AN ASSESSMENT OF THE RELATIONSHIP BETWEEN CORPORATE
GOVERNANCE AND PERFORMANCE OF PARASTATALS AND STATE
ENTERPRISES IN ZIMBABWE

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SUPERVISED BY: DR D. MADZIKANDA
DEDICATION

I dedicate this dissertation to my late Mother and dear friend
Eusebia Mukahanana (nee Magosvongwe)
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Baby Natalia Masboy for making us laugh when things were tough.

I would like to thank all those who completed the questionnaire.
Abstract

This study sought to develop a governance model to assess the impact of corporate governance on the performance of state enterprises and parastatals in Zimbabwe. The study first did a literature review on corporate government systems around the world and in Zimbabwe. The background of state enterprises and parastatals in Zimbabwe was explored to understand the problems facing these state corporations. The challenge was how to turn around the fortunes of these corporations and make them more viable through better corporate governance. The research question was: To what extent will good corporate governance in state enterprises and parastatals enhance their performance?

The research used quantitative methodology for data gathering and analysis and the questionnaire was used as the research instrument. The sample contained a mixture of 20 state enterprises and parastatals covering commercial, regulatory and economic and social. A questionnaire was self–administered to the respondents and collected by the researcher after completion.

The study found that there are very weak linkages between the corporate governance variables such as the role of the minister, the role of the board, board tenure, expertise and performance of state enterprises and parastatals. This means that there should be a more robust model to better understand the relationship between corporate governance and improved performance.

The various recommendations made should improve corporate governance in SEPs and enhance their performance. Since some linkages were found between performance and remuneration and board composition it shows that corporate governance has some impact on performance of state enterprises and parastatals. It will be necessary in future research to develop a model which includes the contextual factors such as political, economic, social, environmental and legal. The timing of the study could also have influenced the outcome. It may be useful to carry out another study at a different time when there is no turbulence in SEPs.
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<tr>
<td>AGM</td>
<td>Annual General Meeting</td>
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<td>ASX</td>
<td>Australian Stock Exchange</td>
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<td>CEO</td>
<td>Chief Executive Officer</td>
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<td>CG</td>
<td>Corporate Governance</td>
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<td>CGFSEP</td>
<td>Corporate Governance Framework for State Enterprises and Parastatals</td>
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<td>CGI</td>
<td>Corporate Governance Index</td>
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<td>DG</td>
<td>Director General</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>GM</td>
<td>General Manager</td>
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<td>IFC</td>
<td>International Finance Corporation</td>
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<td>IRRC</td>
<td>Investor Responsibility Research Centre</td>
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<td>ISAR</td>
<td>International Standards of Accounting and Reporting</td>
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<td>ISO</td>
<td>International Standards Organization</td>
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<td>ISS</td>
<td>Institutional Stakeholders Service</td>
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<td>MD</td>
<td>Managing Director</td>
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<td>NCCG</td>
<td>National Committee on Corporate Governance</td>
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<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
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<td>R&amp;D</td>
<td>Research and Development</td>
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<td>ROA</td>
<td>Rate of Return on Assets</td>
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<td>Full Form</td>
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<td>SEBI</td>
<td>Securities Exchange Board of India</td>
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<td>SEP</td>
<td>State Enterprises and Parastatals</td>
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<td>SERA</td>
<td>State Enterprise Reform Agency</td>
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<td>SOE</td>
<td>State Owned Enterprise</td>
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<td>SWOT</td>
<td>Strengths Weaknesses, Opportunities, and Threats</td>
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Chapter 1: Introduction

1.0 Introduction
Governments all over the world have been actively involved in many spheres of economic activity by engaging in direct production and distribution of goods and services. The level of this involvement varies from country to country. This has resulted in the establishment of state-owned enterprises which in most instances Government is the sole shareholder. The main reason for Government’s involvement is to regulate the market in the face of market failure and to provide strategic services at prices that the ordinary citizen can afford. Consequently these enterprises have their tariffs regulated by government resulting in many of them making operational losses. In Zimbabwe state enterprises are those entities established by the Companies Act and parastatals are those which are established by individual acts of parliament. However, the distinction between the two is not very clear as the terms are often used interchangeably.

The collapse of big corporations like Enron, others has made governments, corporations and society to recognize the importance of revisiting corporate governance. Globally corporate governance had been recognized as a tool to fight among other ills, corruption, corporate scandals, poverty and the agency problem i.e. ensuring that managers avoid serving their own interests and save those of the owners of capital and other stakeholders. Due to similar problems bedeviling state enterprises, governments have found it necessary to adopt corporate governance principles and practices in state enterprises. However, due to the peculiarity of state enterprises, the OECD has found it necessary to develop separate corporate governance guidelines for state enterprises. Some countries like the US have introduced legislation to make corporate governance a legal requirement. In most countries corporate governance is voluntary. In Zimbabwe the Public Finance Act makes some of the corporate governance principles a legal requirement while the Corporate Governance Framework for State Enterprises and Parastatals provides guidelines on corporate governance. A code of conduct on corporate governance has just been developed jointly by government and the private sector.
Arthur Levitt, former chairman of the US Securities & Exchange Commission once commented that if countries have poor corporate governance and low levels of disclosure investors will go elsewhere. Fernando (1997) argued that many large corporations are multinationals, hence they impact on citizens of several countries in various ways albeit negatively. It is therefore needed to create a corporate culture of consciousness, transparency and openness through a combination of laws, rules and procedures and voluntary practices to enable companies to maximize shareholders’ long term value, increased customer satisfaction and community benefit.

Some analysts consider corporate governance as an important instrument for a country to achieve sustainable development while others see it as a corporate strategy to achieve a long tenure and a healthy image for the company. In developing countries corporate governance is a necessary tool to usher in more powerful and vibrant institutions yet in developed economies it is viewed as another dimension to corporate ethics and social responsibility of business. Thus corporate governance has different meanings to different people depending on the sensitivity of the analyst and the level of development of the country.

Gregory (2000) added that the importance of corporate governance is to enable companies to efficiently use their resources, to comply with laws and regulations, to reduce corruption and encourages better use of corporate assets. He adds that better corporate governance in addition to improved economic performance, allow companies to reduce their financial and operational risks, and significantly raise their attractiveness to investors resulting in greater economic growth and development.

One of the main principles of corporate governance is that the management should be in a good relationship with all the firm’s stakeholders including, financiers, debt holders, bondholders, creditors, customers, suppliers, employees, regulators, policymakers and communities. Each of these stakeholders monitor, discipline, motivate, and affect the management and the firm in various ways. This helps improve social and labour relations and environmental protection (Claessens, 2003)
In summary, corporate governance help corporations reduce risk, stimulate performance, improve access to capital markets, enhance marketability of goods and services, improve leadership, and demonstrate transparency and accountability.

Transparency is central to good corporate governance and it allows shareholders and the Board to be able to monitor the activities of management lessening the agency problem. Access to information is necessary for an efficient market and it is critical from a corporate governance viewpoint. A comprehensive disclosure regime is encouraged in terms of best practice in managing corporations. When an ordinary investor looks at the financial statements, he/she should be able to comprehend the nature of the business the company is involved in. Window dressing and sophisticated financial statements are a form of fraud. In some cases even non-executive members of the board have no idea what the real transactions are. Some directors justify non-disclosure on the basis that it is meant to hide the company’s strategies from competitors. Most non-disclosures have been deliberate to deceive shareholders on real financial position of the firm.

Consistent transparency can enhance the operation of financial markets, and it may attract investment and foster growth. The key to increase transparency is thus to create incentives for governments and corporations to provide information. Thus the purpose of calls for transparency is to permit citizens, markets and governments to hold others accountable for their policies and performance. Despite the benefits of transparency, it is increasingly difficult to access information from managers. Doing so often requires the power to induce disclosure, either by coercion or by restructuring incentives, and the information thus revealed can shift power from the former holders of secrets to the newly informed.

Zimbabwe has had its fair share of corporate scandals through collapse of banks such as Trust Bank, Interfin Bank and others. Recently there have been many cases of corruption involving CEOs of state enterprises who have been getting huge perks while their organizations have been unable to pay workers. Some of the reasons for corporate
mis-governance in public and private corporations in Zimbabwe have been identified in an article in the Financial Gazette as:

- Most of the CEOs control the Zimbabwe Stock Exchange resulting in conflict of interest.
- There were only 20 directors that sat on almost all the boards and there are a few truly independent directors.
- Disclosure regimes need to be linked to best practices to enable transparent and balanced reporting.
- Directors’ remuneration only disclosed on an aggregate basis.
- Details of directors coming up for re-election scant.
- Lack of shareholder activism and shareholder association.
- Absence of board and director appraisal procedures.
- Lack of attentiveness and skills in corporate governance.
- Weak legal and regulatory framework under the Companies Act and ZSE rules.
- Absence of code of conduct and weak enforcement when its available (Fingaz, November 21, 2003)

Although the above factors referred to the private sector they also apply to state-owned enterprises.

This study seeks to focus on how state enterprises and parastatals (SEPs) have fared in corporate governance and how this has impacted on their performance. In looking at corporate governance the study will examine the adherence of state enterprises and parastatals to different corporate governance principles and national and international best practices and evaluate their performance against these.

1.1 Background of State Enterprises and Parastatals in Zimbabwe

Following independence in 1980, a number of critical government services were being implemented through government departments. However, service delivery was suffering due to various limitations of the civil service structures and limited government resources to sufficiently fund those services. The solution to this situation, following global trends, was to form quasi-state agencies which would enjoy some independence from
government and would operate as commercial entities in order to achieve self-sufficiency. This saw the conversion of many former government departments to parastatals and state enterprises.

There are currently a total of 80 state enterprises and parastatals in Zimbabwe which range from private limited companies to regulatory authorities, banks, funds and academic institutions (See Annex 1). The State Enterprises and Parastatals Reform Agency (SERA) defined Parastatals as those entities that are governed by individual acts of Parliament and state enterprises as those that are established under the Companies Act. However, these two terms have often been used interchangeably. The attempt by Government to categorize these state enterprises and parastatals into different homogeneous groups has not been easy due to the diversity among them.

However, the former Ministry of State Enterprises and Parastatals attempted to categorize state enterprises and parastatals in Zimbabwe into three groups namely: commercial, non-commercial or social and institutions of higher learning. These include entities that the government owns 100% shareholding and those where government have majority shareholding. Enterprises where government owns minority shareholding have not been included in this study since they do not come under the current working definition of state enterprises and parastatals. It was also not clear to the researcher whether institutions of higher learning are included under SEPs, hence they were also excluded from the study.

The State Enterprises Reform Agency is currently looking at all state enterprises and parastatals in order to determine those which need restructuring, those which need to be commercialized and those that have to be privatized. This is in line with global trends of privatization of commercially-viable state-owned enterprises. Corporate governance issues are also being considered in this exercise.

The Acts that established these state enterprises and parastatals are administered by the sector, ministers who are also responsible for supervising them. Many of these enterprises have continued to rely on government for funding defeating the purpose for which they were established. Instead of lessening the burden on the government, these
SEPs have made it worse since salaries in these entities are higher than those in the civil service. However, there are a few of these enterprises and parastatals that have been viable.

1.1.2 SWOT analysis of State Enterprise and Parastatals in Zimbabwe

It will be very difficult to do a meaningful SWOT analysis of state enterprises and parastatals in Zimbabwe given the diversity of their operations and the equally diverse social and economic sectors under which they operate. For this reason the analysis will be very general.

*Strengths*

- Most of these enterprises are monopolies hence they face no competition and can therefore be profitable.
- They are supported by specific legislation which strengthens their operations.
- Their transparency and accountability is guaranteed since government forces them to disclose their financials and most of them are audited by the Controller and Auditor-General.
- They receive money from government so they do not need to scramble for foreign investment.

*Weaknesses:*

- The majority are under-capitalized due to limited funding from government.
- Non-business approach and culture due to background as government departments.
- Political influence from government which can make them non-competitive.
- Uncompetitive tariffs set by government for social reasons.

*Opportunities:*

- Government support in terms of funding and markets.
- Can be profitable since they are shielded from open competition.
- Can benefit from government negotiated lines of credit.
Threats:

- Economic liberalization which will increase competition and erode profits.
- Reduced funding from government due to lack of Foreign Direct Investments (FDI)
- Targeted sanctions can affect their export markets.
- Salary controls for CEOs and senior management can lead to staff turnover.

1.1.2 PESTEL Analysis

**Political Factors**

State enterprises and parastatals are formed through statutes of parliament and are under the supervision of ministries. Sector ministers have the responsibility to ensure that state enterprises under their control perform according to their mandates. There has been a lot of concern over the fact that there is too much political influence and micro-management of parastatals by ministers rendering them ineffective. On the other hand, the failure of many state enterprises and parastatals has been blamed on lack of supervision by respective ministers. It then becomes a vicious circle which has not found resolution. The control of tariffs charged by parastatals and state enterprises has also contributed to poor performance of these organizations as well as unclear reporting roles between the minister, the board and the CEO. Since these enterprises are linked with government they are also affected by economic sanctions imposed on government affecting their markets. All these factors combined have contributed to the poor performance by state enterprises and parastatals. The development of the Corporate Governance Framework for State Enterprises and Parastatals in 2010 was an attempt by government to resolve these issues and improve corporate governance in these entities.

**Economic Factors**

The poor state of the economy caused by economic sanctions affects the performance of state enterprises more so because they are associated with the government. The current liquidity crunch negatively affects the performance of the state enterprises and
parastatals. Under-capitalization of most state enterprises coupled with lack of lines of credit has affected their performance.

**Social Factors**

Most state enterprises are in key economic sectors that provide vital services to the population. Due to the government’s role in providing social and other services to the people especially the poor, most of these entities are forced to charge unviable rates resulting them making losses.

**Technological Factors**

Many state enterprises have lagged in terms of technological development making them uncompetitive. Investment in Research and Development (R&D) is very limited in state enterprises and parastatals due to lack of funding. This negatively affects their profitability since their products are technologically inferior.

**Environmental Factors**

Government has the responsibility to ensure that the environment is protected therefore state enterprises should be exemplary in protecting the environment and this is not without costs. Private companies have been making a lot of effort to protect the environment with a number of them getting ISO 9001 certification, many state enterprises have not been making the same effort. Most of these entities have taken advantage of their government linkage not to take action. Recently the government has taken a strong stance on polluting firms and this has resulted is state enterprises to start taking action on environmental issues.

**Legal Factors**

All state enterprises and parastatals are a product of an Act of Parliament, hence their structures and duties and responsibilities are specified in the act.

**1.2 Corporate Governance Systems in State-Enterprises and Parastatals**

As a regulator of corporate governance for all enterprises, government is expected to be a role model as far as corporate governance in its own enterprises is concerned.
Contrary to the Asian experience below, Chen (2013) observed that state owned enterprises are generally not known for good corporate governance. SOEs do not enjoy good corporate governance for a number of reasons. First the SOE must usually serve public interests which range from social and national security to maintaining public control over vital industries. It may also be used to serve political ends. In a way, governments play conflicting roles both as a shareholder and a regulator. While a regulator is expected to serve the interests of all citizens, a shareholder seeks to maximize the value of its investment. When a conflict arises between public interests and better corporate governance, the former always prevails. For example a state bank may be required to offer credit to a few companies to rescue the economy at the expense of its own viability.

Another issue is that the government holds 100% or majority of SOEs shares hence the SOE may have less pressure to practice good corporate governance in order to attract private investment. This is why there are arguments that complete privatization of SOEs may result in better performance. However, whether partial privatization will also work is debatable?

In domestic banks it is common to find majority shareholding owned by the government a good example being India (La Porta, 2002). According to Arun and Turner (2002) such state ownership lessens corporate governance challenges such as insufficient disclosure and transparency of bank dealings and liquidity problems. The Basel Committee of 1999 also confirmed that government shareholding in domestic banks had potential to alter the banks’ policies and the entire corporate governance structure thereby enhancing the corporate governance practices. Banaji and Mody (2001) in a study of the Indian economy, established that domestic banks without government shareholding had no incentive to introduce sound corporate governance principles. In Thailand, Korea and Malaysia it was established that the financial crisis was partly a result of domestic banks without government shareholding having non-transparent accounting systems, weak minority shareholder rights and control through a small group of individuals. He recommended a comprehensive approach to corporate governance
by domestic banks through protection of shareholder rights, development of improved accounting standards and presence of sound banking regulations.

