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Effects of corporate governance practices on financial performance of state-owned enterprises in Zambia

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Abstract

This article explores the relationship between corporate governance and financial performance in Zambian State-Owned Enterprises (SOEs) under the Industrial Development Corporation (IDC). Governance in SOEs has gained renewed focus globally, as these entities are essential to public service delivery and national development. Despite this, many SOEs in sub-Saharan Africa struggle with inefficiency, underperformance, and weak accountability frameworks. Using a positivist, quantitative design, this study surveyed 24 IDC-managed SOEs to evaluate the impact of four governance dimensions: board and general assembly practices, internal controls, transparency and disclosure, and commitment to corporate governance. Financial performance was measured using Profit After Tax (PAT) growth. Descriptive and inferential statistics were conducted using SPSS version 30. Findings indicated that while governance structures are in place, their effectiveness in driving financial performance remains limited. No statistically significant correlation was found between governance indicators and PAT growth ($p > 0.05$), although 24.6% of performance variation was attributable to governance. These findings highlight context-specific barriers such as political interference, resource constraints, and fragmented oversight. The paper concludes with recommendations for strengthening governance frameworks, aligning oversight mechanisms, and ensuring institutional independence.

Keywords: Corporate Governance; State-Owned Enterprises; Profit After Tax; Political Interference

1. Introduction

Corporate governance has emerged as a cornerstone of modern institutional performance, particularly for State-Owned Enterprises (SOEs), which are entrusted with delivering vital public services while maintaining financial viability. In Zambia, SOEs are integral to the national development strategy and operate across sectors such as energy, telecommunications, transport, and finance. The Industrial Development Corporation (IDC) was established to centralize and professionalize the oversight of these entities. However, despite its mandate, many SOEs continue to post weak financial results, raising questions about the efficacy of their governance structures.

Prior global studies have shown that good governance—characterized by effective boards, transparency, risk management, and accountability—leads to improved organizational outcomes. For example, the OECD (2015) found that SOEs with independent boards and clear reporting structures perform better financially and are less prone to political interference. In contrast, SOEs in developing countries often suffer from dual reporting lines, inadequate board capacity, and opaque disclosure practices. These challenges are not just operational but systemic, limiting the positive impact governance reforms can have. This article aims to empirically test whether governance practices under the IDC framework correlate with improved financial performance, specifically Profit After Tax (PAT) growth.

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2. Literature Review

Corporate governance in SOEs has been the subject of substantial research, particularly in relation to its impact on financial performance. The theoretical basis for governance-performance relationships is primarily rooted in agency theory, which posits that a conflict exists between managers (agents) and shareholders (principals), especially when ownership is separated from control. Stewardship theory, however, suggests that managers are inclined to act in the best interest of stakeholders when given appropriate authority and trust. These perspectives frame the debate on how governance structures—such as independent boards, disclosure mechanisms, and internal control frameworks—can align managerial action with performance objectives.

Globally, studies have confirmed the governance-performance link. Bhagat and Bolton (2008) demonstrated that board independence and ownership concentration positively affect profitability. Similarly, Bauer et al. (2008) showed that disclosure and transparency significantly improve investor confidence and market performance. In the African context, Mahadeo and Soobaroyen (2012) highlighted how SOEs in Mauritius struggled to adapt global governance models due to political interference and lack of autonomy. Zambian studies by Chikuta (2021) and Mulenga (2022) found mixed outcomes, attributing governance ineffectiveness to fragmented oversight, dual mandates, and inadequate capacity building. The recurring theme across most literature is that governance, while necessary, is not sufficient without an enabling institutional and political environment.

3. Methodology

The study employed a positivist paradigm with a quantitative research approach to empirically assess the relationship between corporate governance practices and financial performance in SOEs. The sample consisted of 24 SOEs under the Industrial Development Corporation (IDC), where the Zambian government maintains majority or full shareholding. Primary data was collected using structured questionnaires targeted at Company Secretaries and Senior Managers responsible for board affairs. The questionnaire was designed to measure four governance dimensions: Board and General Assembly practices, Internal Controls, Transparency and Disclosure, and Commitment to Corporate Governance. Secondary financial data (Profit After Tax figures from 2018 to 2023) were sourced from the Auditor General's reports.

