THE EFFECTS OF CORPORATE GOVERNANCE MECHANISMS ON THE
FINANCIAL PERFORMANCE OF FIRMS LISTED ON THE ZIMBABWE
STOCK EXCHANGE (ZSE)

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A DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE DEGREE OF MASTERS IN BUSINESS
LEADERSHIP (MBL)

MARCH 2019

GRADUATE SCHOOL OF BUSINESS
BINDURA UNIVERSITY OF SCIENCE EDUCATION (BUSE)

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DEGREE : MASTERS IN BUSINESS

LEADERSHIP

YEAR DEGREE AWARDED : 2019

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Declaration

I …………………………………. do hereby declare that this dissertation is a result of my own investigation and research, except to the extent indicated in the Acknowledgements, Bibliography and comments included in the body of the report, and that it has not been submitted in part or in full for any other degree to any other university.

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Dedication

A special dedication goes to my family, work mates and friends who taught and encouraged me to think, understand and express. I earnestly feel that without their inspiration, able guidance and unwavering support I would not have been able to sail through the onerous process of this research study.
Acknowledgements

My deepest gratitude goes to Dr D. Maravanyika for being a brilliant supervisor who gave me invaluable advice and support in writing this Dissertation. I am heavily indebted to him for the meaningful advice, valuable guidance and support.

I would like to acknowledge the general assistance and co-operation from all participants for taking part in my interviews giving their time to answer my questions and contributing to this dissertation. I would also want to acknowledge the general assistance from all my lecturers at BUSE - Graduate School of Business during this study.

Finally, let me extend my gratitude to my wife Patricia and my three wonderful children Prince, Princess and Raphael Jr for their patience and encouragement in my dissertation process. I am especially grateful to my wife for being such a strong pillar of support.
Abstract

This research project was meant to establish and draw conclusions on the effects of corporate governance mechanisms on the financial performance of firms listed on the Zimbabwe Stock Exchange (ZSE). The general conclusion from literature is that each of the chosen variables of corporate governance, including board size, board composition, managerial ownership of company shares and ownership concentration (block shareholders) do have a bearing on the firms’ financial performance. This is despite the fact that some literature has concluded that the relationship between some of the corporate governance variables and firms financial performance is very insignificant, or that there is no relationship at all. The research information and its applications were aimed at benefiting the firms under study, the academic community, the nation and the corporate world at large. The study was based on case studies of companies listed on the Zimbabwe Stock Exchange. Face-to-face interviews with the board members and top executives at strategic levels of the organizations were carried out to collect empirical data. For purposes of gathering in-depth information and to give room for probing in order to obtain clarity on given responses, an unstructured interview guide was made use of in the research. A qualitative research philosophy was employed and the gathered data was analysed through Data Displays in the form of Content Analytic summary tables. The study established that indeed, the corporate governance variables do affect the firms’ financial performances, with the relationships ranging from positive to negative. However, it was also found that there are corporate governance mechanisms in the ZSE listed companies as it is part of the ZSE Listing Guidelines. The listed firms have boards of directors of varying sizes and composed of both executive and non-executive directors. In addition to that, there are different shareholding structures amongst the different companies, whilst only a minority of the listed companies have management share ownership schemes in place, and all these variables have varying effects on the firms’ financial performance. The recommendations in light of these findings include the following: a firm’s board size should be commensurate with the size of the company’s size and complexity and the calibre of the board members; a company should have an optimal mix between executive and non-executive directors and strict adherence to corporate governance mechanisms.
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CHAPTER 1: INTRODUCTION

1.1 Introduction

1.1.1 Background of the Study.

This study aims to examine whether corporate governance practices influence company performance of companies listed on the Zimbabwe Stock Exchange. This study contributes to the literature and increases knowledge on corporate governance practices and their relationship with the financial performance of ZSE listed companies.

The objective of corporate governance is to enhance the financial performance of firms by creating and maintaining a business environment that motivates managers and entrepreneurs to maximize firms’ operational efficiency, returns on investment and long-term productivity growth (Pimenta, 2002:32).

Corporate governance in Zimbabwe became a major topic for discussion after the Zimbabwean financial crisis of 2003 that saw the near collapse of the financial services sector. This period saw an increase in non-academic trainings, academic educational programmes and research on corporate governance in Zimbabwe. All these activities have been dedicated towards the improvement of corporate governance practices in Zimbabwe since the perennially poor performance of Zimbabwean firms has largely been attributed to poor corporate governance.

Corporate boards are the primary and dominant internal corporate governance mechanism and does play a crucial role in monitoring management and aligning the interests of shareholders with those of the management. Boards do have the responsibility for care and diligence, including ensuring that financial controls are
effective. Boards may give management strategic guidelines and may even act to review and ratify management proposals. Boards also help to spot any problems early and can exercise a whistle-blower function (Rashid, 2017:34). However, there still is serious debate in the literature concerning the extent to which corporate boards are able to monitor management.

A corporate board’s ability to monitor the activities of the management has attracted so much attention following the collapse of the Maxwell Publishing Group, BBCI and Poly Peck in the United Kingdom. The other contributing factor was the wave of mega corporate collapses that broke out in early 2000s, including the cases of Enron, World-com and HIH insurance. There is a huge claim that the boards’ inabilities to monitor management within these corporations was due to insufficient monitoring stemming from the consolidation of power by the management and its general hold over board members, thereby preventing them from providing independent advice (Rashid, 2017:35).

As a result, boardroom reform attracted significant attention, chiefly the idea of board independence, that is, representation by outside independent directors. A number of global corporate governance codes of best practices, for example, the Cadbury Committee Report of 1992, the Higgs Report of 2003, and United States Sarbanes-Oxley Act of 2002, advocated for boardroom reform in favour of independent board members.(Rashid, 2017:35).

Following the big corporate scandals including Enron, World-com, Parmalat, and various other failures of global firms, corporate governance has become the focal point (Maune, 2015:168). Meanwhile, corporate governance practices in the Asian countries have been a major issue since the Asian Financial Crisis in 1997, and this includes Malaysia. This crisis saw the introduction of the Malaysian Code of corporate Governance (MCCG) in 2001 as part of the Bursa Malaysia (BMB) listing rules (Zabri, Ahmad and Wah, 2016).
Interest in the corporate governance practices of firms, particularly with regards to accountability, increased following the high-profile collapses of a number of major corporations during 2001–2002, most of which involved accounting fraud, and then later on after the financial crisis in 2008. Corporate scandals of various forms have maintained public and political interest in the regulation of corporate governance. In the U.S., these include Enron and MCI Inc., formerly known as World-com (Zabri, Ahmad and Wah, 2016).

Corporate governance has recently become a major topic among a wide spectrum of people, government, industry operations, directors, investors, shareholders, academics and international organisations. It has been realised that company transparency, financial disclosure, independence, board size, board composition, board committees, and board diversity are the cornerstone of good corporate governance practices (Shungu, Ngirande and Ndlovu, 2014:93-105).

All over the world concern has increased over corporate governance due to the increase in the number of reported cases of fraud, inside trading, agency conflicts (Enobakhare, 2010). Corporate failure has recently been witnessed in both developed and developing countries with the reported cases of the East Asia crises of 1997/98 and the global financial crisis of 2007/8. The crises are widely believed to have emanated from the poor governance practices from the financial sector (Shungu, Ngirande and Ndlovu, 2014:93-105).

1.1.2 Background to Corporate Governance in Zimbabwe

In Zimbabwe, corporate governance has received a lot of attention since the financial crisis in 2003 (Muranda, 2006). Several firms have encountered difficulties which have been associated with poor corporate governance practices in Zimbabwe. Chief among these companies are Air Zimbabwe, Premier Service Medical Aid Society (PSMAS), Zimbabwe Broadcasting Corporation (ZBC), African Renaissance Bank (AFRE), United Merchant Bank (UMB), ENG Capital and Barbican Bank. The major cause of these corporate scandals in Zimbabwe has been argued to be centred chiefly on poor corporate governance (Maune, 2015:168).
In Zimbabwe the corporate governance standards fall short of the world’s best practices, but there is this widespread fear that the political governance standards do sometimes spill into the area of commerce. However, quite a number of public entities in Zimbabwe have voluntarily adopted provisions of the King II Code while other firms like Delta Corporation have developed their own in-house corporate governance manuals.

Corporate governance in Zimbabwe became a major topic for discussion following the Zimbabwean financial crisis of 2003 that saw the near collapse of the financial services sector. This financial crisis was followed by the introduction of corporate governance guidelines by the Reserve Bank of Zimbabwe (RBZ) in 2004 (Maune, 2015:170).

The Zimbabwe Stock Exchange (ZSE), is the official stock exchange of Zimbabwe. A board of directors oversees the affairs of the ZSE. The board consists of five independent, non-executive directors, the CEO of the ZSE and a representative of the stock brokers. There are at least 40 companies listed on the Zimbabwe Stock Exchange, and these can be classified into eight (8) sectors which are; financials, industrials, consumer services, consumer goods, basic materials, health care, telecommunications and oil & gas.

1.2 Statement of the Research Problem

When strong corporate governance mechanisms, are in place, and are being strictly adhered to, the organisation would be expected to perform at its best financially. However, the obtaining situation on the ground in respect of most companies listed on the Zimbabwe Stock Exchange (ZSE) is that there are weak corporate governance mechanisms. Corporate governance in Zimbabwe became a major topic for discussion after the Zimbabwean financial crisis in 2003 that almost resulted in the collapse of the financial services sector.
Several companies have faced difficulties associated with flawed corporate governance in Zimbabwe and these companies include Zimbabwe, Premier Service Medical Aid Society (PSMAS), Zimbabwe Broadcasting Authority (ZBC), to mention but a few.

This has resulted in most firms posting poor financial results year in-year out.

It is against this background that this paper seeks to establish, if there is indeed a relationship between corporate governance and firms’ financial performance, as was argued by earlier researches.

If there is indeed a relationship, this study will also establish the kind of relationship it is between corporate governance and the firms’ financial performance, and give recommendations on the best way forward to strengthen the financial performance of such companies.

**1.3 Research Objectives**

**Prime Objective**

To investigate the effect of corporate governance practices on companies’ financial performance.

**Specific Objectives**

1. To establish the relationship between the board composition and the organisation’s financial performance.

2. To establish the effect of the board size on the financial performance of the company.

3. To find out if there is a relationship between the managerial ownership and the organisation’s financial performance.
4. To find out if there is a relationship between the ownership concentration and the organisation’s performance.

1.4 Research Questions

Specific Questions

1. To what extent does the board size impact on the financial performance of the company.

2. What is the relationship between the board composition and the organisation’s financial performance.

3. Is there a relationship between the managerial ownership and the organisation’s financial performance.

4. What relationship is there between the ownership concentration and the organisation’s financial performance.

1.5 Significance of Research

This study will help to improve the understanding of investors, shareholders, and other stakeholders with regards to the importance of corporate governance. This study will add to the body of knowledge that exists about corporate governance and the impact thereof on the overall financial performance of organisations. It will also assist the government in creating and/or fine-tuning policy on corporate governance.

This study provides useful information for policy makers or regulators in their efforts to improve the corporate governance policies in the future and also helps to increase the understanding on the relationship between corporate governance practices and the company’s performance.
1.6 Structure of the Research

Chapter 1

This chapter covers the introduction of the research. The chapter also gives a background of the study, the problem statement and the backgrounds of the organisations being used as the case study. The objectives and justifications of the research are also part of this chapter.

