



FUTURES

THE ZIMBABWE EZEKIEL GUTI UNIVERSITY
JOURNAL OF LEADERSHIP, GOVERNANCE AND DEVELOPMENT

ISSN 2954-8450 (Print)

Vol 1 Issues (1&2), 2022



©ZEGU Press 2022

Published by the Zimbabwe Ezekiel Guti University Press
Stand No. 1901 Barrassie Rd
Off Shamva Road
P.O. Box 350
Bindura, Zimbabwe

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CORPORATE GOVERNANCE AND THE PERFORMANCE OF STATE-OWNED ENTERPRISES, ZIMBABWE

TENDEKAI DANDARATS¹, ADMIRE MTHOMBENI², PATRICK KARIBE³, SHINGIRAI SIZIBA⁴, SHARON CHISANGO⁵ AND CHRISTABEL NYATHI⁶

Abstract

The article is based on a study that focused on corporate governance and its influence on the performance of state-owned enterprises (SOEs) in Zimbabwe. Such SOEs have been at the centre of controversy in recent Auditor General Reports. The study sought to determine the influence of board size on organisational performance, to measure the effect of board composition on organisational performance, to examine the effects of board four-year term capping on board effectiveness and to determine the impacts of board member performance contracts on board effectiveness. The researchers adopted a mixed methodology in which self-administered questionnaires and interviews were used to gather data from the respondents. The study used stratified random sampling in which board members, board chairpersons, chief executive officers (CEOs) and management of selected SOEs in Harare, Zimbabwe, were used. Data was presented in the form of tables, charts produced using SPSS software. Results of the study obtained show that the adoption of the right board size and composition and the use of performance contracts result in better performance of SOEs in Zimbabwe. The study concluded that there is a positive relationship between board size and organisational performance, a positive relationship between board composition and organisational performance. Also, results showed a positive relationship between the use of board performance contracts and organisational performance. The study, therefore, recommends that SOEs should practise good corporate governance by adhering to corporate governance legislation such as the Public Entities and Corporate Governance Act Chapter 10.31 which spells out how boards of SOEs must be composed.

Keywords: board size, board composition, organisational performance.

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INTRODUCTION

According to the State Enterprises and Parastatals Reform Agency (SEPRA), State-owned Enterprise includes such organisations and entities that are governed by individual Acts of Parliament and those established under the Companies Act. SOEs in Zimbabwe may be classified into different groups that include commercial, non-commercial (social institutions) and higher education institutions. In some SOEs, the government has full shareholding and in others, it holds the majority shareholding. Zimbabwe has 107 state-owned entities that are important to the economic development of the nation as they contribute a fraction to the gross domestic product (GDP). These state-owned entities are put in different categories that include public entities under the categories of authorities and agencies, those under the category of boards, commissions, councils, companies and corporations, financial institutions category, public entities under the category of hospitals and the category of universities and tertiary institutions (Office of the Auditor General's Report, 2019).

The failure of the oversight roles of boards has been noticed in SOEs. There have been many SOEs failures globally and Zimbabwe has not been spared (Chigudu 2021). Corporate failures, scandals and fraudulent activities have caused, among other vices, unemployment, reduction of the gross domestic product (GDP) and erosion of investor confidence leading to economic stagnation (Chiduku, 2021). In Zimbabwe, SOEs have recorded net losses as reported by the Auditor General Report (2018) and faced many corporate governance issues such as corruption, nepotism and fund embezzlement. This has, therefore, resulted in poor performance of SOEs which continues to be a burden to the government (Rusvingo 2014). While the board is supposed to have oversight of the work of the CEO and the executives, there seems to be no end in sight for scandals by SOEs, failures and financial malpractices. Scandals have occurred, pointing to SOEs not complying with corporate governance legislative measures put in place by the government. As such, boards of SOEs which are supposed to be carrying an oversight role, are said to have gone to sleep (Sifile *et al.*, 2017). Therefore, there exists a gap in terms of studies that explains the role of the board on organisational performance.

