IMPACT OF CORPORATE GOVERNANCE AND ETHICAL PRACTICE ON PERFORMANCE OF ZIMBABWE ELECTRICITY SUPPLY AUTHORITY HOLDINGS

BY

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Dedication

I have been inspired by many people too numerous to mention each by name, who have either shaped or enriched my knowledge, experience and understanding. As I reach another milestone in my life I realize how indebted I remain to them once again. I appreciate and value all their contributions on whose foundation I am established. However it would be amiss where I not to mention my loving wife, Vimbai Primrose and three wonderful children God has blessed us with, Maureen, Eugene and Derek. I am equally academically indebted to all Graduate School of Management lecturers who have taught me well. To my supervisor Dr. Madzivire, a big thanks for the freedom to express myself. In recognition of all these special people input I dedicate this study to all of you.
Declaration

I, Simon R. Hove do hereby declare that this dissertation is the result of my own investigation and research, except to the extent indicated in the Acknowledgements, References and by comments included in the body of the report, and that it has not been submitted in part or in full for any other degree to any other university.

____________________
Student signature

____________________                Date: 31 July 2012

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Supervisor's Signature

____________________________________________________________________
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Abstract

Most publicized global corporate failures have been attributed to either absence of dereliction of efficient corporate governance. It therefore demands that an investigation into corporate governance impact on state owned enterprises be embarked upon. Such a study should perhaps assist main actors to learn from these findings and perhaps leapfrog some of these situations that befell other failed actors elsewhere if corporate governance is analysed critically and findings redressed expeditiously. Given the impact of state enterprises on society and the national economy this research seeks to establish how suitable and widespread corporate governance practice for the welfare of ZESA Holdings and society. There is very limited research on Zimbabwean state owned enterprise corporate governance practice and model fit. This study starts with a history check on ZESA, followed by a general development history of corporate governance, an environmental scan and review of frameworks available for potential use. The study also navigates research methodology territory in order to avoid biasness and come up with rational findings which hopefully shall entrench and advance corporate governance practice in ZESA Holdings and other state owned enterprises. This research concludes by proposing further areas of research as a result.
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List of abbreviations

CEO-Chief Executive Officer
RBT- Resource Based Theory
SEPs- State Enterprises and parastatals
SOEs- State Owned Enterprises
ZESA- Zimbabwe Electricity Supply Authority
Chapter One

1.0 Introduction

Corporate governance has attracted intense attention from various quarters that include governments, industrialists, investors, academics, civil society and the general public. Corporate governance and its subsequent terms, transparency, disclosure, shareholder value and accountability have become key words at most international forums convened with support of global and regional development partners, for example World Bank, International Monetary Fund and Organisation of Economic Co-operation and Development. These institutions among others sincerely believe informed corporate governance standards can assist emerging markets rebuild their competitiveness, restore investor confidence and promote sustainable economic growth, (Koufopoulos, 2006).

The different stakeholders in corporate organisations are increasingly demanding to know more about the performance of state owned enterprises (SOEs) and are asking whether their activities conform to established standards, (Inyang, 2009). Since SOEs raise funds from the public, thus they assume an obligation of public trust and are therefore expected to act in a manner that protects the public interest, making full and fair disclosure of corporate information including financial results. This is the basis of good corporate governance and this responsibility rests squarely on the board of directors and the CEO, (King 111, 2004).

There are three things that stand out as corporate governance interest increases and these are:-

**Separation of ownership from management**

A company assumes its own identity where professional and competent managers are appointed to run its affairs. The professional managers are distinct from the owners and are supervised in the day to day chores by an elected board of both executive and independent directors. This segregation of duties necessitates an appropriate framework that ensures transparency, accountability, probity, integrity and fairness in the management of the firm.
Globalization and information communication technology developments

Business transactions across the globe have become easier and numerous. Hence such developments have resulted in the evolution of international business standards to guide business across nations and thereby improve corporate performance and to benefit all stakeholders. The essence of this evolution is to increase investors and creditors’ confidence, over and above empowering regulatory agencies to effectively monitor corporations across the globe.

Recent large corporate failures and their subsequent consequences

Corporate failures have kindled massive interest in corporate governance. Some of the well-publicised cases and causes are:-

Daewoo in South Korea (1998) involved accounting fraud and embezzlement by its CEO;

Enron in United States of America (2001) involved accounting fraud;

WorldCom in United States of America (2002) collapsed under huge $41 billion debt overhang and accounting fraud;

Marconi in United Kingdom (2001) involved bankruptcy due to overpriced acquisitions and internal control system failure;

HIH Insurance in Australia (2001) involved share price manipulation;

Volkswagen in Germany (2005) due to abuse of corporate funds to provide inappropriate benefits;

Zimbabwe has had its fair share of corporate governance failures, most notable ones were in the financial sector where a number of banks had to be placed under curatorship by the Central Bank.

Unlike privately owned enterprises which either evaporates off the scene and or is acquired by new owners, SOEs haemorrhage the state coffers and saliently hurt the common person through high taxes and erratic, costly services. This proposal
therefore seeks to establish the impact of corporate governance and ethics on ZESA Holdings’ performance given its centrality in the economy. The researcher further seeks to contribute and enhance corporate governance literature on Zimbabwean State Owned Enterprises in general and ZESA Holdings in particular.

1.1 Background to state owned enterprise corporate governance

The case for SOEs, their governance and impact in the world economy has taken on a particularly important role as a result of the global economic instability (Sokol, 2010, p 1716). The state or private citizens’ business ownership exposes important theoretical differences between SOEs and Public-listed companies. These differences have made it more difficult to effectively monitor SOEs than private firms. This research contrasted SOEs internal and external controls, and whether common or civil law legal origin regimes can effectively monitor SOE corporate governance at the same level as private firms. Alchian (1950) and Stigler (1958) theoretical insights suggest that “managerial slack is less likely in competitive industries” (p.211; p. 54). Pursuant to this, competition becomes substitute for good corporate governance. Empirical evidence does suggest that the opposite is also true. In less competitive industries corporate governance appears to have little impact (Giroud & Mueller, 2007). While most agree that product market competition is probably the most powerful force toward economic efficiency in the world, others are skeptical that it alone can solve the problem of corporate governance. Where there is no competition within an industry, good corporate governance is not as important as in situations where there is robust competition. One might imagine that because of the imperfect substitutability of corporate governance and competition policy, governments need only chose one form of regulation to ensure economic gain for society. Competition does improve resource availability within the firm and better corporate governance does improve firm performance, (Stulz, 1999).
SOEs are not necessarily profit maximisers, they may have goals that conflict with those of their de facto owners—the government, they do not necessarily seek to maximize shareholder value and they may be playing on an uneven playing field relative to their private counterparts. These factors play some role in reducing SOE efficiency and do limit the success of SOEs relative to private corporations. There are instances when SOE functions are based on non-financial goals. One potential problem with state ownership is that it has been used occasionally for political objectives, (Hawkins, 2011).

Such objectives for SOEs include employment, (Boycko, Shleifer and Vishny, 1996), social goals, (Wintrobe, 1987), or capital formation (Labra, 1980). This however should not be viewed to mean that SOEs should play no role in the economy, (Sappington and Stiglitz, 1987). The most persuasive defense of state ownership arises when state ownership overcomes market failure (Grout and Stevens, 2003). There may be a need for intervention from social reasons to redistribute wealth to the very marginalized, (Shleifer, 1998). Government ownership of business firms is ideal where good contract enforcement is limited and in particular cases where soft incentives are extremely valuable and competition is limited. SOEs are desirable where a public good needs to be provided and if quality is difficult to specify in a contract, (Besley and Ghatak, 2001). These goals are not based upon an efficiency rationale. Governments as usual have competing goals and hence SOE management needs discretion on which of these goals to follow, where a sector ministry provides regulatory oversight and another ministry exercises financial oversight, this can reduce the intra-government conflict of interest. However government interests do not need to be the same as commercial interests. As a result of this conflict, the government provides reduced oversight function for an SOE. This lack of effective oversight often results in part from situations in which a number of different parts of government oversee the SOE (Scott, 2007). Some SOEs do not focus on profit maximization because they are in regulated industries in which regulators pressure firms to undertake certain policies with outcomes to benefit
politicians rather than shareholders (Jensen and Murphy, 1990). This view does seem to suggest that political pressure affects firm decision-making.

Government must balance both its role as a regulator and that of the firm owner. Bureaucrats could have an incentive to protect SOEs from competition when bureaucrats serve as both regulators and market participants. Bureaucrats also have an incentive to increase the size of SOE because the increased size and scope of a bureaucracy provides them with greater prestige and the ability to advance their careers (Niskanen, 1994). The lack of an efficiency rationale changes the incentives for an SOE. Since SOEs lack substantive shareholders because they are owned by the government, the ultimate shareholder equivalent in an SOE is the country’s citizens. There is a potentially significant agency cost problem in the arrangement in which citizens’ interests are not aligned with SOE management, directors, and regulatory overseers. Behavior of firms in state hands will be less aligned with owner welfare because the types of incentives used to align behavior that the market provides are either non-existent or more limited when dealing with SOEs. Owners do not have direct ownership rights in the SOE. Therefore they do not receive the proceeds of the firm. Unlike ownership rights in private firms, there is a restricted ownership right in SOEs. Transferability of shares in private firms means that there is exit by shareholders dissatisfied with managerial decision-making. This acts as an important control mechanism in that a lower share price creates a threat to management through the market for corporate control, which SOEs do not face. The fundamental principal-agent in the SOE context is one that “exists between taxpayers and the government rather than between the owner, which is actually the government and the SOEs”, (Takahashi, 2000). This relationship leads to higher agency costs than would exist with management and owners of private firms. The various internal and external mechanisms that limit agency cost problems in private firms are far less effective for SOEs, as the various traditional governance mechanisms may not fit an SOE that may be unmotivated by profit.
SOEs seldom exist to maximize shareholder i.e. citizen value. There are noncommercial activities that a SOE pursues and potential political interference in the day-to-day management of SOEs. Where the political elements of government decide SOE policy, this takes independence and authority away from the SOE board of directors. Whenever such issues exist among publicly traded firms, the accountability problems of board and management are more severe in SOEs, yet have received less attention. Government may create an uneven playing field in those markets where an SOE competes with private firms, (Fox, 2008). Government has an interest in ensuring that its state owned firms succeed. The government as regulator does restrict competition by providing various benefits to SOEs that it does not offer to other firms. Though this might result in direct preferences, some of the preferences might be indirect, such as implicit loan guarantees for favorable lending, regulatory preferences such as the creation of a large monopoly position in related industries, limitations on foreign ownership, or implicit subsidies through a lack of taxation or more lax corporate governance requirements vis-à-vis private firms. The nature of SOE regulation can be arbitrary where the only predictability in regulation may be that government looks to protect its SOE over all other goals (Irwin and Yamamoto, 2004). High barriers to entry limit the ability of the market, through competition, to serve as a check on the poor decision-making of SOEs.

The costs of decision-making remain less concentrated in private firms than in SOEs and there is more accountability in private firms based on the outcome of such decisions. It is more difficult to constrain public actors than private ones because there is less accountability for making a mistake. Managers in SOEs are less likely to be fired by the board for making a bad decision and the state is more likely to bail out a mismanaged SOE. From a theoretical stand point, a private firm improves its performance because the incentives between management and shareholders are better aligned for improved performance,( Shapiro and Willig,1990). Empirical evidence on the difference in performance between state-owned and privatized firms confirms this theoretical insight,(Shirley and Walsh, 2001). For example, Shirley and
Walsh in their literature review found that among fifty-two studies they surveyed, in only five of the fifty-two studies did SOEs outperform private firms.

Commercial decisions when left to politicians and bureaucrats with very little experience in managing commercial enterprises make markets less competitive and inefficient. The parastatal management can become so powerful to the extent of subjugating private sector rivals and avoid public scrutiny of their business actions. Where business and politics are closely interlinked then any domestic political problems that threaten the political elite and especially their definition of what is the national interest would be tackled by political and neither economic nor market means. Parastatals are often regarded as vehicles of employment creation for the well connected. Zimbabwean parastatals’ failure has become endemic and entrenched and official pronouncements confirm this, (Newsday p.12 4 July, 2012).

Wages are set on social criteria rather than productivity with the taxpayer left to pay the bill. The recent history of Zimbabwe is littered with such cases of state firms being used for political ends, regardless of the cost. State support distorts the pattern of market competition by putting money into the hands of state corporations that have not secured market share through their competitive efficiency. Often they invest unproductively, corruption levels are high and as a result, production costs are higher and inefficiencies greater than they would be under normal free-market conditions.

Over the years, the rationale for state ownership of commercial enterprises has varied among countries and industries. This has typically comprised a mix of social, economic and strategic interests, (OECD, 2005). Recently, due to globalization of markets, technological changes and deregulation of previously monopolistic markets have called for readjustment and restructuring of the state-owned sector. Price parity and increased competition amongst similar, global products has put in check these wasteful costs build up.

Persistent calls for democracy and openness has ushered in a new dispensation in the manner state firms are run. The catchwords are deregulation, liberalisation, privatisation and commercialisation. Such terms indicate a need for change in how a
state enterprise is managed and relates to its stakeholders, which is the essence of corporate governance and ethics. Global trends indeed show that the state capitalism is again taking over from free market capitalism, (Hawkins, 2011). Massive injection of politics into economic and business decision making has brought to fore good corporate governance and ethics practice.

The researcher proposes to investigate the state and impact of practice of good corporate governance and ethics on Zimbabwe Electricity Supply Authority’s contribution towards national economic growth and its own profitability. The research shall seek to establish the impact of each corporate governance element and level within the parastatal. The end game of this research is to come up with recommendations in which good corporate governance practice can foist both national economic growth and ZESA profitability.

Corporate governance depends on the quality of economic, regulatory, fiscal, institutional and judicial structures, which in turn are influenced by a given country’s political dispensation, (Zingales, 1997). Governance has to do with the exercise of authority, direction and control (http://pdfcast.org, 2010). In this context, one can refer to governance of a transaction, contract, institution or nation. Governance therefore is essential at both the micro and macroeconomic levels.