Chapter 2

This chapter focuses on the literature review. It outlines some of the work that has been carried out by other researchers and the theory on the subject matter.

Chapter 3

The methodology that will be used in carrying out the research is outlined in this chapter. This chapter outlines the analytical framework of the research design chosen, the justification for a case study approach, the preparation for data collection, the main sources of data, and the data collection process and data analysis.

Chapter 4

The chapter looks at data analysis and discusses the findings. This chapter will apply the theoretical framework from Chapter 2 to the case study, and will see how the selected theory can explain the results obtained from case study. Within this chapter, the posed research questions in Chapter 1 will be answered. The findings from the case study are discussed in this chapter.

Chapter 5

This chapter will conclude the report by looking at theory and its application and recommendations.
CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

This section explores and discusses relevant literature pertaining to the relationship between corporate governance practices and firm performance. From the economic perspective, corporate governance plays an important role in achieving an efficiency in which scarce funds are moved to investment projects with the highest returns.

The majority of existing studies demonstrate varying relationships between corporate governance variables and firms’ profitability, especially in the developed world. This shows how board size, board composition, board ownership and managerial ownership impact firm performance (De Andres & Valletado, 2008). It is therefore worthwhile to investigate the impact of corporate governance on firms’ performance focusing on the Zimbabwean context.

2.2 Corporate Governance Definitions

The concept of corporate governance is referred to as the means by which organizations conduct themselves (Maune, 2015:168). In other words, this is the system by which organizations make and implement decisions in pursuit of their objectives. In simple terms, it is the process of decision-making and also the process by which decisions are implemented. Crowther and Seifi (2011) characterise corporate governance as an environment of trust, ethics, moral values and confidence – as a synergic effort of all the constituent parts – which include government, the general public, professionals, service providers, and the corporate sector. King (2010) notes that the term governance comes from the Latin word ‘gubernare’, which means to steer. Therefore corporate governance entails the manner in which the affairs of the firm are directed and controlled (Maune, 2015:169).
Corporate governance can also be defined as the processes and structures employed to direct and manage the business and affairs of an institution with the objective of ensuring its safety and soundness and enhancing shareholder value. The process and structure entail the division of power and establishing mechanisms for achieving accountability amongst the board of directors, management and shareholders, while at the same time taking into account the impact on other stakeholders, which include creditors, employees, customers and the community (Maune, 2015:169).

According to Mukute and Marange (2006:79), corporate governance is the system by which organizations are directed, controlled and held accountable. Corporate governance focuses on policy, systems and direction, which is the primary role of the Board. It also relates to the firms' compliance with relevant laws and regulations and conformance to ethics, standards and codes of best practices (Maune, 2015:169).

Corporate governance refers to the mechanisms, processes and relations by which corporations are controlled and directed. Governance structures and principles help to identify the distribution of rights and responsibilities amongst the various participants in the firm, including the board of directors, managers, shareholders, creditors, auditors, regulators, and other stakeholders and also includes the rules and procedures that are used to make decisions in the affairs of the firm. Corporate governance includes the processes through which the firms' objectives are set and pursued within the context of the social, regulatory and market environments (Crowther and Seifi, 2011).

Governance mechanisms therefore entail the monitoring of the actions, policies, practices, and decisions of corporations, their agents, and all the relevant stakeholders. Corporate governance practices are impacted upon by attempts to bring into alignment the interests of the various stakeholders.
Corporate governance has also alternatively been defined as a system of law and sound approaches whereby the firms are directed and controlled focusing on the internal and external company structures with the objective of overseeing the actions of both the management and the board of directors and thereby, mitigating agency risks which may arise from the misdeeds of the firm’s officers (Pacy, 2012).

Strine (2010) stressed that corporate governance has to do with putting in place the necessary structure, processes and mechanisms that guarantee that the organisation is directed and managed in a way that enhances the long-term shareholder value by way of holding the manager accountable, which will then enhance the firm’s financial performance. Meanwhile, OECD (1999) defined corporate governance as the system whereby business firms are directed and controlled in favour of all the relevant stakeholders (Shungu, Ngirande, and Ndlovu, 2014:93-105).

2.3 Corporate Governance Characteristics

The main external stakeholder groups include shareholders, debt-holders, trade creditors and suppliers, customers, and communities affected by the company's activities. Internal stakeholders are the board of directors, company executives, and all the other employees and much of the contemporary interest in corporate governance has to do with the mitigation of the conflicts of interests amongst the various stakeholders (Goergen, 2012).
In large companies where there is a separation of ownership and management and in some cases no controlling shareholder, the principal–agent issue arises on the part of the top management (the agent) which may harbour different interests, and considerably more information, than shareholders (the principals). The danger that is caused by such a scenario is that, rather than monitoring management on behalf of the shareholders, the board of directors may become insulated from shareholders and beholden to the management (Bebchuk and Jesse Fried, 2004:17).

2.4 Principles of Corporate Governance

The principles of corporate governance that were recommended in the Cadbury and OECD reports are as follows;

2.4.1 Rights and equitable treatment of shareholders

Firms are expected to respect the rights of shareholders and assist shareholders in the exercise of those rights. The firms may assist shareholders in the exercise of their rights by openly and effectively communicating information and also by urging shareholders to take part in general meetings (Cadbury, 1992).

2.4.2 Interests of other stakeholders

There is need for firms to recognize that they have legal, contractual, social, and market driven obligations to other stakeholders other than shareholders, and these include employees, investors, creditors, suppliers, local communities, customers, and policy makers(OECD:2004).

2.4.3 Role and responsibilities of the board

The board requires sufficient relevant skills and understanding to be able to review and challenge the performance of the management. It also needs to be of an optimal size and at the same time having the appropriate levels of independence and commitment (Cadbury, 1992).
2.4.4 Integrity and ethical behavior

Integrity is supposed to be a fundamental requirement in choosing corporate officers and board members. Firms need to develop a code of conduct for their directors and executives which is aimed at promoting ethical and responsible decision making (Cadbury, A:1992).

2.4.5 Disclosure and transparency

Firms should clarify and make publicly known the roles and responsibilities of board and management to provide stakeholders with a satisfactory level of accountability. They should also implement procedures to independently verify and safeguard the integrity of the company's financial reporting. Disclosure of material matters concerning the firm should be timely and balanced to ensure that all the relevant stakeholders have reasonable access to clear and factual information (Cadbury, 1992).

A board of directors is supposed to play a pivotal role in corporate governance. The board is responsible for: CEO selection and succession; providing feedback to management on the firm's strategy; compensation for senior executives; monitoring the firm’s financial health, performance and risk; and ensuring accountability of the firm to its investors and all the relevant stakeholders (OECD:2004).

The OECD Principles of Corporate Governance (2004) describe the responsibilities of the board by requiring that board members be informed, acting ethically and in good faith, with due diligence and care, in the best interests of the firm and the shareholders. The board is tasked with reviewing and guiding corporate strategy, setting the firm’s objectives, major plans of action, risk policy, and annual budgets.

It is also its responsibility to oversee major acquisitions and divestitures; selecting, compensating, monitoring and replacing key executives of the firm and superintending succession planning. Aligning key executives and board remuneration (pay) with the long-term interests of the company and its shareholders, ensuring a formal and transparent board member nomination and election process, and ensuring the integrity of the firm's accounting and financial reporting systems, including their
independent audit, also form part of the responsibilities of the board. In addition to
this, the board also ensures the establishment of appropriate systems of internal
control, whilst also overseeing the process of disclosure and communications, and,
where committees of the board are in place, their mandate, composition and working
procedures need to be well-defined and disclosed (OECD:2004).

2.5 Stakeholder interests
All the parties to corporate governance have an interest, be it direct or indirect, in
the financial performance of the firm. On the one hand, directors, workers and
management receive salaries, benefits and reputation, whilst on the other hand,
investors expect to receive financial returns. For lenders, it is the agreed upon interest
payments, whilst customers are concerned with the certainty of the provision of goods
and services of a reasonable quality; and suppliers are concerned with compensation
for their goods or services, and possibly continued trading relationships. All these
parties provide value to the firm in the form of financial, physical, human and other
forms of capital, with the ultimate goal of attaining the firm’s best possible financial
performance (Goergen, 2012:104-5).

2.6 Mechanisms and Controls
Corporate governance has mechanisms and controls that are designed to reduce the
inefficiencies that emanate from moral hazard and adverse selection (Douma
and Schreuder, 2013). There are both internal monitoring systems and external
monitoring systems as explained below.

2.6.1 Internal corporate governance controls
Internal corporate governance controls monitor activities and then take corrective
actions in order to achieve organisational goals.

2.6.1.1 Monitoring by the board of directors
The board of directors, armed with its legal authority to hire, fire and compensate top
management, safeguards invested capital. Regularly holding board meetings allows
potential problems to be identified, discussed and avoided without unnecessary
delays. Even though non-executive directors are thought to be more independent, they may not always result in more effective corporate governance and may not necessarily increase the firm’s financial performance. Different board structures may be optimal for different firms. Moreover, the ability of the board to monitor the firm's executives is a function of its access to the firm’s vital information. Executive directors do possess superior knowledge of the decision-making process and therefore evaluate top management with regards to the quality of its decisions that lead to financial performance outcomes. It may therefore, be argued that executive directors look beyond the financial criteria (Goergen, 2012:104-5).

2.6.1.2 Internal control procedures and internal auditors

Internal control procedures are policies which are implemented by the firm's board of directors, audit committee, management, and other personnel to provide reasonable assurance of the company attaining its objectives related to reliable financial reporting, operating efficiency, and compliance with laws and regulations. Internal auditors are personnel who are working within the firm who test the design and implementation of the firm's internal control procedures and the reliability of its financial reporting (Goergen, 2012:104-5).

2.6.1.3 Balance of power

The simplest balance of power requires that the firm’s President be a different person from the Treasurer. This application of separation of power is further developed in companies where the various departments check and balance each other's actions. One group may propose firm-wide administrative changes, whilst another group may review and veto the changes, and a third group check that the interests of parties (customers, shareholders, employees) outside these three groups are not being compromised (Goergen, 2012:104-5).

2.6.1.4 Remuneration

Performance-based remuneration is meant to align a part of the salary to individual performance. It may be in the form of cash or non-cash payments such as shares and/or other benefits. Such incentive schemes, however, are reactive in the
sense that they prescribe no mechanisms for preventing mistakes or opportunistic behavior, and can elicit myopic behavior (Goergen, 2012:104-5).

2.6.1.5 Monitoring by large shareholders, banks and/or other large creditors

Because of their huge investment in the company, these stakeholders have the incentives, combined with the right degree of control and power, to oversee the management (Goergen, 2012:104-5).

2.6.2 External corporate governance controls

External corporate governance controls the external stakeholders' influence over the firm including, competition, debt covenants, demand for and assessment of performance information (especially financial statements), and government regulations. This may also include managerial labour market, media pressure and takeovers (Goergen, 2012:104-5).

The board of directors has primary responsibility for the company's internal and external financial reporting functions. The chief executive officer and chief financial officer are very key participants, and boards ordinarily rely on them for the integrity and supply of accounting information. They oversee the internal accounting systems, and are dependent on the firm's accountants and the internal audit.

Calabrese et al. (2013) argue that well-governed firms tend to have better and cheaper access to capital, and are most likely to outperform those firms that are poorly governed, over the long-term. The firm that insists upon the highest standards of governance reduce many of the risks inherent to an investment in the firm (IFC, 2004). In a similar view, Barth, Caprio and Levine (2006) pointed out that good corporate governance is able to reduce the risk of financial crisis, which can have devastating social and economic costs (Enobakhane, 2010)(Shungu, Ngirande and Ndlovu, 2014:93).

