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Corporate Governance, Risk Management and Performance of Commercial State Owned Enterprises in Uganda

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Abstract
During the last three decades, the performance of commercial State Owned Enterprises in Uganda has been disappointing. Available evidence shows that CSOEs have been characterized by low returns, financial fraud, increase in leverage levels, high levels of budgetary burdens, unpaid loans, and accruing interest. This study set out to establish the relationships between corporate governance, risk management, and the performance of Commercial State-Owned Enterprises (CSOEs) in Uganda. The study's objectives were to determine the relationship between shareholding, risk management and the performance of CSOEs in Uganda, determine the relationship between board composition, risk management, and the performance of CSOEs in Uganda, and to determine the relationship between board characteristics, risk management and the performance of CSOEs in Uganda. The study adopted a longitudinal research design that involved the analysis of secondary data on corporate governance and firm performance, from 34 CSOEs while primary data was collected from 34 CSOEs to analyse risk management. Pearson correlations, random effects, and fixed effect regression analyses were used to analyse data and test the associated null hypotheses. The study established that risk management mediated the relationship between board characteristics and the performance of CSOEs where board attendance was used as a proxy of board characteristics. However, risk management did not mediate the relationship between shareholding, board composition and the performance of CSOEs. It was concluded that improving on board characteristics would improve on risk management and hence the performance of CSOEs. It was recommended that CSOEs can do this through improving on the frequency of board meetings to minimise risk and improve on firm performance.

Keywords: Corporate Governance, Risk Management, Performance of Commercial State-Owned Enterprises

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Introduction

Commercial State-Owned Enterprises (CSOEs) must have high corporate governance standards to assure their success, particularly financial stability and long-term growth (Organisation for Economic Cooperation and Development, OECD, 2018). The CSOEs will operate within the specified control mechanism that promotes fairness, accountability, and transparency once there is corporate governance, which includes the full board of directors and the distinct responsibilities of the Chairman and Chief Executive Officer (CEO), an independent board largely composed of non-executive directors, and an independent audit committee. As a result, proper risk management will be ensured, as well as efficiency, effectiveness, maximum returns, and business growth (Vahid, Dehghanpour, & Nasirizadeh, 2013). The CSOEs are large organisations created by a country's government to carry out commercial activities. The CSOEs are most prevalent in the country's strategic sectors such as utilities, minerals, energy, financial services, and infrastructure (OECD, 2018a). While they may pursue public policy goals, CSOEs are different from Government Agencies, Commissions, and Statutory Authorities whose objectives are not profit-oriented (OECD, 2018b). Because of their commercial orientation, CSOEs charge user fees for their services (Muzapu, Havadi, Mandizvidza, & Xiongyi, 2016).

In East Africa, most CSOEs were created after the governments inherited a large civic segment during independence in the early 1960s. They expanded these CSOEs to the post-independence era to assist in the development of key productive activities, fill entrepreneurial and skills gaps, and generate financial surpluses for government investment (Megersa, 2020). However, most CSOEs have been characterized by the appointment of unskilled managers based on nepotism that has witnessed these enterprises perform below par in terms of profitability, calling for re-occurring subsidisation from governments to sustain their operations (PwC, 2015b; Njagi, 2016; Mutize & Tefera, 2020). In Uganda, there are 45 CSOEs participating in a wide range of service provisions. These enterprises were established and governed by an Act of Parliament as provided for in the National Constitution of 1995 (UIA, 2021). Most of these CSOEs were established to handle government interests where the private sector failed to do so, while others were established to eliminate inefficiencies, especially in the provision of public services (UIA, 2021). To streamline their governance and performance, CSOEs in Uganda are mandated to embrace corporate governance, particularly to be led by the Board of Directors (BoDs) with the leadership positions of chairman and the Chief Executive Officer (CEO), an adequate board size composed of executive and non-executives but with the later constituting the majority, and with relevant attributes, and an independent

audit committee (Wanyama, 2018; Office of the Auditor General, 2019). The BODs' role is to make strategic decisions and oversee operations, manage the risk that is likely to face these firms, and enhance corporate performance (Office of the Auditor General, 2019).

Research Problem

During the last three decades, the performance of CSOEs has been disappointing. Available evidence shows that CSOEs have been characterized by low returns, financial fraud, increase in leverage levels, high levels of budgetary burdens, unpaid loans, and accruing interest (Mussa, Musová, & Debnárová, 2015). These performance flaws are anecdotally due to weak corporate governance that has failed to properly manage the risk that faces these organisations. These have in turn resulted in a lack of transparency, poor accountability, corruption, loss of funds, liquidity constraints, and poor service delivery by CSOEs (PwC, 2015; Klovienė & Gimžauskienė, 2014). For instance, the Auditor General's Report (2017) revealed that at least 31.8 percent of CSOEs had debt ratios of more than 50 percent implying that most of their assets were financed by debts, while some of these debts had been overdue. The Auditor General's Report (2017) further reported that other CSOEs were operating without boards and it also highlighted that during the financial years 2013/14 to 2017/18, Uganda Electricity Distribution Company Limited's loss increased from UGX 9billion to UGX 16billion, Mandela National Stadium's loss almost doubled from UGX 323 million to UGX 669 million, Uganda Seeds Limited's loss was reported at UGX 67 million, National Enterprise Corporation Tractor Project recorded a loss of UGX 126 million, while Kilembe Mines Limited saw its profits tumble from UGX 35billion to UGX 440 million (COSASE Report, 2019). These performance flaws are attributed either to the failure of the directors to fulfill their oversight role of operations due to conflicting interests of most politically connected directors who at the same time double as shareholders (COSASE Report, 2019). Further, performance flaws are attributed to a lack of poor board composition that is dominated by male directors who are not good at controlling risk compared to female directors and unworthy board characteristics such as irregular attendance of board meetings which jeopardizes the risk management position of the enterprises leading to poor performance (COSASE Report, 2019). Despite this position, empirical research on the relationship between corporate governance, risk management and the performance of CSOEs in Uganda had not been substantiated. This posed the conceptual and contextual gaps that were addressed by this study addressed.

