AN INVESTIGATION OF THE IMPACT OF CORPORATE GOVERNANCE

PRACTICES ON THE FINANCIAL PERFORMANCE OF TIER 3 PUBLIC

ENTERPRISES IN NAMIBIA

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ABSTRACT

Tier 3 Public Enterprises in Namibia have been hampered by corporate governance problems and rely heavily on government financial injection to sustain their operations. PEs in Namibia continuously make losses. Thus, becoming a burden to the government. Poor corporate governance practices have been singled out as one of the major causes for the bad financial situation at tier 3 PEs. This study aimed to investigate the impact of corporate governance practices on the financial performance of tier 3 PEs, as their performance has a significant impact on the Namibian economy. Board size, board committees and board meetings were used as corporate governance measures. Financial performance was measured using the Return on Assets (ROA), using ROA as a financial measure is practical as it measures the profitability of PEs as a whole in relation to the assets employed. ROA is also referred to as the return on investment (ROI). A return on the investment made into these PEs by Government has to be measured. Thus, ROA was best suited to be used as a measure of financial performance for this study. The study applied a panel data analysis approach. The population consisted of all (10) tier 3 PEs, as per the Government Gazette of the Republic of Namibia dated 31 May 2013. Secondary data were only being collected for nine tier 3 PEs for the period of 2011 to 2018, as this was the period that all annual financial reports were available for all the tier 3 PEs. The data were captured using Microsoft Excel and thereafter transferred to SPSS where linear regression was used to analyse the relationship between the corporate governance and financial performance. The study revealed that there was statistical significance at a 0.05 level of significance between corporate governance practices and financial performance of tier 3 PEs and the study revealed board meetings and board size were positively correlated to financial performance and board committees had a negative relationship. The study recommended that tier 3 PEs invest in corporate governance to improve their financial performance. The study also recommended that adopting corporate governance should be made mandatory by law. Furthermore, based on the study findings policy makers are encouraged to increase the number of board meetings and board member at tier 3 PEs as it correlates positively with financial performance. However, it is recommended to reduce the number of board committees at tier 3 PEs.

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ACKNOWLEDGEMENTS

DEDICATION

This thesis is dedicated to the following individuals:

- My sons, Jayden Simataa Karipo "Suki" Munyaza, Marley Mason "Ziggy" Munyaza and Marlen Sibungo "S'bu" Munyaza. I love you all.

- My late uncles, BaDavid Mwiya and BaKayo Munyaza.

DECLARATION

I, Sebastian Simataa Munyaza, hereby declare that this study is my own work and is a true reflection of my research, and that this work, or part thereof has not been submitted for a degree in any other institution.

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Name of Student	Signature	Date

CHAPTER ONE

1.0 Introduction

Public Enterprises in Namibia, more specifically, tier 3 Public Enterprises have been hampered by corporate governance problems and rely heavily on government financial injection to sustain their operations. Public Enterprises in Namibia continuously make losses, therefore becoming a burden to the government. Interestingly, poor corporate governance practices have been singled out as one of the major causes for the bad financial situation tier 3 Public Enterprises constantly find themselves. Therefore, this study aims to investigate the impact of corporate governance practice on the financial performance of tier 3 Public Enterprises.

This chapter provides the background of the study, statement of the problem, objectives of the study, hypothesis of the study and significance of the study. It also presents limitations and delimitations of the study, definition of terms used in the study and the organisation of the study.

1.1 Background of the study

Corporate governance is defined as the processes, customs, policies, laws and institutions that direct the organisations and corporations in the way they act, administer and control their operations (Khan, 2011). There is good corporate governance as well as bad corporate governance, and according to the IoDSA Report (2016), good corporate governance benefits include a good ethical culture, good performance, effective control and legitimacy. In the absence of corporate governance,

the likely outcome would be a poor ethical culture, poor performance and ineffective controls.

Corporate governance extends back at least to the 16th and 17th centuries, but only acquired an international dimension in the 1990s (Cheffins, 2012). Thus, the Great Britain's Cadbury Report of 1992 became one of the first recognised guides on corporate governance, before the Sarbanes Oxley Act of 2002 was introduced. Over the past years, empirical literature has scrutinised the impact of corporate governance practices on financial performance of Public Enterprises (PEs), formerly referred to as State-Owned Enterprises (SOEs) in Namibia (Chata, 2010; Kangueehi, 2007; Kefas, 2014; Limbo, 2019; Maurihungirire, 2016 and Mubwandarikwa, 2013). These studies have one thing in common, namely, that they point to poor financial performance of PEs. In a study done by Haimbili (2018) found that Namibia does not have a corporate governance model to address the needs of PEs. However, this does not conclude that tier 3 PEs are operating under vacuum as they are guided by Public Enterprises Governance Council, which was formed firstly in 2006, then revised in 2013 and 2019. Furthermore, Haimbili (2018) concluded that tier 3 PEs continue to face multiple governance challenges, these challenges include conflicting roles of the government as the sole shareholder, policy maker, and regulator, the board as supervisor and CEOs as the executive. In the same vein the Minister of Mines and Energy, Tom Alweendo remarked "people have lost confidence in public enterprises because of unethical behaviour and poor corporate governance" (Kuhanga, 2018). Furthermore, newspaper headlines such as "Just give us N$3b – AirNam" (2018), "TransNamib wants N$2.5b for five years" (2018) and "No bailouts for commercial SoEs" (2018) suggest a huge reliance by PEs on government subsidies.

In an effort to improve corporate governance and financial performance of PEs in Namibia, the Government of the Republic of Namibia has implemented various strategies, such as the introduction of State-Owned Enterprises Governance Council Act of 2006, the State-Owned Enterprises Governance Council Act of 2010, the establishment of the Ministry of Public Enterprises (MPE) in 2015 and finally the introduction of the Hybrid Governance Model for Namibian PEs. PEs are further classified into tiers 1, 2 and 3, based on the size and contribution to the economy, and therefore affects remuneration bands. Total revenue, total assets and total primary employment were the three quantitative indicators used for the classification. Tier 3 PEs are the most highly rated and remunerated, thereafter tier 2 PEs, whereas tier 1 PEs are the most lowly rated and remunerated (State-Owned Governance Council Act, 2010). Furthermore, in an effort to improve corporate governance in Namibia the private sector introduced the Corporate Governance Code for Namibia (NamCode), the principles of this NamCode apply to Namibian entities including PEs on an "apply-and-explain" basis, this means that there is no statutory obligation on PEs to comply with the NamCode. The underlying intention of the NamCode is not to force companies to comply with recommended practice. These strategies, both by the Government of the Republic of Namibia and the private sector, according to Shifidi (2014), have been necessitated by poor performance, mismanagement and corruption observed in many PEs.

This view is supported by a Deloitte & Touché report (as cited in Kefas, 2014) which states that the worst institutions, in terms of adopting sound and well-crafted corporate governance policies in Namibia, are the PEs. Therefore, the issue of poor corporate

governance practices is of great concern to many PEs in Namibia and several academic findings have been advanced with regards to the impact of corporate governance practices on the financial performance of PEs in Namibia. According to Kefas (2014), corporate governance guidelines and procedures are not fully adhered to, which makes some of the PEs vulnerable to bad practices and poor performance. The IPPR (2016) indicates that in the past decade there has been a number of high profile scandals of PEs in Namibia. Avid, ODC and GIPF scandals alone add up to N$ 700 million lost and NSFAF could not account for N$ 2.7 billion. In recent times the SME bank scandal has focused the spotlight solely on the problems with corporate governance practices in Namibian PEs, and the ongoing Fishrot scandal is another case in point. These corporate scandals can be attributed to poor corporate governance practices among Namibian PEs, leading to the reliance of PEs in Namibia on state subsidies and bailouts. For example, according to the IPPR Report (2016) Air Namibia received almost N$700 million in the 2015-2016 budget, while TransNamib received a bailout of more than N$300 million. Mubwandarikwa (2013) corroborates the findings of the IPPR Report that the Government of the Republic of Namibia is directly investing massive sums of money into PEs with the hope of making a return on their investments.

This study focuses on tier 3 PEs, as their financial performances has a significant impact on the Namibian economy, given that they are expected to be the main contributor to the economy. This study is therefore a systematic academic exercise to investigate the impact of corporate governance practices on the financial performance of tier 3 PEs in Namibia. Hence, the study could be a contribution to literature on corporate governance and financial performance of PEs specific to Namibia.