2.7 Independent Variables

2.7.1 Board Size

Board size refers to the total number of directors that the firm has in its board structure. The number and quality of directors in a firm has an effect on how the
board functions, hence the firm’s financial performance. A large board size has the likelihood of having more knowledge and skills at their disposal, which will enhance financial performance (Williams, 2002). However, Ramano et al. (2012) stress that as boards continue to grow beyond a certain point, they become less likely to function effectively, may create a diminished sense of individual responsibility and might be more involved in bureaucratic problems (Shungu, Ngirande, and Ndlovu, 2014:93).

An optimal board size should include both the executive and non-executive directors. Board size has been found to vary from one country to another as every country has a unique culture, meaning that there is no standard board size among countries in the world (Zabri, Ahmad and Wah, 2016).

Board size is generally considered one of the most important mechanisms of effective corporate governance. This is despite the fact that there still is no consensus on the kind of relationship that exists between board size and firm performance. Whilst some researches point towards a positive relationship between board size and firm performance (Shukeri et al., 2012), where a small board size was found to positively correlate with firm performance, other researches show a weak relationship or no relationship at all between the two variables.

Yet other researches argue that there exists a negative relationship between these two variables (Singh and Davidson, 2003), where it was found that board size could not be related to company performance. Eisenberg et al. (1998) argued that there was negative correlation between board size and profitability when using a sample of small and medium Finnish firms. These findings were consistent with Mishra et al. (2001)’s findings in their study on corporate governance of family firms in Norway.

**2.7.2 Board Composition**

According to Enobakhare (2010) board composition refers to the total number of directors brought from outside the firm to sit on the board divided by the board size in a given period (Shungu, Ngirande, and Ndlovu, 2014:96). In other words, it refers to the percentage of the total number of independent non-executive directors. It can also
be defined as the level of presence of independent directors or presence of non-executive directors in the board (Zabri, Ahmad and Wah, 2016).

The chief contribution of the board is the formulation of the firm’s strategy and exercising the oversight function throughout the company operations. The idea behind the appointment of non executive directors is that they should monitor the performance of the executive directors and top management. They should interrogate the businesses that the company ventures into, product market segmentation, and the valuable customers within the market segmentation. The non-executive directors are therefore expected to contribute their independent views and actively participate in board discussions, representing shareholders on the company’s board (Sharifah, Syahrina and Julizaerma, 2015:461)

The idea of board independence largely stems from the Anglo-American context, where dispersal of ownership is common. Boards dominated by outsiders, that is, boards with more outside than inside directors as members, have been very popular in the United States from as far back as the 1960s, and therefore the outsider board reform agenda fell in line with orthodox Anglo-American corporate governance practices. Until very recently, however, there has been a broad debate in the literature as to whether board independence adds any value to firms, with no definitive conclusion reached thus far.

Non-executive and independent directors are generally considered one of the most important mechanisms for ensuring corporate accountability and firm growth (Ramano et al, 2012). However, De Andres and Valletlado (2008) asset that an excessive proportion of non-executive directors could damage the advisory role of boards since executive directors facilitate the transfer of information between directors and management and give information and knowledge that outside directors may not be able to gather easily (Shungu, Ngirande and Ndlovu, 2014:96).
Listed firms in Bangladesh mainly feature a high concentration of ownership; although these owners play a huge role in disciplining the company, board independence is difficult to achieve and the board has very little to do with monitoring management. The idea of board independence arose mainly from Anglo-American context, as the corporate boards in these countries are one-tier or management boards in which both the executive and non-executive directors work together in one organisational layer. In such a setup, managers and directors act as agents for the shareholders and there is a predominant norm of shareholder wealth maximisation, that is, maximizing returns for shareholders (Goergen, 2012:104-5).

The agency problem arises where shareholders’ influence on management is weak due to the large number of dispersed shareholders, thereby leading to a high degree of information asymmetry between shareholders and management (Rashid, 2017).

The board of directors is a collective body that is mandated to act in the best interests of shareholders. The board requires a combination of both executive and non executive directors to pursue the shareholders’ interest by maximising shareholders’ value. The non-executive directors that are sitting on the board will not be in a good position to exercise their duties effectively, unless they are independent from the management and ensure they provide unbiased business decisions. Independent directors are the ones entrusted by shareholders to represent them and assist in minimising the agency problems (Sharifah, Syahrina and Julizaerma, 2015:460).

However, the various studies that have so far been carried out in various countries, examining the relationship between board independence and firm performance, have failed to produce conclusive results (Sharifah, Syahrina and Julizaerma, 2015:460)

Non-executive directors with relevant industry background and wide expertise would be better positioned to challenge the Chief Executive Officers(CEOs) and the
management in board discussions. However, if the non-executive directors just merely exist and do not perform their expected duties as required by shareholders, then that would render their functions as non-executive directors ineffective.

In Malaysia, the majority of companies have adopted the one-tier board which composes of both the executive and non-executive directors on one board. Whereas, the executive directors are full time employees that are involved in the day-to-day operations of the company, non-executive directors are not. Rather, the role of the non-executive directors is as a monitoring mechanism for the performance and activities of executive directors and management (Sharifah, Syahrina and Julizaerma, 2015:463).

Berghe and Baelden (2005) tackled the issue of board independence as an important factor in ensuring board effectiveness by way of monitoring and strategic roles of the directors. They argued that the ultimate factor for the board independence is by acquiring sufficient numbers of the independent directors on board (Sharifah, Syahrina and Julizaerma, 2015:462).

Kakabadse, Yang and Sanders (2010) are of the view that the effectiveness of non-executive directors is determined by their formal independence, information accessibility, incentives provided and competency. However, they argued that the non-executive director system in China was weak because there was too much intervention of controlling shareholders and that there was a general lack of understanding of the the functions of non executive directors(Sharifah, Syahrina and Julizaerma, 2015:462)

The term independent directors is mostly used interchangeably with terms like non-executive directors and outside directors. However, not all non-executive directors are independent. The various studies on board independence and firm performance have
shown mixed results; either positive, negative or no relationship at all (Sharifah, Syahrina and Julizaerma, 2015:462).

According to Carg (2007), studies in India showed that merely having board independence did not guarantee improvement in firm performance, and this was mainly due to poor monitoring roles of independent directors. Monitoring the company’s performance and operations is one of the chief roles of independent directors. Effective monitoring mechanisms in the company should help to do away with the agency problems. Thus, the company is supposed to appoint independent non-executive directors who should exercise the proper oversight function in monitoring governance, internal control and risk management (Sharifah, Syahrina and Julizaerma, 2015:463).

According to Fitriya Fauzi and Locke (2012), the study on companies listed on the New Zealand Stock Exchange from the period 2007-2011 revealed a significant negative association between the number of non-executive directors and company performance. This means the greater the number of non-executive directors on the board, the lower the company’s performance. They explained that this negative association may have been due to high block holders’ own, which makes non-executive directors become powerless in board discussions (Sharifah, Syahrina and Julizaerma, 2015:463).

The inclusion of independent directors on the board should show a positive relation to the firm’s performance. If there happens to be no relationship or negative relationship with the company’s performance, it means that the performance of such independent directors was jeopardised. According to Wang and Oliver (2009), the firm may comply with the required number of independent directors on the board, but several tactics may be employed to neutralise the powers of such directors. The executive directors may appoint someone who has had experience in a passive board, with irrelevant background or without knowledge to challenge the executive powers.
With regard to the mixed results of the relationship independent directors and firm performance; Wallison (2006) argued that the presence of independent directors on the board was not for better performance but for better governance. They would represent shareholders to monitor the activities of management and executive directors in raising the firm’s performance. In that regard, the executive directors would not have any chance to do any wrongdoings in their self interest. The firm applies good governance, not only to bring profit to the firm but to enhance corporate social performance (Sharifah, Syahrina and Julizaerma, 2015:464).

Rhodes et al (2000), argued that independent directors can bring independence into the board and add to the diversity of skills and expertise of the directors. Independent directors are in a position to alleviate the agency problems and curb managerial self interest. According to the agency theory, managers tend to pursue their own goals at the expense of the shareholders due to the separation between ownership and control (Jensen and Meckling, 1976). Therefore, with the fusion of the independent directors into the board, this problem can be dealt with. Independent directors are useful in monitoring board activities and improving the transparency of the corporate boards as they improve the firm’s compliance with the disclosure requirements. These independent directors were hired to make sure that competition among insiders stimulates actions consistent with the shareholders’ value maximisation.

Several studies are quoted by Shungu et al (2014) as having come up with inconclusive results with regards to the relationship between corporate governance and the firm’s financial performance. Adams and Ferreira (2009) found no relationship between having independent directors and firm performance; however, Kaplan and Minton (1995) concluded that poor firm performance is associated with the appointment of an outside director. There is no relationship between the firm’s financial performance and governance if shareholders are given few shares by the company as witnessed by Kang & Shivdasani (1995) who argued that equity ownership by management, if small, is the same as the agency costs (Shungu, Ngirande and Ndlovu, 2014:97).
2.7.3 Board Diversity

Board diversity is the mixture of men and women, people from different age groups, people with different ethnic groupings and racial backgrounds (Enobakhare, 2010)(Shungu, Ngirande and Ndlovu, 2014:97). More emphasis is put on gender diversity, that is, the inclusion of women on corporate boards of directors, considered as a positive effort to improve board variety and thus discussions, and therefore financial performance (Anastasopoulos et al., 2002).

This may be calculated as the total number of women in the board over the board size in a given firm over a period of time. It is generally believed that board diversity affects the corporate governance of the firm either directly or indirectly (Shungu, Ngirande and Ndlovu, 2014:97).

However, the few existing empirical studies show contrasting results. In the US context, Zahra and Stanton (1988) find no statistically significant relationship between gender diversity and the firm’s financial performance. On the other hand, Dutta and Bose (2006) reported statistically significant positive relationships between both the presence and the percentage of women on the board of directors and market value added and firm value, whilst, Shrader et al. (1997) demonstrate a negative relationship between the percentage of female board members and firm performance (Shungu, Ngirande and Ndlovu, 2014:97)

2.7.4 Managerial Ownership

The influence of ownership by management of a portion of the firm’s shares on the firm’s performance is linked to the view that a firm’s value depends on the distribution of ownership between managers and other owners. The theory of entrepreneurship promotes the idea that managers who are also large shareholders better perceive new business opportunities. This theory complements the incentive theory in some way since it provides an explanation of the positive effect of managerial ownership in firms with a relatively dispersed ownership structure. Bull (1989) finds that due to this entrepreneur effect, firms that have been subject to a management buy-out normally perform better. After taking over the firm, managers
tend to concentrate on the maximisation of the cash flow rather than on the mere maximisation of current profits (Simoneti and Gregoric, 2004:219). In the vein, standard agency theory models ownership as an incentive scheme that, by tying the interests of shareholders and the manager, mitigates agency costs. Hence, agency theory predicts a positive ownership-performance relationship.

However, the relationship between managerial ownership and the firm’s performance may not be monotonic since beyond some certain levels equity incentives may actually lead to the expropriation (rather than improvement) of the company’s value. By continuing to increase their ownership and voting stakes, managers in fact gain the opportunity to expropriate some corporate funds on their own behalf and at the expense of other shareholders, that is, to gain some private benefits of control (Simoneti and Gregoric, 2004:219). This is supported by the insider entrenchment theory contends that ownership facilitates entrenchment and hence, because firms run by entrenched managers incur high agency costs, ownership adversely affects company performance (Hua and Zhoub, 2006).

