DECLARATION

I, Soviet Muropawembwa, do hereby declare that this dissertation is a 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.

Signed  
_________________________________________  Date  __________________________

Supervisor Declaration - I, .......................................................... do hereby confirm that the work reported in this dissertation was carried out by the candidate under my supervision as University supervisor. This dissertation has been submitted for review with my approval as University supervisor.

_________________________________________  __________________________
Signature Supervisor  Date
DEDICATIONS

This project is dedicated to my wife Precious and children Tawananyasha, Deborah and Tamiranashhe for giving me time to reach this stage of the degree programme.
ACKNOWLEDGEMENTS

I thank Mr G Magaramombe for his unprecedented effort to assist me with this last hurdle of the degree programme.

I also thank the MBA class of 2009 to 2011 at University of Zimbabwe for their valuable support. I was touched and moved by your support during this period.

To my parents Mr. and Mrs Muropawembwa and brothers, as well as my extended family you deserve special acknowledgement and appreciation for prayers, encouragement, motivation, support, tolerance that you rendered towards the successful completion of this programme.
ABSTRACT

The research study was an investigation of corporate governance practices within the paint manufacturing industry. The study focused on Absolute Paints Private Limited over the period January 2010 to July 2012. Quite a number of firms collapsed or suffered serious operational challenges due to dearth of or no internal controls and risk management systems in place. The study aimed to prove or disprove the proposition that Absolute Paints Private limited does not have good Corporate Governance systems. To appreciate the key concepts of corporate governance the researcher reviewed literature on corporate governance from work by Sir Cadbury, the Sarbanes Oxley Act of the USA, Combined Code principles from UK, the Cromme Code from the Republic of Germany, King reports from Republic of South Africa and RBZ report on corporate governance. A qualitative and quantitative research design was used and data collection was done using a self-administered questionnaire as the research instrument. Non probability sampling technique was used to select the respondents that participated in the study. A sample of forty was used which was composed of board of directors, CEO, line managers and supervisors. Twenty seven participants responded in the study, representing 67.5% response rate and this presented a reasonable percentage to validate the findings.

The major findings were that, the composition of the company board of directors was not balanced and there were no remuneration and nomination committees. There was also poor risk management. The researcher recommended that the company needs to have a balanced board composition, introduce an internal audit department, putting in place a structure of reviewing and authorisation of financial reporting and disclosure as well as introducing integrated reporting and produce a detailed standard operating procedure for the organisation. There is also need for further study on how boards of directors of paint manufacturing organisations can adopt King Code III integrated reporting and disclosure to attract foreign direct investment.
# TABLE OF CONTENTS

DECLARATION ..................................................................................................................... i
DEDICATION ....................................................................................................................... ii
ACKNOWLEDGEMENTS ........................................................................................................ iii
ABSTRACT .......................................................................................................................... iv
LIST OF TABLES .................................................................................................................. xi
LIST OF FIGURES ............................................................................................................... xii
LIST OF ACRONYMS .......................................................................................................... xiv

CHAPTER ONE .................................................................................................................. 1
INTRODUCTION ................................................................................................................... 1
1.0 INTRODUCTION ............................................................................................................ 1
1.1 Background ................................................................................................................... 2
1.2 Vision, Mission & Values ............................................................................................. 2
1.3 Absolute Paints Business Model ................................................................................ 3
1.2 Industry Analysis .......................................................................................................... 10
1.2.1 Threat of new entrants ......................................................................................... 11
1.2.2 Threat of substitutes ............................................................................................ 11
1.2.3 Bargaining power of buyers ................................................................................ 11
1.3 SWOT Analysis ............................................................................................................ 12
1.4 Statement of the problem ............................................................................................ 13
1.5 Objectives of the study ............................................................................................... 14
1.6 Research Questions ..................................................................................................... 14
1.7 Proposition of the study .............................................................................................. 15
1.8 Scope of the study ....................................................................................................... 15
1.9 Significance of the study ............................................................................................ 15
2.9.1 Shareholder Approach ............................................................................................................. 29

2.10 IMPORTANCE OF CORPORATE GOVERNANCE ...................................................................... 30

2.10.1 Competent Leadership developed ......................................................................................... 30

2.10.2 Encourages company performance ....................................................................................... 30

2.10.3 Attract Investors and encourage efficiency ........................................................................... 31

2.11 STAKEHOLDERS IN CORPORATE GOVERNANCE .................................................................. 31

2.11.1 Shareholders .......................................................................................................................... 31

2.11.2 Board of Directors ................................................................................................................. 31

2.11.3 Public accounting and auditing firms ..................................................................................... 32

2.11.4 Employees .............................................................................................................................. 32

2.11.5 Community ............................................................................................................................ 32

2.13 KEY ISSUES IN CORPORATE GOVERNANCE ....................................................................... 32

2.13.1 Financial Reporting and Auditing Matters ............................................................................. 32

2.14 CORPORATE GOVERNANCE CASE STUDIES ....................................................................... 34

2.14.1 The Case of USA .................................................................................................................... 34

2.14.2 The Case of UK ....................................................................................................................... 35

2.14.3 The Case of South Africa ....................................................................................................... 35

2.14.4 The Case of Zimbabwe ......................................................................................................... 36

2.15 CHAPTER SUMMARY ............................................................................................................... 36

CHAPTER THREE .......................................................................................................................... 37

RESEARCH METHODOLOGY ......................................................................................................... 37

3.0 INTRODUCTION .......................................................................................................................... 37

3.1 CONCEPTUAL FRAMEWORK OF RESEARCH ....................................................................... 37

3.1.1 Positivism Approach .............................................................................................................. 37

3.1.2 Phenomenological Approach .................................................................................................. 38
3.2 RESEARCH DESIGN .......................................................... 38
3.2.1 Surveys .......................................................... 38
3.2.2 Experiments .......................................................... 38
3.2.3 Cross sectional .......................................................... 39
3.2.4 Longitudinal .......................................................... 39
3.3 POPULATION .......................................................... 39
3.4 SAMPLING .......................................................... 41
3.4.1 Non-Probability Sampling ........................................... 41
3.4.1.1 Convenience Sampling ........................................... 41
3.4.1.2 Quota Sampling ........................................... 42
3.4.1.3 Judgmental Sampling ........................................... 42
3.4.2 Probability (random) Sampling ................................... 42
3.4.2.1 Simple Random Sampling ................................... 43
3.4.2.2 Systematic Sampling ................................... 43
3.4.2.3 Stratified Sampling ................................... 43
3.5 SAMPLE SELECTION .......................................................... 44
3.6 DATA SOURCES AND COLLECTION TECHNIQUE ................. 45
3.6.2 Primary sources ........................................... 45
3.6.3 Secondary sources ........................................... 46
3.7 DEVELOPMENT OF RESEARCH INSTRUMENTS ....................... 46
3.7.1 Data collection ........................................... 46
3.7.2 Questionnaires ........................................... 46
3.7.3 Interviews ........................................... 47
3.8 PILOT TESTING .......................................................... 47
3.9 DATA QUALITY CONTROL .......................................................... 48
LIST OF TABLES

Table 1.1: Absolute Paints SWOT Analysis ................................................................. 12
Table 3:1 Characteristics of the sample ...................................................................... 40
Table 4.1 Cross Tabulation – Directors sitting on more than ten boards versus executive or non executive directors .................................................................................. 55
Table 4.2 Cross tabulation – Risk management policy versus frequency of appraisal .. 65
Table 4.3 Cross tabulation – clearly defined policies versus benchmarking against best practices .................................................................................................................. 68
LIST OF FIGURES

Figure 1.1: Absolute paints (Pvt) Ltd Organogram ................................................... 3
Figure 1.2: Paint Production .................................................................................. 6
Figure 1.3: Absolute Paints Demand statistics ...................................................... 7
Figure 1.4: Plant capacity .................................................................................... 8
Figure 2.1: Theoretical Framework: Corporate Governance and Firm performance ..... 19
Figure 4.1: Period of employment at Absolute Paints .......................................... 51
Figure 4.2: Number of directors on board ............................................................ 52
Figure 4.3: Number of NEDs on board ................................................................. 53
Figure 4.4: Balance of power on board ................................................................. 54
Figure 4.5: CEO and Chairman positions ............................................................... 54
Figure 4.6: Board committees ............................................................................. 56
Figure 4.7: Appointment of board members ......................................................... 57
Figure 4.8: Board sub-committee characteristics ................................................. 58
Figure 4.9: Significant issues placed at board ...................................................... 59
Figure 4.10: Notice sent on 14 days prior to the meeting (except in case of emergency) .................................................. 60
Figure 4.11: Dominant voices in board meetings ................................................. 60
Figure 4.12: Board evaluation ............................................................................. 61
Figure 4.13: Internal audit department ................................................................. 62
Figure 4.14: Internal controls issued and endorsed by directors ....................... 63
Figure 4.15: Annual reports with audit opinion .......................................................... 64
Figure 4.16: Major project risk assessment ............................................................... 66
Figure 4.17: Policy and Procedures for the organisation ....................................... 67
# LIST OF ACRONYMS

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>AGM</td>
<td>Annual General Meeting</td>
</tr>
<tr>
<td>BOD</td>
<td>Board of Directors</td>
</tr>
<tr>
<td>CACG</td>
<td>Commonwealth Association of Corporate Governance</td>
</tr>
<tr>
<td>CCG</td>
<td>Centre for Corporate Governance</td>
</tr>
<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>ISO</td>
<td>International Standard Organisation</td>
</tr>
<tr>
<td>NED</td>
<td>Non Executive Director</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic and Co-operation Development</td>
</tr>
<tr>
<td>RBZ</td>
<td>Reserve Bank of Zimbabwe</td>
</tr>
<tr>
<td>SAP</td>
<td>Systems Applications and Products</td>
</tr>
<tr>
<td>SAZ</td>
<td>Standards Association of Zimbabwe</td>
</tr>
<tr>
<td>SOX</td>
<td>Sarbanes Oxley Act</td>
</tr>
<tr>
<td>UK</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>UKCC</td>
<td>United Kingdom Combined Code</td>
</tr>
<tr>
<td>UN</td>
<td>United Nations</td>
</tr>
<tr>
<td>US</td>
<td>United States</td>
</tr>
<tr>
<td>USA</td>
<td>United States of America</td>
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</table>
CHAPTER ONE
INTRODUCTION

1.0 INTRODUCTION

This chapter highlights the background of the study, objectives, and the research problem. It also covers justification of the study.

The issue of corporate governance continues to receive a high level of attention and valuable lessons have been drawn from a series of corporate collapses such as, Enron, WorldCom (Coyle, 2003), United Merchant Bank, ENG Capital, Century Bank, Trust Bank, ReNai ssance Merchant Bank (RBZ, 2004) and recently Interfin Bank limited. It is against this background that this study is going to investigate the corporate governance practices in the paints manufacturing sector.

The 2009 global economic recession has called for an increased need to promote good corporate governance across the globe. In this regard, regulating corporate governance has no doubt received considerable attention. This has invited active debate with discussants ranging from scholars across different disciplines, self-regulatory organisations and stock exchange authorities, policy makers, to professional accounting and auditing associations. At one end of the debate, the central argument is the need to increase regulation and punish corporate offenders more heavily (Adegbite, 2010).

Corporate governance practices are typically used in promoting transparency and accountability. As always, listed companies are required to disclose their corporate governance practices and provide explanations regarding specific deviances from the code. Ernst and Young as cited in the (IFC report, 2005) stating that the primary objective of sound corporate governance is to contribute to improved corporate performance and accountability in creating long-term shareholder value.
1.1 Background
Absolute Paints (Private) Limited is owned by local investors therefore, it is 100% indigenously owned. The head office is in Graniteside industrial area.

Absolute Paints (Private) Limited was incorporated in February 2003 with the sole intention of distributing and/or retailing Dulux and Astra products. The impetus then was centred on servicing the unreached markets as well as those markets that were receiving inadequate services. From inception Absolute Paints operated as an extension of Dulux and Astra. However, in keeping with market forces and its long term strategy, Absolute Paints has recognised the opportunities that abound if it broke away from being restricted to that segment of the market and take the market head-on with an independent and reputable brand of products. To this end, Absolute Paints commenced manufacturing in September 2008.

Absolute Paints is highly committed to a wide spectrum of paint colours and to the three main segments namely, industrial, automotive and decorative paints. Superior product quality coupled with excellent service constitutes the core of modern business.

The vision, mission and values of the company are as listed below.

1.2 Vision, Mission & Values

Vision
- **To be the preferred paint supplier**

Mission
- **Purposed excellence supported by continued enthusiasm**

Values
- **Integrity**: We shall always act and transact in a manner that can stand scrutiny
- **Ethics**: We shall do business in a principled, fair and decent manner
- **Quality**: We observe, claim & maintain the highest possible quality in our products and services
- **Customer Satisfaction**: We place customer satisfaction at the cutting edge of our business
• **Corporate Citizenship:** *We observe the highest of statutory, industry practice or our standard in terms handling our business in the communities in which we operate*

The corporate structure of Absolute Paints is given below.

