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The Ideal Corporate Governance Model for State Owned Enterprises in Zambia

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Abstract

Purpose: Corporate governance concerns many problems of contemporary corporations and is a dynamically developing discipline of organisation and management science of significant practical importance. The purpose of this study was to explore the current state of corporate governance in these state owned enterprises with a view to develop an ideal corporate governance model for State Owned Enterprises in Zambia. **Design/Methodology/Approach:** This paper was part of a larger, mixed-method study which employed qualitative measures (cognitive interviews with key informants and reviewing literature on corporate governance models and theories used in other countries). We employed Martin Heidegger's existential phenomenology as the underpinning philosophy and methods for this study. **Findings:** The findings indicate that state owned enterprises do not have good corporate governance structures and this is compounded by a complicated legal framework in the country. Major shareholders have more powers in determining board composition and even how the enterprise ought to operate. There are impositions on state owned enterprises where owners hardly finance state owned enterprises and impose public service obligations. In many ways, owners impose restrictions. **Research Limitations/Implications:** Understanding of the ways in which shareholders are determining the current corporate governance practices could help to advance standard practices and a context specific framework. Methods to ensure the application of cooperate governance should also be explored further. **Originality/Value:** This is one of the first studies to provide a corporate governance framework for state owned enterprises in Zambia.

Keywords

Corporate Governance, Model, State Owned Enterprises, Zambia

1. Introduction

Corporate governance concerns many problems of contemporary corporations and is a dynamically developing discipline of organisation and management science of significant practical importance (OECD, 1999). Worldwide research on corporate governance describes this subject mainly in private companies and very little on state owned enterprises (SOEs) (Nguyet et al., 2019). Corporate governance is an important and actual problem in companies owned by the state. At the same time, due to the separation of private companies and state-owned companies, corporate governance of enterprises owned by the state is considered a separate field of corporate governance issues, and this is due to the fact that state ownership determines the model of corporate governance in such entities (Postuła, 2013). While this is the case, there is no single model of corporate governance that could be considered as a prototype like one size fits all. Governance practices vary not only across countries but also across SOEs and industry sectors. However, one of the most striking differences between countries' corporate governance systems is in the ownership and control of firms that exist across countries. Systems of corporate governance can be distinguished according to the degree of ownership and control and the identity of controlling shareholders (Maher & Andersson, 1999; Miazek, 2021).

2. Background

There are in total 47 State Owned Enterprises (SOEs) and these are categoriszed as Business Entity/Profit Making Institutions. They are differentiated from Government Agencies (non-business entity/not-for-profit organization). The non-business entities are in essence grant aided. SOEs in Zambia are an important element of the economy. SOEs are most prevalent in strategic sectors such as energy, financial services, communications, transportation, and media (Banda et al., 1994; The World Bank, 2008). The presence of SOEs in the Zambian economy began to reduce in number in The Third Republic and the Fredrick Chiluba Regime as more SOEs were either privatized or liquidated during the economic reform program that was began in 1992 (Banda et al., 1994; Fundanga & Mwaba, ud; Chitalu, 1996; Rakner, 2003). A number of SOEs that are listed do not have a statute that regulates them. However, they have direct oversight by the sector ministry.

Zambia's corporate governance is regulated by various Statutes and Codes. For listed companies, the main important statute of parliament is the Companies Act. Besides this Act, there are various codes and guidelines on corporate governance which Zambian listed companies are obliged to apply. These includes SEC (The Securities and Exchange Commission) code, LuSE (The Lusaka Stock Exchange) code, the BOZ (Bank of Zambia) regulation, IoDZ (The Institute of Directors of Zambia) as well as international instruments such as OECD. In addition to these codes and instruments, Zambian courts have added another dimension to corporate governance viz a vis powers of shareholders over that of directors. Directors or Boards of SOEs draw their mandate from the Articles of Association in line with the Companies Act No. 10 of 2017.

There is a problem with the current classification of public institutions in terms of the forms of corporate governance. There is emphasis on their source of finance. In practice public institutions are broadly classified into Government Aided Institutions (GAI) and State Owned Enterprises (SOEs). Apart from some minor exceptions, a statutory body established by a specific Act of parliament is classified as a GAI, while a company incorporated under the Companies Act or an entity created under some other general law (e.g., a society) is classified as an SOE (Business Entity/Profit Making Institutions). However, different corporate governance and oversight arrangements are necessary for entities mainly funded by the government budget (GAIs) and enterprises mainly financed by sales in the market (SOEs).

