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AN ANALYSIS OF CORPORATE GOVERNANCE IN THE BANKING SECTOR OF ZIMBABWE

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ABSTRACT

The study looks at the effect of corporate governance issues in the banking sector of Zimbabwe. This study consisted of 25 respondents, from compliance departments of selected banks. From the findings it can be concluded that corporate governance plays important function in stabilizing the banking sector and well functioning of the commercial banks in Zimbabwe. The study recommends that the corporate governance board should make sure that banks should practise a culture of good corporate governance on regular basis and deal with those who fail to comply to good corporate governance.

Keywords: Corporate governance, Banking sector, Compliance, Risk management.

Contribution/ Originality

This study is one of very few studies which have investigated on corporate governance in the banking sector of Zimbabwe. The study dealt directly with the compliance departments of selected banks. The study found out that a culture of good corporate governance is essential for the well functioning of business.

1. INTRODUCTION

The study looks at the effect of corporate governance on operations of Zimbabwean commercial banks, in particular. Corporate governance refers broadly to the rules, processes and laws by which businesses are controlled, according to the Cardbury Committee Report (1992). Global recessions and continued failure of some of our local financial institutions has increased attention on the requirement of corporate governance in the banking sector of Zimbabwe.

Elements of good corporate governance include fairness, accountability, responsibility, transparency and integrity. Reserve Bank of Zimbabwe (RBZ) Monetary Policy (2006) reveals that, in the Zimbabwean financial sector, a number of banking institutions faced serious challenges in the last quarter of 2003 and first quarter of 2004. The increased globalization of financial markets have complicated risk management, and therefore banks are expected to adhere to high corporate governance standards.

Problem Statement: The banking sector of Zimbabwe is characterized of poor corporate governance structures and there is undue influence by few shareholders, resulting in failure to understand risk and reduced transparency. However strong, effective banking supervision and high levels of accountability is required for the good of the banking sector.

Purpose of the Study: The banking sector has seen its fate moving from a period of prosperity to a financial crisis and more recently rampant fraudulent activities within the banking sector, thus it is of great importance to determine the effectiveness of corporate governance on operations of Zimbabwean banking sector.

Objectives: The research aims at examining the effect of corporate governance on operations of Zimbabwean banking sector.

Delimitations: The study looks at the effect of corporate governance on operations of Zimbabwean commercial banks, from 2009 to 2012. (the early stages when the Zimbabwean economy was dollarized)

2. REVIEW OF LITERATURE

2.1. Theoretical Review

Corporate Governance: Corporate governance is defined as a system by which businesses are managed by different participants in the corporation, such as the board, managers, shareholders and other stakeholders. Edwards and Clough (2005), define the corporate governance in terms of the relationship between corporation and stakeholders in the private sector set up. However, we find that corporate governance is expected in every business entity be it private or public for the business venture to be run in an ethical manner.

Good Corporate Governance Principles: There are several accepted principles of good corporate governance that are applicable to both the private and public sector. The principles include discipline, transparency, independence, accountability, responsibility, fairness and social responsibility, among others.

Nature of Corporate Governance: Corporate governance depends on economic, regulatory, fiscal, institutional and, judicial structures qualities. These are influenced by a given country's political situation.

Autocratic political systems will tend to be intolerant of competition, transparency and accountability, and these will affect financial development. There is need in this case, to create an environment of transparency and tolerance.

Corporate Governance and Financial Performance in Banking Sector: Brown and Caylor (2004) in their study found out that corporations with high standards of good governance perform better than those with weak corporate governance structures. This can be asserted that good corporate governance can lead to high profits. This also confirms why corporate governance is important in banks.

RBZ Journal - Bank Licensing Supervision and Surveillance (2004) reveals that the banking sector thrives on public confidence, otherwise without this confidence it will struggle to maintain its status as a driver of economic growth.

