THE IMPACT OF CORPORATE GOVERNANCE ON COMMERCIAL BANKS IN ZIMBABWE: A CASE OF AGRIBANK

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DECLARATION

I declare that this dissertation is my own work and has not been submitted before for any degree or examination to any University and that all the sources I have used or quoted have been indicated and acknowledged as complete reference in my bibliography.

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DEDICATION

I dedicate my research to my fiancé Bertha Tatenda Mtaurwa for the spiritual, physical and emotional support throughout the process of researching.
ABSTRACT

The research made use the case of Agribank to analyze the impact of corporate governance on commercial banks. The research was prompted by the deregulation of the financial sector which encouraged intense competition and innovation in the sector. This left a significant dent in the public confidence with the financial sector. Agribank was not spared from the effects and has seen deposit flights and a sharp decline in the number of clients. Some board members of Agribank have been on the board for more than ten years and this raises the question as to whether such members are still adding value to the bank. The topic under which this problem was investigated was: “The impact of corporate governance on commercial banks in Zimbabwe: A case of Agribank”. The literature for this research was obtained from various sources. These included the internet, text books from various libraries, newspapers, magazines, Agribank annual reports and management committee minutes and reports. The research methodology for the collection of data involves the quantitative and qualitative techniques. When the data was collected, it was presented and analyzed with the assistance of descriptive statistics technique which comprised of graphs, tables and descriptive narrations.

After having presented and analyzed collected data, the research proceeded to draw conclusions on the study. The study presented the conclusions on characteristics of good corporate which are transparency, fairness and responsibility. The importance of corporate governance enhanced accountability. Conclusions were also drawn on the challenges that the bank faced due to non practice of good corporate governance tenets such as non availability of a written corporate governance policy.

The study recommended that there must be an overhaul of the enforcement machinery and composition of audit committees, whose members should be more observant to their responsibilities. Auditors must ensure strict compliance with codes of conduct, commitment and vigilance of directors, see to the need for high level of disclosure and transparency, improve regulatory framework by making the laws available to all shareholders and the public. In addition they should devise active mechanisms for law enforcement, strengthen enforcement mechanisms (by providing logistics, training, and equipment). The adoption of an alternative dispute resolution mechanisms, create an enabling environment by maintaining the political will to implement policies, and create an independent and courageous judiciary.

Recommendations to future researches were also noted as the analysis of collected data opened up areas which the researcher did not focus on. It is therefore suggested that future researchers consider researching in the areas of; impact and effectiveness of the leadership style within Agribank; effectiveness of strategy formulation and implementation within Agribank; and the impact of performance management system being adopted by Agribank.
ACKNOWLEDGEMENTS

I want to thank my dissertation supervisor Mr Christopher B Mashavira for the unwavering support that he gave me throughout the course of the research. He motivated me even when I had lost hope that I might not make it to the end. I would also want to acknowledge the Bindura University MBL lecturers for the knowledge well dispatched that was used to grasp and successfully carrying out my research. The University library staff is worth acknowledging for the library services rendered especially during the course of secondary data collection, i.e. source of literature reviewed. Credit also goes to the respondents of my research questionnaires; of which their responses made it possible for me collect data that was analysed. I also thank my boss Mrs. T Mavhunga, who has always accorded me time to do my research by allowing me time off at work as well as my colleagues at work who shared with me some of the important points of reference at Afribank in line with my area of study. Special thanks also go to the following people for encouraging me to soldier on with the research: my sister Mrs. Muridzi and her husband Mr. A Muridzi; my friends Tapiwa Msengezi, Wonder Farai and Winnet Bangajena. Lastly, but not least, all the credit goes to the Almighty God for giving me strength, wisdom and spiritual guide that has made this assignment a success story.
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LIST OF ABBREVIATIONS

AFC  AGRICULTURAL FINANCE CORPORATION
CG   CORPORATE GOVERNANCE
FDI  FOREIGN DIRECT INVESTMENT
ICAZ INSTITUTE OF CHARTERED ACCOUNTANTS IN ZIMBABWE
OEDC ORGANISATION FOR ECONOMIC COOPERATION DEVELOPMENT
RBZ  RESERVE BANK OF ZIMBABWE
ZNCC ZIMBABWE NATIONAL CHAMBER OF COMMERCE
CHAPTER 1

INTRODUCTION

1.1 INTRODUCTION
This study seeks to assess the impact of corporate governance on commercial banks in Zimbabwe so as to suggest ways in which the commercial banks can benefit from practising best practises of corporate governance. This chapter consists of the background of the study, background of Agribank, problem statement, research objectives and research questions and the assumptions of this study.

1.2 BACKGROUND OF THE STUDY
Zimbabwe’s financial services sector has witnessed phenomenal growth since economic deregulation in 1991. However, economic turbulences and political meltdown that have hogged the country since the year 2000 have created a new and challenging environment. Between 1998 and 2003 banks were declaring super profits at the close of each financial year. The super profits were mainly attributable to non-core operations some of which were to be
declared illegal by monetary authorities at a later stage. The main form of illegitimate transaction common among the banks was the foreign currency black market. A consequence of deregulation has been a dramatic increase in competition in the financial services sector. New entrants in the sector comprise financial institutions, whose shareholding is in the main, indigenous and domestic. The phenomenal growth in the sector has raised the question of market saturation i.e. whether the sector is not “overbanked”.

The highest sectoral growth rates have been recorded in the commercial banking and discount houses. Although the financial services sector has witnessed high growth rates, it has also experienced instability in some sectors. High turbulence has been recorded in two sectors, i.e. commercial banks and discount houses. In both instances inadequate capitalisation and unsatisfactory corporate governance practices appear to have played a major role. In Zimbabwe, the banking sector has gone through three distinct phases. Banks operated under semi-command economy from 1980 to 1990. Corporate governance, while important, received inadequate attention. Monetary policy and banking supervision functions were carried out in a low-key fashion as controls in place ensured that risks were kept at the very minimum. The controls also implied a significant opportunity cost in terms of important banking activities that were not undertaken. While the Central Bank undertook minimal supervision of banks during this time, it is not surprising that there were no bank failures at all. Bank viability and profitability were guaranteed. There was no dynamic and meaningful competition in the financial sector. There was no incentive for efficient cash flow and cost effective management systems (Chimombe, 1983).

The financial sector reforms introduced in 1991 entailed the removal of market-segmentation and facilitated the entry of more institutions into the sector. The period 1991 to 2000 represents the second phase in the development of the sector. The reforms undertaken during
this period led to the entry into the market of several commercial banks, discount houses and later asset management companies. The entry was sudden and appeared to be anchored on a laissez faire policy of bank licence approvals. No prior diligence appeared to have been conducted on licence applicants. The liberalisation was also designed to move the economy away from an inefficient and monopolistic private sector, which hardly paid any attention to sound corporate governance. The reforms also led to a review of strategy and operations in areas such as loan origination, administration, monitoring and review.

Current events in the banking sector have been concurrently influenced by political factors. The influence of political factors has been felt since the year 2000. This represents the third phase in the analysis of what has transpired in the banking sector. The main factor underpinning political variables has been land reforms that started in year 2000. Zimbabwe’s land reforms were fraught with controversies. The reforms also created shifts in relations between the country, international donors and investors. The economic meltdown in Zimbabwe was mainly pronounced through the collapse in local currency and an unprecedented rise in inflation. At its peak in January 2004, inflation reached 623 percent.(Zimstats)

One of the prominent consequences of economic decline was the emergence of the black market and other unorthodox means of making profits by the banking sector. Ironically, the emergence of the black market was not only a source of super profits for the banks but also turned out to be the source of the collapse for most newly established banks. This followed a clampdown on black market transactions by the Central Bank. Experience to date shows that the problem of non-performing loans is quite common with locally owned banks. When a financial institution is in distress, the Central Bank has tended to step in through mandatory
restructuring, imposition of the management of the curator, liquidation and regulatory forbearance approaches. As part of rehabilitation of the financially distressed institutions, the Central Bank has sometimes had to intervene through forcibly removing managers considered a burden. Zimbabwe’s regulations demand banks to have a minimum of five directors, at least 60 percent of whom must be independent non-executive directors. It is assumed, by addressing the issue of composition of the board, corporate governance is improved (Tsumba, 2002). To date, governance of financial institutions in developing countries has not received adequate attention from researchers. In developed countries the corporate governance of banks has also only recently started receiving attention from researchers.

1.2.1 BACKGROUND OF AGRIBANK

The Agricultural Development Bank of Zimbabwe (Agribank), in its present state, has evolved in various forms over the past 87 years. Its roots can be traced back to 1924 when the Land and Agriculture Bank was founded to cater for the needs of commercial farmers of the day. In 1971 the Agriculture Finance Corporation (AFC) was conceived through an act of Parliament, which amalgamated the Land and Agricultural Bank and the Agricultural Assistance Board. AFC was mandated to act as a lending institution to the agricultural sector in Zimbabwe and its major source of finance was statutory funding.

The government’s restructuring exercise which unfolded in the early 1990’s resulted in quasi non governmental bodies and other government run institutions being weaned off public funding and targeted for privatisation. This resulted in funding that was previously availed to AFC being gradually reduced. Without proper funding, AFC refocused its business to other
avenues for its survival with the immediate and only logical step being to become a commercial bank. However the public still associated the organization with being the government’s funding arm for the farmers. The Bank was incorporated as Agribank in 1996 and was subsequently granted a commercial banking licence in June 1999. The Agricultural Development Bank of Zimbabwe (AGRIBANK) then became a registered commercial bank in terms of the Banking Act (Chapter 24:20). The Bank began its operations on 10 January 2000 and remains focused on agricultural lending to farmers, augmented by Corporate, Treasury and Retail Banking operations, in all parts of Zimbabwe through its wide branch network.

The Bank is wholly owned by Government with the Ministry of Finance controlling 50% and Ministry of Agriculture controlling 50%. The cabinet approved the sale of 49% of the government’s stake in the bank for strategic reasons but it is yet to be taken up since 2011. The bank is headed by a chief executive officer who reports to the Board of Directors, comprising of an independent chairman who is non-executive and four non – executive directors and two executive directors. Currently, the bank has forty eight (48) branches throughout the provinces of Zimbabwe and a staff compliment of six hundred and six (606), including executives and management. The Bank is structured along business lines with Corporate Banking, Retail Banking, Treasury, International Banking and Support Services forming the major divisions.

With the way Agribank has been ill-performing over the past and current years, one is left with no option but to point out lack of adequate corporate governance within this institution has caused all these sub-standard performance. The corporate governance issue seems to stem
from the nomination process of board members of this financial institution. Corporate governance has become an important issue due to various factors ranging from sheer corruption to poor accountability, use of unapproved policy documents and general improper use of scarce resources which have resulted in management overriding controls and wastage of resources among other factors.

