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**Corporate governance and the financial performance of locally listed companies on
the Namibia stock exchange**

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Leadership and Change Management in the Harold Pupkewitz Graduate School of
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Date October 2013

Declaration

I Corlen Masunda hereby declare that the work contained in the thesis entitled corporate governance and financial performance of locally listed companies is my own original work and that i have not previously in its entirety or in part submitted it in any university or other higher education institution for the award of a degree.

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Acknowledgements and Dedication

To my late mother who taught me the value of hard work, my father who has taught me to be the man I am today, to my wife who has stood by me and to my son who gives me the reason to be the best I can ever be. Love you guys

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LIST OF ACRONYMS

NSX	Namibia Stock Exchange
CEO	Chief executive officer
OECD	Organisation of economic cooperation and development
EXCO	Executive Committee

Abstract

This study examined the relationship between Corporate Governance and Financial Performance of locally listed companies. The study was prompted by Institutional turbulences as a result of ad hoc policy and decision making processes and poor financial performance of locally listed companies.

The study aimed at establishing the relationship between corporate governance, Board roles, contingency, board effectiveness and financial Performance of locally listed companies. A cross sectional and correlation study was conducted in the six locally listed companies. Statistical Package for Social Scientists (SPSS) was used and Spearman Correlation Coefficient and Multiple Regression Analysis to determine the magnitude of the relationship and prediction of financial performance respectively were applied.

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. Corporate Governance had a significant positive relationship with board roles, board roles had a significant positive relationship with board effectiveness, and contingency had a significant positive relationship with board roles and effectiveness.

CHAPTER 1: INTRODUCTION

1.0 Introduction

Recent financial scandals in the west have raised the issue of whether for-profit public companies are being run in the best interests of shareholders (Pergola & Joseph 2011). Pergola and Joseph (2011), argue that, "most of these scandals have revealed a failure of corporate governance"(p.7). Even though the most publicised cases have been American and European cases Namibia has had its fair share of cases depicting corporate governance failure, cases such as the Avid collapse reflect this point("Television, 2008"). Apart from scandals which have resulted in huge companies collapsing, corporate governance has risen in stature in corporate boardrooms as a tool to improve financial performance. According to Baxt (2002), "corporate governance is a part of economics that enables the investigation of securing or motivating effective management among industries and corporations through the employment of various mechanisms. This may come in the form of contracts, organisational structure and design and legislation"(p.202). Baxt (2002) further argues, "that the objective of corporate governance is mainly concentrated on the improvement of a corporation's financial performance"(p.202). Thomsen (2004) citing research by (Freeman 1984) supports the notion that corporate governance improves the financial performance of a firm by articulating that, "at the core of corporate governance is the principle of accountability without relegating the profitability motives of the corporation"(p.45).

In Namibia most companies have aligned with the international trend of prioritising good corporate governance. This however is hampered by a lack of a localised corporate governance code that speaks to the dynamics of the local

environment. To circumvent this challenge some companies have adopted the (King 3 report 2009) as a code of best practice, it is however important to note that companies that do so , do so voluntarily and there is no legal basis or requirement from a Namibian perspectives for them to do so. This research seeks to investigate the relationship between corporate governance and financial performance of companies listed locally on the Namibia Stock Exchange (NSX). One of the perceived effects of this research is that if a positive relationship is proven, the research can be used to give momentum to the Namibia Stock Exchange to hasten the process of developing the local corporate governance code which is in its infancy development stage.

1.1 Background

The Namibian Stock Exchange (NSX) commenced operations in October 1992 and is the second biggest in Africa in terms of market capitalisation (Namibian Stock Exchange. 2013). As of February 2011, there were 34 companies listed on the Namibian Stock Exchange. In addition, there are 25 companies with more than one listing, and 17 companies also listed on the *JOHANNESBURG STOCK EXCHANGE* (JSE) in South Africa. The Namibian Stock Exchange has six locally listed companies.

This thesis will only focus on the locally listed companies, only which are:

1. *First National Bank of Namibia(FNB)*

First National Banking corporation is a diversified financial services group with business interests in insurance, banking and investment. The bank has 39 branches in Namibia and employs more

than 5000 .FNB holdings is regarded as the largest financial services company in Namibia by market share,(FNB annual report 2010)

2. *Bidvest Namibia*

Bidvest Namibia is a diversified holding company of more than 7 companies involved in fishing and commercial business. Bidvest Namibia employs more than 3000 people and has enjoyed good financial performance in 2012 with a net profit of N\$237 million dollars (Bidvest annual report 2012).

3. *Namibia breweries*

Namibia breweries are one of the leading beverage manufacturing companies in Africa. Employing a workforce of more than 1000 employees the majority of the Namibia breweries products are for export. Namibia breweries through its Windhoek larger brand enjoy a significant share of the premium beer category in Southern Africa (Namibia Breweries annual report 2011)

4. *Namibia Asset Management*

Namibia Asset Management Limited (NAM) is a pure fund management.

NAM was founded in 1996 in response to a national call for Namibians to take leadership in one of the most critical functional areas of economic development, namely the financial services sector. They are the largest independent asset management company in Namibia and the only listed asset manager on the Namibian Stock Exchange (NSX). NAM currently manages funds on behalf of various individual and

institutional investors in excess of N\$13 billion (NAM annual report 2012).

5. *Oryx Properties*

Oryx Properties Limited ("Oryx") is a property loan stock company listed in the "Financial-Property" sector on the Namibian Stock Exchange ("the NSX"). The Company was listed on 4 December 2002 and together with its subsidiaries ("the Group") own a premier quality retail, industrial and office real estate portfolio, which generates and offers investors a sustainable and growing income stream

6. *Nictus*

The Nictus group is a short term insurance company employing at least 100 people in Namibia.

Locally listed companies in Namibia are governed by the Companies Act, Act 28 of 2004. The Act empowers companies to appoint boards and other company officers to ensure the smooth operation of the company. The creation of a board of Directors is to monitor the performance of the firm (Igor, 2004). It is therefore predicted that if the Board performs its duties effectively, the value of the firm and its financial performance is predicted to increase and the wealth of shareholders would be enhanced accordingly (Igor, 2004). One of the key national goals in the Vision 2030 (2009) document is to create an industrialised nation by 2030. A key input of industrialisation is capital investment by local and foreign investors, for investors to be attracted to the Namibian economy managers must ensure a reasonable return on investment and research (Freeman 1985, Williamson 1996, Hansman 2002) has indicated that corporate governance can improve the

financial performance of companies. It is therefore imperative for Namibian companies to adopt good corporate governance practices. Namibian companies strive to be profitable and enhance shareholder value. The argument is therefore, how to improve the financial performance of Namibian companies and enhance shareholder value.

1.2 Problem Statement

Corporate governance practices in Namibia have received increasing attention since the 1990s. Namibian business leaders are trying to find solutions that will help Namibian companies be more competitive on the global market, they have identified corporate governance as a key ingredient of the success formula towards achieving global competitiveness. The emergence of corruption particularly in public enterprises has also raised the importance of good corporate governance in Namibia.

Chi (2005) posits that, “there are three possible causal relationships between quality of governance and firm performance” (P.10). Number one is that there is a direct causal relationship with governance enhancing firm performance. Secondly, causality runs in both ways and, finally, that governance and performance are not directly related, but they are spuriously connected through other variables. The recent spate of United States (US) corporate failures and breakdowns in truthful accounting has undermined people's faith in financial reporting, corporate leadership, and the integrity of markets the world over. Good corporate governance – the rules and practices that govern the relationship between the managers and shareholders of companies, as well as stakeholders ensures transparency, fairness and accountability. It is a prerequisite for the integrity and credibility of market institutions. Baxt (2002) states that, by building confidence and trust, good governance allows the company to

have access to external finance and to make reliable commitments to creditors, employees and shareholders (p.24). It is this contract that underpins economic growth in a market economy. When this trust is undermined, lenders and investors lose their appetite for risk, and shareholders offload their equity, resulting in lost value and reduced availability of capital. This goes for every stage of the investment process, affecting issues from property protection and ownership registration, to disclosure and the distribution of authority and responsibility among company organs. Clearly, the importance of good corporate governance goes far beyond the interests of shareholders in an individual company. Indeed, the central corporate governance principles of transparency and accountability are crucial to the integrity and legal credibility of our market system. The key challenge faced by many Namibian companies is poor corporate governance practices and it is crucial to determine the impact of these weak corporate governance practices on financial performance of companies.

The corporate governance framework in Namibia is characterised by a weak legislative framework, poor corporate governance tools and mechanisms and little or no enforcement of corporate governance best practice (Namusi 2009). This has resulted in poorly performing companies, corruption, embezzlement of funds, fraud and premature collapse of companies

The evidence on whether there is a link between good corporate and financial performance remains weak in Namibia. This could perhaps explain the pedestrian pace of the uptake of corporate governance. There is very little if any research that has been done in Namibia to investigate the potential link between corporate governance and firm financial performance. This research seeks to investigate the impact and

possible relationship between corporate governance and the financial performance of companies with a view to providing possible solutions to challenges being experienced in implementing best practice in corporate governance.

1.3 Aims and Objectives of the Study

The aim of this study is to determine the relationship between corporate governance and financial performance of locally listed companies. Specifically the study will measure the dimensions of corporate governance in terms of policy and decision making and board size. Board roles in terms of access to resources, strategizing and advices and counsel, monitoring and control,. Board effectiveness in terms of committees, skills and knowledge, delegation and risk management. Contingency in terms of management experience, institutional lifecycle and institutional turbulence and financial performance in terms of stock price. The objectives of the study are as follows:

- a) Investigate the relationship between Corporate Governance and board roles.
- b) Investigate the relationship between board roles and board effectiveness.
- c) Investigate the relationship between board roles, board effectiveness and contingency.
- d) To establish a relationship between corporate governance and financial performance.
- e) Investigate the relationship between corporate governance, board roles, contingency, board effectiveness and financial performance.

1.4 Research Question

The main research question is; what is the possible relationship between corporate governance and financial performance of Namibian locally listed companies?

The following are the sub research question:

- a) What is the relationship between corporate governance and board roles?
- b) What is the relationship between board roles and board effectiveness?
- c) What is the relationship between board roles, board effectiveness and contingency?
- d) What is the relationship between corporate governance and financial performance?
- e) What is the relationship between board governance, board roles, contingency, board effectiveness and financial performance of locally listed companies?

1.5 Significance/Justification

This study will be a significant endeavour in establishing the correlation between corporate governance and organisational financial performance for locally listed companies. This study will be helpful to entrepreneurs, finance analysts, businessmen and the whole business community in Namibia in general for this will present significant findings on the impact of corporate governance to financial performance. Moreover, this study will be an important contribution to a body of research concerning corporate governance and how it affects the financial performance of companies. Personally the study will deepen my understanding of corporate governance and its impact on financial performance which is a key skill i need to perform my executive duties

1.6 Limitations of the Study

The following limitations must be highlighted

- The study period is 2009 to 2012
- The study was carried out in Windhoek only due to financial constraints

1.7 Organisation of the Thesis

This thesis consists of five chapters:

Chapter one provides a background to the study to formulate the research problems and objectives and discuss the hypotheses and research questions of the study.

Chapter two presents the theoretical underpinnings of the study as well as a review of similar studies that have been carried out.

Chapter three discusses the research methodology which was used to carry out the study

Chapter four presents findings and an analysis is presented

Chapter five provides conclusions and recommendation

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

There is a need to broaden the knowledge base on corporate governance and the financial performance of companies (Banks , 2003). The previous chapter introduced the research and set the scene of what prompted the study what it would investigate. This chapter provides a summary of what was found in the literature review in relation to the research objectives.

2.2 Corporate Governance

Corporate governance has re- emerged as one of the most significant business topics of the early twenty first century. Corporate Governance which Banks (2003) defines, as “the structure and function of a corporation in relation to its stakeholders and shareholders”(P.85). Banks (2003) further states, “Corporate Governance has been widely discussed, debated and analyzed for many decades, ever since joint stock companies moved into the mainstream of the global economy” (p.3). Corporate Governance has also been the focus of reform proposals over the past three decades, as successive waves of corporate problems – some appearing in isolation others made obvious by difficult economic times have yielded a variety of recommendations (Ezzamel, 2006). With recovery in economic growth and corporate profits, however, reform proposals have often been pushed aside. While certain modest improvements might occur, the commitment to sweeping and sustained reform within the global corporate system has not yet appeared.

Privatisations, pension deregulation, free capital movement and market integration are creating a greater equity investment culture around the world. These phenomena together with an increase in the frequency and severity of corporate problems has

moved governance back into the limelight. Public focus is strong because governance failure can now impact a very large number of stakeholders. There is a heightened realization that good governance is effective in protecting stakeholders, while poor governance puts all stakeholders at risk. Governance failures can lead to a broad range of problems, from temporary reputational damage to insolvency. Events of recent years have demonstrated that even small governance problems can turn into much larger ones if left unchecked. They must therefore be resolved forcefully: any delay can damage a firm's reputation, market share and shareholder value. Naidoo (2003) states that, "Corporate governance issues have an impact on companies and countries throughout the world. The subject is relevant in the United States(with governance failures such as Enron, Tyco, Andersen and World Com), Switzerland (Swiss Air), Germany (Kirch Media), Japan(Daiwa Bank) and every other national system where shareholders have to be protected" (p.89).

