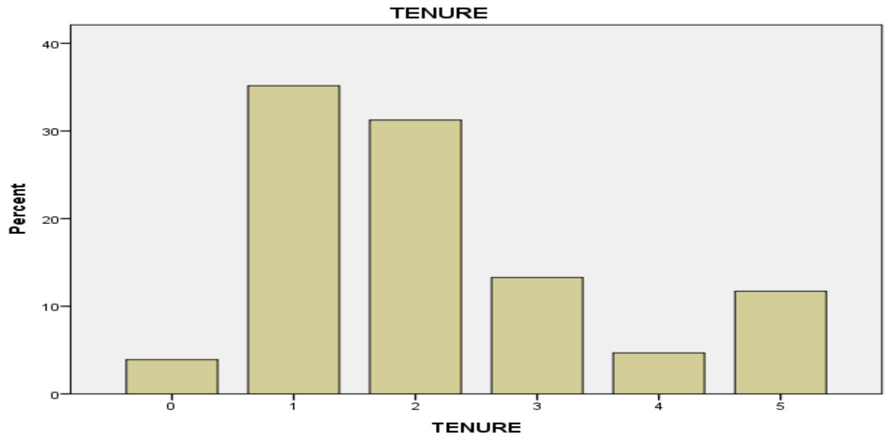


Figure 4.8 Percentage distribution of Board tenure of SOEs

Notes: The figure above shows board tenure ranging from 0 to 5 years.

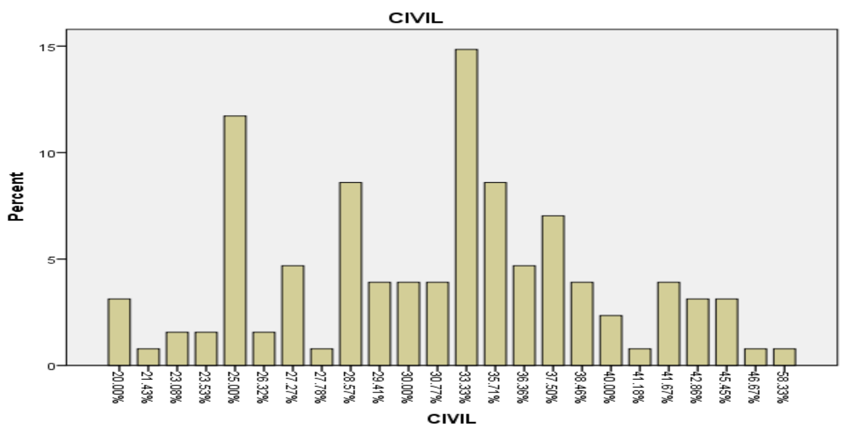


Figure 4.9 Civil servants appointed to the Board.

Notes: The figure above shows percentage of civil servants appointed to the boards of SOEs**.**

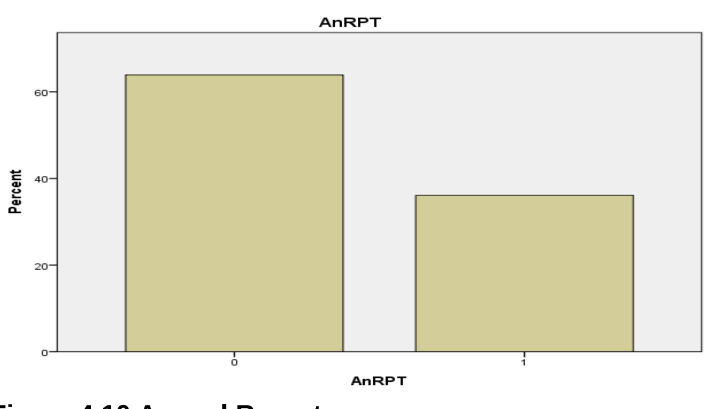


Figure 4.10 Annual Reports

Notes: The figure above represents the percentage of the annual reports that were prepared by the SOEs during the years under study. While 1 represent availability of annual report, 0 stands for absence of annual reports.

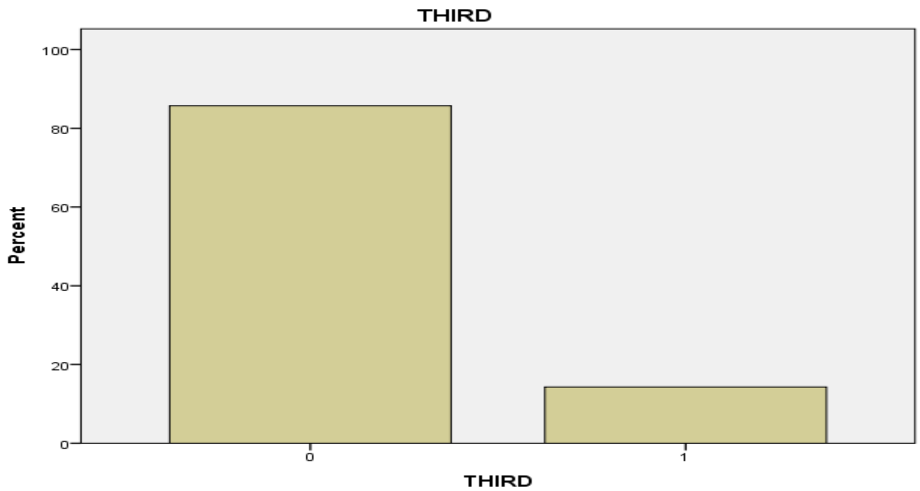


Figure 4.11 Third Party Disclosure

Notes: The figure above shows the percentage of SOEs which had third party disclosure in their annual reports with 1 representing availability of third-party disclosure and 0 non-disclosure.

Figure 4.12 Disclosure of Conflict of Interest

Notes: The figure above shows a percentage of disclosure of conflict of interest by SOEs in their annual reports with 1 representing availability of disclosure of conflict of interest and 0 representing non-disclosure of conflict of interest in their annual reports or financial statements.

4.2.2.2. Correlation Matrix - Corporate Governance and SOE performance.

Appendix 1.7 presents correlation coefficients of key variables for 133 observations of the study for the period from 2000-2016 for 9 SOEs. Accounting performance measures of EBIT and ROA have a weak positive correlation of r=0.48 indicating that these performance measures cannot be used interchangeably.

Results show that EBIT has a significant positive correlation at p-value of <0.05 with Legal form at r=0.33(p=0.000); Risk Management Committee at r=.58 (p=0.000); Annual performance report at r=0.27(p=0.000) and company size at r=0.20(p=0.022). However, EBIT was significantly and negatively correlated with political party affiliation at R=-0.27(p=0.002). Regarding ROA, results show that performance is significantly and positively correlated at p-value of <0.05 with independent variables of legal form at r=0.38(p=0.000); Risk Management Committee at r=0.41 (p=0.000); tenure at r=0.30(p=0.001); annual report at r=0.33(p=0.000); third party disclosure at r=0.27(p=0.00); tonflict of interest disclosure at r=0.30(p=0.000); Leverage at r=0.27(p=0.002); and company size at r=0.20 (p=0.023). In addition, ROA is also negatively related to political affiliation at r=-0.30 (p=0.001) and civil servants' presence in the board at r=-0.25 (p=0.005). Correlations results for both EBIT and ROA are in support of the hypothesis 2 that corporate governance is significantly and positively related to accounting performance.

To further test for multicollinearity for the remaining independent variables, a variance inflation factor was conducted using linear regression in SPSS version 23. The results presented in the regression table 4.7 reveal that LF and conflict have a high VIF of 13.90 and 16.46 respectively which is above the threshold of 10. Hence LF and Conflict were dropped in the final model because they were highly correlated with other independent variables.

The OLS results in Table 4.7 show that there is a significant relationship between both EBIT and ROA and the independent variables. However, before a further analysis could be performed, it was noted that two of the independent variables of corporate governance namely, LF and conflict had very high variance inflation factor (VIF) indicating that they were correlated with other corporate governance variables. These variables were then dropped, and a further regression test was conducted to check multicollinearity on the remaining corporate governance variables.

Table 4.7: OLS Regression analysis for Multicollinearity.

	EBIT			ROA		
	Coef	**p>(t)**	**VIF**	**Coef**	**p>(t)**	**VIF**
(Constant)	(2,817,871)	0.43		0.09	0.53	-
LF	2,389,876	0.04	13.90	0.01	0.74	13.90
BSize	(22,744)	0.76	2.47	(0.00)	0.44	2.47
PAF	(284)	0.99	5.65	(0.00)	0.62	5.65
RISK	5,652,583	0.00	2.07	0.08	0.00	2.07
FREQ	378,799	0.43	1.18	0.02	0.41	1.18
TENURE	44,136	0.78	2.37	0.00	0.72	2.37
CIVIL	27,653	0.36	2.11	(0.00)	0.39	2.11
AnRPT	(663,542)	0.26	4.13	(0.03)	0.19	4.13
THIRD	(2,110,245)	0.05	7.60	(0.05)	0.28	7.60
CONFLICT	(2,342,169)	0.19	16.46	0.20	0.01	16.46
LEV	2,154	0.91	1.11	0.00	0.00	1.11
LnCSIZE	(26,370)	0.85	1.30	(0.00)	0.77	1.30
LnAGE	687,750	0.15	1.89	0.03	0.07	1.89
INDUSTRY	4,857	0.99	4.58	(0.03)	0.00	4.58
COMPETE	(459,963)	0.39	3.24	(0.11)	0.00	3.24
No of Obs		126.00			126.00	
R^2		0.55			0.51	
Adj R^2		0.49			0.44	
F		8.89			7.50	
Prob >F		0.000			0.000	

Table 4.7 above presents an OLS regression to test for multicollinearity.

Notes: The p-value for both independent variables are less than 0.05 indicating that overall, the independent variables reliably predict dependent variables of EBIT and ROA. VIF represents Variance Inflation Factor which measures the extent of multicollinearity. A VIF score >10 represents a high multicollinearity. The table above shows that LF and Conflict have VIF of 13.90 and 16.46 which is above a score of 10. LF and Conflict were dropped.

Below is the model that was adopted after controlling for multicollinearity.

Yit = α+β1Bsizeit+ β2PAfit+ β3Riskit+β4Freqit+β5Tenureit+ β6Civilit+β7Thirdit+β8AnRptit+ β9Levit+ Z1LnAssetsit+ Z3LnAgeit+ Z3Industryit+ Z4COMPETEit+ ηi+εit

Where (Y) stands for SOE performance which are dependent variables as represented by Earnings Before Interest and Tax (EBIT) and Return On Assets (ROA); α is a constant and (β1:β9) denotes independent variables parameters; (Z1:Z4) stands for control variables parameters; symbol (i) represents SOE number; (t) represents time period in years; η stands for unobservable individual heterogeneity; (ε) represents the error or disturbance in regression model which varies with individual SOE and time; independent variables are represented by the following symbols, board size (BSize), directors who are affiliated to the governing party (PAf), Risk management committee of the board (Risk), board tenure (Tenure), public servants appointed to the board of SOE (Civil), disclosure of third party transactions (Third), availability of annual report (AnRpt), debt to equity ratio (Lev), the study controlled for the size of the SOE in terms of its assets (LnCSize), controlled for the age of the SOE (LnAge), control for the SOE industry(Industry) and control for competition.

Below are the results of multiple regression of static and dynamic models after controlling for multicollinearity.

4.2.2.3. Multiple Regression Analysis: Corporate governance and SOE performance

The sections below present results for regression analysis for corporate governance and SOE performance using OLS, Fixed Effects, Random Effects and GMM estimations.

Table 4.8 present results of OLS estimation for EBIT model and ROA. Results show a significant relationship between corporate governance variables and accounting performance measures of EBIT and ROA at 95% confidence level with p-value less than 0.05. The models were tested for multicollinearity. Table 4.8 shows VIF scores for both EBIT and ROA. Results show that there was no multicollinearity among independent variables. Both models have VIF scores of less than 5.

The regression results show that presence of Risk Management Committee is positively and significantly associated with both EBIT and ROA which is in support of the study hypothesis. On disclosure, results show that third party disclosure is negatively and significantly associated with EBIT contrary to the study assertion but there is no relationship with performance measure of ROA. On other board attributes, results show that political party affiliated directors and civil servants directors are negatively and significantly associated with ROA which is in support of the study hypothesis 2 which predicted that political party and civil servants have negative effect on the effectiveness of corporate governance. On capital structure, results show that leverage is positively and significantly related to ROA but there was no relationship with EBIT. Regarding control variables, 1% change in age of the SOE results in a positive and significant contribution of ROA of 0.04 but there was no relationship with EBIT. Competition had also a negative and significant relationship with both EBIT and ROA.

Table 4.8 OLS Regression Analysis for Corporate governance and SOE performance

OLS	EBIT Coef.	EBIT p>(t)	EBIT VIF	ROA Coef.	ROA p>(t)	ROA VIF
(Constant)	1,792,514.71	0.55		0.10	0.43	
BSize	(88,519.71)	0.21	2.13	(0.00)	0.38	2.13
PAF	(15,851.81)	0.39	3.55	(0.14)	0.06	3.55
RISK	5,583,065.21	0.00	1.92	0.09	0.00	1.92
FREQ	306,351.58	0.52	1.14	0.02	0.24	1.14
TENURE	8,857.00	0.95	2.16	0.01	0.13	2.16
CIVIL	15,584.78	0.55	1.49	(0.00)	0.03	1.49
AnRPT	170,315.98	0.71	2.56	(0.03)	0.16	2.56
THIRD	(2,021,624.54)	0.00	2.34	0.03	0.30	2.34
LEV	7,267.07	0.69	1.10	0.00	0.00	1.10
LnCSIZE	28,265.12	0.84	1.27	(0.00)	0.64	1.27
LnAGE	34,151.24	0.93	1.28	0.04	0.01	1.28
INDUSTRY	(470,982.84)	0.01	1.98	(0.01)	0.06	1.98
COMPETE	(1,121,976.82)	0.02	2.43	(0.09)	0.00	2.43
No of Obs		127.00			126.00	
R^2		0.52			0.46	
Adj R^2		0.46			0.41	
F		9.403			7.61	
Prob >F		0.000			0.000	

Notes: The p-value for both EBIT and ROA are smaller than 0.05 showing that independent variables in both models reliably predict the outcome of the dependent variables of EBIT and ROA. Results in the Table 4.9 show that there is significant relationship between independent variables and dependent variables of EBIT and ROA. The R^2 for EBIT shows that 0.52 of the dependent variables is explained by the independent variables in the model. The adjusted R^2 is 0.46. As for ROA results show that R^2 and adjusted R^2 is 0.46 and 0.39 respectively indicating that ROA is positively explained by independent variables in the model.

As observed earlier OLS has limitations. One of the limitations is that of bias arising from time-invariant heterogeneity across SOEs (Saini & Singhania, 2018). To minimise the effect of this bias, a fixed effects estimation was employed. The second stage of stepwise was conducted on panel data using fixed effects estimation and this resulted into a final model as shown below using the equations below:

a. EBIT = α+ β1Bsizeit+ β2PAfit+ β3Riskit++β4Freqit+β5Tenureit+ β6Civilit+ β7Thirdit+ β8AnRptit+ β9Levit+ Z1LnCsizeit+ Z2LnAgeit+ ηi+εit

b. ROA = α+ β1Bsizeit+ β2PAfit+ β3Riskit++β4Freqit+β5Tenureit+ β6Civilit+ β7Thirdit+ β8AnRptit+ β9Levit+ Z1LnCsizeit+ Z2LnAgeit+ ηi+εit

Endogeneity test

To overcome the endogeneity bias of "unobservable heterogeneity" (Schultz, Tan & Walsh, 2010:147), fixed effects estimation was applied on both EBIT and ROA. The results on Table 4.10 for EBIT and ROA of fixed effects model reveals a significant relationship between corporate governance and SOE performance at p-value of less than 5% level.

Table 4.9 Fixed effects estimation for corporate governance and SOE performance

	EBIT		ROA	
	Coef.	p>(z)	Coef.	p>(t)
(Constar	(4,643,578.00)	0.20	(0.11)	0.46
BSize	(2,072.16)	0.98	(0.001)	0.69
PAF	65,425.13	0.98	(0.04)	0.92
RISK	5,368,946.00	0.000	0.06	0.03
FREQ	375,194.20	0.43	0.02	0.41
TENURE	28,696.64	0.86	0.002	0.79
CIVIL	2,810,427.00	0.38	(0.10)	0.04
AnRPT	(308,548.50)	0.71	(0.01)	0.79
LEV	3,004.52	0.87	0.00	0.000
LnCSIZE	(50,625.24)	0.72	(0.00)	0.65
LnAGE	1,815,987.00	0.09	0.09	0.03
No of Obs		126.00		126.00
No of groups		9.00		9.00
R^2		0.45		0.27
Between R^2		0.02		0.14
Overall R^2		0.24		0.18
Wald chi2		8.800		3.92
Prob >chi2		0.000		0.0001

Notes: The table above presents fixed effects estimation results. Results show that both EBIT and ROA are significantly associated with corporate governance. The p-value for both accounting measures are less than 0.05 indicating that independent variables in the models are able to predict the outcome of the dependent variables. The R^2 results show that 0.45 and 0.27 of EBIT and ROA are predicted by the model.

To test for appropriateness of the fixed effects estimation in the regression, the Hausman specification test was performed. The test was conducted to find out if there is correlation between unique errors and regressors. The p-value of less than 0.05 would mean that the null hypothesis would have been rejected thereby accepting fixed-effects estimation as the most appropriate model. Hausman specifications tests on Table 4.10 show that the p-value for both EBIT and ROA are 0.1767 and 0.72 respectively. These p-values are above the threshold of 0.05, therefore, the study accepted the null hypothesis in both cases. Random effects estimation is the most appropriate estimation. The lower results of random effects estimation as presented on Table 4.11 show that the independent variables in the RE model appropriately predicts the outcome of the dependent variables as per accounting measures of EBIT and ROA. The model shows significant relationship between dependant variables of EBIT and ROA and independent variables at 5% level.

One of the endogeneity problems not addressed by fixed effects and random effects estimations is the one that arises from the effect of past actions on current performance. To address this bias, the study tested for the presence of endogeneity in all regressors as per prior studies (Nguyen, et, al., 2014; Shao, 2019; Khan et al., 2019). A DWH test was conducted and the results are presented on Table 4.11 and Table 4.12. The DWH results for EBIT in Table 4.11 fails to reject the null hypothesis for EBIT indicating that variables are exogenous therefore traditional static models of OLS, fixed effects and random effects are efficient and consistent. Results for ROA presented in Table 4.12 show p-values of less than 0.05. In the case of ROA, the study shows that there is concern of endogeneity therefore a dynamic model had to be applied.

Table 4.10 below present results from EBIT and ROA for running random effects model and Hausman specification test.

Table 4.10 Random effects and Hausman test specification

Random Effects	EBIT Coef.	EBIT p>(z)	ROA Coef.	ROA p>(z)
(Constant)	1,667,916.00	0.58	0.10	0.42
BSize	(86,485.89)	0.22	(0.002)	0.38
PAF	(1,450,640.00)	0.44	(0.14)	0.05
RISK	5,642,021.00	0.00	0.09	0.000
FREQ	323,395.90	0.50	0.03	0.19
TENURE	794.25	0.996	0.008	0.18
CIVIL	1,570,820.00	0.54	(0.23)	0.03
AnRPT	143,746.50	0.76	(0.03)	0.10
THIRD	(1,942,667.00)	0.00	0.04	0.14
LEV	7,179.99	0.70	0.00	0.00
LnCSIZE	29,661.63	0.83	(0.00)	0.66
LnAGE	19,961.23	0.96	0.04	0.01
INDUSTRY	(481,005.00)	0.01	(0.01)	0.03
COMPETE	(1,145,613.00)	0.02	(0.09)	0.000
No of Obs		126.00		126.00
No of groups		9.00		9.00
R^2		0.43		0.24
Between R^2		0.88		0.92
Overall R^2		0.52		0.47
Wald chi2		121.590		98.98
Prob >chi2		0.000		0.000
Hausman Test	chi2(10)	13.920		7.05
Prob >chi2		0.1767		0.72

Source: Researcher's investigative results (2021)

Notes: Table 4.10 presents results to test the suitability of random effects estimation over fixed effects. A Hausman specification test was conducted to test the appropriateness of random effects. P> 0.05 for Hausman test means that random effects estimation is more efficient.

Table 4.11 - DWH Tests of Endogeneity for EBIT

Ho: P>0.05 = Variables are exogenous		
HA: P≤0.05 = Variables are endogenous		
TEST RESULTS		
	Score	**p-value**
Durbin (Score) Chi2 (2)	1.65277	0.4376
Wu-Hausman F(2,112)	0.74433	0.4774

Source: Researcher's investigative results (2021)

Notes: Table 4.11 above presents results for test of endogeneity for EBIT. The null hypothesis (Ho) states that variables are exogenous. The p-values results for EBIT are above threshold of 0.05 indicating that the study failed to reject the null hypothesis.

Table 4.12 – DWH Endogeneity test for ROA

Ho: P>0.05 = Variables are exogenous				
HA: P≤0.05 = Variables are endogenous				
	TEST RESULTS			
			Score	**p-value**
Durbin (Score) Chi2 (2)			6.56516	0.0375
Wu-Hausman F(2,112)			3.07824	0.0500

Source: Researcher's investigative results (2021)

Notes: Table 4.12 above presents results for test of endogeneity for ROA. The null hypothesis (Ho) states that variables are exogenous. The *p*-values results for ROA are equal and less than 0.05 indicating that the study rejects the null hypothesis.

Regression analysis using Static model for EBIT

DWH tests confirmed that random effects estimation was the most efficient estimation for EBIT accounting measure. Final results for EBIT accounting measure are presented in Table 4.13. This table presents results for EBIT using RE model and compared with OLS model. The regression results show that EBIT is positively and significantly associated with Risk Management Committee in support of our study hypothesis 2 but is negatively and significantly associated with Third-party disclosure which is contrary to the study hypothesis H2. On the control variables, EBIT is negatively and significantly associated with Industry and competition at 5% level. The rest of the hypothesis are not supported by the results for accounting measure of EBIT using both static models of RE and OLS.

Table 4.13 Regression analysis: Corporate governance and SOEs performance (EBIT)

	OLS			RE (GLS)		
EBIT	Coef.	p>(t)	VIF	Coef.	p>(t)	VIF
(Constant)	1,667,916	0.582		1,667,916	0.581	
BSize	(86,486)	0.226	2.13	(86,485.89)	0.224	2.13
PAF	(1,450,640)	0.438	3.55	(1,450,640)	0.436	3.55
RISK	5,642,021	0.000	1.92	5,642,021	0.000	1.92
FREQ	323,396	0.498	1.14	323,396	0.496	1.14
TENURE	794	0.996	2.16	794	0.996	2.16
CIVIL	1,570,820	0.544	1.49	1,570,820	0.543	1.49
AnRPT	143,747	0.759	2.56	143,747	0.759	2.56
THIRD	(1,942,667)	0.002	2.34	(1,942,667)	0.002	2.34
LEV	7,180	0.697	1.10	7,180	0.697	1.10
LnCSIZE	29,662	0.829	1.27	29,662	0.829	1.27
LnAGE	19,961	0.960	1.28	19,961	0.960	1.28
INDUSTRY	(481,005)	0.006	1.98	(481,005)	0.005	1.98
COMPETE	(1,145,613)	0.016	2.43	(1,145,613)	0.015	2.43
No of Obs		126.00	1.95		126.00	1.95
No of groups					9.00	
R^2		0.52			0.43	
Adj R^2		0.46				
F		9.350				
Prob >F		0.000				
Wald Chi2					121.59	
Prob >chi2		0.000			0.000	

Notes: The table above presents results of regression analysis used to measure relationship between corporate governance and SOEs performance using OLS and Random effects estimations. Both models reveal that the independent variables have significant influence on performance at p-value of less than 5%. Performance in this model has used an accounting measure EBIT.

Regression analysis using Dynamic model

The results obtained for DWH endogeneity test for ROA in Table 4.12 reveal that variables are endogenous therefore traditional static models of OLS and RE were considered biased. In order to address the problem of endogeneity "due to unobserved heterogeneity, simultaneity and reverse causality" Shao (2019:307) system-GMM was applied since static models of OLS, fixed effects and random effects cannot produce unbiased estimations where variables are endogenous (Saini & Singhania, 2018; Shao, 2019; Schultz et al., 2010). The study conducted further tests to check the validity of the dynamic model. The validity test was performed by running postestimation test of Sargan and Basman. Table 4.14 presents results for Sargan and Basmann test. The p-value is above 0.05 indicating that the instruments used in the model are valid and consistent with System- GMM model. The study conducted dynamic panel data regression using Bover and Bond estimation. Results for system-GMM for ROA are presented on Table 4.15. One-year lag was applied as per previous studies (Shao, 2019). The lagged equation is presented below.

ROA = α+ β1Bsizeit-1+ β2PAfit-1+ β3Riskit-1++β4Freqit-1+β5Tenureit-1+ β6Civilit-1+ β7THIRDit-1+ β8AnRptit-1+ β9Levit-1+ Z1LnCsizeit-1+ Z2LnAgeit-1+ ηi+εit-1

Table 4.14 Sargan and Basmann Overidentifying test for ROA

Ho: P>0.05 = Model is valid					
HA: P≤0.05 = Instruments are not valid					
	TEST RESULTS				
			Score	**p-value**	
Sargan (Score) Chi2			1.53006	0.2161	
Wu-Hausman F(2,112)			1.38906	0.2386	

Source: Researcher's investigative results (2021)

Notes: Table 4:14 above presents results of over-identification tests. The results confirm that the instruments used are valid and do not suffer from over-identification. These results confirm the validity of the instrument used in the regression. The instruments used for the test include, Bsize, PAF, RISK, FREQ, TENURE, CIVIL, AnRpt, THIRD and LEV.

Initial results of traditional model of OLS and RE show that corporate governance variables have significant relation with ROA as per Table 4.10 at 5% level. The results from dynamic panel regression model are compared to static regression model and are presented in Table 4.15.

Table 4.15 Regression Analysis: Corporate governance and SOE performance (ROA).

ROA	OLS		RE		2SLS (IV)		GMM-Sys	
	Coef.	p>(t)	Coef.	p>(z)	Coef.	p>(z)	Coef.	p>(z)
L1							0.32191	0.000
(Constar	0.0965	0.04	0.0965	0.42	0.2334	0.38	0.00385	0.97
BSize	(0.0025)	0.38	(0.0025)	0.38	(0.0005)	0.92	(0.00165)	0.55
PAF	(0.1442)	0.06	(0.1442)	0.05	(0.4393)	0.12	(0.02351)	0.73
RISK	0.0910	0.00	0.0910	0.000	0.1319	0.00	0.61057	0.01
FREQ	0.0250	0.19	0.0250	0.19	0.0438	0.12	0.01678	0.27
TENURE	0.0081	0.18	0.0081	0.18	0.1934	0.13	0.00067	0.90
CIVIL	(0.2304)	0.03	(0.2304)	0.03	(0.5079)	0.08	(0.18235)	0.08
AnRPT	(0.0304)	0.11	(0.0304)	0.10	0.0680	0.11	0.00844	0.71
THIRD	0.0373	0.14	0.0367	0.14	0.2489	0.09	(0.16535)	0.02
LEV	0.0033	0.000	0.0033	0.000	0.0036	0.000	0.00223	0.000
LnCSIZE	(0.0024)	0.66	(0.0024)	0.66			(0.00215)	0.5810
LnAGE	0.0420	0.01	0.0420	0.01			0.00310	0.9200
INDUSTI	(0.0146)	0.04	(0.1461)	0.03			0.17232	0.2790
COMPE	(0.0891)	0.000	(0.0891)	0.000				
No of Obs		126.00		126		126		126
No. Instruments								119
No of groups		9.00		9		-		9
R²		0.46		0.24		0.01		0.25
Between R²		-		0.92		-		-
Overall R²				0.47		-		-
F(13,112)		7.61						
Wald chi2				98.98		44.51		108.23
Prob >F		0.000						
Prob >chi2				0.000		0.000		0.000

Source: Researcher's investigative results (2021)

Notes: Table 4.15 above presents comparative regression results for static models and dynamic models of 2SLS and GMM-system. There is significant relationship between corporate governance and performance variable of ROA at p-value of <0.05

The GMM results in Table 4.15 show that PAF is negatively and significantly associated with ROA at 10% level supporting the assertion that political affiliation of the directors leads to poor corporate governance practice. Results also show that RISK is positively and significantly related to ROA supporting study hypothesis H2 that effective corporate governance framework which among others include effective board structure leads to better performance. Civil is negatively and significantly associated with ROA at 5% for OLS and RE models but level of significance changes to 10% when dynamic models are employed. The results for civil supports the study hypothesis H2 that inclusion of civil servants in the board affect the effectiveness of corporate governance and consequently has a negative effect on performance. Third party disclosure is negatively and significantly related with ROA at 5% level for GMM model contrary to the study hypothesis H2. Third party disclosure is meant to be a building block of an effective corporate governance practice. Results obtained in the study may mean that Third party disclosure is done for the sake of legitimation purposes.

On capital structure, results show that leverage (LEV) is positively and significantly related to the ROA at level 5% in all models in Table 4.16 supporting study hypothesis H2 that capital structure leads to better performance because of the control that is exerted on agents. Control variables of industry and competition are negatively related to performance, but Age is negatively related to at 5% level on models OLS and RE. However, these control variables do not have any influence when dynamic models are applied suggesting that the relationship may be as a result of spurious correlation between corporate governance and ROA when static models of OLS and RE are applied and which consequently disappear after employing dynamic models.

Results from both static and dynamic models confirm that there is significant relationship between corporate governance and performance. Correlation results confirmed that there is a significant correlation between effective corporate governance practice and company performance. On regression, EBIT and corporate governance had a weak significant relationship than the ROA which used dynamic model. To understand the causes of performance observed during the quantitative data analysis, the study employed qualitative analysis consistent with critical realism research paradigm. The next section presents results from the qualitative data analysis.

4.3. Qualitative data analysis

This section presents the results from interviews conducted with various stakeholders and documents reviewed for various SOEs. Interviews were conducted using semi-structured questionnaire (appendix 3.3). The method of collecting data included both notetaking and voice recording where applicable. Results from qualitative data are summarised thematically in the table 4.16 below.

Table 4.16. Summary Qualitative data analysis

Major themes	**Structures promoting or contributing to good governance in SOE**	**Structures compromising good governance in SOE**	**Possible generative mechanism**
Ownership Structures	**Legal form where government has diluted shareholding.** Evidence and Quotes- "SOEs under Companies Act are supposed to do better than those that are under Act of parliament. However, if government is the sole shareholder, there is no difference in performance for companies under Companies Act and those under Act of Parliament. To insulate these SOEs from political interference, public limited is a better option. With public limited, the hands of the government are tied. My suggestion is that there should be significant dilution of state ownership. This can be achieved through public offer" (R21).	***Legal form. Where government is the sole shareholder.*** Evidence and Quotes: "There is little difference or effect of legal form on operations because of political interference. On the face of it Act of Parliament and Companies Act are supposed to operate differently. However, it the shareholder that matters. Shareholder calls the shots, provides oversight role and finances. Corporatisation was meant to make these SOE profitable but there have been issues of independence. Debunking the shareholding would assist" (R14, ESCOM). "A legal form does not have any effect in practice as long as the shareholder is the government. The identity of the shareholder matters.	Shareholders power Shareholder's Identity

	Ind5.1 is an SOE which is listed on Malawi Stock Exchange. Government has 70% shareholding in this SOE. This SOE was the best performer of all the SOEs in the sample during the period under review. ***Institutional shareholders for accountability*** Institutional shareholders can be invited to participate in the organisation. In South Africa, 25.4% of the Airport Authority company is in the hands of private sector. This promotes accountability and entrepreneurship in terms of decision making (R4, ADL).	When the government is a sole shareholder it treats all its companies the same regardless of legal form" (R16 of ESCOM). "ESCOM was supposed to operate like a company incorporated under The Companies Act but it does not operate differently from other parastatal bodies. The government, who is a sole shareholder, treats commercial and non-commercial parastatals the same way." (R17, ESCOM). ***Multiple principles (Ownership Arrangement).*** "Multiple principals and approvals stifle the operations (speed for decision making). The presence of Ex-Officios seems not to add value to the effectiveness of the board as well as the monitoring of SOE operations." (R4, ADL) "Multiple principals brought in a lot of confusion in terms of accountability.	

		Conflicting legal instruments. "The independence of the board may be affected by the conflict between the Acts. For instance, the Public Service Management Act gives power to the President to appoint the CEO of a parastatal. However, according to the companies Act, the CEO is supposed to be appointed by the board(R2) "Harmonise the Acts to achieve clarity. The acts are not in harmony with Malawi Code II (R5) "Malawi has one tier board but in practice SOE seems to operate on two tier board which is not documented. For instance, the system of multiple reporting and approvals to government(R15).	
Board of Directors	**Appointment process.** "Since SOEs are public bodies, the appointment of board should be conducted in a transparent manner. Vacancies should be advertised to be	***Appointment process.*** "The other challenge with the appointment is the process itself. Sometimes what the DSC has recommended to the appointing authority comes out different in terms of size and composition. Composition matters in terms of skill sets. For	Captured and ingratiated board Legitimation

	general public to source board" (R4, ADL) "The Parliamentary committee on public appointment should be responsible for vetting these candidates" (R25) **"**Harmonised Acts to minimise incidents of abuse by the appointing authority" (R2). ***Qualified board*** Institute of Directors should give in appointment process. IoD should have a database of all trained directors which can be used a source for potential candidates (R16, MSE) The board should be responsible for appointing CEO. Politicians should not be the appointing authority (R20, ESCOM).	example, some board members cannot express themselves in English." (R2). ***Board independence*** "Political interference affects the independence of the boards. Independence of the board is also affected by the appointment of the CEO by the President." (R2). ***Cronyism*** "Politically aligned board members were appointed after multi-party system of 1994. This was a policy of appeasement of rewarding the party elites or loyalists. Professional and academic qualifications as a criterion of board appointment were set aside and political expediency was considered most important qualification." (R5) ***Tenure*** "Board of governance to a large extent contributed to the collapse of MDC. Short term appointments of the board chair e.g. 3 days of Ralph Mhone, and 30 days of Humphrey Mvula did not help matters." (R5).	