The perceived reasons for poor performance of state enterprises and parastatals in Zimbabwe have been many and varied. Some of the main ones that have been sighted are: too much political interference, role ambiguity between boards and ministers, ineffective boards, lack of performance management systems, non-adherence to statutes, under-capitalization, corporate mis-governance and corruption. Political interference has been alleged to be in the form of control of tariffs charged by these enterprises and parastatals for services rendered, micro-management by ministers, appointment of incompetent boards, and uncompetitive remuneration of the CEOs and senior management.

The poor performance of most state enterprises in the last 20 years has awakened Government on the need to regulate corporate governance in these institutions. In 2004 the Reserve Bank of Zimbabwe issued two guidelines on corporate governance. These were the Corporate Governance Guidelines and Minimum Internal Audit Standards in Banking Institutions. These guidelines and standards prescribed the proportion and selection of executive and non-executive directors and independent directors which would be subject to Reserve Bank approval. The Reserve Bank also set up a new department dedicated to corporate governance, risk management and internal audit and increased supervision of the banks in order to ensure financial stability.

In 2000 the Government created a separate ministry responsible for state enterprises which in 2010 developed a Corporate Governance Framework for State Enterprises and Parastatals. The Government also formed as State Enterprise Reform Agency whose mandate is to recommend necessary reforms to state enterprises and parastatals which will improve their effectiveness and efficiency and reduce their dependency on government funding. The Agency has started its work by categorizing state enterprises into three categories namely: those that need to be privatized; those that need to be commercialized and those that need to be restructured.
In order to ensure good corporate governance boards were appointed to run the affairs of these entities creating two layers of supervision. This situation has created management problems thus negatively affecting their performance.

Brewer (1996) observed that where there is a dominant shareholder such as government and or an institution, boards can be redundant. Normally under these circumstances boards are established just to make it look business-like or make it conform to good corporate governance principles and practices.

According to Myles Mace professor of Harvard Business School, “In practice too many Boards have been mere ornaments on a Christmas tree, decorative and decorous baubles with no real purpose. Sometime directors forgot-if they ever knew- that they are in the boardroom to act on behalf of shareholders.” Business Week of November 25, 1996, p82 reported that only when directors are prodded by investors and activists, only after their companies and CEOs are publicly pilloried, were many finally goaded into action- what some call governance by embarrassment.” This situation seemed to have prevailed in most state enterprises and parastatals in Zimbabwe where Boards did not have meaningful functions and responsibilities. The management of state enterprises was vested in Ministers rather than Boards. Many boards were not properly constituted and some had their terms of office expired but continued to sit.

Because of some corporate scandals and the continued poor performance of state enterprises the government has awakened to the need to ensure good corporate governance in state enterprises and parastatals hence the development of a Framework for Corporate Governance in State Enterprises and Parastatals in 2010 and a corporate governance Code which has just been completed.

This seems to be the case in many state-owned enterprises where Boards are appointed to conform to good corporate governance best practices. Strategic direction in most of these enterprises is given by the Minister or Ministry under which the particular enterprise falls, rather than by the Board.
The situation that exists in state enterprises and parastatals in Zimbabwe is similar to that which pertains in the Germany and Japan where there are large institutional investors who monitor executives. This makes the existence of boards of directors in these enterprises and parastatals redundant. The government, as the sole or controlling shareholder, exercises control on executives in these enterprises and at the same time appoints boards to oversee their activities. This tends to create an overlap on control creating confusion and unclear reporting relationships between the Minister, the Board and management. Most of the boards focus on conformance rather than performance.

The system that pertains in state enterprises and parastatals in Zimbabwe is also similar in a way to that which pertains in the US where corporate governance is legislated and becomes a legal requirement rather than voluntary as is the case in the UK, Indonesia, Australia and other countries. In Zimbabwe ministers rely on legislation to enforce corporate governance in the state enterprises and parastatals since most of the corporate governance factors are prescribed in the various acts that govern these SOEs.

In Zimbabwe the Companies Act is not too prescriptive in as much as corporate governance is concerned and hence there is more of shareholder activism, self-regulation and relational investing in private companies. Shareholders place their representative on the company boards to the extent of their shareholding in order to exert influence on the management of the firm. There are a large number of institutional investors who use their shareholding to control management activities. In state enterprises and parastatals the only shareholder, or in a few cases, the major shareholder is government. Most of the corporate governance issues such as; board composition, size, committees, expertise of Directors, tenure of Board members and the role of the Board are legislated in the Acts governing these parastatals. Issues of transparency, discipline, fairness, accountability, are regulated by the Audit and Exchequer Act. Given this scenario, control of management of state enterprises and parastatals is through legislation. The outstanding corporate governance issues are then dealt with in the Corporate Governance Framework for State Enterprises and
Parastatals developed in 2010. However, this is not legally binding but can be easily enforced given the 100% ownership by Government. A national Code on corporate governance has just been developed for both private and state-owned companies, which has yet to be implemented.

1.3 Research problem
Most state enterprises and parastatals have not been performing well thus compromising service delivery and negatively impacting economic growth. Some of these state enterprises and parastatals especially the commercial ones which are expected to be profitable, have actually been making losses and relying on fiscal support for their day to day operations. Recently it came to light that CEOs of some of these state enterprises were paying themselves exorbitant salaries and perks while their institutions were not performing and lower level employees were not being paid. “The salarygate scandal” as it has come to be code-named has caused the government to put more focus on the corporate governance of these enterprises. The government and the private sector have just concluded a national code on corporate governance.

This study will seek to improve the understanding of corporate governance in state enterprises and parastatals and how application of corporate governance principles and practices of late has contributed to better performance. It will also assist in a better understanding of how corporate governance in state-owned enterprises would differ from that in private companies given the fact that government is the shareholder as opposed to private shareholders whose main interest is return on their capital.

1.4 Research Objectives
The main objective of the research is to analyze how corporate governance in state enterprise and parastatals in Zimbabwe affect their performance. The specific objectives are:

- To assess the extent to which different corporate governance factors influence the performance of state enterprises and parastatals in Zimbabwe.
- To evaluate whether designation, gender, level of education and length of service have an impact on perception on corporate governance.
• To understand the challenges in applying corporate governance best practices in state enterprises and parastatals.
• To assess the impact of good or bad corporate governance on the performance of SOEs
• To recommend how to improve corporate governance in SOEs.

1.5 Research Question
The question that the research will try to answer is: To what extent does corporate governance affect performance of state-owned enterprises and parastatals in Zimbabwe?

Sub-Questions
• To what extent do state enterprises and parastatals in Zimbabwe adhere to principles and best practices of corporate governance?
• What are the impacts of corporate governance on the performance of state enterprises and parastatals?
• What corporate governance factors have greater impact on performance of state enterprises and parastatals?
• What needs to be done to promote good corporate governance in state enterprises and parastatals?

1.6 Research Hypotheses

Independent Variables

H1: There is a positive relationship between the extent of the role of the Minister and performance of SEPs

H2: There is a positive relationship between board composition and size with performance

H3: There is a positive relationship between relevant and effective Board committees’ performance
H4: There is a positive relationship between adequate disclosure and transparency and organizational performance

H5: Adequate remuneration of the Board and CEO is positively related to improved performance.

H6: Regular meetings of the Board are positively related to improved performance.

H7: Separation of the role of chairperson and CEO is positively related to improved performance.

H8: Regular and formal self-evaluation of the Board is positively related to better performance of the organization.

H19: Board tenure will positively impact on performance

Control Variables

H1: Designation is positively related to evaluation of performance

H2: Years of experience in an organization influences one’s evaluation of performance

H3: Gender has an impact on perception of performance

1.7 Justification of Study

While state enterprises and parastatals in Zimbabwe are critical in providing key national services and in contributing to economic development of the country, their performance have left a lot to be desired. In fact some of the state enterprises have relied on the fiscus for funding their operations instead of creating value for the nation. One of the main reasons given for the poor performance has been corporate misgovernance. State enterprises are different from private companies since they have to deal with irreconcilable directives issued by the state, and lack of direction from their board creating confusion. The boards have to balance between conformance and performance and this depends on the Minister’s perception of the role of government. Certain strategies have been adopted in some countries to solve this problem such as assigning to management of state enterprises to a private institution or outright
privatization. This arrangement has its own problems as it may result in the abrogation of the state’s role to its citizens. Countries therefore continue to search for corporate governance typologies that will improve performance of state enterprises and parastatals and still maintain best practices in corporate governance.

The study will assess the application of corporate governance principles and practices including the implementation of the Framework for Corporate Governance in Parastatals and State Enterprises. The study will also assess the linkages between corporate governance factors and performance of state enterprises and parastatals. Recommendations will then be made on how to improve corporate governance in state enterprises and parastatal in Zimbabwe while continuing to play a strategic role on behalf of the government.

As Mervin King (2004) said, “There is no one size-fit-all system of corporate governance” the study will investigate the most appropriate system(s) of corporate governance that will address the current problems facing state enterprises and parastatals in Zimbabwe. While much has been written about corporate governance in private companies, not as much literature exists on state enterprises and parastatals worldwide.

1.8 Scope of the research
The research will look at state enterprises and parastatals and investigate whether they are practicing good corporate governance in accordance with international best practices of fairness, transparency and accountability and that conforms to the principles and best practices. The research will further assess relationship between applying corporate governance good practices and performance. Finally recommendations will be made on how to improve corporate governance in state enterprises and parastatals so as to enhance their overall performance.

1.9 Structure of the study
The study is structured as follows:

Chapter 1 gives the background of state enterprises in Zimbabwe since independence in 1980. It then identifies the research problem, state the objectives of the research as
well as pause the research questions. The research hypothesis is given as well as review of corporate governance in state enterprises in general as well as in specific enterprises identified for the study.

Chapter 2 contains a review of literature on corporate governance including, definition, guiding principles, and theories. Literature on corporate governance in state enterprises and parastatals in general is also reviewed with the view to adopt a conceptual framework for analyzing corporate governance in state enterprises in Zimbabwe. The chapter ends with reviewing literature on measurement of performance against corporate governance parameters.

Chapter 3 describes the methodology used in the study including research design, sampling, data collection and data analysis techniques.

Chapter 4 carries out data analysis and presents the findings of the study. The hypotheses are also proved or disproved. Chapter 5 contains the conclusions of the study and proffers recommendations. The chapter also presents the limitations of the study and identifies areas for future research.

1.10 Conclusion
The chapter has looked at the background to corporate governance including its various definitions. A brief analysis of the history of corporate governance in state enterprises in Zimbabwe was also done. The problem to be addressed by the research has been defined, the research objectives identified and the research questions outlined. The next chapter will review the literature of corporate governance and characterize the theoretical model which will form the hypotheses for the research.
Chapter 2: Literature Review of Corporate Governance

2.1 Introduction
This section carries out a review of literature on a broad spectrum of corporate governance issues including definition, theories, models, principles and best practices with the view to provide a conceptual framework underpinning corporate governance systems in state enterprises and parastatals in Zimbabwe. Various theories on corporate governance from agency theory to ethics-related are analysed with a view to better understand what drives the different approaches and structures of corporate governance.

An examination of literature on different models of corporate governance in different parts of the world is carried out to better understand different approaches to corporate governance and what drives these different approaches and assess their usefulness in order to establish what constitutes sound and effective corporate governance in state enterprises and parastatals in Zimbabwe.

Literature on corporate governance in state-owned enterprises and parastatals including state banks will be reviewed to see how they have applied corporate governance systems and the impact on their overall performance. A limited number of parameters or performance measurement indicators will be used to assess the linkages between corporate governance and performance.

In the modern world corporations have become so large and powerful that their governance has become the concern of governments. Moreover with globalization, there is greater de-territorialization and less of governmental control on corporations. Therefore corporate governance has become a necessity in bringing some sanity in the management and control of corporations the world over.

Due to collapses of large corporations like Enron and Pamalat and others, there has been renewed interest in the governance of corporations by governments. The US Federal government for instance passed the Sarbanes-Oxley Act in 2002, as a way of restoring public confidence in corporate governance. In Australia associated company
failures resulted in the eventual passage of the CLERP 9 reforms. The U.K. set up various commissions to focus on corporate governance including the Cadbury Committee 1991, the Rutterman Committee 1994, the Greebury Committee January, 1995, the Hampel Committee in December 1995 and the Combined Code of 1998 revised in 2003.

There has been much written about corporate governance yet many questions still remain. For example, corporate governance has actually improved the performance of companies? Tricker (2009), has quoted research that seems to indicate that, despite the Enrons, Worldcoms and other scandals, it is strategic incompetence that destroys the vast bulk of shareholders' wealth. So, what drives the passion for 'good' governance? The answer lays in a theory about corporate behaviour and behind that a set of beliefs about human behaviour.

Most companies strive to have a high level of corporate governance. These days, it is not enough for a company to merely be profitable; it also needs to demonstrate good corporate citizenship through environmental awareness, ethical behavior and sound corporate governance practices (Overseas Economic Cooperation and Development (OECD) Principles of Corporate Governance 2004).

2.2 Definition of Corporate Governance

While the concept of corporate governance may sound simple and unambiguous, when one attempts to define it and scan available literature one comes across a bewildering variety of perceptions behind available definitions. Fernando (1998) contends that the definition varies according to the sensitivity of the analyst, the context of varying degrees of development and professional backgrounds. However there is uniformity among all analysts that there is need to eradicate corporate mis-governance and promote corporate good governance at all costs.

There are both narrow and broad definitions of corporate governance. The most widely used definition of Corporate Governance is "the system by which companies are directed and controlled" (Cadbury Committee, 1992). More specifically it is the
framework by which the various stakeholder interests are balanced, or, as the International Finance Corporation (IFC) states, "the relationships among the management, board of directors, controlling shareholders, minority shareholders and other stakeholders".

The earliest definition in its narrow sense is by Milton Friedman who defines corporate governance as conducting business in accordance with the owner’s or shareholders desires which generally is to make as much money as possible while conforming to the basic rules of the society embodied in law. Another commonly use definition is from the OECD (2004) which defines corporate governance as procedures and processes according to which an organization is directed and controlled. These definitions that are shareholder-centric capture important concerns of government including management accountability, providing adequate supervision to management, disciplining and replacement of bad management, shareholder funds protection, improving access to capital markets, promoting investment and encouraging innovation (Fernando 1998).

The narrow perspective emanated from the period where most businesses were sole proprietorships or partnerships and the only stakeholder was the owner of the company. Even in contemporary times this perspective still persists in Corporate Governance (CG) literature as many still believe that the shareholder is the key if not only stakeholder that the Board and the Executives should focus their attention in order to make money for them. As large multinational corporations emerged, ownership of business has changed from owners to investors or diverse shareholders hence separating ownership and control. Governments have become interested in how corporations are run in order to protect interests of stakeholders who may be impacted by the activities of these firms through regulating their operations. This has now resulted in a broader definition of corporate governance.

The broader definition sees corporate governance as the relationship between boards, management, and a broad range of stakeholders such as customers, employees,
creditors, bankers, suppliers, the government, and communities within which these corporations exist. (Financial Times 1997).

In conclusion, the discussion so far has illustrated that a proper definition of corporate governance should not just describe directors’ obligations towards shareholders. It is mentioned that different countries have different ideas as to what constitutes good corporate governance. Therefore any satisfactory definition, to be applicable to a modern, global company, must synthesize best practice from the biggest economic powers into something which can be applied across all countries.

In essence, corporate governance is a system of controlling and directing a company so as to achieve, sound business ethics, creating value for the owners of capital taking into account the expectations of key stakeholders, meeting the needs of the environment and society and complying with applicable laws and regulations.

For the purposes of this study the author will use the above broad definition of corporate governance.

2.3 Theories of Corporate Governance
The concept of corporate governance came about as societies tried to effectively manage complex activities. While economists believe that there is no other way of managing transactions outside markets and corporations, social scientists believe that there are many other models where transactions can be managed outside the market and firms. These include culture, the power perspective and cybernetic analysis, information theory, limited life firms, worker control and ownership, compound boards, self-regulation and self-governance.

