UNIVERSITY OF ZIMBABWE

Department of Accountancy

Shareholder Participation as a Valuable Mechanism of Corporate Governance Performance: A Study of Practices in Zimbabwe

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Dissertation submitted in partial fulfillment of the requirement of Master of Accountancy Degree
DECLARATION

This work has not previously been accepted in substance for any degree and is not being concurrently submitted in candidature for any degree.

The dissertation is the result of my own independent work/investigation, except where otherwise stated. Other sources are acknowledged by giving explicit references.

I hereby give consent for my dissertation, if accepted, to be available for photocopying and for interlibrary loans after expiry of a bar on access approved by the University of Zimbabwe.

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Student

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Supervisor
DEDICATION

This dissertation is dedicated to my lovely wife Gladys, children Keisha and Keith not forgetting my unborn daughter Kayla who gave me the much needed support and who encouraged me to believe in myself. This dissertation is also dedicated to my family, the whole of Muchoko family who continuously without ceasing encouraged and stood by me throughout my entire life. Special mention goes to my mentor Joel Alferi who advised and supported me throughout the better part of my educational journey. He impacted my life in a big way.
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ABSTRACT

The aim of this research was to evaluate shareholder participation as a valuable mechanism of corporate governance on Zimbabwean listed companies. This was necessitated by recent global financial crisis which has intensified the ongoing debate about the role that shareholders should play in corporate governance. To some, increasing shareholder power and facilitating shareholder intervention, when necessary, is part of the necessary reforms. To others, activism by shareholders who potentially have short-term interests is part of the problem, not a solution. There is a notion that governance of public corporations now continues to move in a more shareholder-centric direction. This is evidenced by the increasing corporate influence of shareholder participation and activism, and shareholder proposals and votes.

To demonstrate indications of whether there is a relationship between shareholder participation and good corporate governance, to examine the importance of shareholder participation as a mechanism of corporate governance and to assess whether shareholder participation can solve the agency problem, Zimbabwe Stock Exchange listed companies were used. A sample of fifty ZSE listed companies were surveyed through questionnaires and interviews which were administered to mainly top and middle management and company directors who have the major influence in corporate governance matters.

The overall survey results revealed that the weak corporate governance practices in listed companies can be attributed to a greater extend to poor shareholder activism and participation in company affairs. It was discovered that shareholder participation is a very essential component in ensuring good corporate governance.
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LIST OF ABBREVIATIONS

AGM- Annual General Meeting
BoD- Board of Directors
CG- Corporate Governance
CSR- Corporate Social Responsibility
Dr- Doctor
EMA- Environmental Management Agency
CEO- Chief Executive Officer
CZI- Confederation of Zimbabwean Industries
FDI- Foreign Direct Investment
FML- First Mutual Life
GRI- Global Reporting Initiative
IFRS- International Financial Reporting Standards
ISA- International Standards of Auditing
MD- Managing Director
NED- Non-Executive Director
OECD- Organisation of Economic Co-operation and Development
RBZ- Reserve Bank of Zimbabwe
UN- United Kingdom
UZ- University of Zimbabwe
USA- United States of America
WWW- World Wide Web
ZSE- Zimbabwe Stock Exchange
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CHAPTER 1: INTRODUCTION AND BACKGROUND

1.1 Introduction

The collapse of Enron Corporation stunned world investors, accountants, and boardrooms and sent shockwaves across financial markets when the company filed for bankruptcy on December 2, 2001. In the wake of the demise of Enron, corporate governance has come to the forefront of economic discussion. The fall of Enron was a direct result of failed corporate governance and a confirmation of the existence of the principal-agent problem. Companies such as WorldCom, Tyco, Adelphia, and Global Crossing have all suffered catastrophes similar to Enron’s, and have furthered the need to re-evaluate the role of shareholder participation as a mechanism of corporate governance in the U.S. and globally (Munzig, 2003). Shareholder activism has been sighted in some sections as valuable mechanism in ensuring good corporate governance. This study hence tries to evaluate the extent to which shareholder participation helps in promoting good corporate governance with specific reference to practices in Zimbabwe by listed companies on Zimbabwe Stock Exchange.

1.2 Background of the study

The effect of 2008 – 2009 global financial crisis has intensified the ongoing debate about the role that shareholders should play in corporate governance. To some, increasing shareholder power and facilitating shareholder intervention when necessary is part of the necessary reforms. To others, activism by shareholders who potentially have short-term interests is part of the problem, not a solution (Bebchuk and Weisbach, 2009). Governance of public corporations now continues to move in a more shareholder-centric direction. This is evidenced by the increasing corporate influence of shareholder participation and activism, and shareholder proposals and votes. Most recently, it has been driven by the rise in hedge fund activism (Gregory, 2014).

Aguilera (2010) argued that corporate governance practices is classified into three major systems; namely the Anglo-American corporate governance system; the Continental Europe and Japanese system; and a hybrid of the two systems. The third system is generally practised in emerging markets. It is argued that the Anglo-American corporate governance system is the best model because the system is characterised by equity finance, dispersed ownership, strong shareholder rights, active markets for capital control, and mechanisms to encourage
shareholder participation. On the other hand the Continental Europe and Japanese corporate governance system is characterised by long-term financing, concentrated block-holder ownership, weak shareholder rights, and inactive markets for capital control.

In many countries the framework for shareholders’ rights including participation in company affairs is enshrined in the Companies Acts; Corporate governance codes; and Security Acts. In developed economies like USA, UK, Japan, South Korea, Australia, Germany, France and South Africa shareholder participation is one of the important drivers of corporate governance and has resulted in the development of national corporate governance codes (Nili, 2015). The story is however different in developing countries such as Zimbabwe where corporate governance practices are still at their infants and shareholder education is required to ensure their full participation in company affairs.

1.2.1 Global and Regional Background of the Corporate Governance

Corporate governance systems have evolved over centuries, often in response to corporate failures or systemic crises. The first well-documented failure of governance was the South Sea Bubble in the 1700s, which revolutionized business laws and practices in England. Similarly, much of the securities law in the United States was put in place following the stock market crash of 1929. There has been no shortage of other crises, such as the secondary banking crisis of the 1970s in the United Kingdom and the U.S. savings and loan debacle of the 1980s. The history of corporate governance has also been punctuated by a series of well-known company failures: the Maxwell Group raid on the pension fund of the Mirror Group of newspapers, the collapse of the Bank of Credit and Commerce International and Barings Bank. Each crisis or major corporate failure—often a result of incompetence, fraud, and abuse—was met by new elements of an improved system of corporate governance.

Corporate governance has only recently emerged as a discipline in its own right, although the strands of political economy it embraces stretch back through centuries. The importance of the subject is widely recognized, but the terminology and analytical tools are still emerging. The burgeoning literature on corporate governance has largely neglected developing and transition economies. This report develops a framework for corporate governance reform based largely on the operational experience of the World Bank Group and practitioners in the field. This framework is used to identify the major elements and processes of reform required
in emerging market economies and the contribution that the World Bank Group, together with its partners, can make to the objective of promoting enterprise and accountability.

This is clearly shown once again in several developed countries which have been advocated as a model for emulation in corporate regulation and governance, including the protection of minority shareholders. Nevertheless, a spate of massive corporate disasters in those regulatory bastions, due largely to bad governance, has created in their wake a substantial adverse impact on financial and business confidence, and on human welfare itself. A common concern in the current atmosphere is the restoration of trust which, itself, implies the existence of shared values and accepted standards, compliance with the set rules of the game, and full disclosure of transparent information.

Good governance has become a fashionable catch phrase in the aftermath of the financial and economic crisis in East and South-East Asia. Two perspectives are at stake in this context. First, the absence of good governance has been perceived as a major cause of the crisis, and the second prognosis is drawn by inference, namely, that good governance is imperative for durable development. Since July 1997, numerous writings have appeared and meetings have been convened with a focus on the excesses as well as the blemishes in public and corporate governance in this part of the developing world. In the process, a litany of recommendations of varying degrees of ingeniousness has been advanced for the post-crisis adjustment and reform of policies and institutions and for the revamped process of monitoring and enforcement. There should, indeed, be few excuses for the revealed imperfections and inadequacies in governance whether or not they are embodied as “corruption, cronyism and nepotism”. However, the prevalence of preventive rules and prudential regulations is not sufficient, in itself, to raise the standards of governance and/or to ensure good governance in the public and private sectors.

1.2.2 Background of Corporate Governance in Zimbabwe

Whilst management processes have been widely explored, relatively little attention has been paid to the processes by which companies are governed. If management is about running businesses, governance is about seeing that it is run properly (Cadbury Report, 1992). All companies need governing as well as managing.
There is a fragmented (multiple) regulatory framework in Zimbabwe where the responsibilities for supervision of organisation are fragmented.

Prior to the Asset Management Bill sponsored by the RBZ as a reactive measure following the collapse of the ENG Capital, asset management companies were not regulated. As a result of the fragmented regulatory framework, asset management companies escaped the 'regulation net'. The consequences took their toll on the entire financial system in 2003 and 2004. The problems associated with a fragmented regulatory structure are summarized as follows:

- Duplication (overlap) of functions amongst regulators, leading to uneconomic use of public resources.
- Market confusion as to which regulator is responsible for what aspects of regulation. Complexity of the regulatory system arising from existence of multiple regulators.
- Creation of legal loopholes in the monitoring system, which weakens supervision and enforcement. Ineffective control of diversified financial groups, such as banks and insurance companies.
- Higher compliance costs (expensive regulation) for companies.
- Lack of accountability for market failures.

The turmoil in the Zimbabwean financial services and markets started after the collapse of the Universal Merchant Bank in 1998, but had disappeared after the dramatic recovery of the financial markets evidenced by the emergence of indigenous investors and institutions in the financial sector (1999 to 2003).

Problems in the financial sector were triggered by the collapse of ENG Capital in December 2003 and a wave of corporate scandals and failures that followed it in the banking, insurance, asset management and other related financial services. These corporate failures brought the financial sector into a crisis in 2003/2004, often referred to as the "banking crisis" in Zimbabwe (The Financial Gazette, 23 September 2004).

The collapse of ENG Capital adversely affected the financial services sector in Zimbabwe. A number of leading financial institutions such as banks, stock broking firms, insurance companies and so on were directly exposed to ENG Capital and lost billions of dollars of
investor funds. Some banks linked to ENG Capital came to the brink of collapse because they were exposed to "runs" (hasty withdrawal of money by depositors or investors) and did not have enough money to meet cash reserves required for banks in terms of Reserve Bank Of Zimbabwe (RBZ) regulations (The Financial Gazette, 23 September 2004). The insurance sector was also affected by the turmoil in the financial sector as evidenced by the shake up witnessed at First Mutual Limited (FML) and Intermarket Life Assurance Limited.

In 2004, Intermarket Holdings nearly collapsed, mainly due to lack of corporate governance practices. According to media reports, the major shareholder of the group, Nicholas Vingirai, was the Board Chairman of Intermarket Life Assurance and also the Board Chairman of Intermarket Asset Management company. Vingirai also sat on almost all board committees, for example the audit and risk committees. Thus, he virtually controlled every process of the business. This resulted in Vingirai giving himself loans amounting to Z$90 billion of policyholders funds, which can be classified as a non-performing loan. Such non-performing loans contributed much to the problems at Intermarket Holdings.

Poor corporate governance practices cannot be blamed on Intermarket Holdings alone. Another case in point is the Capital Alliance saga at First Mutual Life. Top management at First Mutual Life used an illegal vehicle called Capital Alliance to purchase shares from the mutual society using policyholder funds. Also, First Mutual Life management used their asset management arm, First Mutual Asset Management to invest in ENG Capital and Royal Bank in return for loans to management from ENG Capital to buy shares from First Mutual Life. Some board members sat on the boards of First Mutual Life and First Mutual Asset Management so that they could influence decisions right through.