	Tenure Director tenure is positively related to performance. "the ideal tenure should be 5 years" (R4, ADL). ***Board Size*** Board size is associated negatively with SOE performance. Depending on the size of the company and requirements of the board committees, the size of the board should be kept at a minimum level (R4, ADL; R18, ESCOM). Board size should not be more than 12 (R14, ESCOM, BWB). ***Board committees*** Effective and independent committees are considered as vital structures for effect board. Board Risk Management Committee is positively	***Social Networks*** "Board were appointed based on relationship. For example, in one SOE, the minister responsible for a particular SOE appointed his own father to chair the board." (R5). CEO can be appointed or fired without Board's knowledge and approval (R18) ***Board size*** Bigger boards present financial burden on the SOE. However, when the board is very small there is a risk of skills gap and properly constituted committees (R18, MPC; R4, ADL; R13&17, ESCOM). Bloated boards may turn an SOE into an employment organisation (13, ESCOM, BWB). ***Board evaluation*** "The board does not conduct self – evaluation. An attempt was made to do this but then members saw no relevance because they feel they are appointed	

	and significantly related to SOE performance. Effectiveness of the committees contributes to the effectiveness of the board. However, it has been observed that what happens in the committee's mirrors what happens in the board (R14, ESCOM).	by the President, so it does not see any need for self-evaluation" (R10, ESCOM)	
Capital Structures	Hard Budget constraints	***Soft budget constraints***: "Presence of public servants in the board helps in procurement of loans for capital projects." (R9, ESCOM)	
Disclosures	External control mechanisms ***Monitoring by equity institutions*** Listing on stock exchange provides a safeguard from political interference. All listed companies are treated the same regardless of their legal form, SOE plc or private sector plc (R15).	***Lack of positive feedback on disclosure*** A culture of secrecy promotes non-disclosure of conflict of interests and compromise levels of compliance (R10 and R11. ESCOM; R16, MSE). However, whether one discloses or not it does not matter (R10, ESCOM).	

	“Despite the culture of non-compliance that pervades the corporate society in Malawi, the listed companies regardless of the identity of their shareholders are insulated from this problem. Every listed company has a compliance officer. The Malawi Stock Exchange (MSE) makes sure that minority interests are protected” (R16). “When the SOE departs from the Memorandum and Articles of Associations, MSE raises the red flag. MSE also monitors that there is transparency and timely disclosure of information.” (R16)		
Socio-Cultural Values		***Power Distance***: Malawi has a culture of giving respect to elders without asking questions (R10, R11, R15, R17, 21).	High power distance

		This above culture has been abused by politicians resulting into a culture of cronyism and ingratiation for those that are appointed (R17, ESCOM). ***Materialism*** Culture of avarice is exerting undue influence on organisations (R4, ADL) and promotes dishonesty. This culture has permeated into the social fabric of the society to the extent that there are many proverbs that promotes dishonest behavior (R18, ESCOM).	Cronyism Materialism

Source: Researcher's investigative results (2021)

4.4. Emerged Themes and Generative Governance Mechanisms

The section below analyses governance mechanisms that emerged from various themes during the data collection.

4.4.1. Legal Form

This governance structure was seen to play an important role in the corporate governance of SOEs in Malawi. During the quantitative analysis, the study has found some positive relationship between legal form and SOEs performance using OLS estimation. However, when fixed effects and random effects were applied, there was no significant relationship. Quantitative analysis, however, is only able to observe events in the empirical domain. The actual domain has revealed some structures and mechanisms that play an important role and are considered as contributing factors to performance in SOEs. Shareholder's power and Shareholder's identity have been identified as governance mechanisms that have effects on SOE performance under legal form structure.

4.4.1.1. Shareholder's Power

There has been enduring debate on ownership and control of companies. Studies have revealed that to control the behaviour of agents in this case, managers, ownership structure is one of the vital internal governance mechanisms that can be used. Dispersed ownership structure works best where markets for corporate control are efficient. In developing countries, concentrated ownership is considered the best mechanisms to control the behaviour of agents. Where government is the sole owner or majority shareholder, as is the case in most of the developing countries, the focus shifts from the power of agent to that of principal. There is a saying that, "power corrupts, and absolute power corrupts absolutely." The absolute power of the sole state shareholder is a recipe for abuse by the bureaucratic machinery. One of the governance mechanisms that emerged during data collection under legal form is shareholder's power. When asked how legal form affect the performance of SOE organisations? This is what R14 from ESCOM said:

> There is little difference or effect of legal form on operations because of political interference as long as the state is the sole shareholder.

R17 from ESCOM observed that when the government is a sole shareholder it treats all its companies the same regardless of legal form. This was concurred by R18 from ESCOM who stated that government treats commercial and non-commercial parastatals the same way. According to R20 of MPC,

> There is no difference in operations as long as the sole shareholder is the government. What makes a difference is the dilution of government shareholding.

Responding to the same question, R22 of MPC stated that

> changing legal form to Companies Act will only have an effect if there is change in shareholding by the government.

It is evident from the assertions by most of the respondents that legal form may not have effect unless there is change in shareholding by the government as a type of shareholder. Where the government or state is majority shareholder in an SOE it exercises its shareholding rights ultra vires (R10 of ESCOM). The respondent further observed that the President representing the state can hire and fire board members; an action that is beyond his / her authority. According to R18 of ESCOM, people are transferred, hired and fired without board knowledge. One of the classic examples was the transfer of a CEO from ESCOM to Air Cargo. Another respondent who was a board member at ESCOM stated that during one of the meetings they were surprised to be told that their CEO had been appointed without their knowledge (R11, ESCOM). Unless the power of the state as a shareholder is restrained, performance of the SOE cannot improve. When the state is the sole shareholder, decision taken by the state for the SOE are those that have political expediency rather than those that make economic sense (R17, ESCOM and CRWB).

Responding to a question about the ideal legal form, R22 of ESCOM and Sunbird said that if these organisations are to perform well, the government should not own more than 50% of the shares. He further suggested that public limited as a legal form is a better option because the government's hands are tied. According to R16 of MSE, the advantage of listing a SOE is that minority interests are protected under listing regulations. MSE requires a minimum of 20% to be held by private sector entity or non-government related institutions. However, for any decision of material effect, minority interests are protected. For example, if the government and minority shareholding is 75% to 25% respectively, any decision of material effect would require not less than 80% of votes. This is to ensure that minority shareholders are not short changed.

The shareholder's power is therefore a driving force influencing the decisions of the SOE. Robinett (2006:29) observes that the state has power that is different from private shareholders. "The parts of the state that exercise ownership rights also have distinct political constraints and incentives." He further notes that when the state has controlling interests in an SOE, it intends to abuse the rights of other shareholders by advancing its personal interests which include political in nature.

4.4.1.2. Shareholder's identity

The other mechanism that emerged under legal form is the shareholder's identity. Studies have found that ownership identify has a major influence in either destroying or enhancing shareholders value (Guo & Platikanov, 2019; Munisi, et, al., 2014). Responding to the question on how legal form affects corporate governance, R14 of ESCOM responded that it is the identity of shareholders that matter. R4 of ADL identified institutional shareholders to be a strong governance structure that promote accountability and entrepreneurship in the SOE. The respondent cited an example for South Africa where private sector has been invited to invest into a state-owned company by acquiring 25.4% in Airport Company of South Africa. In a study by Guo and Platikanov (2019) conducted in China, authors found a positive and significant relationship between independent institutions and company value. These authors posit that the positive relationship is due to the fact that these institutions are better monitors of their investments. Contrary to the above findings, Abdallah and Ismail (2017) found that government ownership is significantly and positively related to financial performance in the Gulf Cooperative Council states. These mixed results highlight the differences in corporate governance practices across nations due to differences in socio-cultural values.

4.4.2. Board attributes

Board of directors emerged as one of the corporate governance themes contributing to the performance of SOEs. Several generative mechanisms emerged under this theme. These mechanisms are presented in the section below.

4.4.2.1. Appointment process

The appointment process of board and executive officers emerged as one of the key structures that determine board effectiveness. This structure, it was revealed during the study, is responsible of several generative mechanisms. During quantitative analysis, the study found negative and significant relationship between party affiliated directors, public servants and SOE performance. In addition, Risk Management Committee was also positively and significantly related to accounting performance measures of EBIT and ROA, but most of board attributes did not have significant relationship with performance. However, as observed by Kwan and Tsang (1999:762) "the absence of observable events does not" negate the presence of the generative mechanism. When qualitative analysis was applied through interviews and documents review, appointment process emerged an important element of the governance structure. In responding to the question, if "there are any shareholders' provisions in the SOE charter that specify the process and authority of board appointment? R1 and R2 of Department of Statutory Corporation outlined the process of board appointment as follows:

> The appointment of boards is guided by legal instruments that govern the SOEs for instance Companies Act, Act of Parliament and Trustee Deeds. However, for SOEs that are wholly owned by the government the process is as follows:
>
> Line Ministry provides a list of prospective candidates with their CVs which is sent to DSC. The DSC checks and verifies the suitability of the proposed candidates in line with the legal provision governing a SOE. This list is then sent to the Minister responsible for Statutory Corporations in this case the President. The Minister makes appointment of the directors and the list of the appointed candidates is sent to the DSC to communicate to the candidates and other stakeholders.

In a follow up question as to whether there is a transparent process that outlines the appointment process, R2 conceded that

> the Act does not outline the process of board appointment. However, the minister is given the mandate to appoint the board of directors. The process is as follows:
>
> a) The DSC informs the line ministry about the board vacancy
> b) The Line ministry identifies candidates and submits the list to DSC based on the right size and mix according to the Act.

c) Sometimes the line ministries submit names directly to the President but the Office of the President and Cabinet (OPC) still sends the proposed names to DSC

It was observed that the SOEs have a plethora of Acts which sometimes are quite often at variance with each other. For instance, as noted by R2,

> the Public Service Management Act gives power to the President to appoint the CEO, however, according to the companies Act, the CEO is supposed to be appointed by the board.

The other challenge of these Acts as noted by R2 of DSC is that they are open ended. The loopholes in the Acts present a favourable environment for abuse by those in political power. As further observed by R2,

> The other challenge with the appointment is the process itself. Sometimes what the DSC has recommended to the appointing authority comes out different in terms of size and composition. Some of the board that are appointed cannot express themselves in English.

R4 of ADL noted that appointment process is influenced by management and politicians in government. This is corroborated by several respondents who observed that appointment is based on political expedient rather than commercial consideration (R10 of ESCOM; R5). Governance and academic qualifications as criteria for board appointment are set aside instead political expediency is considered the most important qualification (R5). Directors are appointed in order to reward them for their loyalty to a political grouping (R10 of ESCOM; R15 of MSE; R18 of ESCOM; R25 of The National Assembly).

The challenge with appointment process has given rise to a myriad of governance problems which include captured board and cronyism. Several respondents attributed SOEs governance problems to the appointment process.

4.4.2.1.1. Captured Board

This mechanism emerged from the appointment process where the board does not have authority and acts like a lame duck. Board capture is defined as a situation where the controlling shareholder, in this case the state and / or the executive requires the board of directors to feel "beholden" to it (state or executive) to the extent that directors are prepared and willing to overlook their fiduciary duties over the SOE and "acquiescence with" management and State (Balasubramanian, 2017:8). Board capture manifests itself in several ways.

According to R18 of ESCOM, the state can transfer, hire and fire SOE management without the board's knowledge or authority. According to R25, CEOs are transferred like civil servants and board has little or anything to say. R27 concurred by saying that government transfers CEOs without due consideration. These transfers are made to any department as if the SOE is a government department. R17 of CRWB observed that government as a shareholder acts ultra vires. The state can terminate directors' tenure any time and can transfer and fire executive management at will. Current examples include the transfer of ESCOM CEO to Air Cargo, and the transfer of CEO of MPC to Malawi Communications Regulatory Authority (MACRA). All these were done ultra vires by the government.

4.4.2.1.2. Cronyism

This is another mechanism that emerged from the appointment process. Cronyism is defined as "the improper appointment of friends and associates to positions of authority" (Balasubramanian, 2017:4). Shaheen, Bari, Hameed and Anwar (2019:1) defines organisational cronyism as "bestowing of favour to colleagues, friends, and someone who has personal relations with the favour-giver." Cronyism has been linked to poor corporate governance system during the Asian financial crisis of late 1990s (Satkunasingam & Ramasamy, 2003). The effects of cronyism on corporate governance in company are varied and widespread some of which include mediocre performance. According to Balasubramanian (2017:2),

> most boards and directors, barring some honourable exceptions, likely operate under sub-optimal independence levels is largely the result of inevitable cronyism associated with the recruitment, retention, remuneration and replacement of directors on company boards, albeit acting perfectly within the legal and regulatory framework.

Some of the manifestations of cronyism in Malawi include, having bloated boards to reward political loyalists; rewarding those that have messed up in one entity with a higher position in another entity instead of sanctioning them(R10 of ESCOM; R12 of Ministry of Finance); appointing a board chair without any skill (R11 of ESCOM); rewarding those that support the political agenda of the ruling party with contracts (R13 of ESCOM); practicing nepotism in appointing directors and CEOs; and appointing boards based on political appeasement and patronage (R15 of MSE). In cronyism, those that show dissenting voices are ostracised and kicked out of the board or from positions (R11 of ESCOM; R15).

4.4.2.2. Board size

Board size has received a fair share of research attention, albeit with mixed results (Detthamrong, Chancharat & Vithessonthi, 2017). The findings of the quantitative analysis of this study revealed that board size is negatively but not significantly related to SOE performance. Responding to the question about the effect of the board size on the monitoring role of the board on the operations of an SOE, R4 of ADL observed that board size may affect board transactions because of lack of quorum. This may delay important decision of the SOE.

Findings from the interviews, has revealed that board size does not have significant impact on the SOE performance. However, respondents noted that political party leaders use SOEs to reward their political proteges. Larger board size was considered as a financial burden on SOE (R4 of ADL; R18 of ESCOM & R19). Larger board size is meant to enhance the monitoring role of the board. However, findings from the East African study revealed that larger board size has a negative impact on performance (Guney, Karpuz & Komba, 2020). Smaller boards, on the other hand, present skills gap challenge in the board. Sometimes boards are not able to meet because of lack of quorum, and this affects the operations of SOEs (R2 of DSC; R4 of ADL; R8 of SRWB). The findings of this study reveal that the mean board size is 11.7, while the minimum and maximum are 5 and 19 respectively. It was observed that where the size was complied with, this was a matter of legitimation and not to achieve board effectiveness. According to R9 of ESCOM, appointment of people without skills is common to reward people for their loyalty.

Two generative mechanisms emerged to support the board size theme. These mechanisms include cronyism and legitimation. Cronyism has been discussed in the appointment process.

4.4.2.2.1. Legitimation

This mechanism has been found to run through many themes of this study. Legitimation is defined as a "process in which an organisation justifies its actions by showing that they conform to accepted standards" (Hossfeld, 2018:9). According to Elsayed and Ammar (2020) organisations pursue legitimation in order to achieve conformance to the rules and regulations and this is called legitimacy governance. El-Bassiouny and Letmathe (2018) noted that legitimation is a response to external factors which come from external stakeholders. While legitimation drives private sector to balance performance with conformance, in public sector legitimation may lead to aligning the interest of the organisation with that of the society.

Findings of this study have revealed that the government practices legitimation for its own survival at the expense of performance. Some of the instance of legitimation include appointing directors who cannot express themselves in English but just for numbers (R2 of DSC) and having more directors that represent social and political objectives than business sustainability. For instance, in one water utility SOE board, there were a total of 11 members, 4 of these were government officials, one was a chief who was also a chairperson, 3 represented religious organisations and 3 were representing the political interests. The board size was used merely to conform to the Act in terms of the numbers but not to assist the SOE to achieve its performance objectives. The chairperson was not able to sign documents because he could not understand them. The Audit Committee was chaired by a clergy with little finance background. The common legitimation is all SOEs are represented by NED to conform to the corporate governance code, but these directors lack authority and substance.

4.4.2.3. Board Tenure

This theme emerged as one of the contributing factors to organisation instability and poor performance. Studies show that board tenure is positively and significantly associated with performance measured by stock returns (Livnat, Smith, Suslava & Tarlie, 2020). Other studies have found that longer tenure negatively affects company performance (Chamberlain, 2010). The findings of this quantitative analysis revealed that tenure is positively and significantly related to performance measures of ROA using OLS estimation.

However, when panel data analysis was applied, tenure did not have any significant relationship with performance.

Qualitative analysis reveals that tenure has some influence on the effectiveness of the board. Responding to the question about the effect of tenure of the performance of SOE, some respondents felt that short term have a negative effect on stability of the SOE (R2 of DSC) while others felt that when people overstay in a position they lose innovation and creativity (R10 of ESCOM).

Short term was attributed to poor performance and eventual collapse of MDC (R5). The respondent cited the following instance at MDC:

> Short term appointments of the board chair for example, 3 days of Ralph Mhone, and 30 days of Humphrey Mvula did not help matters.

The ideal tenure for the board should be 5 years according to R4 of ADL. Findings reveal that boards are a product of change in political leadership. It was also revealed that frequent board changes were associated with legal form where the state is the sole shareholder, and that the shareholder has undue influence or power over the SOE. Tenure was also associated with cronyism. It was noted that directors that have dissenting voices in the board are kicked out (R11 & R13 of ESCOM). Tenure was also associated with board capture. Those that did not exhibit board capture left the board (R21 of ESCOM).

4.4.2.4. Board committees

This is one of the vital structures of the board. Studies on the effect of board committees on company performance have revealed mixed results. Some studies did not find any relationship between committees and performance (Hermawan & Adinda, 2012). Other studies found that board committees were negatively related to performance (Bozec, 2005). Quantitative analysis of this study found presence of Risk Management Committee to be positively and significantly related with SOE performance. Qualitative analysis therefore was meant to unearth the reasons why board committees have effect on SOE's performance. It was revealed that board committees mirror the main board (R14 of ESCOM, BWB). The committees are therefore a product of board and the board is a product of the appointment process. This study revealed that where the state is a sole shareholder, the appointment process is flawed, the board is captured and hence the committees become ineffective.

Committees as board structures in this scenario are used for legitimation, that is to meet the minimum requirements or to conform to the rules and regulations.

The study also revealed that change of legal form to dilute state shareholding power, has a positive influence on the appointment process of the board. Board independence is enhanced with the dilution of state shareholding power and as a result board committee become more effective. Mechanisms that emerged in this theme of board committees include captured board and legitimation.

4.4.2.5. Board Evaluation

This theme emerged in the study. Board evaluation is important as a “take stock” activities of the past event. The quantitative analysis revealed that board evaluation does not have any impact on performance. Responding to the questions on whether the board conducted evaluations during the period covered by the study, most of the respondents said that board evaluation had not been introduced in their SOE. Where the evaluation was undertaken, members felt that is was conformance exercise merely to meet the minimum requirement of the governance code.

Several reasons were attributed to the absence of this exercise. One of the reasons according to R2 of the DSC is that the instrument for evaluation had just been introduced and was yet to be operationalised. The most plausible reason why evaluation was not being conducted was given by R10 of ESCOM,

> The board does not conduct self – evaluation. An attempt was made to do this but then members saw no relevance because they feel they are appointed by the President, so it does not see any need for self-evaluation.

Board processes, it appears, are subject to the appointment processes which is subject to shareholder’s power. Where the sole shareholder is the state, the President is the law and is above all legal and regulatory instruments. The President’s subjects, who are cronies, ingratiate with him. As a result, the presence of these board members does not matter. R16 of MSE noted that self-evaluation of the board is important even though this may not be the norm in non-listed companies.

4.4.2.6. Board Qualification

The role of the board is to monitor and control the activities of managers on behalf of shareholders. This role is enhanced by the quality rather than the quantity of the directors sitting on a board. According to the IOD (2010), the board should be composed of directors with the right mix of experience and skills. Study conducted on East African markets revealed that board with higher qualifications had a positive impact on company performance (Guney, et al., 2020).

This study wanted to investigate the impact of governance skills on SOE performance. Governance skills is defined as directors who have financial and business qualifications. While the quantitative analysis revealed some relationship between governance skills an SOE performance this relationship was not significant. Findings from the interviews revealed that a director's qualification does not have an impact on performance of the SOE. Some of the reasons advanced by the respondents is that directors with governance qualifications are not independent to exercise their skills. These directors just rubber stamp decisions of managers who are also appointed by the President. Some directors do not even have good academic background (R20 of MPC). They cannot even read let alone understand technical issues and business reports (R25). The governance mechanisms that emerged out of this theme include cronyism and board capture.

4.4.2.7. Civil Servants as Directors

The presence of civil servants on the board has had a negative effect on the performance of SOEs to the extent that most of the codes of corporate governance have advocated non-inclusion of public servants on SOEs boards. The non-inclusion of public servants is meant to minimise incidents of political interference and to ensure independent judgment of the board. Results from the quantitative data revealed that the presence of civil servants on the board is negatively related to the SOE performance of ROA.

However, data collected from interviews on the inclusion of civil servants had mixed results. Some respondents felt that there was need to have civil servants on the boards of SOEs. The following reasons were advanced:

> Presence of public servants helps in procurement of loans for capital projects (R9 of ESCOM); Civil servants are important in terms of policy and technical expertise. They are the holders of policy (R 11 of ESCOM; R22 of MPC; R27).

Others felt that having civil servants sitting on the board regress the SOE to a government department (R8 of SRWB). Since public servants' attendance at board meetings is based on their positions and not on their skills, their contribution in the board meetings is not effective (R20 of MPC). The other challenge of having civil servants in the board is that the representation lacks continuity in terms of their contribution because there are different people represented at each sitting (R11 of ESCOM).

It was noted from the study that where the NED in board does not have skills, the civil servants bring in needed skills to fill the gap. However, as observed by one respondent, "public servants are highly theoretical but lack business skills" (R11 of ESCOM).

4.4.2.8. Board Interlocking

Studies on the effect of board interlock or busyness on company performance has achieved mixed results. Most of these studies have been conducted in developed countries and in private sector. Quantitative data collected from SOEs for this study did not find any relationship between interlock and SOE performance.

Results from data collected through interviews revealed board interlock influences the operations of SOE. While interlock is not common among NEDs (R2 of DSC), board interlock is a common feature among Ex-Officios or civil servants. According to R10 of ESCOM,

> years 2011 and 2012 saw the height of board interlock especially of Ex-Officios. These board members were representing the government on ESCOM, Electricity Generation Company (EGENCO) and Malawi Energy Regulatory Authority (MERA). This resulted in conflict of interest in decision making particularly in tariff setting.

R11 of ESCOM and BWB observed that,

> While experiences are shared but it may be detrimental to the operations of the SOE because of comparing and transferring the issues from one SOE to another.

The above observation was supported by R15 of ESCOM who said that board interlock has an effect where the same individuals make decisions in various competing entities. In an environment where cronyism is widespread, the value of top civil servants sitting on the boards of SOE is questionable. These individuals are there to serve their masters. If NEDs who are far from the corridors of power in terms of physical presence, are not independent, then the civil servants are inherently captured.

4.4.3. Capital Structure

This theme emerged during in this study with mixed results. There are two sub-themes that emerged: Leverage and grants. Both themes have some positive relationship with SOE in this study. The mechanism that emerged was soft budget constraints.

4.4.3.1. Soft budget constraints.

While leverage is often regarded as a disciplinary tool for management, the results of this study show that loans are guaranteed by the government thereby providing a safety net to SOE to continue operating without worrying about bankruptcy. Most of the respondents interviewed agreed with the assertions that the government provide a protective net for the SOE through loans and grants (R3 of DSC; R8 of SRWB; R10 of ESCOM). R15 of ESCOM felt that it is the government responsibility to guarantee loans to maintain solvency of these organisation. The government also goes to the extent of converting loan to shareholding (R18 of ESCOM).

4.4.4. Transparency & Disclosure

Transparency and Disclosure are the key elements of corporate governance. Findings from interviews and document reviewed reveal that there is a prevailing culture of secrecy that pervades Malawian corporate society. This culture of secrecy promotes non-disclosure of conflict of interests and compromise levels of compliance (R10 & R11 of ESCOM; R16 of MSE). R10 of ESCOM further observes that whether one discloses or not it does not matter. Those that disclose do so to meet minimum regulatory requirements (R4 of ADL). R12 of Ministry of Finance concurs with this sentiment stating that there are no sanctions for non-compliance.

It was also noted that non-compliance issues are related to cronyism which is prevalent in legal form where the government is the sole shareholder. Annual reports have ceased to be a requirement by SOEs. R12 of Ministry of Finance also stated that annual reports are not submitted timely. According to R25 of the National Assembly, SOEs have been turned into conduits to fund political parties. However, there is no disclosure of such donations to political party. He cited an example where

> the ruling party was hosting a fund-raising dinner. SOEs were forced to contribute MK10 million each. Even when there was public outcry, the party did not want to refund this money

Such is the level of abuse and non-disclosure that is promoted by the state as a sole shareholder. There is therefore high level of political interference which in turn promotes among other things, corruption. Despite this ostensibly hopeless state where everyone seems not to comply, listing on stock exchange provide a safeguard from political interference. All listed companies are treated the same regardless of their legal form, SOE plc or private sector plc (R15).

> Despite the culture of non-compliance that pervades the corporate society in Malawi, the listed companies regardless of the identity of their shareholders are insulated from this problem. Every listed company has a compliance officer. The Malawi Stock Exchange (MSE) makes sure that minority interests are protected" (R16).

The MSE provide therefore a strong external monitoring mechanism that strengthens corporate governance of the listed companies. There are sanctions where one departs from the listing regulations as stated by R16,

> When the SOE departs from the Memorandum and Articles of Associations, MSE raises the red flag. MSE also monitors that there is transparency and timely disclosure of information.

To increase the levels of disclosure, one must reduce the power of state shareholding. This can be achieved by introducing private investors into the SOEs. These private investors should be introduced through listing because that is the only mechanism that dilutes the state's power to act with impunity.

4.4.5. Socio-cultural values

Cultural values form the foundation of moral values in a society. What is accepted as right and wrong is derived from the society norms. These cultural values vary from society to society. Studies have revealed that corporate culture to some extent is influenced by values in the society where companies operate. Corporate governance variations and to a larger extent effectiveness among countries have been attributed to variations of socio-cultural values (Griffin et al., 2018; Duong et al., 2015; Li & Harrison, 2008). Results from interviews conducted support this assertion. In response to the question "what factors influence corporate governance in Malawi?" many respondents attributed this to society values. Several factors shape society values in Malawi. According to R28,

> Malawi is lucky to have a strong legal framework premised on a vibrant constitution. It is also a multi-social cultural society with divergent customs. Corporate governance must, to some extent therefore follow both avenues and at times conflicts might be hard to resolve. To avoid working in a vacuum, corporate governance tries, where necessary and imperative, to work its way around the legal framework and at the same time accommodate social and cultural settings.

The divergent society customs have something in common. Several cultural mechanisms have been identified to have an impact on corporate behaviour. The prominent ones include power distance, cronyism and materialism.

4.4.5.1. Power distance

Many respondents noted that Malawi is a large-power distance culture and a collective society. This is how some respondents described the prevalence of larger power distance in Malawi.

a) Power distance in the society is contributing to worshipping of leaders even if they are doing wrong (R6 of BWB).
b) It is a culture that promotes respect of elders. Criticizing elders is against cultural norms. The culture respect elders without questions. Akulu, akulu anena syndrome, (elderly people have said it and so we agree) (R16 of MSE; R17 of ESCOM, R21 of Sunbird).

The culture of respecting elders with its local tag of "Bwana" or boss can be traced back to the founding of Malawi as a nation. During colonial rule, the Boss was the white man who was an employer and had control over the resources. The boss had power not only to hire and fire but to administer corporal punishment on the servants who misbehaved or seen to be offline. When Malawi attained independence from colonial rule, those that brought this freedom become heroes. These heroes were worshipped and anyone with dissenting voice was treated as a rebel. R11 of ESCOM cites an incident where ministers were treated as rebel for question the authority of Dr Hastings Kamuzu Banda, the first president of the Republic of Malawi. This is what the respondent said,

> this legacy was inherited from the first President after 1964 where intelligent ministers were removed or resigned and were replaced by "yes bwana" or leader worshippers.

R11 of ESCOM made an interesting observation saying,

> when the white expatriate was appointed on secondment from Eskom SA, no politician could come in to interfere, they relied on the local understudy.

It appears, in Malawi society, "bwanas" or bosses are of different categories. However, what is common is that each bwana is respected, and it is a taboo to question the boss. This large power distance culture has been exploited by politicians and has had some negative ramifications in the corporate circles particularly in the SOEs. The bwana culture has created social strata which has on top the boss who is the benefactor and custodian of society resources and norms, in the middle is a layer of those who protect the boss and on the lower level are the workers or servants who cannot approach the boss. The servants must go through the protectors of the boss or bodyguards of the boss to gain access to the top. This culture is inherently deep rooted in cronyism.

The other characteristic of the large power distance culture is that of being secretive. This is because of the hierarchical society. The hierarchy, according to Hofstede (2011:9), means existential inequality. While respecting elders is not itself evil, however, such societies promote non-compliance. The leaders are the laws and are above the written code.

Culture of secrecy also create a fertile ground for lack of trust for the establishment. This also leads to dishonesty because each group wants to promote and protect its own interests. The culture of dishonesty has become so rampart in Malawi to the extent that even the very proverbs and sayings tend to promote corruption. A few of the example of these proverbs include:

a) Likaomba otheratu (when the sunshine, make use of it). The English version of it is "make hay while the sun shines".
b) Wamkachisi amadya zamkachisi (He who works in the sanctuary or temple eats from the temple)

The above sayings promote bad behaviour but those that promotes good behaviour seems to have disappeared from the society.

4.4.5.2. Materialism

The other cultural mechanism is that of greed and materialism. Shrum, et al. (2013:1180) define materialism as " the extent to which individuals attempt to engage into the construction and maintenance of the self through the acquisition and use of products, services, experiences, or relationships that are perceived to provide desirable symbolic value". It also considered as the belief that one holds in the importance of possessions and their acquisition (Duh, 2015). Materialism is considered to have both positive and negative impact on the society and its members. According to Kilbourne, Dorsch and Thyroff (2018:56) the positive effect of materialism is that it can promote economic growth while its downside is that it may lead to "reduced well-being" of the society and individuals. Materialism has been associated with increased incidents of corruption. A study by Liang, Liu, Tan, Huang, Dang and Zheng (2016) on Chinese university students found that increased self-esteem was associated with decreased incidents of corruption, but this effect became depressed due to increased incidents of materialism. Lu and Lu (2010) found that higher materialism was related to lower ethical values in Indonesia. Results from the qualitative study of the current study are consistent with these previous studies.

Several respondents attributed materialism to lower levels of ethical standards in Malawi corporate society. According to R4 of ADL (2018), "there is a growing culture of avarice that is exerting undue influence on organisations and promotes dishonesty*".* A corporate governance trainer also lamented that "the country has developed a spirit of materialism to the extent that spirit of national service has been set aside*" (*R5, 2018*).* According to R9 of ESCOM (2018). The culture of materialism is so entrenched in Malawi society such that even sayings and proverbs are common that promote dishonesty but instead promotes greed. According to R18 of ESCOM (2019) some of the sayings include:

a) Woenga mafuta satuwa (The one that processes oil, his skin will be bright. In other words, the one that processes oil will not be in want).

b) Mbuzi imadya pamene ayimangilira (The goat eats around the place where it is tied)

Materialism manifested itself in several ways including, directors buying company property at a price below cost (MSCA Civil Appeal No 07 of 2014), directors and executives supplying goods to the companies they were working for (ESCOM). Employees and managers involved in corrupt practices in order to enrich themselves. Such acts involved supplying goods and then withdrawing them and resupplying the same; misappropriation of company's property through misprocurement (R18 of ESCOM). The passion to get rich quickly is so strong in the society that the whole corporate environment is tainted with the so called "cashgate syndrome" (Chimjeka, 2015, Mtonga, 2014).

While there has been a growing culture of dishonesty, respondents bemoaned lack of civic education at all levels of the society (R4 of ADL; R17 of ESCOM & CRWB; R18 of ESCOM). R5 wondered why the country abandoned civic education which was part of the curriculum at foundation level. Civic education, the respondents argued would promote ethical values. This can be achieved by integrating ethics or moral education in the school curriculum at all levels (R18 of ESCOM).

4.4.5.3. Religiosity

Malawi as observed by R28 is a multi-social cultural society but is also considered a religious country. Many respondents, however, felt that religion does not have any effect on socio-cultural values in Malawi. Responding to the question on the effect of religion on ethical behaviour, R27 of Lilongwe Water Board said that "we should not overplay the importance of religion as to the contribution to the ethics. This is because most of Christians or Moslems are nominal and do not live by their values".

R10 of ESCOM concurs with the above sentiments by saying that religiosity has no effect in influencing society and corporate values.

4.4.6. Quantification of emerged themes and governance mechanisms

Table 4.17 presents themes and mechanisms that have emerged from the qualitative study.

Table 4.17 Themes and governance mechanisms

Institution	Emergent Theme	Mechanisms Promoting Good CG	Mechanisms Compromising CG
SOE1 – MHC	Legal Form/OAR/Appointing process / Board qualification/ Board evaluation/ Civil servants/ Political appointees/ Disclosure/ Socio-cultural Values		Increasing Shareholder Power / Wholly State Owned / Captured and ingratiated Board/Legitimation/Cronyism/Soft Budget Constraints/Large PD/Materialism
SOE3 – ESCOM	Legal Form / OAR/ Appointing Process/Board Tenure/Board Qualification/Board Evaluation / Civil Servants/Budget Constraints/Disclosure/Cultural values	External Funding Institutions / Independent Judicial system	Increased shareholder power / Wholly State-owned/ Captured and ingratiated board/legitimation/ Conflict of Interest/ Large power distance / Materialism / Cronyism
SOE4- LWB	Legal Form / OAR/ Appointing Process/Board Tenure/Board Qualification/Board Evaluation / Civil Servants/Budget Constraints/Disclosure/Cultural values		Increased shareholder power / Wholly State-owned/ Captured and ingratiated board/legitimation/ Conflict of Interest/ Large power distance / Materialism /Cronyism
Table 4.17 Themes and governance mechanisms, continued.			

Institution	Emergent Theme	Mechanisms Promoting Good CG	Mechanisms Compromising CG
SOE5 – SRWB	Legal Form / OAR/ Appointing Process/Board Tenure/Board Qualification/Board Evaluation / Civil Servants/Budget Constraints/Disclosure/Cultural values		Increased shareholder power / Wholly State-owned/ Captured and ingratiated board/legitimation/ Conflict of Interest/ Large power distance / Materialism /Cronyism
SOE6 – CRWB	Legal Form / OAR/ Appointing Process/Board Tenure/Board Qualification/Board Evaluation / Civil Servants/Budget Constraints/Disclosure/Cultural values		Increased shareholder power / Wholly State-owned/ Captured and ingratiated board/legitimation/ Conflict of Interest/ Large power distance / Materialism /Cronyism
SOE7 – BWB	Legal Form / OAR/ Appointing Process/Board Tenure/Board Qualification/Board Evaluation / Civil Servants/Budget Constraints/Disclosure/Cultural values		Increased shareholder power / Wholly State-owned/ Captured and ingratiated board/legitimation/ Conflict of Interest/ Large power distance / Materialism /Cronyism

Table 4.17 Themes and governance mechanisms, continued.

Institution	Emergent Theme	Mechanisms Promoting Good CG	Mechanisms Compromising CG
SOE8 – MPC	Legal Form / OAR/ Appointing Process/Board Tenure/Board Qualification/Board Evaluation / Civil Servants/Budget Constraints/Disclosure/Cultural values		Increased shareholder power / Wholly State-Owned/ Captured and ingratiated board/legitimation/ Conflict of Interest/ Large power distance / Materialism /Cronyism
SOE9 – SUNBIRD	Legal Form / OAR/ Appointing Process/Board Tenure/Board Qualification/Board Evaluation / /Budget Constraints/Disclosure/Cultural values	Decreased Shareholder Power/ External Institutions Monitoring/Institutional shareholding / Qualified and Independent Board / Independent Judicial system/ Business Legitimacy	Large Power Distance

Table 4.17 Themes and governance mechanisms, continued.