In addition, SOEs may as well cover organisations to which origins may be traced back to the state and they share similar characteristics with private companies in that the financiers and owners are different from managers who ensure the day-to-day management of the corporate. In the case of SOEs, the government provides initial funds and appoint the board of directors to run the enterprises. The government has for SOEs implemented various frameworks to deal with issues of corporate governance in SOEs. According to Sikwila *et al.* (2015), Zimbabwean SOEs performed poorly from 1990 to 2015. Examples of SOEs that have performed poorly and

nearly collapsed include, but not limited to, the Zimbabwe Steel Company (ZISCO Steel), the Agriculture Development Authority (ARDA), the National Railways of Zimbabwe (NRZ), the Cold Storage Commission (CSC), the Zimbabwe Broadcasting Corporation (ZBC), the National Social Security Authority (NSSA). Issues that resulted in poor performance and incapacitation are a deficiency in corporate governance, whereby huge remunerations were being pocketed by executives, corruption and not following laid down procurement procedures. The government of Zimbabwe hence brought in some legislative frameworks that include the Zimbabwe Code on Corporate Governance (ZIMCODE) in 2014 and further the Public Entities Corporate Governance Act in a bid to curb problems of poor governance in SOEs.

State-owned Enterprises (in developing countries are in trouble as some are into endless scandals yet boards, which are responsible for an oversight role of SOEs exist (Sifile *et al.*, 2017). In some instances, top management of such entities have awarded themselves high salaries, among other forms of malfeasance. This has resulted in the decapitation of these enterprises hence urgent measures need to be implemented to curb such unethical behaviour. Additionally, Zimbabwe SOEs have been threatened largely by growing cases of corruption, funds embezzlement, nepotism and many other scandals which have left them underperforming despite having boards overseeing corporate governance of such SOEs. Board composition and size thus are necessary for the smooth running of SOEs to ensure that they realise their mandate of providing goods and services (Chiduku, 2021).

The Government of Zimbabwe 2018 enacted the Public Entities Corporate Governance Act (PECGA) Chapter 10:31. The Act seeks to provide for the governance of SOEs in compliance with chapter 9 of the Zimbabwean Constitution which provides for the uniform mechanism for regulating conditions of service for members of public entities and their senior employees.

SOEs, if well managed, have the capacity to contribute at least 40% to the country's GDP (Mashavave. 2017). However, in Zimbabwe, these entities have been operating without a well-defined Act of Corporate Governance. This has resulted in poor corporate governance practices by SOEs whose board size and composition at times do not constitute the required number and committees. As such to regularise board size and composition, the Public Entities Corporate Governance Act was enacted in 2018. Before this, the ZIMCODE had been in effect since 2014. Its existence did not help unmask and put to rest endless scandals and troubles by SOEs whose presence may be stopped by the existence of concrete and well-composed boards. The recent wave of highly publicised corporate scandals that have roiled state-owned enterprises in Zimbabwe has been attributed to deficiencies in

corporate governance (Chimbari, 2017). It is thus at the core of this research that corporate governance, through various Acts of Parliament, influences the performance of SOEs. The Act that is meant to bring compliance to the principles of corporate governance has so far not yielded fruit, as some corporate boards are poorly composed.

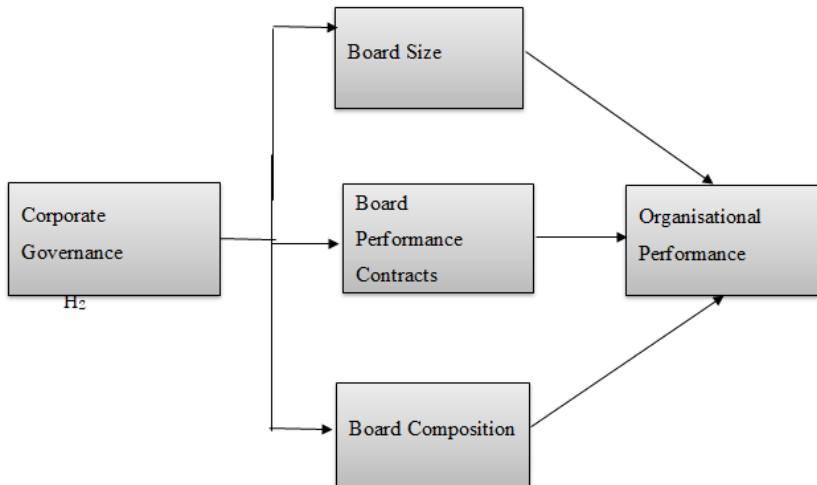


Figure 1: Conceptual Framework (*Researchers, 2022*)

Figure 1 conceptualises that corporate governance is important in enhancing organisational performance (Chigudu, 2021). In this view, board size and board composition are critical ingredients to better functioning of boards and thus to the overall performance of the organisation (Hyden,1992). The use of performance contracts also enhances board performance and thus the overall functioning of the organisation.

