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Uncovering the Board's Role: The Use of Confirmatory Factor Analysis As An Investigative Tool In Malawi

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Abstract: The main purpose of this study is to analyse the key Board roles that improve the performance of directors in Malawi. The research investigates tasks that the board must execute to enhance its performance, ultimately contribute to the achievement of entity's strategic goals. The study adopted the cross sectional survey design. A questionnaire was used to collect data from 174 board members who were drawn from board of directors from stock exchange listed companies, state owned enterprises, private companies and non governmental organisations. Data was analysed using IBM SPSS version 20. Descriptive and Confirmatory Factor Analyses were used to determine the key roles of the board. Findings suggest that the control, strategic and service are the key board roles in Malawi. The results further show that the control role is more significant than the other two roles. Using perceptions of the board, this study renders initial verifiable evidence of the significant roles of the board in Malawi. As such, the outcome of this study will be of interest to many corporate governance stakeholders including shareholders, board members, academia and regulatory bodies..

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INTRODUCTION

A critique of corporate governance literature reveals that there is a general consensus by most corporate governance scholars that the boards' efficacy and contribution to the organisation is measured by the magnitude of the boards' accomplishment of their roles (Rejeb et al., 2020). Consequently, research has intensified around the role of the Board of directors in entities so as to provide an objective basis for effective assessment of the performance of the Board (Macleod, 2019). Unfortunately, the board's role has been evolving for the past two decades and continue to do so in the light of leading changes in regulations, practice and expectations in the corporate governance landscape (Zattoni & Pugliese, 2021; Filatotchev et al., 2020).

According to Bezemer et al., (2023), there are three main drivers behind these key changes. First, the global financial crisis, which was characterised by huge accounting fraud in entities such as Enron, Parmalat and WorldCom and the subsequent unanticipated downfall of big financial institutions like Leyman Brothers and Merrill Lynch. In response to this crisis, a number of regulations were put in place in form of legislation and codes of best practices in corporate governance. This resulted in major modification of the roles and duties of directors. One key change was the emphasis of directors' independence and the monitoring role (Cuomo et al., 2016).

The second driver relates to changes in ownership structures of entities leading to more shares being owned by institutional investors domiciled Worldwide. Institutional and international shareholders expect their investments to grow through, among other means, change of entity direction and strategy. This expectation, for instance, implies that the board has to prioritise the strategic role over other equally important roles (Du Plessis, 2008). Lastly, stakeholders are persistently pressuring organisations to attend to the society in which they operate. This growing pressure on entities to maintain the environment and address social issues, currently being collectively referred to as ESG (Environmental Social and Governance), has far reaching implications on the composition, skills set, general roles of the board members and corporate purpose (Flammer & Loannou, 2021), if entities are to meet these expectations.

In the context of Malawi, the adoption of the revised Code of best practice in corporate governance in 2010 and the enactment of the new Companies Act in 2013 brought about changes in the roles of the boards. The rationale was that with these two instruments the corporate governance landscape in Malawi will improve thereby reducing corruption, improving general transparency and trustworthiness in entities and the economy at large. It was further expected that then chances of accessing cheaper capital would be boosted resulting in sustainable businesses and in the end sustainable development for the country.

Given these drivers of change and other emerging ones such as geopolitics, pandemics, cybersecurity and climate change, regular update of key roles that the board play in an entity is critical so as to find a fair basis for assessing their performance and more so, recommend appropriate interventions in case certain roles are not able to assist entities achieve their strategic objectives. This study, therefore, aimed to determine the key board roles that can improve the performance of directors in Malawi, an emerging economy. Findings of this research will have implications to many corporate governance stakeholders such as shareholders, board members, academia and regulatory bodies.

LITERATURE REVIEW

The roles of the board have, historically, been informed by a wide range of sources. Some of these sources are theory, research, legislation and codes of best practices in corporate governance. The next subsections provide more details of each of the four roots of the board's roles.