Institution	Emergent Theme	Mechanisms Promoting Good CG	Mechanisms Compromising CG
Summary		External institution monitoring (2); Decreased Shareholders power (1); Institutional shareholding (1); Qualified and independent board (1); Business Legitimacy (1); Independent Judicial system (1).	Increased shareholder power (8) Wholly State-Owned (8) Captured and ingratiated board/legitimation (8) Conflict of Interest (8)/ Large power distance (9) / Materialism (8) /Cronyism (8)

Source: Researcher's investigative results (2021)

4.4.6.1. Frequency of Themes and Governance Mechanisms and effect on SOE performance

Table 4.18 presents quantification of themes and mechanisms and their effects on SOE performance.

Table 4.18 Frequency of Themes and Governance Mechanisms

Theme / Governance Mechanism	Frequency of Respondents	Effect on SOE performance
1. Legal Form		
1.1. External Institution Monitoring	36%	+
1.2. Decreased shareholder power	43%	+
1.3. Increased State Ownership Power	36%	-
1.4. Institutional shareholding	7%	+
2. Ownership Arrangements		
2.1. Multiple and conflicting principals	43%	-
3. Board Attributes		
3.1. Qualified and independent board	36%	+
3.2. Captured and ingratiated board	57%	-
4. Capital Structure		
4.1. Soft Budget Constraints	18%	-
5. Disclosure		
5.1. Conflict of Interest	36%	-
6. Cultural Values		
6.1. Cronyism	50%	-
6.2. Large Power Distance	32%	-
6.3. Materialism	18%	-

Source: Researcher's investigative results (2021)

Notes**:** Table above presents frequency of themes and mechanisms from data collected from 9 SOEs.

The results from the frequency table 4.18 reveal that corporate governance influences corporate performance. Effective legal form and board of governance has a positive influence on performance while captured board, soft budget constraints, lack of disclosure and socio-cultural values has a negative effect on performance.

4.5. Summary of the chapter

The objective of the chapter was to present results from the study. Results from quantitative study revealed a weak and insignificant negative relationship between religiosity and quality of corporate governance scores but there was no relationship with the rest of cultural variables. Regarding relationship between corporate governance and performance, correlations results showed relationship between corporate governance and performance. However, regression analysis using both static and dynamic models were applied, the relationship was not significant except for a few board attributes and leverage.

Results from qualitative analysis were presented and emerged themes and mechanisms were analysed to identify their effect on performance. The structures and mechanisms identified during qualitative analysis provided explanations of the effect of corporate governance and SOEs performance. Next is chapter 5 which covers selected case study analysis.

CHAPTER 5: SELECTED CASE STUDY ANALYSIS

5.1. Introduction

The previous chapter focussed on data analysis both quantitatively and qualitatively. Quantitative analysis was conducted to examine the relationship between corporate governance variables and SOE performance, and to identify factors that influence the effectiveness of corporate governance in Malawi SOEs. The findings from quantitative analysis were then subjected to qualitative analysis to identify generative mechanisms and their causal effects on SOEs performance.

This chapter presents further analysis by applying structures and generative mechanisms identified in the previous chapter to selected causes. Four cases have been selected for further analysis. The selection of cases is based on their performance as stated in the methodology. Further data was collected from these SOEs to understand their causes for their respective performance in relation to the quantitative and qualitative findings. This chapter is structured as follows: section 5.2 presents results for first good case and reasons behind performance. This has been replicated once by another good case. Thereafter, it was replicated twice with poor performing SOEs; section 5.3 presents comparative analysis between the good performing SOE and a private sector company to understand if there are differences due to structures and underlying mechanisms; section 5.4 shows a summary of structures and mechanisms that have been identified to have effect on performance.

5.2. Corporate Governance Mechanisms and Selected Case Performance

This section presents an analysis of good performance case and corporate governance mechanisms that are perceived to have attributed to the performance. The case was replicated by another good case and then later with poor performance cases.

In the previous chapters, several corporate governance structures and generative mechanisms have been identified. These mechanisms have been analysed below against the selected cases.

Table 5.1. presents a list of selected cases chosen based on their performance

Table 5.1 Selected Cases

CASE#	Name of the Case	Industry	Selection criteria
1	Sunbird Tourism Ltd	Tourism	Consistently good performer.
2	ESCOM	Energy	For the period understudy the SOE has performed well but 2017-2018 the company is operating under distress. A good case
3	Malawi Posts Corporations	Telecommunications	Poor performance most of the years under study.
4	Malawi Housing Corporation	Property Development	Consistently poor

Source: Researcher's investigative results (2021); See Appendix 1.7

Notes: Table above is a list of cases that have been selected based on performance. Case # 1 represents best performing SOE which is followed by the other good performing SOE and then two poor performing SOEs.

5.2.1. Case # 1 - Sunbird Tourism plc and Corporate governance

Sunbird Tourism plc is a public listed company on Malawi Stock Exchange. The company was incorporated in 1988 as a result of the consolidation and amalgamation of different hotel portfolios owned by Malawi government (Sunbird, 2017).

The history of Sunbird dates back to 1966 when the government developed a hotel strategy to promoted economic development through the tourism sector. This was in reaction to poor quality of accommodation facilities in the country (Magombo, Rogerson, & Rogerson, 2017:80). The hotel development strategy led to the establishment of Malawi Hotels Limited (MHL) which was a subsidiary of a government owned company, Malawi Development Corporation. In addition to MHL, the government also established Capital City Development Corporation (CCDC) and Hotels & Tourism Limited each owning several accommodation facilities. These facilities were consolidated and amalgamated to be managed by one company called Tourism Development and Investment Company (TDIC) which was incorporated in 1988 (Magombo, et al., 2017). In 2000 the company changed its name to Sunbird Tourism Limited (Sunbird, 2017).

The performance of Sunbird from the year it was listed has been outstanding compared to other SOEs. The average performance measured by EBIT and ROA for 15 years under review is K786million and 8% respectively (Appendix 1.7). Compared to the performance of SOE in the sample covered, the average EBIT for the all the SOEs in the sample is K472 million and the average performance measured by ROA for the all SOEs is 0.4%. The sections below analyse the impact of structures and generative mechanisms and their impact on the performance of Sunbird.

5.2.1.1. Legal form

Prior to 2002, the company was wholly owned by the government operating as a subsidiary of Malawi Development Corporation. Following poor performance of TDIC and its holding company MDC, the government decided to restructure the company to raise capital for refurbishment of the hotels (R21 of Sunbird). The decision to restructure was also against the backdrop of SAP and market liberalisation which the government had embarked on (Magombo, et al., 2017). Sunbird Tourism Limited decided to list on MSE (Magombo, et al., 2017). The listing changed the shareholding arrangements and diluted the government shareholding holding power. This listing also resulted into new legal form, a public limited listed SOE, which had a major impact on the operations of Sunbird. The government retained 71% with the remainder shared between an external investor and general public (Sunbird, 2017).

The change in legal form had significant effects on both performance and operations of the SOE. Before the listing on MSE, Sunbird was wholly owned by the government through MDC. The latter was already facing liquidation due to, among other reasons, poor corporate governance practices (R5). As noted by one respondent (R6 of BWB and Sunbird), these institutions were plagued by gross disregard of corporate governance principles. The respondent cites issues of appointment of board of directors and the behaviour of those appointed.

> During the one-party state, the majority of the boards were chaired by few individuals connected to President Dr Hastings Kamuzu Banda. These boards were reporting to OPC or the President and were appointed by the President. Despite the change in political dispensation, things have not improved in terms of political interference.

The above statement was concurred by a corporate governance trainer who observed that the collapse of MDC was as a result of poor governance. According to R5,

> politically aligned board members were appointed after multi-party system. This was a policy of appeasement of rewarding the party elites or loyalists. Some board members were appointed based on relationship.

To mitigate the culture of cronyism and paternalism, R21 of Sunbird noted that the board of directors then decided to go on public listing to raise capital. Hence the reason to list on MSE. With the listing, Sunbird assumed new operating rules. Some of these rules restricted the strong arm of the government from acting ultra vires in issues of board appointment; assured the protection of minority interests in Sunbird; protected the SOE from abuse of its resources from politicians. Perceptions of stakeholders (politicians, suppliers and customers) who treat SOEs as their cash cows also changed as they treated this new legal form as a change from government owned company to private owned company. The following legal form mechanism have contributed to the good performance of Sunbird Tourism plc:

5.2.1.1.1. Decreased shareholder power

One of enduring debate in corporate governance has been how to reduce agents' costs by curtailing agents power. This has led to proponents of increasing shareholders power to postulate that such activity will increase shareholders power. However, some have argued that increasing shareholders will only result in increasing private interest of the majority shareholder thereby destroying shareholder's value (Anabtawi, 2007). The argument against increasing shareholder's power seems to be true with government owned companies. An increase in shareholder's power tend to result in rent seeking by the politicians thereby destroying shareholders value. State ownership results into more of achieving or reaping political benefits from SOE than increasing shareholder's power. An increase in shareholder's power also promotes cronyism and nepotism by various political interests through appointing political party loyalists, relatives and friends to boards (R5); as well as giving contracts to party members and friends without proper procedures (R14 of ESCOM).

How did the change in legal form affect shareholder's power? To answer this question, the study focused on the activities of shareholder after the change. Below are some of the notable activities that have been attributed to the decreasing shareholder's power through change of legal form.

a) Appointment of boards – while directors are appointed by shareholders and government in this case as a major shareholder would control this process, the listing of Sunbird limited the power of the government to act ultra vires. This is evidenced by continuing of board tenure despite change of government; appointing directors with right qualification and with right size and mix in terms of skills (R21 of Sunbird).
b) Protection of minority interests – listed company is protected from political interference and the minority shareholders' interests are also protected. Protecting all shareholders interest has helped curtailing majority shareholders' power.

5.2.1.1.2. External Institution Monitoring

One of the benefits of change of legal form by listing on the MSE is that the activities of shareholders and management of the listed companies are monitored by listing institution. One of the requirements of listing on a stock exchange is that the listed SOE is treated the same way as private sector companies. According to R16 of MSE, the institution monitors that there is transparency and timely disclosure of information. Any information of material effect for instance, change of directors and management; and a transaction of 5% capitalisation transaction must be disclosed. Each listed company regardless of its legal form must have a compliance officer to ensure that they comply with the listing regulations. MSE raises a red flag if there is any departure from the standing regulations.

5.2.1.2. Ownership arrangements

One of the positive outcomes of listing on stock exchange is the absence of multiple and conflicting principals. While multiple principals are a common feature of the non-listed SOEs this is fortunately missing from listed SOE like Sunbird. Sunbird does not report to the DSC and its management do not report to OPC but to the board (see Figure 5.1). Sunbird management reports to the board. The board has representation from all shareholders including the government which is the major shareholder. The government as a shareholder appoints non-executive board members to the board. In addition, the government is also represented by the Secretary to the Treasury who is responsible for exercising state ownership, and representative from the line ministry responsible for policy matters.

The Board has a dotted line relationship with the MSE for compliance matters while management also reports to the MSE and line ministry indirectly for issues of compliance and policy. In this arrangement, the board has authority to perform its fiduciary roles. This arrangement also insulates the SOE from adverse effect of political interference. Figure 5.1 shows a diagrammatic representation of Sunbird ownership arrangement.

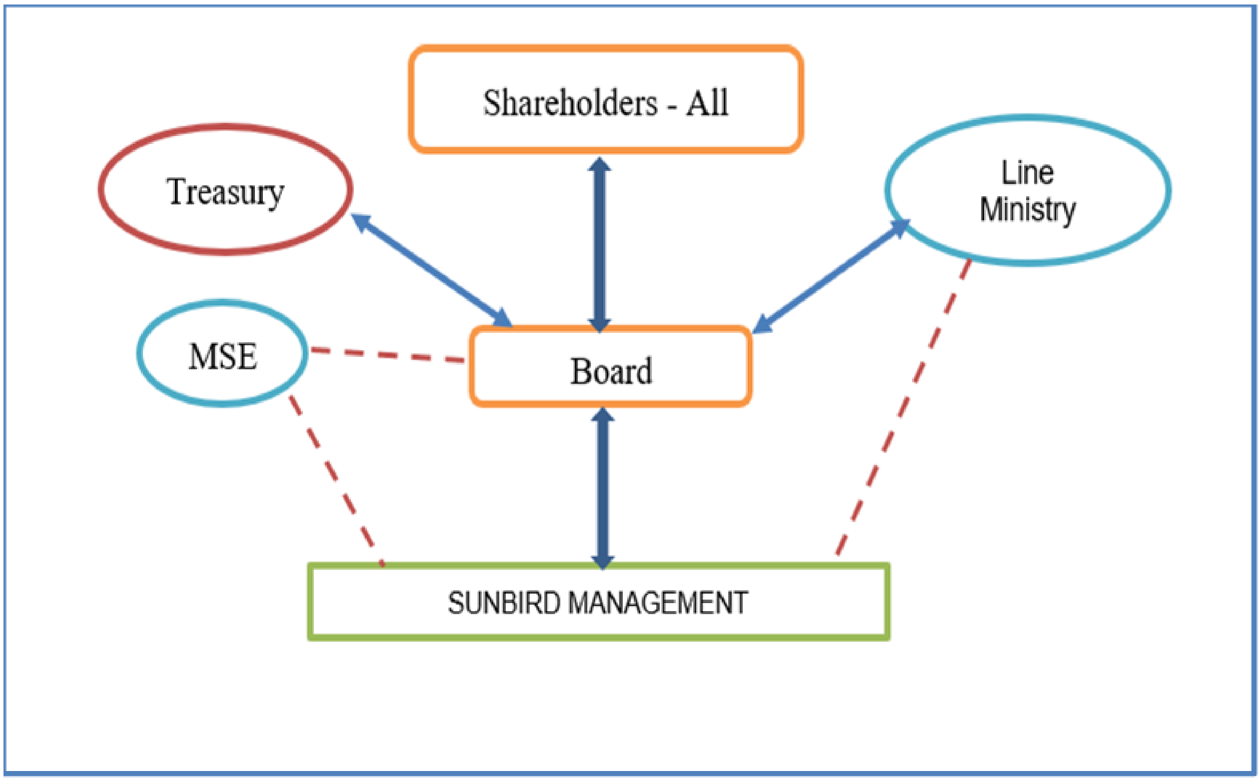


Figure 5.1. Sunbird Tourism plc Ownership Arrangement

Source: Researcher's construction from collected data (2020).

Notes: The figure above shows that Management reports directly to the board which reports to shareholders. In addition, MSE serves as an external governance monitoring mechanism.

5.2.1.3. Board attributes

The two outstanding generative mechanisms under board attributes structure are qualified and independent board representing an effective generative mechanism while captured and ingratiated board represents ineffective internal governance mechanism. A board of governance is the function of legal form. Analysis of these mechanisms reveal that change of legal form influences board attributes.

5.2.1.3.1. Qualified and independent board

Sunbird is the only SOE that declares qualification of its directors in the annual reports. All the directors are chosen based on their technical and governance skills. This element is missing in most SOE. While the issue of independence of the board is silent in the annual reports, the NEDs have a great measure of authority to perform their oversight roles. Comparing with private sector firm in the same industry, the issue of independent director is very clear for the latter.

5.2.1.3.2. Captured and ingratiated board

Captured and ingratiated board attributes have been identified as a board with directors that are appointed on the basis of cronyism and nepotism; appointed to reward them for their loyalty to a political party; board with directors without requisite qualifications; directors who do not have anything to contribute except to receive allowances; board without authority over executive management; and directors that cannot express their opinion in the board meeting because doing so would result them losing their seats.

From the interview and documents analysed, these attributes are missing and hence board of Sunbird is neither captured nor ingratiated. This observation was concurred to by a director who once served both at Sunbird and at another SOE. This director had to resign from the board of the other SOE which was captured and ingratiated. The board of that SOE could not allow members to express alternative views (R21 of Sunbird). A colleague siting on the same board corroborated this incident where a director resigned under protest (R18).

5.2.1.4. Capital Budget Constraints

Capital structure is a governance mechanism that is meant to be a disciplinary tool against the misuse of the company's free cashflow by management (Pindado & De La Torre, 2011).

However, SOE have faced a different mechanism that is hardening or softening the budget constraints. Softening the budget constraints results from loans and grants given to management. This budget constraint promotes moral hazard by management.

A review and analysis of Sunbird documents revealed that the company does not operate on soft budget constraints. This mechanism does not have any influence on the operations on Sunbird.

5.2.1.5. Disclosure & Transparency

SOEs are by nature under heavy pressure from their main shareholder, government, which assumes that these entities are government departments and that the strong arm of abuse of the state should be extended to them. Data from interviews from most respondents had revealed that government and politicians use resources of SOEs for their own benefits. Public disclosures are not a common feature in most of the SOEs. According to R10 of ESCOM, whether one discloses or not does not matter. A document review of these SOEs attest to the fact that public disclosure is not a common modus operandi of the SOE. Most of the SOEs do not prepare annual reports for public disclosure of their operations. Conflict of interest is prevalent in the most of SOEs, but such conflict of interests is not disclosed.

A review of Sunbird records shows that this element of abuse is missing as the company is shielded from the undue pressure from politicians. Transparency and disclosures are mandatory for listed companies. Sunbird is not affected by conflict of interest that is common to most of SOE.

5.2.1.6. Socio-cultural values

Cultural values that were identified in the study to have an impact on effectiveness of corporate governance include cronyism, power distance and materialism. An analysis of Sunbird data collected through interviews and review of annual reports reveal the following:

5.2.1.6.1. Cronyism

Cronyism, which was common before listing, is not a common culture in Sunbird. The reason of listing was to insulate the company from political interference. According to R21, “moving from private limited to public limited was easy in the case of Sunbird because it had private shareholders." As a public limited company, Sunbird has been protected from policy of abuse which results from rewarding friends and relatives with contracts and jobs.

5.2.1.6.2. Power Distance

Malawi is a high-power distance society. While this may not have influence on the operations of the Sunbird due to other prevailing governance structures, this culture may be a breeding ground for moral hazards as subordinates are not able to speak openly. Sunbird, it was observed is not insulated from power distance culture.

5.2.2. Case # 2: ESCOM Limited and corporate governance

The previous section analysed a good performing SOE and its underlying governance mechanisms to find linkage that attempted to explain the causes of good performance. This section replicates the structures and generative mechanisms to find common strands or differences that may explain the performance of Electricity Supply Corporation of Malawi Limited (ESCOM)

ESCOM was incorporated in 1998 as a private company registered in Malawi under the Companies Act 1984 (ESCOM, 1999) with the mandate to generate, transmit and distribute power.

The average performance of ESCOM measured by accounting ratios of EBIT and ROA are K3.2billion and 5% respectively (Appendix 1.7). While ESCOM shows better performance compared Sunbird measured by EBIT, it should be noted that it did not use its assets efficiently compared to Sunbird. Its average ROA is 5% compared to 8% of Sunbird during the same period. Compared to all SOEs in the sample, ESCOM ROA is better at 5% against an average of 0.4% for all of the SOEs.

5.2.2.1. Legal form

Prior to 1998, the company was under an Act of Parliament. The change of legal form was meant to change legal instruments governing the company from Act of Parliament to Companies Act. The shareholding arrangement for the new company was distributed as follows: 99% held by Ministry of Finance of the Malawi government and 1% held by Malawi

Development Corporation which was also 100% owned by the government of Malawi. It was envisaged that the change would usher in the necessary reforms to bring about efficiency and effectiveness in the operations of the company. However, the ownership of the new company was still wholly under government.

The second wave of reform in the energy sector started early in 2004 which saw the enactment of various energy laws: Electricity Act, Energy Regulatory Act, Rural Electrification Act, Liquid Fuels and Gas Production Act (R10 of ESCOM).

In an attempt to liberalise the energy sector, the Energy Act introduced the unbundling of the Generation from Transmission & Distribution. This was to attract independent power producers. However, implementation of the above clause was a challenge because of lack of subsidiary policies. Subsidiary laws were enacted to ensure that ESCOM still operated as a vertically integrated unit (Generation, Distribution & Transmission) in one company. These reforms did not achieve the intended outcome of the energy laws. Investors failed to come in because of the stake that ESCOM had in the industry. This led to another wave of reform to unbundle ESCOM into Generation and Distribution & Transmission. However, as R10 of ESCOM noted, investors are looking for specific guidelines on the issue of tariffs. Additionally, investors want to ensure that the regulator is independent on issues of tariffs.

ESCOM Limited was finally unbundled in 2016 and this resulted into the creation of two companies: ESCOM Limited responsible for transmission and distribution and Electricity Generation Company (Malawi) Limited (EGENCO) responsible for energy generation. EGENCO was incorporated in September 2016 and started operations in January 2017. The current laws provide for a single buyer to aggregate the power and sell to ESCOM. The initial understanding was that the single buyer would be within ESCOM but under a single management. However, as observed by R10 of ESCOM, investors are still sceptical about the relationship between ESCOM and EGENCO.

An analysis of interview data and documents from ESCOM revealed that change of legal form did not translate into a positive impact on the performance of the company. Several corporate governance mechanisms are attributed to the observed performance. Below is a review of some of generative mechanisms that were identified.

5.2.2.1.1. External Institution Monitoring

The study revealed that there was absence of external monitoring mechanism that would put pressure on both the shareholder and management to act professionally and work towards improving performance of the company. The effect of external monitoring mechanism was apparent when Millennium Challenge Corporation (MCC) Compact was signed in 2011 that even though there were gains which resulted in improved financial performance, gains could not be sustained due to resistance from executive management, board, and government (MCC, 2020). MCC is a United States of America organisation which partnered with the government of Malawi with the objective of reducing poverty though sustainable economic growth. The Compact which was signed between MCC and Malawi government had targeted three projects which were aimed at achieving the overarching goal of economic growth. These projects included The Infrastructure Development Project (IDP), The Power Sector Reform Project (PRSP) and The Environmental and Natural Resources Management (ENRM) Project.

To implement these projects, a $350.7 million compact was signed with the USA government. The Millennium Challenge Account in Malawi was tasked with the implementation of these projects. Among the achievements was the improvement of financial position of the ESCOM which was attributed to improved financial information system and review of tariffs. As noted by the MCC, the key factor for the unsatisfactory performance was "poor accountability at sector institutions, especially ESCOM, at almost every level, including line supervisors, executive management, Board members, and Government oversight ministries" (MCC, 2020:28). The MCC noted that financial performance cannot improve without addressing governance issues.

The presence of MCC as an external monitoring mechanism was one of the attribution factors to improved performance at ESCOM during the Compact. As noted by some respondents, "MCC assisted in the controls to avoid the inference of ESCOM from the shareholder. There were a lot of instruments and milestones introduced in the system which made it difficult for the shareholder to interfere'(R14 of ESCOM); there was effective monitoring from MCC to ensure that conditions set in the Compact were being complied with (R10 of ESCOM); the coming in of MCC has helped to constrain political interference (R18 of ESCOM).

From the forgoing it is evident that a restraining power that is without the system is needed to constrain the interference from the power that is from the state. In Sunbird, this external monitoring mechanism was achieved through listing on MSE while in the case of ESCOM it was through MCC. However, it should be worth noting that ESCOM external monitoring mechanism was short lived because of government reluctant to grant independence to ESCOM. MCC (2020:36) observed that though the board charter required ESCOM board to act more professionally and independently, "the board continued to be viewed as politically influenced throughout implementation, and irregular procurements were still occurring, with likely negative effects on ESCOM's finances and operations".

The effective monitoring will therefore be achieved if the government's hand is constrained and this can be achieved as R14 of ESCOM puts it by debunking shareholding of the government through public-private partnership. This can be achieved through listing on stock exchange which shares are offered to minority private interests.

5.2.2.1.2. Shareholder's power

The other generative mechanism that seems to play an important role is the extent to which shareholder exercise its power. In case 1, it was noted that the majority shareholder is not able to act ultra vires because of the constraining legal instruments or governance instruments that seem to tie the majority shareholder's arm. Decreasing shareholder's power through change of legal form is therefore one of the generative mechanisms that contribute positively to sanitise the major shareholder's behaviour in the way it exercises its ownership rights.

However, in the case of ESCOM, the change of legal form did not translate in constraining shareholder's power because the government in this arrangement is the sole shareholder. As observed by R17 of ESCOM, when the government is the sole shareholder, it treats all companies the same way regardless of their legal form. This was concurred to by R18 of ESCOM who stated that the government, as a sole shareholder, treats commercial and non-commercial parastatals the same way. The effects of shareholder's power became evident during the MCC compact as this was their observation:

> ESCOM leadership was… subject to influence from different parts of the Government, including the DSC, the Ministry of Natural Resources, Energy & Mining (MNREM), Ministry of Finance and the Office of the President through a variety of formal and informal mechanisms. The informal mechanisms in particular were not conducive to the introduction of improved norms and practices of corporate governance sought by the compact (MCC, 2020:57).

Unless there is private participation through MSE, government's power cannot be constrained.

5.2.2.2. Ownership Arrangements

One of the generative mechanisms under ownership arrangement that was observed to have a negative effect on SOE is the presence of multiple and conflicting principals. This was missing under Sunbird, ESCOM has multiple principals (DSC, MNREM, MoF and OPC) which are at times conflicting (See Figure 5.2), for example ex-officio board seating on both MERA (regulator) and ESCOM (service provider).

The MCC report attributed underperformance to these multiple and conflicting principals. According to MCC (2020:21 in their report, "underperformance of the utility was driven by the lack of modern management practices and confusing governance and reporting lines by ESCOM that led to operations driven more by political considerations than commercial factors"*.*

Ownership arrangements for ESCOM are highly conflicted as shown in figure 5.2. ESCOM management reports to the board for directing and control; management also reports to the line ministry for policy matters; reports to MERA for regulatory matters; reports to treasury for budgets and financial approvals and report to OPC where appointment for CEO is done. The board on the other hand reports to DSC on governance issues; reports to line ministry on policy matters; reports to MERA and treasury for financial matters and ownership rights; the chairman of the board is appointment by the President; and finally the CEO and chairperson reports to parliament on ad hoc basis. ESCOM ownership arrangement creates confusion, delays decision making, renders the board role of non-effective and creates a conducive environment for political interference. Decentralised ownership arrangement was one of the causes of the poor performance in ESCOM. This finding is consistent with the study of Mbo and Adjasi (2017) who found that diversity of stakeholder's representation in the board power utilities in Southern African countries contributed to poor performance.

In the context of ESCOM, legal form and ownership arrangements are structures that do influence board of governance. The next section presents analysis of how these structures affect not only the appointment process of board and the very fiduciary duty of the board. Figure 5.2 below shows ownership arrangement of ESCOM Limited.

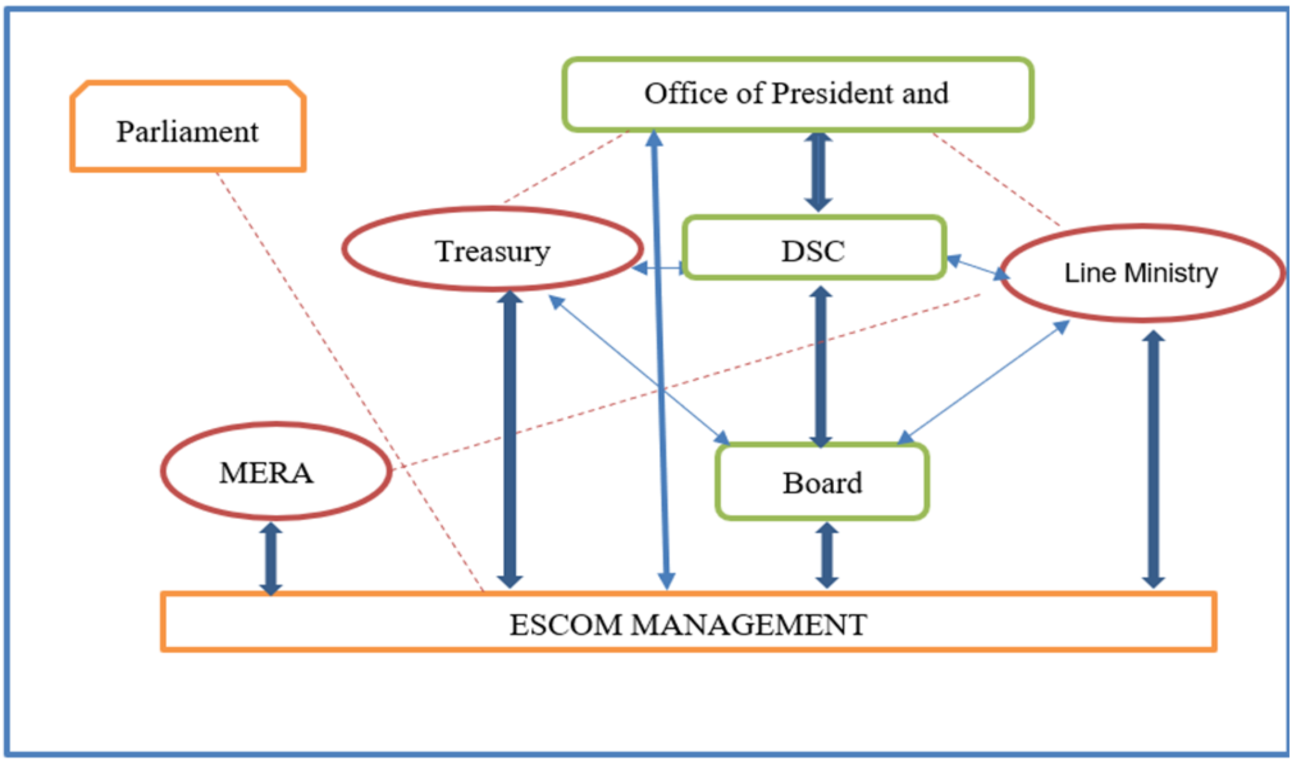


Figure 5.2 ESCOM Ownership Arrangement
Source: Researcher's construction from collected data (2020).

Notes**:** The figure above shows ESCOM management reports to multiple principals which includes board, line ministry, treasury OPC and MERA.

5.2.2.3. Board attributes

A review of documents and information collected through interviews revealed a marked difference between the boards of Sunbird and ESCOM. While the board members of Sunbird were qualified and appeared independent, the board of ESCOM on the other hand, is captured and ingratiated even though the directors had some professional qualification. Below is the analysis that attest to the weakness of the board at ESCOM which stands in sharp contrast with the effective board of Sunbird.

5.2.2.3.1. Qualified and independent board

Evidence over the past 16 years under review reveal that the board of ESCOM had a mixture of qualified technically skilled directors and non-qualified staff who were there to serve their political interests. R11 of ESCOM cites an example where during a certain board term members siting in Finance and Audit Committee did not have accounting background. Though the board was made up of some qualified directors, these directors were not independent in conduct and appearance. R9 of ESCOM observed that board and executive management were not acting as professionals for fear of losing their jobs.

Independence of the board was affected by political influence. According to MCC report, throughout the implementation phase of the Compact, the board of ESCOM "continued to be viewed as politically influenced" (MCC, 2020:36). The report continued to say that the board was not independent from political power. These views are concurred to by a Taskforce team that was constituted to investigate the reasons behind poor performance and financial woes at ESCOM. The findings of the team reveal that the mis-procurement culture at ESCOM was due to the presence of "political heavyweights" who were benefiting from the organisation (ESCOM, 2019). R10 of ESCOM observed that there was an opportunity for the first board after incorporation to stamp its authority, but this was not the case because of political interference. Some board members who viewed themselves as independent were shocked when they were told that their appointment was meant to advance the political party agenda and not that of the company (R11 of ESCOM). Relating an incident, the responded remarked that

> when I was appointed to the board, I thought I had been appointed due to my professional and educational qualification. I had no idea that I had been appointed to serve the interest of some party leaders' interests, until when I started to question some decisions by management and board which I felt, in my view, were improper that I was called to order by leaders of the ruling party. Hence my short-lived stay in the board (R11 of ESCOM).

Similar incidents occurred in the same SOE where some directors either resigned or were dropped after a short time. One of respondent who served in one of the boards had this to say about a colleague who resigned under protest “ask him why he left the board. He will relate his story” (R17 of ESCOM)[2]. These are just some of the examples of the hegemony of political leaders over directors and management of SOEs.

5.2.2.3.2. Captured and ingratiated board

The prevailing environment at ESCOM which is contrasted from that of Sunbird was a manifestation of a captured board whose directors ingratiated themselves with the political establishment. Evidence of a captured board manifest itself through various lenses including failure to stamp its authority on executive, conflict of interests, failure of the board to allow members to raise concern over decisions which appear questionable and removing such members from the board.

A review of the documents and evidence gathered through interview reveal that the board of ESCOM is captured and ingratiated. The following evidence supports this assertion:

a) Board chair with requisite skills but with strong political connection (R11 of ESCOM).
b) Appointment of CEO without board knowledge or with recommendation from former CEO (R11 of ESCOM) and shareholder transferring CEOs as if they were civil servants (R17 of ESCOM).
c) Failure by board and its committees to implement decisions because of fear of some influential members in the board or management (Task Force Report 2019).
d) Conflicted board whose members are supposed to provide oversight but are also suppliers at the same time (Task Force Report 2019).
e) ESCOM leadership influenced by government departments and ministries including OPC through informal and formal mechanisms. “The informal mechanisms in particular were not conducive to the introduction of improved norms and practices of corporate governance sought by the compact” (MCC, 2020:57).
f) Frequent changes of board often following changes in political leadership (R15 of ESCOM) and shareholder terminating tenure of board without following procedures (R17 of ESCOM).

[2] The researcher followed up this story by interviewing the director cited by the respondent. This incident was confirmed by the director who had resigned from ESCOM board.

g) Common incidents of mis-procurement which has contributed to the financial woes of the ESCOM (R 18 of ESCOM) and forcing Director of Finance to resign for refusing to certify an irregular procurement (MCC, 2020).
h) Removal or resignation of members due to political pressure.

The above findings are evidence of a captured board that is under intense influence. Such a board is neither independent nor effective.

5.2.2.4. Capital Structure

Findings reveal incidents of the softening of the budget constraint. ESCOM debt was converted into equity and grant provided by MCC compact and government improved the financial position of the company. Softening of the budget constraints has a positive impact on the financial performance of the company.

5.2.2.5. Disclosure

One of the principal elements of transparency is the disclosure of material information concerning an organisation. The Public Finance Management Act (No. 7 of 2003) makes it mandatory for statutory bodies to disclose through timely reports information about their operations through the Treasury and National assembly. Among issues of disclosure, statutory bodies are supposed to disclose event of material effect that may have an adverse effect on financial position of the company.

Among issues that require disclosure is conflict of interest either by member of board or employees of statutory bodies. The Public Procurement Act of 2003 prohibits supply of goods by directors or employees to statutory bodies that they relate to. A review of documents and information gathered through interview presents a stark reality of low levels of disclosures in the company.