Objectives of the Study

The study was guided by the following specific objectives:

i) Determine the relationship between shareholding, risk management and the performance of CSOEs in Uganda.

ii) Determine the relationship between board characteristics, risk management, and the performance of CSOEs in Uganda.

iii) Determine the relationship between board composition, risk management and the performance of CSOEs in Uganda.

Literature Review

Agency theory

The study is underpinned by the Agency Theory and Contingency Theory. Propounded by Ross and Mitnick in the 1970s cited in Mitnick (2013), the agency theory distinguishes the roles of the corporation's stakeholders. The theory regards managers as having explicit firm's specific knowledge of running its operations, and that if not kept under the surveillance of the board of directors, they might pursue personal interests at the expense of the ultimate beneficiaries, the investors, and other stakeholders (Jensen & Meckling, 1976).

The major criticism of the agency theory is its assumption of inefficient markets. In this regard, the theory assumes that information flow in all the markets is uneven and as such agents in all ventures might at one time make irrational decisions, hence negating the efficient market hypothesis (Arthurs & Busenitz, 2003). Despite the criticism, the agency theory remains important for this study because it implies that for effective firm performance, especially for larger firms, CSOEs should employ the services of the board of directors to constantly monitor management actions, without giving chances of whether irrationality will occur or not. In so doing, the board manages risk by ensuring effectiveness of the control systems which fosters efficiency and firm performance (Abhayawansa & Johnson, 2007).

Contingency Theory

Advanced by Carlisle in 1976, the contingency theory focuses on predicting the factors that may influence the relationship between the variables in a given situation (Schoech, 2006). Concerning the intervening influence of risk management on the relationship between corporate governance and the performance of

CSOEs, the contingency theory identifies three factors that may influence risk management and these are government policy, ICT, and firm size (Suanders et al., 2010). However, the theory can be criticized for not precisely stating the type of risk that can be prevented by considering these factors (Schoech, 2006). The theory remains relevant to this study in that, being majorly controlled by government, there should be a government policy for risk management in CSOEs.

Corporate Governance

Corporate governance is an arrangement to manage corporations such that the priorities of patrons and investors are given priority in the decision-making process (Bhagat & Brian, 2008). The OECD (2018b) defines corporate governance as internal and external mechanisms of institutional control to ensure harmonious relationships between directors, managers, and stakeholders. The internal mechanisms include managerial and institutional ownership and shareholding, and board composition includes the chairman and CEO, executive and non-executive members, and the audit committee, while external mechanisms include statutory audits and markets (Damak, 2013). Corporate governance is important because it facilitates strategic decision making which shapes the future of the organisation like CSOEs. It also oversees the operations of the organisations to control risk and keep them focused on organizational goals which ultimately affects organizational performance (Bhagat & Bolton, 2008).

Empirically Yu (2013) analysed panel data of non-financial Chinese listed firms using regression techniques. It was established that state ownership significantly influenced firm performance because of the resources provided by the government. However, the study left a conceptual gap in that it did not consider the intervening influence of politically connected directors who might pursue political interests at the disinterest of managerial and institutional shareholders. This can side-line the risk identification and assessment to adverse effects on firm performance (Zadeh, 2012). Adams and Mehran (2012) using accounting ratios drawn from final accounts of holding entities in the United Kingdom and regression analysis established that bigger boards do not necessarily affect firm value. However, the results indicated that when the company has complex activities, many members of the board may help resolve the emerging complexities. The study, however, did not consider board independence. A larger board that is less independent may not improve firm performance since such a board might not judge financial issues cogently (Mwesigwa et al., 2014).

Risk Management

Risk management is a deliberate action of categorizing the probability to expose the loss incurred by an organization and choosing suitable ways to treat such exposures (Narwal & Jindal, 2015). It is the anticipation, prioritization, and mitigation of the potential effect of the unforeseen through efficient utilization of the resources at the disposal of the entity to maximise the realisation of opportunities to enable the attainment of the entities' goals (Tandon & Mehra, 2017). According to Aven (2016), risk assessment refers to ascertaining the intensity, probability, and degree of occurrence of a risky event. Risk response is the next stage once identification and assessment have been done (Beasley, Branson, & Hancock, 2018).

Managing risk is of great importance to guard the firm against exposure to different types of risk using different strategies (Bromiley, McShane, Nair, & Rustambekov, 2015). One of the strategies is for the CSOEs to allocate part or the entire loss to another party at a cost. Insurance companies are usually involved in risk transfers (Rodrigues-da-Silva & Crispim, 2014). Alternatively, the enterprise can decide to retain the losses arising due to risk exposure. On the other hand, CSOEs can control risk either by avoiding or retaining and controlling losses (Bromiley et al., 2015). Avoiding risk that may lead to losses does not tantamount to carrying out an action that could handle the risk (Songling, Ishtiaq, & Anwar, 2018). However, a decision by the board to retain risk means that the firm has lost part of returns in terms of cash flows hence degenerating firm performance (Krause & Tse, 2016).