Theory and Research

Studies by corporate governance scholars have categorised the various tasks performed by the board into three interrelated roles of the control role, strategic role and the service role (Nalukenge et al., 2017). These are explained as follows:

Control Role

According to Bananuka et al., (2019), the control role of the board, focuses on monitoring entity managers with the ultimate goal of protecting the shareholders wealth. This role is based on the agency theory which suggests that managers of entities (agents) pursue interests that are incompatible with those of the owners (principals). In this case, the major duty of the board is to oversee actions of managers to ensure efficiency so that the interest of owners are protected (Kamardin & Haron, 2009). Some of the strategies the board employs to achieve its mission, under this role, are to appoint top executives, incentivise, evaluate their effectiveness and impact to entity performance, oversee operational activities and monitor strategy implementation to ensure that owners interests are protected and aligned to those of executives (Sanches et al., 2017). To improve the quality of the monitoring and information asymmetry, owners appoint more non-executive directors and put in place an arrangement where CEOs are separate from board chairpersons (Kamardin & Haron, 2009). From this brief description, it is noticeable that the control role is mainly focused on addressing the agency costs and maximising owners' value. As such, the board is deemed to be playing a conformance role.

Strategic Role

The board's strategic role, on the other hand, is concerned with the board taking part in setting and reviewing the mission, vision, and ethical tone. It is also involved in the choice and reinforcement of the execution of selected strategies of the entity (Tumwebaze et al., 2022). As regards the origin, the strategic role resides its rationale in the stewardship theory which emphasise the performance function or stewardship role of the governing body. The theory hold that managers have no motivation problem and that there is no misalignment of interests between them and the owners. According to this theory, to maximise their value, owners of entities must have their boards dominated by executive directors. Furthermore, entities must have their boards chaired by the entity CEOs as these are said to have adequate knowledge of the entities hence better placed to lead them to higher performance (Hanniffa & Cooke, 2002). Based on this discussion it can be concluded that the strategic role emphasises the board's performance and stewardship function.

Service Role

Lastly, the service role of the board originates from the resource dependency theory. In line with this theory, Jansen (2021) identifies four dimensions of the board's tasks under this role, namely: (a) provision of advice and counsel to management using their specialised knowledge. According to Jansen, this task helps to improve the quality of management decisions thereby enhancing entity performance; (b) acquiring vital resources to be used in implementation of the entity's selected strategies; (c) networking for purposes of meeting some of the entities' needs like funds through fund raising as well as co-opting external influencers. In case of networking, Rejeb et al., (2020) argue that directors' with external networks are able to exploit information they obtain from their connections to assist in improving existing products or introducing new ones in their current directorship entities. and (d) enhancing entity reputation. Based on this explanation, it can be concluded that the service board role is about the boards' function of resource provision.

Legislation

In Malawi, the board's duties are contained in Sections 176 through to 184 of the Companies Act No. 15 of 2013. Under section 176, the law generally demands that directors must abide by the company's constitution. Specifically, board members must be sincere in their actions (S.177) and exercise independent judgement (S.178) for the benefit of the members of the company. It further demands that directors must exercise reasonable care, skill and diligence (S.178) when dealing in company business as well as avoid situations where there could be competing interests with the company (S.180). Finally, there are other general requirements which directors must equally comply with including not to receive gifts from outsiders, register interest in proposed dealings or arrangements and also abide by any code of corporate governance that may be imposed. Consequently, most of these duties relate to the board's control role.

Codes of best Practices in Corporate Governance

Four codes of best practices are described under this section. Two international (the G20/OECD code and the UK code), one regional from South Africa (King IV code) and a national one (Malawi Code II).

G20/OECD Principles of Corporate Governance

The G20/OECD principles of corporate governance (2023) under section V provide the following key functions of the board:

a) Reviewing and guiding corporate strategy, major plans of action, annual budgets and business plans; setting performance objectives; monitoring implementation and corporate performance; and overseeing major capital expenditures, acquisitions and divestitures. (P.36)
b) Reviewing and assessing risk management policies and procedures. (P.36)
c) Monitoring the effectiveness of the company's governance practices and making changes as needed (P.36).
d) Selecting, overseeing and monitoring the performance of key executives, and, when necessary, replacing them and overseeing succession planning (P.37).
e) Aligning key executive and board remuneration with the longer term interests of the company and its shareholders (P.37).
f) Ensuring a formal and transparent board nomination and election process. (P.38).
g) Monitoring and managing potential conflicts of interest of management, board members and shareholders, including misuse of corporate assets and abuse in related party transactions. (P.38).
h) Ensuring the integrity of the corporation's accounting and reporting systems for disclosure, including the independent external audit, and that appropriate control systems are in place, in compliance with the law and relevant standards. (P.38).
i) Overseeing the process of disclosure and communications. (P.39)

In this regard, it can be seen that the responsibilities covered by the code are in line with the two key roles of the board of control and strategic roles.