1.3 PROBLEM STATEMENT
The deregulation of the financial sector in 1990 encouraged intense competition and innovation in the financial sector. Public confidence in the financial sector has significantly been dented and this has led to withdrawal of funds from Agribank resulting in a sharp decline in the number of clients. Some board members of Agribank have been on the board for more than ten years and this raises the question as to whether such members are still adding value to the organisation or not.

1.4 PURPOSE OF STUDY
The purpose of the study is to carry out a study on the impact of corporate governance on commercial banks in Zimbabwe but with a main focus on Agribank so as to suggest ways in which the commercial banks can benefit from practising best practises of corporate governance. Banks in Zimbabwe have over the years been involved in banking mal practices which have led to the closure of several banking institutions. It is with this background that the dissertation seeks to carry out the impact of corporate governance on the commercial banking sector in Zimbabwe.
1.4.1 RESEARCH OBJECTIVES

The study will seek to:

- Ascertain the benefits of practising good corporate governance to commercial banks.
- Assess the level adoption of corporate governance principles at Agribank.
- Ascertain how effective the performance of the appointed board at Agribank is.
- Suggest recommendations on policy framework as panacea for effective implementation of corporate governance at Agribank

1.4.2 RESEARCH QUESTIONS

- What are the benefits of adopting best corporate governance practices?
- What is the adoption level of corporate governance principles at Agribank?
- What is the performance level of the appointed board at Agribank?
- What recommendations on the policy framework as panaceas for effective implementation of corporate governance at Agribank can be given?
- What role has the Central Bank played or is playing in trying to harness corporate governance in the commercial banking sector in Zimbabwe

1.5 PROPOSITION

The study proposes that the adoption of sound corporate governance practices by Agribank will result in high profitability and enhanced competitiveness of the bank.
1.6 ASSUMPTIONS OF THE STUDY

1.6.1 The researcher assumes that all responses will be free of prejudice to make reliable findings and that the researcher will receive maximum assistance from respondents.

1.6.2 The researcher also assumes that for the research to be successful there should be no changes or significant changes concerning the corporate governance practices at Agribank and that the prevailing trends will continue until the end of the study.

1.6.3 The researcher also assumes that all respondents to the questionnaire will have sufficient background information on the issue of corporate governance and are up-to-date with recent developments in this area at Agribank.

1.6.4 It is also assumed that the respondents may not have the same understanding with the researcher on the area of study.

1.7 POPULATION OF THE STUDY

The study population include all individuals whom the researcher is interested in obtaining information and making conclusions (Fraenkel and Wallen, 1996). They elaborated that the population is split into two categories, the target and the accessible populations. The target population is the actual population to which the researcher would really like to generalise. However, this population was rarely available. Therefore, the population to which researcher is able to generalise is the accessible population (Fraenkel and Wallen, 1996).

The population of this study shall include all 606 Agribank employees and management. The study sample respondents will be 80 respondents from management, directors and the board
of Agribank since these make strategic decisions, which affect the viability of the financial institution.

1.8 SIGNIFICANCE OF THE STUDY

The study will be significant to the following stakeholders:

**Supervisory Authority (RBZ)**

The study will assist in the development of a body of knowledge which can then be used for policy formulation by the supervisory authority and consequently, for the development of the economy. It is then necessary to put safety nets in place to restore investor confidence for any economy to grow and prosper especially in view of the mushrooming of institutions in Zimbabwe.

**Commercial banks**

The recent global financial meltdown was mainly due to bank failures and it is for this study to provide ways in which such bank failures can be avoided and thereby resulting in a stable economy.

**Agribank Management and board**

The findings will also be helpful to Agribank as it provides them with the actual causes of the bank failures in the economy and hence the failures can be avoided or prevented. The major weaknesses in all the literature reviewed are that it is mainly based on experiences in the
developed world, particularly North America and Europe, and it does not cover much about the commercial banking sector.

**Academics and consultants**

This study will contribute to the general understanding of the subject area from a Zimbabwean and commercial banking sector perspectives. This study will benefit other researchers who may want to carry out the same study as a referencing point and last but not least, the researcher who has a keen interest in corporate governance issues as he is an auditor by profession.

**1.9 DEFINITION OF TERMS**

**Corporate Governance:** The manner in which the power of and power over, a corporation is exercised in the stewardship of its assets and resources so as to increase and sustain shareholders value as well as satisfying the needs and interests of all stakeholders

**Central Bank:** A nation's principal monetary authority, such as the Reserve Bank of Zimbabwe (RBZ), which regulates the money supply and credit, issues currency, and manages the rate of exchange.

**1.10 DISSERTATION STRUCTURE**

The following is the outline of the study:

**Chapter 1:** This chapter contains the general overview, background of the Zimbabwean financial sector, problem statement, research questions, research objectives, research questions, scope of the research, significance of the research and structure of the dissertation.
Chapter 2: - The chapter reviews the available literature on corporate governance, constraints and findings of previous studies in this field. The aim of the literature review is to demonstrate a clear and sound theoretical underpinning of the study and to show the importance or necessity of the research topic.

Chapter 3: - Covers the methodology applied during the study. Justification of the methods and instruments used are detailed here.

Chapter 4: - Details the results of the study and an analysis of the same is done with the aid of statistical tools. The study findings are also discussed in this chapter.

Chapter 5: - This will focus on conclusion and recommendations arising from the analysis of the study findings. Areas of further research are also included in this chapter.

1.11 SUMMARY

Chapter One has defined the background, research problem, research objectives, proposition, justification and the scope and delimitation of the study in the context of the corporate governance at Agribank. The following chapter reviewed the literature related under the same concept.
CHAPTER 2

LITERATURE REVIEW

2.1 INTRODUCTION

The previous chapter gave the introduction of the research with special emphasis of what to expect in this project. The purpose of this chapter on literature review is to remove the need to rediscover knowledge that has already been reported on. It is comprised of the following sub headings: Purpose of literature review, Sources of literature review, Discussion of related literature and Chapter Summary.

2.2 PURPOSE OF LITERATURE REVIEW

The purpose of this literature review is to find and analyse mostly why CG matters, models of CG and corporate governance systems. The purpose is also to critique the existing research. Critically reading and evaluating the literature increase and deepen understanding of the topic. This will enable conveying established knowledge and ideas, analyze and compare them, and also identify their strengths and weaknesses. The literature review will help identify variables that may influence the research. The aim is to find and present the pertinent work from the primary literature in a logical, organized manner and to bring the reader as up-to-date as possible to the issues of turnaround strategies and related issues. This literature will help explain how the question to be investigated fits into the larger picture and why it has been approached in this way. To understand corporate governance there is need to understand what it is and how it can be used as a tool to enhance corporate competitiveness.
2.3 SOURCES OF LITERATURE REVIEW

The sources of literature include text books, journals, magazines and the internet. The study used literature from all the sources listed above.

2.4 DISCUSSION OF RELATED LITERATURE

2.4.1 Corporate Governance

Governance refers to the way in which something is governed and to the function of governing (Coyle, 2005). The governance of a country, for example, refers to the powers and actions of the legislative assembly, the executive government and the judiciary (Coyle, 2003). This is to say that whenever a decision is to be made and implemented it should be carried out in impartiality without favour or fear, that is how we expect a judge to give a ruling in that manner and so is corporate governance when the management are implementing a decision there is no need for other stakeholders to be worry because they believe the decision to be passed will be fair and not disadvantage any group members.

In 2004, OECD Principles of Corporate Governance outlined non-binding standards, principles and good practices for corporate governance and it also gave guidance on the implementation of standards and principles. The report describes corporate governance as “a set of relationships between a company’s management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined” (OECD Principles of Corporate Governance, 2004). The structure that is laid down for which objectives are to be achieved has got to be transparent
and implementers have got to be honesty and hold high level of integrity for corporate governance to be effective.

Mathisen (2002), defined corporate governance as a field in economics that investigates how to secure or motivate efficient management of corporations by the use of incentive mechanisms, such as contracts, organizational designs and legislation. This is often limited to the question of improving financial performance, for example, how the corporate owners can secure or motivate that the corporate managers will deliver a competitive rate of return.

One of the most shortest but may be the most powerful definition of corporate governance was put up by Shleifer&Vishny (2004), when they said corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment. In this case it actually means that owners of an investment will have put faith and trust in management to oversee their investment. Again this shows us that there is an element of accountability and responsibility as the management is given responsibility to implement decisions that will bring in a fair return to the investors, failure of which the management should be held accountable.

2.4.2 Why Corporate Governance matters

Glassman (2002) post Enron, says; “governance matters, good governance tends to channel corporate decisions in the right directions and conversely ‘bad’ governance leads to or at least enables ‘bad’ decisions. In judging which decisions are good or bad, it is important to note
that corporate representatives are fiduciaries, and as such must often subjugate their own interests of their stakeholders. In this good sense, good corporate governance is intended to cause corporate decisions to take appropriate account of the various (and sometimes conflicting) constituencies whose interests the corporation must take into account.”

From a purely utilitarian perspective, good corporate governance makes good business sense. The major advantages of good corporate governance lie in the increased ability of properly governed companies to attract institutional and foreign investment, to implement sustainable growth. It also lies in the ability to identify and manage their business and other risks within predetermined parameters, thereby limiting their potential liability. In the contest for scarce skills and human talent, properly governed companies with a reputation for being good corporate citizens are also more easily able to attract better calibre employees.

2.4.2.1 Access to capital

The inability to access capital at competitive rates remains a major inhibitor to the growth of many public and private companies in many developing countries. Corporate governance may have been regarded as a minor issue, but the quality of a potential investee company’s corporate governance is now ranked alongside its returns on investment ratios in determining whether potential investors will invest in a particular company. Outstanding financial performance at any cost is no longer the sole consideration when making investment decisions. According to Mckinsey investor opinion survey (2000), more than 84% of global institutional investors indicated a willingness to pay a premium ranging between 18% and 27% for shares of a well-governed company over one considered poorly governed, albeit with a comparable financial record.
In a follow up survey in 2002, institutional investors still ranked corporate governance as an important factor in their investment decisions. International rating agencies such as Moodys, Standard and Poors employ standard corporate governance rating criteria in their evaluation methodology. The criteria directly link the quality of a company’s corporate governance with quantum and rate at which it is able to secure funding. Schleifer and Robert (2005) note that corporate governance deals with the ways in which suppliers of finance assure themselves of getting a return on their investment.

