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Corporate governance compliance to the Zimbabwe National Code of Corporate Governance (ZIMCODE) and performance of listed companies in Zimbabwe.

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Abstract
The research sought to examine the compliance of listed companies to the new Zimbabwe National Code of Corporate Governance (ZIMCODE) which was instituted in April 2015. Corporate governance factors such as the board composition, board evaluation, duality of roles and the issue of board committees were highlighted.The mixed-method approach was used for gathering data with the questionnaire as the major instrument that was administered to the selected 25 listed companies. The study established that of all the corporate governance factors highlighted in the study, only board evaluation had a strong correlationship with the performance of companies. All other variables such as the role of the board, duality of roles and board committees showed weak linkages to the organisational performance. The study also found out that companies were in compliance with best practices from other codes apart from ZIMCODE. The research showed that our own code was not in much use due to poor launch and promotion. It was recommended that listed companies should adoptZIMCODE, devise an implementation plan for full adoption of the code since its inception.It was also highlighted that it was important for future studies to focus on how other control variables such as political, economic, social, ecological and technological factors affect the implementation of good corporate governance practices and compliance in listed companies.
***Key Words**: Board composition, board evaluation, compliance, duality, corporate governance and Zimbabwe National Code on Corporate Governance (ZIMCODE).*

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I. Introduction

The purpose of this study was to examine the compliance of listed companies to the new Zimbabwe National Code on Corporate Governance (ZIMCODE) launched in 2015. The study looked into the different corporate governance factors that affect the performance of the listed companies. The study sought to improve the understanding of corporate governance in Zimbabwean companies and how the application of principles and best practices of late has contributed to better performance.

The acknowledgement of corporate governance practices was a result of major corporate scandals in the global economy (Vaughn and Ryan, 2006). Well-publicised corporate scandals of the past few years placed corporate governance and in particular the role of the board at the centre of attention (Adams *et al*., 2009). This was demonstrated, in particular, by Enron and WorldCom, who paid $168 million ($13 million of which was out of pocket and not protected by insurance) and $36 million (of which $18 million was out of pocket) to investor plaintiffs, respectively (Adams *et al*., 2009). These corporate scandals most often result in losses and lawsuits as evidenced by the Volkswagen emissions scandal of 2015.

Good corporate governance practices and their implementation are expected to combat company failures in Zimbabwe. The country experienced poor performance by state-owned enterprises in the period between 1990 and 2015 (Sikwila, Chavunduka & Ndoda, 2015). Examples of company failures are best exemplified by companies such as the Zimbabwe Steel Company (ZISCO), Zimbabwe Railways (NRZ), Cold Storage Commission (CSC), Agriculture Rural Development Authority (ARDA), among others. However, company failures were not only limited to state owned corporations during the very same period. Financial institutions such as Trust Bank, Barbican Bank (2004), United Merchant Bank, Genesis Investment Bank, Capital Bank Corporation, Royal Bank, Zimbabwe Building Society, Renaissance Merchant Bank, Time Bank, First National Building Society, National Discount House (2004), Prudential Discount House (1998) all failed during this period.It is against this background that there was need to examine the relationship between corporate governance and the performance of an organisation by comparing what was on the ground and best practice (ZIMCODE).

II. Literature Review

There is no consensus on the exact definition of corporate governance among scholars and researchers.Corporate governance can be viewed as the association between a corporation's management and its shareholders. It is therefore defined as the system by which business corporations are directed and controlled (Rankin, *et al*., 2012). It is a set of regulations that define the relationship that exist among the stakeholders, management, and board of a firm and influence how that firm is functioning. It is widely held belief that if an organisation implements a good corporate governance framework, it will present a structured path to better management practices, control mechanisms and effective oversight which will ultimately lead to prospects for growth, financing and improved performance (Solomon, 2010).Unlike agency theory that stresses the mistrust between the principal and the agent, the stewardship theory holds a different management model, in which the management is considered to be good stewards acting in the owners' best interests (Donaldson and Davis 1991). Stewardship theory emphasises on psychological and sociological means of oversight, instead of the pecuniary tools of the agency theory.