Due to such lack of guiding principles, some insurance companies were using their shareholding power in other companies to get management contracts for their pension funds without going through the tender process. Such actions flout corporate governance principles and practices. The insurance sector also smells of rampant nepotism, which is obviously a breach of fair play and professional ethics.

In the financial sector has experienced the placement of some banks under judicial management and the suspension of a leading insurance company (First Mutual Life Assurance Limited) from the Zimbabwe Stock Exchange (ZSE), partly because of its exposure to ENG Capital. Judging from the ENG Capital saga’s impact on financial services
and markets, one could say the ENG Capital debacle was to Zimbabwe as the Enron debacle was to the USA in 2000. FML was suspended from the ZSE because of its deals with ENG Capital and lack of corporate governance practices in its operations.

For a long time Zimbabwe relied on other countries for Corporate Governance guidelines, most United Kingdom’s Cadbury Code of 1992 and King Reports 1, 2 and of late 3 which were loosely used as Corporate Governance benchmark on Zimbabwe Stock Exchange. ZSE required companies to report their financial information in compliance with Cadbury Code (1992) and the International Financial Reporting Statements (IFRS) to ensure timely, complete and transparent disclosure to shareholders as well as other company’s important stakeholder.

Year 2014 saw the launch of National Code on Corporate Governance Zimbabwe (NCCZ, 2014) after being signed by the President of the Republic of Zimbabwe, R.G. Mugabe which was a landmark achievement in Zimbabwe’s Corporate Governance landscape. Like other international Corporate Governance code, NCCZ (2014) gives shareholders a lot of rights and responsibilities which are aimed at improving governance of companies.

1.3 Statement of the problem

Despite that the scandals in the U.S. and the global financial crisis of 2008 – 2009 through corporate governance failures had shocked the world investors, corporate governance practitioners and policy makers and raised the question on how the principal – agent problem could be resolved or minimised. It would appear that the Zimbabwe shareholders are not moved by this deep rooted mistrust between the principal and the agent which had ended in company closures. The limited involvement of shareholders in corporate decision making process should not be ignored because the board and management will continue to fail to enforce corporate governance practices resulting in company closures and job losses. The closure of the companies result in shareholders losing their investments and this negatively affected the performance of the economy as fewer companies invested in Zimbabwe’s capital market.

The perceived lack of shareholder participation suggests that there is a knowledge gap from the shareholders in understanding key business issues and how to enhance corporate governance principles. Although this complacency to take an active role is consistent with
Berle and Means (1932)’s conclusion which pointed that once the owners of a company engage the management to run it on their behalf this confirms that the owners are taking a passive role as they will not have control of the company on how it is being run and controlled. This view has to be challenged and encourage the shareholders to have an understanding on how their expectations and interests as shareholders are being met and addressed. Shareholder participation and activism is still to be explore in Zimbabwe. Practitioners, policy makers and key stakeholders are concerned about this development. In addition, despite the perceived passiveness of investors’ in Zimbabwe, there are no current documented studies on what tools are being used to measure shareholder participation as a valuable mechanism of corporate governance in the country.

1.4 Objectives of the study

1.4.1 Research Aim

The main aim of this study is to evaluate shareholder participation as a valuable mechanism of corporate governance in Zimbabwe.

1.4.2 Specific objectives of the study

The specific objectives of this study are:

- To assess the importance of shareholder participation as a mechanism of corporate governance in Zimbabwe.
- To explore the relationship between shareholder participation and good corporate governance.
- To examine whether shareholder participation can solve the agency problem.
- To draw some insights and recommendations for policy makers, practitioners and future researchers on how shareholder participation can improve corporate governance.

1.4 Research questions

This research seeks to address the following research questions.

- Is shareholder participation an important principle of corporate governance in Zimbabwe?
• Is there any relationship between shareholder participation and good corporate governance?
• Does shareholder participation solve the agency problem?
• What lessons and recommendations can be drawn from assessing shareholder participation as a mechanism to improve corporate governance?

1.5 Research Proposition

This study hypothesizes that shareholder participation will improve the corporate governance performance in the listed companies of Zimbabwe.

1.7 Research Justification

The study seeks to determine the level shareholder participation in corporate governance in Zimbabwe. The knowledge gained from this study will contribute to the body of evidence on the application of shareholder participation as a valuable mechanism of corporate governance in Zimbabwe. This study intends to close the knowledge gap on why shareholders in Zimbabwe do not take an active role in the companies they have invested in and losing their investment in the process. In addition, the study seeks to highlight the key variables influencing shareholder participation in a corporate governance context. This study has been conducted and to come up with a tool or mechanism of measuring the participation of shareholders in corporate governance practices. This study covers the knowledge gap on the principal – agent problem and came up with recommendations on how to solve this problem. Inquiry helped to inform shareholders of their rights to monitor and influence corporate behaviours and practices thereby reducing the risk of company failures, unattractive capital market, capital flight to the region and reduce unemployment in the economy.

1.8 Scope of the study

This study measured shareholder participation as a valuable mechanism of corporate governance performance focusing mainly on the companies listed on the Zimbabwe Stock Exchange (ZSE). The listed companies have been selected for this study because the information is readily available since most of their reports are in public domain of ZSE. ZSE rules require listed companies to publish their performances in the print media. The companies from the ZSE list and the study looked at the data from 2010 to 2015.
1.9 Assumptions

The researcher assumed that during the study most of the shareholders of the selected companies will be available and will be accessible and provide useful insights about the topic being studied.

The researcher also assumed that despite the principal – agent problem the shareholders, board of directors and management of the selected companies will provide unbiased information on the topic under inquiry.

1.10 Dissertation Structure

The rest of this dissertation is structured in the following manner; Chapter 2 looks at the Literature Review, Chapter 3 details the Methodology, Chapter 4 is the Research Findings and Discussion and Chapter 5 which gives the Conclusion and Recommendations.
CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

This chapter provides literature review on the shareholder contribution to corporate governance performance. The literature was mainly reviewed considering the agency theory which analyses the role of the theory and the possible critiques of the model.

2.2 Context of Shareholder Activism

Shareholder activism can be understood by analyzing the intensity of monitoring by traditionally passive institutional investors. The concept can be divided into two phases: an investigative phase which seeks to ascertain whether the target firm is maximizing shareholder value and an active phase that tries to change firms that fail to do so. The growing conflict of interest between managers and shareholders has resulted in the increased importance of shareholder activism (Gillan and Starks, 1998). The main emphasis of activist shareholders has been to focus on the poorly performing firms and to pressure the management for improved performance, thus enhancing shareholder value. Shareholder activism is present mainly through large financial institutions such as investment companies, hedge funds, insurance companies, mutual funds, and pension funds, rather than individuals (Black, 1998). These investors have increased their holding during the period from the 1980’s and forward (Karpoff, 2001). The two most common forms of activism are presenting, or threatening to present, shareholder proposals during the annual shareholder meeting and demanding the replacement of members of the management or board in order to achieve a change in representation (Black, 1998). There are different ways in which stakeholders can participate in the governance of their entities as discussed below.

2.2.1 Participation at the Annual General Meeting (AGM): A central part of shareholder activism is the use of shareholder proposals. At the annual general meetings the activists have the prospects to de-stagger boards, demanding a change in management, separate the position of chairman of the board and CEO and try to form a nominating or compensation group of the board composed completely of independent directors by using corporate voting rights. The National Code on Corporate Governance Zimbabwe (2014) suggest that the ultimate authority of any company is its annual general meeting or extraordinary general meeting of shareholders where they exercise their rights in terms of the statutes of company and the law.
Shareholders in general meeting have the power to make business decisions concerning the company and to take any action which they deem appropriate for the protection and development of the company (King Report 3, 2009 & NCCGZ, 2014).

2.2.2 **Representation in the company's board:** The board of directors is a core component of a firm’s decision making process. A member of the board gives the ability to influence and monitor the firm’s actions. The shareholders, the board and the management of the company protect and promote the interests of the company and its stakeholders (NCCGZ, 2014)

2.2.3 **Direct contact with the company’s management:** Through quiet diplomacy and pressuring the board from inside, like letter writing and direct engagement with management and the board. This is the process of using long-term relationship building and trying to achieve changes that are in line with wealth maximizing goals, rather than outside pressure at annual general meetings. This creates room for more discussion, specific strategies and space for dialogue. In addition it does not damage firm value by making its problems public. A shareholder’s meeting is a forum where the board and the management inform the shareholders about the company’s operations, management, administration and achievements and gives the shareholders the opportunity to participate in formulating strategies for the company.

2.2.4 **Take-over attempts:** Probably the most drastic action. If shareholder activists are unsatisfied with the operating or governing capability of management or the board and experience difficulties in influencing the firm, they can propose to buy it. Even though they rarely follow through with the takeover attempt, the threat itself works as a mechanism to gain influence and get the presented proposals accepted. Naturally not all institutions can perform this option. We will examine this further in the analysis.

2.2.5 **Contacts with other shareholders:** Shareholder activists often look for the support of other institutional investors and from time to time conduct press campaigns in order to increase pressure on the management and boards of directors.

*Source: NCCG (2014); King 3 Report (2009)*
Shareholder participation refers to the active influence on firm policy and practices through the use of ownership position (Sjöström, 2008). It enables shareholders to exercise and enforce their rights to enhance shareholder value in the long-term (Low, 2004). Participation can be conducted via direct dialogue with corporate management or the board, during open sessions in corporate general meetings, writing open letters or by filing formal shareholder proposals (Sjöström, 2008).

Gow et al., (2014) argued that activism by hedge fund and other investors to improve governance and performance of companies has become a significant phenomenon in recent years. This view appears to be at variance with the perception that shareholders in Zimbabwe are not that sophisticated. The motivation behind shareholder participation can be financially driven or socially driven (Judge et al., 2010). This type of participation focuses on the financial performance of companies and seeks to put pressure on management for an improved portfolio performance. The researcher agrees with the proposition because as the owners of the company shareholders should ensure that there is good return on their investment.

Shareholder participation can be related to the company’s strategic direction and its alternatives. For example, the sale of the company to a third parties, the firm’s operational inefficiency and restructuring. Demands can also be made about the company’s capital structure; for example, about dividend, debt restructuring or the firm’s recapitalization. Shareholder could also advocate opposition to proposed mergers. Antitakeover-related demands could include a vote on golden parachutes. Demands can also focus on corporate governance matters such as Chief Executive Officer (CEO) dismissal, the separation of the CEO/Chairman’s roles, increase board independence, excessive executive compensation and additional disclosure (Prevost et al., 2012).

What all this means is that shareholder involvement, in terms of corporate governance and shareholder relations, has become the main stream. In the last two decades, what began as a targeted effort by a small number of governance activists in the United States of America, supported by some academics, clearly is now a broad global movement that is redefining the relationship between public companies and their shareholders. This evolution is expected to continue and is believed that companies and their boards of directors should recognize that
historic shareholder relations models, as well as “traditional” approaches to responding to shareholder initiatives, may no longer be optional (Nili, 2015).

The critical link between the decision-making and accountability functions of a company is engagement between shareholders and the company board that is informed, meaningful and effective. Empirical evidence from research suggest that participation and engagement with company boards is an important means by which shareholders are able to improve the value of their share ownership and minimise. The Australian Parliamentary Joint Committee (2008) reported that ineffectual shareholder engagement brought increased investment risk:

“Shareholders must retain effective mechanisms to examine the affairs of the company and voice concerns to the company and its managers. Shareholder participation is vital in ensuring accountability of the company’s board and management. Without effective monitoring of directors and management by shareholders, there is an increased risk of directors and managers underperforming.”

2.3 Corporate Governance Fundamentals

In the financial system, corporate governance is one of the key factors that determine the health of the system and its ability to survive economic shocks. The health of the financial system depends on the underlying soundness of its individual components and the connections between them such as the banks, the non-bank financial institutions and the payment systems. In turn, the financial system’s soundness largely depends on the capacity to identify measure, monitor and control risks.