2.4.2.2 Foreign direct investment

A country’s reputation regarding governance issues is a collage of its legal and regulatory approach to corporate governance and the conduct of the individual players in the economy. Levitt (2003) argues that if a country does not have a reputation for strong corporate governance practices, capital will flow elsewhere. A study conducted at the Stanford law school showed that institutions looking to invest money in emerging economies were more likely to invest money in companies that had sound corporate governance practices. Conventional governance wisdom has it that well governed countries and companies are able to attract Foreign Direct Investment (FDI) since they are categorised as an acceptable investment risk.

Good corporate governance and reduced levels of corruption should not be seen as a guarantee that foreign investment will promote economic development in Africa. For as long as African countries are not embracing transparency and good governance, the only countries
that are likely to prefer Africa as an investment destination are those with an interest in exploiting continent’s resources. Conversely, properly governed countries and companies are more likely to be able to access funding from a much larger pool of potential investors. Fiorina (2002) contends that if developing countries are to reap the full benefits of the global market and attract long-term capital, their corporate governance regimes must be credible, well understood across borders and must adhere to internationally accepted norms.

2.4.2.3 Public demand for accountability

Public interest in corporate governance has heightened with the proliferation, in the last decade, of high-profile corporate frauds resulting in huge losses. The list of corporate governance failures in the last decade from AIG and Citi-group to Enron, WorldCom and Xerox reads like an alphabetical checklist. Companies took decades to build and had to be nationalised or bailed out by government loans. Some were left unaided and they fell into ruin. As a result of this, billions have been lost through the unbridled greed management and the gross negligence of boards.

Schmidt (2003) argues that in a bull market, the approach of investors is normally far more laissez-faire, with the soothing sounds of share prices constantly ticking upwards tending to lull investors into worrying less about the management of their investments and the integrity of a company’s directors. Schmidt (2003) however, adds that in tough economic times, investors and the public tend to keep a more watchful eye on the way companies are being run. They tend to demand greater accountability and better corporate citizenship from companies.
2.4.2.4 Dealing with change

Finlay (2008) contends that corporate governance matters most in times of crisis as it helps companies withstand economic shock. Good corporate governance was not seen as relevant during the economically buoyant 1990s. This is because badly governed companies appeared to be doing well, just like well govern ones. Under such circumstances, the quality of a company’s governance had little or no impact on the company’s share price.

2.4.2.5 Corporate governance as a competitive advantage

To some extent, bankruptcies are a cyclical phenomenon. Not all corporate failures can be blamed on poor corporate governance. Other factors such as unexpected interest rates hikes, currency and demand fluctuations, natural disasters and health issues such as the HIV/AIDS pandemic may sometimes force an adequately run company out of business. “In light of recent governance failures, shareholders, banks and investors are all becoming increasingly selective about the companies with which they are associated” (Naidoo, 2009:21). Claessens (2003) argues that the majority of recent corporate failures can be attributed to bad business plans, poor management decisions, fraud, undercapitalisation and the failure to anticipate and deal with risk properly. He argues that the proliferation of governance failures has led if not to financial meltdown, then at least to a discounting of the value of companies in those economies.

Poor corporate governance practices can pose a negative externality on the economy as a whole for any country. This was written just five years before the almost simultaneous implosion of Bear stands, Citigroups, AIG, Lehman Brothers and others in the US in 2008 sparked a global financial crisis that is being compared more than once to the great
depression. Correctly, applied good governance principles can be an important competitive advantage used to maximise a company’s performance. According to Claessens (2003), it can also be used to increase a company’s potential to encourage capital investment and positively influence a country’s ability to attract foreign investment. It remains an essential ingredient for nurturing trust and business confidence. Whilst effective and efficient boards cannot guarantee that companies will not be hit by crises and good corporate governance is no guarantee of superior performance. These two help companies deal with problems in ways that limit the damage.

2.4.2.6 Board of directors

A board of directors is made up of both executive and non-executive directors. Executive directors are individuals who combine their role as director with their position within the executive management of the company. Non-executive directors perform the functions of director only, without any executive responsibilities. Executive directors combine their stake in the company as a director with their stake as a fully paid employee, and their interest are therefore likely to differ from those of the non-executives (Coyle, 2005).

The board of directors are the overseers of the day–day operations and they are responsible for making sure that the strategic plans have been put into action effectively and efficiently. Even though they are not the owners of the company but having been given the mandate to carry out short and long–term operations of the company by the shareholders, effectively it means they do have a big say in how the company should run for example the board has the final say in decisions about raising finance, paying out dividends and making major investments, so in short the executive management is held accountable to the board for their performance.
2.4.2.7 Board structure

Insider countries like Germany and Japan favour two tier boards which are a board structure with two boards, a supervisory board of non-executive directors and beneath it a management board of executive directors. The Chief Executive Officer heads the management board and reports to the chairman of the supervisory board. Responsibilities for governance are divided between the two boards. The management board has responsibility for the operational performance of the business whilst the supervisory board reserves some responsibilities to itself like supervising the management board (Coyle, 2003). Then outsider countries like United States of America and United Kingdom they do favour unitary or one tier board. This is a board structure where the organisation has just a single board of directors. This consists of executive directors and non-executive directors (Coyle, 2005).

One advantage of the two-tier structure is that the supervisory board has independence from executive directors which might enhance transparency. However, it is often so far removed from the company business operations that it lacks important information and expertise necessary to carry out its function and sometimes it is said to be too big, with up to twenty members. Also the other demerit on the face of a two tier board is that corporations are tempted to appoint retired former managers of the company to the supervisory board, and these individuals might be to retain some influence over the actions and operational decisions of their successors. This is not the purpose of a supervisory board (Macey, 2008). The advantage of one-tier structure is that the board is composed of independent directors to provide objectivity, and executive directors that are familiar with the company business. The disadvantage of the one-tier structure however, is that it is easier for the board to be manipulated internally or ‘captured’.
However, there is no definitive answer to the question of which board structure is superior. Different board structures are implemented to suit different economic and market systems. The present trend throughout the world however, is moving in favour on the one-tier structure (OECD, Principles of Corporate Governance, 2004).

2.4.2.8 Board Composition

The composition of the board is an important aspect that helps guarantee the effectiveness of board operations. A modern board consists of individual executive directors (such as the finance or the marketing directors) who deal with a particular function within the company. The board will also consist of non-executive and independent directors. Existing evidence suggests that independent directors are able to help protect the interests of shareholders in specific circumstances when there is an agency problem (Liu, 2005). Furthermore, independent directors monitor management more efficiently than executive directors.

Large public companies usually set up special sub-committees under the board. For instance, a compensation committee composed of entirely independent directors determines the remuneration level of senior management. Allen (2005) finds that the most important board decisions result from such sub-committees. (Liu, 2005) further argues that the audit, executive compensation, and nomination committees have a great influence over company activities. Particularly the audit committee, consisting of independent directors, is generally expected to be an effective monitoring body (Aivazian, 2005). Sun et al., (2002) find that whilst overall board composition appears to be unrelated to company performance, the structure of the finance and accounting committees appear to be considerably more influential.
2.4.2.9 Executive Compensation

The main issue concerning directors’ remuneration is how best a company can manage to lure the executive in rewarding him or her highly contingent, long-term incentive related contract as a way to influence behaviour and align management interest with those of shareholders (Aivazian, 2005). The components or elements of executive remuneration might be basic salary, personal pension, bonus tied perhaps with annual performance of the company, other perks like health insurance and holiday allowances. Other long-term perks might include share options, company share and in some instances a severance pay where the company is committed to giving the individual a minimum severance pay if he or she is forced to leave the company (Coyle, 2003).

The remuneration package offered to a senior executive has to be sufficient to attract the individual to accept the position. Companies often use remuneration consultants, who give advice on remuneration packages, including basic salary levels for senior executives (Stefan et al., 2006). One of the arguments in favour of high remuneration for top executives of international companies has been that high pay is necessary to stop executives being poached by other global companies (Koufopolouset al., 2010). In the United Kingdom, for example, this argument has been used to justify comparisons of United Kingdom executives’ salaries with those of top United States of America businessmen (Tenev et al., 2002).

However, a report in 2002 by the International Corporate Governance Network (ICGN) argued that there is no international market for top executives, and so there is no point in structuring remuneration packages to prevent top executives from being lured to companies in other countries, the United States in particular. The ICGN report admitted that some multinational companies face global competition for top executives, so have to offer
packages that match those paid to top United States of America executives and still the ICGN argued that the number of multinationals in this position was much smaller than the number of companies using international competition argument to boost top executives’ pay. Measures should therefore, be taken to prevent a senior executive remuneration spiral from getting further out of hand (Coyle, 2005).

However, the researcher is of the opinion that it may be impractical to put a stop measure to executive remuneration as long as companies have different objectives differ and the cost of production is different. To those companies in the same industry they may suffer a lot if it happens there is a cost saver in the industry who might be able to pay the executive higher pay than competitors can manage through the savings he or she gets from low cost of production. Also through fear of being outperformed by the rival, the company has no choice but to pay a higher salary to the executive fearing that if the individual goes to the rival they will be outsmarted completely. The other way of making sure that the executive demand a high salary, companies can draft contracts with everything that one is supposed to do, thus employing the performance based contracts so that one is only paid to what he or she has actually performed.

2.4.2.10 Information Disclosure and Transparency

Information disclosure is: releasing the company’s financial and non-financial information completely, accurately, timely, and openly to shareholders and stakeholders for the purpose of enhancing their participation and protecting their interests. Healy & Palepu (2001) argue that the reasons for a company to volunteer information are three-fold; to reduce the cost of capital, increase the liquidity of their shares and to increase their following by financial analysts. In particular, reducing the cost of capital and operating costs, and minimising risks
are very important factors. Timely and comprehensive information disclosure can help ease investors’ concerns over a possible risk of default. The quality and amount of information firms disclose affects the capital market, thus affect the firms cost of capital. When asymmetric information exists between investors and management, moral hazard and adverse selection problems can arise.

Management has first-hand access to company information, where investors do not. Speculative managers may therefore focus more on their own personal interests. Improving the quality of information disclosure could eliminate such asymmetry and reduce the cost of capital (Verrecchia, 2000). Controlling shareholders that control more seats on the board have less incentive to disclose information at board level, and likewise may also make use of their information advantage to manipulate disclosure to investors in their own interests, thus lowering the quality of information delivered (Shleifer&Vishny, 2004).