What has caused these governance failures? What aspects of the corporate landscape of the 1980s and the 1990s have led to the raft of problems that have become so evident in the millennium? Ezzamel (2006) suggests that although the matter is complex and often company specific, we can point to various general factors that often appear, including:

- Unethical conduct within the company, where directors, executives and or employees exhibit poor judgment or behavior
- Weak boards that can be swayed by CEOs and that lack the expertise to actively challenge CEO decisions
- Inattentive directors who fail to focus on issues of importance and conflicted directors who derive personal gain from their ties to executive management

- Ineffective internal controls that cannot detect or prevent problems
- Poor external checks and balances

While many of the problems appearing in recent years have been attributable to tactical/strategic mistakes or unethical behavior by executive management the root causes and issues are often much deeper.

2.2.1 Accountability and the Need for Corporate Governance

The shareholder is in a difficult position. Diffusion and agency barriers lead to lack of control. The shareholder often cannot influence or monitor management and lacks access to information and the cost of overcoming these hurdles is considerable. It wants rights to be upheld (that is profit maximization and fair treatment) but it cannot be certain that they will be. In the face of these challenges the shareholder can become passive even apathetic (Naidoo, 2003). The concept of equitable control – where managers obtain power from diffuse shareholders and act in the best interests of the firm is not guaranteed to work without proper structure, incentives, and checks and balances (Ezzamel, 2006). Perhaps the interests of shareholders and management are not aligned; perhaps as (Berle and Means 1932) presciently noted, management can, “serve their own pockets better by profiting at the expense of the company than making profits for it”(p.78). Since shareholders are diffuse, lack effective control and have rights that require protection, strong governance is of paramount importance. If investors cannot exercise proper controls, then mechanisms must be put in place to ensure some kind of accountability.

Governance assumes various forms in modern corporate systems. These systems can be internal or external (Ezamel, 2006).

2.2.2 Internal Governance

Naidoo (2002) states that internal Governance is based on specific mechanisms and actions taken by individual firms to enforce control and accountability. These can vary by company, industry and country, but broadly speaking includes:

- Establishing a capable and unbiased board of directors
- Creating appropriate responsibilities and norms within the ranks of executive management
- Developing independent control groups, including finance/accounting, legal, risk management and internal audit
- Creating and promulgating a code of conduct (Naidoo 2002)

Internal corporate governance mechanisms are centered on three segments – the board of directors, executive management and independent control functions – each with its own set of vital and unique, responsibilities. In many systems the activities of the three groups are reinforced by codes of conduct that are intended to promote proper behavior. If the corporate responsibilities associated with these functions are too vague and diffuse, subject to too much interpretation, or not diligently followed, the governance process is vulnerable. If they are too rigid and onerous, enforcement costs mount, shareholder returns decline and actions centered primarily on form (rather than substance) may result. Banks (2005) argues that internal systems must therefore achieve an appropriate balance of flexibility and rigor. In Namibia the law holds the board of directors and senior executives to certain standards in order to enforce proper accountability. These standards revolve around attention to business, fidelity to cooperate interest and exercise of reasonable business

judgment. Theoretically if these are upheld shareholders and other stakeholders should be protected.

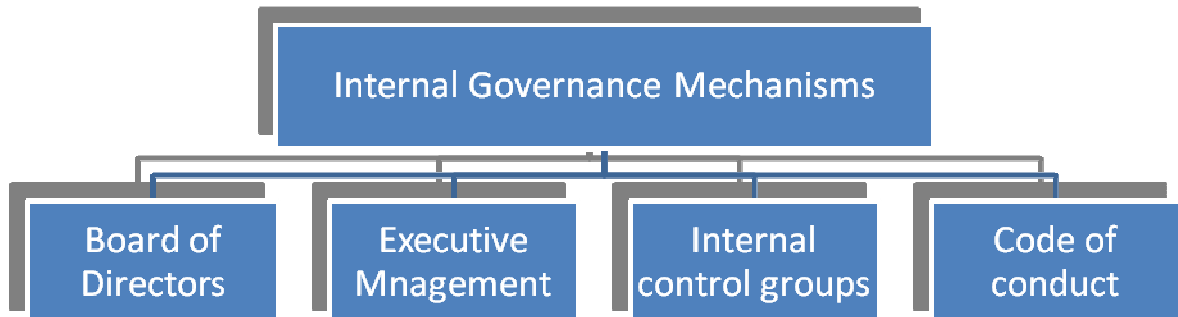


Figure 1: Internal governance mechanisms

Source: Naidoo (2002)

In summary the board of directors, having considered the nature and requirements of stakeholders, defines the purpose, mission and ethical values of the firm, creates an appropriate business and risk strategy, discharges duties to management, ensures proper controls are in place, monitors management through use of various mechanisms and makes adjustments as necessary.

2.2.3 External Governance

Supplementing internal governance processes are external forces that establish overarching frameworks which define, or operate with, internal mechanisms. Key forces include:

- Establishing appropriate regulatory oversight
- Creating proper legal regimes
- Ensuring efficient capital markets
- External audits

- Facilitating credit rating agency reviews

Dimsdale & Prevezer (1994) noted in the opening of their preface, "Corporate governance is concerned with the way in which corporations are governed and in particular in the United Kingdom the relationship between the management of a company and its shareholders". This focus in corporate governance has continued to underlie the provisions of subsequent corporate governance reports in the United Kingdom, including Greenbury Report (1995), Hampel Report (1998), Turnbull Report (1999), Higgs (2003), and Smith Report (2003). (The Organisation of Economic Co operation and Development, OECD 1999) hints at a wider network of relationships, while maintaining the emphasis on the relationship between shareholder and director, defining corporate governance as, "A set of relationships between a company's management, its board, its shareholders and other stakeholders.

Timothy(2007) posits that, "Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined"(p.89). Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and shareholders and should facilitate effective monitoring, thereby encouraging firms to use resources more efficiently. The introduction of other stakeholders raises the question of where exactly the shareholders' interests rank in terms of directors' priorities, notwithstanding the emphasis subsequently placed on the primacy of shareholders' interests in what the (OECD report 1999) perceives as good corporate governance. The (OECD report 1999) to some extent answers this question, in its remarks on the role of stakeholders," The corporate governance framework should recognize the

rights of stakeholders as established by law and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises"(p.102). Two observations on the (OECD report 1999)'s perception of the role of the corporation can be made here. First, it is assumed that the corporation serves purely as an agency for wealth-maximization for all concerned. The shareholders' interests are assumed to be synonymous with those of the company ("objectives that are in the interests of the company and shareholders") and the role and interests of stakeholders are narrowly defined in terms of economic activity ("wealth, jobs, and the sustainability of financially sound enterprises"). Second, stakeholders are carefully defined in close legal terms: only rights protected by law – whether through contract or by statute – need be respected. Wider, non-statutory or non-contractual relationships are not considered in this framework. In the Namibian context, the first observation above relating to the OECD's conception of corporate governance has a great deal of merit.

Organisations do indeed exist to maximise wealth. The use of agency theory and legalism in the OECD's Principles to define a range of stakeholders also has advantages over the very specific agency approach adopted in the UK's corporate governance reports. The UK approach privileges the shareholder's interest to a degree not justified in classical agency theory, in which an agency relationship is defined as: A contract under which one or more persons (the principals(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent (Jensen & Meckling, 1976).

2.2.3 Agency Theory and Stewardship Theory

Agency theory argues that in the modern corporation, in which share ownership is widely held, managerial actions depart from those required to maximise shareholder returns (Berle & Means 1932; Pratt & Zeckhauser 1985). In agency theory terms, the owners are principals and the managers are agents and there is an agency loss which is the extent to which returns to the residual claimants, the owners, fall below what they would be if the principals, the owners, exercised direct control of the corporation (Jensen & Meckling, 1976). Agency theory specifies mechanisms which reduce agency loss (Eisenhardt, 1989). These include incentive schemes for managers which reward them financially for maximising shareholder interests. Such schemes typically include plans whereby senior executives obtain shares, perhaps at a reduced price, thus aligning financial interests of executives with those of shareholders (Jensen & Meckling, 1976).

Other similar schemes tie executive compensation and levels of benefits to shareholders returns and have part of executive compensation deferred to the future to reward long-run value maximisation of the corporation and deter short-run executive action which harms corporate value. In like terms, the kindred theory of organisational economics is concerned to forestall managerial “opportunistic behaviour” which includes shirking and indulging in excessive perquisites at the expense of shareholder interests (Williamson, 1985). A major structural mechanism to curtail such managerial “opportunism” is the board of directors. This body provides a monitoring of managerial actions on behalf of shareholders. Such impartial review will occur more fully where the chairperson of the board is independent of executive management. Where the chief executive officer (CEO) is chair of the board of directors the impartiality of the board is compromised. Agency and organisational economics theories predict that when the CEO also holds the dual role of chair, then

the interests of the owners will be sacrificed to a degree in favour of management, that is, there will be managerial opportunism and agency loss (Ezamel 2006). Baxt (2002) argues that, the “model of man” underlying agency and organisational economics is that of the self-interested actor rationally maximising their own personal economic gain. The model is individualistic and is predicated upon the notion of an in-built conflict of interest between owner and manager. Moreover, the model is one of an individual calculating likely costs and benefits, and thus seeking to attain rewards and avoid punishment, especially financial ones. This is a model of the type called Theory X by organisational psychologists (McGregor, 1960).

There are, however, other “models of man” which originate in organisational psychology and organisational sociology (Baxt 2002). Here organisational role-holders are conceived as being motivated by a need to achieve, to gain intrinsic satisfaction through successfully performing inherently challenging work, to exercise responsibility and authority, and thereby to gain recognition from peers and bosses (McClelland 1961; Herzberg, 1959). Thus, there are non-financial motivators. Moreover, identification by managers with the corporation, especially likely if they have served there with long tenure and have shaped its form and directions, promotes a merging of individual ego and the corporation, thus melding individual self-esteem with corporate prestige. Again, even where a manager may calculate that a course of action is unrewarding personally they may nevertheless carry it out from a sense of duty, that is, normatively induced compliance (Etzioni, 1975). Further, while agency theorists posit a clear separation of interests between managers and owners at the objective level (Jensen & Meckling 1976), this may be debatable, and organisational sociologists would point out that what motivates individual calculative action by managers is their personal perception (Silverman, 1970).

To the degree that an executive feels their future fortunes are bound to their current corporate employers through an expectation of future employment or pension rights, then the individual executive may perceive their interest as aligned with that of the corporation and its owners, even in the absence of any shareholding by that executive (Silverman, 1970). This theoretical consideration argues a view of managerial motivation alternative to agency theory and which may be termed stewardship theory (Donaldson 1990a, 1990b; Barney 1990). The executive manager, under this theory, far from being an opportunistic shirker, essentially wants to do a good job, to be a good steward of the corporate assets.

Thus, stewardship theory holds that there is no inherent, general problem of executive motivation. Given the absence of an inner motivational problem among executives, there is the question of how far executives can achieve the good corporate performance to which they aspire.

Stewardship theory holds that performance variations arise from whether the structural situation in which the executive is located facilitates effective action by the executive. The issue becomes whether or not the organisation structure helps the executive to formulate and implement plans for high corporate performance (Donaldson, 1985). Structures will be facilitative of this goal to the extent that they provide clear, consistent role expectations and authorise and empower senior management (Donaldson, 1985). Specifically, as regards the role of the CEO, structures will assist them to attain superior performance by their corporations to the extent that the CEO exercises complete authority over the corporation and that their role is unambiguous and unchallenged. This situation is attained more readily where the CEO is also chair of the board. Power and authority are concentrated in one

person. There is no room for doubt as to who has authority or responsibility over a particular matter. Similarly, the expectations about corporate leadership will be clearer and more consistent both for subordinate managers and for other members of the corporate board. The organisation will enjoy the classic benefits of unity of direction and of strong command and control.

Stewardship theory focuses not on motivation of the CEO but rather facilitative, empowering structures, and holds that fusion of the incumbency of the roles of chair and CEO will enhance effectiveness and produce, as a result, superior returns to shareholders than separation of the roles of chair and CEO.

2.2.4 King Reports

The King Report on Corporate Governance is a ground-breaking code of corporate governance in South Africa issued by the King Committee on Corporate Governance. Three reports were published in 1994 (King I), 2002 (King II), and 2009 (King III) respectively. Compliance with the King Reports is a requirement for companies listed on the Johannesburg Stock Exchange but not for Namibian companies listed on the Namibian Stock Exchange. The King Report on Corporate Governance has been cited as "the most effective summary of the best international practices in corporate governance (Deloitte & Touche 2010). Due to most companies operating in Namibia having South African roots the King reports are widely used and recognised as best practice codes in Namibia. Unlike most corporate governance codes such as Sarbanes-Oxley, the code is non-legislative, and is based on principles and practices. It also espouses an "apply or explain" approach i.e. in the event cannot apply the provisions of the code they should be able to explain themselves. The philosophy of the current code (King 3 report 2009) which is a code of best practice

consists of three key elements of leadership, sustainability and good corporate citizenship. It views good governance as essentially being effective, ethical leadership.

The (King 3 report 2009) believes that leaders should direct the company to achieve sustainable economic, social and environmental performance. It views sustainability as the primary moral and economic imperative of this century; the code's view on corporate citizenship flows from a company's standing as a juristic person under the South African constitution and should operate in a sustainable manner.