THEORETICAL FRAMEWORK

AGENCY THEORY

The agency theory has its background in economic theory and was propounded by Alchian Armen, and Demsetz (1972) and further developed by Jensen and Meckling (1976). According to Eisenhardt (1998), the agency theory broadens risk-sharing to encompass agency problems which exist when cooperating parties have different goals. This theory agency presents a global agency relationship in which one party, which is the principal, delegates tasks to another party, the agent. Agency theory, hence, is an exploration of the relationship between principal and agent through the metaphor of a contract (Davis *et al.*, 1997).

In the same view, Benn and Dunphy (2007) alludes that the principal agent emanates from a contractual angle and such a contractual agreement establishes a hierarchical relationship between the contractual parties. The principal has the right to make directives to the agent, who promises to work to promote the interest of the principal. The principal-agent perception indicates the possibility of a failure in contractual obligation, as such strategies need to be put in place to monitor an agent. Such a need to employ a control-mechanism results in a conflict of interest in cases where an agent may not be compliant with contractual obligations. Based on the conflict of interest, Ruparelia and Njuguma (2016) notes governance problems emerging in the public sector, that is, the adverse selection and moral hazard. Adverse selection emerges when the agent has information which at times may not be accessible by the principal. This means that the agent may misrepresent information to his gain in contract negotiations. Moral hazard arises when the principal may not be able to observe the action by the agent but makes evaluations based on the performance of such agent actions.

The agency theory, if applied in the case of SOEs, may be used to analyse the existence of relationships between various stakeholders that covers the board and the executive management. The whole governance cycle is explained by the metaphor of a contract between and among coexisting parties. Using the agency theory, separation of ownership and control may be managed via contract as the cooperating parties may carry different ambitions. As an illustration, board interests may not be in sync with those of the shareholders. Colley *et al.* (2003) has pointed out that it is inconceivable for a conflict of interest to occur when the organisation is owner-managed.

Therefore, applied to the case of SOEs, agency theory implies that the appointment of directors comes with costs due to the information asymmetry. This results in some unscrupulous directors-cum-agents abusing their offices.

STEWARDSHIP THEORY

Stewardship theory is founded on a positive view of human behaviour by asserting that people are not inclined to opportunism and managers want to sincerely pursue shareholders' interests (Muth and Donaldson, 1998). In this view, boards of directors are groups of competent people that help managers to enhance their decision-making process, contributing to the boardroom debate through their experiences, competencies and different viewpoints. In other words, board members provide advice and support to top managers and thus represent a valuable resource for corporate boards. The theory supports the selection of directors who will dutifully serve (Magdi *et al.*,

(1999). As such, in the present study, the theory applies as there is a need for proper stewardship to efficiently run SOEs.

CORPORATE GOVERNANCE

There is no one generally agreed definition of corporate governance as such corporate governance has been defined and described in many ways. Cadbury (2000) alludes that corporate governance is the system by which businesses are directed and controlled. In the historical work of Berle and Means (1932) and Fama and Jansen (1983), corporate governance means the set of internal and external controls that reduces the conflict of interest between managers and shareholders deriving from the separation of ownership and control. Such scholarly definitions imply that the goals of employees are not always reconcilable with those of corporations. In that regard, the aims and objectives of the SOEs may sometimes differ from those of the general populace. This means that the agenda of shareholders who are the principal, executives who are the agents and board members are usually not in sync and congruent, hence the coming in of corporate governance. Corporate governance has also been contextualised as a set of mechanisms that affect how a corporation is operated and that it deals with the welfare and goals of all the stakeholders, including shareholders, management, board of directors, lenders, regulators and the society (Liew, 2007; Ongore and Obonyo, 2011). Corporate governance is thus not about controlling managers and protecting the investments of shareholders only, as is usually put across by researchers who use the agency theory. It is about satisfying all stakeholder expectations.