1.2 Statement of the Problem

Public Enterprises (PEs) are created to provide key goods and services on behalf of the government and they play an important role in economic development (Kefas, 2014; & Maurihungirire, 2016). This is supported by the Harambee Prosperity Plan (HPP) (2016) which states that PEs play a critical role in supporting Government's growth, employment creation and service delivery.

Similarly, a study by Kefas (2014) indicates that when the performance of PEs is good, they can provide a solid base for economic and social development, contribute significantly to state budgets, and be an essential tool to implement government policies. Unfortunately, some PEs have been hampered by governance problems and depend significantly on government financial injections to sustain operations. Instead of providing economic impetus, PEs have become a drain on the fiscus, which has serious cost implications.

This view is supported by Mubwandarikwa (2013) in his exploration of corporate governance and performance of PEs which rely perennially on bailouts without any observable results. Among the main culprits are Air Namibia, RCC and TransNamib. A study done by Kangueehi (2007) to analyse the performance of state-owned enterprises (SOE) in Namibia, concluded that poor corporate governance is the leading cause of poor financial performance.

Shifidi (2014) evaluated the state of corporate governance in Namibia and concluded that corporate governance is a serious challenge, especially the PEs sector. IPPR (2016) further states that Namibian PEs have acquired a hard-earned reputation for mismanagement and misappropriation of funds. Moreover, in several high profile cases money has mysteriously gone missing after being invested with other companies.

For example, Avid, ODC and GIPF scandals alone add up to N$ 700 million lost and NSFAF could not account for N$ 2.7 billion.

In the African context, a study on Kenya done by Maina (2017) examined the effects of corporate governance on financial performance of SOEs. Primary and secondary data were utilised from 2012 to 2016. The study found that there is a positive relationship between corporate governance and financial performance of PEs.

Deloitte & Touché report (as cited in Kefas, 2014) states that the worst institutions, in terms of adopting sound and well-crafted corporate governance policies in Namibia, are the PEs.

according to the IPPR Report (2016) Air Namibia received almost N$700 million in the 2015-2016 budget, while TransNamib received a bailout of more than N$300 million. Mubwandarikwa (2013) corroborates the findings of the IPPR Report that the Government of the Republic of Namibia is directly investing massive sums of money into PEs with the hope of making a return on their investments. However, the Government of the Republic of Namibia does not receive the much needed dividend from the tier 3 PEs.

Previous academic studies (Kangueehi, 2007; Kefas, 2014; Limbo, 2019) done in the Namibian context on the subject matter have explored the impact of corporate governance practices on financial performance of Namibian PEs as a collective, or narrowed their respective studies to case studies on individual PEs. For example, a study done by Kangueehi (2007) is based upon all the PEs in Namibia. Another study, (Kefas, 2014) is specific to board selection and recruitment of PEs in Namibia, while Limbo's study (2019) is specific to PEs in the transport sector. However, the current study concentrates on tier 3 PEs as classified in the Government Gazzette of the

Republic of Namibia dated 31 May 2013, as none of the previous studies had examined the impact of corporate governance on the financial performance specific to tier 3 PEs. Therefore, the current study attempts to close this identified research gap by analysing the impact of corporate governance practices on the financial performance, which is specific to tier 3 PEs.

1.3 Research Objectives

The main objective of this research is to investigate the relationship between corporate governance practices and financial performance (ROA) of Namibian tier 3 Public Enterprises. There are 3 specific objectives, which are to:

- Establish the impact of board size on ROA.

- Assess the impact of board committees on ROA.

- Determine the impact of board meetings on ROA.

1.4 Hypothesis of the Study

H_o: There is no relationship between board size and financial performance (ROA) of tier 3 Public Enterprises in Namibia.

$H\alpha$: There is a relationship between board size and financial performance (ROA) of tier 3 Public Enterprises in Namibia.

H_o: There is no relationship between board committees and financial performance (ROA) of tier 3 Public Enterprises in Namibia.

$H\alpha$: There is a relationship between board committees and financial performance (ROA) of tier 3 Public Enterprises in Namibia.

H_o: There is no relationship between board meetings and financial performance (ROA) of tier 3 Public Enterprises in Namibia.

$H\alpha$: There is a relationship between board meetings and financial performance (ROA) of tier 3 Public Enterprises in Namibia.

1.5 Significance of the study

The findings of this study may help the Ministry of Public Enterprises to better understand the performance of tier 3 PEs in Namibia and help in making strategic decisions. The study also has an academic significance as it will add to the body of literature on corporate governance and financial performance of PEs in Namibia.

1.6 Limitations of the study

Collection of secondary data proved difficult as some PEs do not have available annual reports for the research period. Hence, some PEs, namely Air Namibia, Road Contractor Company and August 26 Holdings Company (Pty) Ltd., were not included in this study.

1.7 Delimitations of the study

The research period was from the 2011 to 2018 financial periods and the focus was on tier 3 PEs. This research period was chosen because there have been a lot of concerns of corporate governance on the Namibian PEs during that period and this is the only time period that all tier 3 PEs had available the annual financial reports, from which the data was collected. Secondly, similar studies done on this subject matter had shorter time periods of between 3 to 5 years in most cases. Thus, this study opted to investigate a longer time period, i.e. eight (8) years.

1.8 Definition of terms used in the study

In a study such as this it is important to outline some of the most prominent terms in order to facilitate an understanding by the reader. The following are definitions of prominent terms:

Corporate Governance:

Khan (2011) defines corporate governance as the processes, customs, policies, laws and institutions that direct the organisations and corporations in the way they act, administer and control their operations.

Financial Performance:

Financial performance is a general measure of a firm's overall financial health status over a given period of time. Financial performance is therefore a measure of how well a firm can use assets from its primary mode of business, as well as generate revenues (Ochola, 2013).

Public Enterprises:

These are entities that are wholly or partially owned by the Government.

Return on Assets (ROA):

According to Correia, Flynn, Ulliana, Wormald and Dillon (2015) the return on assets measures the profitability of the firm as a whole, in relation to the assets employed. It is also calculated by dividing earnings by assets.

1.8 Organisation of the study

This study consists of five chapters. Chapter 1 deals with the introduction of this study; background of the study, statement of the problem, objectives of the study, hypothesis of the study, significance of the study, limitations and delimitations of the study and definition of terms used in the study. Chapter 2 provides the literature review and the theories relating to corporate governance. Chapter 3 elaborates on the research methodology employed for the study. Chapter 4 gives the analysis of results and discussion. Finally, Chapter 5 sums up the main findings and contains the conclusion and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter provides a review of the literature on the topic under research. Different models of corporate governance used in various parts of the world are examined to get a better understanding of the approaches to corporate governance and their implications on the financial performance of Public Enterprises. It is also important to note that one would use a literature review to identify gaps that may exist. The chapter consists of five main sections namely, the theoretical framework of corporate governance, the OECD principles of corporate governance, measures of financial performance, measure of corporate governance for this study and the empirical literature done by other researchers on the impact of corporate governance practices on the financial performance.

2.1 Theoretical framework of corporate governance

This subsection focuses on some of the relevant theories of corporate governance for this research.

2.1.1 The Stewardship theory

Stewardship theory has its roots from psychology and sociology. Davis, Schoorman and Donaldson, 2007 (as cited in Abdullah & Valentine, 2009, p. 90) defined stewardship theory as "a steward protects and maximises shareholders' wealth through firm performance, because by so doing, the steward's utility functions are maximised."

According to Tshipa (2017), the stewardship theory assumes management are stewards whose interests are aligned with those of the owners. This is corroborated by Kefas (2014), who states that the executive manager, under the stewardship theory, far from being opportunistic, essentially wants to do a good job to be an excellent steward of the corporate assets.