Findings reveal that members of the board of directors were supplying goods to ESCOM presenting pressure on the controlling officers. This made the board to have no power to discipline staff involved in mis-procurement. The board was weak, captured and compromised. For example, the board could not protect the Director of Finance who was under pressure “to certify an irregular procurement” (MCC, 2020:29) because some of them (board of directors) were benefiting from the same company and transactions. This incident forced the Director of Finance to resign in 2016. It was evident that lack of external monitoring mechanisms was a major cause of this “free for all” mis-procurement behaviour. Lack of disclosure has its antecedent in increased power of shareholder and is entrenched in the high-power distance cultures that characterises Malawi society.

5.2.2.6. Cultural values

Malawi is a high-power distance society. High power distance cultures are associated with high levels of secrecy, low levels of disclosures and high levels of corruption. Comparing with Sunbird, findings revealed prevalence of cronyism, high-power distance and materialism culture at ESCOM which was compromising good practice of corporate governance. The sections below present evidence of how this culture contributed to weaken corporate moral values which resulted into poor corporate governance.

5.2.2.6.1. Cronyism

Cronyism culture manifests itself through various ways including appointing directors to a board as a reward for their political loyalty, appointment of friends and relatives to positions in the company, captured board that cannot discharge their fiduciary roles due to conflict of interest.

A review of documents and information gathered through interviews reveal that cronyism was prevalent in ESCOM. A report by a Task Team investigating the reasons behind financial problems at the company, revealed governance and leadership failure. Members of the board of directors were conflicted because they were supplying goods to ESCOM. This resulted in mis-procurement thereby draining the resources from the SOE. This finding was corroborated by a report by MCC (2020) which cited an incident where board of directors were putting pressure on the Director of Finance to regularise a mis-procurement. Findings also reveal that the board was captured that it could not excise its authority over employees who were supplying goods to the ESCOM through their companies or employees using companies of their friends to supply goods to ESCOM. Management was also subjected to political pressure on issue of procurement.

Cronyism was also manifested in appointment process of executive management and board of directors. Appointment was based on relationship and loyalty to the governing political party and not on merit (R10 of ESCOM; R11 of ESCOM; R14 of ESCOM). Directors who speak out against malpractice are taken out (R18 of ESCOM). Cronyism builds a safety net for the would-be offenders. Those that commit crimes are rewarded instead of being sanctioned (R10 of ESCOM). The deep-rooted cronyism has contributed to poor corporate governance which has resulted in questionable and corrupt decisions from all angles.

5.2.2.6.2. Large Power Distance

Malawi has a large power distance culture. Such culture is prone to corruption where there is weak monitoring mechanism as well as poor leadership. Findings of this study on ESCOM reveal that the reign of “big man and small man” syndrome was common at ESCOM. CEOs were hired without board authority (R18 of ESCOM). At times some CEOs were transferred to other SOEs as if they were civil servants (R27 of ESCOM). Power distance was also manifested in the culture of respect for elders. Members of the board kept quiet when issues were coming from the top political leadership this involved appointment and transferred of CEO. Those who stood their ground were pushed or just resigned from their positions. Examples include resignation of Director Finance in 2016, and resignations of board members in 2006 and 2008.

5.2.2.6.3. Materialism

The culture of materialism is widespread in Malawi and this has led to increased incidents of corruption. Findings reveal that ESCOM has not been spared by this culture to the effect that many employees, board members and politicians were using the company as a cash cow. Examples of materialism include employees conniving with suppliers to overprice products in order to benefit from procurement process; overpayment for electricity projects; resupplying materials that had already been requisitioned. All this was done with the aim of getting rich quickly. According to R18 of ESCOM, materialism is embedded in Malawi society to the extent that even sayings echoed by people promote a culture of greed. It is evident that without strong monitoring mechanism the culture of materialism cannot be arrested.

High power distance, cronyism and materialism culture has had a negative impact on the performance of ESCOM. Unless this culture is arrested, performance of ESCOM and similar SOEs cannot improve.

The above case replicated the good case of Sunbird to find out the effect of generative mechanism of the operation a second SOE by comparing it with that of Sunbird. The next section further replicates the good case by comparing with two cases of poor performers.

5.2.3. Case # 3: Malawi Housing Corporation (MHC)

The last section was a replication of the first good case to identify best generative mechanisms that explain performance of the SOEs. This section presents a third case of an SOE that had poor financial performance for most of the years covered by this study.

Malawi Housing Corporation (MHC) was established in 1964 under an Act of Parliament called Malawi Housing Corporation Act of 1964 (Chapter 32.02 of the Laws of Malawi). The SOE was established to construct houses and buildings, to develop plots and maintain existing houses and plots. The company performance measured by EBIT and ROA has been dismal (Appendix 1.7) during the period under review. MHC average EBIT and ROA were negative K195million and negative 3% respectively. Both EBIT and ROA were below the sample average (Table 4.6).

5.2.3.1. Legal Form

MHC was established as a statutory body under Act of Parliament in 1964. The SOE is 100% owned by Malawi Government. Comparing with Sunbird which operates under the Companies Act, MHC which is under Act of Parliament is perceived as a government department in appearance and conduct. The Act which established MHC did not help matters either. While there was policy change in 1995 towards commercialisation, this change was not backed by changes in the Act. The SOE was still considered as not a profit-making organisation but rather an organisation to offer affordable accommodation. When the company raised tariffs in 1995 and 1996, their clients or tenants challenged the increase in court of law and MHC lost the case[3]. The argument advanced by clients was that the objective of the company according to section 7(2) of Malawi Housing Act was not to make profit but rather to cover its cost or break-even while conducting its operations (Kapindu,

[3] In the case of Chatepa and Another v Malawi Housing Corporation, [1997] 1 MLR 237 (HC)

2013). The Malawi Annual Economic Report of 2014 also attributed continued losses to the Act which made MHC to be regarded as sub-economical in nature due to the below cost tariffs (Malawi Government, 2014). According to R7 of MHC, there is apparent lack of enterprise at the SOE. In 2016, the Malawi Housing Act underwent some amendments which is a departure from the original Act which mandated MHC to offer affordable accommodation.

Findings of this study reveal that legal form has contributed in a significant way to the governance challenges faced by MHC. Change of legal form would have a positive impact on the performance of MHC. According to R7 of MHC, tenants perceive that MHC is a government property and as a result it is not supposed to make profit nor evict its clients when they default on their rentals. Politicians were also reluctant to make changes to the Act even though the policy towards commercialisation was made in 1995. Both employees and politicians have been benefiting from buying houses below market price. Compared with Sunbird, it is evident that the legal form at MHC has contributed to its dismal performance.

5.2.3.1.1. External monitoring mechanism

The major weakness in SOEs which are 100% under government control is that they are treated as government departments irrespective of their legal form. The absence of external monitoring mechanism exacerbates agency problems. Where the legal form is through an Act of Parliament, things are made worse in that there is no will power from either the principal or the agents to ensure compliance with corporate governance principles. Findings of this study reveal that corruption was endemic in the institution (MANA, 2015; World Bank, 2010) but there was no motivation to address these corruption practices. Discharging a corruption case involving former MHC General Manager and his Deputy vs MHC, the Chief Resident Magistrate noted that the State did not have interest to prosecute (Sangala, 2016).

5.2.3.1.2. Shareholder's power

The legal form that established MHC gives the sole shareholder absolute power and the State to act on matters of the SOE as if it were a government department. Appointment of directors who party functionaries is common. During data collection it was apparent that a climate of fear prevails in the organisation. This is orchestrated by the government. A review of documents reveal that even executive management were not free to speak in the presence of other members. Such a rule of fear often masks corrupt practices. It is not surprising that the World Bank in its report on Governance and Anti-Corruption Innovations in the Malawi Social Action Fund Project noted that MHC was one of the most corrupt institutions in the country besides Directorate of Road Traffic, Office of the Director of Public Procurement, Administrator General, Malawi Revenue Authority, and Immigration Department (World Bank, 2010:1).

5.2.3.2. Ownership Arrangements

MHC like other SOEs has a decentralised ownership arrangement. In addition to DSC, the company reports to MoF, Ministry of Lands, Housing and Urban Development, and OPC (See Figure 5.3). The reporting lines contribute to delays in critical decisions in the company. R7 of MHC notes that management must go through multiple approvals despite the fact that there is a board of directors where all the constituencies are represented. Like the case with ESCOM, MHC has multiple principals and reporting lines which are duplicated and conflicted. As per figure 5.3, MHC management reports to Board, Treasury and line ministry and OPC. Board chair and CEO are appointed by the President. Since management and board report to the same principals, board's role is reduced to that of a figure head. Fig 5.3 shows a representation of MHC ownership arrangements.

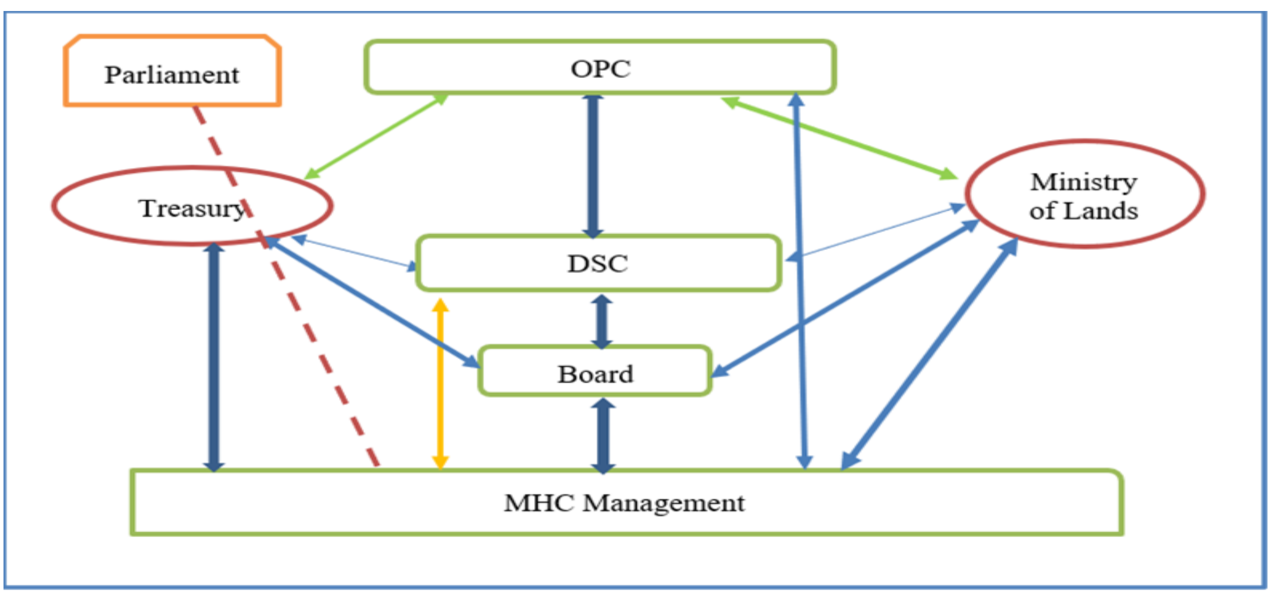


Figure 5.3 MHC Ownership Arrangements

Source: Researcher's construction from data collection (2020).

Figure 5.3 above shows MHC ownership arrangement where management reports to multiple principals including the board, OPC, Line Ministry, Treasury, DSC. The board in this arrangement does not have authority over management because the two bodies report to the same principals.

While decentralised ownership arrangement may not be considered a bad structure depending on legal and institutional arrangement in a particular country, in the case of MHC, decentralised arrangements is bureaucratic, inefficient and counter-productive. According to R7 of MHC it takes time to approve tariffs adjustments to the effect that when the decision is finally made, the company misses on its financial projections. The current ownership arrangement is not commercially oriented but seems in all intent to serve other interests.

5.2.3.3. Board Attributes

A review of documents reveal that the board of MHC was either captured or ineffective. According to Justice Mwaungulu,[4] MHC was tainted with conflict of interest of which the board lacked motivation to root out. The company was also in the media for wrong reasons including high profile cases of the selling houses to ruling political party officials and top government officials. Unlike in the case of Sunbird, MHC was supervised by DSC in terms of governance. The appointment of the board of directors was done by the President and its tenure was to a large extent influenced by the tenure of the presidency. The years from 2000 to 2004 saw the height of political appeasement in terms of appointments. The board was bloated with political party functionaries. Board size was reduced during the subsequent years but was still influenced by the political party officials. Most of housing stock became depleted as houses were sold to politicians at the helpless watch of the board. According to R7 of MHC, the board relied on ex-officio for technical skills in the committees.

5.2.3.3.1. Qualified and Independent Board

During the period under review, the board had a mixture of qualified and non-qualified directors. The non-qualified directors were quite often drafted in to serve the interest of the ruling political party. Independence of the board was compromised.

[4] MSCA Civil Appeal No 07 of 2014, In a case between Diana Z. Winga, Appellant and Malawi Housing Corporation, Respondent.

5.2.3.3.2. Captured and ingratiated board

Findings reveal that management and board of the company were conflicted. The company was tainted with corruption and perceived as one of the most corrupt institution. The board on the other hand, was seen to lack authority for disciplining management. It was observed that there was a rule of fear among executive management, but the board's hands were tied since management was appointed by the appointing authority as that of the board. Political party functionaries had nothing to offer apart from serving their own interest. Lack of an effective board as well as board appointed based on appeasement policy contributed to poor performance of MHC.

5.2.3.4. Capital Structure

Malawi Housing Corporation Act No. 27 of 2016, Cap. 37:02 gives power to the corporation to borrow money for its operations subject to approval by the Minister and provision of the Public Finance Management Act No. 7 of 2003. The Acts also state that the government shall guarantee such loans subject to the laid down provisions in the said Acts.

Without the external monitoring mechanisms and under strong arm of the sole shareholder, soft budget constraints may lead to mis-procurement. Findings of this study did not find any direct link between soft budget constraints and performance of MHC.

5.2.3.5. Disclosure

Transparency and disclosure are important elements of corporate governance best practice. As a public entity, MHC is supposed to disclose any matters of materials effect on financial position of the company. The Public Finance Management Act (No. 7 of 2003) and Public Procurement Act (No. 8 of 2003) requires the SOE to disclosure such matters of material effect, for instance, conflict of interest that may arise between a director or employee and the organisation.

A review of the documents including court cases cited above (MSCA Civil Appeal No 07 of 2014) reveal prevalence of conflict of interest. Justice Mwaungulu in his judgment of a case between Diana Z. Winga and Malawi Housing Corporation[5] noted that MHC is tainted with

[5] As in Note 4 above

private interests. Findings also reveal that there is low level of disclosure in the company and incidents of private interest are not disclosed. Another type of disclosure to make available to the public and parliament is financial information. Comparing with Sunbird, MHC does not disclose its financial reports on its website for the public. According to R25 of the National Assembly, SOE only disclose financial information to parliament on ad hoc basis. Lack of public disclosure provides a safe net for the would-be corrupt practices because there is lack of public scrutiny. Low level disclosure or lack of it may be one of the reasons of high prevalence of corruption in MHC (World Bank, 2010).

5.2.3.6. Socio-cultural values

MHC as an SOE under Act of Parliament is influenced by the culture that prevails in the government. Some of the elements of this culture include cronyism and large power distance.

5.2.3.6.1. Cronyism

Findings from the review of documents and interviews reveal that the appointments of directors and executive managers were based on affiliation to the political party, directors without requisite skills and those that are related to top pollical officials. Stories of conflict of interest or private interest were common in MHC (MSCA Civil Appeal No 07 of 2014). Even where there ware proven cases of corruption (Sangala, 2016), the state lacked motivation to prosecute. The public perceived that top ruling party official had benefited from the sale of under-priced houses. Cronyism contributed to poor performance.

5.2.3.6.2. Large Power Distance

MHC is characterised by large power distance with observable hierarchy in the organisation structure. Large power distance was observed by the rule of fear where some executive directors would not speak out during board meetings. In such large power distance cultures, members are not able to express themselves. Such cultures are a breeding ground of corrupt practices which cannot be reported or go unchecked. The absence of a strong legal framework and its enforcement compromise corporate governance. Comparing with Sunbird where there is also power distance, it was observed that there was no abuse of power at Sunbird due its legal form that constrained the hand of the majority shareholder. The presence of external monitoring mechanism acts as a deterrent to those who would want to conduct themselves corruptly.

5.2.3.6.3. Materialism

While findings from the study found that the culture of materialism was prevalent in the society, there was no direct relationship between materialism in MHC and corporate governance compliance. The study, however, revealed that incidents of private interests involving in the purchase and sale of MHC houses were a common phenomenon. This culture may have contributed to poor performance.

5.2.4. Case # 4: Malawi Posts Corporation

Malawi Posts Corporation (MPC) is an SOE in the telecommunications sector established under the Act of Parliament, Communications Act 1998 (No. 41) with the objective of providing "posts services and to perform other services incidental to transmission of postal articles; …to provide financial services" among others.

The performance of the company over the years has been poor. During the period covered by this study, the company registered dismal performance measured by EBIT and ROA (Appendix 1.7). The average EBIT and ROA for the period between 2007 to 2016 was negative K293 million and negative 12% respectively. Both results were below the sample average (Table 4.6). Poor performance has been attributed to several factors including poor corporate governance. The Annual Economic Report of 2014 attributed the losses to sub-economical units which MPC is operating (Malawi Government, 2014)

5.2.4.1. Legal Form

The company was established under the Act of Parliament, called the Communications Act 1998 (No. 41) which was later replaced by the Communications Act 2016 (No. 34). Communications Act 1998 provided for the establishment of a board by the Minister responsible for Posts. In addition to appointing of a board, the Act empowered the Minister to appoint the Postmaster General. However, the authority to appoint of staff subordinate to the Postmaster General was vested on the board. The Act also provided for the establishment of MACRA and Malawi Telecommunications Limited. This effectively separated the provision of services from administration services in the communication sector.

Communications Act 1998 was replaced by Communications Act 2016 (No. 34). Some of the amendments in new Act include the constitution of a board and appointment of Postmaster General. In the new Act, the power to appoint of board now rests in the hands of the President of the Republic of Malawi. The authority to appoint the Postmaster General, also referred to as CEO is in the new Act, is vested upon the board. Compared with Sunbird, which was established under the Companies Act, MPC is treated as a government department as evidenced by actions of the shareholder.

5.2.4.1.1. External Monitoring Mechanisms

MPC legal form does not provide external monitoring mechanism which would constrain both the shareholder and management and force them to act in the interest of the company and ultimate owners of the company, the citizens. Compared to Sunbird, the government operates MPC as a department. The sole shareholder flouts corporate governance rules at will and there is no institution to raise a red flag. The appointment of directors is based on political appeasement. R19 of MPC observed that board members that are appointed lack depth. According to R22 of MPC, there is lack of institutional maturity. He further added that if the government is sole shareholder, there will always be political interference. The Act lacks strong legal instrument to improve accountability. R19 of MPC also noted that there is no monitoring of performance in the company.

5.2.4.1.2. Shareholder's Power

Findings reveal that the erosion of corporate governance is due to increased shareholder's power. This has been demonstrated by the way the President appoints and transfers CEOs to and from MPC without board's knowledge. As evidence, in 2015 the President swapped positions of Postmaster General and MACRA Director General (Mkandawire, 2015). MACRA Director General was sent back to MPC as Postmaster General, a post he had occupied before being appointed or transferred to MACRA in September 2014. The Postmaster General was transferred to MACRA where he used to be but now to occupy higher position. These appointments were made without respective board's authority. The board chairperson of MPC raised concerns that new Postmaster General had not been recommended by his board (Mkandawire, 2015). While the new Act, states that the board is supposed to appoint the Postmaster General, however, it is the President who appoints both CEO and board chairperson. Transfers of CEO from MPC to other institutions like MACRA that have been made recently, show that the government is still acting without restraint. According to R22, the government will continue to act ultra vires if the shareholding remains 100% government. Comparing with Sunbird, MPC's legal form gives power to the government to treat the institution as one of government departments.

5.2.4.2. Ownership Arrangements

Like any other SOE in Malawi, MPC has a decentralised ownership arrangement. Reporting lines include, Ministry of information, Ministry of Finance, OPC and Department of Statutory Bodies (See figure 5.4). Despite the fact the board has representation from all these government ministries, MPC is still challenged by multiple approvals (R22 of MPC). R19 of MPC observed that the Ex-Officios are not properly coordinated. He cited an example where different people attend different board meetings, hence there is no continuity. This is what the respondent said, "different directors attend boards from the same department but there are no handovers hence lacks continuity. You can agree with one department, but the other department will disapprove the same decision that was approved by their representative at the board meeting". Figure 5.4 shows ownership arrangement for MHC with multiple reporting lines.

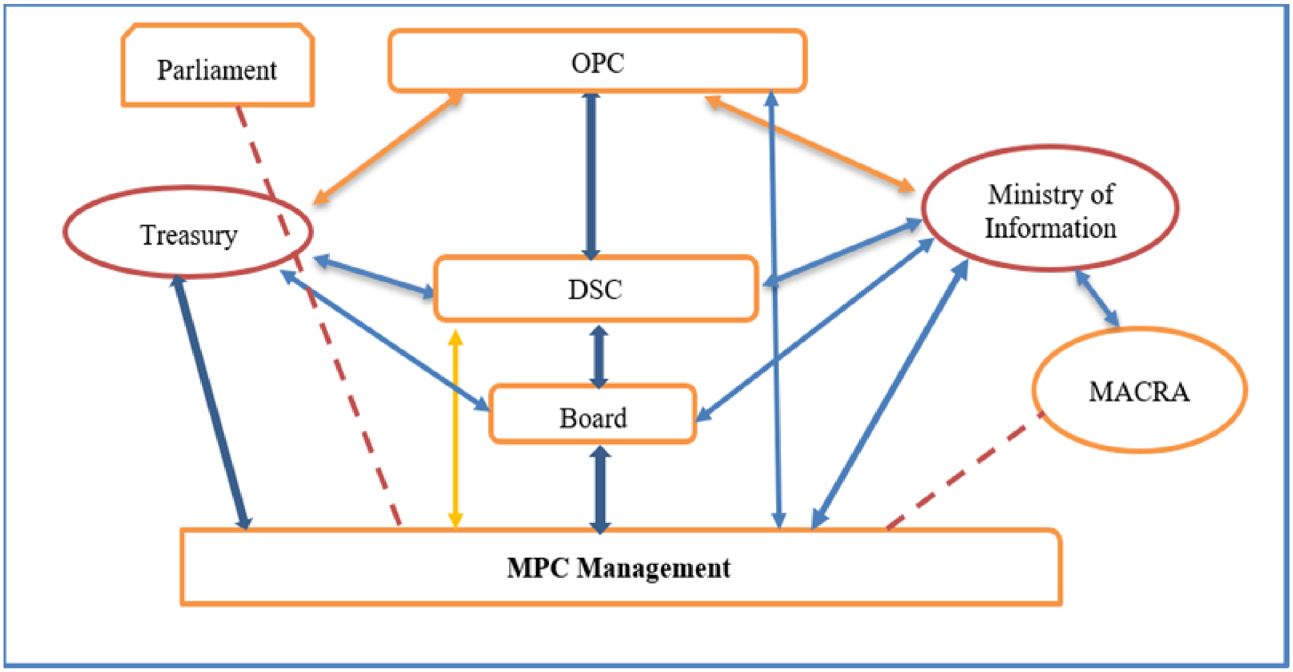


Figure 5.4 MPC Ownership Arrangement

Source: Researcher's construction from collected data (2020)

In the figure 5.4 above is a representation of MHC ownership arrangement. The figure shows that MPC reports directly to the board, Treasury, DSC, Line Ministry and OPC, while indirectly to MACRA and Parliament.

The multiple principals and reporting lines increases levels of inefficiencies as important decisions take time to be made. According to R20 of MPC, government requires approval of everything including increase of tariffs for courier services without taking into consideration that the market for this service is liberalised. The current ownership arrangement lacks commercial consideration but seems to serve political expediency. The decisions by the government to be swapping CEOs between MPC and the regulator renders this SOE to be highly conflicted.

5.2.4.3. Board Attributes

A review of the documents and data collected through interviews reveal that while the board of MPC was made up of some qualified directors but to a large extent was captured and lacked independence of mind and conduct.

5.2.4.3.1. Qualified and independent board

Findings reveal that the board was made of right size, however, the board during the 10 years under review had a mixture of qualified and political representatives. The presence of party zealots compromised the independence of the board. R20 of MPC observed that the board was made of directors who not only lacked independence but were also politically influenced. He further observes that ex-officios were more powerful than NEDs. Since the board relied to certain extent on the skills of the ex-officios, there was a downside to it in that ex-officios were represented by different people at each sitting thereby posing challenge in terms of continuity.

5.2.4.3.2. Captured and ingratiated

One of the examples of a captured board is lack of discharging its duty of oversight on the agents. MPC experienced several instances of swaps of CEOs with its own regulator, MACRA. These swaps did not only pose a challenge to the quality of corporate governance system by compromising the role of the regulator but also that the swaps were made without the blessing or the knowledge of the board. The state or the President acted ultra vires. The board was also made up of political operatives who made it difficult for this internal governance institution (board) to challenge the state decisions when such decisions were out of order. The board tended to ingratiate itself with the appointing authority for favours rendered to them. No wonder the board proved ineffective as far as discharging its oversight role. Some of the directors, it was noted, lacked skills (R19 & 20 of MPC).

5.2.4.4. Capital Structure

Findings reveal that MPC received grants. According to the revised Act, Communications Act 2016, MPC is supposed to be compensated for operating non profitable post office through Universal Service Fund. However, according to R19 of MPC the Universal Service Fund is difficult to access. The respondent further stated that out of 182 post offices, only 30 are profitable. Since MPC is forced to operate non-profitable post offices as a social service, lack of government funding for social services obligation contributes to performance challenges of the SOE.

5.2.4.5. Disclosure

The Communications Act makes it mandatory for MPC to submit reports of its activities to the minister and gazette the same. However, disclosure appears to be a challenge. While the Communications Act mandates the other institutions covered by the same Act to submit their annual reports to Parliament, such requirement seem to be missing in the clauses that cover MPC. The government which is a political machinery cannot be entrusted with the responsibility of carrying out oversight role in the absence of a monitoring mechanism from an independent institution. The state seems to be part of the problem. The absence of proper disclosure enforcement may contribute to poor governance practices.

Comparing with Sunbird, MPC does not have a framework to enforce effective disclosure. It is not surprising that the government departments charged with monitoring compliance lamented about the issue of non-compliance by these SOEs (R2 of DSC; R12 of Ministry of Finance).

5.2.4.6. Socio-cultural values

MPC which was established under the Communications Act 1998 is considered by the stakeholders as government department. Socio-cultural values that are prevalent in the government institutions are common among SOEs which are wholly owned by the government including MPC. Findings from the interviews and data reviewed give evidence to the influence of cronyism and power distance in the organisation.

5.2.4.6.1. Cronyism

Findings reveal that incidents of cronyism are common in the company. Some of these include appointment of directors who do not have anything to contribute to the company but just as a reward for their loyalty to the party (R20 of MPC); appointment of CEOs who are party operatives; transferring of CEOs to another SOE instead of firing them or disciplining them sends wrong signal about the intent of the government as far as dealing with poor performance. Since the board is captured, management seems to have a free ride. As observed by R22 of MPC that unless people are held accountable, and institutions of governance (National Assembly, Ombudsman, ACB, an NGO) are given latitude to performance their duties without interference, there will be no meaningful change in the performance of SOEs which are wholly owned by the government.

5.2.4.6.2. Power Distance

Findings reveal evidence of large power distance in MPC. For instance, appointment and transferring of CEOs without the authority of the board is common in the MPC. Appointment of directors who have nothing to contribute but just to thank and praise the President and the government of the day during board meetings. R20 of MPC noted that Ex-officios are more powerful than NEDs. Where there is lack internal governance mechanisms for instance board, agency costs tend to increase, and performance is negatively affected.

5.2.4.6.3. Materialism

Whereas R19 of MPC conceded that there is high degree of moral decadence in the society and that culture of materialism is common, findings of this study could not find a relationship between materialism and performance in the case of MPC.

5.3. Comparative analysis between good and bad performers

This section presents a summary of comparative analysis of the effects of generative mechanisms on performance of four selected SOE as discussed in the previous sections above. Governance mechanism identified in the good performing SOE were replicated to three other SOEs to analyse their effect on performance. Table 5.2 below shows comparative analysis of the four cases.

Table 5.2 Comparative Analysis of Four Cases

Governance Mechanism	Effect on performance of SOE			
	Sunbird	**ESCOM**	**MHC**	**MPC**
Shareholder power	Decreased shareholders power contributed positively	Increased shareholder's power has negative effect	Increased shareholder's power has negative effect	Negative performance due to increased shareholder's power.
External monitoring institution	Presence of MSE contributed to strong governance mechanism	Existence of MCC compact contributed to positive monitoring mechanism but was not sustainable because had limited mandate.	Absence of external monitoring institution had a negative effect on corporate governance practices.	Absence of external monitoring institution had a negative effect on effectiveness of governance system.
Ownership Arrangements	There was no effect of ownership arrangement in terms of multiple principals.	Multiple principals had an effect in the operations of the ESCOM including conflict of interest among the reporting lines.	Multiple principals and approvals contribute to delays in critical decisions as a result performance is affected.	Poor performance has been attributed to multiple approvals and principals which contributes to delays in decision making.

Table 5.2 Comparative Analysis of Four Cases, continued.

Governance Mechanism	Effect on performance of SOE			
	Sunbird	**ESCOM**	**MHC**	**MPC**
Qualified and independent board	Qualified and independent board contributed to effectiveness of internal governance mechanisms.	Qualified but not independent board was attributed to poor performance.	Somewhat qualified but not independent board contributed to poor performance.	Somewhat qualified but lacked independent and contributed to its poor performance due to lack of competitiveness of the company in the industry.
Captured and ingratiated	Sunbird was neither captured nor ingratiated. Lack of this generative mechanism contributed to effective board and good performance.	Evidence of captured and ingratiated board led to poor performance	Board was both captured and ingratiated. This is led to poor performance amidst competitive environment	Board captured and ingratiated and was a mere spectator. Contributed to poor performance in a competitive environment.

Table 5.2 Comparative Analysis of Four Cases, continued.				
Governance Mechanism	**Effect on performance of SOE**			
	Sunbird	**ESCOM**	**MHC**	**MPC**
Soft budget constraint	Soft budget constraint has no influence on performance.	Soft budget influence was visible, but this did not have negative influence. However, budget constraint was positively related to performance.	Soft Budget Constraints did not have effect on performance.	Soft budget constraint did not have any effect on performance. However, lack of funding for social obligations had a negative effect on performance.
Transparency & Disclosure	There was proper disclosure, and this had a positive effect on performance.	Lack of transparency and prevalence of conflict of interest contributed to poor performance.	There was lack of disclosure but there was no relationship between disclosure and performance.	There was lack of disclosure as stipulated by the act but there is no relationship between disclosure and performance.

Table 5.2 Comparative Analysis of Four Cases, continued.				
Governance Mechanism	**Effect on performance of SOE**			
	Sunbird	**ESCOM**	**MHC**	**MPC**
Cronyism	No evidence of cronyism	Evidence of cronyism prevalent and this contributed to poor performance	There was evidence of cronyism which contributed to poor performance.	There was evidence of cronyism and this had some effect on performance
Large Power Distance	While there was evidence of large power distance, but this did not have effect on performance due to effective monitoring framework.	Large power distance had a negative effect on good corporate governance	Large power distance had a negative effect on good corporate governance practices.	Large power distance had an effect on good corporate governance practices.
Materialism	There is no effect of materialism on corporate governance	Materialism had negative effect on good corporate governance practices.	Materialism appear to have some effect on good corporate governance practices	Materialism had no effect on corporate governance practices

Source: Researcher's investigative results (2021)

Table 5.2 above table summarises analysis of four selected cases and effects on generative mechanisms on the performance of each SOE.

5.4. Summary of the chapter

This chapter has further analysed the influence of governance mechanism on selected cases. Four cases were analysed by applying governance mechanisms. These cases had been selected based on their performance. The analysis has confirmed the influence of corporate governance on performance on SOEs. Next is chapter 6 which focuses on the findings discussed in this chapter and how these are findings are used to develop a strategic governance framework for SOEs in Malawi.

CHAPTER 6: STRATEGIC GOVERNANCE FRAMEWORK FOR SOEs IN MALAWI

6.1. Introduction

The previous chapters 4 and 5 analysed data that was collected through structured and semi-structured interviews and questionnaires, and document review. Chapter 4 analysed this data quantitatively and qualitatively in order to achieve the objectives of this study which are: to identify factors that impact on corporate governance of SOEs in Malawi; to determine the effects of corporate governance on performance of SOEs in Malawi and last but not least to develop a strategic corporate governance framework that will enhance the performance of SOEs in Malawi. The factors that influence the quality of corporate governance in Malawi SOEs were identified and analysed, the chapter also identified structures and generative mechanisms of corporate governance and their causal effects on the performance of SOEs. Chapter 5 conducted further analysis of the structures and generative mechanisms on the four selected cases according to the methodology of the study. The objective was to identify which of the structures and generative mechanisms contributed significantly to the performance of the selected cases.

This chapter attempts to achieve the last objective of the study that is, to develop a strategic corporate governance framework that will enhance the performance of SOEs in Malawi. The chapter discusses the findings from the previous chapters by comparing with existing literature. Findings from this study are linked to research objectives, research questions and hypothesis of the study. The chapter is therefore structured as follows: section 6.2 discuss findings on factors that influence corporate governance; section 6.3 discusses effects of corporate governance on performance of SOEs in Malawi context; section 6.4 proposes the strategic corporate governance framework for Malawi SOEs; section 6.5 summarises the chapter.

6.2. Factors impacting on quality of corporate governance in Malawi

The study followed a critical realism paradigm, a quantitative method was combined with qualitative method to identify the factors that impact on the effectiveness of corporate governance in Malawi. The purpose of the quantitative method was not meant to find causal statements but rather to identify patterns and relationship among variables. In critical realism, quantitative analysis observes events in the empirical domain. However, structures and mechanisms that cause the events in the real domain reside in the actual domain (Zachariadis et al., 2013:859).

Prior research attributed variations of corporate governance among countries to socio-cultural values (Griffin et al., 2018; Duong et al., 2015; Li & Harrison, 2008). This study used cultural dimension scores of Hofstede research and religiosity to investigate factors that influence the effectiveness of corporate governance. Quantitative analysis used religiosity as an independent variable and quality of governance scores as dependent variable. Qualitative analysis on the other hand used cultural dimension scores of Hofstede study. The four dimensions of culture used in the study include Power Distance, Masculinity, Individualism, and Uncertainty Avoidance.

The results from quantitative analysis focussed on finding relationship between religiosity and governance scores. Contrary to the findings of the study by Kim and Daniel (2016), results from this study did not find any significant relationship between religiosity and better governance practices. This finding is consistent with other studies who found no relationship between religiosity and good corporate governance practices and ethical behaviour (Callen et al.,2011; Matoussi & Jardak, 2012). The finding of this study is not surprising as observed by Lwanda and Chanika (2017) that at the height of cashgate corruption scandal that was prevalent in the society during President Joyce Banda’s rule, the religious bodies did not raise any voice to condemn the plunder of state resources. Political leaders, is noted, are too strong to be influenced by religious leaders. Similar findings were made by Margolis (2018) who found that politics has an influence on religiosity in the USA.