ORGANISATIONAL PERFORMANCE

Organisational performance refers to how well an organisation attains successful outcomes to pre-set organisational objectives (KPMG Report (2014). It measures an ability of an organisation to fetch and utilise resources which are limited and scarce in a manner that is cost-effective to achieve its operational and strategic objectives. It is defined as an analysis of an organisation's performance as compared to goals and objectives.

Corporate governance principles that influence organisational performance
Corporate governance bears certain principles that must be adhered to, even by SOEs. The principles include, but are not limited to, Accountability, Monitoring and Evaluation, Transparency and Responsibility

TRANSPARENCY

This is a huge task that SOEs must bear since these represent the government's delivering arm. This implies that government officials must act in the best interest by abiding by the relevant legislative framework such as PEGC Act. (Gompers, Ishii and Metick (2003) elucidate that if SOEs abide by transparency, it fosters a customer-oriented by putting citizens where they

contribute to the improvement of service delivery. This enables citizens to assess SOEs.

MONITORING AND EVALUATION

There is need for the government, during and after a policy to monitor and evaluate the overall performance of its policy, to have an appreciation of the efficiency and effectiveness of such policies. The process of monitoring and evaluation helps bring an understanding of what has been attained as well as the shortcomings of the policy.

ACCOUNTABILITY

McGee (2002) alludes that accountability is a measure to align the principal's expectations and the agent's delivery. McGee holds the view that accountability consists of developing suitable systems that allow for decision-making in a way that promotes honesty and productivity.

RESPONSIBILITY

Benn and Dunphy (2017) holds the view that a person in public office is expected to exhibit a sense of responsibility in the execution of official duties and display irreproachable ethical behaviour. It is the kind of standing that needs to be adopted by those at the helm of SOEs to minimise the occurrence of conduct such as criminal abuse of office.

LITERATURE REVIEW

In a study by Sikwila et al., (2015) on the effectiveness of boards of directors of SOEs in developing countries, the researcher states that Regulations or Codes of Good Governance stipulate several conditions related to the number of directors, such as their type (e.g. executive, non-executive and independent directors) and skills of the appointees. He further states that regulations may also contain additional formal requirements, such as the frequency of meetings of the board as a whole and/or the number and nature of board committees. These regulations focus on the structural aspects of the board and not on the human factor whose focus is on how best the board should be populated by capable actors through effective selection mechanisms (Spisto, 2005).

A study by Magdi *et al.*, (1999) examined the influence of corporate governance mechanisms in Ghana on firm performances measured by accounting-based ratios. The study was done on listed Ghanaian companies from 2006 to 2018. Researchers used panel regression analysis data from 38 listed companies from Ghana to which secondary data was used to test how corporate governance contributed to firm performance. Their findings were that the presence of both insiders and outsiders on the corporate board improved financial performance. The study concluded that board size,

frequency of board meetings and shareholder concentration structure generally had a positive impact on financial performance. The present study seeks to close the methodological gap by employing a mixed approach. Additionally, the study will use SOEs to determine the influence of corporate governance on organisational performance. The study will not only measure organisational performance in terms of accounting ratios as in the case of a study by Dagli, Eyuboglu, Ayaydin (2012) but also use service delivery as a measure of organisational performance.

Gakari (2013) researched corporate governance's role in overcoming agency issues and developing a culture of transparency and openness. The study aimed at examining how corporate governance mechanisms affect the performance of Islamic banks. The study was quantitative and used data from Islamic banks in 29 Islamic countries for the period 2008 to 2017. The findings of the study were that the audit committee and board have a positive impact on the performance of Islamic banks. The researcher also found out that board size and risk management committees have negative and significant effects on the performance of Islamic banks. This, however, is in contradiction with findings done by Sifile *et al.* (2014), who observe that there is a positive relationship between board size and organisational performance. Therefore, there is need to conduct a study of corporate governance on organisational performance in Zimbabwe to determine if such results are replicated in Africa. The study will close regional and methodological gaps by adopting a mixed approach in the confines of SOEs in Zimbabwe.