![Organogram of Absolute Paints (Pvt) Ltd](image)

**Figure 1.1: Absolute paints (Pvt) Ltd Organogram**

Source: Absolutepaints Management Report, 2011

1.3 **Absolute Paints Business Model**

According to Osterwalder and Pagneur (2009) a business model “describes the rationale of how an organisation creates, delivers and captures value” (p.14). A business model comprises of interlocking elements that combine to create and deliver value (Johnson, Christensen, & Kagerman, 2008). The core elements or components of a business model include infrastructure, product offering/value proposition, distribution channels and cost structure and revenue streams (Osterwalder & Pagneur, 2009). The researcher used these different components to describe Absolute Paints business model.
Components of the Absolute paints’s Business Model

(i) **Infrastructure**

Core capabilities

Absolute paints private limited do not have latest machinery in the paint manufacturing fields. The information technology department has the latest hardware and software and the company uses SAP software system which integrates all the business functions.

Partner network

Absolute paints has a cordial relationship with stakeholders such as raw material suppliers and spare parts suppliers to ensure that it gets these important inputs timely and the right quality so as to boost customer loyalty. This relationship ensures that there will be no major plant breakdowns due to shortage of spares or disruption of paint output.

Architecture

Absolute paints although it is not ISO certified, it voluntarily accepted the Standards Association of Zimbabwe (SAZ) testing regime on all the product lines. Absolute Paints is committed to professionalism and integrity is unparalleled in all its dealings.

(ii) **Offering**

The Absolute paints Limited model is centred on offering quality products that differentiate the company from the rest of the market.

(iii) **Customers**

Absolute paints serve the local market targeting both construction companies as well as individuals. The company sells its products in Zimbabwe with Harare, Mutare, Masvingo and Zvishavane being the major customer base.
(iv) **Value Chain**

The company uses SAP software system which integrates all the business function from the primary to the support activities. Purchase orders are raised through the system and the systems maintain stock level reports. Information on customers is also maintained in the system and all the supporting functions like human resources, finance, and procurement operate on the same platform. SAP integrates all its functions from procurement of raw materials up to the selling of its finished goods. This helps to boost loyalty of customers and greatly improves the internal processes of the company.

(v) **Finances**

**Revenue generation**

Absolute paints limited makes use of the Loss leader revenue stream, this means that the business collects revenue streams from sales of its different products but not every revenue stream is independently profitable (Robert, 2009).

**Cost structure**

In the computations of unit cost of products, the Company applies marginal costing technique and therefore takes into consideration only the variable costs of producing paints. In all the operations the company tries to optimize on manufacturing costs, distribution costs, administration, sales and marketing costs in order to ensure that its products are affordable and overall profitability is maintained.
Analysis of Absolute Paints Operations 2009 to 2011

Figure 1.2 Paint Production
Source: Absolute paints Management Report, 2012

Figure 1.1 above shows the amount of paint that was produced in the period under investigation. The production has been declining over the years which are an indication of challenges being experienced by the company. The management attributed to a number of reasons chief among them, aging plant as well as cash flow challenges.
Figure 1.3: Absolute Paints Demand statistics

Source: Absolute Paints Management Accounts, 2012

The above graph shows the amount of orders that were received by the company during the period. The company had a shortfall of about 147 thousand litres in 2012. The rise in demand according to the management report was attributable to an increase in the number of properties being developed.
Paint plant Capacity (Thousand litres)

![Bar chart showing paint plant capacity from 2010 to 2012.]

**Figure 1.4 Plant capacity**
Source: Absolute Paints Management Report, 2012

Figure 1.4 is an indication of the Absolute Paints’ plant capacity over the period covered by the research. The statistics reveals that the plant has been operating below capacity over the years.

1.1.2 Macro-Environmental Analysis of Paint Manufacturing Sector

Macro environmental analysis is essential because the environment has a direct influence on the performance of the economy. Failure to monitor the macro environment can result in poor performance of the economy and its industries. A business has to monitor the key macro environmental forces that affect its ability to make profits (Kotler, 2002). These factors include the political-legal environment, economic environment, technological environment and social environment (PESTLE). PESTLE analysis is in effect an audit of an organisation’s environmental influences with the purpose of using this information to guide strategic decision-making (Grant, 2004). The assumption is that if the organisation is able to audit its current environment and assess potential changes, it will be better placed than its competitors to respond to
changes. An explanation of these factors relating to the Paint Manufacturing Sector in Zimbabwe is given below;

1.1.2.1 Political-Legal Environment

The political environment has generally been stable since the Government of National Unity (GNU) came into being in September 2008; there is general uncertainty, however, over what will happen to the business operating environment as the country prepares for general elections that are expected sometime in 2012 or 2013. In addition, the Indigenisation law that was gazetted in 2008 has resulted in mixed reactions from the stakeholders. This suggests that the political environment can still a threat to the operations of the paint manufacturing firms. The Reserve Bank Governor in his Monetary Policy statement (2011) highlighted that Zimbabwe’s full recovery and return to the path of lasting prosperity continues to be heavily constrained by the debilitating effects of the illegal sanctions being imposed on the country by the western countries.

1.1.2.2 Economic Environment

The economic environment has been generally characterized by low inflation, relatively stable exchange rates, high interest rates and low levels of disposable income since the introduction of multi currencies in 2009. Loan facilities from banks to finance long term projects are not yet accessible. Zimbabwe banking sector is facing liquidity challenge due to the short-term nature of deposits, the absence of an active inter-bank market and lender of last resort facility at the Reserve Bank (R.B.Z Monetary Policy Statement, 2011). Working capital requirements can only be met by the banks and industry is still suffering from shortage of finance (Absolute Paints Management Report, 2011).

Lending rates are generally high compared to other countries in the region which makes the cost of borrowing expensive. Financial institutions have failed to lend as much as they should resulting in slow recovery in all sectors of the economy (R.B.Z Monetary Policy Statement, 2011). This has resulted in slow economic growth and slow economic recovery of the country from the decade long recession.
1.1.2.3 Social Environment
The social environment was generally characterized by high mortality rate from the 1990s to mid 2000 as a result of the HIV or AIDS pandemic. The availability of anti retroviral drugs and HIV/AIDS awareness campaigns have gone a long way in making people aware of how they should handle the pandemic resulting in slowing down of the deaths related to the HIV/ AIDS pandemic. The instability that characterized the political environment and the closure of many companies from the year 2000 changed the lifestyle of most of Zimbabwe’s population. The Society was severely affected by massive emigration between the years 2000 and 2008. Over four million Zimbabweans now live outside the country mainly in South Africa and the United Kingdom where they have access to better living conditions and employment opportunities. The resultant brain drain caused shortages of both skilled and unskilled labour at Absolute Paints (R.B.Z Monetary Policy Statement, 2011).

1.1.2.4 Technological Environment
The technological environment was characterized by improvements in several products and services offered by paints companies. The industry competitive edge is now derived from the way the firm’s technology outcompetes its rivals. A number of tasks which could be done mechanically using the latest technologies in the paint manufacturing are still being done manually.

1.2 Industry Analysis
Porter (1980) has identified five forces that are widely used to assess the structure of any industry. Porter’s five forces are the:
• Bargaining power of suppliers,
• Bargaining power of buyers,
• Threat of new entrants,
• Threat of substitutes, and
• Rivalry among competitors.
Together, the strength of the five forces determines the profit potential in an industry by influencing the prices, costs, and required investments of businesses. Stronger forces are associated with a more challenging business environment. To identify the important structural features of the industry via the five forces, the researcher conducted an industry analysis that answered the question, “What are the key factors for competitive success?”

There is intensity of rivalry between competitors in the Zimbabwean Paints Manufacturing Sector as a result of more players joining the industry and competing for market share.

1.2.1 Threat of new entrants

New entrance to an industry aspires to win a better market share and significant resources (Porter, 2008). According to Porter (2008) threats of a new entrance into an industry depends on barriers in existence attached with the response from the existing players that the new competitor can look forward to. Threat of new entry is low if the barriers to entry are beyond reach and if the new entrant expects blunt reaction from established players in the industry. The risk of entry to the Zimbabwean paints manufacturing sector is very high because of the low capital required to set up a paints manufacturing plant.

1.2.2 Threat of substitutes

Porter (2008) alternate products puts a margin on the expected profits of an industry by putting a maximum on the prices organisations in the industry can gainfully charge. The paints manufacturing industry is threatened by substitute products from within the industry. Some firms are importing paints especially automotive paints from South Africa. This really compromises on the income to the paints manufacturing sector.

1.2.3 Consumers bargaining power

Consumers compete with the industry by negotiating better prices, demanding superior products or extra services and playing the divide and rule game on competitors, at the expense of the industry (Porter, 2008). In the Zimbabwean Paints manufacturing Sector,
buyers have high bargaining power because of the increase in the number of suppliers of paints in the sector.

1.2.4 Bargaining power of suppliers

According to Porter (2008), suppliers can exert bargaining power over participants by warning to increase prices or compromise the quality of goods acquired and services. Entrenched suppliers force profitability out of an industry not capable to recoup production costs. In the Zimbabwean paints manufacturing Sector, suppliers of major raw materials have a high bargaining power because they have dealerships and franchises that make them the suppliers of raw materials in Zimbabwe to the extent that if a firm tries to import direct from China or India it becomes even much more expensive than to buy from local suppliers.

1.2.5 Competition level amongst existing competitors

Competition among existing competitors takes the familiar form of fighting for a first position, using strategies like price competition, new products introduction, more customer services, warranties and advertising (Porter, 2008). One or more competitors either feels the pressure or foresee opportunity to increase its market position. There is serious intensity of rivalry between competitors in the Zimbabwean Paints manufacturing Sector as a result of many players joining the industry.

1.3 SWOT Analysis

SWOT analysis is the overall evaluation of a business’s strengths, weakness, opportunities and threats (Kotler, 2002). The table below was used to analyse the SWOT of Absolute Paints.

Table 1.1: Absolute Paints SWOT Analysis

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Huge and diversified customer base</td>
<td>• High staff turnover</td>
</tr>
<tr>
<td>• Innovative</td>
<td>• Poor staff development</td>
</tr>
<tr>
<td></td>
<td>• Weak IT system</td>
</tr>
</tbody>
</table>
• Skilled Personnel
• Strong brands
• Competent and educated CEO

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>• To produce own key raw materials</td>
<td>• Liquidity challenges failing to get bank</td>
</tr>
<tr>
<td>• Produce new product lines</td>
<td>loans</td>
</tr>
<tr>
<td>• Accessing regional markets</td>
<td>• High overheads costs</td>
</tr>
<tr>
<td>• Establishment of Foreign Lines of</td>
<td>• Cash based transactions</td>
</tr>
<tr>
<td>Credit</td>
<td>• Competition</td>
</tr>
</tbody>
</table>

1.4 Statement of the problem

A number of companies have joined the paint manufacturing industry since 2003 among these companies, some boards of directors and sub-committees have failed to meet frequently to deliberate on company issues and no proper internal control and risk management systems are in place. On the same note some have failed to produce financial reports. Some companies in the paint manufacturing have either collapsed or suffered serious operational challenges due to poor internal controls and risk management despite having guiding principles from various corporate governance codes and the Companies Act of Zimbabwe. It is against this background that this study investigated the application of corporate governance practices in the paint manufacturing sector focusing on Absolute Paints Private Limited in a bid to establish if the directors and management appreciated corporate governance and its importance since it is the same reason which caused the demise of Enron, Worldcom and some financial institutions in Zimbabwe which prompted the RBZ to come up with a code of corporate governance for all financial institutions and non-financial institutions supervised by RBZ to avoid recurrence of these events in the future.
1.5 Objectives of the study

1.5.1. Overall objective

The overall objective of this study was to investigate corporate governance practices within the Paint Manufacturing industry focusing on Absolute Paints Private Limited over the period January 2010 to July 2012.

1.5.2 Specific Objectives

The study sought to achieve the following sub-objectives:

i. To determine whether Absolute Paints directors and management understand corporate governance and its importance.

ii. To identify and review corporate governance practices at Absolute Paints Private limited.

iii. To determine the extent to which boards of directors effectively fulfil their functions at Absolute Paints Private limited.

iv. To make any necessary recommendation to improve corporate governance practices of Absolute Paints Private Limited.

1.6 Research Questions

1.6.1 The main research question

The main research question was: What are the corporate governance practices within the paint manufacturing industry with particular reference to Absolute paints private limited over the period January 2010 to July 2012?