### 2.7.5 Ownership Concentration

Some studies show a positive effect of ownership concentration on the firm’s financial performance, as measured by profitability and valuation. The main explanation of this positive effect is that block shareholders have both the ability and the incentive to monitor and control agents, in order to guide them to operate the company for the good of the shareholders. This is generally referred to as incentive alignment. Low investor protection may lead to higher ownership concentration in order to protect the benefits of minority shareholders, even at the cost of increased private control benefits for block shareholders. The cost-efficiency of monitoring by block shareholders yields a better financial performance of the company (Chen, 2012:15).

However, other studies, which find negative effects of ownership concentration, argue that the increased control by block shareholders reduces the self-realization of
managers who ultimately get discouraged. This phenomenon is referred to as over-monitoring. Furthermore, some studies argue that high ownership concentration will enable block shareholders to take advantage of their position and gain private control benefits, because they have more information and higher control power than the other shareholders (Chen, 2012:15).

Yet other studies find no notable effect of ownership concentration on the firm’s financial performance. The argument is that companies perform equally well under different ownership structures because market competition will eliminate all inefficient forms in the long run. Thus the selection of optimal ownership structure depends on the environment and there is no effect of ownership structure on the firm’s financial performance (Chen, 2012:16)

2.8 Dependent Variables
This study will use earnings per share and profitability as the measurements of financial performance of selected firms, and they therefore are the dependent variables. Earnings per share show the amount of earnings that would have been generated from investment (Epps and Cereola, 2018). Basic earnings per share is calculated by dividing profit after tax for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year. Profitability, for purposes of this study, refers to profits that the company remains with after tax.

2.9 Conceptual Framework

Table 2.1 Conceptual Framework (Source: Author’s creation)

<table>
<thead>
<tr>
<th>INDEPENDENT VARIABLES</th>
<th>DEPENDENT VARIABLES</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Board diversity</td>
<td>Earnings per share</td>
</tr>
<tr>
<td>(b) Board size</td>
<td>Profitability (after tax)</td>
</tr>
<tr>
<td>(c) Board composition</td>
<td></td>
</tr>
<tr>
<td>(d) Managerial ownership</td>
<td></td>
</tr>
</tbody>
</table>
2.10 Theoretical Framework

2.10.1 Agency Theory

The agency theory is concerned with resolving problems that do exist in agency relationships due to unaligned goals or to different aversion levels to risk. The most talked about agency relationships in business are those that exist between shareholders (principal) and company executives (agents). The agency theory endeavours to address problems that arise owing to differences between the goals or interests between the principal and the agent. This situation may arise because the principal is not aware of the actions of the agent or is prohibited by resources from acquiring the information. For example, company executives may be desiring to expand a business into other new markets. This will, in effect, sacrifice the present profitability of the firm for prospective growth and higher earnings in the future. However, shareholders that desire high current capital growth may be unaware, and maybe not even supportive, of these plans.
In a nutshell, the separation of ownership from control, conflict of interest, risk averseness, information asymmetry are the main causes for the agency problem; whilst the ownership structure, executive ownership and governance mechanism like board structure can help to minimise the agency cost (Pandal and Leepsa, 2017:91)

2.10.2 Shareholder Theory

The shareholder theory was originally proposed by Milton Friedman and it states that the sole responsibility of business is to maximise profits. It is based on the premise that the management is hired as the agent of the shareholders to manage the operations of the firm for the benefit of the shareholders, and therefore, they are legally and morally obligated to serve the principals’ interests.
2.10.3 Stakeholder Theory

The stakeholder theory has a broader scope and states that the firm owes a responsibility to a much wider group of stakeholders, not just the shareholders. A stakeholder is referred to as any person/group which can affect/be affected by the actions of the firm. It includes employees, customers, suppliers, creditors and even the wider community, and competitors too. The original proposer of the stakeholder theory, Edward Freeman, argues that it is as an important element of Corporate Social Responsibility (CSR), a concept which recognises the responsibilities of corporations in the world today, whether they be economic, legal, ethical or even philanthropic.

2.11 Empirical Studies

Empirical studies carried out by Bhagat and Bolton (2008) in the United States of America (USA), show that corporate governance has an impact on firm performance. On the policy domain, corporate governance proponents have prominently cited this study as evidence that good corporate governance has a positive impact on the firm’s financial performance.

However, Laeven, and Levine (2009), as cited by Shungu P. et al (2014), argued that corporate governance might not capture the true relationship with the firm’s performance unless other specific aspects of governance are controlled.

In the most recent empirical researches worldwide, which were cited by Shungu P. et al (2014), with regards to the banking sector of different countries, results find no significant relationship between board size and banks performance (Shungu P,Ngirande,H and Ndlovu P.2014:95)
Empirical research affirmed that firms committing financial reporting fraud are more likely to have a poor board of directors dominated by insiders (Romano et al., 2012)(Shungu, Ngirande and Ndlovu, 2014:96)

Murali & Welch (1989) examined the forces that may affect ownership structure of 511 large U.S. companies. They found no significant relationship between corporate governance variables and company performance. Based on the performance indicators; return on asset and non-performing loans, results showed that institutional shareholders in Kenya have no significant influence on financial performance of banks (Barako & Tower, 2007). This was in sync with the empirical researches in the last decades which showed no significant relationship between board composition and banks performance (Adams & Mehran, 2008)(Romano et al., 2012)

Some empirical studies have documented that board independence is associated with superior performance in the United States as well as in the United Kingdom (Pearce and Zahra, 1991). However, many other past studies have also documented, a negative relationship between board independence and company performance in Anglo-American countries, like Australia (Hermalin and Weisbach, 2003). Other past studies have also documented a negative relationship between board independence and company performance in emerging markets, like Bangladesh.

With these conflicting findings, it is very difficult to suggest that a majority of independent directors on a board will guarantee good corporate governance or better financial returns for shareholders (Rashid, 2017).

Contrary to this, various studies also found positive relationships between corporate governance and bank performance, director structures and firm performance as well as firm performance and financial disclosure. A similar study conducted in the Middle East and North Africa shows that there is a positive relationship between corporate governance and bank performance (Enobakhare, 2010)
The results have shown strong interdependence between board size, board composition, board committees and board diversity. It is apparent that board size and board committees are crucial for commercial bank’s performance since any change of the two impacts bank profitability more than the board composition and board diversity. The findings present sufficient evidence to conclude that board size, board composition, board committees and board diversity are the key characteristics of corporate governance since they explain much of the variation in bank performance in Zimbabwean commercial banks (Shungu, Ngirande and Ndlovu, 2014:102).

The impact of managerial ownership on firms’ financial performance is positive and significant for unlisted firms, while this relation is not as significant for firms listed on the Stock Exchange. Hence, managerial ownership in Slovenia does not appear to be a function of the alternative mechanisms of the agency problem solving in firms with dispersed ownership, which is usually the case for listed companies. One possible explanation may be that the pressures of other outside owners in listed firms by themselves ensure good financial performance, while in unlisted companies, with passive outside owners, performance may only improve with a higher managerial stake (Simoneti and Gregoric, 2004:232)

The positive effect of managerial ownership is confirmed only for stakes exceeding 10 percent. The incentives for good financial performance for those managers holding below 10 percent of shares are probably too small to outweigh the private benefits of control that can be, given the relatively passive outside owners and the insiders’ support, gained irrespective of their ownership shares (Simoneti and Gregoric, 2004:233)

Nowak and McCabe (2008) did a study on the roles of the independent directors in Australian public listed companies by interviewing 30 directors. The directors that were interviewed generally agreed that the majority of non-executive directors on the board would provide a safeguard for a balance of power or management relationship.
They further argued that there was a distinction between the boards with independent non-executive directors and non-independent directors, as independent directors would provide a variety of independent thinking (Sharifah, Syahrina and Julizaerma, 2015:462)

2.12 Critique of the Reviewed Literature

The reviewed literature does not state clearly and unambiguously how the corporate governance variables, that is, board size, board composition, managerial ownership and board ownership, impact the financial performance of firms. Whilst some literature would claim a significant positive relationship between a particular corporate governance variable and the firm’s financial performance, other literature would strongly argue that a significant negative relationship existed between the two, and yet other literature would show no relationship at all.

This, therefore means that it still remains debatable if there exists a relationship between the corporate governance variables and the firm’s financial performance. Even if the relationship does exist, the direction of the relationship still needs to be researched on thoroughly. Moreso, the majority of the literature is mainly on developed countries, with very few studies having been done on developing countries, and Zimbabwe in particular, hence this study.

2.13 Chapter Conclusion

The reviewed literature does not give conclusive evidence on the impact of corporate governance on the financial performance of firms, whether it is positive or negative, hence this study to try and establish if any relationship exists.
CHAPTER 3: RESEARCH METHODOLOGY

3.1 Introduction

The preceding chapter interrogated the relevant literature on which the study was premised. This chapter deals with the research methodology employed for this study. According to Brynard, Hanekom & Brynard (2014:38) research methodology refers to a systematic process which consists of sequential steps that are followed when conducting a research study. This particular chapter covers the research design, the research philosophy and the research strategy that were used in carrying out the research.

3.2 Research Design

Yin (2003) defines the research design as the logical sequence which establishes a connection between the empirical data to the study’s initial research questions and ultimately to its conclusions. According to Yin (2003) the research design also provides guidance to the researcher in the process of collecting, analysing and interpreting observations, allowing them to draw inferences concerning causal relationships amongst the various variables under study. For purposes of this particular study, the researcher used case studies of companies that are listed on the Zimbabwe Stock Exchange (ZSE). The results of the research are a good representation of, and fairly applicable to all the other organisations that are listed on the ZSE. The elements of the research design are provided below in detail. Therefore, the research design employed in this study is exploratory.

3.3 Research Philosophy

White (2000) explains that research can be carried out by employing either of the approaches which are, quantitative or qualitative. He further states that, these two approaches are often evaluated differently and the quantitative research is regarded as the more superior of the two, because it is value free. Another approach that can also
be employed is called triangulation, which is a combination of the quantitative and qualitative approaches.

### 3.3.1 Quantitative Approach

According to Denzin and Lincoln (2005) quantitative research can be defined as a methodology which makes useful descriptions of observed phenomena and explains the possible relationships between descriptive surveys, longitudinal developments, correlational and ex-post factors research designs. Quantitative research is an iterative process through which evidence is evaluated, and theories and hypotheses are refined and tested. In quantitative research measurement is usually regarded as the only means by which observations are numerically expressed in order to investigate casual relations or associations (Denzin and Lincoln, 2005).

### 3.3.2 Qualitative Approach

According to Bradley (2013:236), a qualitative research is a holistic approach that encompasses techniques that attempt to gain a sound understanding of the existence of attitudes and opinions. However, instead of the measurement tools associated with quantitative methods, to obtain elicitation responses, qualitative research make use of observations, discussions and projective methods which do not necessarily measure the amount of emotion or opinion, but can give an indication of the dominant feeling (Bradley, 2013:236). Silverman (2000), also explains that qualitative research is often treated as a minor methodology and suggests that it should in most cases, only be thought of at early or exploratory stages of a study and in which case it would be employed to familiarise the researcher with a setting before the more serious sampling and counting begins.