The perception of the resource dependence theory is not merely organisation centred and is more materialist. Its primary focus is on an organisation's access to resources such as capital and expertise. The theory holds that a firm's access to resources vital for its operations and performance is affected by corporate governance structures such as the board of directors (Pfeffer, 1973). The theory favours boards that have a high composition of Non-Executive Directors (NEDs)due to the knowledge and expertise they can offer. They also offer an improved networking with the environment externally and a generally good reputation (Haniffa and Hudaib, 2006 and Haniffa and Cooke, 2002). Therefore, NEDs can enable access to the business and political contacts, information and capital (Nicholson and Kiel, 2003), by enhancing interacting with external stakeholders that may include including governments, customers and other companies. Due to all this, it can be concluded that NEDs improve access to resources (Nicholson and Kiel, 2003), which therefore enables cheaper access to inputs and affects firm performance in a positive way.

A company's directors are divided into two broad groups, executive directors and non-executive directors. Executive directors are those who are employed full time by the organisation whilst those that are no employed primarily by the organisation are known as the independent directors (NEDs) (Adams et al. 2009). The ZIMCODE requires a balance between executive and NEDs to sit on any board, preferably with a majority of NEDs, of whom a sufficient number should be independent.

Board composition is supported theoretically by the agency and stewardship theories. Boards dominated by non-executive directors are agency theory based. The theory states that an effective board comprises of the majority being non-executive directors who are thought to offer superior performance since they are independent from company management (Dalton *et al.,* 1998). On the other hand, the stewardship theory argues that the majority on the board must be executive directors. It argues that the management is composed of good stewards of the organisation who works on attaining higher profit margins and shareholder returns (Donaldson and Davis, 1994).

A study carried out in India highlighted that by having board independence, there were no guarantees on the improvement of a firm's operational performance due to poor monitoring roles of independent directors (Garg, 2007). Monitoring a company's performance and operation is considered to be one of the important duties of an independent director. If the monitoring is carried out perfectly, there is a high probability that agency problems are reduced. Therefore, a company must appoint independent directors who can carry proper oversight function in monitoring governance, internal control and risk management. Similarly, Hermalin and Weisbach (1991) also weighed in on the absence of a relationship between firm performance and the proportion of non-executive directors. The study was carried out using the Tobin's q to measure the firm performance by using mixed market-based and accounting based measures.

Having independent directors on a board can result in better performance of an organisation. Ameer, Ramli and Zakaria (2009) studied the association between the board composition and firm's performance of the 277 non-financial listed Malaysian Companies. The results obtained showed that from 2002 to 2007, companies with a higher proportion of non-executive directors on the board had a significant correlation with the company's better performance. However, a study on listed companies on the New Zealand Stock Exchange from 2007 to 2011 highlighted a negative association between the number of non-executive directors and firm performance (Fauzi and Locke, 2012). This means that the higher the number of non-executive directors on the board, the lower the company performance.

The role duality of CEO and Chairman on the board can have an important influence on the relationship existing between corporate governance and financial performance of a company. When one individual in a company holds both roles of the chairman and CEO, he has the power to choose the structure, content and presentation of information at board meetings which could impact board performance, board accountability and the level of board disclosures (Kang *et al*. 2007).CEO duality will result in entrenchment of management. It will curb the independent director's capability to monitor and to perform their governance duty. Conflict will be increased between the agent and the principal and hence the CEO duality is most likely to negatively affect company performance.

The efficiency of corporate boards is enhanced by the presence of board committees (Jiraporn *et al*., 2009). Harrison (1987) highlighted that there are two main types of board committees: monitoring or oversight, and management supporting or operating. Operating board committees serves the purpose of advising the management and the board about major business decisions. The monitoring committee protects shareholder interests by provision of objective, independent review of corporate executives and affairs. The agency theory paradigm states that ensuring proper auditing of corporate activities along with proper appointment and remuneration of the senior managers and directors are key monitoring functions of the board of directors (Chhaochharia and Grinstein, 2009; Jiraporn *et al.,* 2009).

