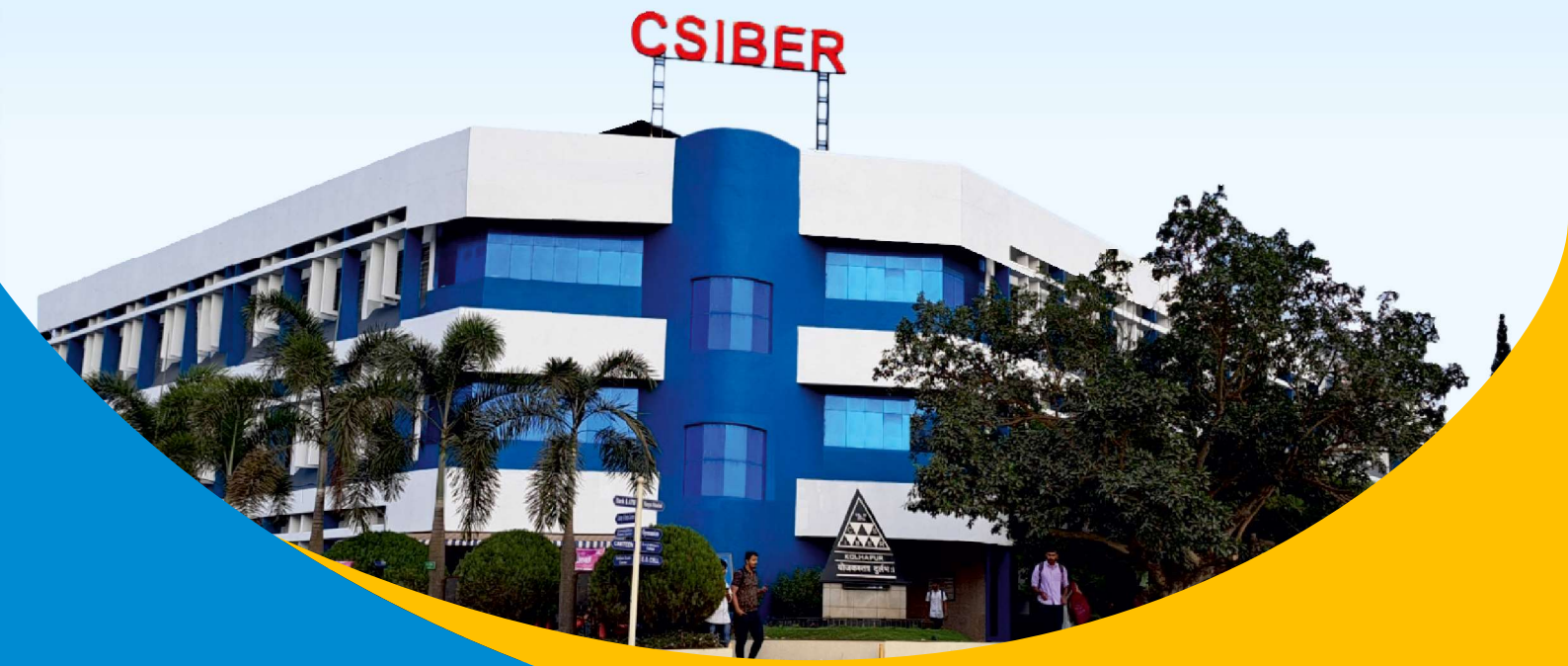
ISSN 0974-763X

SOUTH ASIAN JOURNAL OF MANAGEMENT RESEARCH (SAJMR)

Volume 14, No. 2 March, 2024

SPECIAL ISSUE



Chhatrapati Shahu Institute of Business Education & Research (CSIBER)
(An Autonomous Institute)
University Road, Kolhapur-416004, Maharashtra State, India.
E-mail : editorsajmr@siberindia.edu.in
Website : www.siberindia.edu.in

SOUTH ASIAN JOURNAL OF MANGEMENT RESEARCH (SAJMR)

ISSN 0974-763X

(An International Peer Reviewed Research Journal)

Published by

CSIBER Press, Central Library Building

Chhatrapati Shahu Institute of Business Education & Research (CSIBER)

University Road, Kolhapur - 416 004, Maharashtra, India

Phone : 0231-2535706, 2535707. Fax : 0231-2535708

www.siberindia.edu.in, E-mail : editorsajmr@siberindia.edu.in

Chhatrapati Shahu Institute of Business Education and Research (CSIBER)

South Asian Journal of Management Research (SAJMR)

Volume 14, No. 2, March 2024

Editor: Dr. Pooja M. Patil

Publisher

CSIBER Press

Central Library Building

Chhatrapati Shahu Institute of
Business Education & Research (CSIBER)
University Road, Kolhapur – 416004, Maharashtra, India.
Phone: 91-231-2535706/07, Fax: 91-231-2535708,
Website: www.siberindia.edu.in
Email: csiberpress@siberindia.edu.in
Editor Email: editorsajmr@siberindia.edu.in

Address:
CSIBER Press
Central Library Building
Chhatrapati Shahu Institute of Business Education and Research (CSIBER),
University Road Kolhapur, Maharashtra - 416004, India.