White (2000) states that qualitative methods make use of open-ended interview questions so as to explore opinions, behaviours and attitudes of individuals or groups of individuals and the data that is gathered is usually in the form of descriptions.
Silverman (2000) concurs adding that the main advantage of this approach is that it results in a deeper understanding of social phenomena than would be the case with purely quantitative data. In addition to that, Mark et al. (2005) states that qualitative methods are flexible as compared to quantitative methods which are mostly rigid and that they allow for spontaneity and adaptation of the interaction between the researcher and the respondent. Qualitative methods use open-ended questions which allow the respondents to respond in their own words and can thus provide more detailed information unlike the quantitative methods that are rigid and require respondents to choose from fixed responses. However, sometimes the responses may be rather complex.

Yin (2008) argues that choosing between the quantitative and qualitative research is mainly dependent on the nature of the research, the type of information, availability of resources and the context of the study. In that regard, Mark et.al. (2005) state that qualitative research, through the use of interviews, is the most appropriate philosophy as it allows the researcher to respond directly and immediately to respondents’ responses and subsequently tailor questions to the information provided. Interviews were most appropriate for the particular questions being explored because in addition to providing room for further probing, they enable the interviewer to pick non-verbal responses and the response are immediate. This study used the qualitative approach and the information required to answer the research questions was obtained through personal interviews which enabled the researcher to gain an in-depth understanding of the relationship between corporate governance practices and firms’ financial performance. The use of the qualitative approach by this study is also justified by time and financial constraints on the researcher’s part.

3.4 Research Strategy

Yin (2008) states that case studies, experiments, surveys, histories and the analysis of archival information are the various many ways of doing research. He proceeds to argue that each of these strategies has peculiar merits and demerits depending on three (3) conditions which are:
i) The focus on contemporary as opposed to historical phenomena

ii) The type of research question

iii) The control the investigator has over the actual behavioural phenomena.

This research seeks to evaluate the impact corporate governance practices on the firms’ financial performance based on case studies of companies listed on the Zimbabwe Stock Exchange.

Table 3.1 below demonstrates three conditions and how each of them is related to the five major strategies used in research.

**Table 3.1: Relevant situations for different research strategies**

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Form of research question</th>
<th>Requires control of behavioural events</th>
<th>Focuses on contemporary events</th>
</tr>
</thead>
<tbody>
<tr>
<td>Experiment</td>
<td>how, why?</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Survey</td>
<td>Who, what, where, how many, how much?</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Archival analysis</td>
<td>Who, what, where, how many, how much?</td>
<td>No</td>
<td>Yes/No</td>
</tr>
<tr>
<td>History</td>
<td>how, why?</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Case study</td>
<td>how, why?</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Source: Yin, 2003

According to the description of the above table 3.0, the three conditions illustrated consist of the type of research question posed, the extent of control an investigator has over actual behavioural events and the degree of focus on contemporary as opposed to historical events (Yin, 2008).
3.5 Case Study Strategy Justification

The case study was found to be the most suitable strategy to employ because the; ‘how’ and ‘why’, questions were being asked about a contemporary set of events. The focus of this study was to answer “how” and “why” questions about the effect of corporate governance practices on firms’ financial performance. A case study is an empirical inquiry that seeks to investigate a modern phenomenon within its real-life context, especially when the boundaries between phenomenon and the context are not clearly defined (Yin, 2003).

The case study research in the form of a qualitative research was suitable for this study as it generates rich, detailed and valid data that contributes to in-depth understanding of the context. This research strategy was the most suitable for this study in that the qualitative methods use open-ended questions which enable the respondents to respond in their own words and can thus provide more detail. This study therefore, examines corporate governance practices of firms listed on the ZSE. The researcher also selected the case study strategy because of the limited time to carry out the research and accessibility to research information (Anderson, 1993).

The main weakness of the case study is the lack of rigor of the strategy (Yin, 2008). However, Yin (2008) argues that the lack of rigor is less likely to be noticed when using other strategies possibly because of the existence of a number of methodological texts that provide researchers with specific procedures to follow.

According to Yin (2008), case studies also provide little basis for scientific generalisation. However, he argues that case studies like experiments are generalizable to theoretical propositions and not to populations or universes. This strategy therefore does not represent a sample but the goal is to expand and generalise theories and not to enumerate frequencies.
3.6 Data Collection

3.6.1 Population

Polit and Hungler (1999:37), define population as an aggregate or totality of all the objects, subjects or members that conform to a set of specifications. In this study, the population was made up of top management and boards of directors because they are directly involved in the strategic decision making processes within their respective organisations.

3.6.2 Sampling Strategy

According to Betram and Christiansen (2014) sampling strategy refers to the process of selecting a part of the population as a representation of the entire population. They further state that there are two main types of sampling methods which are, non-probability and probability sampling. In a qualitative research, non-probability sampling methods are used and in this study purposive sampling was used as it permits the researcher to identify and choose the individuals to include in the sample (Betram & Christiansen, 2014:60). The advantages of the non-probability sampling methods are that they are relatively fast, cheap and easy to measure (Maholtra, 2011:373).

This study employed non-probability sampling, in particular purposive sampling.

3.6.2.1 Purposive sampling

According to Saunders (200:237) purposive sampling can be defined as a non-probability sampling technique which enables the researcher to use his/her judgement to select cases that will best enable the answering of the research questions and to meet the research objectives as was the case in this particular study. Purposive sampling is one of the most common sampling strategies that involve the grouping of
participants according to a pre-determined criteria relevant to a particular research question (Denzin and Lincoln, 2005).

3.7 Research Instruments

3.7.1 Questionnaires

A questionnaire was drafted using both the semi structured and unstructured open ended questions so as to be able to collect in-depth information and allow room for further probing for clarity on any responses. The questionnaire was pre-tested before use in order to establish if it was usable and if the questions could be easily answered by the interviewees. Questionnaires are used to collect primary data.

Questionnaires have their own advantages and disadvantages as argued by Salant and Dillman (1994).

Advantages:

i. Anonymity which made respondents comfortable to answer any questions without feeling any pressure or bias.

ii. They are inexpensive.

Disadvantages:

i. The respondent sometimes misread or misunderstand a question and as a result the responses given were not always the correct ones.

ii. The response rate was low as some respondents lacked interest.

iii. Some of the respondents were interested in certain questions and thereby ended up partially completing the questionnaire.
3.7.2 Personal Interviews

Personal interviews are a method of collecting data using a questionnaire containing a list of key and relevant questions for an investigative enquiry (Salant and Dillman, 1994).

This data collection has its merits and demerits:

**Merits:**

i. It offered the researcher room for further probing

ii. Non-verbal responses were picked up by the interviewer

iii. Responses were immediate

**Demerits**

a) Interviewer bias can crop in.

b) The cost of travelling was prohibitive in some instances.

c) It is costly to train interviewer.

This study employed this method of personal interviews in a bid to eliminate bias and also cut on costs. The interviews were conducted on the senior management and boards of directors in order to obtain in-depth information at the strategic level of the organisation. The middle management who are usually involved in the strategic implementation were also interviewed so as to give an insight of the success or failure of the strategies implemented.
3.8 Data Analysis

According to Neuman (2006), in a qualitative research there is no standard format in data analysis. The data that was obtained from this study was analysed through the use of data displays as recommended by Neuman (2006). Miles and Huberman (1994) state that data collection entails deciding what and which meaning can be attributed to the words and what are the implications to that effect and how does it relate to the topic under investigation. The data was analysed by way of going through all the questions and establishing common themes, patterns and relationships (Miles and Huberman, 1994). The information that was collected was analysed against theory cited in the literature review and the appropriate inferences were made.

3.9 Chapter Conclusion

This chapter looked at the methodology and the design of the research which makes up the whole research plan. The main focus was on the qualitative research philosophy which was adopted, with an inductive approach as well. The main variables of the research are corporate governance and organisational performance. The case study approach was used and data gathered using the semi-structured questionnaire and data displays and write-ups were chosen to analyse findings. The following chapter discusses and analyses the findings of the study.
CHAPTER 4: RESULTS AND FINDINGS

4.1 Introduction

In this chapter, the researcher presents the research findings from the conducted personal interviews that were done through the use of interview guides. The data is then analysed by means of summary tables. Tabulated results will then be explicated and discussed their implications and relationship to literature. The chapter will cover of all responses per each posed question during the interviews.

The researcher described to the representatives the purpose of the research and how this was going to be qualified by their responses to the research questions. The sections of the interview guide were each explained and defined for the benefit of the interviewees. This was to ensure that the representatives provide answers that are directly related and relevant to the subject matter under study.

4.2 Part A: Board Members And Senior Management

Face-to-face interviews were carried out with both directors and senior executives of companies listed on the Zimbabwe Stock Exchange, who are all at the strategic level of the organisation. These board members/senior executives have been in their respective organisations for a minimum period of five years. The questions posed to these representatives were divided into six sections.

A. Demographic information
C. Relationship between board composition and firm’s financial performance.
D. Relationship between ownership concentration and the organisation’s financial performance.
E. Relationship between managerial ownership of the firm’s shares, and the firm’s financial performance
F. Comments on company performance
4.2.1 Section A: Demographic information.

Table 4.1 summarises the demographic information of the representatives that were interviewed.

Table 4.1: Demographic information of the representatives

<table>
<thead>
<tr>
<th>Company Representative</th>
<th>Age of Representative (years)</th>
<th>Professional/academic background</th>
<th>Number of years employed by the company</th>
<th>Number of years in current position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Representative 1</td>
<td>50 and above</td>
<td>Banker</td>
<td>13</td>
<td>8</td>
</tr>
<tr>
<td>Representative 2</td>
<td>30-39</td>
<td>Human Resource practitioner</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td>Representative 3</td>
<td>50 and above</td>
<td>Financial strategist</td>
<td>17</td>
<td>5</td>
</tr>
<tr>
<td>Representative 4</td>
<td>40-49</td>
<td>Chattered Accountant</td>
<td>9</td>
<td>5</td>
</tr>
<tr>
<td>Representative 5</td>
<td>40-49</td>
<td>Engineer</td>
<td>15</td>
<td>8</td>
</tr>
<tr>
<td>Representative 6</td>
<td>50 and above</td>
<td>Lawyer</td>
<td>19</td>
<td>7</td>
</tr>
<tr>
<td>Representative 7</td>
<td>40-49</td>
<td>Economist</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Representative 8</td>
<td>50 and above</td>
<td>Human Resource Practitioner</td>
<td>23</td>
<td>6</td>
</tr>
</tbody>
</table>
The eight representatives that were drawn from eight Zimbabwe Stock Exchange (ZSE) listed companies are all of ages that range between 38 and 67, and have been in the employment of their respective organisations for years ranging between 7 and 23. All the eight representatives have been occupying their current positions for at least last five years within their respective companies. Three out of the eight representatives have been in their current positions for five years, one representative has been occupying her current position for six years, another representative for seven years, two representatives for for eight years and lastly a single representative for twelve years.

They have served their respective companies in different capacities for cumulative periods ranging from seven and twenty-three years. Only two representatives served their respective organisations for less than ten years, that is seven and nine years of service. The other five have served for more than ten but less than twenty years, that is twelve, thirteen, fifteen, seventeen and nineteen. Only one of the representatives has served his company for twenty-three cumulative years. Half of the total number of the representatives are above fifty years of age, the other three are between forty and forty-nine years of age, whilst only one is within the age group thirty to thirty-nine.

The information indicated that the representatives were both mature and had a strong understanding of the operations of their respective organisations as they evolved over the past 5 years. The diversity of their professions which included bankers, HR practice, financial strategy engineering, law, economics and accounting, enabled the researcher to obtain rich information from the perspectives of individuals with very different backgrounds.