The state executes its functions through various bodies, a process which naturally gives rise to rent seeking behavior, (Shleifer and Vishny, 1997). If the above is true then why does the state continue to meddle in affairs where it has delegated responsibilities to others? Beck, Demirguc-Kunt and Levine (2001) provide clear evidence on the linkages between law, politics and finance, (p. 17-80). The state of a country’s legal traditions and institutions also impacts on prospects for economic and financial development, through the enforcement of contracts and property rights. If the ruling class stands to benefit from free markets, it will enact laws and create institutions supportive of competitive markets and vice versa. Autocratic political systems tend to be intolerant of competition, transparency and accountability and are therefore bound to retard rather than encourage corporate governance development. An article entitled, The Price of Prudence warned that governments
must protect their citizens, but not at any costs, (The Economist, 2004). To this end it therefore dawns that corporate governance practice assume a greater role in the management of parastatal, always conscious of cost implications. Government as a shareholder should delegate meaningful responsibility to those selected to run state owned enterprises to their best ability for the posterity of the nation.

1.1.1 Background to ZESA Holdings
Mangwengwende (2002) chronicles the history of the formation of the Zimbabwe Electricity Supply Authority (ZESA) stating that it is a statutory corporation established in 1985. Drawing his conclusion from the Government of Zimbabwe, 1986, Mangwengwende affirms that ‘An Electricity Act passed in 1985 led to the amalgamation of five Zimbabwean-owned utilities and the Zimbabwean-based generation and transmission facilities of the CAPC into the present-day Zimbabwe Electricity Supply Authority (ZESA). In other words, ZESA is a state-owned company whose mandate is to generate, transmit and distribute electricity in Zimbabwe, (www.ZESA.co.zw, 2012). Currently, ZESA is the only electricity generator and supplier on the public grid. Mangwengwende further states that Zimbabwe inherited a power sector comprising six publicly owned utilities that include the following:

Central African Power Corporation (CAPC), jointly owned by the government of Zimbabwe and Zambia, and responsible for generation and transmission of power to the two countries from the Kariba Hydroelectric Scheme.

Electricity Supply Commission (ESC), which was responsible for coal-fired generation at Hwange and Munyati as well as the distribution of power throughout Zimbabwe, outside the four main cities.

Four municipal electricity undertakings owned by the cities of Harare, Bulawayo, Gweru and Mutare - responsible for providing power to the cities and their environs.

According to Mangwengwende the amalgamation of the above-stated utilities into ZESA, was meant to streamline the administration of the electricity sector through
the Ministry responsible for energy, to achieve efficiencies through economies of scale and to remove duplication of functions among the utilities. Today, ZESA still provides the bulk of electricity generated, transmitted, distributed and supplied in Zimbabwe. A Board of directors, appointed by the Minister in charge of energy, is responsible for the management of ZESA. Zimbabwe’s electricity sector comprises of five power stations which are only capable of meeting a maximum demand of about 1300MW against a national demand of 2100MW. For a decade now, ZESA has failed to generate sufficient energy to meet the nation’s demands due to under performance of generation facilities as a result of obsolescence of plant and equipment (www.ZESA.co.zw, 2012). ZESA on its part believes the problem with the power supply situation in Zimbabwe arises from the fact that the installed power generation capacity in the country is less than demand, (www.ZESA.co.zw, 2012). The power system also suffered from the economic meltdown over the last decade. The sub-economic tariffs that were charged during that time meant that the revenue generated was never enough to enable maintenance to be carried out at the level required to maintain a decent level of supply. The problem is compounded by the following factors:-

35% of that installed capacity is out of service due to age and or lack of maintenance.

Limited power imports as the shortage is regional in scale.

The utilization of electricity is largely inefficient in Zimbabwe.

Inability and/or unwillingness to settle bills.

Nevertheless, some of the constraints in continuous power provision to consumers are due to network faults caused by the ageing of the electrical infrastructure, theft and vandalism of network components. Thus, due to the limited internal generation capacity, the country relies on imports from Mozambique, South Africa, Zambia, Democratic Republic of Congo and Botswana to augment its power requirements, (www.ZESA.co.zw, 2012).
Informed by the report of ZESA (1997), Mangwengwende goes on to point out the shortcomings of ZESA thus:-

Within three years of its establishment, ZESA was running at a financial loss... A brain drain of skilled staff ensued, resulting in the rural electrification programme virtually grinding to a halt, power shortages and frequent system breakdowns. While ZESA had succeeded in rationalizing the tariff structure and establishing a streamlined management and planning process for the power sector, the earlier envisaged economies of scale and growth were not forthcoming. As economic growth started to pick up in 1992/1993, power rationing (now known as load shedding) had to be introduced...

Since 2002 the government of Zimbabwe through Electricity Act (Chapter 13:05) and Rural Electricity Fund Act has embarked on a reform agenda that has led to the unbundling of the electricity company resulting in the five successor companies which are: the Zimbabwe Power Company (ZPC), Zimbabwe Electricity Transmission Company (ZETCO), Zimbabwe Electricity Distribution Company (ZEDC), ZESA Enterprises and Powertel Communications. These reforms also led to the creation of the Zimbabwe Electricity Regulatory Commission (ZERC). Thus, ZESA through ZPC and ZETDC imports generates and distributes electricity in Zimbabwe.

In line with the shareholder approved structure, all power generation assets and operations are under ZESA Holdings generation subsidiary, the Zimbabwe Power Company (ZPC) formed in October 1996. Distribution assets and supply functions fall under the Zimbabwe Electricity Distribution Company (ZEDC), ZESA Enterprises, another subsidiary of ZESA Holdings comprises of four business units namely ZESA Technology Centre, Production and Services, Transport Logistics and Projects. It is a flexible investment arm for ZESA Holdings that has a diversified business portfolio. Transmission grid assets and operations fall under the Zimbabwe Electricity Transmission Company (ZETCO). A separate Rural Electrification Fund, a Board and Agency have been set up under the Rural Electrification Fund Act, passed in January 2002. The Agency is administering a special fund formed under
this Act to finance rural electrification projects. The Board is accountable to the Minister of Energy and Power Development.

The ZESA Holdings (PVT) Ltd’s mandate includes:-

Safeguarding Government’s interests in ZESA and the Electricity Supply Industry.

Coordinating Government’s Policy issues relating to the Electricity Industry.

Controlling Group Financial Resources and Reporting on Group Performances.

Managing cost efficiency and service quality to customers.

Optimization of benefits to be realized through privatization, protection and growth of shareholder value.

Promoting and underwriting prudent utility practice in the unbundling subsidiaries.

Ensure financial viability of the unbundled companies.

Ensure Strategic Planning and Risk Management.

Ensuring Feasibility, research and development activities.

New business development.

Regional and International Relations.

Until 2000, ZESA was amongst the top 3 performing utilities in Sub-Saharan Africa; today this parastatal has been physically and financially compromised (www.afdb.org, 2012). The quality and reliability of electricity supply services in Zimbabwe have been affected by the economic meltdown, falling revenue streams for the power utility ZESA, lack of investments in generation, transmission and distribution infrastructure and lack of capacity to manage an aging infrastructure.
1.1.2.0 Zimbabwean PESTLE analysis

1.1.2.1 Political factors
Global Political Agreement consummation

Government of national unity by three political parties with different ideologies

Threat of elections and its attendant violent campaigns

Turbulent, volatile post-independence political history

Weak governance issues

1.1.2.2 Economic factors
Absence of long term financing options

Antique plant and equipment

Global sovereign debt crisis

High production cost

High short-term borrowing costs

Huge debt overhang

Low capacity utilization

Low investor confidence

Multi-currency

Severe liquidity constraints

Stagflation

Tight fiscal policy (i.e. cash budgeting environment)
1.1.2.3 Social factors
High unemployment
Inadequate urban housing
Large informal sector
Poor air, road and rail network
Poor water and sanitation management
Significant Aids and HIV infection rate
Thin skills base

1.1.2.4 Technological factors
Automation and computerization of power generation processes
Outdated plant and equipment
Unprecedented communication technology advancement

1.1.2.5 Legal factors
Audit and Exchequer Act
Companies’ Act, Chapter 24:03.
Electricity Act, Chapter 13:05.
Indigenization and empowerment act
Presidential Powers (Temporary Measures) Act
Public Finance Management Act
Rule of law challenges
Rural Electrification Fund Act (Chapter 13:20)
Statutory instruments
1.1.2.6 Environmental factors
Environmental management act
Global warming campaign
Rise of Global Green Movement
Unpredictable weather and climate changes

1.2 Research Problem

Generally Zimbabwean parastatals have become synonymous with underperformance, poor service delivery, bloated unproductive workforce and a nexus of corruption. The disquiet from those running ZESA demands that an investigation be launched into efficacy and sufficiency of corporate governance systems of ZESA Holdings. Load shedding has become entrenched and permanent, whilst demand for power remains high and breakdowns are not being attended to timeously. ZESA cable infrastructure lies in ruins. New investments unrelated to power generation and distribution appears to be gaining ground such as the ZESA Enterprise Mazda Repair Centre and Cell Insurance. New power generating plants have been mooted, environmental impact assessments done, technical partners and funding identified yet nothing has taken off the ground so far.

1.3 Research Objectives

The objective of this study is to investigate the impact on practice of corporate governance and ethics within ZESA Holdings’ operations and the opportunity cost born by the nation.
1. Establish as to whether greater board independence yields better triple bottom Ps, (profit, people and planet).
2. Role clarity amongst shareholders, board and CEO & senior management.
3. Survey corporate governance awareness amongst all levels of employees.
4. Present legal, structural and policy recommendations based on the research outcome.

1.4 Research questions
In order to assess the impact of corporate governance and ethical practice on ZESA’s performance the questions below need to be addressed. The essence is to establish the rationale and meeting of minds if any on governance of the state owned firm.

1. What is the relationship between greater board independence and ZESA performance?
2. What effect does multiplicity of legal frameworks have on corporate governance practice on ZESA?
3. What is the level of buying-in on corporate governance and ethical practice amongst ZESA staff?
4. What is the impact of board characteristics and particularly of politician directors, on profitability and labour demand within ZESA?
5. Does the holding structure minimise conflicting objectives, minimize political interference and improve transparency in the governance of ZESA?

1.5 Hypothesis/Proposition
Against the preceding background, the testable hypothesis is:-

An independent board has direct impact on state owned enterprise performance.
The analogue is whether an institution’s performance can be used as an indicator of board independence. Literature states that individual board members need a regular performance appraisal by the board chairperson.

1.6 Justification
Where an inefficient state firm provides key services, key inputs as in power and telecoms, business costs are raised, private firms lose competitiveness and consumers lose welfare, (Hawkins, 2011). This research considers what constitutes effective corporate governance practice, from both a macro and micro perspective. It addresses what level of confidence and to what extent do those running the institution command in decision making from those of owners. The study therefore becomes pertinent, firstly to expose the level of corporate governance practice and come up with further recommendations which can restore ZESA performance and in turn spur economic growth for the nation. Many investments in power projects have had to be deferred despite the precarious power availability. Secondly the research shall answer as to whether corporate governance practice should be legal or ethical. Thirdly it shall address the optimum level of independence a board should enjoy and requisite skills, appointment of board members should have.

The researcher is of the view that this piece of study will extend good corporate governance and ethics practice for all stakeholders of particularly ZESA Holdings and generally other state owned enterprises, whereby competent persons identified to run these institutions are given enough space to manage to the fullest of their abilities and be fully accountable for their own actions. Half-hearted compliance to corporate governance practice is as bad practice as non-compliance at all.

Management will benefit from research results in the form of reports on strengths and weaknesses of ZESA corporate governance aspects, any new areas of stakeholders’ expectations, identify area for improvement on existing activities and recommended modifications on existing governance responsibility strategies. Corporate governance and ethics observance will give positive performance appraisal results on the part of the board as well as the Chief Executive Officer and his team.
Employees range from finance, engineering, power generation, distribution and risk management. Corporate governance enhances ZESA’s image as well as making their employment secure. There will be high motivation and job satisfaction.

The Government will realize an improved return on its investment and will free its time whereby it can focus on other issues other than electricity.

The general society will benefit from increased, reliable power supply thereby raising the citizens’ standard of living and sparing massive environmental degradation such as tree cutting for firewood.

The researcher will be able to apply concepts of corporate governance in his area of influence as a legislator. The major direct benefits of the research will be the accumulation of special research skills on areas of data collection, analysis and reporting. Such experiences are derived from participation in questionnaire design, pilot testing, questionnaire administration, data analysis, presentation of results, discussion of results and report writing. The researcher will get an in-depth knowledge on the structure, processes and major features of research work.

Other state-run companies in various industries and sectors of the economy will benchmark themselves against the results of a case study analysis of ZESA. This becomes possible since ZESA is highly networked to both private and public sector institutions through its power and technological products.

1.7 Scope of research
The scope of the research is confined to ZESA Holdings given its expansive operations with both direct and indirect impact in the national economy. ZESA has unbundled itself into various more focused strategic business units which it retains control through its main board. The act that guides ZESA Holdings is mainly the Electricity Act Ch.13:05, however the minister responsible may from time to time issue statutory regulations which have the same effect as the act itself. The population for this research is the ZESA staff irrespective of position one holds. The sample size included 10 general hands, 20 semi-skilled, 20 artisans, 20
professionals, 40 middle managers, 25 senior managers, 7 executive management and 5 directors.

In itself, the lack of effective corporate governance would not be fatal if anti-trust law remedied some of the SOE anti-competitive distortions. However, a review of anti-trust decisions across jurisdictions on the issue of predatory pricing by SOEs reveals that anti-trust law is equally ineffective in its attempts to monitor SOE bad behavior, (Satori, 2008). This research makes the point that ZESA, from a standpoint of efficiency, creates problems and that improved corporate governance or effective competition policy are substitutes that could lead to more efficient outcomes regarding SOEs.

1.8 Dissertation structure
This piece of study consists of five chapters.

Chapter one offers an introduction and background to the area of study, corporate governance subject and ZESA Holdings.

Chapter two deals with literature review and issues are governance definitions, corporate governance frameworks and how to navigate through them without compromising study outcome.

Chapter four is about the findings and interpretation of the case study results.

Chapter five concludes the research with recommendations and areas of further study that would have arisen in the course of this study.