2.4.2.11 Legal Infrastructure and Law Enforcement

There is no doubt that a robust corporate governance system is supported by a well-functioning legal infrastructure, and law enforcement. The most important legal rights of shareholders are voting on the major issues facing the firm, and the appointment of directors (Shleifer&Vishny, 2004). The legal environment of a country has a significant effect on the size of the capital market. (La Porta, 2000) conclude that a good legal environment protects investors against expropriation by managers, and increases their willingness to invest in equities. In this way, the scope of capital markets becomes broader and more valuable.

The legal environment, measured by both the character of laws on the books and the quality of law enforcement, plays an important role in preventing the expropriation of minority
shareholders by controlling shareholders. La Porta, (2000) find that countries with poor legal protection of minority shareholders have more concentrated ownership structures and smaller capital markets. Measured by the efficiency of the judicial system, the rule of law, corruption, the risk of expropriation and the possibility of contract repudiation by the government, law enforcement are found to be better in richer countries than poorer countries.

The difference in legal protection for investors also helps explain why firms are financed differently across countries. In the US, both large and smaller minority shareholders are protected by an extensive legal system that emphasises the protection of minority rights, facilitates share transfers, maintains the independent election of directors and provides shareholders with the power to sue directors for violations of fiduciary duty, including through class action suits (Shleifer&Vishny, 2004).

It can be noted that good governance with proper rule of law are the cornerstones for corporate governance and once the legal framework is in place and being applied without fear or fever, it means that every operation that the company is going to make will be good in the eyes of the community and general public, and that how operations should be done, that is in the most transparent way and the advantage is image building.

2.4.3 Characteristics of Good Corporate Governance

Good corporate governance is marked by six characteristics: discipline, transparency, independence, accountability, fairness and social responsibility (King Report, 2002). These characteristics should be present when one scrutinises the prevalent practices in the structures which comprises the governance models of business enterprises.
2.4.3.1 The Auditing Function

The independence of auditors is crucial to good corporate governance. Questions about the independence of auditors arise especially when there is a long close association with the company by key partners and staff of the audit firm or when partners and staff of the audit firm have equity holdings in the company. In addition, the use of the non-audit service of the auditing firm can pose serious risks. Such inappropriate assignments could include appointment to the dual functions of internal and external auditors; major consulting engagements for the design or implementation of important information systems; or assignments to act as legal representatives. The PFMA, in addition, requires the establishment of audit committees of which the majority of the membership must be external.

2.4.3.2 Disclosure of non-financial information

Increasingly good corporate governance practices are being seen in the broader context to include non-financial matters. Such matters include the role that companies play in society, e.g., investment in human and intellectual capital. (Wixley & Everingham, 2002).

2.4.3.3 Need for Effective and sound regulatory framework

There is a need for effective and sound regulatory framework for various aspects of corporate governance. There is also a need for legislative enactment or decree that establishes a regulatory agency, and indicates its functions, including its enforcement powers. “The regulatory process consists of setting the rules or standards, monitoring compliance and enforcement” (Otobo, 1997). The regulatory challenges relate to capital adequacy standards for international banks, accounting and auditing standards for corporations, regulations governing business practices, etc. A particular difficulty in Africa in designing and
implementing appropriate regulatory, enforcement and incentive regime is the lack of skills and institutional capacity to do so.

2.4.3.4 Public governance and good governance in Africa

“The commitment of government and the leadership to good governance is an overriding factor in transitional economies where environment conducive to corporate governance has to be created to ensure enterprise sustainability” (Botha, 2001). Where there are companies with controlling shareholders the most effective governance mechanism is for the institution of a set of legal rules that control managerial behaviour and protect minority shareholders.

In Nigeria, there are systems in place that provide laws (rights and obligations), processes (conduct of business) and penalties for violations. Yet the problem of the supervision and enforcement of such laws and processes remains elusive. Judicial means of supervision, including the courts have failed in this regard. Extra-judicial systems for supervision including the registrar of companies and shareholders' associations, who could bring pressure to bear on directors, have also proved ineffective.

A study conducted by the Development Policy Centre (DPC) to evaluate the standard of corporate governance in Nigeria was based on 20 out of 31 questionnaires distributed, which were scored using the OECD corporate governance assessment instrument. The states surveyed were Abia, Bauchi, Kano, Lagos, Plateau and Rivers. The results showed that the legal and institutional framework for effective corporate governance exists in Nigeria by virtue of laws such as those related to companies and allied matters decree of 1990 and the
stock exchange rules for listed companies, among others. The problem, however, lies with compliance and enforcement, which appear to be weak or non-existent. According to CIPE (2001) recommendations made by DPC include the strengthening of the enforcement mechanism of regulatory institutions and the judicial system, and the restoration of shareholder confidence in the rule of law.

In Ghana, constraints facing corporate governance include an inadequate legal framework, which is mainly dominated by the Companies Code of 1969. The Institute of Directors in the country therefore recommends the development of laws that demand more transparency, clarify governance roles and responsibilities, provide the enactment of competition and solvency laws and strengthening of enforcement mechanisms. Other setbacks in Ghana include government interference in the operations of state-owned enterprises, inadequate management information systems, negligence on the part of shareholders and lack of enforcement of relevant laws. “In Kenya, the Registry of Companies does not have the resources, technology or capacity to effectively monitor the more than 20,000 companies registered” (Gatamah, 2001).

Some of the constraints in implementing good governance policies include the following factors:

(1) **Lack of political will on the part of governments**

Lack of political will on the part of governments can manifest itself in two ways. First the level of political will can be measured by the governments’ commitment to the monitoring process in terms of time and money. Secondly, the alignment of governments with the
interests of multinational companies (MNCs). This is reflected in either a reluctance to hold the MNCs to account or support for MNCs, which become embroiled in allegations of corruption.

The close connection between economic power and political influence is generally recognized. The successful resistance of public enterprises to privatization programs is an example that has been encountered over a wide spectrum of cultural and economic environments, ranging from Ghana to Nigeria and Kenya.

(2) Position of companies operating in Africa

Companies operating in Africa are in a difficult position regarding corporate governance. Even if they want to do the right thing by publishing what they pay in bribes to SSA government officials, they face immediate reprisals from those with a stake in the status quo. The announcement of a policy of transparency by British Petroleum operating in Angola brought a spirited response from the Angolan State oil company, Sonangol, in a confidential letter published by Global Witness (2002) which shows Sonangol’s apparent contempt for the issue. It is clear that a single company cannot make such a move alone, hence, support is needed from a broad international coalition.

2.4.4 Challenges posed by the business environment

2.4.4.1 Restricted competition in markets for goods and services

Among developing countries, a more prevalent constraint arises from restricted competition in the market for goods and services. Impediments to competition are diverse, ranging from...
anti-competitive practices by firms to policy restrictions on ownership and entry. Frequently, entry barriers are disguised as regulation purportedly designed to serve the public interest. In fact, these policies usually give the preferred producers and service providers profits in excess for competitive returns. Such profits, however, come from distorted prices - a hidden tax on consumers.

The lack of competition also accentuates ownership concentration. Owners of incumbent firms have an incentive to retain control of profitable domestic operations. “They may choose to remain a private firm or may go public but without giving up control, by retaining a controlling stake or issuing non-voting shares” (Khemani and Leechor, 1999).

2.4.4.2 Corporate Governance and Monitoring State-owned Enterprises

In many African countries, the capacity to support the implementation of good corporate governance is undermined by the existence of weak monitoring and watchdog organizations. Government ministries responsible for actively monitoring state-owned enterprise boards in particular, and other mechanisms such as independent regulators, do not fulfil their role as overseers.

“Many are generally weak and subject to external influence by politicians. Community watchdog organizations such as consumer bodies are not well developed in Africa” (Botha, 2001). Estrin (2002) put forward that even if a state-owned firm operates in a competitive market and the government tries to enforce an objective of profit maximization on its
management. However, problems of corporate governance could still emerge thereby causing inferior performance.

2.4.5 Challenges emanating from privatisation of state-owned enterprises

2.4.5.1 Crony Capitalism challenges

According to Estrin (2002) privatization is expected to improve managerial incentives and raise corporate efficiency. However, in Africa many examples of the inherent conflicts and problems associated with the CG debate have been found to occur immediately before or after privatization. There has been an apparent lack of independence and sizeable cronyism in the sale of enterprises and the appointments to state enterprise boards.

2.4.5.2 Valuation of state-assets for privatisation

The determination of the value of the firm during privatization is essential in order to avoid overvaluation or under-valuation. If an enterprise is sold at its fair market value, it can result in improved benefits to the society. A free disposal or heavy discounted selling of state-owned enterprises will only benefit the new owners and is inconsistent with equitable sharing of national wealth. Determining the value of an enterprise for sale is not easy in a transitional economy because there are no mature market mechanisms to rely on. The issue of how to evaluate companies and the methods to use are essential for successful and transparent privatization of enterprises.

The saleability of companies to be privatised depends upon the profitability or potential for profit, productivity, strategic buyer and specific characteristics of the individual company.
The ultimate goal of transition to a market economy is to transform from a highly distorted economy with numerous firms making losses to a normal market economy in which the overwhelming majority of firms are profitable. Unfortunately, privatization approaches run into difficulties in African countries where stock markets are either non-existent or are unable to mobilize the interest of small investors. On occasions, African governments have attempted to extend loan funds for the purpose.

“Another corporate governance problem of privatization in Africa is that of possible abuse of corporate authority, especially in enterprises that are slated for privatization. Such an abuse of corporate authority includes the sudden augmentation of executive pay in the period leading to privatization” (Mwapachu, 2001). El-Rufai, (2003) put forward that investigations in Nigeria revealed that an upfront payment of =N=70 million was made to a company, being 70 per cent of =N=100 million commission charged on a proposed sale of African Petroleum Plaza for =N=1 billion, without due process, and for a sale which was not consummated.

2.4.6 Challenges due to boardroom composition

Institutional investors typically view a well-governed company as one that has a majority of outside directors with no management ties to its board. Directors should also hold significant shareholdings in the company, and a large part of their pay should come in the form of stock options. The KPMG completed a survey on how corporate governance is conducted or perceived in South Africa by JSE listed companies.
The independence of directors and boards of state enterprises, in their various forms, in Africa remains a challenge not only for the directors themselves but also for those with whom such enterprises contract. There is a problem associated with the shortage of skills and lack of familiarity with board functions and fiduciary responsibilities. The lack of enforcement of existing regulatory measures, whether outdated or current, has also contributed to poor corporate governance practices. El-Rufai (2003, in Famakinwa, 2003) observes that the former managing director of Nigerian Securities Printing and Minting Company (NSPMC) single-handedly awarded a contract of about N3billion without competitive bidding, reference to executive committee of the mint, its tender board, board of directors or the supervising ministry.