1.6.2 Sub-questions

The study sought to provide answers to the following sub questions:

1. Do directors and management at Absolute Paints Private Limited understand corporate governance and its importance?

2. What corporate governance practices are in place at Absolute Paints Private limited?
3. To what extent do board of directors at Absolute Paints Private limited effectively fulfil their functions?

4. What recommendations can be made following findings from the study?

1.7 Proposition of the study
The study proposition was: **Absolute Paints Private limited does not have good Corporate Governance systems in place.**

1.8 Scope of the study
This study was an investigation of corporate governance practices concentrating on the following corporate governance structures, **the board of directors, internal control and risk management, reporting and disclosures** focusing on Absolute Paints Private Limited over the period January 2010 to July 2012.

1.9 Significance of the study
This study will be significant in strengthening good corporate governance practices at Absolute Paints. This study will be also useful to government, investors, employees, entrepreneurs, finance analysts, businessmen and the whole paint manufacturing industry in Zimbabwe in general for this will present valuable contribution on corporate governance practices within the paint manufacturing sector. In addition, this study will be an important contribution to the existing body of knowledge on corporate governance.
1.10 Dissertation structure

The following is the outline of the study:

**Chapter 1**: Provides the background of the industry, statement of the problem, research objectives, and research questions, significance of the study and the scope of the study.

**Chapter 2**: Reviews literature relevant to the topic. The review will also provide a basis for the discussion of results in Chapter 4.

**Chapter 3**: Covers the methodology applied during the study. Justification of the methods and instruments used are detailed here.

**Chapter 4**: Details the results of the study and an analysis of the same is done with the aid of statistical tools. The study findings are also discussed in this chapter.

**Chapter 5**: Focuses on conclusions and recommendations arising from the analysis of the study findings. Areas of further research are also included in this chapter.
CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

This chapter covers the definitions of corporate governance and the theoretical framework of corporate governance. The key issues in corporate governance are discussed, including corporate governance principles and good practices. Cases of corporate governance practices in different countries and Zimbabwe’s financial services sector are also cited because this was the first sector to have a code of corporate governance whose compliance was made mandatory by RBZ. The review also provides a framework for the discussion of results in Chapter 4. The chapter concludes with a summary of relevant lessons from literature reviewed and indicates the possible way forward to strengthen the sustained wider application of corporate governance best practices for the general improvement of management of companies.

2.1 Corporate Governance Definition

Corporate governance involves a set of relationships between a company’s management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the firm are laid down, and the ways of achieving the intended goals and evaluating performance are determined (Clarke, 2007).

Corporate governance provides the structure through which the objectives of the company are set and the means for monitoring performance are determined (Vinten, 2002). Good corporate governance provides proper incentives to the board and management to pursue objectives that are in the interest of the company and shareholders. It also facilitates effective monitoring, thus encouraging firms to use resources more efficiently (OECD, 2004).
Corporate governance refers to the mechanisms by which operational managers of entities are made to act in the interests of the owners of the entities and other stakeholders. Corporate governance is concerned with the manner in which rules and regulations are applied and followed, the relationships that these rules and regulations determine or create and the nature of those relationships. Sound corporate governance encourages the efficient use of resources and provides for accountability for the stewardship of those resources by managers (Anthony, 2009).

2.2 Corporate Governance and Management

It is important to recognise the difference between corporate governance and management. Corporate governance provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined (OECD, 2004). Corporate management on the other hand focuses on the tools required to operate the business (Grant, 2004). One area of overlap is strategy, which is dealt with at the corporate management level and is also a key corporate governance element (Hilmer & Tricker, 1991).

2.3 Theoretical framework

Neuman (2006) defines a theory as a system of interconnected ideas that condense and organise knowledge about the world. The Figure 2.1 helps to appreciate the conceptual framework of corporate governance.
The figure below shows agency theory and the stewardship theory are the main theories underlying the concept of corporate governance.

**Figure 2.1 Theoretical Framework: Corporate Governance and Firm performance**


**2.3.1 Agency Theory, Agency Problem and Agency Costs**

Agency theory refers to the ever present agency relationship in companies, where one party (The principal) delegates work to another (The agent), who has to perform that
work, i.e. the principal mandates the agent to do a certain task and the agent is remunerated for that task (Eisenhardt, 1989). Eisenhardt (1989) argues that under conditions of imperfect information and uncertainty, which is the situation in most companies because executive management by virtue of being involved in day to day operations of the firm they possess more information than the shareholders. This results in agency problems.

The adverse selection arises when the desires or goals of the principal and agent conflict and it is difficult or expensive for the principal to verify the agent is doing.

The moral hazard arises when both the principal and agent have different attitudes towards risk. The problem here is that the principal and agent may prefer different actions because of their differing risk preferences (Eisenhardt, 1989).

2.3.3 The Agency theory and corporate governance

Emery, Finnerty & Stowe (2004) define the agency theory as a set of values on how to minimise the cost of having someone else making decisions on your behalf. This refers to the cost of managing a situation in which you have a stake, albeit, through other people. The cost of managing a situation lies in creating incentives, constraints and punishment, having reasonable monitoring procedures and identifying and using contracts, at the outset, that minimise the possibility of conflict of interests.

2.3.4 The Agency cost

The agency cost is the incremental costs of working through others (agents) (Emery et al, 2004).

Emery et al (2004) identified five basic agency costs:

- The transaction costs of setting up a contract i.e. commission and legal fees.
- The opportunity cost imposed by constraints on decision making i.e. foregoing potentially high returns because of associated unacceptable high risk levels.
- The costs of incentives paid to encourage behaviour in line with the principal’s objective.
The cost of monitoring the agent.

The loss of wealth done to misconduct.

2.4 Stewardship Theory

Stewardship theory presents a different model of management, where managers are considered good stewards who will act in the best interest of the owners (Donaldson & Davis, 2003). The fundamentals of stewardship theory are based on social psychology, which focuses on the behaviour of executives. The steward’s behaviour is pro-organisational and collectivistic, and has higher utility than individualistic self-serving behaviour and the steward’s behaviour will not depart from the interest of the organisation because the steward seeks to attain the objectives of the organisation (Davis, Schoorman & Donaldson, 2001). According to Smallman (2004) where shareholders wealth is maximized, the steward’s utilities are maximised too, because organisational success will serve most requirements and the stewards will have a clear mission. He also states that, stewards balance tensions between different beneficiaries and other interest groups. Therefore stewardship theory is an argument put forward for firm performance that satisfies the requirements of the interested parties resulting in dynamic performance equilibrium for balanced governance.

2.5 Board of Directors

2.5.1 Board Composition

The board composition is an important component of the corporate structure. The board consist of executive directors, nonexecutive directors and independent non-executive directors, who should be of good calibre, have solid credentials and possess the necessary skill and experience (Coyle, 2003).

The board is therefore responsible internally for the leadership and guidance of the corporate entity (Carter & Lorsch, 2004).

2.5.2 Board Committees
Companies should have board committees in place, because oversight functions of the board are primarily carried out by the board committees (Rezaee, 2009). Cadbury (1992) also highlighted the importance of board committees and proposed to set up sub-committees of the board to focus on specific aspects of governance that are considered problematic. These include financial reporting, remuneration of board and senior management, and appointments to the board (Spira & Bender, 2004).

2.6 Corporate Reporting

Corporate reporting is not only financial reporting but information beyond that is required by the regulation (Companies Act and Accounting Standards), provided through the annual reports to their shareholders and other stakeholders (Eccles, 2004). Corporate social accountability and reporting is information over and above that which is mandatory, and is seen as a key driver for engaging the wider community as an important stakeholder in business activities (Zairi & Peters, 2002). In support of this view, other stakeholder theorists consider that a firm’s responsibility is not only to its shareholders, but to all stakeholders whose contribution is necessary for its success (Balabanis, Philips & Lyall, 1998).

Adopting corporate social responsibility can improve the value of firms in developing markets to a higher degree than developed markets. In many developing markets there is social, economic and cultural chaos. Therefore, by promoting social justice, these problems can be reduced; thereby by benefiting the society as a whole and the value of firms in particular (Banks, 2004) (Crowther & Lez-Rayman-Bacchus, 2004).

2.7 CRITICISM OF CORPORATE GOVERNANCE CONCEPTUAL FRAMEWORK

The criticisms of the agency concept of corporate governance, centres on the threat to private property rights that it poses (Claessens, 2004) and perfect (unrealistic) and imperfect (realistic) world (Padilla, 2002).

The standard agency models fail to identify the origins of agency problems (Padilla, 2002). Padilla (2002) argues that it is not sufficient to say that there are some agency
problems; it is also necessary to identify their causes, in particular, when their causes are related to the economic organisation in which such problems arise. According to Padilla (2002) limits of standard agency theory largely result from the following facts:

2.7.1 Property –rights
Agency theory does not take into account in its analysis the property-rights system in which agency problems occur. Padilla (2002) argues agency theory would gain in practical relevance by engaging in realistic comparative analysis, that is to say, analysing how agency problems manifest themselves and are resolved in different economic organisations, namely, under different property-rights systems.

2.7.2 Perfect (unrealistic) and imperfect (realistic) world
Agency theory limits its usefulness by developing models that rely upon a comparative analysis between a perfect (unrealistic) and imperfect (realistic) world rather than comparing realistic "worlds" and, therefore, its solutions are not only unrealistic and sometimes biased but also lack practical relevance. Jensen (1983) argues that by engaging in such comparative analysis, agency theory would be able to identify the cause of such problems and, more important, to distinguish between universal agency problems and that are contingent upon the economic organisation in which they occur.

2.8 CORPORATE GOVERNANCE REPORTS

2.8.1 Cadbury Report
Financial scandals involving UK listed companies during the 1980s undermined confidence in both the quality of financial reporting and also the ability of external auditors to provide sufficient assurances about the financial position the companies they reported on. The stated aim of the Cadbury Committee was to help raise standards of corporate governance and confidence in financial reporting and auditing (Cadbury, 1992).
The London Stock Exchange introduced a requirement into its listing rules that listed companies should include such a statement of compliance (or non-compliance) with the provisions of the Cadbury Code of 1992 in their annual report and accounts.

**Major provisions of the Cadbury Code**

**Board of directors**

- The Code stated that control over the company should be exercised collectively by the board of directors as a whole.
- There should be no domination of the board by a single individual, the CEO or chairman, or by a small group of executive directors.
- To exercise its authority collectively, it would be necessary for the board to meet regularly.

**Non-executive directors (NEDs)**

The Cadbury Code addressed the issue of NEDs, taking the view that there should be a sufficient number of them for their views to carry sufficient weight.

**Executive directors: service contracts and remuneration**

- The disclosure of more information about directors’ remuneration in the annual report and accounts.
- The service contract of an executive director should not exceed three years without shareholder approval.
- All listed companies had an audit committee. However, the Cadbury Committee viewed the audit committee as a key board committee, with the task of communicating with both the internal and external auditors, and for providing a forum for the discussion of audit issues.
- The audit committee should also review the interim and annual financial statements before their submission to the full board for approval.
- The audit committee should include at least three non-executive directors, and should have written terms of reference.

**2.8.2 Greenbury Report**

The Greenbury report in the UK (1995) focused mainly on corporate governance issues
related to directors’ remuneration (Coyle, 2003).

2.8.3 Hampel Report
The Hampel committee was set up in the UK to review corporate governance practices in the UK, following the Cadbury and Greenbury Committee Reports. The Hampel Committee suggested that the recommendations of all three committees be integrated into a single code of corporate governance called The Combined code, which was published in 1998 (Coyle, 2003).

2.8.4 The Combined Code
United Kingdom Combined Code (UKCC) (1998) combines the accepted principles and best practice guidelines of Cadbury, Greenbury and Hampel. The combined Code was divided into two sections which set out principles and a code of best practice for companies and covering such matters as directors’ remuneration, relations with shareholders, accountability and audit. It also sets out principles and a code of practice for constitutional shareholders to include aspects such as shareholder voting, dialogue with companies, evaluating of governance disclosures. UKCC (1998) deals with the matters outlined below covering six principles:

- The board of every listed company should be effective and have the capacity to lead and control the company.
- The Chairman and Chief Executive positions should be separated with the one responsible for running the board and the other tasked with the responsibility of running the company’s business.
- There should be board balance between the number of executive and non-executive directors to reduce domination of the board decision making process.
- There should be mechanisms to ensure the supply of information in a timely manner in a form and of quality appropriate to enable it to discharge its duties.
- The procedures for appointment to the board of new directors should submit themselves for re-election at regular interval and at least every three years.
2.8.4 Organisation for Economic Cooperation and Development (OECD) Principles

The OECD Principles of 1999 are divided into five areas outlined as follows: the rights of shareholders, in that the corporate governance framework should protect shareholders rights; the equitable treatment of shareholders through affording all shareholders an opportunity to obtain effective remedy for violation of their rights, the role of stakeholders should be recognised as established by law and encouragement given for active cooperation between corporations and stakeholders in creating wealthy jobs and financially sustainable enterprises, disclosure and transparency to ensure that timely and accurate disclosure is made on all material matters regarding the company, and finally, the responsibilities of board to include the strategic guidance of the company, effective monitoring of management and accountability to the company as well as shareholders (OECD, 2004).