According to the South Africa’s King Report 3 (2009), corporate governance is not just an essential component for financial stability; it is also a critical feature in the longer-term performance of the economy. It is frequently said that, the key to better economic performance lies in better government policy - be it fiscal policy, monetary policy or structural reforms. The aforementioned policies are all important ingredients in shaping economic performance. Policy-makers do not determine the way resources are allocated and used; it is largely determined by the investment and management decisions of hundreds of companies. In turn, the quality of these investment and management decisions substantially depends on the quality of corporate governance in each company. Therefore, corporate governance is clearly of fundamental importance, both at the level of the individual company, the financial system and, the economy as a whole.
Aoki, Masahiko, and Hyung-Ki (1995) defines corporate governance in its broader context, and argues that corporate governance should be regarded as a set of institutional arrangements for governing the relationships among all stakeholders that contributes firm specific assets.

Corporate governance provides the structure through which the objectives of financial institutions are set, and the means of attaining the objectives. Good corporate governance provides proper incentives for the board and management to pursue objectives that are in the interests of the bank and stakeholders and facilitate effective monitoring, thereby encouraging institutions to use resources more efficiently. However, sound corporate governance is not just a vital factor at the level of the individual corporation. It is also a critical ingredient in maintaining a sound financial system and a robust economy (RBZ Report, 2004).

Cadbury (1999) argues that Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals…the aim is to align as nearly as possible the interests of individuals, corporations and society. According to Fremond and Capaul (2002), empirical evidence suggests that good corporate governance increases the efficiency of capital allocation within and across firms, reduces the cost of capital for issuers, helps broaden access to capital, reduces vulnerability to crises, fosters savings provisions, and renders corruption more difficult. Corporate governance is also relevant to the regulation of offshore financial centers and vehicles, which can be used for money if not regulated properly.

Cadbury (2000) reiterated that corporate governance is essentially because it provides leadership for efficiency in order for companies to compete effectively in the global economy and thereby to create jobs. Corporate governance provides probity because investors require confidence and assurance that the management of a company will behave honestly and with integrity in regard to their shareowners. Moreover, it provides leadership with responsibility as companies are increasingly called upon to address legitimate social concerns relating to their activities. He also argued that corporate governance provides leadership which is both transparent and accountable because otherwise business leaders cannot be trusted and this will lead to the decline of companies and the ultimate demise of a country’s economy.
2.4 Shareholder Theory

Friedman’s (1970) shareholder theory argues that the sole purpose of a business is to maximize shareholder wealth by making profits. He pointed that shareholders entrust their capital to the organizations’ managers, they are expected to use the capital for only organizations’ purpose to increase shareholder returns. The shareholder theory has been criticised for only focusing on the shareholder’s interests. As a result the stakeholder theory has been developed. The theory focuses on all stakeholders of a company. Stakeholder theory is concerned with the idea that business organizations should be concerned about the interest of other stakeholders when taking strategic decisions (Mainardes, Alves, and Raposo (2011).

Agency theory is a main theory in corporate governance literature (Kholeif, 2009). Jensen and Meckling (1976) defined the agency relationship as a contract under which one party (the principal) engages another party (the agent) to perform some service on their behalf. As part of this, the principal will delegate some decision-making authority to the agent. The agency problems arise because of the impossibility of perfectly contracting for every possible action of an agent whose decisions affect both his own welfare and the welfare of the principal, Brennan (1995b). Arising from this problem is how to induce the agent to act in the best interests of the principal. Despite that the principal –agent problem is more than 30 years old, this problem is continuing cause of company failures as the agent pursues conflict of interests activities.

Although Jensen and Meckling (1976) mention the importance role of monitoring and incentive system in an agency relationship, they do not examine further on how the shareholders’ participation can build trust between the principal and the agent. Identifying this gap, this study intends to propose some mechanism on how to encourage shareholder participation in enhancing corporate governance and solve the agency problem.

2.4.1 The influence of Agency Theory within Corporate Governance

Agency theory has a number of manifestations. Jensen and Meckling’s (1972) innovation was to insist that organisations should be seen as no more than a set of implicit and explicit contracts with associated rights. Alchian and Demsetz (1972) by contrast focused on the ‘team production process’ and the problem of free riding and monitoring within this. Fama (1980) looked to the potential of the managerial labour market to constrain and channel
individual executive opportunism. These varied models of the nature of organisational relationships are constructed around a few simple assumptions that Donaldson (1990) characterises as a ‘theory of interest, motivation and compliance’. As with neoclassical economics more generally the basic unit of analysis is taken as the ‘individual’ who is preoccupied with maximising or at least sufficing their utility; conceived typically in terms of a trade-off between work and leisure. It is this combination of assumed autonomy and self-interested motivation that creates the problems within agency relationships; the relationship between a principal and those employed as ‘agents’ to serve their interests.

As applied to corporate governance it is the shareholder who is cast as the ‘principal’ and the problem, following the separation of ownership and control (Berle and Means 1932), is how the principal can ensure that his ‘agents’ – company directors – serve the shareholders interests rather than their own. Either in the form of ‘shirking’ which in the governance context can be seen in terms of a lack of attention to maximising shareholder returns, or in terms of ‘self-interested opportunism’ – accruing wealth to themselves rather than shareholders – the principal is vulnerable to the self-interest of their agents. The remedies to this conception of the agency problem within corporate governance involves the acceptance of certain ‘agency costs’ involved either in creating incentives/sanctions that will align executive self interest with the interests of shareholders, or incurred in monitoring executive conduct in order to constrain their opportunism.

As these assumptions have been read onto corporate governance, and informed its reform in recent decades, they have resulted in what are now an almost universal set of techniques and practices designed to control the conduct of executives both within the corporation and externally (Walsh and Seward 1990). Inside the company, boards have essentially two means to exercise control over executives; they can fire them and they can give them incentives – share options, long-term incentive plans. For these levers to work, however, boards must be populated with ‘independent’ non-executives who are willing and able to monitor executive performance, particularly where there are potential conflicts of interest. The growth and development of both the number of non-executives on boards as well as the increased specification of their role and conditions of ‘independence has characterised board reform around the world. The separation of the role of chief executive from that of the non-executive chairman has been part of this; in the language of Cadbury it is intended that this ensures that no one individual has ‘unfettered’ powers of decision. The creation of audit, remuneration,
and nominations committees all staffed by independent non-executives, is also common and ideally ensures both the proper use of incentives and a high degree of monitoring of executive performance and decision-making. To these internal controls are added a range of external controls. Foremost here has been the focus on enhanced ‘disclosure’, and the ‘transparency’ that this allows, principally of financial performance but recently also of social and environmental performance (Dissanike 1999, Zadek 2001). The intention is that the share market is thereby better informed such that all relevant information is impacted into the share-price (Fama 1980, Barker 1998).

There is also a market for corporate control (Cosh et al 1989) that ideally allows for weak management teams to be displaced by strong teams that will run companies to better effect for shareholders. In recent years at least at a policy level there has also been concern that shareholders – in the form of the large institutional investors – taking on their responsibilities as owners (Myners, ISC 2002, Simpson and Charkham ) through exercising proper scrutiny and influence both publicly and through their private contacts with investors (Roberts et al 2003).

The model described here of a combination of internal and external controls is what characterises Anglo-American corporations and by early 2001 there was a growing confidence that this model was the best means of ensuring effective governance, and that corporate governance practices in other jurisdictions should and indeed were beginning to converge upon this model (OECD). At this point the scandals of Enron, Worldcom and Tyco broke and these have at least temporarily shaken the confidence in and complacency about the Anglo-American model, and been the stimulus of yet further reform. In the USA the Sarbannes-Oxley act can be read almost as a perfect mirror of the collapse of Enron and perhaps suggests a loss of faith in the self-regulatory capacities of both boards and markets by increasing the criminal liabilities of directors. In the UK the response has been more muted but has involved the further strengthening of the role of the non-executive within boards (Higgs 2003) and of the monitoring responsibilities of investors in relation to voting and remuneration and activism (ISC, 2002).
2.5 Constraining Managers – Agency Theory

Given that managers have both the ability to commit the organisation to whatever contracts and transactions they feel appropriate and a responsibility towards the owners of the business there was a need to ensure that this responsibility took place. It is normally accepted that Agency theory provides a platform upon which this can be ensured. Agency theory suggests that the management of an organisation is undertaken on behalf of the owners of that organisation, in other words the shareholders. Consequently the management of value created by the organisation is only pertinent insofar as that value accrues to the shareholders of the firm. Implicit within this view of the management of the firm, as espoused by Rappaport (1986) and Stewart (1991) amongst many others, is that society at large, and consequently all other stakeholders to the organisation, will also benefit as a result of managing the performance of the organisation in this manner. From this perspective therefore the concerns are focused upon how to manage performance for the shareholders and how to report upon that performance (Myners 1998).

This view of an organisation has however been extensively challenged by many writers, who argue that the way to maximise performance for society at large is to both manage on behalf of all stakeholders and to ensure that the value thereby created is not appropriated by the shareholders but is distributed to all stakeholders. Others such as Kay (1998) argue that this debate is sterile and that organisations maximise value creation not by a concern with either shareholders or stakeholders but by focusing upon the operational objectives of the firm and assuming that value creation and equitable distribution will thereby follow.

The shareholder theory of the firm is often also referred to as agency theory as the role of the management of a firm is to act as the agents of the shareholders (the principals). The separation of ownership and control that is apparent in large modern-day (joint stock) companies, presently the most common way for a business to be organised, is another significant change since the days of Smith and Mill. It is this separation that leads to what is known as the principal – agent relationship. It is also argued that within this role it is only appropriate for managers (the agents) to use the funds at their disposal for purposes authorised by shareholders (the principals) (Hasnas, 1998; Smith and Hasnas, 1999). Further as shareholders normally invest in shares in order to maximise their own returns then managers, as their agents, are obliged to target this end. In fact this is arguing that as an
owner a shareholder has the right to expect his or her property to be used to his or her own
benefit. Donaldson (1982, 1989) disagrees and suggests that it can be morally acceptable to
use the shareholder’s money in this way if it is to further public interest. The ethical and
moral acceptability of this suggestion is questionable and Smith and Hasnas (1999) point out
that such an act would contravene Kant’s (1804) principle. This principle states that a person
should be treated as an end in his or her own right rather than as a means to an end. By using
shareholders’ money for the benefit of others it is argued that the shareholders are being used
as a means to further others ends. This defence of shareholder theory is as ironic as it is
compelling given that the exact same principle is often cited to defend stakeholder theory.

Assumed within agency theory is a lack of goal congruence between the principal and agent
and that it is costly or difficult to confirm the agent’s actions (Eisenhardt, 1989). In saying
this it is suggested that, left to their own devices, the agents will prefer different options to
those that would be chosen by the principals. The agents would make decisions and follow
courses that further their own self-interest as opposed to that of the principal. This
assumption that agents behaviour will be driven by their own self interest and nothing else
has been criticised as being an overly simplistic conception of human behaviour (Williamson,
1985). It is argued that in addition to self-interested motives, altruism, irrationality,
generosity, genuine concern for others also characterise multi-faceted human behaviour. Sen
(1987) agrees and actually states that ‘to argue that anything other than maximising self-
interest must be irrational seems altogether extraordinary’.