In addition, a study by Butter (2012) investigated the impact of corporate board diversity on corporate performance and executive pay in Middle and North African countries. The study found that board diversity has a positive effect on corporate financial performance. The present study will not measure organisational performance in terms of financial performance as the case of many of these corporate governance studies but will also look at service delivery as a measure of organisational performance. In Zimbabwe, SOEs are formed to serve national mandates hence the need to see if corporate governance enhances organisational performance.

Chigudu (2020) studied the extent to which SOEs in Zimbabwe adhere to good corporate governance by using a qualitative approach through a descriptive document philosophical analysis. His study also examined the challenges in Zimbabwe's strategic management for sustainable development. The study employed the agency theory, stewardship theory, stakeholder theory and transaction cost economics theory. The findings of the study reveal that current corporate governance practice has not

effectively improved the efficiency and effectiveness of the SOEs (Zvavahera and Ndoda, 2014). This is a result of corruption, inconsistencies, lack of commitment and absence of the rule of law and excessive political interference. Thus, in the present research, the researchers do not rely only on corporate qualitative information and desk inquiry but use a collaborative approach to look into the influence of corporate governance on organisational performance.

METHODOLOGY

The present research adopted a quantitative research approach that carried a positivist philosophy. In this manner, researchers distributed structured questionnaires to management, board members and CEOs of selected SOEs in Harare. The questionnaires sought to provide answers to questions such as does the board size influence organisational performance? What effect does board composition have on organisational performance? and, What impact does a board member performance contract have on board effectiveness?

RESULTS

Board size and organisational performance

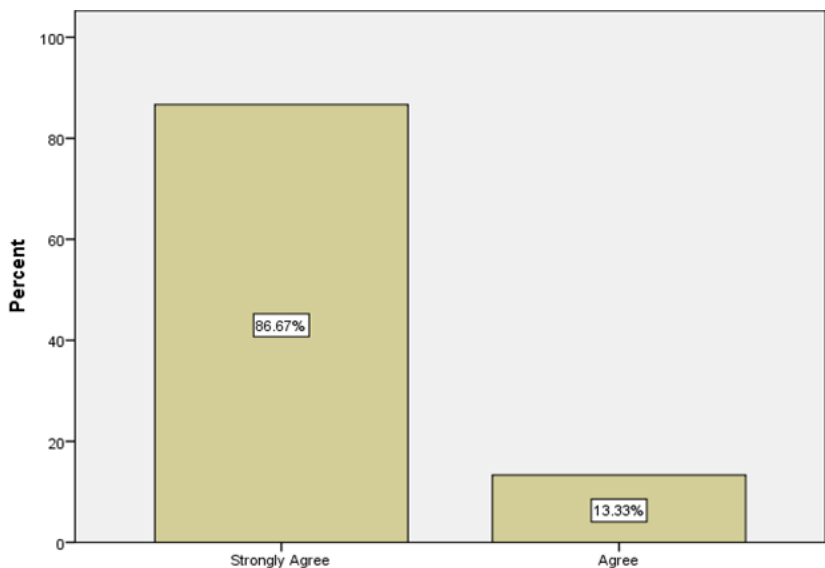


Figure 2: Board size and organisational performance

The results presented in Figure 2 indicate that 86.67% of respondents strongly agreed that board size influences organisational performance, whilst 13.33% agreed. These results corroborate the findings of Onyali &

Okerekeoti (2018) who, through their study in Lagos, Nigeria, posit that large board size is positively associated with enhanced performance of an organisation. Orozco *et al.* (2018) also echoed the same sentiments that board size has a bearing on the performance of organisations by specifically looking at the return on assets.

BOARD COMPOSITION AND ORGANISATIONAL PERFORMANCE

Table 1: Board Composition and Organisational Performance (*Researchers, 2022*)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agree	68	86.7	86.7	86.7
	Agree	10	13.3	13.3	100.0
	Total	78	100.0	100.0	

Results in Table 1 show that 86.7 % of the respondents strongly agreed with the view that board composition influences organisational performance. A total of 13.3% agreed that board composition influences organisational performance. Such findings are congruent with the work done by Mashavave (2017) who found that board composition influences organisational performance.