III. Methodology

The mixed-methodapproach was used. The mixed-method refers to use of both qualitative and quantitative data collection techniques. The target population for this study were listed companies that are based in Harare. At the time of the study in 2018, there were 52 companies based in Harare which are listed on the Zimbabwe Stock Exchange. For purpose of this study, listed companies were chosen because they have readily available financial statements that can be accessed. A sample of 50% was targeted. The sample of organisations used in this study was randomly selected with emphasis on Harare based organisations for convenience and for cost cutting purposes. The targeted sample was 26 companies randomly sampled. The study used secondary data and questionnaires for data collection. Secondary data was organized and reduced through summarization and categorization, after which themes and patterns were identified. SPSS was used to analyse quantitative data.

IV. Data Presentation and Analysis

Questionnaires were physically distributed to 26 listed companies based in Harare and collected by the researcher. Out of the 68 questionnaires distributed 35 were returned resulting in a response rate of 51.5%. The response rate was affected by the fact that the targeted respondents were mainly senior management and directors who indicated that they were too busy to fill in the questionnaires. Some organisations refused to take part in the study citing the sensitivity of the information.

According to the data gathered, it shows that there were 35 respondents in all four categories. The mean of Gender is 1.43 meaning that the majority of the gender was males. In educational level the average is 3.74 meaning that the average held Bachelor's Degrees. For the years in the organisation, the average is 3.26 representing the majority of respondents who were in the class 11-15 years. Lastly the average for the designation was 2.54 meaning that the average of the respondents was in the middle management class.

Statistics for educational level showed that of the 35 respondents, 5 were diploma holders (14.3%), 6 holding professional qualifications (17.1%), 17 holding first degrees (48.6%) and 7 holding Post Graduate Degrees (20%). This shows that the respondents were very literate and purportedly understood corporate governance issues.

To test the effect of the different factors as predictors of performance one would want to ensure there is internal consistency within the instrument and that all the study factors were measuring the performance perception. The items used in the questionnaire had Cronbach Alpha ranging from 0.710 to 0.857 which showed greater internal consistency of the items.

The value of the Regression Coefficient is 0.892. This value would result in a Coefficient of Determination of 0.795 implying that 79.5% of the variation in performance is being explained by the model. There are other things that explain performance which have not been covered in this study and these would explain the remaining 20.5% variation in performance.

Table 1: Regression table

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.892[a]	.795	.742	.28505

a. Predictors: (Constant), DISCLOSURE_AVE, COMPOSITION_AVE, COMMITTEES_AVE, ROLE_AVE, REMUNERATION_AVE, DUALITY_AVE, EVALUATION_AVE
b. Dependent Variable: ORG_PERFORMANCE_AVE.

After the regression model summary, the next table is the ANOVA table which reports how well the regression equation fits the data (i.e. Predicts the dependent variable) and is shown below on a table from SPSS output.

Table 2: ANOVA table

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	8.505	7	1.215	14.953	.000[b]
1	Residual	2.194	27	.081		
	Total	10.698	34			

a. Dependent Variable: ORG_PERFORMANCE_AVE

b. Predictors: (Constant), DISCLOSURE_AVE, COMPOSITION_AVE, COMMITTEES_AVE, ROLE_AVE, REMUNERATION_AVE, DUALITY_AVE, EVALUATION_AVE

The above table indicates that the regression model predicts the dependent variable significantly well. This is shown by the value under the Sig. column of .000. This indicates the statistical significance of the regression that was run. Here $p < 0.0005$, which is less than 0.05, and indicates that, overall, the regression model statistically significantly predicts the outcome variable (i.e., it is a good fit for the data).
The coefficients table, (Table 3) provides us with necessary information to predict the level of organisational performance from corporate governance factors, as well as determine whether income contributes statistically significantly to the model.

Table 3: Collinearity
Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.970	.799		3.718	.001
	ROLE_AVE	-.032	.172	-.026	-.185	.854
	COMPOSITION_AVE	-.188	.099	-.238	-1.912	.067
	COMMITTEES_AVE	-.211	.088	-.271	-2.388	.024
	REMUNERATION_AVE	-.262	.137	-.314	-1.918	.066
	DUALITY_AVE	-.044	.147	-.056	-.302	.765
	EVALUATION_AVE	.637	.199	.650	3.205	.003
	DISCLOSURE_AVE	.298	.176	.319	1.697	.101

a. Dependent Variable: ORG_PERFORMANCE_AVE

From the Table 3, Board Evaluation has a p-value of 0.003 which is less than the critical p-value of 0.05. We can therefore conclude that Board Evaluation is the only predictor of performance in our case. Thus, the above is not a good model for performance measurement.