1.9 Chapter summary
This chapter has nine sections which start with an Introduction, followed by Background to state owned enterprise corporate governance. This covers generic real and perceived a corporate governance issues. Background to ZESA Holdings is revelation of who they are. Zimbabwean PESTLE analysis presents an operational
environmental scan. Research problem brings to the fore the area of concern and therefore focus of study. Research objectives indicate the rationale and motivation for this case study. The research questions are the questions whose responses unravel the subject of study. This researcher uses hypothesis testing to support beliefs about comparisons. Justification shows the merits of the study. Scope of research reveals the extent or depth of the study. Dissertation structure is synopsis of the whole piece of this research.
Chapter Two

2.0 Literature review

2.1 Introduction

Corporate governance of state-owned enterprises is a major challenge in many economies, (OECD, 2005,p.3). The major challenge is to find a balance between the state's responsibility for actively exercising its ownership functions, such as the nomination and appointment of the board, while at the same time refraining from imposing undue political interference in the management of the company. Another important challenge is to ensure that there is a level-playing field in markets where private sector companies can compete with state-owned enterprises and that governments do not distort competition in the way they use their regulatory or supervisory powers. State enterprises and parastatals (SEPs) have the potential to contribute about 40% to the Gross Domestic Product, (Zimbabwe Corporate Governance Framework, 2010, p.ix). State-owned enterprises are often prevalent in utilities and infrastructure industries, such as energy, transport and telecommunication. Their performance is of great importance to broad segments of the population and to other parts of the business sector. Consequently, the governance of SOEs will be critical to ensure a positive contribution to a country's overall economic efficiency and competitiveness.

The governance systems in some of these SEPs are currently characterized with role ambiguity, ineffective boards, ineffective management systems and selective adherence to statutes. The above painted scenarios have contributed to poor performance by some of these SEPs, rendering them a drain to the fiscus.

State enterprises and parastatal (SEPs) have always played a critical role in the socio-economic development of Zimbabwe in both pre and post- independence eras. Laws were crafted to grant exclusive operating rights to SEPs. While the accent was on advancing minority interests in the period prior to Independence, in 1980, Government felt justified to redefine the SEPs mandate to meet the aspirations of our hard-won independence, especially the promotion of growth with equity in development.
Several initiatives such as the Kariba Workshop on the Administration and Governance of Parastatals held in 2001 have so far failed to reignite pre-independence performances. For example, Affretair, an air freight cargo managed not only to circumvent sanctions but conducted its operations efficiently and profitably. The last few years has seen intense public scrutiny of state enterprises as the economy has waned and investment flows have diminished.

2.2 Definitions of corporate governance

Both academicians and practitioners have developed numerous definitions of what corporate governance is and below are examples of such.

If management is about running the business, governance is about seeing that it is run properly, (Tricker, 1984).

A system by which companies are directed and controlled, that is leadership. It is concerned with structures and processes associated with management, decision-making and control in organizations, (King II, 2002, p.18).

Ways of bringing the interest of investors and managers into line and ensuring that firms are run for the benefit of investors, (Mayer, 1996, p.11).

Include the structures, processes, cultures and systems that engender the successful operation of organizations, (Keasey, Thompson, and Wright, 1997, p. 3).

Corporate governance is the system by which business corporations are directed and controlled, (OECD, April 1999, p.3-4).

Arthur et al (1997) said an organization’s policies, practices, traditions, philosophical beliefs and ways of doing things combine to give it a distinctive culture. A company’s strategic actions typically reflect its cultural traits and managerial values. Corporate governance is essentially the practice by which companies are managed and controlled. It therefore encompasses:-

The creation and ongoing monitoring of a system of checks and balances to ensure a balanced exercise of power within a company.
The implementation of a system to ensure compliance by the company to its legal and regulatory obligations.

The implementation of a process whereby risks to the sustainability of the company’s business are identified and managed within agreed parameters.

The assists in development of practices, which make and keep the company accountable to the broader society in which it operates, (Naidoo, 2002).

Corporate governance is about leadership that is transparent, answerable and accountable towards the company’s stakeholders. To this end corporate governance makes good business sense with its major advantages lying in the increased ability of properly managed companies, performing well, attracting investment and managing the business and other risks within agreed parameters and thereby limit their potential liability.

2.3 Nature of Corporate Governance
From the above definitions, it becomes clear that corporate governance is central in the manner an institution is managed. The definition also brings out some relational aspects and hints on leadership type and style. Corporate governance covers a large number of distinct concepts and phenomenon as can be seen from the definition adopted by Organization for Economic Cooperation and Development (OECD), Vazrapu (2010) states that:-

Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation such as the board, managers, shareholders and other stakeholders. It spells out the rules and procedures for making decisions in corporate affairs. This also provides the structure through which the company objectives are set and the means of attaining those objectives and monitoring performance. (p.27).
From this definition it can be seen that corporate governance includes the relationship of a company to its shareholders and to society. It promotes fairness, transparency and accountability. It is a reference mechanism that is used to regulate managers and to ensure that the actions taken are consistent with the interests of key stakeholder groups. The key points of interest in corporate governance therefore include issues of transparency and accountability, the legal and regulatory environment, appropriate risk management measures, information flows and the responsibility of senior management and the board of directors.

Similar conclusions are drawn regarding the origins and driving force behind colonialism, empire building and territorial conquest. In countries where settlers paid little regard to equity, the rule of law and contract enforcement, in as far as this affected the indigenous population; post–independence rulers will exploit the established institutions to their own advantage and profit. There is need, therefore, to create an environment where stakeholders, be they shareholders, citizens or other interested parties are assured that the goings-on are not detrimental to their own political and financial interests, (Beck, Demirgüç-Kunt and Levine, 2001, p.1780). For the state, this takes the form of checks and balances, as reflected by the separation of powers amongst the Judiciary, Executive and Legislature. For state owned enterprises, the appointment of Chairpersons and Chief Executive Officers and members of the board of directors, are the responsibility of the executive arm of state or some such power. Confirmation by Parliament would inject the requisite transparency. A group of sophisticated shareholders provides checks and balances in the private sector. Without sophisticated shareholders, governance of a body corporate is impossible. This is why recourse is made to external auditors, possibly on the presumption that external auditors are independent arbiters and, that being from the outside, they would be hard to compromise. This presumption does not seem to have stood the test of time given the unfolding Adelphia Communications, Anderson, Boeing, Computer Associates, Enron, Global Crossing, Martha Stewart, Merrill Lynch, Parmalat, Putnam, Qwest Communications, Rite Aid, Tyco International, WorldCom, Xerox debacle. In the wake of the Enron saga, however, the question now being raised regards the effectiveness of such arrangements in an
emerging market setting such as Zimbabwe, which is characterized by an even less sophisticated investing public, scantiness of financial information and monopoly of financial knowledge and skills by a limited number of people. Governance structures do, of course, cascade down from state to the private sector. Poor results, in some countries, arising from experiments with privatization have taught the world that privatization of state owned enterprises, without the establishment of adequate institutional structures, will not lead to sustainable economic development, because governance issues have a significant effect on the creation of value, its control and distribution. At the micro level, good corporate governance improves strategic direction. It attracts outside investment, sets standards of transparency, accountability, and probity, promotes integrity, as well as high standards of corporate citizenship. Corporate governance is, therefore, rightly often defined as the ways in which suppliers of finance assure themselves that they will receive a fair return on their investment.

2.4 Corporate Governance Models

Corporate governance has always been associated with the agency problem. (Maher and Andersson, 2010) argues that:

This principal-agent relationship arises when the person who owns a firm is not the same as the person who manages or controls it. For example, financiers (principals) hire managers (agents) to run the firm on their behalf. Investors need managers’ specialized human capital to generate returns on their investments, and managers may need the investors’ funds since they may not have enough capital of their own to invest. In this case there is a separation between the financing and the management of the firm, i.e. there is a separation between ownership and control, (Berle and Means, 1932, pp.119-25).

Before looking at the relationship between corporate governance, firm performance, and economic growth, it is useful to have a framework with
which to understand how corporate governance can affect firm behaviour and economic performance. One of the problems with the current debate on corporate governance is that there are many different and often conflicting views on the nature and purpose of the firm. This debate ranges from positive issues concerning how institutions actually work, to normative issues concerning what should be the firm’s purpose. It is imperative to consider the different analytical backgrounds or approaches that are often employed in order to remove ambiguity.

The term corporate governance has been used in many different ways and the boundaries of the subject vary widely. In the economics debate concerning the impact of corporate governance on performance, there are basically two different models of the corporation, the shareholder model and the stakeholder model. In its narrowest sense (shareholder model), corporate governance often describes the formal system of accountability of senior management to shareholders. In its widest sense (stakeholder model), corporate governance can be used to describe the network of formal and informal relations involving the corporation. More recently, the stakeholder approach emphasizes contributions by stakeholders that have a bearing to the long term performance of the firm and shareholder value. The shareholder approach also recognizes that business ethics and stakeholder relations do have an impact on the reputation and long term success of the corporation. The difference between these two models is therefore a matter of emphasis.

The lack of consensus regarding the definition of corporate governance is also reflected in the debate on governance reform. This lack of consensus leads to entirely different analyses of the problem and to the strikingly different solutions offered by participants in the SOEs reform process. Therefore, having a clear understanding of the different models can provide insights and help one to appreciate the different sides of this debate. An understanding of the issues involved does provide the basis from which to
identify good corporate governance practices and to provide policy recommendations.

The King II Report (2002), providing an African dimension, states that companies are governed within the framework of the laws and regulations of the country in which they operate, (p.18). Countries differ in their cultures, regulations, laws and ways of doing business. There is hence no single generally acceptable corporate governance model. The King II Report (2002, p.18) further states that corporate governance is about:-

Leadership for efficiency in order for companies to compete effectively in the global economy and thereby create jobs.

Leadership probity, because investors require the confidence and assurance that management of the company will behave honestly and with integrity with regard to their shareholders.

Leadership with responsibility as companies is increasingly called upon to address legitimate concerns relating to their activities.

Leadership that is both transparent and accountable.

The board therefore has the responsibility to approve strategy that includes selection of key staff and retention of those capable to carry out the strategy.

2.4.1 The Shareholder Model

According to (Maher and Andersson, 2010),

“the shareholder model the objective of the firm is to maximize shareholder wealth through distributive, productive and dynamic efficiency, (La Porta, Lopez-de-Silanes, Shleifer & Vishny, 2002). The criteria by which performance is judged in this model can simply be taken as the market value (i.e. shareholder value) of the firm. The managers and directors have an implicit obligation to ensure that firms are run in the interests of shareholders."
The underlying problem of corporate governance in this model stems from the principal-agent relationship arising from the separation of beneficial ownership and executive decision-making. It is this separation that causes the firm's behavior to diverge from the profit maximizing ideal. This happens because the interests and objectives of the principal (the investors) and the agent (the managers) differ when there is a separation of ownership and control. Since the managers are not the owners of the firm they neither bear the full costs nor reap the full benefits of their actions. Therefore, although investors are interested in maximizing shareholder value, managers may have other objectives such as maximizing their salaries, growth in market share, or an attachment to particular investment projects, etc.

The principal-agent problem is an essential element of the incomplete contracts view of the firm initially developed by Coase, (1937, p.386-405). This is because the principal-agent problem would not arise if it were possible to write a “complete contract”. In this case, the investor and the manager would just sign a contract that specifies ex-ante what the manager does with the funds, how the returns are divided up, etc. In other words, investors could use a contract to perfectly align the interests and objectives of managers with their own. However complete contracts are unfeasible since it is impossible to foresee all future contingencies. This incompleteness of contracts means that investors and managers will have to allocate residual control rights to make decisions in unforeseen circumstances or in circumstances not covered by the contract. Hart (1995) therefore states that governance structures should be seen as a mechanism for making decisions that have not been specified in the initial contract.

So why don’t investors just write a contract that gives them all the residual control rights in the firm, i.e. owners get to decide what to do in circumstances
not covered by the contract? In principle this is not possible, since the reason why owners hire managers in the first place is because they needed managers’ specialised human capital to run the firm and to generate returns on their investments. The agency problem is also an asymmetric information problem i.e. managers are better informed regarding what are the best alternative uses for the investors’ funds. As a result the manager ends up with substantial residual control rights and discretion to allocate funds as he chooses. There may be limits on this discretion specified in the contract, but the fact is that managers do have most of the residual control rights. The fact that managers have most of the control rights can lead to problems of management entrenchment and rent extraction by managers. Demb and Neubauer (1992) state that corporate governance is a question of performance accountability. Much of corporate governance deals with the limits on managers’ discretion and accountability.

One of the economic consequences of the possibility of rent seeking behaviour by managers is that it reduces the amount of resources that investors are willing to put up ex-ante to finance the firm, (Grossman & Hart, 1986, p.691-719). This problem is known as the hold-up problem and has been extensively discussed in the literature, Williamson (1975, 1985) and Klein, Crawford and Alchian (1978, p. 297-326). A major consequence of opportunistic behaviour is that it leads to socially inefficient levels of investment that in turn can have direct implications for economic growth. Accordingly in the shareholder model, corporate governance is primarily concerned with finding ways to align the interests of managers with those of investors, with ensuring the flow of external funds to firms and that financiers get a return on their investment, (Maher and Andersson, 1999, p.5). An effective corporate governance framework does minimise the agency costs and hold-up problems associated with the separation of ownership and control. There are about three types of mechanisms that can be used to align
the interests and objectives of managers with those of shareholders and overcome problems of management entrenchment and monitoring and these are:-

One approach is to induce managers to carry out efficient management by directly aligning managers’ interests with those of shareholders e.g. executive compensation plans, stock options, direct monitoring by boards.

Or the strengthening of shareholder’s rights so that shareholder has both a greater incentive and ability to monitor management. This approach enhances the rights of investors through legal protection from expropriation by managers e.g. protection and enforcement of shareholder rights, prohibitions against insider-dealing and so forth.

Or use indirect means of corporate control such as that provided by capital markets, managerial labour markets and markets for corporate control e.g. take-overs.

One of the critiques of the shareholder model of the corporation is the implicit presumption that the conflicts are between strong, entrenched managers and weak, dispersed shareholders, (Maher and Andersson, 1999, p.12). This has led to an almost exclusive focus, in both the analytical work and in reform efforts, of resolving the monitoring and management entrenchment problems which are the main corporate governance problems in the principal-agent context with dispersed ownership. For example, most of this work has addressed concerns related to the role of the board of directors, stock options and executive remuneration, shareholder protection, the role of institutional investors, management entrenchment and the effectiveness of the market for take-over’s, (Shleifer and Vishny, 1997).