ISSN 0974-763X

Price: INR 1,200/-

Editor:Dr. Pooja M. Patil

Publisher

CSIBER Press

Central Library Building

Chhatrapati Shahu Institute of
Business Education & Research (CSIBER)
University Road, Kolhapur – 416004, Maharashtra, India.
Phone: 91-231-2535706/07, Fax: 91-231-2535708,
Website: www.siberindia.edu.in
Email: csiberpress@siberindia.edu.in
Editor Email: editorsajmr@siberindia.edu.in

Editorial Note

South Asian Journal of Management Research (SAJMR), is a scholarly journal that publishes scientific research on the theory and practice of management. All management, computer science, environmental science related issues relating to strategy, entrepreneurship, innovation, technology, and organizations are covered by the journal, along with all business-related functional areas like accounting, finance, information systems, marketing, and operations. The research presented in these articles contributes to our understanding of critical issues and offers valuable insights for policymakers, practitioners, and researchers. Authors are invited to publish novel, original, empirical, and high quality research work pertaining to the recent developments & practices in all areas and disciplined.

Cross-functional, multidisciplinary research that reflects the diversity of the management science professions is also encouraged, the articles are generally based on the core disciplines of computer science, economics, environmental science, mathematics, psychology, sociology, and statistics. The journal's focus includes managerial issues in a variety of organizational contexts, including for profit and nonprofit businesses, organizations from the public and private sectors, and formal and informal networks of people. Theoretical, experimental (in the field or the lab), and empirical contributions are all welcome.The journal will continue to disseminate knowledge and publish high-quality research so that we may all benefit from it.

Dr. Pooja M. Patil
Editor

South Asian Journal of Management Research
(SAJMR)

Volume 14, No. 2 **March, 2024**

C O N T E N T S

Corporate Governance and Performance of Listed Companies in Mauritius

Yuvraj Sunecher
University of Technology, Mauritius

Needesh Ramphul
University of Technology, Mauritius

Hemant Chittoo
University of Technology, Mauritius

Namah Muhammad Azhar
University of Technology, Mauritius

Abstract

The aim of this research paper is to analyze the determinants of corporate governance practices that have been adopted in listed companies in Mauritius and to assess the relationship between the corporate governance practices on the performance of listed companies in Mauritius as investors' are mainly concerned with corporate performance and Corporate Governance is mainly concerned with the structure and mechanisms through which companies aremanaged and controlled to ensure corporate stability. Web based data gathering technique which examines 120 annual reports of a total of 12 companies from 2012 to 2021. From each report, information about three corporate governance variables as well as the two dependent variables have been used to form a balanced panel data. Data collected were then analyzed using Stata version 11.

Keywords: Corporate Governance, Corporate Performance, Listed Companies, Corporate Governance Practices.

Introduction

Corporate Governance (CG) can be defined as the process of how organizations are directed and managed (Cadbury, 1992). It encompasses a structure for effectively organizing, conducting, and overseeing a business in order to achieve long-term objectives, meet the expectations of all stakeholders, and adhere to legal and regulatory requirements. The manner in which CG and company performance are interrelated has been a matter of ongoing discussion and investigation, due to a range of economic reforms and differing economic histories, including regional market crises and the prevalence of large corporations (Arora and Sharma, 2016). The inability of poor CG to prevent business failures has shed light on the need for improvement in governance practices. Companies with inadequate governance systems are more susceptible to accounting fraud, highlighting the crucial role that CG plays in preventing such incidents.

Mauritius is not an exemption from corporate scandals. Many successful listed firms collapse for various reasons, including poor CG. The country has witnessed the scandal of several listed companies, for instance, MCB Group Limited, due to poor CG practices. Furthermore, there is a lack of proper balance of gender diversity in the boards of directors. There is a problem of gender inequality in such listed companies in Mauritius, although board diversity is among the vital determinants of CG practices. Compared to the Code of 2004, the 2016 Code is notably different in that its guiding principles are much shorter, more approachable, and simple to understand. It also has a custom-made concept that is simple to use and reflects current global trends. The Code is generally required of all businesses that fall under the "Public Interest Entities category." The question is how much CG standards aid the board's ability to detect fraud. Indeed, given how businesses worldwide were affected by the financial crisis in the years prior, it would appear that the Code cannot be implemented based on voluntary compliance. Hence, the objectives of this research paper are as follows:

- To analyze the determinants of CG practices adopted in Mauritius' listed enterprises
- To assess the relationship of the determinants of CG practices on the performance of Mauritius' listed enterprises
- To offer suggestions and recommendations to Mauritius' listed enterprises that the integration of CG practices can enhance their performance.

The rest of the paper is organized as follows: Section 2 provides a review of literature on the relationship of CG and performance of listed companies. Section 3 elaborates on the research methodology that has been adopted

in this study, while Section 4 provides the results and analysis. This paper ends with conclusion and recommendations.

Literature Review

As stated by Arora and Sharma (2016), CG is difficult to define because the subject's boundaries are always increasing. Definitions change depending on the context, the cultural context, and the viewpoints of other academics. According to Rezaee (2009) CG stands for the checks system and balances that is shaped by various legal requirements, regulatory guidelines, market forces, industry standards, and the actions of those involved in CG such as company executives, legal advisors, financial consultants, and board members. Its goal is to maximize long-term shareholder value while taking into account the needs and concerns of all other parties involved. In other words, CG is a tool for guiding businesses toward the objectives for which they were established (Vallabhaneni, 2013).