Tshipa (2017), because of the alignment between the management and owner interests, therefore argues that managers are motivated to make decisions corresponding with those of the shareholders that would maximise financial performance. Firms that embrace stewardship theory places the CEO and chairman's responsibilities under one executive, with a board comprised mostly of in-house members. This allows for intimate knowledge of organisational operation and a deep commitment to success. Consequently, in this perspective, stewards are company executives and managers working for the shareholders, protecting and making profits for the shareholders (Abdullah & Valentine, 2009). To further illustrate this point, see the stewardship model below:

Figure 2. 1 The stewardship model
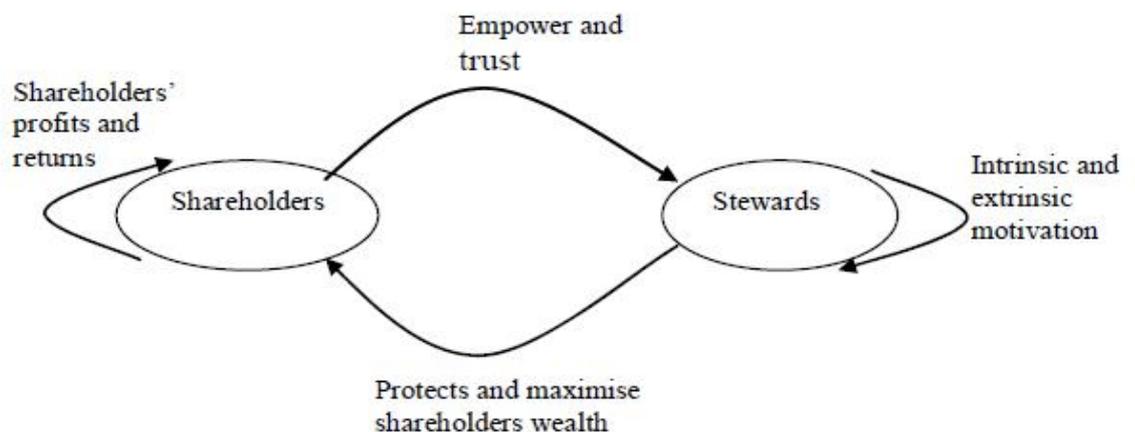
Source: Abdullah & Valentine (2009)

As illustrated in the stewardship model above, unlike the agency theory discussed below, the stewardship theory entails that the shareholders' (owners') and the stewards' (managers') interests, are mutually aligned. The stewardship theory assumes that that management are stewards whose interests are aligned with those of the owners (shareholders). Therefore, managers are motivated to make decisions that correspond with those of the shareholders to maximise financial performance. The stewardship theory assumes that management members are trustworthy and reliable persons (Tshipa, 2017).

The agency theory discussed below has gained prominence in corporate governance, as a result of shortcomings in the stewardship theory. Thus the next subsection discusses the agency theory.

2.1.2 The Agency theory

One of the main theories of corporate governance is the agency theory, which was first developed by Alchian and Demsetz (1972) and it was further developed by Jensen and Meckling (1976), who define agency relationship as follows:

"a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent. If both parties to the relationship are utility maximisers there is good reason to believe that the agent will not always act in the best interests of the principal. The principal can limit divergences from his interest by establishing appropriate incentives for the agent and by incurring monitoring costs designed to limit the aberrant activities, of the agent" (p. 308).

However, Abdullah and Valentine (2009) define agency theory as the relationship between the principals, such as shareholders and agents, such as the company executives and managers.

In addition, Ncube (2018) opines that the heart of the agency theory stems on the premise that shareholders, by means of the board of directors, give authority to the top executives to be in charge of directing the firms. In addition, they are presumed to employ their significant knowledge and expertise and efficiently use the firm's resources, thereby maximising shareholders' returns.

Agency theorists use corporate governance to measure the role of agents (managers) in fulfilling part of their contractual agreement with the principals (investors). However, at some point the agents (managers) will serve their own interests and not those of the principals (investors). To further illustrate this point, see the agency model below:

Figure 2. 2: The agency model
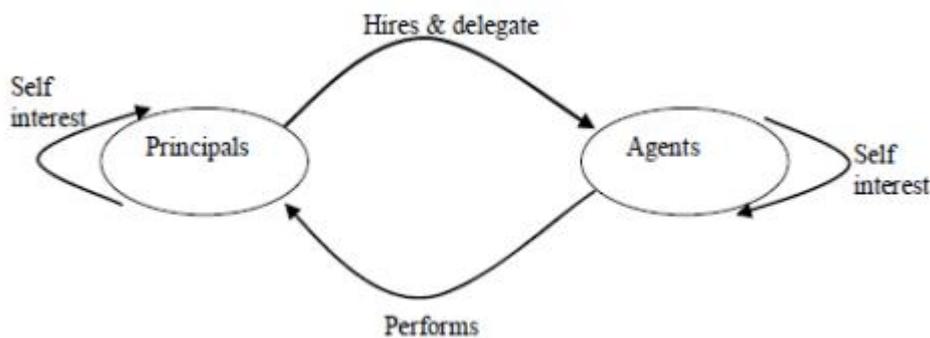
Source: Abdullah & Valentine (2009)

As illustrated in the agency model above, principals (government) of PEs hire agents (managers) to execute duties on behalf of the principals to the benefits of PEs to maximising stakeholder wealth. However, this is normally not the case, as the agents (managers) will at some point serve their own interests and not that of the principals (investors). Furthermore, according to Jensen and Meckling (1976), the aim of a company often is not compatible with the interests of managers, as they prefer to maximise their own personal interests, if possible, even at the expense of owners. This discrepancy of interests leads to agency conflicts, which are especially severe in public companies.

Jerzemowska (2006) suggests that shareholders hire agents to manage the firm on their behalf. However, Tshipa (2017) explains that the separation between control functions by management and shareholders is a potential source of conflict of interest. The agency theory is generally concerned about the alignment of interests of management and shareholders. Thus, Kefas (2014) claims the agency theory holds that most businesses operate under conditions of incomplete information and uncertainty. Such conditions expose businesses to two problems, namely, adverse selection and moral hazard. However, agency theorists believe that corporate governance can reduce agency costs, which in turn leads to improved firm performance.

The stewardship and the agency theories centre around common and divergent interests, respectively. The next subsection deals with the stakeholder theory which assumes that management have a network of relationships to serve.

2.1.3 The stakeholder theory

Stakeholder theory was embedded in the management discipline in 1970 and gradually developed by Freeman (1984), incorporating corporate accountability to a broad range of stakeholders. The stakeholder theory applies to any group or individual who can affect or is affected by the achievement of the organisation's objectives. Unlike the agency theory in which the managers are working and serving for the stakeholders, stakeholder theorists suggest that managers in organisations have a network of relationships to serve – this include the suppliers, employees and business partners (Abdullah & Valentine, 2009).

However, Freeman (1984) contends that the network of relationships with many groups can affect decision-making processes as the stakeholder theory is concerned with the nature of these relationships in terms of both processes and outcomes for the firm and its stakeholders. According to Clarkson (1995), organisations serve a broader social   purpose than merely maximising the wealth of shareholders, although the purpose of organisations is to create wealth for their stakeholders. To further illustrate this point, see the stakeholder model below:

Figure 2. 3: The stakeholder model
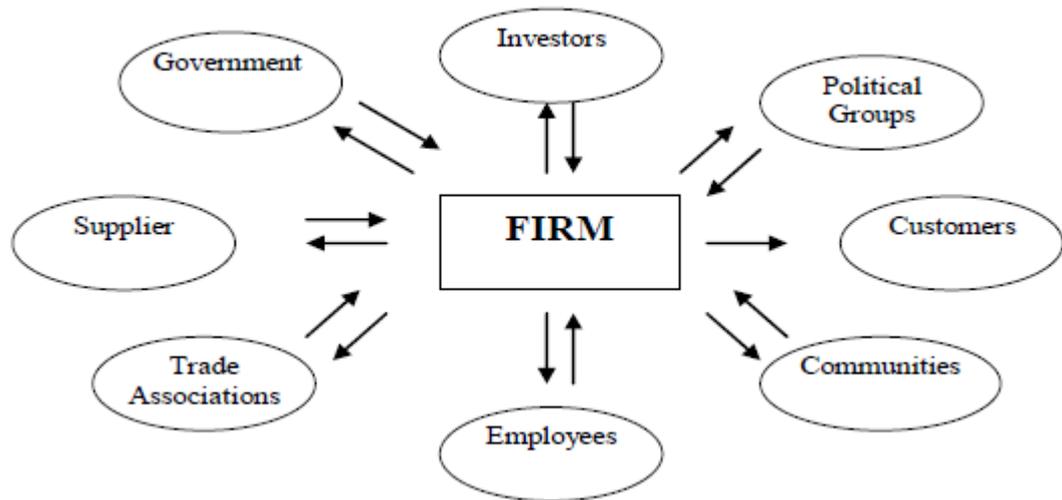
Source: Abdullah & Valentine (2009)

The above model is an illustration of how a firm has to maintain its relationships with its strategic stakeholders, which includes its investors, suppliers, employees, customers, communities, government and trade unions for the mutual benefit itself and that of its stakeholders. In maintaining these relationships, the firm will benefit by being financially sound and increasing its shareholder wealth.