The reason why ownership concentration is as prevalent as the dominant organisational form is because it is one way of resolving the monitoring problem, (Maher and Andersson, 1999, p.31). According to the principle-agent model, due to the divergence of interests and objectives of managers
and shareholders, one would expect the separation of ownership and control to have damaging effects on the performance of firms. Therefore, one way of overcoming this problem is through direct shareholder monitoring via concentrated ownership. The difficulty with dispersed ownership is that the incentives to monitor management are weak. Multiple shareholders promotes free-riding in the hope that other shareholders will the monitoring cost. This is because the benefits from monitoring are shared amongst all shareholders whereas the full monitoring costs are incurred by those who monitor. These free-rider problems do not arise with concentrated ownership, since the majority shareholder captures most of the benefits associated with his monitoring efforts.

Therefore, for the closely held corporation the problem of corporate governance is not primarily about general shareholder protection or monitoring issues, (Maher and Andersson, 1999, p.37). The problem instead is more one of cross-shareholdings, holding companies and pyramids, or other mechanisms that dominant shareholders use to exercise control, often at the expense of minority investors. It is the protection of minority shareholders that becomes critical in this case. One of the issues that arise in this context is how do policy makers develop reforms that do not disenfranchise majority shareholders while at the same time protect the interests of minority shareholders. In other words, how do they develop reforms that retain the benefits of monitoring provided by concentrated ownership yet at the same time encourage the flow of external funds to corporations, and which in turn should lead to dilution of ownership concentration.

Another critique of the shareholder approach is that the analytical focus on how to solve the corporate governance problem is too narrow, (Maher and Andersson, 1999, p.30). The shareholder approach to corporate governance is primarily concerned with aligning the interests of managers and shareholders and with ensuring the flow of external capital to firms. However,
shareholders are not the only ones who make investments in the corporation. The competitiveness and ultimate success of a corporation is the result of teamwork that embodies contributions from a range of different resource providers including investors, employees, creditors, suppliers, distributors, and customers, (Maher and Andersson, 1999, p.41). Corporate governance and economic performance will be affected by the relationships among these various stakeholders in the firm. According to this line of argument, any assessment of the strengths, weaknesses, and economic implications of different corporate governance frameworks needs a broader analytical framework which includes the incentives and disincentives faced by all stakeholders.” (p. 6 – 8)

2.4.2 The Stakeholder Model

Vazrapu (2010) states that:

Stakeholder theory emerged during the 1970s to reflect the fear at a societal level that large multinational corporations had become too powerful to be held accountable solely by shareholders, (Freeman, 1997). This theory argues that there are business interdependencies with other elements of society. The corporation is an institution engaged in mobilizing resources for productive uses in order to create wealth for the benefit of its multiple stakeholders. Stakeholders are all residual risk holders, i.e. they have something to lose. High performance implies the adequate creation of benefits and minimum adverse effects for all stakeholder interests involved. This theory had been largely ignored until the more recent environmental issues of the 1990s started to produce greater social awareness and trends toward triple bottom line reporting.

Recent heated arguments over corporate governance show a trend toward moving away from the traditional concept of shareholder value towards the broader concept of the stakeholder society (Sato, 2004, p.88). Managerial
decisions do affect investors and exert externalities on various other stakeholders of the firm, such as employees, customers, suppliers, communities where the firm is located, potential pollution and so forth. From the stakeholder-society perspective, corporate governance is the design of institutions that coerce management to internalize the welfare of stakeholders and a governance system is the set of complex conditions that shape the outcome of the ex-post bargaining over the quasi-rents that are generated in the course of a relationship, (Tirole, 2001, p.35). The importance of stakeholder theory for the corporate governance of SOEs is emphasized by the fact that SOEs have a more complex set of stakeholders since they are usually also subject to social goals along with their profit-making objectives as a firm. The institutionalism approach arose after realisation that corporate governance deals with the structure of rights and responsibilities among the parties with a stake in the firm. (p.24)

Maher and Andersson (2010) further suggest that:

The stakeholder model takes a broader view of the firm. According to the traditional stakeholder model, the corporation is responsible to a wider constituency of stakeholders other than shareholders. Other stakeholders include contractual partners such as employees, suppliers, customers, creditors, and social constituents such as members of the community in which the firm is located, environmental interests, local and national governments, and the society at large. This view holds that corporations should be socially responsible institutions and are managed in the public interest, (Berglof, 1997, p.123). According to this model performance is judged by a wider constituency interested in employment, market share and growth in trading relations with suppliers and purchasers, as well as financial performance, (Mayer, 1996, p.11). The problem with the stakeholder model of the firm is that it is difficult to ensure that corporations fulfill these wider objectives. Blair (1995) argues against this point of view in that it failed to give clear guidance to help managers and directors set priorities and decide among competing
socially beneficial uses of corporate resources and provided no obvious enforcement mechanisms to ensure that corporations live up to their social obligations, (p.203). As a result of these deficiencies, few academics, policymakers or other proponents of corporate governance reforms still champion this model.

Given the potential consequences of corporate governance on economic performance and the belief that corporations have responsibilities to other parties than shareholders demands more consideration. What matters is the impact that various stakeholders do have on the behaviour and performance of the firm and on economic growth. Any assessment of the implications of corporate governance on economic performance must consider the incentives and disincentives faced by all participants who potentially contribute to firm performance. With this in mind, the stakeholder model has been redefined to a narrow definition on what constitutes a stakeholder. The new stakeholder model defines stakeholders to be those actors who have contributed firm specific assets, (Blair, 1995, p.203). This redefinition of the stakeholder model is also consistent with both the transaction costs and incomplete contract theories of the firm in which the firm can be viewed as a network of contracts.

The best firms according to the new stakeholder model are ones with committed suppliers, customers, and employees. This new stakeholder approach can rightly be viewed as a natural extension of the shareholder model. For example, whenever firm-specific investments need to be made, the performance of the firm will depend upon contributions from various resource providers of human and physical capital. It is often the case that the competitiveness and ultimate success of the firm will be the result of teamwork that embodies contributions from a range of different resource providers including investors, employees, creditors and suppliers. It is in the interest of the shareholders to take account of other stakeholders and to promote the development of long term relations, trust and commitment amongst various stakeholders, (Mayer, 1996, p.11). Corporate governance in
this context becomes a problem of finding mechanisms that elicit firm specific investments on the part of various stakeholders as well as encourage active co-operation amongst stakeholders in creating wealth, jobs and the sustainability of financially sound enterprises, (OECD Principles of Corporate Governance, 1999, p.67).

However opportunistic behaviour and hold-up problems arise whenever contracts are incomplete and firm specific investments need to be made. One consequence of opportunistic behaviour is that it leads to underinvestment. Underinvestment in the stakeholder model includes investments by employees, suppliers and others. For example, employees may be unwilling to invest in firm specific human capital if they are unable to share in the returns from their investment, but have to bear the opportunity costs associated with making those investments. Alternatively firms may be unwilling to expend resources in training employees if once they have incurred the costs they are unable to reap the benefits if employees, once endowed with increased human capital, choose to leave the firm. Suppliers and distributors can also under invest in firm-specific investments such as customized components, distribution networks, etc. In the broader context, corporate governance has to find mechanisms that reduce the scope for expropriation and opportunism and lead to more efficient levels of investment and resource allocation.

According to the stakeholder model, corporate governance is primarily concerned with how effective different governance systems are in promoting long term investment and commitment amongst the various stakeholders, (Williamson,1985). Kester (1992) states that the central problem of governance is to devise specialised systems of incentives, safeguards and dispute resolution mechanisms that promote the continuity of business relationships as well as being efficient in the presence of self-interested opportunism,(p.34). Blair (1995) concurs in that corporate governance is
regarded as a set of institutional arrangements for governing the relationships among all of the stakeholders who contribute firm specific assets.

Skeptics of the stakeholder model and fears of participants in the reform process is how managers or directors use stakeholder reasons to justify poor company performance. The benefit of the shareholder model is that it provides clear guidance in helping managers set priorities and establishes a mechanism for measuring the efficiency of the firms’ management team i.e. firm profitability. On the other hand, the benefit of the stakeholder model is its emphasis on overcoming problems of under investment associated with opportunistic behaviour and in encouraging active co-operation amongst stakeholders to ensure the long-term profitability of the corporation.

One of the most challenging tasks on the reform agenda is how to develop corporate governance frameworks and mechanisms that elicit the socially efficient levels of investment by all stakeholders. The difficulty however, is to identify those frameworks and mechanisms which promote efficient levels of investment, while at the same time maintaining the performance accountability aspects provided by the shareholder model. This implies that mechanisms must promote stakeholder investment and co-operation should be adopted in conjunction with mechanisms aimed at preventing management entrenchment. Stakeholder objectives should not be used to prevent clear guidance on how the firms’ objectives and priorities are set. The firm should indicate how it will attain those objectives and how performance monitoring will be determined. (p. 8 -10)

2.4.3 Agency Theory
Agency theory seeks to optimize relationships in which the principal determines the work which the agent undertakes, (Eisenhardt, 1989a, pp.57-74). The theory argues that under conditions of incomplete information and uncertainty, a situation characterizing most business settings, two agency problems arise, i.e. adverse
selection and moral hazard. Adverse selection is the condition under which the principal cannot ascertain whether the agent has accurately represented his ability to do the work for which he is being paid. Moral hazard is the condition under which the principal cannot be sure whether the agent has put forth maximal effort, (Eisenhardt, 1989b, pp.57-74). In its narrow sense, corporate governance is centered on the agency problems that arise from the separation of management and ownership, (Simanjuntak, 2001, pp.157-179). It is the reason why agency theory is important for corporate governance studies. Agency theory argues that in the modern corporation, in which share ownership is widely held, managerial actions depart from those required to maximize shareholder returns, (Berle and Means, 1932). Although the ideas of agency theory (Jensen and Meckling, 1976) can be attributed to Ronald Coase, the American economist from the 1930s, it has only been applied to directors and boards since the 1980s. Inherently, this theoretical view is based on the belief that people are more self-interested than altruistic and cannot be trusted to act in the best interest of others, but rather, maximize their own utility, (Coase, 1937, p.386-405). Agency theory presents the relationship between directors and stakeholders including shareholders as a contract. Thus, the directors, acting as agents of the stakeholders, will make decisions in their own interest and hence be subject to transaction costs for the checks and balances necessary to reduce non-compliance over enforcement costs.

Agency theory deals with the structure of ownership of a firm, how the owner’s interests in the firm are managed by executives at the firm and how the mechanisms of aligning the interest of the owner with those of executives are developed. It also deals with controlling the mechanisms so that they actually work and prevent acts which are clearly not in line with the principal’s interests, such as fraud or shirking on the part of the agent. This is translated into the forms of the organization of the board structure, rules on strategy-setting and strategic decision-making processes, reporting and controlling mechanisms, and the management of risk as an inseparable element of business. In addition, it includes the issues of selection and remuneration, which also serve as a means to control the behavior of the agent to
be in line with the principal’s interests, thus lowering the likelihood of adverse selection and moral hazard.

Agency Theory is often criticized as being one-sided in its view of corporate governance. It only considers the perspectives of the top executives and neglects the entitlement of employees, customers and the environment. Therefore, other theories such as Stewardship Theory, Stakeholder Theory, Resource Dependence Theory and Institutional Theory also need to be taken into account in analyzing corporate governance situations.

### 2.4.4 Stewardship Theory

Scholars have recently been critical of the agency perspective in Corporate Governance studies (Hoskisson et al, 2000, pp.249-67); Blair, 1995, p.203; Perrow, 1986), largely because of its limited ability to explain the sociological and psychological mechanisms inherent in the principal-agent relationship. An alternative managerial motivation view to agency theory may be termed stewardship theory, (Barney, 1990, p.382-393). The underlying assumption of stewardship theory is that managers are good stewards of firms. Under this theory, the classical idea of corporate governance is that the managers, on behalf of the shareholders, essentially want to do a good job, i.e., to be good stewards of the corporate assets, not to have conflicts of interest or make secret profit at the expense of the shareholders. The power of the firm is exercised by the directors, who are appointed by, and are accountable to, the members at a general meeting. An independent auditor produces a report to members to show that the firm’s accounts and financial statements are true and fair. This theory remains the theoretical foundation for much regulation and legislation, (Adams, 2002, pp.78-83). Stewardship theory focuses on developing mutual trust and cooperation between principal and steward. Stewardship theory proposes that trustworthy and cooperative relationships between principals and stewards are positively correlated with firm performance, (Tian and
Lau, 2001, pp.245-263). This has several important implications for management control systems, moreso with regard to effective information-sharing mechanisms to address the information asymmetry problems highlighted in agency theory as one of the agency problems.

The main differences between agency theory and stewardship theory are in the following aspects. First, the underlying assumption of agency theory is that managers will behave rationally, opportunistically and self-servingly, while stewardship theory believes that these managers are trustworthy and cooperative. Second, it leads to different implications from those of agency theory, which emphasizes monitoring and control, instead of relying on trust and relationship-building between principal and steward. Third, the focus of agency theory is on the independence of different groups for example, board members, monitoring committee and management, which might lead to conflicting goals, while stewardship theory focuses on understanding and identification of congruence between them to achieve goal alignment.

Table 2.1 below, summarizes the contrast of the two theories’ views on corporate governance. Some scholars would go so far as to argue that stewardship theory fits better than agency theory in certain contexts, for example, in transitional economies (Van Thang, 2005, p.352). However, to what extent this also applies to Zimbabwe is debatable given the country’s state of rampant corruption, which suggests that indeed, agency theory’s assumption of human opportunistic and self-interested behaviour fits better.
### Table 2.1: Contrasting Agency Theory/ Stewardship Theory corporate governance views

<table>
<thead>
<tr>
<th></th>
<th>Agency Theory</th>
<th>Stewardship Theory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assumption of human behavior</td>
<td>Agents are opportunistic and self-serving</td>
<td>Trustworthy and work for the benefit of the corporation</td>
</tr>
<tr>
<td>Primary role of Supervisory Board</td>
<td>Board members are to control and monitor managers</td>
<td>Board members provide managers with resources, expertise, network and power</td>
</tr>
</tbody>
</table>

**Source:** Corporate Governance in Vietnam’s Equitized Companies, p. 352. Van Thang, N., (2005), Reforming Corporate Governance in Southeast Asia.