It has been argued that shareholders should have rights to determine how their property be
used, as should an owner of any asset under private property rights. Etzioni (1998) suggests
that this view of shareholders property rights, which are both moral and legal, is ‘widely
embedded in the American political culture’ and therefore needs no further introduction.
Taking a step back Etzioni observes that such property rights are a social construct, as
opposed to natural or inalienable rights, and as such society has the opportunity and the
ability to change them if it is considered necessary. A closer consideration of what is meant
by private property, as it has been socially constructed in present day Western societies, has
been undertaken. Donaldson and Preston (1995) argue that the philosophy of property ‘runs
strongly counter to the conception that private property exclusively enshrines the interests of
owners’. They specifically note the work of Pejovich (1990) as recognising that ownership
does not entail unrestricted rights as they cannot be separated from human rights.
Further, Honore (1961) suggests that the rights are restricted where the use would be harmful to others. Donaldson and Preston (1995) suggest that as property rights are restricted then they need to be founded on distributive justice. Interestingly Sternberg (1998) a proponent of shareholder theory, because ‘it alone respects the property rights that are so essential for protecting individual liberty’, also suggests that ethical business must also be based on ‘distributive justice’ along with ‘ordinary decency’ (Sternberg 1994, 1998). Donaldson and Preston (1995) follow Becker’s (1992) suggestion that the “three main contending theories of distributive justice include Utilitarianism, Libertarianism and social contract theory”.

2.6 Corporate Governance Performance

Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals. According to Sternberg (2000), the governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations, and society. The incentive to corporations and to those who own and manage them to adopt internationally accepted governance standards is that these standards will help them to achieve their corporate aims and to attract investment.

Kochan and Syrett (1991) observe that the incentive for their adoption by corporations is that these standards will strengthen the economy and discourage fraud and mismanagement. The foundation of any structure of corporate governance is disclosure. Openness is the basis of public confidence in the corporate system, and allows funds to flow to the centers of economic activity that inspire trust.

The OECD principles, as summarized in OECD (1999), dealt with five main areas:

1. Protection of the rights of shareholders – this was recognised as the pillar of any effective corporate governance system. Shareholders should be able to participate in the fundamental decisions concerning the company;

2. Equitable treatment of shareholders – corporate governance frameworks should ensure equitable treatment of all shareholders, including minority and foreign
shareholders. Personal material interests of the board and management in matters affecting the company should be disclosed;

3. Stakeholders – it was in the long-term self-interest of companies to encourage active participation in the governance process by employees, creditors, long-term suppliers and customers. The legal rights of such stakeholders should be respected by corporations;

4. Strong disclosure regime and transparency – transparency is a key element to effective corporate governance. Timely and accurate information should be disclosed on matters such as the company’s financial and operating results, its objectives and board and key executives remuneration. This information should be prepared and audited to a high standard, in accordance with codes of ethics for auditors; and

5. The Board – the board should be the main mechanism for the effective monitoring of management and for providing strategic guidance to a company. The board has a duty to act fairly towards shareholders and other stakeholders and to ensure compliance with applicable laws. Directors should exercise objective judgment on company matters independently of management.

Source: The OECD Code of Corporate Governance (1999)

The corporate governance performance will be measured by the characteristics of good corporate governance given below:

2.6.1 Characteristics of Good Corporate Governance

It is useful, at this point, to illustrate what can be regarded as constituting seven primary characteristics of good corporate governance. The characteristics, according to the King 3 Report (2009) are:

**Discipline**

Corporate discipline is a commitment by a company’s senior management to adhere to behaviour that is universally recognized and accepted as correct and proper. This encompasses a company’s awareness and commitment to the underlying principles of good governance, particularly at senior management level.

**Transparency**

Jensen and Meckling (1976) defines transparency as the ease with which an outsider is able to make meaningful analysis of a company’s actions, its economic fundamentals and the non-
financial aspects pertinent to that business. This is a measure of how good management is at making necessary information available in a candid, accurate and timely manner – not only the audit data but also general reports and press releases. Williamson (1996) says it reflects whether investors obtain a true picture of what is happening inside the company.

**Independence**

According to the CACG Guidelines (1999), independence is the extent to which mechanisms have been put in place to minimise or avoid potential conflicts of interest that may exist, such as dominance by a strong chief executive or large shareowner. These mechanisms range from the composition of the board, to appointments in committees of the board, and of external parties such as the auditors. The decisions made, and internal processes established, should be objective and not allow for undue influences.

**Accountability**

Individuals or groups in a company who make decisions and take actions on specific issues need to be accountable for their decisions and actions. Johnstone, Cameron and O’ Grady (2003) recommend that mechanisms must exist and be effective to allow for accountability. This provides investors with the means to query and assess the actions of the board and its committees.

**Responsibility**

With regard to management, Williamson (1996) asserts that responsibility pertains to behaviour that allows for corrective action and penalising mismanagement. Responsible management would, when necessary, put in place what it would take to set the company on the right path. While the board is accountable to the company, it must act responsively to and with responsibility towards all stakeholders of the company.

**Fairness**

The systems that exist within the company must be balanced in taking into account all those who have an interest in the company and its future. Jensen and Meckling (1976) advocate for acknowledgement and respect of rights of various groups. For example, minority shareowner interests must receive equal consideration to those of the dominant shareowner(s).

**Social responsibility**

Warhurst (2000) argues that a well-managed company will be aware of, and respond to, social issues, placing a high priority on ethical standards. A good corporate citizen is increasingly seen as one that is non-discriminatory, non-exploitative, and responsible with regard to environmental and human rights issues. By taking those factors into consideration, a
company is likely to experience indirect economic benefits such as improved productivity and corporate reputation.

Source: King 3 Report (2009)

2.7 Different Conflicts between Shareholders

2.7.1 Conflicts of interest between managers and shareholders

It should be stressed that the most severe conflict of interests exists between shareholders (principals) and managers (agents) (Masulis, 1988). This situation exists despite the right of shareholders to manage the company by participating in, and voting during, the Annual General Meeting. They have the right to appoint and dismiss managers, accept financial statements and appoint auditors. They may also sell the shares that they own and put their company at risk of being taken over, or even being declared bankrupt.

According to Masulis (1988) these conflicts arise for the following four reasons:
1. Managers prefer greater levels of consumption and less intensive work, as these factors do not decrease their remuneration and the value of the company’s shares that they own;
2. Managers prefer less risky investments and lower financial leverage, because in this way they may decrease the danger of bankruptcy, and avoid losses on their managerial capital and portfolios;
3. Managers prefer short-term investment horizon;
4. Managers avoid problems stemming from reductions in employment levels, which increase with the changes in control of a company.

Murphy (1985) argues that managers tend to increase the size of companies even if it harms the interests of shareholders, as quite often their remuneration and prestige are positively correlated with company size. These inclinations cause conflicts of interest between managers, who tend to value expansion, and shareholders, who are orientated towards the maximization of the value of their shares. If sufficient internal funds are available, managers may be motivated to undertake investments of dubious profitability that would be rejected by the capital market.

Several mechanisms may serve to limit the conflicts of interest between managers and shareholders by aligning the interests of both groups. For example, share options link
managerial remuneration to firms’ performance. Jensen (1986) expresses the view that limiting managers’ freedom of action has a crucial role to play in reducing the agency costs of equity, and recommends the reduction of free cash flow as a solution. Compensation in the form of shares is well suited to control excessive consumption by managers, and also the time-horizon of investments, which influence price of shares. Manager’s options, and voting rights stemming from ownership of shares, are important means to control the agency problems, given the risk aversion of managers. As managers increase their equity participation they are likely to become more effective. They are likely to become more prudent and avoid undertaking risky investments as they may threaten their own interests (Shapiro, 1999).

2.7.2 Conflicts between Creditors and Managers (Shareholders)

Conflicts between creditors and managers (shareholders) are the second, most severe, and most important conflict of interest that exist in companies. Managers using debt agree to incur real agency costs and limit their freedom in making decisions. Conflicts between shareholders and debtholders manifest themselves in the choice of projects to take (investment decisions) and in determining how to finance these projects and how much to pay out as dividends (Damodaran, 1997).

Increases in debt are directly related to increases in risk, especially bankruptcy risk. Debt not only reduces free cash flow, but also increases the probability of bankruptcy. It should be noted that, from a legal point of view, bankruptcy is the process of scheduling the debt payments due to creditors when a company is in distress. From an economic point of view it is a mechanism for allocating resources (Peterson, 1994). According to Masulis (1988) managers cannot afford to waste the limited resources under their discretion in situations where the burden of debt is heavy. Therefore, Jensen (1986) argues that increases in debt should increase the market value of a company, as long as bankruptcy costs are kept at a low level (Damodaran, 1997). Increasing financial leverage is therefore one of the possible ways of reducing the agency costs associated with equity.

Managers that decide to increase debt limit their freedom to dispose of free cash flow and are subject to capital market discipline. Shareholders may use the increase in debt as a means of controlling managers. Managers have a very strong incentive to generate the financial
resources needed to service the debt. Financial leverage is, therefore, used to restructure ownership claims and at the same time to change the aims and aspirations of managers to fully maximise the value of the company’s assets at their disposal. (Jensen, 1986)

The ability to make optimal risky investments differs between firms, and depends on Prowse, 1990):
• differences in the use of assets;
• the costs of monitoring assets by creditors;
• the benefits that shareholders derive from the use of assets.

Managers, who are obliged to maximize the interests of shareholders, may in fact make decisions that are aligned with the interests of bondholders. The latter may take special steps to protect themselves by including protective covenants in bond agreements. These covenants limit the company’s flexibility, for example to issue further debt, and thus maintain risk at a certain level (Samuels – Wilkes – Brayshaw, 1995). Another example of a bond covenant is a protective put. This allows a bondholder to return the bonds to the issuer before maturity and receive the face value (Damodaran, 1997 and Jaffe, 2005). Covenants often require financial conditions to be maintained (working capital requirements, interest cover, a minimal level of net worth) and may impose restrictions in the event of asset disposals. Covenants are the cheapest way of limiting conflicts of interest between shareholders and bondholders, and must be taken seriously since a broken covenant can lead to default.

2.8 Shareholder and Corporate Governance

Corporate governance has incorporated shareholder activism as an important principle. Several recent legal and regulatory changes have made it easier for shareholders to engage in activist behavior. These changes are important from the perspective of shareholders, because an effective legal system that protects their ownership rights is a prerequisite for efficient corporate governance (Daily et al, 2003). Major corporate scandals like Enron, WorldCom, and Scandia have caused a critical view of the concept of corporate governance. The conflict in interest between managers and shareholders, the classic agency problem, is one of the driving forces behind these incidents. While managers have a fiduciary duty to act in the interest of shareholders, they sometimes seek to maximize their own benefits instead. This creates a need for shareholders to monitor firms’ management. Traditional corporate
governance theory has focused more on protecting shareholders and controlling executive self-interest (Daily et al, 2003). In order to placate shareholders, internal and external corporate governance mechanisms are implemented to keep management’s interests in line with those of the shareholder’s. Examples of internal mechanisms are effectively structured board, incentives schemes, and intense ownership holdings that encourage monitoring of executives. The market for corporate control works as an external mechanism that is commonly triggered once internal mechanisms for scheming management opportunism have failed.

2.8.1 The Shareholder Model

According to the shareholder model the objective of the firm is to maximise shareholder wealth through allocative, productive and dynamic efficiency i.e. the objective of the firm is to maximise profits. The criteria by which performance is judged in this model can simply be taken as the market value such as shareholder value of the firm. Therefore, managers and directors have an implicit obligation to ensure that firms are run in the interests of shareholders. The underlying problem of corporate governance in this model stems from the principal-agent relationship arising from the separation of beneficial ownership and executive decision-making. It is this separation that causes the firm’s behaviour to diverge from the profit maximizing ideal. This happens because the interests and objectives of the principal (the investors) and the agent (the managers) differ when there is a separation of ownership and control. Since the managers are not the owners of the firm they do not bear the full costs, or reap the full benefits, of their actions. Therefore, although investors are interested in maximising shareholder value, managers may have other objectives such as maximising their salaries, growth in market share, or an attachment to particular investment projects, etc.