Harelimana (2016) investigated risk management and firm performance in Rwanda adopting both quantitative and qualitative techniques to analyze banks. It was established that effective risk control, positively influenced bank profitability. The study, however, left a contextual gap in that it only considered banking organisations whose risk control mechanisms might be different from those of CSOEs. Ebenezer, Ahmad, and Omar (2016) evaluated how firm performance in the banking sector in Nigeria is affected by risk management practices. Using correlation and regression analyses, the study established that failure to identify and mitigate risk led to waste which often resulted in failure and low-profit margins for organisations. However, this was also a banking sector, not CSOEs where risk management might not be emphasized like in the case of banking firms given the difference in services. Empirical evidence shows that risk management affected more financial institutions such as banks than the rest due to money-centered operations (OECD, 2018). Narwal and Jindal (2013) researched how the profitability of firms in India was influenced by the principles of corporate governance. Using correlational analysis of the data from textile

firms in India, a positive significant influence was established. The research, however, was in the context of a textile industry that put more emphasis on profit maximization and also never considered risk management as an intervening factor.

Firm Performance

Firm performance refers to a company's ability to meet its stated goals in a timely and effective manner (Kato & Long, 2006). In the existing literature, managerial efficiency and profitability have been used as typical metrics for measuring the success of CSOEs (Bayaraa, 2017). The Data Envelopment Analysis (DEA) methodology established by Basso and Funari (2003) is frequently used to assess management efficiency. To determine business performance, the DEA model calculates the ratio of input to output variables for a group of Decision Making Units (DMUs) (Shewell & Migiro, 2016).

The importance of firm performance is that it determines the overall competitiveness and efficiency of markets which ultimately maximizes stakeholders' wealth and Gross Domestic Product (GDP). It shows how well or badly a company is transacting business and also shows the financial health of such a company in a given period (Naz et al., 2016). In addition, firm performance is the final indicator showing how the firm is fairing in the industry. Reduction in performance signals governance issues, and laxity in predicting and management of risk concerning firm characteristics such as the level of leverage and firm size (Naz et al., 2016).

Commercial State-Owned Enterprises

In Uganda, there are 45 CSOEs participating in a wide range of service provisions. These enterprises were established and governed by an Act of Parliament as provided for in the National Constitution of 1995 (UIA, 2021). Most of these CSOEs were established to handle government interests where the private sector failed to do so, while others were established to eliminate inefficiencies, especially in the provision of public services (UIA, 2021). To streamline their governance and performance, CSOEs in Uganda are mandated to embrace corporate governance, particularly to be led by the Board of Directors (BoDs) with the leadership positions of chairman and the Chief Executive Officer (CEO), an adequate board size composed of executive and non-executives and an independent audit committee (Wanyama, 2018; Office of the Auditor General, 2019). The BODs' role is to make strategic decisions and oversee operations, manage the risk that is likely to face these firms, and enhance corporate performance (Office of the Auditor General,

2019). Based on the above theoretical and empirical review of literature, the following null hypotheses were developed and tested:

Ho$_1$:   Risk management has no significant intervening effect on the relationship between shareholding and CSOEs performance in Uganda.

Ho$_2$:   Risk management has no significant intervening effect on the relationship between board characteristics and CSOEs performance in Uganda.

Ho$_3$:   Risk management has no significant intervening effect on the relationship between board composition and CSOEs performance in Uganda.

Research Methodology

This study adopted a longitudinal correlational design. This design enabled the researcher to develop the hypotheses based on the possible causes, explaining certain relationships in line with the existing literature, and then provided evidence to reject or fail to reject the study hypotheses so that informed inferences are drawn (Ishtiaq, 2019). The study population constituted 45 CSOEs in Uganda. The whole population of 45 CSOEs was studied since the number was relatively small. Hence census sampling approach was used so that each CSOE was included in the study (Feldmann, 2014).

The study used both primary and secondary panel data for this investigation. A self-administered structured questionnaire was used to obtain primary data. A five-point Likert scale was used to format the questionnaire, ranging from 1-strongly disagree to 5-strongly agree (Joshi, Kale, Chandel, & Pal, 2015). Pather and Uys (2008) and Ho (2017) are among the previous researchers that adopted a Likert Scale in their investigations. Data from the primary source addressed risk management that was an intervening variable. Secondary data was collected for corporate governance (the independent variable), and firm performance (the dependent variable). This was panel data solicited from the audited annual reports of CSOEs in auditor general's office using a data collection survey sheet.

Data collected was edited for accuracy, uniformity, consistency, and completeness after which it was coded and analysed using descriptive and inferential statistics. For secondary data analysis, an average of 10 years from 2009/10 to 2018/19 financial years was computed and analysed. Financial and non-financial performance criteria were used to assess firm performance. Return On Assets (ROA), or the ratio of Earnings Before Interest and Tax (EBIT) to the firm's total assets, was used to assess CSOEs' performance

(Niresh & Velnampy, 2014b). The non-financial performance was measured using the DEA model. The model analyses efficiency of a set of DMUs that use some inputs to get outputs in return (Fu, Vijverberg, & Chen, 2008). Efficiency equals output/input*100. The DEA model gives a composite index that ensures that outputs and inputs of the dependent variable are aggregated. To compute the composite index, max-min procedure was used. Data was converted into indices ranging from 0 to 100 based on min values of CSOEs. The DEA model indices are defined in such a way that the higher the value of the aspect variables, the better the score (Banker, Emrouznejad, Lúcia, Lopes, & Rodrigues De Almeida, 2012).