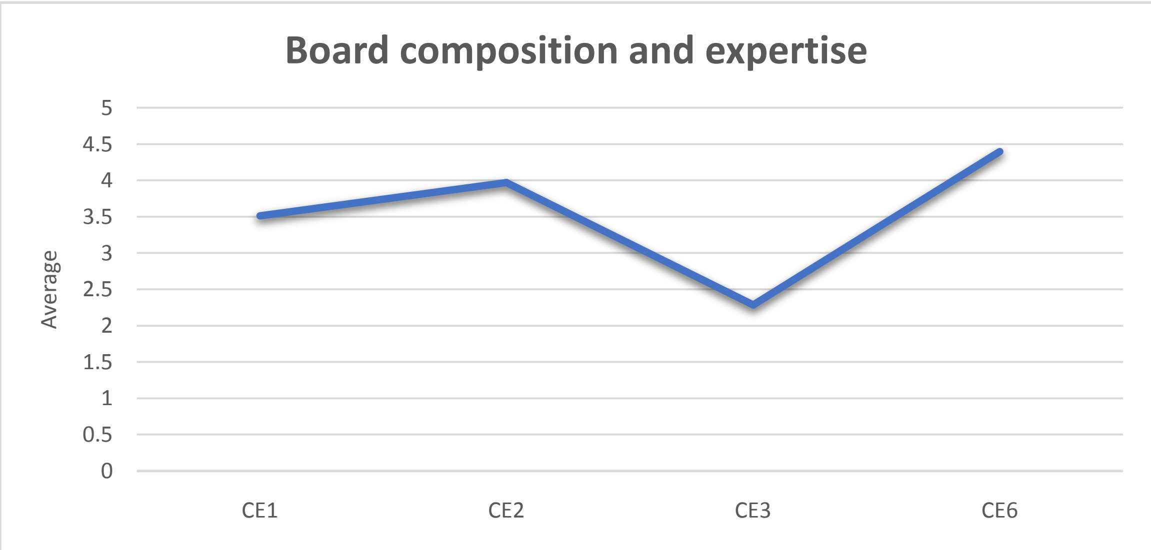

Figure 1: Board composition and expertise

Key: *CE1 = The Board is gender balanced, CE2 = The number of non-executive directors are more than executive directors, CE3 = Directors possess expertise in a field relevant to the organisation's mandate, CE6 = All Board members are encouraged to participate during board meetings*

The research also focused on board composition and expertise. Some variables were removed during the Cronbach alpha test for reliability to ensure that the data collected was reliable. Most of the respondents highlighted that their boards were gender balanced (3.5).The ZIMCODE does not specify on whether the board composition must have more independent directors as with norms with other codes from other countries. It does however state that in paragraph 108 that independent directors are appointed to serve the board and its committees to balance corporate power and to protect the interest of the company (ZIMCODE, 2014). The respondents highlighted that in their boards, there are more independent directors compared to executive directors. The code on corporate governance stipulates that in paragraph 79, that the board should be composed of persons with good leadership qualities and core competencies required by the company. Paragraph 80 (a) further states that directors must be mature and having minimum qualifications as may be prescribed by company rules. 80 (d) states that members of the board should have the academic qualifications required to understand corporate leadership (ZIMCODE, 2014). Contrary to the above, the respondents highlighted that at their organisations the directors did not have the expertise relevant to the organisation's mandate. According to ZIMCODE (2014) paragraph 60 (k), each board member is given an opportunity to disagree with fellow members where possible and this agrees with Question CE6 which highlights that all board members are encouraged to participate during board meetings.