#### 2.4.5 Institutional Theory

Having mentioned institutional differences as a factor that can differentiate how an assumption in one context can lead to a different implication in another, it is also important to mention another theoretical perspective, institutional theory. Aoki (2001) approaches corporate governance by employing more diverse social and cultural institutional factors. For institutionalists, corporate governance is the structure of rights and responsibilities among the parties with a stake in the firm, (Aoki, 2000). Comparative institutional analysis using game theory sees corporate governance as self-enforcing mechanisms that govern strategic interactions among the players and is defined as a set of self-regulating rules whether formal or informal that governs the all stakeholders’ actions or choices. Rather than using the framework of neoclassical economics, this institutional approach uses perspective and methodology from the newly developed framework of comparative institutional analysis. Comparative institutional analysis strives to discover the source of economic gains from diversity and the circumstances under which they are realized, using the universal analytical tools commonly employed in the field of economics. The existence of different types of corporate governance structures is necessary to provide important theoretical frameworks to examine the evolution of different
corporate governance structures, (Aoki, 2003). This explains why some organisational structure can become an ideal in one economy but not in others.

Actor centered institutionalism which emerged from institutional theory, explains firm-level corporate governance practices in terms of institutional factors that shape how actors’ interests are socially constructed and represented, (Aguilera and Jackson, 2003, p.447). This view either criticizes or complements agency theory, especially in the latter’s failure to account for key differences across countries. Agency theory is considered to have an under socialized view of corporate governance whereas institutional theory tends to be over socialized. Actor-centered institutionalism bridges the gap between them (Aguilera & Jackson, 2003, p.465). Aguilera and Jackson describe corporate governance and the institutional domains shaping it as conglomeration of management, capital and labor and diagrammatically represented by Figure 2.2.

**Figure 2.1 Dimensions of Corporate Governance**

Aguilera and Jackson’s approach complements agency theory’s view on corporate governance. While agency theory suggests that the impact of globalisation is the convergence of corporate governance best practice, into the Anglo-American model, institutional theory suggests that countries will continue to deviate along critical path analysis. It is true that, due to institutional factors in the development of property rights within common law and civil law traditions and financial systems which differ across counties, the Anglo-American model has been more widespread among countries than, for example, the Rhineland model of Germany and Japan, (La Porta et al.,1999, p.471). However, a hybridisation of the corporate governance model where practices developed in one national setting are transferred to another and undergo adaptation through recombination with other governance practices eventually prevailed. The institutionalism framework goes beyond the shareholder-value and stakeholder-society perspectives and provides a broader scope of
comparative analysis on governance mechanisms. It connects the field of corporate organisations with other spheres of financial transactions, labor transactions, political regimes, and so forth. This makes the framework very useful in analyzing the state of governance at SOEs.

2.4.6 Organisational, Resource-dependence and Resource-based Theory

Many organisational theorists have demonstrated that the peak of the organisation is either the CEO or the Board of Directors. Corporate governance has benefited from contributions of behavioral science in organizational management work, (Cyert, March & Simon, 1963).

Resource-dependence theory preceded resource-based theory. This perspective states that when there are elements in the environment that exert power over an organization, it will strive to secure a friendlier environment or more independence, (Pfeiffer, 1972, p.17). Resource-based theory (RBT) examines the link between a firm’s internal characteristics and performance. Penrose (1959) and subsequently others investigated the linkages between RBT and corporate governance and confirmed existence of such links. For example, Castanias and Helfat (2001) stress the importance of human capital arguments as opposed to traditional agency theory arguments concerning corporate governance, (p.661). Mahoney (2001) argues that the recognition of the problem of opportunism has important corporate governance implications, (p.651). Wright et al. (2001) suggest that mismanagement may mean that human capital is not deployed effectively.

2.5 Internal controls application to corporate governance

Firms use internal controls to reduce agency cost problems. Internal controls include managerial participation in ownership, rewards for management, and the use of the
board of directors for oversight. These internal controls somehow affect firm performance positively.

The three important firm level indices for quality of governance are:-

(a) Gompers, Ishii, and Metrick (Gompers, Ishii and Metrick, 2003)
(b) Bebchuk, Cohen, and Ferrell (Bebchuk, Cohen & Ferrell, 2009).
(c) Brown and Caylor (Brown & Caylor, 2006)

Each of these indices associates good corporate governance with good corporate performance. However, studies that link good corporate governance to strong corporate performance, for the most part, come up short, (Stout, 2007). In terms of the causality of good governance and corporate performance, perhaps none of the indices are satisfactory. In an important work that reviews the strengths and weaknesses of the firm level corporate governance indices, Bhagat, Bolton and Romano, (2008) conclude that there is no one best measure of corporate governance and the most effective governance institution appears to depend on context and on firms specific circumstances. This suggests that governance is endogenous to the firm’s characteristics. Undertaking an analysis of individual corporate governance controls is somewhat risky because the empirical literature is inconclusive at best.

2.6 Situational Corporate Governance in Zimbabwe
Company external contexts can be differentiated into the institutional, national culture, and normative contexts.

2.6.1 Institutional Context
Aguilera and Jackson (2003) employ the actor-centered institutionalism approach to explain the institutional context of firms, with regard to their interaction among their multiple stakeholders. These stakeholders are:-
a) Capital (Shareholder)

In regard to the firm’s shareholders, it is important to note whether the firm is primarily financially or strategically driven, i.e., other aspects such as image, growth and market share, in its decision making, (Aoki, 2000, p.11). The gathering of capital providers in the firm strongly defines this orientation and countries differ from one another with regard to the importance of these capital providers and their influence over firms. Anglo-American countries, in which shareholders play a strong role, place a great deal of attention on their particular interests as compared to other stakeholders such as creditor banks. The case of Japan is the opposite, as a high percentage of firms capital comes as debt (Hilb, 2004). These national differences are shaped by the following institutional conditions:-

1. property rights
2. financial system
3. existence of inter-firms network

b) Labor (Employees)

Employee interests are relatively under-researched in corporate governance, except in Germany, where the role of the workers’ representative is very strong. National culture is influenced very much by the following collection:-

1. Representation of employees in the board
2. Importance of the labour union
3. Skill formation

c) Top Management

The role of top management in corporate governance has also not been thoroughly explored, despite its most dominant role. It is quite obvious that recent past corporate governance scandals are a reflection of how decision-making which is led
by individual top managers who concentrate too much on their own interests can be disastrous. Top executive value thinking has been the dominant factor in these scandals. Top executive value thinking in each country is defined for the most part by two important factors:

Career perspective, (Sorensen, 1977, p.456): when the managerial labour market is predominantly closed, as in Japan (Dore, 2000), or open, as in the US (Stroh, Brett, Baumann & Reilly, 1996, p.751), providing career opportunities elsewhere.

Managerial ideology, i.e. the major beliefs and values of top managers that provide organizational members with a frame of reference for action, (Goll & Zeitz, 1991, p.191). This ideology is shaped by many factors such as generalist or specialist education, diffusion of cognitive models of control and the informal routines and norms that shape the autonomy or commitment of management. A country’s political system affects the ideology of managers. Countries with a presidential system tend to shape a top-down business approach among managers, while a non-presidential system is likely to drive more consensus seeking behaviours, (Hilb, 2004).

The primary concern about corporate governance development is the gap between the spirit and letter of governance-related laws and the regulation and implementation thereof, (Simanjuntak, 2005, p.157). It is by no means the only difficult obstacle to corporate governance improvement. Recognition that the gap exists is another significant hurdle. There are questions as to extent of benefits of corporate governance reform on policy-makers and or relevance to national economy.
2.6.2 National Culture Context

Figure 2.3 depicts how corporate governance is differentiated by a board’s value orientation, (Hilb, 2004). This serves as a basis for understanding how a corporate governance model is entrenched within the context of national culture. Several factors influence national culture:

- Composition of capital provided by shareholders and other stakeholders for example, creditors.
- Attitude toward competition and cooperation dimensions of how corporate governance approach is measured.

**Source:** Integrity Corporate Governance, Hilb, M. (2004), Springer, New York.
Figure 2.4: Differences among National Cultures


Classification of various national cultures, such as Hofstede’s (1997) or Laurent’s (1997). Laurent’s classification of soft and hard national cultures along with the dimensions and drawbacks of both cultures are described in Table 2.2 and Table 2.3.
### Table 2.2: Dimensions of Hard Culture and Soft Culture

<table>
<thead>
<tr>
<th>No.</th>
<th>Dimensions</th>
<th>Type of National Culture</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>‘Hard Culture’</td>
</tr>
<tr>
<td>1.</td>
<td>Timeframe</td>
<td>Short-term results</td>
</tr>
<tr>
<td>2.</td>
<td>Point of interests</td>
<td>Task-orientation</td>
</tr>
<tr>
<td>3.</td>
<td>Driving factor</td>
<td>Goal</td>
</tr>
<tr>
<td>4.</td>
<td>Promoted attributes</td>
<td>Performance and Mobility</td>
</tr>
<tr>
<td>5.</td>
<td>Motto</td>
<td>Changeability of each part</td>
</tr>
<tr>
<td>6.</td>
<td>Decision-finding</td>
<td>Fast (Top-down) decision</td>
</tr>
<tr>
<td>7.</td>
<td>Goal</td>
<td>Transparency</td>
</tr>
<tr>
<td>8.</td>
<td>Strategy</td>
<td>Clarity</td>
</tr>
<tr>
<td>9.</td>
<td>Characteristic</td>
<td>Predictability</td>
</tr>
<tr>
<td>10.</td>
<td>Feedback</td>
<td>Controllability</td>
</tr>
</tbody>
</table>

**Source:** Laurent, A., (1997), Blue and Green Cultures, presented at the Europreneurs Seminar, Colmar.

### Table 2.3: Drawbacks of Hard Culture and Soft Culture

<table>
<thead>
<tr>
<th>No.</th>
<th>Hard Culture</th>
<th>Soft Culture</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Over-structured</td>
<td>Confusion</td>
</tr>
<tr>
<td>2.</td>
<td>Too short-term orientation</td>
<td>Little attention to short-term</td>
</tr>
<tr>
<td>3.</td>
<td>De-motivation of individuals</td>
<td>Restrictions for individuals</td>
</tr>
<tr>
<td>4.</td>
<td>Numbers-obsession</td>
<td>Group-obsession</td>
</tr>
<tr>
<td>5.</td>
<td>Ruthlessness</td>
<td>Difficulty to change</td>
</tr>
<tr>
<td>6.</td>
<td>Too focused on planning</td>
<td>Too focused on vision</td>
</tr>
<tr>
<td>7.</td>
<td>Over-management</td>
<td>Redundancy</td>
</tr>
<tr>
<td>8.</td>
<td>Disproportionate trust on system</td>
<td>Disproportionate power game</td>
</tr>
<tr>
<td>9.</td>
<td>Rigidity</td>
<td>Chaos</td>
</tr>
<tr>
<td>10.</td>
<td>Overemphasis on market</td>
<td>Overemphasis on hierarchy</td>
</tr>
</tbody>
</table>

**Source:** Laurent, A., (1997), Blue and Green Cultures, presented at the Europreneurs Seminar, Colmar.
2.6.3 Normative Context

The above-mentioned national cultures also define the normative regulation in each country. The normative context of corporate governance has two dimensions which both have to be fulfilled, as depicted below in Figure 2.5.

![Figure 2.5: Corporate Governance Compliance](image)

**Figure 2.5:** Corporate Governance Compliance

**Source:** *Integrity Corporate Governance*, Hilb, M. (2004), Springer, New York

**a. Legality of the Management Board**

According to Hilb (2004), the legality of corporate governance is differentiated according to legal regulation and non-binding recommendation, which differ per each country. A country with many publicly-listed companies on the stock market has emphasis on hard law with some soft-law recommendations on smaller and non-listed firms, whereas a country with fewer listed companies relies on numerous regulations in the form of non-binding soft law.

In the Zimbabwean context, agreement on what good corporate governance is has resulted in explicit corporate governance codes. Implementation has however been slow due to the domestic influence of political, economic and cultural contexts.
b. Legitimacy of the Management Board

Hilb (2004) asserts that all corporate governance scandals point to a lack of integrity as a major cause of mismanagement. A company can have an inspiring vision and mission statements, a best-practice-oriented corporate governance code of conduct and the strictest laws and regulations, but without the integrity of its top management, all is to no avail. The Enron case emphasizes precisely this point. One-year before Enron downfall, it had been regarded as having one of the best-practice guidelines in the US. The issue of integrity is also important in Zimbabwe, as the financial crisis is believed to have also resulted from a lack of integrity, not only among its corporate leaders, but also political leaders.

2.8 Corporate Governance Life Cycle

Todd (2006):

Shows how different governance practices are associated with evolving business performance priorities through a typical corporate lifecycle in four phases and coined it Governance Lifecycle Model.

![Governance Lifecycle Model](image)

**Figure 26: Governance Lifecycle Model**

**Source:** *Corporate Governance Best Practices: One size does not fit all*, TE Research, Todd, A., (2006), TE Research.
Todd (2006) identified and explained the four governance styles below:-

1. **Control** – management-controlled companies have **better sales growth** performance;

   **Formation Phase**: *Entrepreneurial* companies benefit more from having corporate governance practices that allow management more **Control** over the board, because entrepreneurial start-ups are typically owner managed and strategically focused on sales **revenue** growth;

2. **Trust** - companies with corporate governance practices that help shareholders establish trust, enjoy **higher valuations**;

   **Investment Phase**: *State owned firms* involved in **mergers and acquisitions (M and A)** benefit from governance practices that build investor **Trust**, because when raising capital or acquiring assets, companies strategically focus on leveraging higher **valuations**.

3. **Sovereignty** - companies with truly independent boards, both from management and shareholders, are **more profitable** (return on equity and profit margins);

   **Production Phase**: *More established state owned enterprises* benefit from having corporate governance practices that support board **Sovereignty**, because public companies need to satisfy more stringent corporate governance standards, and capital markets expect them to strategically optimize their businesses for **profitability**.

4. **Influence** – state companies with boards that are strongly influenced by management and where the shareholder has fewer rights **pay out more** to the state in dividends.

   **Harvest Phase**: *Mature or declining state owned* companies does benefit from having corporate governance practices that allow management to
Influence board decisions, because a reliable, “cash cow” company may benefit from strategically adopting a proceeds distribution strategy on behalf of the government.

2.7 Chapter summary
The second chapter is about literature review on corporate governance frameworks. The researcher begins with an Introduction, and then followed by Definitions of corporate governance and Nature of governance in this order. On corporate governance models the researcher highlights each model giving each background and analysis. The models being The Shareholder, Stakeholder, Agency theory, Stewardship theory, Institutional theory and Organisational, Resource-dependence and Research – based theory. The researcher took an overview on how internal controls applications relate to corporate governance. The chapter closed with a Situational corporate governance analysis of Zimbabwe in three contexts which are Institutional, National culture and the Normative. This chapter also has some figures and tables as diagrammatic and visual enhancements on corporate governance literature.
Chapter Three
3.0 Research methodology

3.1 Introduction
This section describes the overall research approach used in this study. Major areas covered include research design, target population, sampling methods, research instruments used, data collection procedures and issues pertaining to validity and reliability of the research process.