Board of Directors Effectiveness and Banking Sector Performance: Herman and Renz (1996; 2000) and Namisi (2002) in their studies found out that there is a strong relationship between board of directors and performance of the corporations they lead. Where there was ineffective directors, the performance was very poor.

Improving Corporate Governance in the Banking Sector: This entails the analysis of how banking institutions can effectively enhance their corporate governance practices in line with international practices. The strategies include the following:

- Establishing strategic objectives and a set of corporate values communicated throughout the banking organization.
- Setting and enforcing clear lines of responsibility and accountability throughout the organisation.
- Ensure that board members and senior management are qualified for their positions.
- Separation of owners and managers.
- Managing risk, that is to analyze the hidden exposures and ensure that the level of risk that is being taken is consistent with the profitable survival of the bank.

2.2. Empirical Evidence

Board Composition: Empirical evidence shows that independent directors make better decisions and monitors more efficiently. It is believed that banks perform better if boards include more outsiders of the corporation.

Board Size: Studies on board size tend to conclude that there is an inverse relationship between board size and bank size. Usually large boards tend to be weak in corporate governance. Small boards relatively perform better.

3. MATERIALS AND METHODS

In this section the researchers discuss different methods used to gather data and the research design specifically adopted to gain an in depth understanding of the topic, on corporate governance issues of Zimbabwean banking sector.

Research Design: Both qualitative and quantitative designs were used that enabled the researchers to organize the collection and analysis of data.

Study Population: The research focuses on commercial banks in Zimbabwe. The population of the study therefore comprises of the targeted commercial banks. The researchers targeted banks' head offices, which included staff at the risk departments.

Study Sample: The sample size consists of 25 respondents, from compliance departments of selected banks. These respondents possess information relevant to solving the problem at hand.

3.1. Data Collection Methods and Instruments

Primary Sources: The researchers collected data using questionnaires and personal interviews.

Secondary Sources: The researchers used secondary data obtained from publications that includes Reserve Bank reports, journals, magazines and textbooks.

Face to Face Interviews: Face to face interviews were conducted to a group of risk department staff as well as bank managers and supervisors at their work places. The interviewees were designed to obtain bank interviewees' perceptions regarding the effect of corporate governance on operations of commercial banks.

3.2. Sampling Technique for Interviews

Stratified sampling was utilized to identify the targeted population. The technique was used to utilize time efficiently.

4. DATA PRESENTATION AND ANALYSIS

In this section, the researchers present and analyze information collected to ascertain the effectiveness of corporate governance in Zimbabwean commercial banks.

Questionnaire Response Rate: A total of twenty five questionnaires were distributed to the risk and compliance departments of the banks.

Personal Interview Response Rate: Twenty interviews were conducted. There was a high response rate that was attributed to the flexible nature of interviews since there were low chances of misinterpretation of questions, as questions which needed clarification could be easily clarified.

Knowledge on Corporate Governance: The research found out that 75% strongly agreed to the given definition of corporate governance, 20% partially agreed and 5% disagreed with the definition. They argued that good corporate governance should also cater for the protection of shareholders' preferences. The results revealed that the researcher's definition provides almost all elements of sound corporate governance though there is need for consideration of new regulations.

Corporate Governance Principles at the Bank: All the interviewed respondents gave the same principles of corporate governance which are implemented in commercial banks. The principles which were cited are discipline, transparency, independence, accountability, responsibility, fairness and social responsibility. All respondents suggest that discipline, transparency, independence, accountability and responsibility are key to good corporate governance, eighteen out of twenty respondents highlighted on fairness and finally sixteen out of twenty respondents pointed out social responsibility as a key element.

Level of Adherence to Corporate Governance Guidelines and Principles: When asked how far the bank adhered to its corporate governance guidelines and principles in its operations, 87% of interviewees indicated that sound corporate governance codes and guidelines were strictly adhered to by the banking institutions. However 13% of the respondents indicated that there was no strict adherence to corporate governance guidelines because of the lack of corporate governance code in Zimbabwe financial sector and they argued that experiences in the past is the evidence of failure to comply where a number of banking institutions were on the verge of collapse and curatorship.