4.2.2 Section B: The effect of the size of the board on the performance of the firm.

Question 1: Does your company have a functional board of directors?
Table 4.2: Whether or not the firm has a functional board of directors

<table>
<thead>
<tr>
<th>Representative</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Representative 1</td>
<td>Yes</td>
</tr>
<tr>
<td>Representative 2</td>
<td>Yes</td>
</tr>
<tr>
<td>Representative 3</td>
<td>Yes</td>
</tr>
<tr>
<td>Representative 4</td>
<td>Yes</td>
</tr>
<tr>
<td>Representative 5</td>
<td>Yes</td>
</tr>
<tr>
<td>Representative 6</td>
<td>Yes</td>
</tr>
<tr>
<td>Representative 7</td>
<td>Yes</td>
</tr>
<tr>
<td>Representative 8</td>
<td>Yes</td>
</tr>
</tbody>
</table>

The responses of the representatives in Table 4.2 above shows that they all responded in the affirmative. This indicates that all the eight companies, from which the eight representatives were drawn, not only have boards of directors but that all the boards are functional, at least for the period under study.

**Question 2: Briefly describe your company’s board of directors in terms of size.**

Table 4.3 shows the responses of the representatives pertaining to the sizes of the respective boards of directors of the different firms the representatives belong to.
Table 4.3: The firms’ board sizes

<table>
<thead>
<tr>
<th>Representative</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Representative 1</td>
<td>9</td>
</tr>
<tr>
<td>Representative 2</td>
<td>9</td>
</tr>
<tr>
<td>Representative 3</td>
<td>11</td>
</tr>
<tr>
<td>Representative 4</td>
<td>6</td>
</tr>
<tr>
<td>Representative 5</td>
<td>13</td>
</tr>
<tr>
<td>Representative 6</td>
<td>7</td>
</tr>
<tr>
<td>Representative 7</td>
<td>9</td>
</tr>
<tr>
<td>Representative 8</td>
<td>6</td>
</tr>
</tbody>
</table>

The representatives indicated the different sizes of their respective boards of directors. The various board sizes are ranging from six to thirteen members per board. There are two companies with six-member boards, only one company with a seven-member board, three companies with nine-member boards, one company with an eleven-member board and finally a single company with a thirteen-member board. Considering the responses that were given the average board size is 9 directors per board.

**Question 3: To what extent has the size of the board affected the financial performance of your company?**

The responses are summarised in Table 4.4 below.
Table 4.4: Effect of board size on firm’s financial performance

<table>
<thead>
<tr>
<th>Representative</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Representative 1</td>
<td>There are too many factors at play, but our company has appointed to the board members with diverse skills, expertise and backgrounds. So a bigger board becomes richer in terms of skills and expertise and that culminates in better performance</td>
</tr>
<tr>
<td>Representative 2</td>
<td>There is generally a positive relationship between board size and company performance, but only up to a certain point because the board should not be too big for it becomes difficult to make decisions</td>
</tr>
<tr>
<td>Representative 3</td>
<td>This company’s board of directors was recently increased from seven to eleven. The argument that was given was to widen the expertise and skills base. That move is proving to bear fruits.</td>
</tr>
<tr>
<td>Representative 4</td>
<td>Experience has shown this company that the relationship is generally positive. As the size of the board increases, so does the performance of this organisation because there will be more and more members with different skills and backgrounds</td>
</tr>
<tr>
<td>Representative 5</td>
<td>The board of directors of this company was increased from seven to ten, and now to thirteen as the company continued to grow bigger. As the company continues to grow bigger and more complex, so should its board of directors</td>
</tr>
<tr>
<td>Representative 6</td>
<td>The larger the board the more diverse it becomes in terms of experience, skills and expertise.</td>
</tr>
<tr>
<td>Representative 7</td>
<td>This company prefers a small board of seven members, which is seen as more effective, and swifter in making decisions</td>
</tr>
</tbody>
</table>
Seven of the eight Representatives shared the same view that as the size of the board of directors increases it becomes a bigger pool of skills, experience and expertise, since the members that are appointed to the board have different skills, backgrounds and expertise. The seven representatives argued that this should result in the company improving its financial performance, benefiting from the board members’ wealth of skills and experience. This means that, according to the seven representatives, there is generally a positive relationship between the size of the board and the company’s financial performance. This is in line with literature which states that; a larger board size has the likelihood of having more knowledge and skills at their disposal, which will enhance financial performance (Williams, 2002).

However, Representative 2 is of the view that if the size of the board continues to grow it will come to a point where it ceases to be effective, and its size starts to work against the company, as it becomes difficult to make decisions. In the same vein, Ramano et al. (2012) stress that as boards continue to grow beyond a certain point, they become less likely to function effectively, may create a diminished sense of individual responsibility and might be more involved in bureaucratic problems.

Meanwhile, Representative 5 explained that size of the board of directors should only grow as the company grows bigger and becomes more complex, whilst Representative 7 finds a smaller board more preferable arguing that it is more effective, and swifter in making decisions

**Question 4: How many board committees does your board have, and which are they?**

The representatives stated the various board committees that serve their respective boards of directors.

The responses of each representative are listed in Table 4.5
Table 4.5: board committees

<table>
<thead>
<tr>
<th>Representative</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Representative 1</td>
<td>Four committees responsible to the board, all chaired by non-executive directors; Audit committee, Investment committee, Insurance committee and Remuneration committee</td>
</tr>
<tr>
<td>Representative 2</td>
<td>There are five principal board committees; Audit committee, Risk committee, Reputation committee, Nominations committee, and Remuneration committee</td>
</tr>
<tr>
<td>Representative 3</td>
<td>There are seven board committees; Credit committee, HR, Nominations and Remuneration committee, Risk management committee, Asset and liability committee, Finance and strategy committee, Audit committee, and Loans review committee</td>
</tr>
<tr>
<td>Representative 4</td>
<td>Four. Audit committee, Risk committee, Nominations committee, and Remuneration committee</td>
</tr>
<tr>
<td>Representative 5</td>
<td>Six committees. Credit committee, HR, Nominations and Remuneration committee, Risk management committee, Asset and liability committee, Finance and strategy committee, and Audit committee,</td>
</tr>
<tr>
<td>Representative 6</td>
<td>Four committees. Risk management &amp; compliance committee, IT &amp; business development committee, Audit and finance committee, and Human resources remunerations committee</td>
</tr>
<tr>
<td>Representative 7</td>
<td>Three committees. Audit committee, Remuneration committee, Risk committee,</td>
</tr>
<tr>
<td>Representative 8</td>
<td>Five. Audit committee, Risk committee, Reputation committee, Nominations committee, and Remuneration committee</td>
</tr>
</tbody>
</table>
The responses from the representatives show that the number of board committees, of the eight companies the representatives were drawn from, range from three to seven. Only Representative 7’s company has three board committees, whilst Representatives 1, 4 and 6’s companies have four board committees each, Representatives 2 and 8’s companies have five committees each and Representative 5’s company has six board committees. Finally, Representative 3’s company has seven board committees. The most common board committees are the Audit committee, Risk committee and the remuneration committee.

4.2.3 Section C: The relationship between board composition and firm performance.

This section looks at the relationship between board composition, that is, the mix between executive and non-executive directors, and the firm’s financial performance

**Question 1:** Briefly describe the composition of your board of directors in terms of the mix between executive and non-executive directors.

**Table 4.6: Board composition: mix between executive and non-executive directors**

<table>
<thead>
<tr>
<th>Representative</th>
<th>total</th>
<th>non-executive</th>
<th>executive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Representative 1</td>
<td>9</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td>Representative 2</td>
<td>9</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td>Representative 3</td>
<td>11</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>Representative 4</td>
<td>6</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Representative 5</td>
<td>13</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>Representative 6</td>
<td>7</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Representative 7</td>
<td>11</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>Representative 8</td>
<td>6</td>
<td>3</td>
<td>3</td>
</tr>
</tbody>
</table>
All the representatives were drawn from companies whose boards of directors are composed of both executive and non-executive directors. For each of the companies the number of executive directors ranges from three to six, whilst that of non-executive directors ranges from three to seven. Four out of the eight companies have boards that are dominated by non-executive directors, two companies have equal numbers of executive and non-executive directors, whilst the other two companies have boards with more executive directors than non-executive directors.

**Question 2: Of what benefit are non-executive directors to your board and the company?**

Table 4.7: Effect of non-executive directors on firm’s financial performance

<table>
<thead>
<tr>
<th>Representative</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Representative 1</td>
<td>Non-executive directors have enabled better scrutiny of the management</td>
</tr>
<tr>
<td>Representative 2</td>
<td>Non-executive directors on our board have brought in experiences from outside the organisation and also linked the company to vital connections</td>
</tr>
<tr>
<td>Representative 3</td>
<td>We have not brought in too many of non-executive directors on the board since they lack inside information on the operations of the organisation</td>
</tr>
<tr>
<td>Representative 4</td>
<td>They have brought in diverse experiences and skills acquired from outside the organisation, and have been beneficial to the organisation</td>
</tr>
<tr>
<td>Representative 5</td>
<td>We have made sure that they do not dominate the board since they lack indepth appreciation of the operations of the</td>
</tr>
</tbody>
</table>
The responses of the representatives show that non-executive directors are indeed of benefit to the company since non-executive directors enable better scrutiny of the management and they also bring in experiences from outside the organisation, as was stated by the majority of the representatives. This is in agreement with literature which states that, there was a distinction between the boards with independent non-executive directors and non-independent directors, as independent directors would provide a variety of independent thinking(Sharifah, Syahrina .and Julizaerma, 2015:462)

However, Representatives 3 and 5 were of the view that there should not be too many of them on the board since they lack inside information on the operations of the organisation. Additionally, Representative 8 indicated that for the non-executive directors to be effective, they should not only be non-executive but should really be independent from the organisation for them to add value to the board.

4.2.4 Section D: The relationship between the ownership concentration and the organisation’s performance
**Question 1: Briefly describe the shareholding structure of your company in terms of whether there are few huge shareholders or many small shareholders**

This question was aimed at describing the shareholding structure of the representatives’ respective companies in terms of whether there are few huge (block) shareholders or many small shareholders.

The responses from the representatives are outlined in table 4.8.

**Table 4.8: Shareholding structure**

<table>
<thead>
<tr>
<th>Representative</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Representative 1</td>
<td>Two dominant shareholders controlling around 50% of the shareholding and many other minor shareholders</td>
</tr>
<tr>
<td>Representative 2</td>
<td>There is one dominant shareholder with more than 30% of the shareholding and several other minor shareholders</td>
</tr>
<tr>
<td>Representative 3</td>
<td>More than 35% of the shareholding is held one institutional investor</td>
</tr>
<tr>
<td>Representative 4</td>
<td>There are no block shareholders</td>
</tr>
<tr>
<td>Representative 5</td>
<td>Around 40% is held by one foreign investor</td>
</tr>
<tr>
<td>Representative 6</td>
<td>There is no clear dominant investor(s)</td>
</tr>
<tr>
<td>Representative 7</td>
<td>There is one dominant institutional shareholder, with several other minor shareholders</td>
</tr>
<tr>
<td>Representative 8</td>
<td>There are several minor shareholders</td>
</tr>
</tbody>
</table>

The representatives’ responses show that five out of the eight companies have the significant parts of their shareholdings held by block shareholders. The other three companies have their shareholding distributed amongst small and dispersed shareholders. One of the companies has around 50% of its entire shareholding in the hands of two institutional investors, whilst another company has one dominant shareholder controlling more than 30% of the company’s shareholding. The other two
companies also have single dominant shareholders each, with one of them controlling more than 35% stake and another one 40% shareholding.