About half SOEs are established by an Act of Parliament, a few of them are listed and others are not. As for those that are listed, they have to adhere to the Companies Act and the Luse Code. All these laws have overlapping and sometimes contradictory provisions that lead to inconsistent and conflicting corporate governance structures and practices. The governance structures that operate within an institution tend to undermine the accountability of the major shareholder (to the pubic) boards of directors (to the Ministers) and management (to the board of directors). While the original intent may have been to put SOEs on a commercial footing and foster greater enterprise autonomy, instead the existing legal framework has often had unintended consequences and these have threatened the realisation of the ideals of corporate governance. In the end, firm performance has been lower than expected. Whether SOEs are performing or not, does not seem to bother the main shareholders otherwise measures could have been implemented to reform corporate governance structures and processes. Also allowing SOEs to operate without boards for a long time before a new board is appointed shows that shareholders don't fully appreciated the importance of boards. Under the current classification scheme, it follows that the government may find it difficult to ensure that good corporate governance practices are applied.

3. The Problem

There are a number of corporate governance challenges in Zambia regarding SOEs. These challenges have had an effect on performance. Notable challenges include the absence of a uniform corporate governance model. In Zambia, there are listed SOEs—that are subject to government majority shareholder ownership, but with a portion of their shares traded on public stock markets. These have a hybrid ownership type of enterprise. There are others that are not listed and have 100% shareholding. The major problem rests with the operations of these SOEs and this is due to the fact that each SOE has its own legal statute. A critical examination of these statues exhibits numerous variations. These institutions have boards that are more than formal niceties as the State through shareholding ministries tends to violate the tenets of corporate governance. The shareholder in this case is the Minister in which the SOE resides, tends to usurp the powers of management and overlooks the tenets of good corporate governance. However, the two organs of the company ought to be independent of each other.

The financial performance of SOEs in Zambia remains unsatisfactory with only 15 SOEs being profitable and 9 declaring dividends as of 2018. The low number of enterprises declaring dividends has been attributed to many factors and the hall mark stems from poor corporate governance practices. For instance, from a corporate governance perspective, the actions of Ministers interfering in the operations and appointments of directors have had profound effects on the way management carries out its functions. Despite the high importance of state-owned enterprises for the development of global GDP and the quality of provided public services, research on corporate governance in state-owned enterprises has not widely been represented in the world literature (Ciolomic & Beleiu, 2020; Grossi et al., 2015). The purpose of this study was to explore the current state of corporate governance in these SOEs with a view to develop an ideal corporate governance model for SOEs in Zambia.

4. Methods and Methodology

Ethical approval was obtained from HSSREC a local IRB Review number HSSREC 2021 April 006. Following approval, we approached potential participants by making initial invitations by telephone, and providing study information ahead of interviews. We explained the purpose of the study to prospective study participants in English and we also obtained voluntary informed consent. We collected data from June to November of 2021. In-depth Interviews were done using Zoom and WhatsApp Video Platforms. For Focus Group Discussions, we took advantage of the corporate governance training workshops for boards and management, done by the Institute of Directors of Zambia.

Researcher Positionality

We happen to be trainers and this made it easy to have access to our respondents. When conducting this study, we were alive to principles of researcher positionality. We took into consideration our individual's world view and the position we had to adopt about a research task and its social and political context (see Foote & Bartell, 2011; Savin-Baden & Major, 2013; Rowe, 2014; Delamont, 2018). We embraced Heideggarian existential phenomenology—carrying with us Dasein or the researcher being there in the study setting with participants. We coloured the study in part with our values and beliefs as trainers of corporate governance. We were influenced by what we had chosen to investigate in *prima instantiapertractis* (Malterud, 2001; Grix, 2019). The methods we used and the presentation of findings were not influenced by our differing political allegiances, our gender and social classes as researchers (Sikes, 2004; Wellington et al. 2005;

Bweupe & Mwanza, 2022). We desire to state that it is our individual lived experiences as trainers that this study was born (see Brooks et al., 2014), or decided to work with particular populations or communities. This interest reflects our identities and our respondents.

Data Collection

The study we present here is part of a larger, mixed-method study which employed qualitative measures (cognitive interviews with key informants and reviewing literature on corporate governance models and theories used in other countries). We opted to employ Martin Heidegger's existential phenomenology as the underpinning philosophy and methods for this study (Malterud, 2001; Matua et al., 2015; Morrow et al., 2015). The purpose of using phenomenology was to uncover the genuine experience of the phenomenon of corporate governance under investigation. Regarding sampling, we recognised that choosing a suitable sample size in phenomenological research was an area of conceptual debate and practical uncertainty. This qualitative phenomenological study was conducted with participants who were enlisted from the two categories of SOEs.

We enlisted respondents from two strata and these are Business Entity/Profit Making Institutions and non-business entity/not-for-profit organizations). We used two categories of sampling techniques. The first one was maximum variation sampling. We used this sampling technique to allow us select a suitable sample. We desired to have extraneous and heterogeneous variations of units of analysis (Patton, 2002). This technique enabled us first to select SOEs according to their history, and profit mode (Business Entity/Profit Making Institutions and non-business entity/not-for-profit organizations). We then employed the second technique which is criterion i sampling. Criterion i sampling allowed us to identify and select only respondents that met some predetermined criterion of importance (Marshall et al., 2008; Bachman et al., 2009). The criterion was that an ideal respondent had to be a member of the board (a director), or a Chief Executive Officer (CEO) or a senior manager heading a department.