The principal-agent problem is also an essential element of the “incomplete contracts” view of the firm developed by Coase (1937), Jensen and Meckling (1976), Fama and Jensen (1983a,b), Williamson (1975, 1985), Aghion and Bolton (1992), and Hart (1995). This is because the principal-agent problem would not arise if it were possible to write a “complete contract”. In this case, the investor and the manager would just sign a contract that specifies ex-ante what the manager does with the funds, how the returns are divided up, etc. In other words, investors could use a contract to perfectly align the interests and objectives of managers with their own. However, complete contracts are unfeasible, since it is impossible
to foresee or describe all future contingencies. This incompleteness of contracts means that investors and managers will have to allocate “residual control rights” in some way, where residual control rights are the rights to make decisions in unforeseen circumstances or in circumstances not covered by the contract. Therefore, as Hart (1995) states: “Governance structures can be seen as a mechanism for making decisions that have not been specified in the initial contract.”

2.8.2 The Principal-Agent Problem

The shareholder and stakeholder models of ownership structure have traditionally been associated with the “principal-agent” or “agency” problem. A “principal-agent” relationship arises when the person who owns a firm is not the same as the person who manages and controls it. For example, investors (principals) hire managers (agents) to run the firm on their behalf. Investors need managers’ specialized human capital to generate returns on their investments, and managers may need the investors’ funds since they may not have enough capital of their own to invest. In this case there is a separation between the financing and management of the firm, that is, there is separation between ownership and control (Fama and Eugene, 1980).

The “agency” problem therefore, is an asymmetric information problem. Managers are better informed regarding the best or alternative uses for investors’ funds. As a result the manager ends up with substantial residual control rights and discretion to allocate funds as he chooses. There may be limits on this discretion specified in the contract, but the fact is that managers do have most of the residual control rights, (Shleifer and Vishny 1997, p.74). The fact that managers have most of the control rights can lead to problems of management entrenchment and rent extraction by managers. Much of corporate governance, therefore, deals with the limits on managers’ discretion and accountability. Thus Fama and Eugene state, “Ownership structure is a question of performance accountability.”

2.8.3 Concentrated Ownership versus Dispersed Ownership

According to Prowse (1992), the principal-agent model, due to the divergence of interests and objectives of managers and shareholders, one would expect the separation of ownership and control to have damaging effects on the performance of banks. Therefore one way of overcoming the problem is through direct shareholder monitoring via concentrated
ownership. Ownership concentration has been viewed as one way of resolving the monitoring problem.

The difficulty with dispersed ownership is that the incentives to monitor management are weak. Shareholders have an incentive to “free-ride” in the hope that other shareholders will do the monitoring. This is because the benefits from monitoring are usually shared with all shareholders, whereas, the full costs of monitoring are incurred by those who monitor. These free rider problems do not arise with concentrated ownership, since the majority shareholder captures most of the benefits associated with his monitoring efforts.

Therefore for banking institutions the problem of ownership structure is not primarily about general shareholder protection or monitoring issues. The problem instead is more one of cross shareholding, holding companies and pyramids, or other mechanisms that dominant shareholders use to exercise control, often at the expense of minority investors. It is the protection of minority shareholders that becomes critical in this case. One of the issues that arise in this context is how do policy makers develop reforms that do not disenfranchise majority shareholders while at the same time protect the interest of minority shareholders? In other words, how do we develop reforms that retain the benefits of monitoring provided by concentrated ownership, yet at the same time encourage the flow of external funds to corporations, and which, in turn, should lead to dilution of ownership concentration (Prowse, 1992).

2.9 Conceptual Framework

The study will explore the principal agent problem with a view of coming up with answers as to why this deep-rooted problem is persisting. In doing this variables such as shareholder spread; classes of shares and voting rights; proxy voting; AGM attendances and related communication; information dissemination; and corporate actions will be analysed with a view of concluding whether shareholder participation can be used as a mechanism of corporate governance. Corporate actions will be analysed with a view of concluding whether shareholder participation can be used as a mechanism of corporate governance.

The conceptual framework below shows that the researcher will originate from the general factors of shareholder participation which are basically governance, management, ownership,
financial operational and event driven. In-between there will be the forms of shareholder participation and this is then argued to contribute to the corporate governance performance.

**Figure 2.1: Conceptual Framework**

Agent  
Principal

*Source: Researcher Compilation*

2.10 Summary

This chapter provides literature review on the shareholder contribution to corporate governance performance. The literature was mainly reviewed considering the agency theory which analyses the role of the theory and the possible critiques of the model. The next chapter provides the research methodology.
CHAPTER 3: RESEARCH METHODOLOGY

3.1 Introduction

This chapter provides information about how the research was done. This will cover the whole research methodology from the aspects of research philosophy, approach, strategy, population, sampling, data collection, analysis and presentation of research data.

3.2 Research Design

An extensive literature review was undertaken to contextualize the study and draw some insights from both the theoretical and empirical literature that provided a framework of analysis for the study. The research design will articulate what data will be required, what methods will be used to collect and analyse this data, and how all this process will answer the research question. The structured questionnaire and face to face interviews will focus on the following key research questions among others:

- to examine the importance of shareholder participation in corporate governance in Zimbabwe;
- to assess the tools that are being used to measure shareholder participation in Zimbabwe;
- to explore the link between shareholder participation and good corporate governance;
- to draw some insights and recommendations for policy makers, practitioners and future researchers on shareholder participation as a valuable mechanism of corporate governance.

The research design will focus on a comparative study of various listed companies in Zimbabwe. A case study of fifty companies will be conducted and the point of differences on key research variables will be noted. The results will be tabulated using the collected data from the selected companies so that the conclusion of whether the shareholder participation is enhancing corporate governance in the country will be drawn. This research will utilize a “mixed-model research” (Knox, 2004; Saunders, Lewis, & Thornhill, 2009, Pansiri, 2005) that combines quantitative and qualitative data collection techniques and analysis procedures as well as combining quantitative and qualitative approaches at other phases of the research. This study will use a mixed model in order to reap the benefits of qualitative and quantitative approaches. The design of the comparative study should develop key indicators that will be
used to explain the past trends and will be used to draw of lessons and key recommendations for practitioners and policy makers.

3.3 Research Philosophy

Cooper & Schindler (2003) indicate that research philosophy is the way data or phenomenon should be gathered and analysed. Research philosophy comprised the ontological and epistemological question. Keogh (1999) adds that ontology relates to whether phenomena being studied are external to the individual or whether it is the product of individual cognition. There are two approaches to research, positivism and phenomenology. This study will employ more of positivist approach which uses structured questionnaire to collect data. The reasons why the researcher used positivist were to make data easily comparable and for him to achieve an economic collection of data from the target population.

Details of the two philosophies are outlined below.

**Positivism**

The positivist approach to research assumes that things can be studied as facts and relationships between these facts can be established as scientific laws. For positivists, such laws have the status of truth and social objects are studied in much the same way as natural objects (Hughes, 1994). The positivist approach believes that it is possible to identify and communicate knowledge as being hard, real and tangible, so that knowledge is capable of being acquired. According to Saunders, Lewis and Thornhill (1996), positivism seeks to explain and predict what happens in the business world by searching for irregularities and causal relationships between variables, whilst the anti-positivists oppose this arguing that the business world can only be understood from the point of view of individuals directly involved in the activities under study.

**Phenomenology**

On the other hand, phenomenology is a research approach where social reality is multiple, divergent, interrelated and analysed from the actor’s own perspective. Human behaviour is how people define their own world and reality is the meaning attributed to experience and is
not the same for everyone, (Finn, Elliot-White, and Walton, 2000). Phenomenology provides an alternative to the traditions and foundations of positivism for conducting disciplined inquiry. Under phenomenology, the researcher reality is not a rigid thing; instead it is a creation of those individuals involved in the research. Reality does not exist within a vacuum, its composition is influenced by its context, and many constructions of reality are therefore possible (Hughes, 1994). Phenomenology implies that knowledge is of a softer, subjective and spiritual nature based on personal experience and insight, so that it has to be personally experienced. This method was used when unstructured questions were included in the questionnaire. This research has taken a phenomenological approach.

3.3.1 Research Approach

Saunders et al. (2012) identify three broad approaches to research, namely deductive, inductive and abductive research approaches. Deductive approach involves deducing a hypothesis from a known theoretical position and testing the hypothesis while inductive approach involves collecting data and developing a theory from the data analysis. This thesis will basically combine different approaches in order to address both the main and the sub objectives of this study.

3.3.2 Research Strategies

Survey

Wong Toon Quee (1999) defined survey research methods as a systematic gathering of primary data through the use of structured questionnaires and communication in a reasonably large number and highly representative sample of respondents. Robson (1993) reiterated that a survey involves the collection of information in standardised form from groups of people. He added that typical features of a survey include selection of samples of individuals from known populations; collection of relatively small amount of data in standardised form from each individual. Surveys usually employ questionnaire or structured interview. This approach was used in this study since data was collected from several stakeholders from various sectors in Zimbabwe.
Case study

Robson (1993) defines case study as the development of detailed, intensive knowledge about a single case or small number of related cases. He further argues that the case-study approach also 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. According to Saunders, Lewis and Thornhill (2003), this strategy enriches the understanding of the context of research and the processes being enacted. Robson (2002) adds that a case study allows several data collection methods to be used such as questionnaires, interviews, observations and documentary analysis. The researcher used this approach in choosing the case sector to make some conclusions of the study. The researcher will use various sectors in industry as the case studies and then apply survey within the industry by selecting those listed on the Zimbabwe Stock Exchange and also other organisations like Institute of Directors, ZSE and CZI as well as CCZ. This will therefore justifies the proposal of using the survey approach.

3.4 Population

A population is the total collection of elements about which the researcher wishes to make some inferences (Cooper and Schindler, 2005). It is a set of entities concerning which statistical inferences are to be drawn, often based on a random sample taken from the population or the entire set of data from which a sample is selected and about which the researcher wishes to draw conclusions. The population of this study will be for all listed companies in different sectors during the period 2011 to 2015. In these ten listed companies the population target will include board of directors, senior and middle management. The research will also include the Institute of Directors (IoD) and the ZSE Secretariat. The CEO of the IoD and his Financial Director will also be part of the study. For the ZSE secretariat, all senior managers will be included in the study. The reason for their inclusion is because the two institutions have a direct bearing on what happened with listed companies. Their views will be used to check against of the views from the shareholders and board of directors.
Table 3.1: Sample

<table>
<thead>
<tr>
<th>Target Group-Population</th>
<th>Sample Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telecomunication</td>
<td>10</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>10</td>
</tr>
<tr>
<td>Mining</td>
<td>10</td>
</tr>
<tr>
<td>Agriculture</td>
<td>10</td>
</tr>
<tr>
<td>Retail</td>
<td>10</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>50</strong></td>
</tr>
</tbody>
</table>

*Source: Researcher Compilation*

3.5 Sampling

A sample is used to represent the whole population within acceptable limits. Sampling is the probabilistic, systematic, or judgmental selection of a sub-element from a larger population, with the aim of approximating a representative picture of the whole (Cooper and Schindler, 2003). Hill, Brierly and MacDougall (2003) defined sampling as the way sample elements are to be selected from the entire population to come up with ‘representative’ samples. Sampling enables higher overall accuracy than a census as more time is spent on designing and piloting the means of data collection (Henry, 1990).

A population is that full set cases about which a particular research is concerned, Robson (2002) and Saunders et al (2012). A sample is a subset of items drawn from a population, Wegner (2010); Saunders et al (2012); Robson (2002). Punch (2009) characterizes a sample as that smaller group of items from a population from which data are actually collected, analyzed and inferences made to the population.

In order to select respondents from this study the researcher proposes to use a combination of different sampling techniques. These techniques are broadly grouped as probabilistic and non-probabilistic techniques. This implies that the researcher will use techniques from both groups since the population of this study is diverse. The sample size determination will be calculated scientifically where it applies. The researcher proposes to use the probabilistic since this is a quantitative data.
3.6 Sources of Data

3.6.1 Secondary sources of data

Donald and Pamela (2003) defined secondary data as the data collected by others for their own purpose and now used for other purpose. In carrying this study, the researcher used both primary and secondary data. Primary data was gathered through the use of questionnaire and secondary was derived from company reports.