1. (King Report 1 1994)

In 1994 the first King reports on corporate governance (King report 1 1994) was published, the first corporate governance code for South Africa. It established recommended standards of conduct for boards and directors of listed companies, banks, and certain state-owned enterprises. It included not only financial and regulatory aspects, but also advocated an integrated approach that involved all stakeholders.

It was applicable to all companies listed on the main board of the Johannesburg Stock Exchange, large public entities as defined by the (Public Entities Act 1992) of South Africa; banks, financial and insurance companies as defined by the (Financial Services Act 1992) of South Africa; and large unlisted companies. It defined "large" as companies with shareholder equity over R50 million, but encouraged all companies to adopt the code.

The key principles from the first (King1 report 1994) covered:

- Board of directors makeup and mandate, including the role of non-executive directors and guidance on the categories of people who should make up the non-executive directors
- Appointments to the board and guidance on the maximum term for executive directors
- Determination and disclosure of executive and non-executive director's remuneration
- Board meeting frequency
- Balanced annual reporting
- The requirement for effective auditing
- Affirmative action programs
- The company's code of ethics

2. (King 2 report 2002)

In 2002, when the Earth Summit was held in Johannesburg, Professor Mervin King pushed for a revision of the report (King II report 2002), including new sections on sustainability, the role of the corporate board, and risk management. This revised code of governance was applicable from March 2002.

In addition to those types of organisations listed in (King I 1994), it was applicable to departments of State or national, provincial or local government administration falling under the Local Government: (Municipal Finance Management Act 2000), and public institution or functionary exercising a power or performing a function in terms of the constitution, or exercising a public power or performing a public function in terms of any legislation, excluding courts or judicial officers. As before, it encourages all companies to adopt the applicable principles from the code.

The key principles from the second King report covered the following areas:

- Directors and their responsibility
- Risk management
- Internal audit
- Integrated sustainability reporting
- Accounting and auditing

As before, the code is not enforced through legislation. However, it co-exists with a number of laws that apply to companies and directors including the (Companies Act 2002). In addition further enforcement takes place by regulations such as the JSE Securities Exchange Listings Requirements.

3. (King Report 3 2009)

In an interview with Mervin King (the chairperson of the King Committee), he considered the (King II report 2002) was wrong to include sustainability as a separate chapter, leading companies to report on it separately from other factors. In the next version, the 2009 King III report, governance, strategy and sustainability were integrated. The report recommends that organisations produce an integrated report in place of an annual financial report and a separate sustainability report and that companies create sustainability reports according to the Global Reporting Initiative's Sustainability Reporting Guidelines.

In contrast to the earlier versions, the King III report is applicable to all entities, public, private and non-profit. Prof Mervin King encourages all entities to adopt the King III principles and explain how these have been applied or are not applicable. The code of governance was applicable from March 2010.

The report incorporated a number of global emerging governance trends:

- Alternative dispute resolution
- Risk-based internal audit
- Shareholder approval of non-executive directors' remuneration
- Evaluation of board and directors' performance

It also incorporated a number of new principles to address elements not previously included in the King reports:

- IT governance
- Business Rescue
- Fundamental and affected transactions in terms of director's responsibilities during mergers, acquisitions and amalgamations.

Again, the code of corporate governance is not enforced through legislation. However, due to evolutions in South African law many of the principles put forward in King II are now embodied as law in the (Companies Act of South Africa of 2008). In addition to the Companies Act, there are additional applicable statutes that encapsulate some of the principles of King III such as the (Public Finance Management Act 2002) and the (Promotion of Access to Information Act 2002).

This study focuses on board roles, policy & decision making as indicators of Corporate Governance in relation to board size, contingency, board effectiveness and financial performance of locally listed companies mentioned below:

1. First National Bank of Namibia
2. Bidvest Namibia

3. Namibia breweries
4. Namibia Asset Management
5. Oryx Properties
6. Nictus

2.2.5 Components of Corporate Governance Under Study

Board size, policy and decision making

Stewart (2008) state that,” The board of directors is a body that represents the interest of shareholders and is accountable to them for a series of specific duties including definition of the company’s strategy and philosophy, oversight of executive management and implementation of internal controls” (p.96). Directors as agents of shareholders are compelled to carry out their instructions, although such instructions may be limited in scope. Under normal circumstances the boards of directors do not manage the day to day activities of executives as such micromanagement would be impractical ad would go against the philosophy of separation. Rather they hire the best possible senior executives, provide advice and counsel on a periodic basis and ensure the system of controls is functioning properly. Only in crisis situations are directors likely to be more visible, representing the interest of stakeholders more actively. Beinstein (2008) argues that although it is not present in daily management matters, effective governance depends on a board that is capable of dealing with management firmly and decisively. The nature and structure of corporate boards varies by system and changes over time.

In some companies in Namibia board have become independent, energized and capable although there are still many exceptions to this. Gregory (2003) provides some perspective on how boards have changed. Gregory (2003) states that

for instance from the 1950s through to the 1990s board directors were essentially part of the Chief Executive Officer (CEO)'s team. Since the CEO generally handpicked directors they (directors) were willing to support general management in its tactical and strategic plans. Gregory(2003) further states that, "the value of board of directors was often in stature rather than leadership and oversight. The function performed by the board was generally pro forma with rubber stamp approval of virtually every matter requiring a decision" (p.65).

Boards performed only cursory financial reviews, approved new projects, expenditures and investments with little discussion. CEOs were rarely questioned and the agenda for board meetings was smooth and predictable. Board members spent little time on company matters except when they were physically present during board meeting. They were not allowed to purchase shares and no capacity building or training was provided to aid them with their duties. There was very little guidance and clarity on the roles of the board and much of it was left to the CEOs interpretation of what the board of directors could and could not do. The process of re – election of directors was predictable with most of them staying in their positions until retirement. In this setting it is easy to imagine directors being an extension of management and being unable to assess the executive team independently. This pattern remained relatively unchanged until the corporate crises began occurring in greater frequency and with much impact on stakeholders and shareholders from the 1970s and 1980s. Regulators and courts called for greater accountability and this led to certain changes in director selection and duties, a trend that has generally accelerated with each crises wave.

In order to discharge their duties properly directors must devote enough time and energy to the process and possess appropriate knowledge regarding the technicalities of the business they are overseeing (Charan, 2005). Although boards rightly try to have a mix of expertise they are still strikingly homogenous; the average director in a company is likely to be a 45 – 65 years old male with 10 plus years of experience (Fineman, 2006). Many are generalists in an increasingly complex and technically challenging business environment. Banks (2005) states that, “if the directors are unaware of the technical aspects of the business they risk being misled by management” (p.76). In practice most boards use committees to perform specific oversight functions. Ideally the relationship between directors and executive management should be strong and constructive. However it is important for directors to be able to question, critique and challenge management and not simply agree to executive management.

Naidoo (2003) states that, “there is no optimum size of board of directors and what is appropriate for each company will vary according to its individual circumstances” (p.123). She further states that a board that is too big may have the disadvantage of being highly formal and inhibiting real debate while a small board might lose the broader perspective provided by a bigger board (Naidoo, 2003). A small board may also be dominated by one powerful person. In Namibia the minimum number of directors required by the companies act is one and three for private and public companies respectively. In terms of the Namibia stock exchange (NSX) listing requirements, a company listed on the Namibian stock exchange must have a minimum of 4 directors. Stewart (2008) argues that, “Factors such as the need to achieve an appropriate level of independent directors representation to constitute the appropriate board committees, the cost of running the board relative to the value

to be derived from it and the evolving circumstances of the company all play a part in determining how a board should ideally be constituted”(p.106).

The procedure for meetings is not prescribed by the companies act but has evolved as a result of long standing practice. There are however certain non negotiable statutory requirements such as the proviso that the meeting be properly convened and duly constituted, without which the meeting and its resolutions would be invalid. The powers of the directors may ordinarily be exercised only at a duly convened meeting of the board as they vest in the board as a whole and not in the directors as individuals. As a general principle, directors may only act as a board through a resolution passed by the requisite majority at a duly convened meeting at which a quorum is present and from which no director has been excluded.

Board roles, monitoring and control

The board has been described by Collins (2010) as, “the primary institutional mechanism by which shareholders render the executives appointed to manage the company on their behalf accountable for their stewardship.”(p.87).The role of the board and directors have come under scrutiny since the publication of the first king report in 1994. According to Sammer (2006) the board determines the corporate strategy and appoints management who are responsible for the day to day management of the company. Charan (2005) further states that, “developing and overseeing the execution of strategy, managing risk, driving performance and ensuring sustainability are inseparable elements in governing a company”(p.43). A company’s board, the epicenter of its corporate governance structure, exists to fulfill these defined objectives.

Companies should be headed by a board that directs, governs and is in effective control of the company (Graham, 2009). The board's paramount responsibility is the positive performance of the company in creating value for the shareholders while taking into account the legitimate interest of all its stakeholders (Ezzamel, 2006). The board acts as the main link in ensuring the accountability of the company to its shareholders and stakeholders. The following tasks are roles for the board as stated by Kramer (2005):

- The board directs the company by formulating and reviewing the company's policies and strategies, reviewing risks and risk policies, approving business and annual budgets, setting performance objectives and monitoring these.
- The board controls the company by laying down a code of conduct, overseeing the process of disclosure and communications, ensuring that appropriate systems for financial control, for reporting and monitoring risk are in place. The board also evaluates management performance and the directors themselves and provide checks and balances to reduce the potential for conflict between shareholders, stakeholders and the company.
- The board is accountable to shareholders for creating protecting and enhancing the wealth and resources of the company. The board is also accountable to stakeholders to ensure that the company operates as an ethical and good corporate citizen.

Naidoo (2003) proposes the framework Figure 2 below as a useful overview of the key responsibilities and attributes of the board

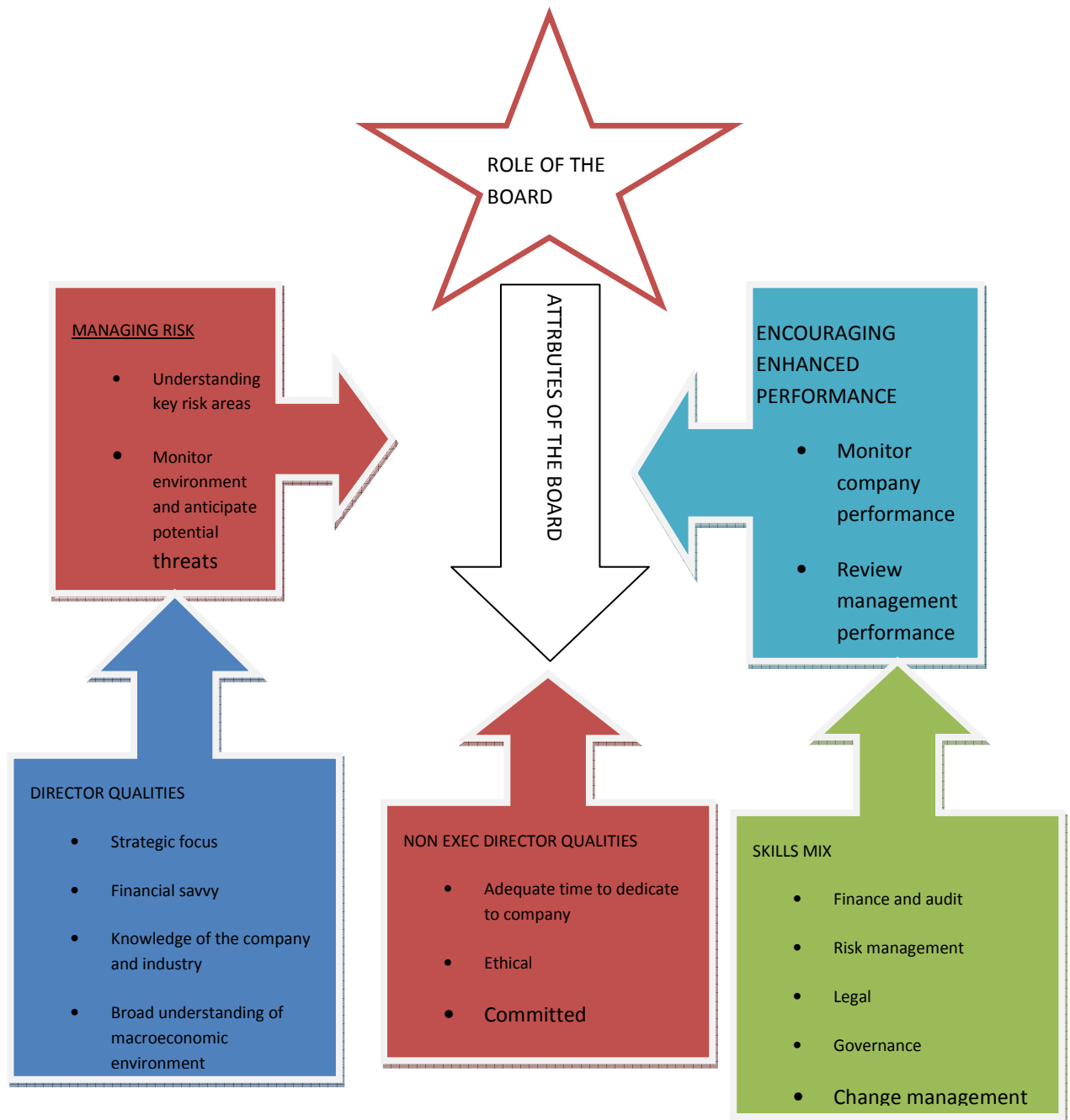


Figure 2: Key Responsibilities and attributes of the board

Adapted from: Naidoo(2003) Key Responsibilities and attributes of the board

Strategising and accessing resources

Geoffrey (2004) states that, "the board should be the heart of a company's system of corporate governance and should direct, govern and be

in effective control of the company”(p.76).In its simplest form the board is responsible for the company’s strategic direction and is therefore ultimately responsible for ensuring the company’s success. Under the triple bottom line concept advocated for in the (King 3 report 2009) the board is not only responsible for the financial performance of the company but the environment and social performance too. Collins (2010) argues that the board has an overarching responsibility for defining the purpose of the company, determining the values by which it will conduct its day to day business operations and for identifying stakeholders relevant to its business. The strategy developed and approved by the board must address all three factors and must be aligned with the purpose of the company, the value drivers of its business and the legitimate expectations of its stakeholders.