Relationship between Corporate Governance and Banking Sector Performance: A greater number of respondents, 85% revealed that sound corporate governance was positively correlated with the financial performance of the bank. They based on the argument that sound corporate governance restores public confidence and hence more depositors and savers are attracted through reputation of the bank. RBZ (2004) asserts that there should be public confidence in the economy for the banking sector to operate well. Respondents also argue that sound corporate governance reduces the chances of threats to handover operating license to the authorities. Few respondents, 15% argued that good corporate governance did not have any relationship with financial performance of a bank. Since 85% of the respondents revealed that sound corporate governance positively relate to financial performance, this means that if banks adhere to sound corporate governance practices, the level of profit margins would increase significantly.

Number of directors in the bank:

Response	No of Respondents	% of respondents
Less than 5	0	0
Less or equal to 5	20	100
Total	20	100

Source: Primary data

One hundred percent (100%) respondents noted that they have at least five (5) directors on board committees. The research findings alluded that banks are complying with RBZ guidelines regarding the number of directors who sat on their board. It can also be asserted that more diverse directors in the board reduce dominance of related parties at the expense of others.

Non-Executive Members in Board Committees: Seventy percent of the respondents noted that banks have at least 60% of non-executive directors in various board committees, while 30% were of the view that in other committees there are less than 60% non-executive directors. The research findings confirm that banks are largely complying with the RBZ corporate governance guideline in the composition of non-executive directors.

Effects of Non-Compliance to Corporate Governance: From the findings, 15 respondents revealed that effects of non-compliance are very high due to increased chances of loss of operating licences, closure and being under curatorship. However 5 respondents ranked the effects as moderate and they were of the view that there are other factors which are more important for the survival of banks such as available capital. The research noted that compliance is necessary for the operations of banks and non-compliance can harm the operations of banks.

5. CONCLUSIONS AND ECOMMENDATIONS

5.1. Conclusions

From the findings it can be concluded that corporate governance has an important function in stabilizing the banking sector and well functioning of the commercial banks in Zimbabwe.

- **Board Size:** The normal board comprises both the executive directors and non executive directors. An eight to eleven persons board is considered normal. Results from the research concur with previous studies from different authors as the research found an inverse relationship between size of board and performance.
- **Non-Executive Members:** Study findings conclude that banks are largely complying with the RBZ corporate governance guideline in the composition of non-executive directors. The study found out that the number of non-executive members has a positive relationship with return on assets.
- **Chief Executive Officer and Chairman Position**: Results from the study found out that the chairperson and chief executive officer are two positions occupied by two persons. As a result there was no relationship found since all the banks have the same results. Yermack (1996) found out that banks perform better if these positions are occupied by different persons.

5.2. Recommendations

- **Risk Management:** The commercial banks' committee should ensure adequate risk management structures and procedures to safeguard malpractices in the banking sector.
- **Corporate Governance Board:** Corporate governance board should make sure that:
  i. Banks practise a culture of good corporate governance on regular basis
  i. Deal with those who fail to comply to good corporate governance
  ii. Train employees to become aware of corporate governance
- **Zimbabwe Banking Sector**
  i. Bank ownership should be diversified, to avoid overlapping of duties and interests.
  ii. Shareholders and management should be separate so as to ensure sound corporate governance.
  iii. All banking institutions are expected to comply with the Reserve Bank of Zimbabwe corporate governance guideline.
- **Reserve Bank of Zimbabwe:** The Reserve Bank of Zimbabwe as the regulatory and supervisory board should strongly monitor the activities of the banking institutions so as to ensure consistency in core banking activities.
- The Reserve Bank should conduct regular meetings with bank management to discuss challenges and developments in case of risk based supervision.

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