The fact that Governments now own corporations brings emphasis to the fact that transactions can be managed outside markets and corporations. State-owned firms unlike private companies are not only interested in maximizing profit for shareholders but to provide essential services to the people in a sustainable manner. The presence of these state enterprises also brings in another dimension of increased government control of corporations through legislation. Also the fact that most of these state-owned
enterprises are legal monopolies challenges the dominance of markets as the exclusive cradle for the management of transactions. As corporations become larger their management also become complex. There is growing concern among governments about how these large corporations are directed and controlled to ensure the rights of all stakeholders are protected.

Literature is replete with many theories of corporate governance the fundamental ones being, the agency theory evolving into the stewardship theory and the stakeholder theory and again evolving into resource dependency theory, the transaction cost theory and ethics related theories.

This section reviews various fundamental theories underpinning corporate governance. Hawley and Williams (1996) proposed four models of corporate control namely: the Simple Finance Model; the Stewardship Model; the Stakeholder Model; and the Political Model. Tricker (1996:31) stated that: Stewardship theory, stakeholder theory and agency theory are all essentially ethnocentric. The prevailing theory is called Agency Theory - it is the dominant philosophical base behind the relationships between the financial markets and quoted companies.

Often individuals involved in corporate governance apply what they believe is common sense, when in reality they draw sub-consciously on long-established economic theory and assumptions that are challengeable. Probably the most influential one in this context is Agency Theory, which is the one that has helped to shape recent codes of practice in governance.

2.3.1. Agency Theory

In recent years some high profile business frauds and questionable business practices in the United Kingdom, the United States and other countries have confirmed the belief that business managers do not act as bona fide representative of shareholders and other stakeholders but act in self-interest.

Goergen (1998) observed that much of the contemporary interest in corporate governance has been concerned with mitigation of the conflict of interest between
managers and stakeholders. He contends that managers are paid professionals with their own self-interest and in order to prevent managers from making decisions that benefit themselves but that are detrimental to others, a system of checks and balances is put in place. This system is according to Goergen is called “corporate governance.”

Berle and G. Means (1930) argued that with separation of ownership and control, and the wide dispersion of ownership, there was no check on the executive autonomy of corporate managers. The separation of ownership and control was confirmed by Davis, Schoorman and Donaldson (1997). In the 1970s the concept was further refined by writers like Jenesen and Meckling, Fama (1980), Alchian, and Demsetz who pointed out the dilemma of the principal who employs and agent to act on his behalf. According to neo-classical economics the root assumption informing this theory is that the agent is likely to be self-interested and opportunistic. This has resulted in the agent serving their own interests instead of those of the principal (Padilla, 2000). According to Yuwa Wei (2003) this is occurs when the agents have more information and knowledge than the principals or when information asymmetry between principals and agents exists. Norman (2004) observes that two situations then arise out of the principal-agent problem; moral hazard and adverse selection. Moral hazard arises when the agent’s action or outcome of the action, is only imperfectly observable by the principal. A manager may therefore exercise a low level of effort, waste corporate resources or take inappropriate risks. On the other hand adverse selection arises when an agent has prior information before entering into relations with the principal. Individuals with poor skills or aptitude will present themselves as having superior ones, or people with low motivation will apply for positions that require least supervision.

To counter that problem the principal will incur agents costs arising out of the necessity of creating incentive that align the interest of the executive with those of the shareholder and cost incurred in monitoring the executive conduct to prevent abuse of owner’s interests. According to (Hawley and Williams 1992:21), this is the simple finance model that develops rules and incentives through either implicit or explicit contracts to effectively control the behavior of managers(agents) with the desires of the principals
Agency theorists have therefore preoccupied themselves with finding mechanisms to make executive self-interest to serve interests of shareholders.

The two mechanisms are external market based mechanisms and board-based mechanisms or internal networks. The external market-based mechanisms include financial disclosures which will give the shareholders information to monitor share price and determine the value of the firm. Other market-based mechanisms include: market for corporate control, which is the potential for takeovers to discipline managers by providing a mechanism whereby ineffective executive teams can be displaced by more effective executive team. The second is the managerial labour market where poor executive performance will threaten an individual, future employment whilst good performance will have positive reputational and career enhancing effect.

**Market Based Mechanism**
- Dispersed ownership
- Sophisticated institutional ownership
- Active equity markets
- Active takeover markets

**Board Based Mechanism**
1. Non-Executive majority boards
2. Aligned incentives
3. High disclosure
4. Shareholder equity

**Figure 1: Corporate Governance Models**

Another mechanism of addressing the principal-agency problem is through external monitoring and internal reform of Boards of Directors. This has included adoption of share-option schemes for executives to align their interests with those of shareholders.

Other mechanisms were introduced by the Cadbury Committee’s “Code of Best
Practice” and its subsequent elaboration by the Greenbury, Hampel, Turnbull, and most recently Derek Higgs. These dealt with the control role of the Board, the independence of non-executive directors who must constitute 50% of the board and their role in audit, nominations and remuneration committees and separation of the roles of the chairman and the chief executive. These reforms were based on the belief that the interests of the owners/shareholders are potentially at risk from executive self-interest in the absence of close monitoring by independent non-executive directors.

However, it is quite clear that for quoted companies, Agency Theory is still firmly in the driving seat, backed by the media, governments, financial markets and a comprehensive governance industry. Research revealed that most executive directors of large quoted companies strongly felt that governance ‘political correctness’ had gone too far and was severely damaging the capacity of boards to exercise strategic leadership, using the wisdom of non-executive directors, because of the schisms caused by the policing role of non-executives. They quoted growing animus between executive and non-executive directors. Several chief executives said that they regarded the role of the chairman as being to keep legalistically nervous non-executives ‘off their backs’.

Due to the degradation of investment markets into speculative casinos the whole concept of ownership of corporates has changed which calls for a re-look at how companies are managed and controlled. There is need for a paradigm shift at policy, regulatory and governance levels. Government must regulate these companies more since the “so called” owners of the company are no longer pre-occupied with the long-term survival of the company to fulfill its ultimate objective, but are now concerned about quick returns to their investment.

Where institutional investors are the dominant shareholder which is the case in most big companies, the principal-agency problem is worsened by the fact that their investment managers are fiduciary agents of the beneficial owners which creates a situation of agents representing agents (P. Drucker 1976), compounding the agency costs (Jensen and Meckling 1976).
The agency problem is even more prominent where there is dispersed ownership where shareholders own minority interests making it cost-ineffective for any individual to monitor the executive and to have a monitoring board (Monks 1994). This is the case with banks were individual depositors cannot afford to monitor the activities of the bank executives. Insider trading laws can also prohibit or inhibit shareholders from obtaining the necessary information to monitor and supervise management. Minority shareholders may lack the power and influence to access information that could reveal corruption or mismanagement. Monks (1976) alleged that some US managers have influenced law making in order to protect them from shareholder intervention.

Ghosal and Moran (1996:14) raised the possibility that the assumption of opportunism on which the agency theory if based, can become a self-fulfilling prophesy whereby opportunistic behavior will increase with the sanctions and incentives imposed to curtail it.

A basic conclusion of agency theory is that shareholder value cannot be optimal as long as managers are allowed to run the corporation at their own discretion hence allowing them to maximize their own benefits. According to Shleifer and Vishny (1996) this is because there are a lot of uncertainties about future contingencies that will not allow managers and owners of capital to sign complete contracts. It then becomes difficult for such companies being managed under incomplete contracts with their managers to be effective in efficiently raising funds.

This legalistic, governance does not affect family companies, private equity backed companies, smaller non-quoted companies, partnerships and the like. This is probably why many of them perform better than quoted companies. To illustrate the market – oriented systems and the internal network-oriented systems two models are utilized to illustrate this division: the Anglo-American model and the German-Japanese model. Douma and H. Schreuder (2013) pointed out that there are many different models of corporate governance around the world which differ according to the economic system which they operate. The Anglo-American model emphasizes the interests of shareholders while the coordinated or multi-stakeholder model associated
with Continental Europe and Japan also recognizes the interests of workers, managers, suppliers, customers, and the community. In addition the other related models are the market – oriented model and the network-oriented model.

2.3.2 Resource Dependency and Stewardship Theory

2.3.2.1 Resource Dependency Theory

Resource dependency ideas were originally developed by Pfeffer and Salancik (1978). Unlike the agency theory their original ideas were deductively derived from empirical research. They observed that the board especially the non-executive directors can provide the firm with a vital set of resources both in form of specific skills as counsel and advice in relation to strategy and its implementation. For example outside directors who are partners to law firms can provide legal advice to the firm which otherwise could be more costly if privately sourced.

Resource dependency theory allows the company to appoint board of directors with different expertise as required at different stages of the firm’s life-cycle. For instance a young entrepreneurial firm, even if its owner managed can look to its non-executive directors as a source of skills and expertise that it cannot afford to employ fulltime. More mature businesses can upon the non-executive as a source of relevant market or managerial experience. According to the International Journal of Governance (2000) directors can also bring resources to the firm, such as information, skills, and access to suppliers, buyers, public, policy makers, social groups as well as legitimacy.

While the agency view of non-executive emphasizes their policing role on behalf of investors, resource dependency theory sees the non-executive primarily as a resource to support the performance of both executives and the company.

Although the resource dependency theory argues in favour of non-executive directors bringing intellectual resources to the company, it does not resolve the agency problem since it is not the board but the executives that that will misappropriate company funds. Apart from bringing essential resources to the company the non-executive directors still
need to monitor the activities of management to ensure that their actions are consistent with those of the owners of capital and/or other stakeholders.

2.3.2.2 Stewardship Theory

Davis, Donaldson and Schoorman (1997) stated that stewardship theory has its roots in psychology and sociology and holds that managers protect, and maximize shareholders wealth through firm performance, because by doing so their utility is maximized. Unlike the agency theory stewardship theory does not stress on the perspective of individualism but rather on the role of senior management stewards, integrating their goals as part of the organization (Donalson and Davis 1991). They argue that senior management are satisfied and motivated by organizational achievement and responsibility and organizations will be best served to free managers that are not subservience to non-executive director-dominated boards.

According to Daly et al (2003) it is therefore prudent to unify the role of the chairperson and the chief executive to reduce the agency costs and to have a greater role for the executives and stewards in the organization. Hawley and Williams (1996:29) concurred with this view and advocated for executive-dominated boards or no boards at all. Pfeffer (1972) argued that boards become redundant where there is only one dominant shareholder and that the value of external director should not be to supervise management but to influence constituencies of the firm.

Howley and Williams (1996:29) argued that the logical extension therefore is either towards an executive-dominated board or towards no board at all. Pfeffer (1972) found that boards become redundant where there is one dominant shareholder. He further argues that the value of external directors in not so much how they influence managers but how they influence constituencies of the firm.

In conclusion, Waring(1973) said that, the inclination of individuals to act as stewards or self-seeking agents may be contingent upon the institutional context. He further states that the different between individuals is significant and important and the need for
money and approval is determined and limited by the necessity of maintaining the organism in a state of dynamic equilibrium.

While the argument for trusting managers to run corporations in the interest of shareholders for professional and reputational reasons may appear sound, experience of the Enrons and others indicate the contrary. While individuals may differ as argued the risk of entrusting managers with shareholders’ funds may be too ghastly to contemplate.

2.3.3 Stakeholder Theory

The stakeholder theory was first expounded Freeman (1984) advocating for corporate accountability to a broad range of stakeholders. Stakeholder theory challenges agency assumptions about the primacy of shareholder interest. Instead it argues that a company should be managed in the interests of all its stakeholders. For instance employees are regarded as key stakeholders and Blair (1999) agreed that employees just as shareholders are residual risk takers in a firm. She further argued that an employee’s investment in a firm’s specific skills means that they too should have a voice in the governance of the firm. Apart from employees other groups like customers and suppliers have direct interest in the firm’s performance while local communities, the environment as well as society at large have legitimate direct interest. Corporations should therefore give stakeholders a direct voice in governance and nominate representatives of minority owners, customers, suppliers, employees and community representatives to the board of directors.

However, (Williamson (1985:300), Guthrie and Turnbull (1995) and Turnbull (1994e:1995e) felt that to have various stakeholder constituencies appoint representatives on the board would be counter-productive. If this has to happen at all such representation should be limited to informational participation (Williamson 1985:308). According to Porter and Blair stakeholder voice and ownership can be promoted by providing higher short term profits to short-term rent-seeking investors in exchange for them to gradually relinquish their property rights in favour of strategic stakeholders. This gave rise to employee ownership schemes in many countries.
However, Sternberg (1996) argued that stakeholder theory is both misguided and mistaken as it undermines private property, agency and wealth and is incompatible with business and with corporate governance.

According to the researcher, stakeholder theory is a mere extension of the agency theory in the sense that instead of the non-executive directors protecting the interests of shareholders they will be protecting the interests of shareholders and other stakeholders. The proposed representation of stakeholders on the Board is a reasonable proposition as long as the owners of capital have a bigger say.

2.3.4 Political Theory

The political theory argues that the allocation of corporate power, privileges and profits between owners, managers and other stakeholders is determined by how governments favour their various constituencies. Hawley and Williams, (1996) observed that over the last decades, the governments have been seen to have a strong political influence on firms. As a result, there has been growing political influence on the governance structures of firms. Governments would set the macro framework to influence the allocation among stakeholders.

However, according to Hawley & Williams (1996:29), firms have also been influential in molding the US political/legal/regulatory system over the last few centuries.

Roe (1994), like Black (1990) and others argued that, the finance model's nearly exclusive reliance on the market for corporate control was primarily the result of the political traditions of federalism dating back to the American Revolution.

Following the Revolution, there was concern that newly won political freedoms could be lost through foreigners gaining control of corporations (Grossman & Adams 1993:6). As a result early state legislators wrote charter laws and actual charters to limit corporate authority, and to ensure that when a corporation caused harm, they could revoke the charter. However, 'During the late 19th century, corporations subverted state governments' and according to Friedman (1973:456), corporations were buying and
selling governments. In order to curb the increasing corporate power cumulative voting for minority shareholders was introduced to allow them to elect directors and control corporations. (Gordon 1993).

Under the political model of corporate governance (whether Pound's or Gundfest's version) limits are placed on the traditional economic analysis of the corporate governance problem, and located quarterly in a broader political context with institutional agents monitoring corporate agent, i.e. *Watching the Watchers* (Monks & Minow 1996). All these issues are influenced by government laws and regulations and so subject of public policy debate for changes and reform.

An aspect also neglected by economists but relevant to the political theory is that national income can be distributed by spreading corporate ownership directly to individuals rather than through institutional intermediaries (Kelso & Adler 1958; Kelso & Hetter 1967, 1986; Turnbull 1975a, 1988, 1991b, 1994b). This can only be done by governments and not the markets. The Political theory to a certain extent provides a solution to the agency problem through government’s intervention to protect shareholders, minority shareholders and other stakeholders but it is not sustainable. This theory would be more applicable to state-owned institutions that are already governed by laws enacted by governments.

### 2.3.5. Transaction Cost Theory

Transaction cost theory was first espoused by Cyert and March (1963) and later described and by Williamson (1996). Transaction cost theory is grounded in law, economics and organizations. Its underlying assumption is that firms have become so large that they in effect substitute for the market in determining the allocation of resources. In other words, the corporation can determine price and production. The transaction cost theory is an alternative to the agency problem where managers instead using their positions to create wealth for themselves they arrange the firm’s transactions to their benefit.
2.3.6 Ethics Theories

Ethics is defined as the study of morality and the application of business which sheds light on rules and principle, which is called ethical theories that ascertain the right or wrong of a situation. According to the International Journal of Governance (2011), these include business ethics theory, feminist theory, discourse ethics theory, and postmodern ethics theory. Business ethics is where the business managers in the course of doing business should consider the impact of the transactions on stakeholders and society that is the rights or wrongs. This is because corporations have become so large that they impact the lives of people in terms of jobs, goods and services, and the environment. Discourse ethics theory on the other hand tries to establish the ethical truth by investigating the pre-suppositions of discourse (Harbenas 1996).