UK Corporate Governance Code

Similarly, the UK corporate governance code (2024) underscores the role of the board in section 1 article A and B, as " to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society"(P.6). It also charges the board with the responsibility to "ensure that the necessary resources, policies and practices are in place for the company to meet its objectives and measure performance against them" (P.6). Finally, that "The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are all aligned"(P.6). By way of emphasis, the UK corporate governance code requires that directors must act with integrity, lead by example and promote the desired culture. In conclusion, unlike the G20/OECD code, the provisions in this code are consistent with all the three roles described in the earlier subsections.

King IV Report on Corporate Governance for South Africa

Likewise, the King IV report on corporate governance for South Africa (2016), under part 4, hold that the board's role is "to steer and set strategic direction, approve policy and planning, oversee and monitor, and ensure accountability" (P.40). Though in a summarised manner, the King IV report on corporate governance for South Africa covers all the three key boards roles of control, strategic and service.

The Malawi Code II: Code of best Practice for Corporate Governance

Finally, the code of best practice for corporate governance in Malawi (2011) - The Malawi Code II, presents an elaborate and long prescriptive list of roles of the board in section 4 from subsection 4.1 to 4.18. The code covers all the three key board roles. The following are examples picked from the list: Section 4.1:11 addresses the control role when it stipulates that the board must "ensure that the organisation complies with all relevant laws, regulations and codes including the Malawi Code II, and, if appropriate, ask executive management to report periodically on such compliance"; similarly the strategic role under S.4.3:12: "determine the organisation's mission, values and objectives, ensure that a strategy is in place to achieve these and hold management accountable for its implementation"; and lastly the service role is depicted under S.4.12:12: "as part of its decision making process, take into consideration wider societal interests and other circumstances affecting how the organisation fulfills its *license to operate*".

In conclusion, based on the analysis of the a fore codes, the governance practices in Malawi are largely similar to those practiced by member countries of the G20/OECD, UK and South African especially in terms of the roles of the board. All the codes point to the fact that the board has to undertake the three roles of control, strategic and service in their entities. Another strength of the Malawi code is that it provides for sector specific codes so as to address issues that are particular for each sector. However, since the Malawi code has not been updated since 2010, it does not address in detail, recent and emerging issues such as environmental and social risks, sustainability and resilience. In addition, while the Malawi code attempts to be principle based, unlike the UK and South African codes, it does not advocate for the outcome based approach, which assists to demonstrate the impact of governance activities being undertaken. Lastly, the Malawi code requires the board to state in their annual reports whether they have complied with the code or explain why they have not complied. The UK and South African codes, on the other hand require that the board should comply and explain the reasons as the explanation allows stakeholders to make informed decisions as to whether or not the entity is achieving the governance outcomes. The explanation also helps to encourage entities to see corporate governance not as a tick the box exercise but as something that will yield results only if tactfully approached (King IV, 2016).

METHODS

Design and Sample

The research took the cross sectional and quantitative design. The questionnaire comprised items on roles of the board and was distributed to directors in Malawi. The research population comprised 1, 424 directors who were drawn from 356 entities. The entities consisted of all entities listed on the Malawi Stock Exchange (16), all state-owned enterprises in Malawi (69) and entities who were members of the Malawi Confederation of Chambers of Commerce and Industry (271). The target was to have 4 respondents (chairperson of the board, CEO/MD, company secretary and a non-executive director) from each entity (4*356 = 1, 424). The selection of these was based on their corporate governance knowledge and also that they take part and collaborate with fellow board members on the board (Kamardin & Haron, 2009). Using a formula by Yamane 1967, 312 prospective respondents were selected (sample). The formula states that $n = N/[1+N(e)^2]$, where n represents the number of prospective respondents (sample size), N is the study population and e is the tolerable error. Applying the formula with a population (N) of 1, 424 directors and tolerable error of 0.05, a sample size of 312 was generated. A stratified sampling method was applied to determine the number of directors to choose in each of the three strata (of stock exchange listed companies, state owned enterprises and private companies/NGOs). This was followed by selecting directors in each stratum, specifically targeting directors from large entities as large entities have a higher chance of practicing effective corporate governance.