Alchian and Demsetz (1972) were the pioneers in the area of agency theory, with their work later being developed further by Jensen and Meckling in 1976. Jensen and Meckling (1976) assert that the principal-agent concept refers to a contractual arrangement between two parties where one party, the parent delegated some decision-making power to the agent and hired them to operate on their behalf. This implies that the principal is mandated to appoint managers to perform services as agents for them, conduct organization's operations, and make critical decisions on their behalf.

Quite the opposite of agency theory, stewardship theory represents another management model whereby managers are perceived to be good stewards who will benefit the owners. The stewardship theory has its origins in social psychology and focuses on the actions of executives. This theory views the behavior of a steward as being supportive of the organization and collective, rather than selfish. The steward's actions align with the organizations' interests as they aim to meet its objectives. According to Hendry (2002), granting power to the board leads to improved company performance as executives' work towards the company's best interests. In essence, stewardship theory centres around non-financial motives in managerial activities, such as the desire for success and recognition and the satisfaction derived from working ethically. In contrast, agency theory emphasizes economic factors and financial motivations as the foundation of corporate governance. Zabri *et al.* (2016) stated that where the share of money of the shareholders is being optimized, the steward's usefulness also is being optimized. It is because the achievement of the company will provide more prerequisites, and the stewards will therefore have a clear mission.

The determinants of CG practices

- **Board Size**

The Board of Directors holds an imperative role within a company. Therefore, Boone *et al.* (2007) underlined that the directors' position and responsibilities are to ensure that the organizational performance is in line with the legal structure. According to Cheng (2008) who pointed out that, a smaller board size is more efficient for supervising the management. This is so because communication appears to be more effective on a small board than on the bigger one. However, there exists a combination of outcomes of the board size, whereby Sun *et al.* (2010) affirmed that there is a kind of complexity involved when decision-making within a larger board size.

- **Board Independence**

Kathy *et al.* (2012) noted that all public traded firms should have a significantly large proportion of non-executive and independent directors that will ensure that the board takes the proper decisions regarding the responsibilities, tasks and duties of others. On the contrary, Bonn (2004) pointed out that the term board independence will allow the board to enhance the effectiveness and efficiency of the organisation's overall performance. In accordance with the research of Donnelly and Mulcahy (2008), the directors outside the company can better monitor the board's independence, contributing to the organizations' financial position.

- **Board Diversity**

Gender diversity has demonstrated an important role in the organization board (Adams and Ferreira, 2004). Daily *et al.* (2003) suggested that due to the number of women who participated more on boards, distinctive work experience is added to cater for these needs on the board. To support this fact, Barako and Brown (2008) pointed out that women's contribution results in better organisational communication. On the same note, Lipman and Lipman (2006) claimed that there is a direct and positive relationship between women's contribution and the benefits to the society as a whole. On the other hand, Rupley *et al.* (2012) also identified a direct link between the proportion of women on board and environmental disclosure. Therefore, the researchers pointed out that as directors on board, women have an important role in maintaining a good reputation of the organization; they are considered honest, hard workers and always work for the company's benefit and to achieve their goals in their life.

Empirical Review- Company Performance

The connection between CG mechanisms and company performance has been widely studied.

- **Board Size and Company Performance**

Yermack (1996) conducted first empirical research on board size and company performance. He analysed 452 large US firms from the year 1984 to 1991. The research showed that there is an indirect relationship between board size and Tobin's Q (TQ). Previous studies, such as Eisenberg *et al.* (1998), have discovered that there is a negative link between the size of a board and a company's performance. In contrast, studies by Kajola (2008) and Jackling and Johl (2009) have demonstrated a positive correlation between the success of major firms and the size of their boards as determined by Return on Assets (ROA) and TQ. Adam and Mehran (2012) found a favorable relationship between board size and success in the US banking industry as assessed by TQ. There is a significant correlation between board size and business performance the result of Zahra and Pearce (1989) and Kiel and Nicholson (2003). Using Ordinary Least Squares (OLS) regression, Arora and Sharma (2016) discovered that more cognitive depth is associated with bigger boards, which enhances the decision-making mechanism as well as ultimately boosts the organization's effectiveness.

- **Board Independence and Company Performance**

Numerous studies have investigated how board independence affects business performance, and some have suggested that having more independent directors may have either a beneficial or negative influence. Ebrahim's study in 2012, which analyzed 136 listed companies in Kuwait for the year 2009, discovered that the ROA dropped as the percentage of board members who were independent rose. While some studies have found that a higher number of independent directors can negatively impact performance, such as in Ebrahim's (2012) study of 136 listed Kuwaiti companies, others have found a positive impact. For instance, Muller (2014) discovered that in the top 100 biggest and most actively traded companies listed on the London Stock Exchange, there was a strong and significant positive association between board independence and ROA. Through their OLS model, Arora and Sharma (2016) discovered a negative association between board independence and business performance.

- **Board Diversity and Company Performance**

Carter *et al.* (2003) found that having a more diverse gender composition on the board can enhance board independence by bringing different perspectives and decision-making approaches. The study also observed a positive effect on company performance by examining 1000 companies. Similar findings were made by Andreas and Loannis (2017), who investigated how corporate governance procedures affected the performance of Greek banks. They found that gender diversity had a favorable effect. On the other hand, due to a low representation of women on boards, Fauzi and Locke (2012) discovered a negative association between board diversity and corporate performance in New Zealand. Sanan's (2016) research demonstrated that the inclusion of women on boards in male-dominated companies can result in better firm performance. The study, which

looked at 148 registered Indian companies over a five-year period, discovered a favorable correlation between the number of female members on the board and the company's performance as shown by the ROA. The study used regression models with fixed effects (FE) and OLS to come to these conclusions.

