IOSR Journal of Business and Management (IOSR-JBM)
e-ISSN: 2278-487X, p-ISSN: 2319-7668. Volume 24, Issue 8. Ser. V (August. 2022), PP 48-51
www.iosrjournals.org

Effects of corporate governance practices on liquidity for firms listed on the Zimbabwe Stock Exchange from 2014 to 2019

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Abstract
The purpose of the study was to assess the effects of corporate governance practices on the liquidity of companies listed on Zimbabwe Stock Exchange (ZSE) during the period 2014 to 2019. During a two-decade period of economic crisis in Zimbabwe, some companies listed on the ZSE showed signs of financial distress whilst others either scaled down their operations or closed business. However, during the same period other companies emerged and seemed to be doing well despite the listed companies considered being better governed than unlisted entities, hence the need for the study. The study employed the quantitative methodology. Panel data was collected from the ZSE listed firms' annual financial reports for the period 2014 to 2019. Corporate governance variables data assessed include board composition, board meetings, ownership, gender diversity and demographical characteristics of board members. Data was analysed using the Panel Corrected Standard Error (PCSE) regression analysis model. The results show that firm size and board executive diversity have strong correlation with firm's liquidity. The study recommends for a diversified board so as to improve its liquidity.

Key Words: ***corporate governance, financial performance, liquidity***

Date of Submission: 15-08-2022 Date of Acceptance: 31-08-2022

I. Introduction

The general perception on corporate governance practices amongst entrepreneurs and investors is that corporate governance has significant influence on the firm's performance and safeguards the interest of shareholders. Hence, corporate governance has become an evolving and fundamental phenomenon topic worldwide. Brown and Caylor (2004) state that there is evidence in the literature of a positive relationship between good corporate governance and corporate performance.

Good governance benefits companies through better cash flow which enables access to low-cost capital and other operating undertakings. Good corporate governance enhances corporate standard regarding credit ratings which facilitate financial opportunities at low rate. Corporates with good corporate governance are more likely to have proper control mechanisms as well as proper allocation of resources which ultimately contribute to their growth, prosperity and improved economic and financial stability in the local and global financial markets (Bank 2004).

For the past two-decades Zimbabwe experienced economic crisis. Many companies listed on the ZSE showed signs of financial distress whilst others closed business. However, whilst listed companies either downsized operations or totally closed down, other small organisations emerged and have grown considerably big. For example, in the coal mining, Hwange Colliery Company Limited seems to have been overtaken in both markets share and production level by Makomo Resources Limited, which was established in 2010. The question that remains unanswered is whether good corporate governance has an influence on performance indicators like liquidity, hence the need for the study.

II. Methodology

Positivism paradigm was adopted for this study. Panel data totalling 223 observations was collected from 48 companies listed on the ZSE during the period 2014 to 2019. Corporate governance variables that were analysed included board composition, educational qualification, board meetings, ownership, gender diversity and demographical characteristics of board members. Corporate governance was measured using the Blau (1977) model whilst firm's liquidity was measured using the current asset ratio. Data was analysed using the PCSE regression analysis model shown in the table below.

Table 1 – PCSE Regression Analysis Model

Independent Corporate Governance Variables		
Independent variables	**Description**	**Hypothesis**
BC	Board Composition	+
EQ	Education Qualification	+
BM	Board Meetings	+
GD	Gender diversity	+
OWN	Ownership	+
Regulating corporate governance variables		
FSIZE	Firm size	+
SERV	Sector Services	+
MANF	Sector Industrial Manufacturing	+
YEARL	Years Listed	+

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.

Table 2 below presents the descriptive statistics of the variables used in the regression equation. The mean of current asset ratio for the firms is 2.073 whilst the standard deviation is 2.646. The results show that services sector has the highest current asset ratio (liquid sector), followed by manufacturing sector and the least being the primary sector.

Table 2 – Mean and Standard Deviation of Variables

Variable	**Mean**	**Standard deviation**
Primary Sector	1.775	1.985
Manufacturing	2.054	1.702
Service Sector	2.235	3.401
Total (All Sectors)	2.073	2.646

Impact of corporate governance on firm liquidity

Firm size significantly and negatively influences firm liquidity, and the variable is significant at 5 percent level of significance. This means that as the firm's size increases, the liquidity decreases. The negative relationships may be caused by the diseconomies of scales as the firm grows and the fact that every growth need to be financed (Guo & Kga 2012). Therefore, as the firm grows liquidity will decrease. However, other studies in corporate finance considered firm size as an important and fundamental firm characteristic. Balagobei and Velnampy (2017) showed that leverage and firm size have positive relationship.