Data Collection Instrument and Measurement

Data was collected using a questionnaire, considering that this was the first ever research exploring the key roles of the board in Malawi using directors' perceptions (Bananuka et al., 2019). The questionnaire contained 20 items in which respondents were required to state the extent of their agreement to the given items on a five-point Likert scale. The scale ranged from "strongly disagree" (denoted by 1), "neutral" (3) to "Strongly agree" (5). The questionnaire was, initially, given to 5 directors and 5 academicians to pilot test it. The directors considered the questionnaire in terms of clarity, meaning, relevance of the items as well as challenges in responding to the questionnaire. The academicians on the other hand used their experience in research to provide suggestions on the instrument. All comments from the directors and proposals from academicians were incorporated to produce a final questionnaire. Before administering the tool, an application for approval was sought from the head of each of the sampled entities to collect data from their directors and if granted to use the company secretary to provide email addresses of the targeted respondents. The questionnaires were sent by email to respective respondents. Reminders through emails and phone calls yielded 174 eligible completed questionnaires for analysis.

All the 20 statements in the questionnaire relate to roles of the board and have been adapted from literature (Huat, 2006). These statements were selected because they depict most of the recommendations in the Code of Best Practice for Corporate Governance in Malawi (2011) and other literature on board roles (Bananuka et al., 2019). To operationalise the statements, a five item Likert-scale was used. Mean scores on each role were calculated and greater numbers represented the significance of the role to the board performance as depicted in Table 1. To determine key roles of the board, a Confirmatory Factor Analysis was performed on all items in the questionnaire, such that those that had loadings of 0.7 and above were picked (Nakulukenge, 2020). however, loadings between 0.4 and 0.5 could also have been maintained (Henseler et al., 2009).

Data Analysis, Validity and Reliability

Data were analysed by IBM SPSS statistics version 20. To obtain the key board roles, two complimentary tests were undertaken. First, descriptive statistics for each task in the board roles was performed. Rankings of each task was on the basis of the mean value of the task. Secondly, the results of the descriptive statistics were confirmed by running a confirmatory factor analysis in order to establish the tasks that constitute key roles of the board in Malawi. The board role tasks were assessed for validity and reliability whose results are depicted in Table 3. The board roles loadinsg from a confirmatory factor analysis and cronbach's alpha values were all above 0.7, implying that the variables were valid and reliable hence used in this research (Nalukenge, 2020).

Table 1: Measurement of Variables

Variable	Acronym	Measurement
Control role	control	Mean scores of the respondents' ratings of the eight statements on the questionnaire.
Strategic role	strategic	Mean scores of the respondents' ratings of the six statements on the questionnaire..
Service role	service	Mean scores of the respondents' ratings of the six statements on the questionnaire.

RESULTS AND DISCUSSION

Response Rate

Out of 312 questionnaires which were distributed, 174 were duly completed, translating into a response rate of 56%. This rate is acceptable and higher than those obtained by most researchers in surveys involving directors, given that directors are extremely busy people (Barroso-Castro et al., 2017).

Demographic Characteristics

The majority of the respondents were male (71%), aged between 40 and 59 years (76%), with Master's degree and above (90 %). This means that respondents to this study were mature and educated and therefore expected to understand the contents of the questionnaire and objectively interpret it. In addition, most of the respondents were non-executive directors (48%), seconded by CEOs (33%), then, Board chairpersons (10%) and Company secretaries (9%). In terms of experience on the board, respondents to this study had served on boards for a wide range of periods including between 3 and 6 years (33%), less than 3 years (25%), 7 and 10 years (20%), 15 and more (13%) and 11 and 14 years (9%), implying that they had adequate practical experience in corporate governance to interpret board's roles. Lastly, Respondents from Nongovernmental organisations (31%) dominated the study followed by state-owned entities (28%). Other respondents came from private companies (26%) and Malawi stock exchange listed companies (15%).