Many corporate board members in Africa, especially in state-owned companies are open to manipulation by management, chairpersons or principal shareholders. Some are outright incompetent. Non-executive directors in Africa need to play a meaningful role in the governance of business enterprises. However, many simply act as rubber stamps for decisions taken outside the board.

“A commission of enquiry set up to investigate the Nigerian Telecommunications Limited (NITEL) found the leadership of the planning and operations department to be lazy and incompetent” (El-Rufai, 2003). The management of Air Namibia and TransNamib (a Namibia Transport Company) were replaced due to poor performance and incompetence (LaRRI, 2001) while the Managing Director of Uganda Railways Corporation was dismissed for mismanaging the corporation (Matembe, 1999).
2.4.6.1 Diversity of the Board of Directors of Listed Firms

“A board of directors is an essential mechanism that can enhance or create the coalitions with the stakeholders controlling resources required by a firm” (Westphal and Milton, 2000). Wang and Dewhirst,(1992) add that each director brings a collection of unique and different experiences, attachments and points of view to the board. A number of studies suggest a diversified and well-balanced board of directors can significantly enhance a firm's performance. Williams (2001) indicated a positive association between the percentage of female and non-white directors on the boards of directors of South African publicly listed status and a firm's intellectual capital performance. “If members' perceptions, views and backgrounds are relatively homogenous in nature, there is a higher likelihood that decision-making strategies of this corporate governance mechanism will be single-minded, predictable and inflexible” (Westphal and Zajac, 1998).

Daily, Certo and Dalton (1999) assert that boards with a more diverse mix of members will better enable it to address the challenges of an uncertain and dynamic business environment. Coffey and Wang, (1998) were of the view that dissimilarities in the ethnic and gender backgrounds of directors can contribute different sociological perceptions and understandings to the decision-making process. Cox and Blake (1991) state that as a result, such a board is better able to instigate comprehensive policies, strategies, activities, and projects. Consequently, a firm will be able to respond more rapidly to changes in the dynamic and uncertain business environment of the Information Age.
Other researches on corporate governance also suggest that a diversified and well-balanced board of directors can significantly enhance a firm's performance (see, for example, Agrawal and Knoeber, 1996; Buck et al., 1998; Williams and O'Reilly, 1997). In addition, Botha (2001) adds that the presence of an independent director presenting a broad spectrum of stakeholders appears to contribute to the success of well-performing boards.

2.4.6.2 Audit Committees and integrity of company’s financial statement

Under conditions prevailing in Africa, the authenticity of a company’s financial statement could be questioned. A critical question is; to what extent can one rely on audit reports as giving an accurate idea of the financial health of a company in a typical African setting. The Auditors of Leisure Net, a South African company, were aware of the value-added tax evasion activities of company executives and endorsed such expenses on the company. They also endorsed the setting up of a sham office in Malta to gain tax advantages for the company.

They advised the company to hold occasional meetings in South Africa but ideally, the meetings should be held in a foreign country. A question might be asked regarding who is ultimately responsible for integrity of the audited financial statements in Africa, whether it is the internal auditor who presents the false report or the external auditor who certifies it as true and fair. Related to this is the question of who enforces corporate governance at this level. External auditors can only express an opinion on the information made available to them by internal auditors.
Internal auditors may fail to expose wrongdoing in the company for fear of losing their jobs. “Following the forced departure of the Mint-managing director of the Nigerian Securities Printing and Minting Company (NSPMC) more revelations of financial impropriety were discovered” (El Rufai, 2003).

2.5 SUMMARY

The main areas covered in the literature studied were cooperate governance, why corporate governance matters, corporate governance models and corporate governance challenges in Africa. The following chapter has presented the study methodology and necessary justifications.
CHAPTER 3

RESEARCH METHODOLOGY

3.1 INTRODUCTION
This chapter looked at the techniques and methodologies adopted in collecting data and the results of the study were presented in chapter four. The chapter discusses the research design and methodology that were used to collect data. It also defines the population of the study and how the data collection instruments were developed and administered.

3.2 RESEARCH DESIGN
There are five major research strategies which are experiment, survey, case study, action research and grounded theory. The researcher made use of a combination of the survey and case study research strategies. Merriam (1998) defines survey as a systematic gathering of primary data through the use of structured questionnaires and communication in a reasonably large number and highly representative sample of respondents.

3.2.1 Research Philosophy
There are two main types of research paradigms; the positivism and the phenomenology approaches. To cater for the different perspectives about qualitative and quantitative research, in this study triangulation was employed by the researcher. Du Plooy (1995) points out that triangulation are an attempt to include multiple sources of data collection in a single research
project to increase the reliability of the results, and to compensate for the limitations of each method. This research combined the research approaches in order to take advantage of the strengths of the two approaches, to obviate the weaknesses of a single approach and to increase reliability and validity of findings.

3.3 RESEARCH SUBJECTS

According to Gratton and Jones (2010:110) research subjects refers to everyone who shares those characteristics defined by the researcher as relevant to the investigation. Fraenkel and Wallen (1996) defined a population as the entire group the researcher is interested in. In order to make any generalizations about a population, a sample, that is meant to be representative of the population, is often studied. Fraenkel and Wallen (1996) divide the population into two categories, the target and the study populations. The population of this study included all 606 Agribank employees and management. All in all, the respondents were 80 comprising of management, directors and the board of Agribank since these make strategic decisions, which affect the viability of the financial institution.

3.3.1 Sampling

McPhail (2001) defines sampling as a process of selecting a few (a sample) from a bigger group (the sampling population) to become the basis for estimating or predicting a fact, situation or outcome regarding a bigger group. As Saunders et al. (1997) put it whatever one’s research questions or objectives there will arise a need to collect data to answer the questions or objectives. It is often impractical for a researcher to survey the entire population hence the need for samples. Wegner (1993) and Ferber (1974) seem to agree when they define a sample variously as the part of a population taken into consideration under statistical
inquiring. Saunders et al. (2001) citing Moser and Kalton (1986) and Henry (1990) argue that using sampling enables a higher overall accuracy than does a census. However, to yield quality data, the sample must be representative of the population, and must permit accurate collection of data and all population units should stand a fair chance of being included. Supporting this view Zikmund (1997) points out that if properly selected samples are sufficiently accurate in most cases.

3.3.2 Sample Size

A sample is a subset of a population. The purpose of sampling is to gain information about the overall population by selecting a smaller number of individual cases from the population and most importantly it should be representative of population, as described by Gratton and Jones (2010). This study was based on a sample size of 80 respondents. The board was allocated 20% of the questionnaire copies whilst management got the other 80%. Within management strata, questionnaire copies were haphazardly distributed to them at the reception as they reported for work.

3.4 RESEARCH INSTRUMENTS

There are basically three widely used methods for collection of primary data and these are observation, questionnaire and interviews. This study used desktop and the questionnaire as data collection techniques.

3.4.1 Questionnaire

The questionnaire was used in this research. A questionnaire is as tool for gathering data by asking questions from people who are thought to have the desired information. It has the advantages of being effective in producing information on socio economic characteristics, attitudes, opinions and motives and gathering information for planning purposes. The
outcome of a research depends on the quality of tools or instruments used to gather data from the respondents. In this study 80 questionnaires were administered to management and board members of Agribank.

Schwab (2005) defines a questionnaire as measuring instruments that ask individuals to answer a set of questions. Structured questionnaires are easy to analyse and administer whilst unstructured questions will also give respondents a platform to clearly explain their feelings and perception towards the research topic. The questionnaire was used as the research instrument.

3.4.1.1 Components of the questionnaire

The development of the questionnaire depended on the use of the Likert Scaling Structure, structured as follows; Strongly Agree, Agree, Neutral, Disagree and Strongly Disagree, Yes or No Options, Low, Medium and High Options as well as the Excellent, Above Average, Average, Below Average and Poor Scaling Structure. These structures offered reasonably high validity and reliability.

Apart from closed ended questions, directly interviewing (face to face) was also employed to take advantage of the wide range of responses that can be obtained and lack of influence in the response from pre-specified categories (Phiri, 2005). The advantages of personal interviewing are that people will usually respond when confronted in person. According to Kwesu et al., (2001), the interviewer can note specific reactions/responses and then eliminate misunderstandings about the questions asked, in the same vein the interviewer facilitate the asking of more complicated questions. They also said that the interviewer can collect non-verbal data and simultaneously has more control of the situation. In addition, the interviewer
can also probe some issues and this may be a better way of eliciting true opinions/attitudes and identifying how strongly attitudes are held or not.

### 3.4.1.2 Nature of the Questions

In designing the questionnaire consideration was given to the quality of a good questionnaire. Kwesu et al. (2002) stated that a good questionnaire should have relevant questions that are aligned to the objectives given. Secondly, he noted that the questions in the questionnaire should have a systematic flow (question ordering). Furthermore, he stressed the need for question clarity with respect to the use of simple language and avoidance of double barrelled questions, i.e. two questions in one question. Kwesu et al. (2002) also says that the questionnaire avoids sensitive/negative questions.

Attention was also given to the length and clarity of the questions (Fowler, 1984; Fraenkel and Wallen, 1996). The development of the questionnaires involved both the closed and open ended questions. The majority of the questions were closed ended questionnaires due to their ease of application, ability to reduce interview bias, ability to reduce bias based on differences in how articulate respondents are and the relatively simple coding and tabulation (Phiri, 2005). Closed ended questions are simple as respondents have to tick the appropriate answer they prefer. Furthermore, they saved time as they were less time consuming for respondents to complete and this may allow the researcher to ask more questions. In addition, closed questions are an appropriate means of asking questions that have a finite set of answers of a clear cut nature. They also provide uniformity of questions and student responses, so they are potentially easier for evaluating the opinion of the sample group as a
whole and they can provide better information particularly where the respondents are not highly motivated.

3.4.1.3 Pretest of the questionnaire

Before a questionnaire is ready for administration it needs to be pre tested under field conditions. This is because no researcher can prepare a questionnaire perfectly at first attempt; improvements can hence be suggested in field tests. The questionnaire was pre tested in a pilot study with 2 board members and 8 management members. This enabled the researcher to edit the questionnaire and improve on it before actually administering it.

3.4.2 Desktop research technique

Desktop research comprises searching for information using existing resources, such as the press, the Internet, analytical reports and statistical publications. This is then followed by cross referencing and the collation of data.