2.2 Synthesis of Corporate Governance Theories

There are three primary theories of corporate governance, namely, the stewardship, stakeholder and agency theories. The stewardship theory entails that the shareholders' and the stewards' interests are mutually aligned, hence both parties involved want the organisation to do well for their respective benefit. This is an important theory, because if the interests of the government as the main shareholder are not aligned with those of the managers, it is the organisation (PEs) that are affected negatively. However, the stewardship theories have some shortcomings, therefore agency theory gained traction. The agency theory highlights the main problem encountered in corporate governance,

when the manager serves their own interests instead of those of the shareholder. To some degree, to address the issues encountered in the agency theory, the stakeholder theory entails that the managers in the organisation has a network of stakeholders to serve.

2.3 The OECD principles of corporate governance

The Organization for Economic Co-operation and Development Principles of Corporate Governance were originally developed in response to a call by the OECD Council Meeting at Ministerial level on 27-28 April 1998 to develop, in conjunction with national governments, other relevant international organisations and the private sector, a set of corporate governance standards and guidelines. Since the principles were agreed in 1999, they have formed the basis for corporate governance initiatives in both OECD and non-OECD countries alike. Table 2.1 below illustrates the OECD Principles of Corporate Governance:

Table 2.1: OECD principles of Corporate Governance

Principle	Meaning
1. Ensuring the Basis for an Effective Corporate Governance Framework	The corporate governance framework should promote transparent and efficient markets, be consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities.
2. Rights of Shareholders and Key Ownership Functions	The corporate governance framework should protect and facilitate the exercise of shareholders' rights.
3. The Equitable Treatment of Shareholders	The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders

	should have the opportunity to obtain effective redress for violation of their rights (OECD, 2004).
4. The Role of Stakeholders in Corporate Governance	The corporate governance framework should recognise the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.
5. Disclosure and Transparency	The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership and governance of the company.
6. The Responsibilities of the Board	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.

Source: OECD (2004)

Moreover, these principles have been adopted as one of the twelve key standards for sound financial systems by the financial stability forum. However, in Africa only South Africa has adopted these principles, other countries that have adopted these principles are United Kingdom, United States, Germany, India, China and Brazil, among other developed countries. Accordingly, these OECD Principles of Corporate Governance form the basis of the corporate governance component of the World Bank/IMF Reports on the Observance of Standards and Codes (ROSC) (OECD, 2004). These principles make no reference to how performance is measured, therefore they are purely governance principles, which if adhered to could improve the financial performance of business entities. However, other principles of corporate governance include those outlined in the King IV report. Table 2.2 below illustrates the King IV Principles of Corporate Governance:

Table 2. 2: King IV Principles of Corporate Governance

Principle 1	The governing body should lead ethically and effectively
Principle 2	The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture
Principle 3	The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen
Principle 4	The governing body should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process
Principle 5	The board should ensure that reports issued by the company enable stakeholders to make informed assessments of the company's performance and its short, medium and long term prospects.
Principle 6	The board should serve as the focal point and custodian of corporate governance in the company
Principle 7	The should comprise the appropriate balances of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively
Principle 8	The board should ensure that its arrangements for delegation within its own structures promote, independent judgement, and assist with balance of power and the effective discharge of its duties
Principle 9	The board should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members support continued improvement in its performance and effectiveness
Principle 10	The should ensure that the appointment of, and delegation to, management contribute to role clarity and effective exercise of authority and responsibility
Principle 11	The board should government risk in a way that support the company in setting and achieving its strategic objectives
Principle 12	The board should govern technology in a way that supports the company in setting and achieving its strategic objectives

Principle 13	The board should government compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the company being ethical and a good governance citizen
Principle 14	The board should ensure that the company remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in short, medium and long term
Principle 15	The board should ensure that assurance services and functions enables an effective control environment and that these support the integrity of information for internal decision making and of the company's external reports
Principle 16	In the execution of its governance role and responsibilities the board should adopt a stakeholder-inclusive approach that balances the needs, interest and expectation of material stakeholders in the best interest of the company overtime
Principle 17	The governing body of an institutional investor organization should ensure that the responsible investment is practiced by the organization to promote the good governance and the creation of value by the companies in which it invests.

Source: Institute of Directors Southern African (2016)

The corporate governance principle as outline in table 2.2 are practiced in South African Public Enterprises. The corporate governance principle as applied to South African Public Enterprises and many PEs and other entities in Namibia have adopted these principle of corporate governance. The King reports principles of corporate governance influenced corporate governance in Namibia, as they are the cornerstone of the Corporate Governance Code for Namibia (NAMCODE), which was developed to provide corporate governance guidance to both Namibian private companies and Public Enterprises. However, the principles of the NamCode apply to Namibian entities including PEs on an "apply-and-explain" basis, this means that there is no statutory obligation on PEs to comply with the NamCode, which in itself becomes a weakness as PEs are not forced to comply with the principles as outlined in NamCode.

Thus, this means that Namibian Public Enterprises do not have a clear and compulsory guide on how to deal with matters of corporate governance.

2.3 Empirical literature review

This subsection reviews the empirical literature on the relationship between corporate governance practices and financial performance. The empirical studies done to determine the relationship between corporate governance variables and financial performance remain inconclusive, as research findings report different relationships. Some report a positive, some a negative relationship, and others report no relationship between corporate governance variables and financial performance. Different empirical studies use different corporate governance variables and different financial measures to determine the relationship thereof.

Kyereboah-Coleman (2007) examined the effects of corporate governance on the performance of firms in Africa. The study included 103 firms from Ghana, South Africa, Nigeria and Kenya for a period of four years from 1997 to 2001, using return on assets (ROA) and Tobin's q as measure of financial performance. The corporate governance variables used in the study were board size, board independence, board activity intensity, CEO duality, CEO tenure, audit committee and its characteristics, and institutional ownership. The study used a panel data analysis method. The findings of the study revealed mixed results, where board size and board activity intensity were negatively related to firm performance. However, board independence, CEO duality, CEO tenure, audit committee and institutional ownership had a positive influence on firm performance.

The findings by Kyereboah-Coleman (2007) are corroborated by Ncube (2018) who carried out a study to determine the impact of corporate governance on the financial performance of state enterprises and parastatals in Zimbabwe, more specific focus on Zimbabwe airlines. The author used independence of the audit committee, board's ownership, CEO duality, board's independence and board size as corporate governance variables. The data set comprised of both secondary and primary data for the period of 2013 to 2018. The primary data of corporate governance practices were collected through questionnaires, while secondary data were sourced from the annual financial reports available. A regression model was applied to determine the relationship between corporate governance practices and financial performance and the following model was used:

$$Fp = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_6X_6. \ldots\ldots\ldots\ldots \text{(Equation 2.1)}$$

The findings of the study revealed mixed results as corporate governance practices, such as board size had a negative influence on the financial performance. However, independence of the audit committee, board's ownership, CEO duality and board's independence had a positive influence on financial performance.

Further, a study was conducted by Ngwenze and Kariuki (2017) to determine the effects of corporate governance practices of listed agricultural firms in the Nairobi Securities Exchange in Kenya. Instead of using a singular measure of financial performance, they opted to employ three financial measures, i.e. ROA, ROE and debt equity ratio, using board size, independence of board and audit committee as corporate governance variables. The study used a descriptive research design and a population size of seven firms listed on the Nairobi Security Exchange for the period 2012 to

2016. A multiple regression model was employed to determine the relationship between corporate governance practices and financial performance. The findings of the study revealed that board size, independence of board and audit committee had a negative impact on both ROA and ROE, whereas board composition had a positive impact. Meanwhile, board size, independence of board positively correlated with debt equity ratio while audit committee and board composition had a negative impact on debt equity ratio.

Meanwhile, Masunda (2013) carried out a study to examine the relationship between corporate governance and financial performance of locally listed companies in Namibia. The study aimed at establishing the relationship between corporate governance, board roles, contingency, board effectiveness and financial performance of locally listed companies. The study opted to employ a cross-sectional research design and a multiple regression analysis was used. The findings revealed that corporate governance variables namely, board size, had a negative effect on financial performance, while policy and decision-making had a significant positive relationship with financial performance.

Similarly, Datta (2018) found that board size had a negative impact on financial performance in his study where a sample of ten listed insurance companies was examined from 2010 to 2016 to determine the impact of corporate governance mechanisms; board size, board composition, board meetings and board audit committee on the financial performance of the insurance companies in Bangladesh. The study used secondary data and found that the corporate governance had an impact on the performance of the insurance sector in Bangladesh. The independent variables of corporate governance, board size, board composition, board meetings and board

audit committee, determined 38.20 percent of the performance (ROE) variance. Using Pearson correlation, the results provided evidence of a positive relationship between board sizes and ROE as well as board meetings. The results further revealed that there was a negative relationship between ROE and board composition. However, the study could not provide any association between performances of the insurance (ROE) and board audit committee.