Documentary

These are usually in two forms; written and non-written materials. Some of them may have used primary data in the original data collection processes. Written materials include notices, correspondence, minutes of meetings, reports to shareholders and public records; Bryman (1989). Non written materials include visual documentaries and videos or audio recordings which were done in historical researches for their own purposes; Saunders et al (1988).

3.6.2 Primary sources of data

According to Merriam (1998), primary data is one that is collected specifically for a project. This research will employ the use of questionnaires for the following reasons;

- The nature of the research requires the collection of primary data at the respondent’s own free time hence questionnaires are the most applicable
- They collect data from more than one respondent at the same time
- Questionnaires are cost effective and convenient in data collection especially in this research

3.6.2.1 Observation

Observation is a primary method of data collection where a team of researchers go to a certain place of study, for example an organisation, and observe the target personnel. An example could be an evaluation of a customer service plan by a certain organisation. The team can observe how employees handle their customers by being part of the customers and take notes at the same time. Observation yields mainly qualitative data, which may be
supplemented with quantitative information (Heese, 1995). A number of methods can be applied depending on the setup and the objectives to be achieved.

3.6.2.2 Interviews

An interview represents a formal exchange of words between two or more individuals over one major topic of interest. Mercer (1998) defines personal interviewing as the traditional (face to face) approach to marketing research and is the most versatile. He went on to say that the interviewer is in full control of the interviews and can take account of the body language as well as the words. The main disadvantage of the interview technique is that, it is time consuming (Fraenkel and Wallen, 1996). The challenge is for the interview to cultivate a neutral attitude towards the subject and his/her own feelings, opinions and judgments to oneself. Mercer (1998) also argues that personal interviewing is the most expensive and is dependent on the reliability of the interviewer, and on his or her skill in the case of some of the more sophisticated techniques.

3.6.2.3 Questionnaires

Kervin (1999) defines a questionnaire as a data collection instrument used in survey research where people answer questions by recording their own answers. Bell (1999) and Zikmund (1997) widened the definition to include face-to-face or telephonic interviews. Fraenkel and Wallen (1996) say the major advantage of using the 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 collecting data. Foddy (1994) and de Vaus (2002) give the major disadvantages of using a questionnaire as a research instrument. First, response rate is often low as potential respondents fail to complete and return the questionnaires. Second, it is difficult to control who completes the questionnaire as questionnaires may be completed at home in the absence of the researcher. The third main disadvantage is that the respondents may 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 of reliability and clarity was minimized by conducting a pilot survey to clarify questions and make them simple. The pilot study was done suing 10
questionnaires and the research instrument was addressed following recommendations from the survey.

**Self-administered questionnaires** are completed by the respondent at his/her own pace. This may be done in different ways though;

**On-line questionnaires** which are completed on line, that is on the internet with the responses being recorded simultaneously.

**Email questionnaires** which are posted to the respondent’s address. The respondent completes the questionnaire and posts it back via the researcher’s email address. Delivery and collection questionnaires are delivered by hand to the respondent who completes them and gives them back to the delivery assistant who then takes them back to the researcher. There is a middle man involved who delivers the questionnaires to the respondent and back to the researcher.

**Questionnaire structure**

Fowler (1993) says when preparing research instruments, attention should be paid to the length and clarity of questions. Both close-ended and open-ended questions are going to be used in the questionnaires for this research. Close-ended questions help in achieving a high response rate by minimizing the amount of time a respondent spends on each question since the answers will be provided.

**3.7 Data Presentation and Analysis**

Tables, charts and graphs were used in the next chapter to display the research findings. Wegner (2003), states that statistical or numerical findings are only of value to management and business operators if they can be effectively communicated to them. According to Saunders et al (2003), there are two types of quantitative data, namely, categorical and quantifiable data. For both categorical and quantifiable data that shows one variable so that any specific variable can be read, it is recommended to use tables or frequency distribution. For categorical data that shows the frequency of occurrences, the use of bar charts is encouraged; for quantifiable continuous data that shows frequency of occurrence the use of
histograms is recommended; for quantifiable and categorical data that shows a trend for variable use a line graph or bar chart or histogram; for both categorical and quantifiable data that compares frequency of occurrences use multiple bar chart; to compare trends use multiple line graphs or multiple bar chart.

Raw data from the research was first grouped into relevant groups in order to facilitate analysis. Qualitative data or descriptions were first coded using open coding into numerical data and then used tables to group and present them for comprehensive and ease of analysis. Data was analysed manually with responses to questionnaires being manually counted and the total number of responses per question expressed as a percentage of the total number of respondents in tabular form. Data was analysed both quantitatively and qualitatively and deductions were made.

3.8 Ethical Considerations

In conforming to the ethical standards of research, the researcher will address key issues of voluntary participation, anonymity and confidentiality of respondents, appropriate ascription of authorship and rejection of all forms of plagiarism (Bobbie and Mouton, 2009). The respondents will be asked to sign the consent forms before the interviews start. All research findings will be shared with the CEOs of the companies involved in the study. The researcher will also explain to the respondents the aims of the study and that no information will be used to identify the identity of respondents. The permission to collect data from organisations and individual companies will be requested through a letter from the student and also a cover letter from the university clearly explaining to the authorities and individual respondents that the exercise will be purely academic and that names of respondents will not be disclosed to anyone besides the academic authorities. No names of companies studied will be mentioned.

3.9 Summary

This chapter has discussed the research design used in the study and the reasons for choosing the design. The design was meant to address the main research questions of this study. The chapter also discussed how research instruments were developed, methods of data collection, data entry, data processing and analysis. The next presents and discusses the research findings.
Chapter three discussed the research methodology that will be used to collect, process, analyse and present data from the target population. The next chapter presents the findings of the research and their discussion.
CHAPTER 4: RESEARCH FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter presents the research findings from the study population. The data was captured using questionnaires and analysed using SPSS version 22. The presentation of the research results was done by using graphs and tables and explained using percentages. Reference was also made to the literature review. The results were based on the views of the sample population that took part in the survey.

The overall objective of the research was to:

- To examine the importance of shareholder participation as a mechanism of corporate governance in Zimbabwe.
- To explore the relationship between shareholder participation and good corporate governance.
- To assess whether shareholder participation can solve the agency problem.
- To draw some insights and recommendations for policy makers, practitioners and future researchers on how shareholder participation can improve corporate governance.

4.2 Response Rate

As discussed in chapter three, the researcher targeted fifty (50) questionnaires for data collection which were to be administered at various levels of listed companies on ZSE. All questionnaires were targeted at various employees at different managerial levels from middle management to top directors, and thirty three (33) were successfully administered due to various limitations and challenges with twenty having been completed giving a response rate of 60.60%. This rate is a fair rate for research conclusions to be rendered valid.
4.3 General Information

4.3.1 Position of respondents

The research investigated the positions of the respondents that participated in the research. The findings are presented in the figure below.

**Figure 4.1 Position of the respondents**

![Bar chart showing the distribution of respondents by position](chart.png)

Figure 4.1 above represent the position of respondents who participated in the research. According to figure 4.1 above 12% of the participants were general staff, 20% middle management, 35% senior management and the remaining 33% were executive management. This implies that the research was dominated by senior management and executive management which is positive for this type of research as corporate governance is mostly associated with top level executive. Reliability of this data is also improved since the correct participants were used to answer the questionnaires.
4.3.2 Duration of participants in the organisation.

The researcher also investigated the experience of participants in their organizations. The findings are presented in figure 4.2 below.

**Figure 4.2 Duration of respondents in the organisation**

![Pie chart showing duration of respondents]

Figure 4.2 above shows that 19% of the respondents who participated in the research were less than one year, 47% were between one and five years and finally the remaining 34% were above five years of experience in the organisation. Since more than 80% of the respondents have been with the organization for more than one year, their response can be considered as fair and valuable in this research.

4.4 Reliability and Validity Test

4.4.1 Normality test

The table 4.1 below shows that the significance statistics are 0.00 which is less than the p value of 0.05 and therefore we conclude that the data deviate from a normal distribution and therefore it is non parametric.
Table 4.1 Test of Normality

<table>
<thead>
<tr>
<th></th>
<th>Kolmogorov-Smirnov(^a)</th>
<th>Shapiro-Wilk</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Statistic</td>
<td>Df</td>
</tr>
<tr>
<td>Participation of shareholders</td>
<td>.412</td>
<td>20</td>
</tr>
<tr>
<td>Accountability</td>
<td>.376</td>
<td>20</td>
</tr>
<tr>
<td>Independence</td>
<td>.388</td>
<td>20</td>
</tr>
<tr>
<td>Discipline</td>
<td>.451</td>
<td>20</td>
</tr>
<tr>
<td>Transparency</td>
<td>.400</td>
<td>20</td>
</tr>
<tr>
<td>Responsibility</td>
<td>.330</td>
<td>20</td>
</tr>
<tr>
<td>Fairness</td>
<td>.412</td>
<td>20</td>
</tr>
<tr>
<td>Social Responsibility</td>
<td>.412</td>
<td>20</td>
</tr>
</tbody>
</table>

*Lilliefors Significance Correction*

4.4.2 Reliability test

The reliability of the data set was tested using the Cronbach’s Alpha Value test as shown below.

Table 4.2 Reliability Statistics

<table>
<thead>
<tr>
<th>Cronbach's Alpha</th>
<th>N of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>.846</td>
<td>8</td>
</tr>
</tbody>
</table>

The Cronbach’s Alpha for the data on the participation of the shareholders and the impact of that to the performance on corporate governance is 0.846. The value is high enough to justify the validity of the data set being used in this particular research.
4.4 Importance of Shareholder Participation

This section represents analysis on importance of shareholder participation in an organisation. The analysis on the figure 4.3 below shows whether Shareholders use their ownership positions to influence on firm policy and practices.

**Figure 4.3 Shareholders use their ownership position to influence firm policies**

Research findings on figure 4.3 above reveal that 9% of the participants strongly agreed that shareholders use their ownership position and 12% agreed. A further 8% of the respondents said there were neutral, 32% disagreed and the majority 39% strongly disagreed that shareholders use their ownership position to influence firm policies and practices. This implies that shareholders are not actively influencing firm policies and practices. Sjöström (2008) disagreed to the analysis above when he suggested shareholder actively participate to influence on firm policy and practices through the use of ownership position. It enables shareholders to exercise and enforce their rights to enhance shareholder value in the long-term. Participation can be conducted via direct dialogue with corporate management or the board, during open sessions in corporate general meetings, writing open letters or by filing formal shareholder proposals.
Figure 4.4 below shows an investigation into whether participation of our shareholders is more notable in their particular attention to financial performance. Findings are presented in the below figure.

**Figure 4.4 Participation of shareholders is more notable in their particular attention to financial performance**

![Bar chart showing participation levels](image)

The analysis on figure 4.4 revealed that 13% of the participants strongly agreed that participation of shareholders is more notable in their particular attention to financial performance and the majority 43% agreed. Further 17% were neutral, also 17% disagreed and 10% the minority of participants strongly disagreed. This implies that shareholders focus their attention to financial performance and financial positions.

On the same line of argument with the above Judge (2010) argued that shareholder participation can be financially driven or socially driven. This type of participation focuses on the financial performance of companies and seeks to put pressure on management for an improved portfolio performance.

Respondents were asked by the researcher if shareholders participate in company’s strategic direction. The findings are summarized in the pie chart below.
Figure 4.5 Shareholders participate in company’s strategic direction

Figure 4.5 above shows that 16% of the participants strongly agreed that shareholders participate in company’s strategic direction, 14% agreed, 10% were neutral, 18% agreed and the majority of participants 42% disagreed. This shows that shareholders were not participating in company’s strategic direction according to the findings above.