Descriptive Statistics

Table 2 sets forth descriptive statistics of the items used in this research. The table show that the standard deviation range from 0.430 to 0.863, which is low. The low standard deviation suggests that there was generally a consensus on the board of directors responses, despite a few with divergent views as depicted by the wide range of responses from a minimum of 1 to a maximum of 5 on the Likert scale. Besides, the standard error of mean range from 0.033 to 0.066, which is also generally low, implying that the sample mean closely represent the population mean. Lastly, the mean scores range from 4.0 to

4.757 on a Likert scale of 5. This means that respondents felt that all the items (tasks) in the questionnaire were considered to be important ingredients of the three board roles of control, strategic and service. These results uphold recommendations of codes of best practices in corporate governance such as the UK corporate governance code (2024), King IV report on corporate governance for South Africa (2016) and Malawi Code II (2011) which also emphasise the control, strategic and service board roles in their recommendations.

However, based on the mean rankings, the control roles were highly ranked seconded by service and then strategic roles. This suggests that respondents felt the control roles were more significant to the board performance than the other two roles in that order (Table 2).

Table 2: Descriptive Statistics and Ranking of Board Roles

Rank		Mean	SD	Std Error of Mean	Min	Max
1	Review entity performance against set objectives (CON)	4.757	0.430	0.033	4.00	5.00
2	Review entity performance against strategic plan (CON)	4.757	0.456	0.035	3.00	5.00
3	Annually evaluate CEO performance (CON)	4.711	0.492	0.037	3.00	5.00
4	Annually evaluate entity performance (CON)	4.680	0.548	0.042	2.00	5.00
5	Select a competent CEO (CON)	4.640	0.591	0.045	2.00	5.00
6	Develop entity performance objectives (CON)	4.640	0.591	0.045	2.00	5.00
7	Take into account interest of stakeholders (SER)	4.576	0.552	0.042	3.00	5.00
8	Engage in succession planning of CEO (CON)	4.521	0.607	0.046	2.00	5.00
9	Develop and review mission, vision and strategic goals (STR)	4.503	0.653	0.050	1.00	5.00
10	Provide advice to management (SER)	4.503	0.670	0.051	1.00	5.00
11	Benchmark entity strategic plan against industry (STR)	4.494	0.626	0.048	2.00	5.00
12	Annually identify strategic direction for the entity (STR)	4.491	0.616	0.047	2.00	5.00
13	Provide alternative views as NEDs in the board ((SER)	4.468	0.615	0.047	3.00	5.00
14	Reward CEO performance ((CON)	4.457	0.694	0.053	2.00	5.00
15	Continuous review of implementation of strategic plan (STR)	4.451	0.668	0.051	2.00	5.00
16	Continuous update with environmental trends in which entity is trading (STR)	4.439	0.667	0.051	2.00	5.00
17	Refine and initiate alternatives to strategic plan (STR)	4.399	0.671	0.051	2.00	5.00
18	Promote interest of stakeholders (SER)	4.337	0.759	0.058	1.00	5.00
19	Provide a channel to interact with other entities (SER)	4.064	0.801	0.061	1.00	5.00
20	Serve as a link with Government agencies (SER)	4.000	0.863	0.066	1.00	5.00

CON: Control Role; STR: Strategic Role; and SER: Service Role

Confirmed Key Board Roles in Malawi

Regarding significant roles of the board, factor analysis has confirmed 9 items (tasks) out of 20 in the study which come from all the three areas of control, strategic and service board roles as depicted in Table 3. In the context of Malawi, these three roles are significant in so many ways. For instance the control role ensures that the entity abides by all the set rules and regulations from both inside and outside the entity environment. This assist entities to follow prescribed good practices thereby maximising their productivity but also avoid penalties from regulatory bodies. Similarly, the strategic role assist in enhancing performance whereas the service role ensures that the entity receives the right counsel and resources needed to realise its strategic goals. This outcome is in agreement with findings of the study by **Pastra (2017)** who concluded that the key board roles are control, strategic and service such that a board is deemed to have performed if it has executed them all.