BOARD TERM CAPPING AND BOARD EFFECTIVENESS

Table 2: Board term capping and board effectiveness (*Researcher, 2021*)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agree	62	80.0	80.0	80.0
	Agree	16	20.0	20.0	100.0
	Total	78	100.0	100.0	

Table 2 shows that respondents agreed with the fact that board term capping results in board effectiveness. In this view, 80% strongly agreed and 20% agreed that the capping of board members' terms improves their performance. These results conform to the findings done by Solomon and Solomon (2004) who found that capped term limit is ideal as it enhances organisational performance.

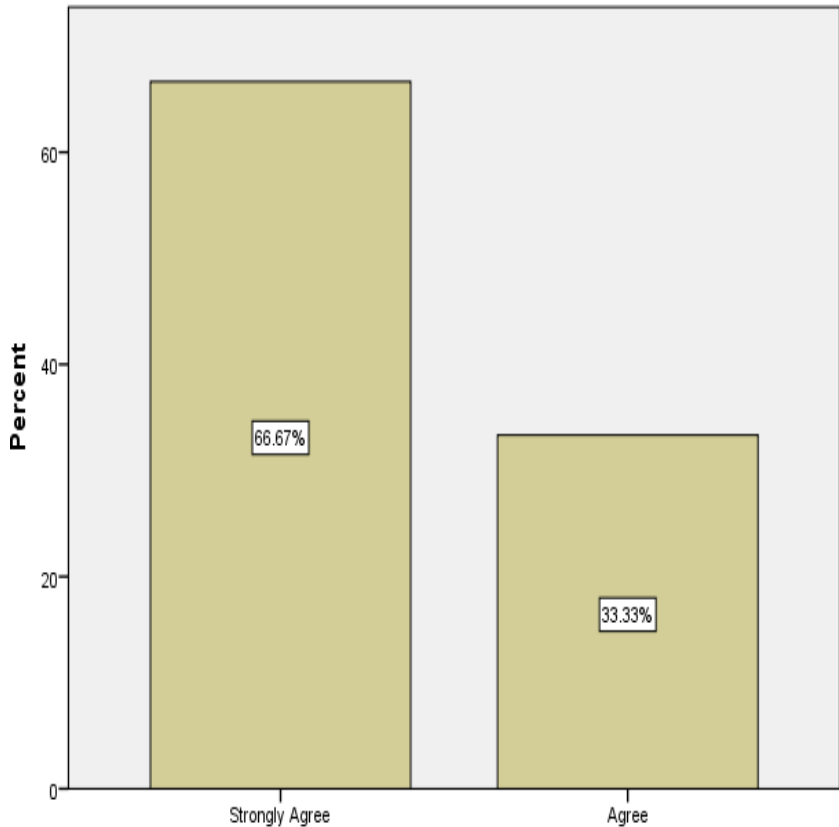


Figure 3: Board Performance contracts Enhance Board Effectiveness

Figure 3 shows that 66.67% of the respondents strongly agreed and 33.33% agreed with the sentiment that board performance contracts enhance organisational performance. Such results are supported by the findings of Abel and Martelli (2013) who got that performance contracts lead to better employee performance.

TESTING OF HYPOTHESIS- CHI-SQUARE TESTS

Table 3: Board size and organisational performance Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	17.986 ^a	4	.001
Likelihood Ratio	6.422	4	.170
Linear-by-Linear Association	3.542	1	.060
N of Valid Cases	78		

- a. 8 cells (80.0%) have an expected count of less than 5. The minimum expected count is .05

Results presented in Table 3 show a Pearson Chi-Square value of 0.001 which is statistically significant as it is less than 0.05. There is, therefore, rejection of the null hypothesis at a 5% level of significance which leads to the conclusion that there is a positive relationship between board size and organisational performance.

Table 4: Board composition and organisational performance Chi-Square Tests

	Value	Df	Asymptotic Significance (2-sided)
Pearson Chi-Square	13.397 ^a	6	.037
Likelihood Ratio	16.453	6	.012
Linear-by-Linear Association	5.180	1	.023
N of Valid Cases	78		

- a. 9 cells (75.0%) have an expected count of less than 5. The minimum expected count is .22.

