UNIVERSITY OF LUSAKA

**SCHOOL OF POSTGRADUATE STUDIES**

# BANK FAILURES: EXAMINING CORPORATE GOVERNANCE PRINCIPLES AND PRACTICES OF INDIGENOUS BANKS IN ZIMBABWE AND THEIR IMPACT ON ORGANIZATIONAL EFFECTIVENESS

BY

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## Abstract

The health of the banking industry is strongly dependent on the state of corporate governance in an economy. The adoption and enthronement of sound corporate governance principles and practices is regarded as important in ensuring bank organizational effectiveness at institutional, industry and inclusive levels. The inclusive level of organizational effectiveness takes into consideration all the stakeholders of the bank. The Zimbabwean economy has experienced persistent indigenous bank failures allegedly due to internal corporate governance deficiencies during the period 2000-2015. The present study sets out to address two research concerns (1) to identify and discover Zimbabwean indigenous banks' corporate governance irrationalities with regard to organizational effectiveness and, (2) to achieve regulation change through understanding and explaining the impacts of the adopted corporate governance principles and practices on organizational effectiveness. This research examines the corporate governance mechanisms of Zimbabwean indigenous banks and their impact on organizational effectiveness. The research adopts a methodological pluralism approach using the phenomenology and symbolic interactionism epistemological strands. These techniques are used in an effort to address the cardinal points of this research being to identify, discover, understand, explain, predict and recommend controls to the bank failures in light of internal corporate governance deficiencies phenomenon in Zimbabwe. Based on these cardinal points, this study offers a unique insight and constructionist inquiry into the multidimensional subject of corporate governance in banking sector in Zimbabwe for the period under study. The unique insight is proffered through the examination of internal corporate governance principles and practices of the Zimbabwean indigenous banks.

The present research found out that there is a significantly positive relationship between sound corporate governance and organizational effectiveness among indigenous banks in Zimbabwe. The eight study variables proposed in the conceptual framework of the present study are essential in driving organizational effectiveness and minimizing bank failures. These variables are leadership and management interaction, strategic (transformational) planning, organizational learning, exceptional boards, corporate financial reporting,

engaged and committed employees, and workplace spirituality. Internal corporate governance deficiencies are central to the persistent bank failures experienced in Zimbabwe during the period 2000-2015. This result is supported by the number of indigenous bank failures, the extent of non-performing loans, and the alleged malpractices among indigenous banks as compared to foreign-owned banks. The research therefore confirms the importance of sound corporate governance in ensuring institutional, industry, and inclusive effectiveness among indigenous banks in Zimbabwe.

This research contributes to the literature gap in the field of internal corporate governance. The main contribution of this research is the examination of internal corporate governance principles and practices of indigenous banks in Zimbabwe in light of the persistent bank failures that the economy faced during the period 2000-2015. This examination contributes to knowledge to all other developing and transition economies given the fact that bank failures are inevitable. In terms of theory, this study contributes through determining that the stakeholder perspective is significantly ideal in Zimbabwe due to the country's macro-environmental influences. The present study is also understood to be the first corporate governance study to incorporate workplace spirituality in examining the governance framework for organizational effectiveness. The main value of this research is derived from its focus on banking institutions, as it examines the corporate governance principles and practices that determine organizational effectiveness.

The present research contributes to theory by proposing a conceptual framework of eight variables that can fill the internal corporate governance information gap in the context of Zimbabwe. The conceptual framework can be used to measure and evaluate corporate governance effectiveness and for future corporate governance studies. Moreover, SADC and developing economies can use the conceptual framework in the monitoring of sound internal corporate governance.

**Keywords**

Corporate governance, indigenous banks, bank failure, organizational effectiveness, Zimbabwe

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**Declaration**

I, Justine Chinoperekweyi, declare that the PhD thesis entitled Bank failures: Examining the corporate governance principles and practices of indigenous banks in Zimbabwe and their impact on organizational effectiveness is my own work.

The material in this thesis has not been submitted previously, in whole or in part, for the award of any other academic qualification.

…………………………………………… ………………..

**Justine Chinoperekweyi** ***Date***

**Dedication**

To my late father Mr. Joseph Chinoperekweyi, who passed on with an unmet desire to write a personal autobiography and life lessons and leave us a standard to follow. You strongly believed in the power of education and enhancing integrated intelligence. His words *‘school first, pleasure after’* motivated and inspired my studies this far.

To my mom who sacrificed life for my education.

To my wife and kids, there have been no new clothes, birthday parties, or extra social activities during the past five years due to my education.

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**Abbreviations**

| | | |
|---|---|---|
| ADB | - | Asian Development Bank |
| APHSA | - | American Public Human Services Association |
| RBZ | - | Reserve Bank of Zimbabwe |
| CEO | - | Chief Executive Officer |
| AGM | - | Annual General Meeting |
| IoDZ | - | Institute of Directors in Zimbabwe |
| LSE | - | London Stock Exchange |
| NAMCO | - | National Asset Management Corporation |
| NIM | - | Net Interest Margin |
| NPLs | - | Non Performing Loans |
| RFHL | - | ReNaissance Financial Holdings Limited |
| RMB | - | ReNaissance Merchant Bank |
| ROAA | - | Return on Average Assets |
| ROAE | - | Return on Average Equity |
| SADC | - | Southern Africa Development Community |
| TQM | - | Total Quality Management |
| ZIMCODE | - | Zimbabwe Code on Corporate Governance |
| ZSE | - | Zimbabwe Stock Exchange |
| ZBC | - | Zimbabwe Broadcasting Corporation |
| ZIFA | - | Zimbabwe Football Association |

# CHAPTER 1: INTRODUCTION TO THE STUDY

## 1.0 Introduction

In recent years, banking sector corporate governance has assumed heightened importance, globally, as an attempt to enhance the stability and solvency of the sector in order to anchor sustained economic transformation. In Zimbabwe, this in part is a response to the persistent indigenous bank failures experienced since the year 2000 and the need to reverse the prevailing economic challenges such as deposit concentration, low productivity, low depositor confidence on indigenous banks, continuing liquidity challenges, increasing unemployment, and low industrial expansion. Economic literature highlights the Asian crisis and increases in corporate scandals and failures in Africa as reasons behind increased attention to corporate governance as a policy and strategic issue (Berglof and von-Thadden, 1999). The 2008 global financial crisis and the enormous impact it had, has also raised regulatory alarms globally (Jonesday, 2010).

Recently, several banks in Zimbabwe suffered distress and eventually became bankrupt, thus highlighting the precarious position of the financial sector. In most economies, there has been a great deal of focus shift on how businesses are supposed to be governed (Khomba *et al.,* 2013). In retrospect from the vantage point of the Zimbabwean banking crisis (2000-2015), it seems "ethics in corporate governance have come to be at par with economic measures of performance as the primary basis for determining corporate effectiveness" (Wilson, 2000). Good corporate governance has become quintessential for enhancing organizational effectiveness, inspiring investors, strengthening investor rights, and encouraging economic transformation (Braga-Alves and Shastri, 2011). Despite increased attention to corporate governance, most developing countries still exhibit poor corporate governance credentials as shown by the relative poor performance of most organizations in these economies (Ekanaakey, Perera and Perera, 2010). It is alleged the poor corporate governance credential in most developing countries are a result of corruption, weak regulatory frameworks, lack of shareholder sophistication, and other macro-environmental influences (Jonesday, 2010).

Considering the multi-dimensional implications of bank distress and failures on the productive sector of the economy, the ramifications of persistent bank failures are unacceptably costly to any economy. Therefore, this study is based on researches and evaluations of the internal corporate governance arrangements of indigenous banks in Zimbabwe such as, shareholding structure; implementation of internal controls; leadership and management interaction; and the extent of supervisory board exceptionality. Based on emerging markets, empirical findings states that indigenous banks are less profitable and less efficient when compared to their foreign-owned counterparts (Berger *et al.,* 2009; Demirguc-Kunt and Huizinga, 2000; Claessens *et al.*, 2001; Grigorian and Manole, 2006). The less profitability and efficiency among indigenous banks is associated with low market share, scarcity of resources, poor market capabilities, and poor access to capital markets. These leads to low competitive advantage in line with competitive advantage theories such as the Market Based View (Bain, 1968; Porter, 1985; Peteraf and Bergen, 2003), The Resource Based View (Ansoff, 1965), Knowledge Based View (Tiwana, 2002), and Capability Based View (Grant, 1991). In developed countries some studies show that foreign-owned banking institutions perform poorly when compared to the indigenous banks (Berger *et al.*, 2000; Claessens *et al.*, 2001). This can also be explained through the theories of competitive advantage and the regulatory frameworks in these countries.

This study takes an enterprise governance approach, which emphasizes corporate governance conformance and performance in an organization's life. The adoption of the enterprise governance approach is in response to the devastating effects of the Global Financial Crisis 2008/09 that resulted from the seemingly exclusive focus on the conformance dimension (Jonesday, 2010). The exclusive focus on the conformance dimension has led to an exponential increase in the number of laws, regulations and guidelines directed at organizations (McConvill, 2005). The integration of corporate governance conformance and performance is considered essential in determining the solvency and stability of indigenous banks in Zimbabwe. The present study therefore seeks to identify and discover Zimbabwean indigenous banks' corporate governance irrationalities with regard to organizational effectiveness in terms of profitability, growth and long-term

sustainability. Furthermore, the impact on organizational effectiveness of the identified irrationalities will be evaluated in order to understand, predict, explain and make recommendations to control indigenous bank failures in Zimbabwe. The results will be useful to underpinning the calls for corporate governance reforms to control bank distress and failures. The findings of this study may add a new dimension on the effects of internal corporate governance mechanisms on organizational effectiveness.

The current chapter is an introduction to the problem and its setting. It presents background information, a concise description of the research problem, questions, objectives, and significance statement. The limitations and study context of the research are also explicitly described.

## 1.1 Background to the study

### 1.1.1 The Zimbabwean Banking System Developments

After gaining independence, Zimbabwe inherited its present banking architecture from the Rhodesian Government in 1980. Since then, the Zimbabwean banking sector has undergone episodic and dramatic changes which had serious implications on the governance of banks and their stakeholders, hence organizational effectiveness. Since 1980, Zimbabwe embarked on ambitious equalitarian policies aimed at economically empowering black Zimbabweans. These policies included such Acts as: The Communal Land Act (1981), The Land Acquisition Acts of 1985 and 1992, and The Indigenization and Economic Empowerment Act (2008). During the period 1980-1990, the Zimbabwean economy was characterized by total and pervasive government control and regulation, implying banks operated under heavy regulation. The imposed government controls had significant implications on the banks' role in relation to corporate governance. Government controls and regulations ensured that risks were minimized hence Monetary Policy and Bank supervisory functions were not emphasized.

The controls implied significant opportunity cost in terms of profitable banking activities that were not undertaken. This implied bank profitability and viability were guaranteed and as such no bank failures were recorded. The cost-plus pricing formula guaranteed profits to

bank clients and as such corporate governance of banks was not a material issue. In light of the anti-growth drawback of the command economy, financial sector reforms through liberalization and deregulation were adopted from 1991. This was supported by the argument that banking sector competition was being inhibited by the oligopolistic market structure thereby limiting the industry of alternatives and service quality, innovation and efficiency (Nhavira *et al.,* 2013). The reforms facilitated the upsurge in the number of financial intermediaries in Zimbabwe. Economic Structural Adjustment Programme (ESAP) (1991-1995) transformed the Zimbabwean economy from state-controlled economy to a market based system. There was an incentive to invest in the financial sector leading to a rise in the number of banking institutions as shown in Figure 1. Figure 1, therefore shows the exponential increase in the number of banking institutions in Zimbabwe during the period 1990 to 2013. The decline in the number of banks from year 2003 necessitated the present study. Financial liberalization brought about an increased dependence on market forces and adherence to international best practice.

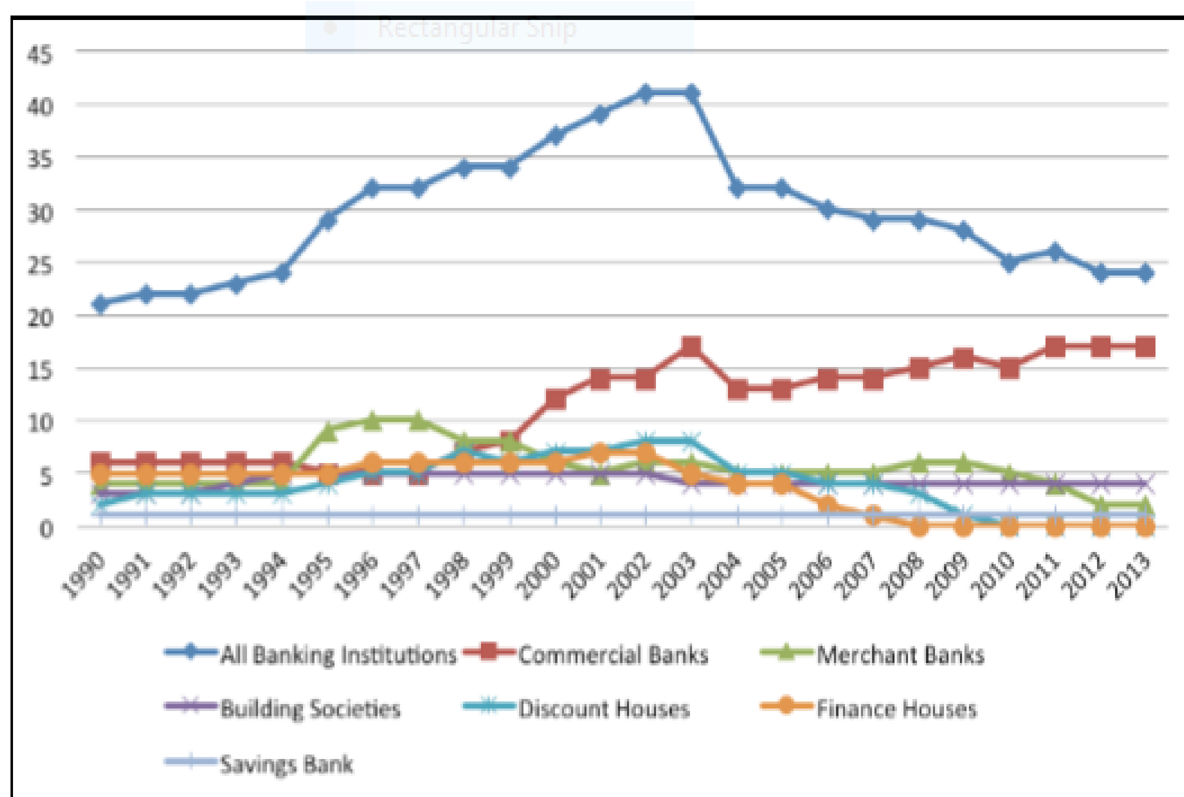



**Figure 1: Banking Institutions Trend in Zimbabwe**

**Source: RBZ Monetary Policy Statement**

Despite liberalization, the entry of foreign owned banking institutions into the Zimbabwean banking space has been greatly limited. This was a result of investment restrictions such as minimum 30% local shareholding, strict controls of foreign currency and caution amongst the licensing authorities to issue licenses to foreign banks. To this end entry into the sector has been restricted mostly to local investment. The amendment of the Banking Act in 2000 made it possible for merchant banks, discount houses and building societies to acquire additional banking functions on their licenses thereby transform into commercial banks. The transformation of the financial landscape reflected the effects of financial liberalization policies such as the removal of market segmentation, interest rate controls, quantitative credit controls and liberalization of entry requirements into the financial sector (Nhavira *et al.,* 2013).

Compliance with international best practices affected customer service and forced banks to be thorough in client assessments. Bank clients were no longer assured positive returns and as such banks revised operations manuals with regards loan processing, administration, monitoring and review. In order to thrive, banks had to apply innovation across the value chain and consider the value of intangible assets. Banks had to shift focus from product-push to customer pull strategies. As was the case in Greece 1982-1987, strategic planning became crucial in the face of the "new competitive monetary and financial system" (Hardouvelis, 1997). The change greatly affected banking business, processes, systems, and service delivery. Hyper-competition eroded many sources of competitive advantage. Sustainability became a product of customer focus, adaptability and speed (Winston, 2009). Radical changes of the whole banking system as well as individual bank restructuring were necessary in order for banks to adopt and adapt to the environment. Reliance on collateralized lending reduced the corporate governance scope and market discipline. Today most of the indigenous banks that were attracted to the sector have failed or are struggling to adapt and adopt to change.

Unlike during the 1980-1990 period, Zimbabwe witnessed an unprecedented phenomenon of bank failures during the period year 2000-2015 due the epidemic of inadequate corporate governance. The first bank failure was recorded in 1997 as United Merchant Bank

collapsed, purportedly due to corporate governance deficiencies. The IMF compulsory withdrawal procedures for Zimbabwe of 2003 under IMF Press Release No. 01/40, 02/28 and 03/80 contributed to the severity of the crises during the period under study. Depositor confidence was largely lost as people preferred 'under the mattress banking' instead of conventional banking. In response to this development, the central bank (RBZ) introduced a variety of measures to encourage the adoption of sound corporate governance by all banks. These steps included on-site examinations, risk based examinations, and consolidated examinations; and also introduced the Troubled Banks and Insolvent Banks Policy among others.

Increasing globalization of financial markets, emergence of conglomerate structures, offshore accounts, input of new technological structures and disruptive financial products innovations have added to the complexity of corporate governance in banking. A wave of convergence is radically changing the traditional competitive landscape for banks and their customers hence altering the way in which banks are regulated and managed. The implementation of sound banking corporate governance remains more a result of mandatory compliance, rather than voluntary efforts. The quality of corporate governance expected amongst banks is high; hence the focus of the current study on the corporate governance of indigenous banks in Zimbabwe for the period 2000-2015. This study period has been chosen because of the persistent bank failures that occurred and the macro-economic changes in Zimbabwe after the period 1991-2000. Zimbabwe experienced numerous corporate scandals and failures during this study period, allegedly due to corporate governance deficiencies. The announcement by Barclays PLC that the company would cut its shareholding in Barclays Africa to a non-controlling stake below 50% during the period 2016-2018 further reinforces this examination as African states need to focus more on local investors.

### 1.1.2 Overview: Corporate Governance, Organizational Effectiveness and Bank Failures

This study seeks to understand, explain, predict and recommend controls to the persistent bank failures phenomenon in Zimbabwe by improving the effectiveness of indigenous banks through the enthronement of sound corporate governance.

In pursuit of banking sector solvency and stability, the RBZ finalized a blueprint of its Banking Sector Vision 2020 (RBZ Monetary Policy Statement, 2013). The attainment of the vision strongly depends upon the corporate governance improvements in Zimbabwe, hence the need to understand the nature and extent corporate governance in Zimbabwe with regards to organizational effectiveness.

Corporate governance is one of the crucial factors that support financial system stability in any country (Morck, Shleifer and Vishny, 1989). The roles of corporations vary depending on regional viewpoints (Rossouw, 2009). The variations have given rise to different corporate governance approaches in different countries. Corporate governance defined broadly refers to the relationship of the corporation to its society as a whole. Corporate governance is “the sum of the processes, structures and information used to direct and manage an organization” (Mayer, 1999). The essence of corporate governance is to create sustainable value or shared value which translates to profitability and embedded sustainability.

Knell (2006) suggests that governance involves controlling and regulating, that is, the exercise of authority to maintain order and adhere to predetermined standards of behavior. It is about developing and implementing processes and structures to ensure the organization is managed and directed in a manner that guarantees sustainable value to all shareholders, which will then enhance firm performance (Strine, 2010). During the past three decades, corporate governance has “evolved from the traditional ‘profit centered model’ (1900-1950) to the ‘social responsibility model’ (1950-1980)” (Halal, 2000). However, these two models are mutually exclusive since the profit is fundamental to the survival of the firm. The firm’s capacity to generate profit drives social impact investments in organizations (Shahin and Zairi, 2007). Currently corporate governance seems to be changing from the

corporate social responsibility model towards collaborative working relations to be referred to as the “corporate community model” (Halal, 2000). The adoption of the corporate community model is essential is creating shared value which takes into consideration all the stakeholders of the company thereby ensuring inclusive effectiveness. Business organizations have been greatly criticized as the major cause of environmental, social, and economic challenges. It is therefore imperative for businesses to redefine their purpose as “creating shared value”. Shared value involves the firm’s attempts to create economic value in a way that optimizes value for all stakeholders (Porter and Kramer, 2011). Figure 2 below illustrates the shift the the profit centred model, to the social responsibility model, and the current corporate community model.

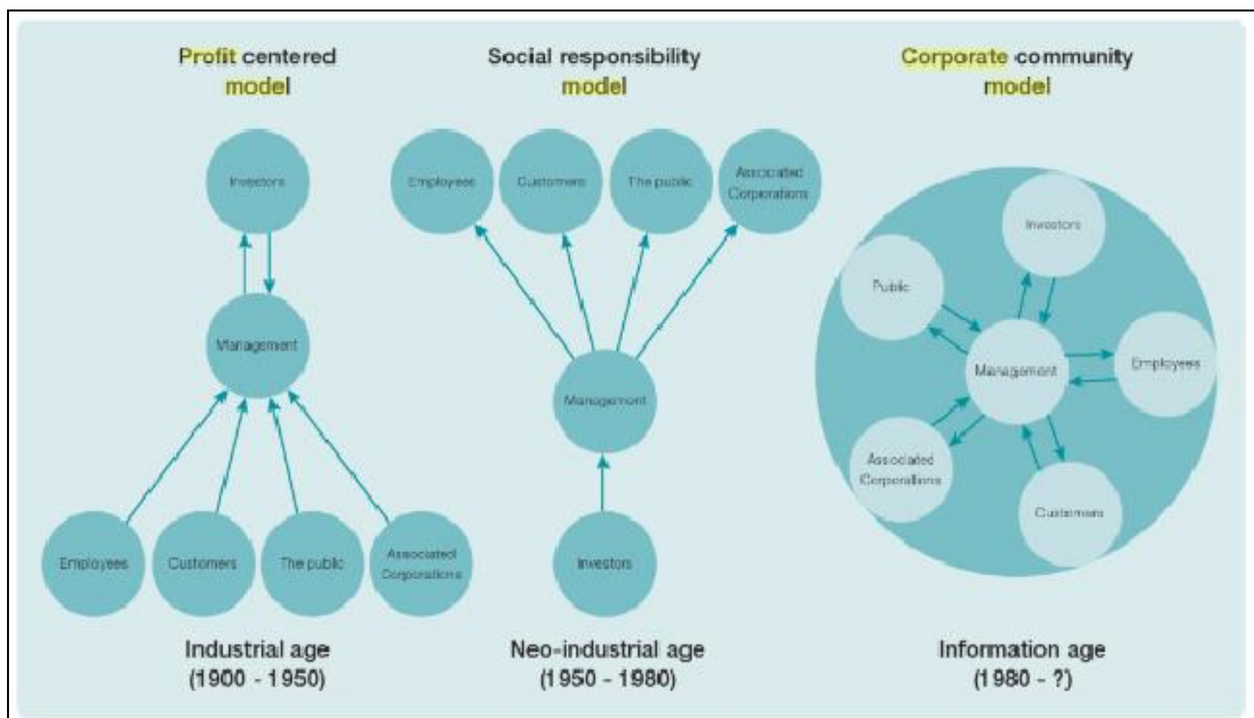



**Figure 2: Evolution of corporate governance**

**Source:** Halal (2000)

There are two perspectives to the concept of corporate governance. First, the narrow view which focus on the internal processes, structures and rule of management within a corporate entity. Second, the broad view which incorporate institutional, legal, capacity building and rule of law.

**Why banking sector corporate governance?**

Financial intermediation is an all-encompassing characteristic in all economies (Gorton and Winton, 2002). Why are financial intermediaries important? This study focuses on banks' corporate governance for several reasons. Corporate governance "affect bank's valuation, cost of capital, performance, and risk taking behavior" (Polo, 2007). Banks strongly influence economic transformation in any country. In order to achieve the positive effect of banks strong and sound corporate governance is a strategic imperative (BCBS, 2003). "The financial sector remains the prime mover of meaningful and inclusive economic development processes through its indispensable intermediary role. Within this context, the maintenance of a sound, efficient and safe banking sector remains critical in effective financial intermediation in Zimbabwe" (RBZ Monetary Policy Statement, 2013). From the vantage point of the persistent bank failures in Zimbabwe, good corporate governance is essential to the existence of a bank as it leads to better firm performance and accounting outcomes (Jensen and Meckling, 1976). Banking systems risk is increasing mainly because of increased financial globalization, international integration, and technological advances.

Literature states the important role of banks in payment system, both at national and international levels. As the main financial intermediaries, "banks are important 'engines' of economic growth" (King and Levine, 1993). Banks that efficiently mobilize and distribute funds boosts capital formation through lowering the cost of capital thereby stimulating productivity growth (Levine, 2004). Commercial banks should enhance their corporate governance mechanisms since they describe, prescribe, encourage or discourage corporate governance in real sector firms (Santos and Rumble, 2006), either as fund providers or equity holders. Bank loan agreements act as trip wires signaling to the bank that it should intervene into the affairs of the borrowing firm. An overwhelming proportion of external finance in all economies comes from banks. Banks play a crucial corporate governance role in periods of firm distress, as they are the predominant source of external bail-out financing (Gorton and Winton, 2002). Banks are also crucially essential for industrial expansion. A stable and solvent banking system has positive effects on real sector firms' operations and the success of nations. Because of the important financial intermediary role played by banks, a weakened banking system will produce significant negative real effects

(Gibson, 1995; Peek and Rosengren, 2000). Bankers also play a significant role in the real sector firms considering that they sit in most companies' board of directors. Banks also produces liquidity through issuing commercial papers backing with loan commitments (Gorton and Winton, 2002). Zimbabwe is at a time of reworking its international relations and as such "sound corporate governance practices inspire investors and lenders' confidence, spur domestic and foreign investment and improve corporate competitiveness" (Armstrong, 2010). The banking sector is also crucial in facilitating the implementation of the monetary policy. "Basically, financial intermediation is the root institution in the savings-investment process. Ignoring it would seem to be done at the risk of irrelevance" (Gorton and Winton, 2002).

**Organizational Effectiveness**

Organizations are defined as human groupings (social units) purposely constructed and reconstructed to pursue specific goals (Etzioni, 1964). An organization is also defined as "a system of consciously coordinated activities or forces of two or more persons" (Barnard, 2000). An organization refers to a social entity that is goal oriented, and working with a structured activity system within a defined scope of operation (Daft, 1992). Etzioni (1964) recognized that an organization is characterized by: first, division of labor and clearly defined responsibilities. The divisions are not traditionally patterned but are deliberately planned with a view to achieve specific goals. Second, organizations are characterized by the existence of one or more clearly defined power centers. The power centers have the responsibility of controlling and directing all the concerted efforts of the organization towards its goals. The power centers must incessantly review the organization's performance and regularly re-pattern its structure in order to increase its efficiency. Third, organizations have the capacity to substitute personnel. This means that unsatisfactory members of the organizations can be removed and new ones assigned their tasks. Through promotion and transfer, the organization can also recombine its personnel. There are many synonyms for the term organization which terms will be used interchangeably in this study. These include bureaucracy, corporation, and formal organization.

Every organization is constructed to be the most effective and efficient social unit in terms of achieving its goals. Generally, organizational effectiveness is measured through determining the degree to which an organization realizes its *raison d'etre*, that is, service of goals. Researchers underlined three different approaches about evaluating bank organizational effectiveness: the analysis of the bank balances; the analysis of financial data representing the bank operating in the market; and the analysis of data demonstrating the banking sector structure. Theoretically, corporate governance is considered "an economic discipline, which examines how to increase effectiveness of certain corporations utilizing organizational arrangements, contracts, regulations, and business legislation" (BCBS, 2003). Effectiveness summarizes the yield of factors and the reach of goal, without considering the manner and the resources optimized. Effectiveness has strategic meaning in firm management. An effective organization refers to one that continually strives to identify and focus on factors critical to its customers and improves its processes in order to provide the highest quality of products or services.

Various scholars have defined the concept of organizational effectiveness differently. Organizational effectiveness has been defined as achieving an organization's "objectives and prevailing societal expectations in the near future, adapting and developing in the intermediate future and surviving in the distant future". To measure organizational effectiveness in the banking industry, this study will use both financial and non-financial models. The financial models of determining organizational effectiveness encompasses such measures as Return on Equity (RoE), Return on Assets (RoA), Net Interest Margin (NIM), and Tier 1 Capital. This information id obtained through the analysis of the company's financial statements; that is, the company's income statement, balance sheet, statement of changes in equity, and cash flow statement. Corporations should not be judged solely on financial metrics, but also on non-financial (Carroll, 1979). Carroll (2000) suggested that organizations have "four faces" to execute in order to be good corporate citizens: economic responsibilities, legal responsibilities, ethical responsibilities, and philanthropic responsibilities. The non-financial models of determining organizational effectiveness thereby incorporate corporate social responsibility attempts of an organization

and its role in creating social impact. Examples of non-financial measures are product quality, customer satisfaction, and employee turnover (Ittner and Larcker, 1998; Banker *et al.,* 2000). These measures provide company performance information that is not contained in contemporaneous financial measures. A holistic approach to measuring effectiveness will be adopted in this research. This sustainability focused approach to determining organizational effectiveness utilizes three indexes which are institutional, industry and inclusive levels. The implications of indigenous banks' corporate governance mechanisms on each level and the subsequent relationship between the three levels of effectiveness will be examined.

In view of the bank failures and the desire to achieve the RBZ Banking Sector Vision 2020, banks are prompted to pursue an organizational effectiveness agenda. Bank leaders should seek to secure their positions by changing how they direct, manage and regulate their organizations. Bank failures can be avoided if banks, like any other business, become strategic and innovative and see sustainability as a defining feature of organizational effectiveness. An effective organization "realizes that intangible assets like brand value, community trust, license to operate, access to capital, and consumer passion require more than a narrow focus on shareholder value creation. Also needed is stakeholder value creation" (Cooperrider, 2012). In order to predict and control bank failures in Zimbabwe, the focus of this thesis is to understand and explain the effect of enterprise governance on organizational effectiveness of indigenous banks in Zimbabwe. To achieve sustainable organizational effectiveness, organizations must be confident of the appropriateness of their business models, the reliability of risk mitigation strategies, and that instituted performance indicators and incentive schemes reinforce desired behavior.

**Bank Failures**

The banking sector in Zimbabwe has come under intense scrutiny recently as a result of the bank failures and eventual bankruptcy. The bank failures experienced during the period year 2000-2015 can be captured by the number and size of failed banks, degree of required bank capitalization, the ratio of non-performing loans (NPLs), loss of depositors' funds, level

of depositor confidence and the general impact on the economy. The failure of a firm is defined as the point of insolvency, where liabilities exceed assets and net worth turns negative. A bank is deemed to have failed if it is liquidated, merged with a healthy bank under central government supervision pressure or rescued with state financial support (Heffernan, 2005). Poor corporate governance affects organizational effectiveness leading to bank runs. A bank run refers to the occurrence of a chain of sudden or unpredicted deposit withdrawals as a result of an abrupt decline of depositor confidence on the bank's business or the banking system as a whole. The bank runs are mainly fuelled by the depositors' fear that a bank will be closed by the regulatory authority or the whole banking system is under distress. In Zimbabwe, 'silent bank' runs and 'bank walks" are more prevalent on indigenous banks as revealed by the shifting deposit concentration towards foreign owned banks. A silent run is defined as 'a slow-motion bank run', in that depositors do not demand their money immediately and simultaneously, but curtail making fresh deposits to replenish withdrawals. This pushes the bank beyond its capitalization breaking point. A 'bank walk' occurs when large depositors feel a rush of bank runs is imminent; hence depositors distribute their deposits to various banks.

It is imperative to appreciate that "isolated bank failures are inevitable and it would be unwise to aim for zero tolerance". What can be avoided is an annual recurrence as was the case in Zimbabwe during the period under review. The truth is that financial systems are generally prone to periods of instability (Nhavira *et al.,* 2013). The failure of indigenous banks is not a new phenomenon in Africa. The emergence of indigenous or local banks in Africa began in the 1970s, except in Nigeria where "indigenous banks were set up during the colonial period in the 1920s, 1930s and early 1950s. These indigenous banks all either collapsed in their infancy or were eventually taken over by the Nigerian regional governments" (Nwankwo, 1980). The persistent indigenous bank failures in Zimbabwe led to high systemic risk due to the increased concentration of deposits and total assets in foreign banks. Given the prevalence of indigenous bank failures in Zimbabwe, the controversy on their value to the economy requires extensive justification.

Indigenous banks provide financial services that foreign-owned banks are either unwilling or unable to supply. Indigenous banks are also important in terms of injecting the much needed competition into financial markets. Indigenous banks improve financial intermediation in three ways: first, extend credit facilities to a neglected market segments (mainly small-medium enterprises) because the close social and community relationship supports indigenous banks by providing informal channels of knowledge about borrowers. Second, they provide high quality, customized, convenient and timely services than the foreign-owned banks in order to attract customers. Third, banking markets in African countries are oligopolistic hence the need for new entrants. Indigenous banks also assist in the formalization and integration of the informal sector hence facilitating economic transformation. The term indigenous banks is used in this study to denote institutions which take deposits and make loans in which the major shareholders are residents of Zimbabwe.

### 1.1.3 Zimbabwe Today: Reform Attempts

In view of the sluggish economic growth, Zimbabwe is adopting diverse macro and structural reforms which calls for the need for corporate governance improvements among indigenous banks. The reform attempts have the objective of injecting greater competition, increase productivity, increase confidence and enhance efficiency. This is in line with the widely held view that corporate governance has significant implications for economic growth, because sound corporate governance practices reduce investment risk, attract foreign direct investments and improve effectiveness of organizations (Spanos, 2005).

From a systemic, prudential and market conduct regulation perspective the Reserve Bank of Zimbabwe adopted a variety of reform attempts. The Central Bank, in January 2005, adopted the Troubled Bank Resolution Framework to deal with distressed banks and build a robust banking and financial services sector. The Troubled Bank Resolution Framework focused primarily on strengthening the banking system and promoting good banking practices; and to promote sustainable economic transformation (RBZ, 2004).

The consolidation strategy was adopted in 2006; wherein the Reserve Bank allowed all distressed or troubled institutions to consolidate (RBZ, 2006). The consolidation was

through merger and acquisitions. Troubled institutions were also offered the options to restructure, liquidate, and reimburse depositors funds. “The RBZ further refined its supervisory approaches in response to the banking sector challenges and introduced risk based supervision; prompt corrective action programmes; consolidated supervision; compulsory credit rating of banks; issuing corporate governance guidelines” (Mandizvidza, 2011).

The following are the key on-going reforms pertinent to this study:

The New Constitution of Zimbabwe

The new Constitution of Zimbabwe sets in place a higher quality of governance demanded of the Zimbabwean society. The State is required to “adopt and implement policies and legislation to develop efficiency, competence, accountability, transparency, personal integrity and financial probity in all institutions and agencies of government at every level and in every public institution” (New Constitution: Chapter 9).

Zimbabwe Agenda for Sustainable Socio-Economic Transformation-2013-2018 (ZIM-ASSET)

The objectives and goals of the ZIM-ASSET blueprint have significant implications on the corporate governance of banks. The four economic main clusters around which the blueprint is built are: “Food Security and Nutrition; Social Services and Poverty Eradication; Infrastructure and Utilities; and Value Addition and Beneficiation”. The four clusters determine the appropriate corporate governance regime for Zimbabwe. The clusters also bring new measure of organizational effectiveness.

Corporate Governance Code (2015)

Zimbabwe launched an all-embracing code on corporate governance (ZIMCODE). The Code purportedly contains international best practices and standards on corporate governance and gives the business community a platform to responsibly conduct business. The Code highlights institutional failures within the banking sector, owner management conflicts, corporate power concentration, corporate scandals and corporate failures, and the

emergence and growth of unethical corporate leadership as the driving forces to the adoption of the national code. However, Section 2 of the code states that "special sectors such as banking and financial services sector, partnerships, trusts and small to medium enterprises should have specific codes of their own which take a sector approach to corporate governance".

Competitiveness Agenda and Industrialization Strategy

SADC under the Regional Integration Strategy is pursuing an Industrialization agenda at a time Zimbabwe is pushing the Competitiveness agenda. This is in view of the notion that a nation's competitiveness and wealth depends on the stability of its banking and financial services. It is essential to appreciate that competitiveness is underpinned by a properly regulated, vibrant, competitive and working banking system. In view of their social and community links, indigenous banks are crucial in spearheading the much needed competitive industrial expansion.

Banking Sector Vision 2020

The RBZ finalized a blueprint of its Banking Sector Vision 2020. This blueprint focuses on the pursuance of a robust banking sector to anchor sustained economic transformation. The RBZ envisions a thriving financial services sector by December 2020. The following are the key features, characteristics and capabilities envisioned through the Banking Sector Vision 2020:

- "adequately capitalized and competitive banking sector with the ability to support the funding needs of the economy;
- banks with ability to attract significant financial resources from both domestic and international sources;
- more inclusive banking sector with improved outreach to the currently unbanked and under-banked sections of the population;
- robust legal and regulatory framework benchmarked to international best practices."

The attainment of the envisioned financial and banking sector calls for an improvement in the corporate governance of banking institutions, particularly indigenous banks.

The Indigenization and Economic Empowerment Policy

The Act seeks to foster mutually beneficial partnerships between Zimbabwe and foreign investors. Following the January 2015 review of the Act to empower line ministries, the international community considers the country's economic environment as conducive for large scale investments. The European Union has begun financing local initiatives under the National Indicative Plan. The funds will be channeled through the banking sector for on-lending.

The developments in Zimbabwe place the banking sector at the center of economic transformation initiatives. This is in support of the observation by Levine (1997) that, first, banks in third-world and transition economies are enormously important drivers of economic transformation and occupy a dominant financial system position. 'Second, banks in third-word and transition economies are the primary source of finance for most real sector firms. Third, banks in third-world and transition economies are typically the major depository for the economy's savings.

Therefore, given the importance of banks in developing economies, this study seeks to achieve banking sector regulation change in Zimbabwe through proffering recommendations from examining the corporate governance principles and practices of indigenous banks and their impact on organizational effectiveness in the banking market. The present study is therefore motivated by the pursuit of the Zimbabwe Banking Sector Vision 2020 and the significant role played by modern corporations, particularly banks in economic transformation. Corporate governance is therefore quintessential in driving organizational effectiveness and therefore economic transformation in Zimbabwe. The persistent indigenous bank failures in Zimbabwe during the period under review has significant social, fiscal, and macroeconomic costs which calls for corporate governance inquiry. The economic reform attempts in Zimbabwe and the adoption of international best practices require that business organizations enhance their corporate governance

frameworks in order to be effective. The study focused on the corporate governance of banks due the important financial intermediary role played by banks in any economy.

## 1.2 Statement of the Problem

Zimbabwe has witnessed persistent annual recurrence of bank failures during the period 2000-2015. At the center of these bank failures are alleged poor adherence to sound corporate governance by individual banks. Despite the RBZ's concerted efforts to encourage the implementation of sound corporate governance at every banking institution, bank distress and failures among indigenous banks persists. The bank failures have substantial social, macroeconomic and fiscal costs for Zimbabwe. Organizational effectiveness of indigenous banks through the enthronement of sound corporate governance is vital for banking sector solvency and stability through resolving the prevailing economic challenges in the country. Indigenous banks in Zimbabwe are associated with unethical and unprofessional practices, poor board oversight, poor management quality and concentrated ownership structures among other governance issues.

The severe banking sector distress and disturbing frequency of financial scandals and corporate failures in Zimbabwe has highlighted the need for proactive risk management and corporate governance practices; the scandals and failures from banks have greater adverse effects on the economy than from other sectors. Therefore, this research examines corporate governance principles and practices of indigenous banks in Zimbabwe and their impact on organizational effectiveness. The primary research outcome is driving the solvency and stability of the banking sector in Zimbabwe to anchor sustained economic transformation.

## 1.3 Objectives of the study

The general intention of this thesis is to examine the corporate governance principles and practices of indigenous banks in Zimbabwe and their impact on bank organizational effectiveness. In order to explore sustainable solutions for the Zimbabwean banking sector governance challenges towards organizational effectiveness, below are the specific objectives that will be pursued in this study:-

- To explore the nature and extent of the development of sound corporate governance principles and practices in the Zimbabwean banking sector.
- To identify the probable hindrances to, and enablers of, the implementation of sound corporate governance by indigenous banks in Zimbabwe.
- To establish the role of corporate governance in enhancing indigenous banks' effectiveness in the Zimbabwean banking sector.
- To evaluate Zimbabwean indigenous banks' corporate structures, functions of supervisory bodies, implementation of internal controls, role of independent bank units, and employee engagement processes and their impact on bank organizational effectiveness.
- To examine the probable internal variables for bank organizational effectiveness measurement related to corporate governance.
- To establish the causes of bank failures in Zimbabwe, critically ascertaining the corporate governance shortcomings in each failure cause at institutional level.

Each of the objectives is now briefly discussed.

### 1.3.1 To explore the nature and extent of the development of sound corporate governance principles and practices in the context of the Zimbabwean banking sector.

The RBZ introduced a variety of banking sector reform attempts aimed at addressing the governance issues in banks so as to strengthen the sector and as such restore financial sector solvency and stability. In spite of these reforms, it seems banks are still prone to failure. It is expected that corporate governance in the Zimbabwean banking sector should have improved by 2015 yet three banks closed during the first quarter of the year 2015. It is also expected that the Banking Sector Vision 2020 should be attained through corporate governance enhancements by individual banks. This research therefore explores the evolution of sound corporate governance in the Zimbabwean banking market in order predict and recommend controls to enhance the attainment of the Vision 2020.

**1.3.2 To identify the probable hindrances to, and enablers of, the implementation of sound corporate governance by indigenous banks in Zimbabwe.**

In the absence of a corporate governance code for banking institutions, the banks are likely to have and still encounter a variety of obstacles and enablers regarding the implementation of sound corporate governance. It seems the effects of globalization and financial sector convergence hinder or support the adoption of sound corporate governance in Zimbabwe. It is expected that given the Roman-Dutch Law and the new Constitution of Zimbabwe, bank failures through corporate governance deficiencies should have been reduced. This study therefore consists of a detailed examination of probable hindrances to, and enablers of the implementation of sound corporate governance policy on indigenous banks in Zimbabwe. The identification of the hindrances and enablers is essential in developing strategies for organizational effectiveness among indigenous banks in Zimbabwe.

**1.3.3 To establish the role of corporate governance in enhancing indigenous banks' effectiveness in the Zimbabwean banking sector.**

The highly competitive and globalized business environment of the 21st century demands that organizations implement sound corporate governance to attain corporate sustainability. From the vantage point of the 2008 banking and financial crisis in Zimbabwe, the low depositor and investor confidence, and the rise in corporate mismanagement cases; the role of corporate governance in enhancing organizational effectiveness need to be emphasized. This study evaluates the importance of corporate governance in enhancing Zimbabwean banks' effectiveness (in terms of profitability, growth, social value and sustainability).

**1.3.4 To evaluate Zimbabwean indigenous banks' corporate structures, functions of supervisory bodies, implementation of internal controls, role of independent bank units, and employee engagement processes and their impact on bank organization effectiveness.**

In its January 2013 Monetary Policy Statement, the RBZ stated in relation to bank failures that, "the problem has been compounded by the existence of complex corporate structures

within banking groups and financial conglomerates which are used as conduits for regulatory arbitrage and siphoning of depositors' funds. It is against the background of these negative developments that the Reserve Bank will continue to reinforce the adoption of sound corporate governance practices". This research aims therefore to analyze the corporate structures and rules of management within Zimbabwean banks and their impact on bank organizational effectiveness.

**1.3.5 To examine the probable internal variables for bank organizational effectiveness measurement related to corporate governance.**

Economic scandals and the recent banking and financial crises made it essential to carry out an inquiry on the impact of corporate governance on organizational effectiveness especially in the banking market. Numerous researchers have analyzed bank efficiency, economic performance and ownership structure, but a few study the relationship between bank effectiveness and corporate governance particularly in an economy as Zimbabwe.

**1.3.6 To establish the causes of bank failures in Zimbabwe, critically ascertaining the corporate governance shortcomings in each failure cause at institutional level.**

Corporate governance and bank failures are social constructs and solving such complex behavioral based challenges requires a broader perspective as they emanate from a conspiracy of causes internal and external to an individual bank. Banks are expected to adopt the far more assertive proactive stance of leading or driving rather than being reactive in the current complex, fast-paced, unpredictable, globalized and competitive business environment. This study aims to establish the causes of bank failures in Zimbabwe ascertaining the corporate governance irrationalities in each cause at institutional level.

Overall, the examination of the above objectives should strengthen Zimbabwean banking institutions towards the attainment of a stable and solvent banking sector by December 2020 and beyond.

### 1.4 Research Questions

Main study question for the present research is, "What are the corporate governance principles and practices for organizational effectiveness of indigenous banks in Zimbabwe?" The following specific questions guide the whole inquiry in order to attain the stated objectives:-

- What is the nature and extent of sound corporate governance principles and practices adoption within the Zimbabwean banking market?
- What are the hindrances to, and enablers of the implementation of sound corporate governance by indigenous banks in Zimbabwe?
- What is the role of corporate governance in enhancing organizational effectiveness in the Zimbabwean banking market?
- To what extent have the corporate structures and the rule of management in the Zimbabwean indigenous banks contributed to ineffectiveness and/or the persistent bank failures?
- What are the most affected organizational effectiveness measures related to corporate governance leading to the persistent bank failures in Zimbabwe?
- What are the major causes of bank failures in Zimbabwe and how are the corporate governance principles and practices deficiencies evident in these failure causes?

The Asian Development Bank (ADB) (2000) suggested that "the issue of corporate governance is important, primarily for protecting investors' interests, and reducing systemic market risks and maintaining financial sector stability". The above mentioned research questions about the challenges of corporate governance in the Zimbabwean banking market and their impact on organizational effectiveness, will be investigated in this study.

### 1.5 Rationale for the study

The disproportionate impact of the global financial crisis 2008/09 did spread a shadow over the existing corporate governance model (Yip, 2013). In view of the persistent indigenous bank failures in Zimbabwe during the period year 2000-2015, and the widespread recognition that the existing corporate governance mechanisms have limits in terms of

producing expected results (Yip, 2013), there is need for a paradigm shift regarding the approach to banking sector challenges and complexities on indigenous banks in Zimbabwe. The research is undertaken cognizant to the fact that 'isolated bank failures are inevitable, and it would be unwise to aim for zero tolerance'. What can be avoided is an annual recurrence as was the case in Zimbabwe? Any bank failure is associated with severe cost burdens such that the need for continued study of the causes of banks and banking sector instability, on both the theoretical and practical levels cannot be overemphasized (Uzokwe and Ohaeri, 2014).

The financial sector liberalization and deregulation process facilitated the shift from external regulation to internal systems hence the quality of corporate governance within the banks becomes critical to the growth and stability of the sector. This study is expected to make significant contributions to the field of organizational leadership and development. Theoretically, this examination of corporate governance principles and practices is in response to the claim that the discipline of corporate governance is "lacking in any empirical, methodological and theoretical coherence" (Tricker, 2000); and the empirical findings that the number of indigenous banks in Sub-Saharan African countries has declined significantly (Claessens and Hore, 2012) whilst the number of foreign owned banks has been increasing immensely. The present study is therefore important in providing clarity on these issues.

This thesis will also add insight to the longstanding debate on the appropriate corporate governance regime for developing economies like Zimbabwe. As Zimbabwe is a former member of the Commonwealth and was a British colony, its governance guidelines generally resemble the systems used in the United Kingdom. All business activities in Zimbabwe are founded on the common law with some Roman-Dutch influences. The Look East Policy is also bringing in the Asian systems to the governance of organizations in Zimbabwe. Therefore, should Zimbabwe adopt the stakeholder model, shareholder model or both perspectives? Or should Zimbabwe adopt the positive corporate governance or the rules based approach to corporate governance?

La Porta *et al.,* (1999) indicate that organizations in common law system pay more dividends than those in civil law system, implying these organizations will be organizationally effective. Dividends are considered a reliable indicator of sustainable corporate income, as management decides on a dividend policy to communicate the extent of real income growth (Bhattacharya, 1979; Gordon and Malkiel, 1979; and Ross, 1977). This study is significant as it examines why banks in Zimbabwe were failing despite them being under the common law system.

The 21st century and beyond demands business organizations to implement good corporate governance as an attempt to attain corporate sustainability. Rossouw and Van Vuuren (2010) purport "it was stated that the 19th century was the 'century of the entrepreneur', the 20th century became the century of management, and the 21st century promises to be the century of governance". However, empirical evidence indicates that despite the African *Ubuntu* philosophy which is expected to enhance the region's corporate governance architecture; corporate governance in Zimbabwe is poor and has contributed significantly to the experienced bank failures. There have been assertions that the ultimate success of any organization operating in an African environment is premised on this *Ubuntu* framework (Khomba *et al.,* 2013). In this study the issue is explored in detail in the context of ensuring organizational effectiveness amongst indigenous banks in Zimbabwe.

The study is also a reaction to the increasing scrutiny of corporate activities in Zimbabwe and the rise in major corporate scandals such as at ZBC, Air Zimbabwe, ZIFA, Hwange Colliery Company, CAPS Holdings and CIMAS Medical Aid Society. Corporate scandals revealing maladministration by management and executives; and excessive CEO perks have contributed to public distrust in the corporate structures. Stakeholders in the corporate and economic structures have joined the voices of protesters calling on organizations to adhere to sound and ethical corporate governance (Martin, 2003). Banks are unique and have systemic implications; therefore the soundness of their governance is quintessential. In view of the increased scrutiny of corporate activities in Zimbabwe, a study to examine corporate governance mechanisms within the banking sector is justified.

There seemingly is a lack of literature on the procedural and ethical underpinnings of day-to-day corporate governance. There is a misconception that governance issues are a reserve for those at the highest echelons of the organization's hierarchy; and that deliberations on the subject of corporate governance in Zimbabwe is restricted to public and large corporations. There also exist negative perceptions that executives are primarily driven by self-interest rather than what is best for the firm hence the primary focus on conformance by most empirical researchers. In the absence of a banking sector code on corporate governance, there seem to be a lack of adequate corporate governance information for banks. In response to this knowledge gap this research examines corporate governance from both situational (conformance) and strategic (performance) orientations at all levels of the banking organization.

At a time the 2015 World Bank 'Doing Business Report' on Zimbabwe was propitious and the European Investment Bank after more than a decade of economic sanctions on Zimbabwe, has opened up to support the funding needs of the Zimbabwean private sector, there is limited literature determining the extent to which indigenous banks are complying to sound corporate governance in pursuit of organizational effectiveness thereby attracting foreign investments. In this regard, the quality of corporate governance in Zimbabwe assumes importance based on the corporate sector need for foreign investment and the general macro-economic need for capital inflows. This research will significantly contribute to understanding the corporate governance issues in the Zimbabwean banking market for numerous stakeholders, including: policy makers, regulators, depositors and academicians.

The research differs from related literature in the sense that it examines the effectiveness of the on-going internal corporate governance structure of indigenous banks in Zimbabwe. The conceptual dimension is to achieve regulation rather than radical change. Empirical literature, based on systemic and prudential regulation, has focused primarily on corporate governance and firm performance focusing solely on higher level positions of organizations as the research variables.

This study could be among the few researches conducted to investigate how workplace spirituality from a positive corporate governance perspective affects organizational effectiveness in a developing economy like Zimbabwe. This study will also be the first to examine the likely hindrances and facilitators for implementing sound corporate governance in Zimbabwe, hence improving the chances of successful implementation of the specific banking sector code, achieve the Banking Sector Vision 2020, allow Zimbabwean banks to compete in the region and in international markets. Indigenous banks in Zimbabwe should strive to meet international standards in many aspects relevant to corporate governance. Therefore, the present study will provide superior information to bank directors leading to more strong Zimbabwean indigenous banks with improved financial and social benefits. The information is important not only for Zimbabwe, but all SADC and other African countries. This study will be useful for the Zimbabwean banking market and future researchers in this domain.

### 1.6 Limitations

The study being largely qualitative is faced with some challenges in the collection of data such as validity of the data to be collected. Due to time constraints, the researcher was not available when participants were completing the questionnaires. The researcher also started with certain specific information about the research variables, “thus moving from the particular to the general” (Mason, 2002). The main reason for this meticulous piece of information at the beginning is because nobody starts from a *tabula rasa*. In the present study, the researcher’s bias was acknowledged and well managed. While it is difficult to establish reliability of participant responses, Denscome (2007) suggests using triangulation where other documents and observations related to the responses will be examined. Participants were however given the opportunity to contact the researcher in the event they need any clarifications of the questionnaire. However, the less interaction between the respondents and the researcher led to reduction in bias (Kumar, 2008)

The Zimbabwean banking sector, guided by a code of ethics on disclosure of information, is one of the most secretive and largely opaque business landscape where every piece of information is insulated under the “confidentiality” ambit. Any information released can be a

source of business risk. Therefore, the researcher has to deploy astute data mining techniques to acquire relevant data. The study was also limited by time and money considering the researcher is self-funded and has to balance study with work and life issues.

Despite the abundance of literature on corporate governance and performance, the different theoretical perspectives, methodologies, performance measurement variables, tensions regarding board roles and different contextual nature of firms have produced diverse results (Kakabadse and Kouzmin, 2001). In addition, most of the extant literature on banking sector corporate governance has been conducted in the developed economies such as UK, US, Germany, and Canada. Corporate governance literature for developing economies is extremely scant.

It is expected the present research will yield interesting, useful and reliable results to fill the gap in corporate governance and organizational effectiveness knowledge.

### 1.7 Delimitations

This research is delimited to the internal corporate governance mechanisms for bank organizational effectiveness of indigenous banks in Zimbabwe. The research covers the period 2000-2015. This delimitation is imperative given the massive number of indigenous bank failures during the period under study. The research will be conducted in the cosmopolitan city of Harare in Zimbabwe. Harare was chosen because it is the most industrialized city in Zimbabwe. It therefore, implies that Harare could well serve as an ideal representative of the socio-economic characteristic of Zimbabwe.

### 1.8 Assumptions

It is assumed that: the bank and non-bank respondents in the sample will be willing to contribute honestly and truthfully to the research, the sample chosen shall be representative of the populace of the banking sector and the research instruments shall be valid and able to measure the attitudes, attributes, perceptions and skills of respondents.

Considering the largely generic and easily replicable nature of banking products and services, differing mainly in their technological platforms, customer service propositions and

credit appetite: this researcher assumes that the significant internal corporate governance variables in the Zimbabwean indigenous banks context in influencing organizational effectiveness, include: ownership structure, leadership and management structure; board of directors; corporate reporting structures; employees; workplace spirituality and proper organizational learning and culture.

The integration of workplace spirituality with organizational culture and learning through the formal interactions is a pertinent corporate governance phenomenon for indigenous banks' organizational effectiveness.

### 1.9 Scope of the study

The study will be conducted in Harare's metropolitan province, that is, the political and economic capital in Zimbabwe, a developing Southern African country whose economy has been through turbulent times over the past fifteen years. As Harare is a cosmopolitan city with diverse businesses and head offices of most banks, the results obtainable are considered by this researcher to be representative of all other provinces in Zimbabwe. The research is focused on institution specific governance issues, that is, internal governance principles and practices of indigenous banks in Zimbabwe and their impact on organizational effectiveness.

# CHAPTER 2: LITERATURE REVIEW

## BANK FAILURES, CORPORATE GOVENANCE AND ORGANIZATIONAL EFFECTIVENESS

Why do banks fail even in the 21st century? The model financial sector is characterized by sophisticated risk-assessment technologies, regulatory policies, and seemingly exceptional boards and competent management and workforce, yet we continue to witness several financial institutions distress and bankruptcy. How could this happen? In Africa, since the Nigerian bank failures in the late 1920's and early 1930's, these questions have been severally asked by the banking stakeholders, including those in the academia, hoping that an answer can enhance organizational effectiveness within the financial market and further crises. Although a series of research has provided numerous answers to these questions, bank failures persist. The persistent bank failures and the recent financial crises have raised questions on the dependability of the corporate governance frameworks; and measures of organizational effectiveness in the banking system. The experience of global business failures and financial scandals brought about the need for sound corporate governance principles and practices (Fatimoh, 2012) to ensure organizational effectiveness.

This chapter reviews in detail extant literature in three strongly connected areas of the research: bank failures, corporate governance, and the role and impact of corporate governance in enhancing organizational effectiveness within Zimbabwean indigenous banks. The cardinal points of this literature examination are (1) to identify and discover corporate governance irrationalities; and (2) to understand, explain, and recommend controls on indigenous bank failures through addressing corporate governance inadequacies thereby predicting organizational effectiveness. Literature from both the practitioner and academic domains will be examined.

### 2.1 Historical Analysis: Corporation and Corporate Governance expound

"Things have their roots and branches. Affairs have their beginnings and ends. To know what is first and what is last will lead one near the Way" (Confucian classic, The Great Learning). The analysis of the evolution of corporate activity is essential in order to

determine strategies to enhance organizational effectiveness. The current corporate governance mechanisms in Zimbabwe have been inherited from the previous political, economic, and social systems and as such an understanding of the foundational systems and context is essential in driving organizational effectiveness.

A consideration of the evolution of corporate governance expounds on the development of its philosophical foundations within which the framework for governance of corporations is formed (Akinpelu, 2011). Theoretical literature indicates that corporate governance has been practiced since the existence of corporate entities (Clarke, 2004). The existence of any form of organized activity requires the exercise of governance. As indicated in Figure 3 below, the evolution of corporate governance shows that, though the corporate entity emerged as the principal form for commerce only in the 18th century, its antecedents lie eight hundred years earlier in the notion of the corporate entity developed to resolve problems of group relations in religious and social communities (Redmond, 2006). There has been an increase in the proportion of economic life organized by corporate forms from mid 18th century. These corporate forms were purely on speculation basis.

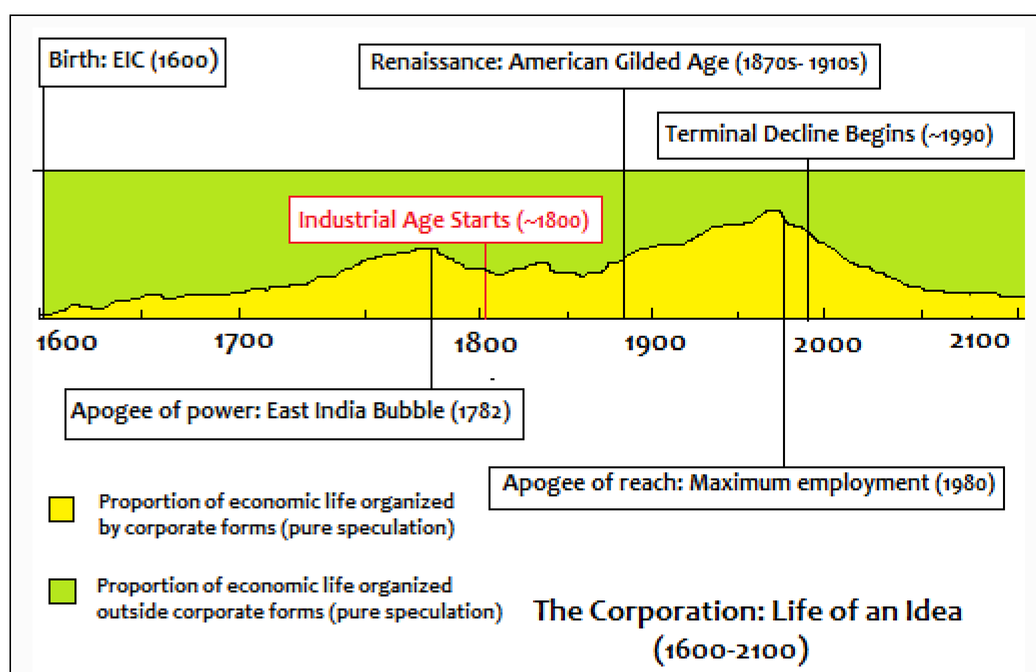



**Figure 3: The Corporation: Life of an Idea (1600-2100)**

Banking institutions take the form of corporations. Corporations and thus banking institutions are not a modern invention. From roughly 2550 to 2490 B.C, the Pharaohs used

corporations to build the pyramids and over 1000 years ago in China; the emperors used organizations to construct magnificent irrigation systems (Etzioni, 1964). Corporations exist in different cultures with different norms and standards. A corporation is defined as an instrument established to allow diverse parties to pool together resources in the form of capital and expertise for the utmost benefit of all parties or stockholders (Monks and Minow, 1995). A bank is a legal organization which accepts monetary deposits and allocates deposits for investment through lending to individuals and businesses, and manages the payment system.

The origin of the corporation can be traced to a process that began in the $17^{th}$ century in England (Mueller, 2003). Modernization Theory posits that societies start out as traditional hunter-gatherers with traders typically acting under the civil law constructs. Organized social life began with family run activities mainly subsistence farming. The corporate form was "born in the era of Mercantilism, the economic ideology that (zero-sum) control of land is the foundation of all economic power" (Rao, 2011). The evolution process brought about the partnership as the foremost form for organizing jointly owned businesses. The organizations were generally small, government institutions licensed for a specific purpose. The partners or equity owners were responsible for all the firm's contractual liabilities (unlimited personal liability). At the time domestic savings were not formally channeled into any productive investments. Queen Elizabeth 1 and other kings and queens performed the supervisory function of corporations with the mandate to revoke agreements if unhappy with the way they were being run.

The $17^{th}$ and $18^{th}$ centuries had no formal markets for the transfer of ownership claims (Larner, 1996). "Trust systems" were used as ownership claims were only transferred to close relatives and friends; and control was a product of "voice" and not "exit" (Hirshmann, 1978). This means partners unhappy about firm performance invested effort and patience into the company (voice) and not the option of transferring shares (exit). Therefore, ownership was highly concentrated with dominant share owners or partners participating in management. Corporation remained generally small until the beginning of the $19^{th}$ century.

The flourishing of democracy created a free-market or capitalism system (Colley *et al.,* 2005). The evolution of the Industrial Revolution changed the corporate structure heavily. The unrestrained form of capitalism that existed in the early years of the Industrial Revolution had resulted in a very small number of people amassing wealth. The political system responded to the situation with laws and regulations intended to limit the excesses and abuses of the free markets. These include the Sherman Antitrust Act of 1980, and the Clayton Act of 1914 in the United States. After the late 19th century, most countries liberalized rules on the incorporation of businesses with simple registration procedures (Dodd, 1973). The main argument for the liberalization of rules was to ensure capital openness and financial integration (Stiglitz, 2000). It was also argued that liberalization would generate faster economic growth, stimulate trade and enhance productivity (Matthew, 1996). In UK restrictions were gradually lifted on ordinary people incorporating until, under the Joint Stock Companies Act 1844. It became east to incorporate through a simple registration procedure. The Limited Liability Act 1855 was an important development as it gave investors limited liability in the event of business failure to the initial amount invested in the company. These two features were codified in the first modern commercial company law Act, the Joint Stock Companies Act 1856.

The technically complex and growing firms demanded huge capital injections, especially in the rail-road industry (Mueller, 2003). Savings and investments for capital formation became necessary; hence domestic savings began to be formally channeled into productive investments. Capitalism created significant opportunities for businesses to expand as investors were able to unite their capital (Colley *et al.,* 2005). The focus of organizational life became to create efficient organizations and as such necessitated a number of social science researchers and practical practitioners. F. Taylor and the scientific managers devised the time and motion studies, systems of payment for results and production control systems to address the challenge of work coordination and control. Taylor in his techniques implied the theory about the organization and the individual (Etzioni, 1964). Corporations were seen as disorderly aggregates of individual human beings drilled into formal order and given direction by formal structure and procedures of planning and control instituted by

management (Etzioni, 1964). Taylor discerned no reason beyond poor governance for tensions between owners, managers and employees. The responsibility for organizing and controlling organizations shifted from dominant owners to the managers. The corporation transformed from state controlled organizations to limited private organizations.

Max Weber and bureaucracy (1864-1920) constructed a rational system of authority for the efficient pursuit of corporate objectives. Careful role descriptions, selection and training, and a rational system of rewards and punishment became the dominant forms of corporate management. Hierarchical, pyramid shaped social structures with greater authority and heavier responsibilities at the top than at the bottom were adopted. Bureaucratic organizations are governed by impersonal rules, implicitly developed by managers and share owners. The audit function to ensure adequate adherence with controls became critical under bureaucratic management.

The Hawthorne Experiments (1924) changed the view of the corporation to that of a social system. The experiments revealed that every factor in a work situation is closely related to all others. Corporations began to give importance not only to workplace conditions, but to attitudes, social relationships at work and supervisory behavior. The role of the supervisor and, his selection and training assumed heightened attention because his behavior was a major influence of morale (Lupton, 1971). Employee participation in corporate governance began to be considered. For example, in 1919 Massachusetts Governor Calvin Coolidge passed "an Act to enable manufacturing corporations to provide for the representation of their employees on the board of directors". Through this measure, corporations were allowed to voluntarily give workers voting rights. Confidential interviews to give workers an opportunity to complain, propose or simply to let off steam were recommended. Plans for this industrial democracy to give employees voting rights for investing their labor did not become widespread

Theorists of formal organizations (Fayol, 1949; and Urwick, 1943) focused towards the practical improvement of corporate management. These writers described methods for the design and management of organizations. Fayol (1949) evolved the famous elements of

management: planning, organizing, command, coordination and control. He was convinced that administrators could make their organizations more efficient. Organizations exist for purposes (Urwick, 1943). Fayol (1949) stated that organizations have objectives. These views had significant implications on the management of firms. According to Fayol (1949) and Urwick (1943) the problem facing organizations was that of control and ownership separation, that is, the distribution of power and equating authority with responsibility. Therefore, organizations employed specialists, persons who are ‘authorities on’ rather than ‘authorities over’. The ‘authorities over’ were put into a chain of command, in which the areas of responsibility and the corresponding spread of authority diminish as one comes down the organization from the CEO. The ‘authorities on’ are not in the chain of command but are there to provide technical service to it. It is at this point that there was a shift from corporate management to corporate governance due to the complexity of the organization structure.

The growth and importance corporate entities lead to the opening of stock exchange markets in New York and some parts of Europe (mainly capital cities) (Pistor and Xu, 2002). Improvements in the share trading system resulted in the increased reliance of the exit option by shareholders as a way of expressing their displeasure with management decision and practices. Control by means of ‘voice’ shifted to the board of directors, which were largely comprised of managers. Therefore, ownership and control were clearly separated just before the beginning of the 20th century. The corporations continued to grow in the 20th century at the same time as the descendants of the founders reduced their share of ownership. The disconnection between ownership and control and the agency problem deepened.