Fineman (2006) states that, “in executing its role the board faces a uniquely demanding set of seemingly contradictory responsibilities” (p.98).The board must:

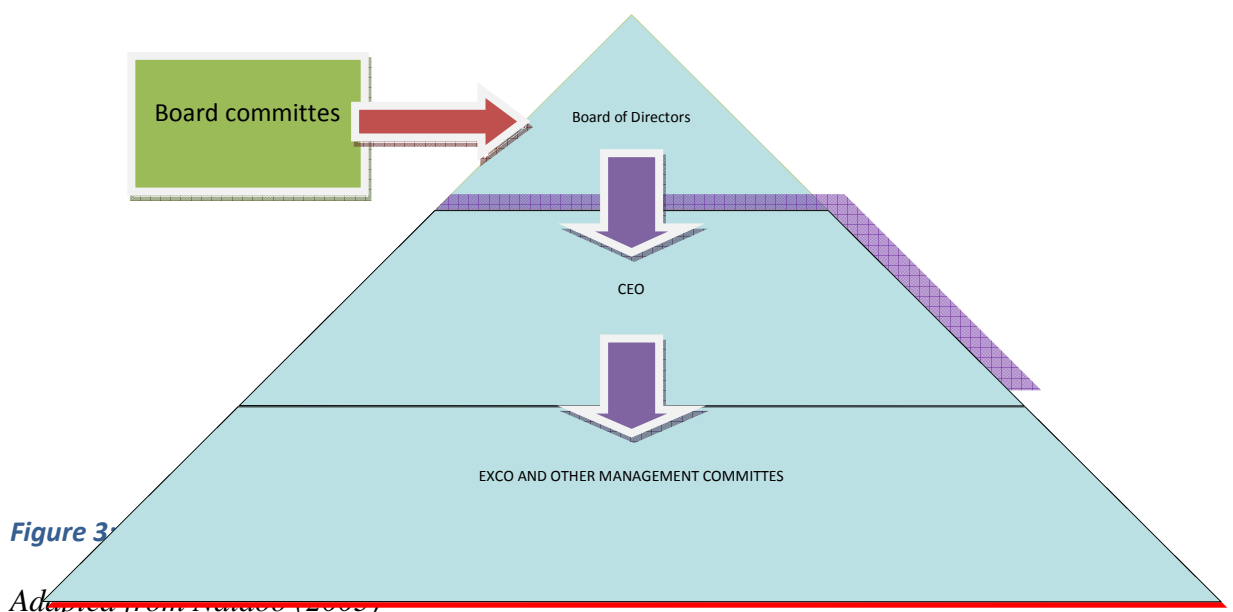
- Be entrepreneurial and drive e business forward while keeping it under prudent control
- Be sufficiently knowledgeable about the workings of the company to be answerable to its actions and yet be able to stand back from the day to day running of the company.
- Remain focused on the commercial needs of the business while acting responsibly.

The board must therefore strategise on the best possible way of achieving the company’s commercial goals while meeting the stakeholders’ legitimate

expectations. Beinstein (2008) argues that board members must create networks that provide them with access to information and finances in order to boost the commercial goals of the company. He further states that board members should be of unquestionable integrity to enable the company to have access to external company resources. Naidoo (2003) contends that, “correctly used good corporate governance can be used as a tool to acquire foreign direct investment and as a source of competitive advantage”(p.78).

Advice and counsel

Naidoo (2003) proposes the following framework for advices and counsel in board Figure 3 below:



Naidoo (2003) proposes a linear relationship where the board advises the CEO and the CEO Advises the executive committee and other management committees. Board committees only advise the board. Although the above framework provides an orderly flow of information in reality the information flow is not linear and the board for example can provide direct advice to an Executive committee (Exco) or senior manager e.g. company secretary or chief financial officer

Contingency, board roles and board effectiveness

Berman (2006) argues that even though boards operate within set roles the emphasis placed on certain activities differ from organisation to organisation due to different variables impacting on the organisation. In support of this view Bies (2006) argues that control variables must be identified in determining the impact of corporate governance.

Akodo (2004) identified the following contingencies that will have an impact on corporate performance:

- Organizational size and diversity
- Management experience
- Industry experience and lifecycle

These contingencies have a moderating effect on board roles and effectiveness. For purposes of this study, institutional turbulence, institutional life cycle and management experience will be used as contingencies moderating board roles and corporate performance.

According to Fox (2005) board effectiveness refers to “How well the board is fulfilling its mandate given by shareholders and stakeholders of the company” (p.18). To ensure performance the (King 3 report 2009) recommends that boards should be evaluated at least once a year. The board charter and the board committees’ terms of reference should contain sufficient detail of the key delivery areas of the board and board committees to enable boards and board committees to be evaluated against set targets. Fox (2009)

suggests that performance evaluations may include a combination of interviews, written questionnaires and an individual feedback session to discuss the results, identify areas of development and agree on areas of correction. King 3 also recommends that companies should evaluate board performance as whole, board chairman, board committees chairman, individual directors, CEO and the company secretary.

Skills, knowledge, delegation and risk management and board committees

Naidoo(2003) states that,” The provisions relevant to the board with regard to meetings of the board and meeting procedures, quorum and the necessity of keeping minutes and other records apply equally to meetings of the executive and board committees. In all instances, the company’s memorandum of incorporation or the committees terms of reference remain the definitive documents on the constitution, membership and quorum requirements of a specific committee – except where no special reference is made to these issues, in which case the provisions of the companies act or common law apply” (p.76). Whilst every company must in terms of the companies act have a board of directors responsible for its strategic direction and control there is no legal requirement from the act that implores a company to have a management or executive committee (Exco). In practice however having an Exco often facilitates the smooth running of the company’s businesses while the board focuses on the company’s strategic direction. The practice of most board in Namibia is for the board to delegate authority to the CEO who may in turn delegate that authority to or in consultation with the Exco. The Exco usually consists of the CEO, financial officer, the company secretary and other top management executives.

Subject to any limitation in the company's memorandum of incorporation the board may establish committees to assist in the execution of its functions in specific areas. As a minimum the companies Act 2008 requires companies to have an audit committee appointed by company shareholders (to focus on the financial issues which are vital to the company, to assure the integrity of reporting, to ensure that management develops and maintains an appropriate system of internal controls and to monitor the effectiveness of those controls on an ongoing basis). In addition the (King 3 report 2009) recommends that companies consider appointing a risk management committee (to assist the board with risk management function for which it is responsible), a nomination committee (to ensure the appropriate constitution of the board, to oversee board evaluation process and to plan succession), and a remuneration committee (to ensure that issues of remuneration are dealt with on a sufficiently arms length, market related basis and that the company's ability to motivate and retain its key executives and directors is not compromised). The (King 3 report 2009) suggest that board committees should be formally constituted with written terms of reference and clearly agreed upon reporting lines to the board.

The Namibian companies Act makes the appointment of an audit committee mandatory for public and state owned companies as well as for certain private companies. With the greatly increased accountability of boards directors under the (Companies Act 2002) and the (King 3 report 2009), well constituted board committees, including additional skills where appropriate, could prove to be invaluable allies in the governance of the company. According to the king 3 report, other committees may be constituted with defined powers delegated to them by the board, for instance to discharge specific mandates such as to investigate the company's risk profile, human resource issues etc. The (King 3 report 2009) suggest

that as a rule board committees should preferably be made up of a majority of and is chaired by independent non executive directors with executive directors and functional managers as invitees without voting rights.

2.2.6 Relationship of Study Variables

Relationship between Corporate Governance and board roles

Higgs (2003) suggests that the board as the central institution of governance defines the level and depth of company corporate practices; He further argues that how well the board performs its roles determines the state of corporate governance in the organisation. Gavin & Geoffrey (2004) state that, "the relationship between corporate governance and firm performance cannot be limited to board roles, as corporate governance is broader than just board roles" (p.67). From the above mentioned literature it would seem that the two authors differing views are an extension of each others' arguments. Combining the two authors' positions would suggest that board roles have a positive impact on corporate governance but there other variables that are internal and external to the organisation that may also have an impact on corporate governance

Relationship between board roles and board effectiveness

The five board roles of monitoring, controlling, strategizing, providing advice and counsel and providing access to resources are highlighted by Gavin & Geoffrey (2004) as key board processes. In a study carried out by Chris (2001), which examined the influence board inputs, structures and processes have on Board Effectiveness he found out that board inputs and three process variables are important in explaining board effectiveness. These three key inputs are that:

- (i) Board members have the time, skills and experience to do the job;
- (ii) Clear Board Roles and responsibilities
- (iii) The board and management share a common vision of how to achieve their goal and the board and management periodically review how they work together.

Relationship between board effectiveness and financial performance

Rutagi (1997) defines financial performance as the extent to which the company is utilizing its resources to meet the financial targets set by shareholders. Other researchers define performance of the organization as the extent to which a company receives a return on investment on its capital invested (Namisi, 2002). The general consensus by researchers and authors is that good corporate governance leads to better financial performance of the company. From a long term profitability perspective good corporate governance is viewed as supporting sustainability and longevity of companies. In their research Zahra (1991). Masibo (2005) & Namisi (2002) showed a positive relationship between board effectiveness and financial performance in the Ugandan Context

Relationship between Corporate Governance and financial performance

Two broadly defined theories co-exist in the corporate governance literature. One stresses the discipline of the market, claiming that threat of hostile takeovers and leveraged buyouts in firms was sufficient to ensure full efficiency. Where managers neglect to invest in those projects that add value to the firm and its shareholders but divert resources to their own benefit, the financial markets act to restore good governance. A number of mechanisms have been suggested, such as removing senior managers in poorly performing firms Palepu (1986), Morch, Shleifer & Vishney,

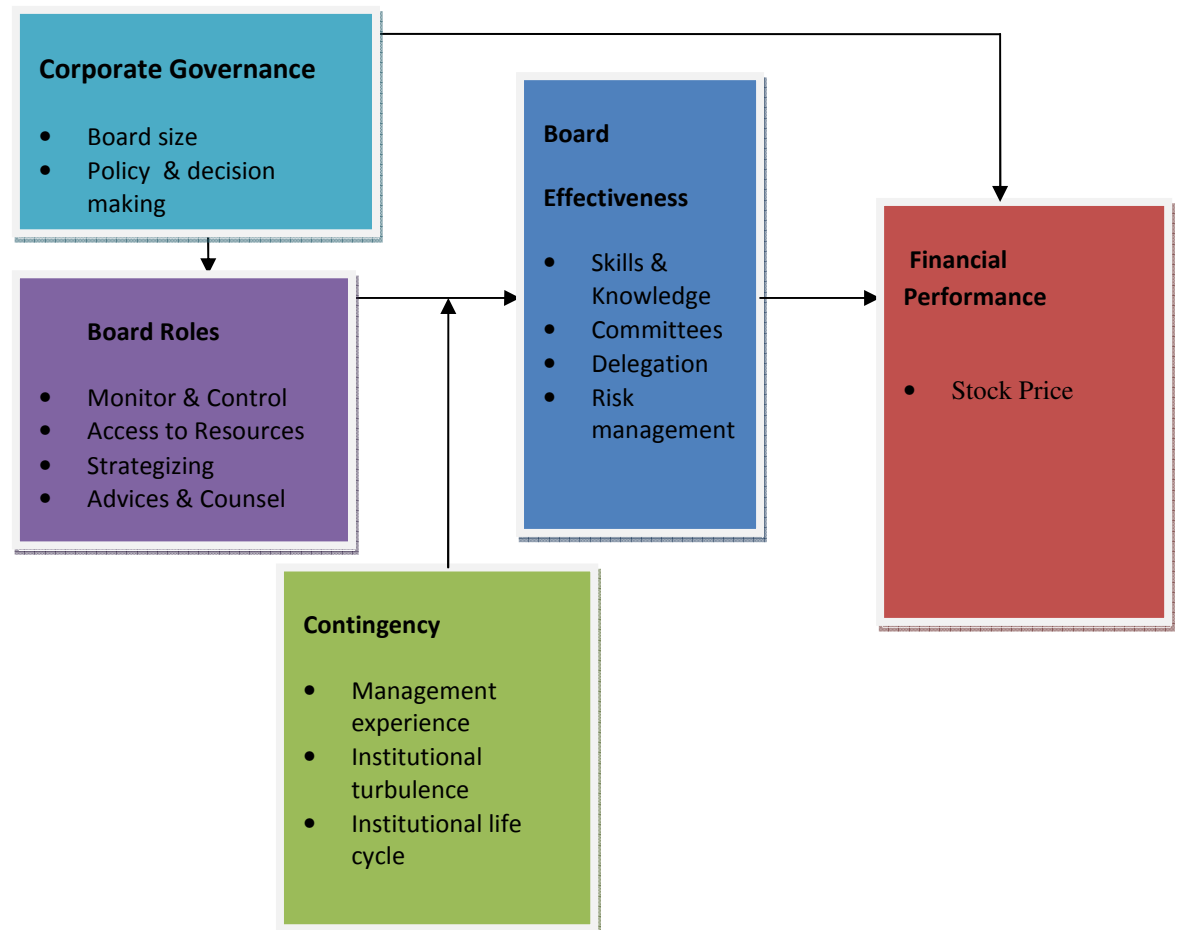
1988, 1989); demanding cash flow payments in the form of debt service (Jensen, 1986); and linking executive compensation to performance, including equity and options (Jensen (1986). Matama (2005) in the study of Corporate Governance and financial performance on selected commercial banks obtained a positive relationship between Corporate Governance and financial performance. Masibo (2005) researched on Board Governance and firm performance of selected state owned corporations and in listed organizations on Uganda Securities Exchange, obtained a positive direct and indirect link between Board Governance and Firm Performance through Board Effectiveness. Piesses (2005) carried out empirical research on Corporate Governance and firm performance in an international perspective and obtained conflicting results on the link between Corporate Governance and Firm performance.