Results presented in Table 4 show a Pearson Chi-Square value of 0.037 which is statistically significant as it is less than 0.05. There is therefore rejection of the null hypothesis at a 5% level of significance which leads to the conclusion that there is a positive relationship between board composition and organisational performance.

Table 5: Performance contracts and organisational performance Chi-Square Tests

	Value	Df	Asymptotic Significance (2-sided)
Pearson Chi-Square	13.397 ^a	6	.037
Likelihood Ratio	16.453	6	.012
Linear-by-Linear Association	5.180	1	.023
N of Valid Cases	78		

- a. 9 cells (75.0%) have an expected count of less than 5. The minimum expected count is .22.

In Table 5 Pearson's Chi-Square of 0.037 is less than 0.05 which is therefore statistically significant. This means that there is a rejection of the null hypothesis at a 5% level of significance which leads to the conclusion that there is a positive relationship between performance contracts and organisational performance.

DISCUSSION

The main aim of the study was to determine the role of corporate governance on the performance of state-owned enterprises. The presented results above indicate that corporate governance through study constructs such as board size, board composition, board term capping and performance contracts enhances organisational performance. The findings are congruent with the findings by Dagi, Eyuboglu, Ayaydin (2012) who examined the relationships between board size and corporate performance in 348 of Australia's largest publicly listed companies and describe the attributes of these firms and their boards. Their findings were that that, after controlling firm size, board size is positively correlated with firm value and organisational performance. In support of the current study results, Mahadeo, Soobaroyen and Aebi, Sabato and Schmid (2011) made an examination of board diversity amongst listed companies operating in emerging economies (Mauritius) and the extent to which these influences organisational performance. They found that board composition such as gender, age, educational background, fosters diversity, thus influencing positively organisational performance.

CONCLUSION AND RECOMMENDATIONS

Influence of board size on organisational performance

Board size influences organisational performance. In this view, researchers conclude that large board size is positively associated with a better performance of SOEs, hence enabling them to fulfil national mandates.

THE EFFECT OF BOARD COMPOSITION ON ORGANISATIONAL PERFORMANCE

The study concluded that board composition has a positive bearing on the performance of SOEs in Zimbabwe. Board composition such as gender and skills diversity, have a positive relationship with organisational performance. The results also indicate that board composition such as gender positively impacts organisational performance.

The results of the study also indicate the fact that board term capping results in board effectiveness. These results point out that a capped term limit is ideal as it enhances organisational performance. Results presented show that 66.67% of the respondents strongly agreed and 33.33% agreed with the sentiment that board performance contracts enhance organisational performance. In summary, board performance contracts improve board effectiveness. Such results may thus lead to the conclusion that performance contracts lead to better employee performance. The results presented that the adoption of best corporate governance practices results in better performance of SOEs in Zimbabwe. Through this, it may be concluded that there is a positive relationship between board size and organisational performance, there is a positive relationship between board composition and organisational performance and a positive relationship between the use of board performance contracts and organisational performance.

At the heart of the whole SOEs-corporate governance discussion is the desire to put SOEs on the path of sustainable growth and make them attractive and meet their national mandates through the adoption of good corporate governance practices.

BOARD SIZE AND ORGANISATIONAL PERFORMANCE

The result of the study also shows that there is a positive relationship between board size and organisational performance. It is in this view that the researchers recommends that SOEs increase board size so that there is the formation of board subcommittees which improves the board oversight roles.

EFFECT OF BOARD COMPOSITION ON ORGANISATIONAL PERFORMANCE

Boards of SOEs be well composed by including the right mixture of skills diversity, gender and age to improve organisational performance.

EFFECT OF BOARD FOUR YEARS CAPPING ON BOARD EFFECTIVENESS

Results have shown that the four-year board capping as prescribed by the Public Entities Corporate Governance Act leads to high board effectiveness. In this view, the researchers put forward recommendations that the government, through relevant ministries, makes monitoring and evaluation of board performance to further improve their effectiveness.

IMPACT OF BOARD MEMBER PERFORMANCE CONTRACTS

The researcher noted that performance contracts improve board effectiveness. As such it is recommended that all board members of SOEs sign performance contracts whose performance should be monitored and evaluated regularly.

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