Today, in line with the World System Theory, a technology driven one-world market exists hence the diversified shareholder and market base creating even more complicated agency problems. Therefore, the governance of firms has evolved from the 17th century closely-held firm with a predictable market to the supposed current of widely-held, diversified firms with unpredictable markets. Complex agency problems now exist as compared to earlier times.

There are several reasons leading to the increasing prominence of corporate governance in recent years. “A confluence of events has served to focus the public eye on the prominent topic of corporate governance and its crucial importance across the world” (Colley *et al*., 2005). Corporate governance in the banking sector corporate governance is not a new theme but existed during this evolutionary period. Banking developed during the industrial revolution as the demands of industrial entrepreneurs led to a vast expansion of the financial system.

**2.2 Corporate Governance Defined**

The subject of corporate governance is a unique and multi-faceted matter. Though it lacks a cohesive or systematic theory, its paradigm, diagnosis and solutions lie in various fields of study (Cadbury, 2002). Corporate governance requires an interdisciplinary analysis, guided by such disciplines as law, management and economics, and an enhanced understanding of contemporary business practices which are founded on comprehensive empirical studies in a series of nationalized systems. Corporate governance is a system and a platform for equity owners, directors, and senior executives to set the direction and maintain the control of an organization. Corporate governance is leadership for creating and sustaining superior performance and sustainability. Empirical literature confirms the significant role of corporate governance as one of the key factors that determine the health of the system and its ability to survive any macroeconomic disturbances. The soundness and unsoundness of an organization is determined by the underlying soundness of all its components and the connections between them.

Corporate governance refers to the extent to which companies are run in an open and honest manner (Sanusi, 2003). Therefore good corporate governance must incorporate reporting and compliance with statutory regulations, transparency, accountability and fairness. Corporate governance is a key pillar in sustainability and it is imperative to invest in strong corporate governance frameworks and practices in order to protect and grow wealth (Buamin, 2015). Corporate governance is about putting companies in a position to make robust strategic decisions and manage risks.

Corporate governance is defined as a system by which governing and regulatory institutions and all other corporations interact with their stakeholders to improve their quality of life (Ato, 2002). Corporate governance is therefore concerned with both corporate efficiency and the wide range of corporate strategies and life cycle development (Mayers, 2007). Corporate governance is viewed as both the structure and the relationships which determine corporate direction and performance. The CEO and board of directors are considered to be central to the subject corporate governance, the relationship between board of directors and shareholders and management is critical to organizational effectiveness. Other important participants in corporate governance include employees, customers, suppliers, and creditors.

Other scholars defined corporate governance as the manner in which the power of a corporate is exercised in accounting for corporation's total portfolio of assets and resources with the objective of maintaining and increasing shareholder value and the satisfaction of all stakeholders while attaining the organization's strategic intent (Kwakwa and Nzwekwu, 2003). Shleifer and Vishny (1997) define corporate governance as "the ways in which suppliers of finance to corporations assure themselves of getting a favorable return on their investment".

Corporate governance practitioners defined corporate governance as gathering together a group of smart, accomplished people around a board table to make good decisions on behalf of the company and its stakeholders. In ordinary parlance, corporate governance encompasses the host of legal and non-legal principles and practices that affect and guide the control of business organizations. The legal and non-legal principles of corporate governance emanate from the conformance and the performance dimensions of corporate governance. This therefore implies that effective corporate governance should integrate such principles as accountability, assurance, value creation, and effective utilization of rsources (CIMA, 2007). Broadly defined, corporate governance affects not only who controls publicly traded corporations and for what purpose but also the allocation of risks and returns from the firm's activities among all the stakeholders of the firm.

Corporate governance deals with the agency problem between the equity owners and the managers; the shareholders and the stakeholders; different types of large stockholders and the minority stockholders; and the prevention or mitigation conflicts of interests between these parties (Goergen, 2012).

In broad terms, corporate governance refers to "the way in which a corporation is directed, administered, and controlled". "Corporate governance also concerns the relationships among the various internal and external stakeholders involved as well as the governance processes designed to help a corporation achieve its goals. Of prime importance are those mechanisms and controls that are designed to reduce or eliminate the principal-agent problem" (Baker and Anderson, 2010). The principal-agent problem refers to the divergence of interest between contracting parties that is, the shareholders and the managers. The principal-agent relationship is mainly problematic due to conflicting incentives and information asymmetry (Shah, 2014).

From an economics viewpoint, corporate governance investigates how to secure and motivate efficient corporate management through the use of incentive mechanisms, such as contracts, organizational designs and legislation. This is often limited to the question of improving financial performance, that is, how the shareholders can motivate that the managers will deliver a competitive rate of return (Mathiesen, 2002).

"Corporate Governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The corporate governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society" (Cadbury, 2000).

Corporate governance is about "the whole set of legal, cultural, and institutional arrangements that determine what public corporations can do, who controls them, how that control is exercised, and how the risks and return from the activities they undertake are allocated" (Blair, 1995).

According to the International Chamber of Commerce (ICC), corporate governance is the relationship between managers, board of directors and equity holders. The focus of the ICC definition is on the providers of equity as it takes the shareholder perspective of corporate governance. Corporate governance according to ICC ensures that the board is accountable for the pursuit of corporate objectives and that the corporation itself conforms to the requisite laws and regulations. The Corporate Library defines corporate governance as the relationship between the corporate shareholders, directors and management, as specified by the corporate charter, bylaws, formal policy and rule of law.

According to Gourevitch and Shinn (2007):

> "Corporate governance – the authority structure of a firm – lies at the heart of the most important issues of society"… such as "who has claim to the cash flow of the firm, who has a say in its strategy and its allocation of resources." The corporate governance framework shapes corporate efficiency, employment stability, retirement security, and the endowments of orphanages, hospitals, and universities. "It creates the temptations for cheating and the rewards for honesty, inside the firm and more generally in the body politic." It "influences social mobility, stability and fluidity… It is no wonder then, that corporate governance provokes conflict. Anything so important will be fought over… like other decisions about authority, corporate governance structures are fundamentally the result of political decisions.
>
> Shareholder value is partly about efficiency. But there are serious issues of distribution at stake – job security, income inequality, social welfare. There may be many ways to organize an efficient firm."

### 2.2.1 Recent Developments in Corporate Governance

**Positive corporate governance**

The increase in the number of high-profile corporate failures globally, and regular reporting on management mismanagement of shareholder funds, the common perception is that corporate executives are atomic self-interest driven individuals with little regard for achieving organizational objectives. This has led to an exponential increase in the number of laws, regulations and guidelines directed at organizations (McConvill, 2005). The media frenzy following corporate collapses and scandals, resulted in a "social facilitation" of the

view that the “bursting of the corporate bubble”, was a result of poor corporate behavior, rather than economic forces (Clark, 2005). The growing distrust of, and skepticism towards corporate directors and management has led to the view that legal reforms are the only solution to corporate challenges. It is strongly believed that without regulation, corporate distress, collapse and scandals are inevitable. Most corporate governance regulations are based entirely on the negative agency problem (Lipton and Herzberg, 2003). According to the agent theorists, the interest of the agent and the principal always diverge, and given an opportunity the agent will seek to maximize personal utility at the expense of the principal utility. The agent model is presumed to be inherently opportunistic, unless curbed through controls (Davis *et al.,* 1997).

Positive corporate governance represents a departure from the “anti-management” approach as supported by management schools and business law faculties, to recognize the positive strengths and virtues of corporate executives. Positive corporate governance states that “quack” regulatory programs are undesirable and an overreaction. It is implied that corporate managers and directors have positive virtues and objectives, rather than being disloyal. Organizations need to focus on fostering a positive corporate culture which is aligned with modern day corporate governance objectives (McConvill, 2005). In order to reduce the burden on corporations, resulting from externally-imposed rules, corporate governance need to refocus its orientation towards developing and enhancing the positive virtues of managers and directors. Education plays a significant role in helping corporate managers and directors recognize and promote the “signature strengths” which foster happiness and the development of “infrastructure” to emphasize human virtues and strengths (McConvill, 2005). The dominance of the corporation in modern society is strongly recognized by positive corporate governance as a facilitator of positive social impact investments. The outcomes include sustainable environment, strong employment, and healthy personal and professional relationships.

**Enterprise corporate governance**

"'The set of responsibilities and practices exercised by the board and executive management with the goal of providing strategic direction, ensuring that objectives are achieved, ascertaining that risks are managed appropriately and verifying that the organization's resources are used responsibly" (CIMA Official Terminology, 2005). As shown in Figure 4 below, enterprise governance covers both the corporate governance and business governance aspects of an entity.

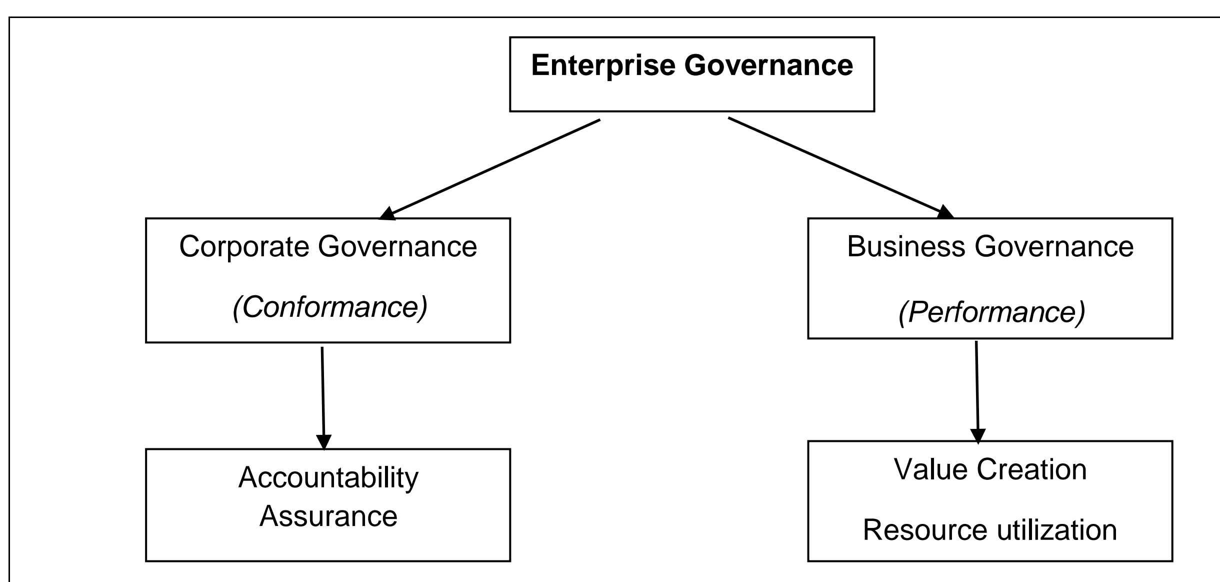



Figure 4: Enterprise Governance

The key message of enterprise governance is that an organization must balance the two dimensions of conformance and performance in order to ensure sustainability. The conformance dimension is addressed through codes and standards, with compliance being subject to assurance and audit. Conformance takes a historic view to governance and covers corporate governance issues such as chairman and CEO roles, role and composition of the board, board committees, controls assurance, and risk management for compliance. The performance dimension takes a forward looking perspective and is focused on strategy and value creation. The focus is on helping organizations make strategic decisions, understand risk appetite and key performance drivers (CIMA, 2007).

### 2.2.2 The Role of Corporate Governance

Corporate governance has assumed heightened attention in the business world today for a variety of reasons (Becht *et al.,* 2012). The take-over wave experienced in the 1980s and

the Asian crisis are among the reasons for the heightened attention to corporate governance. Aggarwal *et al.,* (2007) asserts that sound corporate governance helps corporations to have favorable access to capital markets. However, the benefit of accessing capital markets holds little value to firms in developing capital markets or in developing countries due to the limited growth opportunities. The implementation of sound corporate governance restricts the expropriation of minority shareholders by controlling shareholder. Various studies shows that sound corporate governance lead to increased firm valuation, increased earnings, revenue growth, and lower capital expenditure (Wolfgang, 2003). Good corporate governance practices, especially board independence, positively affect market valuation (Black *et al.,* 2006).

In line with the agency theory, corporate governance reduces conflicts of interest between principals and agents; short-sightedness of writing contracts and monitoring of controlling interest of the firm, the absence of which negatively affects firm value (Denis and McConnell, 2003). Corporate governance “strengthens investors’ confidence in the economy of a particular country, sub-region, or region” (Nworji *et al.,* 2011). Banking thrives on enhanced depositor confidence on the whole banking system. The retention of public confidence is therefore a top priority in banking; given the role of banks in mobilizing funds, allocating credit to deficit sectors, management of the payment and settlement system, and monetary policy implementation. The efficient execution of these roles by any individual bank requires the enthronement of sound corporate governance. Strengthening corporate governance in banks is of utmost importance in order to boost depositors’ confidence and ensure the smooth and health functioning of the banking system (Soludo, 2004). This is essential in promoting banking sector confidence and goodwill. The implementation of sound corporate governance enhances corporate performance and value. It also provides meaningful and reliable financial report on the operations of the firm (Fatimoh, 2006).

Corporate governance affects stakeholders, as well as a corporate potential or ability of the organization to fulfill its social contracts with the clientele and society at large. Good corporate governance leads to health relationships between the firm and all stakeholders

and thus "improve labor relations as well as the climate for improving social aspects such as environmental protection" (Enobakhane, 2010).

The survival and stability of individual banks and the whole financial sector depends on the quality of governance (Fatimoh, 2006). Corporate governance is regarded as an essential factor in determining the health of an organization's system and its ability to survive macroeconomic shocks (Ayorinde *et al.,* 2012). It is alleged that most corporate failures were a result of bad corporate decisions by corporate leaders in attempts to expropriate rents. Almost all countries across the globe have enactment good corporate governance, thereby justifying the importance of this topic. Corporate governance has implications for the economy as a whole. Good corporate governance drives sustainable economic growth as it reduces the economy's vulnerability to systemic risk. "Good corporate governance is critical for building a just and corrupt-free society" (Ayorinde *et al.,* 2012). Good corporate governance is of special importance in ensuring the overall economy's stability and successful realization of bank strategies (Oluyemi, 2005).

### 2.3 The Corporate Governance of Banks

Empirical and theoretical literature places the banking sector at the center of the 2008/09 global financial crisis. Literature alleged that deficiencies in the corporate governance structures of banks were the major cause of the crisis (Kirkpatrick, 2009). Demyanyk and Van Hemert (2008) indicated corporate governance deficiencies in terms of the quality of loans. The authors indicate that the problems of the housing bubble and the resulting credit crisis could have been detected had proactive measures been undertaken. Krugman (2009) indicated that the housing bubble was a result of the unregulated "shadow banking system", which became highly leveraged. This view was supported by Gorton (2009) who described the credit crisis as a banking panic involving the shadow banking system. According to Shiller (2008) the bursting of the bubble resulted from irrational exuberance. Empirical literature suggest that corporate governance in the Zimbabwean banking sector has not be subjected to special rules or academic research, despite the corporate governance problems being more severe than from the real sectors of the economy. The unique nature of banking and financial services has necessitated most scholarly work on corporate

governance to shun banking sector institutions from their economic data and focus on firms in the real sector (Haan and Vlahu, 2013). It is highly important for banking sector stakeholders to clearly understand the governance mechanisms of financial institutions, particularly banks and the differences between banking and real sector firms' corporate governance structures. This understanding is important in evaluating banking sector corporate governance structures in different context. It is equally important to understand the impact of banks' corporate governance mechanisms on their effectiveness (Haan and Vlahu, 2013).

The difference between the corporate governance of banking institutions and corporate governance in other real sector institutions has been clearly expressed in researches by Adams and Mehran (2003). The researches involved an analysis of thirty-five bank holding companies during the period 1986-1996. The analysis identified the following corporate governance differences between financial institutions and other corporations:

- on average, banking institutions have larger boards when compared to other real sector firms,
- banking institutions have a larger percentage of board of directors,
- banks have more committees and meet more frequently.

Adams and Mehran (2003) state that "these differences are due to the differences in the investment opportunities of BHCs and manufacturing firms as well as to the presence of regulation".

The banking sector assumed heightened corporate governance interests primarily based on the sector's strategic financial intermediation role and also as a result of the banking sector challenges and persistent bank failures in different economies (Nworji *et al.,* 2011). The uniqueness of banking institutions demands special focus on their structure and quality of corporate governance (Macey and O'Haran, 2003; Nam, 2004). Various researchers argue that, banks must be treated differently because they are more vulnerable to collective action problems and moral hazard. Banks are highly opaque or have severe information

asymmetries, unique capital structures due to their reliance on depositors rather than shareholders funds, and peculiar contractual forms (Levine, 2004). The nature of banking contracts calls for the incorporation of both depositors and shareholders in the corporate governance mechanisms (Turner, 2006). The uniqueness of banking firms implies a more complex corporate governance system to address more complicated agency problems. There are two main dimensions which justify the important role of corporate governance in bank management. First, is the transparency dimension in the corporate function which focuses on shareholder wealth maximization objective, thus protecting shareholders' interests. The second dimension is concerned with the implementation of sound risk management system (Jensen and Meckling, 1976). The corporate governance of banks should also incorporate the depositors' interests dimension considering much of the banks' capital structure is financed through depositors' funds. The growing literature on the role of equity finance in bank capital structure assumes that equity capital is a more expensive form of financing than deposits (Bolton and Freixas, 2006). Deposits are therefore a major form of bank finance hence the need to consider the interests of depositors in banking sector corporate governance inquiry.

The Basel Committee on Banking Supervision (1999) defines corporate governance as "the manner in which the business and affairs of individual institutions are governed by their boards of directors and senior management". Corporate governance thereby affect how banks: set objectives; run day-to-day business operations; consider stakeholder interests; align corporate current activities and behaviors with the banks' expectation with regards operational efficiency and legal responsibilities; and protect the interests of depositors.

The Basel Committee (1999) enumerates the basic components of sound corporate governance to include:

- instituting and enforcing corporate values and codes of conduct;
- developing well-articulated corporate strategy which forms the basis of overall enterprise performance measurement;

- assigning responsibilities and decision making authority, incorporating hierarchy of required approvals;
- establishing mechanisms for improved interaction and cooperation among all senior internal stakeholders and auditors;
- developing strong internal control systems that include audit and risk management functions;
- special monitoring of risk exposures including business relationships with borrowers affiliated with the bank, shareholders, directors or senior management within the firm;
- ensuring a transparent and reasonable compensation strategy within the bank;
- ensuring appropriate information flows within and outside the organization.

Corporate governance is also described as an economic discipline which examines how to increase organizational effectiveness with the help of organizational arrangements, contracts, regulations and business legislation. “It is not a disputed fact that banks are crucial element to any economy; this therefore demands that they have strong and good corporate governance if their positive effects were to be achieved” (Basel Committee on Banking Supervision, 2003).

The importance of banking sector corporate governance in developing countries has been emphasized by researchers such as King and Levine (1993) and Levine (1997). The researchers observed three characteristics of banks in less-developed countries. First, banks in less-developed countries have an overwhelmingly leading position in the financial system and are important drivers of economic transformation and growth. Second, financial markets in developing countries are greatly under-developed, making banks the sole and most important source of business financing. Third, despite their role in providing a generally accepted means of payment, banks in less-developed countries are the main depository for the economy’s savings.

In June 2011 at the conference for Commonwealth Central Banks on Corporate Governance for the Banking Sector in London, Donald Brash the Governor of the Reserve Bank of New Zealand stated that:

> "… improving corporate governance is an important way to promote financial stability. The effectiveness of a bank's internal governance arrangements has a very substantial effect on the ability of a bank to identify, monitor and control its risks. Although banking crises are caused by many factors, some of which are beyond the control of bank management, almost every bank failure is at least partially the result of mismanagement within the bank itself. And mismanagement is ultimately a failure of internal governance. Although banking supervision and the regulation of banks' risk positions can go some way towards countering the effects of poor governance, supervision by some external official agency is not a substitute for sound corporate governance practices. Ultimately, banking risks are most likely to be reduced to acceptable levels by fostering sound risk management practices within individual banks. An instilling sound corporate governance practice within banks is a crucial element of achieving this".

**2.3.1 Distinctive Features of the Banking Sector**

Real sector firms are mainly funded through owners' funds. Banks are however unique in that most of the bank's capital is raised through deposit accumulation hence the increased probability of excessive risk taking by banks. The intermediary's incentive for excessive risk taking is necessitated by the fact that high-risk investments most likely generate increased revenues, while if the investment fails most of the costs will be borne by the depositors. Banks and bank managers therefore assume greater fiduciary responsibilities as a result of raising public deposits. This is because all depositors' funds need to be safeguarded in a special way. The capital structure of banks comprises more debt than equity, as a result of the reliance on deposit accumulation. The agency problem in banking is therefore more complicated as a result of the simultaneous divergence in interests and risk perception among several contracting parties. However, dispersed depositors have little incentive to monitor bank operations due to the free-riding problem.

In addition, increased information asymmetry and coordination costs discourage the monitoring of bank managers and equity owners by depositors (Demirguc-Kunt and Detragiache, 2002). The system of deposit insurance is therefore used to protect depositors. However the deposit insurance provides intermediaries with stronger incentives for risky behavior (Merton, 1977). On the other hand, protected depositors are less-sensitive to bank risk as compared to institutional and other investors. As a result

depositors" do not demand adequate compensation for bank risk taking which makes debt a cheap source of funds and biases banks toward it" (Mehran *et al.,* 2011). Therefore, banks are much more leveraged than real sector firms (Acharya *et al.,* 2009). Depositors find it difficult to determine the true value of a bank's loan portfolio at any specific time. This is because such information is incommunicable and very costly to reveal (Bhattacharya *et al.,* 1998). The role of bank deposits has varied over time, yet they remain the optimal form of funding for banks across the globe (Diamond, 1984).

According to Mehran *et al.,* 2011, banks also have many stakeholders than non-financial firms. Bank stakeholders include debt holders, mainly depositors and the holders of subordinated debt. The deposit insurance authority is another key banking sector stakeholder because the insurance funds will be called upon in the case of insolvency. The board of directors, in spite of the multitude of stakeholders, solely represents the views of shareholders, in the context of regulatory constraints. Conflict of interests between shareholder and other stakeholders in banking is inevitable especially on risk, where shareholders prefer volatility and may have short-term perspectives. In most cases, debt holders and regulators prefer long-term perspectives and low volatility.

Banks are highly opaque and complex. The opaqueness of banks is explained by the degree of information asymmetry between inside and outside investors (Harris and Raviv, 1991). There has been an increasing theoretical literature justifying the conventional wisdom on the informationally opaqueness of banks (Diamond, 1991; Kwan and Carleton, 1998). As Levine (2004) notes, "banks can alter the risk composition of their assets more quickly than most non-financial industries, and banks can readily hide problems by extending loans to clients that cannot service previous debt obligations." In essence the business of securitization plays two main roles:

- accelerating the lending process at the origination stage and in interbank markets, and
- increasing opacity by consolidating large amounts of information and relying on credit ratings. Bank opacity reduces market discipline and encourages banks to take

too much risk. Bank opacity refers to the extent of uncertainty about banks' risk exposure (Mishkin, 2000).

Banking opacity and complexity is essential in the interaction between the board and management. It also plays a significant role in the relationship between the bank and regulators. The complexity of banking makes the challenges involved in their corporate governance highly specific. "The complexity of the banking business increases the asymmetry of information and diminishes stakeholders' capacity to monitor bank managers' decisions" (Andres and Vallelado, 2008).

Corporate governance of banking institutions is of greater importance given the crucial financial intermediation role of banks in economy and is essential to achieving and maintaining public trust and confidence in the banking system (The Basel Committee, 2008). As the main intermediaries in the financial system, banks are important engines of economic growth (King and Levine, 1993). Banks are active contributors to industrial expansion, the corporate governance of real firms, and the allocation of capital.

Banks play a critical role in describing and prescribing the corporate governance of other firms (Franks and Mayer, 2001); as creditors or equity holders (Santos and Rumble, 2006). The failure of banks may be highly costly and unacceptable due to their special financial intermediation role and management of the payment system (Haan and Vlahu, 2013). In this regard excessive risk-taking by banks creates significant negative externalities and systemic risk hence the heavy regulation of the financial sector as compared to non-financial sectors (Flannery, 1998). The ability of banks to efficiently mobilize deposits and allocate funds is essential in lowering the cost of capital to firms, increasing capital formation, and stimulating productivity growth. Therefore, the stability of the banking sector through effective governance; sector regulation, and supervision becomes vital.

Banks plays a decisive role in decreasing the informal economy and increasing the transparent operations of the companies through bank accounts. Banks are regarded as strange beasts. "Much like electrical utilities or railroads, they are private-sector firms whose

healthy functioning is in the public interest" (McGlaughlin and Mehran, 1995). Banking, it would seem, is too important to leave entirely to bankers (Mehran and Mollineaux, 2012).

Historical examples of a frozen financial system and bank runs or silent runs depositors underscore the need for healthy financial markets. Deadweight losses to the economy can come from both idiosyncratic and systemic failures in the financial system. Numerous scholars have documented the links between finance and growth in all economies (King and Levine, 1993; Rajan and Zingales, 1998). According to Levine (1997), a strong financial system provides five main services:

- facilitating production and distribution of goods and services though managing the payments system,
- supervising and disciplining borrowers,
- investments appraisal and advisory,
- managing risk and uncertainty, and
- mobilizing savings for investment.

### 2.4 Bank Failures and Corporate Governance

The East Asia crisis has led to a renewed interest about the implications of bank weaknesses in facilitating systemic banking crisis from both the academic, practitioner, and policy domains (Duffoo, 2004). Bank failures result from a combination of macroeconomic, microeconomic or regulatory factors (Ugoani *et al.,* 2014). Macroeconomic factors include Gross Domestic Product (GDP), real interest rate, exchange rate depreciation, inflation, political instability, cultural differences, and technological changes. GDP is the commonly used macroeconomic indicator of an economy (Cebula *et al.,* 2011; Shim, 2012). Microeconomic factors include banking strategy, poor credit assessment, concentration of lending, operational failures, and internal control failures. These are factors internal to the individual bank. The internal corporate governance inquiry in the present study seeks to address these microeconomic deficiencies.

Bank failure refers to a situation where a banking institution basically becomes insolvent and unable to meet its credit obligations, and is forced to close by central regulators. This

mainly emanates when the bank has overleveraged its position leading to a shortage of funds to maintain a steady cash flow. Bank failure is the inability of a bank to pay-out its financial obligations. A bank may become insolvent or too illiquid to meet its liabilities. A bank failure occurs when the market value of its liabilities exceed the market value of its assets. A failure can occur when a government agency takes over a bank due to decrease of capital ratio below the regulatory minimum.

The banking system distress following the Global Financial Crisis 2008/09 has triggered a heightened attention and discussions about the significance of corporate governance frameworks in building robust banking and financial sector institutions. Concern on the management of banks' market value positions has greatly increased as a result of the widespread financial distress (Nworji *et al.,* 2011). Empirical research shows that the prevalence of banking sector distress and eventual crises considerably reveals the vast consequences of weak corporate governance structures. "Banking crises have crippled economies, destabilized governments and intensified poverty" (Levine, 1999).

The panic approach to bank distress and failure emphasizes the fragility of financial institutions and that banks are prone to depositors' panic. Most of the banks that have failed were affected by depositors' state of panic hence succumbing to becoming highly illiquid rather than insolvent. Financial system fragility is a function of the uncertainty factor which is further enhanced by the prevalence of unfair competition in most economies (Basu, 2003). The main source of panic in the financial system is "speculative attacks on the numeraire" (Wigmore, 1987). The role of information asymmetry in causing banking sector panic cannot be overemphasized. Though depositors can easily detect the impact of macroeconomic shocks on banks' portfolios, they find it difficult to discern an individual bank's solvency position, hence depositors once they observe the shocks initiate bank runs, leading to bank failures (Calomiris and Kahn, 1991).

Most of the modern day governance policies towards banks have been motivated by the rising concerns about the susceptibility of banks to banks runs and silent runs, and the resultant macroeconomic costs of bank closure or bank balance sheet contraction as a

result of unwarranted deposit withdrawals. The latter is often described as the “contagious” weakness among banking institutions. “Bank failures during banking crises, in theory, can result either from unwarranted deposit withdrawals during events characterized by contagion or panic, or as the result of fundamental bank insolvency” (Calomiris, 2007). The banking system requires special protection because the enforcement of rules, regulations, and judgments about the individual bank effectiveness leads to a robust banking industry. In order to maintain banking sector confidence, monetary authorities have to ensure banks adhere to set rules and guidelines of corporate governance.

A lack of depositor confidence leads to unwarranted withdrawals which occur due to numerous reasons. The main cause of systemic bank run is “social facilitation”, as depositors believe that other depositors will run, that is, depositors imitating each other’s withdrawal behavior (Diamond and Dybvig, 1983). Pre-World War 1 banking panics in United States (1857-1907), Great Depression events, and the Chicago banking panic (June 1932), emanated from a seemingly strong signal received by bank depositors, which contains raucous information about the stability and solvency of banking institutions. Other factors which lead to unwarranted bank withdrawals include exogenous shocks to depositors’ liquidity preferences or to the level of banking system existing deposit reserves. This causes depositors to demand an excess amount of cash relative to existing reserves. The systemic bank runs will result as banks scramble for reserves. Government policies which affect the foreign exchange risk and reserve market also necessitate liquidity demand and supply shocks as depositors seek to convert to cash (Calomiris, 2007).

The banking sector is regarded as the nerve center of the 21st century economy, as it acts as the repository of society’s wealth and provider of loans to the deficit units of the economy. The Zimbabwean banking sector failure can be captured and described by the numeral of failed banks, the ratio of non-performing loans and extent of mandatory capitalization, loss of depositors’ funds and confidence, and the negative impact on the Zimbabwean economy as a whole. Empirical literature shows that bank failures are common, hence not limited to a select countries (Basu, 2003). As such “isolated bank

failures are inevitable, and it would be unwise to aim for zero tolerance. What can be avoided is pervasive systemic failure, where a large part of the banking system is in crisis".

Financial system failures are generally complex and comparatively unique from one economy to another. In developing countries most banking system crises are endemic, exhibiting a continuing pattern of financial distress. Epidemics involving macroeconomic collapses are recorded in other countries, for example in Greece financial system crisis. There are variations in terms of the extent to which financial systems can avert economic shocks without succumbing to institutional failure. In the midst of epidemic failures, it is evident that certain institutions absorb and survive from severe macroeconomic shocks. This suggests the position that the failed banks could have survived had they implemented certain strategies and policies designed to insulate them from macroeconomic disturbances. Endogenous macroeconomic disturbances involve, for example, a situation where banks, riding on a wave of optimism, over-lend to unsustainable projects. The lending process contributes to temporary success of the projects as the profitability of most economic activities temporarily increases due to increases in consumption. Corporate governance therefore plays an important role of putting into place systems, structures, and processes to avert any form of macroeconomic disturbances and ensuring effective strategic planning and implementation.

Some of the banking system epidemics have not been strongly associated with macroeconomic disturbances. "The comparative rarity of bank failures means that bank policies for avoiding failure have not been honed on repeated experiences of difficulty. Literature explains "disaster myopia" as a phenomenon which induces bank managers to neglect large events which have a small probability of occurring and do not readily come to mind as a relevant contingency" (de Juan, 1995). A review of international bank failures experience shows numerous cases where the main cause of failure is poor management (de Juan, 1995), for example failed banks in Estonia and Lithuania. Poor management encompasses dysfunctional behavior on the part of shareholders, bank executives, regulatory officials, and significant stakeholders that push the bank into extinction (Ugoani *et al.,* 2014). Poor bank management encompasses poor lending decisions as a result of

flaws in creditworthiness assessment, borrowers' willingness to repay, or the recoverability of NPLs. It also involves unwarranted concentration of credit to individuals or readily available "hot" sectors; excessive credit expansion beyond the bank's lending function technical capacity or exceeding the country's capacity to generate bankable projects. Poor decision making by managers and directors, and other institution specific problems are the common denominator of failed and troubled banks (Clarke, 1988). Other primary reasons for banks challenges include inadequate loan policies, lack or poor credit monitoring systems, inadequate systems to guarantee compliance with internal and external policies and regulations.

Self-lending or connected lending is one common feature of bank problems. This involves lending that is greatly influenced by shareholders and management. Though in most countries connected and self lending are closely constrained by regulation, the regulations are frequently evaded, bypassed or waived. It is stated that many banks have been established as a source of a convenient and inexpensive form of financing to the founders. However a bank that is considered to be part of a wider financial-industrial group must be at risk unless and until it is seen as a profit-center, rather than a cost-center in the group. It seems banks in the 21st century have numerous bank regulation and supervision techniques. These techniques are considered appropriate for identifying and limiting the effects of management shortcomings in decision making. One cannot separate poor management from poor supervision and enforcement in a widespread banking crisis. In most cases the problem is that shareholders and directors will be well-connected to political and regulatory offices for their decisions and actions to be curtailed without the most conclusive of evidence.

Empirical and theoretical literature confirm that management in banks tends to explicitly or implicitly undertake riskier lending decisions and adopt strategies that would not be socially-optimal due to the existence of official deposit guarantees. In essence, depositors would demand satisfactory interest remuneration for their deposits as compensation for the expected risk in the absence of deposit guarantees. Deposit guarantees therefore minimize or remove the depositor's fear of default. As a result equity holders have the leverage to

adopt strategies with high risk but offering a higher RoE, and without incurring higher interest expenses. In the case of the bank treasury division, if dealers receive huge incentives as bonuses for successful trading transactions, but losses only their jobs if trading is unsuccessful, the same kind of risk-preferring behavior is easily explained. Therefore in order to control the problem, banks need to implement adequate risk-taking controls, including appropriate compensation structures at all level of the organization's hierarchy.

Akerlof and Romer (1993) made a sharp distinction between increased risk-taking behavior and an alternative response to deposit guarantees, described as "looting". According to these authors "looting takes advantage of the fact that sufficient time will elapse between receipt of deposit and failure to allow the management to divert a substantial portion of the funds for its own purposes". The behavior of managers in this case cannot be adequately captured by the term "risk-taking", as it benefits even if the ventures to which the funds are applied do not repay the bank. Looting may be considered legal, though plainly on the margins of legality.

A number of discussions on the recent bank failures have been centered on the role of fraud and its prevalence in banking. Fraud occurs at various levels in an organization. Literature states that a bank is rarely brought down by staff fraud due to the small nature of staff transactions, though the cumulative sums can be sufficiently large to bring down a bank if internal control procedures are inadequate. Weak corporate governance leads to weak internal controls (Ugoani *et al.,* 2014). Management fraud is likely to lead to a bank failure, because fraud at this level involves large transactions. Most bank failures have been as a result of the prevalence of fraud by management and/or shareholders.

The fundamentalist view of bank failure causality provides an alternative explanation of the bank failures. According to this view banking institutions are generally well established and not subjected to any unplanned large-scale deposit withdrawals. The fundamentalist view states that "a chain of causation from non-panic-related, observable, exogenous adverse changes in the economic conditions of banks, to intrinsic weakening of bank condition,

leads to bank failure" (Calomiris and Wilson, 2004). The fundamentalists considers the basic losses to borrowers as causes of bank losses as banks become bankrupt or some weak banks are forced to extensively limit the supplies of loans and deposits in order to reduce default risk (Calomiris and Wilson, 2004). According to this view, any form of distress in financial institutions amplifies economic crises even if the institutions are not the originators of shocks. Due to their uniqueness, banks "magnify macroeconomic shocks through their prudential decisions to limit loans and deposits supplies in response to adverse shocks" (Calomiris and Wilson, 2004).

Banks cannot secure their entire loan portfolios by the credit standard due to the competitive nature of the banking market, hence the inevitability of the banking sector fragility. The banking sector fragility has increased in recent years as facilitated by financial liberalization and globalization. Financial liberalization and globalization has led to increased competition within the financial sector, which led most banking institution to undermine the importance of the credit standard in order to maintain or increase their market size. Most banks' debt capital became exposed to credit risk, somewhat leading to much of the bank failures that has been recorded in the last two decades.

The bank loan contracts are signed on the basis of future rates of return, where both parties anticipate the borrower's future rate of return to be favorable and sufficient to pay back the full loan amount (Basu, 2003). As both parties enter into the loan contract the expectancy issue arises as neither of the contractual parties is certain about the future outcome, as the probability distribution of a range of possible outcomes is high. In this regard past and current information determines the contractual agreement. The weakness is that neither of the contractual parties can totally depend upon such an expectation, as this implies elimination of the time differences, so that the information asymmetry can be eliminated (Basu, 2003).

### 2.5 Bank Performance Measurement

> "The biggest problem in banking is measuring performance. Professional tennis players operate on a level playing field with their opponents, using the same surface and balls, the same wind speed. Their performance can be measured. But now you are the CEO at a major British bank. Tomorrow the pound crashes and your bank

> has the worst year in history. That is far beyond your control. I am not saying CEOs or bankers are clueless gamblers in a casino. On the contrary, you need skills to be a good banker, absolutely. What I'm saying is that finance is simply too complex, with too many unknown unknowns and too many crucial factors beyond an individual banker's control, to adequately measure their yearly performance" (Wawoe, 2013).

What determines whether banks are operating effectively? The global financial crisis 2008/09 revealed the shortcomings in the performance metrics used by the financial community. Management should highly prioritize the performance measurement function in terms of setting the performance targets, assessing performance, performance analysis, and variance analysis and control. The performance measurement system should be aligned with all the organization's structures and activities. Performance measurement criteria should be clear, smart and healthy, as well as easily understood by everyone (Parker, 2000).

The Structural Adjustment Programs (ESAP) in the late 1980's, brought about major transformation in the banking sector and its operating environment worldwide. The financial configuration of most countries were significant altered and its effect on the effectiveness of banks. Controls on interest rates were eased, government regulation of companies were reduced and most countries liberalized rules for the entry of international banks (Ismi, 2004). The number of foreign banks branches increased immensely in most countries. The number of foreign owned banks in Sub-Saharan Africa has increased significantly during the last two decades. Claessens and Hore (2012) reported a sharp decline in the number of indigenous banks in Sub-Saharan Africa. The continued decline in indigenous banks attracted the interests of researchers to examine corporate governance and bank effectiveness. The performance or effectiveness of a bank is primarily determined by its relative level of profitability and productivity (Jeon and Miller, 2006). Melvin and Hirt (2005) state that performance encompass "the development of the share price, profitability or the present valuation of a company".

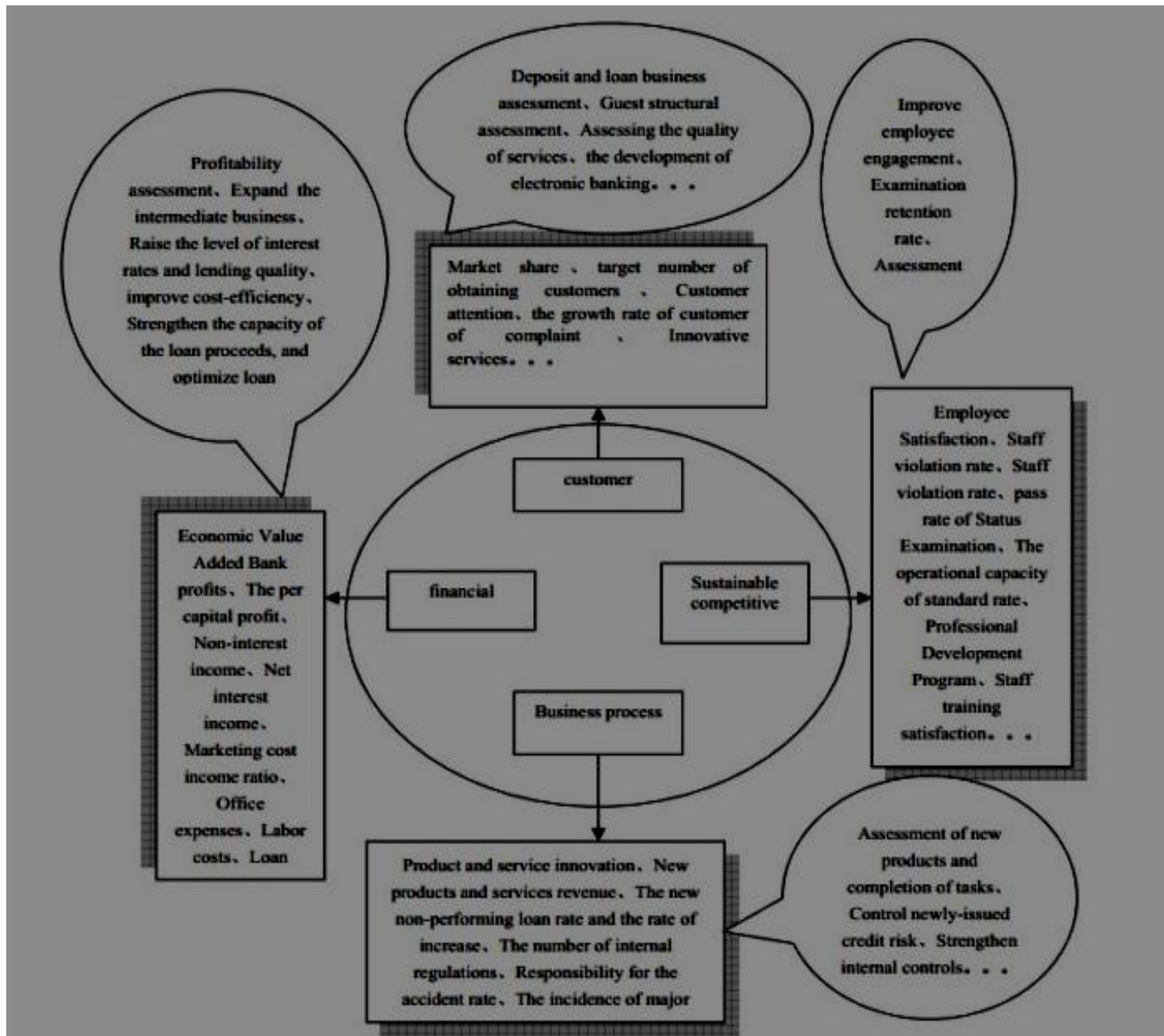



**Figure 5: Commercial banks performance indicators: Bank evaluation index system**

(Zhang and Li, 2009)

Figure 5 above indicates the four main indicators of commercial banks' performance. These indicators are financial, customer perspectives, sustainable competitiveness, and business processes (Zhang and Li, 2009). The financial indicators of bank performance are derived from the financial statements. These indicators include net interest income, non-interest income, economic value added, return on assets, and return on equity. The customer perspectives indicators show the level of customer satisfaction and loyalty with the bank. The business processes indicators consider the banks products and service innovation, new product development, and internal controls (Kaplan and Norton, 1996). The sustainable competitive indicators consider the long-term sustainability of the bank in the context of all

the stakeholders. The bank evaluation index system can be closely related to the Balanced Scorecard (BSC) as shown in Figure 24.

There are different perspectives on the relationship between the balanced scorecard and performance. Various experts indicate that there is a positive relationship between the balanced scorecard and firm performance (Kaplan and Norton, 1996; Juhmni, 2007; Lee *et al.,* 2008). Other experts noted that the balanced scorecard, besides reducing conflict and disagreement in performance measurement, the BSC is an accurate performance measurement tool (Lipe and Salterio, 2000; Banker *et al.,* 2004). Scholars such as Akkerman and Oorshot (2004) illustrated the BSC limitations in performance measurement.

For banks to be able to survive the negative macro-economic shocks and contribute to financial system stability, banking sector soundness and profitability is an imperative (Athanasoglou *et al.,* 2005). This view on the corporate governance is supported by a number of empirical studies (Kose and Qian, 2003; Sponge and Sullivan, 2007; Laeven and Levine, 2008). The Agency theory views better firm performance and valuation as a product of good governance due to reduced agency costs. First, sound corporate governance reduces the frequency and volumes of related party transactions and “self-dealing” practices. Reduction in such transactions and practices translates to improved corporate performance because such transactions and practices are sub-optimal from the efficiency perspective. Second, well-governed banks have lower cost of capital, if they make use of subordinated debt financing in their capital structure. Third, sound corporate governance may translate into more efficient and streamlined operations, as the board of directors and management functions are separated and modernized (Nimalathashan *et al.,* 2013). A number of theoretical works support these perspectives (Prowse, 1997; Macey and O’Hara, 2003; Polo, 2007).

Bank soundness can be determined as the capacity to generate sustainable revenues and profits. Profitability strengthens the bank’s balance sheet and enhances the bank’s sustainability through the proper investment of retained profits. An institution that continually makes financial losses will eventually deplete its capital, putting the providers of capital at

risk. Despite the complexity of banking institutions, the main factors driving the performance of any bank remain risk taking, leverage, revenue growth, and efficiency (Bebchuk and Hamdani, 2009). In view of the bank's ability to generate "earnings", the volatility and composition of earnings is an important consideration. "Efficiency" measures the bank's ability to generate revenue from available assets. It also determines the bank's ability to generate profit from a specified source of income. Efficiency therefore takes into consideration the top-line and the bottom-line of the bank's financial statements. "Risk-taking" is reflected in the necessary adjustments to earnings for the undertaken risks to generate them. "Leverage" acts as a multiplier as it significantly improves the bank's operating results. The disadvantage of leverage is that it can lead to bank failure, due to rare, unexpected losses.

Bank performance measures can be divided into three: conventional, accounting and market-based. These concepts are defined below in order to enhance the review of literature on bank performance measurement.

Traditional (conventional) measures

The commonly used traditional measures of corporate performance include "return on assets (RoA), return on equity (RoE) or cost-to-income ratio" (Wen, 2010). The net interest margin (NIM) is extensively monitored given the significant intermediation role of banks. The RoA is the net annual revenue divided by total assets. RoA indicates the level of bank profitability. "It is a ratio of income to its total asset" (Khrawish, 2011). RoA measures the bank management's ability to generate revenue through utilizing available company assets. It further indicates management's efficiency in generating net revenue from all the institution's resources (Khrawish, 2011). A higher RoA indicates that the bank is more efficient in using its assets (Wen, 2010).

**Return on Asset**s= Net annual income \ Average total assets

RoE measures the total amount of profit earned by a company in relation to total shareholders' equity as shown on the Statement of Financial Position. RoE represents what

the bank's shareholders anticipate in return for their investment. Therefore, a higher RoE indicates a favorable company position in terms of profit generation.

**Return on Equity**=Net Income after Taxes \ Total Equity Capital.

It shows the rate of return earned on the equity capital invested in the bank by its shareholders. RoE reflects how effectively managers are using shareholders' funds (Khrawish, 2011). This ratio is an internal performance measure of shareholder value. RoE is the most accepted measure of firm performance because: (i) it proposes a direct assessment of the financial return of a shareholder's investment; (ii) it is easily available for analysts; and (iii) it allows for comparison between different companies or different sectors of the economy.

The cost-to-income measures the institution's ability to make profits from a specific revenue stream.

**Cost-to-income ratio**= operating expenses/ operating revenues

A firm that has sound corporate governance mechanisms generates satisfactory net-profit margin and revenue growth (Gompers *et al.,* 2003). This is primarily because sound corporate governance enhances the firm's reputation, attracts investors, and reduces the mismanagement of resources (Knell, 2006; Buamin, 2015). Empirical literature suggests that there is a positive relationship between corporate governance and firm performance. The net interest margin (NIM) refers to a proxy for the revenue generation capacity of the bank, based on its financial intermediation function. This ratio determines the difference between the banks interest income from loans and securities; and interest cost of its borrowings. The NIM reflects the bank's efficiency and overall cost of the intermediation services. Net interest margin is directly related to bank's profitability. The NIM therefore defined as "the net interest income divided by total earnings assets" (Gul *et al.,* 2011). However, according to Khrawish (2011) a higher net interest margin could reflect riskier lending practices. This is mainly associated with the loan loss provisions.

**Net interest margin**= net interest income \ assets (or interest-bearing assets)

The adoption of sound corporate governance mechanisms significantly affects the net-profit-margin, revenue growth, and RoE (Core *et al.,* 2005). This is made possible because of the organization will institute sound systems, structures, and processes to achieve the objectives and purposes of the organization. The implementation of sound corporate governance enhances corporate performance and value. It also provides meaningful and reliable financial reports on the firm's operations (Fatimhoh, 2006).

<u>Economic (accounting) measures of performance</u>

These performance measures are mainly founded on the shareholder wealth maximization narrative in organizational life. The primary focus of accounting measures of performance is to assess the economic results of the firm relative to its economic assets during a predefined period, mainly the fiscal year. Efficiency is considered the fundamental element of performance. The two main sets of indicators of economic performance are:

- indicators related to the total return of an investment, based on the concept of an "opportunity cost"; for example economic value added (EVA).

EVA= return on invested funds – (weighted average cost of capital * invested capital) – (weighted average cost of debt * net debt)

The EVA model was developed by Stern and Stewart in 1991. This indicator takes into account the opportunity cost for shareholders to hold equity in a bank. EVA measures the firm's ability to generate an accounting rate of return higher than the cost of invested capital. The main purpose is to improve the company's market value.

- indicators related to the underlying level of risk associated with banks' activity. This includes an analysis of the "complex trade-offs between growth, return and risk, favoring the adoption of risk-adjusted metrics" (Kimball, 1998).

The shareholder perspective of corporate governance accepts that corporations exist to maximize profits. EVA is an attempt to change the focus of the firm from shareholder wealth maximization to maximizing Economic Value Added. This approach makes use of the

financial information in order to improve decision making and motivate employees. The implementation of EVA has significant implications on corporate governance in terms of compensation schemes for managers and bringing in the concept of franchise into the corporate world.

Following the global financial crisis, the concept of risk attracted significant attention in the equation of banks' performance measurement. Risk-adjusted return on capital (RAROC) focuses on the expected result over the firm's financial capital. This ratio allows banks capital allocation decisions to be aligned with business risk of each strategic business unit. RAROC is used in capital allocation between different business units and bank activities in accordance with their anticipated EVA.

Market-based measures of performance

These measures characterize the way the capital markets value a company's activities relative to the estimated accounting value. Examples of market-based measures include:

- the "total share return" (TSR), the ratio of dividends and increase of the share value over the market share price;
- the "price-earnings ratio" (P/E), a ratio of the financial results of the company over its share price;
- the "price-to-book value" (P/B), which relates the market value of stockholders' equity to its book value; and
- the "credit default swap" (CDS), which is the cost of insuring an unsecured bond of the institution for a given time period.

Corporate citizenship

"Ethics have come to be on par with economics as the primary criterion for evaluating corporate performance, not because economic value has become less important, but because it is taken for granted, and ethical performance is not" (Wilson, 2000). Businesses today are expected to focus on not only the economic and legal responsibilities but to incorporate ethical responsibilities that cover societal norms, or standards (Carroll, 2000). Despite being virtuous, 21st century organizations should practice corporate citizenship

(CSR) (Carroll, 2000). Corporations must recognize and respond to environmental changes, as determined by industry trends, market structure, competition, and public expectations in terms of the social and ethical performance of companies (Shahin and Zairi, 2007).

Indigenous banks should prioritize the financial inclusion agenda as it incorporates the values of corporate citizenship. Banks have the ethical responsibility to conduct business in a fair way. Central banks in different countries have been awakened by the 2008 financial crisis, and have started prioritizing sustaining financial stability. Literature indicates that the banking sector responded late to the challenges of CSR. Corporate citizenship is an essential principle as it increases trust, accountability, and transparency within the banking sector (Scholtens, 2006). “Besides the role of an intermediary which channels savings into investments, traditionally considered as the main social function of financial institutions, besides efficient allocation and risk management, the need for ethical and responsible conduct has led to financial and investment processes pointing beyond the protection of the legitimate interests of depositors and owners (Tzu-Kuan Chiu, 2013).

Wilson (2000) identified the following seven new rules of corporate behavior:

- Legitimacy - the ability of a corporation to clearly define its corporate mission in terms of the social purpose it is designed to serve rather than as shareholder wealth maximization.
- Governance - the corporation must be viewed and governed as a community of stakeholders rather than as shareholders’ property.
- Equity - fairness in the distribution of economic wealth among all stakeholders must be a strategic priority in an organization.
- Environmental – the values of restorative economics and sustainable development must be integrated into its business strategy.
- Employment – the values of the workforce must be reflected in the organization’s activities and policies.
- Public/private sector relationships - firms must work closely with the government for sustainable development and economic transformation.

- Ethics – ethical performance should be elevated and monitored in order to build trust with all stakeholders. The ethical values are stakeholder expectations.

The seven rules of corporate behavior above are essential in determining bank performance. These measures show whether the bank integrates CSR into its business activities. The seven rules take a holistic approach to the integration of CSR in the bank's business model rather than the exclusive focus on the philanthropic aspect. The Chart below show the banking and CSR activities that incorporate the seven rules in the banking sector. The CSR map in Figure 4b below is based on empirical literature on Hungarian commercial banks.

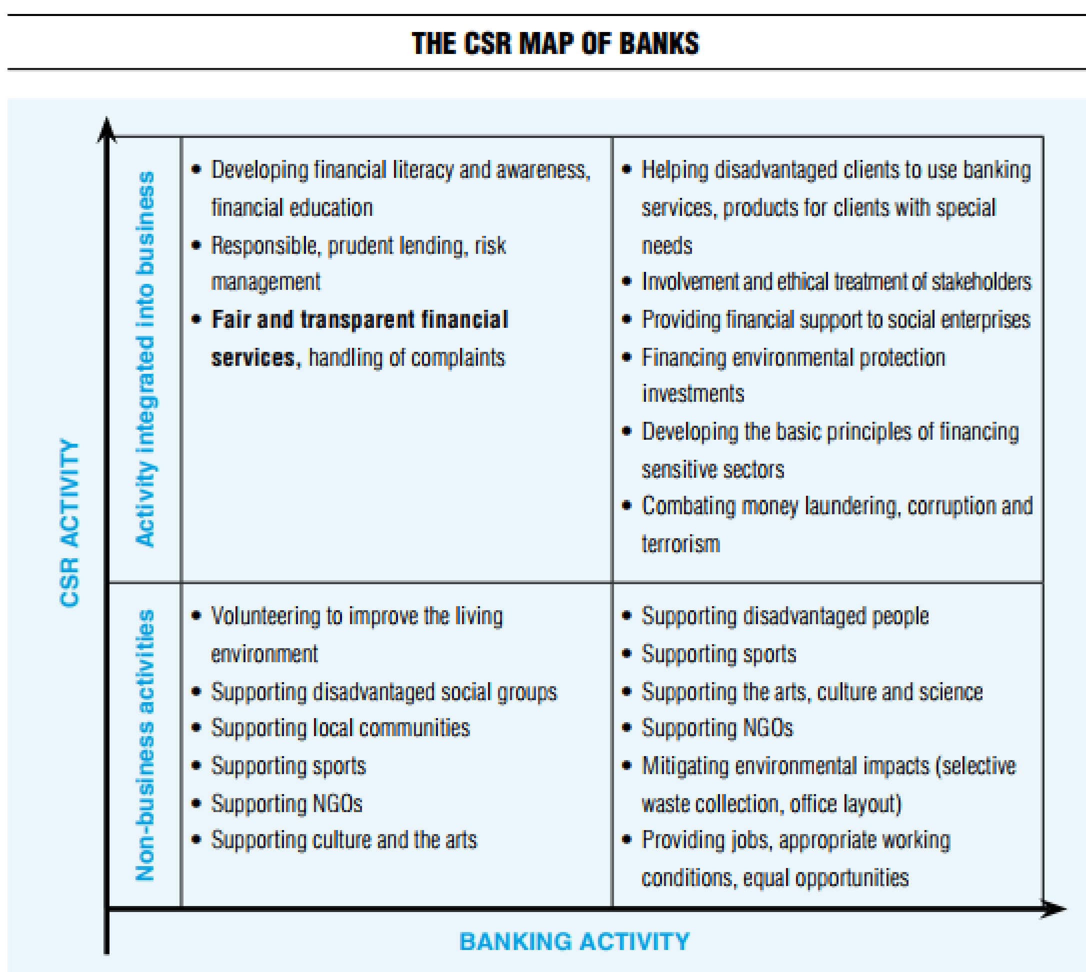



**Figure 4b: The CSR Map**

**Source: Lentner *et al.,* (2015)**

Carroll (1979) emphasized the increasing importance of examining corporations not just on their accounting or market-based success, but also on non-economic criteria. Carroll (2000)

suggested that “corporations have four responsibilities or ‘four faces’ to fulfill to be good corporate citizens: economic, legal, ethical and philanthropic”. A bank that is actively involved in financial inclusion, through incorporating the seven rules of corporate behavior in its business model is considered to be performing well (Idowu and Filho, 2009).

The bank stakeholders view performance from different perspectives and it is therefore essential to align the different stakeholder interests. Examples of these stakeholders include depositors, debt holders, managers, and equity holders. All these stakeholders have conflicting interests in a bank. The CSR and financial inclusion agenda of banks aim to ensure close collaboration between all stakeholders. Stakeholders are generally concerned with secure products and the provision of appropriate information. Banks need to closely monitor both the direct impact of their operations on the environment and the general impact of their lending activities (Thompson and Cowton, 2014). Corporate reporting is essential in minimizing conflict among the different stakeholders.

### Intangibles

Banks should make use of intangibles as measures of performance. This is because inclusive corporate governance performance measurement takes a holistic approach. Martin and Salas (2007) noted that knowledge is a key factor or strategic capability in the banking sector. As knowledge intensive industry; financial knowledge, intellectual resources and other intangible assets are relevant banking sector performance drivers. Due to the complexity of banks, intangible assets have become important drivers of performance. “The value of a bank is made up of material assets, intangible assets and rents from market power” (Martin and Salas, 2007).

The reliance on analyzing market-based and accounting indicators of performance does not amount to an effective strategy for banks. This is because the performance of banks interlinks both economic and non-financial indicators (Sagar and Rajesh, 2008). Banks need to integrate both the financial and non-financial measures of performance. The traditional performance measurement metrics are inadequate hence the need to recognize

the value of intangibles (Zhang and Longyi, 2009). According to the authors the following are the shortcomings of the conventional performance measures:

i. heavy reliance on accounting indicators, while ignoring the non-financial indicators;

ii. focus on the internal analysis rather than incorporating the external factors; and

iii. emphasis on traditional assets, while neglecting intangible assets.

The consideration of intangibles is essential in driving corporate performance, in terms of accounting indicators and incorporating the external environmental factors.

The main drawback of traditional performance measures is the use of raw accounting data (Martin, Salas and Saurina, 2007). The Balanced Score Card was developed by Kaplan and Norton (1992) in order to cater for the above identified gaps. Financial ratios such as deposit growth rate and growth rate in loans provide indications of the value of intangible assets (Sagar and Rajesh, 2008).

The other measure of bank performance is market discipline and disclosure. Market discipline is the ultimate performance indicator in a market economy. Meaningful disclosure is a prerequisite for effective market discipline as it allows all stakeholders to conduct personal assessments of banks' risk profile and performance. Transparency is therefore essential in bank performance measurement. Market discipline, disclosure, and transparency are essential corporate governance principles that determine corporate performance (Bliss and Flannery, 2002). These principles are aligned to the stakeholder theory of corporate governance. These principles are related to the seven rules of corporate behavior. Most researches show that market discipline influences banks' risk taking behavior (Wu and Bowe, 2010; Nier and Baumann, 2006), and depositors' discipline (Hamid, 2014).

### 2.5.1 Factors affecting Bank Performance

The effective management and execution of banking strategies and policies demand that managers and directors identify key factors influencing bank profitability (Chen and Lia, 2009). Sound corporate governance requires an understanding of both the internal and

external factors affecting bank performance. The form of banking has significantly been altered in the 21st century relative to the previous centuries (Hussain and Bhatti, 2010). The key factors driving the changes in the banking market include financial globalization, the transition of national governance, and legal and regulatory reforms. These factors have significantly altered the banking structure and affect bank profitability (Chen and Lia (2009), and eventually the structure of corporate governance. Numerous studies on bank effectiveness have focused on assessing the impact of different factors influencing revenue and profits (Ho and Saunders, 1998); Demirguc-Kunt and Huizinga; 2000, and Goddard *et al.,* 2004). These factors and changes are reflected in two main forms:

- decline in the number of banks,
- increased concentration ratio on the largest banks.

It is a general belief that corporate governance enhances a firm's effectiveness, through ensuring the adoption of the ideal corporate governance perspective, enhancing leadership and management interaction (Saleem, 2005; Rianz and Haider, 2010), attracting investors, improving strategic planning (Boyd, 1991), and corporate reporting (Singh, 2005). The determinants of individual bank effectiveness are divided into internal and external factors (Gui *et al.,* 2011; and Sehrish *et al.,* 2011).

The internal factors refer to those determinants that are heavily influenced by managers and board decisions; and strategic objectives (Staikouras and Wood, 2004). On the other hand, the external determinants are those factors that relate to industry and macroeconomic environment. The external determinants of effectiveness are mainly derived from the bank's economic and regulatory environment (Athanasoglou *et al.,* 2006). Internal determinants of bank effectiveness focuses on specific features, such as, bank size, capital, management efficiency, risk management capacity, loan and deposits, while external factors consider the general macro environmental factors. Both the internal and external factors determine the appropriate corporate governance framework for an organization. Sustaining organizations can quickly adapt to the changes in the internal and external environment. During the period 1900 to early 2000, corporate governance was mainly driven by internal factors. Insider

trading and earning manipulation were the key corporate governance themes. The effects of the macro environment have been severely felt during the 2008 financial crisis (Kurtz, 2012).

Banks are also greatly affected by differences in management policies, decisions, objectives, and actions as reflected in bank operating results. "Management decisions, particularly regarding loan portfolio concentration, are an important factor contributing to bank performance" (Zimmerman, 1996). Good bank performance is frequently attributed to the quality management, as reflected in the decisions, policies, and operating results. Management quality is also assessed through management's awareness and control of the bank's policies and performance.

The determination of interest rate is a key corporate governance theme in banking. Interest spread is one of the fundamentals of bank performance measures. Interest rate spread is affected by both the internal and external environment of any country. According to Jaffee (1989), the following factors affect the interest spread within banks:

- the degree of market concentration;
- regulatory requirements that prohibit the bank from undertaking certain profitable activities and increase the cost of providing acceptable services, and
- exposure to credit risk and interest rate risk.

From a macro-economic perspective, the impact of economic measures of performance (such as GDP) on the revenue and profits of bank has been greatly examined by various researchers (Williams, 2003; and Claeys and Vennet, 2008). Other scholars focused on assessing the impact of inflation on the revenue and profits of banks (Athanasoglou *et al.,* 2008). Much of the economic literature examined the effect of interest rates and market structure on the profitability and sustainability of banks (Maudos and Guevara, 2004), and non-interest revenue (Spathis *et al.,* 2002). Corporate governance in developing and transition economies is greatly affected by the economic measures of performance due to the increased inclination towards the shareholder wealth maximization objective. The

agency problem is also more pronounced as a result of interest divergence in the area of economic performance of the firm.

According to IMF Website–Global Financial Stability Report (2014), “banks have focused primarily on raising capital and de-risking their balance sheets to meet risk-based requirements. In line with the principles and practices of sound corporate governance, banks’ focus has now broadened to include other elements of the Basel III regime, particularly liquidity requirements”. Liquidity risk involves the probability that the bank will be unable to accommodate decrease in liabilities, as a result of a failure to attract deposits for increasing loan demands. The new liquidity requirement as per Basel III recommends that banks should rely more on more on stable and reliable sources of finance and to hold lower risk but highly liquid assets. Liquidity risk is therefore a crucial corporate governance factor in determining the performance of commercial banks.

Another key determinant and prerequisite for improving bank performance is the proficiency in managing the bank’s operating expenses. Operating expenses falls under the controllable costs category and as such if operating expenses are well managed bank performance will be enhanced. A practical example is the South Easter Europe (SEE) banks’ experience. “SEE banks lacked substantial competence in expenses management to the extent of failing to pass over the increased costs to customers so that banks maintain their profits” (Athanasoglou *et al.,* 2006). The main operating cost in banks in the interest expenses. A rise in interest expenses leads to a lower the rate of return on equity capital. Therefore, banks should efficiently manage interest expenses to improve on bank profitability.

Capital structure is also another key determinant of bank performance (Goddard et al., 2004; Molyneux and Thornton, 1992; and Chaudhry *et al.,* 1995). Literature shows the most ideal source of funding for banks is deposits (Bank of Uganda, 2010). Banks should therefore maintain an optimal capital structure in order to improve and sustain their performance. It is therefore corporate governance imperative for banks to consider capital

structure during the strategic planning process. The effectiveness of an organization can be directly related to its capital structure decisions.

CAMEL FRAMEWORK

The framework is used by most researchers to proxy bank specific determinants of effectiveness (Dang, 2011). CAMEL is the acronym for "Capital Adequacy, Asset Quality, Management Efficiency, Earnings Ability and Liquidity". These factors are important determinants of bank performance measurement as briefly discussed below. Banks should therefore consider the framework in corporate governance, specifically in terms of strategic (transformational) planning, corporate learning, and corporate reporting. The factors of the CAMEL framework should be considered in bank corporate governance decisions. Corporate governance principles and practices by banks have direct effects on each of the factors of the CAMEL framework.

**Capital Adequacy**

Capital is a prerequisite in banking and significantly influences the level of bank profitability. Capital refers to the organization's funds available to support the banks transactions, precautionary, and investment motives (Athanasoglou *et al.,* 2005). Since bank deposits fragile and banks are prone to bank runs, capital creates the much needed liquidity position. The availability of large bank capital results in a reduction of the chances of the bank facing distress or failure (Diamond, 2000). Capital adequacy refers to the amount of capital required by the banks to enable them to survive the risks they are exposed to in order to absorb the potential loses and depositors. The Capital Adequacy Ratio (CAR) is used to judge the adequacy of bank's capital (Dang, 2011). CAR shows the internal strength of the bank to survive from losses. It therefore determines the resilience of the bank to crisis situations (Sangmi and Nazir, 2010). In relation to corporate governance, banks should adopt effective principles and practices to ensure capital adequacy.