Prevost (2012) argued that shareholder participation can be related to the company’s strategic direction and its alternatives. For example, the sale of the company to third parties, the firm’s operational inefficiency, and restructuring. Demands can also be made about the company’s capital structure; for example, about dividend, debt restructuring, or the firm’s recapitalization. Shareholder could also advocate opposition to proposed mergers.

Figure 4.6 below shows the analysis whether shareholders in organizations actively participate in key decision making processes.
Analysis on figure 4.6 above reveals that 20% of the participants agreed that shareholders actively participate in key decision-making processes of the organisation and 13% the minority were neutral. The majority of participants 53% disagreed and 14% strongly disagreed. This shows that the majority of shareholders were not actively participate in key decision-making processes according to the research findings above.

4.5 Shareholder Participation and Good Corporate Governance

This section provides an analysis of the participation of shareholders and good corporate governance. Figure 4.7 below shows an analysis on whether shareholders participate at the annual general meeting.
According figure 4.7 above 9% minority of participants shareholders were not used to participate at annual general meeting, 15% said were not common and 22% of the participants were neutral about the issue. Further 42% majority of the participants said participation of shareholders at annual general meeting and 12% said were very common. Black (1998) propounded that shareholders can central part of shareholder activism is the use of shareholder proposals. At the annual general meetings the activists have the prospects to de-stagger boards, demanding a change in management, separate the position of chairman of the board and CEO and try to form a nominating or compensation group of the board composed completely of independent directors by using corporate voting rights.

The researcher also investigated whether shareholders participate through representation in the company’s board. Findings were shown on the figure below.
Analysis on figure 4.8 above indicated that 15% of the respondents said participation of shareholders through representation in the company’s board were less common, the majority 62% said is not common finally the remaining 23% is not used.

Prevost (2012) argued that shareholders must have Representation in the company's board: The board of directors is a core component of a firm’s decision making process. A member of the board gives the ability to influence and monitor the firm’s actions

A further analysis was carried by the researcher on whether shareholders had direct contact with the company’s management. Findings were presented in the figure 4.9 below.
Figure 4.9 Shareholders have direct contact with the company’s management

![Bar Chart]

The analysis on figure 4.9 above shows that 7% minority of the participants said shareholders direct contact with the company’s management is less common, 16% were neutral, 21% said is not common and the majority 56% said is not used. This implies that shareholders were not much direct contact with the company’s management and it contradicts with views of Black (1998).

Black suggested that shareholders must have direct contact with the company’s management through quiet diplomacy and pressuring the board from inside, like letter writing and direct engagement with management and the board. This is the process of using long-term relationship building and trying to achieve changes that are in line with wealth maximizing goals, rather than outside pressure at annual general meetings. This creates room for more discussion, specific strategies and space for dialogue. In addition it does not damage firm value by making its problems public.
Figure 4.10 below shows the analysis on whether shareholders participate in contacts with other shareholders.

**Figure 4.10 Contacts with other shareholders**

According to figure 4.10 above 6% of the respondents said shareholders contacts with other shareholders is not used, 9% said is not common, 12% were neutral and finally the majority 73% said it is less common. This shows that shareholders contacting with other shareholders is happening in organisation but those are rare cases.

This is almost similar with argument of Black (1998). Black suggested that shareholders can contacts with other shareholders. Shareholder activists often look for the support of other institutional investors and from time to time conduct press campaigns in order to increase pressure on the management and boards of directors.

The researcher also investigated in whether shareholders participated on open sessions in corporate general meetings. Findings were presented on figure 4.11 below
Figure 4.11 Shareholders participate in open sessions in corporate general meetings

Figure 4.11 above shows that 11% of the participants said shareholders participation in corporate general meetings is less common, 15% were neutral, 17% were not used and the majority 57% said is not common.

Analysis on figure 4.12 below shows whether shareholders in organizations have direct influence on the corporate governance.

Figure 4.12 Shareholders have direct influence on the corporate governance
Figure 4.12 above shows that 7% of the respondents strongly agreed that shareholders have direct influence on the corporate governance, 10% agreed and 13% were neutral. Furthermore 47% the majority of respondents disagreed and 23% strongly disagreed that shareholders have direct influence on the corporate governance.

Prevost (2012) argued that shareholders have direct influence on the corporate governance. What all this means is that shareholder involvement, in terms of corporate governance and shareholder relations, has become the main stream. In the last two decades, what began as a targeted effort by a small number of governance activists in the States, supported by some academics, clearly is now a broad global movement that is redefining the relationship between public companies and their shareholders.

Figure 4.13 below shows an analysis whether shareholders are influencing accountability.

**Figure 4.13 Shareholders influence accountability**

Research findings on figure 4.13 above revealed that 3% of the participants agreed that shareholders influence accountability in the organisation, 18% were neutral, 30% disagreed and the majority of participants 49% strongly disagreed. This shows that shareholders are influencing accountability to a lesser extent.
In relation to the findings above, the Australian Parliamentary Joint Committee (2008) reported that ineffectual shareholder engagement brought increased investment risk and they influence accountability of the organisation. Shareholder participation is vital in ensuring accountability of the company’s board and management. The critical link between the decision-making and accountability functions of a company is engagement between shareholders and the company board that is informed, meaningful and effective.

The following analysis in figure 4.14 below investigates whether shareholders in organizations are influencing independence in the organizations.

**Figure 4.14 Shareholders influence independence**

![Figure 4.14 Shareholders influence independence](image)

Figure 4.14 reveals that 3% of the respondents agreed that shareholders influence independence of the organisation and 34% were neutral. A further 46% majority of participants disagreed and finally 17% of the respondents strongly disagree that shareholders influence independence in the organisation.

In supporting the findings above Nili (2015) propounded that shareholder involvement, in terms of corporate governance and shareholder relations, has become the main stream and increase board independence.
The researcher also investigated whether shareholders influence discipline in the organisation. Findings were presented on figure 4.15 below.

**Figure 4.15 Shareholders influences discipline**

Research findings on figure 4.15 above shows that 45% majority of participants disagreed that shareholders influence discipline on the organisation 23% of the participants were neutral and 22% of the participants strongly disagreed. This shows that shareholders can rarely influence discipline in the organisation.

This can be supported by the views of King Report (2002) who postulated that corporate discipline is mainly a commitment by a company’s senior management not shareholders. This encompasses a company’s awareness and commitment to the underlying principles of good governance, particularly at senior management level.

Figure 4.16 below present the analysis whether shareholders influence transparency on the organisation.
The analysis on figure 4.16 above shows that 8% of the participants strongly agreed that shareholders influence transparency of the organisation, 3% agreed and 31% were neutral about the issue. Further 52% majority of participants disagreed that shareholders influence transparency and 6% strongly disagreed.

<table>
<thead>
<tr>
<th></th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responsibility</td>
<td>7%</td>
<td>10%</td>
<td>12%</td>
<td>18%</td>
<td>53%</td>
</tr>
<tr>
<td>Fairness</td>
<td>3%</td>
<td>6%</td>
<td>36%</td>
<td>43%</td>
<td>12%</td>
</tr>
<tr>
<td>Social responsibility</td>
<td>0%</td>
<td>2%</td>
<td>19%</td>
<td>56%</td>
<td>23%</td>
</tr>
</tbody>
</table>

Analysis on the table 4.3 above shows that 7% of the respondents strongly agreed that shareholders influence responsibility in the organisation, 10% agreed and 12% were neutral. The majority of participants 53% strongly disagreed that shareholders influence responsibility in the organisation and finally 18% disagreed.
The researcher also investigated whether shareholders ask questions at AGMs and the results is summarized below.

**Figure 4.17 shareholders actively ask questions at AGMs**

![Bar chart showing the percentage distribution of responses to the question of whether shareholders actively ask questions at AGMs. The percentages are as follows: Agree (13%), Neutral (16%), Disagree (64%), and Strongly disagree (7%).]

Figure 4.17 above shows that 13% of the participants agreed that shareholders actively asks questions at AGMs, 16% were neutral, 7% strongly disagreed and the majority of participants 64% strongly disagreed. This is a worrying revelation especially when the new National Code on Corporate Governance Zimbabwe (2014) suggest that the ultimate authority of any company is its annual general meeting or extraordinary general meeting of shareholders where they exercise their rights in terms of the statutes of company and the law.

The following analysis in figure 4.18 below investigates whether shareholders exercise their right to vote.
Research findings on figure 4.18 above reveals that 4% of the respondents strongly agreed that shareholders exercise their right of vote, 17% agreed and 8% of the respondents were neutral to the issue. A further 59% of respondents the majority disagreed and 12% strongly disagreed that shareholders exercise their right of vote. This chiefly because the majority of these shareholders do not even bother to attend these AGM or when they attend they do not have enough information to positively contribute during voting process.

Figure 4.19 below show the analysis of percentages of shareholders who attend Annual General Meeting.
Figure 4.19 Shareholders who attend Annual General Meeting

Figure 4.19 above shows that 22% of the respondents said shareholders who attend Annual General Meeting are 26-50% and the majority of participants 78% said shareholders who attend annual general meeting were 0-25%. The results do not paint good picture in good corporate governance since less than 25% of shareholders do not form a corum for a legally binding meeting to take place. This means many companies are holding their AGMs with less than the required percentage to warrant a validly binding meeting to all stakeholders.

Table 4.4 Shareholders make decision and actively participate on the appointment of external auditors.

<table>
<thead>
<tr>
<th></th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Make decisions</td>
<td>6%</td>
<td>10%</td>
<td>8%</td>
<td>64%</td>
<td>12%</td>
</tr>
<tr>
<td>Appoint external auditor</td>
<td>10%</td>
<td>11%</td>
<td>53%</td>
<td>17%</td>
<td>9%</td>
</tr>
</tbody>
</table>

Analysis on table 4.4 above show that 6% of the participants strongly agreed that most shareholders make decisions which they are supposed to make, 10% agreed and 8% were neutral. A further 64% the majority disagreed and the remaining 12% strongly disagreed.
Findings above on table 4.4 also shows that the majority 53% of participants was neutral about the issue shareholders actively participate on the appointment of external auditors, 11% agreed and 10% strongly disagreed. The minority 9% strongly disagreed and 17% disagreed. This shows that shareholders are taking part in appointment of external auditors to a lesser extent.

Masulis (1988) supported that shareholders must take part in the appointment of external auditors. This situation exists despite the right of shareholders to manage the company by participating in, and voting during, the Annual General Meeting. They have the right to appoint and dismiss managers, accept financial statements and appoint auditors. They may also sell the shares that they own and put their company at risk of being taken over, or even being declared bankrupt.

Figure 4.20 below present analysis whether stakeholder’s activism pressures the management for improved performance.

**Figure 4.20 Stakeholders activations pressure the management for improved performance.**

![Chart showing responses to the statement](image)

Figure 4.20 above shows that 3% the minority of participants agreed that stakeholder’s activations pressure the management for improved performance, 16% were neutral, 67% the
majority disagreed and 14% strongly disagreed. The research results show that stakeholders activism there are not pressure the management for improved performance. This goes against the views of Gillan and Starks.

Gillan and Starks (1998) propounded that the main emphasis of activist shareholders has been to focus on the poorly performing firms and to pressure the management for improved performance, thus enhancing shareholder value.

The researcher also investigated whether the minority shareholders participate in decision making at the same level as major shareholders. Findings are presented on Figure 4.21.

Figure 4.21 Minority shareholders participate in decision making same as major shareholders.

![Pie chart showing participation levels](chart.png)

Figure 4.21 above shows that 9% of the participants agreed that minority shareholders participate in decision making same as major shareholders and 3% were neutral. Further 79% majority of participants strongly disagreed and 12% disagreed. This shows that major shareholders had more power than minority shareholders.