Virtue ethics theory is about chastity, moral excellence, and good character. Virtue is a state to act in a given situation and Aristotle called it as with disposition with choice or decisions. Virtue involves two aspects, the effective and the intellectual. The concepts of “effective” in virtue theory suggests doing the right thing and have positive feelings, while the concept of “intellectual” suggests to do virtuous work with the right reason.

The author argues that corporate governance is mainly driven by the agency theory given the nature of modern corporations which are managed by agents on behalf of the owners of the capital who are in most instances shareholders. In order to ensure that the owners of capital maximize their returns there was need to put systems in place and a representative of shareholders to put management in line with shareholders objectives. Other theories are subsidiary to the agency theory. For example stewardship theory is a result of certain incentives offered to management such as share options to make them spearhead shareholders’ needs. Ethics and stakeholder theories are mainly driven by governments regulating corporations in order to protect likely victims the activities of large corporations such as small shareholders, customers, suppliers, creditors, the environment and communities.
As far as state-owned enterprises are concerned, the most applicable theories would be the agency, the political and the resource dependency theories. The applicability of the agency theory has been demonstrated by the recent “salarygate scandal” while the political theory is supported by the fact that corporate governance is governed by Acts of Parliament. The Resource Dependency theory is also applicable as most board members are appointed on the basis of expertise which they can bring to a particular organization. Some of the Acts establishing these state enterprises specify the expertise required on the boards.

2.4 Characteristics of Good Corporate Governance
Good corporate governance is conducting the business with integrity and fairness, being transparent, complying with all the laws of the land, accountability and responsibility towards the stakeholders and commitment to conducting business in an ethical manner.

Seven characteristics, or principles, of good corporate governance are listed in King II namely discipline, transparency, independence, accountability, responsibility, fairness and social responsibility. King II recommends that every organization should report at least annually on the nature and extent of its social, transformation, ethical, safety, health and environmental management policies and practices, while stakeholder reporting is also important. Specific consideration should be given to the development of a code of ethics and issues such as HIV/AIDS, the environment, social responsibility and human capital development. The seven characteristics are explained below: (http://www.ehow.com/info_837727_seven-characteristics-good-corporate-governance.html.)
2.4.1 Discipline

Discipline in corporate governance means that the senior management should be aware of and committed to adhere to behavior that is universally recognized as correct and proper.

2.4.2 Transparency

Transparency is the measure of how easy it is for outsiders to find out and analyze a company’s financial and non-financial fundamentals. Companies should make this information available in timely and accurate press releases to give outsiders a true picture of what is happening within the company.

2.4.3 Independence

For good corporate governance, it is important that all decisions are made objectively with the best interest of the enterprise in mind and without any undue influence from large shareholders or an overbearing chief executive officer. This requires putting in place mechanisms such as having a diversified board of directors and external auditors to avoid any potential conflict of interest.

2.4.4 Accountability

People who make decisions in a company must be held accountable for their decisions and mechanisms must exist to allow effective accountability. In public companies, investors hold individuals running the company accountable for their actions by carrying out routine inquiries to assess the actions of the board.

2.4.5 Responsibility

In a corporate, managerial responsibility means that the management be responsible for their behavior and have means for penalizing the mismanagement. It also means putting in place a system that puts the company on the right path, when things go wrong.
2.4.6 Fairness

The company must be fair and balanced and take into the account the interest of all of the company's stakeholders. In this sense, the rights of each of the groups of stakeholders must be recognized and respected.

2.4.6 Social Responsibility

A well-managed company must also be ethical and be responsible with regard to environmental and human rights issues. As such, a socially responsible company would be non-exploitative and non-discriminatory.

Other principles of corporate governance are contained in three documents released since 1990: The Cadbury Report (UK, 1992), the Principles of Corporate Governance (OECD, 1998 and 2004), the Sarbanes-Oxley Act of 2002 (US, 2002). The Cadbury and OECD reports present general principles around which businesses are expected to operate to assure proper governance. The Sarbanes-Oxley Act is an attempt by the federal government in the United States to legislate several of the principles recommended in the Cadbury and OECD reports.

2.5 Models of Corporate Governance

According to Khongmalai, Tang and Siengthai, (2010), there is a dearth of literature in corporate governance model of state-owned enterprises. There has however been proposals for a new holistic model by Young and Thyil,(2008), an in touch boards model by Strebel (2001) and entrepreneurshp model by Strikwenda (2003).

Yaacob (2012) focused on five governance areas namely: governance structure, ownership and shareholders rights, roles of the board, regulatory framework and control mechanisms and disclosure and transparency.
Tricker (2009) divided corporate governance models into two, the unitary board system common in the United States and the United Kingdom including the Commonwealth countries. Typically this system consists of shareholders at the top of the hierarchy. The day to day operations of the corporation are in the hands of the board of directors as the governing body with predominance of independent outside directors. In the United States and in many family-owned businesses around the world, it is common for the Chief Executive Officer to hold dual responsibilities of chief executive officer and chairperson of the board.

Davis, Schoorman and Donaldson (1997) argued that the proponents of the Stewardship Theory agree to the dual roles as it gives the incumbent more power to steer the company and make decisions without hindrance from the board. In the UK and other countries the two responsibilities are separated with the board keeping an eye on the daily activities of managers and employees. Meanwhile the two-tier system is found in continental Europe especially Germany and Japan which includes a supervisory board sitting in between the shareholders and management board of director. The German supervisory board is made up of employees and shareholders representatives in equal proportions in pursuance to co-determination law. The supervisory board has powers to terminate services of members of management board. In terms of role the supervisory board act as a monitoring or oversight while the management board wields the decision making power.

2.5.1 The Anglo-American Model

According to A. Cadbury (1992) and C.A. Mallin (2011), the Anglo-American model is centred on a single-tiered Board of Directors that has more non-executive directors elected by shareholders. Because of this, it is also known as "the unitary system". Within this system, many boards include some executives from the company who are ex-officio members of the board. Non-executive directors are expected to hold key posts, including chairing audit and compensation committees. The United States and the United Kingdom differ in one critical respect with regard to corporate governance: in the United Kingdom, the CEO generally does not also serve as Chairman of the Board,
whereas in the US having the dual role is the norm, despite major misgivings regarding the impact on corporate governance (Bebchuck 2004). In the US he found that corporate governance is generally legislated and many companies have adopted the Sarbanes-Oxley Act of 2002 and the Business Corporation Act.

According to Cheffins (2003), the Anglo-American model is categorized as arm’s length, since the company’s shareholders control their shares at a distance by putting their trust in the company’s management to run daily company’s activities. The model exists in the US and the UK because the majority of their large companies are listed in stock exchanges. Moerland (1995) noted that 99 percent of the top 400 US firms are listed on a stock exchange, while 67 percent of top 100 UK firms are listed corporations. This means US and UK stockholders are dispersed as opposed to concentrated. This therefore positions the market as a supervisor of corporations and therefore an outsider model.

The principal-agent or the finance model and the market model can be used to analyze the Anglo-American model. The finance model concerns the maximization of shareholder’s prosperity which is regarded as the only function of corporations. Friedman (1970) confirmed this view by observing that making profits in a free market for the company’s shareholders is the only role of a company in a community. Consequently other social functions should not hinder the company in realizing its goal, and therefore should be undertaken by other government or charitable organizations. O’Sullivan (1978) endorsed this view and argued that, when corporations are managed properly in order to maximize the value of its shares, the performance of the economy will be improved.

Like the finance model, the market model supported the maximization of shareholders wealth as the key company target. However, it criticized the finance model in that it is too focused on short-term interests of a company’s performance, such as short-term return on investment, short-term corporate profits, short-term management performance, short-term stock market prices and short-term expenditure (Letza and Sun, 2004). Letza et al (2008) concluded that in this way it neglects the corporation’s
long-term value and its long-term competitiveness. As an alternative, the market model suggests that the restructuring of corporate governance reform should be done by encouraging the shareholders and managers to share long-term performance horizons. This includes increasing shareholder royalty and voice, reducing the ease of shareholders’ exit, restricting the takeover process and voting rights for short-term shareholders. In summary Moerland (1995) contends that the Anglo-American model is characterized by dispersed or fragmented ownership of shares, shareholders’ wealth maximization as the ultimate goal of the firm’s existence and a well-developed financial market as the firms supervising instrument.

2.5.2 The Continental European model

Tricker (2000) observed that in some continental European countries, including Germany and the Netherlands, there are two-tiered Board of Directors as a means of improving corporate governance. The Executive Board, made up of company executives, generally runs day-to-day operations while the supervisory board, made up entirely of non-executive directors represent shareholders and employees, hires and fires the members of the executive board, determines their compensation, and reviews major business decisions.

This is the insider/control oriented model pertaining in continental Europe and Japan. This model according to Hertig (2006) propounds a close relationship between the corporations and its capital providers, including shareholders and bankers and other financial institutions as the core element of the model. This is considered an insider model because it allows stakeholders including employees in addition to shareholders to be members of its board (Fannon, 2006). She further contends that the major goal of this model is to counteract the abuse of executive power in shareholder models. The abuse of executive power is a criticism leveled at the Anglo-American model which gives greater power to the executive management who can potentially distort their authority for their own interests at the expense of stockholders and society at large. Letza et al (2008) observes that one of the examples of abuse of executive power is exorbitant executive overpayments, when the executive management is allowed to set
their big salaries in a way that does not reflect the performance of the company. He further states that those who favour the insider model argue that the executive power abuse problem cannot be resolved through institutional restraints on managerial behavior including involvement of non-executive directors of boards, audit processes, and threats of takeover.

Unlike the shareholder model this model views the goal of the corporations as maximizing business value at large. Thus from the perspective of the stakeholder theory two groups exist: first the primary stakeholders such as minority shareholders, lenders, consumers, employees, suppliers and managers and second the secondary stakeholders, including local communities, the media, the court, the government, special interests groups and the general public.

Letza et al noted that even the proponents of the insider model also doubt whether corporate reforms such as non-executive directors, shareholders involvement in major decisions and transparency into corporate affairs are in fact appropriate monitoring instruments. What is instead proposed is management freedom with accountability which involves letting decision making management build up the long-term plans for the company, while the board is strictly responsible to all stakeholders involved in the company.

2.5.3 Modern Corporate Governance Models

The American Model
The collapse of some of the huge companies such as Enron, Worldcom and Tyco International in 2001 is considered as heralding in the new era in corporate governance. The above catastrophe occurred is spite of the application of corporate governance models discussed above. According to Atkins (2003), this can be assumed that previous American corporate governance was powerless to prevent those companies from bankruptcy. Consequently the American Congress passed the Public Company Accounting Reform and Investor Protection Act of 2002 (The Serbanes-Oxley Act, 2002). The Act was adopted as a mandatory model where all companies that have registered equity or debt securities with the Security Exchanges Commission were to
adhere to it. Atkins the Commissioner of the Securities Exchange Commission argues that, the world needs a strict corporate governance regime which is able to eliminate fraud, corruption and other misdeeds and practices. He further argues that using soft law such as the insider model would not prevent corporate failures.

**The Australian Model**

Unlike to American model, Australia is one of the countries utilizing the voluntary model. The Australian Stock Exchange Corporate Governance Council (ASX) explicitly asserts that the Australian Principles of Good Corporate Governance and the Best Practice Recommendation contain a voluntary system. Listed companies might not comply with the Principles but have to provide sufficient and reasonable arguments as to why they don’t, i.e.” if not why not”? As opposed to “one size fits all.” The underlying principle of the Australian code is that the market can come to its own conclusions about the significance of non-compliance based on circumstances of individual companies. Kamal (2010) believed that the Australian code could have been adapted from the UK Combined Code on Corporate Governance of 2000. The UK Combined Code states two points: firstly listed companies are free to design the form of disclosure statement because the committee does not provide listed companies with a specific format; secondly there is no requirement for all listed companies to conform to the code. Where listed companies do not adhere to the combined code, they must explain it, this is called the “comply or explain approach.” This is to take into cognizance of small listed companies for which the substance of the code may not be applicable.

However, both mandatory and voluntary regulation corporate governance models are designed to uphold companies with dispersed shareholding as opposed to those with concentrated ownership. It is argue that the two models are designed to uphold companies with dispersed shareholding and to deal with laws that are needed to support companies with fragmented shareholding.
The Indian Model
The Indian model on corporate governance is based on the Ghandhian principle of trusteeship which is about commitment to values, ethical business conduct and about distinguishing between corporate and personal funds. It is about recognition by managers that they are only trustees of shareholders’ funds.

However, Mervin King, a world renowned authority of corporate governance said he was against legislating corporate governance. He argued that if you start legislating corporate governance you have rigidity. It is impossible to legislate against dishonesty and principles are better than rules. He alluded to the Enron corporate scandal, saying the company’s directors and accountants managed to circumvent the 428 procedural rules governing accounting in the USA using what he termed “misdirected intellectual energy”. He said what is needed is a good corporate governance culture that ensured that the four basic tenets of common law of faith, care, skill and diligence are upheld and maintained in the manner companies are directed and controlled.

2.6 Corporate Governance Factors
Many countries have developed corporate governance codes to guide corporates on good corporate governance. However in most countries compliance with the codes is not mandatory but codes such as those linked to the stock exchange may have a coercive effect. The most influential guidelines are the OECD Principles of Corporate Governance published in 1999 and revised in 2004. These principles focused on the rights of shareholders, equitable treatment of shareholders, role of shareholders in corporate governance and the role of the Board. The United Nations Intergovernmental Working Group of Experts on International Standards on Accounting and Reporting (ISAR) produced Guidance on Good Practices in Corporate Governance Disclosure. The guidance covers the following factors: auditing; board and management structure and process; corporate responsibility and compliance in organizations; financial transparency and disclosure and ownership structure and exercise of control rights. The OECD Corporate Governance Principles for State owned enterprises dwell on five key corporate governance factors namely: State acting as owner; equitable treatment of shareholders, role of stakeholders and transparency and disclosure.
2.6.1 State as Owner
According to the OECD Principles on SOEs the state as an owner has to balance between the Minister exercising ownership function by appointing a board and establishing a clear and consistent policy, while restraining from putting undue pressure on the board, and interfering with the smooth running of the state enterprise or parastatals.
Under the Zimbabwe Framework on corporate governance for state enterprises and parastatals the role of the Minister who is representing the owner is to:

- Ensure reliable and competent persons are appointed to the board;
- The board is refreshed regularly;
- The board is held accountable and responsible for efficient and effective governance of the organization;
- The organization acts as a good citizen;
- The organization complies with all applicable laws;
- The level of remuneration for board members and management is sufficient to attract and retain skilled personnel; and
- Setting and monitoring good corporate governance standards.

2.6.2 Duality of Roles
The OECD principles on corporate governance expect State-owned enterprises to observe high standards of transparency. According to these guidelines good corporate governance principles require that the Chairperson’s position to be separate from that of CEO. However, in the US it is common to have the same person holding the two positions despite the risks involved. Those who argue for non-separation of roles believe in the stewardship theory and believe that putting the roles in one individual could help to avoid management conflicts. It also provides a better understanding of the operational issues, less decision making hurdles, better integration of strategy and tactics, clearer direction and better decision making. Following the Enron case some analysts pointed to the dual role of Arthur Anderson as board chair and chief executive officer as a major contribution.
On the other hand those concerned about the combination of the roles argue that it is hard for the other board members to challenge a powerful CEO/chair. Independent board members can be cowed and neutralized and the evaluation of the entity, board and executive performance becomes biased. They further argue that combination creates two ineffective positions requiring strong communication and human interactions to achieve concerted action.

The argument is, to provide for better checks and balances with the underlying issue being that there is irreconcilable conflict between monitor and executer. However there is growing consensus that the benefits of separation, outweighs the drawbacks (Frederick 2011). When the roles are separated there is need for close cooperation, mutual trust based on clear understanding and respect of their different functions.

In the Zimbabwe Framework for Corporate Governance in State Enterprise and Parastatals it is stated that to avoid conflict of interest the role of the chairperson and the CEO cannot vest in one person.

2.6.3 Role of the Board:

The board is defined as the relationship between the shareholders and management entrusted with the day to day responsibilities of the organization (Styles and Taylor as cited in Okapra, 2011. Tricker (2009) identified four basic functions of the Board, accountability, supervision of executive activities, strategy formulation and policy-making. In a two-tiered board system the supervisory board is responsible for conformance and compliance while the executive board is responsible for performance.