2.8.5 The Cromme Code of Germany

Coyle (2003) noted that this code aims at making the German Corporate Governance system transparent and understandable. Its purpose is to promote the trust of international and national investors, customers, employees and the general public in the management and supervision of listed German stock corporations. It states that the management board coordinates the enterprise’s strategic approach with the supervisory board and discusses the current state of strategy implementation with the supervisory board at regular intervals. The Management Board must disclose insider information directly relating to the company without delay unless it is exempted from the disclosure requirement in an individual case. This code requires consolidated financial statements to be prepared by the management board and examined by the auditor and supervisory board, and that the consolidated financial statements shall be publicly accessible within 90 days of the end of the financial year (Coyle, 2003).

2.8.6 The Sarbanes Oxley Act of USA

The USA established the Public Company Accounting Oversight Board, to oversee the audit of public companies that are subject to the securities laws, and related matters, in order to protect the interests of investors and further the public interest in the
preparation of informative, accurate and independent audit reports for companies the securities of which are sold to, and held by and for, public investors. This act states that the board shall have five members, appointed from among prominent individuals of integrity and reputation who have a demonstrated commitment to the interests of investors and the public. No person may serve as a member of the board, or as chairperson of the board, for more than two terms, whether or not such terms of services are consecutive. The board shall have the power, to conduct its operations and maintain offices, and to exercise all other rights and powers authorised by this Act, in any State, without regard to any qualification, licensing, or other provision of law in effect in such State (Sarbanes Act, 2002).

2.8.7 South Africa King Code III
In February 2009, the King Committee came up with the King III Code a modification of King I and King 11 Reports. The code promotes the major pillars of good corporate governance which ensure there is discipline, transparency, independency, accountability, fairness and responsibility in managing the organisations (King, 2009).

2.8.8 Reserve Bank of Zimbabwe Code of Corporate Governance
The RBZ came up with sound corporate governance requirements for all banks and non banking institutions that are licensed and supervised by R.B.Z (R.B.Z, 2004). The major areas of the RBZ corporate governance guidelines are as follows.

2.8.8.1 Separation of Owners and Managers
The RBZ code requires shareholder with a ten per centum (10%) or more shareholding in bank to be not the part of executive and non executive management team in the bank he or she has shares. A shareholder with ten per centum or more shareholding in a bank shall not be chairman or deputy chairman of the banking institution in which he or she hold ten per centum or more shareholding.

2.8.8.2 The Role and Function of the Board
The code highlighted that the important aspect of this function is identification of key risk areas and key performance indicators. According to this code the board should have a
minimum of five directors majority being independent and have a charter which should clearly set out, strategic plans and monitoring of operational performance and management.

2.8.8.3 The Roles of Chief executive Officer and Chief Finance Officer
The code states that the operations of the bank critically rely on the CEO of the institution, hence, the position must be filled by a person with a proven track record in the banking sector holding a senior management position and the RBZ has the right to nullify the appointment if the person was once suspended for any wrong doing in the past.

The CFO is responsible for the accounting and finance activity of the banking institution. The position is regarded just as that of the CEO as materially reliable for the banking operations.

2.8.8.4 Maximum number of Directorship
According to the code, no person shall be appointed or hold office as a director of a bank if he is a director of more than seven companies registered in Zimbabwe, and the code discouraged the appointment of an alternate director to the board as they do not have full commitment to the company.

2.8.8.5 Board Committees
The code recommended the following committees, Board Audit committee, Loans committee, Assets and Liability committee, loans Review Committee, Risk management committee, executive committee and Remuneration and Terminal benefits committee.

2.9 APPROACHES TO CORPORATE GOVERNANCE PRACTICE
According to Coyle (2003) generally there are three approaches to corporate governance practice which are shareholder approach, stakeholder approach and enlightened shareholder approach.
2.9.1 Shareholder Approach

The shareholder approach to corporate governance is mainly concerned with the maximisation of shareholder returns in the company (Coyle, 2003). In its strongest form, attention to non-shareholders is impermissible, because such activities necessarily weaken the company’s ability to achieve maximum shareholder profits (Sullivan & Sambunaris, 2005). To the extent that these activities generate profits, at least in the long run, they are simply good business, nothing more.

2.9.2 Enlightened Shareholder Approach

The enlightened shareholder approach is a departure from the standard shareholder wealth maximization norm (Coyle, 2003). It pays great attention to corporate stakeholders, including the environment, employees, and local communities, which are seen as critical to generating long-term shareholder wealth (Freeman & Velamuri, 2006). According to Coyle (2003) the core of the enlightened shareholder approach to corporate governance is embodied in the definition of the fiduciary duties of corporate directors which states that a director must act in good faith to promote the success of the company for the benefit of its members as a whole, and in doing so must have regard to:

- the likely consequences of any decision in the long term,
- the interest of the company’s employees,
- the need to foster the company's business relationships with suppliers, customers and others,
- the impact of the company's operations on the community and the environment,
- the desirability of the company maintaining a reputation for high standards of business conduct, and
- the need to act fairly as between members of the company

2.9.3 Stakeholder Approach

The stakeholder approach to corporate governance refines and extends the shareholder model, as opposed to being a substitute. It holds that shareholders are stakeholders, and that, moves and efforts to increase value for them requires that other stakeholders’
needs be given equal attention (Coyle, 2003). This highlights an important point that corporate governance frameworks have to balance the different and at some times competing interests of a broad range of actors or stakeholders that combine to determine the success or otherwise of an enterprise (Goodpaster, 1993). This view of an enterprise goes beyond the narrow shareholder model, whose objective is to maximise shareholder wealth (Coyle, 2003).

2.10 IMPORTANCE OF CORPORATE GOVERNANCE

2.10.1 Competent Leadership developed

The concept of corporate governance gained prominence because of failure of some corporations due to poor governance practices (Francis, 2000). Corporate collapse was the predominant driver for change to corporate governance codes (United Nations, 1999). As more corporate entities in different parts of the world collapsed in the 1980s, this resulted in higher performance expectations being placed on management boards of firms. There was also a growing realisation that managers are to run firms while boards are to ensure that firms are run effectively and in the right direction (Adams, 2002). Prevention of corporate failure was not the only reason that led to adoption of the corporate governance ideals. On a positive note, there was a growing acknowledgement that improved corporate governance was crucial for the growth and development of the whole economy of a country (Clarke, 2004).

2.10.2 Encourages company performance

Gregg (2001), Hilmer (1998), Kiel and Nicholson (2002), OECD (2004) established strong links between the performance of corporations and the governance practices of their boards. Gompers, Ishii and Metrick (2003) found a strong correlation between good corporate governance practices and superior shareholder performance. The study also revealed that two-thirds of investors were prepared to pay more for shares of companies that had good corporate governance practices. Cutting and Kouzim (2000) did not find any significant relationship between the performance of firms and the governance practices of their boards.
2.10.3 Attract Investors and encourage efficiency

The knowledge of the key principles of corporate governance would enable investors to distinguish between companies that comply superficially with good practice standards and those that have a genuine commitment. Private sector enterprises will increasingly discover that traditional financial performance will be insufficient to attract investors on a sustained basis and will need to demonstrate conduct consistent with the principles of good corporate governance (Banks, 2004). Good corporate governance plays a vital role in underpinning the integrity and efficiency of the financial position of the firm. Poor corporate governance weakens a company’s potential and at worst can pave the way for financial difficulties and even fraud. If companies are well governed, they will usually outperform other companies and will be able to attract investors whose support can help to finance further growth (OECD, 2004). Glassman (2006) further argues that without efficient companies or business enterprises, a country will not create wealth or employment. If business enterprises do not prosper, there will be no economic growth, no employment, no taxes will be paid and invariably the country will not develop.

2.11 STAKEHOLDERS IN CORPORATE GOVERNANCE

According to Corfield (1998) “stakeholders are identified by their interest in the corporation, whether or not the corporation has any corresponding functional interest in them” (p.214). These participants include:

2.11.1 Shareholders

These are ordinary shareholders with an interest in the ownership of a company (Coyle, 2003) and these exercise the power to elect and remove directors, and may influence corporate policy through governance proposals and nominations to the boards of directors.

2.11.2 Board of Directors

Board of directors are tasked to identify key risk areas and key performance indicators, and the board should have a charter which clearly set out, strategic plans and monitoring of operational performance and management (R.B.Z, 2004). To maintain this
delicate balance, the board should consist of executive directors, nonexecutive directors and independent non-executive directors, who should be of good calibre, have solid credentials and possess the necessary skill and experience (Coyle, 2003).

2.11.3 Public accounting and auditing firms
These are firms mandated by the law to give and express an independent opinion about whether the financial statements give a true and fair view of the financial position of the company (Coyle, 2003).

2.11.4 Employees
Corporate governance principles encourages companies to respect employees’ rights to just wages, to participate in hiring and firing policies formulation and removal of discrimination in working conditions.

2.11.5 Community
The stake of the community is the need for a clean environment and boost to the economy through the provision of jobs and production of goods (Corfield, 1998).

2.13 KEY ISSUES IN CORPORATE GOVERNANCE
The corporate governance arguments have revolved around issues relating to the accountability of those in control of companies to those with residual financial interest in corporate success, normally the shareholders (Vinten, 2000). Below is a list of the key issues in corporate governance:

2.13.1 Financial Reporting and Auditing Matters
Financial reporting and auditing matters are key corporate governance issues in particular as relates to the extent to which the directors were aware in each case of an impending collapse of their company and what steps were taken to inform shareholders. The implications of false and misleading financial reporting translated to the resultant loss of investor confidence, a point aptly summed by Arthur Levitt, former chairman of the Securities and Exchange Commission in a speech in 2001 it was highlighted that no market has a divine right to investors’ capital. The effectiveness and role of external
auditors is also brought into question whenever financial statements turn out to be misleading (Vinten, 2000).

2.13.2 Directors Remuneration
Directors’ remuneration is another key corporate governance area for potential conflict in particular when such remuneration is not linked to the performance of the business. The publication of the Greenbury Report in the 1990s in the UK relating to directors remunerations brought the matter to the fore and since then directors’ remuneration has remained a controversial if not emotive issue (Coyle, 2003).

2.13.3 Decision Making Powers
Matters relating to decision making powers were also identified as central in corporate governance and brought to the fore questions relating to whether director powers should be restricted and to what extent can directors exercise their delegated powers for the benefit of their shareholders and stakeholders (Vinten, 2000). Despite the clarifications contained in the Combined Code and the Higgs Review, too many non executive directors remain hazy about their jobs and a lot of candidates who do not understand such roles do not want to take up the challenge (Coyle, 2003).

2.13.4 Risk Management Procedures and Systems
Risk management procedures and systems represent another important driving factor in the corporate governance debate in particular as it relates to the need to ensure that decisions made by directors strike a balance between the anticipated profits and the associated inherent risks (Coyle, 2003). The Turnbull Report of 1999 provides practical guidelines as to the implementation of internal controls which are recommended by the Combined Code as expected of the board of directors to include the review of such internal controls as well as providing an indication as to the establishment of relevant board committees to discharge this function.

2.13.5 Shareholder Communication
Communication between the board of directors and organisation’s shareholders is another critical issue to the prevalence of sound corporate governance structures and
practices (Frankental, 2000). In practice, the success of a number of company initiatives often hinge upon the support of major shareholders and also the need to inform minority shareholders. The annual report and financial statements represents an important vehicle through which a number of corporate governance issues such as director remuneration, internal controls and risk management among others can be communicated (Coyle, 2003).

2.13.6 Business Ethics

Ethical issues represent another key corporate governance consideration which underpins good corporate and individual conduct. The wider corporate governance agenda advocates that all entities act in an ethical and socially responsible manner (Coyle, 2003). Frankental (2000) points out that corporate social responsibility could be enforced through ensuring that such behaviour is rewarded by financial markets.

2.14 CORPORATE GOVERNANCE CASE STUDIES

Corporate failures in both developed and developing countries have kindled interest in corporate governance such well-published corporate failures and scandals as Daewoo, Marconi, HIH Insurance, Volkswagon, Enron, Parmalat (Benjamin, 2009) and Renaissance Merchant Bank in Zimbabwe taught the corporate world that no company is too big to fail (Wilson, 2007). The failures of these institutions were attributed to poor corporate governance, poor management, and fraud and insider abuse by some of the directors of these institutions. Below are places of interest of corporate governance developments from other countries.