This was also supported by Prowse (1992) he propounded that the problem instead is more one of cross shareholding, holding companies and pyramids, or other mechanisms that dominant shareholders use to exercise control, often at the expense of minority investors.
4.6 Hypothesis Testing

This section provides an analysis of the hypothesis which was stated in chapter one of this dissertation as follows:

Table 4.5 Correlations

<table>
<thead>
<tr>
<th>Spearman's rho</th>
<th>Shareholder Participation</th>
<th>Corporate Governance Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholder Participation Correlation Coefficient Sig. (2-tailed) N</td>
<td>1.000</td>
<td>.142</td>
</tr>
<tr>
<td>Corporate Governance Performance Correlation Coefficient Sig. (2-tailed) N</td>
<td>.142</td>
<td>1.000</td>
</tr>
</tbody>
</table>

The Spearman Correlation value between shareholder participation and good corporate governance was found to be 0.142. This shows that the level of shareholder participation and the level of corporate governance practice in the organisations is weakly related. This therefore justifies the hypothesis that the less active participation of shareholders has resulted in the prevailing poor corporate governance performance in the country for companies listed on the ZSE.

4.7 Limitation of the study

There were two limitations to this study. The first limitation is that certain people, data and documents were not readily available when needed during the study. To overcome this limitation, the researcher invested more time in order to get these critical resources. The other limitation is that of money and time. It would have been interesting to conduct a research in more than one sector and gained varied experiences from the other sectors. The collection of primary data required a lot of money. The cost of fuel to administer questionnaires and the
costs of printing questionnaires was high making it difficult to administer questionnaires to all targeted companies.

4.8 Summary

Study findings and their associated discussions have been accessed in this chapter. The chapter scrutinized data which was collected through the administration of questionnaires to various listed companies on Zimbabwe Stock Exchange. The result generally shows that shareholders are not doing enough in terms of their participation to enhance good corporate governance in listed companies. Annual General Meetings which are supposed to be shareholders’ biggest weapon in exerting their influence in companies are not being effectively used by not attending and non participation by those present. Recommendations and conclusions of the research were outlined and founded on the results initiated in this chapter. The next chapter covers conclusions and recommendations for the study.
CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS

5.2 Conclusions

The study found and concludes that the weak corporate governance practices in listed companies on Zimbabwe Stock Exchange can be attributed to a greater extend to poor shareholder activism and participation in company affairs. This is found to be the trend even with the institutional shareholders who are professional fund managers, expected to take a leading role in lobbying with various companies they invest in to improve their governance practices but they rather take a passive role. Generally it has been revealed that in most companies less than 25% of shareholders take their time to attend Annual General Meeting which makes it difficult for the few shareholders who attend to exercise their voting rights effectively. This do not paint a good picture in good corporate governance since AGMs are actually identified in the National Code on Corporate Governance Zimbabwe (NCCGZ, 2014) and other international codes on corporate governance as an important platform for shareholders to contribute towards the betterment of the companies. The major motivation behind shareholder participation can be financially driven or socially driven. The participation of shareholder focuses on the financial performance of companies and seeks to put pressure on management for an improved portfolio performance.

The study can therefore conclude that shareholder participation is a very essential component in ensuring good corporate governance. Shareholder activism is hence a valuable mechanism in pushing for good corporate governance in companies.

The study found and concluded that shareholders rarely have direct contact with company management and directors regarding the governance of the companies. Shareholders also to a lesser extend contact with other shareholders to share their views on how their funds are being managed and how best they can contribute using their ownership position. This shows that shareholders can rarely influence discipline in the organisation.

Appointment and reappointment of external auditors and directors of a company are the most crucial functions and responsibilities of shareholders at an AGM but the study found and concludes that shareholders are not fully exercising their right in this areas leaving room for
nepotism and corruption in the appointment and reappointment of auditors and directors exposing the company to a high corporate governance risk.

The study reveals that weak shareholders activism results in less pressure on management and directors for improved performance. This is also because participation of shareholders on the annual general meeting it is not common in many organizations. This means that there is a positive correlation between shareholder activism and good corporate governance.

The study also found and concludes that shareholder participation is vital in ensuring accountability of the company’s board and management. Without effective monitoring of directors and management by shareholders, there is an increased risk of directors and managers underperforming.

Furthermore the study also found and concludes that the board is the main mechanism for the effective monitoring of management and for providing strategic guidance to a company. The board has a duty to act fairly towards shareholders and other stakeholders and to ensure compliance with applicable laws. Directors should exercise objective judgment on company matters independently of management.

Influencing the appointment and reappointment of external auditors and directors will minimize the principal agent problem by ensuring that the appointed directors or auditors are independent and not self serving.

Corporate governance has emerged in 21st Century as global subject which any company or which intend to compete internationally cannot afford to ignore. Countries like UK and USA reacted swiftly to various catastrophic financial scandals which resulted in many shareholders losing billions of dollars in the classic collapse of different companies by coming up with early codes on corporate governance. USA took the root of enacting their code, Sarbanes Oxley Act (2002) into legislation whilst UK and South Africa chose to leave corporate governance code on voluntary basis consistent with OECD code. Other countries like Zimbabwe however relied mostly on other international codes for good corporate governance but the study reveal that recently Zimbabwe launched its National Code on Corporate Governance (2014) showing how serious countries are taking corporate governance.
5.3 Recommendations

Shareholder Education

Weak shareholder activism can be attributed to lack of education on their rights and responsibilities in company affairs. Enough information regarding the meeting is not distributed in time to shareholders. In most companies there is information asymmetry where managers and directors who are corporate insiders have more and accurate information than shareholders who risky capital, who in most case are fed with inadequate, distorted and late information for them to make meaningful decision. This has a great impact on the willingness of shareholders to participate as they are already discouraged.

Access to Information

This study recommends that shareholders should be given reasonable and transparent access to relevant records which must ordinarily be availed to them but without compromising commercially sensitive information or other information whose disclosure is not in the best interest of the company.

Documents which are important, such as a summary of the company’s strategic plan, reports on the company’s performance indicators and growth prospects, management practices and policies pursued by the board, reports on analysts briefings, including positive and negative media reports, should be made available to all shareholders in good time to give them adequate time to prepare for the shareholders meeting. These should be in simple language to allow understanding by all shareholders.

Notice of General Meetings

The notice convening a shareholder’s meeting must be given to all shareholders in sufficient time to allow them enough time to formulate their positions on the agenda and consult with other persons who will attend the meeting or discuss the agenda with them. The notice must contain full details of the registration process and sufficient information to enable shareholders to decide whether they will attend the meeting the meeting and allow they will participate in the discussions.
A shareholders’ meeting must be convened at a place and on a date and a time which make it possible for all shareholders to attend the meeting. The meeting should be convened by giving sufficient notice (NCCGZ, 2014 recommends twenty one days) to enable them ample time to prepare for the meeting. This we believe will encourage shareholders to attend general meetings and positively contribute in these meetings.

**Greater use of ICT**

The study also recommend greater use of information and communication technology (ICT) such as web casting, emails, electronic and print media and proxy voting to allow easy access to information by all stakeholders.

The study recommends that individuals or groups in a company who make decisions and take actions on specific issues need to be accountable for their decisions and actions. Accountability is achieved by timely, accurate and transparent disclosure in financial reporting and other communication with shareholders.

**Focus on poorly performing firms**

The research also urges that activist shareholders must focus on the poorly performing firms and pressure the management for improved performance, thus enhancing shareholder value. The board should be the main mechanism for the effective monitoring of management and for providing strategic guidance to a company. The board has a duty to act fairly towards shareholders and other stakeholders and to ensure compliance with applicable laws. Directors should exercise objective judgment on company matters independently of management.

**Participation in General Meetings**

The study also recommended that shareholders must participate fully on the annual general meetings. Minutes of shareholders’ meetings should be prepared in a simple way and must be sufficiently detailed to communicate the discussions which took place, the resolutions adopted and any dissenting view by the participants.
5.4 Area of Further Study

A further study may be carried out to investigate what can be done to enable shareholders to fully participate and use their voting rights in an organization.
REFERENCES


Gregory, H.J. (2014), Corporate governance issues for 2015, Sidley Austin LLP.


Parliamentary Joint Committee on Corporations and Financial Services, Better shareholders – better company, shareholder engagement and participation in Australia, June 2008.


QUESTIONNAIRE

Instructions
1. Please answer all questions
2. Tick appropriately according to the instruction of the question
3. Be as objective as possible
4. All information will be treated confidential
5. The key for this questionnaire for all numbers 1 to 5 is as follows:
   1=Strongly agree  2=Agree  3=Neutral  4=Disagree  5=Strongly disagree

SECTION A: DEMOGRAPHIC DATA

1. Sector of the your organization __________________________

Name of the organization (Optional) __________________________

2. Position of respondent
   a. General staff [    ]
   b. Middle management [    ]
   c. Senior management [    ]
   d. Executive management [    ]

3. Duration in the organisation
   e. Less than 1 year [    ]
   f. Between 1 and 5 years [    ]
   g. Above 5 Years [    ]

SECTION B: IMPORTANCE OF SHAREHOLDER PARTICIPATION

1.1 Shareholders use their ownership position to influence on firm policy and practices.

1          2          3          4          5
1.2 Participation of our shareholders is more notable in their particular attention to financial performance of company.

1  2  3  4  5

1.3 Shareholders participate in company’s strategic direction.

1  2  3  4  5

1.4 Shareholders in my organization actively participate in key decision-making

1  2  3  4  5

SECTION C: SHAREHOLDER PARTICIPATION AND GOOD CORPORATE GOVERNANCE.

2.1 Which of the following ways do your shareholders participate?

a. Participation at the annual general meeting

Very common [ ] less common [ ] Neutral [ ] Not common [ ] Not used [ ]

b. Representation in the company's board

Very common [ ] less common [ ] Neutral [ ] Not common [ ] Not used [ ]

c. Direct contact with the company’s management

Very common [ ] less common [ ] Neutral [ ] Not common [ ] Not used [ ]

d. Contacts with other shareholders

Very common [ ] less common [ ] Neutral [ ] Not common [ ] Not used [ ]

e. Open sessions in corporate general meetings

Very common [ ] less common [ ] Neutral [ ] Not common [ ] Not used [ ]

2.2. Shareholders in my organisation has direct influence on the corporate governance

1  2  3  4  5

2.3. Shareholders in my organisation are influencing the following

a. Accountability

1  2  3  4  5

b. Independence

1  2  3  4  5

c. Discipline

1  2  3  4  5
d. Transparency
1  2  3  4  5
e. Responsibility
1  2  3  4  5
f. Fairness
1  2  3  4  5
g. Social responsibility
1  2  3  4  5

2.4 Shareholders actively ask questions at AGMs
1  2  3  4  5
2.5 Shareholders evaluate the performance of sub committees
1  2  3  4  5
2.6 Shareholders exercise their right to vote
1  2  3  4  5
2.8 What percentage of shareholders who attend Annual general Meeting
0-25%[ ] 26%-50%[ ] 51%-75%[ ] 76%-100%[ ]

SECTION D: SHAREHOLDER RESPONSIBILITIES

Please use the following key to respond to the following question
1=Strongly agree  2=Agree  3=Neutral  4=Disagree  5=Strongly disagree

3.1 Most shareholders make decisions which they are supposed to make
1  2  3  4  5
3.2 Shareholders actively participate on the appointment of external auditors
1  2  3  4  5
3.3 Shareholders actively participate in the appointment and reappointment of directors
1  2  3  4  5
3.4 Shareholders actively participate in the rights issue or changes in capital structure
1  2  3  4  5
3.5 Stakeholder activism pressure the management for improved performance

1 2 3 4 5

3.6 Minority shareholders participate in decision making at the same level as major shareholder

1 2 3 4 5

3.7 Do you have any other comments?

___________________________________________________________________________
___________________________________________________________________________
___________________________________________________________________________

End of questionnaire

Thank you for your time and effort