Corporate Governance and Firm Performance

Assuming that a company is operating under normal circumstances, meaning, accountability is to the shareholders. Shareholders invest in a company's stock because they expect an appropriate return on their capital: they are not providing a company with funds without an expectation of a fair return. As noted the return may be in the form of a dividend or the future cash flows of the firm (expressed by way of an appreciating stock price as the company exhibits greater potential for generating future cash flows, its stock price will get higher). Since shareholders are driven by value maximization and since capital is mobile, they are free to relocate their funds from one company to another if they feel their value is not being maximized. Berman (2006) states that the metric that is mostly used in gauging value maximisation of a company is the stock price. Fox (2005) argues that, "Since corporate governance is instituted to protect shareholders and ensure shareholder value maximization a direct relationship can be plotted in determining the impact of corporate governance to firm performance" (p.98)

2.3 Conceptual Framework

The conceptual framework of this study can be depicted diagrammatically as illustrated in Figure 4 below:



Source: A modification of the model by Gavin & Geoffrey (2004).

Figure 4: Conceptual Framework

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Introduction

The previous chapter provided an overview of the literature and how it relates to the subject matter. This chapter presents the research methodology that was used. The population, sampling and a detailed description of the data collection instrument are also discussed. The methods used for data analysis are explained. Validity and reliability is also explained.

3.2 Research Design and Methods

Research design can be defined as the structure that is adopted to obtain results from a study. According to Kerlinger & Lee (2002) the plan constitutes the overall scheme or programme of the research. A survey research design was used in this research.

Kerlinger & Lee (2002) posit that survey research is useful in studying the relative incidence, distribution and interrelations of sociological or psychological variables.

For this reason, survey research can be classified as field studies with a quantitative orientation (Kerlinger & Lee, 2002). This is a quantitative study and data was

collected using the structured questionnaire method. Relational theories specify relations between dimensions or characteristics of individuals, groups, situations or events Fawcett (1986). Relational theories are developed by co relational research.

Co-relational studies use the empirical method Ferreira (1986). The Research study will use cross sectional and analytical research designs. These research designs will be used to collect a snap shot of data and analysis of the relationships between study variables

3.3 Study Population

The total population under study is 210 of which the total sample size is 125 divided as follows; 49 board members 6 CEOs/Managing Directors and 70 functional

managers. The rationale behind selecting a sample from the three levels (board, CEO and functional managers) lies on the fact that these are the three key levels influencing governance decisions. The total number of board members is 50 board members, functional managers' is 154 and CEOs is 6. The total sample consists of people that are employed or sit on the boards of the 6 locally listed companies regardless of their gender, education or age.

3.4 Sample Size and Sampling Design

According to Sapsford (2009), "the fundamental method of probability sampling is simple random sampling" (p.30). He further defines random sampling, "random sampling means that every element in the population of interest has an equal and independent chance of being chosen" (p.31). Sapsford (2009) states that, "to draw a stratified random sample the elements of a population are divided into non overlapping groups – strata. Simple random samples are drawn from each of these and together they make the total sample" (p.32).

Stratified sampling and simple random sampling was used to determine the sample size. Stratified sampling was used to identify different strata within the organisation of which respondents were picked randomly from each strata of the organisation.

3.5 Data Collection

The two sources of data were primary and secondary data. Primary data was obtained from questionnaires while Secondary sources of data was obtained from companies annual reports

3.6 Construction of the Instrument

Section A of the questionnaire covers the demographic characteristics of the sample it also covers the educational qualifications and length of service for the respondents. Section B of the questionnaire covers questions that relate to corporate governance in general. These questions are designed to ascertain the link between corporate governance and the financial performance of firms.

Section C has questions on board size. These questions are designed to ascertain the co-relation between board size and corporate governance. Section D has 2 questions on policy and decision making. Section E of the questionnaire has three questions that seek to determine the relationship between board effectiveness and the board roles of monitoring and control. Section F focuses on the board roles of strategizing in determining board effectiveness. Section G requested respondents to respond to questions on the board role of advices and council. Section H of the questionnaire focuses on the board roles of access to resources.

Section H has questions that seek to determine the relationship between board effectiveness and the board members skills and knowledge. Section M, N and O focuses on the contingencies that moderate the relationship between corporate governance and financial performance. Question 20 is an open ended question designed to solicit respondents' recommendations. The research instrument was a questionnaire which comprised of 20 questions and is attached on the appendix. This questionnaire comprised closed ended questions except for question 20.

3.7 Data Collection Methods

Questionnaires were distributed to 126 respondents via e mail. Respondents' emails were acquired after approval was granted by the CEOs to conduct the research.

All participants were given 14 days to respond to the questionnaire and the researcher physically collected the completed questionnaires. Abstraction method was used to collect data from companies annual reports provided to the researcher by the Namibia Stock Exchange.

3.7.1 Measurement of study variables

Corporate governance which is the independent variable was measured in terms of board structure / size and decision making. Board roles were measured in terms of monitoring and control, access to resources, strategy and advice and counsel. Board effectiveness was measured in terms of committees, risk management, delegation, skills and knowledge. Contingency was measured in terms of management experience, institutional turbulence, institutional life cycle Johnson. A five point Likert scale was used with the following points of strongly agree, agree, neither agree nor disagree, disagree, and strongly disagree. A simple yes or no was used to measure some responses. Financial performance as dependent variable was measured in terms of stock price. The last question was open ended to allow for qualitative views on recommendations for improvement.

3.7.2 Validity and reliability tests

Jupp (2004) defines validity as, "Validity addresses the issue of whether the researcher is actually measuring what he/she has set out to do" (p.23). Three approaches are used in testing validity

- Criterion related validity

This measures whether the instrument accurately predicts (predictive validity – the degree to which scores or test predict later behavior) or diagnoses (concurrent validity-

refers to the correlation between scores on a scale and scores on another scale or measure of established validity given at about the same time). Concurrent and predictive validity are often referred together as criterion validity.

- Construct validity

This refers to the theoretical foundation underlying a particular scale or measurement. It looks at the underlying theories or constructs that explain a phenomenon. Confirmatory factor analysis is used to explore how individual survey items contribute to an overall construct measurement. This is done by comparing the results obtained by a new instrument with that of an existing instrument that measures something which is known to be closely related to the study intended to be measured.

- Content Validity

This refers to whether an instrument provides adequate coverage of the topic. Pretest open ended questions help to establish content validity. If no related instruments exist then expert opinion is required on each question in order to determine whether or not each question tests what it's supposed to.

A pilot study was conducted whose purpose was to ascertain whether respondents understood the questions. The pilot was used to test questionnaire validity and reliability. Six functional managers chosen purposefully by the researcher participated in the survey. There were no problems encountered with the questionnaire as all questions were understood well by the respondents, as such no modifications were done. The tests for validity and reliability are presented below.

Validity and reliability tests were performed on the questionnaire using data obtained from the study. From the responses, the questionnaire was tested for internal

consistency and reliability by calculating the Cronbach alpha value for the items on the scale. The results of the statistical package for social science (SPSS) output are presented in tables below.

Table 1: Cronbach alpha analysis

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.715	.734	31

Cronbach's co-efficient alpha is a statistic used to test the reliability of items in a questionnaire. According to Cortina (1993) alpha estimates the degree of interrelatedness among a set of items and variance among the items, and a widely advocated level of adequacy for co-efficient alpha is set at least 0.7. This is also affirmed by Schumaker & Lomax (2004). A value below this is unsatisfactory according to Malhotra (2003).

The analysis of the questionnaire gave alpha values of more than 0.7 for all the items and the whole scale had a value of 0.734. The research instrument was deemed reliable based on these alpha statistics. Furthermore factor analysis was applied to the questionnaire to determine construct validity of the instrument. The scree plot of that analysis is presented below

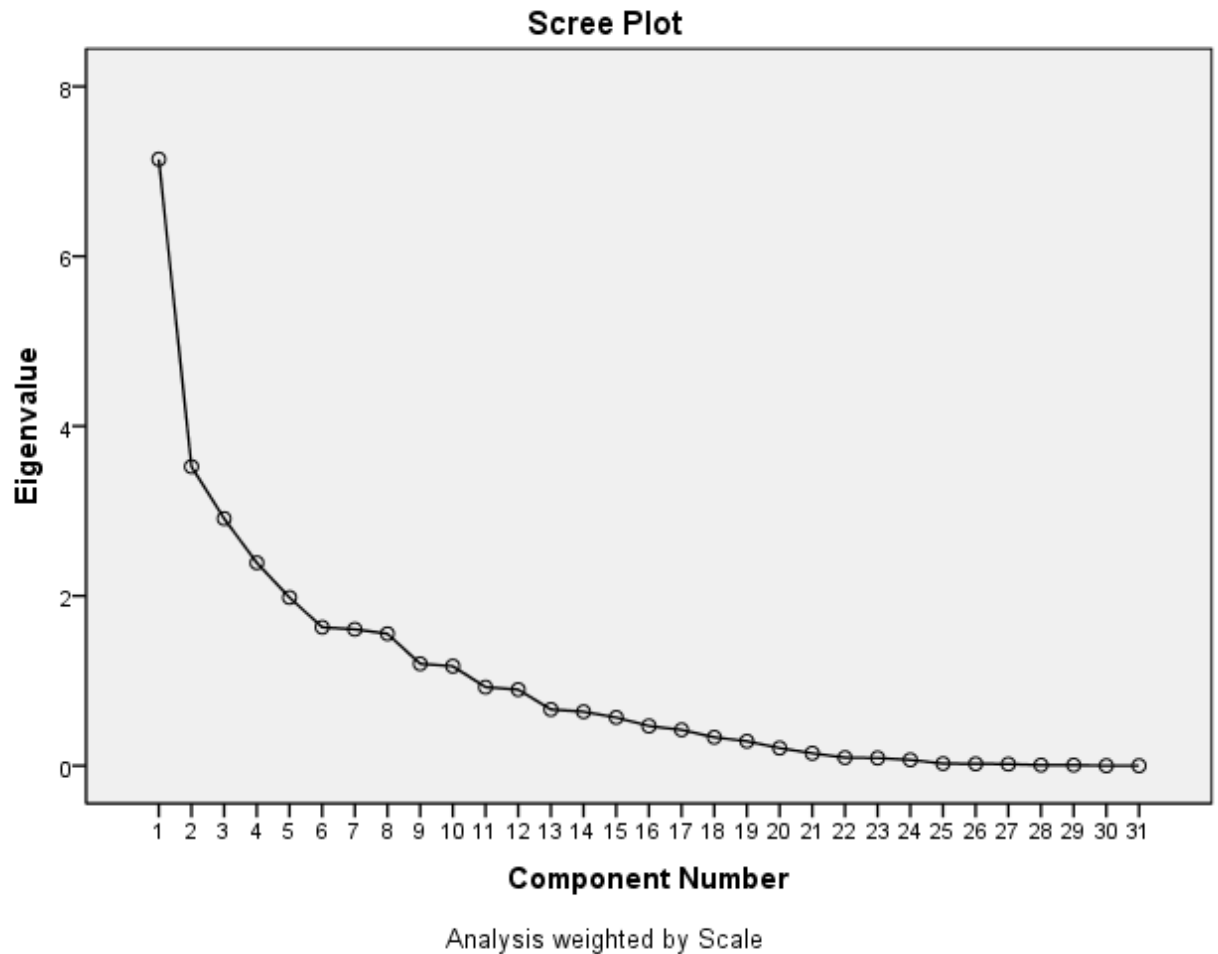


Figure 5: Screen plot with a reference line showing the number of factors extracted

The reference line on the scree plot shows that 13 factors were extracted through the factor analysis method using SPSS. Factor analysis is typically adopted as statistical procedure that examines the correlations among questionnaire items to discover groups of related items. A factor analysis was conducted to identify how many factors (i.e. constructs or latent variables) underlie the questionnaire items. The research instrument had 11 underlying factors namely corporate governance, board size, policy and decision making, monitoring and control, strategising, advices and counsel, access to resources, skills and knowledge, managerial experience, institutional turbulence and institutional life cycle. The factor analysis extracted the 11 factors as

shown on the graph above, hence the research instrument passed the statistical test for construct validity.