The model results are given by the formula:

$$I = \frac{V - Min}{Max - Min} \times 100$$

where:

V is the observed indicator value (after limits are imposed)

I is the new index number representation

The model specification was such that the inputs were the number of employees, working capital, and net fixed assets value, while the output was management reports in a year, hence measuring management efficiency. The DEA model gives data points for each DMU ranging from 0 to 1 given by the following formula (Basso & Funari, 2003):

$$\sum_{k=1}^{m} U_k y_{ki}$$

$$E_i = \text{Maximise} \quad \frac{}{\sum_{j=1}^{n} v_j x_{ji}}$$

Subject to

$$\frac{\sum_{k=1}^{m} U_k y_{ki}}{\sum_{j=1}^{n} v_j x_{ji}} = <1, \text{ for } i = 1, \dots N \text{ and } U_k \text{ and } V_j >= 0$$

Where:

m is the number of outputs for each CSOE using n different inputs

n is the number of inputs used by each CSOE to produce m different outputs

y_{ki} is the amount of the kth output for the ith CSOE

x_{ji} is the amount of the jth input used by the ith CSOE

U_k is the output weight

v_j is the input weight

The DEA model's flaw is that the precision of the inputs and outputs is contingent on the quality of the data provided. As a result, inaccuracies in secondary data may cause results to be skewed (Banker et al., 2012). Hierarchical regression models were used to examine mediation effect of risk management on the relationship between corporate governance and firm performance and hence test the null hypotheses as advised by (Baron & Kenny, 1986). The results are presented and discussed in section 4 below.

Results and Discussions

The sample consisted of 34 out of the 45 commercial state-owned enterprises (CSOEs) that were initially targeted in Uganda observed from 2009 to 2018. The resultant response rate was 75.5 percent which according to Lindemann (2019) is high enough to enhance the representation of the results in the panel and social surveys.

Descriptive Statistics

Corporate governance was measured using dimensions that included shareholding, board composition board characteristics, and audit committee independence. The results of these dimensions are presented in Table 1 below.

According to Table 1 below, majority of the shares (mean value was 83.83) in CSOEs were held by the government, with a standard deviation of 24.21 percent. However, in some enterprises, government-owned all the shares as shown by 100 percent maximum ownership, although in other cases it held a minimum of 51 percent. The results further show that 11.55 percent were institutional shareholders, 4.22 percent were foreign shareholders. No cases of chairman, CEO, and director share ownership were reported suggesting that there was independence in managing CSOEs which according to Abhayawansa and Johnson (2007) is important in fostering efficiency.

Based on the results, it can be deduced that strong aspects of shareholding and ownership are government-controlled. Most CSOEs have managerial independence because of the small percentage of managerial

shareholding. These two aspects imply that CSOEs have back up of the government arm in case of financial constraints, in addition to independent managerial decision making which implies high rationality of the decisions. The shareholding status implied that profits are retained by the government which would be a different case if these firms were being controlled by private or foreign owners.

Table 1: Descriptive Statistics for Shareholding

Shareholding	Observations	Descriptive Statistics (Percent)	
		Mean	Standard Deviation
Government ownership/shareholding	327	83.83	24.21
Institutional shareholders	327	11.55	20.54
Managerial shareholders	327	1.65	8.16
Non-managerial shareholders	327	.40	2.24
Foreign shareholding	327	4.22	14.70
Chairman owns shares	327	.00	.00
CEO owns shares	327	.00	.00
Director's ownership other than CEO and chairman	327	.00	.000

Table 2: Descriptive Statistics for Board Composition

Board Composition	Observations	Minimum	Maximum	Mean	Standard Deviation
Number of non-executive board members	327	2.00	7.00	4.87	.959
Members whose contracts have expired (percent)	327	0.00	4.00	.75	.863
Number of politically connected directors	327	0.00	8.00	4.21	1.944
Number of Female board members	327	1.00	4.00	2.64	.758

From Table 2 above, it is observed that the mean number of non-executive directors was reported at 4.87 members, and a standard deviation of 0.959. This mean value satisfies the minimum recommended number of non-executive directors of three directors (Davies, 2000). This signified good corporate governance since it demonstrated board independence. Board members whose contracts had expired were very low at 0.75 percent which suggested that CSOEs respect the tenure of board members an indicator of good corporate governance.

The average number of politically connected directors was 4.21. This, compared to the average number of the board size as give in Table 3 below represents 45.4 percent of the politically connected directors in the industry. This implies that independent directors constitute 54.6 percent, making them the majority. This indicates good corporate governance. The mean value of female directors was 2.64. Compared to the average number of directors in CSOEs of 9.28 (see Table 3 below), it implied that the overall female composition was 28.5 percent, which was above the 25 percent recommended female representation (Chang, 2020), and hence an indicator of good practice of corporate governance. Based on the results, it is deduced that all four aspects: the percentage of non-executive directors, managing directors whose contracts have expired, the proportion of politically connected directors, and female composition on the board are good attributes of corporate governance. These signify board independence and hence rationality in decision making.

Table 3   Descriptive Statistics for Board Characteristics

Board Characteristics	Observations	Minimum	Maximum	Mean	Standard Deviation
Board size (number)	327	6.00	13	9.28	1.736
Non-executive directors board meeting attendance (number of times)	327	2.00	5.00	3.73	.479
Tenure of board members (years)	327	3.00	5.00	3.57	.825
Number of board meetings	327	1.00	5.00	3.69	.600
Age of directors	327	50	67	58.76	3.481
Experience (years on boards of CSOEs)	327	2.00	5.00	3.26	.688

From Table 3 above the total number of directors on the board was 9.28 on average. This number satisfies the recommended minimum of three directors for state-owned enterprises (OECD, 2018c), hence an indicator of good corporate governance. The mean value of non-executive board members' meeting attendance was 3.73 times with a standard deviation of 0.479. This was adequate and an indicator of good corporate governance when compared to the maximum of five members by better-performing companies, and an ideal industry average of 75 percent (PwC, 2014). The tenure of board members was 3.57 years with a standard deviation of 0.825. This was relatively fair compared to the ideal recommended industry average of three years (Livnat, Smith, Suslava, & Tarlie, 2021). However, there were extreme variations of up to five years which was not a good practice of corporate governance for some CSOEs.