**Asset Quality**

The assets of a bank affect its effectiveness. Bank assets include fixed assets, current asset, credit portfolio, and other investments. Loans constitute the main asset of banks since they produce the major share of income. The bank's asset quality, particular loan portfolio, determines the level of bank's effectiveness. Delinquent loans lead to the highest risk of bank failure (Dang, 2011). Banks therefore use the non-performing loans ratio as proxies for asset quality. Banks should maintain non-performing loans at lower levels because high non-performing loan negatively affects bank effectiveness. Loan portfolio quality is the proportion of non-performing loans (NPLs) to total loans. The lower the ratio on NPLs to total loans the better the bank's performance (Sangmi and Nazir, 2010). Banks should therefore use asset quality as a measure of the effectiveness of the corporate governance principles and practices. Banks that adopt sound corporate governance practices are likely to have high asset quality.

**Management Efficiency**

Management efficiency is determined by different ratios such as "total asset growth, loan growth rate and earnings growth rate" (Dang, 2011). Management quality is also represented by operational efficiency in managing the operating expenses. "The performance of management is often expressed qualitatively through subjective evaluation of management systems, organizational discipline, control systems, and quality of staff. The capability of the management to deploy its resources efficiently, income maximization, reducing operating costs can be measured by financial ratios" (Sangmi and Nazir, 2010). The degree of management effectiveness determines the effectiveness of the bank's corporate governance principles and practices.

**Liquidity Management**

"Liquidity refers to the ability of the bank to fulfill its financial obligations. Adequate level of liquidity is positively related with bank profitability" (Dang, 2011). Banks use such ratios as customer deposit to total asset and total loan to customer deposits to determine the level of banks' liquidity. In studying Malaysian banks Ilhomovich (2009) made use of the cash to deposit ratio to measure the banks' level of liquidity. In China and Malaysia, studies found that there is no relationship between liquidity levels with the performance of individual banks

(Said and Tumin, 2011). Banks that are effectively governed are likely to be highly liquid. Liquidity management is therefore a key theme in bank strategic planning process. Corporate reporting in banks considers liquidity as an essential measure of organizational effectiveness.

**Ownership Identity and Financial Performance**

There has been an increase in debate regarding the relationship between ownership and performance in the corporate finance literature. The Agency Theory introduced the relationship between an organization's performance and ownership identity. In corporate governance studies, scholars indicate that ownership identity matters more than the concentration of ownership (Javid and Iqbal, 2008). Ownership identity is important in corporate governance because it shows the specific behavior and interests of the shareholders. The risk-taking behavior and investment orientation of owners greatly influences on managers (Ongore, 2011). There are a number of empirical researches indicating the relationship between ownership concentration and risk taking. The empirical works show a significant relationship between the two (Saunders *et al.,* 1990; Houston and James, 1995; Demsetz *et al.,* 1997).

Ownership is defined along two perspectives: ownership concentration and ownership mix (Ongore, 2011). The ownership concentration measures the proportion of a firm's shares held few shareholders, whilst ownership mix defines the identity of the shareholders. Ownership concentration gives the majority owners the muscle and incentive to closely monitor management (Morck *et al.,* 2010). This is important in reducing the agency costs and enhancing firm performance. However, close monitoring of management "can create a problem in relation to overlooking the right of the minority and also affect the innovativeness of the management" (Wen, 2010).

There are varied results on the studies concerning the relationship between the identity of shareholders and the performance of banks. The adoption of sound corporate governance therefore requires a consideration of shareholder identity. Claessens *et al.,* (1998) found out that domestic banks have high performance as compared to their foreign counterparts in all

economies. Micco *et al.,* in Wen (2010) state that in less developed countries foreign-owned banks perform better than all other types of bank ownership structures. However, Detragiache (2006) found that the performances of foreign banks compared to indigenous banks are inferior in less developed economies. Others scholars claim that foreign-owned banks perform better with high NIM and lower operating costs compared to indigenous banks (Farazi *et al.,* 2011). The argument for the better performance of foreign-owned banks lies in tested management expertise, customization of operations, and use of tried and tested operating systems (Ongore, 2011). In the Middle East and North Africa region (MENA), researchers found out that foreign-owned banks' perform better than indigenous banks (Farazi *et al.,* 2011). According to Azam and Siddiqui (2012), in Pakistan "foreign banks are more profitable than all domestic banks regardless of their ownership structure by applying regression analysis." In Thailand, foreign-owned banks perform better than the average indigenous banks' profitability (Chantapong, 2005), due to technology advancement, reduced operating costs, and enhanced operational efficiency (Okuda and Rungsomboon, 2004). The corporate governance frameworks in foreign and indigenous banks therefore vary, leading to variations in bank performance.

In contrast Cadet (2008) stated that "foreign-owned banks are not always more efficient than domestic banks in developing countries, and even in a country with low income level." This view was corroborated by Yildirim and Philippatos in Chen and Lia (2009) with reference to banks in Latin America. Indigenous banks in Turkey perform better than their foreign-owned counterparts (Tufan *et al.,* 2008).

The traditional view of industrial organization supports the entry of foreign-owned banks on the basis of increasing competition, thereby benefiting borrowers. The ongoing financial liberalization is facilitating significant changes in the banking industry market structure, thereby altering the corporate governance frameworks amongst banks in order to be competitive. Financial liberalization leads to increased entry of foreign-owned banks which subsequently result in a substantial impact on banking competition. This significantly affects the performance of individual banks. In Latin America, the increase in foreign-owned bank entry results in decreased bank concentration (Peria and Mody, 2004). Foreign-owned

banks' entry in any market produces positive externalities to the domestic banks as a result of the spillover effect from technology, intellectual resources and expertise in foreign-owned banks (Thorne, 1993). Claeys and Hainz (2006) conducted a theoretical analysis and discovered that foreign-owned bank entry drives facilitates a significant reduction in a country's average rates of interest. The liberalization of markets therefore necessitates adjustments to the way in which banks are governed.

Despite the latent benefits of globalization and liberalization of financial markets, bank performance is also greatly affected by financial globalization with respect to financial crises and contagion. Financial globalization also leads to economic volatility and financial crises due to the contagion effect. Financial globalization encompasses the overall integration of an economy's financial system with international institutions and financial markets. "Globalization can lead to crises due to the importance of external factors, even in countries with sound fundamentals and even in the absence of imperfections in international capital markets. If a country becomes dependent on foreign capital, sudden shifts in foreign capital flows can create financing difficulties and economic downturns. However, the shifts do not necessarily depend on country fundamentals" (Calvo *et al.,* 1996). The extent of financial globalization therefore leads to changes in the corporate governance of banks. In order to survive in the highly globalized financial markets, banks has to adopt the various principles and practices in relation to leadership and management, strategic planning, organizational learning, corporate reporting, and employee engagement.

## 2.6 Corporate Governance: A Multi-disciplinary Concept

### 2.6.1Theories of Corporate Governance

Historical analysis indicates that there are numerous corporate governance theories and the evolution of these models is continuing. The continuous evolution of corporate governance theories is necessitated by the essential minimal essence of social consciences and the rise in the profit making narrative. Most companies in the world are trying to infuse the sense of sound governance into their organizational structures (Abdullah and Valentine, 2009). The five fundamental theoretical frameworks that can be identified from the governance literature are: agency theory, stewardship theory, resource-dependence theory, transaction

cost theory, stakeholder theory, and managerial-hegemony theory. These corporate governance frameworks have varying implications on the performance of banks. These governance models evolved from disciplines such as organizational behavior, finance, law, economics, management and accounting. The concept of corporate governance has in the past few two decades turned out to be topical subject due to the dominance of corporations in the current global and complex business environment.

This section reviews the six primary theories underlying corporate governance as it relates to bank failures.

**Agency Theory**

The global financial credit crash of 2007 and 2008, based on a number of explanations of debt derivatives and housing bubbles has its foundations in agency theory and poor business strategy (Smith, 2010). Banks were greatly criticized for excessive risk-taking, weak governance structures and poor oversight. The beginning of the agency theory can be traced to the late 1960s and early 1970s, when economists such as Wilson (1968) and Arrow (1971) surveyed the concept of risk sharing. The risk sharing problem arises when collaborating parties have different attitudes toward risk. The agency theory expanded literature on risk sharing to include the agency problem. The agency problem happens when collaborating parties have divergent goals and division of labor (Jensen and Meckling, 1976). The agency theory explains the link that exists between principals and agents (executives and management). The central theme of this theory is that agents act as mere custodians of the organization and its operational activities and carries the burden of managing in the best interest of the principals. Agents view all other business stakeholders as irrelevant-opportunists and their benefitting from the business is coincidental to the management's activities in running the business to serve principals. Figure 6 below illustrates the roles of principals and agents.

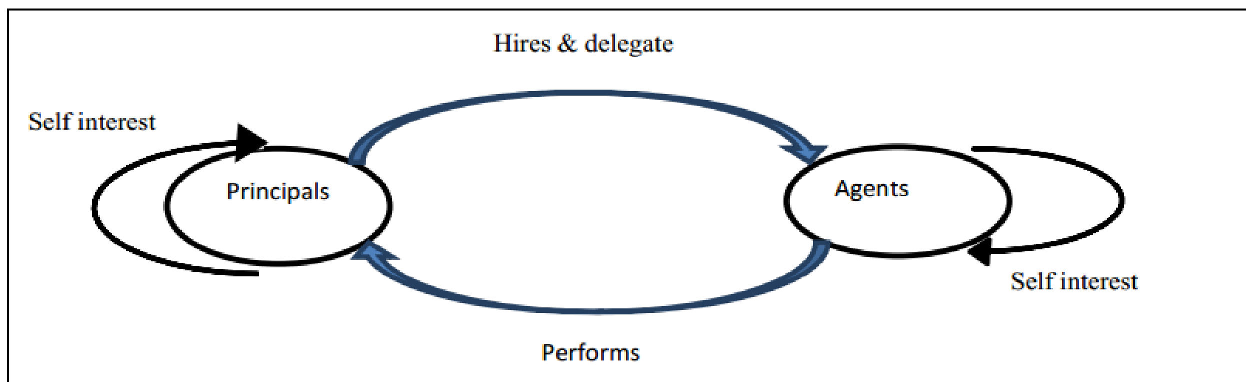
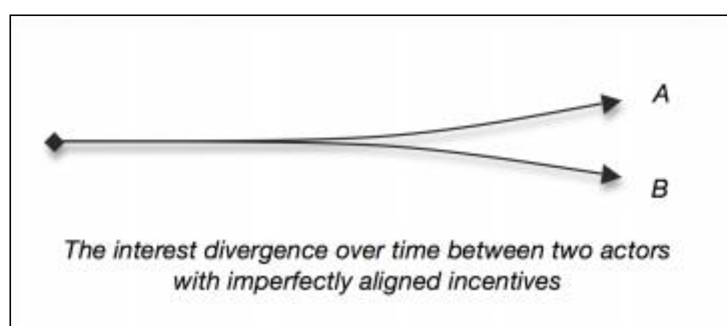



Figure 6: The Agency Model

**Source: Abdallah (2009)**

As shown in Figure 6, the agent is the professional manager that acts on behalf of the principal. Conversely, the agent may essentially act against the best interests of the principals (Padilla, 2000). The theory state that the agent may be succumbed to self-interests, opportunistic behaviors and falling short of congruence between the aspirations of the principal and the pursuits of the agent. The agency problem also arises when the agent has access better information about the business, and the respective interests between the parties are not perfectly symmetrical. Provided both parties maximize their utility, their respective interests will gradually diverge (as shown in Figure 7), which leads to a situation where the agent is not necessarily acting in the best interest of the principal by maximizing the utility of the corporation. The interest divergence has significant negative implications on the effectiveness of the bank. In this regard the alignment of the corporate governance principles and practices between principal and agent is essential to organizational effectiveness. Below is a depiction of the principal-agent interest divergence over time




.Figure 7: Principal-Agent interest divergent over time

The two main problems resulting from any agency relationship are:

- conflicting desires or pursuits of the collaborating parties,
- information asymmetry between the collaborating parties.

The agency theory focuses on determining the most ideal contract governing the relationship between agents and principals given assumptions on people, organizations and information as in Table 1 below:

**Table 1: Principal-agent relationship assumptions**

| **Focus Area** | **Assumptions** |
|---|---|
| People | Self-interest: Homo Economicus is rational, individualistic and opportunistic.<br>Always seeks to maximize own benefits and personal utility. |
| | Bounded rationality |
| | People are naturally risk-averse. |
| Organizations | Conflicting pursuits among collaborating parties in an agent relationship. |
| | Efficiency is the primary criterion for determining organizational performance |
| | Information asymmetry between collaborating parties |
| Information | Information is a commodity which can be purchased |

Table 1 indicates that the main focus of corporate governance should be placed on people, organizations, and information. This is because organizations are a social construction and as such the assumptions shown in Table 1 are essential in devising principles and practices for sound corporate governance.

Agency theory was developed along the positivist and principal-agent perspectives (Jensen, 1983). The positivist view identifies situations in which collaborating parties might have conflicting goals and then describe the corporate governance principles and practices that

minimize or eliminate the possible agent's self-serving behavior (Jensen, 1983). The positivist stream identifies two main corporate governance propositions. The first proposal is that outcome-based contracts are effective in curbing agent opportunism. The second proposition revolves around resolving information asymmetry so as to curb agent opportunism.

On the other hand "principal-agent researchers are concerned with a general theory of the principal-agent relationship, a theory that can be applied to employer-employee, lawyer-client, buyer-supplier and other agency relationships" (Harris and Raviv, 1978). As the positivist theory identifies available contract alternatives to curb agent opportunism; the principal-agent theory focuses on identifying the most ideal or optimal contract under varying levels of outcome uncertainty, risk aversion and information. The identification of the most ideal contract is central to achieving organizational effectiveness, given the assumptions on people, organizations, and information as in Table 1 above. The optimal contract ensures strategic alignment between the interests of the principal and the agent.

There are two means by which the principal can limit the interest divergence (Jensen and Meckling, 1976):

- structure the agent's contract with incentives consistent with the principal's interests; or
- expend resources to monitor the behavior of the agent.

These two corporate governance means of minimizing interest divergence requires the adoption of sound corporate governance principles and practices. Consequently, the agency costs, according to Jensen and Meckling (1976), are the aggregate sum of the monitoring costs, bonding expenditures, and the residual loss.

Due to globalization, industrialization and technological revolution the nature of business enterprises and their governance has been greatly altered. The modern corporation is owned by widely dispersed shareholders and is controlled by managers who may not own any stake in the business. This complexity of corporate structures has necessitated the

changes in the corporate governance models of organizations. Figure 8 below indicates the complexity of the agency theory. Figure 8 indicates the existence of authority in an agency relationship which leads to interest divergence, agency problems and agency costs. The implementation of control mechanisms is essential in ensuring organizational effectiveness.

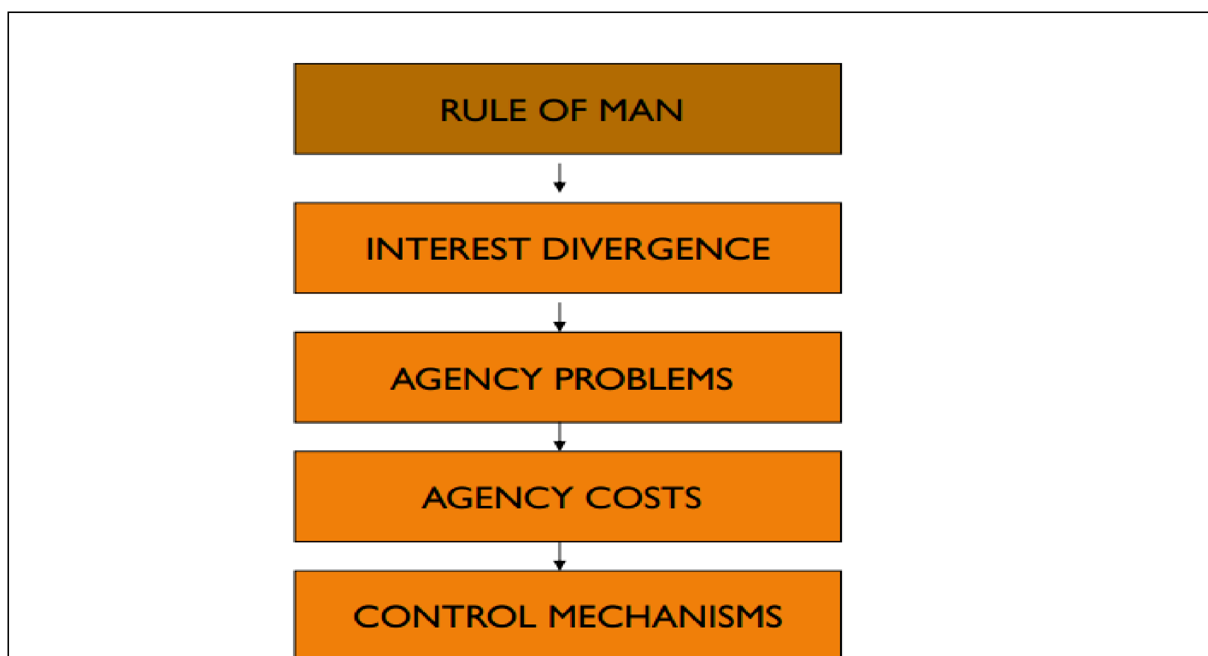



Figure 8: Agency Theory

**Shareholder Theory**

The shareholder theory was popularized by Friedman (1970). Friedman (1970) claimed that businesses "have only one social responsibility which is to use its resources to engage in activities designed to increase its profits in the context of the competition, legal and regulatory requirements". The shareholder theory is premised on the market economy principle which is a market-driven system that combines the private ownership of firms with intense competition in the pursuit of profit. The key market economy features are captured in the shareholder theory view: private ownership, competition and the profit motive. Profit maximization is the offspring of an economic system that is driven by price mechanism. The theory implies that individual entrepreneurs' profit maximization does maximize the overall society's economic welfare (Smith, 1776). However, this interpretation of shareholdership is sometimes lost and "the conventional model of the corporation, in both legal and managerial forms failed to discipline self-serving managerial behaviors" (Donaldson and Preston, 1995). The shareholder wealth maximization narrative has been reinforced by such influences as

the globalization of capital markets, "a rise of institutional investors, increased shareholders activism and the growing importance of corporate governance" (Omran *et al.,* 2002).

The finance model or principal-agent theory underpins the shareholdership concept. This concept considers the maximization of shareholder wealth as the primary purpose of every enterprise because of the view that shareholders are the owners of firms and bear the highest risks (Sun, 2002). This view of the firm created the agency problem as managers push short-term policies that lead to their own interests against the shareholders' long-term profits objectives (Friedman, 1970; Jenson and Meckling, 1976). In addition, the myopic market model has the same claims as the shareholdership concept and adds the pursuit of short-term firm market value for the benefits of directors and management.

**Stakeholder Theory**

The firm, according to economic theory is shareholders' property (Jensen and Meckling 1976; Fama, 1980). Some scholars assert the firm is a nexus of explicit and implicit contract (Williamson and Winter, 1991), and cannot be reduced to its shareholders but should embrace all its stakeholders (Mintzberg, 1983; Freeman, 1984). This is based on the notion that an organization possesses moral and ethical position and should act in a socially acceptable manner. Evan and Freeman (1993) purport that there are two significant principles that underlies the firm's ability to act in a morally responsible manner:

- "harming the rights of others and is based on deontological ethical reasoning, and
- being responsible for the effect of the organization's actions and is based on teleological ethical reasoning".

An organization is a holistic compendium of relationships emanating from the environment which it evolves. It is a unique combination of various market components which can be worth more or less than the sum of its parts (Zingales, 2000). Freeman (1984) states that it is important for all stakeholders to fully comprehending the dynamics of a business, and argues that an effective organization has to create stakeholder value. Organizations should develop their business models considering the interests of all their diverse stakeholders (Freeman, 1984). Stakeholders encompasses "individuals or constituencies that contribute,

either voluntarily or involuntarily, to its wealth creating capacity and activities, and who are therefore its potential beneficiaries and or risk bearers" (Post *et al.,* 2002).

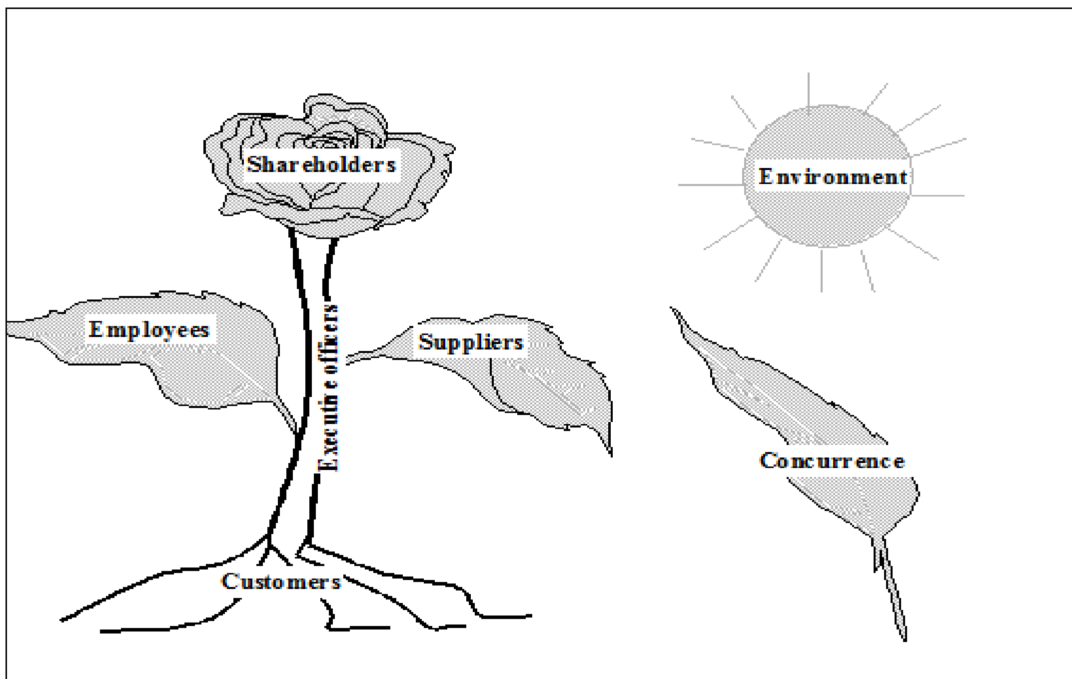



Figure 9: The Stakeholder Flower Model

**Adapted from (Alchian and Demsetz, 1972; Fama, 1980)**

Rodriguez *et al.,* 2002 provides a different classification of stakeholder types as in Figure 10 below:

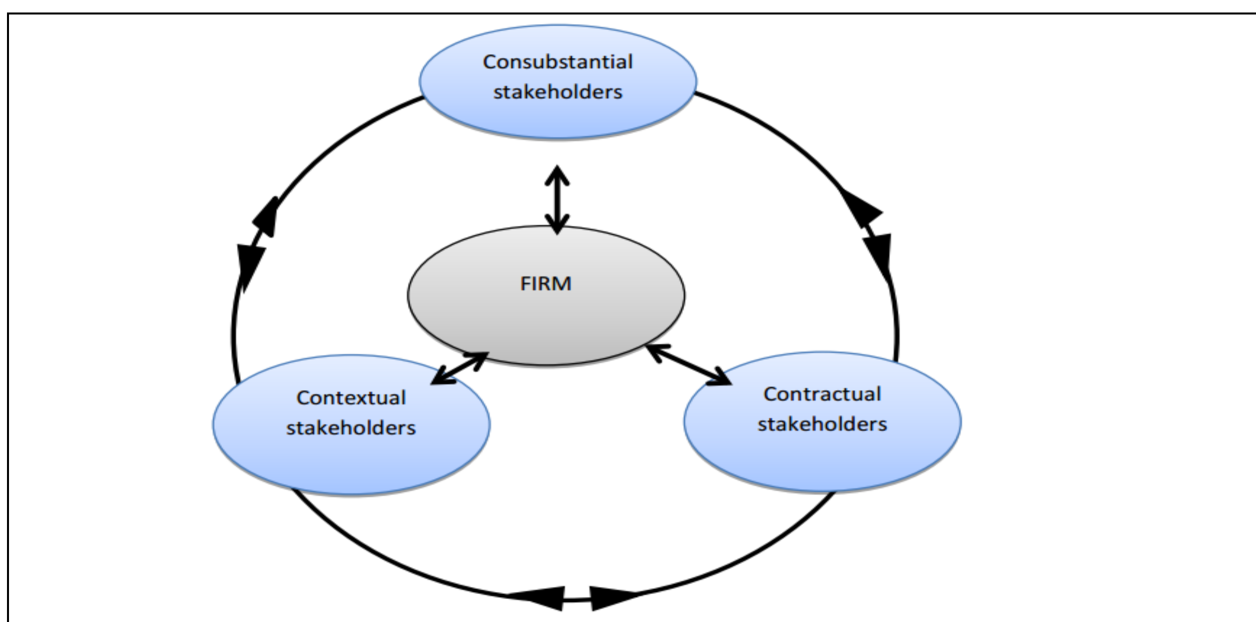



Figure 10: Stakeholder Classification.

**Adapted from Rodrigueze *et al.,* 2002**

Consubstantial stakeholders refer to those groups of people that are quintessential to the existence of the enterprise. These include shareholders, investors, strategic partners, and employees. Contractual stakeholders have a formal relationship with the business, for example financial institutions, suppliers, subcontractors, and customers. “Contextual stakeholders are representatives of the social and natural systems in which the business operates and play a fundamental role in obtaining business credibility” (Rodriguez *et al.,* 2002). All businesses must safeguard the interests of all stakeholders (Rajan and Zingales, 1998; and Zingales, 1998).

Another stakeholder identification typology introduced by Mitchell *et al.,* (1997). The typology builds on a dynamic model where the management’s perception and situational uniqueness is recognized in order to guide managers on prioritizing stakeholders. “The typology is based on three stakeholder attributes: power, legitimacy and urgency. Power is defined as the ability to impose will in a relationship through coercive, utilitarian, or normative means” (Mtchel et al., 1997). The authors emphasized that power is dynamic and its attributes are therefore transitory. Legitimacy is “a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995). Legitimacy is relative and therefore defined by the environment, yet power is more absolute by nature. Urgency is based on the attributes of time sensitivity and critical importance of the claim for the stakeholder relationship and defined as the degree to which stakeholder claims call for immediate attention. Seven stakeholder classes are identified based on this framework as illustrated in Figure 11 below (Mitchell, Agle and Wood, 1997):

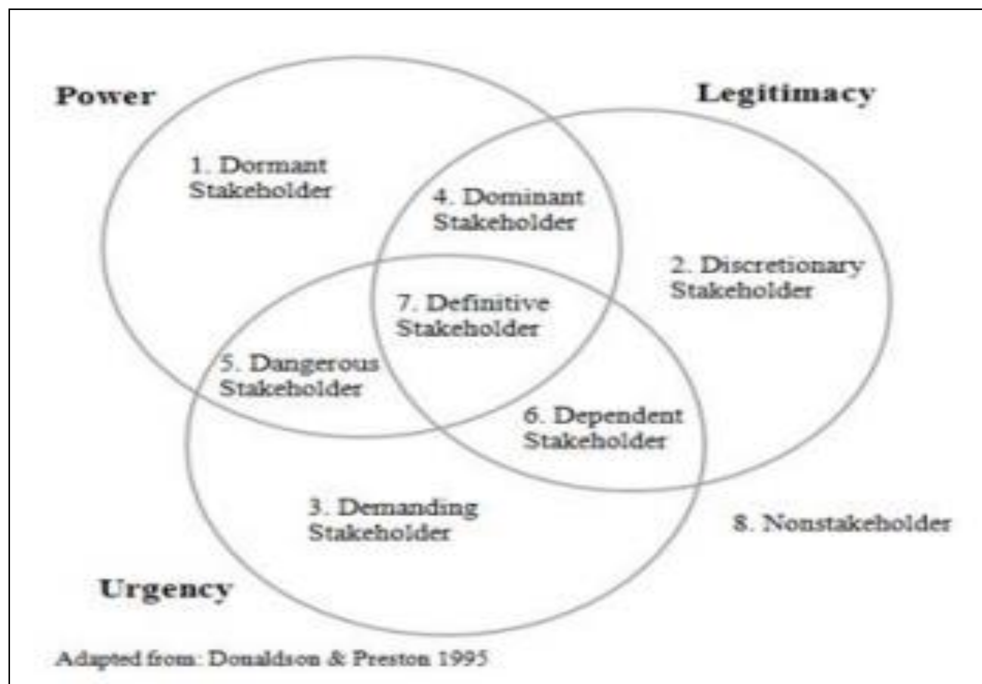



Figure 11: The Seven Stakeholder classes

Table 2: The Seven Stakeholder classes

| Stakeholder class | Description | Examples |
|---|---|---|
| 1. Dormant | Possesses power while having little or no interaction with the firm | Former employees |
| 2. Discretionary | Stakeholders possessing only the legitimacy attribute often manage to affect the firm for they discretionary corporate social responsibility | Branch organizations, research institutes |
| 3. Demanding | Without power or legitimacy these stakeholders described as irritating but not dangerous, inconvenient but merely warranting transitory attention from management | First individuals in a protest or uprising |
| 4. Dominant | Through power and legitimacy these stakeholder often form the dominant coalition the firm. Possesses access to some formal mechanism recognising their power, e.g. board of directors, public affairs office and human resources department | Shareholders, creditors, government, employees |
| 5. Dangerous | Stakeholders possessing power and urgency but lacking legitimacy often appear violent and coercive. | Strikes, employees sabotage, terrorism |
| 6. Dependent | Lacking power, these stakeholders possessing legitimacy and urgency depend on other stakeholders of the firm to carry out their will | Local residents and community |

| 7. Definitive | Stakeholders possessing all the three attributes entitling immediate attention from management of the firm to their claims | Most common that an urgent claim arise from a dominate shareholder e.g. shareholder acting to change management, government imposing restrictions on the firm |
|---|---|---|

**Source: Nordblom (2013)**

The framework therefore emphasizes that all stakeholder attributes are variable and socially constructed. Stakeholders are categorized into (i) product market stakeholders for example customers, communities and suppliers, (ii) capital market stakeholders for example shareholders and financiers and (iii) organizational stakeholders for example employees. The process of defining the stakeholders is important as it facilitates the ability to deal with the perception of different stakeholder segments. According to Donaldson and Preston (1995) companies pay attention to stakeholders for two reasons:

- the demands of stakeholders have intrinsic value (normative approach);
- addressing all stakeholders' interests enhances profitability (instrumental approach)

Stakeholder theory proffers a theoretical model for analyzing the relationship between the firm and the wider society (Clarkson, 1995). Stakeholder theory is classified into three approaches namely synthesis, multi-fiduciary and strategic. The strategic approach considers stakeholders instrumentally. Stakeholders are based on the shareholder's profit. Stakeholders negatively or positively influence profits. In the multi-fiduciary approach, all stakeholders will have fiduciary responsibility. The stakeholders' community is taken into consideration and no single stakeholder is considered dominant. The synthesis approach combines both multi-fiduciary and strategic approach. Allen *et al.,* (2007) indicated that organizations have the freedom to choose to be stakeholder-centered, as this increases firm value. "A firm cannot maximize its value if it ignores the interests of its stakeholders" (Jensen, 2010). Table 3 below summarizes the key distinctions between the shareholder and stakeholder perspectives of corporate governance in terms of purpose, governance structure, governance process, performance metrics, and residual risk holder.

**Table 3: Key Distinctions between Stakeholder and Shareholder perspectives of corporate governance**

| | **Shareholder View** | **Stakeholder View** |
|---|---|---|
| **Purpose** | Shareholder wealth maximization | Pursue multiple stakeholder objectives |
| **Governance Structure** | Principal-agent model | Team working model |
| **Governance Process** | Control | Coordination, cooperation and conflict resolution |
| **Performance Metrics** | Shareholder value sufficient to maintain investor commitment | Fair distribution of value created to maintain all stakeholders' commitment |
| **Residual Risk Holder** | Owners | All stakeholders |

**Adapted from Kochan and Rubinstein (2000)**

The normative stakeholder theory view purports that it is an ethical demand for firms to consider the needs of the different stakeholder segment. To safeguard and legitimize the interests of the diverse corporate stakeholders the representation of the diverse stakeholders on corporations' boards is crucial (Evan and Freeman, 1993).

**Managerial-hegemony Theory**

The theory argues that "boards are a legal fiction dominated by management" (Vance, 1983; Lorsch and MacIver, 1989). The board serves as a "rubber-stamp", with all strategic decisions dominated by management. The board of directors is described as an impotent ceremonial and legal fiction (Drucker, 1981). There are five mechanisms of management control that underlie this managerialist perspective:

- ownership diffusion emerges from ownership and control separation in organizations, affording management a greater level of control, thereby placing boards in a passive role;
- the board of directors is always at a disadvantage due to information asymmetry;
- retaining profits to finance investment decisions reduces reliance on shareholders;

- the process of appointing boards gives management increased control of the firm, since directors are handpicked by managers ; and
- "inside directors report to the chief executive officer and are largely dependent on this person for compensation and career advancement, the extent to which such directors occupy board seats is likely to confer a power imbalance to the chief executive" (Stiles, 2001). Governance in this case takes a supporting role.

The principles of class hegemony and managerial hegemony are summarized in Figure 12 below.

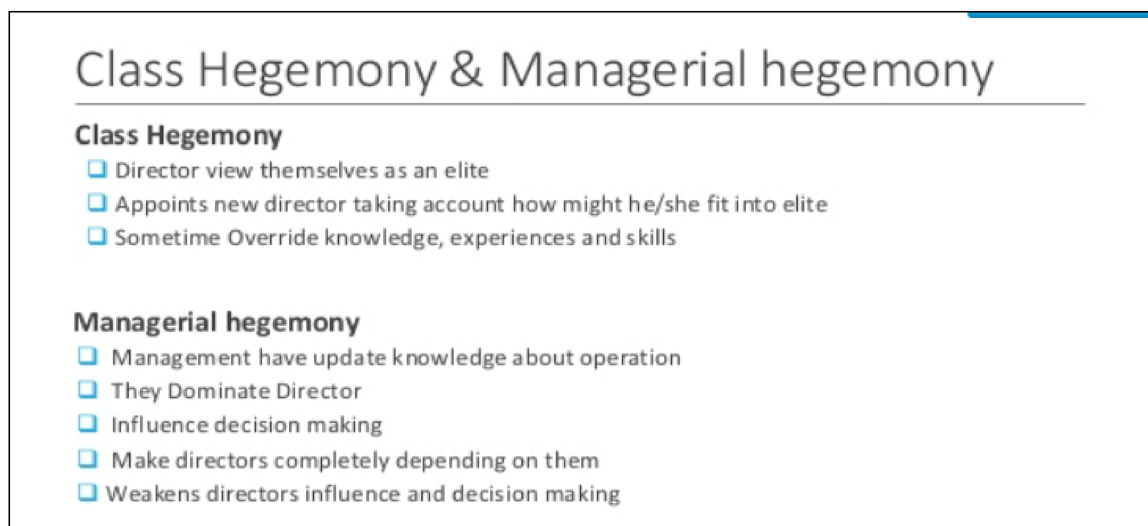



Figure 12: Class Hegemony and Managerial Hegemony

**Resource Dependence Theory**

The resource dependence theory is part based on the exchange theory (Levine and White, 1961) which states that in order to be effective; organizations need to establish strategic relationships. Resource dependence theory suggests ways in which an organization can ensure the supply of resources critical to its survival. Research dependence's basic assumption is that organizations survive by acquiring and maintaining resources from their environment (Pfeffer and Salancik, 1978). The theory is founded on the need for environmental linkages between the business and external resources. A resource dependence perspective views organizations as being members of coalitions in a constant state of change (Pfeffer and Salancik, 1978). These coalitions or claimants can be both internal and external. Each group of claimants has some power over the organization:

- possession of means with which to impact organizational behavior

- controlling the use of organization’s resources
- controlling access to needed resources
- regulation of the critical resources.

Governance gets “a maintenance role in identifying with the societal expectations of organizations” (Hung, 1998). Therefore, the firm’s directors have the role of connecting the business with all external factors by co-opting the resources needed to survive (Hillman *et al.,* 2000). Directors are therefore an important mechanism for absorbing critical elements of environmental uncertainty into the firm. The resource dependency rule emphasizes that the board bring resources such as information, skills, key constituents and “legitimacy that will reduce uncertainty” (Gales and Kesner, 1994). The connection between the firm and the external environmental factors leads to a reduction in transaction costs associated with external association (Hillman *et al.,* 2000). In view of this theory, board members can be appointed to multiple boards as this offers them opportunities to expand their sources of information and networks. In summary, resource dependence theory provides a convincing justification for the creation of linkages between the firm and its external environment through boards as firms that create linkages could improve their survival and performance.

“Resource dependence theory provides valuable guidance for managers who want to understand the considerations and consequences relevant to different types of inter-organizational partnering. The theory's common strategies or tactics that organizations use to obtain critical resources from the environment: board of directors’ interlocks, selecting more profitable business domains or niches, mergers or diversification, forming alliances, and co-opting” (Hillman *et al.,* 2000).

**Stewardship Theory**

Stewardship theory views managers as stewards whose behaviors are aligned with the objectives of their principals. Figure 13 below shows that shareholders empower and trust the stewards to act on their behalf. On the other hand the stewards protect and maximize shareholders wealth.

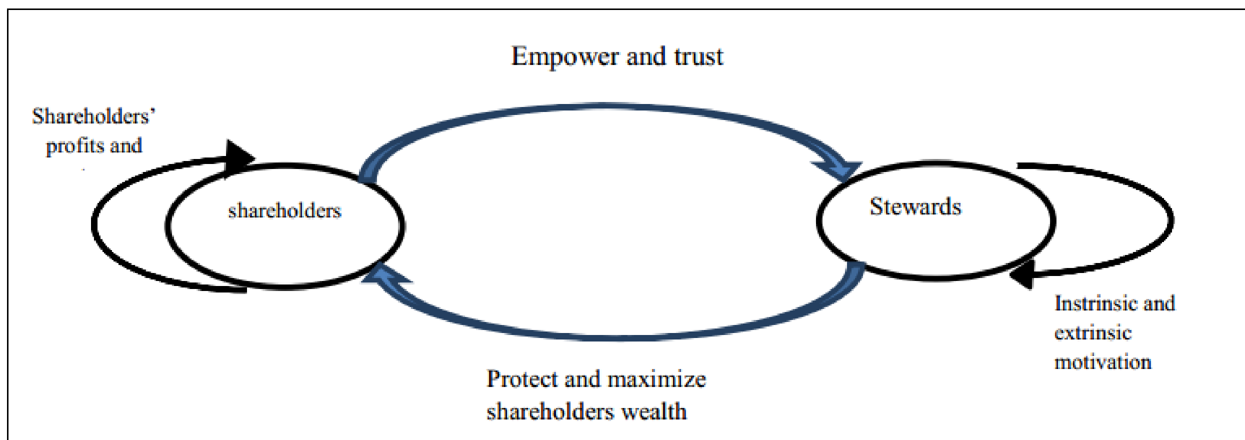



Figure 13: Stewardship Model.

**Adapted from Abdallah (2009)**

Stewardship theory is guided by the assumption that human beings are "individualistic, opportunistic, and self-serving" (Hilb, 2005). The theory depicts employees as pro-organizational, trustworthy, and collective serving. Managers are considered to be loyal to the company and interested in achieving high performance even in the absence of financial incentives and monitoring systems. The theory assumes that managers are strongly dominated by the motive and desire to achieve positive organizational results. Managers are conceived as achievement-oriented, seeking intrinsic satisfaction through performing inherently challenging work; seek to exercise responsibility and authority, and to gain recognition from principals. There are non-financial motivators for managers. There should be proper harmonization between agents and principals. Table 4 below indicates the different governance roles and downsides of each of the theories of corporate governance.

Table 4: Specification of roles and downsides of corporate governance theories

| Organizational Theory | Governance Role | Downsides |
|---|---|---|
| Agency Theory | Control Role (Conformance) | -Stakeholders not considered<br>-Ignores group interactions and power<br>-Not trust building<br>-Too legalistic focused<br>-No institutional embeddedness |
| Stakeholder Theory | Coordination Role | -Strategic versus normative orientation |
| Stewardship Theory | Strategic direction and supporting role (Performance) | -Too optimistic idea of people<br>-Blind to interplay of power, conflicts, and ideology<br>-Passive governance |
| Resource Dependency Theory | Linking Role | -Possible interlocks<br>- Collusion and Class coalition<br>Deadlocks from dependency |
| Managerial Hegemony | - | - |

Literature indicates that the corporate governance theories aim at addressing the following key responsibilities:

- Mission management, assuming the strategic direction; supporting role and control role.
- Integrity management in organizations; the role of normative guidance.
- System management; the societal embedding role. Systemic and systematic foundations focus on understanding and influencing the wider business environment. The systemic and systematic view of the business environment is the basis for a sound identification of best principles and practices that lead to effectiveness. System management emphasizes on structuring influences and ordering forces without which distress and failure are certain. The inevitability of these influences and forces justifies the necessity of sound corporate governance or leadership (Ruegg-Sturn, 2005). Effectiveness is achieved through sustainability, impact and outreach. Sustainability is the capacity to endure. Impact involves “the positive and negative, primary and secondary long term changes or effects

produced directly or indirectly, intended or unintended" (SDC, 2002). Outreach refers to a variety of parameters such as geographic outreach and scale economies.

- Risk management, contributing to the control role.
- Audit management, also contributing to the control role
- Extended stakeholder management, covering the linking role, coordination role and control role.

### 2.6.2 Principles and Practices of Corporate Governance

Literature acknowledges that there is no universally accepted global set of principles that are applicable to board structures (Raeze, 2009). The existent corporate governance principles are merely guidelines rather than universal rules of corporate governance (Gul and Tsui, 2004). Corporate governance is concerned with "the establishment of an appropriate legal, economic and institutional environment that facilitate the growth and sustainability of organizations for maximizing shareholder value while being conscious of and providing for the wellbeing of the wider stakeholders" (Kenya Private Sector Initiative for Corporate Governance, 2000). The key corporate governance issues according to The Basel Committee (2006) are:

- the appropriate involvement of the board in developing and approving the bank's strategy;
- setting and enforcing clear lines of responsibility throughout the organization;
- instituting compensation policies which are consistent with the bank's overall strategic intent; and
- adequately managing operational risks that lack transparency.

Corporate governance principles and practices are mainly informed by the increases in corporate failures and lapses in such areas as board oversight function, enterprise-wide risk management, and the prevalence of unduly complex or opaque bank organizational structures and activities.

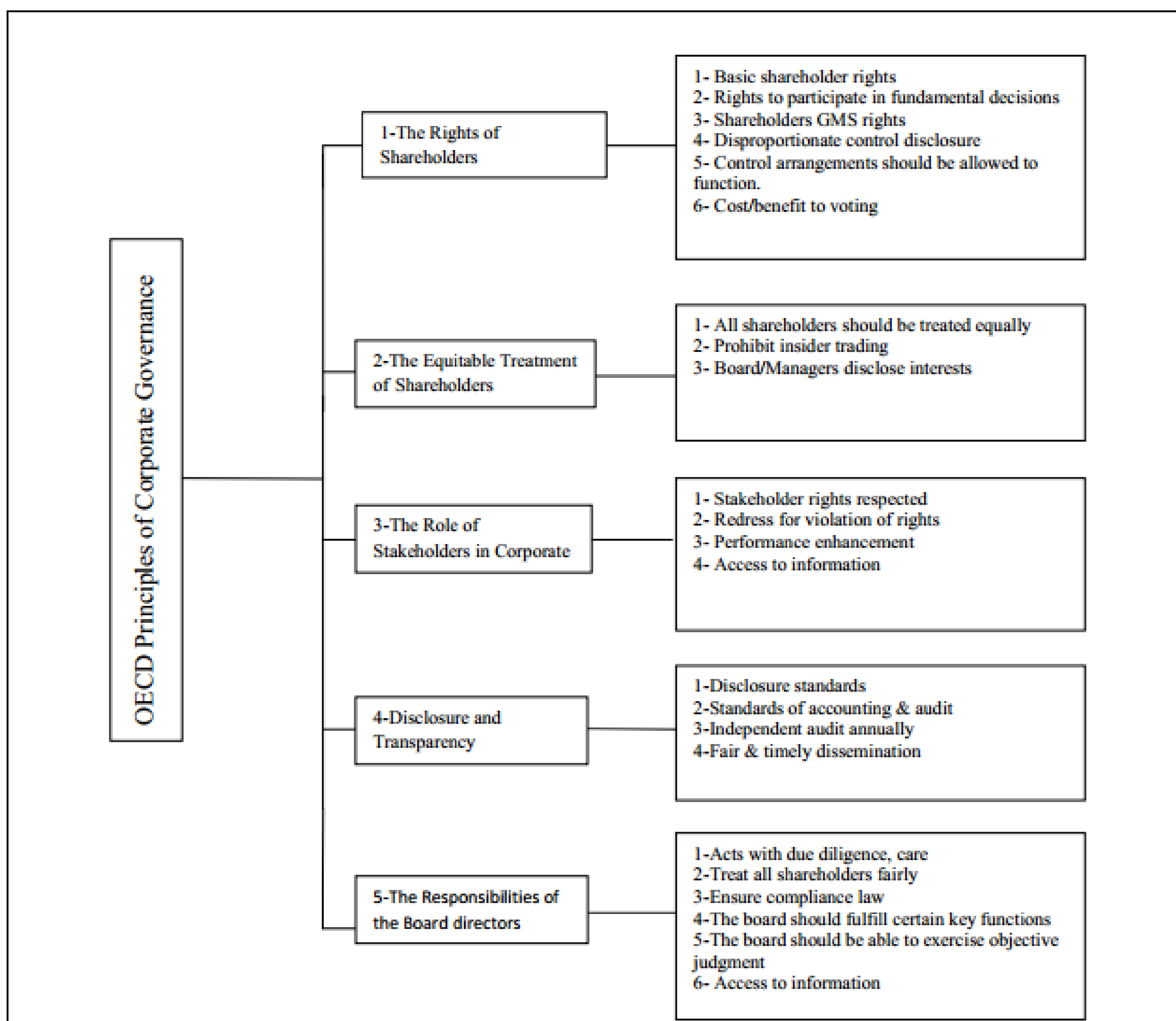



Figure 14: The OECD Principles of Corporate Governance.

**Source:** OECD 2004

The firm's shareholders have a duty to jointly and severally protect and preserve the corporation through actively exercising their supreme authority in the corporation's annual general meetings. The shareholders jointly and severally exercise this duty for the following reasons:

- ensure the election or appointment of competent, reliable and value adding persons to the Board of Directors;
- ensure efficient and effective corporate governance by constantly holding the Board accountable and responsible for positive governance in order to achieve the long-term corporate objectives, prosperity and sustainability.

- change the Board composition, if the Board fails to perform according to expectations and in accordance with the corporation's mandate.

Organizations should be governed by competent boards which strive to the preparation and implementation of effective business growth strategies to enhance overall corporate performance and sustainability. This is important in order to safeguard the risk capital provided by shareholders (Mallin and Melis, 2012). According to John *et al.,* (2008) firms that have better shareholder protection create improved firm value through engaging in riskier investments. It is therefore corporate governance prerequisite for companies to ensure the rights of all shareholders are protected in order to participate and vote in annual general meetings (AGMs) and appoint competent board members (King and Wen, 2011). Shareholders should also be provided through the annual general meeting notice, with timely, relevant and material information about the firm in order to enhance decision making effectiveness for the overall corporate performance (Gillan and Starks, 2000). Companies should protect shareholders' rights, including ownership rights (Cheung *et al.,* 2011). Sound corporate governance should also ensure "the protection of the minority shareholders who in most cases are not active, as compared to the large shareholders" (Murphy and Topyan, 2005). The protection of the rights of all shareholders is a key corporate governance system feature (Mallin and Melis, 2012).

Empirical literature supports the view that corporate governance mechanism "should ensure the equitable treatment of all shareholders, particularly inactive minority and foreign shareholders". "All shareholders should have the opportunity to obtain effective redress for the violation of their rights" (OECD, 2004). This area of shareholder rights requires increased disclosure transparency with respect to the distribution and exercise of shareholders rights. Nestor and Jesover (2000) pointed out that the principle of shareholder rights should be supported by transparent disclosure of any material interests in the corporation by management and board members. "The corporate governance framework should ensure the protection of minority shareholders from any form of abusive actions by, or in the interest of, controlling shareholders" (Cheung *et al.,* 2011). The protection of

minority shareholders demands the strong improvement of sound corporate governance principles and practices (Chhaochharia and Laeven, 2009).

**Organizational Leadership**

The board of the modern corporation should exercise leadership, enterprise, integrity and judgment in overseeing the corporation so as to achieve continuing prosperity and to act in the best interest of the enterprise in a manner based on transparency, accountability and responsibility. The board has as its primary responsibility, the duty to make effective corporate decisions and to oversee the activities of management (Jang and Kim, 2001). In view of its important role in enhancing market systems' corporate governance, literature states that the board should be well-functioning and effective in all its mandates (Solomon, 2007; De Andres, Azofra and Lopez, 2005). Corporate boards are essentially responsible for the formulation of policies and strategies; and the overall supervision of the company's operations (Ahmed and Gabor, 2012). According to Basel Committee (2006), in addition to the effective oversight of management function, the board of a bank should actively carry out such responsibilities as "its business and risk strategy, organization, financial soundness and governance". To fulfill its responsibilities, the board of directors should:

- exercise sound objective judgment and individually and collectively maintain appropriate qualifications and competence;
- follow sound corporate governance principles and practices; and
- be supported by experienced, strong and independent risk and control functions.

"Board members should direct and control the affairs of the company, act on a fully informed basis and in good faith with the best interests of the shareholders and all other stakeholders, and ensure compliance with applicable laws by management, shareholders and stakeholders" (Awotundun *et al.,* 2011). In this regard the board of directors is the mediator of the agency relationship in order to ensure the efficient and optimal utilization of capital. Board members are also important in providing "advice and support to management in order to improve the decision making process" (Minichilli *et al.,* 2009). An organization is able to maintain effective business partnerships with stakeholders; and create sustained

shareholder value if the board of directors fully exercises integrity, ethical responsibility, accountability, and honesty (Ferrer and Banderlipe, 2012). It is the responsibility of the board to ensure corporate compliance with all relevant laws, regulations, governance practices, and accounting and auditing standards.

The board should also be actively involved in identifying all the organization's stakeholders, and devising policies to deal with the relationship between the corporation and the different stakeholder segments. It is an ethical and legal responsibility for the firm to ensure that the rights of all stakeholders are upheld, respected, and recognized as established by law or custom (Carroll, 2000).

In the banking sector to ensure the active interaction between the board and management, executive management should ensure strategic alignment of the specific bank activities and the overall business strategy, risk tolerance and policies approved by the board. To minimize board-management friction, the board should effectively perform its oversight function as part of the bank's checks and balances. The oversight function involves the board:

- actively monitors management's actions to ensure they are consistent with the overall strategy, risk appetite and approved policies;
- meet regularly management to deliberate of management actions in the context of the overall business strategy and approved policies;
- exercise incisive inquiry through questioning and critically reviewing management's explanations and information;
- set management performance evaluation standards in line with the business strategy, long-term objectives and the financial soundness of the bank; and
- appraise management's knowledge and expertise to ensure they remain appropriate in the context of the business and the bank's risk profile.

**Strategy and Values**

The strategic intent and values of a corporation should be determined by the board. The board should be actively involved in determining the business strategy to achieve the strategic intent; and ensure the implementation of values in order to ensure the sustainability and profitability of the corporation. It is the board's oversight function to ensure the implementation of values that protect the reputation and assets of the organization. Sound corporate governance is founded on a corporate culture that supports and provides appropriate norms and incentives for professional and responsible behavior. The board should therefore take the lead in establishing the "tone at the top" and in setting professional standards and corporate values that promote corporate integrity.

In a bank and in any other organization, the code of conduct or any equivalent policy, should articulate the professional standards, values and behaviors that are considered acceptable and unacceptable. The policy should clearly disallow behaviors that could result in any improper or illegal activity. Examples of such activities include excessive risk taking, financial misreporting, money laundering, fraud, bribery or corruption.

The timely and frank dialogue and elevation of corporate challenges to the management and executives within the organization should be clearly recognized by the bank's corporate values. "All stakeholders, particularly employees, should be encouraged and able to communicate, with protection from reprisal, legitimate concerns about illegal, unethical or questionable practices. This is important because any illegal or unacceptable activities have a detrimental impact on a bank's reputation. It is therefore highly beneficial for banks to establish a policy setting forth adequate procedures, consistent with national law, for employees to confidentially communicate material and *bona fide* concerns or observations of any violations" (Ferrer and Banderlipe, 2012). There should be either direct or indirect channels of communication with the board independent of the internal "chain of command".

**Organization Structure**

It is the responsibility of the board to ensure the organization is running with a proper management structure. The organization structure should function to maintain corporate integrity, reputation and responsibility. The organization structure should also facilitate

effective decision making and sound corporate governance. In this regard the lines of responsibility and accountability should be clearly defined and adhered to. These lines of responsibility and define the key responsibilities and authorities of the board and management and those responsible for the control functions. The board should ensure these lines of responsibility and accountability are enforced throughout the organization.

**Corporate Performance and Financial Sustainability**

Monitoring and evaluation of corporate strategies is essential to organizational effectiveness. In order to ensure sustained organizational effectiveness, the board should actively examine and reexamine the implementation of corporate strategy, policies, vision and management performance (Walker, 1999). The board should also regularly review the viability and financial sustainability of the enterprise (Bart and Bonits, 2003).

**Risk Management and Internal Control Procedures**

The effectiveness of internal control systems are enhanced through the board's regular review of the organization's systems, processes and procedures. The regular review is important in ensuring the board's decision making capability and the financial reporting accuracy are always maintained at the highest level (Ingley and Van der Walt, 2001). Through the board-management interaction process, the organization's key risk areas and key performance indicators should be identified and monitored. The identification, assessment and monitoring of risks should be on an ongoing enterprise-wide and individual entity basis. The internal control and risk management function has the prime purpose to ensure efficient and successful, the truthfulness in reporting and compliance with the relevant laws and business principles.

Banks are expected to have a risk management function (including a chief risk officer (CRO), a compliance function and an internal audit function. Each of these functions should have sufficient authority, stature, independence, resources and access to the board. The sophistication of a bank's risk management, compliance and internal control infrastructures should be aligned with any changes to its risk profile, growth and to the external risk landscape. "Effective risk management requires frank and timely internal communication

within the bank about risk, both across the organization and through reporting to the board and senior management. Internal control systems should be established to prohibit the abuse of inside information" (Givoly and Palmon, 1985).

**Corporate Reporting and Transparency**

Corporate reporting and transparency principle encompasses the development and adoption of high internationally recognized accounting and reporting principles and standards (Singh, 2005). A strong disclosure regime that promotes real transparency is a pivotal feature of market-based monitoring of companies and is central to shareholders' ability to exercise their shareholder rights on an informed basis. Strong disclosure greatly influences corporate behavior and the protection of investors. It is also essential in attracting capital and maintaining capital markets confidence. All stakeholders, particularly shareholders and potential investors, require access to regular, reliable and comparable information in sufficient detail for them to assess the stewardship of management, and make informed decisions about the valuation, ownership and voting of shares (Saeed, 1990; Chandra, 1974).

"Timely and accurate disclosure of information regarding the governance of the company is an important part of corporate governance. This improves common understanding of the structure, activities and policies of the organization. Consequently, the organization is able to attract investors" (Junarso, 2006). The investors' decision making process is highly dependent on governance metrics; hence managers should adopt international best practices of good governance. Corporate governance reporting should be given priority in organizations today because it is an effective value driver. The lack of transparency was amongst the core reasons for the recent financial crisis (Hellwig, 2009). Corporate governance reporting plays an essential role in minimizing and closing the gap between internal and external information thereby lowering investors' uncertainty towards investment decisions.

Corporate transparency refers to "the widespread availability of relevant, reliable information about the governance, value, and risk of publicly traded firms" (Bushman and Smith 2003). Corporate disclosure deals with material information on:

a. The financial and operating results of the company.

Organizations rely predominantly on audited financial statements showing the financial performance and the financial situation of the company when making decisions. The financial statements include the income statement, balance sheet, cash-flow statement, and statement of changes in equity (Singh, 2005). These financial results enable appropriate monitoring and valuing of securities and ensure management understands the economic activities of an enterprise (Mehrotra and Kulshrestha, 1990; Saeed, 1990). To ensure organizational effectiveness all transactions relating to an entire group of companies should be disclosed in line with high quality internationally recognized standards and include information about contingent liabilities and off-balance sheet transactions, as well as special purpose entities (Chander, 1992; Porwal, 1989).

b. Company objectives and non-financial information.

The performance of organizations should not be based on economic measures alone but on non-economic measures as well (Carroll, 2000). Companies are therefore expected to disclose policies and performance relating ethical, legal, environmental and, philanthropic commitments. This information is important to all stakeholders for them to better evaluate the relationship between the company and the wider-community. Corporate performance should therefore take a holistic view of the firm's responsibilities in terms of financial and non-financial information.

c. Major share ownership, beneficial owners, and voting rights.

Investors have the basic right to be informed about the ownership structure of the enterprise and their rights vis-à-vis the rights of other owners (Lal, 1985; Porwal, 1989). This information includes the structure of the company and intra-group relations. The objectives, nature and structure of the group of companies should be transparent. This disclosure

requirement includes data on major shareholders and others that, directly or indirectly, significantly influence or control or may significantly influence or control the company. This influence or control of the company is determined by special voting rights, shareholder agreements, the ownership of controlling or large blocks of shares, significant cross shareholding relationships and cross guarantees (Bhattar, 1995; Saeed, 1990). The shareholdings of directors and other non-executives should also be disclosed. This disclosure requirement is important in order to identify potential conflicts of interest, related party transactions and insider trading, information about record ownership needs to be complemented with current information about beneficial ownership (Jiloka and Verma, 2006; Bhattar, 1995). The OECD template Options for Obtaining Beneficial Ownership and Control Information and the Financial Action Task Force's Guidance on Transparency and Beneficial Ownership can be useful in this regard.

d. Board members and Executives remuneration

There has been an increasing concern by shareholders with regard board members and key executives remuneration. There is an increasing number of researches on the relationship between remuneration and company performance. It is already a legal requirement in some jurisdictions that organizations should disclose the remuneration of board members and key executives (Solomon and Solomon, 2004). The disclosure of remuneration information enables investors to assess the costs and benefits of the existing remuneration plans and the role of incentives schemes to organizational effectiveness. It is considered a good practice if companies can disclose this information on an individual basis (Nwosu, 2007).

e. Board members information: qualifications, the selection process, other company directorships

Organizations should disclose to investors all information about board members and key executives on an individual basis (Baysinger and Butler, 1985). This information enables the investors to evaluate their experience and qualifications and assess any potential conflicts of interest that might affect their judgment. This information include individual board

member's qualifications, share ownership in the company, other company directorship, other executive positions, and whether the board member is considered independent (Baysinger and Butler, 1985). This disclosure requirement reveals any potential conflicts of interest and makes transparent the degree to which there are inter-locking boards. In most countries companies are obliged to disclose the selection process and especially whether it was open to a broad field of candidates (Egwuonwa, 1997).

f. Related party transactions.

The disclosure of all material related party transactions and terms of these transactions to investors is increasingly regarded as a good practice. The disclosure of related party transactions is now a legal requirement in many jurisdictions (Bushman *et al.,* 2004). The board is expected to define and disclose the policy for determining material related party transactions. Examples of related parties include key management; major shareholders and their families and friends; and entities that are closely related to the company. The disclosure requirements encompass the nature of the relationship where control exists and the nature and amount of transactions with related parties. To enhance the disclosure requirement in terms of making it more informative, most jurisdictions distinguish related party transactions based on their materiality and conditions. All disclosure thresholds need to be based mainly on quantitative criteria (Bushman *et al.,* 2004).

g. Foreseeable risk factors.

Following the Global Financial Crisis and the increase in corporate collapses across the globe there has been an increase in the demand for information on reasonably foreseeable risks by financial information users and various market participants (Soludo, 2009). The risks include industry specific risks; geographical risks, commodities risks, financial risks; derivatives-related risks and off-balance sheet transactions risks; and business conduct risks. It is a disclosure requirement that sufficient and comprehensive information about all foreseeable risks be communicated to investors and all other stakeholders (Solomon and Solomon, 2004). The disclosure of information relating to the enterprise-wide monitoring and management of risk is increasingly regarded as good practice of corporate governance.

h. Employees and other stakeholders' concerns.

It is a corporate governance requirement for companies to provide information on the concerns relevant to employees and all other stakeholders (Freeman, 1984). The issues that may materially affect corporate performance or that may have significant impacts the stakeholder segments must be assessed and analyzed on a regular basis. Disclosure of stakeholder issues includes management-employee relations and relations among different stakeholder segments (Solomon and Solomon, 2004). Examples include employee representation mechanisms, remuneration, and collective bargaining coverage. Different countries have put in place extensive disclosure requirements on human resources. Human resource policies can communicate important information on the organization's competitive strengths to market participants.

I. Governance structures and policies

It is a mandated legal and organizational requirement for companies to report their corporate governance practices. The implementation of corporate governance principles by individual organizations should follow the regulatory authority requirements or endorsement with mandatory reporting on a "comply or explain" or similar basis. The disclosure of the corporate governance structures and policies is important for the assessment of a company's governance. The disclosure requirements should cover the division of authority between shareholders (Jiloka and Verma, 2006; Porwal, 1989).

Adoption of Technology and Skills

Technology has become a driver of organizational success, particularly in the banking market. It is important for the Board to recognize the significance of technology in enhancing organizational effectiveness. The Board must put in place policies to ensure the adequacy of the technology, skills and systems used in the corporation (Lemo, 2004). It is a responsibility of the Board to ensure that constant reviews of the organization's technology, skills and systems are undertaken in order to remain competitive (Nwosu, 2007).

Systemic Thinking

The modern business environment characterized by technological advancements, globalization and increasing competition; led to the increased recognition of the importance of systemic thinking in corporate governance. According to Ulrich (1984) there are five characteristics of systemic thinking:

1. “Holistic thinking in open systems
2. Analytical and synthetical thinking
3. Dynamic thinking in cycled processes, that is, process orientation
4. Thinking in structures and information processes
5. Interdisciplinary thinking”

Modern organizations need to incorporate systemic thinking as a significant cultural element; and a philosophy for dealing with the complex organizational problems (Ulrich, 1984). The systems thinking principle takes into consideration action and reaction between all stakeholders as well as their interaction with the wider business environment. The capacity and possibility of stakeholders to contribute to the wider business environment and towards shaping the system is at the center of this principle. The corporate governance and organizational effectiveness models should incorporate a systems thinking perspective based on the five characteristics by Ulrich (1984). This is important in ensuring the needs of the different stakeholders will be taken into consideration.

Figure 15 below depicts the systems thinking perspective. The perspective takes into consideration the organization’s internal environment as shown by the processes, strategy, culture, and structure. The organization should also consider its resources, norms, and concerns and then the wider society (Ruegg-Sturm, 2005). Corporate governance and organizational effectiveness should therefore ensure principles and practices that address each of the elements of the model in Figure 15.

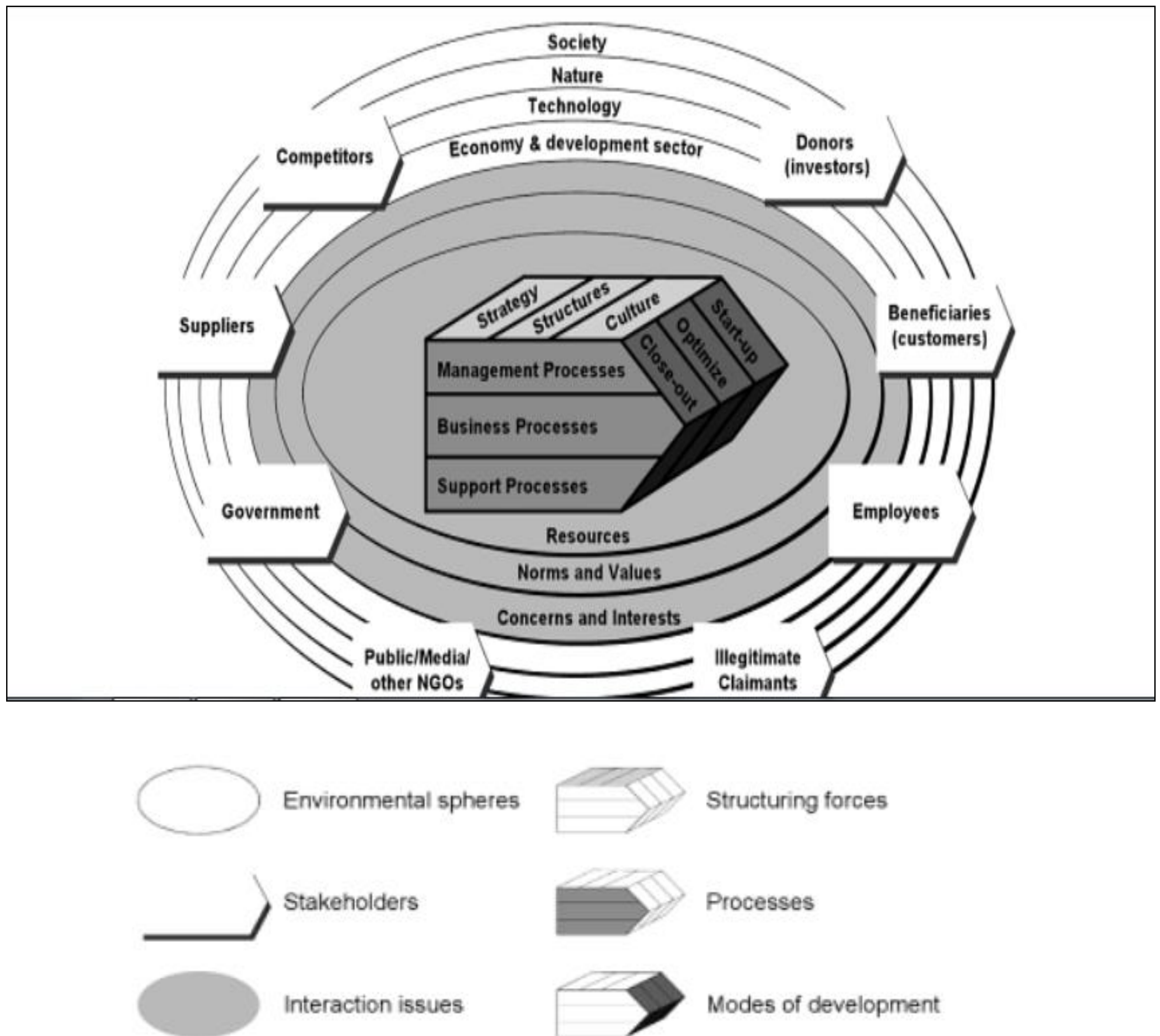



**Figure 15: The St Galen Management Model for the development sector (Ruegg-Sturm, 2005).**

As shown in Figure 15 above, there are six key areas that corporate governance should address: environmental spheres, stakeholders, interaction issues, structuring forces, processes and modes of development. These areas can also be used in determining the performance of the firm.