Research Methodology

Quantitative research was chosen as the best method for this study because it involves statistical testing of the collected data. In this study, the population of interest is made up of companies displayed on the Official Market of the Stock Exchange of Mauritius (SEM). This population comprises 25 companies from the Investments, Banks & Insurance, Other Finance, and Commerce sectors. For this research, a random quota sampling was used to

select 12 companies based on their sectoral classification, as depicted in Table 3.1 below.

Table 1: Number of companies

Sector	**Total number of companies**	**Sample**
Investments	13	8
Banks, insurance and other finance	7	2
Commerce	5	2
Total	**25**	**12**
Total (panel of 10 years)		**120**

Secondary data were acquired by reviewing the annual reports of 12 companies on the SEM from the year 2012 to the year 2021 through a Web-based data gathering technique, which examines 120 annual reports. Building on this, the panel data is also used for the analysis section. The panel data provides great freedom by merging the time series and the cross-section data. Hence, both secondary and panel data were employed for the purpose of this research. It is thus worth indicating that Stata version 11 is the statistical tool employed for the tests.
The independent variables in this study are factors that have been used to determine the companies' corporate governance. These factors include board size (total number of directors), board independence (Number of Independent Directors / Total number of Directors) and board diversity (Number of Female Directors / Total number of Directors). On the other hand, the dependent variables are ROA (Net profit before interest and tax / Total assets) and ROE (Net profit before interest and tax / Total equity),

The following hypotheses have been formulated:
H_1: The size of a company's board of directors has a significant impact on the company's ROA.
H_2: The size of a company's board of directors has a significant effect on the company's ROE.
H_3**:** There is a relationship between Board Independence and ROA
H_4**:** There is a relationship between Board Independence and ROE
H_5**:** There is a relationship between Board Diversity and ROA
H_6**:** There is a relationship between Board Diversity and ROE

The least squares equation has been used as follows:
Firm Performance (FP) = ∫ (board size, board committee, board independence, board diversity and director ownership)
Equation 1
$$ROA_{nt} = \beta 0 + \beta 1(BSIZE)_{nt} + \beta 2(BCOMM)_{nt} + \beta 3(BIND)_{nt} + \beta 4(BDIV)_{nt} + \beta 5(DOWNER)_{nt} + \mu_{nt}$$
Equation 2
$$ROE_{nt} = \beta 0 + \beta 1(BSIZE)_{nt} + \beta 2(BCOMM)_{nt} + \beta 3(BIND)_{nt} + \beta 4(BDIV)_{nt} + \beta 5(DOWNER)_{nt} + \mu_{nt}$$
Equation 3
$$TQ_{nt} = \beta 0 + \beta 1(BSIZE)_{nt} + \beta 2(BCOMM)_{nt} + \beta 3(BIND)_{nt} + \beta 4(BDIV)_{nt} + \beta 5(DOWNER)_{nt} + \mu_{nt}$$

In addition, a fixed effect model was considered as it enables the unwatched variables to connect with the watched variables. A random effects model was also used as it provided accurate estimates of the coefficients and the lowest standard errors. After conducting the Pooled OLS method, it is important to perform a fixed and random effects test to identify the most suitable model for further analysis in this study. The Hausman Specification Test and the Breusch and Pagan Lagrangian Multiplier Test were employed to determine the best model among the Pooled OLS, the Fixed Effect model, and the Random Effect model.
The Breusch and Pagan Lagrangian Multiplier Test was performed as a supplementary examination to determine whether the random effect model is more suitable than the Pooled OLS model. This test was conducted to select the appropriate model between the Pooled OLS and the random effect regression for further analysis in this study.

Results and Analysis

The data used for this study consisted of 120 observations from 12 companies over ten years. Table 2 summarizes the statistical details of the 120 observations for three dependent variables and five independent variables.

Table 2: Summary Descriptive Statistics

Variable		Mean	Standard Deviation	Minimum	Maximum
Dependent Variable	ROA	0.0379	0.0668	-0.0941	0.4764
	ROE	0.0414	0.0652	-0.1073	0.3403
Independent Variable	Board Size	9.7167	1.7353	6	12
	Board Independence	0.1490	0.0908	0	0.2727
	Board Diversity	0.1460	0.0971	0	0.3636

The board size with the highest members considered 12 directors while the lowest consisted of 6 directors; as it can be seen that among the 12 companies considered in the sample as per table 4.1, the average size of the board was ten during these ten years. However, it cannot be said that the board size is too large. Large firms must have larger boards and vice-versa. Also, board size has the maximum mean average of 9.7167 with a standard deviation of + 1.7353. This indicates that board size plays an important role with regard to corporate governance practice among the 12 sampled listed companies.

The level of board independence, represented by the proportion of independent non-executive directors (INEDs), varied from 0% to 27%, as indicated by the descriptive statistics. The mean was 15%, meaning that, on average, these listed companies had a board that consisted of 15% INEDs, with executive directors making up 85%. This means that there are more inside directors than outside directors, but a higher representation of outside directors on the board would improve independence and ensure a proper distribution of responsibilities.