The role of the board is central to corporate governance as it provides the bridge between owners of corporations and management and is responsible for providing oversight over the running of firms. The OECD Principles provide additional guidance on the role of the Board of state-owned enterprises.

- The board should be assigned a clear mandate, should have the authority to act on behalf of the owner.
- They should have the power to appoint and remove the CEO.
• Review and guide corporate strategy;
• Monitor the effectiveness of the company’s governance
• Select, monitor and, if necessary, replace executives
• Align remuneration with the longer term interest of the company
• Ensure formal and transparent board nomination practice
• Monitor potential conflicts of interest

The Cadbury report identified some of the roles of the board as:

• Taking strategic and policy decisions and ensuring their implementation
• Approve mergers and takeovers, acquisition and disposal of assets and approve loans
• Ensuring effective communication of its strategic plan
• The boards of SOEs should be assigned a clear mandate and ultimate responsibility for the company’s performance. The board should be fully accountable to the owners, act in the best interest of the company and treat all shareholders equitably.

In the Corporate Governance Framework for State Enterprises and Parastatals board is responsible for:

• Establishing a corporate strategy for the state enterprise
• Ensure the SOE has a strong management team
• Ensure SEP’s shareholders and stakeholders are informed to its progress and financial position
• In concurrence with the shareholder appoint the CEO/MD/GM/DG and other senior management
• Ensure that an effective succession plan is in existence
• Ensure effective risk management, internal control and internal audit processes are in place
• Ensure safety, health and environmental policy is in place
• Ensure a human resources policy is in place
• Ensure that a code of conduct for directors is developed and complied with
• Ensure SEP complies with all applicable laws

2.6.4 Board Size and Composition

The board should be the right size with relevant skills and understanding to review and monitor management’s performance. It also needs adequate size and appropriate levels of independence and commitment.

There should be a balance of executive and non-executive directors and the King report recommends a demographic balance. The advantages of non-executive directors is that they have a balancing influence, reduce conflicts of interest, bring external experience and knowledge which executive directors do not possess, provide a wider perspective, and are a comfort factor to third parties. The disadvantages are that they may lack independence, may prefer best run companies, have difficulty imposing their views on management and have limited time to be effective.

According to Mace (1971), Styles and Taylor, 2001 as cited by Piesse, 2011, selection of directors is the most important factor determining who exercises control within the board. Selection of Board members who are qualified and knowledgeable in their field and competent in decision making are pre-requisites for an effective board (Franks and Jensen, 1983, Kosnik, 1987 as cited by Piesse et al., 2011. In the case of state owned enterprises, the state or government will select directors to represent their interests. According to Khongmalai et al (2010), most of the board members appointed are senior civil servants.

According to Christiansen (2004) most boards of state enterprises are composed of a mix of political, government, and stakeholder representatives with little commercial or financial skills needed to exercise board responsibilities and with little or independency and objectivity. As a result the board ensures that political interests are taken care of at the expense of the SOE. This increases the scope for political interference. He contends that lack of proper criteria for selection of boards contributes to this
problem. Some countries use different mechanisms to ensure that appointed board members are of the right calibre for the job. These include:

- Establishing a transparent and consistent procedure to identify qualified candidates – e.g. through:
  - Pre-qualification mechanisms, vetting of candidates, use of nomination committees
  - Competitive selection, especially of CEOs
    - Maintaining a database or pool of qualified candidates
    - Using professional recruitment groups to identify candidates
    - Delegating the process to expert panels, specialized bodies, or to SOE themselves through nomination committees of the board
    - Requiring disclosure of final results

Some of the commonly used criteria for selection of directors in different countries are presented in Box 1 below.

**Box 1: Criteria for selection of Board of Directors for Different Countries**

<table>
<thead>
<tr>
<th>Country</th>
<th>Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hungary</td>
<td>specifies degree in finance, economics, or law</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>CG experience, finance, law</td>
</tr>
<tr>
<td>Italy, Portugal, Switzerland</td>
<td>integrity, probity</td>
</tr>
<tr>
<td>Chile, Israel, Lithuania</td>
<td>additional proficiency and suitability requirements for individual boards in large SOEs</td>
</tr>
<tr>
<td>Switzerland</td>
<td>specific criteria for different positions, including board as a whole, single board members, chair</td>
</tr>
<tr>
<td>Israel</td>
<td>An academic degree in an area relevant to the SOEs main line of business; or – A PhD degree in any area.</td>
</tr>
<tr>
<td></td>
<td>At least 5 years experiences in one of the following: – Senior business administration; – Senior civil service position in a relevant area; – Senior position in the SOEs principal area of business activity</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>different statutes specify qualifications for board members for individual SOE</td>
</tr>
</tbody>
</table>

Committees to support it in performing its functions, particularly in respect to audit, risk management and remuneration. For listed companies it may be necessary to have nominating committees composed of independent directors and should be responsible for nominating new board members.
The Zimbabwe Corporate Governance Framework for SEP proposes a corporate and strategic planning committee, an audit and internal controls committee, human resources and remuneration committee, and a finance and risk management committee.

2.6.6 Board Evaluation
SOE boards should carry out an annual self-evaluation to appraise their performance. According to Frederick (2011) performance evaluations range from informal to those conducted by experts and facilitators. The survey by Frederick (2011) revealed that performance evaluations were conducted more frequently by state-owned enterprises than in listed companies and that governments are key in encouraging formal approaches. However, Frederick observes that the challenges associated with evaluations include lack of objectivity, the lack of ability to give or take constructive criticism and tendency to blame rather than improving performance.

The role of the chair in conducting evaluations has been questionable in terms of objectivity and fairness. In order to counter the problem of objectivity an abundance of checklists and scorecards have been used to address the concern. External advisors are useful in addressing the challenges discussed above but they need to be selected with care.

In summary Frederick (2011) concludes that performance evaluations are useful when they are formal, well-designed, fair and iterative and linked to improvement plans.

According to the Framework for SEPs in Zimbabwe, the board shall evaluate itself against agreed performance indicators and targets annually and shall sign a performance agreement with the Minister. The Minister shall evaluate the performance of the board on an annual basis or at an agreed frequency.
2.6.7 Board Remuneration

The remuneration of both board and executives is one source of conflict between the board and the state. Governments tend to limit the remuneration for boards and executives in SOEs. The reason for government's intervention with regard to salaries is to create an even playing field. Frederick (2011) observed that in setting executive pay two things need to be considered: whether pay levels are sufficient to attract the necessary talent; whether it is sufficient to motivate the desired level of performance. This was despite his findings of no correlation between incentive and performance.

The corporate governance framework for SEPs in Zimbabwe states that, the process for determining the remuneration for Board members shall be transparent and should be approved by the Minister and in line with the principles of affordability, sustainability, and reasonableness.

2.6.8 Frequency of Board Meetings

According to OECD guidelines of SOEs the good practice that the duration of board meetings should be as appropriate per SOE’s profile. However the reference is 3-4 hours. The Zimbabwe corporate governance framework prescribes that the board shall meet for a minimum of 4 times a year. The chairperson may call for special meetings where necessary.

2.6.9 Annual General Meeting

Under the Framework for corporate governance for SEPs in Zimbabwe each organization is required to hold an annual general meeting whose notice shall be given twenty one days before the meeting. The annual general meeting shall deliberate on the following issues:

- Presentation and adoption of annual reports
- Appointment of legal representatives
- Determination of Auditor’s fees and appointment of auditors
- Appointment of human resources recruitment agency
- Receiving and endorsing business strategy for the following year
• Approve directors’ and senior executives remuneration
• Transact any other business as may be transacted at an AGM.

2.6.10Role of Stakeholders
The inclusive approach to corporate governance portrayed in King II recognizes that stakeholders such as the community in which the organization operates, its customers, its employees, and its suppliers need to be considered when developing the strategic intent of the organization. As such, the inclusive approach requires that the purpose of the organization be defined; the values by which the organization will carry out its activities be identified; and it be communicated to all stakeholders. In essence, these three factors should be combined in developing strategies to achieve the organization’s financial and non-financial goals in aiming to be sustainable in the long-run.

2.6.11Rights and equitable treatment of shareholders
Organizations should uphold and respect the rights of shareholders help them to exercise those rightsthrough participating in general meetings. The rights of minority shareholders should be upheld and protected.

2.6.12Disclosure and transparency
Credible disclosure and transparency is a symptom of good corporate governance and is vital for the allocation of scarce resources. Adverse selection avoidance, disclosure and transparency should therefore lower the firm’s cost of capital as investors become skeptical (Lundholm and van Winkle cited by Okapra, 2011).

2.7 Indonesian Corporate Governance Model (Case Study)
Kingsley (2004) observed that the history of Indonesian corporate governance is linked to the South Asian financial crisis of 1997. Indonesia’s corporate governance reforms were not country-driven but were imposed by the IMF as funding conditions. Aguilera and Cuevo-Cazarra (2004) from their study of corporate governance codes around the world noted six types of creators of codes: stock exchange, government, directors associations, managers associations, and professional associations and investors
associations. In year 2000 the Indonesian National Committee on Corporate Governance (NCCG) established a Code for Good Corporate Governance which applied to State Owned enterprises and to companies listed on the Jakarta Stock Exchange. The Code contained the following principles:

- **General Principles of Transparency, Accountability, Responsibility, Independence, and Fairness.**
- **Business Ethics:** a company should uphold its values, business ethics and code of conduct that will guide its organs and its employees. These will be premised on reliability, fairness and honesty.
- **General meeting of shareholders:** This should be a shareholders forum that makes important decisions on their investments but should allow the Board of commissioners and board of directors to do their duties without undue interference.
- **Board of Directors (management):** shall act independently and make effective, right and timely decisions, responsible for the day to day operation of the organization and shall be of sufficient size to suit the complexity of the business.
- **Board of Commissioners (supervisory):** to supervise and advise the board of directors and is prohibited from participating in operations of the company. The board is responsible for management, risk management, internal control, communication and social responsibility.
- **Board Committees (audit, remuneration, risk, and governance):** the board is required to establish audit, remuneration, risk and governance committees
- **Rights and Roles of Shareholders:** Rights and roles of shareholders to be respected based on fairness and as prescribed by the laws and regulations
- **Rights and Roles of Stakeholders:** The Company should take cognizance of the interests of stakeholders i.e. those having an interest in the company and who are directly affected by the company’s strategic and operational decisions. Interests of communities where the company operates should also be considered.
The above are the universal features of codes of corporate governance, including comply or explain principle, soft laws model, audit and remuneration committees and transparency issues, role of the board, investor protection which are consistent with the Indonesian code of corporate governance.

The three key pillars for implementation of the code are government as regulator and policy maker, the business community as the market player, and the public as users of the business community’s products.

2.7.1 Main Problems of State-owned Enterprises in Indonesia

In spite of the fact that the code applies to all companies including state-owned enterprises, Kamal (2010) noted certain peculiarities of SOEs that are not solved by the code. The main problems of SOEs are: conflicting objectives, agency issues (political interference) and lack of transparency. He argues that the conflicting objectives exist because SOEs management in addition to having the responsibility of running the business also has a social responsibility. Political interference prevails as politicians and bureaucrats who control the company have their own agendas that deviates the target of the company’s business. The lack of transparency is intentionally done to cover up the Politician’s and bureaucrats’ agendas such as of political party from the government in power that are contrary to the company’s business agenda. It would seem logical therefore that Indonesia’s code should include principles to resolve the identified problems but according to Kamal (2010) this was not the case.

The Indonesian corporate governance code was meant to firmly demarcate the role of government, business community and society – so called governance tripod which is not found in other codes including the OECD code. The governance tripod is to encourage the government to enact friendly laws and regulations as well as enforcing them to protect investors’ rights in addition to demanding society to be responsible by expression their objections to the business community and government in a good manner. However the code fails to address the problem of conflicting objectives by including principles to separate social from business objectives.
**Political Interference**

In terms of political interference, there are again no principles in the code that eliminates political interference one of the most critical problems in Indonesian SOEs. This problem exists in most SOEs of developing countries including Zimbabwe. However, Daniri and Prasetyantoko (2008) argue that the SOE’s problem has occurred not because of ownership issue but by the excessive intervention from country’s ruling parties and bureaucrats. They further assert that although SOEs are owned by the state, they can be well managed to achieve good performance. This view was confirmed by Mardjana (1995) after conducting a study of three Indonesian SOEs. He urged the code of corporate governance to provide principles in addition to laws and regulations that deliberately separate SOEs from political interests.

**Unprofessional Board of Commissioners**

One of the problems in corporate governance of SOEs in Indonesia is that of unprofessional board of commissioners and of board of directors. Kamal (2009) once stated that bad governance can be cured by introducing professional commissioners. The code introduced a provision of commissioners with integrity and capability. This assumes that commissioners and board members with integrity and capability would not utilize the company’s property to their personal, family, business group and or other parties’ advantage. They also believed that professional commissioners with integrity and capability would comply with the company’s deed, laws and regulations.

However the problem of non-listed Indonesian SOEs is not that the commissioners lack integrity and capability but because the lack the time to perform their roles since most of them are busy such as politicians, ex-army officers, ex-ministers, academics, and high-ranking bureaucrats. In Zimbabwe there was a time when a few people sat on all parastatal boards making them too busy to make meaningful contributions to all the individual boards they sat on.
**Protecting Outsiders**

The code recommends a company to have independent commissioners in addition to affiliated commissioners. An independent commissioner is defined as one who free from business and family relationships with controlling shareholders, members of the board of directors and other members of the board of commissioners. This provision while relevant to listed companies with dispersed shareholders it does not apply to SOEs which have one shareholder representing society.

Kamal (2009) identified four agency problems unique to SOEs. One is the relationship between society as the actual owner and government as the agency. The second is between the government and the board of commissioners. Third is the relationship between the government and the board of directors. Lastly is the relationship between the board of commissioners and the board of directors. The society-government agency problem is minimal as society has no say in the running of SOEs and government directs SOE management as they wish. The board of commissioners is the principal’s agent since it is dismissed by the government while the actual principal-agency relationship exists between the board of commissioners and the board of directors. However due to the uniqueness of the agency problem in SOEs the Anglo-Saxon agency problem such as protection of minority shareholders’ assets from expropriation by controlling shareholders will not arise since there is no division of shareholders types. It can be concluded that the Indonesian corporate governance model based on the Anglo-American model, has overlooked the need of pure SOEs.

The Indonesian system is also unique in the sense that while it has a two-tier system that pertains in continental Europe, employees do not sit on the management board. However in terms of Indonesian code of corporate governance principles prescribes a protection for minority shareholders like in the Anglo-American model which is not in line with Indonesian companies especially pure SOEs.

### 2.8 Relationship between corporate governance and firm performance

Fernando (1996) argued that many large corporations are multinationals, hence they impact on citizens of several countries in various ways albeit negatively. It is therefore
needed to create a corporate culture of consciousness, transparency and openness through a combination of laws, rules and procedures and voluntary practices to enable companies to maximize shareholders’ long term value, increased customer satisfaction and community benefit.

Gompers et al (2003) in his study of USA incorporated companies established that companies with better corporate governance strategies in terms of stockholder rights had returns that were 8.5% more than those with weak rights. Although the score for shareholders’ rights alone were not adequate to improve firm performance, it was proved that board effectiveness had contributed to enhanced firm performance. An investigation by Klapper and Love (2002) for the emerging stock markets established that sound corporate governance was highly correlated to better operating performance and higher market valuation.

In Zimbabwe Mangena and Tauringana (2006) studied the relationship between quality of corporate governance and firm profitability for the Zimbabwe Stock Exchange Listed Companies. The results revealed that firm performance was positively related to the standards of corporate governance. They concluded that sound corporate governance strategies were required especially for companies operating in unstable economies like Zimbabwe.

In a study by Drobetz et al (2003) on the Germany economy it was proved that stock prices adjusted quickly to any changes in a company’s corporate governance. They however highlighted that components of corporate governance that markets responded to varied across countries but the most important strategy was the nature of the board of directors’ composition and performance.