Desk research (or secondary research) can serve as a stand-alone research technique or as the initial stage of a project and a precursor to primary research. The researcher used desk research to find information about Agribank and the area of study; from company documents, board meeting minutes, the bank’s strategy document and other various sources of literature. The technique came out clearly and was used extensively in reviewing literature in the previous chapter of this dissertation.
3.5 DATA COLLECTION PROCEDURES

3.5.1 Administration of questionnaire

There are various ways in which questionnaires can be distributed to respondents. According to Babbie (1973) questionnaires can be distributed through face to face administration, drop and pick, postal, e-mail and telephonic. Questionnaires were distributed by hand to the respondents at their offices. Respondents were left to answer the questionnaire alone and responses were to be followed after an agreed time with the respondent. However, the data collection process was very challenging as the respondents were not always cooperative. People generally viewed questionnaires negatively and time consuming. The majority of the respondents were not willing to complete the questionnaire as they cited the length as too long. Others enquired if there were any incentives for completing the questionnaire, on being informed there was none, they were very reluctant.

3.5.2 Collection of questionnaires

In almost 50% of the cases arrived to collect the questionnaire only to find that absolutely nothing had been done. The researcher had to sit and wait whilst the respondent completed the questionnaire. In some instances the researcher also had to clarify some issues, which were hazy to the respondent. Other respondents went as far as not even wanting to complete the question themselves. They preferred that the questionnaire be read out the questions and the possible solutions and they would respond then tick the relevant one. On questions, which needed them to explain, they would explain and request that the researcher capture the major points as they talk.
3.6 VALIDITY AND RELIABILITY OF RESEARCH INSTRUMENTS

According to Kimberlin and Winterstein (2008), the process of developing and validating an instrument is in large part focused on reducing error in the measurement process. Reliability estimates evaluate the stability of measures, internal consistency of measurement instruments, and reliability of instrument scores. Validity is the extent to which the interpretations of the results of a test are warranted, which depends on the particular use the test is intended to serve (ibid).

The questionnaire was drafted in such a way that it would test for reliability. The pattern of questions was such that they tested for consistency for both the semi-structured interview and the questionnaire.

The self-administered questionnaire was chosen because:

a) It provided a permanent, verifiable record of data collection.

b) Questionnaires permitted respondents time to consider their responses carefully without interference from an interviewer.

c) It is possible to provide questionnaires to large numbers of people simultaneously and efficiently, thereby reducing costs of administering them, with the possibility of a high response rate.

d) Each respondent received the identical set of questions thus ensuring uniformity. With closed-form questions, responses are standardised, which can assist in interpreting from large numbers of respondents.

3.7 DATA PRESENTATION AND ANALYSIS PROCEDURES

Data collected from the interviews and questionnaires was processed first before being analysed. Walliman (2011) refers to data analysis as summarising the mass of collected raw
data and to display it in a way which enables one to detect patterns and trends. Questionnaires were screened for anomalies and coded with numbers assigned to each. The data was processed by using a statistical package Microsoft Excel. The study results were presented using tables, graphs, charts as well as mere narrations.

3.8 SUMMARY

This chapter critically looked at the research methodology and the corresponding justification of the methodology adopted. This study has adopted a positivist research approach with the questionnaire as the main data collection tool. The following chapter will present the research findings.
CHAPTER 4

DATA PRESENTATION AND ANALYSIS

4.1 INTRODUCTION

The previous chapter looked at the techniques and methodologies adopted in the data collection process. This chapter presents the research findings and discussion. The findings were discussed in relation to the literature of the study. The study conclusions and recommendations were made based on these findings.

4.1.1 Response rate

About 16 questionnaire copies were given to the Agribank board members and 64 questionnaire copies to senior and executive management at the bank. Fifty three questionnaires were successfully completed and returned and this represents a study response rate of 66.25%. This is high enough to warrant validity of the study findings as can be shown by the following diagram.

![Figure 4.1: Response rate](image)

Figure 4.1: Response rate
From the study findings most of the respondents (43%) had above 10 years in Agribank, 21% had 1-5 years and 36% had 6-10 years with the organisation. The results show that most of the respondents have stayed long with the organisation to be able to understand and articulate the governance issues within their organisation. The respondents may have clear understanding of the policies and procedures of the organisation to be able to identify where these policies and procedures are not properly followed or where the procedures do not conform to good practices.
Figure 4.3 shows the position of the respondents in the organisation. From the study findings most of the respondents (46%) were middle management, 20% were board members, and 34% were from top management. The results show that there is a fair representation of the study respondents, who are in position to understand the issues to do with corporate governance and thus their contributions were of great value to the study findings.

The level of education of the respondents in this study is shown below.

![Pie chart showing level of education: 47% postgraduate, 20% college graduate, 33% undergraduate.]

**Figure 4.4: Level of education of respondents**

This section sought to establish the level of education of the respondents from Agribank. Most of the respondents (47%) were postgraduates, 20% were college graduates and 33% were undergraduates. Most of the respondents were educated enough to understand the issues of corporate governance within the bank. It is also assumed that most respondents were in a position to identify the characteristics of both good and poor corporate governance practices within organisations and in Agribank because of their level of education.
4.2 DATA PRESENTATION PROCESS

4.2.1 Understanding corporate governance

Table 4.1 Respondents’ understanding of corporate governance.

<table>
<thead>
<tr>
<th>Definition</th>
<th>% of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>The relationships between management, board of directors, shareholders and stakeholders.</td>
<td>65</td>
</tr>
<tr>
<td>Manner in which the power of and over a corporation is exercised.</td>
<td>73</td>
</tr>
<tr>
<td>This is how a corporate is run and managed</td>
<td>63</td>
</tr>
</tbody>
</table>

From the study findings, most of the respondents (73%) held that corporate governance is the manner in which power of and over a corporation is exercised. The results also show that (65%) said it is the relationship between management, its board, its shareholders, and stakeholders and 63% put forward that it is how a corporate is run and managed. Most of the respondents had an idea of the topic understudy and thus their contribution would add value to the study findings. Corporate governance according to Mhizha-Murira (2004), is the manner in which the power of and power over, a corporation is exercised in the stewardship of its assets and resources. He adds that this is to increase and sustain shareholders value as well as satisfying the needs and interests of all stakeholders.
Tricker (2000) argues that from a corporation’s perspective, the emerging consensus is that corporate governance is about maximizing value subject to meeting the corporation’s financial and other legal and contractual obligations. This inclusive definition, according to Tricker, stresses the need for boards of directors to balance the interests of shareholders with those of other stakeholders in order to achieve long-term sustained value.

4.2.3 Importance of corporate governance

Table 4.2 Importance of corporate governance

<table>
<thead>
<tr>
<th>Importance</th>
<th>% of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balances the promotion of enterprise with great accountability</td>
<td>65</td>
</tr>
<tr>
<td>Source of competitive advantage and is critical to economic advancement</td>
<td>73</td>
</tr>
<tr>
<td>It attracts long term foreign capital and broadens local capital markets by attracting local investments</td>
<td>79</td>
</tr>
<tr>
<td>Produce effective administration of companies and transparency for shareholders</td>
<td>69</td>
</tr>
</tbody>
</table>

Table 4.2 shows the importance of corporate governance to the organisational success. The majority of the respondents (79%) were of the view that corporate governance attracts long
term foreign capital, broaden and deepens local capital markets by attracting local investments. About 73% indicated that it was a source of competitive advantage and is critical to economic advancement. Nearly 65% held that it balanced the promotion of enterprise with great accountability. The importance of corporate governance is that it enhanced accountability and transparency, which would therefore enhance shareholder and prospective shareholders or investors’ confidence in the organisation. This encourages investment in sectors of the economy, which would subsequently improve the standards within organisations.

Jensen (2001) argues that the objective is not to shackle corporations, but rather to balance the promotion of enterprise with greater accountability. The systematic enforcement of law and regulations has created a culture of compliance that has shaped business culture and the management ethos of firms. This has spurred them to improve as a means of attracting human and financial resources on the best possible terms. Increasingly for developing and transition economies, a healthy and competitive corporate sector is fundamental for sustained and shared growth - sustained in that it withstands economic shocks, shared in that it delivers benefits to all of society.

Djanogly (2003) asserts that countries realize that just as overall governance is important in the public sector, so corporate governance is important in the private sector. They also realize that good governance of corporations is a source of competitive advantage and critical to economic and social progress.
4.2.4 Corporate Governance challenges

Table 4.3 Challenges of corporate governance

<table>
<thead>
<tr>
<th>Challenges</th>
<th>% of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public governance</td>
<td>55</td>
</tr>
<tr>
<td>Regulatory Framework</td>
<td>67</td>
</tr>
<tr>
<td>Political situation</td>
<td>59</td>
</tr>
<tr>
<td>Unethical Business practices</td>
<td>63</td>
</tr>
<tr>
<td>Limited HR capabilities</td>
<td>57</td>
</tr>
</tbody>
</table>

Table 4.3 shows that the challenges of CG being faced at Agribank are regulatory framework (67%), unethical business practices (63%) and political situation (59%). The findings present the various challenges of CG being faced at Agribank. These presented challenges for the implementation of good CG practices at the bank. There was need for effective and sound regulatory framework for various aspects of corporate governance. There was also need for legislative enactment or decree that establishes a regulatory agency, and indicates its functions, including its enforcement powers.

Otobo, (2000) put forward that the regulatory process consists of setting the rules or standards, monitoring compliance and enforcement. The regulatory challenge relate to capital adequacy standards for international banks, accounting and auditing standards for corporations, regulations governing business practices and others. A particular difficulty in
Africa, in designing and implementing appropriate regulatory, enforcement and incentive regime is the lack of skills and institutional capacity to do so. “The commitment of government and the leadership is an overriding factor in transition economies where environment conducive to corporate governance has to be created to ensure enterprise sustainability” (Botha, 2001).

4.2.5 Principles, standards and Practices for CG

Table 4.4 shows the principles that had to be adopted and modified to guide CG in the banking sector of the Zimbabwean economy.

**Table 4.4 Principles, standards and Practices for CG**

<table>
<thead>
<tr>
<th>Principle and Standards</th>
<th>% of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>CACG guidelines</td>
<td>56</td>
</tr>
<tr>
<td>King’s report</td>
<td>67</td>
</tr>
<tr>
<td>OECD Principles</td>
<td>71</td>
</tr>
<tr>
<td>Private sector initiative</td>
<td>54</td>
</tr>
<tr>
<td>Disclosure and Transparency</td>
<td>63</td>
</tr>
<tr>
<td>Integrity and ethical behaviour</td>
<td>59</td>
</tr>
</tbody>
</table>

From the findings in Table 4.4 above the respondents suggested that the following principles, standards and practices should be adopted or modified to guide CG in the banking sector of
the economy like OECD principles (71%), King’s report (67%) and CACG guidelines (56%). The adoption or modification of these different CG principles and standards would guide the corporate governance in the different sectors of the Zimbabwean economy. This also entails the importance of such principles in the attainment of good CG practices within an economy as the majority of the respondents (61.6%) endorsed these principles collectively. The capacity of developing an effective model of CG is a fundamental requirement for the development of an advanced economic system. The system would be able to generate transparently and effectively a long-term value, on the microeconomic side (corporation level) as well as on the macroeconomic level (a country’s economy).