The mean percentage of women serving on the boards of the sampled listed companies was found to be 14%. Some companies in the sample were observed to have no female representation, with a minimum value of 0. On the other hand, some companies had 36% female representation and 64% male representation. The standard deviation of 11% is lower than the mean value, showing a limited variation in the representation of women on boards. However, having a greater number of women on boards can bring a range of skills and perspectives not found in all-male boards, leading to more diverse discussions in the boardroom. Moreover, board diversity has the least mean of 0.1460, with a standard deviation of 0.0971. Hence, board diversity has a limited role in the CG concept.

With a mean of 0.0379 and a standard deviation of +0.0668, ROA has the lowest mean. Since the mean for ROA is less than 50%, this relates to the fact that ROA least contributes to corporate governance practice

among the 12 sampled listed companies. During the ten years, the maximum ROA amounted to 0.47%, and the minimum ROA amounted to -0.0941. The dependent variable with the highest mean is Tobin's Q. The mean value of 0.7842 and a standard deviation of +0.6153 for Tobin's Q indicate that the sample of 12 companies, on average, fluctuate around 0.6153 around the mean.

The results of the correlation analysis, which aimed to examine the relationship between corporate governance variables and measures of firm performance for the 12 sampled listed companies, are summarized in Table 4.2. ROA and ROE are positively and highly correlated with a correlation coefficient of 0.7659. As a result, ROA for the 12 listed companies is highly influenced by ROE.

Table 3: Correlation Analysis

VARIABLE	ROA	ROE	Board Size	Board Independence	Board Diversity
ROA	1				
ROE	0.7659	1			
Tobin's Q	0.1851	0.2389			
Board Size	-0.1681	-0.0697	1		
Board Independence	-0.1497	-0.1781	- 0.0041	1	
Board Diversity	0.0101	-0.0642	- 0.7117	-0.0088	1

Board size has a negative value of -0.1681 with a ROA and negative value of - 0.0697 ROE, while board size has a positive value of 0.2673 with Tobin's Q, which is used to measure the performance of companies. This means that an increase in the board size will lead to a fall in ROA and ROE also and vice- versa, that is, there is an inverse relationship between the two. Board independence is negatively correlated with ROA and ROE, as shown in Table 4.2. Hence, the weak negative correlation between board independence and board size may be due to the lack of independence given to outside directors.
ROA is negatively correlated with Board Size and Board independence, that is, -0.1681 and -0.1497, board independence inversely influences ROE among the 12 listed companies. Hence, correlation analysis is used to assess whether there is multicollinearity among two or more independent variables. A level of multicollinearity lower than 0.8 is considered acceptable, and the results of the analysis in the table show that all values are below that threshold. Therefore, it can be concluded that there is no multicollinearity issue among the variables.

Table 4 provides the results for Pooled OLS for the Models, as shown in Table 4.3. Results for Pooled OLS indicate that the p-value for each Model is lower than 5%. Therefore, all the Models are significant and help explain corporate governance's effect on financial performance for the 12 sampled listed companies. Among the explanatory variables, three variables, namely board size, board independence, board diversity have a negative sign.

Table 4: Pooled OLS

VARIABLE	MODEL1- ROA	MODEL2- ROE
Board Size	-0.0203 (-3.13) [0.002] ***	-0.0161 (-2.53) [0.013] **
Board Independence	-0.1391 (-2.03) [0.044] **	-0.1624 (-2.42) [0.017] **
Board Diversity	-0.1717 (-1.93) [0.056] *	-0.1737 (-1.99) [0.049] **

CONSTANT	0.2414 (3.59) [0.000] ***	0.2065 (3.13) [0.002] ***
F (5,114)	2.77	2.57
PROB > F	0.0211**	0.0303**
R- SQUARED	0.1084	0.1014
ADJ R-SQUARED	0.0693	0.0620
ROOT MSE	0.06446	0.0632

The result of the pooled OLS from Table 4.3 indicates that Model 1 has an F-statistics of 2.77. Model 1-ROA has a p-value of less than 5%, indicating that the model is significant. This means that there is sufficient evidence to suggest that there is a relationship between ROA and the three corporate governance independent variables for the 12 sampled listed companies. From the R^2 of 0.1084 for Model 1, it can be concluded that ROA explains about 10.84% of variations in Model 1.

Model 2 has a R^2 of 0.1014, it can be concluded that ROE explains about 10.14% of variations in the Model. The coefficient of 0.21 for the constant term and a p-value of 0.002 (0.2%) less than 0.05 (5%) means that Model 2 is considered significant. If the three independent variables are kept constant in Model 2, a one-unit increase in the constant term will increase by 0.21 in the overall model.

Among the negative coefficients, the variable for board diversity has the highest significant effect as this variable has a p-value lower than 5%. Consequently, by holding the constant term and the remaining two independent variables are constant, a unit increase in board diversity will decrease Model 2 by 0.01. The negative coefficient of -0.0161 for board size implies that if the constant term and the other four independent variables are held constant, a unit increase in board size will lead to a decrease of 0.02 in the overall Model.
An overview of the results of the fixed effect test is given in Table 5.