**Question 2: To what extent have dominant shareholders influenced the financial performance of your company**

This question was aimed at explaining the extent to which dominant shareholders influence the financial performance of your company.

**Table 4.9: Influence of block shareholders**

<table>
<thead>
<tr>
<th>Representative</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Representative 1</td>
<td>Shareholders are always on our throats trying to make sure that they get a good return on their investment. But the loudest noise is coming from the two companies that have the largest stake</td>
</tr>
<tr>
<td>Representative 2</td>
<td>Pressure is always there from the shareholders for us to deliver</td>
</tr>
<tr>
<td>Representative 3</td>
<td>Yes, the new major shareholder is keeping us on our toes.</td>
</tr>
<tr>
<td>Representative 4</td>
<td>There are no dominant(block) shareholders in this firm. This company’s shareholders have confidence in the professional managers that are running the company, and the board of directors that is tasked with an oversight role</td>
</tr>
<tr>
<td>Representative 5</td>
<td>Well, we sometimes feel that shareholders are overstepping by trying to interfere with the day to day running of the company.</td>
</tr>
<tr>
<td>Representative 6</td>
<td>No block shareholders</td>
</tr>
</tbody>
</table>
The responses from the representatives show that there is a lot of pressure coming from the companies’ respective shareholders demanding that they deliver so that the respective shareholders get good return on their investments. This is the case with all the companies that have block shareholders. Representative 5 even complained that they sometimes end up feeling that the shareholders are overstepping by their actions which they deem are tantamount interfering with the day to day running of the company. The main explanation, as was found from the responses is that block shareholders have both the ability and the incentive to monitor and control agents, in order to guide them to operate the company for the good of the shareholders. This is generally referred to as incentive alignment (Chen,.2012:15).

4.2.5 Section E: The relationship between managerial ownership of the firm’s shares, and the firm’s financial performance

This section is aimed at describing the relationship between managerial ownership of the firm’s shares, and the firm’s financial performance

Question 1: Does the management of the firm have any stake in the shareholding of the firm?

This question is meant to establish whether the management of the firm have any stake in the shareholding of the firm
Table 4.10: Managerial ownership on company shareholding

<table>
<thead>
<tr>
<th>Representative</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Representative 1</td>
<td>no</td>
</tr>
<tr>
<td>Representative 2</td>
<td>yes</td>
</tr>
<tr>
<td>Representative 3</td>
<td>no</td>
</tr>
<tr>
<td>Representative 4</td>
<td>yes</td>
</tr>
<tr>
<td>Representative 5</td>
<td>yes</td>
</tr>
<tr>
<td>Representative 6</td>
<td>no</td>
</tr>
<tr>
<td>Representative 7</td>
<td>no</td>
</tr>
<tr>
<td>Representative 8</td>
<td>no</td>
</tr>
</tbody>
</table>

The responses shown in the above Table 4.10 show that in five out of the eight companies there is no management share ownership. It is only in three of the companies that the management has a stake in their respective companies.
Question 2: If Yes, what percentage of the total shareholding is held by the management?

Table 4.11: Percentage of shareholding

<table>
<thead>
<tr>
<th>Representative</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Representative 1</td>
<td>N/a</td>
</tr>
<tr>
<td>Representative 2</td>
<td>0.05%</td>
</tr>
<tr>
<td>Representative 3</td>
<td>N/a</td>
</tr>
<tr>
<td>Representative 4</td>
<td>Less than 0.1%</td>
</tr>
<tr>
<td>Representative 5</td>
<td>0.08%</td>
</tr>
<tr>
<td>Representative 6</td>
<td>N/a</td>
</tr>
<tr>
<td>Representative 7</td>
<td>N/a</td>
</tr>
<tr>
<td>Representative 8</td>
<td>N/a</td>
</tr>
</tbody>
</table>

The above Table 4.11 shows in percentage terms the shares that are held by the management in their respective companies. Representative 2 indicated that his company’s management is controlling a mere 0.5% of the company’s entire shareholding. Representative 4 belongs to a company whose management has a share ownership of only 0.1% of the company’s total shareholding, whilst Representative 5 showed that the management of his company has an equally insignificant shareholding of 0.08%.
Question 3: To what extent has managerial ownership of part of a firm’s shares impacted on the firm’s financial performance?

Table 4.12: Effect of managerial share ownership on performance

<table>
<thead>
<tr>
<th>Representative</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Representative 1</td>
<td>We do not have such a scheme, but efforts are being made for its introduction as it will result in management being self motivated to continue improving the company performance because it will be in their interests to do so</td>
</tr>
<tr>
<td>Representative 2</td>
<td>Company performance was supposed to improve because management would do everything in its capacity to improve its performance because the managers themselves stand to benefit. However in the case of our company it has not had noticeable impact because the percentage is just insignificant</td>
</tr>
<tr>
<td>Representative 3</td>
<td>There is no such scheme. But such schemes have a danger of management feigning good performance for the company.</td>
</tr>
<tr>
<td>Representative 4</td>
<td>If it is a significant stake management will work hard to ensure improved financial performance for selfish reasons, but our stake is just too small</td>
</tr>
<tr>
<td>Representative 5</td>
<td>Managerial share ownership is a motivational factor that has resulted in the management working very hard to ensure improved financial performance, there has indeed been an improvement in the company’s financial performance since the scheme was introduced three years ago.</td>
</tr>
<tr>
<td>Representative 6</td>
<td>We do not currently have a management share ownership scheme. But its impact is all dependent on</td>
</tr>
</tbody>
</table>
how much stake the management owns. If the stake is fairly significant it will act as a motivating factor. If it is negligible it will very unlikely have an impact on the company’s performance

**Representative 7**

Our company has rejected that. Performance may improve in the short run but the company may suffer in the long term as the management channels all resources towards ensuring immediate improved performance at the expense of the company’s long term survival

**Representative 8**

This is not applicable to our company. It distracts management from planning for the long term and sustainable growth of the firm

From the responses that were given by the representatives it is clear that only three out of the eight companies have management share ownership schemes. The other five companies do not have such schemes. Out of the three companies that have such schemes, only Representative 5 was positive about the scheme as he responded that the scheme had indeed managed to improve the financial performance of his company as the management felt motivated and empowered to work even harder, which is supported by Bull (1989), who argues that due to the entrepreneur effect, firms that have been subject to a management buy-out normally perform better.

Representatives 2 and 4 indicated that the shareholding percentages that were being held by their respective managements were too insignificant to motivate the management
4.2.6 Section F: Company performance

1. Comment on the general share performance of this company in the past five years.

(Basic earnings per share is calculated by dividing profit after tax for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year)

Table 4.13: Company performance last 5 years

<table>
<thead>
<tr>
<th>Representative</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Representative 1</td>
<td>The company has been realising an average of 2(US Cents) per share per year, in terms of earnings per share, for the last five years</td>
</tr>
<tr>
<td>Representative 2</td>
<td>Earnings per share: average of 3.5(US Cents) per year Dividends were paid for each of the last five years</td>
</tr>
<tr>
<td>Representative 3</td>
<td>Positive earnings per share over the last five years Dividends were declared in all the five years</td>
</tr>
<tr>
<td>Representative 4</td>
<td>Loss per share: an average of 0.3(US Cents) per year over the last five years</td>
</tr>
<tr>
<td>Representative 5</td>
<td>Earnings per share have been fluctuating between 0.56(US Cents) and 2.5(US Cents) over the period</td>
</tr>
<tr>
<td>Representative 6</td>
<td>Earnings per share: have been positive for two of the last five years</td>
</tr>
<tr>
<td>Representative 7</td>
<td>Basic earnings per share: an average of 4(US Cents) per year over the last five years</td>
</tr>
<tr>
<td>Representative 8</td>
<td>Earnings per share were positive in three of the last five years</td>
</tr>
</tbody>
</table>

Table 4.13 summarises the general share performance of each of the eight companies over the last five years. The responses from Representatives 1, 2, 3, 5 and 7 show that
there have consistently been positive basic earnings per share in the last five years in respect of five of the companies. Those companies’ shares have been performing well during the period under study. Representative 4 indicated that his company recorded an average of 0.3(US Cents) loss per share during the period under study. The company from which Representative 6 was drawn had positive basic earnings per share in only two of the five years, whilst Representative 8’s company recorded positive basic earnings per share in three of the last five years under study.

2. Comment on this company’s financial performance over the last five years, in terms of profits (after tax).

Table 4.14: Effect of corporate governance on performance

<table>
<thead>
<tr>
<th>Representative</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Representative-1</td>
<td>The company has managed to realise profits at the end of each of the last five years</td>
</tr>
<tr>
<td>Representative 2</td>
<td>Profits have been steadily increasing over the last five years</td>
</tr>
<tr>
<td>Representative 3</td>
<td>It was all profits for all the five years</td>
</tr>
<tr>
<td>Representative 4</td>
<td>During the last five years the company managed to realise profits in only one year</td>
</tr>
<tr>
<td>Representative 5</td>
<td>The company continued to realise profits despite the harsh operating environment</td>
</tr>
<tr>
<td>Representative 6</td>
<td>The company recorded profits in two of the last five years</td>
</tr>
<tr>
<td>Representative 7</td>
<td>During the past five years the company was recording profits</td>
</tr>
<tr>
<td>Representative 8</td>
<td>Profits were recorded in two of the last five years</td>
</tr>
</tbody>
</table>

The responses in the above table shows different results in terms of profitability of the eight companies from which the representatives were drawn. Representatives 1, 2, 3, 5 and 7 indicated that their respective companies have been recording profits after tax.
in each of the last five years. Representative 4 indicated that his company managed to realise profits in only one of the last five years, whilst Representatives 6 and 8 showed that their respective companies realised profit after tax in only two of the five years under study.