While quantitative analysis did not observe any relationship between religiosity and governance scores, an intensive design was used to find reasons for the poor quality of corporate governance scores in MPC, MHC and ESCOM, and on the other hand, good quality scores obtained from Sunbird as shown on Table 6.1below. Table 6.1 presents governance score of SOE.

Table 6.1 – Quality Governance Score

GOVERNANCE SCORE	
SOE	**GOVSCORE OUT OF 100%**
MHC	71
ADL	74
ESCOM	63
LWB	73
SRWB	71
CRWB	71
BWB	72
MPC	46
SUNBIRD	84

Source: Researcher's investigative results (2020)

Notes: Governance scores obtained from Malawi SOEs through questionnaire, semi structured interviews and document review.

Interviews were conducted with various stakeholders including board members, top management, and other governance stakeholders. The findings from the interviews revealed some structures and mechanisms which impact on the effectiveness or quality of corporate governance of SOEs in Malawi.

Malawi is a large power distance culture society. Such societies have consolidated leadership (Li & Harrison, 2008) which is less accountable than small power distance cultures (Velayutham & Perera, 2004) and is prone to corruption due to consolidation of power at the top. From the interviews, most respondents observed that poor governance or compliance with corporate governance principles is attributed to large power distance, cronyism and materialism. Findings of this study reveal that large power distance in Malawi is characterised by respect of the elders and not questioning elder's authority or what some people call blind loyalty, accepting the power inequality by the lower class (R16 of MSE; R17 of ESCOM: R21 of Sunbird) and worshipping of leaders (R6 of BWB). This culture has been a breeding ground for corruption. These observations are consistent with the study by Shaheen et al (2019) who noted that corruption in public sector organisation in Pakistan was a result of large power distance. Similar observations were also cited by Franke and Nadler (2008) who noted that subordinates in large power distance are expected to obey orders. In a cross-country analysis study, Boateng, Wang, Ntim & Glaister (2020) found that large power distance culture tends to promote favouritism and nepotism which lead to high levels of corrupt practices.

The findings of this study also revealed that there is high incidence of disregard for the rule of law or compliance with corporate governance principles. One official in the Ministry of Finance lamented that there is a growing culture of non-compliance to the set policies and procedure (R12 of MoF). The respondent added that non-compliance is exacerbated by lack of sanctions. Instead of sanctions, there is a growing culture of policy of appeasement by rewarding political party loyalists with positions. Those in position of power tend to shield their loyalists. Board and CEO appointments are a manifestation of large power distance culture. CEOs are hired and fired without the authority of board of directors. Instead of the board carrying out its fiduciary duties, the institution has been captured and is also ingratiated to the appointing authority (R10 of ESCOM; R11 of ESCOM; R14 of ESCOM; R20 of MPC).

The study also noted that most of the institutions did not bother to make disclosure of their financial results and other material effects to the general public except for Sunbird, the listed SOE. Lack of transparency and disclosure is a characteristic of large power distance society. This finding agrees with the study of Qu and Leung (2006) who noted that large power distance cultures are less transparent and very secretive in terms of disclosures. Large power distance is an antecedent to culture of cronyism. Boateng et al (2020) found that large power distance has an influence on favouritism and nepotism which form part of the elements of cronyism. According to Khatri and Tsang (2003:294), authorities in large power distance cultures reward those that show “unreserved personal loyalty.” Most of the respondents interviewed cited a high prevalence of cronyism in the public sector.

Cronyism was attributed as one of the major elements in corporate culture that is impacting on the quality of corporate governance in SOEs. The study revealed that power distance and cronyism manifested themselves in appointment of directors in most of the SOEs except for Sunbird which was a public listed SOE. Since most of the directors are not appointed on merit and to a large extent are political cronies, they show “unreserved personal loyalty.” Those who speak out or express themselves are regarded as “social deviants” who are bent on causing confusion. Such individuals are replaced or forced to resign. Similar observations were made by Kalinga (cited by Lwanda & Chanika, 2017:38) that during the second term of Bingu's reign, many members of parliament of his party who did not agree with him could not say it for fear of "being unemployed."

Cronyism can either be horizontal or vertical. Horizontal cronyism is where peers share favours while in vertical cronyism superiors extend favours to their subordinates (Shaheen, et al., 2019). It is the vertical cronyism that is prevalent in Malawi. SOEs where this culture is being practiced unchecked has seen a high prevalence of corruption. Similar findings were also reported in Pakistan in a study by Shaheen, et al. (2019). Consistent with the current study, Sabry (2020) found that State business relations in Egypt are characterised by high level of corruption and cronyism. Related to cronyism, the study observed a growing culture of materialism.

Materialism has been observed as a culture that has permeated the social fabric of the society. Interviews and documents review revealed several cases of misappropriation of public or company's resources involving directors and management (MCC, 2020:29, R18 of ESCOM). However, some of these cases have gone unpunished indicating that the "cash gate syndrome" has become a way of life. While materialism may contribute to economic growth (Kilbourne, et al., 2018), this cultural trait has been attributed to the prevalence of corrupt practices in Malawi. There is high drive or growing appetite to get rich quickly at all levels such that this predisposition to acquisition of material wealth has resulted into people cutting corners or taking shortcuts in order to accumulate wealth. The findings reveal that materialism has contributed to increased incidents of corruption and unethical behaviour. Findings of this study are similar to results obtained in the study by Lu and Lu (2010) who found that high levels of materialism in Indonesia were associated with illegal actions or unethical behaviour by consumers. This is also supported by another study by Liang et al. (2016) who found that materialism is associated with life of self-centeredness and disregard of the society's needs.

The question would be, how can negative effects of large power distance, cronyism and materialism be mitigated? To answer this question, the study, analysed four cases to examine the effects of these mechanisms on the quality of corporate governance. Findings of this study revealed that effects of power distance, cronyism and materialism are prevalent where the government is the sole shareholder. It was also noted that where there is no presence of external monitoring mechanism, incidents of poor governance were common.

6.2.1 Power distance, Cronyism and Materialism on corporate governance

In case 1: Sunbird Tourism plc findings revealed that while the society has a large power distance culture, corporate governance practices were not affected due to the regulatory rules that govern the stock exchange where Sunbird is listed. Despite the fact that the government is a major shareholder, listing on MSE improved compliance with corporate governance rules. According to R16 of MSE, the listing on MSE insulates companies from interference resulting from political powers. MSE guides and monitors the appointments and retirements of directors. It also ensures that there is transparency in the appointment process and that companies timely discloses information of material effect including change of directors and management. MSE as an external institution also acts as a regulator to ensure that minority interests are protected. The presence of MSE therefore mitigated the effects of political interference which is prevalent in other SOEs. As evidence of absence of political interference, tenure of board of directors is not tied or dependent on the changes of the government. Listing on stock exchange also enhances the independence of the board. This observation was also noted by Wong (2018) that the presence of independent directors is a prerequisite to improving corporate governance in SOE. One way of enhancing independence is through listing of SOEs on the stock exchange. The listing of Sunbird Tourism plc on MSE created an environment to constrain the power of the state.

Case 2: ESCOM represents an interesting finding in terms of the effects of power distance, cronyism and materialism on corporate governance. Findings reveal that the company has over the years experienced the effects of the culture of high-power distance, cronyism and materialism. Although the company later changed its legal form to a limited company, the government treated it just like any other parastatal or government department. However, there was a change when the Malawi government signed a compact with the MCC of USA in 2011. During the period of the compact, ESCOM's performance improved. It was noted that one of the contributory factors was the presence of the compact that Malawi government signed with MCC. This external monitoring institution acted as a catalyst to reduce the power of the shareholder through political interference. However, it was observed that even the compact had limited scope to constrain the strong arm of the Government of Malawi to reduce its interference in the operations of ESCOM.

While change of legal form was expected to improve performance, this was not the case with ESCOM because of the strong arm of the state. Unlike Sunbird where large power distance was constrained, at ESCOM large power distance reigned freely. Executive management especially the CEOs were appointed by the state without authority from the board. CEOs were transferred as if they were civil servants from one SOE to another. Directors who tried to exercise their independence were forced out or told to resign (R18 and R21 of ESCOM). Independence of the board was also affected by high cronyism. The cronies in the board would not dare "bite the arm that fed them", hence the CEOs operated independently of the board.

Case 3 and 4 present an insight of the effect of large power distance and cronyism. Unlike in case 1 and 2 where there was some presence of an external monitoring system which acted as a deterrent against political interference, in cases 3 and 4 the government treated them like departments. Transfers of CEOs were common without much say from the board. Appointments of CEO were done by the office of the President. In case 3, incidents of rule of fear and conflict of interests were common. The corporate culture was an evidence of unrestrained large power distance. Board and CEO appointments were based on policy of appeasement. Most of the respondents interviewed observed that to improve corporate governance, there is a need to debunking the shareholder or constraining the political power. It was also observed that cronies have more influence in the SOEs than professionals. It is cronyism that matters than performance.

While most several respondents noted the growing culture of materialism in the society, it was observed that effects were pronounced where government was the sole shareholder with unrestrained power. In Case 1 involving Sunbird, incidents of materialism through corrupt practices were not prevalent. This was in sharp contrast to Case 2 and 3 involving ESCOM and MHC respectively. In these latter cases, the government is the sole shareholder. The cashgate scandals which are common in the government are also prevalent in these SOEs. These manifested themselves in misappropriation and mis-procurement at also levels of administrative structures. These activities in certain cases went unrestrained.

Several suggestions emerged as possible solutions to large power distance, cronyisms and materialism. These are discussed below.

6.2.1.1. External monitoring through listing on stock exchange

While it was noted that emerging markets are inefficient (Kim & Daniel, 2016), the study observed that listing on stock exchange was one way of constraining the power of government. Not only does listing constrain the arm of the state but it also changes perception of the stakeholders. When Sunbird Tourism plc listed on MSE, several improvements to corporate governance were noted which include improved disclosure; appointment of boards who were independent in conduct and appearance; and increased monitoring by MSE on protection of minority shareholders. These observations were also shared by Wong (2018:17) who noted that when SOEs are listed and their ownership is shared with private minority interest, the state cannot intervene without contravening the listing rules. Listing therefore becomes an insulating cover against political interference. Wong (2018:5) further notes that incorporation sends a strong signal to stakeholders including politicians that the SOE is no longer a government department and needs to "operate at arm's length from government."

While listing on stock exchange emerged as a solution to political interference, another argument was presented against privatising public goods (R21 of ESCOM & Sunbird; R8 of SRWB). While this argument has some merit for least developed countries, however, it must be considered in its context. The study revealed that while not all public goods can be privatised, all SOEs must undergo governance reforms to improve their performance. This argument brings into the issue of reforming the power sector, property development sector and communication sector which are represented by ESCOM, MHC and MPC respectively.

The power sector has undergone several reforms including the recent one of unbundling Generation from Transmission and Distribution. However, these reforms have not emancipated ESCOM from cronyism which resulted from unrestrained political power. A review of the power sector across the region, reveals that the power sector can partially be placed in the hands of minority investors with some success. In Kenya, power sector reforms took similar steps as the ones that Malawi has undertaken. The power sector was unbundled leading to the formation of The Kenya Power and Lighting Company PLC responsible for electricity transmission and distribution and Kenya Electricity Generating Company (KenGen) responsible for electricity generation. Both companies are public liability companies listed on Nairobi Stock Exchange. The government retains the 50.1% in the former and 70% shareholding in the latter. A review of finance performance of the two companies shows that the performance of the two companies has been positive for the last ten years under review (Kengen, 2019; Kenya Power, 2020), See Appendix 1.9.

Listing on stock exchange not only insulates the SOE from political interference but also changes the perception of companies by stakeholders who considers such a company as a private property as the case is with Sunbird Tourism plc in Malawi. According to R15 of ESCOM, when an SOE is wholly owned by the government, stakeholders including employees have the perception that if the company makes a loss, the shareholder will cover the loss. He further noted that the perception of people is that SOEs are not supposed to make profit and cannot be liquidated. Similar observations were made in a study conducted by OECD (2018:90) that where the State has large shareholding, the companies are considered "too big to fail. Listing on MSE will change this perception. However, as noted earlier not all public goods may be placed in private hands. The cases of MHC and MPC brings us to another solution to improving quality of governance without privatisation.

6.2.1.2. Strengthening governance structures

In the case of MHC and MPC, listing may not be the answer to improving corporate governance. However, it was evident during the study that strengthening governance structures improves corporate governance of SOEs. Respondents identified critical governance institutions that needed to be strengthened to improve corporate governance in SOEs. Some of these institutions include the role of the National Assembly (Parliament), Ombudsman, Anti-corruption Bureau (ACB) and Non-governmental organisation. R22 of MPC suggested that these institutions should operate independently from other arms of the state. Strengthening these institutions will not only help non-listed SOEs like MHC and MPC but also listed SOEs where the state has a majority shareholding. The benefits accrued from these institutions include, insulating them from political interference, strengthening the role of the board, as well as promoting transparency and public disclosure. As observed by one respondent (R25 of Parliament), that the society does not demand accountability and in the absence of formal institutions to enforce accountability, the increase of moral hazards is evident.

This study therefore proposes that all SOEs should report to the National Assembly or parliamentary committee that deals with statutory bodies not on adhoc basis but as a matter of policy. The National Assembly represents the interest of actual owners, that is the citizenry. The study also proposes that ACB should be independent and properly capacitated. The role of NGOs has been critical in strengthening the political accountability in Malawi. The use of these NGO institutions is currently proving pivotal as a voice of the voiceless owners.

It is important to note that there is no one size fit all. Whether listed and non-listed, all governance structures need to be strengthened. This proposal is consistent with the observations in the study conducted by Milhaupt and Pargendler (2017). The authors observed that different institutional strategies have been used in different countries to insulate SOEs from political interference as well as to protect these organisations from favouritism [cronyism] and corruption that result from the strong arm of state shareholding.

6.2.1.3. Building ethical values or *uMunthu* values.

The other issue to be addressed is that of materialism in the society which has been behind the rise of corrupt practices in Malawi. One way to solve this problem both in short and long term is to build ethical values or the *umumthu* values of the society.

Umunthu is the Malawi version of *Ubuntu* which is an African moral philosophy that espouses the life of “interconnectedness, inclusion and interrelationship” (Wright & Jayawickrama, 2020). Ubuntu originates from Zulu language that promotes the African value system of intense humanness, caring, sharing and compassion, and associated values, ensuring a happy and qualitative human community life in a family atmosphere and spirit (Nzimakwe, 2014). Ubuntu is expressed through the maxim that “a person is a person through other persons” (Metz, 2007:331), or “*umuntu ngamuntu ngabantu abanye*” (Tambulasi & Kayuni, 2005:148).

However, materialism is the antithesis of ubuntu or umunthu value system. Mahaye (2018:16) argues that “African life” which is based on ubuntu value system stands in sharp contrast to materialism culture. Materialism is founded on the principle of self-centeredness where an individual accumulates material things at the expense of the society (Liang et al., 2016). By promoting *umunthu* values individuals will therefore align their interests with those of the society. This will also promote the spirit of love for others and consequently decrease the spirit of materialism and corruption tendencies.

How are *umunthu* values developed? Like any other virtues, *umunthu* value systems is developed through learning. Morals virtues are developed over time through teaching and training (Begley, 2006). Darr (2020) argues that virtues are character traits that are learned and developed in one’s lifetime. This learning starts from one’s community. According to Morales - Sánchez and Cabello - Medina (2015:166) virtues are part of moral competencies that are “fostered mainly by teaching and they demand time and experience”. While the importance of virtues cannot be overemphasised in the wake of moral corporate hazards that have engulfed the society, what is missing is the concerted approach to come up *with* strategies for moral regeneration. Findings of this study reveal that building *umunthu* values systems requires an integrated approach.

To build ethical values, the study proposes *umunthu* values should be taught at a community level. According to Mahaye (2018:4) the school is one such community where learning should start. He further argues that the school is “not a collection of individuals”. The study therefore proposes that moral education be introduced in the school curriculum at all level. African school systems which are to a large extent based on western education philosophy have contributed to promotion of “individualistic philosophy” which is different from African philosophy which is “communalistic” (Etieyibo, 2017:13). Nxumalo and Mncube (2018) commenting on the education system in South Africa, notes that it is lacking in many respects as some children leave primary school with little or no knowledge of issues of morality and integrity. *Umunthu* value system should be taught to both children at foundational level of education as well as tertiary level. Teaching *umunthu* value system requires an integrated approach and it is a lifelong process. Consistent with Cochran and Weaver (2017:255) proposal, developing and teaching ethics should integrate “affective and cognitive learning with moral reasoning skills”.

In addition to integrating *umunthu* in the curriculum at the formal education level, informal education should also be promoted. Informal education takes place in a wide society which can be referred to as macro community. As part of *umunthu* regeneration, ethical or moral education should be infused in all cultural activities in the society which includes cultural festivals and religious activities. This will involve informal education through traditional and community leaders (Skjøstad Hovde, 2019). Some of the informal education may involve dances, music and poets and arts that promote and carry messages to promote ethical behaviour and while at the same time speak against vices and negative effects of corruption. Introducing informal education is also in line with Etieyibo (2017:324) argument that educating a child in the principle of ubuntu is the responsibility of everyone in the community because “it takes a village to raise a child”. The society can raise a child responsibly only if it has people with the right attitude and altitude. In other words, the messages coming from the society should be those that promote moral or ethical behaviour while at the same time eschewing corrupt practices. This is the spirit of *umunthu*.

The next question to be addressed is, do quality corporate governance system affect SOE performance? This next section addresses the effects of corporate governance on SOE performance as highlighted by the results of this study.

6.3. Effects of corporate governance on SOE performance

The second objective of the study attempts to determine the effects of corporate governance variables on SOE performance. In line with critical realism paradigm, quantitative analysis was conducted to identify patterns and relationship between corporate governance variables and SOE performance. Qualitative analysis was performed to identify generative mechanisms that influence performance of SOEs. This section discusses the findings following major themes and structures of corporate governance identified in this study.

6.3.1. Ownership Structure and performance

The study identified legal form and ownership arrangements as important elements of ownership structure. Results of the study from correlation matrix in appendix 1.7 reveal that legal form and ownership arrangements are positively related to ROA, but ownership arrangement is not related to EBIT contrary to the study expectations.

Results from OLS regression analysis presented on Table 4.7 reveal that legal form is positively and significantly related to EBIT but there was no significant relationship with ROA. The positive results between legal form and EBIT supports earlier studies which found significant relationship where the state has an indirect ownership (Abramov, Radygin, Entov, & Chernova, 2017). However, the same study found a negative relationship between increased state ownership and financial performance. Similar findings were revealed by the study conducted by Lin and Fu (2017) on Chinese companies listed on Shanghai Stock Exchange (SHSE) and Shenzhen Stock Exchange (SZSE) who found that government-controlled companies are related to poor performance. Contrary to these findings, a study by Abdallah and Ismail (2017) found that lower levels of ownership concentration by government are positively associated with company performance.

The current study did not find any significant relationship between ownership arrangements and accounting performance using static and dynamic models (Table 4:13 and 4.15). The results are not in support of the expectation of the study that proposed that dual or centralised ownership arrangements contribute to improved performance. However, these findings are consistent with results obtained by Costa and Jaime (2008) in their study on Spanish government hotels who found no significant relationship between performance and corporatisation.

While the quantitative analysis showed a weak to no significant relationship between ownership structure and accounting performance of SOEs, these empirical results did not go to the extent of finding causal statements. According to critical realism research paradigm that has formed the philosophy of this study, the objective of quantitative analysis is to discover relationship or patterns between variables. These relationships are observed and reside in the empirical domain but are not meant to measure causal statements between ownership structure and SOE performance. The study used the qualitative method to identity structures and mechanisms that produced the observed or non-observed events in the empirical domain. The last part of this section discusss generative mechanisms that have been identified in the ownership structure and their effects on performance.

6.3.1.1. Legal From

The study identified legal form as an important governance structure where some generative mechanisms that contribute to the poor governance and poor performance of SOEs reside. Malawi, as noted earlier, has multiple instruments that establishes SOEs. Among these are several Acts of Parliament for different sectoral statutory bodies and the Companies Act. It was noted that it is not the Acts themselves that contribute to governance problems but the power of the shareholder. Most of the respondents interviewed attributed governance failure to shareholder's power and identity of the shareholder.

6.3.1.1.1. Shareholder's power

While the importance of legal form cannot be disputed, however, the findings of this study reveal that a mere change from Act of Parliament to Companies Act is not a panacea for poor performance of SOEs. The results of the study revealed that it is the unrestrained power of the sole shareholder of the SOE that lead to poor governance and contribute to poor performance. This was demonstrated by case 1 of Sunbird Tourism plc and case 2 of ESCOM Limited. Both companies are established under the Companies Act. However, the difference is that Sunbird is listed on Malawi Stock Exchange while ESCOM is wholly state-owned and is not listed. The listing on stock exchange introduces another governance structure that of external institution for monitoring as well as other shareholders. Sunbird in this study performed better than ESCOM because the power of state as a shareholder was restrained due to the listing clauses. Wong (2018) noted that where shareholding in an SOE is shared with private minority interests, political interference of the state is minimised. In another study Abramov, et al. (2017) found that increased state ownership resulted into poor performance. The authors attributed the poor performance to the fact that the state and its representatives in SOEs tend to focus on political objectives much more than commercial ones. These findings are consistent with an earlier study by Song, Wang and Cavusgil (2015:690) who found that increased state ownership results into lower market orientation due to the increased focus on political goals that are pursued by the major shareholder. The authors also observe that in pursuit of political goals, the shareholder tend to provide goods and services below market price. This study is in agreement with these findings, for instance, the study found that one of the causes of poor performance of MHC was due to lower tariffs offered to tenants and also the reluctance of tenants to pay higher tariffs for state property(R7 of MHC).

While introducing private minority interests minimise political inference and abusive power of the state shareholding, this generative mechanism is not applicable to all legal forms. The study found that some of the SOEs may not even be placed in the private hands due to the nature of their business. In this case, another mechanism is needed to be introduced to minimise the power of the state as sole shareholder.

6.3.1.1.2. Identity of Shareholder

In addition to shareholder's power, the identity of the shareholder also plays an important role. Previous research agrees with this study's findings. Guo and Platikanov (2019) found positive and significant relationship between independent institutions and company value. Findings of this study were consistent with a similar study by Lin and Fu (2017). In another study on Chinese listed companies, Kong, Famba, Dzimiro, Sun, Kurauone (2020) found that ownership concentration influences company value. However, the effect depends on the identity of the shareholders. Where the ownership concentration was in the hands of the state, there was a negative significant effect on corporate performance. On the other hand, when this concentration was in the hands of the independent institutions which are not state owned or controlled, ownership concentration was associated with improved performance. While studies have identified government ownership as a value destroyer, the study by Abdallah and Ismail (2017) found that lower levels of concentration of government ownership is significantly and positively related to financial performance in the Gulf Cooperative Council states.

This study found that the presence of institutional shareholding is a strong deterrent against the free rider behaviour of government ownership. The state as a major shareholder tends to abuse its shareholding rights. To minimise incidents of political interference, respondents noted that state ownership needs to be debunked by inviting institution shareholders (R4 of ADL; R21 of Sunbird). Institutional investors are better monitors of their shareholding. Similar findings were reported by Lin and Fu (2017).

The findings of this study from detailed analysis of Case 1 covering Sunbird revealed that when shareholding of the state is reduced through the participation of minority private interests, performance of the SOE improves. This was the case of Sunbird whose performance improved with change of legal form from wholly owned SOE to public limited SOE. According to respondent R21 of Sunbird who was involved in the decision-making process of this transitioning phase, he recounts the decision to make a public offer:

> Moving from private limited to public limited was easy in the case of Sunbird because it had private shareholders. Private investors were pulling out of the company because it was not doing well then, we decided to do public offers to protect the company from government interference. Government interference, we perceived, would bring down the company to bankruptcy. MDC which was the shareholding entity on behalf of the government was also not doing well. So, the IPO was a good solution.

After changing from private limited to public limited, there was significant improvement in terms of Sunbird financial performance. Since its public offer, the company's fortunes have changed for the better. It has managed to withstand competition. Compared with competition, Sunbird has fared every well. Its average ROA was above its competitor as shown below (see figure 6.1). Except for year 2012, Sunbird financial performance as measured by ROA was higher than Blantyre Hotels plc. Sunbird average ROA for 5 years ended 2016 was 10% against 9% for Blantyre Hotels. Figure 6.1 below shows comparative financial performance of listed hospitality companies.

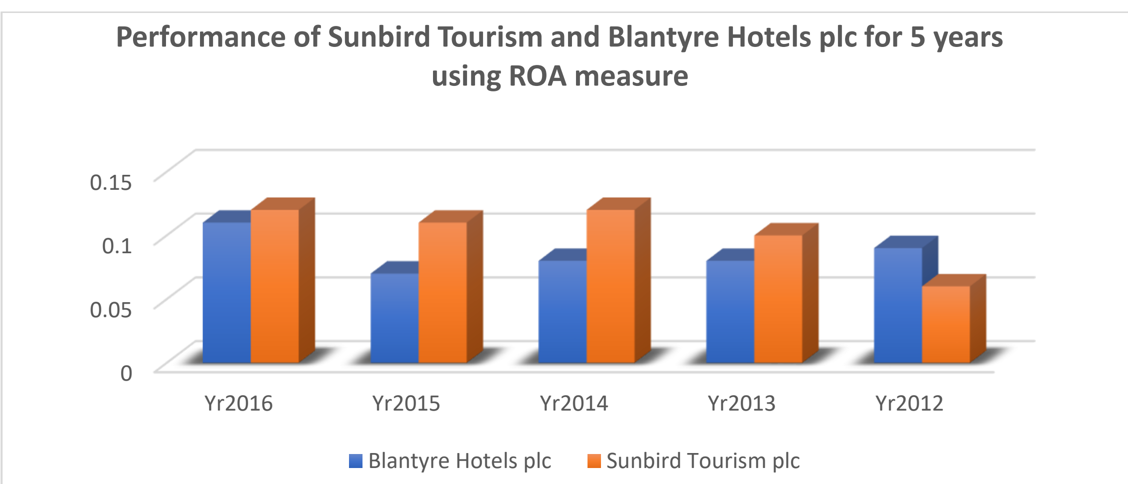


Figure 6.1 Performance of Hospitality listed companies on MSE

Source: Annual reports (Sunbird Tourism, 2016; BHL, 2016)

Figure 6.1 above shows performance of two listed hospitality companies, Blantyre Hotels Limited (BHL) and Sunbird Tourism plc. Performance is measured by ROA for 5 years from 2012 to 2016. Except for 2012 results show that Sunbird Tourism outperformed BHL which is privately owned listed company.

It is worth noting that while Sunbird's shareholding is significantly controlled by the state at 71%, Blantyre Hotels on the hand is controlled by independent institutions with the public owning 7.2%. This is contrary to the popular belief that private sector enterprises perform better than companies that have significant government shareholding of control (Zeitun & Tian, 2007; Mollah et al., 2012; and Hovey & Naughton, 2007)

Contrary to the above findings that increased state ownership destroys company value, other studies have found that presence of government ownership increases monitoring mechanism and performance of companies (Ghazali, 2010; Phung & Mishra, 2016). Results from Case 1 (Sunbird) are consistent with findings of Munisi et al. (2014) who revealed that some level of government ownership in emerging economies is beneficial. Similar results were revealed by study of Rakhman (2018) on Indonesian companies who observed that some partially privatised companies performed better than private companies. Other studies also came up with the same conclusion that some presence of government ownership increases monitoring mechanisms (Phung & Mishra, 2016; Ghazali, 2010).

While the findings of this study does not necessarily validate the efficacy of independent institutions as a deterrent to moral hazard which arise as a result of state abuse, results shows that significant dilution of state shareholding lead to improvement in performance due to improved monitoring and control mechanisms.

Case 2, 3 and 4 also reveal that where the state is a sole shareholder and where there is no independent monitoring or control mechanisms, SOEs faced negative performance. Findings of this study reveals that while not all SOEs may improve through change of legal form by inviting minority interests, one thing that is apparent is that all SOEs need a robust and effective independent monitoring and control mechanisms to constraint abuse and political inference by the state as a sole shareholder.

Case 2 of ESCOM has a precedent in the region, where power utility operators have successfully invited private minority interests through public offer. An example is that of utility power sector in Kenya where Kenya Electricity Generating Company (KenGen) responsible for electricity generation and Kenya Power and Lighting company both have significant private minority interest and are listed on the Nairobi Stock Exchange. The two companies have posted good financial results for the past ten years (KenGen, 2020; Kenya Power, 2020), See appendix 1.9.

Findings of this study reveal that change of legal form has an influence on SOEs where such legal form leads to significant dilution of state shareholding through private minority interest participation. Where it is not practically feasible to invite private interest, the ideal is to strengthen governance institutions to improve the monitoring and control mechanisms of SOEs operations. Some of these institutions includes independent ACB and parliamentary committee responsible for SOEs.

6.3.1.2. Ownership arrangements

One of the challenges faced by SOEs is the way the state exercises its ownership rights. Studies have revealed that the presence of multiple principals and objectives is one of the causes of inefficiencies in SOE (Lawson & Kaluwa, 1996; World Bank, 2014a). Results from correlation matrix revealed a significant positive correlation between ownership arrangement and ROA, but the relationship was not significant with EBIT. The results mean that performance improves when the SOE moves from traditional ownership arrangement to dual or centralised.

However, regression analysis did not show any significant relationship between ownership arrangement and accounting performance of EBIT and ROA. On the contrary, results from qualitative study shows that ownership arrangement does have an effect on performance. Of the respondents interviewed, 43% indicated that decentralised arrangements have a negative effect on performance.

Results from case 1 of Sunbird, show that there was no evidence of presence of multiple principals, multiple and reporting lines. The departure from decentralised arrangement, which is common among SOEs in Malawi, to dual arrangement has helped to insulate Sunbird from political interference. Unlike other SOEs, Sunbird does not report to DSC.

Case 2 reveals presence of multiple principals and reporting lines. ESCOM is established under the Companies Act and the board is supposed to have the ultimate authority according to its Memorandum and Articles of Association, but it is still treated like any other parastatal. The company has multiple reporting lines. According to R10 of ESCOM, the company reports to MoF, DSC, Ministry of Engergy, MERA and to some extent OPC. R5 observed that lack of clarity in governance Acts lead to confusion. He cites an example of a clause that says, “report to relevant ministries.” This is like a blank cheque and is open to abuse where decisions are sought from several ministries as long as they are deemed “relevant”. Performance of SOEs including that of ESCOM cannot improve because of several approval processes that the companies have to go through (R10 of ESCOM). This observation was corroborated by R14 of ESCOM who noted that challenges of multiple reporting lines cause confusions, because of overlaps and delays in decision-making. According to the World Bank (2014a:13) multiple principals and conflicting goals give rise to abuse of the SOEs resources by the state for its short-term political goals. MCC (2020:21) attributed ESCOM poor performance to “confusing governance and reporting lines by ESCOM” that was based on political expediency than commercial consideration. This case reveals that despite the changes in legal form of ESCOM, shareholding and its modus operandi had not departed from that of a state department. This case gives evidence that for meaningful change to take place, there is need of change beyond legal form but that the change should embrace the new way of doing things including streamlining objectives and reporting lines.

While the challenges faced by ESCOM was that of multiple principals and reporting lines, Case 3 and 4 has extra challenges. These last two cases reveal governance weakness from the standpoint of a legal regime. MHC and MPC are established by Acts of parliament and are wholly owned by the state. The state’s treatment of these two SOEs is similar to other non-commercial SOEs. In conduct, the state treats MHC and MPC just like government departments. Respondents lamented that the institutional arrangements that MHC and MPC operate in are not meant for a commercial enterprise. Decisions take long because of multiple approvals (R7 of MHC; R19 & R20 of MPC). The approvals at board level is also non effect. Respondents cited incidents where members of the board representing various government departments sit on board and pass a resolution, the same members will have to deliberate on the same issues in their various ministries or department where further approvals will be sought. Sometimes the same members who approved the decision at the board meeting will go against their own decision at their departmental meetings in their respective ministries. According to another respondent (R4 of ADL), multiple principals and approvals stifles operations of companies. R7 of MHC lamented that issues of efficiency and effectiveness are not taken seriously by the principals. This is because approvals are sought for all decisions to the extent that important decisions that have impact on the operations of SOEs take a long time to be implemented.

The findings of this study reveal that decentralised ownership arrangement has a negative effect on performance on the SOE where there is no mechanism to effectively monitor the performance of the SOE and political interests on the operations of the company. Findings of this study in relation to ownership arrangements are consistent with the study by Phuong, et al (2020:677) on Vietnamese SOEs who revealed that decentralised ownership arrangement was one of the major causes of "poor and ineffective performance in SOEs" which result from lack of effective monitoring and control. In a study of power utilities of Southern African countries, Mbo and Adjasi (2017) found that representation of many stakeholders in the board lead to poor SOE performance.

The legal form and ownership arrangements have an influence on the operations of a SOE. The influence of these structures is far reaching as it also affects the operations of the board of directors. The next sections discusss the effect of board attributes on SOE performance.

6.3.2. Board attributes and SOE performance

Board attributes covers board composition, board structures, board characteristics and board processes (Korac-Kakabadse, et al., 2001). These attributes form an important element of internal corporate governance mechanism. The aim of the study was to examine the influence of board attributes on SOE performance. Results from correlation matrix show that board attributes are correlated with SOE performance. Accounting measure of EBIT is positively correlated with Risk Management but negatively correlated with political party affiliation. Regarding ROA, findings of the study reveal that Risk Management Committee and Tenure are positively correlated with SOE performance. Results also show that ROA are negatively correlated with political party affiliation and presence of civil servants on the board. Results on political affiliated directors are consistent with the study by Heo (2018) on Korean SOEs. On overall importance of board attributes, results are consistent with study by Mbo and Adjasi (2017) who found that the strength of board is related to power utility performance in selected Southern African countries of Botswana, Mauritius, Namibia and South Africa.

Results from regression analysis show that board structure is associated with SOE performance of EBIT and ROA. The study found that political affiliated directors and public servants are negatively and significantly related to ROA supporting hypothesis 7 and 8 respectively. However, there was no relationship with EBIT accounting measure. Risk management Committee is positively and significantly related to both SOE accounting performance measures of EBIT and ROA using static models of OLS, fixed effects, random effects and GMM estimation supporting the study hypothesis 14. However, the results did not support hypothesis for rest of the board attributes. While the objective of quantitative study is to investigate relationship between variables or pattern among variables, such analysis falls short of identifying and finding causal explanations among variables. The study followed a critical realism approach which goes beyond empirical domain to identify generative mechanisms that provide explanations for the poor performance of these SOE. To achieve, qualitative analysis was conducted through document review and interviews with various stakeholders.

Results from qualitative analysis revealed that board attributes are a function of ownership structure. The study identified emergent structures and generative mechanisms under board attributes that have an influence on the performance of SOEs in Malawi. The sections below discuss governance structures and mechanisms that emerged from these structures.