4.2.6 Commitment to Corporate Governance

4.2.6.1 Availability of written CG policy

Figure 4.5: Written CG policy at Agribank
Majority (54%) of the respondents held that they were not sure if there was any written CG policy at Agribank, 38% said there is a written CG policy whereas an insignificant 8% suggest that there is no written CG in their organisation. The results entails that most of the respondents are not sure of the availability of any corporate governance policy in their organisation. The purpose of the policy is to demonstrate the organisation’s commitment to sound corporate governance and to document how governance is carried out within the organisation. The desired result is effective governance within the organisation and in turn enhanced organisational performance.

Better understanding and management of risks minimise the negative aspects and maximise the opportunities. Also allows the organisation to demonstrate how it is discharging legal, sector and ethical obligations. Provides a mechanism for benchmarking accountability and assists in the prevention and detection of fraudulent, dishonest and/or unethical behaviour.

A corporate governance policy in an organisation would ensure a good corporate governance framework. It also sets out the structure through which the division of power in the organisation is determined. However, given the importance of a corporate governance policy in an organisation, the results may entail that the organisation may not be having a written corporate governance policy as it is not known to the whole organisation. This therefore means that those respondents who suggested that there were not sure of the availability or presence of a CG policy at their organisation may be implying that it may not be present at their organisation.
4.2.6.2 Annual Reports and CG

This sought to establish if the annual reports of the bank outline the steps of improving corporate governance in the organisation. Majority (53.8%) of the respondents were not sure if the annual reports provide steps of improving CG, 30.8% concurred that the annual reports provides steps whereas 15.4% were of a conflicting view.

![Bar chart showing responses to annual reports and CG]

**Figure 4.6: Annual reports and CG**

From this it can be deduced that the annual reports do not provide steps of improving corporate governance in organisations. This provides a gap in the corporate practices towards attaining good corporate governance. This is due to the fact that annual reports should be a platform on which issues to do with CG should be laid out and addressed since it can be accessed by many within the organisation.
The responsibility for improving communication rests with the companies and their main institutional shareholders. Companies can make better use of the annual reports to report to shareholders on a range of issues and the policies of the company for dealing with the issues. The company should therefore explain its operations and financial position and report on range of governance issues such as directors’ remuneration, internal controls and risk management and so on.

4.2.6.3 CG policy monitoring

Figure 4.7 Does the Agribank have an officer responsible for ensuring adherence to the CG. The results in figure 4.7 shows that the majority (55%) concurred that there is no identified officer of the organisation tasked to ensure that the organisation adheres to the tenets of CG, 29% said there is an officer responsible for that whereas 16% were not sure. The results show that most of Agribank did not ensure the appointment of a senior level staff to ensure implementation of good corporate governance practices in the bank.

![Figure 4.7: CG monitoring at Agribank](image-url)
The level of organisations’ commitment to adhering to CG principles and practices was shown in the non-availability of an officer whose responsibility would be to ensure that the organisation adhered to the corporate governance tenets. In light of the findings, it could be noted that most of the respondents did not understand the duties of a company secretary or rather, the company secretaries were not advocating for good corporate governance.

4.2.6.4 Code of ethics

All of the respondents concurred that they have a code of ethics in their organisations. This shows that the Agribank does have a code of ethics. A code of ethics is an important aspect of any organization, regardless of how large or small, to have proper ethics. With the current prevailing problems of the economy and the extremely high market competition, many businesses have started ignoring their ethics in order to stay on top of the competition.

Although Agribank is said to have a code of ethics in place the main challenge comes in making the employees aware of the code of ethics. Every member of the organisation should be made aware of the company's specific ethics, which are in effect not only in the very beginning, but also on a regular basis. Every member of the organisation should also be made aware of the unethical behaviour.

Recent events in corporate America have demonstrated the destructive effects that occur when the leadership of a company does not behave ethically. Business ethics if properly interpreted means the standards of conduct of individual business people, not necessarily the standards of business as a whole. The best example is Enron, which was the financial
markets’ golden child for some time until it was discovered that they were not doing their books in a proper manner. Enron quickly became the financial market's scapegoat and easy fodder for business ethics case studies. Enron's example highlights the importance of having a company code of ethics.

4.2.6.5 Board Performance evaluation

![Figure 4.8: Board performance evaluation](image)

From the results, the board at Agribank had a mechanism to evaluate its own performance as shown by the majority (69%) whereas 31% were of a different view. The results entail that the board at Agribank have mechanisms in place to appraise its performance. This is critical in that the board will be able to see if it is really performing to its expectations and to appreciate the areas where there are gaps in its performance. Performance measurement enhances the effectiveness of the directors and thus further reduces the risk to the
organisation. The obligation to have an annual formal evaluation ensures that the board takes time to evaluate its own performance. The primary purpose is to enhance not only the performance, effectiveness and contribution of each director, but also to improve the effectiveness of the board as a whole in fulfilling its role. Formal evaluation once a year should not replace informal feedback on performance on an ongoing basis, although establishing a formal evaluation methodology provides an objective framework for analytical feedback to the Board members for the appointment processes. The framework provides a mechanism for ensuring that the chairperson is accountable when giving advice about board members to the board (and chief executive) and fully responsible for the effective performance of the board.

![Figure 4.9: Disclosure of reports to shareholders](image)

Regular and adequate reports are said to be made available on time to shareholders by (54%) of the respondents whereas 46% were of a different viewpoint. From the results, it can be said that the shareholders get regular and adequate disclosure reports on time. The corporate governance framework should ensure timely and accurate disclosure on all material matters,
including financial situation, performance, ownership and governance of the company. The disclosures should at minimum be annually, or even semi-annually or quarterly, or more frequently for material developments.

Material information is that information whose omission or misstatement could influence economic decisions taken by users of information. The disclosure of information should be simultaneous to all shareholders. Requirements should not create unreasonable administrative or cost burdens. Strong transparent disclosure regime is pivotal for market-based monitoring of companies and central to shareholder ability to exercise ownership rights. Disclosure can be a powerful tool for influencing companies and protecting investors.

4.2.7 Transparency and Disclosure

Figure 4.10: Use of internationally recognised accounting and auditing systems

According to the findings in figure 4.10 above the bank uses internationally recognised accounting and auditing systems. As a former British colony, Zimbabwe adapted UK-based accounting systems on gaining independence, thus follows a disclosure-based regime. The Companies Act (Chapter 24:03) is the main statute governing corporate reporting in Zimbabwe, and this was modelled on the United Kingdom’s 1948 Companies Act (Owusu-Ansah, 1998). Zimbabwean companies, both public and private, must file a prospectus with
the registrar of companies upon incorporation. The prospectus should include basic information on the company and its directors, including their term of appointment, ownership interests and remuneration, as well as basic details concerning the company’s accountants, lawyers and bankers.

The ICAZ monitors corporate reporting compliance in Zimbabwe. Like the US Securities and Exchange Commission, the ICAZ employs a review method in monitoring and enforcing compliance with statutory and regulatory disclosure requirements. However, in light of the above the Audit Office and most of the companies in Zimbabwe adopt the internationally recognised accounting and auditing systems so as to meet the requirements set out in the Companies Act and the Stock Exchange listing requirements.

![Figure 4.11: Does Agribank publish meaningful quarterly reports](image)

**Figure 4.11: Does Agribank publish meaningful quarterly reports**

From the study findings in figure, 4.11 most of the Agribank does not publish meaningful quarterly reports, containing segment reporting as well as results per share, consistent with IAS form. The results entail that the bank does not report meaningful quarterly reports and
this presents a challenge on disclosure and transparency. The quarterly reports are the principal ways in which the directors are accountable to the shareholders. The reports present the financial performance of the company over the quarter and the financial position of the company for that quarter.

This will aid in financial decisions by the shareholders, as they will be now aware of the financial position of the company. This therefore brought about the need for the quarterly reports to be meaningful so that they are understandable to the shareholders, as they would want to make sense out of them. A meaningful quarterly report in line with the IAS would enhance confidence in the shareholders and prospective investors and hence the company would attract new investments. Shareholders and other investors use the information from the report to assess the stewardship of the directors and the financial health of the company.

The quarterly report is therefore an important document for corporate governance because it is a means by which the directors are made accountable to the shareholders, and provides a channel of communication from directors to shareholders. It should therefore be clear, understandable to shareholders with financial awareness, reliable, and believable. This publishing of meaningful quarterly reports is also milestone towards achieving accountability and transparency hence good corporate governance.

4.3 SUMMARY

The chapter has presented findings on corporate governance, which covered areas of understanding of corporate governance, characteristics of good corporate governance and
standards, principles and practices. The chapter also presented findings on commitment to corporate governance, structure and function of the board, shareholders’ rights and transparency and disclosure. The following chapter presented the study conclusions and recommendations.
CHAPTER 5

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

This chapter has presented the study summary, conclusions and recommendations. The conclusions and recommendations were based on the study findings presented in the previous chapter. The conclusions drawn made it possible for the research to suggest a number of recommendations which, if implemented effectively, the current research problem might be eliminated. If the nature of the problem is such that it cannot be completely eliminated, then its adverse impact on Agribank operations will be greatly reduced.

5.2 SUMMARY

The research made use the case of Agribank to analyse the impact of corporate governance on commercial banks. The research was prompted by the deregulation of the financial sector which encouraged intense competition and innovation in the sector. This left a significant dent in the public confidence with the financial sector. Agribank was not spared from the effects and has seen deposit flights and a sharp decline in the number of clients. Some board members of Agribank have been on the board for more than ten years and this raises the question as to whether such members are still adding value to the bank. The topic under which this problem was investigated was: “The impact of corporate governance on commercial banks in Zimbabwe: A case of Agribank”.
The literature for this research was obtained from various sources. These included the internet, text books from various libraries, newspapers, magazines, Agribank annual reports and management committee minutes and reports. These were the main sources of reference from which the researcher used to review the literature.

The research methodology for the collection of data involves the quantitative and qualitative techniques. In this research triangulation was applied, i.e. using both the qualitative and quantitative techniques to compliment each other with the objective of coming out with the best results and findings. Questionnaire interviews were administered as a tool for data collection for analysis which was done in chapter four; and this is a quantitative tool applied. Interviews were done on some instances to clarify issues raised on the questionnaires and this came out to be a characteristic of qualitative approach. Also the qualitative aspect came out in the desktop technique in which literature was reviewed. When the data was collected, it was presented and analysed with the assistance of descriptive statistics technique which comprised of graphs, tables and descriptive narrations.