The board meetings averaged 3.69 times in a year, while the maximum number was five indicating that boards on average sat 73.8 percent of the time when compared to the best performing firms which was an indicator of good corporate governance. The average age of directors was 59 years with a minimum of 50 years and a maximum of 67 years representing a standard deviation of 3.48 as shown in Table 3 above. This suggested that some directors, though not the majority, were above the retirement age of 60 years stipulated by the Pensions Act of 1946 cited in Muhanguzi (2020) which is a sign of poor corporate governance.

Table 4 summarizes the outcomes of CSOE performance (ROA for financial performance and DEA for management efficiency).

Table 4: Descriptive Statistics for Firm Performance

Firm Performance Indicators	N	Min.	Max.	Mean	SD
Number of employees	327	5.00	7000	702.06	1344.52
Working capital (Billion UGX)	327	.06	592.42	74.24	140.13
Net fixed assets value (Billion UGX)	327	.09	10525.30	591.71	1803.94
Earnings before interest and tax (EBIT) (Billion UGX)	327	-125.87	589.31	25.97	83.46
Total Assets (Billion UGX)	327	1.10	11121.00	636.81	1781.03
Frequency of management reports in a year	327	0.00	5.00	1.40	.873

In Table 4, the mean number of employees was 702.06, with a standard deviation of 1344.52. The number of employees could be as little as five or as high as 7,000. The findings indicate that there were extreme

values in the distribution of employees in CSOEs, justifying a standard deviation that was higher than the mean value. Working capital had a mean value of 74.24, Standard Deviation of 140.13, with a minimum of Ugx.0.6bn and a maximum of Ugx 592.42bn.Net fixed assets had a mean score of Ugx 591.71bn, with a minimum of Ugx.09bn and a maximum of Ugx 10525.30bn, respectively, and Standard Deviation of Ugx 1803bn.

The results in Table 4 further indicate that the mean value of EBIT of the CSOEs was Ugx 25.97bn with Standard Deviation of Ugx 83.46bn. The minimum value of Ugx   -125.87 indicates that some firms' returns were negative, while a maximum of Ugx 589.31 was attained by the firms. The fixed assets value was reported at Ugx 636.81bn and Standard Deviation of Ugx 1781.03bn suggesting that this item was characterized by extreme values among CSOEs as justified by a very low minimum value of Ugx 1.10 and very high maximum value of Ugx 11,121.00. The minimal worth of EBIT and a high mean value of total assets value justify a very low ROA and technical inefficiency. This inefficient performance position of CSOEs is further affirmed by the low frequency of management reports that were reported at 1.4 compared to the maximum of 5 by a few efficient firms.

Basing on the results, it is deduced that the strong aspects of performance of CSOEs in Uganda are increased total assets of the firms and growth in the number of employees. However, these are not backed by the desired returns (demonstrated by low and negative EBIT for some firms) and technical efficiency and managerial efficiency (demonstrated by inadequate reporting), hence rendering the latter a weak aspects of performance of CSOEs.

Three sub-variables were used to assess risk management in CSOEs. Risk identification, risk assessment, and risk response. The responses were graded on a five-point Likert scale, with 1 indicating strongly disagreement, 2 indicating disagreement, 3 indicating neutrality, 4 indicating agree, and 5 indicating strongly agree. The descriptive statistics for the outcomes are shown in the tables below.

Table 5: Descriptive statistics for Risk Identification

Risk Identification Indicators	N	Min.	Max.	Mean	SD
Organization periodically engages in anticipating the source of the problem that might affect the organization	327	3.00	5.00	4.14	.437
Organization endeavours to identify the internal sources of risk	327	2.00	5.00	4.26	.529
Organization endeavours to identify risks posed by the market in which it operates	327	1.00	5.00	3.74	1.179
Organization endeavours to understand the social environment in which it operates	327	2.00	5.00	2.34	.553
Organization endeavours to understand the technological environment in which it operates	327	2.00	5.00	4.16	.821
Organization endeavours to understand the legal environment in which it operates	327	1.00	5.00	4.15	.642
Organization endeavours to understand the political environment in which it operates	327	1.00	5.00	4.01	.823
Organization endeavours to understand the climatic environment	327	1.00	5.00	2.33	1.263

According to results in Table 5, with the exception of lack of commitment to understand the social environment in which they operate, and failure to understand the climatic environment with low mean values of 2.34 and 2.33 which represent disagreement, the respondents agreed with the rest of the aspects that were used to measure risk identification in CSOEs. These aspects are periodic engagement in anticipating the source of the problem that might affect the organization with the mean value of 4.14, identification of internal sources of risk with the mean value of 4.26, identification of the risks posed by the market in which they operate with a mean value of 3.74. The other positive aspects of risk identification with which the respondents agreed are a commitment by CSOEs to understand the technological environment indicated by a mean value of 4.16, commitment to understand the legal environment with a mean value of 4.15, and their zeal to understand the political environment with a mean of 4.01

It is thus deduced that the later aspects are strong attributes of risk identification by CSOEs in Uganda. The results concur with the assertion by Choi (2013) that successfully performing State-Owned Enterprises engage in periodic anticipation of the source of risks that might affect the organization which could be internal or the external market.