**Corporate Culture**

It is the responsibility of the board to define, promote and protect the ethos, ethics and beliefs of the corporation as these determine the corporate culture. It is the corporate culture that determines the organization’s policies, actions and behavior in its relationships with all stakeholders (Walker, 1999).

**Corporate Social Responsibility**

In line with the Triple Bottom Line requirement, organizations should operate within the mandate entrusted to it by society. The board should therefore recognize its social and environmental responsibility and ensure the organization will not short-change its customers, exploit its employees, pollute the environment, neglect local community needs, misuse resources, evade tax or engage in other anti-social practices (Elkington, 2006).

### 2.6.3 Corporate Governance in the international arena: UK and Asia

The most advanced industrial countries have been mostly affected by corporate governance deficiencies. The development of panoply of sound corporate governance principles and practices enshrined in legislation or through other regulatory mechanisms is being done at all levels, that is, at national, regional and international level (Abdullah and Valentine, 2009). The most significant corporate governance initiatives at international level are: OECD Corporate Governance Standards, Basel Committee Core Principles, and Basel Committee work on corporate governance. In the United Kingdom (UK), the rising corporate scandals in the 1980s and 1990 led to a growing distrust of, and skepticism towards managers and directors in organizations (Smith, 2010). Increasing irregularities in financial disclosure necessitated the establishment of the Financial Aspects of Corporate Governance Committee resulting in the Cadbury Report in 1992. The Cadbury Report encompasses a Code of Best Practice and its recommendations were incorporated into the London Stock Exchange (LSE) listing rules. The Cadbury Report was followed by the Rutterman Report in 1994, which focused on reporting the effectiveness of a company's internal control systems.

In 1995 the Greenbury Report was established and it recommended extensive disclosure of directors' remuneration in annual reports. It also recommended the establishment of a remuneration committee comprised of non-executive directors. The Hampel Committee followed the Greenbury Report and was established to assess the implementation of the Cadbury and Greenbury Reports. The Hampel Report led to the Combined Code of Corporate Governance (1998) covering such areas as board structure and operations, directors' remuneration, accountability and audit, relations with institutional shareholders,

and institutional shareholders' responsibilities. These reports offer essential principles and practices of corporate governance and are useful in assessing the effectiveness of the corporate governance of individual institutions. The Combined Code of Corporate Governance is regarded as an international benchmark for sound corporate governance.

Corporate performance is also affected by the implementation of the combined code of corporate governance. The Combined Code of Corporate Governance offers companies to comply with its principles or explain reasons for non-compliance. Under the Combined Codes of 1998 and 2003, companies are required to report in their annual report how they will have applied the Code Principle and Code Provisions relating to internal control. This is essential in driving inclusive organizational effectiveness. The Turnbull Committee was established in 1998 to provide guidance to companies, resulting in the 1999 Turnbull Guidance**,** *"Internal Control: Guidance for Directors on the Combined Code"*. The Securities and Exchange Commission (SEC) approved the Guidance as framework for management report the adequacy of internal control structures and overall financial reporting procedures in compliance with the Sarbanes-Oxley Act (SOX). The SOX is a United States (US) federal law which was introduced in 2002 following the Enron scandal in 2001 and the dissolution of Arthur Andersen. The Act was established to expand financial reporting reliability for public companies through regulations to ensure audit firms become more accountable by being more objective and independent of their clients.

During the period 2001 to 2009 several reviews were made including: Myners Review (2001), Directors Remuneration and Report Guidelines (2002), and Higgs Report (2003). Corporate governance in the UK is also significantly determined by the European Union policies and practices. The European Commission's *"Corporate Governance and Company Law Action Plan"* (2003) proposed a mix of legislative and regulatory measures which would affect all member States relating to: "disclosure requirements; exercise of voting rights; disclosure by institutional investors; and responsibilities of board members". The Global Financial Crisis 2008/09 has cast a shadow over the western governance model (Yip, 2013). The Turner Review (2009) was a UK regulatory response to the global banking crisis. The Turner Review outlines recommendations on the redesign of regulation and

supervisory approach in order to create a more solvent and stable banking system. It also focuses on improving the effectiveness of internal risk management and corporate governance. In response to the experience of critical loss and failure in the banking systems, The Walker Review (2009) was published. This review focuses on examining UK banking industry corporate governance and makes recommendations on:

- UK banking institutions' risk management effectiveness at board level;
- the competencies and independence required on the boards of UK banking institutions;
- the effectiveness of board practices and the performance of corporate governance committees such as audit, risk, remuneration and nomination;
- institutional shareholders' role in engaging effectively with companies and monitoring boards; and
- compliance of the UK corporate governance frameworks with international best practice.

The adoption of these recommendations are essential in driving organizational effectiveness through the implementation of effective risk management practices, enhancing the performance of directors, improve overall board effectiveness, and ensuring compliance with international best practices (The Walker Review, 2009). The focus of the Walker Review recommendations is therefore to improve organizational effectiveness at institutional, industry, and inclusive level.

Figure 16 below shows the development of corporate governance in the UK. There have been a numerous reports on improving the UK corporate governance infrastructure from Institute of Directors, Committee on Corporate Governance, The Institute of Chartered Accountants in England, London Stock Exchange, and Financial Reporting Council. These reports are essential in ensuring the adoption of sound corporate governance principles and practices to improve organizational effectiveness.

**Corporate Governance Codes, Best Practice Guidelines & Reports UK**

- Institute of Directors, (2001) **Standards for the Board – Improving the effectiveness of your board**, London: Kogan Page
- Committee on Corporate Governance, Hampel Committee, **Final Report** (January 1998)
- Department for Trade and Industry **Report on the Committee on the Financial Aspects of Corporate Governance, Cadbury,** (December 1992)
- Department for Trade and Industry, **Higgs Review on the Role and Effectiveness of Non-Executive Directors** (January 2003)
- Department for Trade and Industry, Myners Committee. **Developing a Winning Partnership: How Companies and Institutional Investors are Working Together** (1995)
- Financial Reporting Council, **The Smith Guidance on Audit Committees,** (January 2003);
- Department for Trade and Industry, **The Tyson Report on the Recruitment and Development of Non-Executive Directors,** (June 2003)
- Hermes Investment Management Ltd, **International Corporate Governance Principles,** (December 1999)
- Institute of Chartered Accountants in England and Wales, Internal Control Guidance for Directors on the Combined Code, Turnbull (Sept 1999)
- London Stock Exchange**, Combined Code: Principles of Good Governance and Code of Best Practice,** (July 2003)
- Study Group on Directors' Remuneration, **Final Report** (Greenbury Report) (July 1995)
- The Institute of Chartered Accountants in England and Wales, **Closing the Communications Gap: Disclosure and Institutional Shareholders** (April 1997) and **Audit Committees: A Framework for Assessment** (May 1997)
- Cadbury A (2002) The Chairman and Corporate Governance, London
- ICSA A Guide to Best Practice for Annual General Meetings, London, ICSA
- ICSA A guide to the Statement of Compliance, London, ICSA
- ICSA Duties of a Company Secretary, London, ICSA
- ICSA The Appointment and Induction of Directors, London, ICSA
- ICAEW, Internal Control and Financial Reporting, Rutteman Report, 1994
- CIPFA, The good governance standard for public services, 2005
- USA federal law, the **Sarbanes-Oxley Act** (July 2002)
- Financial Services Authority, **The Turner Review: A regulatory response to the global banking crisis** (March 2009)
- HM Treasury, **The Walker Review of corporate governance in UK banks and other financial industry entities** (November 2009)
- Financial Reporting Council, **2009 Review of the Combined Code: Final Report** (December 2009)

**Figure 16: Corporate Governance development in the UK**

**Source: Kingston City Group Report (2009)**

The UK Code of Corporate Governance has the following key sections: Leadership, Effectiveness, Accountability, Remuneration and Relations with Shareholders. Each section contains Main Principles, Supporting Principles and Code provisions. The main principles set out broad characteristics of sound corporate governance practice; the supporting principles and more detailed Code provisions expand on the main principles (Smith, 2010).

- **Asian Region**

The diversity of the Asian region in such areas as legal tradition, cultural tradition, regulatory infrastructure, and economic development makes corporate governance complex. Business forms of ownership vary considerably while the experience, behavior, and corporate governance frameworks differ across markets. Nevertheless, there are commonalities. The Asian business landscape is dominated by family-run firms and strong informal stakeholder relations (Abdullah and Valentine, 2009). Business owners in the Asian region have a propensity "to establish large interlocking networks of subsidiaries and sister companies

that include partially-owned, publicly-listed companies" (Claessens *et al.,* 1999). The Asian market experiences the challenges of encouraging the dynamism and growth of family businesses while channeling their energies and operations into more transparent structures and, consequently, more clearly equitable for non-family investors. Family members and or close friends constitute the principal investors in Asian enterprises. There is also a considerable legal and economic diversity in Asia. For examples Hong Kong China, India, Pakistan and Malaysia, have common law frameworks whist Thailand and the Philippines rely on French civil law frameworks. China, Chinese Taipei and South Korea draw upon German civil law traditions. There is the dominance of State ownership of enterprises in China and India, and aspects of stakeholder relations reflect elements of socialist law. In most Asian countries the behavioral norms arise from various cultural and religious traditions (OECD, 2011).

**Corporate Governance Priorities in Asia**

According to the OECD (2011) reform priorities in Asia report the following are the main corporate governance priorities in Asia:

***Priority 1*:** All organizations in the public and private sector should continue to make the business case for the value of sound corporate governance among all stakeholders.

***Priority 2***: The effective, active and visible enforcement of sound corporate governance laws and regulations should be a top priority of all jurisdictions. All regulatory, investigative and enforcement institutions should be adequately resourced, credible and accountable, and collaborate effectively with other domestic and international institutions. The establishment of a credible and efficient judicial system should be ensured by all countries in the region (OECD, 2011).

***Priority 3***: Disclosure standards should be greatly enhanced. This includes timely and transparency in reporting. Jurisdictions should promote the adoption of emerging good practices for non-financial disclosure. The process of full convergence with international accounting and audit standards should be implemented through the Asian Roundtable

jurisdictions. The implementation and monitoring of audit and accounting standards should be overseen by independent bodies (OECD, 2011).

***Priority 4***: There is need to enhance the performance of all corporate boars through training and regular board evaluations. The board nomination process should be highly transparent. This should include full disclosure about prospective directors, including their qualifications, with emphasis on the selection of highly competent candidates. The participation of board of directors in strategic planning, monitoring of internal control and risk oversight systems should be improved. Boards should ensure independent reviews of transactions involving managers, directors, controlling shareholders and other insiders (OECD, 2011).

***Priority 5***: The protection of all non-controlling shareholders from expropriation by controlling shareholders and insiders. Corporate gatekeepers should be highly responsible and inform and advise shareholders free of conflicts of interest.

Priority 6: Institutional and other investors should encourage and facilitated shareholder activism and engagement.

### 2.7 Organizational Effectiveness: Theoretical Underpinnings

Organizational effectiveness has been extensively researched since the early development of organizational theory (Rojas, 2000). Attention to the subject of organizational effectiveness has been increasing in the last several years as management scholars have extolled management excellence, and economic conditions have put pressure on organizations to become more accountable with their resources (Cameron, 1986). Organizational effectiveness is a construct that is founded in the ideals and preferences of evaluators and became more prominent in the 1980s as it switched from being a construct to the status of a concept (Henry, 2011). Organizational effectiveness is considered to have unclear meaning and a lack of consensus on effective techniques to measure it and the disparity in its use (Cameron, 1984). Despite some consensus that (i) the determination of organizational effectiveness calls for numerous criteria, (ii) organizational effectiveness must takes into account the means and ends (Robbins, 1983), and (iii) there should be

flexibility regarding the choice of model suitable for the context (Cameron, 1986), the definition, circumscription and criteria identification of organizational effectiveness remain a challenge.

One of the continuing themes in the study organizational theory is the clarification of effectiveness variation and the continued investigation for its underlying structure (March and Sutton, 1997). Literature generally states the main conceptions of organizational effectiveness to include profitability, financial-market, sustainability, stakeholder satisfaction, and quality of firms' transformations (Chakravarthy, 1986). These conceptions are directly connected to the organization's capacity to access and absorb resources and as a result achieve its strategic intent (Federman, 2006). Organizational effectiveness generally encompasses the organization's capacity to access the essential resources for the fulfillment of its purpose (Cameron, 1978). McCann (2004) noted it as "the criterion of the organization's successful fulfillment of its purposes through core strategies".

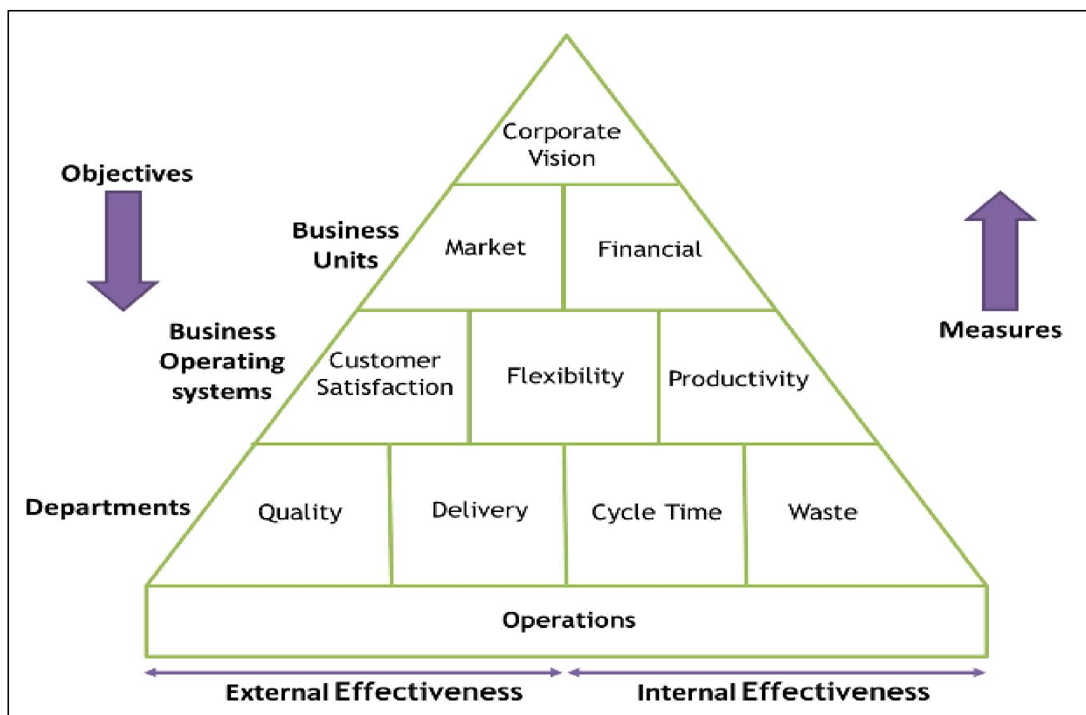



**Figure 17: Organizational effectiveness measures**

Figure 17 above shows the different measures of organizational effectiveness in the context of departmental objectives, systems objectives, and business units' objectives. The diagram indicates that organizational effectiveness can be measured from an internal and external

perspective. The overall measure of organizational effectiveness is the attainment of the corporate vision. The focus of organizational effectiveness should mainly be the management of human resources and organizations. This focus on human resources and organizations will enable individuals and teams to achieve skills and self-esteem in order to control their environment and find security and support (Vinitwatanakhun, 1998), thereby driving organizational effectiveness. An effective organization is characterized by the environment where people continually develop their creative capacity in order to achieve positive and meaningful results; where new and expansive patterns of thinking are nurtured; where collective ambition is encouraged; and where continuous learning is practiced (Senge, 1990). Highly effective organizations exhibit strengths in such areas such leadership, decision making and structure, human resources, work processes and systems, and culture. According to Yulk (2008), organizational effectiveness is determined by the sustainability of the business, its ability to perform its mission, and the ability to maintain and sustain positive earnings and asset value. The key organizational effectiveness indicators include long-term profit growth, customer satisfaction, return on investment, and stock returns. Generally effectiveness depends on “efficiency and process reliability, human capital, and adaptation to the external environment” (Yulk, 2008). These primary determinants of performance are influenced by management, directors, and shareholders.

Organizational effectiveness adopts a holistic approach to performance measurement in a business, across a broad range of criteria. Financial performance, long-term planning, internal structure, and adherence to core values are critical components in understanding organizational effectiveness (Yulk, 2008; Senge, 1990). The concept of organizational effectiveness demands the prudent and strategic use of all organizational resources for creating sustainable competitive advantage. The concept also calls for creating sustainable growth and development by taking care of not only the shareholders' expectations but also the expectations of all other stakeholders. It also means that management takes the proper ethical decisions in the interest of all the stakeholders.

The American Public Human Services Association (APHSA) (2002) defined organization effectiveness as “a systematic and systemic approach to continuously improving an

organization's performance, performance capacity and client outcomes". "Systemic" encompasses taking into account the whole organizational system; "systematic" refers to taking a methodological approach. Therefore, organization effectiveness is a methodological approach to continuously improving the whole organization.

As depicted in Figure 18 below, effective organizations are described as operating systems that comprises of interconnected moving parts: the shared plan of the organization (strategy); key organizational resources (inputs); organization's ability to pursue targeted outcomes using available resources (performance capacity); specific organizational activities aimed at achieving the predetermined outcomes (performance actions); overall system performance results (outputs); resultant changes to lives (outcomes); and all stakeholders' feedback about the performance of the organization relative to the desired outputs and outcomes (feedback from the environment). Feedback is important because it drives continuous improvement of strategy, resources, performance capacity, performance actions, and consequently outputs and outcomes (APHSA, 2009).

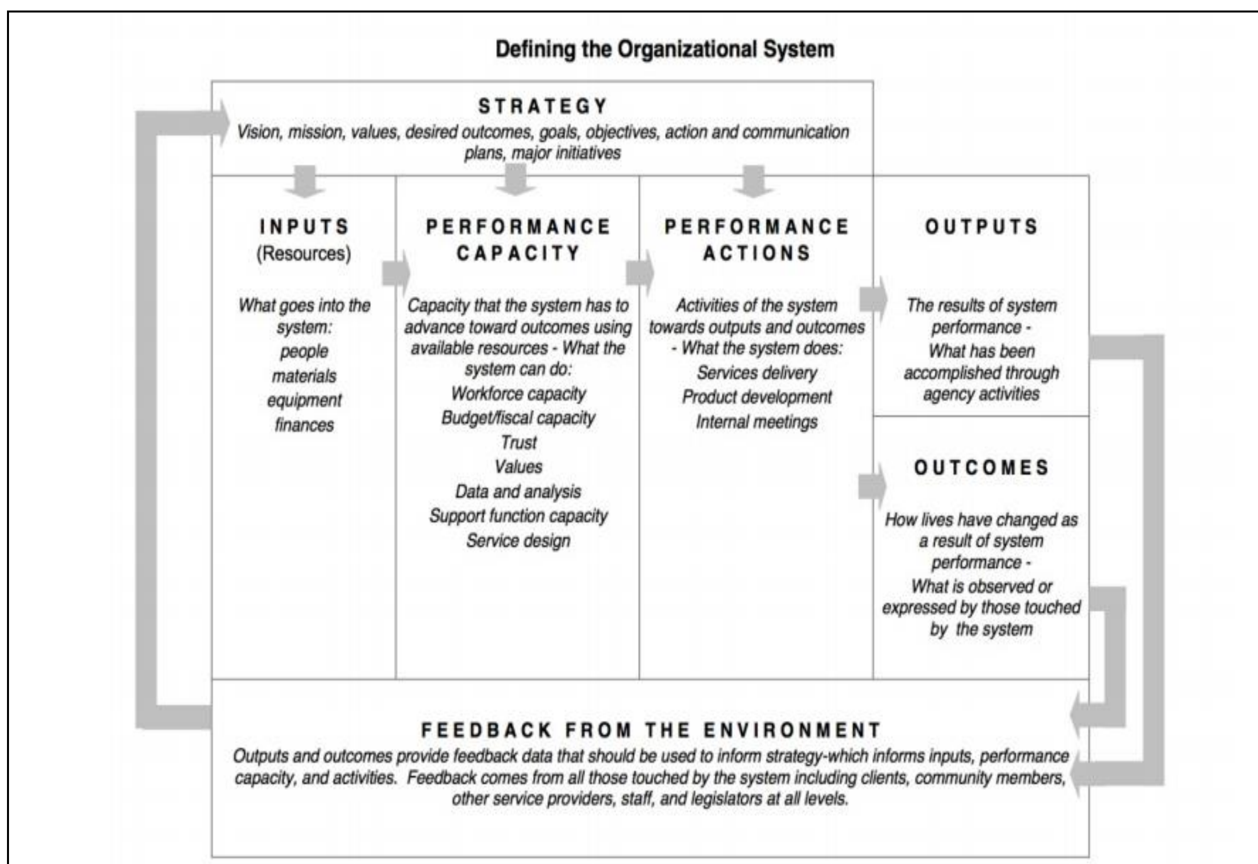



Figure 18: Adapted from American Public Human Services Association (2009).

Effective organizations make concerted, planned effort to ensure the whole system is perfectly and strategically aligned to achieve the organization's purpose. All strategic initiatives are highly dependent on the effective use of the technical expertise provided by support functions. The support functions should continually develop in order to increase their impact on organizational effectiveness efforts (Senge, 1990).

There are a number of ways through which an organization can be effective or, and these ways may be relatively independent of one another: Productivity, turnover, efficiency, conflict, employee absenteeism, goal consensus, participation in decision making, communications and stability. According to Balduck and Buelens (2008) organizational effectiveness revolves round the following four approaches: the system resource approach, the goal approach, the strategic constituency approach and the internal process approach. There are seven critical questions for bounding and assessing effectiveness models (Cameron and Whetten, 1983). Cameron and Whetten (1983) state that these questions are pertinent to the current study and motivate the analysis and criticism of existing models and the development of new ones in the banking sector context:

(i) "From whose perspective is effectiveness being assessed?
(ii) On what domain of activity is the assessment focused?
(iii) What level of analysis is being used?
(iv) What is the purpose of assessing effectiveness?
(v) What time frame is being employed?
(vi) What type of data is being used for assessments?
(vii) What is the referent against which effectiveness is judged?"

**Organizational effectiveness models**

There are numerous models that attempt to capture the richness of organizational effectiveness as a construct and a concept. This multiplicity of organizational effectiveness frameworks can be explained by the nature of the organizational effectiveness construct, and also by a range of conceptualizations of organizations that yield different effectiveness models (Cameron, 1984). The different models of organizational effectiveness are useful in

determining the performance of the firm and aligning the corporate governance framewoks. These models are as explained below:

**Goal model**

This model is the most common theoretical perspective on effectiveness. The conventional organizational effectiveness model relies on the firm's vision as a rational set of arrangements focused on achieving set goals (Goodman *et al.,* 1977). The model posits that organizations can be understood as rational entities. The primary focus of the rational goal model is the ability of an organization to achieve predefined goals. The accomplishment of outcomes is the basic measure of effectiveness (Etzioni 1960). "Its focus is on the output, to figure out the essential operating objectives like profit, innovation and finally product quality" (Schermerhorn *et al.,* 2004).

**System model**

The system model emphasizes the means towards the accomplishment of specific ends. The focus is on inputs, resources and processes (Yuchtman and Seashore, 1967). Effectiveness is explained in terms of the ability to obtain necessary resources from the environments outside the organization (Schermerhorn *et al.,* 2004). The conception of the organization is grounded in the open system approach whereby the inputs, transformation process and outputs are considered part of whole and not independent components. The model analyzes the ability of managers and directors to efficiently distribute resources among various subsystems' needs. The organization, in this case, is defined as a network of interrelated subsystems.

**Strategic-constituencies model**

The goal and systems model are expanded under the strategic constituencies model. The model adds the expectations of all the powerful stakeholders of the organization (Connolly, Colon and Deutch, 1980). The effects of the organization on its key stakeholders are addressed by the strategic constituencies model (Schermerhorn *et al.,* 2004). Effectiveness is therefore a measure of the minimal satisfaction of all stakeholders (strategic constituencies). The strategic constituencies have different roles in an organization.

Examples of such roles include consumers of the products or services, resource providers, facilitators of the organization's output, and dependents of the organization (Cameron, 1981). An organization is therefore perceived as a set of internal and external constituencies that negotiate a complex set of constraints, goals and referents (Goodman *et al.,* 1977).

**Competing-values model**

This model constitutes a synthesis and an extension of the goal, system and strategic-constituencies models (Quinn and Rohrbaugh, 1983). Effectiveness under this model is perceived as an exercise grounded in values. Organizational values therefore forms the foundation of this model, hence three sets of competing values are juxtaposed to form different definitions of effectiveness. These sets of values are: (i) means-ends dilemma, (ii) the internal-external focus dilemma, and (iii) the control-flexibility dilemma.

**Ineffectiveness model**

The focus of this model is on the factors that inhibit successful organizational performance. An organization is therefore perceived as a set of problems and faults (Cameron, 1984). Its basic assumption is that "it is easier, more accurate, more consensual and more beneficial to identify problems and faults (ineffectiveness) than criteria of competencies (effectiveness)". Organizational effectiveness is therefore defined as the absence of inhibiting factors.

Figure 19 below shows that organizational effectiveness can be influenced by the organizational design, workplace design, and technology design. These three organizational design elements affect psychological and behavioral effects, workplace practices, and business results. Corporate performance is therefore a result of organizational design, workplace design, and technology design (Miller, 2012). Corporate governance principles and practices should therefore address these three design elements in order to generate favorable business impacts.

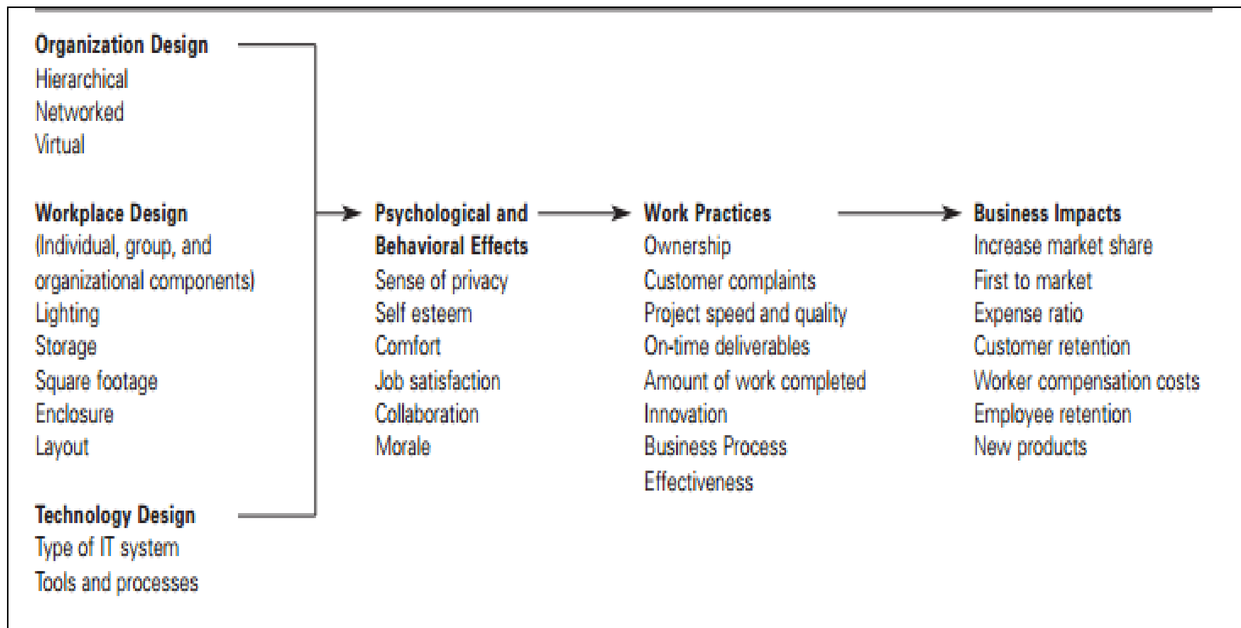



**Figure 19: Measurement Models of Organization Effectiveness**

**Source:** Miller (2012)

### 2.7.1 Organizational Effectiveness: Frameworks and Methodologies

Star Model

The Star Model framework for organizational design is the foundation for organizational design choices. This model is comprised of different controllable design policies that can influence employee behavior. In order for organizational leaders to effectively shape their decisions and behaviors, they must be skilled in these policies. There are five categories of Star Model design policies: strategy, structure, processes, rewards and people (Galbraith, 2002). The six design policies in Figure 20 are therefore useful measures of organizational effectiveness and the design of an appropriate corporate governance model in the context of the organization’s direction, power, skills, motivation, and available information.

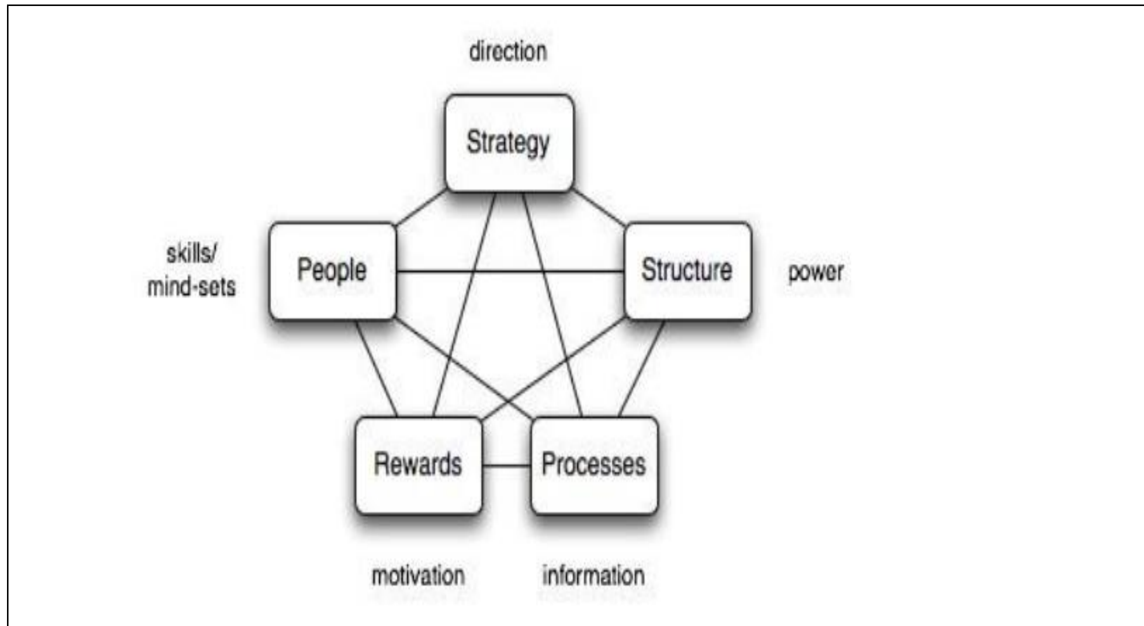



**Figure 20: The Star Model.**

**Adapted from Galbraith (2002)**

These policies must be perfectly aligned and interacting harmoniously with one another if an organization is to be effective. Design policies alignment is fundamental to the Star Model. Every organization needs to be adaptive and change as quickly as its context changes. And if change is constant, organizations should be designed to be continuously and quickly changeable. Organization structures and processes have to be easily reconfigured and realigned with a changing strategy. This requires the skilled use of extensive internal and external networking capabilities (Galbraith, 2002). The Star Model has its main advantage as the concept of strategic alignment. Policy alignment ensures goal-oriented working and therefore organizational effectiveness. The model also considers adaptability to a constantly changing environment.

## The 7S Model

The 7-S-Model of the former McKinsey management consultants Peters and Waterman Jr. (1982) divide organizations into "hard" and "soft" factors. Figure 21 shows the seven factors that underlie this model. The "hard" factors cover elements more concrete and can be exposed with policy papers, plans and documentations on the development of the organization. The three "hard" or "cold" factors of an organization are: strategy, structure, and systems. The expression "soft" refers to substantially and only marginally concrete

elements of an organization that can hardly be described. These elements develop permanently, and can be planned or controlled only limitedly because they are highly dependent on the members of the organization. These “soft” or “warm” factors are: skills, staff, style (culture), shared values (super-ordinate goals). While the hard factors are easier to test, the assessment of the soft factors is much more difficult but they are at least as important for organizational effectiveness.

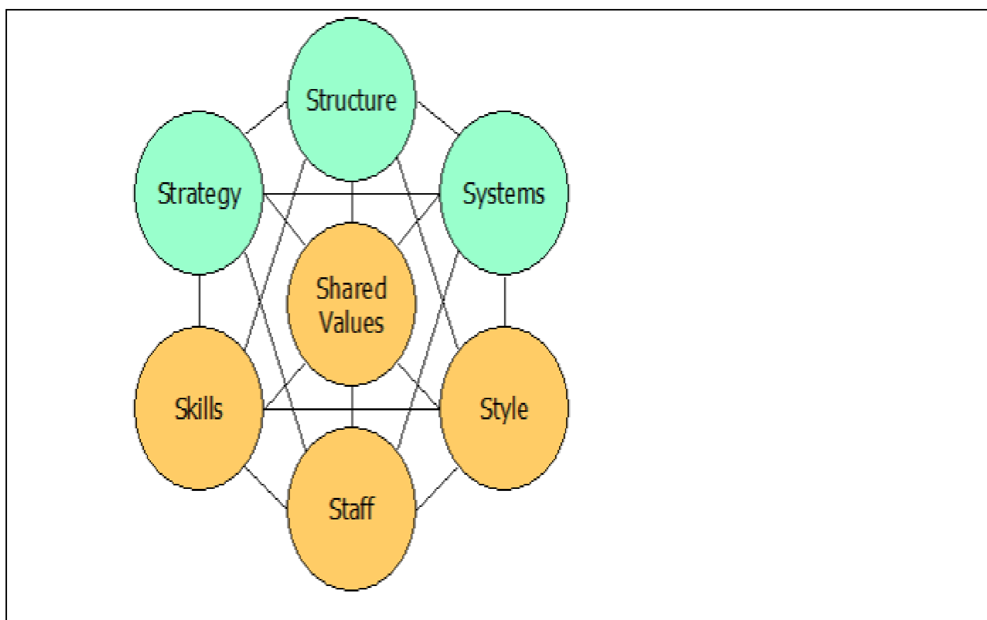



Figure 21: The 7S Model (Peters and Waterman Jr, 1982)

Effectively functioning organizations are characterized by a coordinated balance of these seven factors. In times of change and adjustment, it should be noted that the modification of one factor also impacts on the other factors. An effective organization must aspire towards a right balance between the seven factors. Peters and Waterman Jr. (1982) argue that effective organizations put their attention also on the optimum balance of the soft factors as they can be decisive for success because new structures and strategies can barely be built on completely opposed cultures and values.

**Pyramid of Influence**

To ensure coordination of work, organizations should clearly identify the different strategic support of different decision units based on each unit’s decision packages. This is important to assist in the performance of the core work of the organization. Different functions in an organization work to support the organization in achieving its strategic intent (Lynch and

Cross, 1991). As shown in Figure 22 of the Pyramid of Influence, there are four major areas of organizational work. These areas involve understanding how support functions add value to the larger organization:

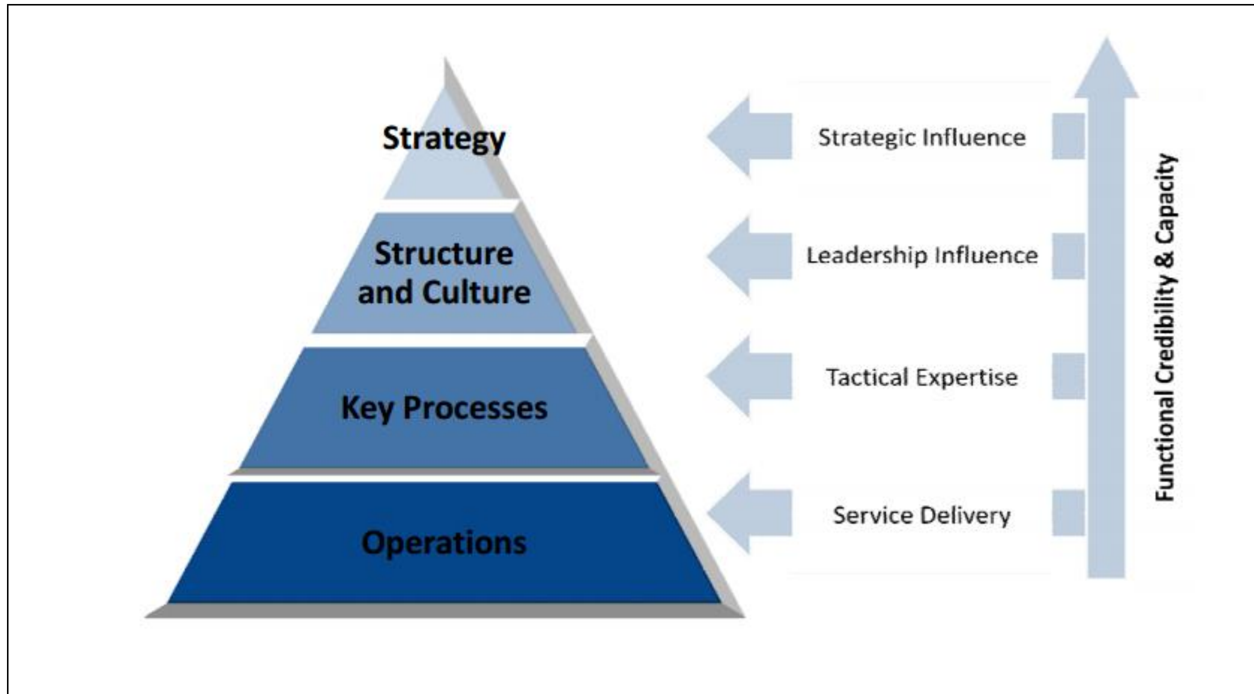



**Figure 22: The Four Major Areas of Organizational Work**

**Source:** Lynch and Cross (1991)

**Strategy work** involves clearly defining the organization's aim and game plan, that is, the organization's purpose, activities, resources, and what it needs to succeed. **Structure and Culture work** encompasses modeling the organization's values and communicating these values to all units. It also involves defining and communicating decision units, jobs, levels, work teams, policies, and performance expectations. The definition of specific processes and procedures that support strategy, structure and culture falls under the **Key Processes** work. The implementation of key processes, service provision, and managing individual performance falls under the **Operations work** (Lynch and Cross, 1991).

The support function of an organization is expected to perform the most fundamental work of the organization and this is categorized under **Service delivery**. Service delivery involves efficient management of key organizational information. This information includes staff records, performance data, financial records; and delivering core services in a timely and high quality manner. Effective completion of the service delivery work will lead to the need

for **Tactical Expertise** in order to help in designing key processes. Tactical Expertise involves gathering information from all internal staff and designing specific processes and procedures. Once the processes and procedures start adding value, organizational leaders will seek guidance to help them improve their individual effectiveness. This **Leadership Influence** work involves proactively giving advice to individual leaders in order to help them leverage strengths, close gaps, and pursue strategic priorities. The **Strategic Influence** function follows to help complete the organization's strategy work. This work involves participating in strategic planning and other executive team meetings and expertly evaluating different approaches to the organization's work (Lynch and Cross, 1991).

Organizations should ensure continuous improvement of strategic support work from the bottom of the pyramid up. The Pyramid of Influence therefore indicates that all the four areas of organizational work are connected to each other. Strategy is at the top of the pyramid because it drives the other three organizational efforts in alignment to it (Nanni *et al.,* 1992). Organizational structure and culture connects strategy to the day-to-day operations. The support function is important as it adds value in all four major areas. As support functions establish their credibility and effectiveness at the more foundational levels, they will then be able to add value at higher levels of the pyramid. In order to add more value, the strategic support functions should be regularly streamlined in order to enhance their innovative capacity. Every support function should primarily focus on effectively fulfilling the expected and traditional services before shifting its capacity towards providing more innovative tactical support in developing key processes. As the organization evolves in terms of effectively using the key processes, then it can further refocus toward helping improve the organization's structure and culture through leadership influence; and subsequently toward helping strengthen the organization's overall strategy (Lynch and Cross, 1991).

**Kanji Business Excellence Model (KBEM)**

Kanji Business Excellence Model is founded on total quality management (TQM) principles. TQM is a key measure of organizational effectiveness in any organization. These principles are regarded important in improving organizational performances (Kanji, 1998; Yang, 2009).

"Kanji's model consists of four principles: delight the customer; management by fact; people-based management; and continuous improvement" (Kanji, 1998). Each of the four principles is divided into two core concepts as in Table 5 below:

**Table 5: Kanji Business Excellence Model Principles**

| | **Principle** | **Core Concepts** |
|---|---|---|
| **1.** | Delight the customer | Customer satisfaction and Internal customer |
| **2.** | Management by fact | Work is Process and Measurement |
| **3.** | People-based management | Teamwork and people make quality |
| **4.** | Continuous improvement | Continuous improvement cycle and prevention |

The core concepts in Table 5 above are the essential measures of organizational effectiveness. Organizations should therefore adopt corporate governance principles and practices to address each of these core concepts. Figure 23 below indicates the achievement of business excellence as a result of the principles and core concepts from the prime. Directors and managers in organizations constitute the prime or foundation of any organization (Kanji, 1998). The directors and managers are actively and strategically involved in developing and implementing the organization's policies, strategies, vision and mission. This implies that organizational leaders are the essential driving force for quality improvement and business excellence. Their attitude must therefore promote all the four KBEM principles as in Table 5 above.

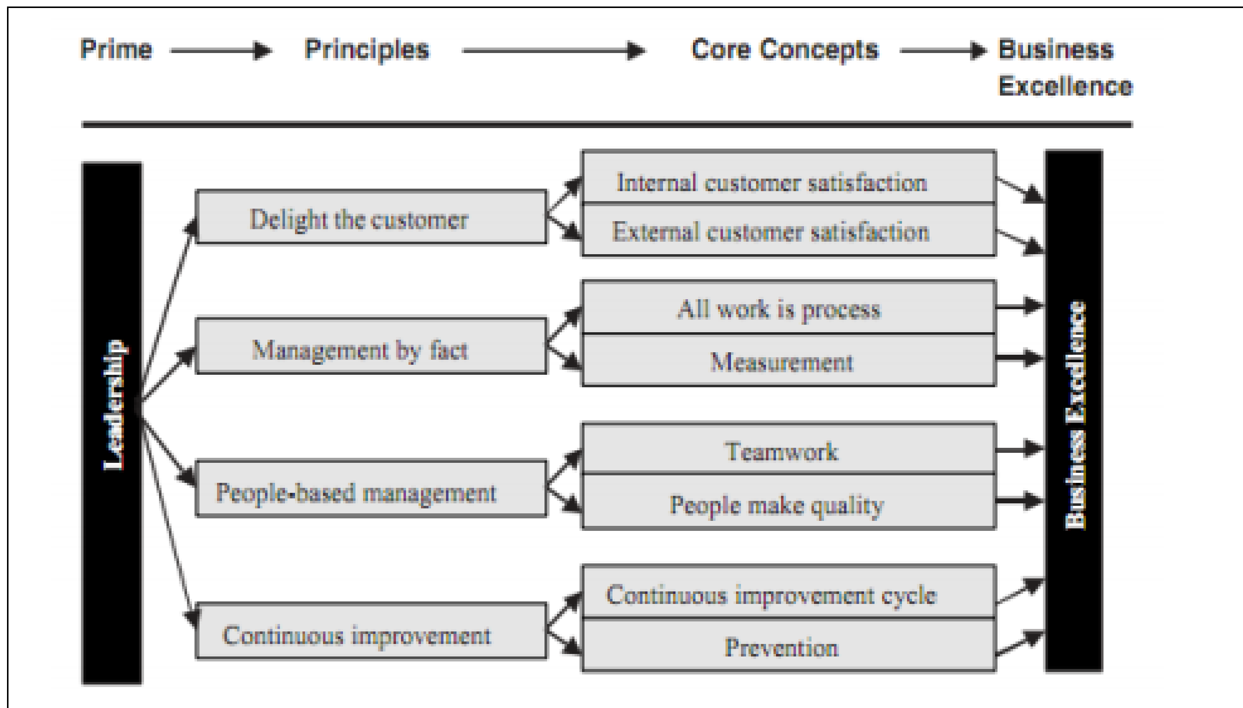



Figure 23: Kanji Business Excellence Model (Kanji, 2001)

The four dimensions of KBEM are prime, core principles, core concepts and business excellence. Core principles involve the main ideas of improving the performance of an organization. Core concepts refer to the key items in improving organizational performances. The model is generally a cause-effect business excellence model because each criterion has the causal relationships from leadership to the four dimensions correspondingly (Kanji, 2002).

Excellence is definitely associated with outstanding performance. Organizational excellence is defined as a means of determining the nature and extent of all stakeholders' satisfaction within an organization in order to obtain an all-inclusive evaluation of organizational performance. The ability to identify what drives stakeholders' satisfaction is the path to sustained organizational effectiveness.

**The Balanced Scorecard**

This framework is founded on the following eight objectives in performance measurement: "Profitability (measured by residual income); Market share; Productivity; Product leadership; Public responsibility (legal and ethical behavior, and responsibility to stakeholders including shareholders, vendors, dealers, distributors, and communities); Personnel development;

Employee attitudes; and Balance between short-range and long-range objectives" (Kaplan and Norton, 2000). These objectives form the key indicators of organizational effectiveness in an organization. Figure 24 below shows the scorecard summarizing these eight variables.

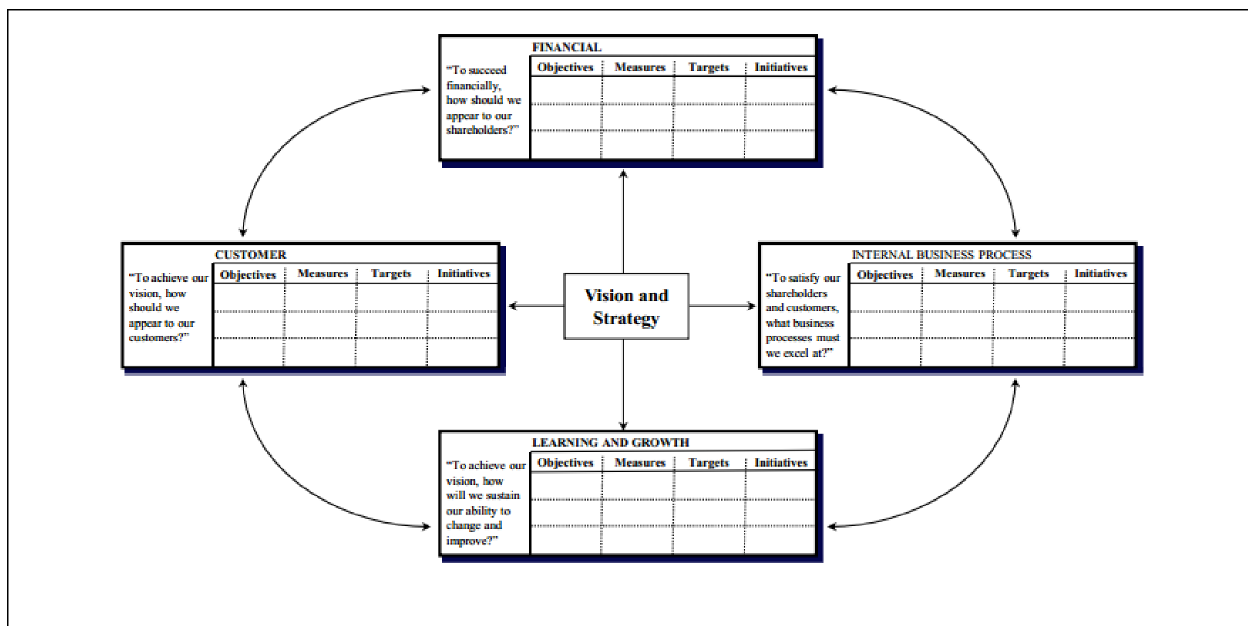



**Figure 24: The Balanced Scorecard**

**Source: Kaplan and Norton (1992)**

Figure 24 is a depiction of the original structure of the Balances Scorecard (BSC). The scorecard retains financial measures as the key measures of corporate performance. The financial measures are supplemented by customer, internal processes, and learning and growth. These are the drivers for creating long-term shareholder value in an organization (Kaplan and Norton, 2000; Kaplan and Norton, 1996). The BSC is closely related to the commercial banks performance indicators model as shown under Figure 5. Various experts indicated the significant role of the BSC as a tool in strategic management (Kaplan and Norton, 1996; Juhmni, 2007; Tohidi *et al.,* 2010). The advantages of the BSC in organizational effectiveness have been emphasized by Kim *et al.,* 2008; Asato *et al.,* 2009; Mores, 2000; Ittner *et al.,* 2003). These scholars emphasized the importance of the BSC as a performance evaluation model for managerial decision-making. The BSC is therefore an important corporate governance tool that provides causal links connecting financial and non-financial measures of firm performance.

## 2.8 Corporate Governance Variables and Organizational Effectiveness in Banking

Business leaders today seem to be boxed in by dysfunctional corporate governance principles, practices and habits that obscure reality, rather than expose it (Sanusi, 2003). The focus of this section is on the variables that have an effect on internal corporate governance and organizational effectiveness in banking organizations. The present literature review focuses on the conceptual framework variables. The following seven variables are considered independent variables in an effort to determine their impact on corporate governance and organizational effectiveness: Organizational learning, Exceptional Board, Leadership and Management interaction, Strategic (Transformational) Planning, Corporate Financial Reporting, Committed and Innovative Workforce, and Workplace Spirituality. The role of shareholders and other key stakeholders cannot be overemphasized.

### 2.8.1 Leadership and Management Interaction

The practice and principles of leadership imposes a strong effect on organizational effectiveness. Leaders and managers are important in developing the skills and perspectives that facilitate the accomplishment of organizational work (McCauley and van Velsor, 2004). Organizational effectiveness is dependent on an organization's management and leadership style (Saleem, 2005). Leadership is an important factor in enhancing efficiency within an organization. This view is corroborated by studies which found that the achievement of an organization's strategic intent is dependent upon the effective practice of leadership (Boal and Hooijberg, 2001; van der Merwe and van der Merwe, 1985). The awareness and implementation of appropriate leadership styles give an organization sustainable competitive advantage (Rianz and Haider, 2010). The company owners, employees, directors, and all other stakeholders, including the wider community have shared interests in the organization. Positive interaction between the owners, directors and management is fundamental for better corporate governance. This is supported by the values based leadership perspective which encompasses strong internalized ideological values as the binding factor between leaders and all stakeholders. Empirical studies reported that values based leadership drives approximately 15% to 25% of firm's profitability (Waldman *et al.,* 2001; Waldman and Atwater, 1992). The Annual Shareholder Meetings

provides all shareholders a platform to exercise their influence, hence the need for the shareholders to appropriately use their right for the improvement of the company. The environment which makes it extremely convenient for directors and management to frankly discuss corporate affairs is essential for good corporate governance (Dyck *et al.,* 2002). The board and all the shareholders should, at any given time, be well informed about the company situation. The CEO/Chairperson is the most influential person in boardrooms. This is because the CEO/Chairman is the most knowledgeable person about the organization. The CEO/Chairperson is the leader of the board. The leadership and management interaction drives collective decision making, efficiency in the use of resources, and reduction of conflict (Saleem, 2005). These positive effects are essential in determining both financial and non-financial performance of the organization.

### 2.8.2 Strategic (Transformational) Planning

Strategic planning is essential in ensuring a company makes critical decisions and is the foundation for the firm's operating plans (Boyd, 1991). Transformational planning involves the development of a strategic plan for modifying an enterprise's business processes through the adjustment of policies, procedures and processes to move the organization from an "as is" state to a "to be state" (McIiquaham-Schmidt, 2010). The following questions are central to the strategic planning process:

- What are the essential practices and procedures for sustainable business operations?
- What are the present and likely future challenges the organization will face?
- How does the organization communicate its mission, vision, strategic goals, and plans to its stakeholders?

Strategic (transformational) planning determines the nature of an organization's corporate governance structure (Boyd, 1991; David, 1997). A firm that has good strategic planning is likely to have effective corporate governance structures. It is extremely important for the board to understand the role of strategic planning in enhancing corporate governance. Its failure can lead to disagreements between the Board and the CEO (Kinross, 2012).

Strategic planning is a complex phenomenon conceived of from many complementary aspects. Literature suggests the following dimensions of strategic planning: standardization, sophistication, structure, systemization, severe, superiority, commitment, comprehensiveness, significance, and flexibility of the planning process and programmes (Miller and Cardinal, 1994; Boyd, 1991; Robinson and Pearce, 1988).

There has been increased controversy on the relationship between strategic planning and corporate performance (Wagner, 2006). A study by Pearce *et al.,* (1987) found that there are inconsistent and controversial results on the relationship between strategic planning and corporate performance. Strategic planning intensity, regardless of it being formal or informal, is positively related with performance (Hopkins and Hopkins, 1997). However, Robinson and Pearce (1983) found that strategic planning formality and decision making processes are not always congruent. Studies generally show that strategic planning provides intrinsic values and advantages that lead to organizational effectiveness (Greenly, 1985; Grants, 2003). Banks that formalize the strategic planning process are likely to have lower ROIs than those banks that conduct strategic planning in an informal manner (Gup and Whitehead, 1989). Effective planning in the banking sector drives organizational effectiveness.

### 2.8.3 Organizational Learning

The modern business world is characterized by enormous disruptive changes (Christensen and Overdorf, 2000) which require businesses to deliver greater value to customers through unmatched combinations of quality, innovation, efficiency, and customization. The achievement of these new sources of business value requires organizations to avoid the familiar by becoming more strategic. Traditional organizational models and patterns of thinking must be replaced with new ones. It is imperative that organizational leaders and managers facilitate the adoption of new ways of thinking and acting amongst all stakeholders, particularly those internal to the firm (Bontis *et al.,* 2002). In view of the disruptive business environment, "an organization's propensity to learn, that is, to acquire, apply, and spread new insights has been touted as the fundamental strategic capability" (Fiol and Lyles, 1985) and the major source of competitive advantage (de

Geus, 1997). Through organizational learning, organizations generate innovations, adapt to environments, take advantage of emergent market opportunities and create competitive advantage. The institution's ability to learn and change fast is a key driver of sustainable competitive advantage (Winston, 2009). Organizational learning is defined as a change in the organization's knowledge that occurs as a function of experience (Fiol and Lyles, 1985). There exist a positive relationship between organizational learning and organizational effectiveness (Bergh and Lim, 2008; Amburgey and Miner, 1992).

Organizational learning refers to the process through which an organization gains insight and understanding about the interdependence and interaction of its internal and external environment (Bresser and Bishop, 2004). There are a number of ways through which an organization can learn: from experience, through experimentation, observation, analysis, and through examining successes and failures. The two key notions of organizational learning are that: organizations learn through its people who act as agents; and at the same time the organization's learning system determines individual learning (Bresser and Bishop, 2004). Literature indicates that knowledge advantage is a sustainable advantage that provides increasing returns for organizations (Antonacopoulou, 2006). In view of the emergence of the knowledge economy, corporate sustainability is a product of the ability of organizations generate, communicate and leverage their intellectual assets.

The increased appeal towards organizational learning is derived from the presumption that learning is a tool for intelligence and that organizations are capable of intelligent behavior. "The basic image is that organizations collect experiences, draw inferences, and encode inferences in repositories of organizational knowledge, such as formal codes and regulations and informal practices" (Schulz, 2001). Organizational learning emphasizes making and updating of routines (recurrent sequences of action) in response to experiences (Levitt and March, 1988). Examples of organizational routines include "organizational rules, roles, conventions, strategies, structures, technologies, cultural practices and capabilities" (Levitt and March, 1988). These routines are the primary form of organizational knowledge. Organizational learning emanate from learning practices which support, hinder, or inform change initiatives, spreading, and practical application of organizational knowledge.

Organizational learning is an important theme in corporate governance because it enables organizations to adjust and correct their activities in order to achieve stated goals (Edmilson, 2011). The purposes or objectives of organizational learning are as shown in Figure 25 below. These purposes are essential in driving organizational effectiveness (Serrat, 2009).

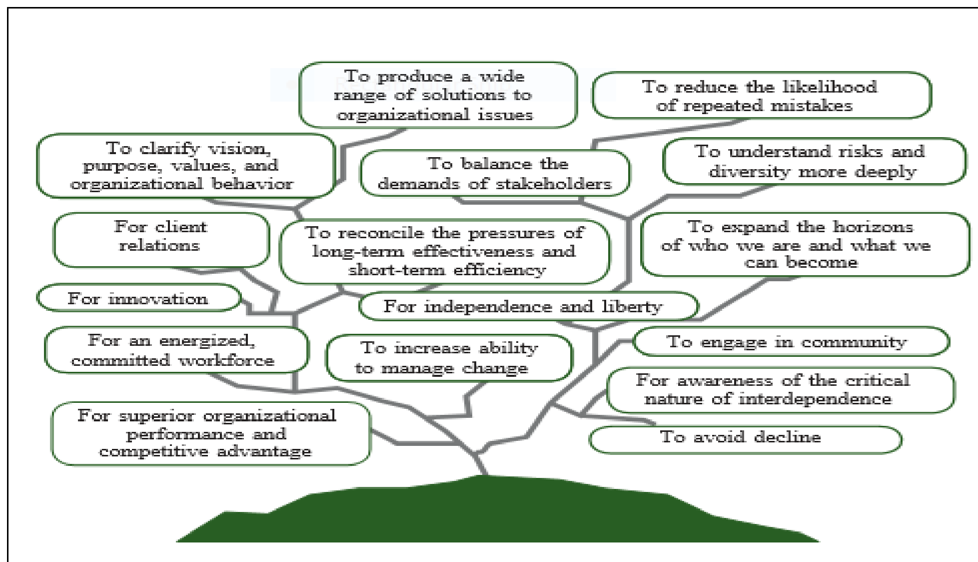



**Figure 25: Why organizational learning.**

**Source:** Serrat (2009)

| |
|---|
| • People feel they're doing something that matters—to them personally and to the larger world. |
| • Every individual in the organization is somehow stretching, growing, or enhancing his or her capacity to create. |
| • People are more intelligent together than they are apart. If you want something really creative done, you ask a team to do it—instead of sending one person off to do it on his or her own. |
| • The organization continually becomes more aware of its underlying knowledge base—particularly the store of tacit, unarticulated knowledge in the hearts and minds of employees. |
| • Visions of the direction of the enterprise emerge from all levels. The responsibility of top management is to manage the process whereby new, emerging visions become shared visions. |
| • Employees are invited to learn what is going on at every level of the organization, so they can understand how their actions influence others. |
| • People feel free to inquire about each other's (and their own) assumptions and biases. There are few, if any, sacred cows or "undiscussable" subjects. |
| • People treat each other as colleagues. Mutual respect and trust are evident in the way they talk to each other and work together, no matter what their position may be. |
| • People feel free to try experiments, take risks, and openly assess the results. No one is censured for making a mistake. |

**Figure 26: Characteristics of Learning Organizations.**

**Source:** Serrat (2009)

Figure 26 above shows the characteristics of learning organizations. These characteristics are important measures of organizational effectiveness. A learning organization ensures that people enjoy doing their work, people are more intelligent, and people treat each other as colleagues (Serrat, 2009)

Watkins and Marsick (1997) proposed a constructive concept of learning organization measures. The concept comprises seven dimensions of learning-related factors in both people-oriented and structure-oriented components. Figure 27 below shows that the seven dimensions of learning organizations are continuous learning, inquiry and dialogue, team learning, embedded system, empowerment, system connection, and strategic leadership (Watkins and Marsicks, 1997). The seven dimensions of learning organizations are essential in determining organizational effectiveness.

| *Dimension* | *Description* |
|---|---|
| Continuous learning | Opportunities for ongoing education and growth are provided; learning is designed into work so that people can learn on the job. |
| Inquiry and dialogue | The organizational culture supports questioning, feedback, and experimentation; people gain productive reasoning skills to express their views and the capacity to listen and inquire into the views of others. |
| Team learning | Work is designed to use teams to access different modes of thinking; collaboration is valued by the culture and rewarded; teams are expected to learn by working together. |
| Embedded system | Necessary systems to share learning are created, maintained, and integrated with work; employees have access to these high- and low-technology systems. |
| Empowerment | People are involved in setting and implementing a shared vision; responsibility is distributed so that people are motivated to learn what they are held accountable to do. |
| System connection | The organization is linked to its communities; people understand the overall environment and use information to adjust work practices; people are helped to see the effect of their work on the entire organization. |
| Strategic leadership | Leadership uses learning strategically for business results; leaders model, champion, and support learning. |

**Figure 27: Seven Dimensions of Learning Organizations**

**Source:** Watkins and Marsick's Model (1997)

#### 2.8.4 Exceptional Boards

The significance of corporate boards has been highly questioned because their impact on day-to-day operation is difficult to observe (Kemp, 2006). Exceptional organizations know where they are going. Management is responsible for strategy and execution, but boards have a vital role of giving organizations corporate direction, dignity and discipline (Coulson-Thomas, 1993).

According to literature the eight vital roles of boards in an organization are: steward of the organization, model of corporate values and core values, custodian of strong governance,

strategist, risk and scenario planner, public face and market maker, custodian of capital markets and global advocate (Renjen, 2012; Garret, 1996; Kemp, 2006; Vafeas, 1999). "Directors act as a source of advice and counsel, save as some sort of discipline, and act in crisis situations" (Mace, 1971). Directors are also involved in the process of hiring, promoting and assessing top executives, and when necessary dismissal (Naveen, 2006). Top executives assessment has two components: monitoring of management actions and activities; and determining the intrinsic ability of management. An exceptional board is important in strategic thinking and strategic leadership which drives organizational effectiveness.

According to the King Report (1994), boards are involved in the following roles:

- to define the purpose of the company
- to define the values by which the company will perform its daily duties
- to identify the stakeholders relevant to the company
- to develop a strategy combining these factors
- to ensure implementation of the strategy

The complexity of business transactions, advancements in technology, globalization, shortened product cycles, and the overall pace of change have increased the volume and complexities of risks facing modern organizations thereby redefining the role of directors in enterprise-wide risk oversight.

Directors have to enhance their position of trust in organizations by performing their responsibility of duty of care for the organization. They are also responsible for ensuring the integrity of the organization's financial records and reports. Directors are legally responsible for ensuring the organization complies with applicable laws and codes. The testing of business models and identification of key performance measures is a responsibility of directors (Vafeas, 1999; Penrose, 1959; Letende, 2004).

With regards corporate governance, the board has a dual mandate, that is advisory and oversight of the organization and all its affairs. Empirical evidence on the role of exceptional

boards, in terms of the roles and responsibilities of the board, supports these views (Boone *et al.,* 2007; Lehn, Patro and Zhao, 2008; Linck *et al.,* 2008).

### 2.8.5 Corporate Financial Reporting

Corporate financial reporting is an accounting activity. It is a social phenomenon, aimed at letting the organization’s stakeholders know the economic activity of the enterprise. The rapid change and growth of the forms of business ownership, led to an increase in the complexity of the business environment, the level of competition and in the information requirements of firm stakeholders. This has necessitated the rising significance of the concept of corporate reporting (Singh, 2005). The dimension of corporate reporting encompasses a system of communication between the organization and all its stakeholders; in terms of results of business activities and demonstrates accountability, credibility and reliability of its operations (Saeed, 1990). The enactment of disclosure and transparency laws in various countries has also led to the increased attention to corporate financial reporting. Financial reports aid management in regulating prices, and also help external stakeholders such as investors in evaluating investment decisions; creditors in assessing creditworthiness; liquidity, financial performance, and position; and national governments in managing the tax system (Bhattar, 1995). Qualitatively, the objectives of financial reporting include relevance, timeliness, neutrality, understandability, verifiability, comparability and completeness.

The concept of financial reporting is of significance to a free market economy where the market allocates resources among competing sectors of the economy. Inadequate financial reporting can lead to misallocation of resources in the securities market and ignorance can lead to resource misallocation in the entire economy.

### 2.8.6 Engaged, Committed and Innovative Workforce

“No company, small or large, can win over the long run without energized employees who believe in the firm's mission and understand how to achieve it. That's why you need to take the measure of employee engagement at least once a year through anonymous surveys in which people feel completely safe to speak their minds” (Jack and Suzy Welch, n.d).

There exists a direct correlation between increased levels of engagement from employees and financial performance (Collins, 2001; Ingelgard and Norrgren, 2001). Employee diversity and inclusivity is increasingly crucial for the sustainability of companies. Competition for committed and innovative workforce is fierce in today's global economy (Forbes Insights, 2015). Workforce diversity focuses on creating a heterogeneous workforce and ensuring the workforce creates innovative products, services, and business practices that guarantee sustainability and gaining competitive advantage in the marketplace (Forbes Insights, 2015). Engaged and committed employees, through their discretionary efforts gives their firms crucial competitive advantage, plus increased productivity and lower staff turnover. Employee engagement entails the extent to which employees fully occupy themselves in their daily tasks and the strength of their commitment to the company and their roles (Vance, 2006).

Commitment is generally defined as "a willingness to persist in a course of action and reluctance to change plans, owing to a sense of obligation to stay the course" (Vance, 2006). It manifests itself through intentionally devoting extra time and energy to fulfill job responsibilities. The emotional component of commitment ensures people experience and express positive feelings toward an entity they work for. Commitment is also based on reason as employees consciously choose to make commitments, then they thoughtfully plan and carry out the actions that yield positive results.

To ensure employees get engaged and generate valuable business results, organizations should adopt such practices as job design, recruitment & selection, employee training & development, compensation, performance management and career development. The relationship between employee performance and engagement interact to generate business results as depicted in Figure 28 below. Organizational effectiveness is therefore a function of employee practices, job performance, and the engagement and commitment of employees. This is in line with the measurement model of organizational effectiveness in Figure 19.