3.2 Research design
Keyton (2001) defines a research design as an overall strategy aimed at establishing the required data and information from the research field. The researcher’s aim is to establish the position of ZESA in the performance of corporate governance activities. Based on the type of research questions, there are about six directions that scientific research can take and these are descriptive, explorative, evaluative, predictive, explanatory and control. The earlier mentioned research questions belong to the explorative type. Especially given that research examining the use of the holding company structure for state-owned enterprises has not been found, it is logical that this research is exploratory in nature. The overall approach used in the study includes descriptive tools taking a case study dimension. Descriptive study enables bringing out the main features and general evaluation of governance aspects. A case study of ZESA is highly beneficial since it allows a deeper and focused analysis of issues on corporate governance and ethics given the limitation in time. The respondents to be included are those closely linked to ZESA operations.

Many variables are not known in regard to the success of ZESA Holdings in corporate governance practice, especially in relationship to the structure of holding company that it has. A literature review reveals that management research has been using case study as one of the most frequently applied methodologies, especially when the number of variables of interest far outstrips the number of data points (Yin, 1994). Case study is also considered to be an appropriate tool in the early development of a management theory when key variables and their relationships
have yet to be established (Yin, 1994; Eisenhardt, 1989, p.532). However, when the goal is to find the success factors of the holding company model and see the applicability for the context of Zimbabwe, it is an adequate approach.

The case study method consists of a mixture of the following various qualitative techniques (Ruigrok, Gibbert, Kaes, 2004; Yin, 1998, p.229):

- Documentation and archival study
- Interview
- Questionnaires
- Direct observations and participant observation
- Physical artifacts (ethnographical or anthropological features)

This case study on ZESA Holdings relied on open semi-structured interviews, document based study and in some instances annual reports and press article analysis. A longer encounter and more in-depth relationship with the object are required to apply observation techniques, while interviews and document study require shorter periods of time, as long as the right information and right person to be interviewed can be accessed. Several critical points that the researcher considers while doing case study research in this area are the construct validity, internal validity, external validity and reliability of the case study method (Ruigrok et al, 2004). The concept validity of a procedure refers to the quality of the operationalisation of the relevant concept, to the extent to which a study investigates what it claims to investigate. It is important to consider concept validity during the data collection phase. Internal validity or logical validity refers to the causal relationships between variables and results and whether there is a compelling argument that will support the research conclusions, (Yin, 1994). Internal validity is important in the data analysis phase.
External validity has received the most attention from academia, especially since case study researchers are exposed to institutional pressure to generalize the research results (Ruigrok et al, 2004). External validity refers to the possibility of determining general findings for a wider context. More so for management research with close links to practice, the chances of a study being read is surely higher when there are practical conclusions that can be applied not only within the specific context of the study. The researcher views case study as the best method for this piece of work, given that it is actually the success or failure of ZESA Holdings that makes the study of its corporate governance model interesting. By demonstrating that ZESA’s performance indeed comes from a set of corporate governance practices that exceeds those of other Zimbabwean SOEs, the Zimbabwean public (business community, media and the society at large) might learn that there is homework to be done by Zimbabwean SOEs in the area of corporate governance. It might be better to understand what enables the growth of such a holding structure to lead to such expansion, rather than merely being critical of ZESA’s expansion into other economic affairs.

3.3 Population of the study
Johnson and Gill (2002) defines a population as a group of interest to the researcher. It is upon this group that the researcher would generalise the results of the study. The population considered in this study included shareholders, ZESA employees, customers and management.
3.4.0 Sampling Size and Sampling Procedure

Leary (2004, p10) defines sampling as the process by which a researcher selects a sample of participants for a study from the population of interest. Non-probability sampling was used in selecting the elements of the sample. Quota sampling, which ensures that the sub-groups of the target population are sufficiently represented in the sample, was used. A quota of respondents from the administration department was taken, with the remaining coming from all the other departments of the firm. Respondents to fill these quotas were selected mostly on a judgmental basis. The sample size included 10 general hands, 20 semi-skilled, 20 artisans, 20 professionals, 20 middle managers, 25 senior managers, 7 executive management and 5 directors.

3.4.1 Sample key issues

The research is aimed at obtaining an in-depth review on what the organization is doing in terms of corporate governance dimensions. The major aspects under evaluation are employee awareness, corporate governance issues, corporate governance training programs, environmental protection, performance and ZESA projects. This would enable the organization to upgrade its operations in terms of corporate governance framework.

3.5 Data types

The term qualitative is used to describe types of non-numerical information. The term is different from the term quantitative data, in which items are described in terms of quantity and in which a range of numerical values are used without implying that a particular numerical value refers to a particular distinct category, (www.wikipedia.org/wiki/Qualitative_data,2012). However, data originally obtained as qualitative information about individual items may give rise to quantitative data if they are summarised by means of counts and conversely, data that was originally
quantitative are sometimes grouped into categories to become qualitative data, for example, income below $20,000, income between $20,000 and $80,000, and income above $80,000.

Qualitative data describe items in terms of some quality or categorization that in some cases may be informal or may use relatively ill-defined characteristics such as warmth and flavour, such subjective data are sometimes of less value to scientific research than quantitative data. However, qualitative data does include well-defined concepts such as gender, nationality or commodity type. Qualitative data can be binary i.e. pass-fail, yes-no, or categorical data.

In regression analysis, dummy variables are a type of qualitative data. For example, if various features are observed about each of various human subjects, one such feature might be gender, in which case a dummy variable can be constructed that equals 0 if the subject is male and equals 1 if the subject is female. Then this dummy variable can be used as an independent variable i.e. explanatory variable in an ordinary least squares regression. Dummy variables can also be used as dependent variables, in which case the probity or logistic regression technique would typically be used.

**Table 3.1: Qualitative Data /Quantitative Data Comparison**

<table>
<thead>
<tr>
<th>Qualitative data</th>
<th>Quantitative data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deals with descriptions.</td>
<td>Deals with numbers.</td>
</tr>
<tr>
<td>Data can be observed but not measured.</td>
<td>Data which can be measured.</td>
</tr>
<tr>
<td>Colors, textures, smells, tastes, appearance, beauty.</td>
<td>Length, height, area, volume, weight, speed, time, temperature, humidity, sound levels, cost, members, ages.</td>
</tr>
<tr>
<td>Qualitative → Quality</td>
<td>Quantitative → Quantity</td>
</tr>
</tbody>
</table>

**Source:** http://www.rogers-international.com/new/downloads/publicspeaking/What is the difference between qualitative and quantitative research.DOI, July, 29, 2012.
Primary data is data observed or collected directly from first-hand experience. Published data and the data collected in the past or from other parties is called secondary data, (www.businessdictionary.com, 2012). Example of secondary data is the information obtained from annual reports whilst findings from the questionnaire is primary data.

3.6.0 Development of data collection methods

3.6.1 Questionnaire Survey

Questionnaires can provide insight into individual perceptions and attitudes as well as organizational policies and practices. Moreover, given the strengths of questionnaires for assessing organizational concerns, observing trends and evaluating progress, it is not surprising that they are used extensively in organizational research, (Kraut, 1996).

3.6.2 Telephone

The researcher uses questionnaires in the research by communicating with the respondents through the telephone, (Johnson and Gill, 2002). The researcher introduces himself to the respondent, expresses the objective of the questionnaire and ensures that all information provided will be kept strictly confidential and used for aggregate analysis.

Advantages

There is immediate response.

It is cheaper and time saving

Disadvantages
Respondents may not be willing to provide information for confidential reasons in preference to face to face questionnaire.

Not all respondents may be reached on telephone

3.6.3 E-mail
The questionnaires are sent to respondents by electronic mail and are expected to answer them back.

Advantages

It is cheap and instant.

Respondents have ample time to respond to the questions.

Disadvantages

The e-mail could be mal-functional where power cuts and failure of e-mail server occur.

Some respondents may not all have access to the e-mail.

3.6.4 Personal Interviews
The researcher interacted directly with research subjects and solicited for views based on the structured questionnaire, (Johnson and Gill, 2002). This enabled immediate feedback and probing for additional comments. Non verbal communication and responses are acknowledged in this form of research procedure.

3.6.5.0 Depth Interview
This is an interview that is both purposeful and personal discussion between two or more people with the conversation being initiated by the interviewer with the intention of obtaining relevant research information, (Johnson and Gill, 2002). This method is really useful in areas where technical knowledge is required. In this research on the impact of corporate governance practice, management in this field provides in-depth analysis of corporate governance observance in ZESA. For the
management category, depth interviews lasting an approximate total of six hours were conducted with twelve respondents. A laid down Discussion Guideline was used to get management opinion relating to the subject matter of the study. Responses from the depth interviews were written down in a notebook, video or audio tape recording.

3.6.5.1 Advantages of In-depth Interview
Condensed and synthesized data can be obtained through face to face interview with the opinion group. This is ideal in securing data, opinions, suggestions and recommendations about corporate governance practice ratings from gurus from various industries and companies.

3.6.5.2 Disadvantages of In-depth Interview
The fact that experienced personnel from different backgrounds tends to be highly technical. There were problems of technical jargon that tended to confuse the respondents.

3.7.0 Components of the Questionnaire
A structural questionnaire which is divided into five sections is to be drawn. The questions require the respondents to identify ZESA’s corporate governance activities and rank their impact to the society. The major sections included the screening section, demographic section, the objective rating questions section and an open ended question.

The screening questions seek to establish the suitability of the research subject at the start of the interview, (Kraut, 1996). Demographic section contained length of service, sex, position and educational qualifications. The objective rating questions were developed directly from the research objectives and they aim to evaluate ZESA’s corporate governance performance basing on its profitability, board effectiveness and board independence.
The types of questions included in the questionnaire are open ended and closed ended questions. Open ended questions allow free expression of views and opinion by research subjects. Closed ended questions allow respondents to tick their choice from the provided lists of alternatives.

3.7.1 Advantages of the Questionnaire Method
Respondents from the research problems were conveniently located in a defined geographical area, which rendered the researcher low on time and finances. The cost of producing and administering the questionnaire could relatively be cheaper as the questionnaire can be posted.

There was reduced element of bias because of the time frame that was given to respondents to respond to the questionnaire at their confidence.

The researcher found the questionnaire method to be a standard medium because it appealed to respondents who had the lowest level of education.

3.7.2 Disadvantages of Questionnaire Method
Very low respondents’ rate and bias, in some cases the researcher had to make follow up and encourage respondents to answer question while he waited. The researcher was aware that this was prone to bias. Wimmer and Dominic (2000) professed that a questionnaire has a low return rate of 10% to 40%, which is a disadvantage in the use of questionnaires. The demerit was overcome by use of short and neutral questions that are easy to answer.

Questionnaire may require respondents to give information on topics unfamiliar to them.

The response rate especially from mailed questionnaire tends to be generally low. Respondents may not explain their answer. Respondents may feel uneasy and adopt avoidance tactics if the question is too deep. Meaning of the question may not be clear leading to inaccurate responses.
3.8 Observation Guide
Observational research is a type of explanatory research where fresh and useful data can be gathered by the researcher by means of observing the relevant factors and settings of the research (Borg and Gall, 1993).

3.9 Validity and reliability of data
Having utilized the data collection methods outlined above, data is said to be valid if it does in fact answer the objectives stated at the beginning of the research, (Kraut, 1996). A study is said to be reliable if the data collected in the same instrument produce the same answers when asked to a similar sample.

Qualitative data collected will need to be measured to establish its validity and for most instances if collected using questionnaires qualitative answers will need to be assumed to a scale in order to introduce measurability. Questions asked maybe open ended, requiring respondent’s own words or closed ended, the respondent merely checks the appropriate answer from a list of options. While open ended questions yield more insightful answers they are also difficult to analyze and closed ended questions while being limited in response are easier to code and analyze.

3.10.0 Data analysis and presentation
For relative ease in collecting and analyzing closed ended questions in qualitative research researchers sometimes present respondents with a list of product or service attributes in which they are asked to indicate their relative feelings or evaluations , (Johnson and Gill, 2002). These are mostly captured using attitude scales and below are three frequently used attitude scales:

Likert scales
Semantic scales
Rank order scales.
3.10.1 Likert Scale
This is a relatively easy to prepare, interpret and administer scale and is also simple for respondents to answer, (Johnson and Gill, 2002). Respondents either tick or write the number corresponding to their level of agreement and disagreement with each series of statements that describe the attitude-object under investigation. An example of the five point Likert scale is shown below:

1 = Strongly Agree

2 = Agree

3 = Average or Indifferent

4 = Disagree

5 = Strongly Agree

The scale should have an equal number of agreement- disagreement choices on either side of the neutral choice. The major benefit for this type of scale is that it gives the researcher the option of considering the responses to each statement separately or combining the responses to produce an overall summated score and is hence sometimes referred to as the summated score.

3.10.2 Semantic Differential Scale
This scale is also relatively easy to construct and administer but contrary to the Likert scale which can have up to five options it consists of a series of bipolar adjectives anchored at the ends of an odd numbered continuum, (Johnson and Gill, 2002), for example:-

Good………………Bad

Moral………………Immoral
This scale was developed by Osgood and his colleagues, respondents are asked to evaluate a concept, product or company on the basis of each attribute by checking the point on the continuum that best reflect their feelings or beliefs. Sometimes an even numbered scale maybe used to eliminate the neutral answer option. Its major benefit is that is can be used to develop graphic consumer profiles of the concept under study or compare consumer perceptions of competitive products.

3.10.3 Rank Order Scale
When using this scale respondents are asked to rank products or services in order of preference using criteria such as overall quality or value for money. Rank order scaling is very important for competitive analysis and help in identification of areas of improvement, (Johnson and Gill, 2002).

3.11 Research limitation
The reliability of the case study method has to be maintained such that those researchers who follow will arrive at the same insights if they conduct the study along the same steps again, (Denzin and Lincoln, 1994). Transparency and replication by providing complete documentation and a database of the research procedure and all of its results represent the best way to maintain reliability,(Yin, 1994).One major point that the researcher had to be aware of in doing case study research in this area is the possibility of having selection bias, (Ruigrok, Gibbert and Kaes, 2004), that is, only highlighting positive outcomes from the case study that support the expected conclusion and add value, while downplaying negative points which contribute less to the goal of the research. On the other hand, a dilemma also arises when one conducts a case study based on a certain company’s success or failure. The result of the study will strongly affect the image and standing of the company in the public, which could later also affect the value of the company. It would be unlikely for the company to be willing to allow both the strengths and
weaknesses of its model to be revealed. However, it is only through transparent research covering both sides that lessons can be learned from the case.