The analysis was performed using SPSS Version 30. Descriptive statistics were used to summarize the data, while Pearson correlation and simple linear regression were used to test the relationship between governance variables and PAT growth. The regression model used is shown below:

$$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$$

Where:

- Y = Financial performance (measured by PAT growth)
- X_1 = Board and General Assembly practices
- X_2 = Internal Controls
- X_3 = Transparency and Disclosure
- X_4 = Corporate Governance Commitment
- α = Constant
- ε = Error term

Table 1 Governance Dimensions and Measurement Indicators

Governance Dimension	**Key Indicators**
Board and General Assembly	Board size, independence, duality, meeting frequency
Internal Controls	Audit committee presence, reporting structure, audit frequency
Transparency and Disclosure	Public availability of reports, financial disclosures
Governance Commitment	Board training, adherence to codes, strategic alignment

4. Key Findings

Data analysis revealed that corporate governance practices among SOEs in Zambia were moderately structured, with some consistency in areas such as board size and the presence of audit committees. However, variation existed in terms of board independence, frequency of disclosures, and clarity in internal control reporting lines. All 24 SOEs sampled had internal audit functions and audit committees, but only 63% had performance-based board evaluation frameworks. Moreover, 79% did not publish financial reports online, affecting transparency and stakeholder trust.

Regression results indicated that none of the four governance variables—Board and General Assembly, Internal Controls, Transparency and Disclosure, or Governance Commitment—had a statistically significant relationship with PAT growth ($p > 0.05$). The R^2 value of 0.246 suggested that about 24.6% of the variation in financial performance could be explained by governance practices, while the remaining 75.4% was likely due to external or sector-specific variables. Table 2 provides a summary of the regression output.

Table 2 Regression Model Summary

Variable	Beta Coefficient	Standard Error	p-value
Board and General Assembly	0.102	0.201	0.617
Internal Controls	0.186	0.191	0.341
Transparency and Disclosure	-0.134	0.167	0.436
Governance Commitment	0.209	0.153	0.192

5. Discussion

The findings of this study support the argument that corporate governance, though important, does not function in isolation when it comes to improving SOE performance. Zambian SOEs operate in a dynamic environment characterized by policy shifts, regulatory inconsistencies, and in some cases, limited operational autonomy. Although governance structures such as audit committees and internal control systems are in place, their effectiveness is undermined by political interference, appointment of non-technical board members, and lack of performance-based evaluations. These factors reduce the impact governance might have on financial performance.

Similar patterns have been observed across developing economies. For example, in Nigeria, Dabor et al. (2012) noted that while governance codes exist, weak enforcement results in negligible financial returns. In South Africa, Ntim and Soobaroyen (2013) found that board gender diversity and transparency improved financial metrics only in firms with autonomous governance. This suggests that governance reforms need to be embedded in a conducive institutional framework to be effective. In Zambia, dual reporting structures to both IDC and line ministries further blur accountability and limit the operational efficiency of SOEs. These structural and political barriers must be addressed in tandem with governance reform.

6. Conclusion and Recommendations

This study examined the relationship between corporate governance practices and financial performance in 24 SOEs under Zambia's Industrial Development Corporation. While governance structures such as internal audit functions, audit committees, and board evaluations are in place, their impact on profitability was statistically insignificant. This outcome highlights the limitations of implementing governance reforms in isolation without addressing broader structural inefficiencies such as political influence, reporting conflicts, and under-capitalization.

It is recommended that the Zambian government and IDC: (1) streamline SOE oversight by clarifying reporting lines; (2) professionalize board appointments through merit-based processes; (3) enforce mandatory disclosure of audited financials; and (4) align corporate governance training with sector-specific needs. Further research should adopt mixed-methods approaches, incorporating qualitative insights from board members, auditors, and regulators. Longitudinal studies could also capture the lag effects of governance on performance.

Compliance with ethical standards

Disclosure of conflict of interest

No conflict of interest to be disclosed.

Statement of informed consent

Informed consent was obtained from all individual participants included in the study.

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