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Corporate governance rating on Zimbabwe Stock Exchange listed firms from 2014 to 2019

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Abstract
The study aimed at benchmarking corporate governance practices of entities listed on the Zimbabwe Stock Exchange (ZSE) during the period 2014 to 2019. The study was prompted by the meltdown of economic environment in Zimbabwe since the millennium, which could have impacted on the implementation of some important corporate governance practices or eroded the already established corporate governance pillars. The study adopted a positivism paradigm. The study used panel data collected from the ZSE listed firms' annual financial reports available on their websites for the period 2014 to 2019. Corporate governance variables data collected included: board composition, board meetings and their frequency, ownership, existence of audit committees, gender diversity and demographical characteristics of board members. Data was analysed using the PCSE regression analysis model. The results show that listed companies in Zimbabwe have adopted most of the recommended good corporate governance practices. However, most companies still do selective reporting and are yet to adopt the integrative reporting approach. The study recommends entities to adopt the integrative reporting approach to provide relevant information to all stakeholders.
Key Words: Corporate governance, financial performance, compliance

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I. Introduction

Corporate governance is concerned about strategies, accountability, controls, distribution of power and mechanisms by which entities align the interest of the individuals involved in the management and the shareholders of the companies. The common understanding on corporate governance amongst the businessmen and investors is that corporate governance has significant influence on the firm's performance and safeguards the interest of shareholders. Corporate governance has been evolving and nations, institutions and experts came up with various papers, reports and codes on corporate governance.

Since year 2000, Zimbabwe has been experiencing a harsh economic environment, characterized by hyperinflation, foreign currency shortages, high unemployment rate, liquidity problems among other macro-economic challenges. The government implemented a raft of measures to turn around the economy but in vain. Social morals as well corporate governance could have been eroded by those economic blues as evidenced by several entities that participated in buying foreign currency on the black market to sustain businesses.

In 2014, Zimbabwe Leadership Forum (ZIMLEAF) in conjunction with other stakeholders launched the Zimbabwe National Code (ZIMCODE), which is principle based. In May 2018, the Government of Zimbabwe promulgated a law [Public Entities Corporate Governance Act (Chapter 10:31)] to deal with good corporate governance in public entities. The ZIMCODE was incorporated in the Public Entities Corporate Governance Act (Chapter 10:31) as the First Annexure in its totality, thereby getting legal backing. In Zimbabwe, companies are regulated by the Companies and Other Business Entities Act [Chapter 24:31] (COBE). In addition, entities listed on Zimbabwe Stock Exchange (ZSE) are supposed to comply with the ZSE listing requirements. These requirements have been drawn from international corporate governance best practices.

II. Methodology

The researcher adopted a positivism paradigm. Corporate governance variables data collected was on board composition, board size, existence of board charter, board meetings and their frequency, evaluation of board, Audit committees, gender diversity and demographical characteristics of board members. Corporate governance practice was measured using the Blau (1977) model and bench marked to international best practices. The study relied on secondary data for the listed firms which were collected from the companies' respective websites. Forty-eight companies were chosen based on data availability. The sample period was

2014-2019 and the total number of observations was 223. Data was analysed using the PCSE regression analysis model.

III. Results and Discussion

Descriptive statistics

Firms in the service sector constituted 46% of the population whilst the manufacturing sector was 31% and primary sector was 23%. The sectors were further sub-divided into 16 sub-sections in accordance to type and nature of their business. The primary sector consisted of agriculture 55%, mining 27% and tourism 18%. The manufacturing sector comprised of engineering 20%, industrial 20%, beverages 13%, paper & packaging 7%, industrial holdings 20%, and Agri-industrial 20%. The service sector was made up of retail 27%, banking & financial 23%, building & associates 18%, insurance 14%, properties 9%, transport 5% and technology 5%. Overall, agriculture and retail had the highest number of participating firms with 13% each, followed by banking & financial services 10%, building & associate 8%, insurance, engineering, industrial manufacturing, mining, industrial holding and Agri-industrial had 6% each, tourism & beverages had 4% each while the paper & packaging and technology were the least with 2% each. The results show that common business in Zimbabwe is retailing, agricultural activities as well as the financial sector.

Compliance on corporate governance practices by ZSE listed companies was assessed using the corporate governance framework recommended by OECD corporate governance, King Reports, Cadbury Report, ZIMCODE and other corporate governance reports. The major variables used to assess the corporate governance practices are disclosure of board members' demographic characteristics, composition of the board, evaluation of board and disclosure of the strategy. Table 1 below presents the descriptive statistics of the independent variables used in the regression equation.

Table 1: Independent Variables- Disclosures

Sector		Company Disclosed having Postgraduates on board	Board disclosed having a charter	Board disclosed compliance with Corp Gov Code	Board disclosed evaluating independence of Chairperson	Board disclosed regularly evaluating itself	Company disclosed having organisation strategy	Board Size	Board Gender Diversity
Primary Sector	Mean	.68	.70	.90	.52	.20	.62	0.198	0.198
	Std. Deviation	.471	.463	.303	.505	.404	.490	0.176	0.176
	N	50	50	50	50	50	50	50	50
Manufacturing Sector	Mean	.41	.55	.93	.62	.21	.79	0.142	0.142
	Std. Deviation	.495	.501	.254	.490	.407	.407	0.163	0.163
	N	73	73	73	73	73	73	64	64
Service Sector	Mean	.54	.66	.92	.76	.29	.93	0.269	0.268
	Std. Deviation	.501	.476	.273	.429	.456	.256	0.147	0.147
	N	100	100	100	100	100	100	87	87
Total	Mean	.53	.63	.92	.66	.24	.82	0.210	0.211
	Std. Deviation	.500	.483	.273	.475	.429	.388	0.168	0.168
	N	223	223	223	223	223	223	201	201