3.8 Data Processing and Analysis

Instruments used in correlational research yield qualitative or quantitative data Ferreira (1986). Statistical analyses of the data employ various non parametric or parametric measures of association. Using the Statistical Package for Social Sciences (SPSS) version 10 primary and secondary data were coded, edited and analysed. To examine Corporate Governance Descriptive statistics and chi-square test was used.

Regression analysis is a statistical process for estimating the relationships among variables Strapson (2003). It includes many techniques for modeling and analyzing several variables, when the focus is on the relationship between a dependent variable and one or more independent variables. More specifically, regression analysis helps one understand how the typical value of the dependent variable changes when any one of the independent variables is varied, while the other independent variables are held fixed. Most commonly, regression analysis estimates the conditional expectation of the dependent variable given the independent variables – that is, the average value of the dependent variable when the independent variables are fixed. Less commonly, the focus is on a quantile, or other location parameter of the conditional distribution of the dependent variable given the independent variables. In all cases, the estimation target is a function of the independent variables called the **regression function**. In regression analysis, it is also of interest to characterize the variation of the dependent variable around the regression function, which can be described by a probability distribution.

Regression analysis is widely used for prediction and forecasting (Strapson, 2003).

Regression analysis is also used to understand which among the independent variables are related to the dependent variable, and to explore the forms of these relationships.

In restricted circumstances, regression analysis can be used to infer causal relationships between the independent and dependent variables. However this can lead to illusions or false relationships, so caution is advisable; for example, correlation does not imply causation.

3.7.1 Treatment of data

After all the questionnaires were collected an alpha numeric coding system was devised for ease of input. For example Section A gender: F for female and M for male. All the other questions adopted a similar alphanumeric system where each response is allocated a corresponding code for input into the excel spread. An example is for answering question 2 in section A the responses were coded as follows A2A, A2B, A2C, A2D.

Excel spreadsheet was used to load the data which was then exported to the SPSS software package for analysis. Data analysis was carried out at different levels. The first stage involved analyzing the questionnaire item by item beginning with section A relating to demographics, All the other sections adopted a likert scale except for question 25 which was an open ended question to solicit for recommendations. The likert scale questions were scored as follows on table 1 for purposes of analysis:

Table 2: Likert scale

Strongly agree	5
Agree	4
Neither agree nor disagree	3
Disagree	2
Strongly Disagree	1

The aggregate score for each dimension was calculated as the sum of the scores from the different respondents on that dimension. The higher the score the higher the correlation.

Summary

Quantitative data analysis will be extracted and analysed. Statistical Package for Social Science (SPSS) was employed to analyze the data. The next chapter presents the analysis of the data and the findings from the analysis.

CHAPTER 4: PRESENTATION AND INTERPRETATION OF DATA

4.1 Introduction

The previous chapter looked at the research methodology that was employed and the sampling method. This chapter presents the results and the analysis of the data. It begins by presenting the demographic statistics of the sample. It then goes on to present the findings for each item on the questionnaire

4.2 Descriptive Analysis

In order to have a broader appreciation of the data collected, descriptive statistical techniques are used to analyse the data and obtain research results. Descriptive statistics are characteristics of the sample (Salkind, 2000).The descriptive method was carried out first in order to reduce data sets and allow for easier interpretation, Wimmer & Dominic (1983).It is also important to carry out this analysis because it provides a broad biography of the data under study. This will enable the contextualizing of the results. This statistical method provides information that helps in deciding whether the central location value can be regarded as a reliable representative value of all observations in data.

Descriptive statistics provide measures of location (mean, frequency), shape (skewness and measures of spread (variance, standard deviation). Numerical statistical summaries were created. The process provides valuable insights into the effectiveness of the coding and entering Cooper & Schindler (2001) .Data cleaning was done. Missing data, miscoded, out of range data and extreme values were rectified after preliminary look at the data set.

Sample Analysis

A total of 126 questionnaires were sent out and 122 of them were returned, this represents a 97% response rate. This was deemed to be adequate in line with literature that advocates for a 40% response rate for this kind of study.

The respondents consists of 88.95% men and 11.05% women (Table 2). The respondents fell into three distinctive age groups 36 – 45 years 15.05%, 46 – 55 years 30.5% and 55 or more 54% (Table 3). The respondents qualifications was concentrated within two distinct groups Degree 30.3%, Masters Degree 70% and PHD 0.7% (Table 4). The respondents duration in their current position was distributed as follows Less than 1 year 2.2%, 1 year to 3 years 3.3%, 3 – 6 years 10.5%, 6 – 10 years 20% and 10 + years 65% (Table 5). It was interesting to note that most of the respondents had stayed for more than 10 years in their position giving them a good grasp of different corporate governance structures during their tenure. 45.6% of respondents were board members, 10.5% CEOs and 45.6% functional managers (Table 6). The statistic on gender shows an under representation of women at corporate boards, and leadership level in Namibia, even though this has no effect on this study this statistic is worrying. More than 80% of respondents had a minimum of a first degree which shows a high level of articulation therefore the interpretation of the questionnaire would not be a problem.

Table 3: Gender Distribution

Gender	%
Male	88.95

Female	11.05
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Table 4: Age Distribution

Age	%
25 -35 Years	0
36 - 45 Years	15.5
46 - 55 Years	30.5
55 and more	54

Table 5: Highest Educational Qualification Distribution

Qualification	%
Grade 12	0
Diploma	0
Degree	30.3
Masters Degree	70
PhD	0.7

Table 6: Experience in current position distribution

Duration	%
Less than 1 year	2.3

1 year to 3 years	3.3
3 years to 6 years	10.5
6 years to 10 years	20
10+ years	65

Table 7: Position of Respondent

Position	%
Board Member	45.6
CEO/Managing Director	10.5
Functional Manager	45.6

4.3 Analysis of Data

SECTION B

The data analysis for this section is designed to answer the main research question which reads: what is the possible relationship between corporate governance and financial performance of Namibian locally listed companies?. Two questions were posed to respondents in order to determine the relationship between corporate governance and financial performance of locally listed companies

The responses to question one which was; Does corporate governance contribute to the profitability of the company? Was as follows:

Table 8: Responses to Section B, Question 1

Question	Response	Count	Column N %
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Corporate governance and profitability	Strongly Agree	89	73.50%
	Agree	33	26.50%
	Neither agree nor disagree	0	0.00%
	Disagree	0	0.00%
	Strongly Disagree	0	0.00%
	Agree		
	Total	124	100%

The responses show an overwhelming response strongly agreeing that corporate governance improves the profitability of the company. This may be the reason why most of the companies under study have adopted the (King 3 report 2009) as the main corporate governance standard document in line with the regional trend. 33% of the respondents agreed showing a concurrence with literature that corporate governance improves the performance of the financial performance of the company. Interestingly none of the respondents disagreed or were undecided on the impact of corporate governance on the financial performance of the company. This shows that the six locally listed companies under study strongly believe in the value of corporate governance in improving the financial performance of the company.

Table 8:

Table 9: Responses to Section B Question 2

Question	Response	Count	Column N %
corporate governance is important for listed companies	Strongly Agree	124	100%
	Agree	0	0.00%
	Neither agree nor disagree	0	0.00%
	Disagree	0	0.00%
	Strongly Disagree	0	0.00%
	Agree	0	0.00%
	Total	124	100%

All the respondents strongly agreed with the perception that corporate governance is important for locally listed companies. This is also supported by the fact that the Namibia Stock Exchange (NSX) imposes on all listed companies to report on corporate governance practices in their annual report. In the listing requirements of the NSX each company wishing to list on the local bourse must state a position on the corporate governance practices of the company and the code of best practice they have adopted.

According to the responses from Section B of the questionnaire it seems that respondents agree to the argument proposed by Gavin & Geoffrey that corporate governance improves the financial performance of the company.

SECTION C Board Size

The data analysis of this section intends to answer the second research question which is; what is the relationship board roles and board effectiveness? One question was posed under this section which read; Board size influences board effectiveness

Table 9:

Table 10: Responses to Section C question 3

Question	Response	Count	Column N %
Board size influences board effectiveness	Strongly Agree	60	48.38%
	Agree	30	24.19%
	Neither agree nor disagree	10	8.06%
	Disagree	20	16.12%
	Strongly Disagree	4	3.22%
	Agree		
	Total	124	100%

72.57% of the response indicated that they either agreed or strongly agreed to that board size affects the effectiveness of the board. The response are in line with Naidoo(2003) assertion that board size has an impact on board effectiveness. She further argues that too big a board stifles discussion and consensus is hard to reach while too small a board may lack depth in skills and knowledge.8.06% of the responses neither agreed nor disagreed to this assertion and these respondents may have thought that there are other factors that have a more profound effect on board

effectiveness other than board size. This rationale is in line with Banks (2004)'s argument. Less than 18% of the responses strongly disagreed or disagreed to the assertion that board size affects board effectiveness, these respondents lean towards Ezamel (2006) assertion that the effectiveness of the board is determined by the skills and knowledge of the individuals in the board and not necessarily the numbers in the board. He further argues that one person may possess multi skills that may be critical to the effectiveness of board.

SECTION D

The data analysis for this section seeks to answer the question, what is the relationship between board roles and board effectiveness?. Five questions were asked in this section relating to policy and decision making and monitoring and control.

Table 11: Responses to question 4 section D

Question	Response	Count	Column N %
It's important to evaluate the CEOs performance regularly	Strongly Agree	100	80.64%
	Agree	24	19.35%
	Neither agree nor disagree	0	0.00%
	Disagree	0	0.00%
	Strongly Disagree		0.00%
	Agree		
	Total		100%

100% of the responses indicated that they agreed or strongly agreed with the assertion that CEO performance must be monitored by the board regularly. This result indicates a strong relationship between board effectiveness and the board role of monitoring and evaluating the CEOs role. These findings are in line with literature Ezamel (2006) which lists CEO evaluation as a key board role which improves the effectiveness of the board.

Question 5 in section D's responses are presented below:

The responses to the questions were rated on a likert scale from 1 – 5 as follows

Table 12: Likert scale

Very effective	5
Effective	4
Neither effective nor ineffective	3
Ineffective	2
Very Ineffective	1

Table 13: Responses to question 5 section D

Question	Response	Count	Column N %
Effectiveness of board monitoring tools on agency financial	Very effective	41	33.06%
	effective	41	33.06%

performance	Neither effective nor ineffective	0	0.00%
	Ineffective	42	33.87%
	Very ineffective	0	0.00%
	Total	124	100%

More than 67% of the responses indicated that board mechanisms to monitor financial performance are effective. This is so because the NSX enforces strict controls on financial reporting by companies. Hence boards are forced to employ effective monitoring systems to prevent the NSX from delisting them. Literature also alludes to the fact most bourses tightened their financial monitoring mechanisms to prevent companies from reporting fraudulent figures in light of the Enron failure in the USA. The responses indicate that the respondents felt that mechanisms to monitor financial performance of firms in Namibia's locally listed companies are effective. Ezamel (2006) posit that for boards to be effective they must continuously monitor the financial performance of the company to ensure that shareholders get value for capital invested.

Table 14: Responses to question 6 section D

Question	Response	Count	Column N %
The board needs to provide effective monitoring, evaluation and oversight of the agency's fiscal concerns including an	Strongly Agree	41	33.06%
	Agree	41	33.06%
	Neither agree nor disagree	42	33.87%

understanding of funding mechanisms	Disagree	0	0.00%
	Strongly disagree	0	0.00%
	Total	124	100%

67% of participants strongly agreed or agreed to this assertion in line with Banks (2004) assertion that boards needs to provide effective monitoring, evaluation and oversight of the agency's fiscal concerns including its funding mechanisms. Interestingly 33.87% of the responses neither agreed nor disagreed with the assertion which shows a deviation from literature on this subject. Most authors Naidoo(2003),Ezamel (2006) suggest that the board needs to have oversight over the company's fiscal concerns and funding mechanisms.

Table 15: Responses to question 7 section D

Question	Response	Count	Column N %
The board monitors the implementation of strategy by management	Strongly Agree	110	88.7%
	Agree	14	11.29%
	Neither agree nor disagree	0	0.00%
	Disagree	0	0.00%
	Strongly disagree	0	0.00%
	Total	124	100%

An overwhelming majority of the responses to this question indicated that they strongly agreed or agreed that the board monitors implementation of strategy in their

companies. The results of this survey supports the assertion by Naidoo (2003) that the main role of the board is to set strategy and monitor its implementation in order to fulfill the shareholders mandate.

Table 16: Responses to question 8 section D

Question	Response	Count	Column N %
The board reviews reports on risk management and follow up on necessary actions	Strongly Agree	80	64.5%
	Agree	20	16.12%
	Neither agree nor disagree	24	19.35%
	Disagree	0	0.00%
	Strongly disagree	0	0.00%
	Total	124	100%

More than 80% of the responses strongly agreed or agreed that boards monitor risk and takes action. Risk management has been brought to the fore of corporate governance by the (King 3 report 2009). The (King 3 report 2009) suggest that board should have risk management committees in place in order to asses and mitigate risk. Since most of the listed companies use the (King 3 report 2009) as a code of best practice in governance the above results would show compliance to the King 3 requirements.