Time and resources to effectively analyze every instance in the organization limited the scope of the data. The time was not enough to make wide consultations with customers, employees and management. This affected the quantity of data gathered. Time limitations also affected the quality of data as generalizations were made basing on available data, which may not have been adequate.

There was also difficulty in getting all the necessary information from employees and management of the company. Some information was not readily available hence the information took time to gather. Some respondents were not aware of some activities as part of governance responsibility.

This research is modest in correlating corporate governance and corporate performance. It describes within one particular industry sector how corporate governance mechanisms may be limited in effectiveness. Given that these firms are not publicly traded, it is more difficult, from the standpoint of data collection, to prove that these are well or not well run firms. Even if one could collect the data successfully, there might be significant internal problems that would limit any conclusions that one could draw about SOE governance. This is solved by holding other things constant.

3.12 Chapter conclusion
Chapter Three introduces the research methodology aspects and the design of research. Population of the study lists all elements of the study which stand an equal chance of study. Sampling describes the selection and identity of those elements chosen to represent the whole population. Data types denote type of information and significance of such description. The Data collection methods tell how research data was collected without diluting it. Data analysis and presentation reflects how information was sifted in order to obtain some meaning out of the data. Validity and reliability stressed on how far such findings can be replicated should such a
research were to be repeated. Research limitation showed what challenges were met and what measures were taken to mitigate against such so as to remain objective.
Chapter Four

4.0 Research findings, discussion and analysis

4.1 Introduction

Table 4.1: ZESA Employee Headcount as at 31/12/2010

<table>
<thead>
<tr>
<th>Employee category</th>
<th>Establishment</th>
<th>Manning levels</th>
<th>Variance</th>
<th>% Strength to Establishment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Male</td>
<td>Female</td>
<td>Total</td>
<td></td>
</tr>
<tr>
<td>Board</td>
<td>9</td>
<td>8</td>
<td>1</td>
<td>9</td>
</tr>
<tr>
<td>Executive management</td>
<td>9</td>
<td>7</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>Senior management</td>
<td>68</td>
<td>64</td>
<td>8</td>
<td>72</td>
</tr>
<tr>
<td>Middle management</td>
<td>205</td>
<td>143</td>
<td>21</td>
<td>164</td>
</tr>
<tr>
<td>Professionals</td>
<td>824</td>
<td>533</td>
<td>87</td>
<td>620</td>
</tr>
<tr>
<td>Skilled</td>
<td>1664</td>
<td>1078</td>
<td>198</td>
<td>1276</td>
</tr>
<tr>
<td>Semi-skilled</td>
<td>4509</td>
<td>3313</td>
<td>550</td>
<td>3863</td>
</tr>
<tr>
<td>General workers</td>
<td>235</td>
<td>83</td>
<td>16</td>
<td>99</td>
</tr>
<tr>
<td>Total</td>
<td>7523</td>
<td>5229</td>
<td>881</td>
<td>6110</td>
</tr>
</tbody>
</table>

Source: ZESA Holdings 2010 Group Annual Report
### Table 4.2: 2010 Board meeting attendance statistics

<table>
<thead>
<tr>
<th>Number of meetings</th>
<th>Board</th>
<th>A&amp;RMC</th>
<th>IF&amp;PC</th>
<th>HRMC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dr. N. Madziva (Chairman)</td>
<td>10</td>
<td>-</td>
<td>8</td>
<td>6</td>
</tr>
<tr>
<td>Eng.S. Mangwengwende (D/Chair)</td>
<td>10</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>*Eng.B. Rafemoyo (CEO)</td>
<td>7</td>
<td>2</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>Eng.R. Maasdorp</td>
<td>9</td>
<td>-</td>
<td>7</td>
<td>-</td>
</tr>
<tr>
<td>F. Chirimuuta</td>
<td>5</td>
<td>-</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>Eng.A. Nyambayo</td>
<td>10</td>
<td>4</td>
<td>-</td>
<td>6</td>
</tr>
<tr>
<td>Eng.S. Hazangwi</td>
<td>10</td>
<td>4</td>
<td>8</td>
<td>-</td>
</tr>
<tr>
<td>Mrs.G. Ngoma</td>
<td>9</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Eng.K. Rietz</td>
<td>9</td>
<td>4</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>**Mr.E.T. Chikwenhere</td>
<td>3</td>
<td>4</td>
<td>8</td>
<td>2</td>
</tr>
</tbody>
</table>

**Source:** ZESA Holdings 2010 Group Annual Report

**Key:**
- A&RMC - Audit & Risk Management Committee
- IF&PC - Investment, Finance and Procurement
- HRMC - Human Resources Management Committee

ZESA Holdings has a board of 8 independent directors and a Chief Executive Officer and has 6101 employees as at 31st December 2010. The main board has three sub-committees, each chaired by an independent director. The sample size included 10 general hands, 20 semi-skilled, 20 artisans, 20 professionals, 20 middle managers, 25 senior managers, 7 executive management and 5 directors.
4.2 Survey response rate

Table 4.3: 2012 Survey response rates

<table>
<thead>
<tr>
<th></th>
<th>Sample size</th>
<th>Survey response</th>
<th>Response rate %</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board</td>
<td>5</td>
<td>5</td>
<td>100%</td>
<td>0.00</td>
</tr>
<tr>
<td>Executive management</td>
<td>7</td>
<td>7</td>
<td>100%</td>
<td>0.00</td>
</tr>
<tr>
<td>Senior management</td>
<td>25</td>
<td>22</td>
<td>88%</td>
<td>2.12</td>
</tr>
<tr>
<td>Middle management</td>
<td>20</td>
<td>16</td>
<td>80%</td>
<td>2.83</td>
</tr>
<tr>
<td>Professionals</td>
<td>20</td>
<td>17</td>
<td>85%</td>
<td>2.12</td>
</tr>
<tr>
<td>Skilled</td>
<td>20</td>
<td>15</td>
<td>75%</td>
<td>3.54</td>
</tr>
<tr>
<td>Semi-skilled</td>
<td>20</td>
<td>14</td>
<td>70%</td>
<td>4.24</td>
</tr>
<tr>
<td>General workers</td>
<td>10</td>
<td>4</td>
<td>40%</td>
<td>4.24</td>
</tr>
<tr>
<td>Total</td>
<td>127</td>
<td>100</td>
<td>79%</td>
<td>19.09</td>
</tr>
</tbody>
</table>

Source: ZESA Holdings 2010 Group Annual Report

The average response rate was 79 percent with a standard deviation of 19.09. A survey’s response rate is the result of dividing the number of people who were interviewed by the total number of people in the sample who were eligible to participate and should have been interviewed. A low response rate can give rise to sampling bias if the no response is unequal among the participants regarding exposure and or outcome. A survey's response rate is viewed as an important indicator of survey quality. It has been found that higher response rates assure more accurate survey results.

The standard deviation is commonly used to measure confidence in statistical conclusions in addition to expressing the variability of a population. For example, the
margin of error in the research data is determined by calculating the expected standard deviation in the results if the same study were to be repeated several times. The reported margin of error is typically about twice the standard deviation - within the radius of a 95 percent confidence interval.

4.3.0 Demographic information

4.3.1 Gender outcome

Table 4.4: ZESA Gender Statistics

<table>
<thead>
<tr>
<th>Sex</th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>57</td>
<td>43</td>
</tr>
</tbody>
</table>

Figure 4.1: Pie chart showing gender balance

Adapted from own research findings of this study, 2012.

It appears that corporate governance practice is not gender sensitive; therefore gender is not a factor. The disparity in quantum is obtained from the human base in
the organization prior this research. Ordinarily women are more meticulous and elaborate in assigned tasks, however in this instance such trace was not observed. Females exhibited similar male tenacity and tendencies.

4.3.2 Academic profile

Table 4.5: Academic profiles of the sample set

<table>
<thead>
<tr>
<th>Education level</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Post graduate</td>
<td>16</td>
</tr>
<tr>
<td>Undergraduate</td>
<td>32</td>
</tr>
<tr>
<td>Diploma</td>
<td>21</td>
</tr>
<tr>
<td>Apprenticeship</td>
<td>15</td>
</tr>
<tr>
<td>A Level</td>
<td>3</td>
</tr>
<tr>
<td>O Level</td>
<td>10</td>
</tr>
<tr>
<td>Other</td>
<td>3</td>
</tr>
</tbody>
</table>
Education appears to be a factor worth noting when one comes to issues of corporate governance practice within ZESA Holdings. The employment entry point is through one’s academic qualifications and later experience and proven ability. Senior positions appear to be occupied by degreed, largely technical persons who later acquire commercial qualifications through further studies.

### 4.3.3 Length of service

**Table 4.6: Length of service**

<table>
<thead>
<tr>
<th>Length of service</th>
<th>x&lt;5 yrs</th>
<th>11</th>
</tr>
</thead>
<tbody>
<tr>
<td>5&lt;x&lt;10 yrs</td>
<td>38</td>
<td></td>
</tr>
<tr>
<td>x&gt;10 yrs</td>
<td>54</td>
<td></td>
</tr>
</tbody>
</table>
The length of employees’ service appears to have a low marginal utility of corporate governance practice. Duty of care diminishes with the getting longer period of one’s engagement. However this appears to be reduced as one climbs up the ladder through promotions. Stagnation seems to cause employees to engage in bad corporate governance practice as grumbling sets in and insubordination tends to increase.

**4. 4 Level of awareness to Corporate Governance best practices by key stakeholders**
Table 4.7: Survey response rate

<table>
<thead>
<tr>
<th>Category</th>
<th>Sample size</th>
<th>Survey response</th>
<th>Response rate %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board</td>
<td>5</td>
<td>5</td>
<td>100%</td>
</tr>
<tr>
<td>Executive management</td>
<td>7</td>
<td>7</td>
<td>100%</td>
</tr>
<tr>
<td>Senior management</td>
<td>25</td>
<td>22</td>
<td>88%</td>
</tr>
<tr>
<td>Middle management</td>
<td>20</td>
<td>16</td>
<td>80%</td>
</tr>
<tr>
<td>Professionals</td>
<td>20</td>
<td>17</td>
<td>85%</td>
</tr>
<tr>
<td>Skilled</td>
<td>20</td>
<td>15</td>
<td>75%</td>
</tr>
<tr>
<td>Semi-skilled</td>
<td>20</td>
<td>14</td>
<td>70%</td>
</tr>
<tr>
<td>General workers</td>
<td>10</td>
<td>4</td>
<td>40%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>127</strong></td>
<td><strong>100</strong></td>
<td><strong>79%</strong></td>
</tr>
</tbody>
</table>

Figure 4.4: Response rate bar chart

Adapted from own research findings.
Response rate was extremely high as one went up the level of seniority. This indicates that most managers are aware and conscious of corporate governance issues within the firm. Observance or otherwise is therefore not connected to lack of knowledge of corporate governance aspects. However low level employees seem to believe that the corporate governance is their managers’ responsibility and does not in any way link them.

4.5 Extent of adherence of application of corporate governance best practices by ZESA Holdings

ZESA Holdings (Private) Limited is a holding company which is run by the main board of directors that would have been appointed by the Minister of Energy and Power Development. Its subsidiaries have their own Board of Directors that are appointed by ZESA Holdings Main Board of Directors as the Shareholder. The ZESA Holdings corporate governance practices are underpinned by accountability, transparency, fairness and responsibility to good performance. ZESA Holdings is guided by The Corporate Governance Framework for State Enterprises and Parastatals over and above being benchmarked against international developments as well as King II (2002) and King III (2009) Reports. The ZESA Board and shareholder relationship is governed by the shareholder compact i.e. a sort of a performance contract which also observes the normal principles of Companies Act Chapter 24:03, Public Finance Management Act and the Audit Exchequer Act. The board champions both proper internal controls and effective management. ZESA Holdings board replicates its relationship with the shareholder, with its subsidiary boards under Terms of Reference Agreement. The main board has a unitary structure made up of eight non-executive directors and the Group Chief Executive Officer being the only executive member. Board composition characteristics are diverse professional profiles, blend of youth and experience whose skills are supplemented in board sub-committees by selected executive manager who attend as ex-officio committee members. Non-executive directors serve 3 year terms are
subject for reappointment at the pleasure of the Minister of Energy and Power Development. Since ZESA Holdings inception 4 annual general meetings have been held. All non executive directors received induction and orientation on corporate governance and the role clarity between management and the board. The directors’ perquisites are disclosed in the Annual report. The board has the authority to delegate its powers through board sub-committees, the Group Executive Management Committee and the Management Advisory Committee without diluting its accountability and responsibility.

The board comprises of four sub committees namely, Audit and Risk Management Committee (ARMC), Investment, Finance and Procurement Committee (IFPC), Human Resources Management Committee (HRMC) and Strategy Committee (SC). The ARMC meets quarterly and its key result areas include internal control systems, risk management, financial reporting, and internal and external audit functions. The IFPC meets at least quarterly and its areas of focus cover investments, financing and procurement policies, budgeting and monitoring of group financial performance. The HRMC meets at least quarterly and it focuses on corporate human resources policy. The SC drives group and subsidiary strategy. SC membership spans across subsidiaries. The company as a whole affirms its commitment to preserve the environment without compromising the current needs and incapacitating future generations. A National Employment Council and Works Council is a vehicle of involving non-management employees into the affairs of the group as a whole.

Notwithstanding the above efforts corporate governance is yet to command respect from all stakeholders. A director flouted a conflict of interest when he opened his own private offices at Powertel premises without the seeking the necessary approval. Low level employees see corporate governance as a preserve area for top management. Employees from skilled level to general staff failed to competently and diligently answer the questionnaire despite their relative modest educational background. ZESA employees were involved in the pilferage and vandalism of power, transformer oil, copper and aluminium infrastructure (Group Annual Report,
Demands for salary review upwards are prevalent despite losses being incurred. 35% of the respondents confirmed allegations of corruption being leveled against ZESA workers especially on new connection and power disconnection.