The results show that the firm's number of years in the industry does not have significant influence on the firm's liquidity and the variable is not significant at 5 percent level of significance. However, Owolabi and Obida (2012) established a negative relationship between the age of the firm and the liquidity of the firm. As the entity grows older, investors' uncertainty and stock return's variability tend to decrease. On the other hand, Mak and Yvanto (2003) established a positive relationship between firm's age and its liquidity. Older firms face low-cost capital and efficiencies, and plant availability increases as the firm grows older Mak and Yvanto (2003).

Results of regression equation assessing the impact of corporate governance on firm liquidity are presented in Table 3 below.

Table 3 - Results of Regression Equation

Variable	Coef.	Std. Err.	z	P>|z|
Firm Size	-0.185	0.089	-2.80	0.037
Firm Experience	0.217	0.132	1.64	0.101
Ownership – Government	0.054	0.332	0.16	0.871
Ownership – Employees	0.348	0.398	0.87	0.382
Board Gender diversity	-0.447	0.874	-0.51	0.609
Board Executive diversity	-6.430	3.134	-2.05	0.040
Post graduate Qualifications	0.454	0.298	1.52	0.127
Manufacturing sector	0.499	0.386	1.29	0.196
Service Sector	0.698	0.466	1.50	0.134
Cons	6.058	2.038	2.97	0.003
R^2	0.079			
Wald chi2(13)	17.71			
Prob > chi2	0.039			

The results show that ownership structure, both government ownership and employees share ownership of an entity has no significant influence on the liquidity of the firm. Nevertheless, Uno and Kamiyama (2010) established that firm's ownership structure influences both its liquidity and value. Becht, Bolton & Roell, (2002) found a negative relationship between ownership and liquidity of the firm. Becht, Bolton & Roell (2002) emphasized that large block holdings give rise to a second agency problem between block holders and minority investors. This conflict between block holders and minority investors is considered being at least as relevant as the owner manager conflict (Maury and Pajuste 2005). According to Pathirawasam (2013) illiquidity may result from increased asymmetric information.

Board executive diversity is significant and negatively influence firm's liquidity. The variable is significant at 5 percent level of confidence. The result agrees with the findings of Kilic (2015), who established a negative relationship between board diversity and financial performance. However, Ullah, Majeed and Zeg (2022) found that diverse boards are positively associated with financial performance, suggesting that board diversity improves governance mechanisms by alleviating agency conflicts, leading to higher performance than homogenous boards. Ullah, Majeed and Zeg (2022) also found that institutional ownership positively affects the association between board diversity and financial performance.

Board members with post graduate qualifications do not have significant influence on a firm's liquidity and the variable is not significant at 5 percent level of confidence. The results agree with the finding of Van der Walt & Ingley (2003) and Singh & Vinnicombe (2004). Despite the growing number of institutions offering tuition across the globe, Singh & Vinnicombe (2004) have questioned the effectiveness of universities' initiatives in producing good entrepreneurs. However, the results are in contrary to the findings of Ljungquist (2007) who established a positive relationship between competencies and firm performance.

The results show that board gender diversity has no influence on firm liquidity. At 5 percent level of confidence, the variable is insignificant. However, Sonza and Valcanover (2019) established that the number of women on boards are still small, and that the proportion of female directors is negatively linked to liquidity and positively linked to risk, contrary to much of the literature. For the proportion of male executives, the relationship to liquidity was significant and positive. It can be inferred that male directors act as a corporate governance mechanism, being more confident and encouraging the risk-taking to meet the interests of shareholders, while female executives tend to be less confident, protecting their positions.

IV. Conclusion

At 5 percent level of confidence only firm size and board executive diversity significantly and negatively influence firm liquidity whilst firms experience, ownership structure, board gender diversity and post graduate qualifications do not significantly influence firm liquidity. Firms are recommended to pay attention to corporate governance variables especially diversity on the board to enhance its liquidity.

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Alec Jemwa, et. al. "Effects of corporate governance practices on liquidity for firms listed on the Zimbabwe Stock Exchange from 2014 to 2019." *IOSR Journal of Business and Management (IOSR-JBM)*, 24(08), 2022, pp. 48-51.