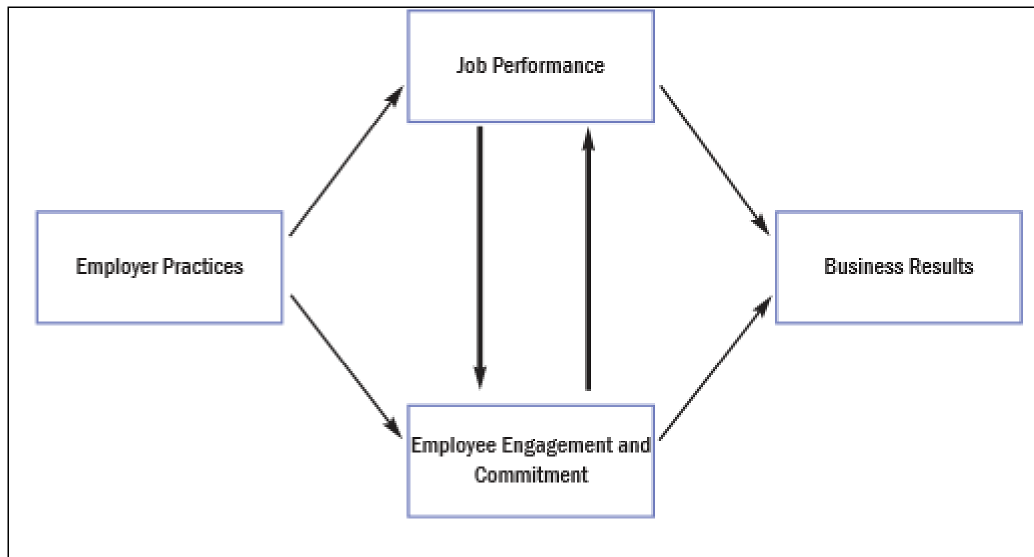



Figure 28: Performance-Engagement relationship

Researchers have identified commitment as an important factor to increase innovative behavior in organization (Agarwal, 2014; Kehoe and Wright, 2013). Employees' commitment towards an organization includes their desire to see the company succeed (Kehoe and Wright, 2013). Employee commitment acts as intrinsic motivation that trigger innovative behavior as commitment provokes the willingness of employees to dedicate discretionary behaviors and efforts beyond contractual terms towards outcomes desired by the organization (Janssen, 2000). In order to stay competitive, workforce innovative behavior is of paramount importance. "Creativity is vital to the health of firms in today's knowledge economy, as only by fostering the innovative behavior of their employees can firms obtain and maintain competitive advantages" (Niu, 2014). Organizations today operate in a highly dynamic and flexible environment where generating a competitive advantage is vital for survival (Prieto and Perez-Santana, 2014). Competitive advantage can be achieved through differentiation or lower costs. Employees' innovative behavior results in lower costs due to process improvements or differentiation from competitors due to innovative products. This makes innovative employees an imperative for organizations. Employees' knowledge and attitudes towards the business and the organizational goals can be critical for a successful innovation and a resulting competitive advantage (Kehoe and Wright, 2003).

Innovative behavior can be defined as the new, intentional and beneficial ideas created, introduced and applied to everyday actions within a group or organization (Agarwal, 2014; Niu, 2014; Prieto and Perez-Santana, 2014). Employees can use their innovative behavior

to improve job processes, procedures, methods and operations (Prieto and Perez-Santana, 2014). “An engaged workforce is considered to be a cornerstone of sustaining a competitive advantage” (Agarwal, 2014). Companies that intend to improve their competitive position through innovations need to focus on the ideas of employees to identify areas of improvement (Scott and Bruce, 1994) based on employees’ knowledge, creativity and attitude towards the organization with a special focus on everyday turbulences and opportunities faced. Innovative behavior is also defined as the result of intrinsic and extrinsic motivation of employees (Hammond, Neff, Farr, Schwall and Zhao, 2011; Prieto and Perez-Santana, 2014). Intrinsic motivation refers to an individual’s inner engagement and commitment to the task and extrinsic to factors outside of the task (Hammond *et al.,* 2011), such as financial rewards.

### 2.8.7 Workplace Spirituality

It is stated that organizational studies have undergone a fundamental shift from a mechanistic or Newtonian paradigm that values reason and scientific principles to an organistic or spiritual paradigm that values consciousness and understanding (Whitty, 1997). The focus shifted from reductive analysis and predetermined plans to more holistic analyses. The mechanistic paradigm states that individuals can be scientifically measured and categorized based on intellectual and other characteristics they possess, and that certain people are meant to be leaders whereas others are meant to be followers. This view assumes that organizations and the world run on rational laws that dictate the only correct way of doing things. The mechanistic paradigm has a strong belief in scarcity of resources, leading to practices such as “antagonism, political manipulation, ‘padding’ of budget requests, empire building, and lack of trust and cooperation between persons and organizational units” (Whitty, 1997). The spiritual paradigm is essential in ensuring organizational effectiveness. Table 6 below summarizes the differences between the mechanistic and spiritual paradigms of workplace spirituality:

**Table 6: Workplace Spirituality: Mechanistic vs. Spiritual Paradigms**

| Mechanistic Paradigm | Spiritual Paradigm |
|---|---|

| | |
|---|---|
| Management possesses inflexible attitudes and beliefs about their organizations, themselves and all other stakeholders. Managers are resistant to change | Management is open to change, understanding the significance and/or purpose of life, and understand how they are connected with a greater whole. |
| Management establishes and follows specific procedures or rules of behavior. | Managers trust their employees, share information, and work in concert with teams to accomplish mutual objectives. |
| Management decisions are purely based on logic and reason | Managers empower employees and uses "intuition and emotions in reaching decisions for the common good" (Whitty, 1997). |
| Possess a scarcity mentality hence the use of the win-lose tactic in conflict resolution. | Managers possess an "abundance" mentality hence the use of win-win strategies in conflict resolution. |
| Organizations are characterized by rigid, bureaucratic structures and hierarchical chains of command. | Organizations are characterized by flatter organizational structures and openness to change. |
| Organizations use formal communication channels, very formal procedure manuals, and policy manuals. Concerned with policies and procedures and not stakeholders. | Organizations are concerned with existing in harmony with their environment, hence the focus on ecology and environment, and meeting the needs of all stakeholders. |
| The scarcity mentality leads to competition, politics and power struggles between organizational units. | The abundance mentality leads to greater interconnectedness, cooperation, and employee empowerment. |

"Spirituality and management, once thought incompatible, have in the past decade fallen in love" (Benefiel, 2003). Spirituality is regarded as the basis for evolutionary and revolutionary

transformational leadership and corporate governance. Evolutionary leadership, revolutionary leadership and corporate governance emphasize envisioning the future, and involve a change in the philosophy, beliefs, and principles of the society. The field of workplace spirituality as a academic topic has attracted increased attention in the last three decades as a result of the confluence of disparate events. The spiritual progress in the business world seems to be a 'reaction to the corporate greed of the 1980s' (Zamor, 2003). The world today is plagued by large-scale economic, social, and environmental problems necessitated by human gluttony and a lack of love and compassion due to the pursuit of self-centered interests. These immense problems have triggered in humankind a renewed search for harmony and peace, a search that is in essence a spiritual journey (Cacioppe, 2000). Such a paradigm shift enables an emphasis on issues such as team work, trust, creativity, and openness to change as approaches to dealing with the disruptions caused by the drive toward globalization by keeping businesses thriving in a changing world.

The appeal of spirituality in the business world can be explained through the following reasons:

- "organizations are a great human achievement, and work is the centerpiece of most people's lives and inextricably impregnated in people's search for ultimate meaning" (Mitroff, 2003).
- improvements in employee working conditions and the quality of life for all stakeholders is a function of organizational performance. It is difficult, in contrast, to grant "spiritual richness" joy and meaningful work to employees if the organization is poorly managed and focused on material survival.
- there is an increased possibility in contemporary organizations, that employees bring only their arms and brains to work, and not their souls (Mitroff, 2003). The resulting consequence is a failure by the organizations to trigger the full creativity and potential of employees. Employees, in turn, fail in developing themselves as holistic human beings.

- inappropriate management of workplace spirituality may permeate the corporate structures with spiritual qualities that serve as a new technology of control, that is, as new and more sophisticated forms of domination (Cunhaetal, 2006).
- The correct interpretation of workplace spirituality can mitigate or eliminate: injuries to employee mental health, vassalage, people humiliation and destruction, dehumanized practices and serious threats to the "human soul" (Mitroff, 2003).

According to the Harvard Business School, spirited workplaces outperform spiritually weak companies. Workplace spirituality has been proved 'a sanctified and blessed intangible asset for an organizational long term progress and survival' (Danish, 2010). "In spite of the fact that the language and practice of biblical times are far removed from modern day finance, the wisdom of the Scriptures would enlighten the moral understanding of market fragilities and renew a commitment of the faithful toward behavior that pleases God rather than men" (Smith, 2010). "The disengagement of economic problems from the spiritual realm, the determination to find economic solutions while the religious problem is ignored or held in suspense constitutes the prime crisis" (Henry, 1955). Organizational effectiveness can be achieved if organizations openly incorporate the principles of workplace spirituality in their business models. This involves "addressing employees as whole human beings by meeting their physical, mental, emotional, and spiritual needs" (Dehler and Welsh, 2003).

Though spirituality is often associated with the practice of religion, various scholars have asserted that it is distinct from the practice of religion. Spirituality is concerned with qualities of the human spirit, such as love and compassion, patience, tolerance, forgiveness, contentment, commitment, a sense of responsibility, a sense of harmony, which bring happiness to both self and others. In contrast, religion is concerned with the claims of salvation, an aspect of which is acceptance of some form of philosophical reality. Workplace spirituality advocates for a culture that recognizes that employees have both a mind, a spirit, and seeks to find meaning in their work and desire to connect with other employees and to be part of a community. Workplace spirituality recognizes the inner live of each individual employee that that nourishes and is nourished by meaningful work that takes place in the context of community (Ashmos and Duchon, 2000). The spiritual paradigm essentially

'recognizes that people work not only with their hands, but also their hearts or spirit' (Ashmos and Duchon, 2000). It is when people work with a committed spirit they can find a kind of meaning and purpose, a kind of fulfillment which means the workplace can be a place where people can express their whole or entire selves. Workplace spirituality refers to "a framework of organizational values evidenced in the culture that promotes employee's experience of transcendence through the work process, facilitating their sense of being connected to others in a way that provides feelings of completeness and joy" (Giacalone and Jurkiewicz, 2003). The two main components of spirituality in the workplace are: a desire to transcend the individual ego or personality self (vertical) and a desire to be part of the service to other humans and the planet (horizontal).

At the individual level, spirituality is viewed as an affective and cognitive experience: an employee feels and believes in a spiritual connection to work and the work place. At the organizational level, spirituality reflects the spiritual values that is part of the organization's culture and is thus used to inform behavior, decision-making, and resource allocation (Kolodinsky *et al.,* 2008). Pawar (2009) suggests that workplace spirituality can be encouraged at both levels. For examples, employees can participate in spiritual development programs, such as, learning meditation. The organization can use spiritual values to modify organizational planning and strategy making, human resource management practices, and building a culture that provides a context for daily life.

The diagram below shows the five main principles of spirituality in the workplace. The five principles in Figure 29 are essential in driving organizational effectiveness. Effective organizations are creative, aspire to a shared vision, are effective in communication, show respect to all stakeholders, and understand their purpose (Pawar, 2009; Giacalone and Jurkiewicz, 2003).

Figure 29: Principles of Workplace Spirituality

Below are the characteristics that drive organizational effectiveness in spiritual organizations:

- Strong sense of purpose in the work
- Prioritizes individual development
- Focus on building trust and openness within the entire organization
- Empowerment of all employees
- Employee expression is greatly tolerated

Other common practices of spiritual organizations include: meditation centers, prayer groups, career counseling, ethics and core values, healthy work environment, work-life balance, programs that integrate work and family, servant leadership and stewardship. These practices are essential in building a benevolent workplace which sustains organizational effectiveness (Giacalone and Jurkiewicz, 2003).

Organizations that uphold ethical and spiritual values enjoy increased productivity, profitability, employee retention, customer loyalty, and brand reputation. Organizations that intentionally address their employees' spirituality benefit from a reduction in stress levels,

enhanced employee creativity, and improved problem solving (Tischler *et al.,* 2002). The focus on the "spiritual qualities of meaningfulness and joy at work leads to increased job satisfaction" (Harung *et al.,* 1996), enhanced job involvement, organizational identification, and compensation satisfaction (Kolodinsky *et al.,* 2008), honesty, trust, and dedication (Krishnakumar and Neck, 2002), and even improved work performance (Duchon and Plowman, 2005).

## 2.9 Corporate Governance and Developing Economies

A number of scholars have researched on the economic and political challenges of transition economies. The studies have focused on the political, economic, sociological, legal, and technological challenges these economies face during the transition period. Corporate governance is significantly influenced by the changes in the macro-environment. However, there is scarcity of research about the dramatic changes to the accounting and financial system of transition economies (McGee, 2009). The challenges that transition countries face are different from those facing emerging countries by their nature of transforming from a command economy to an open market economy. In the absence of initial capitalistic frameworks, transition economies need to create, sector-wide institutional frameworks which support a capitalistic business environment. These include securities laws, accounting standards, corporate laws, sound business practices and ethics, and a judiciary and regulatory system (Foo and Witkowska, 2011).

Developing and emerging economies are characterized by a lack or infancy of the most basic market institutions. The growing interest in corporate governance in developing countries precedes the recent corporate scandals. The spectacular growth of portfolio investments in corporate entities by rapidly growing pension funds and other institutional investors also necessitated the heightened interest in corporate governance. Corporations in developing and transition economies have a high demand for funds, hence the rising importance of foreign and domestic institutional investors (McGee, 2009).

The increased demand is necessitated by the universal rising needs of corporations. In order to secure extra-firm sources of finance, corporations need to demonstrate the

capacity to adequately respond to the growing competitive pressures engendered by globalization (McGee, 2009). Globalization and financial market liberalization have opened up new, international markets with the possibility of reaping stunning profits. Yet it has also exposed firms to intense competition and to considerable capital fluctuations. In this environment, for businesses to grow and compete in international markets they need levels of capital that exceed conventional sources of finance.

The 21st century is characterized by technological and digital transformations which demands that organizations worldwide undertake major investments in tangible and intangible assets. This is essentially important in order to maintain a favorable competitive advantage. The competitive pressures have been exacerbated by the deeper international integration, liberalization of trade and investment policies and deregulation of markets (Foo and Witkowska, 2011).

There has been an increase in the demand for extra-firm financial needs among firms in developing countries because previously the firms needs used to be met national development banks and other state-controlled sources of investment finance (Nworji *et al.,* 2011). The relative collapse or disappearance of these relationship-based and politically directed financial systems greatly reduced their ability to supply long-term finance domestic firms in developing countries. The failure to attract adequate levels of capital threatens the very existence of individual firms and has dire consequences for entire economies. The lack of sufficient capital has corporate governance implications as it exacerbate poverty as a result of reduced firm competitiveness, elimination of employment opportunities and social and economic gains (Foo and Witkowska, 2011). The domestic firms in developing countries run the risk of becoming suppliers and vendors to foreign firms due to the failure to attract capital.

A strong corporate governance foundation is important for a growing market economy. It has to include the integrity and transparency of financial and corporate operations, checks and balances in compliance with relevant regulations, the practices of sound financial and corporate operations and accounting practices that are in accordance

with international standards. Establishing effective corporate governance is of particular importance for transition countries because its success is crucial not only for the growth of a healthy corporate sector but also for sustaining a healthy market economy (Aggarwal *et al.,* 2007).

The importance of corporate governance for transition countries revolves on transitioning to private ownership and control. The parallel creation and quality of a system of corporate governance and institutions are therefore crucial for the development of a sound private market economy. A healthy business sector then promotes and sustains productivity and long-term economic growth (Nworji *et al.,* 2011). Although transition countries swiftly established political and economic market institutions in the early 1990s in the first phase of transformation, the transition from a relationship-based to a rule-based political and economic system was more difficult. In particular, “crony capitalism” tends to be more prevalent in transition and emerging economies with the politically well-connected parties able to influence business practices and legislations in their favor.

Studies on corporate governance structures in transition countries debated various issues: the type of ownerships, the mode of privatization, adequacy of shareholder protection and whether legal structures must precede privatization. A body of studies looks at whether a transition country’s past legal heritage influences the adoption of the current legal structure and corporate governance or whether the Anglo-American system is more prevalent (Pistor, 2000).

The role of corporate governance to under girth weak competitive market mechanisms and democratic political institutions is the complementing factor necessary to sustain the long-term modernization of the transition countries. In other words, the “principal agent” relationship that governs most capitalist societies that provides the incentives and environment in which investors (principals) can reap the profits of their investment through their corporations (agents) and the behavioral relationship are determined by a set of corporate governance standards (Foo and Witkowska, 2011). Unlike developed countries

with widely dispersed shareholders, the principal-agent corporate governance problems are primarily due to the agent perpetrating embezzlement and fraud. The corporate governance regime of the English legal origins (US-UK) emphasizes the protection of shareholders from being expropriated by management. In contrast, the European legal origin countries (French-German) emphasize the protection of stakeholders from expropriation.

"Developing a suitable system of corporate governance is an important priority for Africa. Corporate governance is underdeveloped on the continent – outside particular pockets – but the emerging system reflects a mix of universal and distinctly African elements" (Corrigan, 2014). There is an urgent need for continuous reforms of the business climate in Africa and all other developing and transition economies. The corporate governance infrastructure in Africa should be effectively nurtured, and all institutions should participate in conducting corporate governance research and training, and developing corporate governance systems. Economic literature states that corporate bodies such as the institute of directors should be adequately resourced and operationally independent given their critical role in navigating the sensitive interface between political and business interests in economic take-off.

In spite of the Africa's enormous entrepreneurial energy, the continent's private sector is embryonic. Most of the indigenous businesses in African are typically small and unsophisticated; and many are established in the informal sector. The sole and family ownership structures are predominant in most indigenous businesses in Africa. The overall business environment is a challenging one, imposing obstacles and raising numerous issues for a corporate governance system to navigate. Indigenous entrepreneurs in Africa face poor physical and institutional environments, deficient infrastructure, lack of finance, corruption and poorly functioning administrative and justice systems (Corrigan, 2014). Business in Africa is viewed through a social lens: the contribution business society and to state budgets. There seem to be a shortage of skills to make corporate governance work. Literature states that most company boards struggle to find suitable candidates, thereby repeatedly drawing on the same narrow pool of people. These challenges therefore raise

strategic concerns about effectively pitching the demands of corporate governance (Nworji *et al.,* 2011). Political interests exert a negative influence on businesses as they produce significant economic distortions and undermine healthy competition.

Corporate governance in Africa is embryonic. However, South Africa has been a world leader in corporate governance thinking. The King Committee on Corporate Governance has expanded the corporate governance scope beyond shareholder primacy and the traditional stakeholder interests. The Committee emphasized the intrinsic importance of sustainability through encouraging businesses to measure their activities against their social, environmental and economic outcomes– 'people, planet, profit' (Enobakhane, 2010). Rather than adopting the prescriptive or legislated approach, The King Committee follows a principles-based approach. Uganda corporate governance practitioner Alison Dillon-Kibirige observes: "Traditional African culture is an important differentiator in the continent's corporate governance. … Relationships are very important, and their management is a fundamental part of governance. Also in many African countries outside SA there are few listed companies so you are dealing with companies that do not have the pressure of investors as it exists elsewhere. They are not therefore forced into the compliance approach (a 'tick box' approach) to corporate governance. They can apply corporate governance tools in the best long-term interest of the companies".

## 2.10 Corporate Governance in Zimbabwe

### 2.10.1 Prior Studies on Corporate Governance in Zimbabwean Banks

A cursory perusal of literature shows numerous scholarly works have been undertaken on the field corporate governance in Zimbabwe. Gono (2008) produces a book on Zimbabwe`s casino economy. The book focuses on extraordinary measures to deals with extraordinary bank challenges. This study is a remarkable first-hand account from the former Governor of Reserve Bank of Zimbabwe. The book addresses the devastating effects of a casino ethic on the Zimbabwean economy. It tackles the effects of compromising politics, market failure, and economic order and stability. The responses from the Reserve Bank are outlined and

the book wraps up by charting a socio-economic roadmap for economic retransformation and recovery.

The other literary work by Mungure (2011) covers the state of governance in the Zimbabwean insurance industry. In line with the present study this book discusses essential corporate governance aspects for the insurance industry. Mazhambe (2012) produced a book titled: Corporate governance consultancy. The book focuses on the roles of directors in corporate governance. The book is targeted at consultants and provides assistance in terms of developing a business case to derive sustainable value from dealing with corporate governance in organizations. The book provides an array of corporate governance and consultancy case studies and practical essay questions. The book reiterates that "the period 2010-2020 is the decade of corporate governance in Southern Africa" (Mazhamba, 2012).

Chiromba (2012) produced a book entitled: "Corporate governance and firm performance, emerging market financial institutions analysis". Similar to the present study, the book elaborates the connection and impact of corporate governance on the performance of organizations with reference to the financial sector in Zimbabwe. "The study used a time-varying score card to establish the corporate governance index of seven financial institutions registered on the Zimbabwe Stock Exchange. The study included a more complete set of governance mechanisms including firm ownership, board independence, shareholder activism, and the audit function effectiveness, availability of sub-committees and the effectiveness and liability of the governing board" (Chiromba, 2012).

The following are some of the more recent publications on Zimbabwean corporate governance:

Shungu, P *et al.,* (2014) "Impact of Corporate Governance on the Performance of Commercial Banks in Zimbabwe". *Mediterranean Journal of Social Sciences MCSER Publishing*, Italy, 5(15), pp. 93-105.

Ndlovu, M. W *et al.*, (2013). “A Comparative Analysis of the Corporate Governance Practices in Multinational and Domestic Banks in Zimbabwe”. *Journal of Emerging Trends in Economics and Management Sciences (JETEMS)*, 4(5), pp. 473-480.

Mukusha, J. (2012). “Business nakedness in the absence of good corporate governance: A case for sustainability in the 21st century and beyond”. *Journal of Sustainable Development in Africa*, 14(2), pp. 15-24.

Besada, H., and Werner, K. (2010). “The Environment and Corporate Governance in Zimbabwe”. *The Centre for International Governance Innovation,* Policy Brief, 19.

Mangena, M., and Tauringana, V. (2007). “Disclosure, Corporate Governance and Foreign Share Ownership on the Zimbabwe Stock Exchange”. *Journal of International Financial Management and Accounting*, 18 (2), pp. 53–85.

Muranda, Z. (2006). “Financial distress and corporate governance in Zimbabwean banks”. *Corporate Governance*, 6 (5), pp. 643-654.

Tsumba, L. L. (2002). “Corporate governance country case experience – perspectives and practices: Zimbabwe”. Reserve Bank of Zimbabwe.

### 2.10.2 The Regulatory Environment of Banks in Zimbabwe

“Governance issues are not alien to Zimbabwe as traditional chiefs have been recognized as custodians and fountains of knowledge of grassroots democracy as they make consultations with their council machinery or court system before taking any decision” (Makahamadze *et al.,* 2009). Traditional chiefs were responsible for peace and human rights, leading to the equal distribution of resources, justice and harmonious living (Makahamadze *et al.,* 2009). The African continent as a whole has attempted to align and keep pace with the global corporate governance developments. The concept of corporate governance assumed heightened attention during the 1980’s when corporate performance in most companies declined as compared to the commercial successes of the 1970’s (Crowther and Seifi, 2011).

On the other hand, in Zimbabwe the subject of corporate governance has assumed increased attention since the financial and economic crisis in 2003 (Muranda, 2006). Since 2003, a number of companies have experienced corporate governance flaws. Examples of such organizations include Air Zimbabwe, African Renaissance Bank (AFRE), Premier Service Medical Aid Society (PSMAS), Zimbabwe Broadcasting Corporation (ZBC), Zimbabwe Football Association (ZIFA), ENG Capital, and Barbican Bank. Poor corporate governance is at the center of all these corporate scandals in Zimbabwe (Sifile *et al.,* 2014).

Until 2015, Zimbabwe had no legislated corporate governance national code. However, the ZIMCODE was launched in 2015 but it excludes special sectors such as banking, insurance, and SMEs. All corporate activities in Zimbabwe are mainly regulated by the Companies Act (Chapter 24:03) and Zimbabwe Stock Exchange Act (Chapter 24:18), and Public Finance Management Act (Chapter 22:19). The Institute of Directors of Zimbabwe (IoDZ) also plays an important role in developing and enforcing rules and corporate governance standards and governing corporate conduct with reference to the Cadbury Report and the King Report. The listing rules adopted by The ZSE are based on the London Stock Exchange (LSE) and the Johannesburg Stock Exchange (JSE). Prior to the launch of the ZIMCODE, The King II Code has been adopted by most parastatals in Zimbabwe. Most private sector institutions developed their own in-house corporate governance manuals.

Zimbabwe has numerous legislations that govern corporate activities. Examples of these regulations are listed in Table 7 below. These legislations are essential in the determination of the corporate governance model in Zimbabwe. Organizations that comply with these legislations are likely to have an enhanced level of organizational effectiveness.

**Table 7: Legislations governing corporations in Zimbabwe**

| | |
|---|---|
| Prevention of Corruption Act, Chapter 9:16 | Audit and Exchequer Act, Chapter 22:03 |
| Postal and Telecommunications Services Act, Chapter 12:02 | Public Accountants and Auditors Act, Chapter 27:03 |

| | |
|---|---|
| Criminal Procedure and Evidence Act, Chapter 9:07 | Bank Use Promotion and Suppression of Money Laundering Act, Chapter 24:24 |
| Exchange Control Act, Chapter 22:05 | Serious Offences Act, Chapter 9:17 |
| Companies Act, Chapter 24:03 | Building Societies Act, Chapter 24:02 |
| Sales Tax Act, Chapter 23:08 | Public Finance Management Act, Chapter 22:19 |
| Banking Act, Chapter 24:01 | Reserve Bank Act, Chapter 22:15 |

## CONCEPTUAL FRAMEWORK

### 2.11 The development of the conceptual framework

This main purpose of this research is to carry out an examination of the corporate governance principles and practices of indigenous banks in Zimbabwe and their impact on organizational effectiveness. Literature covering corporate governance, organizational effectiveness and bank failures has been reviewed and from this review a preliminary conceptual framework has been considered for the Zimbabwean banking sector.

The proposed conceptual model encompasses the connection involving eight internal corporate governance variables and organizational effectiveness. These eight variables as discussed in section 2.8 of this study include shareholders, exceptional Boards, leadership and management, strategic planning, organizational learning, employees, workplace spirituality, and corporate financial reporting. The model indicates that the principles and practices underlying these eight variables produce either organizational effectiveness or ineffectiveness. The conceptual model is presented in Figure 29 below and is described in the sections that follow.

The model takes a holistic approach to organizational effectiveness/ineffectiveness. This approach view organizational effectiveness in a linear relationship along three levels: institutional effectiveness, industry effectiveness, and inclusive effectiveness. The measures of organizational effectiveness or ineffectiveness vary at each level. The model integrates both the shareholder and stakeholder primacy perspectives as ideal for the study context. The framework recognizes corporate governance deficiencies brought about by the exponential increase in laws, rules and regulations, and guidelines on corporate governance.

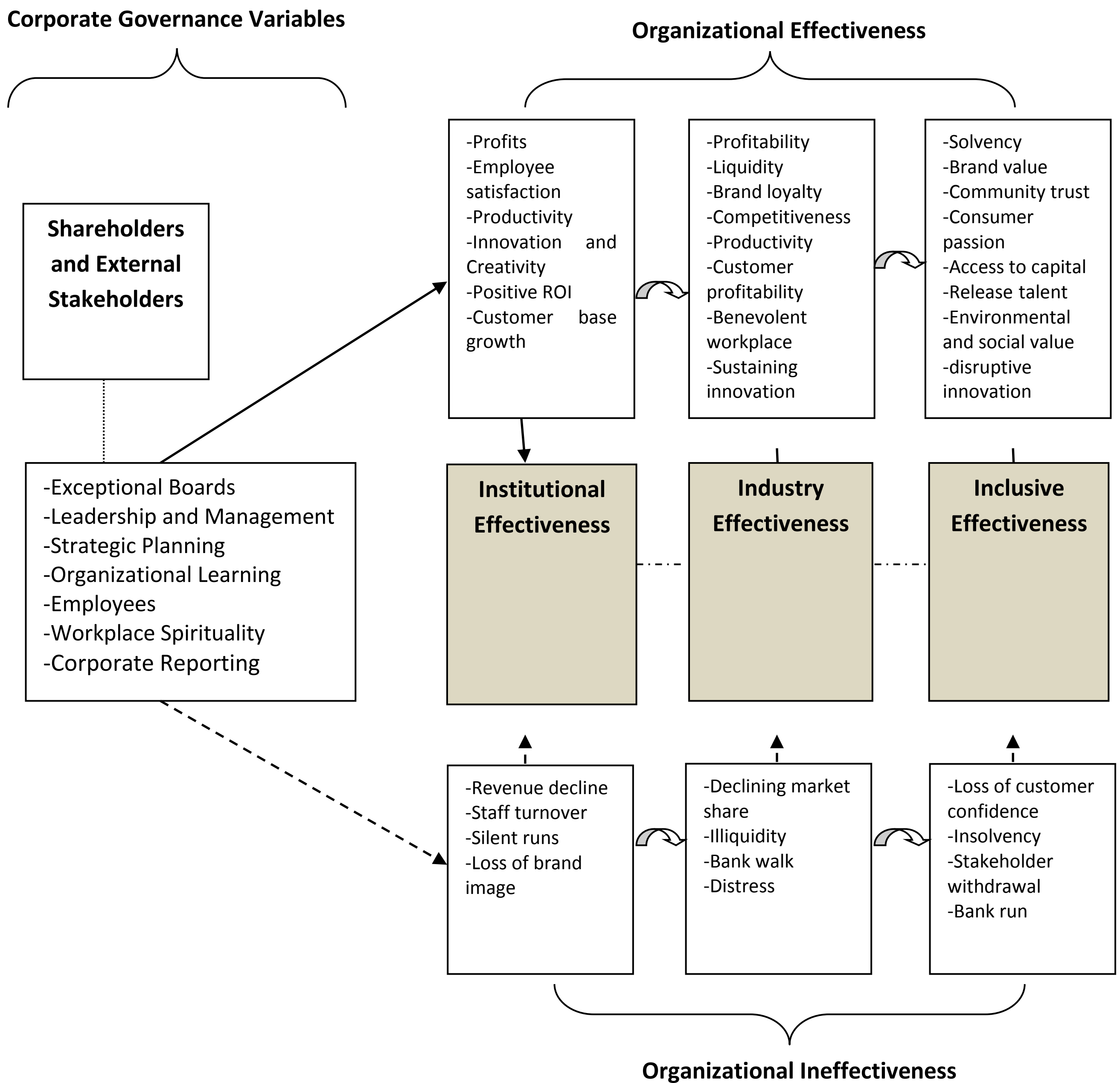



Figure 29: Conceptual Framework of the Study

### 2.11.1 The Internal Corporate Governance Drivers of Organizational Effectiveness

The framework of this study considers eight variables as discussed in Chapter 2 to be essential in ensuring organizational effectiveness within the Zimbabwean indigenous banks. The principles and practices that underlie these eight variables lead to either effectiveness or ineffectiveness. Due to the uniqueness of the banking sector corporate governance this model considers industrial democracy to be essential in ensuring organizational effectiveness in the banking market. As such everyone within the organizational hierarchy is extremely important in the corporate governance of the bank. According to this model the variables that determine organizational effectiveness within the banking sector are:

exceptional boards, leadership and management, strategic (transformational) planning, organizational learning, employees, workplace spirituality, and corporate reporting. The pursuit of organizational effectiveness by any individual bank requires the development of sound principles and practices on each of these variables.

In order to ensure alignment of these variables, the model considers five meetings to be essential in the pursuit of organizational effectiveness. These are shown in Table 8 below:

**Table 8: Key organizational effectiveness meetings**

| **Key Players** | **Type of Meeting** | **Key focus area** |
|---|---|---|
| Shareholders and Stakeholders | -Annual General Meeting (AGM)<br>-Stakeholder Engagement | ***Inclusive Effectiveness***<br><br>Shareholder and Stakeholder value creation |
| Board of Directors | Board meeting | ***Industry and Inclusive Effectiveness***<br><br>Organizational vision and *raison d'etre* |
| Executives | Executive meeting | ***Industry and Inclusive Effectiveness***<br><br>Organizational mission and values |
| Management | Management meeting | ***Institution Effectiveness***<br><br>Operational issues (goals and objectives) |
| Employees | Team meetings | ***Institution Effectiveness***<br><br>Execution of organizational activities |

Table 8 takes a hierarchical view of the organization and considers the different meetings at different levels of the organization. The focus of each meeting varies in terms of achieving

institutional, industry, or inclusive effectiveness. Meetings at the lower levels of the organization focuses on institutional effectiveness whilst at the highest level of the organization, the meetings focus mainly on inclusive effectiveness. The above meetings alone cannot lead to organizational effectiveness. In this regard strategic planning, organizational learning, workplace spirituality, and corporate reporting become essential.

### 2.11.2 Levels of Organizational Effectiveness

This model considers effectiveness at three interrelated levels:

- Institutional Effectiveness
- Industry Effectiveness
- Inclusive Effectiveness

At the initial stages of the organization's life cycle, the main focus will be at institutional effectiveness. The business has to exist in the market. The business will pursue shareholder wealth maximization as the primary objective. The present conceptual framework adopts the traditional measures of corporate performance such as RoA, RoE, Cost-to-Income ratio, Net interest margin etc. as metrics to determine organizational effectiveness. Organizations that stay long at this level will become ineffective.

From the institutional effectiveness level, organizations need to pursue industry effectiveness. The business has to emerge in the market. Industry effectiveness recognizes competition in the market. The business at this level needs to strategically position itself and increase its market share. Elements of stakeholder value creation start being incorporated into the business model in order to secure a sustainable competitive advantage. To measure industry effectiveness the business will prioritize economic and market-based measures of performance. At this stage there exists a mutual connection between institutional and industry effectiveness.

As the organization grows inclusive effectiveness becomes important. The businesses pursuing inclusive effectiveness excel and exceed expectations. Corporations should not be judged solely on financial metrics, but also on non-financial (Carroll, 1979). Carroll (2000) suggested that organizations have "four faces" to "fulfill to be good corporate citizens:

economic, legal, ethical and philanthropic". The inclusive effectiveness focuses predominantly on the stakeholder value creation objective. The triple bottom line reporting standards are important at this level.

To ensure long term sustainability organizations need to focus at all the three levels of effectiveness. Due to the rapid disruptions in the business environment, focusing on any one level of effectiveness for a long period of time without considering the other will lead to ineffectiveness. From an internal corporate governance perspective these three organizational effectiveness levels can be achieved through devising principles and practices along the following corporate governance variables: exceptional boards, leadership and management, strategic (transformational) planning, organizational learning, employees, workplace spirituality, and corporate reporting.

### 2.11.3 Limitations and Delimitations of the conceptual framework

This model focuses primarily on the internal corporate governance of an institution. External factors such as globalization, government rules and regulations, and the business operating environment have some effects on banks' corporate governance. In this regard, further work is needed to refine the presented conceptual framework. Though the variables presented in the model have been identified from the literature as important in developing principles and practices for sound internal corporate governance and organizational effectiveness, others may be identified through empirical research.

The model has been developed based on the corporate governance review of Zimbabwean banks during the period 2000-2015.

# CHAPTER 3: RESEARCH METHODOLOGY

Research refers to a well-thought-out process of gathering, analyzing and interpreting information to answer specified questions (Henrichsen *et al.,* 1997). Research must be transformational, that is, unquestionably add to understanding, existing knowledge and human wisdom. The research process must be methodical, rigorous, controlled, reliable, valid, empirical and critical (Kumar, 2005). In contrast, research process cannot follow a straight design or order of procedures but is a disorderly interaction of the theoretical and empirical perspectives, deduction and induction occurring concomitantly (Bechhofer, 1974).

In order to respond to the research questions presented in Chapter 1 and achieve the study objectives, the research methodology chapter covers the literature on research design, methods, population, sample, data sources and the research quality of the study, and further discusses data collection procedures and data analysis and the ethical considerations.

Figure 30 below indicates the chapter organization and flow of the research methodology.

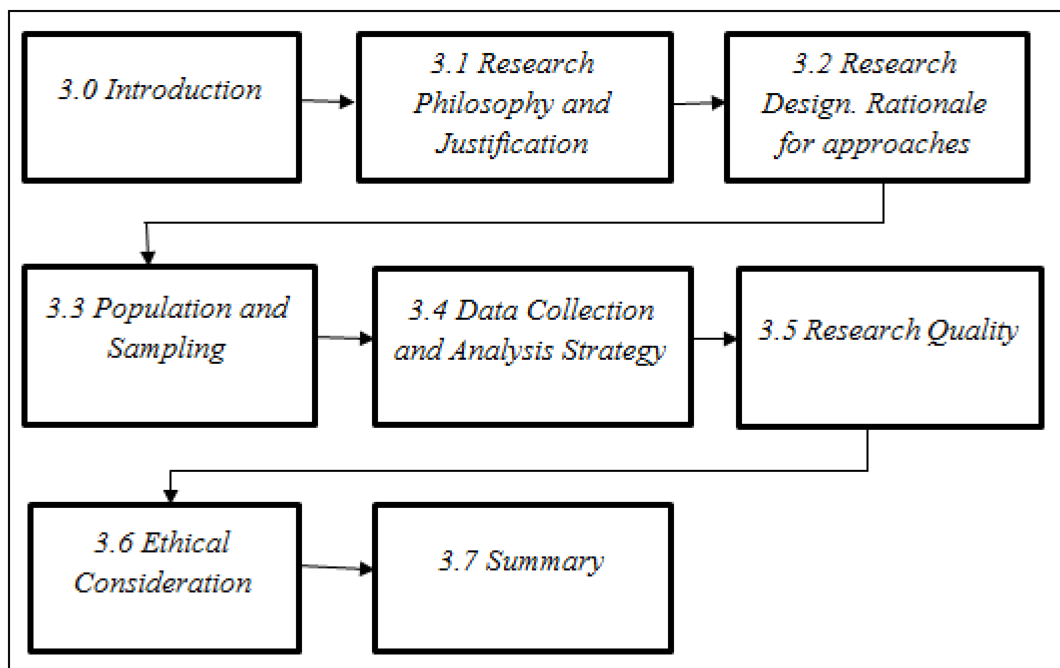



**Figure 30: Chapter organizational flow**

This section of the thesis describes the methodology applied to examine the corporate governance principles and practices of indigenous banks in Zimbabwe and their impact on bank organizational effectiveness. As shown in Figure 30 above, the current chapter covers

the research philosophy, research design, population and sampling, data collection and analysis strategy, research quality, and ethical considerations. These elements are essential in understanding the main research concerns as in Figure 31 and Figure 32 below.

**3.1 Research Philosophy**

Research philosophy refers to the basic belief system or worldview about the data gathering process, its analysis and use, in ontologically and epistemologically fundamental ways. Also known as research paradigm, it describes the "set of beliefs, conventions and assumptions that guide the direction and philosophy" (Denzin and Lincoln, 2005) of the researcher in gaining knowledge about the research subject and drawing conclusions for the study (Tashakkori and Teddlie, 2003). The research philosophy focuses on providing quality research outcomes and therefore significantly influences the research design (Creswell, 2003).

Epistemology refers to what is known to be true, that is, what constitute acceptable knowledge in a field of study. The heritage of this strand of epistemology comes from two intellectual traditions: phenomenology and symbolic interactionism. Doxology refers to what is believed to be true. Science, therefore, saves the purpose of enhancing the transformation process of things believed *(doxa)* into things known *(episteme)*. The interpretivist/social constructivist paradigm will be primarily adopted because there are multiple bank failures, corporate governance and organizational effectiveness realities that require phenomenological inquiry to be understood. Identifying and understanding the relationships between multiple variables will reveal the 'underlying patterns and order' (Morgan, 1980), amongst social actors in Zimbabwean indigenous banks regarding principles and practices for organizational effectiveness.

Corporate governance and organizational effectiveness are human constructs and their measures are dependent upon the perspective of the individuals or groups affected hence the adoption of the interpretivist paradigm. The researcher collected and transcribed written and verbal data. The data was fragmented into thoughts, categories and themes, hence the

grounded theory approach, confirming the methodological pluralism approach. This research deliberately avoids methodological monism, that is, the insistence on using a single research method. “Methodological monism doctrine implicitly or explicitly states the unity of epistemology in all disciplines” (Tamas, 2008). On the other hand, methodological pluralism accepts the aprioristic introduction of methodological thoughts from other sources of knowledge (Tamas, 2008). The method and subject matter should be accurately reconciled during data analysis. The methodological pluralism doctrine states that the methods and methodology of each research must appropriately conform to the nature of its problems. Therefore, despite being predominantly interpretivist this research had some elements of positivism. The present research therefore adopts the methodological pluralism approach in order to enhance the quality of the research by approaching the research variables from differing perspectives.

One strand of interpretivism is phenomenology which describes the “subjective reality” of a phenomenon as perceived by the study population. It is the study of a phenomenon, in this case, bank failures as a result of internal corporate governance shortcomings. The cardinal points of this study are to identify and discover corporate governance irrationalities of the conformance dimension; understand; explain; and recommend controls on indigenous bank failures through addressing corporate governance shortcomings thereby predicting organizational effectiveness (performance corporate governance dimension). The research is expected to achieve regulation change in the way indigenous banks in Zimbabwe are governed, managed and directed. The ontological position of this research is subjectivist because all social phenomena are produced from the views and resultant actions of social actors.

Therefore, inherent in this exploration are the six elements defined in Figure 31 below in the context of the research topic:

| Research Concerns | Research Element | Description |
|---|---|---|
| 1. To discover irrationalities | Identify | To recognize and realize based on a point of reference. |
| | Discover | To find out, that is, being the first to identify. |
| 2. To achieve change | Understand | To know meaning of the identified and discovered. |
| | Explain | To make the understood clearer, that is, showing meaning. |
| | Predict | To say what will happen in future *ceteris paribus*. |
| | Control | To make the predicted position to happen. |

Figure 31: Research Elements

Figure 31 elaborates on the two research concerns of the present study in terms of the situational and strategic analysis. The situational analysis dimension involves identifying and discovering the nature and extent of corporate governance in the Zimbabwean banking sector from the perspective of the foreign-owned and indigenous banks. The situational analysis will lead to the strategic analysis which seeks to address the second research concern, which is to achieve regulation change. The strategic analysis dimension involves clearly understanding, explaining, predicting, and recommending controls for corporate governance enhancement among indigenous banks in Zimbabwe.

Figure 32 below illustrates the whole study area of the present research in terms of the research phenomenon, research elements, research concerns, and the conceptual dimension. The illustration shows that, to address the bank failures in Zimbabwe, there is need to conduct both situational and strategic analysis of the existing phenomenon.

Figure 33 summarizes the key aspects of the present study in the context of the research concerns of the present study. The Figure summarizes the broad research objective, main research question, research design, and the theoretical perspective of the present study.

Research Objectives

*Phenomenon* | *Research Topic Question* | *Research Elements* | *Research Concerns* | *Conceptual Dimension*

Bank Failures in Zimbabwe: Corporate Governance Issues (2000-2015)

Examine

Situation Analysis

Strategic Analysis

Identify

Discover

To discover irrationalities in corporate governance with regard organizational effectiveness

*Symbolic interactionism*

Regulation Change

Understand

Explain

Predict

Control

To achieve change, understand and explain what is going on

Research Context

Research Significance

**Figure 32: Research Elements 2**

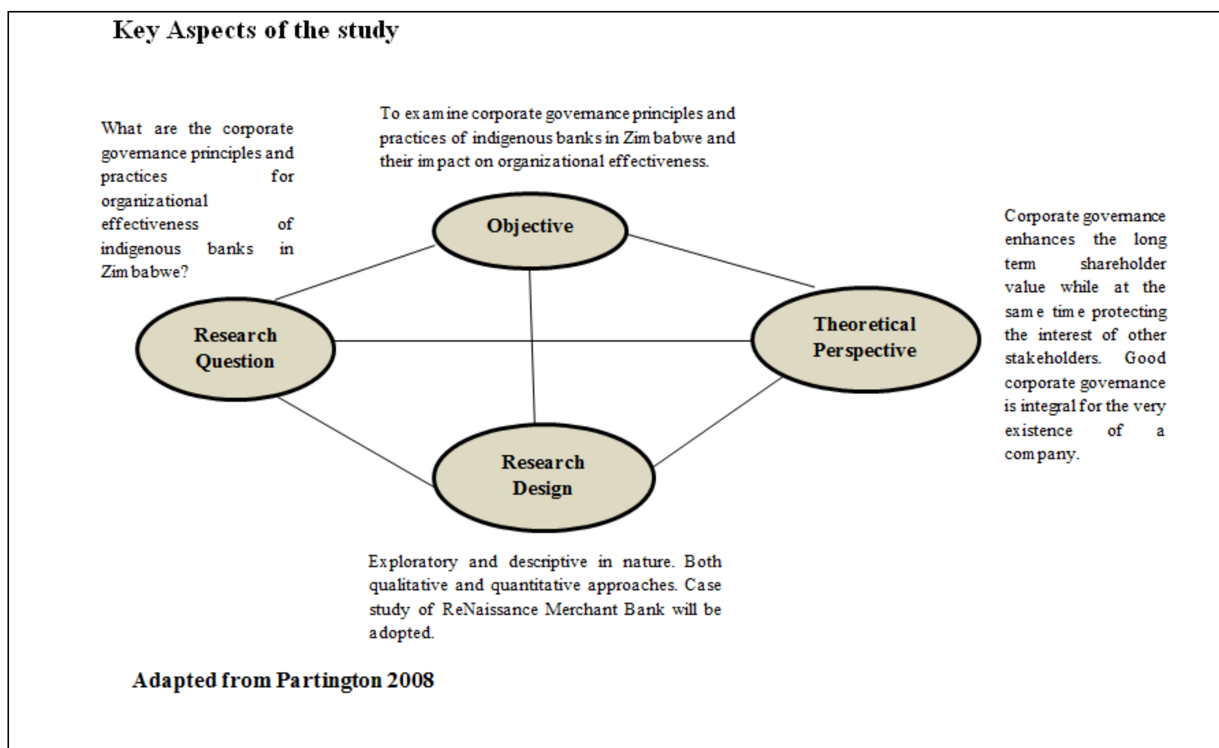



**Figure 33: Key Aspects of the study**

### 3.2 Research Design

Social research demands that the researcher define a conceptual design or a structure within which research is undertaken (Dawson, 2002). The term structure denotes something that has organization and dimensions such as shape, size and design; and is developed to perform a specific function. Methodological pluralism perspective suggests that every phenomenon has its own subject-dependent methodology. The study sub-disciplines have their own specific methodologies; therefore the research can be undertaken with the help of many suitable methodologies. The current research design is informed by these two meanings of methodological pluralism.

A well though-out research design helps in the collection of appropriate and adequate information with limited usage of resources, and can provide useful answers to the main question. Generally, the research design aims to "to articulate an important research question that can be developed into a feasible, important, valid, and ethical study" (Hulley *et al.,* 2006). Research design should specify the type of evidence required to solve the research questions (Gimblett, 2006). The current research design is informed by the following:

- the researcher's philosophical worldview on the subject matter;
- procedures of inquiry (quantitative or qualitative studies);
- nature of the research problem;
- methods of collecting, analyzing and interpreting data; and
- research audience.

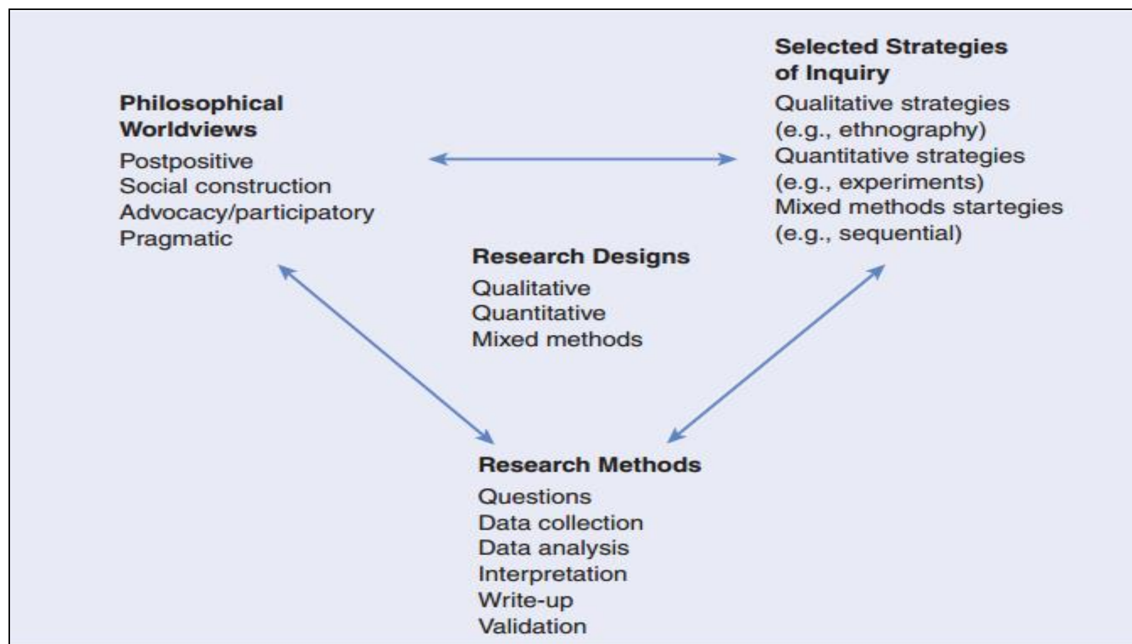



**Figure 34: Design Framework: Source: Creswell (2007).**

The term worldview means "a basic set of beliefs that guide action" (Guba, 1990). Worldviews are also referred to as paradigm (Lincoln and Guba, 2000); epistemologies and ontologies (Crotty, 1998); or broadly research methodologies (Neuman, 2000).

Procedures of inquiry encompass qualitative, quantitative, and mixed methods research designs. These are also referred to as approaches to inquiry (Creswell, 2007).

| Quantitative | Qualitative | Mixed Methods |
|---|---|---|
| • Experimental designs<br>• Non-experimental designs, such as surveys | • Narrative research<br>• Phenomenology<br>• Ethnographies<br>• Grounded theory studies<br>• Case study | • Sequential<br>• Concurrent<br>• Transformative |

**Figure 35: Alternative Strategies of Inquiry (Creswell, 2007)**

This research is exploratory and explanatory thus deductive as it is based on prior logical reasoning and collects empirical evidence to draw sound conclusions and recommendations. Methodological pluralism, using descriptive qualitative and quantitative data collection methods and analysis is employed, as quantitative data will be tabulated and then interpreted qualitatively. The researcher appreciates that the hard factual data gathered through quantitative research need descriptive discourse so that readers

understand the origins, nature, and characteristics of the phenomenon towards regulation. “We uncover all kinds of relationships in our hard data, but it is only through the use of this soft qualitative data that we are able to explain them” (Mintzberg, 1979). The social approach using qualitative methods allows exploration of the social and environmental factors of the matter under investigation, while the quantitative method using statistical analysis present a high level of veracity and precision (Creswell, 2009).

This research adopts both qualitative and quantitative designs in order to integrate the advantages of each approach, enhancing the accuracy of research results (Creswell, 2003) and maximizing data reliability (Kothari, 2005). The following are the advantages of using both approaches in research:

- each method is complementary to the core research subject thereby enhancing the quality of the research outcomes (Morse and Niehaus, 2009);
- the advantages of adopting both methods offset possible weaknesses (Creswell, 2003);
- simultaneously answering the confirmatory and exploratory questions; thereby verifying and generating theories (Tashakkori and Teddlie, 2003);
- “provide comprehensive evidence and help answer questions that cannot be answered by either of the method alone” (Creswell, 2003);
- produce quality research findings (Ridenour and Newman, 2008); and
- provide stronger inferences (Tashakkori and Teddlie, 2003).

To minimize researcher biases, bracketing, horizontalization, phenomenological reduction and imaginative variation was adopted. Bracketing refer to the suspension of the researcher's “personal prejudices and biases so as not to impose structure” in data gathering (Nieswiadomy, 1993). Bracketing can be defined as the process through which the researcher, prior to initiating the research process, documents personal experiences with the phenomenon under study in order to remove it from the research process. Horizontalization encompasses the equal treatment of all data, thereby avoiding the propensity to “overemphasize data consistent with the researcher's preconceived notions”

(Heppner *et al.,* 1992). Phenomenological reduction is the process through which the researcher "continually returns to the essence of the experience in order to derive the inner structure or meaning in and of itself" (Merriam, 2009). The researcher focuses on the minutest details of the phenomenon in order to capture the fundamental elements of the experience. Imaginative variation is the process through which the researcher views the data collected through a variety of perspectives in order to see the data from all angles as if one is viewing a 3-dimensional work of art (Merriam, 2009).

Gilham (2000) defined qualitative research based on its contents as:

> "Qualitative methods focus primarily on the kind of evidence (what people tell you, what they do) that will enable you to understand the meaning of what is going on. Their great strength is that they can illuminate issues and turn up possible explanations".

Qualitative research attempts to capture social actor's meanings, definitions, and descriptions of events. Qualitative research involves the process through which the researcher seeks to discover and understand the meaning social actors assign to a social problem. The process of qualitative inquiry involves emerging questions and procedures, collecting data in the participant's setting, inductive analysis of data, and interpretation of the data by the researcher in order to make conclusions (Creswell, 2007).

In contrast, quantitative research aims to count and measure things (Minichiello *et al.,* 2008). "Quantitative research focuses on testing objective theories by examining the relationship among variables. These variables can be measured so that numbered data can be statistically analyzed" (Creswell, 2007). Qualitative research is multi-media in focus, involving an interpretive and emblematic method in its subject matter (Denzin and Lincoln, 1998). Qualitative research utilize and collects numerous empirical materials such as case studies, interviews, personal experiences, observational, introspective, historical, interactional and visual texts, ensuring reconcilability or convergence of results in order to establish construct validity. The multi-media of research include a case study design framework, which is the qualitative approach of this study. A Zimbabwean banking sector

case study approach was adopted. “Case study is an appropriate methodology to use when a deeper understanding of a situation is required” (Tellis, 1997). Benbasat *et al.,* (1987) states that case studies are viable for three reasons:

- the phenomenon can be studied in its natural setting;
- the researcher can seek clarity by asking critical questions (“how” and “why”), so as to deeply understand the evolving processes; and
- there are scant researches on the subject matter.

Examples of individual or group cases are: “a family, a class, an office, or a hospital ward; it can be an institution such as a school, a children‘s home or a factory; it can be a large scale community, a town, an industry, a profession” (Gillham, 2000). The case for this study could be categorized as institutions, specifically indigenous banks in Zimbabwe. The cases for the current study are divided into four: extreme case, typical case, critical case and intensity case. This study revolves around the extreme case of ReNaissance Merchant Bank (RMB). The other three cases complement each other to ensure the quality of the extreme case data.

A literature review drawing on extant theory was conducted via the various universities’ Electronic Journal Data Bases, Google Scholar, peer reviewed journal articles and books. Whilst the focus was on peer reviewed finance and governance journals, peer reviewed journals from other related/complementary disciplines such as management and psychology were also reviewed to broaden the review of extant knowledge and where necessary study certain constructs from their origins. It is believed that by employing this strategy, the literature review remains true to the constructs being studied and will provide a better understanding of the origins of the constructs being studied and therefore the present research and its objectives. In view of the information age, much of the secondary data was downloaded from internet sources. The following print and Web based information evaluation criteria was employed:

**Evaluation Criteria** (Internet Navigator)

| Criteria | Questions |
| --- | --- |
| Accuracy or credibility | Is the information provided based on proven facts?<br>Is it published in a scholarly or peer-reviewed publication?<br>Have you found similar information in a scholarly or peer-reviewed publication? |
| Author or authority | Who is the author?<br>Is she or he affiliated with a reputable university or organization?<br>What is the author's educational background or experience?<br>What is their area of expertise?<br>Has the author published in scholarly or peer reviewed publications?<br>Does the author/Web master provide contact information? |
| Coverage or relevance | Does the information covered meet your information needs?<br>Is the coverage basic or comprehensive?<br>Is there an "About Us" link that explains subject coverage?<br>How relevant is it to your research interests? |
| Currency | When was the information published?<br>When was the Web site was last updated.<br>Is timeliness important to your information need? |
| Objectivity or bias | How objective or biased is the information?<br>What do you know about who is publishing this information?<br>Is there a political, social or commercial agenda?<br>Does the information try to inform or persuade?<br>How balanced is the presentation on opposing perspectives?<br>What is the tone of language used (angry, sarcastic, balanced, educated)? |
| Sources or documentation | Is there a list of references or works cited?<br>Is there a bibliography?<br>Is there information provided to support statements of fact?<br>Can you contact the author or Web master to ask for, and receive, the sources used? |
| Publication and Web site design | How well designed is the Web site?<br>Is the information clearly focused?<br>How easy to use is the information?<br>How easy is it to find information within the publication or Web site?<br>Are the bibliographic references and links accurate, current, credible and relevant?<br>Are the contact addresses for the author(s) and Web master(s) available from the site? |

**Figure 36: Internet Sources evaluation criteria (Litman, 2012)**

This research made use of self-administered questionnaires and interviews distributed personally to the sample of respondents. This descriptive approach was used because it provides an accurate portrayal of such characteristics as participants' behavior, opinions, abilities, and knowledge of the field of study. The research also relied on secondary data pertaining to the closed banks (extreme and typical case studies).

### 3.3 Population and Sampling

All researches identify 'research sample' which will provide all the information necessary for answering the research questions. This is because it is impractical for a research to engage everyone in the study population. A population refers to all elements that satisfy the sample criteria for inclusion in the study. A sample is "a proportion of a population" (Polit *et al.*, 2001). This study population consisted of 18 operating banks and 147 microfinance institutions as per the architecture of banking in Zimbabwe for the period under review and

all the 21 closed banks for the same period. A sample frame of (18) operating banking institutions as at 27 May 2015 and the 21 closed banking institutions for the period 2000-2015 was considered. A sample frame refers to a group of people or units from which a researcher will identify the units to be surveyed. The chosen sample frame was considered all inclusive and representative as it covers subjects from both the foreign-owned and indigenous banks. The sample also covers the extreme, typical, critical, and intensity cases as explained below.

ReNaissance Merchant Bank (a closed bank) was studied as an extreme or deviant case sample for the study phenomenon. The researcher adopted the stratified sampling and homogenous sampling methods for the banks, that is, foreign owned and indigenous banks and then operating and closed banks; and then applied stratified sampling for the bank representatives and stakeholders who were then selected using the simple random approach. Data for closed banks were obtained mainly through secondary research that is through the use of liquidators' reports, newspaper articles, market commentaries and other internet sources. At the management level, head of departments from the following purposively sampled divisions were utilized: Corporate banking, Retail banking, Operations, Treasury and Finance, Strategy, Risk and Compliance, Legal and Human Resources Management.

**Sample Size Determination**

The normality assumption has been applied in the determination of the sample size. The assumption of normality has been applied in order to understand the degree on correctness a best guess might be and in order to set a confidence level. The assumption of normality is also based on the Central Limit Theorem which state that "given random and independent samples of *N* observations each, the distribution of sample means approaches normality as the size of *N* increases, regardless of the shape of the population distribution." This research adopted for a margin of error of 7.1%, and 95% confidence level. The margin of error is determined as the critical value or z-score multiplied by the standard error of the sample. The value of p has been determined using the conservative method as shown thus:

$$n = \frac{(z_{\alpha/2})^2 \cdot \frac{1}{2} \cdot \frac{1}{2}}{E^2}$$

*E* represents the desired confidence level. The formula is justified by the fact that:

For $0 \leq p \leq 1$, $p(1-p)$ achieves its largest value at $p=0.5$.

Therefore; ME= z $\sqrt{p}(1-p)/n$

*Where*

- ME is the desired margin of error
- Z is the z-score which is 1.96 for 95% confidence level
- p is sample proportion
- n is the sample size

Therefore 0.071=1.96$\sqrt{(0.5 * 0.5)/n}$

$=\frac{0.5*0.5}{n} = (\frac{0.071}{1.96})(\frac{0.071}{1.96})$

Therefore n=0.25/0.0013

n=**192**

Various scholars allude to the fact that “rich information could be obtained from participants who are knowledgeable about the subject under study” (Patton, 2003). Crabtree and Miller (1992) recommended purposeful sampling that is, targeting research respondents who “possess special knowledge, status, and communication skills, who are willing to share their knowledge and skills with the researcher and who have access to perspective or observations denied the researcher”. According to Miles and Huberman (1994) qualitative sampling has a purpose because of the small nature of qualitative study samples. In this regard, concepts are progressively socially constructed. These scholars further expounded "samples like this, both within and across cases, put flesh on the bones of general constructs and their relationships.” In the present research, knowledgeable participants

based on the various stakeholder classes as discussed in Chapter 2 - Stakeholder Theory, within the banking industry participated.

Purposeful sampling is considered appropriate for a phenomenological study because it is highly likely to produce reliable results when all stakeholders represent respondents in the sample have actually experienced the phenomenon (Creswell, 1998). The rationality and power of this sampling method lies in making use of information-rich cases for in-depth inquiry (Patton, 1990). The following methods of purposefully selecting samples for study were followed in this study:

**a. Extreme or deviant case sampling**

Extreme case sampling focuses on unusual or special cases that are rich in subject matter information. ReNaissance Merchant Bank (RMB) case was chosen because it is considered the worst case scenario in Zimbabwe. Deviant cases are useful in research because lessons may be learned about extreme outcomes relevant to improving the field of study.

**b. Intensity sampling**

This approach involves special cases but with minimal emphasis on unusual cases. "An intensity sample consists of information-rich cases that manifest the phenomenon of interest intensely, but not extremely" (Patton, 1990). The following banks were included for study based on intensity sampling: Steward Bank, CBZ Bank Limited, BancABC, and Stanbic Bank Limited. Figure 37 shows the intensity sampling logic used in the present study.

| CLASSIFICATION | BANK | LOGIC OF INTENSITY SAMPLING |
|---|---|---|
| INDIGENOUS BANKS | Steward Bank | 1. Liquid and expanding indigenous bank in Zimbabwe within a conglomerate structure. |
| | | 2. Effectiveness oriented vision, mission and value statements |
| | | 3. Stakeholder diversity given the reach of services and commitment to financial inclusion. |
| | | 4. Transformational strategic alliances through optimizing information technology in banking. |
| | | 5. Board of directors diversity-cultural, competences, gender and spirituality. |
| | CBZ Bank | 1. Winner of several awards in 2015 including best governed bank and service excellence |
| | | 2. Commitment to Corporate Social Responsibility and Entrepreneurial Development |
| | | 3. Longest serving indigenous bank, since 1980 |
| | | 4. Bank's diversification (2004) and consolidation (2010) strategies. |
| | | 5. Board of directors diversity and financial performance |
| FOREIGN-OWNED BANKS | Stanbic Bank | 1. Investment in Financial Crime Fighting-Fraudstop |
| | | 2. Accolades: Best Bank 2015, Best Commercial Bank 2015, Bet Bank in Southern Africa 2015 |
| | | 3. Diversity of shareholing, being subsidiary od Standard Bank Africa |
| | | 4. Favorable financial performance |
| | | 5. Experienced and qualified management team |
| | BANC ABC | 1. Management and shareholder diversity |
| | | 2. Parent company of a number of operating companies in Africa listed on BSE and ZSE. |
| | | 3. Growth in total assets, deposits and loans and advances since year 2000. |
| | | 4. Expansion in East and Southern Africa |
| | | 5. All inclusive sustainability pillars (Corporate Social Responsibility). |
| CLOSED BANK | Royal Bank | ROYAL Bank in year 2012 surrendered its licence amid revelations that the bank was involved in serious abuse of depositors' funds and was burdened by non-performing insider loans among a cocktail of operational irregularities. |

Figure 37: Intensity sampling logic-Banks in Zimbabwe

### c. Maximum Variation sampling

This strategy aims at identifying, discovering, understanding and explaining universally fundamental themes or key outcomes across research-participant variation. The researcher will not attempt to generalize findings but will be searching for information that clarifies variation and important universal patterns in that variation. In the current study variations in the context of corporate governance and bank organizational effectiveness exist between closed banks, distressed banks and thriving banks.

### d. Homogeneous samples

This method is the direct opposite to maximum variation sampling and involves selecting a small uniform sample. This strategy seeks to comprehensively describe some particular sub-group. This research therefore considers two participants within each subgroup, that is, indigenous banks and foreign-owned banks. This is to gain in-depth information about each particular subgroup.

#### e. Typical case sampling

This process involves selecting a case that is archetypal to the study. This is important for the researcher to “identify and understand the key aspects of a phenomenon as they manifest under ordinary circumstances” (Cohen, 2006). In this research Royal Bank Zimbabwe Limited was used as the typical case for the phenomenon under study.

#### f. Stratified purposeful sampling

A stratified sample is obtained by independently selecting a purposeful sample from each population stratum. This involves dividing a population into different groups based on some characteristic. The aim of stratified purposeful sampling is to “capture major variations rather than to identify a common core, although the latter may also emerge in the analysis” (Cohen, 2006). Each of the strata would constitute a fairly homogeneous sample. In this study the banks are divided into indigenous and foreign-owned banking groups.

#### g. Critical case sampling

Critical cases make a point quite dramatically or are particularly important in the scheme of things. The main clue to the existence of such a case is a statement that "if it happens there, it will happen anywhere," or, "if it doesn't happen there, it won't happen anywhere." The focus of the critical case study is to understand its operations, strategies, processes, and systems; and their impact of other stakeholders. The second clue to their existence is the observation that "if that group is having problems, then we can be sure all the groups are having problems." Banks cannot provide effective corporate governance unless they have a competent regulator to encourage the adoption of sound corporate governance at every banking institution. The RBZ, therefore, forms the critical case for this study.

The seven sampling methods explain above were essential in selecting ReNaissance Merchant Bank, Royal Bank Limited, and the four case studies under foreign owned and indigenous banks. These methods were also essential in the distribution of questionnaires and conducting interviews, for example the selection of the Reserve Bank of Zimbabwe as the critical case. The sampling methods ensured the sample frame becomes represantitive of the total population.