Thirty nine respondents were enlisted in this study. We wish to state that it was not very critical to state the sample size. The most important was "the quality of data, the scope of the study, the nature of the topic, the amount of useful information obtained from each participant and the qualitative method and study designed used" (Morse, 2000: p. 1). We settled for this figure based on information power than saturation because we desired to develop a model and epistemologically this had to depend upon developing the range of relevant conceptual categories that were fully explaining the data (Charmaz, 1990, 2006). Information power was more of the guide than saturation (Sandelowski, 1995; Morse, 2000; Patton, 2015). If one was to accept the sample size as adequate, using the rule of thumb, for a phenomenological inquiry settling for 39 respondents, we met the assumption if we turn to Polkinghorne's rule. Polkinghorne's (1989) suggests that phenomenological studies ought to contain participant samples between 5 and 25. Perhaps this suggestion from Polkinghorne is the only clear-cut suggestion or range of sample sizes in phenomenological methods.

SL as author 1 conducted all the cognitive interviews and these interviews were audio recorded. The interviews were conducted using Zoom and WhatsApp Platforms at locations convenient to the respondents. As these are encrypted platforms, confidentiality was observed. Since relatively little was known about the state of corporate governance models that were in operation, we employed a flexible approach that allowed revision and progressive use of cognitive as well as focused questions. This allowed author SL to abductively access the accounts and lived experiences of participants. A very loose phenomenological cognitive interview schedule guided initial data collection, and prompts were used to redirect the interview at certain points.

JM as author 2 reviewed the literature on good practices of corporate governance, theories and models which were later used as prompts by SL author 1 for cognitive phenomenological interviewing and focus group discussions. We used cognitive interviews to examine how respondents comprehended, interpreted, and answered open ended questions. We relied on the 4-stage cognitive model introduced by Tourangeau (2000). This model required us to undertake the open ended response process. This involved: 1) comprehension, 2) retrieval of information, 3) judgment or estimation, and 4) selection of a response to the question. For example, mental processing of the question "what are your thoughts about corporate governance in your enterprise?" Such questioning was followed by secondary prompts to explore issues as they were raised by the participants. We employed techniques to evaluate researcher and respondent understanding of questions. To do this, we used a combination of both the think-aloud and verbal probing (Jobe, 2003; Willis, 2005; Levin et al., 2009). Together, these approaches were used to determine how well open ended items were understood and how well different response options were reached by the diverse group of respondents. Specific think-aloud questions were: "please tell me what you are thinking as you answer this question" (Willis, 2005). Verbal probes were scripted or spontaneous and scripted questions included, "what do you think the question is asking you" and "please think aloud and tell me how you would answer this question" (Gerber, 1999; Schwarz & Sudman, 1996; Jobe, 2003). The individual cognitive interview helped as it allowed the interviewer to delve deeply into the institutional culture of corporate governance and to get a wider range of experience surrounding the phenomena (Rubin & Rubin, 2005; Clough & Nubrown, 2007; Cohen et al., 2007).

SL took notes during the interviews, from which clarification of "naturally occurring" issues was raised and demographic details of the practice were noted. The focus of phenomenological cognitive interviewing was to interview participants with a view to explore and describe how as individuals, specific phenomenon of lived experiences. The goal of phenomenological cognitive interviewing was to generate a deep understanding and the meaning of phenomena of corporate governance as much as possible from the perspective of the individual (see Creswell & Creswell, 2017).

The researchers analysed data using a combination of co-occurrence semantical content analysis, to describe the ideal corporate governance model for the Public Sector in Zambia, Edmund Husserl's interpretive phenomenological way of thinking about crystallization (the term Husserl called reduction) to experience the phenomenon. They weaved this with Colaizzi's 7 step method of analysis which included the following steps.

1) Familiarization

We listened to the recordings separately several times. We then transcribed the recorded interviews verbatim as close to the interviews as possible. We called this as immediate analysis. Following immediate analysis as part of transcription, the constant comparative technique enabled iterative modification of subsequent interviews (Glaser & Strauss, 1967; Maykut & Morehouse, 1994). We used the constant comparative method developed by Glaser and Strauss to sort and organize excerpts of raw data into groups according to attributes, and organised those groups in a structured way to formulate the ideal model of corporate governance. We opted to do the transcriptions separately at first and we met later to compare our transcriptions to understand the meaning of the data. We did this to ensure that all of the subtleties of the interaction were included (Charmaz, 2006; Callaghan, 2012) and to ensure interrater accuracy (Marques & McCall, 2005).