2.14.1 The Case of USA

Historically the alternative regulatory approach of using black-letter, prescriptive law has been adopted by the United States. Continuing this legal tradition the Sarbanes-Oxley Act of 2002 (SOX) prescribes governance practices that must be followed and which can be enforced by way of penalties for noncompliance (McDonnell, 2004). SOX was a direct response to the collapse of Enron and WorldCom. Section 404 of SOX, requires companies to implement internal control systems (Glassman, 2006). Sarbanes-Oxley
Act was intended to restore public confidence in corporate governance because stakeholders no longer had confidence in corporate reports (Muthukumar, 2009).

2.14.2 The Case of UK

UTS Centre for corporate Governance (2007) the United Kingdom model developed by the Cadbury Committee set up in 1991. The Committee was initially asked to recommend on the financial aspects of UK corporate governance following the collapse of companies controlled by Robert Maxwell, BCCI, and other UK companies which failed despite clean audit reports. This resulted in the 1992 Code of Best Practice which provided boards with a checklist to enable them to assess where they stood against best practice. Since then, the Code has been refined and developed based on the results of several other reviews, notably the Greenbury Report (1995), the Hampel Report (1998) and the Higgs Report (2003), and it has since been renamed the Combined Code. The listing rules require listed companies to declare their adherence to its provision or explain deviation from them. This is referred to as ‘comply or explain’ (Jones & Pollit, 2003).

2.14.3 The Case of South Africa

Corporate governance in South Africa was institutionalised by the publication of the King I (Institute of Directors, 1994) report on corporate governance in November 1994. The King Committee was formed in 1992 to improve the state of corporate governance in South Africa. The King 11 report released in 2002 encourages openness and accountability for those entrusted with shareholders’ funds (Institute of Directors, 2002). The South Africa government passed the law amendment Act in 2006 (Companies Act, 2006) which incorporates the recommendations of the King 11 report thereby legalising corporate governance (Institute of Directors, 2002).

In February 2009, the King Committee came up with the King III Code a modification of King I and King 11 Reports. The code promotes the seven characteristics of good corporate governance namely: discipline, transparency, independence, accountability, responsibility, fairness and social responsibility (King, 2009).
2.14.4 The Case of Zimbabwe

In Zimbabwe, there are no codes of corporate governance for private companies, S.M.Es, and public companies. Ministry of State Enterprises and Parastatals published corporate governance framework for State Enterprises and Parastatals following operations of SEPs below expectation attributed to weak corporate governance (Ministry of Enterprises & Parastatals, 2010). RBZ produced a code of corporate governance for banks and non-banking institutions under the supervision of R.B.Z following collapses of Zimbabwe Merchant Bank, ENG Capital, Century Bank, Trust Bank, Barbican Bank, and Intermarket Building Society in an effort to restore confidence in the financial services sector (R.B.Z, 2004).

2.15 CHAPTER SUMMARY

This chapter has reviewed literature on corporate governance, the agency theory, and stewardship theory came out as the main conceptual framework on corporate governance. In a discussion of the agency theory of the firm, it appeared that the agency problem is the result of owners in ability to run the business on a day to day basis. Property rights and perfect and imperfect world came out as the core weaknesses of the conceptual framework. The corporate scandals came out as the causes to the birth of corporate governance, its importance and how to ensure effective governance is practiced. The case studies of institutions which failed due to poor corporate governance such as Enron, Worldcom, ENG Capitol and others were discussed. Although corporate governance is not mandatory in some sectors of the economy the literature shows that it is an essential component for corporate performance, attracting investors, competent employees and survival. The next chapter focuses on the research methodology.
CHAPTER THREE

RESEARCH METHODOLOGY

3.0 INTRODUCTION

This chapter examine the methods used in conducting this research. In particular, this chapter describes the intended population, sample of the study and sampling methods. The instrument used for data collection and validity and reliability issues, the procedure followed to gather the data and the statistical techniques and the procedure followed to examine the data. In this research both primary as well as secondary data were used.

3.1 CONCEPTUAL FRAMEWORK OF RESEARCH

Research is the academic study of a subject that is intended to discover new facts or test new ideas. It is the activity of finding information about something that one is interested in or needs to know about (Robson, 2002). Howard and Sharp (1983) define research as “seeking through methodical processes to add to one’s own body of knowledge and hopefully, to others, by the discovery of non-trivial facts and insights” (p.7). There are two major research paradigms which are the positivism used on quantitative research and phenomenological approach which is used for qualitative research (Saunders, Lewis & Thornhill, 2003).

3.1.1 Positivism Approach

According to Saunders, Lewis and Thornhill (2003), positivism is a situation where the researcher prefers working with observable social reality and the research can be binding like those by the physical and natural scientists.

The positivism philosophy believes that the researcher can separate the object (of study) from the subject (doing the investigation). In this case, the investigator must identify the casual relationships and regularities in order to establish the “laws” governing reality with a view to manipulate reality in line with some purpose. It is interesting to note that an anti-positivist denies any objective reality and is basically relativistic in making claims that social reality can only be studied from individuals directly involved. According to Saunders et al. (2003), the positivist studies any social
reality from an objective perspective as opposed to the anti-positivist who completely rejects the notion of objective knowledge.

### 3.1.2 Phenomenological Approach

Phenomenological research is based on a relativistic, constructivist ontology that postulates that there is no objective reality. Rather, there are multiple realities constructed by human beings who experience a phenomenon of interest. People impose order on the world perceived in an effort to construct meaning, meaning lies in cognition not in elements external to us, information impinging on our cognitive systems is screened, translated, altered, perhaps rejected by the knowledge that already exists in that system, the resulting knowledge is idiosyncratic and is purposefully constructed (Denscombe, 1998). It seeks to explain social inequities through which individuals can take actions to change injustices (Patton, 2002).

The researcher chose to follow both the qualitative and quantitative approaches in order to prove the proposition set out in Chapter one.

### 3.2 RESEARCH DESIGN

Research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure (Jahoda, Deutsch, Cook & Ghoshi, 2002). There are several research designs which include case study, surveys, experiments, cross sectional, and longitudinal.

#### 3.2.1 Surveys

It is the sample of objects to quantitatively describe specific aspects of a given population (Glasow, 2005). The research used a selected portion of the population from which the findings can later be generalised back to the population.

#### 3.2.2 Experiments

Experiments are conducted either in a laboratory or in a natural setting in a systematic way. The aim is to manipulate the independent variable in order to observe the effect on the dependent variable (Saunders et al, 2003). Field experiments offer the advantage
that they are conducted in a real situation and thus avoid many of the drawbacks of laboratory experiments.

### 3.2.3 Cross sectional

Cross sectional is a methodology designed to obtain information on variables in different context but at the same time. Cross-sectional studies are conducted when there are constraints of time resources, data is collected once over a short period of time before it is analyzed and reported (Saunders et al, 2003).

### 3.2.4 Longitudinal

Longitudinal is a study overtime of a variable or group of subjects. The aim is to research the dynamics of the problem by investigating the same situation or people several times or continuously over the period in which the problem runs (Cooper & Schindler, 1998).

### 3.2.5 Case study

Case study is focused on individual instances rather than a wide spectrum (Denscombe, 1998). The case study approach is the opposite of any mass study. The logic behind concentrating efforts on one case rather than many is that there may be insights to be gained from looking at the individual case that can have wider implications and, importantly, that would not have come to light through the use of a research strategy that tried to cover a large number of instances (Denscombe, 2007). In this study a case study of Absolute Paints Private Limited was used. This is because the case study approach has considerable chance to generate answers to questions why, what and how and is used to carry out an in-depth study of the situation (Robson, 2002).

### 3.3 POPULATION

Population is all possible observations of the random variable under study (Wegner, 1995). Albright (1987) defines a population as the set of all members about which a study intends to make inferences. It is upon the population that the results of the study will be generalized (Frankental& Wallen, 1996).
For the purposes of this study the population consisted of 60 (sixty) employees employed by Absolute Paints Private Limited as at 30 April 2012.

The sampling framework is a complete list of all elements in the population from which the sample is drawn (Saunders et al, 2003). In this study the complete lists of sampling framework included management and staff of Absolute Paints Private Limited. They were all included since they are involved in the day to day activities of the company and are therefore in a position to give more information on how the company is directed. In this study a total of 40 (forty) questionnaires was sent as follows, 1 (one) questionnaire was sent to Chief Executive Officer, 10 (ten) questionnaires were sent to the directors, 8 (eight) questionnaires were sent to middle managers, 2 (Two) were sent to branch managers, and 19 (nineteen) questionnaires were sent to various supervisors within the company departments. Table 3.1 below indicates the size of the sample.

**Table 3:1 Characteristics of the sample**

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Quantity sent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of questionnaires sent to senior management</td>
<td>21</td>
</tr>
<tr>
<td>Total number of questionnaires sent to supervisors</td>
<td>19</td>
</tr>
<tr>
<td>Total number of questionnaires sent</td>
<td>40</td>
</tr>
</tbody>
</table>

The response rate of elements or subjects is quite critical when establishing the sample size and one has to estimate the response rate first (Saunders et al, 1997). Saunders et al (1997) admit that estimating the response rate from the sample to which you are sending a questionnaire is difficult. Saunders et al (1997) citing a research by Dillman (1978) gives a benchmark for response rate of questionnaire at between fifty percent and ninety two percent.

Forty (40) questionnaires were administered to management and staff of Absolute Paints Private limited.
3.4 SAMPLING

Saunders, Lewis and Thornhill (2003) there will be a need to collect data to answer the questions or objectives. To yield quality data, the sample must be representative of the population, and must permit accurate collection of data and all population units should stand a fair chance of being included. Supporting this view Zikmund (1997) points out that if properly selected, samples are sufficiently accurate in most cases.

Sampling techniques can be narrowed down to two broad types, namely, probability and non-probability sampling. Employing random (probability) sampling ensures that the probability of each case being selected from the population is known and is usually equal for all cases (Saunders, Lewis, & Thornhill, 1997). Non-random (non-probability) sampling is such that the probability of each case being selected from the total population is unknown and cannot answer questions that require statistical inferences about the population’s characteristics.

3.4.1 Non-Probability Sampling

Wegner (1995) defines non-probability sampling as any sampling method in which the observations are not selected randomly. In this case, criteria other than randomness are the basis for selecting observations from the population. Below are non-random sampling methods:

3.4.1.1 Convenience Sampling

This involves selecting those cases, which are easiest to obtain for one’s sample (Saunders et al, 1997). The sample is drawn for the convenience of the researcher and is not as representative of the population as selecting all variables in the population (Leedy, 1997). In this method, the researcher selects items on the basis of convenience.

This method is employed to suit the convenience of the researcher due to proximity and accessibility (Hughes & Shamrock, 1990). Henry (2000) states that data is collected quickly and less expensively are using convenience sampling.
In this study convenience sampling was applied when questionnaires were distributed at the Absolute Paints Private Limited head office and branch because that is where all senior and middle managers are based. As a result it was easy to get data and make follow ups with the respondents.

3.4.1.2 Quota Sampling
Saunders et al (1997) equates quota sampling to a type of stratified sample in which selection of cases within strata is entirely non-random. Ideally the population is divided into segments and a quota of observations is collected from each segment (Wegner, 1995). Its major disadvantage is the unrepresentative nature of the sample drawn with respect to the population from which it is drawn. However, non-probability samples can be useful in exploratory research to obtain initial impressions of the characteristics of a random variable under study. In this study quota sampling was not used in questionnaire distribution to the board of directors and management.

3.4.1.3 Judgmental Sampling
Judgmental sampling enables the researcher to use their judgment to select cases which will best enable the researcher to provide answers to research questions, (Saunders et al, 1997). The researcher attempts to draw a representative sample of the population by using personal judgment. Keogh (1999) contends that the amount of error depends upon the degree of expertise of the person making the selection. In this method, judgment is used by the researcher to select the best sampling units to include in the sample. If properly executed, it enables small samples to be representative, while the researcher has the final say on selection. In this study judgemental sampling was used.

3.4.2 Probability (random) Sampling
Probability sampling includes all selection methods where the observations to be included in a sample have been selected on a purely random (chance) basis from the population (Wegner, 1995). It is only through the random selection of sampling units from the population to be included in a sample that sampling errors can be measured
and, is able to establish the representative nature of the sample drawn. The random selection methods are discussed below:

3.4.2.1 Simple Random Sampling

This method ensures that each item in the entire population has an equal chance of being included in the sample, (Wegner, 1995). Ghosh (2002) echoes this when he describes simple random sampling as a method where the units are selected from the population in such a manner as to afford every unit of the population the same chance of being selected. This method is used when it is assumed that the population is relatively homogeneous with respect to the random variable under study.

3.4.2.2 Systematic Sampling

Using systematic sampling, elements are selected from the population at a uniform interval that is measured in time, order or space. A random process selects an initial starting point, and then every number or unit is selected (Zikmund, 1997). This method differs from simple random sampling in that each element does not have an equal chance of being selected, thus some randomness is sacrificed.