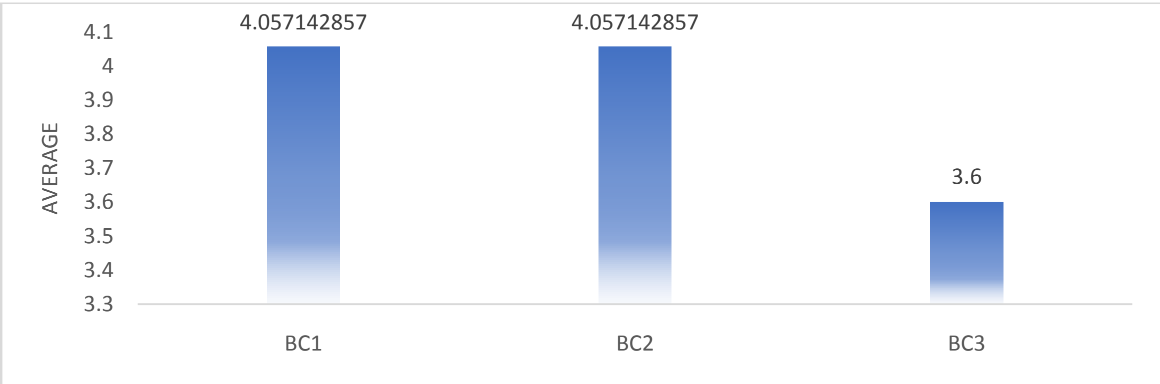

Figure 2: Board committees

Key: *BC1 = All board committees are chaired by non-executive directors, BC2 = The organization has an internal audit section, BC3 = The internal Audit section reports to the CEO and the Board.*

On question BC1, an average response of 4 agreed that the committees in their respective organisations were being chaired by non-executive directors. Appointment of non-executive directors on committees allows for a balance of corporate power to protect the interest of the company, minority shareholders and other stakeholders as highlighted in paragraph 108 of the code. QuestionBC2 had respondents agreeing that their organisation had an internal audit section. The code highlights that organisations should have internal audit units. This is highlighted in paragraph 223 of ZIMCODE which states that a competent internal audit unit must be available to assist the audit committee in order to provide assurance on internal controls, risk management and governance processes in accordance with the standards of the professional practice of internal audit (ZIMCODE, 2014). The respondents also agreed with question BC3 that the internal audit section reports to the CEO and the board. Paragraph 225of ZIMCODE highlights that the chief audit executive should report functionally to the chairperson of the audit committee and administratively to the CEO. All the above responses are in agreement with the ZIMCODE and it shows that the surveyed listed companies are in compliance.

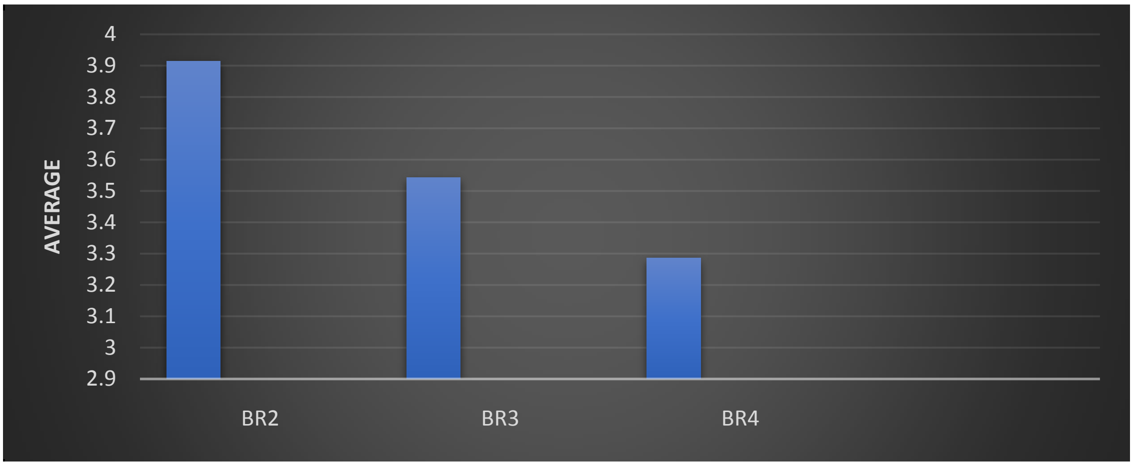

Figure 4: Board remuneration systems

Key: *BR2 = Board approves remuneration packages that reflects the financial status of the organisation, BR3 = Board is sensitive to the organization's survival when paying bonuses to its executives, BR4 = The non-executive directors receive reasonable remuneration.*