Table 5: Fixed Effect Model

VARIABLE	MODEL 1- ROA	MODEL2- ROE
Board Size	0.1309 (0.21) [0.832]	0.1482 (0.24) [0.807]
Board Independence	6.3878 (0.20) [0.838]	7.1361 (0.23) [0.816]
Board Diversity	0.0524 (0.20) [0.840]	0.0431 (0.17) [0.866]
CONSTANT	-2.2863 (-0.22) [0.828]	-2.5946 (-0.25) [0.602]
F (5,103)	0.08	0.14
PROB > F	0.9948	0.9823
R SQUARED	0.0295	0.0273

Results of the fixed effect test in Table 5 shows that Model 1 has a F-statistics of 0.08 but a p-value of 0.9948 and an R^2 of 0.0295. Therefore, Model 1 is insignificant, and it can be concluded that under the fixed effect, the variation in Model 1 is poorly captured by the five corporate governance variables for the 12 sampled listed companies. Despite the fact that Model 2 has an F- statistic of 0.14 and a R^2 of 0.0273, Model 2 has a p-value higher than 5%. Therefore, Model 2 is insignificant and can be concluded that under the fixed effect, the

variation in Model 2 is poorly captured by the five corporate governance variables for the 12 sampled listed companies.

The results of the random effect, which seeks to explain the lack of a correlation between the dependent and five explanatory factors, are shown in Table 6.

Table 6: Random Effect Model

VARIABLE	MODEL 1- ROA	MODEL2- ROE
Board Size	-0.0198 (-2.71) [0.007] ***	-0.0158 (-2.29) [0.022] **
Board Independence	-0.1390 (-1.79) [0.074] *	0.1624 (2.22) [0.026] **
Board Diversity	-0.1638 (-1.65) [0.099] *	-0.1687 (-1.80) [0.073] *
CONSTANT	0.2355 (3.12) [0.002] ***	0.2028 (2.84) [0.004] ***
WALD CHI2(7)	10.50	10.66
CORR (U_I, X)	0 (assumed)	0 (assumed)
PROB > CHI2	0.0623*	0.0585 *
R SQUARE	0.6466	0.6478
SIGMA_U **SIGMA_E** **RHO**	0.01153 0.0649 0.0306	0.0091 0.0638 0.0200

The result of the random effect test confirms that all the Models have corr(u_i, X)= 0, inferring that differences between units are uncorrelated along with regressors in each approach.

The results of the Model 1 ROA suggest that there is a connection between ROA and the three variables. With a constant term coefficient of 0.24 and a p-value of 0.002 (0.2%) which is lower than the significance level of 0.05 (5%), Model 1 is considered significant. This means that if the five independent variables in Model 1 are kept constant, a unit increase in the constant term will result in a 0.24 increase in Model 1. Table 6 confirms that all three explanatory variables have a negative sign. The negative statistically significant variable refers to board size whereby a unit increase in board size will decrease Model 1 by 0.02, given the constant term, and the remaining four independent variables are held constant. Two variables, such as board independence and board diversity, have a p-value greater than 5%, while the variable for board size has a p-value lower than 5%. Therefore, based on the result of the random effect, four explanatory variables are negative and statistically insignificant, while the variable for board size is negative and statistically significant. The negative and significant coefficient for board size indicates that holdings provided the constant term, and the remaining four independent variables are constant; a unit increase in board size will result in a fall of 0.02 in Model 1. The negative statistically insignificant variable of the board committee indicates that a unit increase/ decrease in the variable will decrease/ increase Model 1 by 0.09, given the constant term, and the remaining four independent variables are held constant. The negative coefficient of -0.1390 for board independence indicates that an increase in the board independence variable will lead to a decrease of 0.14 in Model 1 if the constant term and the other two independent variables are kept constant.

Table 4.5 further confirms that two explanatory variables, that is, board size and board diversity have a negative sign while the board committee, board independence and Director Ownership have a positive coefficient. Three variables, such as board size, board committee, and board independence, have a p-value lower than 5%, while the variable for board diversity and director ownership have a p-value greater than 5%. Therefore, based on the result of the random effect, three explanatory variables are statistically significant, while variables for board diversity and director ownership are statistically insignificant.

Following the completion of the Pooled OLS, fixed and random effect tests, it is essential to pick the most suitable model for further examination in this research. This portion details two evaluations, the Hausman Specification Test and the Breusch and Pagan Lagrangian Multiplier Test, which will assist in identifying the optimal model among the Pooled OLS, Fixed Effect model, and the Random Effect model.

The results of the Hausman test can be found in Table 7, and the hypothesis used in this study is presented below.

H0: Random effect is the preferred Model
H1: Fixed effect is the preferred Model

Table 7: Hausman Results

MODEL	RESULT	CONCLUSION
MODEL 1- ROA	Prob>Chi2= 0.9202	Do Not Reject Null Hypothesis H0
MODEL 2- ROE	Prob>Chi2= 0.9028	Do Not Reject Null Hypothesis H0

Result from Table 7 suggests that under the three scenarios, the reported p-value is higher than 5%. The null hypothesis (H0) is accepted. In all three scenarios, the Hausman Specification Test supported the null hypothesis (H0). As a result, the Random Effect Model is considered the best model to explain the impact of corporate governance on financial performance for the 12 listed companies in Mauritius. Hence, the sampled listed firms used in this study are affected across companies solely and not time specific random effects.