3.4.2.3 Stratified Sampling

In stratified sampling a sub-sample is drawn using a simple random sample within each stratum (Zikmund, 1997). Wegner (1995) states that stratified sampling divide the population into segments or strata. At the time of constructing the strata one should ensure that there is perfect homogeneity in the different units of strata, (Ghoshi, 2002). Stratification therefore should be clear, well defined and free from overlapping. A specific number of elements are selected at random from each stratum that corresponds to the proportion of that stratum in the population. Stratification can be worthless unless the population can be classified into strata that are homogenous in the state being investigated moreover when the sizes of different strata are unequal, attainment of correct proportions become very difficult.
3.4.2.4 Cluster Sampling

Zikmund (1997) states that the purpose of cluster sampling is to sample economically while retaining the characteristics of a probability sample. The population is divided into clusters, where each cluster is similar in profile to every other cluster. Clusters are then randomly selected for sampling. The sampling units within these randomly selected clusters may then be randomly selected to provide a representative sample from the population. According to Keogh (1999), cluster sampling tends to be used when the population is large and spread out over a geographical area. In such cases, smaller regions or clusters can more easily be sampled.

The main advantages of probability sampling are that it makes more explicit identification of biases and shows how much variation is introduced instead of a population (Wegner, 1995).

The researcher rejected probability sampling because it is quite expensive and cannot be developed easily.

3.5 SAMPLE SELECTION

In most populations in research, there exists very little similarity among elements and the situation dictates that a subset (sample) of the population be used to estimate the overall responses of a population (McPhail, 2001). It is seldom possible to gather all the data on a random variable under study for analysis purposes. The sample findings will be used to deduce the likely overall behaviour of a random variable under study (Wegner, 1995).

Zikmund (1997) on the other hand, acknowledges that advance knowledge of population characteristics, such as availability of lists of population members, is an important criterion. The size of a sample is governed by a number of factors and (Saunders et al, 1997) lists the following:

- The confidence one has in their data that is the level of certainty that the characteristics of the data collected will represent the characteristics of the total population
- The margin of error that the researcher can tolerate, that is, the accuracy you require for any estimate made from your sample
- The types of analyses one will undertake, in particular the number of categories into which one wishes to subdivide one’s data, as many statistical techniques have minimum threshold of data cases for each cell.

The above presents competing influences and Saunders et al (1997) conclude that it is not surprising that the final sample size is most certainly a matter of judgment rather than calculation.

### 3.6 DATA SOURCES AND COLLECTION TECHNIQUES

This section explains and justifies data sources and techniques used in the study. Data is classified into two categories, that is internal or external and primary or secondary sources (Wegner, 1995).

#### 3.6.1 Internal and external sources

Internal sources of data refer to the data that is available within the organisation and is generated during the course of business operations such as financial statements or production figures (Wegner, 1995). The researcher used the management reports of the company to gather some data about the company’s corporate governance practices.

#### 3.6.2 Primary sources

Zikmund (1997) states that primary data are gathered and assembled for the particular research project available. This is supported by Parasuraman (1991), who agrees that primary data is collected specifically for a project. Primary data is expensive to collect, but it is important, as it is possible to formulate structured and unstructured questions that focus on the study topic.

The major advantage of primary data is that it is directly relevant to a specific problem and offers greater control of data accuracy by the researcher (Jacob, 1994). Primary data is more expensive in terms of input resource requirements for instance the time and money used to collect it.
In this research primary data was obtained from questionnaires distributed to Absolute Paints employees.

3.6.3 Secondary sources
Secondary data is mostly historical data. It is data collected and assembled for some other project, (Zikmund, 1997). Secondary data is cheaper to collect as opposed to primary data. It is usually gathered from various sources such as websites, various textbooks, journals and company documents like business plans, divisional plans, and annual reports.

The merits of secondary data are that the data is already in existence and could be accessed in a short time with no additional resource expenditure incurred to collect it. Hughes and Shamrock (1990) highlight the major pitfalls of secondary data as data that is not addressing the researcher’s specific objectives and research questions. Additional sources like questionnaires and interviews must be applied to compensate for the shortcomings of secondary data sources.

3.7 DEVELOPMENT OF RESEARCH INSTRUMENTS

In this research, structured and self-administered questionnaires were be used to capture responses from Absolute Paints Private Limited employees. A covering letter was attached to the questionnaire explaining the purpose of the research and providing assurance of confidentiality of the respondent’s identity.

3.7.1 Data collection
The data collected was used to examine and to produce results discussed in chapter 4.

3.7.2 Questionnaires
The research instrument which was used was a semi-structured, self-administered questionnaire. Mauson and Bramble (1999) describe a questionnaire as a tool for collecting data, a measure that presents a set of written questions to which all individuals in a sample respond. Kervin (1999) defines a questionnaire as a data collection instrument used in a survey research where people answer questions by
recording their own answers. Frankental and Wallen (1996) say the major advantage of using questionnaire is that it can be administered to large numbers of people at the same time. This method has also proved to be cost effective and convenient in data collection.

Foddy (1994) gave the major disadvantages of using questionnaires as a research instrument. Firstly, the response rate is often low as potential respondents fail to complete and return the questionnaires. Secondly, it is difficult to control who completes the questionnaire as some would be filled at home in the absence of the researcher. Thirdly respondents might find it difficult to answer particular questions since the researcher might not be available to explain where assistance is required. In this research, the problem was minimised by use of the pilot questionnaire to clarify questions. The respondents participated in pilot test were not included in the final sample to avoid bias.

3.7.3 Interviews

Saunders et al (1997) citing Kahn and Cannell (1957) describes an interview as a purposeful discussion between two or more people. Interviews are meant to elicit primary data responses through direct questioning (Wegner, 1995). It is the most common form of data collection in the field of marketing and market research. Fraenkel and Wallen (1996) the advantages of using the interview technique approach are that the respondents can expand on areas of interest and uses non-verbal cues such as facial expression to emphasise their responses. However, Fraenkel and Wallen (1996) are worried about the time taken to conduct an interview. In this study, no interviews were conducted.

3.8 PILOT TESTING

A pilot testing is the final preparation for data collection (Yin, 1998). A pilot test is used to find out the time it takes to complete a questionnaire, clarity of questions, whether there are major topical omissions and any other comments from the respondents (Saunders et al, 2003). It helps a researcher to refine the data-collection plan in terms of its content and its collection procedures. Usually convenience and access are the
central selection criteria for pilot studies (Janesick, 1998). Because of limited time the researcher used eight questionnaires in pilot testing, with each respondent category being allocated pilot questionnaires before the actual survey to gauge its clarity on all questions. The eight were not included in the sample to avoid bias.

3.9 DATA QUALITY CONTROL

Data quality can be assessed in several ways, using different types of analyses which include frequency counts, descriptive statistics (mean, standard deviation, and median), normality (skewness, kurtosis, frequency histograms, and normal probability plots), associations (correlations, scatter plots) (Saunders et al, 2003). The quality of the measurement instruments should only be checked during the initial data analysis phase when this is not the focus or research question of the study (Zikmund, 1997).

Clearly defined data elements, quality assurance reviews of both collection and entry and system-based controls reduce the likelihood of error. In the data management phase, missing data should be quickly identified and corrected (Needham, Sinopoli, Dinglas, Berenholtz, Korupolu, Watson, Lubomski, Goeschel, & Pronovost, 2009). Appropriate statistical methods and sensitivity analysis aid in managing and understanding the effects of missing data and outliers.

Needham et al (2009) describes outlier data as one or more data items that are extremely different from all other values have the ability to substantially influence the results of statistical analyses. During the data collection and management phases, errors in collection or entry should have been excluded as a reason for outlying data. Thereafter, there are basic methods for addressing outlier data values:

(i) Remove outliers from the analysis.
(ii) truncate the outlier and assign another value that is less extreme (e.g. a value that is two or three standard deviations from the mean)
(iii) Neither adjusts nor removes the outlier and allows it to fully influence the overall results.
(iv) Choose a statistical analysis plan that is not substantially altered by outlier values (e.g. use of medians, rather than means, to summarize the data). There is no single, universal best approach; consequently, sensitivity analyses are essential for understanding whether the approach substantially changes inferences made from the data.

The researcher distributed questionnaires for pilot testing in order to improve on the quality of the research instrument used to collect data as well as the responses gathered from the respondents.

3.10 DATA PROCESSING, ANALYSIS AND PRESENTATION

Once the fieldwork has been completed, the data must be converted into a format that will answer the decision maker’s questions (Zikmund, 1997). Data processed consist of questionnaire coded, data entered and data cleaned. At first the questionnaires were given unique codes for all responses. Data entry was done using the Excel spreadsheet and data analysis and interpretation, frequencies, percentages and mean was used. The information was presented using tables, graphs and charts.

3.11 VALIDITY AND RELIABILITY OF DATA

According to Kvale (1995) validity in a study should mean “whether a study investigates the phenomena intended to be investigated” (p. 26). Reliability is concerned with whether alternative researchers would reveal similar information if they carried the same research (Easterby-Smith, Thorpe & Lowe, 2002). The research instrument (questionnaire) that was used for data collection for this study has its own advantages and disadvantages which could limit the accuracy of the research. However, these weaknesses were addressed by subjecting the questionnaire to pilot testing.

3.12 ETHICAL CONSIDERATIONS

Participants risk exposure and embarrassment, such as the loss of employment and self-esteem, because they share personal views and circumstances (Stake, 1998). Therefore, researchers need to consider ethical issues. Fontana and Frey (1994)
pointed out that researchers should be able to manage the degree of their involvement, first, because they do not want to influence the participants and, furthermore, the data. They argue that researchers need to be morally responsible. The researcher was given permission in writing by the company management to understudy the company (see Appendix 4).

Bogdan and Biklen (1992) maintained that researchers ought to inform participants of the purpose of the study early in the interview and to assure them that information collected during the interview would be treated confidentially. In this study the responses were kept as confidential as possible and no names or identification were asked from the respondents. The purpose of the research was highlighted on the questionnaire cover letter to the respondents. The respondents were free to participate or not to and they were not offered rewards to attract them to participate as this would have resulted in participants giving biased answers.

3.13 LIMITATIONS OF THE STUDY

The researcher encountered limitations during the course of the study chief among these was inaccessibility of information due to the confidentiality nature of some of the information, some respondents felt insecure to disclose some of the information. Some board members were not available to respond to the questionnaires and other participants decided not to respond to the questionnaire.

3.14 CHAPTER SUMMARY

This chapter looked at the research methodology and the corresponding justification of the methodology adopted. This study adopted both the positivist and phenomenology research approaches with the questionnaire as the data collection tool. Non probability sampling technique was used to select the directors and management staff that participated in the study. The next chapter presents the findings research.
CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.0 INTRODUCTION

This chapter presents findings of the research, analysis and discussions of the study. These will be discussed in relation to the literature reviewed by the study.

4.1 RESPONSE RATE

A total of 40 questionnaires were administered to the respondents and 27 were successfully completed and returned translating to 67.5% response rate. Any response rate of 50% and above indicates valid research results (Saunders et al, 1997).

4.2 GENERAL DISCUSSIONS

4.2.1 Period of employment at Absolute Paints

Figure 4.1 below is a presentation of the period of employment of the respondents in the organisation.

![Bar Chart]

**Figure 4.1: Period of employment at Absolute Paints**
The study findings are that 45% of the respondents have less than five years at Absolute Paints and 55% have more than five years. Since the respondents consist of employees who have served in the organisation for different periods this will bring interesting views to the research.

4.3 APPOINTMENT OF BOARD MEMBERS

4.3.1 Number of directors presently serving on the board

The respondents were asked the number of directors serving on the company board. The findings are presented in the figure 4.2 below.

![Figure 4.2: Number of directors on board](image)

From the study finding 78% indicate that, the company board is composed of more than seven board members. Corporate governance principles advocate that the company should have at least five directors on board (RBZ, 2004).
4.3.2 NEDs on Board

![Bar chart showing number of NEDs on board](image)

**Figure 4.3: Number of NEDs on board**

From the study findings 68% indicate that, there are two NEDs and 25% indicate there are three NEDs. The findings indicate that the board consist of more than seven board members and majority are executive directors. According to best practice, there should be board balance between the number of executive and non-executive directors to reduce domination of the board decision making process (Cadbury,1992).

4.3.3 Balance of power on board

![Pie chart showing percentage of board members](image)

**Is the Board composed of any of the following?**

- 49% Controlling shareholder
- 48% Significant Supplier to Absolute Paints
- 1% A dominant Director
Figure 4.4: Balance of power on board
According to study findings, figure 4.4 shows that 49% of the respondents alluded to the fact that there is a dominant director on the company’s board and 48% indicate that there is a controlling shareholder on board. Corporate governance principles do not agree to have a dominant director sitting on the board as this affects decision making on the board (Coyle, 2003). This powerful individual will chart the way for the board and members will not be given the independence to make their own decisions (Grant, 2004).