4.6 Impact of non-observance of corporate governance best practices on performance and firm value

Table 4.8: 2010 ZESA Internal Crime Statistics

<table>
<thead>
<tr>
<th>Crime</th>
<th>No. of cases reported</th>
<th>No. of cases cleared</th>
<th>Value of goods (us$ '000')</th>
<th>% us$ recovered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Billing fraud by ZESA staff and others</td>
<td>29</td>
<td>18</td>
<td>3033.1</td>
<td>318.6</td>
</tr>
</tbody>
</table>

Source: ZESA Holdings Group Annual Report, 2010

Table 4.9: Financial ratios performance indicators

<table>
<thead>
<tr>
<th>INDICATOR</th>
<th>2010</th>
<th>2009</th>
<th>Meaning for examination</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Return on sales</td>
<td>-1.27%</td>
<td>-11.54%</td>
<td>Profit Margin = OPBT/Net Sales;</td>
</tr>
<tr>
<td>2. Return on total assets</td>
<td>-0.70%</td>
<td>-5.69%</td>
<td>Amount of OPBT generated by total assets; Position improved but assets still losing cash.</td>
</tr>
<tr>
<td>3. Return on capital employed</td>
<td>-0.61%</td>
<td>4.73%</td>
<td>Firm’s efficiency at generating profits from every dollar of net assets; Negative return means inefficiency and situation getting worse.</td>
</tr>
<tr>
<td>4. Current ratio</td>
<td>0.40:1</td>
<td>0.32:1</td>
<td>Ability of firm to meet short</td>
</tr>
</tbody>
</table>
5. **Quick ratio**  
|    | 0.29:1 | 0.22:1 | Similar to current ratio, but no inventory used for calculation because of its transferability to cash; Position deteriorated for 2 year period |

6. **Average collection period (days)**  
|    | 162    | 157    | Days one company need to collect their receivables; The longer period reveals the a worsening credit sales management |

7. **Debt ratio**  
|    | 0.84:1 | 0.77:1 | Proportion of debt and equity that a firm finances its assets; Position worsened under the period reviewed. |

8. **Debt service coverage**  
|    | 0.08 times | 0.03 times | Portion of debt a firm uses to finance its assets; Debt overhang worsening. |

9. **Total power (GWh = giga watt hours)**  
|    | 10131 | 9248 | Total power available grew marginally by 9.5% to 2009 level. |

10. **Revenue ($us)**  
|    | 575,611,030 | 503,748,956 | Revenue grew by 14% on the backdrop of increased power supply. |

10. **Net loss ($us)**  
|    | 33,943,610 | 101,387,378 | Loss reduced by 66% from the previous period against an increase in sales. |
The company’s going concern as at 31<sup>st</sup> December 2010 is severely compromised as its current liabilities outstrip its current assets by US$531 486 660. Going by financial statements, the 2009 ZESA can achieve better returns if it sells more power to its customers.

**4.7 Discussion on Directors’ responses**

According to King III (2009) report the board should act as the focal point for Corporate Governance. However my research findings revealed that corporate governance practice lacks ownership as the state assumes multiple roles at the same time being the board, regulatory and shareholder. The board should assume full responsibility for corporate governance issues and should be in compliance to statutory provisions. Such state interference has absolved the board of its full responsibility for any misgovernance for as long as they are able to prove compliance to legal provisions to the powers that be. Thus the focus shifts from corporate governance to self preservation of perks and status of individual persons appointed to be directors.

King III further states that the Board should ensure that the company acts and is seen to be a responsible corporate citizen. A responsible citizen is one whose actions do not undermine the social and natural environment sustainability. The company should enable future generations to meet their needs.

The Board should cultivate and promote an ethical corporate culture, (King III, 2009). According to the directors they admitted to the above however no significant resources had been channeled to entrenching corporate governance amongst all staffing levels. Corporate governance has largely been a preserve of top management to the exclusion of middle management and below. However
individuals had become aware in the course of personal, education developmental programs.

The Board should appreciate that strategy, risk, performance and sustainability are inseparable, (King III, 2009). The directors’ views gathered does agree with Alex Todd’s (2006) research that:-

Suggests that an appropriate style of corporate governance in any business is a strategic consideration directly influenced by its relative position in the corporate lifecycle. Simply stated, different sets of governance practices are associated with distinct measures of business performance. Corporations need to actively consider their strategic priorities before adopting corporate governance reforms and corporate strategies that enhance both business performance and governance effectiveness.

The Board should consider sustainability as a business opportunity, (King III, 2009). The board held the view that sustainability presented business opportunities, to eliminate or minimise adverse consequences for ZESA Holdings, on the community and the environment and to improve the impact of the company’s operations on the economic life of the community. (Corporate Governance Best Practices: One size does not fit all, TE Research, Todd, A., (2006), TE Research)

4.8 Chapter conclusion
Chapter Four is basically about Research findings, discussion and analysis. It begins with an Introduction followed respectively by Survey response rate, Demographic information, Level of awareness to corporate governance best practices by key stakeholders, Extent of adherence of application of corporate governance best practices by ZESA Holdings, Impact of non observance of corporate governance
best practices on ZESA Holdings and ends with a Discussion on Directors’ responses. In this chapter there are information representations in the form of tables, pie charts and graphs to complement the narrative.
Chapter Five
5.0 Conclusions and recommendations

5.1 Introduction
The research concluded that ZESA Holdings has relatively poor governance given the losses it is reporting and lower return on equity and profit margin and pay out no dividends to its shareholders.

5.2 Conclusion
My findings reflected some fundamental issues facing corporate governance reform and impact which are:-

They reveal a symbiotic relationship between corporate governance practices and business strategy.

They suggest that a phased, lifecycle approach to corporate governance is an important step in moving beyond simple compliance enhancement, toward helping boards achieve a sustained and positive impact on overall business performance;

They clarify some arguments in the “shareholder versus stakeholder” debate by demonstrating how, depending on their business strategies, boards can effectively serve the interests of different stakeholders, other than equity holders alone;

They distinguish between the relative roles of control and trust in corporate governance, by recognizing that each approach to attaining required levels of stakeholder confidence may be valid, depending on the company’s business strategy; and

They reveal the essential nature of the board as a supportive and mediating paternal archetype that adaptively serves the evolving needs of the corporation throughout its lifecycle, rather than a dispassionate and rigid judge of good and bad management.
5.3 Testing of the research proposition
The method in which samples are selected to learn more about characteristics in a
given population is called hypothesis testing. The researcher tested this hypothesis:-

It is proposed that an independent board in terms of corporate governance
has no impact on performance of ZESA Holdings.

Independence of board members does affect the performance of ZESA Holdings
moreso where such appointment is based on merit. Key performance indicators
have to be established well in advance at the point of engagement. Performance
reviews have to be carried out at the end of each year rather than at the end of the
term. Annual general meetings where stakeholders can attend and interrogate board
members should be adopted. Inclusion of other stakeholders apart from the state
actors should reinvigorate board members’ accountability, transparency and
performance.

5.4 Recommendations
Different sets of governance practices are associated with distinct measures of
business performance. Therefore the ZESA Holdings board needs:-

To actively consider their strategic priorities before adopting corporate
governance reforms and corporate strategies that enhance both business
performance and governance effectiveness. It is clear that the effectiveness
of corporate boards cannot be measured simply by a regulatory checklist, but
by the ability of stakeholders to see evidence of proactive corporate initiatives
that improve business performance. When evaluating the Relationship
between Corporate Governance and Business Performance, good
governance practice is reflected by all directors attending at least 75% of
board meetings or had a valid excuse for non-attendance, board is controlled
by more than 50% independent outside directors, nominating committee is
independent, governance committee meets once a year, mandatory
retirement age for directors exists and performance of the board is reviewed
regularly. Research findings point to a strong relationship between business performance and trust-building processes as well as revealing common characteristics within groupings of governance best practices and or governance styles that correlate with distinct business performance metrics. (Corporate Governance Best Practices: One size does not fit all, TE Research, Todd, A., (2006), TE Research.)

5.5 Area of further study
It is a challenge to find ways to solve the problems of state-owned enterprises’ corporate governance practice particularly for ZESA Holdings. The pessimistic view of agency theory is that both principals and agents are human beings controlled by rational self-interested motives. This view expects a more difficult situation for social objectives to be met by state-owned enterprises while also not forgetting their target of maximization goals.

It would be of interest to investigate further the net impact of board characteristics such as listed below.

- Board Size
- CEO Duality
- Independent Directors
- Proportion of Independent to the board size
- Chairperson

The import of such a study would be to establish an optimum mix board characteristic that would smoothen state owned enterprise operations and yield an all round sterling performance. Other areas worthy researching are
Employee interests, an area relatively under-researched in corporate governance. The role of top executive management in corporate governance has also not been thoroughly explored, despite its most dominant role.
References


64. King II Committee on Corporate Governance Report, (1994)


70. La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. (1998). Corporate governance and corporate performance


Appendix I

Research Questionnaire

Research topic

The impact of corporate governance and ethical practice on performance of Zimbabwe Electricity Supply Authority Holdings

Introduction

My name is Simon R Hove, student number R0020352, an MBA student with the University of Zimbabwe’s Graduate School of Management who is conducting this research in partial fulfillment of the requirement for the degree of Master of Business Administration.

Confidentiality and use of data

Participation is voluntary and each respondent shall remain anonymous. Data collected through this questionnaire shall be solely for this research purpose and will be used in aggregate and hence remain confidential.

Results

Aggregate research results and or findings of this project shall be available upon request from me on the following contact details:

Postal: Box CY 1075, Causeway, Harare

Cell: 0772 268 282

E-mail: simonrhove@netscape.net

Supervisor: Dr. A.B. Madzivire
Appreciation

Kindly complete the entire question truthfully.

Thank you for taking your precious time to answer this entire Questionnaire.

Section A

May you tick what you consider to be your appropriate response.

1. Please indicate your sex
   Male ☐    Female ☐

2. What position do you hold in the organization?
   General ☐    Technician ☐    Junior Management ☐    Middle Management ☐
   Senior Management ☐    Director ☐    Other ☐

3. Indicate the highest level of education you have attained.
   Ordinary Level ☐    Advanced Level ☐    Apprenticeship ☐    Diploma ☐
   Undergraduate ☐    Post-graduate ☐    Other (Specify) ☐

4. How long have you served in the organization?
   5 years and below ☐    5-10 years ☐    over 10 years ☐

5. In your work, do you ever come across corporate governance issues?
   Yes ☐    No ☐

6. Have you had sight of the Zimbabwe Corporate Governance Framework of State Enterprises and Parastatals document?
   Yes ☐    No ☐
7. May you explain how this framework has impacted upon your work?
   Relevant □ Irrelevant □ Do not know □

8. Are board members’ selection and appointment a transparent process?
   Transparent □ Opaque □ Do not know □

9. Do non-executive directors enhance corporate governance to ZESA operations?
   Sometimes □ Always □ Never □ Do not know □

10. How independent is the Chairman of ZESA Holdings board?
    Very independent □ Not independent □ Cannot tell the difference □

11. How many times does the ZESA board sit in a year?
    At least 3 times per year □ At most 3 times per year □ Do not know □

12. How effective and available are the board sub-committees to ZESA business?
    Effective and unavailable □ Effective and available □
    Ineffective and available □ Ineffective and unavailable □

13. How do you view the role of Government ministers in ZESA operations and corporate governance issues?
    Helpful □ Destabilising □ Do not know □

14. Is there sufficient disclosure of firm information to all stakeholders?
    Yes □ Hardly □ Never □
SECTION B

What is the relationship between greater board independence and ZESA performance?

Are the roles amongst shareholders, board and CEO clearly defined and adequate in the Electricity Act, the supreme law?

What effect has non-adherence to corporate governance on the triple bottom Ps (i.e. profit, people and planet/environment) of ZESA?

What is the level of awareness of corporate governance and ethical practice amongst ZESA staff?

For ZESA, what is the impact of board characteristics and particularly of politically-connected directors, on profitability and labour demand?
What is the role of independent directors?

What are the advantages of the holding structure in terms of measures toward key ZESA governance reform?

What do you understand by the phrase “activity inconsistent with the ethical standards of corporate governance?”

How has corporate governance practice impacted on ZESA performance, if at all?
SECTION C

Please tick either Yes or No.

1. Should ZESA take an ethical or legal route in instituting its corporate governance framework?

   Yes  
   No  

2. Do board size and composition matter in firms such as ZESA with concentrated ownership in the hands of the State?

   Yes  
   No  

3. Does the holding structure really serve as a means to avoid conflicting objectives, minimize political interference and improve transparency in the governance of ZESA?

   Yes  
   No  

4. Can ZESA be managed under the structure of a private investment holding with the government as its major shareholder, instead of under the Ministry of SOEs as a bureaucratic government body?

   Yes  
   No  

5. How do you think the public see ZESA operations? Efficient or inefficient?

   Efficient  
   inefficient
6. Do you think there is significant corporate governance practice within ZESA?

Yes
No

7. Should board members who fail to comply with corporate governance and ethics standards be sanctioned? How severely?

Yes
No

8. If you answered Yes, please elaborate the severity

...........................................................
...........................................................
...........................................................

9. How often do you encounter ethical dilemmas?

Daily
Weekly
Monthly
Annually
Never

10. Is a written code on corporate governance helpful?

Yes
No
11. Would a board member’s career be damaged by a tender scandal in ZESA Holdings?

| Yes | No |

12. Have you ever known or suspected poor corporate governance practice in ZESA operations?

| Yes | No |

If your answer is **Yes**, please explain.

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13. Is there any room for an individual staff member in order to enhance corporate governance and ethics in ZESA Holdings?

| Yes | No |

**SECTION D**

Please tick the appropriate box whether you agree or not with the following statements. If you completely agree pick 1 and if you completely disagree then pick 5.

Strongly agree..................................................................................................Strongly disagree

1       2       3       4       5
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<th>1</th>
<th>2</th>
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<tbody>
<tr>
<td>1</td>
<td>Corporate misgovernance is not a widespread problem in ZESA.</td>
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<td>2</td>
<td>If workers do not trust management, it is only because they do not understand both management and corporate governance issues.</td>
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<td>3</td>
<td>Dishonesty is more widespread in management than in low-level employees.</td>
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<td>4</td>
<td>No matter what is done corporate governance cannot address ZESA performance issues.</td>
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<td>5</td>
<td>Poor corporate governance reflects the societal ethical standards.</td>
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**SECTION E**

Please state any other information or observation you might consider pertinent to this corporate governance impact study on ZESA Holdings that has not been asked of.

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Thank you for taking time to complete this questionnaire!