2) Identification of significant statements:

We each identified and extracted all concepts and statements that could be of relevance to the phenomenon we were studying. During this stage, we also conducted a co-occurrence semantic analysis by looking for semantic relationships (Halaschek et al., 2004; Lou & Qiu, 2014). Due to the familiarity we had with the narrative which were contained in the logs, a frequent topic of discussion was how one statement appeared to be related to a different one. We used ATLAS.ti to conduct a co-occurrence analysis of phrases, concepts and statements that were frequently mentioned and used together, to further examine these observations later on. Co-occurrence semantic analysis helped us to classify concepts and constructs (e.g., counting the number of times concepts and their synonyms were referred to, irrespective of the particular words that may be used to make reference to phenomena around cooperate governance. We used absolute frequency (A.FR) and the average frequency (AV.FR) as metric units to guide us on what to focus on in the presentation of findings. A.FR is taken as the frequency or number of times concepts and constructs were mentioned by the whole sample of participants in the interviews. From the A.FR, it was possible to determine the average frequency (AV.FR). The AV.FR is like how much each participant mentioned the corporate governance concepts and constructs from the overall mentions in the texts under analysis.

3) Formulation of the meanings:

With the help of A.FR and AV.FR, we were able first individually to identify phrases, concepts and statements that could be relevant to corporate governance carefully considering the significance of the statements. We chose to continue coding the data separately for as many potential themes/patterns as possible to ensure that no information was lost. We then individually refined the codes produced to identify redundancies and delete insignificant codes or those not directly related to the phenomena being studied. This was accomplished using the merge codes capability, renaming codes, and deleting codes. This decreased the initial number of codes and we were able to produce codes with more clear definitions. We discussed our coding schemes. During the discussion, we then merged codes with similar definitions and refined definitions. Although we continued to work separately and comparing our coding notes, this process up to this stage was actually time consuming but was very rewarding.

4) Clustering the themes:

From this stage, we decided to work together to cluster the identified meanings into theme., This helped us develop a meta coding framework that actually sought out themes on a conceptual level rather than a descriptive level; that is, rather than simply describing what the participants discussed.

5) Development of an exhaustive description:

We then detailed an exhaustive description of the phenomenon incorporating conceptually the themes we had clustered in step (4). The analysis was wholly inductive and, as such, we did not structure it on any existing theoretical frameworks (Sacks et al., 1974; Dahlberg & Dahlberg, 2003; Dahlberg et al., 2008).

6) Production of the fundamental structure:

We condensed the exhaustive description into a short and dense statements that captured the essential aspects of the phenomenon of corporate governance. Up to this stage, we ensured that we had agreed on the differences in interpretations and we were ready for the last stage. A process of reflexivity, including continuous scrutiny of our impressions, positioning and emotional investments, was applied throughout the data collection phase, as well as during the analysis, to achieve ethical and fair interpretations (Gough & Finlay, 2003; Popping, 2010).

7) Verification of the fundamental structure:

We then retuned the fundamental statements to the participants to verify if it accurately captured their experience (Wirihana et al., 2018; Northall et al., 2020). Credibility and originality were obtained by gathering rich, in-depth data from interviews, transcribing verbatim and using the participants' own words as much as possible (Finlay, 2002). Finally, a member-check of synthesized analysed data was carried out with the aim of exploring whether results had resonance with the participants' experience (Birt et al., 2016).

5. Findings

All participants have been ascribed a generalised descriptor of their role, rather than their precise role, in order to protect their identity. We will discuss two distinct groups of participants, which we will call "board members" and "managers". The discussions appear under six themes which appear below.

1) The need for good corporate governance
2) Legal framework
3) Owners have more powers in determine board composition
4) Owners hardly finance SOEs and impose public service obligations
5) Owners impose restrictions
6) Absence or weak corporate governance provisions

Thematic Area I: Poor Corporate Governance System

The existence of a poor corporate governance system came out prominently. The need for corporate governance was echoed by nearly every respondent. It was evident from the findings that respondents were in agreement that the state ought to put corporate governance high on the reform agenda. The arguments were based on the current shortfalls and the need for a corporate governance structure spelling out the relationships between its shareholders, stakeholders, management, boards and other related parties. The system ought to outline the roles, functions, and power of these parties as well as rules and procedures to monitor the business activities and protect the interest of all stakeholders.

A director emphasised the need of good corporate governance as it was seen to be of national importance and had this to say.

The government has done very little to change what is happening in these enterprises. The government ought to explicitly adopt the policy that should place commercial competiveness as a national priority. This will show the desire to move towards an effective governance system. We have to move away from the past were we have paying lip service to governance principles, transparency, accountability, responsibility, independence, and fairness. We must spell out clearly the roles in our structure of all parties.

(*Director 4*)

A manager saw good corporate governance as a precondition for improved performance.

SOEs are not performing as we expected them to be…We need to embrace corporate governance as stated in the books…This, I see to be a necessary precondition for firm performance. Following the principles of corporate governance to the latter is a must for us. In this way, we shall have companies and other enterprises embracing a professional and positive attitude to governance which are stronger and have a greater record of achievement.