After the Hausman Specification Test supported the Random Effect Model, another evaluation was conducted to verify the suitability of the random effect model compared to the Pooled OLS model. The Breusch and Pagan Lagrangian Multiplier Test for random effects was performed to determine the most appropriate model between the Pooled OLS and the Random Effect regression for further analysis in this research. The hypothesis used is outlined below, and the results of the Breusch and Pagan Lagrangian Multiplier Test can be found in Table 8.

H0: No Panel Effect (Pooled OLS)
H1: Panel Effect (Random Effect)

Table 8: Breusch and pagan Lagrangian multiplier test for random effects

MODEL	RESULT	CONCLUSION
MODEL 1- ROA	Prob>Chi2= 0.0000	Reject Null Hypothesis H0
MODEL 2- ROE	Prob>Chi2= 0.0000	Reject Null Hypothesis H0

The results of the Breusch and Pagan Lagrangian Multiplier Test in Table 8 indicate that the Pooled OLS model should be rejected. To sum up, the Random Effect model is chosen and deemed the most suitable approach for this research.

Given the findings of the diagnostic tests, it is necessary to adjust the model to prevent inaccurate results. When a model exhibits issues with serial correlation, the Generalised Least Squares (GLS) method is applied as an effective solution. Previous studies have found GLS to be an effective method for addressing these problems.

Table 9: Extract Comparing Fixed Effect and Random Effect for Model 1 ROA

Variable	Fixed Effect	Random effect
P- value	0.9948	0.0623*
R- Squared	0.0295	0.6466

Fixed effect model 1 ROA has a high insignificant p-value of 0.9948 compared to the low insignificant p-value of 0.0623 under the Random effect but both models have a p-value greater than significance level of 0.05. The fixed effect model has a very low R^2 of 0.0295 compared to the random effect model has 0.6466. In addition, all the five explanatory variables have insignificant p-value under fixed effect model was confirmed by the insignificant explanatory coefficients used in the model. However, under random effect, four explanatory variables are statistically insignificant and only one explanatory variable is statistically significant under the random effect compared to fixed effect model all the three explanatory variables are insignificant. The use of Return on Assets to examine the effect of corporate governance on the financial performance of 12 listed firms in Mauritius leads to the conclusion that the random effect model is the most appropriate one (ROA).

Table 10: Extract Comparing Fixed Effect and Random Effect for Model 2 ROE

Variable	Fixed Effect	Random effect
P- value	0.9823	0.0585*
R- Squared	0.0273	0.6478

Model 2 ROE has an insignificant p-value of 0.9823 as well as a low R^2 of 0.0273 compared to insignificant p-value of 0.0585 as well as R^2 of 0.6478 under the random effect. Both models have a p-value greater than significance level of 0.05. Besides, all the five explanatory variables have insignificant p-value under fixed effect model was confirmed by the insignificant explanatory coefficients used in the model. Moreover, under the random effect, three explanatory variables are statistically significant while only two variables are statistically insignificant. The use of ROA to examine the effect of corporate governance on the financial performance of 12 listed firms in Mauritius leads to the conclusion that the random effect model is the most appropriate one (ROA)

Conclusion and Recommendation

The results showed a general acceptable standard of corporate governance practices. Most of the listed companies in Mauritius are following the established corporate governance codes, as indicated by the gathered data. It can be concluded that listed companies in Mauritius have large board size but although board size depends on the size of the company as well. However, Board independence is not abided by the listed companies as it consists only of 15% of INEDs. Therefore, 85% of the executive directors were inside directors, meaning there were more inside directors than outside directors. However, having a higher number of outside directors on the board can increase its independence and help it fulfill its duties, responsibilities, and tasks more effectively. Unfortunately, corporate governance practices in Mauritius, including board diversity, are often neglected. Some listed companies in Mauritius do not have any women on their boards. Nevertheless, having more women on boards can bring different skills and perspectives to the table, promoting diverse viewpoints and dynamic discussions in the boardroom.

Based on the outcomes of the findings analysis recommendation in areas where the the adoption of corporate governance practices can be improved are provided below. The listed companies in Mauritius should thereby ensure that the board is not too large given that bigger board size represents a hindrance in making decisions. The results showed that the performance of listed firms in Mauritius is negatively impacted by having a higher board size. In terms of the implications to the policy makers of the listed companies, they should ensure that the board size is not too large since communication is more effective with small board size. Furthermore, listed companies in Mauritius suffer from a serious lack of diversity. The direct and a positive contribution of women in board of companies turn out in better decision making and create fruitful agreement. The policy makers should additionally ensure the presence of women in the board in order to ensure that board diversity is well respected among the listed companies in Mauritius.

Declaration of Conflicting Interests

The Authors declare that there is no conflict of interest.

References:

Adams, R. B, and Ferreira, D., (2004). Women in the Boardroom and Their Impact on Governance and Performance and Performance. Journal of Financial Economics, 94 (2), pp. 291-309.

Adams, R. B, Mehran, H. (2012). 'Bank board structure and performance: Evidence for large bank holding companies', *Journal of Financial Intermediation*. 21. pp. 243-267.

Alchian, A. and Demsetz, H. (1972). Production, Information Costs and Economic Organisations, American Economic Review, 62. pp. 777-795.