Table 6: Descriptive Statistics for Risk Assessment

Risk Assessment Indicators	N	Min.	Max.	Mean	SD
Organization often measures the magnitude of the hazard that has faced or are likely to face organization	327	1.00	5.00	3.43	1.35
Organization often understands who might be harmed by the likely hazard	327	2.00	5.00	3.99	.76
Organization often documents the risk faced or likely to be faced	327	2.00	5.00	4.00	.00
Organization periodically reviews and updates the hazards likely to be faced by the firm.	327	1.00	5.00	3.87	1.13

With the exception of failure by the CSOEs to measure the magnitude of the hazard that has faced or is likely to face organizations whose reported mean value was 3.43, the rest of the aspects are good attributes of risk assessment (Table 6 above). The aspects of commitment to understand who might be harmed by the likely hazard with the reported mean score of 3.99, documentation of the risks likely to influence the enterprises with reported mean value of 4.00, periodical reviews and updates the hazards likely to be faced by the firm, and the ability of CSOEs to periodically review and update the hazards likely to be faced by the firms with the reported mean value of 3.87 were analyzed. The results partly contrast the assertion by Jobst (2012) that successful enterprises should endeavor to measure the magnitude of risk that is likely to be faced by the organization, although other aspects are in agreement with the scholar's propositions.

Table 7: Descriptive Statistics for Risk Response

Risk Response Indicators	N	Min.	Max.	Mean	SD
Organization is insured against various types of hazards that it might face	327	1.00	5.00	3.79	1.01
Organization always avoids performing activities that may lead to losses	327	1.00	5.00	3.89	.95
Organization always takes over the risks it faces	327	1.00	5.00	3.39	.96
Organization has in place loss control measures	327	0.00	5.00	3.36	1.26

According to Table 7, two of the aspects namely insurance against various types of hazards that firms might face and avoid performing activities that may lead to losses are good attributes of risk response by CSOEs. This is indicated by the respective mean values of 3.79 and 3.89 which show that the respondents agreed with the items that were used to measure these attributes. The rest of the aspects, namely, taking over the risks faced by the firm, and possession of risk control measures are average aspects of risk response as indicated by neutral mean values of 3.39 and 3.36 respectively. The results concur with the assertion of OECD (2018a) which identifies risk insurance, and performing activities aimed at controlling risk as major risk response measures in state owned enterprises. While OECD (2018b) also mentions risk takeover as part of risk response, this is not largely practiced by CSOEs in Uganda which could be attributed to the risk insurance strategy adopted by enterprises.

Inferential Statistics and Hypotheses Testing

The general objective of the study was to assess the intervening effect of risk management on the relationship between corporate governance and the performance of CSOEs in Uganda. To address this, the following hypotheses were tested:

H_{01}: Risk management has no significant intervening effect on the relationship between shareholding proxied by government ownership (GOVOWN) and CSOEs performance in Uganda.

H_{02}: Risk management has no significant intervening effect on the relationship between board characteristics proxied by board attendance (BATT) and CSOEs performance in Uganda.

H_{03}:   Risk management has no significant intervening effect on the relationship between board composition proxied by board gender as measured by female board members (FBM) and CSOEs performance in Uganda.

To test the hypotheses, the causal-steps technique to investigate intervening suggested by Baron and Kenny (1986) were employed through the following steps:

Step 1: Fit a regression model that predicts the result variable using the independent variable as a predictor. A statistically significant relationship is required. The strategy to testing intervening used by Baron and Kenny (1986) assumes that the independent variable is a significant predictor of the dependent variable.

Step 2: Demonstrate that the independent variable and the mediator are connected. Treating the mediator as though it were an outcome variable.

Step 3: Control for the independent variable and estimate the connection between the mediator and the dependent variable. Demonstrate that the mediator has an effect on the dependent variable.

Step 4: In the presence of the mediator, confirm the insignificance or meaningful reduction in the influence of the relationship between the independent variable and the dependent variable. The independent variable's effect on the dependent variable should be zero when the mediator is taken into account.

To test whether risk management mediates the relationship between shareholding and the performance of CSOEs in Uganda, the null hypothesis H_{01} that risk management has no significant effect on the relationship between government shareholding (GOVOWN) and CSOEs performance in Uganda was tested. In step 1 of the intervening model, FP was regressed on GOVOWN to determine the relationship between FP and GOVOWN while disregarding the mediator - risk management. The results are shown in Table 8 below, which indicates that the explanatory power of the model was low at 2.37 percent, implying that 97.63 percent of the changes in firm performance was explained by other variables not included in this model.

With respect to statistical significance, the overall model was significant since the p-value of 0.0127 was less than α-value of 0.05. According to these findings GOVOWN had a statistically significant effect on FP of CSOEs in Uganda. Further, GOVOWN was statistically significant (p-value of 0.016 was less than 0.05), indicating that the regression coefficient for GOVOWN differs from zero.

Table 8: Regression Model of Government Ownership and Firm Performance

Firm Performance	β Coefficient	t	p>t
GOVOWN	0.249	2.14	0.016
_cons	2.133	1.73	0.059
R-squared	0.0237		
F(1, 290)	5.42		
Prob > F	0.0127		
Number of Enterprise_ID	34		

In step 2 of the intervening model, risk management (Risk Mgt) was regressed on GOVOWN to analyse the relationship between Risk Mgt and GOVOWN. From Table 9 below, the whole model was statistically significant since the p-value of 0.0000 was less than α-value of 0.05. From these findings GOVOWN had an effect on Risk Mgt of CSOEs in Uganda. The R^2 value was 0.171, indicating that GOVOWN explained 17.1 percent of the variance in Risk Mgt.

Table 9: Regression Model of Risk Management on Government Shareholding

Risk Management	β Coefficient	t	p>t
GOVOWN	0.263	6.52	0.000
_cons	2.880	20.67	0.000
R-squared	0.171		
F(1, 290)	54.81		
Prob > F	0.0000		
Number of Enterprise_ID	34		

In step 3 of the intervening model, FP was regressed on Risk Mgt to analyse the effect of Risk Mgt (intervening) on the dependent variable (FP). From Table 10 below, the whole model was statistically significant since the p-value of 0.0383 was less than α-value of 0.05, hence Risk Mgt had an effect on FP. In addition, Risk Mgt accounted for 1.5 percent (low explanatory power) of the variance in the performance of CSOEs in Uganda.