Laixiang (1999) studied Chinese companies and established that the presence of independent directors was positively correlated to higher returns for the firms. However, no positive relationship could be established in other corporate governance indicators such as board size and shareholder activism. However Smith (1996) found a positive
relationship between shareholder activism and company performance in California. Smith (1996) in a study in Sweden came with the same conclusion.

Maher and Anderson (1999) concluded that, if corporate governance had no effect on firm performance then there would be no reason why most governments would show concern for enhancing their corporate governance policies. They analyzed other empirical studies and established that enhanced corporate governance was believed to lead to improved performance basically by avoiding expropriation of controlling shareholders and ensuring quality decision making. The existence of the principal-agency problem points to the need for corporate governance to ensure shareholder value as well as stakeholder value. Effectively shareholder supervision of a company through boards of directors has proved to result in increased profit levels for companies (Frank and Mayer, 1994). Mayer (1994) concluded that the benefits of a large shareholder base outweighed the costs of low diversification opportunities.

Javed and Iqbal (2007) investigated the relationship between corporate governance indicators such as the board, shareholding, ownership, transparency and disclosure and firm performance. They established that board composition, and ownership and shareholdings had a positive impact on performance, whereas transparency and disclosure had no impact. Brown and Caylor (2004) studied US firms and found that better governed firms were relatively more profitable.

Gregory and Simms (1999) also established that good corporate governance contributes to economic growth because foreign investors are willing to pay more for well governed companies that have good board practices, provide information disclosure and financial transparency and have respect for the rights of shareholders.

2.9 Corporate Governance Framework for State Enterprises and Parastatals
The Corporate Governance Framework for State Enterprises and Parastatals was developed by the Ministry of State Enterprises and Parastatals after a stakeholder workshop which was held in Kariba in 2010. The objectives of the framework are to:
• Clarify relationships and reporting structures among stakeholders
• Provide for transparency and role clarity in terms of responsibilities and accountabilities
• Provide for financial reporting, internal checks and controls, risk management and communication requirements
• Minimize conflict of interest
• Improve efficiency and effectiveness in state enterprises and parastatals and
• Provide for performance agreements, monitoring and evaluation of performance

The framework is generic in order to be applicable to the diverse entities and their peculiar operating environment. It defines state enterprises as those generally governed by the Companies Act and parastatals as those governed by individual acts of Parliament. This may not be an accurate distinction of these SEPs given that the state-owned banks are governed by individual acts yet they are sometimes characterized as state enterprises.

In developing the framework cognizance was taken of international codes of best practices such as King III Code of South Africa, the OECD Principles on Corporate Governance, the United States Corporate and Auditing, Accountability and Responsibility Act (Serbanes-Oxley) and its subsequent revisions, and the Malawi Code of Corporate Governance. However the underlying concept of this framework is the philosophy of “Ubuntu” that carries the values of caring, sharing, inclusivity, compassion, and communalism. It is about self-respect, integrity and human dignity.

Although the Framework is not legally-binding, state enterprises are expected to be guided by it. The Framework covers among other things some of the factors of corporate governance such as:

• Role of the Minister/Owner
• Role of the Board,
• Role of CEO
• Board size and composition
• Tenure of the Board
• Separation of Board Chairperson and CEO
• Board Committees
• Board remuneration
• Frequency of meetings of the Board
• Board Evaluation
• Annual General Meetings
• Protection of Stakeholders

In terms of the Public Finance Management Act (Chap.22:19) every state enterprise is required to adhere and implement principles of sound corporate governance, policies, procedures and practices. This means that these guidelines are not voluntary but coercive.

2.10 Literature Synthesis and Conceptual Framework

In the literature reviewed there are both narrow and broad definitions of corporate governance which have influenced different models of corporate governance in different countries. The narrow definition views corporate governance as management of a corporation in order to maximize returns for shareholders or providers of capital. The broader definition recognizes that firms do not just exist to create value to the providers of capital but for the benefit of society at large.

The broader view is premised on the fact that the nature of modern short-term investments for quick profit makes it necessary for mechanisms to protect other stakeholders through monitoring the executives, using market-based mechanisms or through government’s regulatory role.

Many theories on corporate governance exist in the literature with the main ones being the agency theory, and the stakeholder theory. The resource dependency, stewardship, political and ethical theories have also been gaining prominence in recent years and more theories continue to evolve. Although the agency theory continues to be the most
prominent and the most widely publicized there is more realization that there are more constituencies interested in the long term survival of businesses than the myopic shareholder view. In fact there seems to be some growing consensus that with the changing nature of business transactions, corporate governance cannot be explained by one theory but a combination of all the theories.

Various models of corporate governance around the world have been discussed. The two prominent models, the Anglo- American Model and the Continental European model are based on the agency and the stakeholder models respectively.

The literature review has demonstrated that corporate governance is importance in enhancing the performance of firms both private and public and state owned enterprises. However it has been acknowledged even with the strictest regulations there have been infringements in corporate governance. It is therefore important to look at new approaches to corporate governance that integrate existing theories and the subjectivity of social sciences.

Literature has also demonstrated that state owned enterprises face different corporate governance challenges from private companies due to their varied roles. In Zimbabwe efforts have been made to improve corporate governance in state enterprises and parastatals based on international best practices. The following theoretical model will be used to analyses the relationship of various factors on corporate governance on performance in state enterprises and parastatals in Zimbabwe.

In Zimbabwe there are several factors that affect performance of state enterprises and parastatals. These include the lack of clarity of the roles of the Minister and the Board in managing the affairs of the parastatal or state enterprise. The political environment therefore has an impact on the performance of state enterprises as Boards are appointed by the Minister and the CEO’s appointment is subject to the Minister’s approval. Under these circumstances the independence of the Board is questionable. Good corporate governance practices can help in clarifying roles and ensuring
independence of the Boards and ensuring they are professional and properly constituted. The development of the Corporate Governance Framework for State Enterprises and Parastatal shows the Government’s commitment towards improving their performance through good corporate governance. The following conceptual framework will help in analyzing corporate governance is state enterprises and parastatals

**Figure 2: Conceptual framework**

A number of factors of corporate governance have been selected and their impact on performance of state enterprises in Zimbabwe will be analyzed taking into account the contextual variables together with the control variables. A selection of performance variables that are measurable will also be identified. The contextual variables, Economics, Politics, Technology, Social and Ecological were not included in the model but will be considered for future research.
2.11 Conclusion

This chapter reviewed literature on corporate governance including the definition and theories. It also reviewed the literature on corporate governance in state enterprises and literature in state enterprises and parastatals in Zimbabwe. The Chapter went further to review literature on the relationship between corporate governance and performance of state enterprises. A conceptual framework was developed to analyse the impact of independent, variables on the performance of state enterprises and parastatals.

The next chapter will focus on the study methodology.
Chapter 3: Study Methodology

3.1 Introduction
The previous chapter explored literature on corporate governance in general and specifically in state owned enterprises. Literature on the relationship of good corporate governance and performance was also reviewed. The literature search was to form the basis for the empirical study that ensued.

In this chapter the researcher will present the methodology utilized for the study including the research design, research philosophy, sampling, data collection techniques and tools, data analysis and research limitations.

3.2 Research Philosophy
Two research philosophies have been identified namely; positivism and interpretivism. Under the positivist philosophy the researcher assumes the role of an analyst who makes detached interpretations about data collected in a value free manner (Saunders et al, ibid. This view is supported by Westhuizen and Abrahams (2002) who observe that positivism presents the researcher as a separate object and autonomous expert who acts on the respondent. This is why many view it as an objective approach to research. Saunders claims that the researcher is neither affected nor affects the subject of research because he or she is independent of the subject.

Saunders, Lewis and Thornhill (2003) argue that in the interpretivist philosophy generalizability is not of crucial importance. The approach views reality as a social construct and realizes there may be different interpretations of the same situation in which people find themselves. People therefore interact with their environment and endeavour to make sense of it through their interpretation of events and the meanings they draw from these.

This study followed a positivism philosophy where the researcher assumes the role of an analyst making detached interpretations about data collected in a value free manner using a questionnaire.
From the above research approaches stems the deductive and the inductive approaches. The deductive approach seeks to explain causal relationships between variables and involves developing a hypothesis which is subsequently tested through collection of primary data. Under this approach concepts need to be operationalized in a way that allows facts to be measured quantitatively (Saunders et al., 2003:86). The main advantages of a deductive approach are that it stresses numerical analysis and objectivity, reliability and replication of findings. The disadvantage of this approach is that the validity of the findings may be compromised where social phenomena may not be properly measured and quantified.

The alternative to the deductive approach is the inductive approach which was developed to overcome the shortcomings of the former. Unlike the deductive approach where the researcher moves from theory to data, the inductive approach postulates that theory follows data i.e. the researcher gathers data first’ and then derive a theory about the research phenomena. The inductive approach put emphasis on collection of qualitative data. A shortcoming of this approach is the subjectivity of the researcher that will likely affect the reliability of the data.

This study was conducted in order to assess the relationship between corporate governance and performance in state enterprises and parastatals in Zimbabwe. Since the study involved cause and effect between corporate governance and performance it was decided to adopt the deductive approach rather than using qualitative methodology to gather the data.

The credibility of findings and conclusions extensively depend on the research design, data collection method(s), data management, and data analysis and interpretation. This chapter will be dedicated to the description of the methods and procedures used in order to obtain the data, how they will be analysed, interpreted, and how the conclusions will be arrived at.

3.3 Research Design
A research design is a series of advance decisions that taken together comprise a model of how the investigation will be conducted (Bryman, 1998). McMillan and
Schumacher (1997) added that research design is used to obtain evidence to answer possible research questions. It can be considered a blueprint to guide data collection, data processing and information transmission. Within each major methodology are various designs that provide a framework or philosophy for the study and are different from the actual methods used. For example, a case study design focuses on exploring and describing a specific instance, a person or group while observations, interviews or self-reports can be used to create a complete picture. This picture or case provides a detailed example of a phenomenon that can then be generalized to a similar population. To validate the data the researcher compares different sources, situations, and methods to see whether the same pattern keeps occurring. According to Delport (2002:79) there are two well-known and recognized approaches to research namely: qualitative paradigm and quantitative paradigm. The other less-used is the mixed approach.

According to "Qualitative Research Methods: A Data Collector's Field Guide," published by Family Health International, qualitative research seeks to explore a specific phenomenon, not prove a prediction. Often used in the social sciences and education, qualitative methodologies use interviews, focus groups and observations to collect data. Qualitative methods provide rich, contextual explorations of the topic that are often personally or culturally meaningful. Burns and Grove (1993:777) define qualitative research as a formal, objective, systematic, process to describe and test relationships and examine cause and effect interactions among variables. According to Fryer (1991) qualitative researchers aim to decode, describe, analyze, and interpret accurately the meaning of a certain phenomenon happening in their customary and social contexts. Qualitative research provides a rich and well-grounded descriptions and explanations as well as unforeseen issues.

The role of the researcher in qualitative research relates to empathetically understanding, personal involvement and partiality, while the quantitative researcher is involved in objective portrayal, detachment and impartiality.

On the other hand, quantitative research is more objective where the researcher coins a hypothesis and then tests it through structured means. Instead of exploring or
describing a phenomenon, quantitative methods deal with facts and statistics. Quantitative data collection procedures create epistemological postulations that reality is objective and unitary. It also helps the researcher in avoiding bias in gathering and presenting data. According to Cassell and Symon (1994) measurement in quantitative research is valid, reliable, and can be generalized with clear anticipation of cause and effect. However this method is more useful when the study need to measure cause and effect relationships evident between pre-selected and discrete variables. While quantitative research may be more rigorous in application it is inflexible and does not allow for unforeseen findings for new theory construction.

The researcher adopted the quantitative research methodology since the research involved cause and effect between pre-selected discrete variables, namely: corporate governance and performance of parastatals and state enterprises.

3.4 Study Population and Sampling

Burns and Groove (1993:779) defined a population as all elements (individuals, objects, and events) that meet the sample criteria for inclusion in the study. Leedy and Omrod (2001:218) contend that a population has the following characteristics:

- A generally homogeneous group of individual units
- Contains definite strata that are approximately equal in size
- Contains different strata that appear in different proportions within the population
- Consists of clusters whose characteristics are as heterogeneous as those of the overall population.

The population consisted of 80 state enterprises and parastatals. For studies of large populations it is necessary to select a representative sample of the population whose characteristics can be used as inference for the whole population. This is done for expediency since it will be too time consuming and costly to study the whole population. According to Bless and Higson-Smith (2000:156) a sample refers to the group of elements drawn from the population which is considered to be representative of the population. Strydon and Venter (2000:199) added that people are interested in
describing the sample as a means of helping them to explain some facet of the population.

The size and representativeness of the sample and the sampling technique used, determine the accuracy of the outcome of the inference on a given population. Strydon and Venter (2000:199) indicated that in most cases a sample of 10% is sufficient for controlling sample errors.

3.4.1 Sampling Techniques

There are two main types of sampling techniques used in research, probability and non-probability. Under probability sampling it is possible to calculate the probability that any sampling unit can be selected from the population. There are a number of probability sampling techniques namely; simple random, stratified random, systematic, cluster and multistage. Simple Random Sampling involves selection at random from a list of population of the required number of units from the sample (Merrien and Simpson, 1984). If properly conducted it gives each unit and equal chance of being included in the sample.

Stratified Random Sampling, also sometimes called proportional or quota random sampling, involves dividing your population into homogeneous subgroups and then taking a simple random sample in each subgroup. In systematic sampling the first element in the sample is chosen at random. Then the next elements are chosen in a systematic fashion. For example, the first element will be chosen at random then every tenth element will be included in the sample. Since these types of samples are systematic and do not need a static population base, they can be used for process sampling. In fact systematic sampling is one of the most popular methods used for process sampling. Multi-stage sampling involves combining different sampling methods. In this case, there are three or four stages in the sampling process and using both stratified and simple random sampling. Cluster sampling is used when the population groups are separated and access to all is difficult, for example in many distant cities.

The non-probability sampling techniques include quota, selective and ethnographic methods. Quota sampling method is divided into proportionate and non-proportionate
where for a particular analysis and valid results, you can determine the number of people you need to sample. In particular when you are studying a number of groups and when sub-groups are small, then you will need equivalent numbers to enable equivalent analysis and conclusions. In proportionate quota sampling the sample is chosen in proportion to population sub-groups. This method is used when normal sampling may not give enough in minority groups. Where there is likely to be a wide variation in the studied characteristic within minority groups, non-proportionate quota sampling can be used by taking the minimum number from each sub-group.

In using selective sampling techniques the study leads you to target particular groups. This also applies when typical opinion may get lost in a wider study, and when the researcher is able to identify the 'typical' group. Under selective sampling falls purposive sampling (based on intent), expert sampling (seeking 'experts'), snowball sampling (ask for recommendations), diversity sampling (the researcher is deliberately seeking variation or is specifically seeking differences, eg. to identify sub-groups or potential conflicts).

Good sampling is time-consuming and expensive. Not all researchers have the time or funds to use more accurate methods. There is a price, of course, in the potential limited validity of results. A researcher can also use convenience sampling methods that is using who's available. These include; Snowball sampling (ask for recommendations), Judgment sampling (guess a good-enough sample).

The last type of sampling methods is ethnographic methods where the researcher is ethically and socially able to ask and seek similar subjects. When doing field-based observations, it is often impossible to intrude into the lives of people you are studying. Samples must thus be surreptitious and may be based more on who is available and willing to participate in any interviews or studies. Ethnographic method include; selective sampling (gut feel), theoretical sampling (theories are emerging and focused sampling may help clarify these), convenience sampling (use who's available because you cannot proactively seek out subjects), and judgment sampling (guess a good-enough sample, you are the expert and there is no other choice).

There are a total of 80 state enterprises and parastatals in Zimbabwe and it was not possible to carry out a survey on all of them. The study sample was obtained by using the stratified random sampling technique. The state enterprises and parastatals were divided into three groups or strata namely: regulatory (16), commercial (24), and social.
The researcher obtained a sample of 20 out of a population of 80 state enterprises and parastatals. This constitutes 25% of the population which is above the 10% minimum threshold.