6.3.2.1. Appointment process

This structure emerged as one of the important elements that has effect and influence several governance structures and mechanisms. Results of the correlation matrix reveal that CEO appointment is positively correlated with performance. However, regression analysis did not show any significant relationship between appointment process and performance. Quantitative analysis did not show any relationship between board appointment and performance. Results from qualitative analysis revealed that appointment process has an influence on the quality of the directors, effectiveness of board interactions and its monitoring role of CEO and other executive management.

Several respondents noted that appointment process of SOEs lacks transparency and its influenced by politicians and management. Such appointment brings in directors who lack independent and are often ingratiated to the appointing authority. The study also revealed that directors are appointed not on merit but as a reward for their political patronage. Appointment process was also seen to be influenced to some extent by SOEs legal form.

The study identified a marked difference between the quality of directors of mixed ownership and directors from wholly owned government enterprises. In case 1 involving Sunbird, a listed SOEs, it was revealed that qualified and professional directors were appointed to the board. The study showed that the presence of external monitoring mechanism brought about by the presence of Malawi Stock Exchange, provided the much-needed safeguard against political interference and appointment of directors without requisite skills. These directors have authority over management. This characteristic was missing in wholly owned SOEs regardless of legal form. For instance, in Case 2, 3 and 4 showed that director's appointment was overtly influenced by politicians.

Several generative mechanisms emerged from appointment process including qualified and independent directors, captured and ingratiated boards.

6.3.2.1.1. Qualified and independent directors

The study found that qualified and independent directors was a good attribute that separated effective board from the captured one. Directors of Sunbird exhibited these qualities. Sunbird is the only SOE that disclose qualifications of its directors. Appointment of these directors is vetted by MSE. While the government as a major shareholder influences the appointment of CEO, the board is able to exercise its authority over the executive management.

Qualified and independent directors were seen to positively and significantly contribute to the performance of Sunbird. These mechanisms were missing in cases involving wholly owned government enterprises. For instance, in a case involving ESCOM, while the board had some good measure of qualification, it was not independent due to political interference. The case presented apparent lack of monitoring mechanisms by the board. Lack of monitoring mechanisms contributed to poor performance by ESCOM. Cases 3 and 4 involving MHC and MPC revealed both lack of quality and independence by directors except for a few instances where qualified directors were appointed to the board.

The findings of this study reveal that qualification and independence as generative mechanisms have an influence on the performance SOEs. Where board members are qualified and act independently without political interference, the study showed improved performance. However, where directors lacked these attributes, consistent poor performance was observed due to lack of monitoring mechanism, mis-procurements and conflict of interests. These findings are consistent with findings by Mbo and Adjasi (2017) who revealed that directors appointed based on political affiliation do not have necessary skills for performance improvement. Similar findings were revealed by Thenmozhi and Sasidharan (2020) who showed that board independence leads to improved performance and conversely, lack of independence leads to poor performance. Phuong, et al. (2020) also found that political appointees cannot run SOEs effectively. Contrary to these findings, Rashid’s (2018) study on Bangladesh companies did not find any relationship between board independence and performance. This finding supports the proposition that board independence may not be a solution to all situations.

6.3.2.1.2. Captured and ingratiated board

The other generative mechanism that emerged was that of a captured board. Findings of the study reveal that a captured board was one of the causes of the poor performance of various SOEs including ESCOM, MHC and MPC. A captured board is an antithesis of an independent board. The former manifests itself in a board that has no authority over management, as such cannot execute its fiduciary duties.

In case 2 involving ESCOM, board capture involved appointment of board with strong political connection; government transferring CEOs without board knowledge; directors failing to stamp its authority on management because of the private benefits from the company; purging of board members who exhibited dissenting views; government forcing or influencing management to certify mis-procurement; and failure by the board to take action or implement decisions due to political interference. The study revealed that a board could not act with authority because of the either management was more politically connected to the appointing authority, or directors were benefiting from the same organisation as some of them were suppliers to the organisation as a result they were highly conflicted. In other cases, members of the board of directors were ingratiating themselves with the appointing authority due to sitting allowance and award of tenders. Such directors were there to advance the cause of the politicians and not of the company.

In the cases of MHC and MPC, attributes of a captured board were evident in the ultra-vires decisions taken by the government without board authority. These decisions include hire and fire of CEO; and transfer and or swapping of CEO between MPC and MACRA. Quite often most of these decisions were made without board authority. There was a clear case of ‘absent fiat’ in terms of board oversight role. In some cases, there was a clear manifestation of rule of fear in the company’s among top management, but the board’s hands were tied because of fear of political functionaries who were present in the company (case of MHC). The board was at best described as captured and ineffective in its monitoring role. The findings of the study revealed that a captured board significantly and negatively affected the performance of SOEs.

Similar observations were made by Balasubramanian (2017) who observed that a captured board does not performance optimally. Similar observation was made by Wong (2018) who noted that CEOs and management who are appointed by the government are not accountable to the board. While independent directors improve SOEs performance (Thenmozhi & Sasidharan, 2020), a captured board leads to sub-optimal board performance and invariably poor company performance. Captured boards tend to serve the interest of those that appoint them (Phuong et al., 2020). Similar results were obtained by Kong et al. (2020) who revealed that when government has direct influence in the appointment of CEO and Chairman, performance of the company is negatively affected. Contrary to the findings of this study, a study by Heo (2018) showed that the mere presence of independent directors does not result into improved performance.

6.3.2.2. Board Size and performance

The findings of this study using quantitative analysis reveal that board size is negatively but not significantly related to performance. Further analysis was performed using qualitative analysis, no significant relationship was revealed between board size and performance. Despite these findings, several respondents noted that large board size presents financial burden on the SOEs. This finding is similar to other studies for instance, Heo (2018) in a study of the South Korea SOEs, did not find significant relationship between board size and SOE performance measure of ROA though there was significant relationship with other performance measures in the study. Another surprising result was that of Thenmozhi and Sasidharan (2020) in their study on Chinese and Indian SOEs. The study found that board size was negatively related to SOE performance in India but positively related to performance is China. Studies conducted in East Africa revealed a negative relationhip between board size and company performance (Guney, et at., 2020). However, the East African study was not conducted on government owned companies. This indicates that environmental factors may come into play and one size does not fit all. While the current study did not find any relationship between board size and performance from the quantitative analysis, two generative mechanisms emerged from board size, that of cronyism and legitimation.

Lack of relationship between board size and performance can be explained by the need to conform without necessarily perform. Most SOEs had numbers of the board merely as an act of compliance to the regulatory requirements but some directors lacked requisite skills to transact board duties. Compliance in terms of board size was meant for legitimation. Such board size does not add value to the operations of the SOE. Board size which is merely meant to comply with regulatory requirements in terms of numbers is at best a means of rewarding political loyalties and this leads to a captured board.

6.3.2.3. Board Tenure and performance

Results from correlation matrix showed a positive relationship between board tenure and SOE performance. However, regression analysis did not reveal any significant relationship between tenure and performance. Further analysis using qualitative study, revealed that short term tenure had a negative effect on SOEs performance.

The study also revealed that tenure was a function of change of government. SOEs that changed boards due to change of government showed poor performance. This finding is similar to observations by Simpson (2014) on Ghanaian SOEs. On the contrary, stable and longer board tenures were associated with improved performance. This was evident from Sunbird whose boards were not aligned to change of government. Findings of this study on board tenure are also consistent with the study by Livnat et al. (2020) who revealed that board tenure is significantly and positively related to performance measured by stock returns.

The study also noted that tenure was associated with cronyism and board capture. Directors who were not political aligned did not survive their term of office. While directors who were politically connected, survived as long as the appointing authority was still in charge. Such directors had nothing to contribute other than to appease and serve those who appointed them.

6.3.2.4. Board committees and performance

Board committees were identified as an important governance structure. Results from the correlation matrix showed that only risk management committee was related to performance. Regression analysis results also revealed that risk management committee is positively and significantly associated with both performance measures supporting H2. Other committees such as audit, nomination and remuneration were not significantly related to performance. Findings on these committees are similar to prior studies by Hermawan and Adinda (2012) who found no significant relationship between board committees and company value of Indonesian SOEs. In another study Bozec (2005) did not find any relationship between board committees of Canada's SOE and their performance.

The possible reasons for lack of relationship between most board committees and performance is that the committees for wholly owned government companies are structures for compliance sake rather than performance. As noted by R14 of ESCOM, committees mirror the main board. If the main board is captured so are committees. The board lacked independence, and so it was true for the committee. Some of audit committees had a chairman who did not have financial background. It not surprising that risk management committee was significantly and positively related to performance because this committee was only found in Sunbird which incidentally is the best performing SOE. The presence of other committees, on the other hand did not add value to the performance of SOEs as they were merely for legitimation exercise. While this study does not dispute the value of these committees, but for these committees to be effective there is need to change the legal and institutional arrangement of these SOEs. The institutional arrangement should focus on freeing the directors from political interference.

6.3.2.5. Board evaluation and performance

One of the critical elements of measuring board effectiveness is to evaluate board performance. According to OECD (2015), board should carry out an evaluation on an annual basis. Results from the correlation and quantitative study did not find any relationship between board evaluation and performance. However, results from the interviews conducted revealed that board evaluation is an important element for measuring the performance of board and individual directors.

Findings of the study showed that board evaluation has been conducted by Sunbird, a listed SOEs. This underscores the proposition that board effectiveness is a function of legal form. Several reasons were advanced for lack of board evaluations. According to R2 of DSC, evaluation tool had not been developed. Where evaluation had been done, it had not cascaded to the individual director's level. The other reason for lack of evaluation is that members felt it was a worthless exercise, after all, the board was subject to the President who appointed them. The President had power to appoint and fire not based on individual performance in the board by based on their political alignment.

Most respondents, however, agreed that performance of an SOE cannot be achieved without an effective board. One way of measuring board performance of board is through board evaluation. To ensure transparency and seriousness, evaluations should be conducted under the supervision of an independent institution. As one respondent put it, the process should be outsourced to Advisory Service providers (R14 of ESCOM). To improve on the effectiveness of the evaluation process, the tool should also include evaluation of board's performance in the following areas: strategic failure, control failure, ethical failure, and interpersonal relationship failure. Individual directors' tenure should be made subject to their performance. Results of the evaluation should be used to identify skills gap analysis that will assist in providing skills development for the board. Board evaluation will drive the directors to move from merely attendance to performance and this will invariably lead to improved performance of the company. Similar propositions were made by Simpson (2014) that the board need to be held accountable for their performance and performance of the company.

6.3.2.6. Governance skills and performance

Whereas qualification of directors is an important element that may ensure directors competence in discharging their roles, this study went further to investigate the relationship between governance skills and performance. Results from the correlation matrix revealed that governance skills are positively related to both performance measures of EBIT and ROA. These findings are consistent with the study by Mbo and Adjasi (2017) who found that board strength measured by diversity in terms of skills is positively correlated with performance measured by profitability, productivity and operational efficiency in utility SOEs.

However, results from regression analysis did not find any significant relationship between governance skills and performance. One possible explanation for lack of significant relationship between governance skills and performance is that of lack of board independence. The study noted that where directors had requisite skills, these directors could not perform as expected because they lacked independence from the political influence. As noted by one governance expert (R5), political expediency was considered as the most important qualification in the appointment process of directors for SOEs.

This study noted that there cannot be meaningful contribution by directors to SOEs if these directors are not qualified and independent at the same time. There is need of an institutional framework that safeguard the independence of the board. A review of the selected cases reveals the marked difference between best performers and poor performer. In the case study involving Sunbird, directors' qualifications are disclosed to the public. Not only as the qualifications disclosed but directors have requisite skills including governance skills. Data collected shows over 55% of directors had governance skills against a sample average of 27% of the SOEs that provided data. In contrast to case 1, the other cases involving ESCOM, MHC and MPC lacked disclosure about qualification of the directors. Where directors had required qualification, it was discovered that these directors lacked independence. This study revealed that whereas qualification is important, but it is also necessary that the company's institutional arrangements need to provide an enabling environment to free directors from political interference.

6.3.2.7. Civil servants and performance

Good corporate governance practice prohibits the appointment of civil servants including politicians to SOEs boards arguing that such directors tend to pursue political goals rather than economic goals of the organisation (World Bank, 2014a). Correlation results from this study reveal that civil servants are negatively associated with performance measures of EBIT and ROA. This result is consistent with previous studies (Menozzi, et al., 2012; Wong, 2006; Chang & Wong, 2004).

Results from regression analysis of this study found that the presence of civil servants in the board is significantly and negatively associated with ROA at 5% level when static models of OLS and RE were used. However, the level of significance changed to 10% when dynamic models of GMM and 2SLS were used. These results are in support of hypothesis 8 of the study. The study did not find any significant relationship when EBIT accounting measure was used as a dependent variable. Contrary to the finding of this study, other studies have found positive relationship between the presence of civil servants on the boards and performance in privatised SOEs (Guney, et al., 2020). Qualitative analysis of this study, on the hand, show mixed results. On resource theory point of view, civil servants bring in much needed technical expertise where there is a skills gap. Civil servants are also seen as policy holders. However, other respondents noted that the inclusion of civil servants in the board regresses the SOE to a government department. Respondents also noted that representation of these civil servants is not based on their skills but on their position. It was further noted that there was no continuity in terms of decisions by these directors since different directors are representative at different board sittings of the same organisation. Consistent with other studies (Wong, 2018; Amoako & Goh, 2015), this study argues that civil servants or public servants should be kept at an arm's length to insulate the SOEs from political interference. The study observes that the inclusion of civil servants in the board affects independence of directors. This is due to the fact that there are no "faithless" civil service directors. Civil servants and political appointees advance the interests of the government in power.

6.3.2.8. Party Affiliation and performance

Good corporate governance practices discourage the appointment of politically aligned directors to sit on SOE boards. OECD (2015a:71) states that "persons linked to executive powers" should not be included in SOE boards because in doing so it affects independence of the directors. Quantitative results of this study show that party affiliated directors are significantly and negatively correlated with performance both using EBIT and ROA accounting measures. On regression analysis, results show that party affiliated directors are significantly and negatively associated with ROA at10% level using Random effects. However, there was no significant relationship between performance measure of ROA and PAF after employing dynamic models. The study also did not find significant relationship between PAF and EBIT. While quantitative analysis reveals mixed results regarding the relationship between politically affiliated directors and performance, one thing that is apparent is that while these directors may be considered as non-executive directors their presence in the board does not add value. Similar results were obtained by Menozzi et al. (2012) on Italian public utility companies. The authors found that the independence of these non-executive directors is compromised due to their political affiliation hence their negative effect on the company's value. Findings of this study is also consistent with the results obtained by Phuong et al. (2020) on Vietnamese State-owned companies. Their study revealed that the presence of politicians in the board increases the degree of political interference in the SOEs. Contrary to the findings of the current study, Hu and Leung (2012) found that appointing politically connected directors and top executives resulted in performance improvement in Chinese companies. Their study revealed that the state does not hesitate to replace directors following poor performance of their respective companies. A study conducted by Joni, Ahmed and Hamilton (2020) on Indonesian listed revealed mixed results. While politically connected supervisory boards (SBs) were positively and significantly associated with market performance, there was no significant relationship between politically connected board of directors (BoDs) and market performance.

Results from qualitative data reveal that political affiliated directors tend to serve the interests of the ruling party than the business. These directors do not exercise their professional judgment because they are captured and to a large extent, they ingratiate themselves with the appointing authority. According to R25 of parliament, politically appointed directors are there to ensure that the SOEs serve the interests of the political party including funding of party activities. Where directors and top management are appointed to serve the interests of the political party, no sanctions are given to those that commit crimes (R10 of ESCOM; R12 of MoF). Politically affiliated directors were evident in SOEs where the government is the sole shareholder. Some of these directors were involved in corrupt practices (MCC, 2020). However, political affiliated directors were almost non-existent in listed SOEs revealing that in these institutions political interference is constrained due to the presence of external monitoring mechanism.

6.3.2.9. Board interlocking and performance

Director interlocking has been advanced by resource-based theory that directors who are appointed to multiple boards are able to provide necessary skills to their organisations. Results from quantitative data of this study show that there is no relationship between board interlock and performance. Similar results were obtained by Kiel and Nicholson (2003). On the contrary, McIntyre et al. (2007) found director's busyness is associated with decrease in company performance.

Results from data collected through interview reveal that while most NEDs are not interlocked, most of civil servants sitting on the SOEs boards are interlocked. This was found to be detrimental to the performance of the organisations that they are serving. The following are possible explanations to the reasons for non-value addition by these boards. Civil servants sitting on the board, leads to conflict of interests among organisations. This was evident in the case of ESCOM where the same directors sat on competing boards including regulator of ESCOM. The other reason is that busy Ex-officio are ill prepared for their tasks because of the number of meetings they must attend. It is not surprising that different directors may attend different meetings of the same organisation. To avoid such scenarios, this study proposes that shareholders should not appoint individuals to sit on competing boards.

Board attributes have an influence on the performance of SOEs. This study has established that the influence is dependent on generative mechanism of the attributes. Performance of the SOE is related to the board effectiveness. Where board members are qualified and independent, performance of the organisation is positively significant. On the other hand, where the board is captured and ingratiated, performance is negatively affected. The study has also established that the quality of the board is a function of the appointment process which is influenced by the legal form. To achieve an effective board there is need for improved institutional framework in SOEs

6.3.3. Capital structure and SOE performance

Capital structure is a mechanism that influences performance of companies because of its ability to exert disciplinary measured on the agents. The presence of debts is seen as an enabling factor to align the interests of agents to principals. The study attempted to examine the influence of the capital structure on SOE performance. Two themes emerged in this structure: leverage and soft budget constraint.

Correlation matrix revealed a positive relationship between leverage and performance. Leverage was also found to be positively significant with performance measure of ROA. This was in support of the prediction of this study that capital structure exerts a disciplinary mechanism on management. However, the study did not find any significant relationship when EBIT measure was used. The positive relationship is consistent with prior studies (Detthamrong et al. 2017). Contrary to the positive relationship between leverage and performance, other studies found negative relationship (Le & Phan, 2017; Sheikh & Wang, 2013; Salim & Yadav, 2012). The study did not find any relationship between soft budget constraint and performance.

Results from qualitative analysis revealed mixed results. According to the study leverage was associated with improved performance in Sunbird while soft budget constraint was found to improve performance in ESCOM. On the other hand, soft budget constraint had no effect on performance of most SOEs due to lack of disciplinary mechanisms that hard budget constraint would have brought. Lack of significant relationship between capital structure and performance for most of SOEs can be explained by several reasons. First, the loans are guaranteed by the state therefore the chances of bankruptcy are remote as a result there is lack of disciplinary pressure that a debt would bring in normal circumstances. Second, lack of transparency and accountability regarding the proper use of the loans obtained, lets managers to use their own discretion in the use of money obtained through loans. These loans are often used for mis-procurement of goods. Some of these mis-procurements are aided by the politicians and board members who pressure managers to spend on questionable projects. Furthermore, there is lack of citizen awareness to hold managers and directors accountable for the performance of these companies. Without proper accountability, soft budget constraints do not contribute to improved performance but contributes to increased government deficit as the ultimate payer becomes the shareholder, the state.

It is also important to note that financial markets are less developed in a least developed country like Malawi as a result, debt may not have the same effect as in developed or emerging markets. Lending institutions are prepared to extend loans because the interest rates are high, but the default risk is low due to guarantees from the state.

6.3.4. Disclosure and SOE Performance

Transparency and disclosure are considered as vital elements of corporate governance that promote accountability by managers to stakeholders. Quality disclosure is considered as an effective mechanism to inhibit corrupt practices and invariably leads to improved performance. To examine the relationship between disclosure and performance, the study used the following elements: third party disclosure, external audits, availability of annual reports and disclosure of conflict of interests.

Results from correlation matrix show that EBIT is positively correlated with annual reports. In addition, ROA is also positively correlated with annual reports, third party disclosure and conflict of interest’s disclosure. Findings of this study are similar to Heo (2018). External audits were not supported. The reason for lack of relationship between external audits and SOEs performance, is that all SOEs had audited statements irrespective of their performance. While external audit is meant to promote transparency and accountability, lack of sanctions by the principal for non-performance was the most moderating factor.

Findings from regression analysis showed mixed results. Using OLS estimation, third-party disclosure has a significant negative relationship with EBIT. The relationship is positive and insignificant with ROA. When random effects estimation was applied, results show that conflict of interest is significantly and negatively associated with performance measured by EBIT and ROA. Annual reports on the other hand are positively related to performance but the relationship was insignificant.

The study applied qualitative analysis to identify causal factors for relationship between disclosure and performance. Findings of the study reveal that increased state ownership increases levels of non-compliance with good corporate governance practice. Increased state ownership results into increased political interference. It is in the interest of political actors in the government that their transactions in the SOE are not made public. The political actors influence the appointment of directors and CEOs into SOEs who in turn serve their interests. Since people are appointed based on cronyism, there is lack of motivation to sanction non-compliance. The study revealed a significant difference between disclosure by listed company and wholly owned SEOs. Disclosure by wholly owned SOEs lack details. For instance, while it is common knowledge that SOEs are used as a funding conduit by ruling parties, these details are not revealed in the financial reports.

While good corporate governance practice considers disclosure as a vital tool to promote accountability which in turn lead to improved performance, the study revealed that increased state ownership has a moderating effect on the effectiveness of disclosure on performance. Similar observations were made by Li et al. (2019).

6.4. Development of strategic Corporate Governance Framework of SOEs in Malawi

The objective of this section is to answer the third question which focussed on the most suitable corporate governance framework that suits SOEs in Malawi. The section draws its recommendations from the findings discussed in the previous section including the moderating socio-cultural values.

6.4.1. Ownership Structure for SOE

The guidelines for SOE corporate governance provide that the state should be an active owner of an SOE. However, these guidelines point out that the state is not the ultimate owner of the SOE whether partially or wholly owned. The general public or citizens are the actual owners (OECD, 2015a:12; IOD, 2011). The owner and the agents need to operate within an effective legal and regulatory framework (OECD, 2015a). The study has revealed several challenges that SOE corporate governance is facing in Malawi. Some of these challenges emanate from the exercise of ownership rights, while others from the legal instruments that governs the various institutions. The study has proposed solutions to deal with these challenges.

6.4.1.1.Legal form

Two types of legal forms were identified, SOEs incorporated under the Companies Act and SOEs established under Act of Parliament. Among those incorporated under the Companies Act, there are two types of legal forms, those that are wholly owned and those that have mixed ownership and are listed on local stock exchange. The study revealed that increased state ownership is associated with poor performance. The study further shows that listed SOEs are better performers due to effective monitoring, control, and absence of political interference.

This study proposes that SOEs that are incorporated under the Companies Act and are designated limited company should move to public limited. Mixed ownership has proved to be an effective legal form because it promotes accountability, leads to effective monitoring and control and at the same time insulate SOEs from political abuse. Public limited company form also invites the interests of institutional shareholders whose active participation leads to minimised abuse by the state.

Where the SOE is established under an Act of Parliament, the state should recognise that it is not the ultimate owner. The taxpayers or citizens of Malawi are the owners and that the government operates as a steward and as such it is accountable to the taxpayers and general public. To promote accountability and achieve effective monitoring mechanism, this study proposes changes in institutional arrangements. It was noted that some of the Acts of Parliament are outdated to the extent that they do not capture changes that have been made following introduction of corporate governance codes. For example, Water boards which were established by Waterworks Act of 1995. This instrument gives the power to the minister to exercise ownership rights but at the same time be responsible for policy matters. The minister is a political persona and to have absolute power without reporting to parliament creates an enabling environment for abuse. For those Acts which have been amended, for instance, the Communications Act 2016, there is lack of political will to enforce the clauses of the Act which stipulates that “the Board of the Malawi Posts Corporation shall appoint the Postmaster General (The Communications Act 2016, Clause 145(1)), this clause has blatantly been disregarded. The President appoints both board members and Postmaster General. The Acts are also not in harmony with Malawi Code II.

The Acts should also promote entrepreneurship spirit in these SOEs. This includes allowing SOEs to charge market related prices for goods and services. Where the government wants to pursue social obligations of goals through the SOE, such activities should be quantified by the government and adequately compensated. The process of funding social obligations should be reviewed and passed by parliament to ensure accountability and transparency.

6.4.1.2. Ownership Arrangements

The study observed that multiple principals bring in conflicting objectives and contribute to the inefficiencies of SOEs operations. For the listed company, the exercise of ownership rights is clearly stipulated in the Memorandum and Articles of Association including the legal instruments that govern the listing on the Stock Market. Ownership arrangement shall remain as per figure 5.1.

For SOEs established under the Acts of Parliament, the study proposes a dual arrangement as the minimum requirement. This will involve the technical ministry and the ownership entity. The ownership entity in Malawi has been confused between Department of Statutory Corporation and Ministry of Finance. The current study would like to propose that the DSC should exercise the ownership policy on behalf of the state. The DSC should be given capacity to carry out its responsibilities. This includes representing the shareholder at AGM, reporting to parliament on matters of board appointment, and other governance issues (see Figure 6.2.). Figure 6.2 below shows proposed ownership arrangement of a wholly government owned SOE.

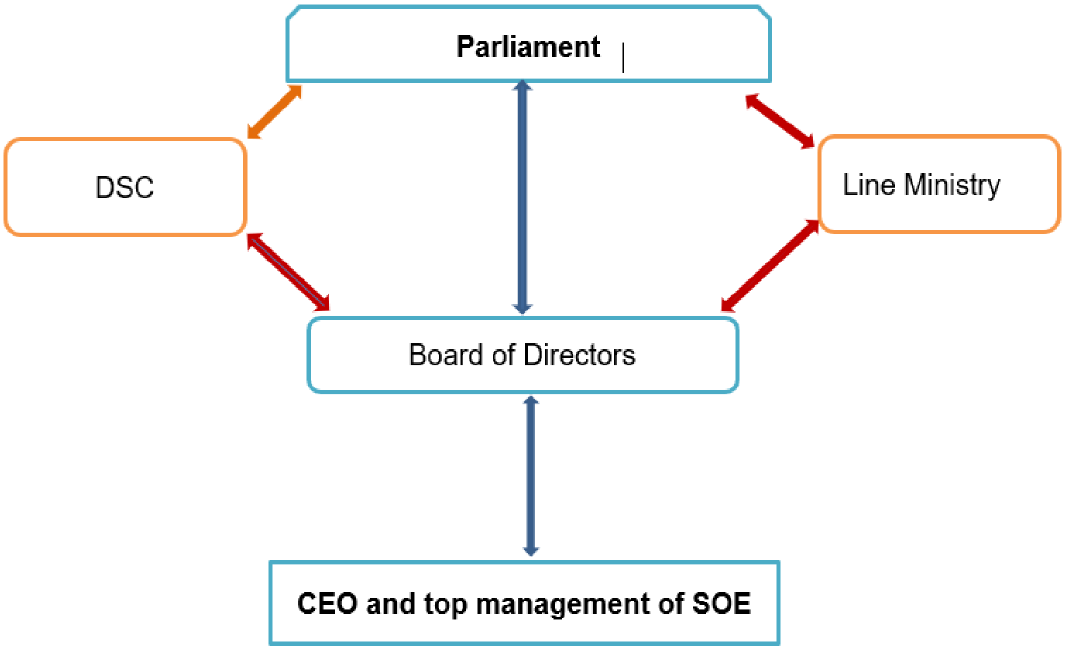


Figure 6.2 Proposed Ownership Arrangement of Wholly Government Owned SOE
Source: Researcher's investigative results (2021)

In the figure 6.2 presents a proposed ownership arrangement above presents a streamlined arrangement. Management of SOE reports to the board which reports to parliament, DSC and line ministry. This ownership arrangement is suitable for SOEs established by Act of parliament which may not change its legal form to limited company. In this figure, the study proposes that board of directors is a representative body between shareholders and management of SOEs. The DSC exercises ownership rights on behalf of the state but reports to Parliament which is a representative body of the taxpayers (ultimate owners). Line Ministry also called technical ministry is responsible for policy issues including regulatory matters and enforcement of the same by all legal persona. The board when constituted reports to parliament at least once a year to present an annual report on operations of the SOE. The study also proposes that there is need of strong governance institutions which provide check and balances to ensure accountability. These institutions are supposed to operate independently but will also present their own reports to parliament. Some of these institutions include National Audit Office, Anti-corruption Bureau, Ombudsman, Malawi Human Rights Commission (MHRC), among others. The National Audit Office's role is to ensure that SOEs are timely audited; ACB's role is to ensure that all corrupt practices are timely prosecuted; Ombudsman's role is to ensure that there is no injustice suffered by any stakeholder and MHRC's role is to educate the general public and create public awareness to demand accountability from SOEs management and boards. It is envisaged that this arrangement will ensure, among other things, efficiencies, accountability and insulate SOEs from political interference.

6.4.2. Boards of Directors of SOE

"The board of directors is the highest decision-making body of a state-owned (and any other) enterprise" (OECD, 2014:29). For the board to perform its duties effectively, it is supposed to be well constituted in terms of quality and quantity, vested with authority without undue influence by shareholders (OECD, 2015a). The findings of this study have revealed that the board as an internal governance mechanism has an influence on performance of SOEs. The board is a function of legal form. The quality of the board is largely dependent on its appointment process. OECD (2014:28) advises that board "nominations should be based on a transparent, contestable and merit-based appointment process where candidates can put their names forward and have their qualifications evaluated." The study revealed that boards of wholly government owned SOEs lack independence and are largely captured and ingratiated to the appointing authority or politicians. This affects their performance and invariably the performance of the company.

6.4.2.1. Appointment process

It was observed that appointment of boards in all SOEs regardless of their legal form, lacks transparency. However, there was marked difference between the board of a listed SOE and that of the wholly owned SOEs. The listed SOE had a board that has a mix of quality and diversity in skills but appears to be more independent from shareholder's influence than boards of wholly owned SOEs. The main reason for this is due to the presence of independent institution, Malawi Stock Exchange, which plays an additional oversight role in the appointment process. Such a mechanism is lacking in the other SOEs. This study proposes the following nomination framework for the board:

a) The responsibility of board appointment rests with shareholders.
b) All vacant positions should be advertised publicly
c) Institute of Directors should be a repository of possible candidates from their members. These members of the institute should abide by their code of ethics and with possibility

of sanctions for violations. The Institute of Directors will become a source for independent directors.

d) Where stakeholder's representation is required on the board, the study proposes that only members that have requisite qualifications should be appointed. Such people as would add value.
e) Candidates who appear overtly or who practise politics should be left out of this professional body as they tend to serve their masters (political parties) than the organisation.
f) For wholly owned SOEs, appointment of directors should be outsourced to independent job placement companies. This will ensure that there is transparency and that only qualified directors are recruited.
g) The ACB should be involved in the vetting process to ensure that no candidate with a criminal record is appointed as a director.
h) The Chairperson of the board should be appointed through the ownership entity. Successful candidates should appear before parliamentary committee on public appointment for confirmation hearing. This process is already in place for other government positions.
i) After the parliamentary hearing, successful candidates will be notified by the ownership entity.
j) Directors should be held accountable to the general public or taxpayers and not the ruling party.
k) The board should be responsible for the appointment of the CEO and top management through its nominating committee. The services of independent job placement companies should be used to identified candidates from which the board will appoint CEO and other top management.
l) The shareholder and / or its representatives including the President and Ministers should not be involved in the appointment of the CEOs.
m) Should there be need for confirmation hearing for the CEO's appointment, this should be done by parliamentary committee on public appointments.
n) CEOs of SOEs should not be treated as civil servants. They should not be subject to transfers and position swaps.
o) The contracts of CEOs need to be reviewed. CEOs should be placed on a 5-year performance-based contract to be renewed only once on satisfactory and outstanding

performance. There should be no renewal after the incumbent has served two terms of 5 years each.

p) There should be a transparency process of board and CEOs appointment.
q) A person can only be appointed to one SOE board at a time. This helps when there is inefficiency in one SOE the same cannot be transferred to other SOEs.
r) Members of the board should not serve more than two terms and the renewal of contract should result/performance oriented.

The above process will ensure that nominated board of directors and top management have requisite skills and are not captured by the political machinery. The process will ensure that the board is not only independent but also accountable to the ultimate owners. This process will also insulate SOEs from cronyism that is prevalent in most wholly government owned SOEs.

6.4.2.2. Board Tenure

The study revealed that board tenure has an influence on the performance on the board and also the organisation. Tenure was associated with legal form. Where the state is the sole shareholder, board tenure is associated with change in political party leadership. Change of government brings a complete change in board. Contrary to this, in listed SOE, the board tenure is note associated with the change of political leadership. The board tenure for wholly government owned SOEs is also associated with cronyism and board capture. To ensure an effective board, the study would like to make the following proposal:

a) Board tenure should be for a period minimum of 3 years and maximum of two terms
b) Board chairperson should serve for a minimum of 4 years and maximum of two terms. This is to ensure that the board is not completely refreshed and also ensures that institutional memory is preserved.
c) Board tenure should not be tied to political changes or processes.
d) Directors may be retired or dismissed earlier only for a specific cause either relating to performance after annual evaluation or in the event of natural occurrence like death or insolvency and criminal offence attracting jail term while on tenure.

6.4.2.3. Board committees

The study revealed that board committees are significantly and positively related to performance. However, not all committees had significant relationship with performance. The results showed that only Risk Management Committee has a positive relationship with performance. The Audit, Nomination and Remuneration Committees did not have relationship with performance. The reasons for this are simple. As observed by some respondents, the effectiveness of the board committees mirrors the effectiveness of the board. With the boards of most of wholly owned government SOEs captured and ingratiated with political powers, the board committees cannot be expected to be different. The other reason is that some of these committees lacked capacity. Where the committees were properly constituted, lack of interest by the board to implement board resolutions, has turned these committees into structures for mere compliance than serving their intended purposes.

Notwithstanding these challenges, board committees are a vital structural element of the board. The effectiveness of this structure can only be realised if the board is independent and qualified.

6.4.2.4. Board evaluation

One of the vital processes of the board is board evaluation. Evaluation is important to measure performance of the board. Like other board structures and mechanisms, this process is also subject to the legal form. Findings of this study reveal that where the government is a sole shareholder, the board and the principals did not deem evaluation to be a necessary activity. Those who attempted to do the evaluation felt it did not matter. Despite this shortcoming, board evaluation is an important exercise that needs to be carried out to measure directors' performance. Without evaluation, the reason for the existence of the board may not be justified.

The study revealed that evaluation is only conducted for boards of listed SOEs. While evaluation is the norm in the listed SOE, there is still room for improvement. The following areas should be covered as per evaluation conducted in SOEs:

a) Attendance of meetings
b) Level of contribution
c) Implementation of strategies

d) Understanding of fiduciary responsibilities
e) Compliance with rules and regulations (Companies Act 2013 and Code II of corporate governance)
f) Diligence

This study proposes the following additions to the tool currently being used in the evaluation process:

i) Performance of the board should be linked to the company's performance
ii) The process should also include the following areas as focus for the performance of the board and individual director's evaluation: strategic failure, control failure, ethical failure and interpersonal failure.
iii) Integrity – corruption free during the tenure.

The evaluation process should be conducted by an independent organisation. The study proposes that a consulting firm or audit firm offering advisory service may supervise this process to achieve objective results.