However, Marashdeh (2014) opted to use panel data regression during a research period of ten (10) years from 2000 to 2010, to determine the effects of corporate governance on firm performance in Jordan. The study failed to reveal any significant impact for the board size on firm performance, whereas CEO duality revealed a positive effect on the firm performance. Meanwhile, the study revealed that Non-Executive Directors (NEDs) had a negative impact on firm performance. Further, the findings reported positive and negative impacts of managerial ownership and ownership concentration on firm performance. Finally, the findings revealed a positive relationship between foreign ownership and firm performance.

Similarly, using panel data analysis Tshipa (2017) carried out a study to examine corporate governance and financial performance, namely, a study of companies listed on the Johannesburg Stock Exchange. The corporate governance variables for this study were board size, board independence, presence of key board committees, board activity, board diversity and leadership structure. The study employed panel data analysis to determine the relationship between corporate governance and financial performance. The research period covered a thirteen (13) year period from 2002 to 2014. The study had a sample of ninety (90) companies. The following regression

model was used to determine the relationship between corporate governance and financial performance:

$$Y_{it} = a_1 Y_{it-1} + b_1 BS_{it} + b_2 Bl_{it} + b_3 BC_{it} + b_4 Ba_{it} + b_5 BD_{it} + b_6 LS_{it} + b_7 AGE_{it} + b_8 SIZE_{it}$$
$$b_9 LEV_{it} + b_{10} G_{it} + e_i. \dots\dots\dots\dots.. \text{(Equation 2.2)}$$

The findings of the study revealed mixed results.

In a study done by Heo (2018) to determine the effects of corporate governance on the financial performance of State-Owned Enterprises in the Republic of Korea, a multivariate regression model was employed to determine the relationship between corporate governance and financial performance,

$$\text{Firm Performance } i = \alpha + \beta \text{Firm Governance } i + \gamma \text{Controls } i + \varepsilon i. \dots\dots\dots\dots.$$
(Equation 2.3)

The findings of the study revealed that board size, corporatisation and transparency, as well as disclosure were positively related to the performance of State-Owned Enterprises. However, independence of the board of directors and separation between the positions of board chair and chief executive officer had a negative impact on the financial performance of the State-Owned Enterprises.

However, in a shorter time period of a year, Rossi, Nerino and Capasso (2015) examined the relationship between corporate governance and financial performance of Italian listed companies. The target population was composed of all Italian companies listed on the Italian Stock Exchange for the year 2012. Using cross-sectional regression to analyse the relationship, the study revealed that there was a negative correlation

between corporate governance and financial performance when using Tobin's q as a financial measure. However, by using Return on Equity (ROE) as a financial measure the study revealed that there was a positive correlation between corporate governance and financial performance.

It is not always the case that the relationship between corporate governance and financial performance will reveal mixed findings. For example, in a study conducted by Opanga (2013) to analyse the relationship between corporate governance and financial performance of insurance firms in Kenya, it was established that there was a positive relationship between corporate governance and financial performance, as all the variables examined in the study, number of board committees, board meeting frequency, number of resolutions passed in an AGM and number of board of directors revealed a positive relationship on the financial performance. A cross-sectional research design was employed and the study made use of secondary data for the period of 2010 to 2012. A multiple regression model was employed to determine the relationship between corporate governance and financial performance, the following model was used,

$$Y = a + b_1 x_1 + b_2 x_2 + b_3 x_3 + b_4 x_4 + b_5 x_5 + b_6 x_6 + e. \ldots\ldots\ldots\ldots\ldots \text{ (Equation 2.4)}$$

This finding is corroborated in a study carried by Kigotho (2014) to analyse the effects of corporate governance on the financial performance of companies quoted on the Nairobi Securities Exchange. The regression model used in the study was,

$$Fp = a + b_1 X_1 + b_2 X_2 + b_3 X_3 + b_4 X_4 + b_5 X_5 + b_6 X_6 + b_7 X_7 + b_8 X_8 + b_9 X_9 + e. \ldots\ldots\ldots$$
$$\text{(Equation 2.5)}$$

However, the study opted to employ the descriptive research survey in a research period of five (5) years from 2009 to 2013. The findings revealed that corporate governance variables, like board size, board composition, CEO duality and size of the firm, all have a positive relationship towards firm performance.

Another study was conducted by Maina (2017) to determine the effects of corporate governance on the financial performance. The corporate governance practices included structure, board independence, board size and board composition. The study employed a cross-sectional research design to determine the relationship between corporate governance and financial performance. The data set comprised of both secondary and primary data. While a multivariate regression model was applied to determine the relationship between corporate governance practices and financial performance, the following model was used,

$$Y = A + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4. \ldots\ldots\ldots\ldots.. \text{(Equation 2.6)}$$

The findings of the study by Maina (2017) concurred with the previous study results, that corporate governance practices have a positive influence on the financial performance of SOEs.

Furthermore, a study done by Ahmed and Hamdam (2015) to examine the impact of corporate governance characteristics on firm performance in Bahrain Stock Exchange, used a sample of 42 Out of 48 Bahrain's financial companies which are listed in Bahrain Stock Exchange for the period of 2007 to 2011. The empirical results indicated that performance measures such as return on assets and return on equity are significantly related to corporate governance in Bahrain. However, earning per share

performance measure has not shown any significance impact related to corporate governance. The study concluded that there is a positive relationship between corporate governance mechanisms on performance for the entire firm in Bahrain Stock Exchange.

However, using board characteristics to measure firm performance Jakpar, Tinggi and Kah hui (2019) analysed corporate governance and firm performance for Malaysian listed companies. Board characteristics were measured by the proportion of independent directors, board size, and the proportion of non-executive board members. The measurement used to measure the firm performance is the return on assets (ROA). All the data used in the study were collected from the 30 listed companies under Bursa Malaysia (KLSE) and Thomson Reuters Data Stream system from the period 2011 to 2015. The methods used for the empirical analysis included Pearson correlation coefficient, Panel Regression Analysis (fixed effect and random effect), OLS Model, Breusch and Pagan Lagrangian Multiplier (LM), Hausman Test, Specification Test and Diagnostic Test (Multi-collinearity, Heteroscedasticity and Serial Correlation). The results concluded that there was a negative relationship between board characteristics and firm performance.

Finally, in the Namibian perspective, Maurihungirire (2016) carried out a study to analyse the financial performance of state-owned enterprises, a case study of TransNamib. The study opted to use a mixed research method to collect the data, this involved the administering of questionnaires containing both opened- and closed-ended questions and an analysis of financial statements for the period of 2009 to 2013. The study concluded that there was a positive relationship between financial provision, which is a component of corporate governance and the financial performance of SOEs.

2.4 Conceptual review of Financial Performance

2.4.1 Measurements of financial performance

There are various methods on how to calculate financial performance of a firm. The sections below look at the different ways in which financial performance is measured.

Measuring firm performance is important as it enables the firm to know exactly its financial situation, either positive or negative, and to enable the firm to take appropriate actions to improve its financial situation. There are common methods to measure firm performance. These are return on assets (ROA), return on equity (ROE) and economic value added (EVA), therefore it is important to review these measures of financial performance to be able to choose the appropriate measure for the study. The following financial performance measures are therefore adopted from Correia et al. (2015) to explain how they are measured:

2.4.1.1 Return on assets (ROA)

The return on assets (ROA) measures the profitability of the firm as a whole in relation to the assets employed. It is frequently referred to as the return on investment (ROI). The ratio is calculated by dividing earnings by assets. However, there are three possible definitions of earnings: earnings before interest and tax (EBIT), earnings before interest, but after tax (EBITAT) and net profit which is after interest and tax (NPAT). Thus, ROA can be calculated as follows:

Return on total assets (ROA) = EBIT / total assets………... (1)

Return on total assets (ROA) = NOPAT / total assets……... (2)

Return on total assets (ROA) = NPAT / total assets………. (3)

2.4.2.1 Return on Equity (ROE)

The ratio of net profit after interest and taxes to ordinary equity measures the return on equity. That is depicted by the following equation:

Return on equity (ROE) = net profit / total shareholder funds

2.4.3.1 Economic Value Added (EVA)

Economic Value Added (EVA) is a financial performance measure that tries to capture the true economic profit of an enterprise. EVA is also a performance measure which is linked to the creation of shareholder wealth over time. It is claimed that by implementing a complete EVA based financial management and incentive compensation system, managers will obtain superior information and superior motivation to make decisions that will create the greatest shareholder wealth in any publicly owned, or private enterprise. Therefore, EVA is net profit minus an appropriate charge for the opportunity cost of all capital invested in an enterprise. EVA = Net Operating Profit after Tax (NOPAT) – {Capital x the cost of capital}

2.4.2 Components of corporate governance

2.4.2.1 The Board and its size

The board is the focal point and custodian of corporate governance. The board is responsible for corporate governance and has two main functions: firstly, it is responsible for determining the company's strategic direction and secondly, it is responsible for the control of the company. The board thus collectively provides

effective corporate governance that involves monitoring the relationship between the board and management of the company and among the company and its stakeholders.