The King IV report and the ZIMCODE recommend that the governing board, as a whole, should consists of appropriate skills, knowledge, experience, diversity and have independence in order to effectively discharge its roles and responsibility. According to Jolly and Baird (2021), the most important is for the firm to review the existing skills on the board and to map these against required skills now and into the future. 53% of the companies listed on the ZSE disclosed the qualifications and experience of their board members. It was noted that the majority, 83%, of the board were dominated by Chartered Accountants who were occupying the executive position. 93% of board members had at least a post graduate qualification. Boyatzis (1982) and Ljungquist (2007) established that members with higher educational qualifications, like PhDs in particular, generally provide a rich source of innovative ideas to develop policy initiatives with analytical depth and rigour that will provide for unique perspective on strategies issues.

The ZIMCODE encourages the board to disclose if they have got a board charter. Good disclosure about the firm's corporate governance practices gives investors a solid understanding of how decisions are made that may affect their investment (Fritz (2021). Only 8.3% of the companies listed on the ZSE disclosed that they had a board charter and induct new board members. The 91.7% of the companies were silent about the board charter as well as on whether they induct new board members or not. The King report recommend that the organisations should include the code of conduct and ethics polices in employee induction and training programmes.

The ZIMCODE encourages the board to disclose the corporate governance report that they would have complied with. 90% of the companies listed on the ZSE stated that they comply with the King report and the other 10% did not specify the corporate governance report that they had complied with. Companies are not presenting detailed Corporate Governance Statements in their annual reports. In the few cases that companies present the Corporate Governance Statements, Company Secretaries are not signing off these statements as required by best practice. However, all the companies through the Company Secretary issued a statement that they had complied with the necessary regulations as well as the ZSE listing requirements.

All the ZSE listed companies had a non-executive Chairperson separate from the Chief Executive Officer or Managing Director. 52% of the companies listed on the ZSE had an Independent non-executive chairperson while 48% had just a non-executive chair. None of the companies stated whether they evaluate board members or the entire board. The King IV report recommends that the governing board should elect an independent non-executive member to lead the governing body in the objective and effective discharge of its governing roles and responsibilities. Becht et al (2005) posits that an independent chair helps the board carry out its primary roles of monitoring the management of the firm on behalf of the shareholders. A CEO who doubles as a chair can exert excessive influence on the board and its agenda, weakening the board’s oversight of management (Daily and Dalton 2005).

King IV Report and the ZIMCODE encourage boards to regularly evaluate each board member. Board evaluation refers to measures that aid effectiveness, transparency, and accountability of board members especially in the board governance. The process can be done internally or by a competent consultant (Gordon 2021). The results show that 24% of listed companies disclosed that they conducted annual board evaluations. Most of them, however, failed to disclose their board evaluation processes. Above all, most companies are not indicating whether the CEO/MD’s performance has been evaluated annually and whether the Directors and Management have undergone any training in corporate governance. The board’s responsibility for executive management oversight was acknowledged by all entities. There was no specific disclosure though, of formal annual performance evaluation of management.

The OECD corporate governance recommends that the corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board’s accountability to the company and the shareholders. 82% of the listed companies on the ZSE briefly disclosed their strategic plan and the other 18% were silent about their strategic plan. The ZSE listing requirements or regulation do not make it mandatory for a listed company to disclose its strategy. None on the companies listed on the stock exchange disclosed their succession plan or disclosed that they had such plan within the organisation. The study carried out by ICSAZ came up with the same findings, whereby ZSE listed companies were not disclosing the succession plan.

In all observed cases, the number of non-executive directors exceeded executive directors. The average number of the directors (NEDs and EDs) on the ZSE was 9. Of these directors, 92% of the companies had 2 Executive directors (Managing Director and Finance) in the board whilst 8% had more than two executive directors. The maximum number of executive directors that was served on the board was 5. Researchers (Fauzi & Locke 2012; Hardjo & Alireza 2012) found a positive and significant relationship between the board size and firm performance when measured using different performance measures. The corporate governance reports do not specify the maximum number of board members or the number of executive directors that should make up the board. Instead, the King IV report recommends that the number of NEDs should exceed the number of EDs. The ZSE listed companies complied with that corporate governance principle.

Mean board diversity in the primary sector was 0.3608 whilst the manufacturing was 0.1421, Service sector was 0.2685and the mean for population was 0.2107 with a standard deviation of 0.16813. The ZSE regulations are silent about the board gender diversity. A recurring observation is the lack of gender balance in the composition of Boards. Progress towards this end is rather slow. The King IV report requires the governing body to disclose progress targets towards race and gender diversity. The King IV reports recommends companies to promote diversity in terms of age, culture, race and gender. Steven, Bourmpoula & Silberman (2014) and McKinsey (2015) found that board gender diversity has no influence on firm performance. However, researchers (Kilic & Kuzey 2016; Rashid 2010) believe that representation from diverse groups provides a balanced board so that no individual or small group of individuals can dominate the decision- making of the board. Furthermore, diversity also provides a representation for different stakeholders of the firm for equity and fairness (McGregor 2017).

IV. Conclusion

Generally, listed companies in Zimbabwe have adopted most of the recommended good corporate governance practices. However, most companies still do selective reporting and are yet to adopt the Integrative reporting approach. One can predict the next annual report of the reporting company as most of the reports exhibit high similarity of word to word amongst the reports. The study recommends entities to adopt the integrative reporting approach so as to provide relevant information to all stakeholders.

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