The sample was obtained by assigning a number to each state enterprise and parastatal and simple random sampling was used to select a quarter out of each strata. This amounted to a sample of 20 state enterprises. The same was done for the other two strata. Each parastatal or state enterprise was given 6 questionnaires making a total of 120 questionnaires. An average of 3 questionnaires was received back from each enterprise making a total of 62 responses which is about 50%.

3.5 Research Instrument
There are a number of research instruments that a researcher can use to gather data depending on the type of study. These include questionnaires, interviews, observation, case studies, and participatory research. This study utilized the questionnaire which is the mostly used for quantitative research.

A questionnaire was developed and used as the survey instrument for the study. (See Appendix 1) The questionnaire was divided into three main sections: profile, survey and comments. The profile section dealt with demographic characteristic of the respondents such as name, period of employment, and designation. The questions focussed on the role of the minister, role of the board, board composition, size, committees, tenure, and separationof responsibilities, frequency of meetings, transparency and disclosure.

The results of the survey were then interpreted to determine the extent to which good corporate governance factors impacted on performance of state enterprises and parastatals.

3.6 Pre-testing of the Questionnaire
A pre-test refers to a trial administration of an instrument to identify any flaws. When a questionnaire is used as a data gathering instrument it is necessary to determine whether questions and directions are clear to respondents and whether they understand what is required of them (Polit and Hungler 1995:711).
The questionnaire was pre-tested with 4 respondents to check whether the questions were clear but the responses did not form part of the study results. Suggestions made for improvement, were incorporated in the final questionnaire which was administered to the sample population.

3.7 Data Collection

According to Merril (1970) data can either be primary or secondary. He defined primary data as raw data that is gathered through a structured questionnaire while secondary data can be obtained through published material.

3.7.1 Primary Data Collection

Primary data was obtained through a self-administered structured questionnaire which was the most appropriate data gathering method for this study. A questionnaire survey was used because it enables the researcher to obtain information from a population too large for observation (Mouton 1996: 232). According to Polit and Hungler (1993:148) a survey can also obtain information from a sample of population by means of self-report, that is, the respondents respond to a series of questions paused by the researcher.

A structured questionnaire has the advantage that all respondents reply to the same questions which makes it easy to analyse and compare information. In this particular study a questionnaire was easy to administer since the study population comprised of institutions rather than individuals. Written questionnaires are also appropriate because they provide written information which cannot be refuted or misrepresented.

The questionnaire used the Likert scale format. A Likert scale is a psychometric scale commonly involved in research that employs questionnaires. It is the most widely used approach to scaling responses in survey research, such that the term is often used interchangeably with rating scale, or more accurately the Likert-type scale, even though the two are not synonymous.

Likert (1932) developed the principle of measuring attitudes by asking people to respond to a series of statements about a topic, in terms of the extent to which they
agree with them, and so tapping into the cognitive and affective components of attitudes.

Likert-type or frequency scales use fixed choice response formats and are designed to measure attitudes or opinions (Bowling 1997, Burns & Grove 1997). These ordinal scales measure levels of agreement/disagreement.

A Likert-type scale assumes that the strength/intensity of experience is linear, i.e. on a continuum from strongly agree to strongly disagree, and makes the assumption that attitudes can be measured. Respondents may be offered a choice of five to seven or even nine pre-coded responses with the neutral point being neither agree nor disagree.

In its final form, the Likert Scale is a five (or seven) point scale which is used to allow the individual to express how much they agree or disagree with a particular statement.

Likert Scales have the advantage that they do not expect a simple yes / no answer from the respondent, but rather allow for degrees of opinion, and even no opinion at all. Therefore quantitative data is obtained, which means that the data can be analyzed with relative ease.

However, like all surveys, the validity of Likert Scale attitude measurement can be compromised due the social desirability. This means that individuals may lie to put themselves in a positive light. For example, if a Likert scale was measuring discrimination, who would admit to being racist?

Offering anonymity on self-administered questionnaires should further reduce social pressure, and thus may likewise reduce social desirability bias. Paulhus (1984) found that more desirable personality characteristics were reported when people were asked to write their names, addresses and telephone numbers on their questionnaire than when they are not asked to put identity information on the questionnaire. All the questionnaires were physically handed to the recipients. The respondents were given five days to respond to the questionnaire and follow up telephone calls were made to remind them. Personal information was made optional.
3.7.2 Secondary Data
Secondary data was collected through the review of literature from books, journals, publications and newspaper articles.

3.8 Data Processing and Analysis
Data from the questionnaires was manually captured onto an excel spreadsheet. Without a good data analysis technique it is impossible to come up with meaningful findings. The data analysis was performed using a StatisticalEpiInfo package. The analysis involved the following:

- A database was created entering all the Likert items
- Data from the questionnaire was captured into the database and cleaned
- The Epi info was run to perform various statistical tests, frequency, test for normality, reliability of data, cross tabulation, correlation and regression
- Data was then interpreted to answer the research question and to prove or disprove the hypotheses.

The statistical package had comprehensive data manipulation tools.

Validity and Reliability
Mason (2004) refers to validity as ensuring that you are observing, identifying or measuring what you say you are. Validity is a function of accuracy of data while reliability is that when you repeat the same study you get the same results. The researcher’s prior knowledge of the subject under research and secondary data were used to assess the validity of data provided by the respondents. Comparative analysis of responses from the different state enterprises and parastatalsalsoassured validity since there isgiven similarities amongst them. The fact that most of the respondents know the researcher and that the researcher has some knowledge of these entities reduced the tendency to give the wrong information. There is also a threat to validity if the data is not collected from appropriate samples and if data is collected using wrong instruments. The right questions also need to be asked in order to come up with meaningful data.
The research instruments used to measure data should be reliable. According to Saunders et al (2003) reliability refers to the degree to which data collection tools will yield the same results when repeated. The reliability of research instruments refers to the extent to which measuring instruments contain variable errors that appear inconsistently from observations during any one measurement by the same instrument (White, 2000:47)

Threats to reliability include: observer bias; observer error, participant error, and participant bias. The simplicity and clarity of questions can also reduce the temptation to give wrong answers. The pre-testing of the questionnaire was meant to ensure that the questions were clear and easy to respond. Validity and reliability of data was measured using the Conbach alpha coefficient.

### 3.9 Ethical Considerations

Ethical considerations in research on human subjects are important to protect the rights of the respondents. This requires diligence and expertise on the part of the researcher.

To ensure that the respondents were not constrained in terms of releasing sensitive information, and given the recent topical issues of salaries of CEOs of state enterprises, the questionnaire was administered directly to the individual and not to the head of the organization concerned. This also ensured that the respondent’s identity was protected. The key ethical issues considered were consent and confidentiality. The researcher took pains to explain the purpose of the study in order to assure the respondents that the information was not going to be used for any sinister motive and was going to be kept confidential. The respondents were also told that they are free to refuse to answer any question should they feel uncomfortable with it. The provision of the name of the respondent was also optional to give further comfort to the respondent. What was of importance to the researcher was the name of the organization.

### 3.10 Conclusion

The chapter looked at the study methodology including the design, philosophy, sampling techniques, selection of survey instrument, data collection and synthesis and data analysis and interpretation. The next chapter will discuss the findings of the study.
Chapter 4: Research Findings

4.0 Introduction
In this chapter an analysis of the findings of the study will be carried out to determine the linkage between corporate governance factors and performance of state enterprises and parastatals. The findings will be analysed with the view to answer the research questions in chapter one.

4.1 Response rate
Questionnaires were physically distributed to 20 state enterprises and parastatals and collected by the researcher. Out of the 120 questionnaires distributed 62 were returned constituting 51%. One questionnaire was discarded since it was not properly completed. The response rate was affected by the fact that the targeted respondents were ministers, permanent secretaries and senior management in SEPs who are too busy to find time to fill in questionnaires.

4.2 Research results
In terms of procedure a reliability check of the statistical data produced was done by checking errors in data entry and elimination of unwanted data. The data was subjected to the following tests:

- Cronbach Alpha co-efficient to test reliability
- Statistical significance of the data
- Cross-tabulation between control variables and the dependent variable
- Chi-square tests for testing relationship between the independent and the dependant variables
- Correlation coefficient to test the relationship between independent and dependent variables
- Regression analysis to test whether independent variables can predict the dependent variable
4.3.1 Demographic Data
The respondents of the questionnaire were classified in terms of designation, length of service in the organization, academic qualifications and gender. The analysis looked at whether the responses were influenced by these classifications.

Test for Normality
The normality test hypotheses are given as follows;
H0: The observed distribution fits the normal distribution.
H1: The observed distribution does not fit the normal distribution.

Accepting the null hypothesis implies assuming that the data is normally distributed. We carried the Kolmogorov-Smirnov test for normality for it is a better test for samples sizes between 3 and 2,000.

The close examination of the p-values above shows that 6 of the 10 p-values are not statistically significant so we can conclude that a test for normality carried out at a 95% confidence level reveals that our data is generally normally distributed implying that parametric tests can be used to analyse the data and that it can be used to infer on the population.

Reliability – Cronbach’s Alpha
To test the effect of the different factors as predictors of performance one would want to ensure there is internal consistency within the instrument and that all the study factors were measuring performance perception. As such the greater the consistency, the greater the reliability of the measuring procedure.
Table 4.1: Test of Normality

<table>
<thead>
<tr>
<th>Factor</th>
<th>Kolmogorov-Smirnova</th>
<th>Shapiro-Wilk</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Statistic</td>
<td>df</td>
</tr>
<tr>
<td>RoleMinT</td>
<td>0.114</td>
<td>56</td>
</tr>
<tr>
<td>RoleBodT</td>
<td>0.124</td>
<td>56</td>
</tr>
<tr>
<td>CompBodT</td>
<td>0.083</td>
<td>56</td>
</tr>
<tr>
<td>BodComT</td>
<td>0.184</td>
<td>56</td>
</tr>
<tr>
<td>BodTenureT</td>
<td>0.118</td>
<td>56</td>
</tr>
<tr>
<td>RemuneratT</td>
<td>0.106</td>
<td>56</td>
</tr>
<tr>
<td>BodEvaT</td>
<td>0.149</td>
<td>56</td>
</tr>
<tr>
<td>FreqT</td>
<td>0.211</td>
<td>56</td>
</tr>
<tr>
<td>DisclosT</td>
<td>0.131</td>
<td>56</td>
</tr>
<tr>
<td>PerfT</td>
<td>0.117</td>
<td>56</td>
</tr>
</tbody>
</table>

* This is a lower bound of the true significance.

a. Lilliefors Significance Correction

Table 4.2: Cronbach Alpha

<table>
<thead>
<tr>
<th>Factor</th>
<th>Cronbach Alpha</th>
<th>No. of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minister</td>
<td>0.397</td>
<td>6</td>
</tr>
<tr>
<td>Board</td>
<td>0.775</td>
<td>12</td>
</tr>
<tr>
<td>Board Composition</td>
<td>0.694</td>
<td>6</td>
</tr>
<tr>
<td>Board Committees</td>
<td>0.732</td>
<td>5</td>
</tr>
<tr>
<td>Board Tenure</td>
<td>-0.851</td>
<td>4</td>
</tr>
<tr>
<td>Remuneration</td>
<td>0.763</td>
<td>6</td>
</tr>
<tr>
<td>Board Evaluation</td>
<td>0.739</td>
<td>5</td>
</tr>
<tr>
<td>Frequency</td>
<td>-0.076</td>
<td>4</td>
</tr>
<tr>
<td>Disclosure</td>
<td>0.749</td>
<td>3</td>
</tr>
<tr>
<td>Performance</td>
<td>0.759</td>
<td>9</td>
</tr>
</tbody>
</table>
The table above shows that the Cronbach’s Alpha values for the role of the Minister, Board Tenure and Frequency of Board Meetings were below the threshold values of 0.7. Using the ‘Cronbach’s Alpha ‘if item deleted’ function in Epi Info, these three factors were removed from further analysis, suggesting that the remaining factors were reliable.

**Cross Tabulation**

After carrying out the descriptive analyses we performed cross tabulations to determine if there were statistically significant differences between perception and gender, designation, length of service and academic qualifications. The study variables were measured on 5-point strength of agreement scale (strongly disagree, disagree, neutral, agree, and strongly agree).

We test the following hypothesis

H0: People in different positions perceive things the same way

H1: People in different positions perceive things differently

The tables below are outputs from SPSS statistical package

**Table 4.3: Designation**

<table>
<thead>
<tr>
<th>Chi-Square Tests</th>
<th>Value</th>
<th>Df</th>
<th>Asymp. Sig. (2-sided)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Chi-Square</td>
<td>110.258*</td>
<td>80</td>
<td>.014</td>
</tr>
<tr>
<td>Likelihood Ratio</td>
<td>65.336</td>
<td>80</td>
<td>.882</td>
</tr>
<tr>
<td>Linear-by-Linear Association</td>
<td>.001</td>
<td>1</td>
<td>.974</td>
</tr>
<tr>
<td>N of Valid Cases</td>
<td>56</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. 105 cells (100.0%) have expected count less than 5. The minimum expected count is .02.
The results show a Pearson Chi-Square value of 0.014 which is statistically significant as it less than 0.05. We reject the null hypothesis at the 5% level of significance and conclude that people in different positions perceive things differently. This may be due to communication and information asymmetries present in organizations.

We test the following hypothesis

H0: Perception is independent of length of service

H1: Perception is dependent on length of service

The table below is an output from an SPSS statistical package

Table 4.4: Length of Service

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th>df</th>
<th>Asymp. Sig. (2-sided)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Chi-Square</td>
<td>44.794⁷</td>
<td>40</td>
<td>.278</td>
</tr>
<tr>
<td>Likelihood Ratio</td>
<td>52.625</td>
<td>40</td>
<td>.087</td>
</tr>
<tr>
<td>Linear-by-Linear Association</td>
<td>5.321</td>
<td>1</td>
<td>.021</td>
</tr>
<tr>
<td>N of Valid Cases</td>
<td>56</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. 63 cells (100.0%) have expected count less than 5. The minimum expected count is .21.

The results show a Pearson Chi-Square value of 0.278 which is not statistically significant as it more than 0.05. We do not reject the null hypothesis at the 5% level of significance and conclude that length of service does not influence people perception on performance.

We test the following hypothesis
H0: Perception is independent of level of education

H1: Perception is dependent on level of education

The table below is an output from an SPSS statistical package

Table 4.5: Academic Qualifications

Chi-Square Tests:

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th>Df</th>
<th>Asymp. Sig. (2-sided)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Chi-Square</td>
<td>42.960*</td>
<td>60</td>
<td>.953</td>
</tr>
<tr>
<td>Likelihood Ratio</td>
<td>38.714</td>
<td>60</td>
<td>.985</td>
</tr>
<tr>
<td>Linear-by-Linear</td>
<td>1.601</td>
<td>1</td>
<td>.206</td>
</tr>
<tr>
<td>N of Valid Cases</td>
<td>56</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. 82 cells (97.6%) have expected count less than 5. The minimum expected count is .02.

The results show a Pearson Chi-Square value of 0.953 which is not statistically significant as it more than 0.05. We do not reject the null hypothesis at the 5% level of significance and conclude that level of education does not influence people perception on performance.

We test the following hypothesis

H0: Perception is independent of gender

H1: Perception is dependent on gender

The table below is an output from an SPSS statistical package
Table 4.6: Gender

Chi-Square Tests

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th>Df</th>
<th>Asymp. Sig. (2-sided)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Chi-Square</td>
<td>21.670a</td>
<td>20</td>
<td>.359</td>
</tr>
<tr>
<td>Likelihood Ratio</td>
<td>25.833</td>
<td>20</td>
<td>.171</td>
</tr>
<tr>
<td>Linear-by-Linear Association</td>
<td>6.312</td>
<td>1</td>
<td>.012</td>
</tr>
<tr>
<td>N of Valid Cases</td>
<td>56</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. 40 cells (95.2%) have expected count less than 5. The minimum expected count is .25.

The results show a Pearson Chi-Square value of 0.359 which is not statistically significant as it more than 0.05. We do not reject the null hypothesis at the 5% level of significance and conclude that gender does not influence people perception on performance.