SECTION E

The data analysis in this section seeks to answer the research question; what is the relationship between board roles, board effectiveness and contingency? 4 questions were posed in this section focused on the strategizing role of the board.

Table 17: Responses to question 9 section E

Question	Response	Count	Column N %
Board members practice strategic thinking	Strongly Agree	120	96.77%
	Agree	14	11.29%
	Neither agree nor disagree	0	0.00%
	Disagree	0	0.00%
	Strongly disagree	0	0.00%
	Total	124	100%

More than 97% of the responses strongly agreed with the assertion that board members have to practice strategic thinking as presented by Fox(2005).The board is supposed to have oversight and have a helicopter view of the organisation in this regard strategic thinking is a critical thinking for board members to fulfill their board roles.

Responses to question 10, the board sets the vision, mission and values of the organisation

Table 18: Responses to question 10 section E

Question	Response	Count	Column N %
The board sets the vision, mission and values of the organisation	Strongly Agree	110	88.7%
	Agree	14	11.29%
	Neither agree nor disagree	0	0.00%
	Disagree	0	0.00%
	Strongly disagree	0	0.00%
	Total	124	100%

Over 97% of the respondents strongly agreed that the board sets the mission, vision and values of the company. Again this conforms to literature that suggest that the board is responsible for setting the mission, vision and value of the firm for management to implement. Some scholars argues that the board sets the first mission, vision and values and subsequent ones they only approve the ones that management would develop.

Responses to question 11; The board is involved in the strategic planning of the organisation

Table 19: Responses to question 11 section E

Question	Response	Count	Column N %
	Strongly Agree	100	80.64%
	Agree	24	19.35%

The board is involved in the strategic planning of the organisation	Neither agree nor disagree	0	0.00%
	Disagree	0	0.00%
	Strongly disagree	0	0.00%
	Total	124	100%

An overwhelming percentage of responses (100%) strongly agreed or agreed with the assertion that board members are involved with the strategic planning process. Fox (2005) states that strategic planning function is a key role for board members therefore based on Fox's (2006) assertion and the survey results there is a strong relationship between the board role of strategic planning and board effectiveness.

SECTION F

The data presented in this section seeks to answer the research question; what is the relationship between board roles, board effectiveness and contingency?

Table 20: Responses to question 12 section F

Question	Response	Count	Column N %
Board members provide advice and counsel to top management	Strongly Agree	70	56.45%
	Agree	24	19.35%
	Neither agree nor disagree	44	35.43%
	Disagree	0	0.00%

	Strongly disagree	0	0.00%
	Total	124	100%

More than 75% of the responses strongly agreed or agreed that the board provided advice and counsel to top management, the results confirm literature by (Gavin & Geoffrey 2004). Providing advice and counsel to top management is a key role of board members. An overwhelming response from the participants in this study suggest that providing advices and counsel as a key board role is being practiced in Namibian locally listed companies. Providing advices and counsel as a key board role has a positive relationship with board effectiveness which leads to good corporate governance.

SECTION G

The data presented in this section seeks to answer the research question; what is the relationship between board roles, board effectiveness and contingency? One question was asked in this section relating to access to resources.

Table 21: Responses to question 13 section G

Question	Response	Count	Column N %
Board members participate in the promotion of the organisation's reputation among the public.	Strongly Agree	12	9.67%
	Agree	10	8.64%
	Neither agree nor disagree	18	14.51%
	Disagree	10	8.64%

	Strongly disagree	74	59.67%
	Total	124	100%

The majority of the respondents strongly disagreed or disagreed with the assertion by Fox (2005) that board members have to promote the company's reputation. This may be attributed to the fact that most of the directors of the locally listed companies are not known to the public. This however does not mean directors do not promote the reputation of their companies privately with their peers or business associates.

SECTION H

The data presented in this section seeks to answer the research question; what is the relationship between board roles, board effectiveness and contingency? 2 questions were posed in this section relating to board skills and knowledge.

Table 22: Responses to question 14 section H

Question	Response	Count	Column N %
Board members have industry specific knowledge and skills	Strongly Agree	40	32.25%
	Agree	50	40.32%
	Neither agree nor disagree	14	11.29%
	Disagree	10	8.06%
	Strongly disagree	0	0.00%

More than 70% of the responses show that the respondents strongly agreed or agreed that their boards are composed of people with industry specific experience. Naidoo(2003) posits that board members should possess industry specific skills and should understand the intricacies of the industry they are in order to advice top management effectively. About 8% of the response did not agree to the assertion that board members should have industry experience; this could be influenced by a number of political appointees to boards in Namibia. Respondent therefore may have been influenced by this current practice.

Table 23: Responses to question 15 section H

Question	Response	Count	Column N %
Task delegation in the board represents a good match between board member skills and knowledge and responsibility	Strongly Agree	70	56.45%
	Agree	30	24.19%
	Neither agree nor disagree	10	8.06%
	Disagree	14	11.29%
	Strongly disagree	0	0.00%

Over 84% of response indicated that they strongly agree or agree with the fact that task delegation in their boards represent a good match between board member skills and knowledge and the responsibility, this supports literature by Banks(2004).About 11% of the responses disagreed with the above assertion possibly pointing to board members that are appointed to boards for other reasons other than their skills or experience.

SECTION I

The data presented in section seeks to answer the research question; what is the relationship between board governance, board roles, contingency, board effectiveness and financial performance of locally listed companies?. Two questions are posed in this section relating to managerial experience. The first question relating to managerial experience was measured as follow:

Table 24: Managerial experience rating

Managerial experience number of years	Rating
More than 10 years	5
7 years	4
5 years	3
3 years	2
Less than 1 year	1

Table 25: Responses to question 16 section I

Question	Response	Count	Column N %
Top management have individual average experience of;	More than 10 years	80	64.15%
	7 years	40	32.25%

	5 years	4	3.22%
	3 years	0	0.00%
	Less than 1 year	0	0.00%

More than 64% of the responses indicated that top management had more than 10 years experience with 32% indicating an average of seven years. Naidoo(2003) states that the average top management cadre has more than 5 years experience or more indicating that Namibian locally listed companies are aligned to this worldwide trend.

Responses to question 17 relating to managerial experience

Responses to question 17 were coded as follows;

Table 26: Board membership experience

Board membership experience number of years	Rating
More than 10 years	5
7 years	4
5 years	3
3 years	2

Less than 1 year	1
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Table 27: Responses to question 17 section I

Question	Response	Count	Column N %
Board membership experience number of years	More than 10 years	60	48.38%
	7 years	40	32.25%
	5 years	15	12.09%
	3 years	9	7.25%
	Less than 1 year	0	0.00%

More than 80% of the responses indicated that board members in their board had more than 10 years experience which is a significant number. Naidoo (2003) states that most boards in South Africa are occupied by the same people(iron law of oligarchy) for more than 5 years and argues that board performance standards must ensure that only board members who are performing well should stay in a board for such a period of time. Namibia seems to follow this South African trend. However experience in board membership in terms of number years is not necessarily a bad thing as it brings the experience of “grey hair” to the boardroom table.

SECTION J

The data presented in section seeks to answer the research question, what is the relationship between board governance, board roles, contingency, board effectiveness and financial performance of locally listed companies?. Three questions were posed relating to institutional turbulence and institutional life cycle. Respondents were asked to mention any significant institutional turbulence that has occurred in their company. The following turbulences were recorded

- Strike action
- Liquidity crunch
- Shareholders threatening to divest in the company
- CEO resignation
- Board conflict
- Chairperson resignation

A follow up question was posed with the following responses recorded

Question	Response	Count	Column N %
Institutional turbulence strengthened governance practice	Strongly Agree	70	56.45%
	Agree	30	24.19%
	Neither agree nor disagree	10	8.06%

	Disagree	14	11.29%
	Strongly disagree	0	0.00%

More than 70% of responses strongly agreed or agreed that institutional turbulence brought about positive changes to the practice of governance in their companies. This concurs with literature which shows that in the USA governance practices improved after the turbulence of the USA economy in 2008 (Ezamel ,2006)

SECTION O

The data presented in this section seeks to answer the research question; what is the relationship between corporate governance and financial performance of locally listed companies?.Analysis in this section was derived from the survey results and the secondary data source (company reports) .The following responses from the survey are presented.

Table 28: Responses to question 20 section O

Question	Response	Count	Column N %
Corporate governance has an influence on stock price.	Strongly Agree	70	56.45%
	Agree	30	24.19%
	Neither agree nor disagree	10	8.06%
	Disagree	14	11.29%
	Strongly disagree	0	0.00%

More than 82% of the responses strongly agree or agree that the stock price is influenced by corporate governance of the firm, this finding is aligned to literature. 14% of the responses disagree with this position which may mean that the respondents may view other factors as having a stronger effect on stock price than corporate governance. Below is a presentation of the local index in the 3 years under study:

SECTION P

Responses to question 21 section P

Question 21 focussed on the recommendations to the study and the following recommendations were given

- Namibia must develop its own corporate governance code
- Namibia must officially adopt the (King 3 report 2009)
- The companies act need to be reviewed to keep in touch with the dynamic economic environment
- Board recycling must be eradicated
- Board monitoring tool should be improved
- Industry focused business school must be developed to provide management with contemporary management and leadership approaches
- More education and capacity building of boards
- The development of the institute of directors Namibia

- Mentoring programmes for younger and less experienced directors

RELATIONSHIP BETWEEN VARIABLES

Relationship between study variables

A central aspect of the research was to distill relationships of the variables under study. Using the Spearman's correlation method the following results were obtained

Table 29: Presentation of study variables correlation using the spearman correlation matrix

	1	2	3	4	5	6	7	8	9
BOARD SIZE (1)	1.000								
POLICY & DECISION MAKING (2)	-.155	1.000							
BOARD ROLES (3)	.211*	.358**	1.000						
BOARD EFFECTIVENESS	.094	.344**	.455**	1.000					
CONTINGENCY (5)	-.193	.185	.139	.225*	1.000				
FINANCIAL PERFORMANCE	-.337**	.316*	.113	.411**	.324*	1.000**	1.000**	-.064	1.000

*, Correlation is significant at the .05 level (2-tailed).

**, Correlation is significant at the .01 level (2-tailed).

Relationship between corporate governance and board roles.

A significant relationship between board roles and corporate governance can be seen ($r = 0.212$, $P\text{-value} < 0.05$, $r = 0.358$, $P\text{-value} < 0.01$) in terms of board size and policy and decision making constructs of Corporate Governance as shown above. This implies that good corporate governance in terms of board size, policy and decision making enhances on the board roles by improving on monitoring and control, access to resources, strategizing, advice and counsel.

Relationship between board roles and board effectiveness.

A significant positive relationship can be seen between board roles and board effectiveness ($r = 0.455$, $P\text{-value} < 0.01$), implying that well defined and streamlined board roles improved on the board effectiveness in terms of knowledge and skills, committees, delegation and risk management.

Relationship between board roles and board effectiveness while controlling for contingency.

A partial correlation coefficient result indicate that there is a significant positive relationship between board roles and board effectiveness while controlling for contingency ($r = 0.578$, $P\text{-value} < 0.01$). This implies that contingency plays a positive role in moderating the link between board roles and board effectiveness.

Relationship between corporate governance and financial performance.

The table above indicates the following relationships; significantly a negative relationship between board size and financial performance ($r = -0.337$, $P\text{-value} < 0.01$) was observed. This implies that board size reduces on the financial performance. Policy and decision making had a significant positive relationship with financial performance ($r = 0.316$, $P\text{-value} < 0.05$). This implies that policy and

decision making as measure of corporate governance enhanced on financial performance of locally listed companies.

Proper policies and decision making, increased stock price. There was a significant negative relationship between board size and stock price (value for money) ($r = -0.337$, $p\text{-value} < 0.01$, $r = -0.337$, $P\text{-value} < 0.01$, -0.928 , $p\text{-value} < 0.01$).

Relationship between corporate governance, board roles, board effectiveness and financial performance.

Multiple regression analysis was used to predict the financial performance as shown in the regression model table 8 below

Table 30: Regression model for corporate governance, board roles, contingency, board effectiveness and financial performance

Model	Unstandardized coefficients		Standardized coefficients		
	B	Std. Error	Beta	T	Sig
Constant	1.692	0.213		2.324	0.000
Board size	-0.456	0.165	-0.472	-4.054	0.000
Board roles	0.455	0.233	0.352	3.167	0.000
Board	0.651	0.057	0.543	4.498	0.000

effectiveness					
Policy & decision making	0.420	0.431	0.363	3.267	0.000
Contingency	0.562	0.213	0.431	3.687	0.000
R- Square =0.490, Adjusted R- square = 0.484, F= 4.400, Sig = 0.000					

A linear relationship between the following, corporate governance, board roles, contingency, board effectiveness with financial performance ($F = 4.400$, $Sig = 0.000$).

Board size, policy and decision, board roles, contingency and board effectiveness explained 58.4% of financial performance of locally listed companies.

Board effectiveness ($Beta = 0.543$) explained more to the financial performance, followed by contingency ($Beta = 0.431$), policy and decision making ($Beta = 0.363$), and board roles ($Beta = 0.352$). This implied that increase in board effectiveness, management of contingences, proper policies and decisions and board roles led to increase in financial performance.