4.3.4 Same individual holding the posts of CEO and Chairman
The posts of CEO and chairman are very critical and figure 4.5 below shows the representations of whether the positions of CEO and that of chairman are held by one person.

Figure 4.5: CEO and Chairman Positions
The figure shows 90% of the respondents alluded to the fact that the positions of CEO and chairman are occupied by one person. Good corporate governance practices advocates for the separation of Chairman and Chief Executive Positions to avoid domination in board meetings (Coyle, 2003).
4.3.5 Executive and Non Executive Directors

Table 4.1: Cross Tabulation – Directors sitting on more than ten boards versus executive or non executive directors

<table>
<thead>
<tr>
<th>Position in organisation</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Director</td>
<td>0%</td>
<td>70%</td>
</tr>
<tr>
<td>Non-Executive Director</td>
<td>20%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Table 4.1 above shows the cross tabulation of directors sitting on more than ten boards versus the director’s position on Absolute Paints board, that is whether they are executive or non executive. Cross tabulations seek to establish the association between any two variables. The table reveals the fact that 20% of non executive directors who sit on the company’s board also sit on at least ten other boards. Sitting on too many boards affects the director’s effectiveness in terms of meaningful contributions to the board since the directors would not have time to read through the company’s reports before a board meeting (Freeman & Velamuri, 2006). The findings show that the executive directors do not sit on other boards of companies; this is an ideal situation because executive directors are involved in day to day operations of the company. It is also advisable for directors to sit on other boards to get experience from other fields; however they must be able to balance off their time to attend and participate on other boards.
4.3.6 Board Sub-committee

Business sub-committee assist the board in executing some of its functions expeditiously. The research showed that the company is reluctant to form sub-committees in line with the best practice as shown in figure 4.6.

![Does your Board have any of the following sub-committee?](image)

Figure 4.6: Board committees

The results show that the company has an audit and risk subcommittee only. The company’s board of directors needs to form the remunerations and nominations sub-committee to which the board will delegate authority to carry out functions and give recommendations to the main board. The remuneration committee will draft the company’s remuneration policy that will ensure the retention of the organisation’s critical staff. The nominations committee will be delegated authority to head hunt for directors and executive managers and recommend them to the main board of directors (Cole, 2003). This sub-committee will also ensure that there is a proper succession plan in place in order to avoid challenges if any senior person resigns in the organisation (Coyle, 2003).
4.3.6 Board members Appointments

Figure 4.7 below shows how board members are appointed to the board of directors at Absolute Paints.

Figure 4.7: Appointment of board members
The results show that 30% are appointed by nomination, 50% by invitation and 20% are appointed by shareholders. The ideal practice is for board members to be nominated by a nominations committee and voted for by shareholders at annual general meeting. The fact that majority of the directors are appointed by invitation may affect the board to recruit competitive directors who have the right qualities to lead and direct the company. According to good corporate governance practice directors should retire by rotation at the annual general meeting of the company and offer themselves for re-election by shareholders (Coyle, 2003).
4.4 CONDUCT OF BOARD MEETINGS

4.4.1 Characteristics of the Board subcommittees

Figure 4.8 below shows characteristics of the board sub-committees of the company.

![Bar Chart]

**Figure 4.8: Board sub-committee characteristics**

From the figure above 37% of the sub-committees meet regularly, 48% of the sub-committees are chaired by non-executive members and 59% of the sub-committees make decisions which are adopted by the Board. Generally the Boards of directors are not complying with the provisions of corporate governance best practices. The fact that sub-committees do not meet regularly means that directors are not kept up to date with developments in the company. The non executive director should chair the sub-committee meetings because the best practice advocates that, they are independent from the day to day operations of the company and are in a position to dig deeper into the issues at hand (Cadbury, 1992). The board is doing well in adopting decisions from the sub-committee resolutions.
4.4.2 Are all issues of significant placed at board?

![Pie chart showing the percentage of board meetings with significant issues](chart1.png)

**Figure 4.9: Significant issues placed at board**

The pie chart above indicates that 67% of the respondents alluded to the fact that the board makes decisions on all significant issues. The board is complying with the best practice which states that control over the company should be exercised collectively by the board of directors as a whole (Vinten, 2000).

4.4.3 Board meeting notice

![Pie chart showing whether notice is sent on time](chart2.png)
Figure 4.10: Notice sent on 14 days prior to the meeting (except in case of emergency)

Figure 4.10 shows that 67% of the respondents alluded to the fact that the board meeting notice is sent on time. Good corporate governance practices and companies act call for notices of board meetings should be sent fourteen days prior the meeting (Coyle, 2003). This would allow the board members to consider the issues listed on the agenda and also give them ample time to research on some of the issues at hand so that they would contribute meaningfully to the board deliberations. However, in emergency cases the directors may receive short notice to attend board meetings.

4.4.4 Dominant voice on board

It is important to ensure that all members of the board operate on the same platform. Figure 4.11 shows an indication of Board members who dominate meetings.

Figure 4.11: Dominant voices in board meetings

According to the findings the chief executive officer seems to be the board member with the dominant voice with a frequency of 63% followed by other executive directors with a frequency of 19%, NED and company secretary with 11% and 7% respectively. The fact that the CEO and other executive directors dominate board meeting deliberations might be due to the fact that they possess more internal information about the operations of the company whilst their counterparts are not well informed. In this regard the board
needs to involve directors who are independent and who are able express their views freely. Corporate governance principles call members to operate at the same level and avoid dominance by any one member or a group of directors in the board (Coyle, 2003).

4.5 BOARD EVALUATION

4.6.1 Is Board Performance evaluated?

![Figure 4.12: Board evaluation](image)

The figure shows that the board is not evaluated and this is against the best practices. The board of directors should be evaluated by the nominations committee and in some cases an independent evaluator from outside should be engaged to ensure that the process is done independently (Grant, 1996). When the evaluation report shows some gaps in the performance of the board, then there is need to train directors so that the gap is closed and performance of the board is enhanced (Coyle, 2003).
4.6 RISK MANAGEMENT AND INTERNAL CONTROL

4.6.1 Does your organisation have an Internal Audit Department?

![Pie chart showing 67% yes and 33% no](chart.png)

**Figure 4.13: Internal audit department**

The internal audit department is an important department in terms of the organisation’s internal control system implementation. Figure 4.13 above is an indication of whether or not an internal audit department exist in the company. Majority of the respondents indicated that the company does not have the internal audit department. However, good corporate governance practices state that an internal audit department is the best because it monitors the internal control system of the organisation (Turnbull Report, 1999). The internal audit department would also be able to carry out value for money audits which focuses attention on the efficiency, effectiveness and economy of transactions that are processed in the organisation (Coyle, 2003). The organisation may need to introduce an internal audit department to improve the organisation’s internal control system.
4.6.2 Statement of internal controls issued and endorsed by board of directors

Figure 4.14: Internal controls issued and endorsed by directors

Figure 4.14 shows the following frequencies about the internal control statement issued and signed by directors; 52% no, 26% yes and 22% partly. According to good practice it is the responsibility of the board to provide an oversight on the effectiveness of internal controls. The annual report and accounts should include such meaningful, high-level information as the board considers necessary to assist shareholders’ understanding of the main features of the company’s risk management processes and system of internal control, and should not give a misleading impression. In its statement the board should summarise the process it has applied for reviewing the effectiveness of the system of internal control, and confirm that action has been taken to deal with any significant weaknesses or failings identified from the review (Turnbull Report, 1999).
4.6.3 Does your annual report contain audit reports with audit opinion?

The annual report of a company are the principal way in which the directors make themselves accountable to the shareholders and the figure 4.15 below shows if the annual report contains an audit opinion.

![Bar chart showing percentages of annual reports with audit opinion](image)

**Figure 4.15: Annual reports with audit opinion**

The figure 4.15 above shows the following frequencies, 52% no, 26% yes and 22% partly. The company is not disclosing external auditors opinion. Good corporate governance practices advocates that, the annual report incorporates external audit opinion. The financial statement is an important document for corporate governance because it is a means by which the directors are made accountable to the shareholders, and provides a channel of communication from directors to shareholders. The report must incorporate the opinion of the external auditors and enables the shareholders to assess how well the company has been governed and managed (Vinten, 2000).
4.7 Risk management policy

Table 4.2 Cross tabulation – Risk management policy versus frequency of appraisal

<table>
<thead>
<tr>
<th></th>
<th>Does the organisation have a Risk management policy?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>Monthly</td>
<td>67%</td>
</tr>
<tr>
<td>Quarterly</td>
<td>50%</td>
</tr>
<tr>
<td>Semi-annually</td>
<td>67%</td>
</tr>
<tr>
<td>Annually</td>
<td>0%</td>
</tr>
</tbody>
</table>

Table 4.2 above shows the association between the organisation’s risk management policy and the frequency upon which the policy is reviewed. From the table it shows the meetings are reviewed monthly and semi-annually both with frequency of 67%. This is congruent with good corporate governance practice. It should also be noted that the risk and audit committee is responsible for reviewing the company policies on risk (Turnbull Report, 1999). This sub-committee of the board recommends to the main board of directors on any other improvements.
4.7.1 Major project risk assessment

Figure 4.16: Major project risk assessment

Most of the respondents seem to agree with the fact that enough risk assessment is done shown by the frequency of 67% given in figure 4.16. Since major projects have high risk of failure it is critical that the organisation carries out enough risk assessment in order to avoid failure.
4.8 POLICY AND PROCEDURE

4.8.1 Does the organisation have clearly defined policies?

Figure 4.17: Policy and Procedures for the organisation

The results show that 55% of the respondents alluded that the organisation does not have adequate policies and procedures in place for both the financial and non financial systems. These include also the standard operating procedures for the plant operation, safety precautions and other manuals covering the procedures for the company’s various departments.
4.8.2 Benchmarking policies against best practice

Table 4.3: Cross tabulation – clearly defined policies versus benchmarking against best practices

<table>
<thead>
<tr>
<th></th>
<th>Does the organisation have clearly defined policies?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>Benchmarking policies</td>
<td>40%</td>
</tr>
</tbody>
</table>

The research findings show that 60% of the respondents believe that the organisation does not benchmark against best practice. The organisation would need to benchmark its policies and procedures against best practice in order to achieve its desired objectives and goals (Grant, 2004).

4.9 CHAPTER SUMMARY

In this chapter the research findings were reported and analysed. The findings pointed out many areas where corporate governance principles have been contravened in the organisation. The next chapter provides conclusions and recommendations based on the above findings.
CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.0 INTRODUCTION

This chapter summarise the conclusions and recommendations that came out of the findings presented in the previous chapter and area of further study.

5.1 CONCLUSIONS

The study sought to achieve the following sub-objectives:

i. To determine whether Absolute Paints directors and management understand corporate governance and its importance.

ii. To identify and review corporate governance practices at Absolute Paints Private limited.

iii. To determine the extent to which boards of directors effectively fulfil their functions at Absolute Paints Private limited.

iv. To make any necessary recommendation to improve corporate governance practices of Absolute Paints Private Limited.

The following conclusion were made based on the findings presented in chapter four above.

i. It was established that corporate governance has a role to play in the success and viability of Absolute Paints by introducing an internal audit department which is responsible for implementing and strengthening internal control systems. The organisation does not have an internal auditor or the internal audit department which is necessity for strengthening internal control systems. It was concluded that this practice results in ineffective board audit committee because they do not have someone to liaise with when it comes to audit issues. The research findings
also show that the majority of board members are appointed by invitation which is not a good corporate governance practice.

ii. The research findings show that the practice of separating the posts of the chairman and CEO is being violated because the same person is holding the two crucial positions and the voice of CEO is dominant. It was concluded that this practice is not in line with good corporate governance practices because no individual or group should be dominant in board meetings. It was also concluded that major risk projects are assessed before being implemented which is in line with best practices.

iii. The research findings show that there are more executive directors than the NEDs. The research findings also established that the board does not have remuneration and nomination committees which are important in terms of good practices. The directors are issuing Internal control statement not signed by them as prescribed by Turnbull report and the board performance is not evaluated as recommended by best practices. It was concluded that the board was not effectively fulfil their function in line with the best practices.

iv. The annual report of the company does not contain an external auditors’ opinion as recommended by the best practice. It was established that the organisation do not have adequate policies and procedures. The organisation does not benchmark its policies and procedures against best practices.