(*Manager 11*)

Thematic Area II: Diverse Corporate Governance Framework

Respondents echoed the framework of corporate governance that applies in the SOE landscape. It was noted to be very complex and was at the root of the numerous challenges affecting SOEs. Zambia's corporate governance is regulated by various Statutes and Codes and which do not speak to each other sometimes. For instance, listed companies may be governed by a statute of parliament setting its establishment and roles while at the same time, it has to subscribe to the provisions of the Companies Act. Besides this Act, there are various codes and guidelines on corporate governance which Zambian listed companies are obliged to apply. These includes SEC (The Securities and Exchange Commission) Code, LuSE (The Lusaka Stock Exchange) Code, the BOZ (Bank of Zambia) regulation, IoDZ (The Institute of Directors of Zambia) SMEs Code, as well as international instruments such as OECD Principles. In addition to these codes and instruments, Zambian courts have added another dimension to corporate governance viz a vis powers of shareholders over that of directors. As for the non-listed companies, the Luse Code and the Companies Act do not apply. Below are some aspects pointing to a Diverse Corporate Governance Framework that creates structural and operational problems for SOEs. The concerns that follow point to the existence of a diverse corporate governance framework.

The diverse corporate governance framework manifests by a multiplicity of statutes which have numerous conflicting and overlapping prescriptions. The following is worth noting.

All SOEs are connected to a Ministry by an Act of Parliament. Some SOEs dubbed as Business Entity/Profit Making Institutions are listed. They are subject further to the Securities Law Framework. The listed SOEs are expected to comply with the parent Act as well as other statutes. In most instances, there is confusion.

(*Manager 3*)

It is extremely difficult to distinguish in Zambia similar structures and processes when norms of corporate governance have to be assessed.

The corporate governance framework has created disambiguation. The current laws show some overlaps leading to inconsistent and conflicting corporate governance practices.

(*CEO 6*)

Thematic Area III: Owners have power in determining board composition

SOEs often lack a clearly identified principal or owner. Instead, the state frequently exercises its ownership responsibilities through multiple actors—such as sector ministries, the ministry of finance, and a number of other government bodies. The appointment of directors is vested in the Minister and some of the board members are not professionals. The composition of the board is dominated by male directors. In Zambia's political environment which is fluid, any change in government calls for removal of the board. The following is attributed to owners having power in determining board composition.

A director pointed how the board is weakened by the power exercised by ministers.

Ministers have powers and responsibilities as they consider themselves to be owners of SOEs. This actually weakens the board of directors. They can be removed at any time irrespective of the costs involved.

(*Director 1*)

Respondents expressed concern for Portfolio Minister's interventions in the day to day operations of firms. The interventions were considered as substantial political interference.

The oversight of sector ministries is riddled with rampant interventions. It *undermines the performance of SOEs. Since Ministers and in some cases Permanent Secretaries tend to be controlling, we may have to revisit in future governance mechanisms…that is improving on the selection of directors. Ministers could get directors who are accredited from among members of IoDZ…*

(*Director 7*)

While SOEs are expected to be structured like corporations based on meritocracy, this is not the case. Ministries, for example apply nepotism. Directors and chief executive officers (CEOs) are more often than not appointed directly by Portfolio Ministers. The demand for right people being appointed was spoken about by nearly half of the respondents.

If only we had right people on boards… this will guarantee enough independence to ensure that the appointed directors will properly provide oversight functions… and its members should be well-versed in the firm's line of business or in general business areas such as business law, accounting, marketing, finance, or production etc.

(*CEO 5*)

The same observation covers gender equality

You do not see very often female directors. It is as though the board was made for males…Even then, we have in our midst directors who are not professions and this chokes oversight operations of the board and eventually the firm… There is need to revisit the appointment process. Perhaps we use search committees.

(*Director 12*)

Another manger had this to add looking at the bringing on board the Industrial Development Corporation (IDC).

Since we have more than one principal to report to (*IDC and the Ministry*), *as a result, there are conflicts between the state's ownership functions and its regulatory functions… This has left us in most instances vulnerable to being used to achieve short-term political goals…*

(*Manager 3*)

Thematic Area IV: Owners hardly finance SOEs and impose public service obligations

SOEs may receive a grant or not. However, they are exacted to raise revenue from the seed financing. This is sometimes considered as startup capital. Very often some SOEs are ordered by Ministers to spend outside their budgets. Meanwhile, computing the true cost of public service obligations (PSOs) and assessing those SOE activities with an explicit budget transfer, as well as monitoring SOE liabilities has disenabled a meaningful assessment of the operational efficiency of these enterprises. Government has demanded SOEs to be profitable and at the same time to carry out social objectives without any provisions for financing the costs of meeting those objectives.