6.4.2.5. Board interlocking

The study revealed that while board busyness is not a common phenomenon among NEDs of SOEs, the same is not true among Ex-Officios. Results from the interview have put into question the contribution by these ex-officios who sit in several boards. These directors have been faulted because of lack of independence from the departments that they represent and from political structures. Ex-officios as directors are considered captured because they cannot speak against the government they are serving. The study makes the following proposal regarding interlocking board membership:

a) Ex-officio directors serving on the board should be carefully selected based on their skills. Ministries should avoid sending delegates for the sake of filling the position. Candidates should be appointed through the ownership entity. The appointment process should follow a transparent system which includes interviews.
b) Ex-officios should only serve on one SOE.
c) Resolutions made by the board where a ministry is represented by ex-officio should not be subjected to further approvals. If the ministry insists on further approval at ministerial level, then representation by ex-officios may not be required.

6.4.2.6. Qualified and independent board

At the heart of board's performance is the knowledge, skills and attitude. The board of directors that are captured and ingratiated with appointing authority lack both the attitude and altitude of knowledge to discharge their fiduciary duties. This study has identified qualifications and independence as strong generative mechanisms of the board that contribute to board performance. However, quality and independence are dependent on legal form. The legal form or institutional arrangement creates an environment that promotes independence and the application of skills by directors. Board capture and ingratiation are considered as antithesis of board performance. An effective board should therefore have a mix of knowledge, skills, attitude and altitude to perform optimally.

6.4.3. Capital Structure of SOE

The study revealed that capital structure is positively and significantly associated with performance. However, it was noted during interviews that the use of soft budget constraint as much as it helped SOEs to have a safety net, has a negative effect on the performance of the company. Soft budget constraint leads to abuse by SOEs as these companies are considered as conduits for political party funding.

The government should only provide funding in as much as the SOEs are involved in developmental projects. Loans for capital projects should be approved by Public Accounts Committee of the National Assembly. The board should be tasked with presenting progress report to parliament through the Public Accounts Committee on the performance of these loans. The parliament should hold the board accountable for any misuse of these loans.

6.4.4. Transparency and Disclosure

Findings from the study regarding disclosure revealed mixed results. Disclosure was associated with legal form. Increased state ownership was associated with low levels of disclosure in Malawi which has a large power distance culture. Results from the study reveal that the culture of secrecy is prevalent in Malawi. Large power distance and highly secretive culture has promoted non-compliance to set rules and regulations. In order to improve accountability, the study proposes the following:

a) where applicable reduce state ownership by introducing minority shareholders through listing which has effective monitoring mechanisms. This is applicable for all SOEs established under the Companies Act.
b) where introducing minority shareholders is not possible, for instance SOEs established under Acts of Parliament, there is need to improve public disclosure and accountability by strengthening the role of the National Assembly.
c) Streamline reporting lines as per proposed ownership arrangement in figure 6.1 for all wholly owned SOEs. Management should be accountable to the board and the board should be accountable to ownership entity and parliamentary committee responsible for public accounts.
d) Parliament should hold the board accountable for issues of non-compliance. This should be part of the board's Key Performance Indicators (KPI). The board on the other hand should hold management accountable for the performance of the SOEs.

6.5. Summary of the chapter

The chapter discussed findings of the study on the factors that influence corporate governance as well as the effects of corporate governance on the performance of SOEs in Malawi context. Based on these findings a strategic corporate governance framework for Malawi SOEs has been proposed.

Next is chapter 7 which summarises, makes conclusions and recommendations based on the findings of this study.

CHAPTER 7: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

7.1. Introduction

The previous chapter 6, discussed results from the study by comparing with existing literature. The findings of this study were linked to research objectives, research questions and hypothesis of the study. As per study objectives, the chapter discussed findings on factors that influence corporate governance of SOEs in Malawi. Secondly, discussion on effects of corporate governance on performance of SOEs in Malawi context were provided and lastly, the chapter proposed a strategic corporate governance framework for Malawi SOEs. This chapter presents a summary of the study, conclusions and recommendations. The chapter is structured as follows: section 7.2 will summaries each chapter of the study by focussing on important aspects of each chapter; section 7.3 presents conclusions based on key findings of the study; section 7.4 provides recommendations to various stakeholders; and finally, section 7.5 outlines limitations of the study and recommendations for further study; 7.6 presents summary of the chapter.

7.2. Summaries

Chapter 1 of this study presented a background to the study, its objectives and research questions and finally significant of the study. The study focussed on the following objectives:

7.2.1. Research objective one: To identify factors that impact on corporate governance of SOEs in Malawi

The study achieved the above objective by use of a quantitative and qualitative study in line with critical realism research paradigm. The findings of the study were presented in chapter 4 and applied to selected cases in chapter 5. Quantitative method was used to identify patterns and relationship between cultural values and corporate governance. Qualitative method on the other hand was meant to identify generative mechanism that provides causal explanations. An econometric model was developed for quantitative study and this model used religiosity as independent variable. The study used governance scores as dependent variables. These scores were obtained from respective firms using a survey instrument. A higher governance score represents good quality governance systems in a company and aggregate for the whole sector. The study also controlled for company size, leverage and legal form. The study focussed on commercial SOEs. Regulatory, academic and financial institutions were excluded from the sample. Only 13 SOEs were identified to fit in the criteria of the study. Out of the 13 SOEs, four (4) had incomplete data and as a result were dropped. Results from quantitative analysis revealed that there is no significant relationship between cultural values of religiosity and governance scores. Political leaders influence civil society leaders including religious leaders in Malawi. The findings of this study reveal that most of religious leaders have been sitting on SOE boards for several years that they acquiesce in any political decision.

Further, the study conducted a qualitative analysis to identify mechanisms that caused the identified scores in the individual SOEs. Interviews were conducted with various governance stakeholders in the society that interface with SOEs. These respondents were drawn from board of directors and management of SOEs, members of National Assembly, Judiciary and academics. The findings of the study identified power distance and cronyism as factors that influence the quality of corporate governance in SOEs in Malawi. Malawian society has a large power distance culture. This culture respects leaders and elders without question. To express a different opinion is to go against the norms of the society and is considered as undermining authority. The society is also a very secretive society, and this does not augur well with good transparency and disclosure practices. Consistent with prior studies, the study revealed that large power distance is a breeding ground for corruption.

The study also observed that Malawi is a highly stratified society with the leaders on top as the benefactors and custodians of resources while the lower end has subjects who are workers and servants who benefit from the leaders. In the middle there is a structure of protectors of the leaders. This middle structure ensures that there no harm done to the leaders. They are gatekeepers. The leaders in Malawi are called the “bwanas”. This social structure or bwana syndrome culture is characterised by asymmetric information and cronyism. Political leaders have usurped society power and have become de facto leaders. Religious leaders and chiefs alike pay homage to political leaders. The study has concluded that large power distance and cronyism influence the development of society values including corporate culture.

The study then applied these cultural values to four selected cases which were chosen according to their performance. It was observed that performance ranged from good to worse as you move from mixed ownership to increased state ownership. The attributing factors were the power exercised by the shareholder. In mixed ownership, political power is restrained while in SOEs where the state is the sole shareholder, this power is used to advance political goals. Cronyism was rife in wholly state ownership and this manifested itself in the appointments of directors and CEOs. Corruption went unchecked due to large power distance and *bwana* culture syndrome. The study has recommended solutions of how to mitigate poor corporate governance which results from power distance and cronyism. These are presented in recommendation section.

7.2.2. Research objective two: To determine the effects of corporate governance on performance of SOEs in Malawi

The second objective of the study was to determine the effects of corporate governance variables on SOE performance. To achieve this objective, the study followed critical realism paradigm in which quantitative and qualitative methods were combined to do the analysis. Quantitative analysis was used to identify patterns and relationship between corporate governance variables and SOE performance. Qualitative analysis was performed to identify generative mechanisms that influence the performance of SOEs.

For quantitative analysis, the study used multiple regression analysis to test hypothesis 2. The results of the study were presented in chapter 4. An econometric model was developed for the regression analysis. Four groups of independent corporate governance variables were used in the study. These variables included ownership structure, board attributes, capture structure and disclosure. A total of 25 variables were identified from these four groups. The dependent variables on the other hand included accounting performance measures of EBIT and ROA consistent with past studies. The study controlled for company size, age and industry. Data was obtained through document review, questionnaires and interviews. The period covered for study was from 2000 to 2016. Panel data analysis was conducted using fixed effects and random effects. However, after running Hausman test, random effects estimation was considered the most appropriate. The study also performed DWH to test for the suitability of dynamic model. Dynamic model of GMM was considered the most appropriate for ROA performance measure. Dynamic model used a lag of one year to control for past effects issues. While ROA performance measure used dynamic model, EBIT performance measure used static model of random effects and OLS. Static model was considered efficient after conducting DWH test. Findings of the quantitative study identified some patterns and relationship between corporate governance and performance measures. However, some results were inconclusive. Critical realism paradigm which is the basis of this study posits that the presence of observable events or lack of, does not negate the presence of structures and generative mechanisms and their causal power. Whereas events are observed in the *empirical domain*, the structures and generative mechanisms reside in the real domain and produce events in the *actual domain.* Critical realism therefore argues that explanation cannot be reduced to event regularity.

In line with critical realism, after observing some patterns and relationship of variables in quantitative analysis, the study used a qualitative analysis to identify structures and generative mechanism that were the cause of the observed relationship or lack of it. The findings of the study revealed some structures and generative mechanisms that caused the observed performance. These structures and mechanisms were applied to four selected cases chosen on the basis of their performance to examine their explanatory power.

7.2.2.1. Ownership structure and performance.

The study observed that legal form and ownership arrangements influenced SOEs performance. In legal form, the study found where the state is the sole shareholder, the state acts not in the interest of company but in its own interests to achieve political goals. In a mixed ownership especially where the SOE is listed and has minority private interests, there is better monitoring and control and the power of the state is restrained. On ownership arrangements, decentralised ownership leads to many principals and lack of effective monitoring and control. These lead to poor performance.

7.2.2.2. Board attributes and performance

The study observed that boards of directors was a function of legal form. Legal form influences *the being* and *conduct of* the board. Legal form influences the appointment of the board and CEO. In addition to appointment process, other structures that have effect on performance include board tenure, board committees, evaluation, civil servants and politicians as directors, and board interlocking. Risk Management Committee, CEO appointment, Tenure, Governance skills were found to be positively correlated with ROA. Regression analysis revealed that Risk Management Committee is significantly and positively associated with both performance measures of EBIT and ROA. The presence of civil servants on the board and political party affiliated directors were negatively associated with ROA performance measure. However, the relationship was not significant for other board attributes. Two sets of generative mechanisms under board attributes emerged from the study: qualified and independent board; and captured and ingratiated board.

Qualified and independent board was observed to be an effective mechanism that gave power to board of directors to effectively perform their fiduciary role. It was noted that members of board of directors may be qualified but if they are not independent, they are not able to perform effectively. However, board of directors that are both qualified and independent performed better. These directors were able to direct and control the affairs of the business on the behalf of the shareholder.

Board of directors that lacked requisite skills in governance and were also not independent, became a captured board and was seen ingratiating with the appointing authority. Such board was, at best, serving the interest of those who appointed it. Captured board did not have authority over management. SOEs where there was prevalence of board capture, it was noted, had negative performance due to political interference which led to corruption and mismanagement of SOEs.

7.2.2.3. Capital structure and performance

Two structures emerged from this governance attribute: leverage and soft budget constraints. Quantitative study revealed a significant positive relationship between leverage and SOE performance measured by ROA. However, it was noted that this relationship was moderated by legal form. Where the state is a sole shareholder and the loans to SOEs are guaranteed by the state, there was evidence of abuse of resources which included mis-procurement. Soft budget constraint contributed to poor performance due to lack of monitoring and accountability.

7.2.2.4. Disclosure and performance

Quantitative study revealed mixed results. However, qualitative analysis showed that disclosure was an important element that promotes accountability. Disclosure was also a function of legal form. Increased state ownership leads to low levels of disclosure. Without disclosure, it is practically impossible to monitor performance of the organisations and to hold agents accountable for their performance. Low levels of disclosure were also associated with large power distance. Large power distance lead to asymmetric information and this is promoted to the advantage of management and political leaders who benefit from the SOEs. Reduced state power through listing, and presence of external monitoring mechanism were generative mechanism that influenced effective monitoring and control which result into good performance.

7.2.3. Research Objective three: To develop a strategic corporate governance framework that will enhance the performance of SOEs in Malawi

The study achieved objective three, by developing a strategic corporate governance framework of SOEs in Malawi in Chapter 6 particularly from Section 6.4. Firstly, to solve problems of non-compliance or improve quality of corporate governance, this study proposed change of legal form and strengthening of governance structures which include ACB, NGO, Ombudsman and role of the National Assembly. This will constrain the culture of large power distance and cronyism. To solve the problem of materialism, the study proposed the promotion of *umunthu* cultural values using an integrated approach from childhood age to adulthood. *Umunthu* values places the interests of the society above those of individuals. Secondly, the study also proposed changes to the institutional arrangements which included harmonisation of Acts that establish the SOEs, reducing number of principals as well as establishing of an ownership entity with capacity to act on behalf of the shareholder. Thirdly, improve on board effectiveness by ensuring that quality boards in terms of skills, knowledge, attitude and altitude are appointed. In addition, make board independent in appearance and conduct. Board of directors should have authority over management and should be accountable to the shareholders and ultimate owners through the National Assembly. Fourthly, harden the budget constraints. Where loans are guaranteed by the state, there is need for accountability for performance and use of the loans through National Assembly. Lastly, transparency and disclosure are the bedrock of accountability. There can’t be effective monitoring of performance without transparency and disclosure. To achieve this, the study proposed changes in legal form, and strengthening the role of National Assembly to improve accountability.

Chapter 2 focussed on prior research that informed the study. This chapter discussed the theories that were underpinning corporate governance study. Two rival theories were discussed: agency and stewardship theories. Based on the previous scholarship, this study adopted agency theory approach. The chapter also noted variations in corporate governance structures and in the adoption of corporate governance codes. It was argued from literature that there is no "one solution fits all' approach. Prior studies attributed variations to socio-cultural values. Finally, the chapter provided background and knowledge on corporate governance variables that form the basis of this study and how these variables impact on shareholder's value of a company. Based on prior studies on corporate governance, the chapter discussed four categories of corporate governance variables: ownership structure, board of directors, capital structure and disclosure. The reviews noted that results from studies between corporate governance variables and performance were inconclusive. It was further noted during the review that most of these studies had not been conducted in least developed countries and let alone for SOEs of these countries where information was not readily (section 2.5.2). The current study was conducted in Malawi which is one of the least developed countries.

Chapter 3 discussed research methodology. Research philosophy was introduced, and various research paradigms were discussed. The study adopted critical realism as an appropriate research paradigm for corporate governance. The choice of critical realism was based on the fact that corporate governance is a study that focusses on organisations systems that are "dynamic and open" in nature. Guided by research philosophy of critical realism, a multi-methodology was chosen as a methodology for the current study. In line with multi-methodology and guided by a critical realist research paradigm, the study employed a mixed design by combing quantitative and qualitative designs. The choice of mixed design was based on the critical realism paradigm that argues that quantitative design is meant to discover patterns or relationship among variables but falls short of providing explanations or causal statements. The sample for study included all SOEs which had operated from 2000-2016 but excluded regulatory, financial and academic institutions. Intensive design used the qualitative method to identify structures and generative mechanisms that provided explanations for the observed performance. For intensive study, a multiple case study was employed through replication logic to identify mechanisms and structures that provide explanations to the performance or lack of it in the SOEs. Data collection followed the critical realism case study method. Multiple sources of evidence were used as a data collection strategy. Due to the political and sensitive nature of the study, the researcher ensured that rights of confidentiality and privacy of organisations and individuals were protected.

Chapter 4 presented results of the study. The first part focussed on identifying relationship between cultural variables and corporate governance. The results showed a weak and insignificant relationship between religiosity and corporate governance. The rest of the result did not support the study hypothesis. The second part focussed on identifying relationship between corporate governance variables (Independent variables) and performance as dependent variables. Findings identified some pattern and relationship but with mixed results. The third part presented qualitative results. The study identified large power distance and cronyism as social cultures elements that have effects on quality of corporate governance. On the influence between corporate governance and performance, the following generative mechanisms were identified to influence performance either positively or negatively: shareholder power, identify of shareholder, qualification and board independence, captured and ingratiated board, soft budget constraints, external monitoring institutions.

Chapter 5 presented further analysis by applying structures and generative mechanism identified in chapter 4 to selected cases using replication logic. Four cases were selected based on their performance. The identified generative mechanisms were first applied to the best case and then replicated to another good case. Finally, these structures and generative mechanisms were applied to two worst cases. The analysis confirmed that the presence or the absence of these structures and generative mechanisms were important factors that contributed to the performance of the selected SOEs.

The purpose of chapter 6 was to develop strategic governance framework of SOEs in Malawi. Based on the findings of the study and results from case study analysis, a corporate governance framework has been proposed. The proposal has taken into consideration changes to legal form, institutional arrangements and internal governance mechanisms.

7.3. Conclusions

Based on the findings of the study the following conclusions have been made:
The study concludes that large power distance, cronyism and materialism have a negative effect on the quality of corporate governance.

The study also concludes that legal form and ownership arrangements have an influence on the performance of SOEs measured by ROA. Increased state ownership has a negative effect on performance, and decentralised arrangements negatively affected monitoring and control and invariably the performance of SOEs. In addition, the study concludes that the increased shareholder's power of state nature without external monitoring mechanism lead to non-commercial expediency which results into poor performance.

The study further concludes that qualified and independent directors have a positive effect on SOEs performance and on the contrary, a captured and ingratiated board has a negative effect on performance. The study has found that board effectiveness is influenced by level of state ownership. Increased state ownership leads to a captured and ingratiated board.

Increased state ownership also negatively affects board effectiveness through the appointment process of the board and management. However, reduced state ownership through listing has a positive influence on board quality and independence.

The study concludes shorter board tenure which was due to increased state ownership has a negative effect on performance of SOEs.

On board structures, the study concludes that board committees have a positive influence on the performance. However, the effectiveness of the committees mirrored that of the board. Committees like the board are a function of the state ownership. SOEs which had Risk Management Committee performed better than their counterparts.

The study concludes that board evaluation is important to measure the performance of the board and helps to hold the board accountable.

The study further concludes that the presence of civil servants and ex-officio members on the board does not add value to SOEs. To the contrary, their presence affects board independence and regresses the SOEs into government departments. In addition, their presence increases conflict of interest.

On capital structure, the study concludes that leverage has a positive and significant influence on the performance of SOEs. It has further been concluded that soft budget constraint does not have any influence on performance.

Finally, the study concludes that transparency and disclosure have an influence on performance because it promotes accountability. Disclosure is moderated by legal form and cultural variables. Increased state ownership leads to low levels of disclosure.

7.4. Recommendation

The study would like to make the following recommendations:

7.4.1. Recommendation to Government of Malawi

- The government should harmonise legal instruments and remove any ambiguities.
- The state should invite private minority shareholders for all companies established under the Companies Act. This should be through listing on the Malawi Stock Exchange.
- The state should establish an ownership entity that has capacity to exercise its shareholders rights. The study recommends that the Department of Statutory Corporations can be capacitated to be an ownership entity for the state.
- For SOEs established under an Act of parliament, government should streamline ownership arrangements and use dual ownership arrangement which will include DSC and line ministry. Line ministry should only come in as a policy holder for the industry.

- All vacant positions on the board should be advertised publicly and competed for. Prospective independent candidate should be members of the Institute of Directors.
- Only Ex-officio board members with requisite skills for the particular industry should represent the line ministry but their representation should be optional.
- The appointment process of directors and management for wholly owned government SOES should be outsourced to independent job placement companies. This will ensure that there is transparency and that only qualified directors are recruited.
- Government should not shortlist active politicians as prospective directors.
- Government should seek the services of ACB in the vetting process during the recruiting process of directors.
- The President should not be involved in the appointment of directors of commercial enterprises.
- In case of the Chairperson of the board, successful candidates should appear before parliamentary committee for confirmation hearing.
- The board tenure should be a minimum of 3 years subject to renewal on satisfactory performance for additional 3 years. However, the tenure of Chairperson should be a minimum of 4 years and subject to renewal for additional one term. Tenure should not be tied to political changes.
- The board should not be completely refreshed but some directors should be retained for institutional memory and business continuity.
- CEOs should be appointed by the board through a transparent process.
- Reporting system should be streamlined. Management should report to the board and the board should report to ownership entity which in turn should report to the parliamentary committee on public accounts.

- Promote *umunthu* value systems by integrating it in the school curriculum and setting up a national agenda for moral regeneration. This will involve informal and formal education to promote *umunthu* value systems.

7.4.2. Recommendation to the National Assembly

- Parliament should amend Acts to create harmony. Clauses that give the minister power to appoint and dismiss directors or CEOs should be amended.
- Parliament through the Public Appointments Committee should confirm all candidates appointed to serve as directors through a transparent appointment process.
- Parliament through the Public Accounts Committee should review performance reports from SOEs and hold the board accountable.
- Parliament should amend roles that give independence to the governance bodies like ACB, NGO and National Audit Office.
- Sanctions should be applied for non-compliance and non-performance.

7.4.3. Recommendations to the Boards of Directors

The board is the highest internal governance institution of a SOE tasked with making decision for performance improvement. The following recommendations are made for the board.

- The Board should perform its fiduciary responsibility with due care and act independently without external influence.
- The Board should be the only authority in appointing CEOs for SOEs.

- The Board should ensure that they avoid conflict of interest in their discharge of duties and avoid influencing management in a way that compromises their authority.
- The Board should ensure that findings by committees are acted upon.
- Performance of SOEs is the responsibility of the board and it impacts of the overall board performance. The board should hold managers accountable for performance of SOEs.
- The Board should submit performance reports to shareholders, ownership entity on behalf of the shareholders and public accounts committee of the National Assembly timely.
- The Board should ensure that annuals reports of the company are readily available and easily accessed by the public through company's website.

7.5. Limitation and recommendations for Future study

The current study is a pioneering work which has combined socio-cultural values, corporate governance and performance of SOEs. The study has not exhausted the issue of socio-cultural values and their impact on corporate governance. The future studies should expand this study to private sector companies to understand how socio-cultural values impact corporate governance and company performance. This study focused on commercial SOEs; further studies should include all statutory bodies.

7.6. Summary of the chapter

This chapter presented the summaries of all chapters of this study. The chapter revisited the research objectives and showed how each of the objective had been achieved. Conclusions based on key findings of the study have been presented and recommendations to various stakeholders have been provided and finally the chapter has outlined limitations of the study and has made recommendations for further study.

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Appendices:

1.1 Letter of Consent

Letter of Consent

University of KwaZulu-Natal
Graduate School of Business & Leadership

15th May 2018

Dear Respondent

My name is Elias Kaunda from Graduate School of Business and Leadership of the University of KwaZulu-Natal. I would like to invite you to consider participating in a study entitled: **"A Strategic Corporate Governance Framework for Malawi State-Owned Enterprises (SOEs)".**

The aim and purpose of this research is to identify factors that impact on corporate governance of SOEs in Malawi; to determine the effects of corporate governance on performance of SOEs in Malawi; and to develop a strategic corporate governance framework that will enhance the performance of SOEs in Malawi. The study is expected to enroll 520 participants in total from 13 SOEs; there will be 40 participants from each SOE. The study will involve the following procedures: a self-administered questionnaire and personal interview with participants using a semi-structured questionnaire.

There are no risks or discomforts expected on your part from this study. While the study has no direct benefit to you as a participant, it is meant to assist government policy makers to create enabling environment for value creation in SOEs, it will also assist shareholders, board and management to implement suitable corporate governance framework and lastly the results will contribute to a body of knowledge in corporate governance of SOEs particularly in least developed countries.

This study has been ethically reviewed and approved by the UKZN Humanities and Social Sciences Research Ethics Committee (approval number HSS/2215/017D).

In the event of any problems or concerns/questions you may contact the researcher at Box 5381, Limbe, Tel +265 (0) 888 738 626, email: Kaunda.elias@gmail.com or the UKZN Humanities & Social Sciences Research Ethics Committee, contact details as follows:

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1 Letter of consent

Email: HSSREC@ukzn.ac.za

Your participation in this research is voluntary. You may refuse to participate or may withdraw from participation at any point. In the event you withdraw or refuse to participate there will be no costs or loss on your part. There are no monetary gains or benefits for your participation in this research project. Kindly note that the information obtained during this research will be treated with the utmost confidentiality. Should you wish any of the results or findings of the study to be restricted for a given period, this can be arranged. The confidentiality of information and anonymity of personnel will be strictly adhered to by the researcher during and after the study. The records of the research will be maintained at Graduate School of Business and Leadership, University of KwaZulu-Natal.

Should you agree to participate in this project, the duration of your participation will be not more than 1 hour.

Yours faithfully,

[redacted]

Researcher's Signature

Date: 15 May 2018

CONSENT

I ____ (full name of the participant) have been informed about the study entitled "A Strategic Corporate Governance Framework for Malawi State-Owned Enterprises (SOEs)" by Mr. Elias Kaunda.

I understand the purpose and procedures of the study is to identify factors that impact on corporate governance of SOEs in Malawi; to determine the effects of corporate governance on performance of SOEs in Malawi; and to develop a strategic corporate governance framework that will enhance the performance of SOEs in Malawi.

I have been given an opportunity to answer questions about the study and have had answers to my satisfaction.

I declare that my participation in this study is entirely voluntary and that I may withdraw at any time without incurring any loss.

I have been informed about any available compensation or medical treatment if injury occurs to me as a result of study-related procedures.

If I have any further questions/concerns or queries related to the study I understand that I may contact the researcher at (provide details).

If I have any questions or concerns about my rights as a study participant, or if I am concerned about an aspect of the study or the researchers then I may contact:

HUMANITIES & SOCIAL SCIENCES RESEARCH ETHICS ADMINISTRATION
Research Office, Westville Campus
Govan Mbeki Building
Private Bag X 54001
Durban
4000
KwaZulu-Natal, SOUTH AFRICA
Tel: 27 31 2604557 - Fax: 27 31 2604609
Email: HSSREC@ukzn.ac.za

Additional consent, where applicable

I hereby provide consent to (delete which is not application):

Audio-record my interview / focus group discussion YES / NO

________________________ ________________________

Signature of Participant **Date**

1.2 Letter of Approval for proposal

UNIVERSITY OF KWAZULU-NATAL
INYUVESI YAKWAZULU-NATALI
Graduate School of Business and Leadership

Student Name:	**Elias Kaunda**
Student No.:	**20150716**
Name of School:	**Graduate school of Business & Leadership**
Proposed Qualification:	**Doctoral Of Business Administration / Doctor Of Philosophy**

Title: A Strategic Corporate Governance Framework for Malawi State-Owned Enterprises (SOEs)

It gives me great pleasure to inform you that your proposal has been approved by the doctoral panel. Please do the minor correction provided below and submit for ethical clearance:

- Compare the effectiveness of the model

Best regards

[redacted]

Dr. Muhammad Hoque
Academic Leader: Research
Graduate School of Business & Leadership
University of KwaZulu-Natal Westville Campus
South Africa
Tel: 031 260 8690
E-Mail: Hoque@ukzn.ac.za

1.2. Data Collection Instruments

1.2.1. QUALITY OF SOE CORPORATE GOVERNANCE

Respondents to these questions include CEO, Company Secretary, CFO and Board Chair.

Score Item	Scoring Scheme	Question	Score
B1	1 if yes; 0 if no	Does the board comprise of majority of independent and Non-Executive directors?	
B2	1 if yes; 0 if no	Has the company clearly defined "Independent Directors"?	
B3	1 if yes, 0 if no	Does the company have set criteria for appointing Independent Directors?	
B4	1 if yes; 0 if no	Does the board have the majority of members from private sector?	
B5	1 if no; 0 if yes	Has any of the independent directors served more than 6 years	
B6	1 if yes, 0 if no	Is the board comprised of NEDs with commercial and financial background?	
B7	1 if no; 0 if yes	Is the board comprised of NEDs with civil service background?	
B8	1 if no; 0 if yes	Does the board comprise of politically connected members?	
B9	1 if yes; 0 if no	Does the board have full authority and autonomy as stipulated in company law?	
B10	1 if yes; 0 if no	Is management free from interference from board in their day to day responsibilities?	
B11	1 if yes; 0 if no	Do directors have the right mix of skills, competence and experience?	
B12	1 if no; 0 if yes	Has the board been completely renewed during the past 5 years	
B13	1 if yes, 0 if no	Is there a transparent process of appointing directors to the board?	
B14	1 if yes; 0 if no	Are newly appointed members provided with training and induction about their duties and roles as board members?	
B15	1 if yes; 0 if no	Is the secretary to the board a member of institute of secretaries and has legal, financial or business training?	
B16	1 if yes; 0 if no	Does the secretary maintain a record of SOEs compliance to the Code or explanation for failure to comply?	
B17	1 if yes; 0 if no	Are the roles of the CEO and Secretary separated?	
B18	1 if no; 0 if yes	Does the board have public servants who serve as NE directors?	
B19	1 if no; 0 if yes	Is the size of the board less than 5?	
B20	1 if no; 0 if yes	Is the size of the board more than 12?	
B21	1 if no; 0 if yes	Does the number of Ex-Office exceed one third of the total number of the board?	
B22	1 if yes; 0 if no	Does the board monitor compliance of the laws, regulations and codes including code II	
B23	1 if yes; 0 if no	Does the board set out clear strategic direction for CEO and management which include, mission, objectives, KPIs and risk management?	

B24	1 if yes; 0 if no	Has the board developed a charter?	
B25	1 if yes; 0 if no	Is the board responsible for appointment of CEO and top management?	
B26	1 if yes; 0 if no	Does the board carry out annual evaluation of its performance?	
B27	1 it yes; 0 if no	Does the board carry out evaluation of its failure including strategic failure, control failure, ethical failure, and interpersonal relationship failure?	
B28	1 if yes; 0 if no	Is the board evaluation report sent to an ownership entity	
B29	1 if yes; 0 if no	Doe the directors declare conflict areas of interest	
B30	1 if yes; 0 if no	Did all members attend at least 75% of board meetings or committee meetings	
B31	1 if no; 0 if yes	Have one or more members missed 25% of board meetings of committee meetings?	
B32	1 if yes; 0 if no	Did the board replace any member due to missing more than 50% meetings?	
B33	1 if yes; 0 if no	Does management provide accurate and timely information to board to prepare for the meetings?	
B34	1 if yes; 0 if no	Did the board replace any member due to poor performance as a result of lack of effective contribution during meetings?	
B35	1 if yes; 0 if no	Do NEDs meet without Executive directors?	
B36	1 if yes; 0 if no	Does the board invite executive management to meetings for clarification?	
B37	1 if yes; 0 if no	Has the board established at least two sub-committees with clear Terms of References?	
B38	1 if yes; 0 if no	Does the board have an audit committee?	
B39	1 if yes; 0 if no	Is the audit committee chaired by an independent NED with accounting background?	
B40	1 if yes; 0 if no	Is the audit committee wholly composed of non-executive board members?	
B41	1 if yes; 0 if no	Is there at least one non-executive member of the audit committee who has general expertise in accounting or financial management?	
B42	1 if yes; 0 if no	Does the audit committee have sole authority to approve any non-audit services from the company's outside auditor?	
B43	1 if yes; 0 if no	Has the board adopted a separate committee or subcommittee responsible for oversight of risk management?	
B44	1 if yes; 0 if no	Has the board identified risks pertaining to the SOE that needs managing?	
B45	1 if yes; 0 if no	Does the SOE use the services of internal audit to assist the board in managing risks?	
B46	1 if yes; 0 if no	Is the remuneration committee wholly composed of non-executive board members?	
B47	1 if yes; 0 if no	Does an independent director chair Remuneration committee?	
B48	1 if no; 0 if yes	Does the CEO/Managing Director sit on the remuneration committee?	
B49	1 if no; 0 if yes	Does the remuneration committee have any independent board members?	
B50	1 if yes; 0 if no	Does the company disclose specific numeric performance targets for the upcoming fiscal year (not the prior fiscal year), for at least one of the performance objectives (not just a target award percentage of salary)?	
B51	1 if yes; 0 if no	Is nomination committee chaired by an independent director?	
B52	1 if yes; 0 if no	Does the board have dual leadership?	

B53	1 if yes; 0 if no	Does the board have an independent chairman?	
B54	1 if yes; 0 if no	Has the chairman recommended the removal of non-performing directors during the past 3 years following annual evaluation?	
B55	1 if no; 0 if yes	Do members 50% of more of the directors hold more than 6 other directorship?	
B56	1 if yes; 0 if no	Are there any shareholders or provisions from SOE Charter that set criteria for appointing directors?	
B57	1 if yes; 0 if no	Is the appointment process of the board managed by the ownership entity?	
B58	1 if no; 0 if yes	Are members of the board linked to head of state, head of government or ministers?	
D1	1 if yes; 0 if no	Did the board disclose remunerations and benefits received from SOE during the year?	
D2	1 if yes; 0 if no	Did the SOE disclose any transactions made with management, board members, government officials, political party officials or relatives of board or management?	
D3	1 if yes; 0 if no	Has the SOE developed a code of ethics?	
D4	1 if yes; 0 if no	Has the SOE developed a corporate social responsibility policy?	
D5	1 if yes; 0 if no	Does the SOE have a Client Service Delivery Charter?	
D6	1 if yes; 0 if no	Has the Client Service Delivery Charter been reviewed since implementation?	
D7	1 if yes; 0 if no	Does the company disclose its environmental performance in its annual report, on its website, or in a special environmental report?	
D8	1 if yes; 0 if no	Does the SOE report on how it impacted the environment through its operations?	
D9	1 if yes; 0 if no	Are there specific targets set on how the SOE plans to reduce environmental exposures?	
D10	1 if yes; 0 if no	Does the SOE report on its general objective as an organisation?	
D11	1 if yes; 0 if no	Did the organisation disclose any financial assistance or guarantees received or commitments (e.g. regulatory exemptions, tax relief, subsidies, financing) made on behalf of other organisations?	
D12	1 if yes; 0 if no	Has the SOE prepared its financial statements according to International Financial Reporting Standards?	
D13	1 if yes; 0 if no	Are annual reports for the SOEs available to the public?	
D14	1 if yes; 0 if no	Are financial statements of the SOEs made available to the public either through print or corporate website?	
D15	1 if no, 0 if yes	Did the independent external auditor's opinion contain any qualification?	
D16	1 if yes; 0 if no	Does the SOE have a policy on IT governance?	
D17	1 if yes; 0 if no	Have the accounts been audited by an external auditor annually?	
D18	1 if yes; 0 if no	Did the external Auditor have access to the Chairman of the audit committee?	
D19	1 if yes; 0 if no	Are findings of the external Auditors brought to the Chairman of the Audit Committee?	
D20	1 if yes; 0 if no	Did the SOE act on issues raised by independent external auditors?	
D21	1 if yes; 0 if no	Does the SOE have criteria for disclosing related party transactions?	
D22	1 if yes; 0 if no	Did the financial statements comply disclose any related party transactions?	
C1	1 if yes; 0 if no	Does the SOE have a Capital structure and Dividend Policy?	