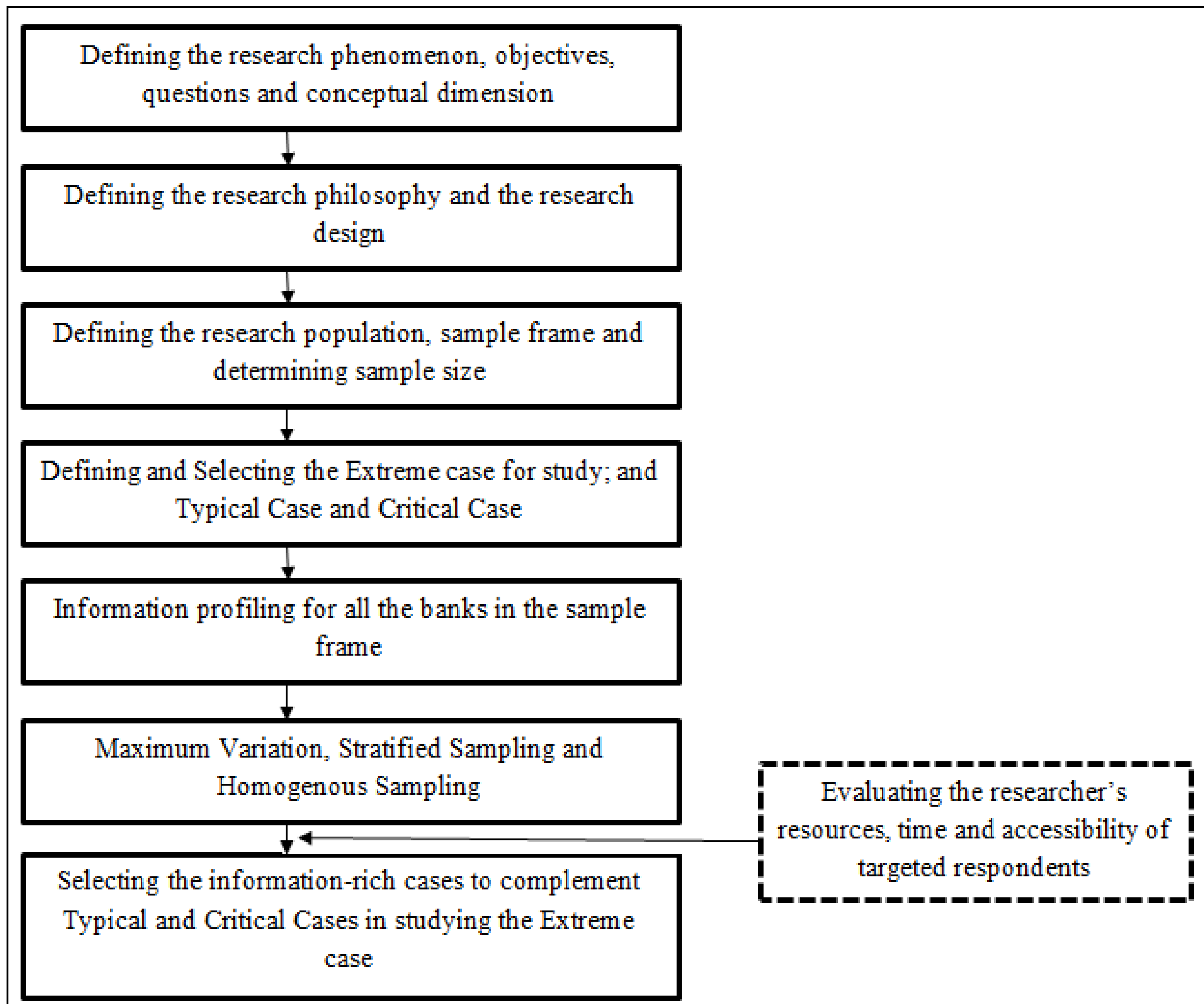



Figure 38: The overall bank sampling process adopted for this study

### 3.4 Data Collection and Analysis

Primary and secondary data collection methods were used in this research. Academic literature review was used at the preliminary stage of the study to gain some insights into the subject matter in the context of the banking sector while the primary data was gathered to obtain substantial evidence for this research. Academic literature is historical, already assembled, and does not require access to respondents. The literature collected for this research was mostly obtained from books, published journals, business magazines, reports, prospectus, newspapers and online resources.

The researcher collected primary data from original sources through qualitative questionnaires and interviews submitted to 200 participants. Qualitative questionnaires and interviews were used to explore, that is, to identify and discover corporate governance

irrationalities within the practices and principles of indigenous banks in Zimbabwe with regard organizational effectiveness. Interviews were recorded using analogue and digital technology which was then be professionally transcribed. Content analysis was employed to examine corporate governance depiction in textbooks, and reports in the context of Zimbabwean banking market.

**Qualitative Interviews**

To obtain the first set of data about bank failures and corporate governance principles and practices in the Zimbabwean context, the researcher employed qualitative interviews as follows among the following dominant, definitive and discretionary stakeholders.

**Table 9: Interview Schedule**

| | **Group** | **Sub-Set** | **No. of Interviews** |
|---|---|---|---|
| **1.** | Reserve Bank of Zimbabwe | RBZ Banks Supervision and Surveillance | 2 |
| **2.** | Deposit Protection Corporation | Deposit Protection Corporation | 1 |
| **3.** | NAMCO | NAMCO | 1 |
| **4.** | Bankers Association of Zimbabwe | Bankers Association of Zimbabwe | 2 |
| **5.** | Quality Corporate Governance Centre | Quality Corporate Governance Centre | 2 |
| **6.** | Zimbabwe Stock Exchange | Zimbabwe Stock Exchange | 1 |
| **7.** | Audit Firms | Ernest and Young | 1 |
| | | Deloitte and Touche | 1 |
| | | KPMG | 1 |
| **8.** | Legal Practitioners | Dube, Manikai and Hwacha | 1 |
| | | Coghlan, Welsh and Guest | 1 |

| 9 | Bank Holding Companies | Econet Wireless Zimbabwe | 1 |
|---|---|---|---|
| | | Old Mutual Limited | 1 |
| 10. | Institutes | Institute of Bankers Zimbabwe | 1 |
| | | Institute of Directors | 1 |
| | | Institute of Internal Auditors Zimbabwe | 1 |
| 11. | Anti-Corruption Commission | Anti-Corruption Commission | 1 |
| 12. | Academicians | Corporate Governance Lecturers | 2 |
| 13. | Banks | Foreign Owned Banks | 4 |
| | | Indigenous Banks | 4 |
| | **Total** | | **30** |

As shown in Table 9 above thirty (30) people were interviewed from different fields in Harare. Table 9 indicates that interview from key organizations dealing with corporate governance issues were included in the study. All the interviews were conducted in English language and face to face.

Figure 39 shows the interviews types utilized for gathering field evidence. As shown in Figure 39, interviews can either be structured, semi-structured, or unstructured. The present study relied on the unstructured interviews from an interpretivist dimension. However, in line with the methodological pluralism doctrine, the research also had some elements of structured and semi-structured interviews.

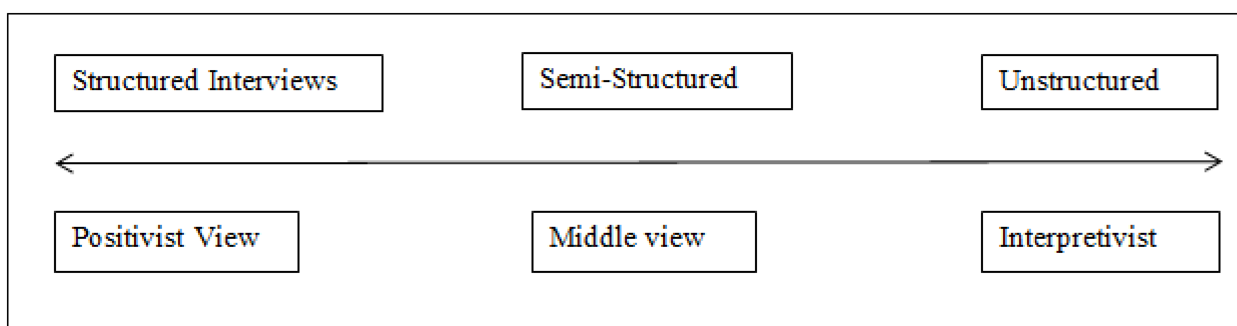



**Figure 39: Representation of the degree of utilization of the types of interviews (Source: Established from Smith, 1995; Merriam, 2002)**

Conducting interviews allows the researcher to enter into the respondent's worldview assuming that their views are meaningful, intelligible, and can be made explicit (Patton, 2003). Therefore, the reliability of the responses depends essentially on the researcher's ability to understand what the respondent wanted to tell. The effectiveness of the interview process relies exclusively on the extemporaneous generation of questions in the natural flow of communication (Patton, 2003).

This research predominantly used the unstructured interview method. In the unstructured interview, the interview questions would be severally reformulated across diverse participants. This researcher utilized probes, such as follow-up questions, in order to improve the fullness and depth of participant responses. The semi-structured interview schedule was used as a guide to ask the interview questions across all participants. This schedule contained broad topics including: (1) corporate governance, (2) organizational performance, and (3) bank failures. The list of issues to probing generated during the pilot study will also be included in the interview schedule.

**Confirming and Disconfirming the Study**

This research started by exploring the research subject matter, that is gathering data and allowing patterns to emerge. The exploration gave way to confirmatory field work process. As stated by Patton (2009) "the process involved testing ideas, confirming the importance and meaning of possible patterns, and checking out the viability of emergent findings with new data and additional cases". A great deal of integrity and research rigor is required at this stage of sampling, confirming, and disconfirming cases. A pilot study with five Zimbabwean bankers was conducted at the confirming and disconfirming stage of the study. These participants must have demonstrable knowledge and understanding of not only corporate governance and bank failures, but the Zimbabwean business environment and developments in corporate governance across the globe.

Pilot study refers to feasibility studies which are "small scale versions, or trial runs, done in preparation for the major study" (Polit *et al.,* 2001). Pilot studies involve the pre-testing of research instruments (Baker, 1994). Besides confirming or disconfirming the study, the pilot

study saves the following purposes: (1) improving the researchers interviewing skills; (2) enhance the researcher's perception and intelligence about the sort of questions to ask when conducting fieldwork; (3) developing and test adequacy of research instruments; (4) assessing the feasibility of the study; and (5) collecting preliminary data. This is important because every researcher, prior to conducting fieldwork, must have some contextual knowledge about the phenomena and skills for conducting the study (Klein and Myers, 1999).

**Recording of statements**

Respondents' statements are important sources of research evidence. To effectively accomplish the purpose of this study and increase the accuracy of collecting evidence, effort was made to record all such statements and use them in conducting data analysis. To record respondents' viewpoints, utilizing a tape-recorder is ideal (Patton, 2003). Prior to each interview session, the researcher explained to the interviewee, the reasons for using the tape recorder rather than note taking. Where tape-recording was not possible, the researcher had to take hand-written notes. However, the greatest problem recognized was that in note taking the interviewer was more focused on writing down notes rather than listening and communicating with respondents.

**Questionnaires**

This research also utilized structured questionnaires to gather relevant data from dormant, demanding, dangerous, dependent stakeholders and non-stakeholders. Questionnaires were also sent to some dominant, definitive and discretionary stakeholders. Interview responses and the content analysis form the basis for the conceptualization and construction of a structured questionnaire.

The structured questionnaires were constructed for the purposes of "supporting quantitatively the data collected through qualitative interviews". The questionnaires were constructed in a phased manner (De Vaus, 1985) as shown in Table 10 below:

Table 10: Structured questionnaire preparation

| Phase | Description |
|---|---|
| 1. | Preparation in consultation with academicians, and research supervisor. Review of questionnaires by other scholars. |
| 2. | Preparation of a list of questions based on corporate governance, bank failures and organizational effectives and also on areas related to the study. Relevant, symmetrical, clear and simple questions were constructed. Draft questionnaires will be given to the research supervisors and peers who have had practical experience in the area of investigation for review and suggestions. Changes were eventually implemented; additions and eliminations were also considered. |
| 3. | Questionnaire piloting "to review for its size, relevance of procedure, necessity, clarity, tone and content, adequacy, instructions, level of pitching, legal responsibilities and overall impressions" (Sarantakos, 1998). |

**(Adopted from De Vaus, 1985)**

This research used both paper-based and electronic questionnaires. The questionnaire will utilize multiple choice questions, and scaled questions coupled with some contingency questions.

**Data Analysis Strategy**

The sequential data analysis method was used in the present research in order to obtain maximum information from the findings. The sequential strategy encompasses explanatory, exploratory, and embedded methods. As shown in Figure 40 below, these methods use both quantitative and qualitative data (Bergman, 2008). Creswell (2003) states that the sequential design is relatively easy to implement and articulates research findings when mixed methods are employed.

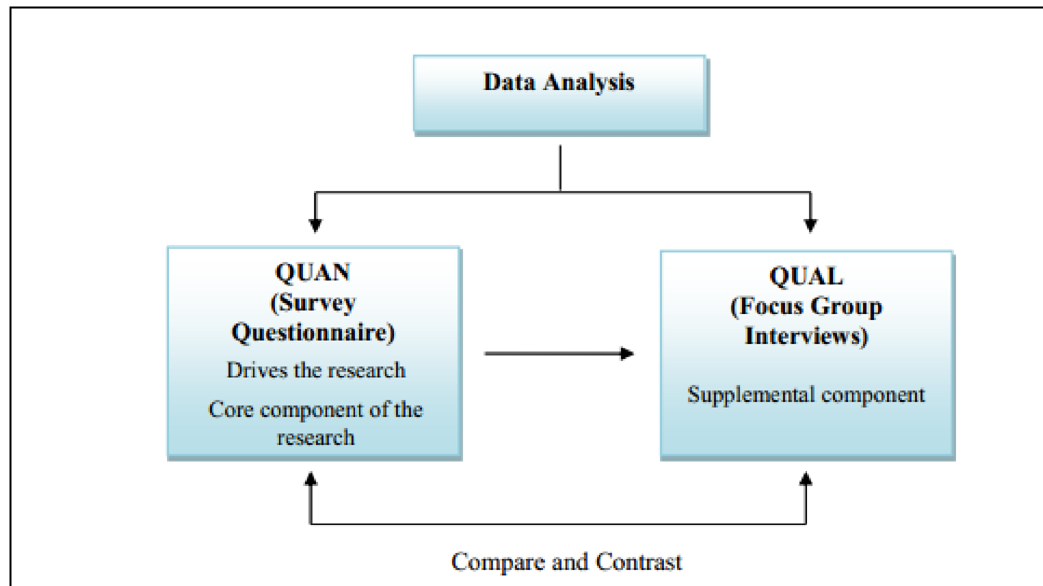



Figure 40: Data Analysis Methods

The primary aim for adopting the sequential design, particularly exploratory and explanatory methods, was to analyze the corporate governance shortcomings among Zimbabwean indigenous banks so as to address the questions raised in Chapter 1 of this study. The triangulation of quantitative and qualitative data was ensured through the combination of data analysis from questionnaire survey and interviews. This is essential in validating the data findings and overall research quality.

### Content Analysis

This analysis encompasses “analytic approaches ranging from perceptive, impressionistic, interpretive analyses to systematic, strict textual analyses” (Rosengren, 1981). This type of analysis involves summarizing any form of content by reviewing various aspects of the content. There are three approaches to interpreting meaning text data content: conventional, directed, or summative. These approaches ensure adherence to the naturalistic paradigm in research. The three approaches are different in the context of coding schemes, origins of codes, and threats to trustworthiness. In conventional content analysis, coding categories are directly derived from the text data. The directed content analysis approach generates initial codes by relying on an already existing theory or relevant research findings as guidance or a standard. Summative content analysis involves counting and comparisons of keywords or content, followed by the interpretation of the

underlying context. In this research, any form of content was analyzed and but the research converted some content into written words before analysis.

Table 11: Content Analysis sources

| | |
|---|---|
| Print media | Newspaper and magazine articles, books, catalogues, financial reports, market commentaries, banking sector surveys, RBZ Annual Reports, Liquidators reports |
| Other writings | Websites, posters |
| Broadcast media | Radio programs, news items, TV programs |
| Other recordings | Photos, drawings, videos, films, music |
| Live situations | Speeches, interviews, plays, concerts |
| Observations | Gestures, rooms, products |

The main aim of content analysis was "to provide knowledge and understanding of the phenomenon under study" (Downe-Wamboldt, 1992). The present study defined qualitative content analysis as a method for the subjective interpretation of text data content through the systematic classification process of coding and identifying themes in line with the two main research variables. This study utilized the conventional content analysis approach in order to describe the indigenous bank failures phenomenon in Zimbabwe. The conventional content analysis approach is only appropriate when existing theory or literature on a phenomenon is limited. The researcher was deeply immersed in the data to allow for the emergence of new insights (Kondracki and Wellman, 2002).

**Qualitative Content Analysis Process**

- repeatedly read data to ensure immersion and obtain a clear sense of the whole (Tesch, 1990);

- derive data codes by reading the data word by word (Morse and Field, 1995). This involves highlighting the key words accurately captures key thoughts or concepts;
- make notes of personal impressions, thoughts, and initial analysis;
- label emergent codes that are reflective of more than one key thought;
- sort the codes into categories based on their relationships. This is helpful in to further organize and group codes into meaningful clusters (Coffey and Atkinson, 1996; Patton, 2002);
- develop specific characteristics and definitions for each category and code.

The researcher adopted the conventional approach to content analysis because of its important role in gathering information directly from the research participants thereby avoiding imposing preconceived categories or prior theoretical perspectives.

### 3.5 Research Quality

Quality enhancement efforts are universal; "from the kite marks on a range of products to awards such as the Booker prize" (Boaz and Ashby, 2003). Researchers have been greatly used as evidence to inform policy and practice (UK Cabinet Office, 1999), with particular importance to identifying, synthesizing and applying reputable knowledge to solving problems, hence the multi-faceted research quality agenda. High quality research is defined as research that stands the test of being scrutinized by highly recognized peers within the field, has a substantial impact on the development of the research field, and finally, provides useful contribution to society in the short or long term, either directly or indirectly (Carlsson *et al.,* 2012). According to Tooley and Darby (1998) research quality encompasses ensuring the research: contributes to essential theory or knowledge; is pertinent to practice; and is coordinated with existing research

The evidence based research approach originated from the healthcare discipline and focused on systematic reviews when evaluating research quality. This has led to the emergence of distinct quality standards for appraising research. This research considers a number of factors in ensuring research quality.

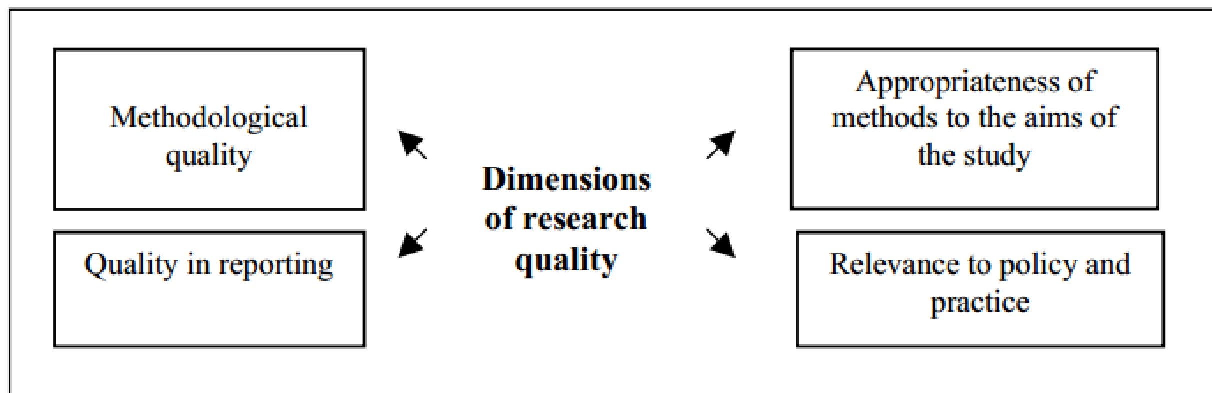
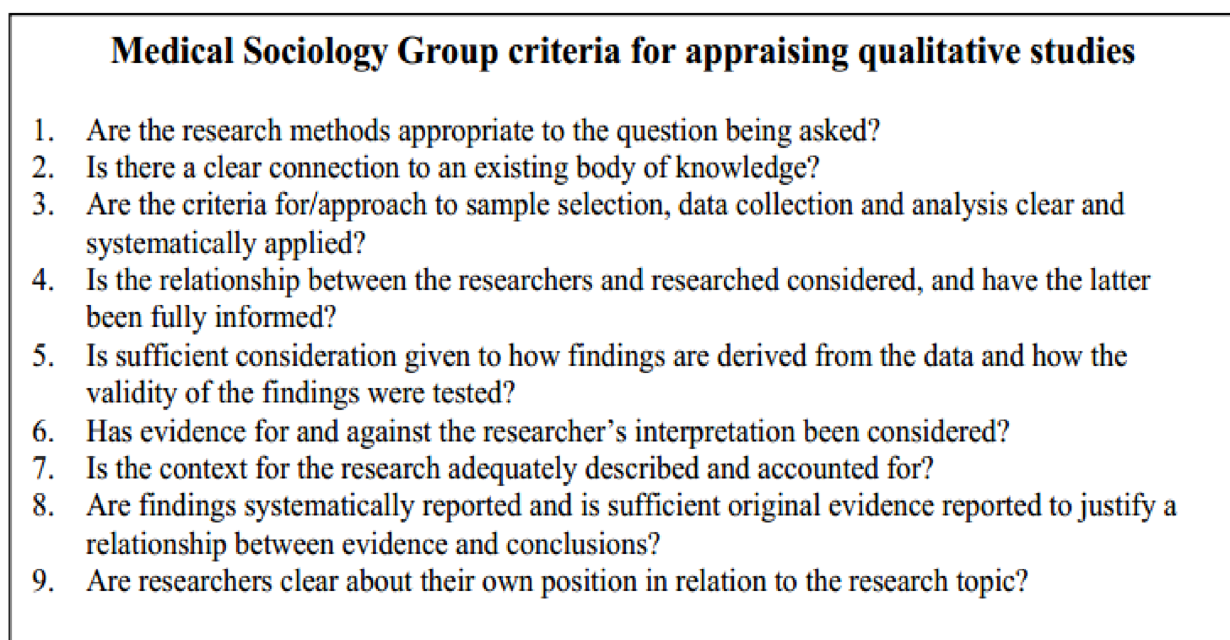



Figure 41: Research quality factors (Adapted from Boaz and Ashby, 2003)

The factors in Figure 41 above include measures to ensure research validity, reliability and objectivity of findings. Considering this research is predominantly qualitative, the following Medical Sociology Group criterion for appraising qualitative studies was used initially:



**Medical Sociology Group criteria for appraising qualitative studies**

1. Are the research methods appropriate to the question being asked?
2. Is there a clear connection to an existing body of knowledge?
3. Are the criteria for/approach to sample selection, data collection and analysis clear and systematically applied?
4. Is the relationship between the researchers and researched considered, and have the latter been fully informed?
5. Is sufficient consideration given to how findings are derived from the data and how the validity of the findings were tested?
6. Has evidence for and against the researcher's interpretation been considered?
7. Is the context for the research adequately described and accounted for?
8. Are findings systematically reported and is sufficient original evidence reported to justify a relationship between evidence and conclusions?
9. Are researchers clear about their own position in relation to the research topic?

Figure 42: Criteria for appraising qualitative studies (Boaz and Ashby, 2003)

According to empirical researchers, the extent of quality appraisal varies between fields of study. For instance, in the natural sciences, methodological debates focus on the pursuit for 'truth' and the removal of preconceived notions. The social sciences consider bias as an accepted aspect of knowledge which has to be recognized rather than removed. The existence of objective truth is often contested in the social sciences. It is increasingly important to understand the different ideas to knowledge that support different research

approaches (Popay *et al.,* 1998). Popay *et al.,* (1998) suggested the questions below when assessing qualitative research. This research also utilized these questions in ensuring research quality.

**Widening the notion of quality in qualitative research – some questions to ask**

**Lay accounts and privileging of subjective meaning:** *'Does the research, as reported, illuminate the subjective meaning, actions and contexts of those being researched?'*
**Evidence of responsiveness to social context and flexibility of design:** *'Is there evidence of the adaption and responsiveness of the research design to the circumstances and issues of real-life social settings met during the course of the study?'*
**Evidence of theoretical or purposive sampling:** *'Does the sample produce the type of knowledge necessary to understand the structures and processes within which the individuals or situations are located?'*
**Evidence of adequate description:** *'Is the description provided detailed enough to allow the researcher or reader to interpret the meaning and context of what is being researched?'*
**Evidence of data quality:** *'How are the different sources of knowledge about the same issue compared and contrasted?'*
**Evidence of theoretical and conceptual adequacy:** *'How does the research move from a description of the data through quotation or examples, to an analysis and interpretation of the meaning and significance of it?'*

**Figure 43: Key questions in qualitative research**

Harden *et al.,* (1999) suggested the below criteria for assessing qualitative studies which this researcher also took into consideration:

**Some suggested criteria for assessing the quality of qualitative research**

1. An explicit account of theoretical framework and/or inclusion of a literature review was given
2. Clearly stated aims and objectives
3. A clear description of content
4. A clear description of sample
5. A clear description of methodology, including systematic data collection methods
6. An analysis of the data by more than one researcher
7. The inclusion of sufficient original data to mediate between data and interpretation

Source: adapted from Harden, A; Weston, R and Oakley, A (1999, p26)

**Figure 44: Criteria for assessing the quality of qualitative research**

### 3.5.1 Validity

Research validity refers to the ability to generate findings that are aligned with abstract values. It is simply a measure of the degree to which research instrument measures what it is intended to measure. The present research being predominantly qualitative focuses on an in-depth examination of Zimbabwean indigenous banks, and as such has to avoid basing conclusions and explanations on a few extracts from study. To ensure validity, the present research purposely used a large sample size (*n=192* and 30 formal interviews) and theoretically validating the research findings through finding the congruence of findings with the extent literature. The use of a representative sample is essential in enhancing external validity of the research (Leedy and Ormrod, 2001). The internal validity of the present research was confirmed based on the examination of the data gathered through various means (Silverman, 2000).

### 3.5.2 Reliability

Research reliability or consistency measures the degree of consistency with which research instrument measures the attribute it is designed to measure. A method is considered to be reliable if it produces the same results consistently, irrespective of the researcher. Reliability is characterized by accuracy (research precision) and impartiality (research objectivity). The use of a standardized research instrument enhances research reliability, and in the case of subjective judgments, specifying the criteria that dictate the kinds of judgment the researcher makes (Leedy and Ormrod, 2001). The present research made use of questionnaires and interviews, and to enhance reliability the instruments were sent to the Supervisor and academic experts for review thereby subjecting the instruments to changes before finally administering it to the research respondents.

The review focused on such options as coherence between the research methods and objectives; openness of the research to the adoption of other suitable methods; "discourse, that is, the extent to which researchers are allowed to discuss the researched data and interpret them together and evaluate the consequences of such findings" (Bogumill and Immerfall, 1985 as quoted in Sarantakos, 1998). These aspects for reliability form the basis for the analysis and interpretation of the qualitative data.

### 3.5.3 Objectivity

The principle of objectivity focuses on minimizing personal prejudice and bias in research, with the view to ensure authentic presentation of social reality, rather than based on the researcher's interpretation or imagination. Objectivity is a measure of the extent to which research findings are free from bias (Silverman, 2000). Bias refers to "any influence, condition or sets of conditions that singly or together distort data" (Leedy and Ormrod, 2001). Leedy and Omrod (2001) acknowledged that data contamination by some form of bias from the researcher is inevitable. However, deliberate effort should be made to reduce bias and enhance objectivity. The present researcher acknowledges the inevitability of complete value neutrality, but "some degree of value neutrality is possible and some aspects of objectivity should be preserved and defended". As discussed in Section 3.2 (research design), to minimize researcher biases, bracketing, horizontalization, phenomenological reduction and imaginative variation were also adopted

Objectivity is enhanced in the present study through the use of multiple methods and triangulation method. This is important in order to obtain information about the study variables from multiple respondents using at least two methods. The selection of research scope confirms the researcher's own bias. The boundary was selected to provide useful data for examining and interpreting research findings.

The determination of the quality of research depends on measurable parameters of the instruments and methodology and alternatives such as "credibility, transferability, dependability and confirmability" (Lincoln and Guba, 1985) are useful. Methodological excellence is an essential element of research quality, particularly in qualitative research. Methodological excellence encompasses conducting research in a professional, accurate and organized manner.

In the present research, the researcher stated the full research process, and explained the methods, instruments and parameters.

### 3.5.4 Fitness for Purpose

The sole focus on methodological quality does not provide sufficient basis for assessing the value and contribution of research (Boaz and Ashby, 2003). The fitness of purpose dimension of research focuses on the 'fit' of the methods to the research elements and concerns. It also encompasses the 'fit' of the research to the research outcomes, in this case, to achieve regulation change. The term 'authenticity' normally encompasses numerous 'utilization' dimensions to quality (Lincoln and Guba, 1985). One essential dimension of quality is the extent to which the research addresses different stakeholder needs (Rychetnik *et al.,* 2002). The participation of service users in designing and conducting research is important in enhancing research quality (Fisher, 2002). Various researchers argue that any research that lacks methodological rigor should be treated with a great deal of caution. To ensure the research is applicable to policy and practice, the broader dimensions of quality should be incorporated in the appraisal process (Boaz and Ashby, 2003). The quality of reporting the research findings will also be considered critical in this research. Chapters 4 and 5 of this research focus on research transmission.

In conclusion this research intentionally avoids the traditional approach to quality assessment, that of focusing on methodological rigor. The following quality assessment questions were used in this research:

- Is the research presentation favorable for use and appraisal by all the key stakeholders?
- How effective was the research execution process?
- To what extent was the research approach aligned to the defined purpose of the study?
- How useful and useable is the research in addressing important policy and practice questions?

### 3.6 Ethical Considerations

Ethics plays an important role in ensuring effective and meaningful research, hence the unprecedented scrutiny of individual researchers' ethical behavior (Trimble and Fisher, 2006). There are varied reasons as to why researchers should adhere to ethical norms. First, adhering to ethical norms promotes purposes such as adding knowledge, being truthful, and prevention of research error. Research aims such as "truth and prevention of error are promoted by prohibitions against fabricating, falsifying, or misrepresenting research data) (Trimble and Fisher, 2006). Second, the research process involves extensive cooperation and coordination among various from diverse backgrounds. Therefore, adhering to ethical standards in research promotes essential collaborative work values, such as trust; accountability; mutual respect; and fairness. Third, ethical standards promote accountability of the researcher to the public.

Human research may be conducted only with ethical approval. There are three basic principles relevant to the ethics of social research: "respect of persons, beneficence and justice" (The Belmont Report, 1979). The following areas of scientific dishonesty were managed in this research: plagiarism, falsification and fabrication, faulty data gathering procedures' and poor data storage and retention.

The following principles were adhered to in order to better protect the rights of participants:

- Voluntary participation: the researcher refrained from coercing participants to participate in the research.
- Informed consent: the full set of procedures and risks of participating in the present research were communicated to prospective participants and each participant gave their consent to participate. Direct rather than substitute consent will be preferred in this study.
- Capacity: the researcher engaged people who have the capacity to participate in corporate governance and banking research. The fundamental element of capacity involves the ability to evaluate and make meaningful choices based on received information and the evaluation process. The key measure of competence or

incompetence is therefore the ability to acquire, retain, and evaluate information. Legal qualification and ability is also used in determining the level of a person's competence. From a legal standpoint, any individual under the age of majority is considered to be unable to make certain decisions.

- Confidentiality: all participants were assured in writing that identifying information will not be made availed to anyone who is not directly involved in the study without the participant consent. Upholding confidentiality plays an important role in getting accurate and honest responses from participants.
- Anonymity: the researcher will ensure research participants remain anonymous even after the completion of the study.

Ethics approval has to be obtained from the University of Lusaka, School of Post-graduate studies. The researcher obtained the ethics approval form prior to data collection. The consent form and information of participants involved in this study were distributed. Effort was made to explain and assure the research participants that there will be no probable risks in participating in this study. Upon completion of the research, the results of the will be presented to corporations, at professional meetings, and published in academic journals, but research participants or any other identifying information will not be revealed.

### 3.7 Summary

The purpose of this section was to present a discussion of the research philosophy and research design for the study, mostly regarding the data collection method, its population and sampling frame, questionnaire development, the sampling process, research quality and analysis. The succeeding chapter presents research results based on questionnaires and interviews responses.

# CHAPTER 4: DATA PRESENTATION AND ANALYSIS

The research methodology of the present corporate governance examination was discussed and justified in Chapter 3. The focus of the present chapter is on the analysis and presentation of the research data and research results in the context of an examination of the internal corporate governance structure and their impact on indigenous bank organizational effectiveness. The researcher illustrated the tables and charts used in the thesis in order to ensure clarity of information. The research used descriptive statistics and analysis of means to provide solutions to the questions raised in Chapter 1. The succeeding chapters cover a discussion of the research findings and drawing of conclusions and recommendations.

The research design facilitated the researcher to undertake an examination of the nature and extent of corporate governance in Zimbabwe and the internal corporate governance principles and practices for indigenous banks' organizational effectiveness. This included the use of desk research, questionnaires, and formal and informal interviews with relevant and significant contributors to the corporate governance subject. Questionnaires were sent to four banking institutions in Harare, Zimbabwe. Two sets of questionnaires were prepared and distributed to the intensity case studies as elaborated in Chapter 3. The questionnaires were addressed to the bank directors, CEOs, management and bank employees. The researcher also made use of the Bureau van Dijk BankScope database to gather secondary data on the economic performance of the sampled banking institutions.

A total of 196 questionnaires were delivered and 161 usable questionnaires were returned representing 82% response rate. The 82% response rate was deemed acceptable because literature states that an appropriate response rate for a survey questionnaire should be at least 30% (Sakaran, 2003). The response rate was in line with the sample size as described in section 3.3. The distribution of the 161 questionnaire responses was also considered fair and representative of the total research populace as depicted in Figure 45 below.

The results indicate that 4 out of 196 questionnaires (2%) were distributed targeting CEOs of the four banking institutions. A total of 4 out of 161 usable questionnaires (2%) were returned. For bank executives a total of 84 out of 196 questionnaires (43%) were delivered

and 74 out of 161 usable questionnaires (46%) were received. Out of the 196 distributed questionnaires 8 (4%) were targeted at the board members. A total of 3 usable questionnaires (2%) were returned by the board members. Board members of one bank did not respond to the questionnaires whilst one questionnaire was received from each of the other three banks. For employees 100 out of 196 questionnaires (51%) were sent and a total of 80 out of 161 usable questionnaires (51%) were received. Table 12 below also indicates the frequency and distribution of the survey responses.

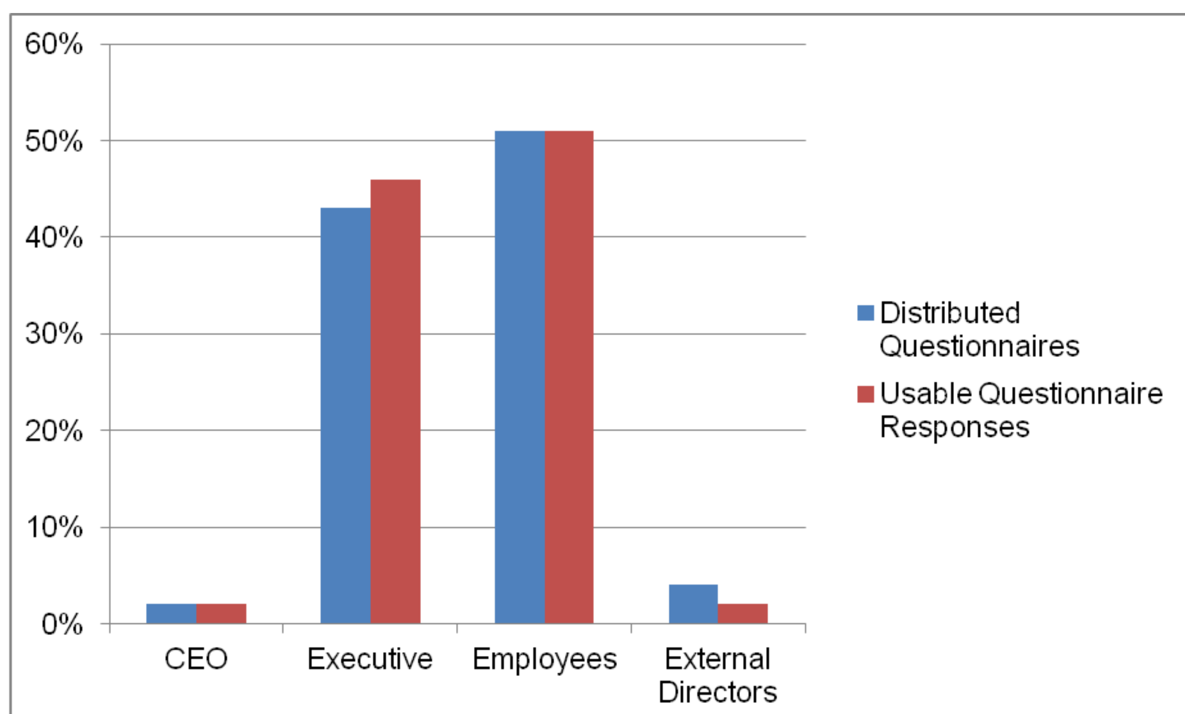



**Figure 45: Distribution of Questionnaire Responses**

Figure 45 illustrates an even distribution of the questionnaire responses in terms of the distributed and the received usable questionnaire. The questionnaires were distributed to the four categories of respondents as shown in Figure 45. The figure above depicts that out of the 2% distributed questionnaires to CEO of the sampled banks, a total of 2% usable questionnaires were received. A total of 43% were distributed to bank executives and 46% usable questionnaires were received. An equal distribution was recorded on the questionnaires to lower level employees, whilst 4% were distributed to externat directors and 2% usable questioonaires were received. The distribution of the questionnaire responses supports the research quality.

According to Table 9 on page 151, a total of 30 interviews were scheduled. The researcher managed to conduct 13 face-to-face interviews and six (6) Skype interviews representing 63.3% success rate. Table 12 shows the distribution of the interviews that were conducted:

**Table 12: Successful Interviews Schedule**

| | Name of Organization | Face-to- Face | Skype |
|---|---|---|---|
| 1. | Reserve Bank of Zimbabwe | 1 | - |
| 2. | Deposit Protection Corporation | 1 | - |
| 3. | Bankers Association of Zimbabwe | 1 | - |
| 4. | Quality Corporate Governance Centre | 1 | - |
| 5. | Audit Firm | 1 | - |
| 6. | Legal Practitioners | 1 | - |
| 7. | Bank Holding Company | 1 | 1 |
| 9. | Institute of Directors Zimbabwe (IoDZ) | 1 | 1 |
| 10. | Institute of Bankers Zimbabwe (IOBZ) | 1 | - |
| 11. | Indigenous Banks | 2 | 2 |
| 12. | Foreign owned Banks | 1 | 1 |
| 13. | Academicians | 1 | - |
| 14. | Independent Auditor | - | 1 |
| | **Total** | **13** | **6** |

Table 12 therefore indicates the total number of face-to-face and Skype interviews that were conducted. The researcher managed to conduct more face-to-face interviews (68.4%) as compared to Skype interviews (31.6%). Conducting face-to-face interviews was important in order to gain more insight from people who are engaged in corporate governance issues in Zimbabwe. The Skype interviews were considered important in order to bridge the distance and time space between the researcher and the research participants.

Table 13 below shows a summary of the total data collection sources. The data sources outline indicated that two questionnaires were prepared targeting the different research participants of the study. Questionnaire 1 covered the key sources of corporate governance information, that is, directors, CEOs, and bank executives. This category of research participants is greatly involved in strategic thinking, strategic leadership and oversight of the organization. Questionnaire 2 was targeted at the bank employees in view of the industrial

democracy concept. The researcher also made use of interviews and secondary data sources to collect the required information. These sources are as shown in Table 13 and appendices section.

**Table 13: Data Sources Outline**

| Questionnaire 1: Directors, CEOs & Executives | Questionnaire 2: Bank Employees | Interviews | Desk Research |
|---|---|---|---|
| • Corporate governance<br>• Board appraisal<br>• Organizational effectiveness<br>• Bank failures<br>• Corporate governance variables | • Employee engagement and commitment<br>• Employee perceptions<br>• Corporate governance principles | • External banks' stakeholders<br>• CEO | • Liquidators reports<br>• Newsletters<br>• Websites<br>• Press articles<br>• Market analysis reports |

The interviews section in Table 13 also includes the face-toface and Skype interviews as illustrated in Table 12.

### 4.1 Data collection challenges

The researcher used contact persons to distribute hard copies of questionnaires within the four sampled banks. It is stated that there is a possibility of biased response rate if the researcher uses mailed questionnaires (Fox *et al.,* 1998). In order to avert this problem, the researcher obtained a database of all respondents from the human resources manager and/or key contact person in each bank using the Respondents Follow-up sheet as in Table 14 below. The stratified and purposeful sampling techniques were used in selecting the responses, especially for the CEO, executives, and external directors. In view of the confidentiality of the respondents, dummy names and mobile numbers are shown in Table 14.

The follow-up sheet was instrumental in ensuring the researcher keeps track of the participants' progress in completing and participating in the research. Table 14 indicates the key information that participants were required to complete. The designation section was

instrumental in ensuring stratified samplingwhilst the location data was helpful in following-up and collecting the completed questionnaires.

Table 14: Sample Respondents Follow-up sheet

| Bank Name → | | XXX BANK LIMITED | | | |
|---|---|---|---|---|---|
| | | | | | |
| | **Respondent Name** | **Designation** | **Location** | **Mobile Number** | **Email address** |
| 1. | Ryan Roland | CEO | Head Office | +26377196133 | ryan@yahoo.com |
| 2. | Justine Grace | Treasury Officer | Tsikada Branch | +26377342925 | justgr@gmail.co |

As shown in Table 14, the researcher made use of the mobile numbers and email addresses to communicate and follow-up for the questionnaire responses. All respondents were available for *Whatsapp* communication. This was useful in increasing the response rate to 82%. Initial follow-up messages were sent four (4) weeks after the initial mailing. Different response period were allocated to questionnaire 1 and questionnaire 2. This was because of the differences between the two categories of respondents. The response period was communicated as shown in Table 15 below. All research participants were allowed a grace-period of 7 days before the counting of the response time. The response time was useful in managing the questionnaire responses and improving the quality of the findings. The researcher assumed that a longer response time is likely to affect the flow of responses. The allocated response time was essential in increasing the overall response rate to 82%. Below is Table 15 showing the questionnaire response period for the two categories of questionnaires as illustrated in Table 13.

Table 15: Questionnaire response period

| Questionnaire | Response Time |
|---|---|
| Questionnaire 1: Directors, CEOs & Executives | 45 days |
| Questionnaire 2: Bank employees | 30 days |

The researcher evaluated non-response bias by evaluating the nature of early (109) against late (52) survey participants (Chongruksut, 2002). Table 16 below, illustrated the results of non-response bias test. As shown in Table 16, T-test technique was briefly adopted to assess the validity of the first and second questionnaire groups by comparing the variables in terms of age category and respondent segment (questionnaire 1 or 2). As shown in Table 16, no major differences were noted between the two groups because all the alpha level values were above 0.05. These results suggest non-response bias, therefore the questionnaires responses are considered as representative of the sample and population.

**Table 16: Results of non-response bias test**

| Comparison | N | Mean | Standard Deviation | Significance* |
|---|---|---|---|---|
| **Age Group** | | | | 0.548 |
| -Group 1 | 109 | 3.60 | 0.930 | |
| -Group 2 | 52 | 3.34 | 1.045 | |
| **Questionnaire** | | | | 0.555 |
| Questionnaire 1 | 110 | 2.94 | 0.923 | |
| Questionnaire 2 | 51 | 2.93 | 0.829 | |

*At 0.05 level of significance

**Questionnaire Responses**

Questionnaire 1 was distributed to external directors, CEOs, and executive directors of the four banking institutions. Questionnaire 2 was distributed to the bank employees within the four banks. Table 17 below indicates the distribution of the frequency and percentage responses of the 161 respondents.

**Table 17: Frequency Distribution and percentage of responses Questionnaire 1 & 2**

| Respondents | Number of Responses | Percentage (%) |
|---|---|---|
| Outside Directors | 3 | 2% |
| CEO | 4 | 2% |
| Executive Directors | 44 | 27% |
| Business level employees | 30 | 19% |
| Functional level employees | 24 | 15% |

| Lower level employees | 56 | 35% |
|---|---|---|
| **Total** | **161** | **100%** |

Table 17 shows that most responses were from lower level employees (35%) followed by 27% on executive directors. The outside directors and CEOs have a lower percentage response due to the size of this category in an organization.

**Demographic Characteristics of Respondents**

Table 18 below indicates an analysis of the demographic characteristics of respondents in terms of age, gender, and education. The data in Table 18 is for both questionnaire 1 and 2, and is essential in the analysis of response-bias.

**Table 18: Demographic Characteristics of Respondents**

| Characteristic | Categories | Frequency | | Percentage |
|---|---|---|---|---|
| | | Foreign Banks | Indigenous Banks | |
| Gender | Male | 44 | 61 | 65% |
| | Female | 30 | 26 | 35% |
| | **Total** | **74** | **87** | **100%** |
| Age (years) | Under 25 | 8 | 14 | 14% |
| | 26 – 30 | 21 | 27 | 30% |
| | 31 – 35 | 14 | 11 | 15% |
| | 36 – 40 | 16 | 19 | 22% |
| | 41 – 45 | 8 | 9 | 10% |
| | 46 – 55 | 6 | 7 | 8% |
| | 56 – 65 | 1 | 0 | 1% |
| | 65 and over | 0 | 0 | 0% |
| | **Total** | **74** | **87** | **100%** |
| Education | High School | 0 | 3 | 2% |
| | Diploma | 5 | 12 | 10% |
| | Bachelor Degree | 47 | 52 | 62% |
| | Master Degree | 18 | 19 | 23% |
| | Doctoral | 4 | 1 | 3% |
| | Other | 0 | 0 | 0 |
| | **Total** | **74** | **87** | **100%** |

An analysis of the above Table 18 results indicates an uneven distribution of gender with 65% male and 35% female participants. As regards of the age group, most respondents 30% were between the ages 26-30 years and 22% between the ages 36-40 years. The majority of respondents hold bachelors degree, 23% has master's degree and only 3% have doctoral qualification. This information is considered important in order to assess the reliability and validity of responses, thereby contributing to research quality.

### 4.2 Secondary data collection

The sources of secondary data for the present examination included the RBZ Monetary Policy Statements, Liquidators reports, Banks' Annual Reports, newspapers, books and journal articles. The researcher also made use of the Bureau van Dijk BankScope database to collect bank performance information for the four sampled banks. Analyses of secondary data sources were essential in exploring corporate governance development in Zimbabwe. The review was focused on the diverse corporate governance perspectives and their relevance to the Zimbabwean economy. The analysis of the approaches to internal corporate governance among the four sampled banks was essential in determining the predominant corporate governance theory or perspective among Zimbabwean banks. As discussed in Chapter 2 section 2.6 this research focused on the following theories: the shareholder theory, stakeholder theory, stewardship theory, managerial-hegemony theory and resource dependence theory.

Secondary data analysis indicates the nature of corporate governance in terms of the regulatory frameworks, and the recent launch of the national code on corporate governance. The literature also highlights the causes of the heightened attention to banking sector corporate governance in Zimbabwe. Data on the nature of corporate governance in Zimbabwe was confirmed through interviews and questionnaires. Secondary data through company websites and annual reports also indicated the different corporate governance approaches and the corporate values of the sampled banks as shown in Table 23 of the research findings chapter.

### 4.3 Descriptive Statistics: Internal corporate governance in Zimbabwe

The present research calculated descriptive statistics for the sampled two foreign-owned banks and two indigenous banks based on corporate governance and organizational effectiveness variables. Descriptive statistics were calculated for the eight internal corporate governance variables impacting on organizational effectiveness. These variables are shareholder and stakeholder focus, exceptional board, leadership & management interaction, strategic (transformational) planning, organizational learning, workplace spirituality, and engaged employees. The researcher used descriptive statistics to conduct a comparative analysis on the adoption of sound corporate governance mechanisms among the two categories of banks, that is, foreign-owened banks and indigenous banks. The statistics were also useful in describing the characteristics of the eight internal corporate governance variables in relation to organizational effectiveness in the Zimbabwean banking sector. This was useful in determining the key principles and practices for sound corporate governance in Zimbabwe. Table 19 below presents a summary of the descriptive statistics:

**Table 19: Descriptive Statistics**

| **Corporate Governance Variables** | **Foreign owned banks** | | | **Indigenous Banks** | | |
|---|---|---|---|---|---|---|
| | Minimum | Maximum | Mean | Minimum | Maximum | Mean |
| Shareholder & Stakeholder Focus (%) | 0 | 1 | 87 | 0 | 1 | 37 |
| Exceptional Boards (%) | 0 | 1 | 91 | 0 | 1 | 69 |
| Leadership & Management Interaction (%) | 0 | 1 | 84 | 0 | 1 | 63 |
| Strategic (Transformational) Planning (%) | 0 | 1 | 87 | 0 | 1 | 56 |
| Corporate Financial Reporting (%) | 0 | 1 | 95 | 0 | 1 | 92 |
| Organizational Learning (%) | 0 | 1 | 83 | 0 | 1 | 64 |
| Innovative & Committed workforce (%) | 0 | 1 | 82 | 0 | 1 | 63 |
| Workplace Spirituality (%) | 0 | 1 | 92 | 0 | 1 | 87 |

Table 19 shows the descriptive statistics on the eight corporate governance variables of the present study. The statistics make a comparison between the eight variables in the context of foreign-owned banks and indigenous banks in Zimbabwe. The results preented in Table 19 illustrates the number of respondents who agreed on the level of significance of each variable in the two categories of banks. The results as shown in the preceding Chapter indicates that these variables are more favorable in the foreign-owned banks as compared to the indigenous banks. There performance of these two categories is almost the same in terms of implementing workplace spirituality. The indigenous banks recorded a lower mean value of 37% with respect to shareholder & stakeholder focus. The results of the data illustrated in Table 19 are analysed in Chapter 5. Below is Figure 46 showing the descriptive statistics data for the foreign-owned and indigenous banks.

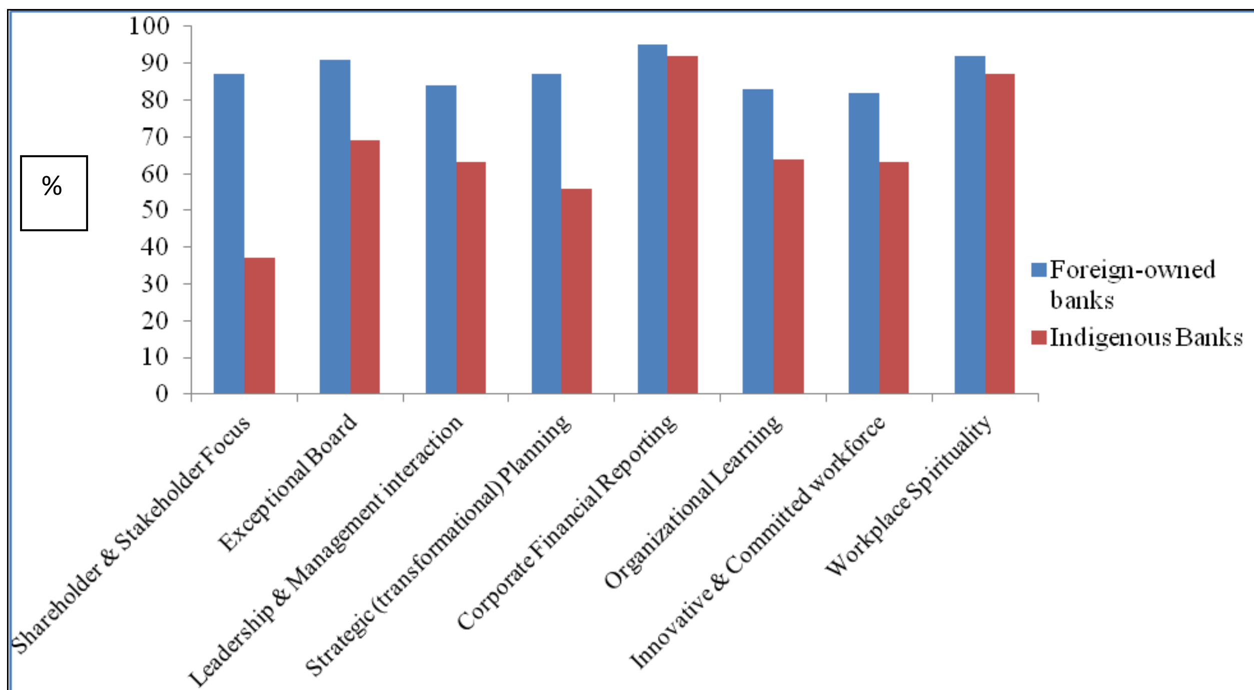



**Figure 46: Descriptive statistics on foreign-owned and indigenous banks**

## Analysis of results

This section seeks to further illustrate the information depicted section 4.3 above. This analysis is based on data presented in Table 19 and Figure 46 above on the eight corporate governance variables and their impact on organizational effectiveness.

### 4.3.1 Shareholder and Stakeholder Focus

As shown in Table 9 and Figure 46, analysis of the descriptive statistics indicates that 87% of the respondents report that foreign-owned banks' corporate governance focus is more on

the stakeholders whilst 13% were of the view that there is a balance between shareholder and stakeholder focus. Within the indigenous banks, 37% of the respondents indicated that the banks have a stakeholder focus whilst 63% reported shareholder focus as the key priority within these banks. The Figure 47 below illustrates these statistics.

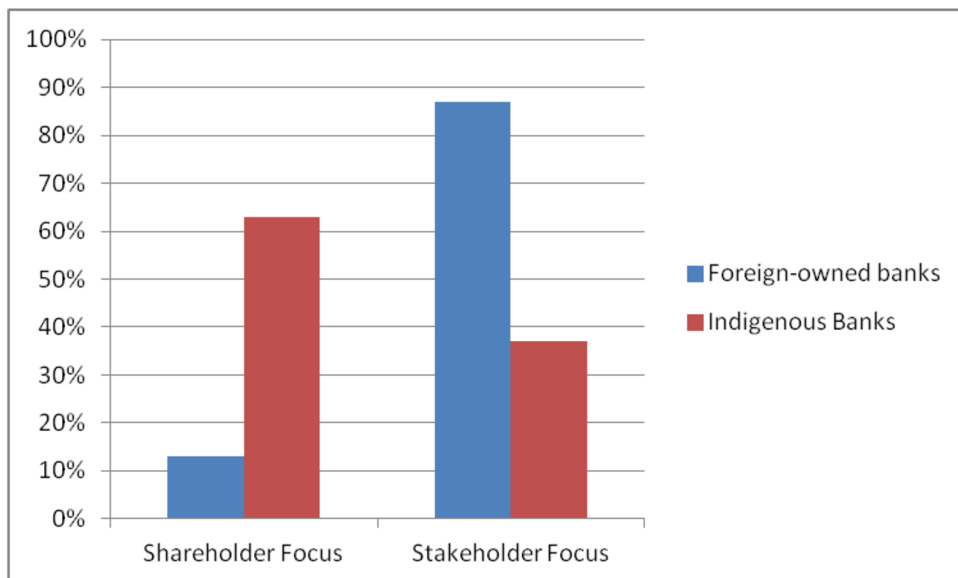



**Figure 47: Shareholder and Stakeholder Focus**

In view of this variable, respondents from the foreign-owned banks supported their view by referring to the adoption of the *Ubuntu* philosophy and the huge investments by these banks in financial inclusion programs. Content analysis supports this view as such social responsibility programs were reported: initiatives that support the welfare of women, supporting the arts industry, food donations, donating books, and sponsoring sport activities.

The analysis of the data presented on shareholder and stakeholder focus seeks to assess the ideal corporate governance framework for banking institutions. The integrated analysis section in Chapter 5.3 correlates the presented data with overall performance in order to determine the core corporate governance drivers of organizational effectiveness.

### 4.3.2 Leadership & Management Interaction

Figure 46 and Table 9 results show that there is a high level of interaction between leadership and management within the foreign-owned banks. As depicted in Figure 48 below, 84% of the foreign owned banks' respondents indicated that there is a direct working

relationship between the banks' directors, CEO and managers. These respondents indicated that the boards of foreign-owned banks actively monitor the management.

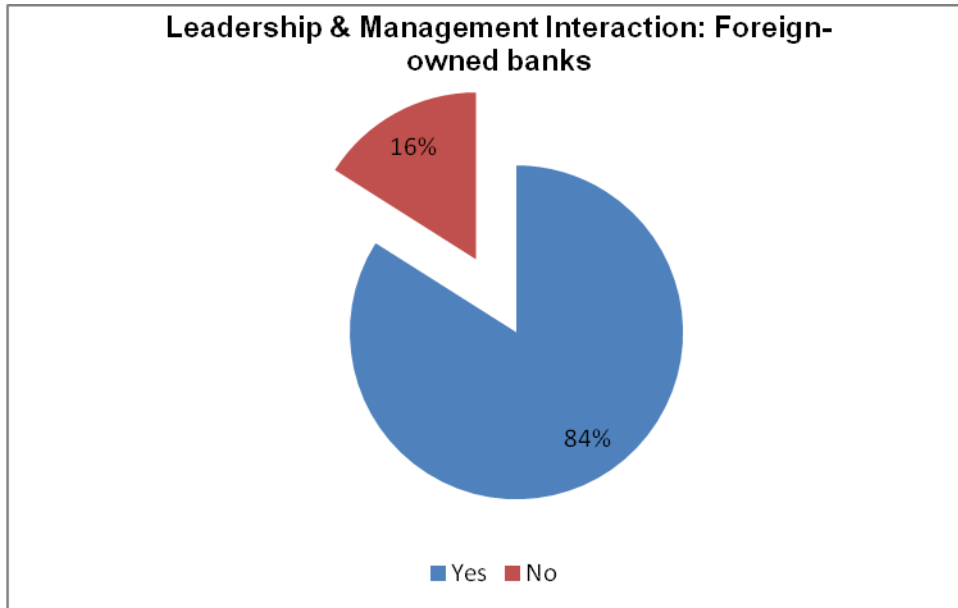



Figure 48: Responses on leadership & management interaction

63% of indigenous banks' respondents were also of the same view that there is high interstion between leadership an management. These respondents reinforced their arguments with the importance of roles separation between the Chairman and CEO. These views are depicted in Figure 49 below. Most respondents indicate that indicate banks have increased leadership and management interaction.

Leadership and management interaction data has been selected as a key variable determining organizational effectiveness. The data presented and illustrated from Figure 48 and 49 is essential in determining organizational effectiveness. Figure 49 below depicts the data on leadership and management interaction in indigenous banks.

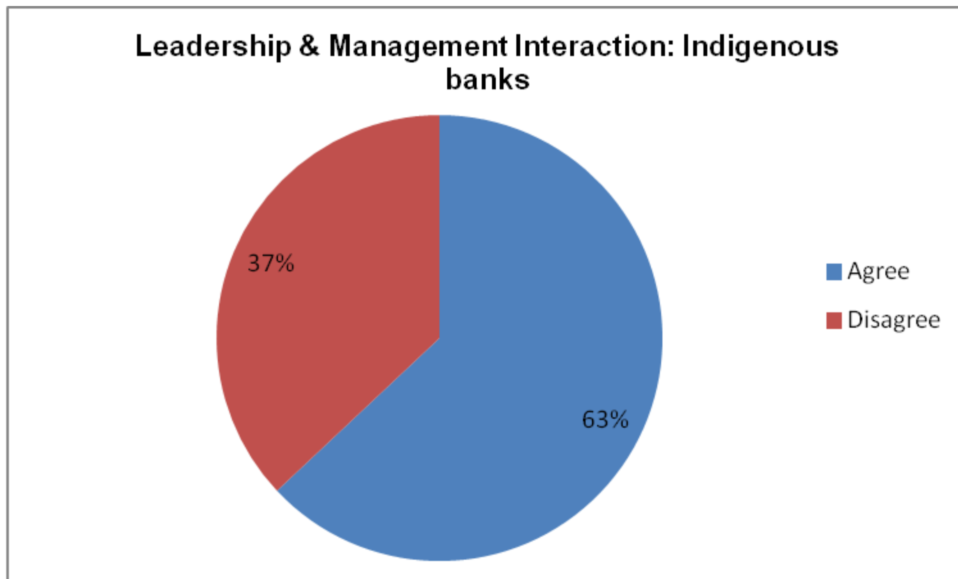



Figure 49: Responses on leadership and management interaction

The responses shown in Figure 48 and 49 therefore indicate that there is a favorable working relationship between executives and managers in foreign banks as compared to indigenous banks. This conclusion is based on the interpretivist and subjectivist research philosophy as explained in Chapter 3 of the present study.

### 4.3.3 Exceptional Board

Analysis of the data to determine the level of board exceptionality indicates that 91% of the respondents in foreign-owned banks report that their boards were exceptional whilst 69% of the indigenous banks' respondents were of the same view. Figure 50 below depicts the level of board exceptionality from the point of view of research participants.

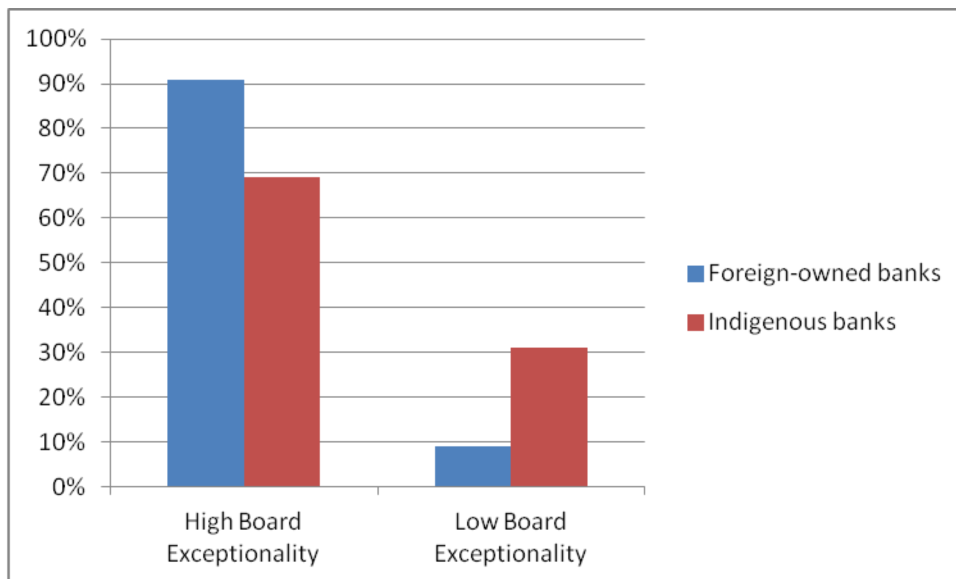



Figure 50: Level of board exceptionality

To support the views depicted in Figure 50, respondents indicated that the level of board exceptionality is determined by the level of interaction with management, board of directors' business savvy & stakeholder focus, fulfilling expected board functions, pro-active risk management, upholding to ethical standards, and aspiring to the bank's vision. These interpretations were evident in both questionnaire and interview responses. Respondents within the foreign-owned banks strongly indicated that their boards comply with the set corporate governance guidelines. This analysis is summarized in Table 9 and Figure 46 above.

The information on board exceptionality is essential in determining organizational effectiveness. The present study and conceptual framework indicates that there is a positive correlation between exceptional boards and organizational effectiveness. The analysis of the research findings is shown in section 5.3.3 of Chapter 5.

#### 4.3.4 Strategic (Transformational) Planning

Table 9 and Figure 46 shows that all respondents within the foreign-owned and indigenous banks indicated that the banks have a planned strategy. However significant variations were noted in terms of the strategy development process and the execution of the strategic plans. As shown in Figure 51, respondents (87%) from the foreign owned banks reported that the banks have a comprehensive strategic planning process manual which is accessible to all

key members of the bank. These respondents indicated the strategic planning process was effective and an effective method of strategic management.

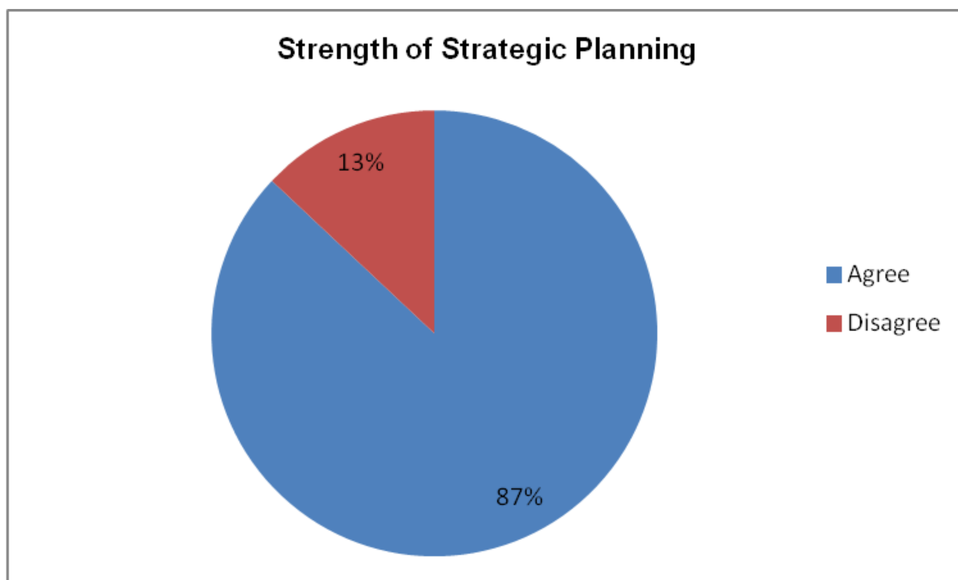



**Figure 51: Effectiveness of strategic planning in foreign-owned banks**

As shown in Figure 52 below, 56% of the respondents from the indigenous banks reported the existence of clearly documented manual about strategic planning and its importance as a method of strategy development. However, 44% of the respondents were of the opinion that the strategic planning process in indigenous banks was weak hence contributing to the failure in these institutions. The time horizon for all banks' strategic planning was indicated as less than one year with reviews ranging from monthly to quarterly basis.