Table 10: Regression Model of Risk Management and Firm Performance

Firm Performance	β Coefficient	t	p>t
Risk_Mgt	0.906	2.08	0.038
_cons	1.002	0.58	0.56
R-squared	0.015		
F(1, 290)	4.33		
Prob > F	0.0383		
Number of Enterprise_ID	34		

In step 4 of the intervening model, FP was regressed on GOVOWN and Risk Mgt. From Table 11 below, the total model was not statistically significant since the p-value of 0.0573 was greater than α-value of 0.05, thus the null hypothesis (H_{01}) was not rejected. This meant that risk management did not intervene on the relationship between GOVOWN and CSOEs performance in Uganda.

Table 11: Regression Model for Government Ownership, Risk Management and Firm Performance

Financial Performance	β Coefficient	t	P>t
GOVOWN	0.189	1.66	0.064
Risk_Mgt	0.630	1.31	0.202
_cons	0.25	0.14	0.715
R-squared	0.021		
F(2, 289)	3.46		
Prob > F	0.0573		
Number of Enterprise_ID	34		

The findings contradict those of Ebenezer et al. (2016). This study looked at the effect of risk management practices on firm performance in Nigeria with a specific focus on banking firms. The findings established that failing to identify and mitigate risk leads to waste, which often leads to failure and low profit margins for businesses. This shows that when government owns majority of the shares, it will have majority directors on the board. These directors will be more effective at controlling various risks that may arise, resulting in improved business performance.

To determine whether risk management affects the relationship between board characteristics proxied by attendance (BATT) and the performance of CSOEs in Uganda, the null hypothesis H_{02} that risk management has no significant effect on the relationship between board attendance and the performance of CSOEs in Uganda was tested. Again, Baron and Kenny (1986) four step model for testing intervening was adopted.

In step 1, of the intervening model, FP was regressed on BATT to analyze the relationship between the independent (BATT) and dependent (FP) variables while disregarding the intervening variable (Risk Mgt). From Table 12 below, the overall model was statistically significant since p-value of 0.0010 was less than α-value of 0.05.

Table 12: Regression Model of Board Attendance and Firm Performance

Financial Performance	β Coefficient	t	p>t
BATT	-5.31	-3.33	0.001
_cons	10.20	5.97	0.000
R-squared	0.0368		
F(1, 290)	11.08		
Prob > F	0.0010		
Number of Enterprise_ID	34		

In addition, Table 12 above showed that BATT had a statistically significant relationship since p-value was less than 0.05 and accounted for 3.68 percent of the variance in performance of CSOEs in Uganda.

In step 2 of the intervening model, Risk Mgt was regressed on BATT to determine the relationship between the mediator (Risk Mgt) and Board Attendance (independent variable). From Table 13 below, the overall model was statistically significant since the p-value of 0.0028 was less than α-value of 0.05. Further, BATT was statistically significant and accounted for 3.03 percent of Risk Mgt variance.

Table 13: Regression Model of Board Attendance and Risk Management

Risk Management	β Coefficient	t	p>t
BATT	0.645	3.01	0.003
_cons	3.23	14.10	0.000
R-squared	0.0303		
F(1, 290)	9.06		
Prob > F	0.0028		
Number of Enterprise_ID	34		

In step 3 of the intervening model, FP was regressed on Risk Mgt to analyze the relationship between the dependent variable (FP) and Risk Mgt (intervening variable). From Table 14 below, the whole model was statistically significant since the p-value of 0.038 was less than α-value of 0.05. This means that FP was statistically significant and the results further indicate that Risk Mgt accounted for 1.5 percent of the variance in the performance of CSOEs in Uganda.

In step 4 of the intervening process, FP was regressed on BATT and Risk Mgt. The linear regression analysis findings are provided in Table 15 below. As Table 15 below shows, the explanatory power was low ($R^2 = 0.0615$) meaning that 6.15 percent of the changes in financial performance was explained by BATT and Risk_Mgt, whereas 93.85 percent was explained by other variables not included in the model. The overall model was statistically significant ($p<0.05$) and thus the null hypothesis (H_{02}) that risk management had no significant intervening effect on the relationship between board attendance and the performance of CSOEs in Uganda was rejected. Risk Management, therefore, intervened in the relationship between firm performance and BATT. In addition, the constant, BATT and Risk_Mgt were significant, since their corresponding p-values were less than 0.05. The predictive equation was FP = 6.350 - 6.075BATT + 1.191Risk_Mgt meaning that a unit change in BATT and Risk_Mgt, would on average, decrease and increase firm performance of CSOEs in Uganda by 6.075 and 1.191 units respectively, thus it is more prudent to invest in Risk_Mgt.

Table 14: Regression Model of Risk Management and Firm Performance

Firm Performance	β Coefficient	t	P>t
Risk Management	0.906	2.08	0.038
_cons	1.002	0.58	0.56
R-squared	0.015		
F(1, 290)	4.33		
Prob > F	0.038		
Number of Enterprise_ID	34		

Findings in regard to risk management on the relationship between board attendance and performance of CSOEs, established that the whole model was statistically significant. This implied that risk management mediated the relationship between FP and BATT. Therefore, hypothesis H_{02} that risk management has no significant effect on the relationship between Board Attendance (BATT) and the performance of CSOEs in Uganda was rejected. The results implied that the number of times a board member attends has a bearing on the firm's risk management and ultimately its performance. This also means that boards should create specific committees, such as a risk committee, to handle the risks that the company faces, and have minimal effect on business performance when it comes to risk management. These findings are supported by Lipton et al' (2019) study which concluded that, while corporate risk-taking and risk monitoring remain

prominently on board of directors' minds, specific sub-committees, particularly risk management committees, play specific roles in this respect.