Andreas, G. and Ioannis, F. (2017). 'Corporate governance mechanisms and bank performance: Evidence from the Greek banks during crisis periods', Investment Management and Financial Innovations, 14(1), pg 160-172.

Arora, A., & Sharma, C. (2016). 'Corporate governance and firm performance in developing countries: evidence from India.' *Corporate Governance: The International Journal of Business in Society*, 16(2), 420–436.

Barako, D. G., & Brown, A. M. (2008). 'Corporate social reporting and board representation: evidence from the Kenyan banking sector.' *Journal of Management & Governance*, 12(4), 309–324.

Bonn, I., Yoshikawa, T., & Phan, P. H. (2004). 'Effects of Board Structure on Firm Performance: A Comparison between Japan and Australia.' *Asian Business & Managemen*t, 3(1), 105–125.

Boone, A. L., Casares Field, L., Karpoff, J. M., & Raheja, C. G. (2007). 'The determinants of corporate board size and composition: An empirical analysis.' *Journal of Financial Economics*, 85(1), 66–101.

Cadbury, A. (1992). Corporate Governance and Chairmanship: A Personal View. Oxford: Oxford Press.

Carter, D. A., Simkins, B. J., & Simpson, W. G. (2003). 'Corporate Governance, Board Diversity, and Firm Value.' *The Financial Review*, 38(1), 33–53.

Cheng, S. (2008) Journal of Financial Economics, Vol. 87, pp. 157-176.

Daily, C.M., Dalton, D.R., and Cancella, A.A, (2003). Corporate Governance: Decades of Dialogues and Data. *Academy of Management Review*, 28(3), 371-382.

Donnelly, R., & Mulcahy, M. (2008). 'Board Structure, Ownership, and Voluntary Disclosure in Ireland.' *Corporate Governance: An International Review*, 16(5), 416–429.

Ebrahim, J. (2012). How Effective is Board Independence to Monitoring of Earnings Manipulation. *International Journal of Global Business*, 5 (1) (2012), pp. 17-35.

Eisenberg, T., Sundgren, S., et al. (1998). 'Larger board size and decreasing firm value in small firms'. *Journal of Financial Economics*. 48 (1), pp 35-54.

Fauzi, F. & Locke, S. (2012). Board Structure, ownership structure and firm performance: A study of New Zealand listed firms. Asian Academy of Management Journal of Accounting and Finance 8 (2), 43-67.

Hendry, J. (2002). The principal's other problems: honest incompetence and the specification of objectives, 27, pp. 98-113

Jackling, B. and Johl, S. (2009). Board structure and firm performance: Evidence from India's top companies. *Corporate Governance: An International Review, 17(4),* pp. 491- 509.

Jensen, M.C and Meckling, W. H. (1976). 'Theory of the firm: Managerial Behaviour, Agency Costs, and Capital Structure', *Journal of Financial Economics*. 3, pp. 305-360.

Kajola, S.O. (2008). 'Corporate Governance and Firm Performance: The case of Nigerian Listed Firms'. *European Journal of Economics, Finance and Administrative Sciences*. 14, pp. 16-28.

Kathy Rao, K., Tilt, C. A., & Lester, L. H. (2012). 'Corporate governance and environmental reporting: an Australian study.' *Corporate Governance: The International Journal of Business in Society*, 12(2), 143–163.

Kiel, GC. and Nicholson, CJ. (2003). Board Composition and Corporate performance: How the Australian Experience informs contrasting theories of corporate theories of Corporate Governance. 11(3). pp. 189-205.

Lipman, F. D., and Lipman, L. K. (2006). *Corporate Governance Best Practices: Strategies for Public, Private, and Non-Profit Organizations*. New Jersey: John Wiley and Sons, Inc.

Muller, V. (2014). Do corporate board compensation characteristics influence the financial performance of listed companies? Procedia social and Behavioral Sciences, 109, 983-988.

Rezaee, Z. (2009). Business students' perceptions of corporate governance best practices, Corporate Governance, 16(2), pp. 361-376.

Rupley, Kathleen, Hertz, Darrell Brown dan R. Scott Marshall (2012). 'Governance, Media and Quality of Environmental Disclosure''. Journal Accounting Public Policy, Vol. 31.

Sanan, N.K., (2016). 'Board gender diversity and firm performance: evidence from India.' Asian Journal of Business Ethics 5 (1-2).

Sun, N., Salama, A., Hussainey, K., & Habbash, M. (2010). 'Corporate environmental disclosure, corporate governance and earnings management.' *Managerial Auditing Journal*, 25(7), 679–700.

Vallabhaneni, S. R. (2013). 'Assessing the corporate governance practices of Mauritian Companies', *International Journal of Accounting and Financial Reporting*, Vol. 6(1).

Yermack, D. (1996). Higher Market Valuation of Companies with Small Board of Directors. *Journal of Financial Economics*, 40(2), 185-211.

Zabri, S. M., Ahmad, K., & Wah, K. K. (2016). 'Corporate Governance Practices and Firm Performance: Evidence from Top 100 Public Listed Companies in Malaysia.' *Procedia Economics and Finance*, 35, 287–296.

Zahra, S.A, and Pearce, J.A. (1989). 'Board of directors and corporate financial performance: A review and integrative model', *Journal of Management*. 15 (2), pp. 291- 334.