Boards should consider assigning a sufficient number of non-executive board members capable of exercising independent judgement to tasks where there is a potential for conflict of interest (OECD, 2004). The board should comprise a balance of power, with a majority of non-executive directors. The majority of the non-executive directors should be independent (NamCode, 2014).

Another important feature of a board is its size. Board size refers to the number of board members at the PEs. A small board size is preferred and it correlates positively to firm performance (Garg, 2007). Furthermore, a small board size is easy to manage. A large board size, on the other hand, is not easy to manage and it correlates negatively to firm performance. Lipton and Lorsch (1992) recommend that the number of directors must be restricted to seven or eight, because when the board size increases to more than 10 members, it becomes difficult for directors to express their opinions and ideas. A study done by Orozco, Vargas and Galindo-Dorado (2018) found that a smaller board size has a positive relationship with financial performance.

Inasmuch as the board is important in an organisation on corporate governance issues, it should delegate certain functions to well-structured subcommittees, but without neglecting its own responsibilities. Thus, the next section discusses the board committees.

2.4.2.2 Board committees

The board should create board committees as they constitute an important element of the governance process. The board committees should preferably comprise of members of the board. Unless legislated otherwise, the board should appoint the audit, risk, remuneration and nomination committees as standing committees annually. The board may also consider establishing governance, IT steering and sustainability committees (NamCode, 2014). This study measures board committees by the number of board committees at the PEs.

The established board committees are required to meet during the course of the year in order to carry out their duties. Thus, the next section discusses the board meeting and attendances of the board as well the board committees.

2.4.2.3 Board meetings

Every board should have a charter setting out its responsibilities and it should meet as often as is required to fulfil its duties, preferably at least four times per year (NamCode, 2014). A board meeting is an organised set-up arranged to assemble directors on the board to discuss and address relevant issues relating to their prior experiences, current predicament and forward- looking matters, as its relate to the company survival. Every resolution passed during this exercise is legal and become operational in the company. Board meeting frequency can be ascertained by the number of meetings held during a year by top level managers. The exercise serves as a salient medium for effective harmonisation of opinion towards achieving firms' overall objectives (Eluyela, Akintimehin, Okere, Ozordi, Osuma, Ilogho, Oladipo, 2018). The study revealed that there is a positive relationship between board meeting and firm performance. This study measures board meeting by the number of board meetings at the PEs.

2.4.3 Conceptual framework

Figure 2. 4: Conceptual framework
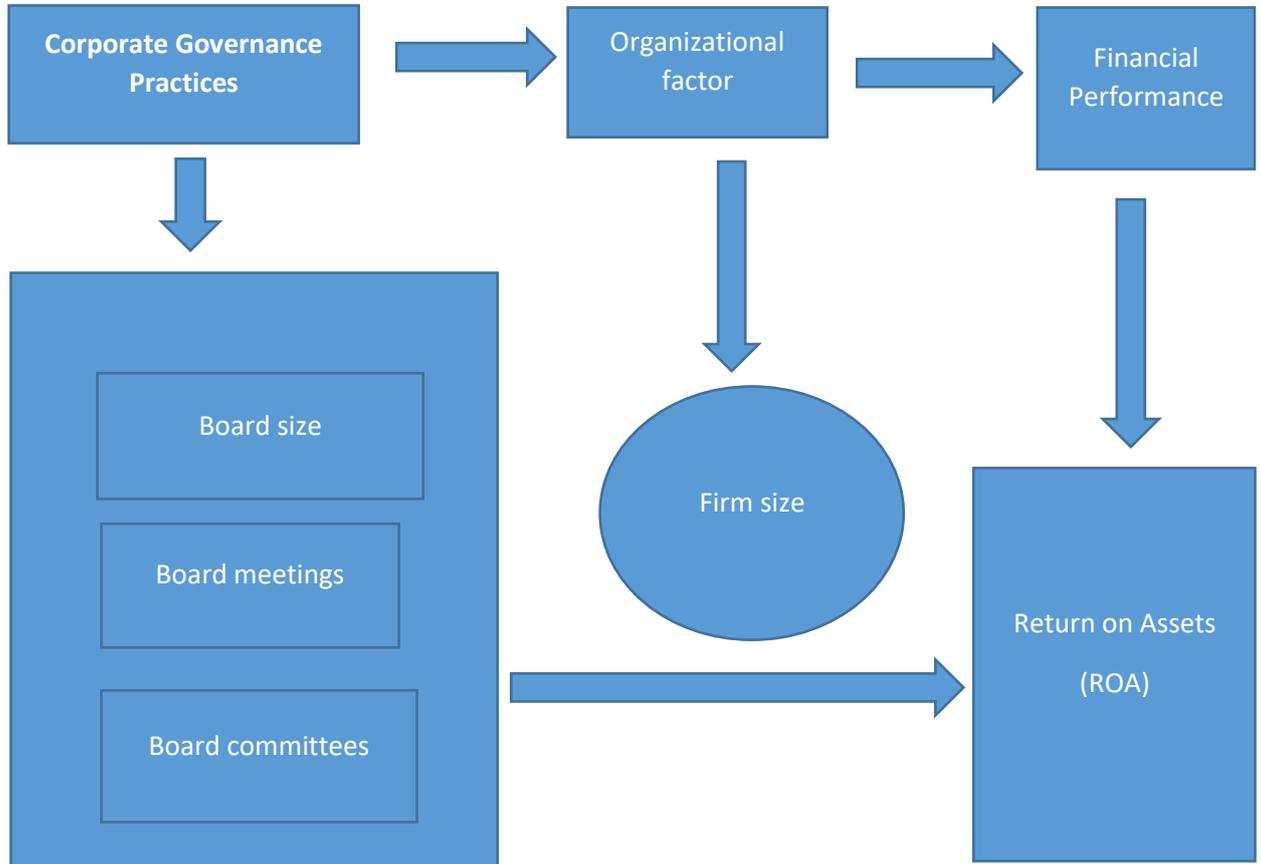
2.5 Summary

This chapter was a discussion of the theoretical framework of corporate governance and how it impacts firm performance. The chapter also looked at the conceptual framework. The chapter explained the conflicting findings relating to the relationship between the various corporate governance variables and financial performance. Previous studies done on the subject matter from around the world found that there are three streams of empirical evidence. Based on these identified findings it is therefore imperative to identify which stream of evidence does tier 3 Namibian PEs fall under:

- Those who established a positive relationship between corporate governance variables and financial performance.

- Those who established a negative relationship.

- Finally, those who established no relationship.

  Attempting to analyse the relationship between corporate governance and financial performance, the current study investigated the following corporate governance variables: board size, board committees and board meeting, as these variables are important concepts in corporate governance. Similarly, return on assets (ROA) was chosen for the current as it is an accurate measure of financial performance. Based on the empirical literature done, it can be assumed that corporate governance variables are supposed to have a positive impact on financial performance.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter explains the corporate governance model used; how the data was collected and the statistical techniques used to deliver the intended outcomes of this study. It outlines the research design applied for this study; research instruments used to collect the data; what procedures were followed in this study; and finally, how the data was analysed.

3.1 Research Design

This research adopts a quantitative research approach. In order to scrutinise the impact of corporate governance variables on the dependent variable, return on assets (ROA), the researcher conducted a panel data analysis for 9 tier 3 PEs for the period of 2011 to 2018. Panel data was selected because the same tier 3 Public Enterprises (PEs) are observed repeatedly, there are more than two variables being measured, in this study there are three independent variables namely; board meetings, board members and board committees as well as one dependent variable which is return on assets (ROA). The four main advantages of using a panel design are that the sample size can be increased, individual heterogeneity can be controlled for, multi collinearity can be reduced and statistical problems such as Endogeneity can be minimized. secondary data were sourced from the annual financial reports. There are two main panel data regression models, the fixed-effects model and the random-effects model. This study used the fixed-effects panel data regression model.

3.2 Variables and Model Specification

As mentioned above, this study used the fixed-effects panel data regression model. There is one dependent variable, namely, financial performance measured by return on assets (ROA) and three independent variables namely: (1) board size: measured by the number of board members, (2) board committees: measured by the number of board committees and finally, (3) board meetings; measured by number of meetings and attendance.