Board size however, negatively impacted on the financial performance ($Beta = -0.472$). This implied that increase in the size of the board led to a reduction in financial performance of locally listed companies.

Table 31: A Regression model for Corporate Governance, board roles, board effectiveness and financial performance

Model	Unstandardized coefficients		Standardized coefficients	T Sig	
	B	Std. Error	Beta		
Constant	0.562	0.142		0.987	0.000
Board size	-0.436	0.021	-0.427	-3.054	0.000
Board roles	0.396	0.450	0.314	1.917	0.000
Board effectiveness	0.496	0.165	0.465	3.550	0.000
Policy & decision making	0.420	0.312	0.336	2.727	0.000
R- Square = 0.469, Adjusted R- Square = 0.456, F= 3.865, Sig = 0.000					

CHAPTER 5: CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the conclusions of the study and the recommendations of the study. The study set out to achieve the following objectives as articulated in the first chapter of this document:

Investigate the relationship between Corporate Governance and board roles.

- b) Investigate the relationship between board roles and board effectiveness.
- c) Investigate the relationship between board roles, board effectiveness and contingency.
- d) To establish a relationship between corporate governance and financial performance.
- e) Investigate the relationship between corporate governance, board roles, contingency, board effectiveness and financial performance

5.2 Summary of Key Findings

Relationship between corporate governance and board roles.

Significant positive relationship was obtained between corporate governance and board roles.

Policy and decision making, board size had significant positive effect on board roles. Board size, policy and decision making positively influence the roles played by board members. The finding is in line with Masibo (2005) whose findings were that good board governance positively enhances on monitoring and strategy. The positive

correlations imply that board members contribute positively to the monitoring and strategic issues of the company. This is consistent with Bonn (2004).

Corporate governance results indicated a significant positive perception across the six companies which implied that board members in the six companies are involved in policy and decision.

Board members had no significant differences in perceptions with regard to Board roles across the six companies. Which implied that the roles played by board members in the six companies are similar.

Relationship between board roles and board effectiveness

Board roles had a significant positive relationship with board effectiveness.

There were no significant differences in board effectiveness across the six companies. This implied that board members had applied similar skills and knowledge, constituted similar committees to perform various functions, delegated roles, formulated measures in the management of risks. Board roles had a significant positive relationship with board effectiveness. This implied that monitoring and control, access to resources by board members, appropriate strategies, advices and counsel improved on the board effectiveness in terms of the skills and knowledge applied by board members, committees constituted by board members, delegation of roles and measures to manage risk in the six companies.

This is in line with Hung (2006), Johnson (1996), Lipton & Lorsch (1992), who assert that Board effectiveness occurs via the execution of roles set. Black (2007) revealed that the strategizing role increases performance pressures being applied by institutional stakeholders. By acting in an open, professional and ethical manner in

their dealings with people outside the organization, board members raise the profile of the institution and enhance its reputation (Gavin and Geoffrey 2004). (Gavin & Geoffrey (2004) widely accepted that advice and counsel is important to top management in serving the interests of the institution and this was supported by (Lorsch & Maclever, 2007).

Relationship between board roles, contingency and board effectiveness

There was a significant positive relationship between board roles and board effectiveness while controlling for contingency. Contingency in terms of management experience, controlled institutional turbulence and institutional life cycle played a positive role in improving the relationship between board roles and board effectiveness. This is in line with Heracleous (2001), Donalson & Davis (1994), Johnson (1996) who explicitly affirmed that there is need to incorporate a contingency perspective while undertaking various roles and the need to identify the control variables and gaps in improving institutional performance. Furthermore the results were in conformity with Sisiliano (2004), Coulson Thomas (1993) and Johnson (2000).

Relationship between board effectiveness and financial performance

There was a significant positive relationship between board effectiveness and firm performance. This implied that effective boards positively impact on the financial performance of their companies. Board effectiveness in terms of proper application of skills and knowledge, appropriate committees, delegation of roles and management of risk enhance the financial performance of companies. The findings are consistent with Masibo (2005) where a significant positive relationship between board effectiveness and firm performance was obtained. Brown (2004) results revealed that better

performance by boards was associated with good performance of organizations. Further the results are consistent with Jackson and Holland (1998) whose findings showed that improvement in board performance represent an important point of leverage in improving organizational performance.

A study by Namisi (2005) revealed that board effectiveness was positively correlated with performance of financial institutions of Uganda. Kale (2002) revealed that effective teams lead to improvement in organizational performance. Van der Walt and Ingley (2001) revealed that board effectiveness contributes to the organizational performance.

Epstein (2003) noted that from either an internal long-term profitability or external shareholder perspective, there is an indication that good boards add value to the organization. Further Zahra (1991) obtained a positive relationship between board effectiveness and organizational performance. Herman & Renz (2000) results were similar to all the above that a positive relationship existed between board effectiveness and organizational performance.

Relationship between corporate governance and financial performance

There was a significant relationship between corporate governance and financial performance of companies. (Results are consistent with earlier ones obtained by Masibo (2005) whose results showed a relationship between board governance and firm performance. Results are also in agreement with McKinsey quarterly survey Mark (2000), that a link existed. Furthermore Matama (2005) obtained a positive relationship between corporate governance and financial performance of selected commercial banks.

Relationship between corporate governance, board roles, contingency, board effectiveness and financial performance

Financial performance was significantly explained by corporate Governance, board roles, contingency and board effectiveness.

The multiple regression models indicated that 48.4% of the financial performance of companies was contributed by corporate governance, board roles, contingency and board effectiveness. Board effectiveness contributed more to financial performance followed by contingency, policy and decision making and board roles. However board size had a negative effect on the financial performance of companies. Results are also consistent with Bonn et al. (2004) whose findings showed a negative relationship between board size and performance of Japanese firms. Results above are consistent with Masibo (2005) who established that good governance, board effectiveness and board process positively explained firm performance and also found out that increase in board size reduces on the firm performance. Furthermore, the results are in line with Gavin and Geoffrey (2004) who established that corporate governance, board roles, contingency and board effectiveness led to improved firm performance.

5.3 Recommendations

The study on corporate governance and financial performance of locally listed companies was carried out. In line with the findings and conclusions of the study the following were recommended;

From the findings on the effect of board size on financial performance which was negative and for boards to be effective in performing their roles, there is need to review the numbers of board members to avoid having large boards.

On the effect of policy and decision making on board roles, it is recommended that boards should set up policies that can stand the test of time whereby different view points, ideas and opinions from all the stakeholders are considered.

Boards should avoid rubberstamping of top management's recommendations on policy issues. Instead thorough discussions on the recommendations through sub-committees of the board should be made.

Recommendations on board roles include;

Boards should set measurable objectives that permit monitoring and control of public company performance this can be achieved through discussing thoroughly their strategic plans. Board members must formerly evaluate the performance of the top management. Boards should provide frequent advices and counsel to the top management of the company. Boards should be involved in the strategic planning process.

Contingence as an important moderating factor of board roles and board effectiveness should be managed as follows;

To manage institutional turbulence like employee strikes or unrest, boards should understand and make effective polices and decisions regarding employee remuneration and welfare. Good policies on terminal, medical and long service award are crucial in recognizing staff effort.

Recommendations on board effectiveness;

Boards should be constituted by members with required skills and knowledge in order to provide technical expertise and also be able to direct and control the company. Performance appraisal tools should be designed to evaluate annually the

performance of individual board members and the board of directors as a collective unit. For effective performance of the board there is need to delegate to its sub committees some duties. Boards should have in place risk management procedures that encompass financial, operational and environmental risk.

5.4 Conclusions

Findings on the relationship between corporate governance variables and board roles indicated significant positive relationship. Board size, policy and decision making as aspects of corporate governance had a positive effect on the board role. The companies had no optimal number of board members. Policy and decision making in companies is important in contributing to financial performance.

Board roles significantly influenced board effectiveness and this meant that board roles were important in determining the effectiveness of boards. This means that for board members to be effective they must pay attention to their roles.

Contingency in terms of management experience, institutional turbulence and institutional lifecycle significantly and positively influenced the impact on board roles and board effectiveness. Companies therefore require use of contingency measures to improve on the effectiveness of board members.

The size of boards for companies significantly reduced on the financial performance. This means that companies have board sizes that attract high costs of maintaining boards in terms of sitting allowances, mileage and retainer fees.

The conclusion drawn from the findings between board effectiveness and financial performance is that boards (board members) do contribute to performance of companies they direct and control. This is possible through performing board roles

and managing contingency. Lastly corporate governance positively contributes to financial performance of companies through board roles, contingency and board effectiveness.

5.5 Suggested Areas of Further Research

The current study was conducted on companies which are locally listed on the Namibia Stock Exchange; therefore there is need for a similar study to be carried out in State Owned Enterprises.

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APPENDIX 1

QUESTIONNAIRE

QUESTIONNAIRE FOR BOARD MEMBERS, CHIEF EXECUTIVE OFFICERS AND FUNCTIONAL MANAGERS

CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE OF LOCALLY LISTED COMPANIES SURVEY

This questionnaire has been designed to help carry out research on corporate governance for purely academic purposes under the Master in Leadership and Change Management Programme. Your contribution to this research is highly valued and strictly confidential.

Please feel free to fill this questionnaire in the manner you deem appropriate. Thank you.

SECTION A: Demographic Characteristics

Please type X in the appropriate box.

1. Gender

Gender	Please type X
Male	
Female	

2. Age. Please type X in the appropriate box

Age	Please type X
25 -35 Years	
36 - 45 Years	
46 - 55 Years	

55 and more	
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3. Education. Please type X in the appropriate box

Qualification	Please type X
Grade 12	
Diploma	
Degree	
Masters Degree	
PhD	

4. Experience in current position

Duration	Please type X
Less than 1 year	
1 year to 3 years	
3 years to 6 years	
6 years to 10 years	
10+ years	

5. Position of Respondent.

Position	Please type X
Board Member	
CEO/Managing Director	
Functional Manager	

SECTION B- Corporate Governance

Please rate by ticking each number below that denotes the extent of your agreement or disagreement with the following statements as represented on the scale of 1 to 5, where;

(1) Strongly Agree (2) Agree (3) neither agree nor disagree (4) Strongly Disagree
(5) Disagree

Questions

1. Corporate Governance contributes to profitability of the company?

1	2	3	4	5
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2. Corporate governance is important for locally listed companies?

1	2	3	4	5
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SECTION C- Board Size

Please rate by ticking each number below that denotes the extent of your agreement or disagreement with the following statements as represented on the scale of 1 to 5, where;

(1) Strongly Agree (2) Agree (3) neither agree nor disagree (4) Strongly Disagree
(5) Disagree

3. Board size influences board effectiveness?

1	2	3	4	5
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SECTION D- Policy and Decision Making

Please rate by ticking each number below that denotes the extent of your agreement or disagreement with the following statements as represented on the scale of 1 to 5, where;

(1) Strongly Agree (2) Agree (3) neither agree nor disagree (4) Strongly Disagree
(5) Disagree

4. it's important to evaluate the CEOs performance regularly

1	2	3	4	5
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Please rate the following question by ticking each number below that denotes the extent of your agreement or disagreement with the following statements as represented on the scale of 1 to 5, where;

(1) Very Effective (2) Effective (3) neither effective nor ineffective (4) Very Ineffective (5) Ineffective

5. Effectiveness of board monitoring tools on agency financial performance

1	2	3	4	5
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Please rate the following question by ticking each number below that denotes the extent of your agreement or disagreement with the following statements as represented on the scale of 1 to 5, where;

(1) Strongly Agree (2) Agree (3) neither agree nor disagree (4) Strongly Disagree
(5) Disagree

6. The board needs to provide effective monitoring, evaluation and oversight of the agency's fiscal concerns including an understanding of funding mechanisms

1	2	3	4	5
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7. The board monitors the implementation of strategy by management

1	2	3	4	5
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8. The board reviews reports on risk management and follow up on necessary actions

1	2	3	4	5
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SECTION E- Monitor and Control

7. Board members practice strategic thinking

1	2	3	4	5
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8. The board sets the vision, mission and values of the organisation

1	2	3	4	5
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9. The board is involved in the strategic planning of the organisation

1	2	3	4	5
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SECTION F- Strategizing

10. Board members provide advice and counsel to top management

1	2	3	4	5
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SECTION G- Advices and Counsel

14. Board members participate in the promotion of the organisation's reputation among the public.

1	2	3	4	5
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SECTION H- Access to Resources

15. Board members have industry specific knowledge and skills?

1	2	3	4	5
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16. Task delegation in the board represents a good match between board member skills and knowledge and responsibility

1	2	3	4	5
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SECTION M-Managerial Experience

17. Please indicate by circling your managerial experience

Managerial experience number of years	Rating
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More than 10 years	5
7 years	4
5 years	3
3 years	2
Less than 1 year	1

18. Please indicate your board membership experience

Board membership experience number of years	Rating
More than 10 years	5
7 years	4
5 years	3
3 years	2
Less than 1 year	1

SECTION N- Institutional Turbulence

19. List any significant institutional turbulence that has occurred in their company

20. Institutional turbulence strengthened governance practice

1	2	3	4	5
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SECTION O

Corporate governance has an influence on stock price.

1	2	3	4	5
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SECTION P

21. What kind of improvement do you want to see in your company and why?

Motivate your reply.