The majority of the respondents (3.9 out of the possible 5) were in agreement that the board approves remuneration packages that reflect the financial status of the organisation. This is supported by the ZIMCODE on paragraph 163 which states that the size and mix of the remuneration package of board members should attract, retain and motivate persons of high calibre but must be affordable to the company and based on individual company performance (ZIMCODE, 2014). The respondents slightly above the average agreed that their boards were sensitive to the organisation's survival when paying bonuses to its executives and also that the non-executive directors were receiving reasonable remuneration. This is supported by paragraph 167 of the ZIMCODE which states that the non-executive directors' level of remuneration should reflect the time they dedicated to the company's business, level of commitment, role, responsibilities, duties and experience (ZIMCODE, 2014).

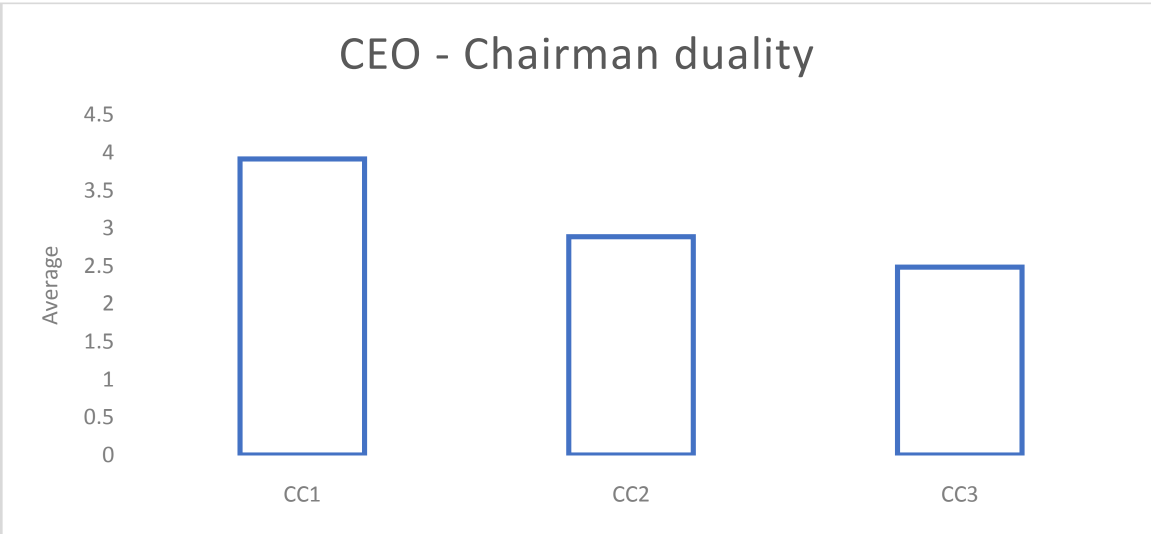

Figure 5: CEO - Chairman duality

Key: *CC1 = The combining of roles of a chairman and CEO has a negative impact on the performance of a firm, CC2 = Separation of the roles of chairman and CEO increases board independence from the management, CC3 = Combining of the roles can cause conflicts of interest which create opportunities for abuse of power.*

The National Code of Corporate Governance of 2014 (paragraph 128)states that the CEO of an organisation should not be a chairperson of a subsidiary company. Paragraph 119 (f) states that the chairperson of the board has the duty to identify and participate in the selection of board members and oversee the formal succession plan of board members, chief executive officer and other senior officers. The chairperson is also encouraged to act as the link between the board and management and particularly between the board and the chief executive officer as highlighted in paragraph 119 (l). Paragraph 119 (s) states that the chairperson must uphold rigorous procedures in the preparation of meetings by discussing with the CEO the details distributed to participants and providing appropriate input (ZIMCODE, 2014). The code clearly highlights in the above paragraphs that organisations must have separate roles for the chairperson and the CEO for swift operation of the organisation. The respondents were also in agreement with the notion and agreed that the combining of the roles has a negative impact on the performance of a firm. They also agreed that the separation of roles increases the independence of the board from management and lastly, they were in agreement that combining of the roles can cause conflicts of interest which create opportunities for abuse of power.