However, the outstanding roles of the board under the control role have been confirmed to be reviewing the entity performance against set objectives, annually evaluating the CEO performance, developing the entity's objectives and reviewing the entity's performance against the strategic plan. These findings are consistent with those found by Nalukenge (2020) who found that monitoring performance of management and senior management recruitment are part of the board's control roles in micro finance institutions in Uganda. The board in Malawi is therefore encouraged to prioritise these key control tasks in order to better their performance.

Similarly, on the strategic roles, the outcome of the current study are consistent with studies by Bananuke et al., (2018) who concluded that defining the business, developing the mission and scanning the environment are key tasks of the board's strategic role. This suggests that the board in Malawi must provide strategic direction for the entity through participation in development and review of the mission, vision and strategic goals of the entity as well as being up to date with the environmental trends in which the entity is trading as also demonstrated by this study.

Furthermore, the findings pertaining to the service role, suggests that main roles under this spectrum are to provide linkages with other entities through provision of a channel for interaction with other entities. This outcome is in agreement with the findings of Bananuke et al., (2018), who noted that such channels for interaction ensure availability of resources and enhancement of entity reputation. Likewise, the findings on the board acting as a link with government agencies and taking into account interest of stakeholders' confirm those of Castellanos & George (2020) who asserted that linkages to and taking into account stakeholders interest including government agencies contributes to better quality of decisions and hence positively impact long-run entity sustainability and performance.

Lastly, the control role has been confirmed to be the most significant role out of the three roles in the study (Table 3). This finding is consistent with the study by Sanches et al., (2017) who asserted that the critical tasks that are undertaken under the control role are likely to positively impact the performance of the entity. They cited tasks like recruitment and monitoring of performance of the CEO and senior management, approving policies, reviewing entity strategies and its performance against its objectives and strategic plan as well as monitoring operational performance. Further, the emphasis on the control role by the Malawi Companies Act 2013, is equally vindicated by the study findings in the Malawian context. Despite the control role dominance in significance, it is surprising that the highest item (tasks) in terms of significance, comes from the service role i.e. "provide a channel to interact with other entities". This result contrast previous studies by Nalukenge, (2020) whose confirmatory analysis results involving micro finance institutions in Uganda found "monitoring management" under the control role as the most significant role.

Table 3: Confirmed Factors for Board Roles

Variable	Board Roles	Item Loadings	Cronbach
			0.912
Control	Review entity performance against set objectives	0.811	
	Annually evaluate CEO performance	0.765	
	Develop entity performance objective	0.728	
	Review entity performance against strategic plan	0.727	
Strategic	Develop and review mission, vision and strategic goals	0.725	
	Constantly update with environmental trends in which entity is trading	0.704	
Service	Provide a channel to interact with other entities	0.832	
	Serve as a link with Government agencies	0.794	
	Take into account the interest of stakeholders	0.701	

CONCLUSION

This study aims at exploring the key roles of the board that improve the performance of directors in Malawi. Data were collected from 174 board members drawn from entities listed on the Malawi

Stock Exchange, State Owned Enterprises, Private Companies and Non Governmental organisations. The study has found the control, strategic and service roles to be the key roles of the board in Malawi, with the control role being more significant than the other two roles.

The outcome of this research will be of interest to stakeholders such as shareholders, boards, academia and regulators. For shareholders and boards, if they are to evaluate the board performance and also ensure that the long term entity performance is achieved, this study has provided initial empirical evidence of key roles of the board in Malawi which must be emphasised. Similarly, the academia is now aware of the key board roles in Malawi and which one is more significant. Lastly, the empirical evidence from this study is expected to contribute to the improvement of the efficiency of the regulators monitoring role of entities under their watch, given that there is now empirical evidence of key tasks that must be performed.

As is true with any research, this study has some limitations, including that it was cross sectional. This means that it was not possible to monitor changes of behaviours overtime. Further, since the research employed closed ended questionnaires, respondents could not provide detailed and alternative views on board roles in Malawi. Future studies may be carried out in other countries with similar or different settings from Malawi using mixed methods. Secondly, future research could extend this study by examining how the role of the board contributes to company performance in Malawi. This could involve empirical research to analyse the relationship between board characteristics (such as size, composition and independence) and firm's financial and non financial performance. Notwithstanding, this research provides initial verifiable information of key board roles that improve performance of directors in Malawi.

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