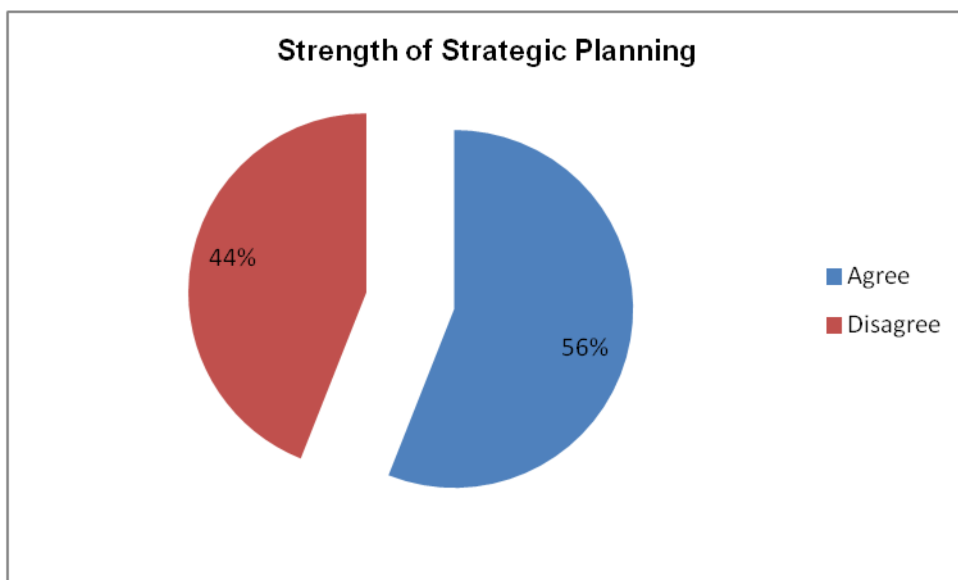



**Figure 52: Effectiveness of strategic planning in indigenous banks**

Strategic planning is considered a key corporate governance variable and in organizational effectiveness. The effectiveness of strategic (transformational) planning is considered a key driver of organizational effectiveness. Respondents' results indicate that foreign-owned banks have effective strategic (transformational) planning processes as compared to indigenous banks.

#### 4.3.5 Organizational Learning

As illustrated in the above Table 9 and Figure 46, organizational learning was indicated as a key part of the banks in Zimbabwe. 87% of foreign-owned banks' respondents indicated learning from stakeholders, through strategic planning, competitors, open communication and diversity. Figure 53 below illustrates the degree of organizational learning in foreign-owned and indigenous banks. Respondents had to indicate their views regarding organizational learning in these two categories of banks.

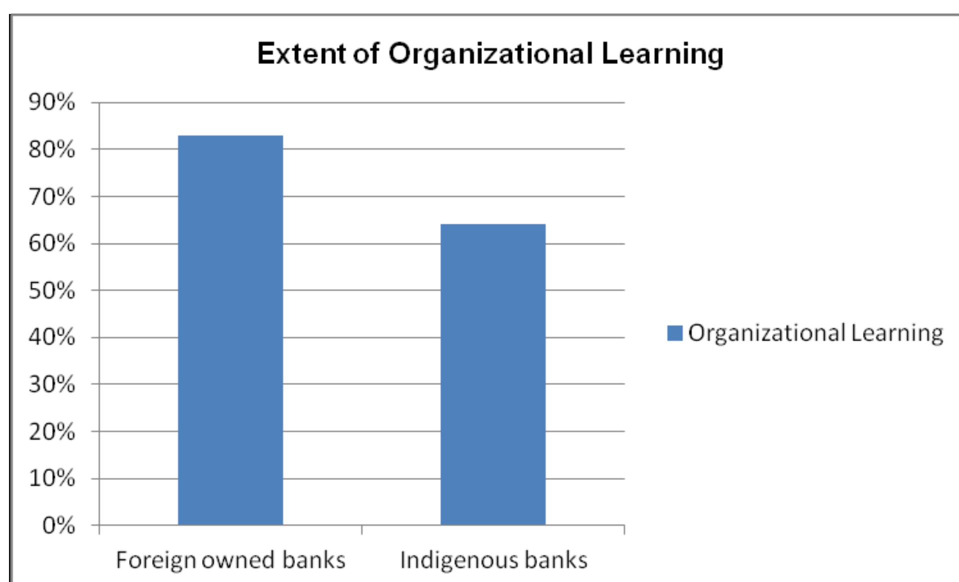



Figure 53: Extent of organizational learning

Though learning is a part of indigenous banks, an analysis of the responses indicate that these banks fell short in terms of open communication, employee engagement, stakeholder focus, and the promotion of diversity. The extent of organizational learning was therefore at 64% in the sampled indigenous banks. The focus of organizational learning has been on the processing and creation of information and knowledge. The respondents therefore assessed the two categories of banks in terms of the processing and creation of information and knowledge. Organizational learning is considered a key variable in corporate

governance and a driver of organizational effectiveness. Most respondents indicated that banks that are continuously learning are highly innovative and sustainable.

### 4.3.6 Corporate Reporting

Corporate reporting is a requirement for all banking institutions in line with the RBZ 2004 Corporate Governance Guideline on Disclosure and Transparency. As shown in Figure 46, respondents within the foreign-owned and indigenous banks indicated their banks were complying with this guideline but issues of cosmetic and creative accounting were raised by 23% of the indigenous banks' respondents as a major drawback to the reliability of the financial reports and statements.

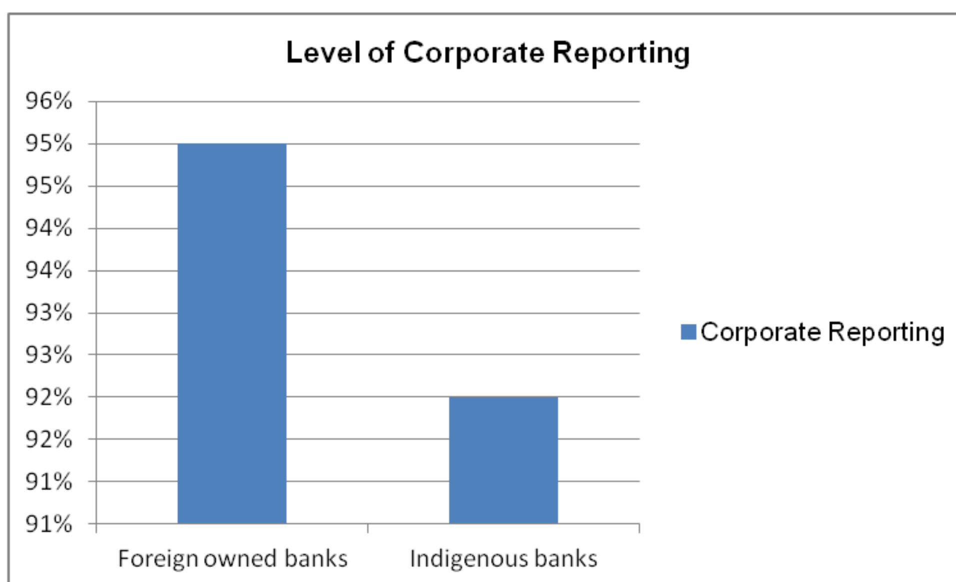



Figure 54: Extent of Corporate Reporting

Figure 54 above, indicates that both banks are complying with the corporate reporting requirements. Corporate reporting is closely related to the stakeholder focus of banking institutions. The results presented in Figure 54 are therefore closely related to the data illustrated in Figure 47 on shareholder and stakeholder focus.

### 4.3.7 Innovative and Committed Workforce

The importance of employees in corporate governance, particularly organizational effectiveness was supported by respondents in both foreign-owned and indigenous banks. Table 9 and Figure 46, shows that 82% of the respondents in foreign-owned banks reported that employees were engaged and committed to the bank; hence highly innovative. Figure 55 below depicts these views from respondents.

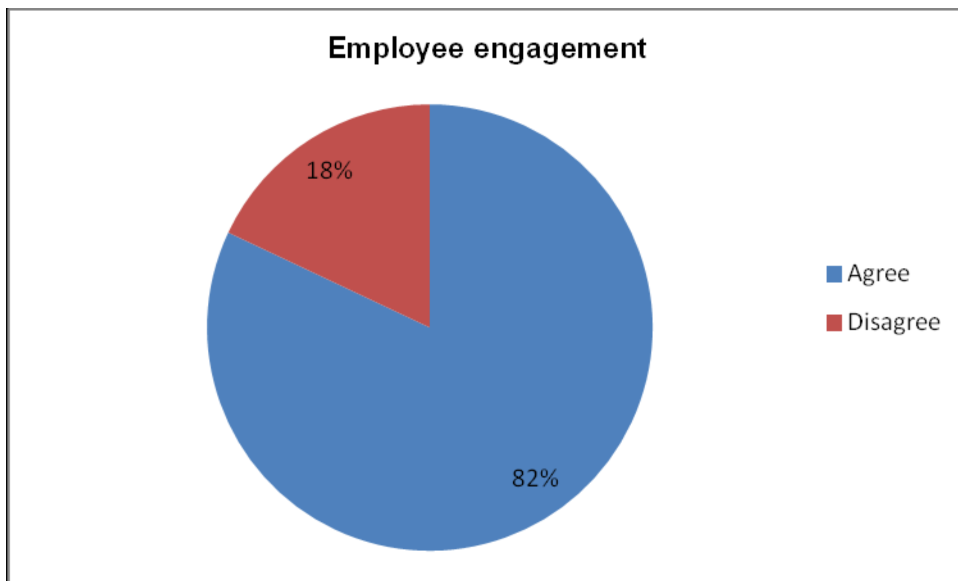



**Figure 55: Employee engagement in foreign-owned banks**

As shown in Figure 56, within the indigenous banks, 63% of the respondents indicated that employees were engaged and committed.

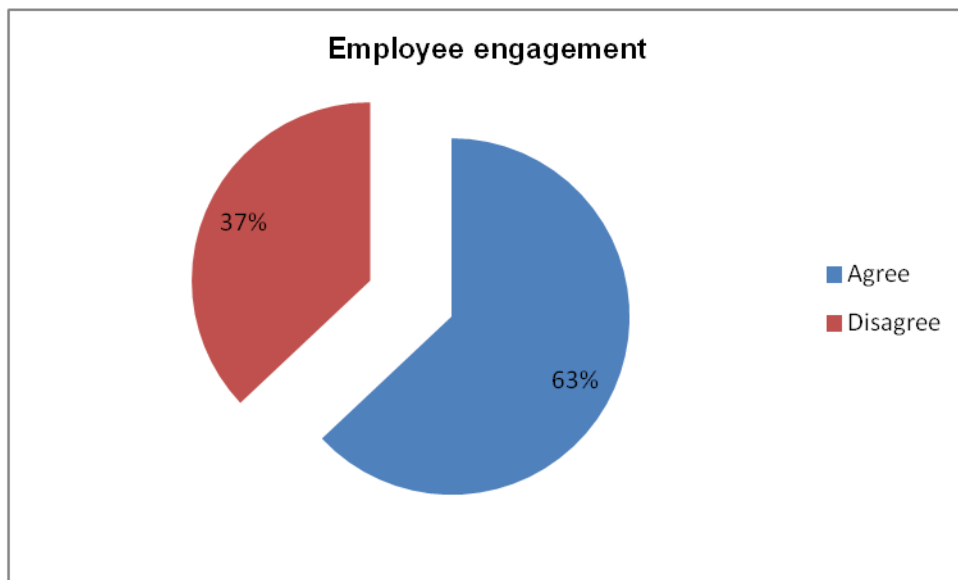



**Figure 56: Employee engagement in indigenous banks**

In view of the data presented on Figure 55 and 56, foreign-owned banks' respondents indicated the management of operational risk through employee training & development, and health & safety policy in the workplace. The availability of clearly defined and implemented employee benefits was indicated as a factor leading to employee commitment. Respondents indicated that foreign-owned banks assist employees in respect of car loans,

housing and personal loans at subsidized rates. On the contrary, within the indigenous banks such benefits are for those at the highest echelons of the organizational structure.

### 4.3.8 Workplace Spirituality

The measurement instrument for workplace spirituality involves three levels: individual, team, and organizational (Ashmos and Duchon, 2000). This research focused on individual and organizational levels of workplace spirituality. The team level of workplace spirituality was considered dependent on the effectiveness of individual and organizational spirituality. Respondents were asked to show their level of agreement or disagreement with given statements related to their workplaces. As shown in Figure 57 below, all respondents within the sampled banks reported that workplace spirituality is essential in bank corporate governance.

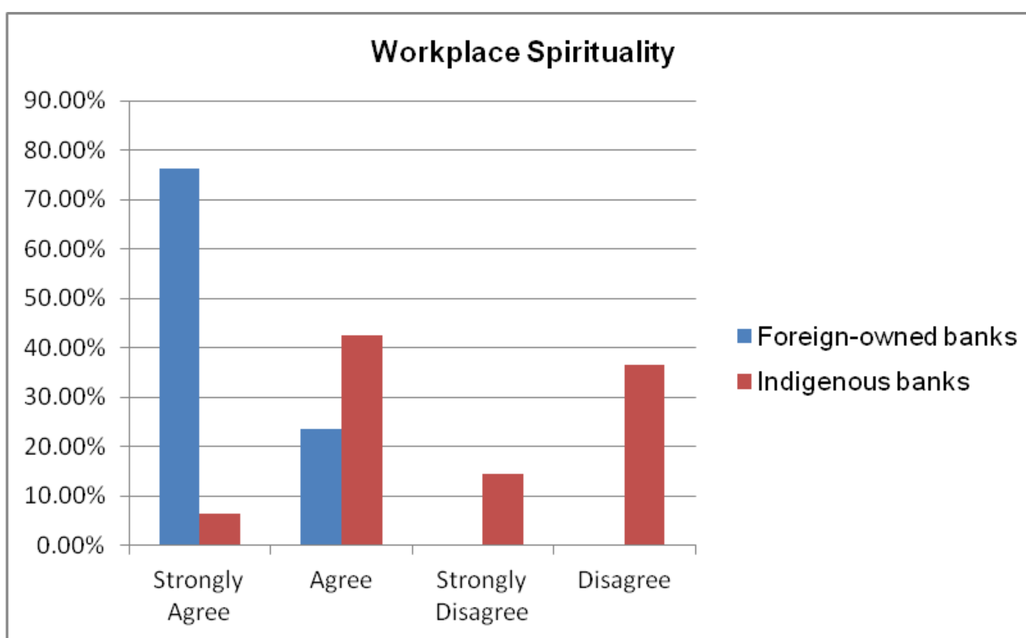



**Figure 57: Workplace Spirituality**

Figure 57 illustrates that the majority 76.4% of foreign-owned banks' participants strongly agreed with the statements and 23.6% agreed with the statements. Within the indigenous banks 42.6% agreed with the statements, 6.4% strongly agreed, 36.6% disagreed, and 14% strongly disagreed. Respondents indicated the role of workplace spirituality in creating a mutual matching of bank values and the values of all its stakeholders. The results of this analysis are shown in Figure 46 above.

The analysis of the results depicted in Table 9 and Figure 46, indicates the nature and level of adoption of corporate governance principles and practices among indigenous and foreign banks in Zimbabwe. The responses indicate the significance of the eight variables in ensuring organizational effectiveness in the Zimbabwean banking sector. The analysis of the results from the eight conceptual framework variables has been useful in determining the state of the adoption of sound internal corporate governance mechanisms by indigenous banks in Zimbabwe. Results indicated that banks are adopting the internal corporate governance principles and practices however there are variations between the foreign-owned and indigenous banks hence differences in organizational effectiveness.

### 4.4 Organizational effectiveness

This research examined the performance of the sampled Zimbabwean banks using information from Bankscope database. The Bankscope database was used because Bankscope is considered on of “the most comprehensive, global database for banks’ financial statements, ratings and intelligence” (Bureau van Dijk, 2016). The Bankscope database is considered a valuable database for bank financial performance information. The database is useful for examining individual financial entities’ balance sheets and income statements for a number of years (Bhattacharya, 2003). Empirical literature indicates that the values reported on the Bankscope database are consistent with the primary data sources. This researcher used the simple *‘Find a Bank’* searching option on the Bankscope website to get the following data:

- Detailed financial statements in different formats (consolidated and unconsolidated)
- Economic country profiles and outlooks
- Individual bank directors and shareholding structures

The Bankscope database was essential in accessing information about the financial position and exposure of the sampled banks. Below is a summary of the performance of the four sampled banks. Figure 58 shows the sampled banks’ financial performance in terms of the ancillary operating income and the net interest revenue. The data shown and presented

in Figure 58 has been further analysed in Chapter 5 with regards the eight corporate governance variables and organizational effectiveness.

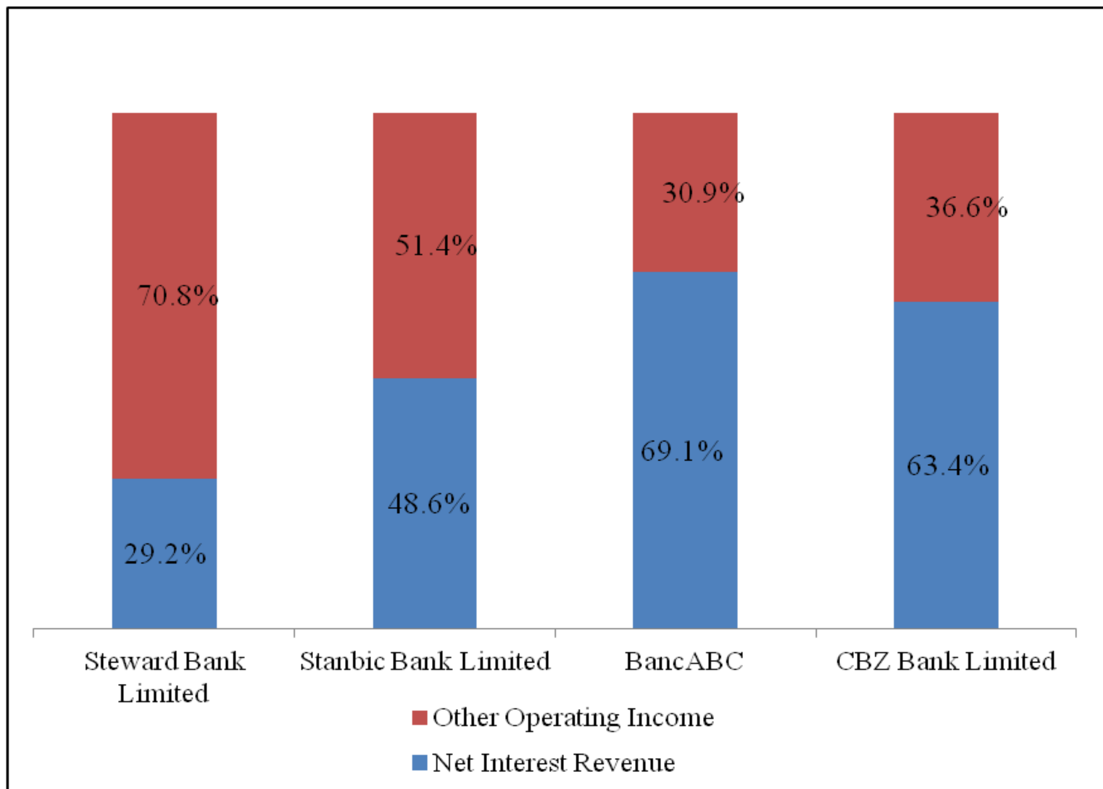



Figure 58: Income Statement Structure (2015)

**Source:** Bureau van Dijk, 2016

The net interest revenue is a common measure of financial performance in a bank. The net interest revenue indicates the difference between income generated from a bank's assets and the expenses incurred in paying liabilities. The data represented in Figure 58 indicate that Steward Bank Limited has 70.8% ancillary income and a lower 29.2% representing net interest income. CBZ Bank Limited has a high 63.4% net interest revenue as compared to the 36.6% other bank operating revenue. The indigenous banks have mean score of 53.7% (other bank operating revenue) and 46.3% (net interest revenue). From the foreign-owned banks mean score of 41.1% on other bank operating and 58.9% on net interest revenue are derived from the data. The data was important in determining organizational effectiveness considering the net interest revenue is the largest source of profits for most banking institutions. However, the variability of net interest revenue requires improvements in internal corporate governance of individual banking firms in order to understand and manage the factors that affect net interest income. The data from the BankScope database

show that banks are diversifying into fee earning activities in order to reduce bank's exposure to risk. Therefore statistical results from Figure 58 show that foreign-owned banks are earning their income from new, other operating income (mean=41.1%) as compared to the net interest revenue (income from deposits and loans) (mean=58.9%).

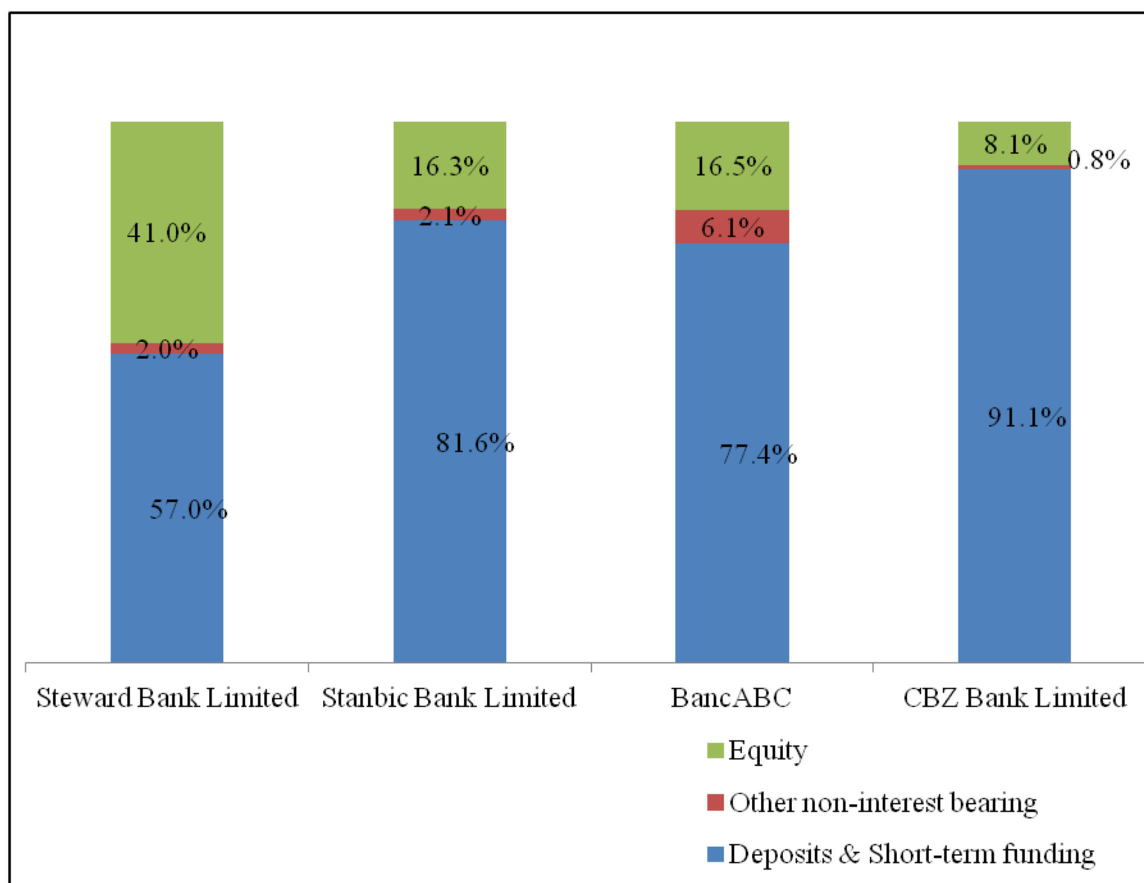



**Figure 59: Balance Sheet Structure (2015)**

**Source:** Bureau van Dijk, 2016

As reported in the Bankscope database, Figure 59 results show that foreign-owned banks have mean scores of 67.2%, 28.8%, and 4% on deposits & short-term funding, equity, and other non-interest bearing assets respectively. Indigenous banks have 86.35%, 12.2%, and 1.45% deposits & short-term funding, equity, and other non-interest bearing assets respectively. These results indicate that indigenous banks have a higher percentage of loans as assets as compared to foreign-owned banks. However, the low shareholders' equity position shows greater risk in the event the bank goes awry. This is indicated by the leverage ratio. The high leverage on indigenous banks indicates greater vulnerability to adverse shocks that reduce the overall value of assets or funding liquidity (Bordeleau *et al.,* 2009).

The results are supported by the capital ratio figures of the sampled banks which captures the risk associated with bank assets. Tier 1 capital figures are as shown in Table 20 and Figure 60 below:

Table 20: Tier 1 Capital (%)

| Tier 1 Capital (%) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Banks** | | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **Mean** |
| 1. | BancABC | 18 | 18 | 10 | 8 | 14 | 10.6 | 12.8 | **13.1** |
| 2. | CBZ Bank | 9.4 | 7.33 | 6.74 | 7.72 | 8.67 | 9.68 | 11.8 | **8.8** |
| 3. | Stanbic Bank | 18.4 | 15.58 | 14.65 | 14.98 | 18 | 20 | 20 | **17.4** |
| 4. | Steward Bank | - | - | - | 39 | 26 | 30 | 31 | **31.5** |

**Source:** Bureau van Dijk, 2016

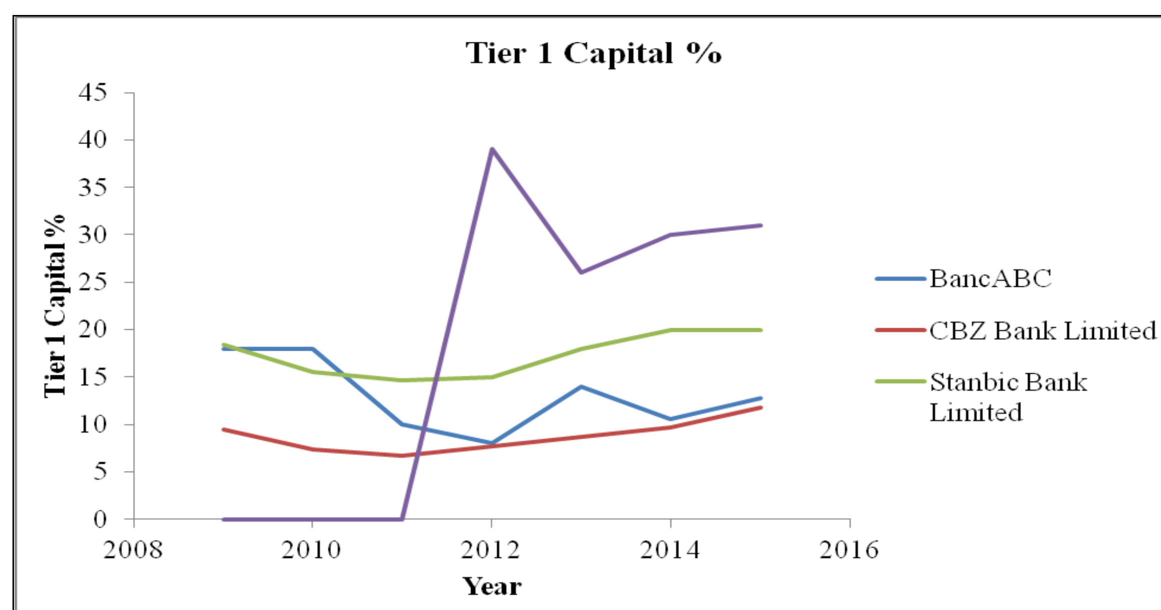



Figure 60: Tier 1 Capital %

A higher capital ratio indicates that the bank has relatively high capital holdings or relatively low risky assets holdings. This indicates less vulnerability to adverse shocks. However, funding liquidity and asset liquidity are important determinants of bank viability. Results shown in Table 20 and Figure 60 above indicate capital ratio mean of 20.1 and 15.3 on foreign-owned and indigenous banks respectively. These results imply that foreign-owned banks have high capital holdings whilst indigenous banks have relatively high risk capital

holdings. This gives the foreign-owned banks increased performance ability as compared to indigenous banks. The data from Figure 60 is supported by Table 20 in order to infer meaningfully the results.

The net income trend analysis for the four banks is as shown in Figure 61 below:

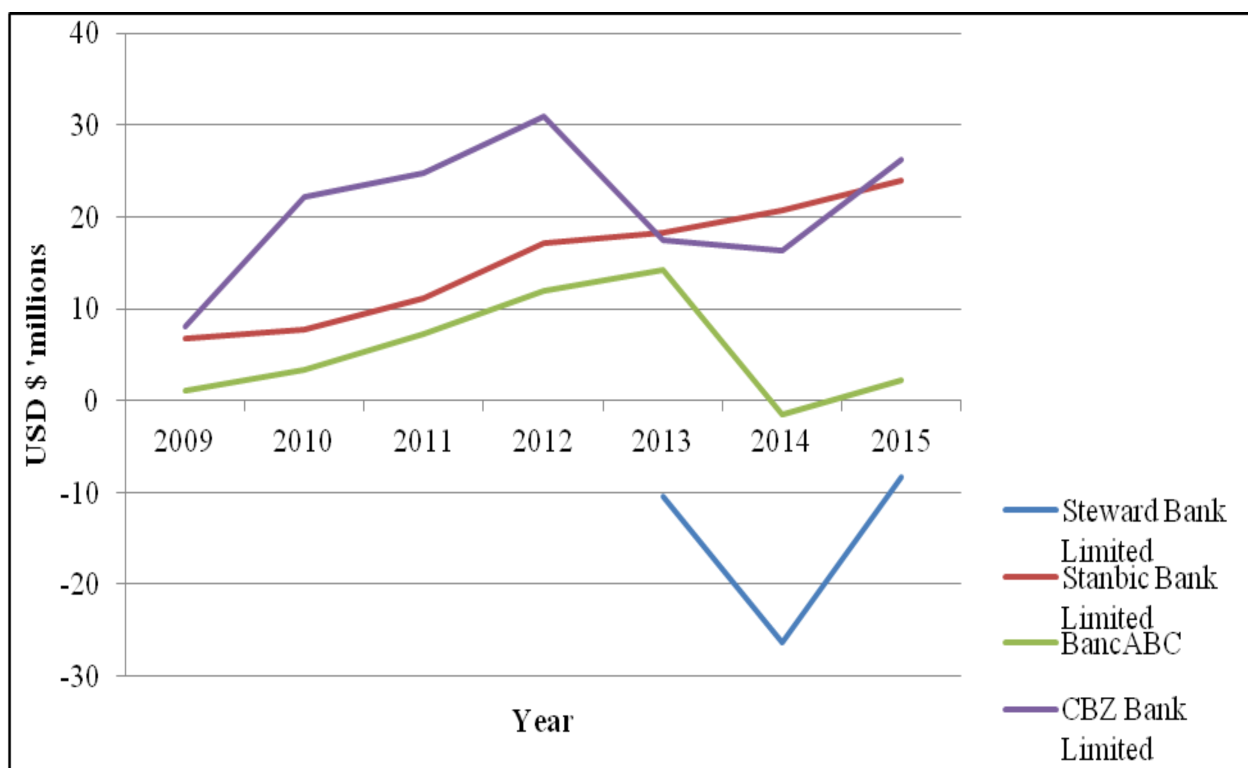



**Figure 61: Bank Net Income Trend Analysis**

**Source:** Bureau van Dijk, 2016

Figure 61 trend analysis results indicate the net income figures analysis for the sampled banks. Foreign-owned banks show higher net income figures as compared to the indigenous banks. There has been a negative net income on Steward Bank Limited during the period 2013-2015 as a result of the banks investment in capital projects. The trend analysis in Figure 61 shows positive net income data on the other banks due to their long-term existence in the banking market in Zimbabwe. Table 21 below show the financial performance indicators of the sampled banks in terms of ROAE, ROAA, and NIM. These indicators show the performance of the four sampled banks with regards the utilization of assets and equity to generate revenue; and also the overall banks' net income over the period 2009 to 2015. A positive and higher ROAE, ROAA, and NIM are considered

favorable for banking institutions. Table 21 indicates that foreign-owned banks had higher favorable results during the period under review.

**Table 21: Financial Performance Indicators**

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | Mean |
|---|---|---|---|---|---|---|---|---|
| **ROAE** | | | | | | | | |
| Steward Bank | - | - | - | -11.87 | -35.87 | -12.26 | 8.18 | **-12.96** |
| Stanbic Bank | 35.26 | 33.69 | 35.92 | 42.52 | 32.53 | 28.01 | 28.17 | **33.73** |
| BancABC | 7.62 | 16.22 | 22.91 | 28.01 | 21.78 | -1.97 | 3.09 | **13.95** |
| CBZ Bank | 24.24 | 49.55 | 36.62 | 35.71 | 16.82 | 13.66 | 19.15 | **27.96** |
| **ROAA** | | | | | | | | |
| Steward Bank | - | - | - | -4.83 | -16.30 | -5.47 | 3.25 | **-5.84** |
| Stanbic Bank | 3.33 | 2.88 | 3.17 | 4.55 | 4.21 | 4.00 | 4.14 | **3.75** |
| BancABC | 1.59 | 2.12 | 2.30 | 2.56 | 2.64 | -0.30 | 0.49 | **1.63** |
| CBZ Bank | 1.97 | 4.21 | 3.03 | 2.96 | 1.38 | 1.11 | 1.57 | **2.32** |
| **NIM** | | | | | | | | |
| Steward Bank | - | - | - | 6.72 | 3.20 | 5.70 | 6.85 | **5.62** |
| Stanbic Bank | 3.25 | 8.37 | 9.24 | 11.11 | 11.18 | 11.27 | 11.51 | **9.42** |
| BancABC | 7.79 | 9.02 | 8.31 | 8.37 | 12.64 | 13.44 | 9.75 | **9.90** |
| CBZ Bank | 5.01 | 10.83 | 11.53 | 10.84 | 8.11 | 5.92 | 6.35 | **8.37** |

**Source:** Bureau van Dijk, 2016

### 4.5 Barriers and Enablers of Corporate Governance Implementation in Zimbabwe

One of the specific objectives of this study was to identify the probable hindrances and enablers to the adoption of sound internal corporate governance by indigenous banks in Zimbabwe. The primary importance of the identification of these enablers and hindrances is to positively recommend controls for the improvement of good corporate governance in the Zimbabwean banking and financial services space towards the attainment of sector stability and solvency. Respondents (bank directors, CEOs, and executives) were asked to indicate the different enablers and hindrances to the improvement of sound internal corporate governance in Zimbabwe.

### 4.5.1 Corporate Governance implementation hindrances

An analysis of the results indicate that respondents ranked 'lack of proper board oversight and commitment', 'abuse of shareholder rights' and 'weak enforcement and monitoring systems as the top three possible hindrances to the implementation of sound corporate governance amongst indigenous banks in Zimbabwe. These barriers have mean of 2.22, 2.31, and 2.33 respectively. The variation in the mean indicates the different viewpoints from the perspectives of the respondents.

Lack of compliance to existing regulations (mean=2.35), lack of transparency and disclosure (mean=2.37), the Zimbabwean business culture mean=2.41), and the state of the Zimbabwean economy (mean=2.57) were also indicated as possible hindrances to sound internal corporate governance improvements in Zimbabwe. The interference of the government (mean=2.64) in business was not given much importance.

The researcher made use of the Mann-Whitney test and the Kruskal-Wallis test. The tests showed differing respondent opinions based on the three groups in questionnaire 1 towards lack of board oversight and commitment (p = 0.022). A Mann–Whitney test revealed a significantly stronger level of agreement from bank executives than that of external directors and CEOs, with mean score of 1.23 and 1.49.

According to the Kruskal-Wallis test, no statistically significant variations were recorded as regards the groups' perceptions of the following hindrances: abuse of shareholder rights and weak enforcement and monitoring systems (p = .543); lack of compliance with existing regulations (p = .080); lack of transparency and disclosure (p = .208); the Zimbabwean business culture and the state of the Zimbabwean economy (p = .741).

### 4.5.2 Corporate Governance Implementation Enablers

Corporate governance implementation enablers refer to the factors that may possibly boost the implementation of sound internal corporate governance. The majority of questionnaire 1 respondents ranked the stability and economic outlook of the Zimbabwean economy (90%) and learning from other countries (85%) as the top two enablers as shown by mean scores of 4.24 and 4.23 (standard deviation = 0.72 and 0.76), respectively. The use of training and

education ranked third (mean = 4.22, standard deviation = 0.70). Respondents pointed out to universities, Institute of Bankers Zimbabwe, Institute of Directors OF Zimbabwe (IoDZ) and the Corporate Governance Centre as key institutions in this regard.

Respondents also pointed out to the adoption of international best practice standards; encouraging corporate governance research in Zimbabwe; participating in international corporate governance inclined events; and instituting corporate governance compliance incentives. The recent launch of the ZIMCODE was pointed out as a step in the positive direction, though respondents pointed out to the need for a specific code of corporate governance to support the RBZ Corporate Governance Guidelines of 2004.

According to results from The Kruskal–Wallis test, there were no considerable variations in the groups' answers to: stability of the Zimbabwean economy ($p = 0.11$); using training and education ($p = 0.74$); participating in international events dealing with corporate governance ($p = 0.63$); encouraging corporate governance research; and learning from other countries ($p = 0.41$). Significant differences were revealed about developing corporate governance compliance incentives. All the three groups supported the need to encourage corporate governance research in Zimbabwe ($p = 0.04$).

### 4.6 Bank failures in Zimbabwe

This part of the study presents and analyses results on the causes of bank distress and failures in Zimbabwe during the period year 2000-2015. The analysis of these causes is essential in determining the internal corporate governance deficiencies within indigenous banks in Zimbabwe. The identification of the bank failure causes was done through secondary and primary data research. Secondary data was gathered using mainly the critical case, extreme case, and the typical case as explained in Chapter 3. These data were also obtained from the Monetary Policy Statements, Liquidators Reports, Websites, Market commentaries and various internet sources.

#### 4.6.1 Content Analysis: Extreme Case Results (ReNaissance Merchant Bank)

In the case of ReNaissance Merchant Bank (extreme case), the bank was found to be technically insolvent with negative capital amounting to US$16.7million against the

prescribed minimum capital requirement of US$10million as at 30 April 2011. The bank had non-performing loans (NPLs) constituting over 38% of the total loan book. The bulk of the NPLs were reported to be insider loans. The shareholding structure of the bank was in violation of Section 4(b) of the banking sector regulations (Statutory Instrument (SI) 205 of year 2000). Section 4(b) of SI 205 of 2000 limits the shareholding of an individual and his interests in the bank to 25% yet the founding director of the bank had a consolidated shareholding amounting to over 44.66%. In violation of Section 26 of the Banking Act, three of the RMB founding members managed to maintain their shareholding in the bank through complicated schemes, which involved borrowings and abuse of bank deposits. The three founding directors managed to maintain a total bank shareholding interest of over 78%. RMB in contravention of Section 32 of the Banking Act bought back its shares using deposits and borrowed funds. The executive management of the bank owned 89.17% of the bank, while non-executive directors controlled 0.17% of the overall group's shareholding (Global Credit Rating Co., 2011).

According to the RBZ and Treasury, investigations discovered "gross financial misdemeanors" at RFHL and RMB, allegedly due to corporate governance deficiencies. "Investigations by the bank (RBZ) show that there was no separation between shareholders, board and management at RFHL and RMB" (Biti, 2011). The founding director used his dominant shareholder influence, board and executive influence and breached corporate governance structures, issuing loans in related-party transactions and insider loans. RMB also made various payments in contravention of Section 177 of the Companies Act (Chapter 24:03). Other causes of failure at RMB include:

- Lack of board oversight in terms of carrying its fiduciary duties;
- Imprudent banking practices;
- Rapid expansion drives not synchronized with overall strategic intent;
- Ill-equipped management and inadequate risk management systems,
- Shareholder lifestyle, economic environment, and mistrust by public;

- Looting and brazen theft by executives; and
- Liquidity problems due to involvement in speculative and non-core activities (Muleya, 2008; Mambondiani, 2011).

**4.6.2 Content Analysis: Typical Case Results**

The typical case for the present study was Royal Bank Zimbabwe Limited. Royal Bank surrendered its banking license amid revelations of serious abuse of depositors' funds. The bank was closed on 27 July 2012 and placed under provisional liquidation on 20 February 2013. The bank was also reported to be overburdened by non-performing loans. The bank also failed to maintain the stipulated minimum capital and reserves. The RBZ (2012) reported that "the bank failed to conduct banking business in accordance with sound administrative and accounting practices and procedures". Other causes of Royal Bank Zimbabwe Limited failure are:

- Chronic liquidity challenges and insolvency;
- Malpractices by directors in the form of connected lending, illegal foreign exchange deals, and siphoning deposits;
- Recapitalization of the bank through deposits in contravention of statutory regulations; and
- Technical mismanagement leading to "cosmetic management tendencies involving hiding past and current losses to buy time and remain in control while looking and waiting for solutions" (RBZ, 2012).

Interview respondents highlighted the need for a banking sector code as instrumental in minimizing the challenges that led to the collapse of the extreme and typical case. Though the RBZ launched the Corporate Governance Guidelines in 2004, most respondents were optimistic that a specific code of banking sector corporate governance was ideal for Zimbabwe. Respondents pointed out to the South African market as a point of reference.

**4.6.3 Primary Data Analysis**

"The banker man grows fat, working man grows thin." These are Bruce Sprinsteen's lyrics in his 2012 track about bankers, Jack of all Trades off his album Wrecking Ball. Respondents from both questionnaires 1 & 2 were asked to indicate in their view, the three main causes of bank failures in Zimbabwe during the period under review. A 100% response rate was achieved on this question. The 483 responses were varied as shown in Table 22 below:

**Table 22: Causes of Bank Failures in Zimbabwe**

| | Cause of bank failure | Number | Percentage (%) |
|---|---|---|---|
| 1. | Impropriety on the part of shareholders | 13 | 2.7% |
| 2. | Economic meltdown and hyperinflation | 41 | 8.5% |
| 3. | Poor board and management oversight | 121 | 25.1% |
| 4. | Low capacity utilization by the Zimbabwean industry | 16 | 3.3% |
| 5. | Depressed demand of banking products and services | 7 | 1.5% |
| 6. | Short-term transitory nature of deposits | 14 | 2.9% |
| 7. | Limited lines of credit | 5 | 1.0% |
| 8. | Low capitalization | 9 | 1.9% |
| 9. | Concentrated shareholding structures | 43 | 8.9% |
| 10. | Abuse of corporate structures | 11 | 2.3% |
| 11. | An overbanked economy | 3 | 0.6% |
| 12. | High levels of non-performing loans | 32 | 6.6% |
| 13. | Inexperienced management and bank staff | 9 | 1.9% |
| 14. | Weak financial system | 26 | 5.4% |
| 15. | Excessive risk taking and poor risk management systems | 47 | 9.7% |
| 16. | Shortemism | 7 | 1.5% |
| 17. | Business ethics failure | 38 | 7.9% |

| 18. | Failures in disclosure and transparency | 23 | 4.8% |
|---|---|---|---|
| 19. | Complex corporate structures | 5 | 1.0% |
| 20. | Poor internal controls | 12 | 2.5% |
| | **Total** | **483** | |

The data illustrated in Table 22 was collected through questionnaires. An analysis of the results depicted in Table 22 indicate that respondents ranked ‘poor oversight function’, ‘excessive risk taking and poor risk management’ and ‘concentrated shareholding structures’ as the first, second and third causes of bank failures in Zimbabwe during the period under review. This is because respondents considered the board of directors as the custodians of corporate governance. These barriers have a frequency rate of mean 25.1%, 9.7% and 8.9% respectively. Failure in business ethics, high non-performing loans, a weak financial system, and failure in disclosure and transparency were also indicated as causes of bank failures in Zimbabwe during the period 2000-2015.

# CHAPTER 5: RESEARCH FINDINGS

## 5.1 Chapter Overview

The current chapter discusses the data presented and analysed in the previous chapter on the internal corporate governance mechanisms of indigenous banks and their impact on indigenous banks' organizational effectiveness in Zimbabwe. The research results for this study are discussed in line with the objectives, research problem, and research questions set out in Chapter 1. The discussion follows an interpretivist epistemology in the context of bank distress and failures, and internal corporate governance deficiencies in Zimbabwean indigenous banks. The main focus of this chapter therefore is the "deliberate interweaving and ultimate fusion" (Chamberlain, 1995) of the research findings in the context of the two cardinal points of the present study as alluded to under the research philosophy section 3.1 of this study.

## 5.2 Nature of Corporate Governance in Zimbabwe

One of the specific objectives of this research was to explore the improvement of sound internal corporate governance mechanisms in Zimbabwean banking sector. As alluded to under section 4.2 of this study, content analysis was used to explore the nature of corporate governance in Zimbabwe. The researcher also used questionnaires and interviews to confirm data from content analysis. Literature show that in Zimbabwe privately owned banks date back to 1892 (Maune, 2015), yet the country do not have a national code on banking institutions. The researcher noted that Zimbabwe launched its national Code of corporate governance (ZIMCODE) in year 2015. The launch of the ZIMCODE was necessitated by the institutional failures that rocked the Zimbabwean banking sector, owner management challenges, corporate power concentration and the corporate scandals and failures (ZIMCODE, 2014). "There are however certain entities which require a sector approach to corporate governance. Special sectors, such as banking and financial services sector, partnerships, trusts and small to medium enterprises, should have specific codes of their own which take a sector approach to corporate governance" (ZIMCODE, 2014).

Content analysis indicates that the way banks are managed and directed in Zimbabwe is regulated by the Banking Act (Chapter 24:20), Reserve Bank Act (Chapter 22:15),

Companies Act (Chapter 24:03), and the ZSE Act (Chapter 24:18) (Maune, 2015). Zimbabwe was a British colony and as such has a common law system, which in theory should provide better contractual protection (Tsumba, 2002). Zimbabwean corporate law is embodied in the Companies Act (1981) and ZSE Act (1996). Rules from such institutes as the Institute of Directors Zimbabwe (IoDZ) and Institute of Bankers also guide the operation of banks in Zimbabwe.

A review of literature on corporate governance in Zimbabwe and the interview responses indicate that the Zimbabwean financial crisis in 2003 led to the heightened attention to corporate governance in the country (Muranda, 2006). In year 2004, the RBZ issued the Corporate Governance Guidelines and the Minimum Internal Audit Standards in Banking Institutions guiding principles. These guidelines set minimum expected standards for banking institutions in Zimbabwe. The RBZ also set up a department that is focused on corporate governance, risk management and internal audit among banking institutions. Though there are numerous academic and practitioner literature about corporate governance in Zimbabwe, Universities and colleges in Zimbabwe are yet to dedicate academic attention to the field as an independent management discipline (Maune, 2015).

Banks in Zimbabwe are guided by the legislation, regulations, standards and codes applicable in the country. In the absence of a specific banking sector code of corporate governance, this research found out the different approaches to corporate governance by Zimbabwean banks. This data was obtained through content analysis and interview of the CEO, executives and external directors.

As alluded to in section 4.2, the research findings of Questionnaire 2 (Section B) are summarized in Table 23 below. The Table shows the different approaches to internal corporate governance within the sampled banks. There are varying approaches that banking institutions are adopting. The results indicate that the corporate governance approaches in banking institutions are closely related to the eight corporate governance variables of the present study: shareholder and stakeholder focus, leadership and management interaction, exceptional boards, strategic (transformational) planning,

organizational learning, corporate reporting, innovative and committed workforce, and workplace spirituality.

**Table 23: Approaches to internal corporate governance**

| Steward Bank Limited | BancABC |
|---|---|
| The board of directors exercises the bank oversight function through the various committees as specified in the RBZ Corporate Governance Guideline of 2004. These committees are Assets & Liabilities (ALCO), Credit, Human Resources Management & Nominations, Risk & Compliance, Audit, and ICT committees. The committees meet at least on a quarterly basis to assess risk, review performance and provide guidance to management. The bank also makes use of its enterprise-wide risk management methodology. The bank highlights its commitment to conduct business with integrity and in accordance to the generally accepted corporate practices. | The bank makes use of the procedures and methodologies as described in the Group's Enterprise-wide Risk Management Framework. BancABC endorsed the adoption of the King II report. In 2010, the Board incorporated some of the King III report principles and specifically has adopted a combined assurance model of reporting by the internal auditors, the risk officers and external auditors. The principles of sound corporate governance are also enshrined in the Group's mission and values statement. The bank has the following committees: Risk & Audit, Loans Review, Credit, and Remuneration & Nominations. The bank also applies the ZIMCODE principles. |

| CBZ Bank Limited | Stanbic Bank Limited |
|---|---|
| The bank recognizes the importance of integrity and conduct business in line with the best corporate governance practices. CBZ Bank Holdings has the responsibility for ensuring that the group has a clearly defined governance and compliance framework. The bank views bank governance as extending beyond the minimum requirement of compliance with codes, legislation, regulations, and listing requirements. The bank voluntarily applies the King III governance principles and also complies with mandatory corporate governance provisions in Zimbabwe such as the Banking Act (Chapter 24:20) and the RBZ Corporate governance guidelines. The bank ensures adherence to the ZIMCODE. The bank has the following committees: IT & Business Development, Human Resources & Remuneration, Audit & Finance, and Risk Management & Compliance. | The Board of Stanbic Bank has the responsibility for the overall corporate governance of the group. The bank complies with all the applicable legislation, regulations, standards, and codes within Zimbabwe. Stanbic Bank adopts a voluntary approach to corporate governance enhancement through constantly monitoring its practices to ensure that they are the best fit for the bank. The bank has developed risk governance standards for each of the major risk type. The following committees are used by Stanbic Bank Limited: Credit, Human Resources & Remuneration, Loans Review, Risk, Board Nominations, and Asset & Liability committees. |

Theoretical and empirical analysis indicates that due to the inherited Zimbabwean corporate governance system the shareholder theory and the principal-agency theory dominates the indigenous banks in Zimbabwe. There is an increasing slant towards stakeholder theory among the foreign-owned banks. The descriptive statistics in Section 4.3 indicates that foreign-owned banks are adopting more of the stakeholder perspective as compared to the indigenous banks' shareholder perspective. Zimbabwe lacks adequate governance structures and links for the proper coordination and achievement of sound corporate governance. However, the IoDZ is greatly involved in encouraging corporate government enhancement through hosting conferences, annual awards, and corporate governance training (Maune, 2015).

### 5.3 Integrated Analysis of Results

The research focused on eight corporate governance variables and their impact on organizational effectiveness within the Zimbabwean banking industry. Data collected on these eight variables has been presented in Chapter 4, Section 4.3. The eight corporate governance variables form part of the present integrated analysis. The focus on these eight variables was in view of the research objective of examining variables for bank organizational effectiveness measurement related to corporate governance and the evaluation of the corporate governance structures of indigenous banks in Zimbabwe. The conceptual framework assumes the interdependence of all the eight corporate governance variables as essential to institutional, industry and inclusive effectiveness. The conceptual framework encompasses takes the view of an organization as a social construction with voluntary relationships between varied productive assets in order to sustainably achieve a shared purpose (Alchian and Demsetz, 1972; Jensen and Meckling, 1976; Barney and Arikan, 2001).

#### 5.3.1 Shareholder and Stakeholder Focus

The conceptual framework argues that the organization's focus on either shareholders or stakeholders determine inclusive effectiveness. This argument is based on the *co-determination* view (Rieckers and Spindler, 2004), and the point that achieving the firm's economic responsibilities is not the only primary goal of the board of directors (Denis and McConnell, 2003). Descriptive statistics indicate the relationship between shareholder and/or stakeholder focus with organizational effectiveness. The adoption of predominantly stakeholder focus has been recorded on foreign-owned banks whilst the shareholder focus seems to dominate the indigenous banks. This has been determined by the primary measures of performance among these banks. In terms of shareholder focus an analysis of results indicated the importance of consideration of all the shareholders as the key corporate governance theme that must be observed by all banks. Respondents indicated the disregard of minority shareholders as a challenge especially amongst indigenous banks. In general respondents indicated poor shareholder activism and a lack of sophisticated shareholders in Zimbabwe as factors affecting effectiveness. The results are corroborated

by extant literature which stressed that the integration of shareholder-orientation and stakeholder-orientation creates sustainable value.

There is therefore need to properly integrate the shareholder wealth maximization goal with the expectations of the various stakeholders. Shareholders, as providers of risk capital have significant roles to play. The principles and practices that shareholders should adhere to in order to create a balance between their goals and the aspirations of the broader community towards achieving total effectiveness can be summarized into the Shareholder Vowels of Organizational Effectiveness as in Table 24. These vowels are derived from the researcher's interpretation of respondents' perceptions and a review of extant literature.

**Table 24: Shareholder Vowels of Organizational Effectiveness**

| | **Shareholder Principles & Practices** | **Description** |
|---|---|---|
| **A** | Activism | Long-term focused involvement in the activities of the business, such as: change governance policies, change CEO and executive management, change corporate strategy. |
| **E** | Election and Equal treatment | This involves the equal right to vote on material issues of the company including removal or replacement of directors. |
| **I** | Inspection (Information access) | Shareholders must obtain the right information in order to make business decisions. |
| **O** | Oppose | This involves the shareholders' dissent rights |
| **U** | Uphold ethical values | This encompasses shareholders' obligation to exercise corporate fiduciary duties: good faith, honesty, candor, and loyalty. |

### 5.3.2 Leadership & Management Interaction

Results indicate a direct relationship between leadership & management interaction and organizational effectiveness in Zimbabwean banks. This is in line with the view by Ireland

and Hitt (2002) who found that "there is a definite relationship among the leadership's characteristics, an organization's strategies, and its performance."The interaction between the board of directors and executive members has been given attention in the conceptual framework due to the fundamental tension brought about by the board oversight function. Content analysis indicates the causes of tension between board and management as: lack of clarity (no-information, misinformation or rose-colored information), resistance to change, poor board oversight function, and incompatible assumptions and style. Conventional wisdom emphasizes the importance of a health interaction between the board and executive directors (Howe, 2004; Light, 2002). Organizational effectiveness is at stake when this relationship is weak, or worse, dysfunctional. Results point out that the adoption of principles and practices that enhance the interaction between the banks' leadership and management will drive organizational effectiveness at all levels. Table 5.2 and 5.3 summarizes these principles and practices as derived from the respondents' views and extant literature. The adoption of such principles and practices by foreign-owned banks has contributed to the banks' stability and solvency.

**Table 25: Leadership and Management Vowels of Organizational Effectiveness**

| | **Leadership** | **Description** |
|---|---|---|
| **A** | Align | This involves the commitment by board, CEO and executives to align operations to the strategic intent of the organization. |
| **E** | Empower | The interaction between leadership and management should not be 'executionary' but empower others to perform in a way that will positively impact the organization. |
| **I** | Interact | There should be more formal interaction between the Board, CEO and executive team. |
| **O** | Organize and Optimize | This involves organizing and deriving maximum results from the available resources. |

| U | Utilize | This involves ensuring the available resources are used to benefit the organization and its stakeholders. |
|---|---|---|

### 5.3.3 Exceptional Board

The main concern for corporate governance is the effective functioning of the directors of an entity. Descriptive statistics indicates that the level and extent to which the bank's board is exceptional determines organizational effectiveness. Board exceptionality is determined by the level of board members' commitment, business savvy, exercise of fiduciary responsibilities, risk management, upholding to ethical standards, and aspiring to the shared vision. Other important principles and practices include board members' competencies & experience, board size, and frequency of board meeting. The business relationship between board members is also important in driving organizational effectiveness. Results from statistical and theoretical analysis also indicated that the setting of corporate governance committees is a strategic imperative in determining organizational effectiveness. This is supported by the view that "the establishment of board committees is a means to channel the functions of a board into segregated and specialized groups of directors that will focus on specific subject of the organization" (Jan and Sangmi, 2016).

**Table 26: Board and CEO Vowels of Organizational Effectiveness**

| | **Board and CEO** | **Description** |
|---|---|---|
| **A** | Aspire to a vision and Active Monitoring | This involves the commitment to the organization's vision and the active monitoring of the CEO and executive team members. |
| **E** | Environmental scan, and Enterprise | This involves conscious efforts to understand the business environment, and being entrepreneurial. |
| **I** | Integrate and Implement | Encompasses the integration of all business units and a commitment to implementation of plans. |

| | | |
|---|---|---|
| **O** | Own and Oversee | The board and CEO should have a sense of ownership and oversee the operations of the business |
| **U** | Uphold ethical values | This encompasses the board and CEO commitment to duty of care, honesty, candor, and loyalty. |

**5.3.4 Strategic (Transformational) Planning**

The conceptual framework argues that strategic planning is a key corporate governance variable. This argument is founded on the view that "if you do not know where you are going you will probably wind up somewhere else". The key role of the board is to provide strategic direction to the organization. Board needs to understand the importance of strategic (transformational) planning in ensuring organizational effectiveness (Kinross, 2012). Results support the conceptual framework in terms of the important role of strategic-transformational planning in determining organizational effectiveness. There is therefore a significant direct relationship between strategic-transformational planning and organizational effectiveness among banks in Zimbabwe. This is corroborated by the view by various studies who stated that strategic planning is important in setting the firm's direction thereby driving corporate performance (Byrson, 1989; Arasa and K'Obonyo, 2012). Respondents'' views indicate that strategic planning impacts significantly on institutional and industry effectiveness and is shareholder wealth maximization focused.

The transformational element of strategic planning in the conceptual framework brings the stakeholder perspective into organizational effectiveness thereby incorporating inclusive effectiveness (Dusenbury, 2000). According to Strickland and Gamble (2007) effective strategic planning build a strong firm's market position, thereby enhancing its competitive advantage.Table 5.4 indicates, based on respondents' views and review of literature, the roles of strategic planning in ensuring organizational effectiveness:

**Table 27: Strategic (Transformational) Planning Vowels of Organizational Effectiveness**

| | Strategy | Description |
|---|---|---|
| **A** | Articulate | The strategy should clearly communicate the purpose, direction and plans of the organization. |
| **E** | Elaborate | This involves detailed plans of implementation, implications, measurement of results, and allocation of roles & responsibilities. |
| **I** | Integrate | The strategy should integrate all the strategic business units of the organization towards achieving the common goal. |
| **O** | Objectivity | The strategy should be impartial and based on rational decisions as informed by the environmental analysis. |
| **U** | Urge | The strategy should support the organization's overall intent and insist on achieving organizational effectiveness. |

**5.3.5 Organizational Learning**

An analysis of the findings through content analysis and interview responses show that organizational learning is considered an essential corporate governance variable because the organizational capability is seen as authority-based and resource based. The strategic capability of an organization is reflected in the competencies and dynamic capabilities, organizational knowledge and strategic skills, continuous improvement, diagnosis of strategic capability and development of strategic capabilities (Ljubojevic *et al.,* 2013). The motivation for the inclusion of organizational learning in the conceptual framework emanated from prior researches that established a direct relation between organization learning and organizational effectiveness pertaining to strategic decision making (Bergh and Lim, 2008; Amburgey and Miner, 1992).

An analysis of the results indicates that the principles and practices of organizational learning are significantly important in determining organizational effectiveness within the banking sector in Zimbabwe. Banks that invests in learning has been seen to be stable and solvent. Results show that this is in line with the view that increased levels of learning leads to significant changes in rules and guiding principles (Fiol and Lyles, 1985). The fifteen questions (Questionnaire 1) on organizational learning and interview results indicated that

information acquisition, information quality, information interpretation, and behavioral & cognitive changes among bank stakeholders are important for organizational effectiveness. Respondents ranked these elements highly in foreign-owned banks as compared to the indigenous banks. The table below summarizes the roles of organizational learning in organizational effectiveness.

**Table 28: Organizational Learning Vowels of Organizational Effectiveness**

| | **Organizational Learning** | **Description** |
|---|---|---|
| **A** | Analyse | The organization should make decisions based on detailed analysis and consensus from all stakeholders. |
| **E** | Evaluate | The changing business environment requires an evaluation of alternatives in decision making. |
| **I** | Improve | The organization should constantly improve its products and services. |
| **O** | Offer | The organization should offer its stakeholders opportunities to grow along with it. |
| **U** | Update | The organization should constantly revise and modernize its methods of doing business-procedures, processes and systems. |

### 5.3.6 Corporate Reporting

The conceptual framework considers corporate reporting because this variable connects the people involved in corporate governance. Corporate reporting is the bridges the communication gap between the company and all its stakeholders and is used to determine corporate performance or outcome of the company's activities. Results indicate the importance of principles related to corporate reporting, specifically financial reporting in banking. Corporate financial reporting has been reported as significantly important in determining organizational effectiveness in view of averting liquidity challenges and subsequent bank runs or silent runs. Analysis of results shows that banks that prioritize corporate financial reporting have high depositor confidence and are therefore more stable and solvent. Respondents from foreign-owned banks indicated the development of

comprehensive financial reporting systems as essential to stability and solvency. Key corporate reporting issues highlighted by respondents include length of reports, clarity, and complexity of information. Theoretical and empirical findings indicate the sole focus on shareholder wealth maximization objective is myopic as it aims only at improving shareholder value. The firm's corporate reporting approach can also be narrowly focused on the economic value only. In line with Carroll's four-faces of the organization and the triple bottom line requirement, economic goals should also be accompanied by legal, social and environmental goals. Hence, the need for adaption of the organizations' corporate reporting framework since the firm's economic information fails to account for the legal, social and environmental factors. Financial reporting integrity relies on the enthronement of the firm's corporate governance architecture. The board has the responsibility to oversee the corporate reporting process (Yatim *et al.,* 2006). Respondents indicated that an effective corporate reporting framework incorporates and targets all stakeholders of the firm.

**Table 29: Corporate Reporting Vowels of Organizational Effectiveness**

| | **Corporate Reporting** | **Description** |
|---|---|---|
| **A** | Advise | The reporting model of an organization should advise all stakeholders about the business and its operations. |
| **E** | Educate | Corporate reporting should educate stakeholders about the business. |
| **I** | Inform | Stakeholders need to be informed about the decisions of the business and the implications thereof. |
| **O** | Objectivity | Corporate reporting should be objective rather than subjective. The interests of all stakeholders should be considered. |
| **U** | Unite | The objective of corporate reporting should be to unite all the stakeholders of the business. |

### 5.3.7 Innovative and Committed Workforce

The role and importance of employees in enhancing organizational effectiveness cannot be overemphasized. The conceptual framework incorporated employees in the governance

structure based on the stakeholder perspective. Employees are significantly important in the day-to-day corporate governance of the firm. Corporate governance arrangements in different countries support this view. These include co-determination in Austria and Germany, Company Law Reforms in China (2005) requiring that "employee representatives account for no less than one third of the supervisory board", and the *structuurvennootschap* in Netherlands (Wymeersch, 1998). S*tructuurvennootschap* states that directors must earn the confidence of their employees. Theoretical literature shows that employees are not considered as important in most corporate governance literature as the subject is limited to those at the highest echelons of the organizational structure. Employee representation on one-tier boards is being encouraged in Sweden, Luxembourg and Denmark. The UK has started deliberations to ensure the involvement of employees in corporate governance.

An analysis of the descriptive statistics results indicates that there is a direct relationship between corporate mechanisms aimed at ensuring innovativeness and commitment of employees and organizational effectiveness. An interpretation of respondents' views and perceptions indicate that employees are an essential element of corporate governance and organizational effectiveness across all the three levels. Theoretical and empirical literature states that the interests of stakeholders, particularly employees, play a major role in corporate affairs (Dore, 2000; Jackson and Miyajima, 2007).

**Table 30: Employees Vowels of Organizational Effectiveness**

| | **Employees** | **Description** |
|---|---|---|
| **A** | Apply | Employees should actively apply knowledge and instructions to their work so as to achieve results aligned to strategy. |
| **E** | Engage | The level of employee engagement should be increased and in line with the organization's strategic intent. |
| **I** | Innovation | Employees should devise new ways of doing business. Innovation is a precondition to thrive. |
| **O** | Own | Rather than view themselves as 'just employees', employees should have a sense of ownership for their organizations. |

| U | Understand | Employees should clearly understand the dynamics of the firm and their role in organizational effectiveness. |
|---|---|---|

### 5.3.8 Workplace Spirituality

The conceptual framework subscribe to the assertion that spirituality is the basis for revolutionary, transformational leadership and corporate governance. In support of this assertion, “management science research suggests a paradigm shift in the direction that embraces not only the drive for profit, but also for social and religious responsibilities” (Tsafe and Rahman, (2013). Scholars are widely calling for the broadening of the problem-solving approaches in organizations in order to incorporate spiritual dimensions (Parvez and Ahmed, 2004). Results show that workplace spirituality has a major role in enhancing the internal corporate governance of firms and subsequently organizational effectiveness. In studying entrepreneurs, Mardhatillah and Rulindo (2008) focused on qualitative analysis to determine the effects of spirituality on businesses.

The results confirmed that spirituality of the micro-entrepreneurs greatly influences business performance. This was noted because corporate governance and organizational effectiveness are behavioral issues and as such require such principles and practices as workplace spirituality for them to be enhanced. An examination of the corporate values of the sampled banks supports the adoption of the principles and practices of workplace spirituality. Content analysis indicates the corporate values of the sampled banks as depicted below:

**Table 31: Sampled Banks' Values**

| Steward Bank Limited | BancABC |
|---|---|
| • Integrity<br>• Professionalism<br>• Innovation<br>• Excellence<br>• Hunhu/Ubuntu | • Integrity<br>• Passion<br>• Professionalism<br>• People<br>• Innovation |

| CBZ Bank Limited | Stanbic Bank Limited |
|---|---|
| • Integrity<br>• Customer focus<br>• Innovation<br>• Staff focus<br>• Corporate citizenship<br>• Teamwork | • Serving customers<br>• Growing people<br>• Delivering to shareholders<br>• Being proactive<br>• Working in teams<br>• Respecting each other<br>• Upholding the highest level of integrity<br>• Constantly raising the bar |

**Table 32: Workplace Spirituality Vowels of Organizational Effectiveness**

| | Workplace Spirituality | Description |
|---|---|---|
| **A** | Affirm | Spirituality in the workplace should affirm the values and mission of the organization. |
| **E** | Embody | The organization should exemplify good governance by adhering to acceptable standards of behavior. |
| **I** | Influence | Workplace spirituality should influence and inspire all stakeholders to abide to ethical practice. |
| **O** | Obey | Spirituality encourages observance of laws and customs. |
| **U** | Unify | Workplace spirituality has the objective of unifying all the constituent parts of the organization. |

### 5.3.9 Organizational effectiveness

The Bankscope database was mainly used to measure the effectiveness of banks in Zimbabwe. Results indicate some variations in terms of the emphasis placed on financial and non-financial measures of determining organizational effectiveness among foreign-owned and indigenous banks. The differing perspectives on the corporate governance model determine the key measures of effectiveness. Results show that organizations that

adopt a shareholder perspective of corporate governance tend to use financial metrics of performance measurement. These metrics include the measure of returns generated by assets (RoA), return on equity (RoE), and net interest revenue. Organizations that adopt the stakeholder perspective tend to use mixed measures, that is, both economic and non-financial performance measures. Research findings show that indigenous banks focus more on shareholder wealth maximization whilst foreign-owned banks focus on stakeholder wealth maximization. In this regard most foreign-owned banks are engaging in social responsibility and financial inclusion programs.