In our firm, we have tried as much as possible to separate out the cost and funding of public service obligations. We have deliberately set out a small amount for this. However, it is not working… Government expects SOEs to be *profitable and at the same time to carry out social objectives without any provisions for financing the costs of meeting those objectives. You see this much often… salaries for civil servants may be financed by SOEs… in an election year, SOEs have to support campaigns.*

(Director 5)

Thematic Area V: Owners impose restrictions and ignore Boards

Government tends to impose restrictions that reduce the operational autonomy of SOEs in key areas, such as budgeting, investments, pricing, and human resources. SOEs face a number of restrictions that reduce their operational autonomy and disadvantage them vis-à-vis the private sector. In some cases, Portfolio Ministers consider SOE boards as a bureaucratic hindrance and tend to bypass them.

The following is a picture of restriction and it involves a non-listed company.

We have had to live on a lean staff. There has been a moratorium on staff recruitment and training. We cannot hire employees or pay market salaries. This restricts our ability to attract and retain talent, especially for senior management positions.

(*Manager 9*)

A case of by passing the Board was common

Our boards are called to exercise a "rubber stamp" function. We are a conduit for ministerial orders.

(*CEO 5*)

Thematic Area VI: Absence or weak corporate governance provisions

The government is treating some listed SOEs not like private companies and is not taking steps to harmonize their corporate governance frameworks with modern governance rules applicable to private companies. There are variations of board sizes. These range from 7 to 13 in some instances. SOEs contain weak corporate governance provisions in areas such as boards, preferred rights, and disclosure. Unlike private companies, however, many SOEs, unlike those that are listed, for those providing public services (research, teaching and supporting other public policy goals) have to balance commercial and noncommercial objectives. Such SOEs are often explicitly established to carry out public service obligations, even though they operate in competitive markets. Most of these SOEs, do not have a clear cut corporate governance framework. This is supported by the following observations.

We know that transparency and disclosure are vital to holding state-owned enterprises (SOEs) accountable for their performance.

(*CEO 7*)

While board members are appointed by Ministers, it is not stated how an "owner" or as the major shareholder. for example, the Minister appoints, recalls, and even what the remunerations of boards and management are…

(*Director 1*)

Thematic area VII: Board Composition

Respondents were in agreement of the need to embrace the recommendations on Board sizes. They tended to refer to The King Reports on Corporate Governance. King reports are cited as the most effective summary of the best international practices in corporate governance. Respondents desired improvements to the current structures pointing to the need to have a small board and operating committees within the board. They also pointed out the need for a formal process for the appointment and development of directors. A nominations committee could help the Minister assist with the identification and recommendation of potential directors to the board. Gender equity and the need to embrace different expertise on the Board to deal with strategic issues ought to be given priority. The institute of Directors Zambia's (IoDZ) SMEs Code should be consulted and could provide guidelines. The following are to be noted.

The need for drawing experts to be board members was emphasised.

We should remember that the characteristics of the board of directors can be measured by the percentage of independent directors (*outside directors and the size of the board*)*. The more independent material stakeholders we have on the Board, the better…*

(*Director 8*)

Committees were identified as structural functional units through which the Board performed its fiduciary roles. Going forward, the Kings Report's recommendations ought to be considered in structuring boards.

The Kings report suggests that the board operates through committees and we need to have an all-inclusive approach when forming boards. We should have had at least four committees in our Board like the social and ethics committee, remuneration, technical and the audit and risk committee. To have these committees, it entails board members with different expertise to deal with strategic issues.

(*Director 3*)

A clear transparent process for the nomination and appointment of directors was echoed as it would cure partisan and nepotistic tendencies and having unqualified persons to be on the Board.

It is unfortunate that we have boards of directors who have very little fiduciary duties toward the company, the duty of care. There is in most instances the duty of loyalty to the appointing authority. In Zambia, we are yet to develop a clear and transparent nomination process to select skilled, capable board members… The current scenario where there are no guidelines poses the implications and challenges for state-owned enterprises.

(*Manager 13*)

Reforms to enhance board composition were mooted.

There ought to be reforms in the statutes or charters like developing a clear and transparent nomination process to select skilled, capable board members from whom the appointing authorities can select from while enhancing board professionalism. The Institute of directors can play an accrediting and *advisory role.*

(*CEO 7*)

6. Discussion

The present study was conducted to explore the current state of corporate governance in SOEs with a view to develop an ideal corporate governance model for SOEs in Zambia. Analyses of the collected data showed that there were a number of shortfalls in the corporate governance structures and processes in Zambia. The shortfalls could be classified into six categories:

1) The need for good corporate governance
2) Legal framework
3) Owners have more powers in determine board composition
4) Owners hardly finance SOEs and impose public service obligations
5) Owners impose restrictions
6) Absence or weak corporate governance provisions

The possible explanation for negative picture outlined in the seven thematic areas could be attributed to the absence of a context specific model of corporate governance in SOEs. The national landscape of corporate governance practices in Zambia have created differences in practice from enterprise to enterprise. These differences emerge mainly from the dissimilar common beliefs, different proprietorships, legal structures and personal behaviour typologies of Ministers. In this study, we cannot attribute these to altered environment of business and the competitive situations as Gregory (2000) would argue.