Table 15: Regression Model of Board Attendance, Risk Management and Firm Performance

Firm Performance	β Coefficient	t	P>t
BATT	-6.075	-3.79	0.000
Risk_Mgt	1.191	2.76	0.006
_cons	6.350	2.89	0.004
R-squared	0.0615		
F(2, 289)	9.46		
Prob > F	0.0001		
Number of Enterprise_ID	34		

To determine if risk management intervenes the relationship between board composition proxied by gender and the performance of CSOEs in Uganda, null hypothesis H_{03}: risk management had no intervening effect on the relationship between Female Board Members (FBM) and CSOEs performance in Uganda was tested. Baron and Kenny (1986) four step model for testing intervening was adopted in testing this hypothesis.

Table 16   Regression Model of Female Board Members and Firm Performance

Firm Performance	β Coefficient	t	P>t
FBM	5.69	2.58	0.01
_cons	1.64	1.43	0.154
R-squared	0.023		
F(1, 290)	6.67		
Prob > F	0.0103		
Number of Enterprise_ID	34		

In step 1 of the intervening model, FP was regressed on FBM to analyze the relationship between the dependent variable (FP) and independent variable (FBM) while disregarding the mediator (Risk_Mgt). From Table 16 below, the whole model was statistically significant since the p-value of 0.0103 was less than α-value of 0.05.

From Table 16 above, the overall model was significant since p-value of 0.0103 was less than α-value of 0.05 and FBM was also statistically significant since p-value of 0.01 was less than α-value of 0.05. Further, FBM accounted for 2.3 percent variance in performance of CSOEs in Uganda.

In step 2 of the intervening model, Risk_Mgt was regressed on FBM to analyze the relationship between the intervening variable (Risk_Mgt) and FBM (the independent variable). The whole model was not statistically significant as p-value of 0.105 was more than α-value of 0.05 as shown in Table 17 below. Consequently, steps 3 and 4 for testing intervening effect suggested by Baron and Kenny (1986) were not done. This implied that null hypothesis (H_{03}) Risk_Mgt had no intervening effect on the relationship between FBM and CSOEs performance in Uganda was not rejected. This meant, that Risk_Mgt had no intervening effect on the relationship between FBM and CSOEs performance in Uganda.

Table 17: Regression Model of Female Board Members and Risk Management

Risk Management	β Coefficient	t	P>t
FBM	0.483	1.63	0.105
_cons	3.67	23.83	0.000
R-squared	0.009		
F(1, 290)	2.64		
Prob > F	0.105		
Number of Enterprise_ID	34		

The results indicated that risk management did not mediate the relationship between corporate governance and CSOEs performance when board gender was used as a proxy for corporate governance. This contradicts the findings by Chen, Ni, and Tong (2016) who established that companies with a critical mass of female board members address risk more holistically and extract a little more value out of their decisions. According to research from the International Monetary Fund, adding only one woman to a board while maintaining the size of the board unchanged is connected with a greater return on assets (Chen et al., 2016). This shows that in corporate risk management, the ratio of female to male board members is important. The study further established that the overall female composition is 26.7 percent which was above the 25

percent recommended female representation on the board (Chang, 2020). This suggested that the ratio of female board members be increased to improve on risk management by CSOEs.

Conclusions and Recommendations

The study examined corporate governance, risk management, and the performance of CSOEs in Uganda. Gaps in corporate governance were studied because of their importance in enhancing management efficiency and hence performance of CSOES. Risk is one of the key constructs to take note of in organizations to enhance performance. Governmental ownership through their directors on the boards are effective in managing various risks that may emerge leading to improved firm performance compared to small boards that may be overwhelmed by many firm activities leading to failure in effectively monitoring firm activities.

The study established that risk management did not mediate the relationship between shareholding and firm performance using government ownership as the proxy for shareholding. Consequently, null hypotheses H_{01} was not rejected. This means that risk management and hence performance of CSOEs do not change with a change in government shareholding. Risk management was a mediator of the relationship between corporate governance and CSOEs performance when board attendance was used as a proxy for board characteristics. Consequently, the null hypotheses H_{02}, was rejected. Risk management mediated the relationship between board characteristics and CSOEs performance when board attendance was used as a proxy for corporate governance. Risk management was not a mediator of the relationship between corporate governance and CSOEs performance when board gender was used as a proxy for board composition. Consequently, the null hypotheses H_{03}, was not rejected. This means that risk management and CSOEs performance do not change with a change in board composition.

In their attempt to mitigate risk to improve their performance, CSOEs need not mind government ownership and the proportion of women on boards of directors. However, CSOEs should strictly monitor the number of times board members attend meetings because this has an effect on the firm's risk management and hence their performance. Therefore, CSOEs should improve on the frequency of board meetings to minimise risk and improve on their performance.

The study's findings are important to Uganda's commercial state enterprises' policy-making divisions. For example, CSOE boards may use the findings of this study to develop guiding policies for their ownership, board characteristics, and board composition to manage risk and improve their performance. It was discovered, for example, that CSOEs with frequent meetings of board members stand a high chance of mitigating risk and improve their performance. Therefore, a policy can be formulated to ensure that boards organize meetings frequently to mitigate risk and improve on their performance.

This study only considered quantitative data and did not capture the qualitative data on corporate governance and the performance of CSOEs. Future research in related areas could consider triangulating methods to fill this methodological gap. In addition, this study was narrowed to CSOEs. However, further research can be undertaken in a wider context combining both commercial and non- commercial CSOEs.

In this study, the dependent variable looked at how both financial (Return on Assets) and non-financial performance (Management efficiency) were affected by corporate governance. Future research can be carried out to find how corporate governance influences financial performance alone or how corporate governance influences non-financial performance alone.

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