5.2 TESTING THE PROPOSITION

When the researcher started the research a proposition that Absolute Paints Private limited does not have good Corporate Governance systems was made. The findings indicated that corporate governance practice at Absolute Paints needs to be greatly improved. The key corporate governance areas that need to be addressed include neutrality and independence of the board of directors, internal control system, organisational policies and procedures.
5.3 RECOMMENDATIONS

The following recommendations are made to ensure sound corporate governance practice at Absolute paints Private Limited.

5.3.1 Create internal audit department
The researcher proposes that the company create a fully fledged internal audit department within the organisation headed by a chief internal auditor supported by two assistants to establish a sound system of risk oversight, management and internal control. The auditor should report administratively to the CEO and operationally to the chairman of audit committee.

It is also recommended for the organisation to hire the services of an expert in order to have a full appreciation of the risks involved in certain projects so that corrective action is taken to mitigate the risks at early stages of the project.

5.3.2 Provide balanced board structure

The organisation should structure its board of directors in such a way that it has a proper skills and understanding to deal with, the current and emerging issues of the business. However, the board should have a balance of independent NEDs and executive directors to neutralise the domination on board. The key positions of CEO and chairman of the board should be occupied by different persons to improve effectiveness and efficiency of the board. The independence of every board member should be reviewed regularly in light of interests disclosed by them.

5.3.3 Create remuneration and nomination sub-committees

The researcher recommends the board of Absolute Paints to create remuneration and nomination sub-committees. The nomination committee will nominate prospective board members which are ultimately elected by shareholders at a general meeting. Nomination committee review the structure, skills and independence of the board and make the necessary improvements and it also conduct board performance appraisals. The remuneration subcommittee should draft a remuneration policy of the organisation and decide also the remuneration of the NEDs and propose to the board of directors (Or the shareholders if required by the articles of association). This committee may include
the CEO. Best practice does not allow a director to be involved in any decisions as to his or her own remuneration.

5.3.4 Put in place a review structure
Absolute Paints should put in place a structure of reviewing and authorisation designed to ensure the truthful and factual presentation of the company’s financial position. The structure would include a review and consideration of the accounts by the audit committee. The company should also have a process to review the independence and competence of the company’s external auditors.

5.3.5 Adopt a formal statement of matters reserved for the board
The researcher suggests that the board adopt a formal statement of matters reserved to it or a formal board contract that details the functions and responsibilities of the board. The statement will include things like strategy and long term objectives approval, capital structure, communication and board membership.

5.3.6 Encourage board performance
Absolute Paints should ensure that directors and other executives are equipped with the knowledge and information they need to discharge their responsibilities effectively, and that individual and collective performance is regularly and fairly reviewed. The performance of the board and key executives should be reviewed regularly against both measurable and qualitative indicators. The nomination committee should take responsibility for evaluating the board’s performance. If any knowledge gaps are discovered the company should ensure that the directors are sent for training.

5.3.7 Integrate reporting and disclosure
The researcher proposes that the company should adopt the contemporary reporting and disclosure of non financial information such as environmental issues, social, governance and community activities in line with the King code III.
5.3.8 Formulate document on operating procedures

The researcher proposes that a single document defining all operating procedure and guidelines be compiled. This document should contain things like revised asset management policy, assets disposal policy, accounting and procurement policy. This document should be given to all employees.

5.4 AREA OF FURTHER STUDY

Further research may be done on how boards of directors of paint manufacturing organisations can adopt King code III integrated reporting and disclosure to attract foreign direct investments.
REFERENCES


APPENDIX 1: LETTER TO RESPONDENTS

Absolute Paints (Pvt)Ltd

23 Conald Road, Graniteside

Harare

28 May 2012

Dear Respondent

RE: AN INVESTIGATION OF CORPORATE GOVERNANCE PRACTICES WITHIN THE PAINT MANUFACTURING INDUSTRY: A CASE OF ABSOLUTE PAINTS (PVT) LTD (JANUARY 2010 – JUNE 2011)

I am a Master of Business Administration (MBA) third year student in the Graduate School of Management, University of Zimbabwe. In an effort to fulfill the requirements of this programme, I am conducting a research study on the above topic. The research study requires collection of various data on corporate governance from Absolute Paints (Pvt) Ltd. This questionnaire is an effort towards accumulating such data for the purpose of research study only. The submissions made in the said questionnaire will be kept confidential and will not be used for any other purposes.

I would be grateful if you spare sometime to answer this questionnaire. There is no right or wrong answer to this questionnaire, it is only your factual response that matters. I would be grateful if you can answer the questionnaire and return it within five working days. Should there be a need to do so you can reach me on my cell phone number +263 773 808 250 or by email on sovietmuropawembwa@gmail.com.

Thank you in advance for your time and cooperation.

Yours faithfully,
Soviet Muropawembwa
MBA Student
APPENDIX 2 QUESTIONNAIRE TO THE SENIOR MANAGEMENT

Hints for completing this questionnaire

Please read the following instructions:

Please read each question carefully and tick a box to indicate your answer.
Answer the next question unless asked otherwise.
Once you have finished please take a minute to check you have answered all the questions that you should have answered.
The survey consists of 5 pages and should take no longer than 10 minutes to complete.

QUESTIONNAIRE FOR SENIOR MANAGEMENT OF ABSOLUTE PAINTS PRIVATE LIMITED.

SECTION A: GENERAL QUESTIONS

1. What is your position in the organisation? Please tick (✓) one box only

<table>
<thead>
<tr>
<th>a) Executive Director</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>b) Non Executive Director</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
</tbody>
</table>

2. How long have you been an employed in the Paint making Industry? Please tick (✓) one box only

<table>
<thead>
<tr>
<th>a) Less than 5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</table>
b) 5 to 10 years

<p>| | |</p>
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c) More than 10 years

<p>| | |</p>
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<th></th>
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</table>

SECTION B: APPOINTMENT OF BOARD MEMBERS

3. How many Directors are presently serving on your board? Please tick (✓) one box only

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Less than 5 directors</td>
<td></td>
</tr>
<tr>
<td>b) 5 – 7 directors</td>
<td></td>
</tr>
<tr>
<td>c) More than 7 directors</td>
<td></td>
</tr>
</tbody>
</table>

4. How many board members are non-executive directors (indicate number of members)

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

5. How are board members appointed to the board? Please tick (✓) one box only

<table>
<thead>
<tr>
<th>Nomination</th>
<th>Invitation</th>
<th>Imposed by shareholders</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

6. Is the Board composed of any of the following members? Please tick (✓)

<table>
<thead>
<tr>
<th>Controlling shareholder in your organization</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Yes | No
7. Is the same individual holding the posts of Chairman and Chief Executive in your organization? **Please tick (✓) one box only**

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
</table>

8. Does your company arrange ‘Orientation Courses’ for your Directors? **Please tick (✓) one box only**

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
</table>

9. Are any of your Directors serving more than ten boards of Companies? **Please tick (✓) one box only**

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
</table>

10. Does your Board have any of the following sub-committees? **Please tick (✓)**

   (i) Risk and Audit sub-committee
   (ii) Remuneration sub-committee
   (iii) Nominations sub-committee
11. Do your Board sub-committees have any of the following characteristics? Please tick (√)

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meet regularly</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chaired by non-executive members</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Make decisions which are adopted by the Board</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

12. Is the board evaluated? Please tick (√) one box only

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

SECTION C: CONDUCT OF BOARD MEETINGS

13. Are regular meetings of the Board and sub-committees held? Please tick (√) one box only

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<td></td>
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</tbody>
</table>

14. How frequently does the board meet? Please tick (√) one box only

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Monthly</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bi-Monthly</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
15. Does the management ensure that the notice is sent 14 days prior to the meeting (except in case of emergency)? **Please tick (✓) one box only**

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
</table>

16. Are all significant issues placed at Board meeting for their consideration? **Please tick (✓) one box only**

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
</table>

17. In your Board meetings, whose voice is dominant? **Please tick (✓)**

<table>
<thead>
<tr>
<th>Non Executive Director</th>
<th>Executive Director</th>
<th>Managing Director/CEO</th>
<th>Company Secretary</th>
<th>None</th>
</tr>
</thead>
</table>

18. How are issues resolved in your Board meetings? **Please tick (✓) one box only**
### SECTION D: RISK MANAGEMENT / CONTROLS

19. Does the organisation have a risk management policy? **Please tick (✓) one box only**

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
</table>

20. Are risk assessments undertaken before the commencement of major projects and included in reports on which the decision to proceed is based? **Please tick (✓) one box only**

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
</table>

21. Is the annual report presented to the organisation’s Risk Management Subcommittee? **Please tick (✓) one box only**

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
</table>

22. How often is the risk management policy reviewed? **Please tick (✓) one box only**

<table>
<thead>
<tr>
<th>Quarterly</th>
<th>Semi-annually</th>
</tr>
</thead>
</table>
23. Does your organisation have an Internal Audit Department? **Please tick (✓) one box only**

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

24. How are financial controls exercised in your organisation? **Please tick (✓) one box only**

<table>
<thead>
<tr>
<th>a) Multiple signatory</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>b) Competitive bidding for services</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

25. Does the annual report of the company contain statement of internal controls issued by the directors and endorsed by the board of directors? **Please tick (✓) one box only**

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>Partly</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

26. Does your annual report contain audit report with audit opinion? **Please tick (✓) one box only**

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>Partly</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
SECTION E: POLICIES AND PROCEDURES

27. Does the organisation have clearly defined policies and procedures for both financial and non-financial systems? Please tick (√) one box only

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
</table>

28. Is the movement and location of records controlled with sufficient security for each unit’s size and functions? Please tick (√) one box only

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
</table>

29. Does the organisation have procedures to ensure timely responses to customer and stakeholder queries? Please tick (√) one box only

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
</table>

30. Does the organisation benchmark these policies against Best Practice in the sector? Please tick (√) one box only

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
</table>

End of questionnaire,

Thank you for your time.
APPENDIX 3 QUESTIONNAIRE FOR LINE MANAGERS AND SUPERVISORS

Hints for completing this questionnaire
Please read the following instructions:

Please read each question carefully and tick a box to indicate your answer.
Answer the next question unless asked otherwise.
Once you have finished please take a minute to check you have answered all the questions that you should have answered.
The survey consists of 4 pages and should take no longer than 10 minutes to complete.

QUESTIONNAIRE FOR LINE MANAGERS AND SUPERVISORS OF ABSOLUTE PAINTS PRIVATE LIMITED.

SECTION A: GENERAL QUESTIONS

1. What is your position in the organisation? Please tick (✓) one box only
   
   a) line manager
   
   b) supervisor
   
   c) other

2. How long have you been an employed in the Paint making Industry? Please tick (✓) one box only
   
   a) Less than 5 years
   
   b) 5 to 10 years
c) More than 10 years

## SECTION B: RISK MANAGEMENT / CONTROLS

3. Does the organisation have a risk management policy? **Please tick (✓) one box only**

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
</table>

4. Are risk assessments undertaken before the commencement of major projects and included in reports on which the decision to proceed is based? **Please tick (✓) one box only**

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
</table>

5. Is the annual report presented to the organisation’s Risk Management Sub-committee? **Please tick (✓) one box only**

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
</table>

6. How often is the risk management policy reviewed? **Please tick (✓) one box only**

<table>
<thead>
<tr>
<th>Quarterly</th>
<th>Semi-annually</th>
<th>Annually</th>
<th>Other</th>
</tr>
</thead>
</table>

7. Does your organisation have an Internal Audit Department? **Please tick (✓) one box only**
8. How are financial controls exercised in your organisation? Please tick (✓) one box only

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a) Multiple signatory

b) Competitive bidding for services

9. Does the annual report of the company contain statement of internal controls issued by the directors and endorsed by the board of directors? Please tick (✓) one box only

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>Partly</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

10. Does your annual report contain audit report with audit opinion? Please tick (✓) one box only

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>Partly</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

SECTION C: POLICIES AND PROCEDURES

11. Does the organisation have clearly defined policies and procedures for both financial and non-financial systems? Please tick (✓) one box only

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
12. Is the movement and location of records controlled with sufficient security for each unit’s size and functions. **Please tick (✓) one box only**

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
</table>

13. Does the organisation have procedures to ensure timely responses to customer and stakeholder queries? **Please tick (✓) one box only**

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
</table>

14. Does the organisation benchmark these policies against Best Practice in the sector? **Please tick (✓) one box only**

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
</table>

End of questionnaire,

Thank you for your time.
APPENDIX 4 LETTER OF APPROVAL

16 March, 2012

Dear Respondent

REF: Authorisation to Conduct an Academic Research

This letter serves to confirm that the management gives permission to Mr. S. Murapawembwa to conduct practical research in corporate governance as part of the requirements for the fulfilment of the University of Zimbabwe Master of Business degree.

The objective of the research is for academic purpose and he will be using Absolute Paints Limited information and all the information will be kept confidential.

Thank you in advance for your usual cooperation.

For and On the Behalf of Absolute Paints Private Limited

B Mukombachoto
Operations Director