5.3 CONCLUSIONS
After having presented and analysed collected data, the research proceeded to draw conclusions on the study. The study presented the following conclusions:

5.3.1 Characteristics of Good Corporate Governance

i. Transparency: There was poor transparency at Agribank. Transparency entails the ease with which an outsider is able to make a meaningful analysis of a company and its actions. In
the context of corporate governance; this referred to outcomes or decisions made because of clear and visible procedures or processes.

**ii. Fairness:** Looking at the research findings, fairness was problematic within the bank. Lack of fairness within the organisation presented a challenge of corporate governance within the organisation.

**iii. Responsibility:** There was responsibility within Agribank. Responsibility meant that organisations had to abide by the laws and regulations of the countries in which they operate, but every country should decide for itself the values they wish to express at law and the corporate citizenship requirements they wish to impose.

### 5.3.2 Importance of Corporate Governance

The importance of corporate governance was that it would enhance accountability and transparency, which therefore enhanced shareholder and prospective shareholders/investors’ confidence in the bank.

### 5.3.3 Corporate governance challenges faced in the bank

The challenges of corporate governance faced at Agribank were regulatory framework, unethical business practices, limited human resources capabilities and political situation. These were presenting challenges for the implementation of good corporate governance practices in the economy.
5.3.4 Availability of national initiatives to access and address corporate governance

There were national initiatives underway at Agribank to access and address corporate governance. Efforts were underway to improve the competitiveness of the bank through improved corporate governance practices.

5.3.5 Availability of written corporate governance policy

There was no clarity as to the availability of a written corporate governance policy within Agribank as the results showed that most of the respondents were not sure of the availability of any corporate governance policy in their organisation. The bank did not have a senior level executive responsible for ensuring the implementation of good corporate governance practices in the organisation.

5.3.6 Board and Audit Committee

At Agribank there was an audit committee composed of independent directors whose responsibility was to appoint external auditor, overseeing work of internal auditors and ensure the audit findings were properly executed. The Agribank board had mechanisms in place to appraise and evaluate board performance.

5.4 RECOMMENDATIONS

The study presented the following recommendations:

5.4.1 There must be an overhaul of the enforcement machinery and composition of audit committees, whose members should be more observant to their responsibilities. Auditors
must ensure strict compliance with codes of conduct, commitment and vigilance of directors, see to the need for high level of disclosure and transparency, improve regulatory framework by making the laws available to all shareholders and the public. In addition they should devise active mechanisms for law enforcement, strengthen enforcement mechanisms (by providing logistics, training, and equipment). The adoption of an alternative dispute resolution mechanisms, create an enabling environment by maintaining the political will to implement policies, and create an independent and courageous judiciary.

5.4.2 There is an urgent need to focus on public economic policy and to uphold the virtues of a pluralistic society. The government as the shareholder, must play its role and provide physical infrastructure, an effective legal and policy framework and the social capacity for development. It must ensure security and stability by mobilizing the citizenry and ensuring their effective involvement in the development process. This involvement must not be a mere illusion.

People must feel that they have a real influence over the production and distribution of wealth. This will engender trust and encourage not just the consumption but also the creation of wealth. It is important to note, however, that an enabling environment cannot be created by the government alone. Creating an enabling environment calls for the establishment of effective partnerships between the public sector, the private sector and civil society. This partnership will enhance the spirit of participatory development and increase citizen engagement in creating a secure and stable environment in which corporations can grow and thrive.
5.4.3 There is a need to develop systems for monitoring and evaluating compliance with good corporate governance practices and strengthening the incentives for good corporate governance. This demands that at least in the short term, society be prepared to recognize, acknowledge and reward good corporate governance. There is also a need to develop and improve institutions that have the capacity to implement and enforce best practices including regulators particularly in the financial sector and self-regulatory organizations. Through the Zimbabwe National Chamber of Commerce (ZNCC) national directors awards on good corporate governance should be encouraged and enforced, as it should be used as the major criteria for the selection of the best director of the year. The extent to which the companies for the directors running for the award are implementing and upholding good corporate governance practices and principles should be thoroughly assessed before a director is considered for the award.

5.4.4 The board of directors for Agribank should be required to disclose an assessment of the effectiveness of internal controls within their organization. Such disclosures should address internal controls broadly, rather than being limited to accounting controls over the recording and reporting of financial information. The mandatory reporting on the system of internal control should be a potent weapon in the ongoing fight to protect shareholders and the investing public. To ensure effective reporting, internal auditing should report to the audit committee on the adequacy and effectiveness of internal controls. The report should be coordinated and draw on representations from management about the sufficiency of internal controls, the result of control system tests performed by internal auditors and others on the management team, and the work of the external auditor.
5.4.5 There is need for the implementation of national corporate governance initiatives taking the Kenyan approach as a reference point. The Zimbabwean way on the other hand should break away from the Kenyan approach, as it should firstly lobby for government commitment in implementation of good corporate governance practices in all the sectors of the economy. The government has to first show commitment by improving its governance structures so that there can exhibit all the good characteristics of corporate governance like transparency, accountability, fairness and responsibility. The successful government buy-in should ensure that there is a good corporate governance culture in the bank. The government should then institute enforcement measures to ensure that best corporate governance practices are adhered to and regularly observed.

5.4.6 There is need, therefore, to create an environment where stakeholders, be they shareholders, citizens or other interested parties, are assured that ‘the goings-on’ are not detrimental to their own political and financial interests. For the state, this takes the form of checks and balances, as reflected by the separation of power the judiciary, executive and legislature. For state owned enterprises, the objective would be the same, with an additional requirement. However, while functional appointments are determined by market practice, the appointment of members of the board of directors is the responsibility of the executive or some such power. Confirmation by congress or parliament is an effective check and, does inject the requisite transparency.

5.5 AREAS OF FUTURE STUDY

The analysis of collected data opened up areas which the researcher did not focus on. It is therefore suggested that future researchers consider researching in the following areas:
5.5.1 The impact and effectiveness of the leadership style within Agribank

5.5.2 The effectiveness of strategy formulation and implementation within Agribank

5.5.3 The impact of performance management system being adopted by Agribank
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APPENDIX A

LETTER OF INTRODUCTION

1668/9 1ST ROAD
GLEVIEW 1
HARARE

09 May 2013

RE: MASTERS IN BUSINESS LEADERSHIP RESEARCH QUESTIONNAIRE

The researcher is a final year student studying for a Masters Degree in Business Leadership with Bindura University of Science Education (BUSE). The study is entitled: The impact of corporate governance on commercial banks in Zimbabwe: A case of Agribank. The research is an issue of great importance within the Zimbabwean banking sector yet little is currently known about its benefits.

You are one of a small number of people who are being asked to give your opinion on this issue. The researcher would greatly appreciate it if you could assist by completing and returning the attached questionnaire by Friday 17 May 2013 by mid day.

If you have any questions you wish to ask or there is anything you wish to discuss, please do not hesitate to telephone the researcher on the following number (04) 774429, Cell: 0773518744 or email cchikudza@agribank.co.zw.
All information you provide will be totally confidential and will not be disclosed to third parties without your permission. You will notice that your name and address will not appear on the questionnaire and that there is no identification number. This is purely an academic research and all information received will be treated with the strictest of confidentiality.

Thank you in advance for your assistance in this matter.

Yours faithfully,

Chikudza Chalton

BUSE MBL Reg no (B1027850)
APPENDIX B

QUESTIONNAIRE FOR MANAGEMENT AND STAFF

Instructions to respondents

This questionnaire is for Agribank board members, management and staff. Please tick against the response of your choice for each question and write additional information in the spaces provided. There are no wrong or right answers.

1. Which level best describes your position in Agribank?
   a) Senior management [   ]
   b) Middle management [   ]
   c) Board member [   ]

2. How long have you been with Agribank?
   a. Less than 1 year [   ]
   b. 1-5 years [   ]
   c. 6-10 years [   ]
   d. Above 10 years [   ]

3. What do you understand by the term corporate governance?
   a. Relationship between management, its board, its shareholders and stakeholders [   ]
   b. Manner in which the power of and power over, a corporate is exercised [   ]
   c. How a corporate is run and managed [   ]

4. Does Agribank follow good corporate governance practices?
   a. Yes [   ]
   b. No [   ]
   c. Don’t know [   ]

5. In your view does the board in your organization possess the desired skills and knowledge for their duties? Please tick the appropriate.
   a. Yes [   ]
   b. No [   ]
   c. Don’t know [   ]

6. How is corporate governance important to the bank’s success?
a. Balance the promotion of enterprise with greater accountability  

b. Source of competitive advantage and critical to economic growth  

c. It attracts long term foreign capital and broadens and deepens local capital markets by attracting local investments  

d. Produce effective administration of the company and transparency for shareholders

7. In your view how do you see the level of good corporate governance practices at Agribank?  
a. Excellent  
b. Good  
c. Fair  
d. Poor

8. Are there any efforts by the management to implement good corporate governance principles at Agribank?  
a. Yes  
b. No  
c. Not sure

9. Do you have an advisory board at Agribank?  
a. Yes  
b. No  
c. Don’t know

10. If yes to the question above, do you think that the advisory board is equally constituted in terms of skill and experience?  
a. Yes  
b. No  
c. Not sure

11. What are the aims of corporate governance?  

a) To facilitate the efficient and effective management of enterprises by requiring them to follow normal procedures when making important decisions.  
b) to promote honesty and accountability  
c) To help companies raise capital by improving investor confidence  
d) Should help managers increase their company performance and reduce the opportunities for complacency

12. Do you think Agribank provides an understandable, comprehensive and reliable portrayal of financial condition and performance?  
a) Yes
b) No

c) Don’t know

13. Rate the following principles of corporate governance with respect to Agribank.

a) Discipline

b) Transparency

c) Independence

d) Accountability

e) Responsibility

f) Fairness

g) Social responsibility

14. How often does your board meet?

a) Once a month

b) Quarterly

c) In four months

d) In six months

15. Do you have an internal audit function?

a) Yes

b) No

16. Does your organisation have a code of ethics?

a) Yes

b) No

17. Is the board in at Agribank responsible for the process of risk management?

a) Yes
b) No

18. Does the board present a balanced and understandable assessment of the Agribank’s position in reporting to stakeholders?

   a) Yes
   b) No

19. What recommendations would you give with regard to corporate governance and board composition at Agribank?

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

END OF QUESTIONNAIRE

THANK YOU FOR YOUR EFFORT