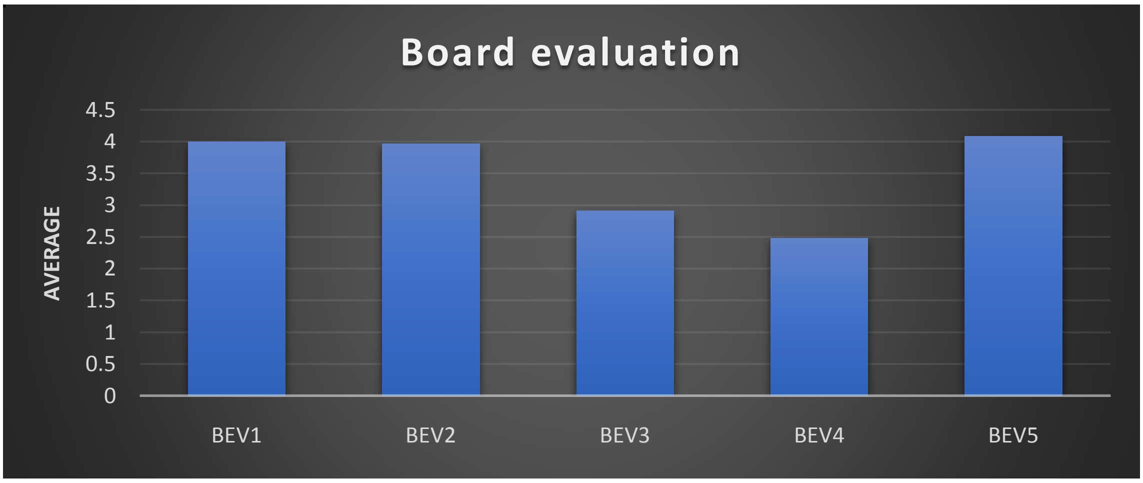

Figure 6: Board evaluation

Key: *BEV1 = The board insists on measurable, objective, standards for monitoring the organization, BEV2 = The Board carries out annual self-evaluation in line with international good corporate governance practices, BEV3 = The Board evaluates performance of board members, BEV4 = Non-performing board members are removed, BEV5 = The Board has enough independence to perform its mandate*.

ZIMCODE (2014) paragraph 169 (b) on board evaluation states that the board should set and achieve objectives and targets for the continuous improvement in the quality and effectiveness of its performance, including its performance during a crisis. This means that an organisation insists on measurable objectives and standards for organisation monitoring. An average of 4 out of every 5 respondents highlighted that this was the case with their organisations. This means that in that regard, organisations are in compliance with the ZIMCODE. The respondents also agreed that their organisations' boards were carrying out annual self-evaluation in line with international good corporate governance practices. Paragraph 169 (a) states that the board should assess regularly its performances and effectiveness as a whole. This is in line with what the respondents agreed to. With regard to individual evaluation of board members agreed that their organisations were carrying out performance evaluation. This is in line with the ZIMCODE (2014) which highlights in paragraph 169 (e) that the board should monitor and appraise annually the performance and effectiveness of the organisation, chairman, heads of units, company secretary and directors. The code goes on to say that the evaluation of the board should be based on objective criteria (170). There was an almost identical split vote on the issue of non-performing board members. Almost half of the respondents disagreed with the notion that non-performing board members are removed in their organisations whilst the remainder alluded that in their organisations non-performing board members were removed. With regards to board evaluation it was evident from the responses gathered that the operations were in line with the ZIMCODE.