C2	1 if no; 0 if yes	Does the SOE have more debt in its capital structure?	
C3	1 if yes; 0 if no	Does the SOE have a mix of bond financing and bank financing?	
C4	1 if no; 0 if yes	Did the SOE obtain loan from State owned bank (MSB or INDEBANK)?	
C5	1 if no; 0 if yes	Did the government convert any SOE loans into shares?	
C6	1 if yes, 0 if no	Has the SOE paid tax on its corporate profits	
O1	1 if yes; 0 if no	Is there an ownership entity managing the shareholding on behalf of the government and the Citizen of Malawi?	
O2	1 if yes; 0 if no	Does the SOE have a legal status distinct from the government?	
O3	1 if yes; 0 if no	Is there clear ownership arrangement (where ownership is centralised in one entity)?	
O4	1 if yes; 0 if no	Does the SOE have policy on treating shareholders and protecting minority shareholders rights?	
O5	1 if yes; 0 if no	Do the shareholders participate in shareholders meeting and receive dividends?	
O6	1 if yes; 0 if no	Are shareholders provided with accurate and timely information on the number of shares held by each class of shareholder?	
O7	1 if yes; 0 if no	Do minority shareholders nominate board members where state does not have 100% ownership?	
O8	1 if yes; 0 if no	Does the SOE have policy including those of on governance and ethics on how to improve on issues of corporate governance?	
O9	1 if yes; 0 if no	Is the SOE corporatised?	
O10	1 if yes; 0 if no	Is the SOE incorporated according to Company Law?	
O11	1 if yes; 0 if no	Does the SOE disclose its compliance with Malawi Code II and SOE Guidelines of the Code?	
O12	1 if yes; 0 if no	Has the SOE adopted corporate governance practices that are consistent with international best practice for SOEs governance?	
O13	1 if yes; 0 if no	Is the SOE subjected to competition?	
O14	1 if yes; 0 if no	If the ownership entity accountable to a representative body (such as Parliament).	

Key: (B) stands for Board measures; (D) = denote Disclosure; (C) represents Capital Structure; and (O) stands for Ownership structure.

1.2.2. RELIGIOUS COMMITMENT SURVEY

Instructions: The statements below describe religious commitment. Read each of the following statements. Using the scale to the right, CIRCLE the response that best describes how true each statement applies to you.

Key:

1 = Not at all true of me; 2= Somewhat true of me; 3 = moderately true of me; 4 = Mostly true of me 5= Totally true of me

Question #	**Description**	**Respondent Response**				
1	I often read books and magazines about my faith.	1	2	3	4	5
2	I make financial contributions to my religious organisation	1	2	3	4	5
3	I spend time trying to grow in understanding of my faith.	1	2	3	4	5
4	Religion is especially important to me because it answers many questions about the meaning of life.	1	2	3	4	5
5	My religious beliefs lie behind my whole approach to life.	1	2	3	4	5
6	I enjoy spending time with others of my religious affiliation.	1	2	3	4	5
7	Religious beliefs influence all my dealings in life.	1	2	3	4	5
8	It is important to me to spend periods of time in private religious thought and reflection	1	2	3	4	5
9	I enjoy working in the activities of my religious affiliation.	1	2	3	4	5
10	I keep well informed about my local religious group and have some influence in its decisions.	1	2	3	4	5

RESPONDENTS INCLUDE: All current board members, members of executive management and senior management

1.2.3. INTERVIEW GUIDE

SOE CORPORATE GOVERNANCE AND PERFORMANCE SURVEY INSTRUMENT

Information obtained through this interview is for academic purposes only. No part of this information will be released or shared to any agency. No particulars of individuals will be released.

PART 1: Legal form and State-Owned Enterprises (SOE) performance (Legal form – legal status of an SOE found in laws and regulations on how the state exercises its rights**; Ownership Arrangements –** the way the state organises itself to exercises its ownership**)**

SOEs have experienced structural reforms during the past decades. Some of these reforms have included change of legal forms and ownership arrangements.

1.1. In your opinion, how does the legal form affect the performance of SOE organisations?
1.2. Why is it necessary to change a legal form of an SOE?
1.3. What has been the impact of changes in legal form of SOEs? If any?
1.4. What effect does the ownership arrangement have on the operations of SOEs?
1.5. In your opinion what legal form and ownership arrangements would you recommend as most suitable for SOEs?

PART 2: Board of Directors and SOE performance

2.1. Are there any shareholders' provisions in the SOE charter that specify the process and authority of board appointment?
2.2. Are there specific provisions in the SOE for board or management representation of specific constituents?
2.3. What effect does board size have on the monitoring role of the board on the operations of the SOE?
2.4. How does board size contribute to the performance of the SOE?
2.5. Does the SOE have specific provisions for board representation from Executive managers?
2.6. How would you define board independence?
2.7. How does presence of NED contribute to board independence and performance of the SOE?
2.8. In your opinion, to what extent does the ratio of non-executive directors contribute to board strategy formulation and monitoring role of the board on the SOE?
2.9. How does the presence of public servants affect the effectiveness of board?
2.10. To what extent do public servants board members contribute to the performance of the SOE?
2.11. Are there some board members who sit on other organisations boards?
2.12. To what extent does this directorate interlock affect the monitoring role and independence of the directors?
2.13. How does the directorate interlock affect the SOE strategy?
2.14. How are the CEO and chairman appointed?

2.15. What effect does the appointment process of board and its leadership have on the effectiveness of the board?
2.16. Has there been any change in the board leadership in terms CEO duality?
2.17. What effect has the change contributed on the effectiveness of the board?
2.18. Does the SOE have any board committees?
2.19. To what extent does the presence of the committees contribute to the effectiveness of the board?
2.20. What is the composition of the board committees and how does this composition contribute to the effectiveness of board role of monitoring and strategy formulation?
2.21. How do the board committees contribute to the SOE performance?
2.22. How often does the SOE meet? What is the contribution of the frequency of the meetings to the effectiveness of the board?
2.23. What specific decisions have the board made regarding performance of the SOEs for the past 5 years?
2.24. In your opinion, what motivated the board to make these decisions?
2.25. What has been the effect of these decisions on the performance of the SOEs?
2.26. What specific mechanism does the board use to monitor senior management?
2.27. Does the board conduct self-evaluation or reviews of its effectiveness?
2.28. With whom are these reviews shared?
2.29. To what extent does annual board evaluation contribute to its effectiveness?
2.30. What business or experiences are represented on the board?
2.31. Has there been any change in the configuration of the board regarding skills mix?
2.32. How has this change contributed to the effectiveness of the board?
2.33. To what extent does the length of director's tenure affect his/her the performance of board and SOE?
2.34. What efforts have been made to change the mix skills and experience of the board over the years?

PART 3: Capital Structure and SOE performance

3.1. Has the SOE experienced any change in its capital structure over the last decade?
3.2. How does the capital structure compare to the industry benchmark or the listed companies?
3.3. Has the company provided any loans or benefits to any entity or institution?
3.4. How were these loans and benefits approved?
3.5. What government guaranteed loans or benefits has the SOE received during the past 5 years?
3.6. What extent have the loans and benefits impacted on the performance of the SOE?
3.7. Why were the loans obtained and how have they been used?

PART 4: Controls, Transparency & Disclosure and SOE performance

4.1. What are the company's guidelines or policies in regard to preparation and dissemination of financial and non-financial statements in accordance to the International Financial Reporting Standards?
4.2. Has the company restated its financial statement during the past 3 years?
4.3. In regard to regulatory requirement, to what extent has the company been required to provide additional information by the regulator?
4.4. Does the company prepare its annual reports regularly?
4.5. How annual reports are made available to stakeholders?
4.6. Who is responsible for preparing company's periodic disclosure?
4.7. Where these disclosures are made available?
4.8. Has the company provided goods, services, financing on concessionary terms to any government related entity for the past 5 years? How were these transactions disclosed?
4.9. Does the SOE disclose its shareholders agreement with or among its shareholders?
4.10. How does the company ensure that all shareholders have equal treatment in terms of disclosure of financial and nonfinancial information including company strategy?
4.11. What has been the effect of disclosure on the public image of the company?
4.12. How has disclosure affected the operations of the company in terms of trust that the stakeholders have in SOE?
4.13. In your opinion, what effect does disclosure have on accountability levels of managers to shareholders?

PART 5: Socio-cultural factors and corporate governance

5.1. In your opinion, what factors influence corporate governance in your company and Malawi in general?
5.2. To what extent does management involve subordinates in decision marking?
5.3. How would you describe compensation gap in your organisation?
5.4. What provision does that company have for subordinates reviewing or questioning the decisions of management?
5.5. How could you describe the culture of approvals in your organisation?
5.6. To what extent does the company tolerate mistakes by employees?
5.7. What are the culture of rules and the enforcing of rules in the company? How are violations from set rules treated?
5.8. Describe the structure of the company in terms of clarity.
5.9. Describe how rewards are structured in the company?
5.10. To what extent does the company recognise individual performance?
5.11. To what extent does the company embrace change or new ideas?
5.12. To what extent does company accept individual opinions / or personal ideas?
5.13. What has been the ratio of male and female in board and management over the past 5 years?
5.14. To what extent does organisational culture influence compliance to corporate governance principles?

5.15. How would you describe your board and management adherence to their religious values?
5.16. How does this religion affect ethical behaviour of board and management?
5.17. How does your religion influence attitude to regulations and policies of the company?

1.3. Interviewees for Qualitative Analysis

No.	Organisation	Respondents level of Authority	Number of Respondents
1	Department of Statutory Corporation	Senior officers	3
2	ADL	Executive Director	1
3	External Auditors	World Bank Accredited Corporate Governance Trainer	1
4	BWB	NEDs, Executive Directors	4
5	MHC	Executive Directors	3
6	SRWB	Board member and Executive Directors	4
7	ESCOM	Board members and Executive Directors	9
8	Ministry of Finance	Senior Officials	2
9	CRWB	Executive Directors	2
10	MPC	Executive Directors	3
11	MSE	Executive Director	1

12	Sunbird Tourism	Board Members and Executive Directors	3
13	National Assembly	Member of Parliament and committee member of Public Appointment Committee	1
14	Judiciary	Judge of the Supreme Court of Appeal of Malawi	1
14	Total Respondents		36

1.4. Turnitin Report

Turnitin Originality Report

Processed on: 01-Jun-2021 12:12 AM CAT
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A Strategic Corporate Governance Framework fo... By Elias Kaunda

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1.5. Ethical Clearance

UNIVERSITY OF KWAZULU-NATAL
INYUVESI YAKWAZULU-NATALI

10 January 2018

Mr Elias Kaunda (215081698)
Graduate School of Business & Leadership
Westville Campus

Dear Mr Kaunda,

Protocol reference number: HSS/2215/017D
Project title: A strategic Corporate Governance Framework for Malawi State-Owned Enterprises

Approval Notification – Expedited Application

In response to your application received on 21 November 2017, the Humanities & Social Sciences Research Ethics Committee has considered the abovementioned application and the protocol has been granted **FULL APPROVAL**.

Any alteration/s to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form, Title of the Project, Location of the Study, Research Approach and Methods must be reviewed and approved through the amendment/modification prior to its implementation. In case you have further queries, please quote the above reference number.

PLEASE NOTE: Research data should be securely stored in the discipline/department for a period of 5 years.

The ethical clearance certificate is only valid for a period of 3 years from the date of issue. Thereafter Recertification must be applied for on an annual basis.

I take this opportunity of wishing you everything of the best with your study.

Yours faithfully

[redacted]

Dr [redacted] (Deputy Chair)

/ms

Cc Supervisor: Professor Theuns Pelser
Cc Academic Leader Research: Dr Muhammad Hoque
Cc School Administrator: Ms Zarina Bullyraj

Humanities & Social Sciences Research Ethics Committee
Dr Shenuka Singh (Chair)
Westville Campus, Govan Mbeki Building
Postal Address: Private Bag X54001, Durban 4000
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1.6. Sample of letters of Gatekeepers and approval from SOEs

Elias Kaunda
Box 5381
Limbe

Tel 0111968 484/0888 738 626

September 11, 2017

The Chief Executive Officer
Malawi Housing Corporation
P.O. Box 414
Blantyre

Dear Sir/Madam,
RE: REQUEST FOR PERMISSION TO CONDUCT RESEARCH

I am a student at University of KwaZulu-Natal, Graduate School of Business and Leadership studying towards a Doctor of Philosophy in Leadership Studies programme. The topic of my thesis is entitled **"A Strategic Corporate Governance Framework for Malawi State-Owned Enterprises (SOEs)".** I hereby write to request for permission to conduct a research in your organization. As part of the research exercise, I am expected to gather data through questionnaires and personal interview which will assist in coming up with practical solutions in the emerging field of corporate governance of SOEs.

The information gathered during this research will be treated in most private and confidential manner and will be used for academic purposes only. As a research student, I commit to uphold the highest ethical research standards during the conduct of the research as regards to treatment of data obtained from your organization. The finding of this research will add to body of knowledge in corporate governance of SOEs. Of a particular focus, the study will investigate factors that affect the effectiveness of corporate governance framework and how corporate governance impacts on the performance of SOEs.

Find enclosed a reference letter from the research supervisor at University of KwaZulu-Natal, Graduate School of Business & Leadership.

Your favourable response to this request is highly appreciated.

Yours faithfully

[redacted]

Elias Kaunda

UNIVERSITY OF
KWAZULU-NATAL
INYUVESI
YAKWAZULU-NATALI
Graduate School of Business and Leadership

September 8, 2017

To Whom It May Concern:

PERMISSION TO CONDUCT RESEARCH AS PART OF THE DOCTOR OF PHILOSOPHY QUALIFICATION

Name: **Elias Kaunda** Student No.: **215081698**

Dissertation Topic: A Strategic Corporate Governance Framework for Malawi State-Owned Enterprises (SOEs)

We confirm that the above student is registered at the University of UKZN for the **Doctor of Philosophy (PhD) Programme**. It is a requirement of the Programme that the student undertake a practical research project in his/her final year of study.

Typically this project will be a "practical problem solving" exercise, and necessitates data gathering through questionnaires or personal interviews.

Your assistance in permitting access to your organization for purposes of conducting the research is most appreciated. Please be assured that all information gained from the research will be treated with the utmost confidentiality. Furthermore, should you wish any result's or findings from the research "to be restricted" for an agreed period of time, this can be arranged. The confidentiality of information and anonymity of personnel will be strictly adhered to by the student.

If permission is granted, kindly confirm this by signing off on the following:
"I am aware of the nature and extent of the document and I am satisfied with all the obligations imposed therein."

Please note that additional information or conditions can be supplied by you.

Name in Full: Esther Ngarajala

Designation: UNDER SECRETARY

22 SEP 2017

Company Name & Stamp: ____________________

Thank you for your assistance in this regard.

Yours sincerely

Professor Theuns Pelser (Supervisor)
Tel: (031) 260 7172

08 September 2017 Page 1

Telephone : Lilongwe (265) 01 774 266/01 772 255
Telex : 44265
Fax : (265) 01 774 110
e-MAIL : statutory@malawi.gov.mw

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The Comptroller

DEPARTMENT OF STATUTORY CORPORATIONS
[redacted]. O. BOX 30061
CAPITAL CITY
LILONGWE 3

Ref. No. C1/02/02

19th September, 2017

Electricity Supply Corporation of Malawi
2017 -09- 28
P.O. Box 2047 - Blantyre

The Chief Exec[redacted]
Electricity Supp[redacted]
P.O. Box 2047[redacted]
Blantyre .

Dear Sir,

PER[redacted] INTERVIEWS FOR RESEARCH PURPOSES

I write to introduce to you Mr. Elias Kaunda, a student at KwaZulu-Natal, reading for a Doctor of Philosophy (PhD) program.

Mr. Kaunda is doing a project in partial fulfilment of his PhD studies and his thesis' topic is "A Strategic Corporate Governance Framework for Malawi State-Owned Enterprises (SOEs)". Accordingly, he is currently collecting data for the thesis from different parastatal organisations.

This office has had a thorough meeting with him and wish to request your office to assist him with the necessary information for his thesis. We have made an agreement that all information obtained shall be treated with utmost care and confidentiality, and that the results will only be used for academic purpo[redacted] dissemination. Attached hereto is a confidentia[redacted] the confidentiality position stated above.

Thank you in advance for your cooperatio[redacted]

[redacted]

Esth[redacted]
For: **COMPTROLLER OF STA[redacted]**
CORPORATIONS

Telephone : Lilongwe (265) 01 774 266/01 772 288
Telex : 44265
Fax : (265) 01 774 110
e-MAIL : statutory@malawi.gov.mw

Communications should be addressed to:
The Comptroller

DEPARTMENT OF STATUTORY CORPORATIONS
P. O. BOX 30061
CAPITAL CITY
LILONGWE 3

Ref. No. C1/03/02

19th September, 2017

The Chief Executive Officer,
Malawi Housing Corporation,
P.O. Box 414,
Blantyre.

Dear Sir,

PERMISSION TO CONDUCT INTERVIEWS FOR RESEARCH PURPOSES

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Thank you in advance for your cooperation.

Yours faithfully,

Esthe[redacted])
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Thank you in advance for your cooperation.

Yours faithfully,

[redacted]

Esth[redacted]
For: **COMPTROLLER OF STATUTORY CORPORATIONS**

CENTRAL REGION WATER BOARD

Tel.: 01 758 044/045
Fax: 01 758 178

P/Bag 59
Lilongwe
Email: crwb@crwb.org.mw

Your Ref:

Our Ref: CRWB/

24th October, 2017

Mr Elias Kaunda
P O Box 5381
Limbe

Dear Sir

RE: REQUEST FOR PERMISSION TO CONDUCT RESEARCH

The above subject refers.

I write to convey CRWB's permission for you to conduct research in our organisation for your thesis entitled **"A Strategic Corporate Governance Framework for Malawi State-Owned Enterprises (SOEs)"**.

Wishing you all the best.

Yours faithfully

[redacted]

CHIEF EXECUTIVE OFFICER
GDS/jn

1.7. Performance of Selected Four Selected Cases

1.7.1. Sunbird Tourism plc

SOE		K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000
SUNBIRD		**YR_2016**	**YR_2015**	**YR_2014**	**YR_2013**	**YR_2012**	**YR_2011**	**YR_2010**	**YR_2009**	**YR_2008**	**YR_2007**	**YR_2006**	**YR_2005**	**YR_2004**	**YR_2003**	**YR_2002**
	Revenue	15,763,187	12,077,143	10,356,508	8,498,610	5,548,769	3,941,692	4,189,792	3,296,226	2,920,001	2,269,151	1,721,766	1,415,724	1,272,331	1,142,979	977,363
	Expenses	13,204,378	10,005,445	8,382,771	6,908,161	4,748,320	3,598,042	3,664,356	2,948,346	2,384,566	1,930,360	1,561,813	1,281,861	1,153,350	998,026	914,261
	EBIT	2,558,809	2,071,698	1,973,737	1,590,449	800,449	343,650	550,063	375,358	560,066	338,791	159,953	133,863	118,981	144,953	63,102
	Total Assets	23,289,423	21,103,809	16,626,634	15,727,113	15,232,575	11,352,031	10,458,930	9,155,024	5,238,193	4,803,725	4,293,739	2,709,267	2,660,606	1,565,990	1,562,862
	Current Assets	4,102,817	3,084,424	2,485,657	1,969,844	1,628,171	1,092,196	1,107,219	895,053	905,703	633,951	299,868	271,712	322,854	183,171	145,726
	Current Liabilities	3,462,690	2,868,692	2,394,403	2,649,522	2,739,761	1,560,742	1,049,866	830,479	658,113	544,593	332,901	332,501	347,763	319,204	330,265
	EQUITY	13,200,583	11,953,064	8,527,579	7,730,241	7,345,477	5,154,586	5,108,262	4,840,490	3,056,849	2,791,704	2,671,785	1,665,822	1,603,755	886,482	843,006
	DEBT	10,088,840	9,150,745	8,099,055	5,347,350	7,887,098	6,197,445	5,350,668	4,314,534	2,181,344	2,012,021	1,621,954	1,043,445	1,056,851	679,508	719,856
	ROA	0.12	0.11	0.12	0.10	0.06	0.03	0.06	0.05	0.11	0.07	0.05	0.05	0.06	0.09	0.08
	ROI	0.11	0.10	0.12	0.12	0.05	0.03	0.05	0.04	0.11	0.07	0.04	0.05	0.04	0.09	0.04
	DEBT/EQUITY	0.76	0.77	0.95	0.69	1.07	1.20	1.05	0.89	0.71	0.72	0.61	0.63	0.66	0.77	0.85
	CURRENT RATIO	1.18	1.08	1.04	0.74	0.59	0.70	1.05	1.08	1.38	1.16	0.90	0.82	0.93	0.57	0.44

Sources: Sunbird plc (2016)

1.7.2. ESCOM

SOE		K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000
ESCOM		**YR_2016**	**YR_2015**	**YR_2014**	**YR_2013**	**YR_2012**	**YR_2011**	**YR_2010**	**YR_2009**	**YR_2008**	**YR_2007**	**YR_2006**	**YR_2005**	**YR_2004**	**YR_2003**	**YR_2002**	**YR_2001**	**YR_2000**
	Revenue	71,819,253	53,806,516	48,535,651	33,613,929	17,193,062	13,828,962	10,490,940	8,008,679	8,362,579	6,522,884	5,893,214	5,750,061	3,723,435	3,337,038	3,378,421	2,619,207	1,675,378
	Expenses	62,488,251	43025996	32,384,737	21,510,150	12,897,269	10,416,037	9,872,113	9,209,461	10,698,461	6,097,345	5,717,001	4,715,837	4,569,354	3,428,358	2,928,179	1,515,153	1,320,844
	EBIT	9,331,002	10,780,520	16150914	12,103,779	4,295,793	3,412,925	618,827	(1,200,782)	(2,335,882)	425,539	176,213	1,034,224	(845,919)	(91,320)	450,242	1,104,054	354,534
	Total Assets	128,848,964	95,141,128	76,913,515	71,579,699	46,071,968	38,689,112	33,510,221	31,918,918	29,903,804	29,583,966	27,223,765	26,102,452	23,078,130	20,250,002	18,342,338	17,527,412	12,549,680
	Current Asset	57,234,228	44,139,810	31,849,838	19,765,841	9,474,844	6,322,984	4,041,779	4,216,600	3,946,299	3,796,407	5,130,154	3,895,051	3,432,548	2,718,496	1,905,616	1,423,943	1,081,035
	Current Liabili	22,425,155	7,487,155	5,835,771	3,531,385	10,228,671	12,198,288	11,604,360	10,398,274	8,827,766	7,907,504	53,308,350	4,610,340	5,354,815	6,655,696	3,662,660	3,077,921	2,004,192
	EQUITY	62,379,966	56,659,109	44,320,021	34,802,460	22,958,328	12,828,270	7,022,073	5,771,580	6,754,480	9,496,293	9,716,533	10,252,927	9,125,243	(592,282)	1,981,016	1,101,423	1,479,650
	DEBT	44,043,843	30,994,864	32,593,494	36,777,239	22,722,579	13,663,554	14,883,788	15,749,064	14,321,558	12,180,169	12,198,882	15,849,525	13,952,887	20,842,284	18,342,338	16,426,029	11,070,030
	ROA	0.08	0.13	0.22	0.21	0.10	0.09	0.02	(0.04)	(0.08)	0.01	0.01	0.04	(0.04)	(0.00)	0.03	0.07	0.03
	ROI	0.09	0.12	0.21	0.17	0.09	0.13	0.03	(0.06)	(0.11)	0.02	0.01	0.04	(0.04)	(0.00)	0.02	0.06	0.03
	DEBT/EQUITY	0.71	0.55	0.74	1.06	0.99	1.07	2.12	2.73	2.12	1.28	1.26	1.55	1.53	(35.19)	9.26	14.91	7.48
	CURRENT RAT	2.55	5.90	5.46	5.60	0.93	0.52	0.35	0.41	0.45	0.48	0.10	0.84	0.64	0.41	0.52	0.46	0.54

Sources: ESCOM (2016)

1.7.3. MHC

SOE		K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000
MHC		**YR_2016**	**YR_2015**	**YR_2014**	**YR_2013**	**YR_2012**	**YR_2011**	**YR_2010**	**YR_2009**	**YR_2008**	**YR_2007**	**YR_2006**	**YR_2005**	**YR_2004**	**YR_2003**	**YR_2002**	**YR_2001**	**YR_2000**
	Revenue	2,303,962	1,793,082		1,434,096	1,066,996	977,231	846,606	673,237	563,775	493,213	501,241			295,249	212,242	253,801	225,915
	Expenses	(3,132,882)	(2,654,616)		(1,701,337)	(1,238,525)	(1,205,557)	(954,368)	(794,253)	(603,779)	(671,926)	(559,929)			(384,048)	(420,904)	(381,301)	(248,288)
	EBIT	(828,920)	(861,534)	-	(267,241)	(171,529)	(228,326)	(107,762)	(121,016)	(40,004)	(178,713)	(58,688)	-	-	(88,799)	(208,662)	(127,500)	(22,373)
	Total Assets	70,091,494	58,899,141		44,443,499	37,373,743	30,313,331	25,216,485	17,811,677	13,004,770	9,475,081	5,637,855			1,509,165	1,527,115	1,575,498	1,493,773
	Current Assets	3,788,942	3,073,519		1,554,061	3,661,223	3,351,277	2,924,906	774,177	735,502	555,986	602,721			371,114	388,472	369,349	322,596
	Current Liabilities	4,385,667	3,506,920		2,517,731	2,414,426	1,835,821	1,505,682	840,434	732,477	519,401	628,974			338,389	413,744	329,726	216,833
	EQUITY	65,592,296	55,264,184		41,760,069	32,859,209	25,992,287	21,554,942	16,859,385	12,200,419	8,949,922	4,993,867			1,167,499	1,109,625	1,228,974	1,258,044
	DEBT	4,499,198	3,634,957	-	2,683,430	4,514,534	4,321,044	3,661,543	952,292	804,351	525,159	643,988	-	-	341,666	417,490	346,524	235,729
	ROA	(0.01)	(0.03)	-	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.00)	(0.02)	(0.02)	#DIV/0!	-	(0.06)	(0.13)	(0.08)	(0.02)
	ROI	(0.01)	(0.01)	#DIV/0!	(0.01)	(0.00)	(0.01)	(0.00)	(0.01)	(0.00)	(0.02)	(0.01)	#DIV/0!	#DIV/0!	(0.06)	(0.14)	(0.08)	(0.01)
	DEBT/EQUITY	0.07	0.07	#DIV/0!	0.06	0.14	0.17	0.17	0.06	0.07	0.06	0.13	#DIV/0!	#DIV/0!	0.29	0.38	0.28	0.19
	CURRENT RATIO	0.86	0.88	#DIV/0!	0.62	1.52	1.83	1.94	0.92	1.00	1.07	0.96	#DIV/0!	#DIV/0!	1.10	0.94	1.12	1.49

Sources: Malawi Housing Corporation (2016)

1.7.4. MPC

SOE		K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000
MPC		**YR_2016**	**YR_2015**	**YR_2014**	**YR_2013**	**YR_2012**	**YR_2011**	**YR_2010**	**YR_2009**	**YR_2008**	**YR_2007**
	Revenue	3,220,270	2,957,189	2,808,268	1,796,443	1,324,035	1,249,848	965,300	841,388	822,006	832,943
	Expenses	(4,172,847)	(3,580,328)	-3273184	(2,106,007)	(1,565,142)	(1,090,449)	(832,476)	(983,491)	(1,103,809)	(1,047,067)
	EBIT	(952,577)	(623,139)	(464,916)	(309,564)	(241,107)	159,399	132,824	(142,103)	(281,803)	(214,124)
	Total Assets	13,865,924	11,995,258	8,856,713	1,989,445	1,331,275	1,198,166	971,376	921,335	923,918	931,188
	Current Assets	2,264,171	2,164,666	1,731,556	1,344,678	844,600	652,250	442,115	356,715	318,033	327,363
	Current Liabilities	3,677,012	3,355,279	2,479,689	1,945,942	1,421,587	826,756	571,483	718,111	552,462	366,010
	EQUITY	8,607,982	6,742,979.00	4,236,787	(109,776)	(90,312)	17,887	75,584	(275,646)	(94,168)	222,706
	DEBT	5,257,942	5,252,279	4,619,926	2,099,221	1,421,587	1,180,279	895,792	1,196,981	1,018,086	708,482
	ROA	(0.07)	(0.06)	(0.09)	(0.19)	(0.19)	0.15	0.14	(0.15)	(0.30)	(0.46)
	ROI	(0.07)	(0.05)	(0.05)	(0.16)	(0.18)	0.13	0.14	(0.15)	(0.31)	(0.23)
	DEBT/EQUITY	0.61	0.78	1.09	(19.12)	(15.74)	65.99	11.85	(4.34)	(10.81)	3.18
	CURRENT RATIO	0.62	0.65	0.70	0.69	0.59	0.79	0.77	0.50	0.58	0.89

Sources: Malawi Post Corporations (2016)

1.7.5. BLANTYRE HOTELS LIMITED

Blantyre Hotels Limited		K'000	K'000	K'000	K'000	K'000
Toursim Industry -BHL		**YR_2016**	**YR_2015**	**YR_2014**	**YR_2013**	**YR_2012**
	Revenue	3,561,296	2,705,086	2,163,234	1,573,662	967,364
	Expenses	2,848,016	2,334,015	1,815,308	1,338,338	849,317
	EBIT	713,280	371,071	347,926	235,324	118,047
	Total Assets	7,334,795	5,706,126	5,628,629	3,043,543	2,496,488
	Current Assets	1,163,193	644,634	587,218	511,918	358,580
	Current Liabilities	845,839	519,347	471,181	279,674	241,689
	EQUITY	4,763,106	3,682,403	3,546,541	1,760,368	1,689,993
	DEBT	2,571,689	2,023,723	2,082,088	1,253,175	806,495
	ROA	0.11	0.07	0.08	0.08	0.09
	ROI	0.10	0.07	0.06	0.08	0.05
	DEBT/EQUITY	0.54	0.55	0.59	0.71	0.48
	CURRENT RATIO	1.38	1.24	1.25	1.83	1.48

Sources: (BHL, 2020)

Notes: The table above shows financial statements for Blantyre Hotel Limited for 5 years. BHL is a public limited company listed on Malawi Stock Exchange whose competitor is Sunbird plc. BHL has an average ROA of 0.086

1.8. Pearson Correlation matrix – Corporate governance and SOEs performance

VARIABLE	EBIT	ROA	LF	BSize	PAF	RISK	FREQ	TENURE	CIVIL	AnRPT	THIRD	CONFLICT	LEV	LnCSIZE	LnAGE	INDUSTRY	COMPETE
EBIT	1																
P-value																	
ROA	.483**	1															
P-value	.000																
LF	.329**	.375**	1														
P-value	.000	.000															
BSize	-.064	-.007	-.373**	1													
P-value	.474	.934	.000														
PAF	-.273**	-.295**	-.775**	.441**	1												
P-value	.002	.001	.000	.000													
RISK	.576**	.408**	.530**	-.337**	-.622**	1											
P-value	.000	.000	.000	.000	.000												
FREQ	-.003	.122	.195*	-.223*	-.222*	.123	1										
P-value	.977	.160	.024	.011	.012	.157											
TENURE	.041	.295**	.474**	-.254**	-.544**	.381**	.258**	1									
P-value	.650	.001	.000	.004	.000	.000	.003										
CIVIL	-.155	-.246**	-.396**	-.033	.280**	-.305**	-.023	-.254**	1								
P-value	.081	.005	.000	.708	.001	.000	.798	.004									
AnRPT	.267**	.333**	.826**	-.272**	-.626**	.438**	.161	.448**	-.250**	1							
P-value	.002	.000	.000	.002	.000	.000	.064	.000	.004								
THIRD	.032	.269**	.658**	-.453**	-.608**	.517**	.297**	.534**	-.114	.543**	1						
P-value	.713	.002	.000	.000	.000	.000	.001	.000	.201	.000							
CONFLICT	.059	.301**	.562**	-.521**	-.737**	.629**	.353**	.696**	-.261**	.463**	.840**	1					
P-value	.503	.000	.000	.000	.000	.000	.000	.000	.003	.000	.000						
LEV	-.012	.265**	-.066	.068	.161	-.036	-.016	.060	.001	-.063	-.058	-.040	1				
P-value	.896	.002	.451	.448	.070	.683	.858	.499	.993	.470	.507	.647					
LnCSIZE	.200*	.199*	.266**	-.056	-.167	.189*	.002	-.012	-.103	.224**	.097	.061	.004	1			
P-value	.022	.023	.002	.528	.061	.030	.982	.893	.251	.010	.269	.489	.963				
LnAGE	-.009	.188*	-.215*	.045	.266**	.003	-.010	-.121	.148	.017	.060	.000	-.032	.043	1		
P-value	.918	.030	.013	.612	.002	.970	.910	.174	.097	.844	.491	.997	.714	.623			
INDUSTRY	-.032	.085	.131	-.394**	-.447**	.358**	.230**	.535**	.057	.146	.397**	.666**	.058	.077	-.150	1	
P-value	.713	.332	.134	.000	.000	.000	.008	.000	.526	.094	.000	.000	.506	.380	.085		
COMPETE	-.110	-.124	.120	-.555**	-.310**	.267**	.178*	.229**	-.211*	-.005	.370**	.513**	-.051	-.221*	.096	.180*	1
P-value	.209	.157	.170	.000	.000	.002	.040	.009	.017	.952	.000	.000	.558	.011	.270	.038	

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

*. Correlation is significant at the 0.05 level (2-tailed).

1.9. Performance of Listed Power Utility SOEs in Kenya

			KENYA POWER PROFITABILITY REPORT								
SOE		KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
KENYA POWER		**YR_2019**	**YR_2018**	**YR_2017**	**YR_2016**	**YR_2015**	**YR_2014**	**YR_2013**	**YR_2012**	**YR_2011**	**YR_2010**	**YR_2009**
	Profit for the year	261,553	3,268,626	7,266,131	7,196,563	7,431,957	6,994,487	4,352,165	4,617,116	4,219,566		
	Total Assets	3,238,004,926	332,269,343	341,653,227	297,542,180	272,286,082	220,926,514	177,157,755	134,131,983	121,171,515		
	ROA	0.00	0.01	0.02	0.03	0.03	0.04	0.03	0.04	0.07		
	SOURCE: Kenya Power and Lighting Company plc (2020)											

			KENGEN PROFITABILITY REPORT									
SOE		KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
KENGEN		**YR_2019**	**YR_2018**	**YR_2017**	**YR_2016**	**YR_2015**	**YR_2014**	**YR_2013**	**YR_2012**	**YR_2011**	**YR_2010**	**YR_2009**
	PROFIT	7,884,335	7,890,633	90,062,116	6,743,492	11,517,327	2,826,323	5,250,136	2,822,600	2,080,121	3,286,487	2,070,913
	Total Assets	401,422,249	379,353,005	376,729,582	366,738,366	342,519,995	250,205,524	188,673,282	163,144,873	160,993,290	150,566,886	112,945,160
	ROA	0.02	0.02	0.24	0.02	0.04	0.01	0.03	0.02	0.01	0.02	-
	SOURCE: Kenya Electricity Generating Company (2020)											