Table 3. 1: Tested variables and predicted sign

Hypotheses	Tested relationship	Predicted sign
H_1	Board size and financial performance(ROA)	+
H_2	Board committees and financial performance (ROA)	+
H_3	Board meetings and Financial performance (ROA)	+

The regression model is presented below:

$$\text{ROAit} = a_0 + b_1 BA_{it} + b_2 BC_{it} + b_3 BM_{it} + \varepsilon_{it} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \text{(Equation 3.1)}$$

where:

ROA_{it} = Financial Performance,

a_0 = Constant,

BA_{it} = Board size measured by the number of board members,

BC_{it} = Board committees measured by the number of board committees,

BM_{it} = Board meetings measured by the number of board meetings and attendances,

ε_{it} = Error term.

3.3 Research Instrument

The study used secondary data sourced from commercial tier 3 PEs' annual reports for the period of 2011 to 2018.

3.4 Procedure

Secondary data were obtained from the PE's annual reports. The collected data were used to answer the research objectives of this study. The PE's annual reports were obtained in electronic format or hard copies. According to the Public Enterprises Governance Act of 2019, PEs have an obligation to publish the annual reports within six months of the end of each financial year.

3.5 Data Analysis

The secondary data used in this study were captured using Microsoft Excel and transferred to Statistical Package of Social Sciences (SPSS) where linear regression was used to measure the relationship between the corporate governance and financial performance.

3.6 Specification tests

In order to come up with robust and reliable results the following tests were conducted:

3.6.1 Testing for the presence of outliers

According to Lyu (2015) outliers are observations in the data set that appear to be unusual and discordant. Santoyo (2017) defines outliers as extreme values that deviate from other observations on data that may indicate variability in a measurement, experimental errors or a novelty. In other words, an outlier is an observation that diverges from an overall pattern on a sample. Santoyo (2017) further states that outliers can be caused by data entry errors, measurement errors, experimental errors, intentional data processing errors and sampling errors. Also, when starting an outlier detection test you have to answer two important questions about the data set:

- Which and how many features should be taken into account to detect outliers (univariate / multivariate)?

- Can the researcher assume a distribution of values for the selected features (parametric / non-parametric)?

According to Gujarati (2004) as cited in Tshipa (2017) outright rejection of outliers is not always a wise procedure, as sometimes the outlier could provide information that other data points cannot provide due to the fact that the outlier arises from unusual combinations of circumstances which may be of vital interest to the study. Furthermore, Tshipa (2017) contends that it is vital that outliers are not removed, but rather an estimator that is robust to the presence of outliers is employed. According to Gujarati (2004) as cited in Tshipa (2017) the generalised least squares (GLS) estimator is known to be insensitive to the presence of outlier and heteroscedasticity.

3.6.2 Heteroscedasticity test

According to Tshipa (2017) heteroscedasticity refers to non-constant variances related to the error term in the model. Pinder (2017) defines heteroscedasticity as the unequal variance of the data along the regression line. Another way of thinking about this is

when the spread of the dots is not constant. This study uses the f-test. If the p-value is < 0.05 (5%), then there is heteroscedasticity. However, if the p-value is > 0.05 (5%) there is no heteroscedasticity.

3.6.3 Serial correlation

Tshipa (2017) defines serial correlation as a situation where an independent variable is correlated with its past values or with the lags of other dependent variables in the model. According to Williams (2015) serial correlation occurs when the errors associated with a given time period carry over into future time periods. Moreover, serial correlation will not affect the unbiasedness or consistency of ordinary least square (OLS) estimators, but it does affect their efficiency. With positive serial correlation, the OLS estimates of the standard errors will be smaller than the true standard errors. This will lead to the conclusion that the parameter estimates are more precise than they really are (Williams, 2015). There will be a tendency to reject the null hypothesis when it should not be rejected. Serial correlation for the current study is tested using the Durbin-Watson test.

3.6.4 Endogeneity test

Tshipa (2017) defines endogeneity as a correlation between the error term and one or more of the independent variables. Endogeneity may be caused by variable omissions. Abdallah, Goergen and O'Sullivan (2015) found that failure to adjust for omitted variable bias and dynamic endogeneity may have severe consequences, as it may lead to the wrong inferences being made.

3.7 Tests of Significance

3.7.1 F- Test

In order to test the overall significance of the regression model, the f-test is used to estimate if all the individual coefficients together were statistically different from zero at the 5% level of significance. The p-value will be used in testing the null hypothesis that all of the model coefficients are equal to zero. The alternative hypothesis is that all of the model coefficients are not equal to zero.

3.7.2 T- Test

To establish the significance of individual variables in the model, a t-test will be applied at 5% levels of confidence.

3.8 Research Ethics

The secondary data obtained from the annual financial reports were solely used for this research and the data were not fabricated or falsified in any manner. Also, all the sources which were used in this research were properly acknowledged.

3.9 Chapter Summary

This chapter discussed the research design which was adopted for this study, this study adopted the quantitative research approach. The chapter also focused on how the data were collected, secondary data was collected from the annual reports of the PEs from 2011 to 2018, as this was there period where all the PEs selected for this study had available annual reports. The study used three independent variables namely; board meetings, board members and board committees as measures of corporate governance, whereas financial performance was measured using return of assets (ROA). A regression was performed on the said variable to determine the relationship that exists

between them. To ensure that the results from the valid several test were performed, such as testing for the presence of outliers, testing for heteroscedasticity and testing for correlation. The study also looked at the ethical consideration for this study to ensure that the ethical standards were upheld and not violated.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.0 Introduction

In this chapter, the secondary data that were collected from the annual reports of nine (9) tier 3 Public Enterprises are presented, discussed and interpreted as set out in the research methodology. There were 9 tier 3 Public enterprises included in this study.

4.1 Descriptive Statistics

The study examined the mean and standard deviation of the study variables. Table 4.1 below illustrates the findings thereof.

Table 4. 1: Descriptive Statistics

	Mean	Std. Deviation	Observations (N)
ROA	9.90	5.374	72
Board meeting	10.25	5.142	72
Board members	6.96	2.938	72
Board committees	3.85	0.850	72

The descriptive statistics in Table 4.1 above shows that the 9 tier 3 Public Enterprises included in this study generates a Return on Assets (ROA) of 9.90% and there is a

standard deviation of 5.37%. this means that the value of Return on Assets (ROA) can be deviate from mean to both sides by 5.37%. Also for the tier 3 Public Enterprises the average board meetings are 10.25 and a standard deviation of 5.14 which signifies that tier 3 Public Enterprises have similar number of board meetings. Tier 3 Public Enterprises have an average of 6.96 board members, which is approximately 7 board members. Finally, tier 3 Public Enterprises have an average of 3.85 board committees, which is approximately 4 board committees.

4.2 Correlation Analysis

Table 4.2 presents the Pearson correlation coefficients of the different variables in the study. Pearson's correlation is used to determine the linear relationship between the independent variables (board meeting, board members and board committees) and the dependent variable, which in this study is the financial performance of tier 3 Public Enterprises, measured by the return on assets (ROA).

Table 4. 2: Pearson Correlation Coefficients (r)

	ROA	Board meetings	Board members	Board committees
ROA	1.000			
Board meetings	0.961	1.000		
Board members	0.558	0.534	1.000	
Board committees	0.413	0.524	0.471	1.000

Table 4.2 above shows the study findings,

The following relationship was drawn through correlation analysis. The Pearson correlation coefficients (r) was used to test the significance of the relationship between corporate governance practices and financial performance of tier 3 PEs.

4.3 Regression Analysis

Correlation analysis indicated that PEs' corporate governance practices had a positive relationship with financial performance (ROA). The study was conducted to determine the impact of corporate governance practices of the financial performance of tier 3 PEs in Namibia for the period of 2011 to 2018 by applying a linear regression through SPSS.

Table 4. 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin Watson
	0.970ᵃ	0.941	0.939	1.330	2.566

R square was 0.941 which indicated that a 94.1% of the change in ROA could be explained by the independent variables of the study which are; board committees, board members and board meetings. The Adjusted R square is called the coefficient of determination and explains how financial performance(ROA) varied with board meetings, board members and board committees. The adjusted R square implies that, the independent variables explain 93.9% of dependent variable at a confidence level of 95%. The Durbin-Watson of 2.566 indicates that there was no autocorrelation between the independent corporate governance variables which are; board meetings,

board members and board committees and the dependent variable, the financial performance of the PEs, measured by the Return on Assets (ROA).