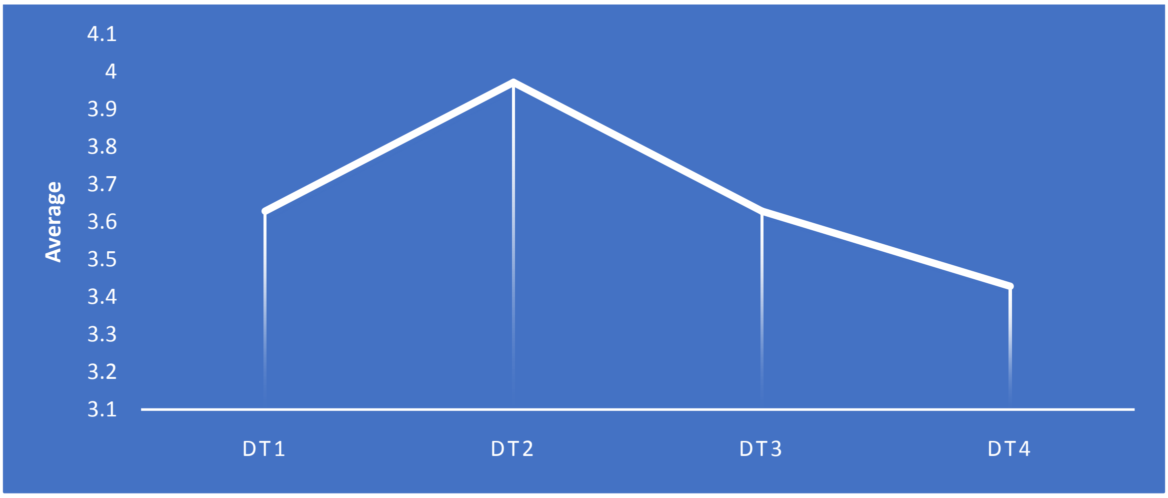

Figure 7: Disclosure and transparency

Key: *DT1 =The Board is fully appraised of the budget before being asked to approve, DT2 = The salary for the CEO is revealed in the Annual Report, DT3 = Audited financial statements are available to shareholders, DT4 = The Board is fully appraised of the audited financial statements before signing.*

Challenges of applying good corporate governance policies in Zimbabwe

The respondents were also asked on the challenges faced in applying good corporate governance practices in Zimbabwe. Bureaucratic layers were cited as the first major challenge. They highlighted that in Zimbabwe corporate governance was top heavy requiring many layers of management and bureaucratic structures. Consequently, the chain of command becomes so long that the business slowly responds to change.

Respondents also highlighted accountability as another factor affecting corporate governance in Zimbabwe. Some key executives and board members in Zimbabwe have in the past been involved in some questionable practices and decisions. Not all organisations are involved in scandalous decisions, but those few that receive a lot of attention, have executives that have become used to taking questionably huge bonuses even when corporate performance is poor.

Corruption has also been cited as a hindrance for good corporate governance. An operating environment where corruption is rampant does not go well for good corporate governance. Directors and company officials are often engaged in conduct that is not in the organisation's best interests. These actions are self-aggrandising and such an environment compromises the independence of directors. Corruption in Zimbabwe exists at almost every level from the public to private sector, also extending to individuals.

Knowledge of the National Code on Corporate Governance

Respondents were asked on their understanding and knowledge of the ZIMCODE. They were also asked on whether their organisations were using the Code. Very few respondents highlighted that their organisations were using the Code and they had browsed it to have an insight on what it is all about. Some said that they have heard about the code but their organisations were not using it. This group comprised mainly of middle management from different organisations surveyed. The majority of the respondents then professed ignorance on the existence of a code on corporate governance in Zimbabwe. Some of these highlighted that they knew about a code on corporate governance designed specifically for government owned entities and not compatible with the private sector.

V. Recommendations

- There is need to raise awareness on provisions of the ZIMCODE. This can be done through workshops or aggressive media promotions through the digital or print media.
- The business community should adopt the ZIMCODE regardless of the sector in which the business operates. Both the businesses in the private and public sectors are encouraged to adopt the code as the basis of all corporate governance operations.
- Government should devise an implementation plan for the adoption of the code since there has been none since it was launched in 2015.
- The boards of listed companies must be composed of members that possess expertise in fields relevant to the organisation's mandate.
- The evaluation of board members should be mandatory.

- Training and orientation of board members should be mandatory to improve the performance of organisations.

Areas for further studies

The study focused on the relationship between the Zimbabwe National Corporate Governance Code compliance and performance of listed companies in Zimbabwe. It will be interesting in future to study how other control variables such as political, economic, social, ecological and technological factors affect the implementation of good corporate governance practices and compliance in listed companies.

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