The findings point to an unfortunate state of affairs where the corporate governance in SOEs is excessively controlled and directed by the state (Ministers). There is no separation of powers. While the board of directors is responsible for the implementation of corporate governance, their roles are thwarted by the major shareholders. The absence or weak corporate governance provisions tend to exacerbate the numerous challenges observed in the performance of SOEs in Zambia. Some studies elsewhere have shown that firms pursuing a corporate governance model that separates power between shareholders, boards and management have been rewarded by faster growth, higher employee engagement, and, paradoxically, superior financial performance (Hu & Izuminda, 2008: p. 73). Where states as evidenced in Zambia, have not guaranteed corporate governance by invoking weak codes and legislation, such states have resorted to determining board composition by shying away from an election at a general meeting or the application of principles of meritocracy that are best implemented by a search committee. Where there has been good corporate governance, legal frameworks have ensured that owners do not have excess powers and that they embrace corporate governance principles (OECD, 2020, 2021).

The current "mixed ownership" model presented by listed SOEs in Zambia is an example of shareholder excess control. This is due to the fact that the state has a majority shareholding and the Minister has monopoly of decisions. We observe that this mixed-ownership structure adds a distinctive layer of governance challenges atop the standard corporate governance problems faced by any listed firm in Zambia where the government has a footprint. This does not preclude those under 100% ownership by the state. We hope to see the UPND led government enhancing more of public listing of the Business Entity/Profit Making Institutions. The findings point to the undeniable long standing fact that State ownership creates its own agency problems, which are caused by the non-separation of the politicians and bureaucrats who oversee SOEs from "the citizens" on whose behalf the enterprises are ostensibly owned (WGB, 2014).

We are proposing a corporate governance system that reflects Zambia's tradition of mixed ownership of enterprises (those that are listed) and 100% shareholding for those not listed. The proposals are embedded in the social cultural and organisational values presented by our respondents. The proposed models focuses on dispersed controls or separation of power. We propose the following two models as structures depending on shareholding value.

The first is the hybrid model (see **Figure 1** below). The model shall have the Board formed based on the stakeholders' perspective. We propose the application of Clarkson (1995) and Donaldson & Preston (1995) guidelines. They propose that all stakeholders' have their inherent value of self-interest, but one's interest does not influence others (Yamak & Süer, 2005). As a fundamental principle, stakeholder theory rejects the suggestions of shareholder's value model and enhances the area of corporate governance framework by establishing the rights of stakeholders to participate in the corporate governance decisions, where, managers have the obligations to guard the interests of all stakeholders and the firms' objectives are to improve the interest of all stakeholders' more than shareholders' (Iqbal & Mirakhor, 2004). In this vein, there ought to be a quota representation in terms of appointment of board members. The minority shareholders could appoint its share value of members at a general meeting as provided for in the Company's Act. The state could appoint its own directors by way of a nominations committee. This committee could help the Minister/IDC assist with the identification and recommendation of potential directors to the board. Gender equity and the need to embrace different expertise on the Board to deal with strategic issues ought to be given priority. The institute of Directors Zambia's (IoDZ) SMEs Code should be consulted and could provide guidelines.

In the second model, since this is 100% shareholding, the state/IDC as the case may be could appoint its own directors by way of a nominations committee. This committee could help the appointing author with the identification and recommendation of potential directors to the board. Gender equity and the need to embrace different expertise on the Board to deal with strategic issues ought to be given priority. The institute of Directors Zambia's (IoDZ) code should be consulted and could provide guidelines (see **Figure 2** below).

In both models, the management board has a consolidated response to accomplish business activities of the SOE bearing in mind the right and interest of

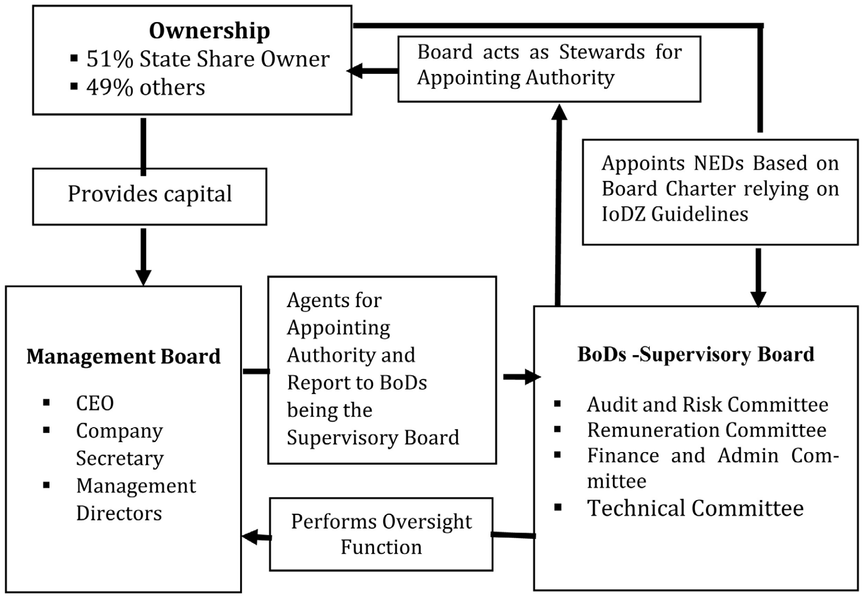

Figure 1. Hybrid model.