Table 4. 4: Regression Coefficients

Model	Unstandardized coefficients		Standardized coefficients		Significance level (P)	Collinearity Statistics	
	B	Std. Error	Beta	T		Tolerance	VIF
Constant	1.738	0.738		2.354	0.021		
Board meetings	1.029	0.039	0.985	26.399	0.000	0.619	1.615
Board members	0.190	0.066	0.104	2.891	0.005	0.665	1.505
Board committees	-0.965	0.226	0.153	-4.268	0.000	0.674	1.484

Therefore, the regression model becomes:

$$ROA_{it} = 1.738 - 0.965BC_{it} + 0.190BA_{it} + 1.029BM_{it} + \varepsilon_{it}$$

The regression analysis in Table 4.4: Constant = 1.738 shows that if, board meetings, board members and board committees were all held constant, the financial performance (ROA) of tier 3 PEs in Namibia would rate at 1.738. It was revealed that a unit increase in board meetings triggers a change in financial performance by 1.029. A unit increase in board members would affect a change in financial performance of 0.190. Additionally, a unit increase in board committees would affect a change in financial performance of -0.965.

The level of confidence for the study was 95%. Therefore, the p-value of less than 0.05 stated that the independent variable was significant. The results from the regression showed that there was a statistically significant impact between board meetings (P=0.000 < 0.05), board members (P=0.005 < 0.05) and board committees (P=0.000 < 0.05) on the financial performance (ROA) of tier 3 PEs in Namibia, as all the P values are less than 0.05.

However, the nature of the regression coefficients indicated the type of the relationship that existed between the corporate governance variables and financial performance. Negative regression coefficients indicated that there was an inverse relationship between the corporate governance variables (board meeting, board members and board committees) and the financial performance (ROA). The positive regression coefficients indicated that there was a direct relationship between corporate variables and financial performance. The independent variables for this study had positive regression coefficients for board meetings and board members, this means that that an increase in board meetings and board members would always results in an increase in the financial performance (ROA) except for board committees which had a negative coefficient, which means that an increase in board committees will result in a decrease in financial performance (ROA). Therefore, an increase in board meetings and board members increased the financial performance (ROA) of tier 3 PEs in Namibia. Whereas an increase in board committees decreased the financial performance (ROA) of tier 3 PEs in Namibia.

4.4 Discussion and interpretation of findings

The study established that there is a positive relationship among corporate governance practices namely, board meetings and board members. However, board committees

were found to have a negative impact on financial performance (ROA) of tier 3 PEs in Namibia.

To answer the objectives of the study:

- The study revealed that there is a positive and statistical relationship between board size and financial performance of tier 3 PEs in Namibia. Significance level of 0.005 is less than 5% (0.05), thus the null hypothesis is rejected at a 95% confidence level.

- The study also revealed that there is a negative and statistical relationship between board committees and financial performance of tier 3 PEs in Namibian. Significance level of 0.000 is less than 5% (0.05), thus the null hypothesis is rejected at a 95% confidence level.

- Finally, the study revealed that there is a positive and statistical relationship between board meetings and financial performance of tier 3 PEs in Namibia. Significance level of 0.000 is than 5% (0.05), thus the null hypothesis is rejected.

The financial performance of tier 3 PEs is significantly influenced by the number of board meetings, number of board members and the number of board committees.

The findings of the study agreed with the findings of Ngwenze and Kariuki (2017) who found mixed results between corporate governance and financial performance. Overall, the study results revealed that there is mixed relationship between corporate governance practices and financial performance. These findings are supported by Kyereboah-Coleman (2007) who found mixed results between corporate governance and financial performance.

Furthermore, a study done my Masunda (2013) found mixed results between corporate governance and financial performance, which also anchoes the finding of this study.

Similarly, a study done by Tshipa (2017) also revealed mixed results between corporate governance and financial performance. Finally, a study by Heo (2018) also supports the findings of this study, which found that there are mixed results between corporate governance and financial performance.

4.5 Summary of findings

This subsection presents the summary of the study findings as per the main objectives of the study, which were to determine the relationship between corporate governance practices and financial performance. The descriptive statistics indicated ROA had an average of 9.90 for the tier 3 PEs in Namibia. The independent variables had averages as follows: board meeting (10.25), board members (6.96) and board committees (3.85). With regards to inferential statistics, the correlation analysis indicated a positive relationship between the board meetings ($r = 1.029$) and board members ($r = 0.190$) to financial performance (ROA). However, board committees ($r = -0.965$) revealed a negative relationship to financial performance. The correlation analysis revealed mixed results, with board meetings and board members revealing a positive relationship towards financial performance, whereas, board committees revealed a negative relationship to financial performance (ROA).

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the conclusion and recommendations of the study. This study investigated the impact of corporate governance practices on the financial performance of tier 3 PEs in

Namibia. The independent variables used in this study were board meeting, board member and board committees. The dependent variable used was return on assets (ROA) which measured the financial performance.

5.1 Conclusions

The main objective of the study was to analyze the impact of corporate governance practices on the financial performance of tier 3 Public Enterprises (PEs). The first objective of the study was to establish the impact of the relationship between board size on return on assets (ROA). The second objective was to assess the impact of board committees on return on assets (ROA) and the final objective was to determine the impact of board meetings on return on assets (ROA). The study used the number of board meetings as a measure for board meetings, the number of board committees as a measure of board committees and finally the number of board members as a measure board size. Financial performance of PEs was measured by the return on assets (ROA). To achieve the study objectives, time series data for the period of 2011 to 2018 were

used. The study reviewed empirical literature on the impact of corporate governance practices on financial performance of companies within the Namibian, African and Global perspectives. The study concluded that board size (P = 0.005), board committees (P = 0.000) and board meetings (P = 0.000) had a statistical significant impact on the financial performance of tier 3 PEs in Namibia. Furthermore, the study revealed a positive relationship between the board size and financial performance, board meeting and the financial performance. However, a negative relationship was revealed between board committees and financial performance of tier 3 PEs in Namibia. To conclude the study looked at the intended objectives of the study, which were; to establish the impact of board size on ROA, assess the impact of board committees on ROA and to determine the impact of board meetings on ROA. The study revealed mixed results between the corporate governance practices and financial performance of tier 3 PEs in Namibia. To answer the first objective of the study, which was to establish the impact of board size on ROA, the study found that there is a positive relationship between board size and financial performance (ROA). To answer the second objective of the study, which is to assess the impact of board committees, the study revealed that there is a negative relationship between board committees and financial performance (ROA). The final objective of the study was to determine the impact of board meetings on ROA, the study concluded that the there is a positive relationship between board meetings and financial performance (ROA), the relationship between corporate governance variables and financial performance (ROA) was statistically significant.

5.2 Policy recommendations

The government, as the majority shareholders should ensure that Public Enterprises in Namibia, specifically tier 3 Public Enterprises invest in corporate governance, as their performance has significant impact on the economy. Investing in corporate governance can yield positive outcome, such as good financial performance of the Public Enterprises. Therefore, it is advisable for Public Enterprises to adopt more corporate governance practices to improve the financial performance in the long run.

Throughout the study, it was observed that generally the Public Enterprises in Namibia are not bound by law to adopt the corporate governance principle as set out in the NamCode (2014). Therefore, this study recommends that policy makers make it compulsory for Namibia Public Enterprises to practice corporate governance as set out in NamCode (2014).

Inasmuch as it was found in this study that corporate governance practices do impact financial performance of tier 3 Public Enterprises in Namibia, the study recommends that Public Enterprises in Namibia keep adopting corporate governance practices and guidelines as they were found to have a positive impact on financial performance.

Finally, this study recommends that policy makers look at corporate governance policies that are tailor-made for Public Enterprises in Namibia. These policies have to be made mandatory for Public Enterprises in Namibia to practice good corporate governance practices. As such, these policies can be used to hold Public Enterprises in Namibia accountable for poor corporate governance and financial performance. Furthermore, based on the study findings policy makers are encouraged to increase the number of board meetings and board member at tier 3 PEs as it correlates positively with financial performance. However, it is recommended to reduce the number of board committees at tier 3 PEs.

5.3 Suggestions for further research

This study used a sample of 9 tier 3 PEs. It is recommended that future research look into other PE tier classifications, such as tier 1 and tier 2. Adding these other PE tiers will broaden our understanding of the impact of corporate governance practices on the financial performance of other PEs classifications.

This study used an eight-year period (2011 to 2018). Future studies could use a longer period of study to determine the impact of corporate governance practices on the financial performance of PEs in Namibia.

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