All banks have integrity as the core value. Integrity is defined as “living and acting in alignment with spiritual law and with our highest vision, despite impulses to the contrary” (Millman, 2016). A cursory perusal of the “Web” indicates that the concept of workplace spirituality has multiple meanings which are portrayed in all of the sampled banks’ corporate values. These meanings encompass honesty and integrity in all areas of work; treating all stakeholders in a responsible, caring way; and social and environmental responsibility. Innovation is also a key value in all banks; hence the view that workplace spirituality is positively related to innovative behaviour (Afsar and Rehman, 2015).

### 5.4 Implementation of sound internal corporate governance: Enablers and Hindrances

The other specific objective of the present research was to identify the probable hindrances to, and enablers of, the implementation of sound corporate governance by indigenous banks in Zimbabwe. The research findings on enablers and hindrances to the implementation of sound corporate governance in Zimbabwe are important in terms of predicting and recommending controls for improvements in order to achieve the stability and solvency objective. Theoretical and empirical literature indicates that businesses are affected by the micro and macro environmental factors. Globalization and liberalization of financial markets are trending enablers and hindrances to the implementation of sound corporate governance. From a theoretical perspective, research findings indicate the PESTEL factors, McKinsey’s 7S Framework elements, and Porter’s Five Forces as some of the enablers and hindrances to sound corporate governance implementation. Research

results indicate that these factors play a significant role in the current nature and extent of development of sound internal corporate governance in Zimbabwe.

Statistical results indicate the main hindrances to the implementation of sound internal corporate governance among indigenous banks in Zimbabwe as poor board oversight, abuse of shareholder rights, weak enforcement and monitoring systems, poor compliance with legislation, and lack of transparency and disclosure. These hindrances if unattended will lead to the persistent bank failures phenomenon.

Results on corporate governance implementation enablers indicate the general economic outlook, learning from other countries, use of corporate governance training and education, access to international standards of best practice, and the encouragement of corporate governance research as the key enablers. Theoretical findings indicate the common law system being used in Zimbabwe as a key enabler to the implementation of good corporate governance. The easy penetration and acceptance of workplace spirituality in Zimbabwean institutions and the Zimbabwean culture *(hunhu/ubuntu)* is also an enabler from a voluntary corporate governance implementation by individual banks perspective.

### 5.5 Findings on Bank failure causes in Zimbabwean indigenous banks

This study had as an objective the aim of establishing the causes of bank failures in Zimbabwe, critically ascertaining the corporate governance shortcomings in each failure cause at institutional level. Research findings on the causes of bank failures among Zimbabwean indigenous banks indicate the significant role of corporate governance deficiencies. The main causes of bank failures in Zimbabwe were determined by the study of the extreme case (ReNaissance Merchant Bank), typical case (Royal Bank Zimbabwe), and literature on bank failures.

Research findings indicate that 19 indigenous banks and 2 foreign owned banks failed in Zimbabwe during the period 2000-2015. A total of three banks failed during the first quarter of 2015 and as such necessitated the present study. The research indicates that only one bank (United Merchant Bank) failed during the period 1980-1999. It was noted that the

history of banking in Zimbabwe dates back to 1892 and persistent bank failures were experienced during the period 2003-2015.

A cursory perusal of the secondary data sources revealed the following deficiencies as causes of bank failures in Zimbabwe: inadequate capitalization, improper shareholding structure, and corporate governance disintegration. Most of the corporate failures are, in part, a result of ills such as corruption, fraud, excessive directors' remuneration, and poor management of resources by directors (Zvavahera and Ndoda, 2014). According to Clarke (2013) the following are the causes of global corporate governance failures in financial institutions:

- Poor risk management and internal controls
- Deficiencies in the profile and practice of directors and senior management
- Perverse incentives
- Failures in disclosure and transparency
- Complex and opaque corporate and bank structures

Results from the extreme and typical cases indicate the causes of bank failures in Zimbabwe can be directly related to deficiencies in internal corporate governance principles in areas of leadership & management, strategic-transformational planning, corporate financial reporting, workplace spirituality and shareholding structure and focus. This is supported by the following words from the President of the Republic of Zimbabwe at the Party's Annual Congress: "Our banks must improve their discipline. They are not there to steal; they are there to serve our economy and our people" (Mugabe, 2013).

# CHAPTER 6: DISCUSSION AND IMPLICATIONS OF RESULTS

Internal corporate governance principles and practices for organizational effectiveness in Zimbabwe

## 6.1 General Discussion

This thesis offers a view of the firm that focuses on the internal social capital of the organization (Harris and Helfat, 2007). From this perspective, the study argued that organizational effectiveness is primarily driven by the interrelationships between different coalitions of corporate insiders. Economic literature indicates that the subject corporate governance has assumed great importance in both the academic and public domains since the 1980s and the increasing corporate scandals and corporate failures have accelerated the need for investigation in to the Zimbabwean governance operations. This chapter encompasses the discussion of the research results and an elaboration of the inferences of the findings on the internal corporate governance principles and practices for organizational effectiveness in the Zimbabwean indigenous banks. Results on the conceptual framework eight variables were discussed in the previous chapter. The present research offers a social construction of corporate governance based on research-based engagement of corporate citizens by the researcher and a review of literally works.

“Through sharing the worlds of our subjects, we come to conjure an image of their construction and our own” (Charmaz, 2000). The subjects’ perspective on Zimbabwean indigenous banks was constructed by the researcher who employed predominantly traditional qualitative methods on numerous interactions. These methods included: engagement with board of directors, CEOs, senior bank managers, bank employees, and academicians through personal interviews and informal discussions. The present study also made use of quantitative research design that included: employee-focused questionnaire with corporate governance questions as a technique of canvassing and analyzing the different opinions of diverse and relevant participants. The questionnaires and interviews provided substantive data. The different data sources were analyzed and coded individually. The researcher then identified and sorted the different codes into categories based on the eight variables in the conceptual framework. The researcher also relied on progressive

assessment of numerous academic literature in view of its relevance to the present study (Dick, 2002).

### 6.1.1 Shareholder and Stakeholder Focus

The examination of shareholder and stakeholder focus was important in determining the model that drives organizational effectiveness. The protection of shareholder rights in corporate governance cannot be overemphasized. However, the adoption of the ideal model of corporate governance is essential to economic development. Results indicate the significant role that stakeholder model has in enhancing organizational effectiveness. The adoption of the stakeholder perspective should consider to a great extent the rights of shareholders since they are the providers of capital. Respondents emphasized the need to ensure organizational effectiveness banking institutions in Zimbabwe through the ensure equal treatment of all shareholders. This view is corroborated by the OECD principles of corporate governance which state that both the controlling and minority shareholders should be granted "equal opportunity to obtain effective redress for any violation of their rights" (OECD, 2004). The majority of respondents supported this view on shareholders.

Both theoretical and empirical literature indicates that the rights of all stakeholders should be recognized by the corporate governance framework. Stakeholder rights are established by various statutory laws, custom or mutual agreements between parties. These rights encourage active collaboration and cooperation between the firm and all its stakeholders with a view of job creation, wealth creation, and ensuring the financial stability and soundness of the firm (OECD, 2004). Most of respondents indicated that the stakeholder perspective is ideal for Zimbabwean banking sector in light of the financial inclusion agenda and the *ubuntu* philosophy in most African states. This view, according to literature is in line with the Triple Bottom Line (TBL) reporting requirements and the organizational responsibilities as alluded to under the literature review section.

**Discussion and Interpretation:** The integration of shareholder and stakeholder focus is essential to bank organizational effectiveness in Zimbabwe. This research confirms the sustainable value framework which advocates for the combined shareholder and

stakeholder focus in contemporary organizations. Shareholder activism, sophistication and equality are prerequisites for deriving firm value. The incorporation of stakeholder focus creates shared value and embedded sustainability leading to organizational effectiveness across institutions, industry, and inclusive levels. The development of principles and practices that support the shareholder rights and responsibilities as in Table 24 will drive organizational effectiveness. The rights and responsibilities of shareholders support the stakeholder focus narrative.

#### 6.1.2 Leadership & Management Interaction, Strategic Planning and Exceptional Boards

The strategic guidance of the corporation is an essential corporate governance principle. Literature supports this view as it indicates that organizations should ensure effective interaction between the directors and management, and the board of director's accountability to shareholders (OECD, 2004). Most respondents indicated the importance of Leadership & Management Interaction, Strategic Planning and Exceptional Boards in enhancing organizational effectiveness. Lack of proper interaction between the board and management is likely to lead to "executionary" behaviors which are contrary to effectiveness.

**Discussion and Interpretation:** Research results support the conceptual framework that leadership & management interaction, strategic (transformational) planning and board exceptionality are key factors to organizational effectiveness. The board and leadership team within a bank should be deeply involved in evaluating the external business environment, integrating all business units and oversee the operations of the business. Organizations with boards and leadership that are active and aspire to the organization's vision are most likely to be effective. This is in line with the study by Serfontein (2010) on strategic leadership and corporate performance in South Africa. The study reinforced the direct relationship between effective strategic leadership and the performance of businesses in South Africa.

### 6.1.3 Organizational Learning

Organizational learning is a key corporate governance variable in the conceptual framework of this current study. This variable was chosen due to the view that today's macroeconomic environment is characterized by disruptive change (Christensen and Overdorf, 2000). The framework shows a positive connection between organizational learning and organizational effectiveness. This argument was based on the innovation perspective which drives institutional and industry effectiveness. Respondents supported the view that learning organizations are highly effective.

**Discussion and Interpretation:** Organizational learning leads to creative-intelligence in terms of information acquisition, information quality and information interpretation. Respondents' perspectives are similar to various theoretical, related and empirical findings on the link between organizational learning and corporate effectiveness. Organizational learning directly impacts all the three levels of conceptual framework organizational effectiveness. The perceptions of respondents were in agreement with the views that a firm's propensity to learn is an essential strategic capability (Fiol and Lyles, 1985); and a basis of sustainable competitive advantage (de Geus, 1997). Organizational learning enables an organization to be innovative, adaptive, agile and create competitive advantage. The organizational learning vowels of effectiveness summarize the roles of organizational learning in organizational effectiveness. This view is in agreement with Winston (2009) who pointed out that competitive advantage is a product of the ability to learn and change fast.

### 6.1.4 Innovative and Committed Workforce

Employees are normally excluded from most corporate governance literature. The conceptual framework of this study considers employees as key corporate governance drivers in contemporary organizations. This view was built on the stakeholder perspective and the industrial democracy narrative. Employees' level of innovativeness and commitment determines institutional and industry competitiveness. The perspectives of the respondents agree with the conceptual framework argument. The results are in agreement with various researchers who found a positive relationship between the level of employee engagement and organizational financial performance (Collins, 2001; Ingelgard and Norrgren, 2001). The

level of employee engagement, innovativeness and commitment determines an organization's improvement in terms of job processes, procedures, methods and operations (Prieto & Perez-Santana, 2014).

#### 6.1.5 Workplace Spirituality

This research considered workplace spirituality as a key corporate governance variable for organizational effectiveness. This was in view of the purported shift of organizational studies from a mechanistic paradigm and scientific principles to an organistic paradigm (Whitty, 1977). An analysis of respondents' perspectives and a review of the sampled banks' value statements were in agreement with the conceptual framework perspective that workplace spirituality drives organizational effectiveness at institutional, industry and inclusive levels.

**Discussion and Interpretation:** Workplace spirituality encourages trust, teamwork, openness, and creativity which issues are important in determining organizational effectiveness. Organizational effectiveness through workplace spirituality is achieved because of greater interconnected and cooperation between organizational units, employee empowerment, ecological and environmental support, and focusing of diverse stakeholders' needs. These results are consistent with observations by Cunha *et al.,* (2006) who stated that workplace spirituality "imbue organizational structures with spiritual qualities that drive effectiveness". Results are also in agreement with Duchon and Plowman (2005) who found out that workplace spirituality improves employee performance, increase job satisfaction (Harung *et al.,* 1996), and enhance organizational identity (Kolodinsky *et al.,* 2008).

#### 6.1.6 Corporate Reporting

The principle of corporate reporting (disclosure and transparency) is important in enhancing organizational effectiveness. Timely and truthful disclosure of all matters affecting the organization should be a top priority in any corporate governance framework. This disclosure includes the corporation's financial position, performance, governance, and ownership (OECD, 2004). The roles of corporate reporting as per the conceptual framework include advising stakeholders, educating, informing, and unifying. The majority of respondents indicated the importance of corporate reporting in enhancing organizational

effectiveness. The roles of corporate reporting enhance the transparency and disclosure narrative of corporate governance and as such organizational effectiveness.

### 6.1.7 Organizational effectiveness

The review of extant literature and analysis and interpretation of participants' views shows that organizations cannot rely on financial measures of performance alone as determinants of effectiveness. The incorporation of all stakeholders in an organization's business model calls for the non-financial measures of performance. The achievement of the non-financial measures is enhanced by the adoption of the vowels of organizational effectiveness along the eight corporate governance variables in the conceptual framework of this study as explained under section 5.3 of this study.

## 6.2 Corporate governance in Zimbabwe

The study reveals that the development of good banking sector corporate governance is lagging behind in Zimbabwe. Despite the history of Zimbabwe banking dating back to 1892, the economy lacks a specific banking sector corporate governance code. Zimbabwe has made significant strides by launching a National Code of Corporate Governance in 2015 (ZIMCODE). However, due to the special nature of banking, ZIMCODE does not cover banking sector. The absence of a banking sector code of corporate governance leads to diverse perspectives by individual banks. The corporate governance practices of individual banks have significant implications on the total banking sector depositors.

Though the Zimbabwean banking sector is regulated by the Banking Act (Chapter 24:20), Reserve Bank Act (Chapter 22:15), Companies Act (Chapter 24:03), and the ZSE Act (Chapter 24:18) there is need for a special banking sector code of banking. The present research results indicate the urgent need for corporate governance improvements in the Zimbabwean financial and banking sector. The corporate governance weaknesses in Zimbabwean banks include ineffective board oversight functions, lack of board and management interaction, ignorance and non-compliance with legislation, passive shareholders, weak internal controls, poor leadership and technical incompetence. These weaknesses were mainly recorded in indigenous banks. Therefore, it can be concluded that

the persistent bank failures in Zimbabwe during the period 2000-2015 were primarily due to the poor development of sound corporate governance practices despite the RBZ's concerted efforts to deal with the situation.

**Discussion**: The implementation of robust corporate governance architecture in Zimbabwe is essential for the retention of public confidence and ultimately the stability and solvency of the banking sector. The launch of the ZIMCODE was an essential step towards the development of corporate governance mechanisms in Zimbabwe. Results indicate that banks require a special attention due to their uniqueness and the financial intermediation role. Good corporate governance in the banking and financial services sector is essential in reducing risks to investors, attracting Foreign Direct Investments (FDI), and improving organizational effectiveness.

Results on the nature and development of corporate governance in Zimbabwe also indicate that indigenous banks are following more of the shareholder perspective as compared to their foreign counterparts. This has been supported by the more emphasis given to financial performance measures such as ROA, ROE, and NIM. The shareholder wealth maximization focus leads to the neglect of all other key stakeholders of the bank. This is against the view of Zimbabwean banks are a nexus of relationships consisting of customers, creditors, and the government. Descriptive statistics results indicate that the stakeholder model is ideal for the Zimbabwean banking sector. The results confirm the view that corporate governance includes the relationships between a company's key internal stakeholders and all other stakeholder segments (OECD, 2004). The internal stakeholders include the board, management, and shareholders. Due to continuing developments in corporate governance, employees are assuming an important role in this field, hence their inclusion in the current study's conceptual framework.

The stakeholder perspective seeks to "promote long-term investment and obligation towards the various stakeholders" (Maher and Andersson, 2000). In developing and transition economies, pursuing stakeholder interests help organizations overcome market failure. As such the stakeholder view is most ideal for developing countries (Allen, 2005). In

this regard, banks in Zimbabwe should be accountable to all banking sector stakeholders. The findings corroborate with the view that organizations should acknowledge the interests of all stakeholders and their right to be consulted in all matters pertaining to the corporation (Hassan, 2009). The present results points out that the stakeholder view is the most appropriate corporate governance concept for Zimbabwe. This is consistent with the *hunhu/ubuntu* philosophy. The implication of these results is that banks in Zimbabwe should spearhead the financial inclusion agenda and commit to the interests of all stakeholders.

### 6.3 Hindrances to corporate governance implementation

The following barriers were indicated as significant to the Zimbabwean banking sector: poor board oversight, abuse of shareholder rights, weak enforcement and monitoring systems, poor compliance with legislation, and lack of transparency and disclosure. Respondents indicated that these barriers significantly influence the implementation of sound corporate governance in Zimbabwe.

Respondents ranked poor board oversight, weak enforcement and monitoring systems, and poor compliance with legislation as the top three barriers to corporate governance implementation in Zimbabwe.

The possible barriers were identified by examining the perceptions of Zimbabwean banking sector stakeholders. The stakeholder perceptions were in line with content analysis results on the extreme and typical cases of the present study and other empirical researches which show that these hindrances could negatively affect the implementation of sound corporate governance practices (Okpara, 2011; Baydoun *et al.,* 2013; Adekoya, 2011). In the pursuit of Banking Sector Vision 2020, banking sector policymakers in Zimbabwe should focus on these hindrances that could negatively influence sound corporate governance in Zimbabwe. The development of the specific banking sector code should consider these barriers before implementation. Attending to these hindrances will positively affect the banking and financial services sector in Zimbabwe, particularly banking sector stability and solvency.

### 6.4 Enablers of corporate governance implementation

Respondents pointed out to the following key enablers to corporate governance implementation in Zimbabwe: the general economic outlook, learning from other countries, use of corporate governance training and education, access to international standards, and the encouragement of corporate governance research as the key enablers.

**Discussion and implication:** Research results indicate that these enablers influence the enthronement of corporate governance in Zimbabwe. The enablers were indicated as important in improving corporate governance implementation in Zimbabwe. Research participants were asked to share their opinions on the key factors that could facilitate good corporate governance implementation in the Zimbabwean banking market. The respondents' perspectives are consistent with the view of Okike (2007) that these factors are essential in enhancing the implementation of sound corporate governance. These factors are crucial for the improvement of corporate governance in the Zimbabwean banking sector. This is because the banking sector is significantly important for the economic transformation of an economy.

# CHAPTER 7: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

The current study focused on examining the internal corporate governance structures of indigenous banks in Zimbabwe and their impact on individual bank's effectiveness as determined by both accounting and non-financial indicators of corporate effectiveness. The primary motivation for this thesis is the extent to which indigenous banks in Zimbabwe have been failing during the period 2000-2015 and the impact of the persistent failures to the Zimbabwean economy. The RBZ is pursuing Banking Sector Vision 2020 and the attainment of the objectives of this blueprint relies on improvements in the governance structures of individual banks. The thesis alleged the persistent failures to the internal corporate governance deficiencies among indigenous banks. This argument is supported by the number of indigenous bank failures, the extent of non-performing loans, and the alleged malpractices among indigenous banks as compared to foreign-owned banks. Other than the extent of institutional failures, the banking sector has been chosen due to its financial intermediation role and the sectors role in the governance of other real sector firms.

Sound corporate governance is essential to the development of any economy. The global economic crisis 2008/09, extent of corporate failures and the need to ensure financial sector stability and solvency have placed heightened importance on banking sector corporate governance, not only in Zimbabwe, but across the globe. To achieve the main purpose of this research, the study had the following specific objectives:

- explore the nature of sound corporate governance implementation framework in the Zimbabwean banking sector.
- identify the probable hindrances to, and enablers of sound corporate governance implementation by indigenous banks in Zimbabwe.
- establish the role of corporate governance in enhancing indigenous banks' effectiveness in the Zimbabwean banking sector.
- examine variables for bank organizational effectiveness measurement related to corporate governance.

- to establish the causes of bank distress and subsequent failures in Zimbabwe, critically ascertaining the corporate governance shortcomings in each failure cause at institutional level.

This research was an attempt to cover the internal corporate governance variables that impact of organizational effectiveness. The organizational effectiveness agenda has been selected due to its role in driving economic growth in terms of employment creation, GDP growth, and improvements in the standards of living. The conceptual framework of this study divided organizational effectiveness into three levels: institutional, industry, and inclusive.

The current chapter provides a brief review of this whole thesis, a synopsis of research results, and offers recommendations to improve corporate governance in Zimbabwean banking sector. The chapter concludes by offering recommendations for future research.

### 7.1 Thesis Review

The aim of this thesis was to respond to the main research question: 'What are the internal corporate governance principles and practices for organizational effectiveness of indigenous banks in Zimbabwe?'

Chapter 1 of this thesis introduced the nature of study, which covered background of the research, research objectives and questions, statement of the problem, rationale of the study and the scope of the research. The focal point of Chapter 2 was the comprehensive review of literature on the three main areas of the current research: bank failures, corporate governance and organizational effectiveness. The literature review covered related, theoretical, and empirical information on the two main study variables. The chapter started with the key question: Why do banks fail even in the 21st century? The chapter started with an abstract analysis of the historical developments of the corporation and corporate governance. To ensure a comprehensive review of literature the chapter covered the following: definitions and significance of corporate governance, the corporate governance of banking institutions, bank failures and their relationship with corporate governance, bank performance measurement, organizational effectiveness, and corporate governance models

in UK and Asia. The chapter concluded with the conceptual framework of this study covering eight internal corporate governance variables.

Chapter 3 introduced the research methodology of this study, which was predominantly qualitative based on interpretivist epistemological position in order to achieve regulation change. Primary data was obtained from questionnaires and interviews from four sampled indigenous banks. Further, the research also used secondary data collection methods mainly on closed banks which form extreme and typical case study scenarios. The BanksScope database was also used to collect data on individual banks' financial performance in Zimbabwe. The researcher used SPSS and MS Excel methods to calculate the few descriptive statistics. Similar analytical methods were extensively used in previous quantitative research on the subject.

Chapter 4 presented and analyzed the data that was collected through questionnaires and interviews. Being predominantly qualitative the chapter focused more on analysis of the results. Chapter 5 and 6 focused on research findings and discussion and implications of results respectively. The findings are based on the eight conceptual framework variables with reference to the primary and secondary data sources. The general corporate governance concepts and its current nature and state in Zimbabwe were described. In addition, the chapter identified and explained the different hindrances and enablers of corporate governance improvement in Zimbabwe. The various causes of bank failures in Zimbabwe were also identified. The study used briefly Kruskal-Wallis and Mann-Whitney tests to investigate whether there were any noteworthy differences in the different responding groups. For the determination of the principles and practices for organizational effectiveness Chapter 5 briefly explained the vowels of organizational effectiveness under each corporate governance variable and the implications of these variables has been interpreted in Chapter 6.

### 7.2 Conclusion of the internal corporate governance framework

The results of this research confirm that corporate governance is essential to organizational effectiveness. The findings from the present study and the literature review indicate that

bank failures in Zimbabwe are to a greater extent attributed to internal corporate governance deficiencies in such areas as shareholder and stakeholder focus, leadership and management interaction, strategic (transformational) planning, organizational learning, exceptional boards, employee commitment and innovativeness, and workplace spirituality. Indigenous banks despite the corporate governance improvement efforts are still associated with unethical and unprofessional practices, poor board oversight, poor management quality and concentrated ownership structures among other governance issues. Addressing these internal corporate governance deficiencies will avert the pressures of the external environmental factors. The vowels of organizational effectiveness as defined in Chapter 5 are essential in this regard.

The analysis of the questionnaires and interviews results; and the secondary data provided a brief understanding of the nature of corporate governance mechanisms in Zimbabwe. An analysis of the perceptions of the research participants show that most participants agree with the adoption of a stakeholder perspective in Zimbabwe. The stakeholder primacy perspective from the respondents is in line with the OECD (2004) view of corporate governance as "a set of relationships between managers, directors, shareholders, and all other stakeholders". The stakeholder perspective is therefore the ideal definition of Zimbabwean banking sector corporate governance in Zimbabwe. The findings are in line with Wanyama *et al.,* (2013) view, who stated that "corporate governance is considered a relationship with a range of stakeholders".

The research focused on shareholder and stakeholder focus, leadership & management interaction, exceptional board, strategic (transformational) planning, organizational learning, corporate reporting, innovative and committed workforce, workplace spirituality, and corporate reporting and their impact on organizational effectiveness. These variables are shareholder and stakeholder focus, leadership and management interaction, exceptional board, strategic transformational planning, organizational learning, corporate reporting, innovative and committed employees, and workplace spirituality. The results support direct link between each of these eight variables with organizational effectiveness. An examination of the hindrances and enablers of corporate governance implementation in Zimbabwe

indicate that the adoption of these variables can to a greater extent lead to organizational effectiveness.

### 7.3 Recommendations

Corporate governance encompasses the approach with which a firm is governed which determines its effectiveness at institutional, industry and inclusive levels. Improvements in the internal corporate governance arrangements of banks play a significant role in determining organizational effectiveness. The success of organizations in the 21$^{st}$ century and beyond is determined by the relationship between the organization and all its stakeholders. The goal of corporate governance should be to achieve organizational effectiveness through strong and exceptional boards, enhanced shareholder rights and activism, responsible and committed management, innovative and committed employees and a consideration of the entire stakeholders and the environment.

The research findings points out to the following principles as essential for sound corporate governance mechanism in the banking sector in Zimbabwe: corporate integrity, market discipline, and improved disclosure and corporate accountability.

The banking sector corporate governance code should be developed to compliment the recently launched ZIMCODE. The code should give due attention to the eight internal corporate governance variables proposed by the conceptual framework of this research and focus on the voluntary implementation of sound corporate governance by individual banks. The code should be developed in the context of the Zimbabwean macroeconomic environment and historical analysis. The code should be simple, practical and easy to implement and enforce. Stakeholder engagement should be the foundation of the proposed code of banking in Zimbabwe.

Learning institutions, particularly universities, should consider giving the field of corporate governance an independent leadership and management discipline. There should be an corporate governance training and courses in Zimbabwe to support the workshops and trainings by the IoDZ. The corporate world should engage in deliberate efforts to educate its stakeholders on the principles and practices of sound corporate governance.

Based on the interpretation of the questionnaire and interview responses, and data from the content analysis, below are the recommendations to support the vowels specified under section 5.3 thereby driving organizational effectiveness.

### 7.3.1 Shareholder and Stakeholder Goals Alignment

- Shareholders to be deeply involved in the business operations. The corporate governance mechanisms should ensure the enhancement of shareholder activism in AGMs. The participation in AGMs should be associated with asking critical questions to the board and the CEO;
- shareholders should efficiently carry their duty of electing directors;
- protection and education of minority shareholders should be given high priority; and
- shareholders to uphold to expected values in terms of duty of care, honesty, loyalty, and acting in good faith. Insider trading, connected lending, and abusive self-dealing must be completely prohibited.

### 7.3.2 Board of Directors

- Directors should actively monitor the CEO and management team with the organization's vision in mind;
- Directors should make informed decisions based on environmental analysis and their enterprise skills. Training and educational seminars to directors about the importance of adherence to corporate governance should be given high priority;
- directors to be appointed based on their experience and values;
- there should be increased business-focused interaction between the board, CEO and management; and
- directors to uphold to acceptable values and oversee the operations of the business.

### 7.3.3 Corporate Reporting

- companies should be encouraged to disclose financial and operating results to all stakeholders;
- disclosing material of foreseeable risk factors and governance structures;

- the level of voluntary disclosure should be increased by all companies and should cover ecological and social disclosure;
- the different channels of information dissemination should be enhanced in order to fair, timely and cost-efficient access to pertinent information by all stakeholders; and
- stakeholders to be actively involved in reviewing corporate reports.

### 7.3.4 General

- Strategic planning should be given top priority and the shareholders and board must be greatly involved in the planning process;
- strategy document and direction to be communicated in clear terms to all the key stakeholders of the organization;
- managerial decision making accountability and transparency to be enhanced;
- employees to be greatly involved in strategic planning and the firm's overall corporate governance;
- organizations should support such as the Institute of Directors Zimbabwe and Institute of Bankers Zimbabwe
- organizations should promote, as an absolute priority, workplace spirituality in order to reach lasting development; and
- while establishing sound corporate governance systems, efforts to enhance business ethics are also indispensable

## 7.4 Contributions of this research

The section discusses the academic and practical implications and contributions of this research titled - Bank failures: Examining the corporate governance principles and practices of indigenous banks in Zimbabwe and their impact on organizational effectiveness.

From an academic viewpoint the present study helps in filling the current gap in Zimbabwean corporate governance literature. The main contribution of this research is the examination of internal corporate governance principles and practices in Zimbabwe in light of the persistent bank failures that the economy faced during the period 2000-2015. This examination contributes to knowledge to all other developing and transition economies

given the fact that bank failures are inevitable. The specific contribution is on the ideal corporate governance model for a developing economy like Zimbabwe. Therefore, the study provides constructive insights for those in the academia and practitioners on the demand to improve the internal corporate governance architecture, particularly in banking.

The present research contributes to theory by proposing a conceptual framework of eight variables that can fill the internal corporate governance information gap in the context of Zimbabwe. This framework consists of eight variables shareholder and stakeholder focus, leadership and management interaction, exceptional board, strategic (transformational) planning, organizational learning, innovative and committed employees, and workplace spirituality. The conceptual framework can be used to measure and evaluate corporate governance effectiveness and for future corporate governance studies. Moreover, SADC and developing economies can use the conceptual framework in the monitoring of sound internal corporate governance.

In terms of theory, this study contributes through determining that the stakeholder perspective is significantly ideal in Zimbabwe due to the country's macro-environmental influences. The present study is also understood to be the first corporate governance study to incorporate workplace spirituality in examining the governance framework for organizational effectiveness. The theoretical perspective underlying the present research is founded on the stakeholder theory principles. The research findings further confirm the importance of maintaining good relationships with all stakeholders in order to influence organizational effectiveness. Freeman (1984) recommended that "companies should not only consider their shareholders, but also the interests of their stakeholders".

This study adds to the few studies already conducted to analyse the internal corporate governance in Zimbabwe. The main value of this research is derived from its focus on banking institutions, as it examines the corporate governance principles and practices that determine organizational effectiveness. To corporate governance practitioners, this research also proffers a clear view about the link between internal corporate governance mechanisms and organizational effectiveness in Zimbabwe.

The primary aim of the present research was to assess respondents' perceptions concerning corporate governance mechanisms and organizational effectiveness in Zimbabwean indigenous banks. The guiding cardinal points to this examination are explained in Chapter 1. Overally, this study presents a practical conceptual framework for institutions working on improving their corporate governance structures and processes.

### 7.5 Future Research

This research makes an exploration of the corporate governance principles and practices for organizational effectiveness in Zimbabwe. Conversely, numerous empirical researches have not been covered by this research. The empirical work that is not covered in the present study could be useful for future corporate governance inquiry. In this regard, the current research can be further extended in a variety of ways. Literature on internal corporate governance principles and practices and their impact on organizational effectiveness is scant. As such it seems sensible to ask for more research to be carried out in this area. Better understanding and clarification of corporate governance is pivotal to organizational effectiveness. Recommendations to enhance the adoption and the implementation of corporate governance principles and practices in Zimbabwe should be provided. Therefore, further research in corporate governance is of high priority.

The present research concentrated on the internal corporate governance principles and practices across eight variables. The effectiveness of these variables has been tested with regards to banking sector firms. Further research on other mechanisms of corporate governance and from an external corporate governance perspective would be helpful. Also, more investigation of different sectors in Zimbabwe will add better understanding to the strengths and weaknesses of corporate governance in those sectors to develop comprehensive knowledge as regards the value of corporate governance in Zimbabwe.

The present research also focused on internal stakeholders of banks. Future research could focus more on the external stakeholders and influences on corporate governance in Zimbabwe.

This study was undertaken for the period 2000 to 2015, and it is likely that corporate governance implementation could have increased since 2016 following the introduction of the ZIMCODE in 2015. Future research should focus on the response and nature or corporate governance after the ZIMCODE launch.

**7.6 Final Remarks**

This study has attempted to examine the subject of corporate governance in the Zimbabwean banking sector. The present study does not assert to have found the answers to the corporate governance shortcomings in Zimbabwe, or to have created a best corporate governance practice framework. The researcher chose this study area in order to try and reveal the deficiencies in the current corporate governance framework in Zimbabwe indigenous banks so as to improve what is known as practice. A constructivist conceptual paradigm is suggested for future corporate governance inquiry.

The conclusion and submission of this thesis to The University of Lusaka (UNILUS) is not in any way an end to the corporate governance discussion from the research. This thesis act as a way of opening up the corporate governance subject and raise constructive debates in order to enhance the general understanding of the present study variable. This thesis is a provocation to fellow academics, governance practitioners, and corporate stakeholders to take up the challenge of enhancing the corporate governance architecture in different countries.

The present study offers unique insight into the complex discipline of banking sector corporate governance. The thesis assisted in providing an improved understanding of multi-dimensional concept of corporate governance.

Abetz (2003) states that:

"…Corporate governance s should not be viewed as a goal to be attained...rather; it is a journey that requires vigilance, constant review, and ongoing consideration."

"The researcher now invites others to take the vigilant journey of consideration and investigation into the complex world known as corporate governance. With dedicated vigilance and consideration, governance can be reviewed and further improved."

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# APPENDICES

## Questionnaire Cover Letter

Cell: (+971) 56 850 7651
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**To whom it may concern**

Dear Respondent

**Research Questionnaire**

I am in the process of completing my studies towards a PhD in Organizational Leadership & Development with The University of Lusaka, Zambia, and this research study forms part of the requirements of the qualification.

My research is titled: **Bank Failures: Examining corporate governance principles and practices of indigenous banks in Zimbabwe and their impact on organizational effectiveness.** This research is being supervised by Dr. Emmanuel P. Mulenga and Dr. Abel S. Shimba both from Bank of Zambia.

I am currently working in the United Arab Emirates as Business Faculty for UK BBA & MBA courses with BTEC Universities Admissions and Adjunct Business & Finance Faculty with Synergy University Dubai Campus. I would much appreciate it, if you could kindly take a little of your time to complete the attached questionnaire.

Any information provided by you is for academic purposes only and all responses would be treated with the strictest of confidence. I apologize for the length of the questionnaire; however the nature of the study does not allow me to shorten it in any way. Your co-operation is most valued and appreciated and I take this opportunity of thanking you in advance for your kind participation and timeous return of your completed questionnaire.

Yours in Appreciation

______________________

**Justine Chinoperekweyi**

## *Questionnaires & Research Mapping*

## Questionnaire 1: Bank directors, CEOs, and Management

### Section A: General Questions

The following questions are general questions. Please tick one box or more in every question as appropriate.

**A**1.1 What is the category of your bank in Zimbabwe?

| | |
|---|---|
| Indigenous Bank | |
| Foreign-owned Bank | |

**A**1.2 What is your category of respondent?

| | |
|---|---|
| Shareholder | |
| Board Member | |

| | |
|---|---|
| Chief Executive Officer | |
| Management | |

**A**1.3 In which of the following age groups do your belong?

| | |
|---|---|
| Under 25 | |
| 46 – 55 | |

| | |
|---|---|
| 26 - 35 | |
| 56 - 65 | |

| | |
|---|---|
| 36 - 45 | |
| Over 66 | |

**A**1.4 Please indicate your highest level of education achieved?

| | |
|---|---|
| High School | |
| Master | |

| | |
|---|---|
| Diploma | |
| Doctoral | |

| | |
|---|---|
| Bachelor | |
| Other (Specify) | |

**A**1.5 Where did you achieve your highest level of education?

*Answer*

| | |
|---|---|
| | |

**A**1.6. What was your major (field of specialization)?

*Answer*

| | |
|---|---|
| | |

A1.7 How many years of banking experience do you have?

| | |
|---|---|
| 5 years or less | |
| 16 - 20 | |

| | |
|---|---|
| 6 - 10 | |
| 21 - 25 | |

| | |
|---|---|
| 11 - 15 | |
| 26 years or more | |

## Section B: Corporate Governance Questions

B2.1 In the absence of a specific banking sector code of corporate governance, has your Bank adopted its own code of corporate governance or has it applied another organization's code of corporate governance?

| Answer | ……………………………………………………<br>……………………………………………………<br>……………………………………………………<br>…………………………………………………… |
|---|---|

**B**2.2 What are the procedures for monitoring compliance with set corporate governance guidelines? Who does the monitoring?

| Answer | ……………………………………………………<br>……………………………………………………<br>……………………………………………………<br>…………………………………………………… |
|---|---|

**B**2.3 What committees does your Bank has to improve corporate governance?

| Answer | ……………………………………………………<br>……………………………………………………<br>……………………………………………………<br>……………………………………………………<br>…………………………………………………… |
|---|---|

**B**2.4 What are the most serious challenges, in your view, involving corporate governance in the Zimbabwean banking sector?

*(Please explain briefly)*

| Answer | ……………………………………………………………………………………………………………<br>……………………………………………………………………………………………………………<br>……………………………………………………………………………………………………………<br>……………………………………………………………………………………………………………<br>……………………………………………………………………………………………………………<br>…………………………………………………………………………………………………………… |
|---|---|

**B**2.5 Do you think corporate governance of banks needs <u>special attention</u> in comparison with other companies? If yes, do you think that corporate governance of banks is <u>more important</u> than other large companies? *(Please briefly explain your views).*

| Answer | ……………………………………………………………………………………………………………<br>……………………………………………………………………………………………………………<br>……………………………………………………………………………………………………………<br>……………………………………………………………………………………………………………<br>……………………………………………………………………………………………………………<br>…………………………………………………………………………………………………………… |
|---|---|

**B**2.6 Indicate any three major causes of banks failures in Zimbabwe during the period year 2000 - 2015

| | |
|---|---|
| *Answer* | 1 |
| | 2 |
| | 3 |

**B**2.7 Indicate any three bad corporate governance practices by Zimbabwean banks during the period 2000 - 2015?

| | |
|---|---|
| *Answer* | 1 |
| | 2 |
| | 3 |

B2.8 Some researchers have indicated that the corporate governance of foreign-owned banks is different from that of indigenous banks?

*What is your viewpoint on this?*

| | |
|---|---|
| Answer | ............................................................<br>............................................................<br>............................................................<br>............................................................<br>............................................................ |

**B**2.9 To the best of your knowledge are there any measures taken by banks in Zimbabwe in order to implement sound corporate governance practices? Does your bank have specific written procedures and policies as regards corporate governance? If *yes*, please briefly give a description thereof. If *not*, are there any planned steps to be taken in this regard?

| | |
|---|---|
| Answer | ............................................................<br>............................................................<br>............................................................<br>............................................................<br>............................................................ |

**B**2.10 What are the three key measures of bank organizational effectiveness being used by your bank?

| | |
|---|---|
| *Answer* | 1 |
| | 2 |
| | 3 |

**B**2.11 Indicate any three hindrances to, and three enablers of, the adoption of sound corporate governance principles and practices by banks in Zimbabwe.

| | Hindrances | Enablers |
|---|---|---|
| *Answer* | 1 | 1 |
| | 2 | 2 |
| | 3 | 3 |

## Section C: Variables of Corporate Governance & Organizational Effectiveness

**C1. Board of Directors**

C 1.1 The following statements relate to board practices. *Please tick the appropriate response in the space provided*

| Statement | | Not at | Slight l | Moderate | Signi fica | Extreme |
|---|---|---|---|---|---|---|
| The board actively monitors the management | | | | | | |
| The board members act on a fully informed basis in good faith, with due diligence and care, and in the best interest of the company and the shareholders. | | | | | | |
| The board ensures compliance with applicable laws and take into account the interests of stakeholders | | | | | | |
| The board members fulfill their expected functions including | Reviewing and guiding corporate strategy | | | | | |
| | Setting performance objectives | | | | | |
| | Overseeing the process of disclosure and communication | | | | | |
| | Ensuring the integrity of the corporation's accounting and financial reporting systems | | | | | |
| The vision and strategies of the organization guide the board's decision making | | | | | | |
| The board sets the bank's risk appetite and periodically review the risk management system | | | | | | |
| The board ensures that an ethical culture pervades in the bank | | | | | | |
| The board prepare analyses and assessments of the quality and efficiency of its activities and propose measures and activities for improvement, notifying shareholders of the same. | | | | | | |
| The board and senior management comply with the corporate governance guidelines of the bank | | | | | | |
| Generally, the board of directors of the bank is effective | | | | | | |

C 1. 2 In your view, what is the role of the board vis-à-vis management particularly with respect to setting strategy and vision; risk management; oversight of internal controls; external audit and preparation of financial statements?

| Answer | ................................................................................<br>................................................................................<br>................................................................................<br>................................................................................<br>................................................................................<br>................................................................................ |
|---|---|

C 1.3 Does the board conduct self-evaluation or other reviews of its effectiveness? How and when are such reviews conducted and with whom are the results shared?

| Answer | ……………………………………………………………………………………………………………………<br>……………………………………………………………………………………………………………………<br>……………………………………………………………………………………………………………………<br>……………………………………………………………………………………………………………………<br>……………………………………………………………………………………………………………………<br>…………………………………………………………………………………………………………………… |
|---|---|

**C** 1.4 How does the current mix of skills/experience on the board of directors serve the bank's interests?

| Answer | ……………………………………………………………………………………………………………………<br>……………………………………………………………………………………………………………………<br>……………………………………………………………………………………………………………………<br>……………………………………………………………………………………………………………………<br>……………………………………………………………………………………………………………………<br>…………………………………………………………………………………………………………………… |
|---|---|

**C** 1.5 What is the difference, if any, between the board of directors of the failed banks of years 2000-2015 and that of today's banks?

| Answer | ……………………………………………………………………………………………………………………<br>…………………………………………………………………………………………………………<br>……………………………………………………………………………………………………………………<br>……………………………………………………………………………………………………………………<br>…………………………………………………………………………………………………………………… |
|---|---|

C2. Strategic Planning

C 2.1 Which of the following statements best describe the strategic planning of your banks?

2.1.1.1

| **Existence of a planned strategy** | |
|---|---|
| Our bank does not have a planned strategy | |
| Our bank has a planned strategy | |

2.1.1.2

| **Existence of strategic planning process** | |
|---|---|
| Our bank does not have a process of strategic planning | |
| Our bank has a process of strategic planning, but does not use it | |
| Our bank has a process of strategic planning, which is uses partly | |
| Our bank has a process of strategic planning which is used completely | |

2.1.2 Strategic Planning definitions and documents in your bank.

2.1.2.1

| | | Not at all | For some aspects | Exists for all aspects |
|---|---|---|---|---|
| 2.1.2.2 | Does a manual or some sort of handbook exist that describes/ explains the strategic planning process, the tasks to do and participants? | | | |
| | Do common definitions of the terms "corporate strategy", "strategic planning", long-term planning" and/or "financial planning" exist? | | | |
| 2.1.2.3 | Does your bank have a document (or similar) that defines and/or describes the terms risks, strategic risks and risk management? | | | |

2.1.3 Satisfaction with strategic planning and strategic risk management

| | | Not at all | Only limited | Generally satisfied | Always satisfied |
|---|---|---|---|---|---|
| 2.1.3.1 | How satisfied are you with the strategic planning process | | | | |
| | How satisfied are you with the <u>outcome</u> of strategic planning | | | | |
| | How satisfied are you with the implementation of strategic planning results | | | | |
| | How satisfied are you with the management of strategic risks | | | | |

2.1.4 Is strategic planning an accepted method for strategic management/or strategy development

Yes [ ] No [ ]

2.1.5 Which time horizon (years) does your bank consider for strategic planning?

| Under 1 year | |
|---|---|
| 5 – 8 | |

| 1 - 3 | |
|---|---|
| Over 8 | |

| 3 - 5 | |
|---|---|
| Other | |

Briefly explain why that time horizon is considered ideal.

| Answer | ……………………………………………………………………………………………………… <br> ……………………………………………………………………………………………………… <br> ……………………………………………………………………………………………………… <br> ……………………………………………………………………………………………………… <br> ……………………………………………………………………………………………………….. |
|---|---|

2.1.6 Which of the following statements best describe the strategic planning process of your bank? (*Select one)*

| A visionary leader describes the strategic guidelines | |
|---|---|
| Top management team commands strategic direction, details and implementation matters will be developed and prepared in other hierarchy levels | |
| Planning department develops the strategy | |
| A strong formalized and analytical process employs extensive planning systems and involves all organization's units | |
| A strong formalized and analytical process employs extensive planning systems and involves selected organization's units | |
| Middle management develops ideas for future strategic direction as well as priorities for implementation | |
| Other (*Specify*) | |

2.1.7 What is the general objective of the strategic planning process? (*Multiple answers possible*)

| | |
|---|---|
| | |
| | |
| | |
| | |
| | |
| | |
| | |

2.1.8 Which of the following measures does your bank employ to improve the planning process and to ensure organizational effectiveness from its strategic planning process?

| | Never | Sometimes | Mostly | Yes |
|---|---|---|---|---|
| Management treats strategic planning as an essential part of its daily responsibility | | | | |
| Ensures that all planning participants have a solid understanding of the business, its strategy, and the underlying assumptions. | | | | |
| Use strategic customer research to identify unstated customer priorities | | | | |
| Middle managers can contribute their knowledge to the setting of the strategic agenda | | | | |
| The bank engages employees to improve organizational effectiveness | | | | |
| The bank supports team learning | | | | |
| The bank encourages planning participants to critically review and change their existing personal mental modes through experiences and | | | | |

2.1.9 Does strategic planning enhance organizational effectiveness?

| Answer | ………………………………………………………………………………………………………<br>………………………………………………………………………………………………………<br>………………………………………………………………………………………………………<br>……………………………………………………………………………………………………… |
|---|---|

………………………………………………………………………………………………………

2.1.10 How complex is, or has been, the Zimbabwean banking environment?

**A complex environment is characterized by rapid change and contains a large number of factors to be considers during the strategic planning process.*

**Rate on a scale of 1-10 where 1=very simple and 10 =very complex**

| Answer | |
|---|---|

| Explain | ……………………………………………………………………………………………… ……………………………………………………………………………………………… ……………………………………………………………………………………………… |
|---|---|

**C3. Organizational Learning**

C3.1 Which of the following statements best describes your bank in terms of learning?

| | | Strongly Disagree | | | Strongly Agree | |
|---|---|---|---|---|---|---|
| 3.1.1 | We learn from all our stakeholders | 1 | 2 | 3 | 4 | 5 |
| 3.1.2 | We have process to acquire relevant information from outside the bank | 1 | 2 | 3 | 4 | 5 |
| 3.1.3 | We constantly develop new knowledge from existing knowledge | 1 | 2 | 3 | 4 | 5 |
| 3.1.4 | We have a company-wide culture of open communication | 1 | 2 | 3 | 4 | 5 |
| 3.1.5 | Our employees seek to deeply understand issues and concepts | 1 | 2 | 3 | 4 | 5 |
| 3.1.6 | Top management integrates information from different organizational areas | 1 | 2 | 3 | 4 | 5 |
| 3.1.7 | We are effective in retaining employees with valuable knowledge | 1 | 2 | 3 | 4 | 5 |
| 3.1.8 | Our new learning is reflected in our structure and/or strategy | 1 | 2 | 3 | 4 | 5 |
| 3.1.9 | We constantly benchmark ourselves with our competitors | 1 | 2 | 3 | 4 | 5 |
| 3.1.10 | Planning is very important to our organization | 1 | 2 | 3 | 4 | 5 |
| 3.1.11 | We go beyond ourselves interest for the good of the bank | 1 | 2 | 3 | 4 | 5 |
| 3.1.12 | We seek different perspectives when solving problems. | 1 | 2 | 3 | 4 | 5 |
| 3.1.13 | Individuals have input to strategy | 1 | 2 | 3 | 4 | 5 |
| 3.1.14 | Diversity is important | 1 | 2 | 3 | 4 | 5 |
| 3.1.15 | We are a " learning organization | 1 | 2 | 3 | 4 | 5 |

**C4. Workplace Spirituality**

C 4.1 Which of the following statements best describes your bank in terms of workplace spirituality?

| | | Strongly Disagree | | | Strongly Agree | |
|---|---|---|---|---|---|---|
| 4.1.1 | Employees experience joy at work | 1 | 2 | 3 | 4 | 5 |
| 4.1.2 | Work is connected to what is important in life | 1 | 2 | 3 | 4 | 5 |
| 4.1.3 | Employees look forward to go to work | 1 | 2 | 3 | 4 | 5 |
| 4.1.4 | Employees are linked with a common purpose | 1 | 2 | 3 | 4 | 5 |
| 4.1.5 | Employees genuinely care about each other | 1 | 2 | 3 | 4 | 5 |
| 4.1.6 | Employees feel being part of a family | 1 | 2 | 3 | 4 | 5 |
| 4.1.7 | Employees feel positive about the bank values | 1 | 2 | 3 | 4 | 5 |
| 4.1.8 | Employees feel connected with the bank's goals | 1 | 2 | 3 | 4 | 5 |
| 4.1.9 | Employees' spirit is energized at the workplace. | 1 | 2 | 3 | 4 | 5 |

4.2 Do you consider workplace spirituality as an essential component in bank corporate governance in Zimbabwe?

| Answer | ……………………………………………………………………………………………………<br>……………………………………………………………………………………………………<br>…………………………………………………………………………………………………… |
|---|---|

……………………………………………………………………………………………………

## Employee engagement and Commitment

5.1 In your view, how important is employee engagement and commitment to bank organizational effectiveness:

| Answer | ……………………………………………………………………………………………………<br>……………………………………………………………………………………………………<br>…………………………………………………………………………………………………… |
|---|---|

……………………………………………………………………………………………………

5.2 On a scale of 1 - 10 (1=Not engaged, Not committed; and 10=Strongly engaged & committed), how do you rate employees within your bank?

| *Answer* | |
|---|---|

**Section D: Corporate Governance Impacts**

D6.1 It is alleged that the adoption of sound corporate governance principles is essential in enhancing organizational effectiveness in the Zimbabwean banking sector. What do you think?

| Answer | ........................................................................................................................ <br> ........................................................................................................................ <br> ........................................................................................................................ <br> ........................................................................................................................ |
|---|---|

**D**6.2 What are the three positive impacts of the adoption of sound corporate governance on individual banks in Zimbabwe?

| *Answer* | 1 |
|---|---|
| | 2 |
| | 3 |

**D**6.3 What are the three negative impacts of bad corporate governance on individual banks in Zimbabwe?

| *Answer* | 1 |
|---|---|
| | 2 |
| | 3 |

**D**6.4 What corporate governance lessons can indigenous banks learn from foreign-owned or other banks across the globe?

| Answer | ........................................................................................................................ <br> ........................................................................................................................ <br> ........................................................................................................................ <br> ........................................................................................................................ |
|---|---|

## Section E: Case Study Questions

**E**7.1 In your view, what corporate governance issues led to the failure of ReNaissance Merchant Bank and/or Royal Bank in Zimbabwe?

| Answer | …………………………………………………………………………………………………………………<br>…………………………………………………………………………………………………………………<br>…………………………………………………………………………………………………………………<br>…………………………………………………………………………………………………………………<br>…………………………………………………………………………………………………………………<br>………………………………………………………………………………………………………………… |
|---|---|

E7.8 Any other comments regarding internal corporate governance practices and principles of indigenous banks in Zimbabwe and their impact on organizational effectiveness.

| Answer | |
|---|---|

*Thank you so much for your time and effort in responding to this questionnaire*

## Questionnaire 2: Bank Employees

## Bank Failures, Corporate Governance & Organizational Effectiveness

**Biographical Information**

1.1 Please indicate the category of your bank

| Indigenous bank | |
|---|---|
| Foreign-owned bank | |

1.2 Please indicate your age group

| Under 25 | | 26 - 30 | | 31 - 35 | |
|---|---|---|---|---|---|
| 36 - 40 | | 41 - 45 | | 46 and over | |

1.3 Please specify your gender

| Male | |
|---|---|
| Female | |

1.4 Please indicate your highest level of education achieved

| High School | | Diploma | | Bachelor | |
|---|---|---|---|---|---|
| Master | | Doctoral | | Other (specify) | |

1.5 What was your major (field of specialization)?

| Answer | |
|---|---|

1.6 How many years of banking experience do you have?

| 3 years or less | | 4 - 8 | | 8 years or more | |
|---|---|---|---|---|---|

1.7 In which bank department are you currently working?

| Answer | |
|---|---|

1.8 Please indicate your current position

| Junior Staff | | Middle level | | Senior level | |
|---|---|---|---|---|---|

**Employee Engagement & Commitment Questions**

1.9 Please circle the appropriate response on a scale of 1-5

| | Strongly | Slightly | Neutral | Slightly | Strongly |
|---|---|---|---|---|---|
| 1.9.1 I feel myself to be part of this bank | 1 | 2 | 3 | 4 | 5 |
| 1.9.2 I am quite proud to tell people about this bank | 1 | 2 | 3 | 4 | 5 |
| 1.9.3 The offer of a little more money with another bank would not seriously make me think of changing jobs | 1 | 2 | 3 | 4 | 5 |
| 1.9.4 I would recommend a close friend to join this bank | 1 | 2 | 3 | 4 | 5 |
| 1.9.5 In my work, I like to feel that I am making a contribution, not for myself but for the bank as well | 1 | 2 | 3 | 4 | 5 |
| 1.9.6 I sometimes feel like leaving this company for good | 1 | 2 | 3 | 4 | 5 |
| 1.9.7 I am not willing to do more that what my job description requires | 1 | 2 | 3 | 4 | 5 |
| 1.9.8 Working hard leads to bank organizational effectiveness | 1 | 2 | 3 | 4 | 5 |
| 1.9.10 Generally speaking, I am satisfied with this job | 1 | 2 | 3 | 4 | 5 |
| 1.9.11 I am generally satisfied with the kind of work I do in this job | 1 | 2 | 3 | 4 | 5 |
| 1.9.12 I frequently think of quitting this job | 1 | 2 | 3 | 4 | 5 |
| 1.9.13 My values and the values of the bank are similar | 1 | 2 | 3 | 4 | 5 |
| 1.9.14 I always get the opportunity to use my skills and talents in my job | 1 | 2 | 3 | 4 | 5 |
| 1.9.15 Management takes action to train staff to become supervisors and managers | 1 | 2 | 3 | 4 | 5 |
| 1.9.16 My immediate superior knows my training needs | 1 | 2 | 3 | 4 | 5 |
| 1.9.17 I believe our top management team can lead this bank to the attainment of the set vision | 1 | 2 | 3 | 4 | 5 |
| 1.9.18 Management encourages employees in this bank to improve their own abilities | 1 | 2 | 3 | 4 | 5 |
| 1.9.19 At this point, remaining with my organization is a matter of necessity as much as desire. | 1 | 2 | 3 | 4 | 5 |

**Employee Perception Questions**

2. 0 The bank treats employees as:

| | |
|---|---|
| a) as "hands" whose time and energy are at the disposal of persons at higher levels in the hierarchy. | |
| b) as 'employees" whose time and energy are purchased through a contract, with rights and obligations on both sides | |
| c) as "associates" who are mutually committed to the achievement of a common purpose. | |
| d) as "family" or "friends" who like being together and who care about and support one another. | |

2.1 Decision - making processes are characterized by:

| | |
|---|---|
| a) directives, orders and instructions that come down from higher levels | |
| b) the adherence to formal channels and reliance on policies and procedures for making decisions | |
| c) decisions being made close to the point of action, by the people on the spot. | |
| d) the use of consensus decision - making methods to gain acceptance and support for decisions | |

2.2 Employees are expected to be:

| | |
|---|---|
| a) hard working, compliant, obedient, and loyal to the interests of those to whom they report. | |
| b) responsible and reliable, carrying out the duties and responsibilities of the jobs and avoiding actions that could surprise or embarrass their supervisors. | |
| c) self motivated and competent, willing to take the initiative to get things done; willing to challenge those to whom they report if that is necessary to obtain good results. | |
| d) good team workers, supportive, and co-operative, who get along well with others. | |

2.3 Relationships between departments are generally:

| | |
|---|---|
| a) competitive, with both looking out for their own interests and helping each other only when they can see some advantage for themselves by doing so | |
| b) characterized by indifference toward each other, helping each other only when it is convenient or when they are directed by higher levels to do so | |
| c) co-operative when they need to achieve common goals. People are normally willing to cut red tape and cross organizational boundaries in order to get the job done. | |
| d) friendly, with a high level of responsiveness to requests for help from other groups. | |

**3.0 Corporate Governance Principles**

Please circle the appropriate response on a scale of 1-5

| | Strongly Disagree | Slightly Disagree | Neutral | Slightly Agree | Strongly Agree |
|---|---|---|---|---|---|
| Company has issued a "mission statement" that explicitly places a priority on good corporate governance | 1 | 2 | 3 | 4 | 5 |
| Management sticks to clearly defined core businesses. | 1 | 2 | 3 | 4 | 5 |
| Company's Annual Report includes a section devoted to the company's performance in implementing corporate governance principles. | 1 | 2 | 3 | 4 | 5 |
| Analysts have good access to senior management. Good access implies accessibility soon after results are announced and timely meetings where analyst are given all relevant information and are not misled. | 1 | 2 | 3 | 4 | 5 |
| Company has an English language web-site where results and other announcements are updated promptly | 1 | 2 | 3 | 4 | 5 |
| The reports are clear and informative. | 1 | 2 | 3 | 4 | 5 |
| Company has an executive or management committee which is substantially different from members of the board and not believed to be dominated by referrals. | 1 | 2 | 3 | 4 | 5 |
| Company has an audit committee. it is chaired by a perceived genuine independent director. | 1 | 2 | 3 | 4 | 5 |
| External auditors of the company are in other respects seen to be completely unrelated to the company. | 1 | 2 | 3 | 4 | 5 |
| The board/senior management have made decisions in the recent years seen to benefit them at the expense of management, has the company been seen as acting effectively against individuals responsible and corrected such behavior promptly | 1 | 2 | 3 | 4 | 5 |
| Over the past five years, there were open business failures or misbehavior; responsible persons were appropriately and voluntarily punished. | 1 | 2 | 3 | 4 | 5 |
| There are mechanisms to allow punishment of the executive/management committee in the event of mismanagement | 1 | 2 | 3 | 4 | 5 |
| All the employees have the access to their appraisal record. | 1 | 2 | 3 | 4 | 5 |
| All necessary information for appraisal criteria are made available prior to evaluation. | 1 | 2 | 3 | 4 | 5 |
| Criticism/suggestions methods are easily available. | 1 | 2 | 3 | 4 | 5 |
| Company has an explicit (clearly worded) public policy statement that emphasizes strict ethical behavior | 1 | 2 | 3 | 4 | 5 |
| You know the company's mission and goals. | 1 | 2 | 3 | 4 | 5 |
| You plan your work before you do it. | 1 | 2 | 3 | 4 | 5 |
| All stakeholders are taken in consideration when company makes corporate level strategies. | 1 | 2 | 3 | 4 | 5 |
| Reward system is practiced in the organization and is properly communicated to all the employees in the organization. | 1 | 2 | 3 | 4 | 5 |

4.0 In your view, what are the three most important principles and practices of corporate governance that drive effectiveness in the banking sector in Zimbabwe?

| Principles | Practice |
|---|---|
| 1 | 1 |
| 2 | 2 |
| 3 | 3 |

5.0 What do you consider to be the three main causes of bank failures in Zimbabwe during the period year 2000-2015?

| |
|---|
| 1 |
| 2 |
| 3 |

6.0 In your view, what are the three important measures/determinants of organizational effectiveness in banking?

| |
|---|
| 1 |
| 2 |
| 3 |

*Thank you so much for your time and effort in responding to this questionnaire.*

UNIVERSITY OF LUSAKA

BANK FAILURES: EXAMINING CORPORATE GOVERNANCE PRINCIPLES AND PRACTICES OF INDIGENOUS BANKS IN ZIMBABWE AND THEIR IMPACT ON ORGANIZATIONAL EFFECTIVENESS.

| Research Mapping - RC-RO-RQ-SS-LR-RM-QI-RF | |
|---|---|
| PhD Organizational Leadership & Development | |
| Researcher | Justine Chinoperekweyi |

| Research Concern | | Research Objective | | Research Question | | Significance | | Literature Review | | Research Methodology | Questionnaire & Interview | Research Findings |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 3.1 | To discover irrationalities in corporate governance with regard organizational effectiveness. | 1.3.1 | To explore the nature and extent of the development of sound corporate governance principles and practices in the Zimbabwean banking sector | 1.4 | What is the nature and extent of sound corporate governance principles and practices adoption within the Zimbabwean banking market? | 1.5 | This study will contribute to the current debate on the appropriate corporate governance regime for developing economies like Zimbabwe | 2.1<br>2.2<br>2.2.1<br>2.2.2<br>2.10<br>2.10.1<br>2.10.2 | a. Historical Analysis: Corporation and Corporate Governance<br>b. Corporate Governance Defined<br>c. Recent Developments in Corporate Governance<br>d. Corporate Governance in Zimbabwe | 3.1<br>3.2<br>3.4 | Research Philosophy<br>Research Design<br>Data Collection and Analysis | B2.1<br>B2.2<br>B2.4<br>B2.9 | 4.2<br>5.2<br>6.2<br>7.2 |
| 3.1 | To discover irrationalities in corporate governance with regard organizational effectiveness. | 1.3.2 | To identify the probable hindrances to, and enablers of, the implementation of sound corporate governance by indigenous banks in Zimbabwe. | 1.4 | What are the hindrances to, and enablers of the implementation of sound corporate governance by indigenous banks in Zimbabwe? | 1.5 | | 2.9 | Corporate Governance and Developing Economies | 3.1<br>3.2<br>3.3<br>3.4<br>3.5 | Research Philosophy<br>Research Design<br>Population and Sampling<br>Data Collection and Analysis<br>Research Quality | B2.3<br>B2.4<br>B2.11<br>Section C | 4.6<br>6.3<br>6.4<br>7.2 |
| 3.1 | a. To discover irrationalities in corporate governance with regard organizational effectiveness.<br>b. To achive change, understand and explain what is going on | 1.3.4 | To evaluate Zimbabwean indigenous banks' corporate structures, functions of supervisory bodies, implementation of internal controls, role of independent bank units, and employee engagement processes and their impact on bank organizational effectiveness. | 1.4 | To what extent have the corporate structures and the rule of management in the Zimbabwean indigenous banks contributed to ineffectiveness and/or the persistent bank failures? | 1.5 | | 2.6<br>2.6.1<br>2.6.2<br>2.6.3<br>2.9 | Corporate Governance: A Multi-disciplinary Concept<br>a. Theories of Corporate Governance<br>b. Principles and Practices of Corporate Governance<br>c. Corporate Governance in the international arena: UK and Asia<br>d. Corporate Governance and Developing Economies | 3.1<br>3.2<br>3.3<br>3.4<br>3.5 | Research Philosophy<br>Research Design<br>Population and Sampling<br>Data Collection and Analysis<br>Research Quality | B2.1<br>B2.2<br>B2.3<br>B2.7<br>B2.8<br>Section C | 4.3<br>6.1<br>4.4<br>4.5<br>5.3<br>7.3 |
| 3.1 | To achive change, understand and explain what is going on | 1.3.3 | To establish the role of corporate governance in enhancing indigenous banks' effectiveness in the Zimbabwean banking sector | 1.4 | Why is the adoption of corporate governance principles and practices essential in enhancing organizational effectiveness in the Zimbabwean banking market? | 1.5 | | 2.2.2<br>2.3<br>2.3.1<br>2.7<br>2.7.1 | a. The Role of Corporate Governance<br>b. The Corporate Governance of Banks<br>c. Distinctive Features of the Banking Sector<br>d. Organizational Effectiveness: Theoretical Underpinnings<br>e. Organizational Effectiveness: Frameworks and Methodologies | 3.1<br>3.2<br>3.3<br>3.4<br>3.5 | Research Philosophy<br>Research Design<br>Population and Sampling<br>Data Collection and Analysis<br>Research Quality | B2.5<br>Section D | 5.4 |
| 3.1 | To achive change, understand and explain what is going on | 1.3.5 | To examine variables for bank organizational effectiveness measurement related to corporate governance. | 1.4 | What are the most affected organizational effectiveness measures related to corporate governance leading to the persistent bank failures in Zimbabwe? | 1.5 | | 2.7<br>2.7.1<br>2.8<br>2.8.1<br>2.8.2<br>2.8.3<br>2.8.4<br>2.8.5<br>2.8.6<br>2.8.7 | a. Corporate Governance Variables and Organizational Effectiveness in Banking<br>b. Leadership: CEO and Management Interaction<br>c. Strategic Planning<br>d. Organizational Learning<br>e. Exceptional Boards<br>f. Corporate Financial Reporting<br>g. Engaged, Committed and Innovative Workforce<br>h. Workplace Spirituality<br>i. Organizational Effectiveness: Theoretical Underpinnings<br>j. Organizational Effectiveness: Frameworks and Methodologies | 3.1<br>3.2<br>3.3<br>3.4<br>3.5 | Research Philosophy<br>Research Design<br>Population and Sampling<br>Data Collection and Analysis<br>Research Quality | B2.10<br>Section C | 4.3<br>4.4<br>4.5<br>5.3<br>6.1 |
| 3.1 | a. To discover irrationalities in corporate governance with regard organizational effectiveness.<br>b. To achive change, understand and explain what is going on | 1.3.6 | To establish the causes of bank failures in Zimbabwe, critically ascertaining the corporate governance shortcomings in each failure cause at institutional level. | 1.4 | What are the major causes of bank failures in Zimbabwe and how are the corporate governance principles and practices deficiencies evident in these failure causes? | 1.5 | | 2.4<br>2.5 | a. Bank Failures and Corporate Governance<br>b. Bank Performance Measurement<br>c. Factors affecting Bank Performance | 3.1<br>3.2<br>3.3<br>3.4<br>3.5 | Research Philosophy<br>Research Design<br>Population and Sampling<br>Data Collection and Analysis<br>Research Quality | B2.6<br>Section C<br>Section E | 4.7<br>5.5<br>6.2<br>6.3 |