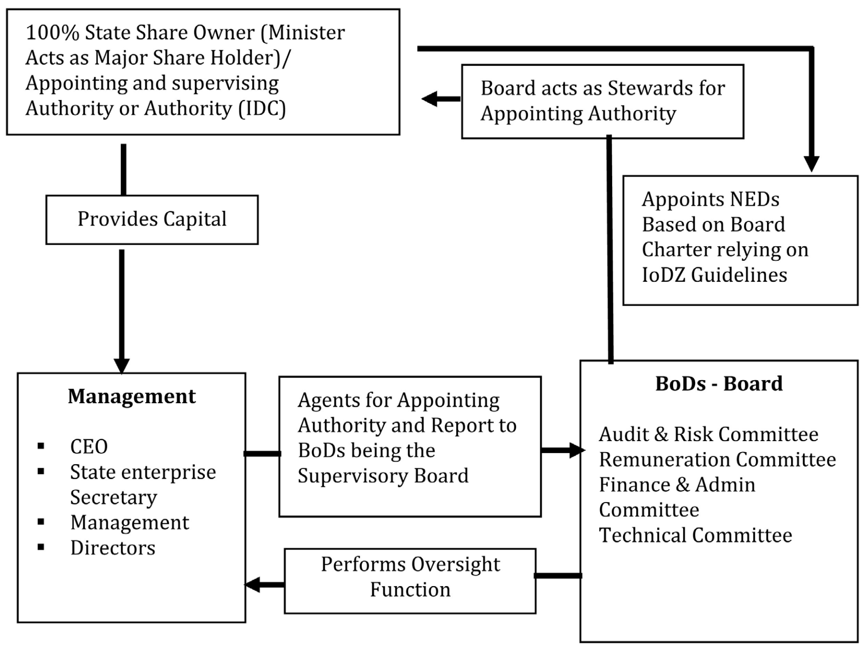

Figure 2. 100% state shareholding.

all stakeholders more than the shareholders, while, the management board is supervised and monitored by the Board (Schilling, 2001; Hasan, 2009, 2011). These models protect the right of stakeholders and give the Board stability to perform oversight functions and management get inaugurated to implement the well-being of all stakeholders and the implementation of strategic goals of the SOE.

7. Strengths and Limitations of the Study

This study had a views of board members and management representing the two categories of SOEs. The views range of practice types, and positions of leadership. The interviewers and primary analysts had corporate governance experience, and were complemented by wider discussion with other team members during the IoDZ training sessions. The method used in the study enabled development of the later interviews to explore concerns, issues, and themes arising from the analysis of the cognitive interviews.

The study is limited to Board and management members. It does not include other stakeholders like appointing authorities, employees and union members. The findings may be biased as they did not include their reflections and evaluation of the process. Yet the findings have implications for the two models when taken up. However, we believe that the findings are transferable to any SOE in Zambia.

8. Implications for Corporate Governance and Future Research

While there are a few studies in Zambia on corporate governance, cautionary voices surrounding the subject, these findings are appealing to both policy makers and senior management staff of SOEs. The potential pitfalls need noted of the current corporate governance framework requires curing the ills. Without this study, the current ills will be perpetuated and there is no hope for improved firm performance and accountability by the state to the citizenry.

9. Conclusion

The findings indicate that SOEs do not have good corporate governance structures and this is compounded by a complicated legal framework in the country. Major shareholders have more powers in determining board composition and even how the enterprise ought to operate. There are impositions on SOEs where owners hardly finance SOEs and impose public service obligations. In many ways, owners impose restrictions. It was not expected that there would be absence or weak corporate governance provisions. Given these findings, we propose two models for the two types of SOEs in Zambia. The models are structured so as to protect the right of stakeholders and give boards stability to perform oversight functions and for management to get inaugurated to implement the well-being of all stakeholders and the implementation of strategic goals of the SOE. The proposed models require a balance between active government engagement and delegation to SOE supervisory and management boards. Undue interference, including politically motivated, id sustained may contribute to the lack of accountability and weaker financial and operational performance.

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Ethical Statement

Ethics approval was obtained from Humanities and Social Research Ethics Committee (HSSREC) Review number HSSREC 2021 April 006.

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Conflicts of Interest

This research article contains our original work, has not received prior publication, and is not under consideration for publication elsewhere. The authors have seen and approved the manuscript being submitted. The views expressed are personal. The authors are solely responsible for the content and writing of the paper.

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