3. What needs to be done to further improve;

(a) The corporate governance practices of this firm

Table 4.15: Ways of improving corporate governance

<table>
<thead>
<tr>
<th>Representative</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Representative 1</td>
<td>Strict adherence to the Reserve Bank of Zimbabwe Corporate Governance guidelines</td>
</tr>
<tr>
<td>Representative 2</td>
<td>Recognising that maintaining good corporate governance practices is an ongoing and continuous process</td>
</tr>
<tr>
<td>Representative 3</td>
<td>Supporting the Board with mandatory committees in executing its responsibilities</td>
</tr>
<tr>
<td>Representative 4</td>
<td>The Chairperson of the Board should be an independent non-executive director</td>
</tr>
<tr>
<td>Representative 5</td>
<td>Non-executive directors should be of such calibre as to provide independence to the Board</td>
</tr>
<tr>
<td>Representative 6</td>
<td>There is need to ensure that non-executive directors are really independent of the company</td>
</tr>
<tr>
<td>Representative 7</td>
<td>The Board should be accountable to shareholders for the company’s performance and its activities</td>
</tr>
<tr>
<td>Representative 8</td>
<td>Strict adherence to corporate governance practices</td>
</tr>
</tbody>
</table>
All the eight representatives made various recommendations on what needs to be done to further improve the corporate governance practices in their respective firms. The various recommendations vary from strict adherence to the Reserve Bank of Zimbabwe Corporate Governance guidelines, maintaining good corporate governance practices as an ongoing and continuous process, supporting the Board with mandatory committees in executing its responsibilities, ensuring that non-executive directors are really independent of the company to appointing Chairperson of the Board from amongst independent non-executive directors. The other recommendations include making sure that the Board is accountable to shareholders for the company’s performance and that its activities and non-executive directors should be of such calibre as to provide independence to the Board.
(b) The financial performance of this firm

Table 4.16: Ways of improving financial performance

<table>
<thead>
<tr>
<th>Representative</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Representative 1</td>
<td>Ensuring a variety of skills and expertise on the Board</td>
</tr>
<tr>
<td>Representative 2</td>
<td>Ensuring strict adherence to corporate governance principles, with the goal of enhancing shareholder value</td>
</tr>
<tr>
<td>Representative 3</td>
<td>The Board should meet at least quarterly to assess risk, review performance, in addition to providing guidance to management on policy and operational matters</td>
</tr>
<tr>
<td>Representative 4</td>
<td>The board should adopt corporate governance guidelines which demonstrate its commitment to monitoring the effectiveness of policy and decision making at board and management level</td>
</tr>
<tr>
<td>Representative 5</td>
<td>The company’s senior management should be composed of highly qualified and experienced individuals, the majority of whom would have held senior positions in renowned international and local companies</td>
</tr>
<tr>
<td>Representative 6</td>
<td>Have a structured recruitment and selection process which has clear parameters for decision making to ensure that some preset criteria are met</td>
</tr>
<tr>
<td>Representative 7</td>
<td>Attracting and retaining staff members who are experienced, qualified and take responsibility of being accountable for the company</td>
</tr>
<tr>
<td>Representative 8</td>
<td>Employ staff that is dedicated to customer service. Assist members with continuous access to education, training, development and coaching</td>
</tr>
</tbody>
</table>
Various recommendations were given by the representatives on ways to improve the financial performance of their respective companies. The recommendations include among others; Representative 1 argued that ensuring a variety of skills and expertise on the Board is necessary, whilst Representative 2 advocated for strict adherence to corporate governance principles with the goal of enhancing shareholder value. Representative 6 recommended having a structured recruitment and selection process which has clear parameters for decision making to ensure that some preset criteria are met, whilst Representative 7 emphasised attracting and retaining staff members who are experienced, qualified and take responsibility of being accountable for the company, and Representative 8 recommended assisting members with continuous access to education, training, development and coaching.

4.3 Summary of Findings
The study was aimed at investigating the effect of corporate governance practices on financial performance of firms listed on the Zimbabwe Stock Exchange (ZSE).

4.3.1 The effect of board size on the financial performance of the firms.
The findings were that all the companies that are listed on the Zimbabwe Stock Exchange (ZSE) have functional boards of directors of varying sizes, ranging from six to thirteen members per board. All the boards served by various board committees, the most common of which are the Audit committee, Risk committee, and the Remuneration committee. This study found that the bigger the board size the better the firm’s financial performance, because a bigger board tends to provide better scrutiny of the operations of the management and the company since it will be a bigger pool of skills, experience and expertise.

4.3.2 Relationship between board composition and firm’s financial performance.
The research found out that all the boards of directors have a mixture of executive and non-executive directors. While some of the company boards are dominated by non-executive directors, others are dominated by executive directors and yet others have a balanced mix of executive and non-executive directors. Companies with a proper mix of executive and non-executive directors tend to perform better.
4.3.3 Relationship between ownership concentration and the organisation’s financial performance.
The findings were that the majority of companies listed on the Zimbabwe Stock Exchange (ZSE) have block shareholders (institutional investors) controlling significant stake of the respective company’s entire shareholding. The institutional investors are actively involved in the running of the companies in which they have invested. Therefore this study found that companies with higher ownership concentration tend to perform better.

4.3.4 Effect of managerial ownership of the firm’s shares, and the firm’s financial performance
This research established that a majority of companies listed on the Zimbabwe Stock Exchange have embraced managerial share ownership schemes. The few that have such schemes in place have their management holding very insignificant stake of the companies’ entire shareholding. This study found that even though management ownership schemes are not common amongst ZSE listed companies, it is evident that the companies that have such schemes in place are more likely to perform better.

4.3.5 Comments on company performance
The research found that the companies that are listed on the Zimbabwe Stock Exchange (ZSE) had different financial performances, in terms of profitability and earnings per share during the last five years. This is despite the fact that they were all operating in the same economic and political environment. Therefore, the study found that whilst some companies were managing to make profits, others were performing poorly, despite the fact that they were all operating in the same environment, meaning that there are circumstances that are peculiar to each of the companies.

4.5 Conclusion
The aim of chapter 4 was to report on the findings and results of the study and to discuss them, taking note of their implications and to link them to the literature. The next chapter will cover the conclusions deduced from the research, recommendations that are done based on the findings, the limitations of the study and recommended areas for further research.
Chapter 5: CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter makes extrapolations of the findings from Chapter 4, making the essential conclusions and recommendations. This chapter also explains the extent to which this dissertation satisfied the objectives and aims that had been set at the commencement of the research study. Chapter 5 will also reflect on the areas for further study and the limitations of the research.

5.2 Summary of Findings

5.2.1 Objective 1: The effect of board size on the financial performance of the firms.

5.2.1.1 Finding
The study found out that the individuals appointed to the boards of directors came from different backgrounds and each one of them had unique skills, experience and expertise. Therefore, bigger boards tend to be bigger pools of skills, experience and expertise. However, the continued increase in the size of the board tends to result in the board becoming less likely to function effectively as it becomes very difficult to make decisions, thereby negatively affecting the company’s financial performance.

5.2.1.2 Conclusion
The study concludes that generally there initially is a positive relationship between the size of the board of directors and the financial performance of the firm. However, this relationship will come to a point where it changes and becomes negative. The other conclusion is that the board size should normally increase as the company grows bigger and becomes more complex.

5.2.2. Objective 2: Relationship between board composition and firm’s financial performance.
5.2.2.1 Finding
The finding of this study with regards to the relationship between board composition and the company’s financial performance is that non-executive directors have indeed been benefiting companies since they have been enabling better scrutiny of the management and also bringing in experiences from outside the organisation, in addition to linking the company with vital connections. However, it was also found that too many of the non-executive directors on the board adversely affected the companies’ financial performance since they lack inside information on the operations of the organisation.

5.2.2.2 Conclusion
The relationship between board composition and company’s financial performance starts off positive as more and more non-executive directors on the board help to increase the company’s performance, but becomes negative when there are too many non-executive directors on the board. So there is need to come up with a correct mix between executive and non-executive directors depending on the circumstances.

5.2.3. Objective 3: Relationship between ownership concentration and the organisation’s financial performance.

5.2.3.1 Finding
This study found that shareholder activism is more common in companies that have block shareholders than in companies with small and dispersed shareholders.

5.2.3.2 Conclusion
There normally is a positive relationship between ownership concentration and financial performance of a company, meaning that companies with higher ownership concentration tend to perform better than those with lower ownership concentration.

5.2.4. Objective 4: Relationship between managerial ownership of the firm’s shares, and the firm’s financial performance.

5.2.4.1 Finding
The study showed that quite a few companies that are listed on the Zimbabwe Stock Exchange (ZSE) have management share ownership schemes, and that the shareholding that is held by the management is an insignificant percentage of the total shareholding of the respective companies.

5.2.4.2 Conclusion

It is the conclusion of this study that management share ownership schemes is not a common feature in the majority of the companies that are listed on the ZSE. This leaves the management with nothing to motivate them to go an extra mile, in terms of their performance.

5.3 Recommendations

In view of the findings cited above this study makes the following recommendations for a better understanding of the relationship between corporate governance practices and the financial performance of firms on the Zimbabwe Stock Exchange (ZSE).

5.3.1 The effect of board size on the financial performance of the firms.

There to take into consideration, the calibre of the members themselves and the size and complexity of the company, when deciding on the right board size of any given company.

5.3.2 Relationship between board composition and firm’s financial performance.

There is need to understand that it is an anomaly to use the phrases “non-executive director” and “independent director” interchangeably. Not all non-executive directors are independent. A director may be non-executive but not independent from the company in question, the ideal situation is that a director be both non-executive and independent. Therefore, it is recommended that there be a requirement for all non-executive directors to declare any interests that they may have in the company before appointment, so that they can truly independent.
5.3.3 Relationship between ownership concentration and the organisation’s financial performance.

There is need to come up with maximum limits in terms of percentages of shares that is permitted per shareholder, as a way of protecting the interests of minority shareholders.

5.3.4 Relationship between managerial ownership of the firm’s shares, and the firm’s financial performance

This study recommends that management share ownership schemes be made a ZSE listing mandatory requirement as a way of motivating and empowering management. The stake set aside for this scheme should be big enough for the management to really feel motivated and empowered for it to have an impact on the financial performance of the firm.

5.4 Study limitations and areas for further research

The study was based on case studies on a few of the companies that are listed on the Zimbabwe Stock Exchange (ZSE) whose results may be inconclusive since more solid or different inferences may be made by looking at a bigger number of firms or entirely different firms on ZSE to evaluate relationship the relationship between corporate governance practices and firms’ financial performance.

Further research needs to be carried out on different companies to establish if similar results will be obtained.
References


22. OECD Principles of Corporate Governance, 2004". OECD. Retrieved on 30/1018

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APPENDIX 1

Questionnaire: Board Of Directors / Senior Executives

Topic: The effect of corporate governance on the financial performance of firms listed on the Zimbabwe Stock Exchange (ZSE)

Section A: Background Information

1. Age:
   - below 30 □
   - 30-39 □
   - 40-49 □
   - 50 and above □

2. Gender:
   - Male □
   - Female □

3. Which category do you belong to? (Tick the applicable)
   - Board □
   - Senior Management □

4. How long have you been occupying this position?
   - Below 5 years □
   - 5-9 years □
   - 10-14 years □
   - 15-19 years □
   - 20 and above □

5. What is your highest educational qualification?
6. Briefly describe your key responsibilities in this firm.

........................................................................................................
........................................................................................................
........................................................................................................

Section B: The effect of the size of the board on the performance of the firm.

1. Does your company have a functional board of directors?

   Yes/No

2. Briefly describe your company’s board of directors in terms of size

   ........................................................................................................
   ........................................................................................................
   ........................................................................................................

3. To what extend has the size of the board affects the financial performance of your company?

   ........................................................................................................
   ........................................................................................................
   ........................................................................................................

4. How many board committees does your have, and which are they?

   ........................................................................................................
   ........................................................................................................
   ........................................................................................................

Section C: The relationship between board composition and firm performance.

1. Briefly describe the composition of your board of directors in terms of the mix between executive and non-executive directors.
2. Of what benefit are non-executive directors to your board and the company?

Section D: The relationship between the ownership concentration and the organisation’s performance

1. Briefly describe the shareholding structure of your company in terms of whether there are few huge shareholders or small dispersed shareholders

2. To what extend have dominant shareholders influenced the financial performance of your company?

Section E: The relationship between managerial ownership of the firm’s shares, and the firm’s financial performance

1. Does the management of the firm have any stake in the shareholding of the firm?
   Yes/No

2. If Yes, what percentage of the total shareholding is held by the management?

3. To what extend has managerial ownership of part of a firm’s shares impacted on your firm’s financial performance?

Section F: Company performance

3. Comment on the general share performance of this company in the past five years

4. Comment on this company’s financial performance over the last five years on terms of profits (after tax)?

5. What do you think needs to be done to further improve;

   (c) The corporate governance practices of this firm

   (d) The financial performance of this firm

End of Questionnaire

Thank you for your cooperation