Correlations

Correlation was used to measure the magnitude, direction and significance of linear relationships between two variables. The least value taken by the correlation coefficient is a -1 indicating a perfect inverse relationship between the two variables. A value of zero means there is no relationship with the maximum value being a +1 (perfect positive relationship).

The correlation coefficient between variables Performance and Role of Board is 0.164 indicating a weak positive relationship.

The correlation coefficient between variables Performance and Composition of Board is -0.033 indicating a nearly non-existent relationship. The correlation coefficient between
variables Performance and Board composition is 0.089 indicating a very weak positive relationship.

Table 4.7: Correlation

<table>
<thead>
<tr>
<th>RoleBodT</th>
<th>CompBodT</th>
<th>BodComT</th>
<th>BodTenureT</th>
<th>RemuneratT</th>
<th>BodEvaT</th>
<th>FreqT</th>
<th>DisclosT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pearson Correlation</td>
<td>.496**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pearson Correlation</td>
<td>.334*</td>
<td>.448**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.012</td>
<td>.001</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pearson Correlation</td>
<td>.083</td>
<td>-.091</td>
<td>.000</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.541</td>
<td>.506</td>
<td>.999</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pearson Correlation</td>
<td>.386**</td>
<td>.481**</td>
<td>.250</td>
<td>.019</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.003</td>
<td>.000</td>
<td>.063</td>
<td>.892</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The correlation coefficient between variables Performance and Remuneration is 0.348 indicating a moderate positive relationship.

The correlation coefficient between variables Performance and Board Tenure is -0.054 indicating a very weak negative relationship.

The correlation coefficient between variables Performance and Board Evaluation is 0.260 indicating a weak positive relationship.

The correlation coefficient between variables Performance and Frequency of Board Meetings is 0.210 indicating a weak positive relationship.

The correlation coefficient between variables Performance and Disclosure & Transparency is 0.210 indicating a weak positive relationship.
A closer examination of the correlation coefficients shows that only the relationship between performance and remuneration, with a p-value of 0.009 is statistically significant if the test is carried out at the 99% level of confidence. All the other factors have no significant effect on performance.

**Table 4.8: Regression**
The goodness-of-fit of the model can also be tested by regression analysis.

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std Error of Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.513(^a)</td>
<td>.263</td>
<td>0.138</td>
<td>5.276</td>
</tr>
</tbody>
</table>

The value of the Regression Coefficient is 0.513. This value would result in a Coefficient of Determination of 0.263 implying that 26.3% of the variation in performance in being explained by the model. There are other things that explain performance which have not been covered in this study and these would explain the remaining 73.7% variation in performance.

**Analysis of Variance**
We test the goodness-of-fit of the model using analysis of variance (ANOVA). The null and alternative hypotheses are stated as follows;

HO: The model is not a good model to test perception of performance

H1: The model is a good model to test perception of performance.

Below is the ANOVA table from SPSS output.
Table 4.9: ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>466.788</td>
<td>8</td>
<td>58.349</td>
<td>2.096</td>
<td>.055</td>
</tr>
<tr>
<td>Residual</td>
<td>1308.337</td>
<td>47</td>
<td>27.837</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1775.125</td>
<td>55</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: PerfT

b. Predictors: (Constant), DisclosT, FreqT, RoleBodT, BodTenureT, RemuneratT, BodComT, BodEvaT, CompBodT

F-value of 2.096 is small and not statistically significant. The p-value of 0.055 is more than the critical p-value of 0.05 if we are testing at a 95% confidence level so we do not reject the null hypothesis and conclude that the model is not a very good model to test perception of performance.

Coefficients

From the table below, Board Composition and Remuneration have p-values of 0.046 and 0.024 respectively and both these are less than the critical p-value of 0.05 if the test is carried out at the 5% level of significance. We can therefore conclude that Board Composition and Remuneration are the only predictors of performance. Thus the Corporate Governance model of government is not a good model.
<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>12.649</td>
<td>9.379</td>
<td></td>
<td>1.349</td>
</tr>
<tr>
<td>RoleBodT</td>
<td>.048</td>
<td>.078</td>
<td>.097</td>
<td>.612</td>
</tr>
<tr>
<td>CompBodT</td>
<td>-.561</td>
<td>.273</td>
<td>-.348</td>
<td>-2.053</td>
</tr>
<tr>
<td>BodComT</td>
<td>.024</td>
<td>.318</td>
<td>.013</td>
<td>.077</td>
</tr>
<tr>
<td>BodTenureT</td>
<td>-.380</td>
<td>.425</td>
<td>-.126</td>
<td>-.893</td>
</tr>
<tr>
<td>RemuneratT</td>
<td>.586</td>
<td>.251</td>
<td>.377</td>
<td>2.333</td>
</tr>
<tr>
<td>BodEvaT</td>
<td>.188</td>
<td>.280</td>
<td>.112</td>
<td>.673</td>
</tr>
<tr>
<td>FreqT</td>
<td>.622</td>
<td>.477</td>
<td>.180</td>
<td>1.304</td>
</tr>
<tr>
<td>DisclosT</td>
<td>.348</td>
<td>.471</td>
<td>.126</td>
<td>.739</td>
</tr>
</tbody>
</table>
An examination of the regression results shows that the variance inflation factors (VIF) were all greater than 1 but less than 10 indicating that there was no co-linearity amongst the variables.

4.3 Conclusion

In this chapter the researcher was trying to test the model on whether it can prove the link between corporate governance and performance of state enterprises and parastatals. The model which is presented in chapter 2 seeks to assess the relationship between (the role of the minister, the role of the board, board composition and expertise, board committees, tenure of the board, board and CEO remuneration, frequency of board meetings, disclosure and transparency) and organization’s performance.
First a descriptive analysis of frequency table generated through SPSS statistical package were analyzed to see whether a relationship existed between corporate governance factors and performance. A weak to the medium relationship was found.

A reliability check was done and it was found that three variables (the role of the minister, frequency of board meetings and board tenure) were not reliable and were removed from further analysis.

Crosstabulation was carried out to test the linkage between the control variables (gender, level of education and designation) and performance. It was found that only level of education influenced the perception on performance.

Correlation coefficient was measured to test the relationship between dependent and independent variables. It was found that the only relationship was between remuneration and board composition and performance. Only 26.3% of the variation in performance is being explained by the model. There are other things that explain performance which have not been covered in this study and these would explain the remaining 73.7% variation in performance.

A regression analysis was also done and it was found that the model was not a good model for testing relationship between the dependent and independent variables. We can therefore conclude that Board Composition and Remuneration are the only predictors of performance. Thus the Corporate Governance model of government is not a good model. An examination of the regression results shows that the variance inflation factors (VIF) were all greater than 1 but less than 10 indicating that there was no co-linearity amongst the variables.
Chapter 5: Conclusions and Recommendations

5.1 Introduction
The study focused on how corporate governance impacts on performance of state enterprises and parastatals. Corporate governance factors included in the study were: the role of the minister, the role of the Board, Board composition and expertise, Board tenure, frequency of board meetings, board evaluation, Board and CEO remuneration, Board committees, Board evaluation and disclosure and transparency. The performance indicators used for the study included: profitability, ability to pay salaries, management of risk, production of audited financial statements, level of achievement of Key Result Areas or Key Performance Indicators, and whether or not receiving funding from government.

The study was carried out through a survey using a questionnaire. The questionnaire was administered to 20 pre-selected state enterprises and parastatals. The data gathered was analysed and interpreted together with the secondary data obtained through a literature review. The conclusions that follow will be made from the literature review and the analysis and interpretation of data.

5.2 Conclusion
The study arrived at the following conclusions with regard to the objectives of the study. The first objective was to assess the extent to which different corporate governance factors influence the performance of state enterprises and parastatals in Zimbabwe.

Literature has shown that firms that practice good corporate governance perform better in terms of profitability and cost of capital. However, it was acknowledged that different factors of corporate governance have different impacts across countries. For instance transparency and disclosure are linked to higher performance in some countries and in other countries presence of independent directors is positively linked to higher performance. In Zimbabwe the study found that Board composition and remuneration have a more positive impact of the performance of SEPs.
Role of the Minister
From the literature the role of the minister as the shareholder in state enterprises and parastatals is critical in determining the performance of the entity through setting policy and appointing a board to run the enterprise or the parastatal. However literature has also shown that there is the tendency by Ministers to interfere with the board through non-policy directives. This impact negatively on the performance of the SEPs. However from the results of this study the role of the Minister shows no impact on performance of the state enterprise or parastatal. The reason for this negative correlation between the role of the Minister and the performance of the parastatal or state enterprise can be because of political, economic, ecological and technological variables that were not factored into the model. This is an area that needs further investigation.

Role of the Board
The role of the board is central to corporate governance and the performance of any organization especially with respect to its role to develop the strategy, supervising management and ensuring that the interests of the shareholder and other stakeholders are upheld. According to the literature for the board to fulfill its role, it needs the right calibre and number of directors, effective and supportive committees, majority of non-executive and independent directors, independence in executing its mandate, meets regularly, and is able to access all vital information on the organization. The board serves as the bridge between the shareholder and management and ensures that the interests of all stakeholders are protected.

This study showed that only Board expertise and remuneration have some impact on performance while the other factors have weak or no effect. This study concluded that if the right people with expertise are appointed to the board then performance will improve. The other variables like the number of committees, the balance between executive and non-executive directors, tenure of the board, duality of responsibility have not much bearing on performance.
**Remuneration**

Literature has found no relationship between remuneration and the ability to attract of directors with the right skills. However the study found some moderate correlation between remuneration and organization’s performance. This study can then conclude that remuneration particularly that of management has an impact on an organization’s performance as it lessens the agency problem.

The second objective was to understand the challenges in applying corporate governance best practices in state enterprises and parastatals. It can be concluded from the study that the following are the challenges in applying good corporate governance principles and procedures in most state enterprises and parastatals:

- In a number of cases SEPs have no boards and those that have the boards they are not properly constituted.
- The lack of clarity of roles between the Minister, and the board makes it difficult for most boards to execute their mandates effectively.
- There is no effective board evaluation system. Although the Minister is expected to sign performance contracts with boards these are not adhered to in most instances.
- Most appointments to boards are political making most of the boards to concentrate on conformance rather than performance and hence becoming ineffective.

The third objective was to evaluate whether designation, gender, level of education and length of service have an impact on perception on corporate governance.

The respondents to the questionnaire were classified into four categories namely: designation, level of education, length of service and gender.

It can be concluded from the study that level of education, gender and length of service have no impact on a person’s perception of corporate governance matters. However, it was found out that designation conclude that people in different positions perceive things differently. This may be due to communication and information asymmetries present in organizations.
The third objective is to recommend how to improve corporate governance in SOEs. Recommendations are provided in the next section.

5.2.1 Contribution to Literature
Most of the existing literature has looked at the relationship between corporate governance and performance in private companies. Not much literature exist on the relationship between corporate governance in state owned enterprises and performance. This study has started to look at this area and has contributed some insights into state owned enterprises as far as corporate governance is concerned. Some indicators have been developed that can be improved to be able to measure performance of SOEs. The study has moved away from generalizations on linking corporate governance to performance into specific measures that are empirical.

5.3 Recommendations
Based on the findings of this study, the researcher makes the following policy recommendations for the improvement of corporate governance in state enterprises and parastatals in Zimbabwe.

Most boards of state enterprises and parastatals in Zimbabwe are not effective as there is no clarity of roles between the Minister, board and the permanent secretary. Since the board members are appointed by the Minister they tend to focus on conformance instead of performance. The role of the Minister, the board and management including reporting relationships should be well defined preferably in the enabling acts to make it legal requirement. Each state enterprise and parastatals together with the parent ministry should organize a workshop to discuss and agree how to implement the Corporate Governance Framework for state enterprises and parastatals. A reporting format should be developed by the Parastatals Reform Agency for completion by each state enterprise on how they are implementing the Framework on an annual basis.

A mechanism should be agreed to guide boards in setting salaries for CEOs of state enterprises. The cabinet should give clear guideline on the remuneration of heads of state enterprises and parastatals considering the merits of each organization.
All acts establishing state enterprises should specify board composition, tenure, expertise, frequency of board meetings, board committees. This will guide ministers in choosing board members for these entities and will also enhance their performance by getting the right expertise.

There should be a mechanism for evaluating performance of boards by the Minister on the basis of agreed annual key result areas as well as board self-evaluation.

Government should develop a board induction manual which is standard. Many board members are not inducted when they are appointed and are not sure of their duties and responsibilities.

In order to avoid corporate scandals and performance SEPs in Zimbabwe audited financial statements ought to be produced timely.

There is the need to hold workshops for Ministers, permanent secretaries, senior government officials, parastatals officials, and board members on Corporate Governance Framework for State Enterprises and Parastatals and the new national code of ethics.

Boards should submit annual reports to the Minister on their implementation of the corporate governance framework for SEPs.

**5.5 Limitations of the Study**
Due to the recent scandals bedevilling state owned enterprises and parastatals it was very difficult to have either senior government officials or board members to be willing to fill the questionnaire for fear of the information being leaked. This was despite assurances that the information was only going to be used for academic research purposes. Consequently there was a large number of non-managerial staff that participated in the study and at that level most of them are not familiar with board issues. The other limitation was that there were very few board members to participate in the survey because most boards were not yet in place and quite a few had just been
appointed. It was very difficult to have ministers or permanent secretaries to fill in the questionnaire due to pressure of work or non-availability.

For the results of the study to be robust it was necessary to have balanced views of both senior management and board members. The participation of junior employees was a reflection of the hysteria still surrounding corporate governance issues in SEPs

5.6 Areas for Future Research
The conceptual model used in this study was testing the impact of independent variables of corporate governance plus the control variables on the performance of State Enterprises and Parastatals in Zimbabwe. The relationship was ranging from non-existent to weak. However the study did not test the impact of the contextual variables of which the most critical ones are the role of the Minister vis-à-vis the board and the socio-economic factors of setting tariffs for these entities. It will be very interesting in future to investigate the impact of the control variables: political, economic, social, ecological and technological on the performance of SEPs

Another area of future research would be to look at the impact of commercialization and privatization on the performance of these enterprises.
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Annex 1

State Enterprise and Parastatals in Zimbabwe

Regulatory
1. Biotechnology Authority of Zimbabwe
2. Broadcasting Authority of Zimbabwe (BAZ)
3. Civil Aviation Authority of Zimbabwe
4. Environmental Management Agency (EMA)
5. Forestry Commission
6. Lotteries and Gaming Board
7. Medicines Control Authority of Zimbabwe (MCAZ)
8. National Arts Council
9. National Bio-technology Authority of Zimbabwe
10. Parks and Wildlife Management Authority
11. Postal and Telecommunications Regulatory Authority
12. Securities Exchange Commission
13. Sport and Recreation Commission (SRC)
14. Tariffs and Competition Commission
15. Zimbabwe National Water Authority (ZINWA)
16. Zimbabwe Tourism Authority (ZTA)

Commercial SOEs
1. Agricultural Development Bank of Zimbabwe (AGRIBANK)
2. Air Zimbabwe (Pvt) Ltd
3. Allied Timbers Holdings
4. Central Mechanical Equipment Department (CMED)
5. Cold Storage Company (CSC)
6. Hwange Colliery Company Ltd
7. Industrial Development Subsidiaries (IDC)
8. Infrastructure Development Bank of Zimbabwe (IDBZ)
10. National Oil Infrastructure Company of Zimbabwe (Pvt) Ltd. (NOIC)
11. National Pharmaceutical Company (NATPHAM)
12. National Social Security Authority (NSSA)
13. Net One
14. New Zimsteel
15. Peoples' Own Savings Bank (POSB)
16. PETROTRADE Pvt Ltd.
17. PrintflowPvt Ltd.
18. Tel One
19. Powertel
20. Zimbabwe Mining Development Corporation/Subsidiaries
22. Zimpapers
23. ZIMPOST
24. ZIMTRADE

Economic and Social

1. Agricultural and Rural Development Authority (ARDA)
2. Agricultural Marketing Authority
3. Agriculture Research Board
4. Bio-Safety Board of Zimbabwe
5. Board Bio-Technology
6. Central Computing Services
7. Consumer Council of Zimbabwe (CCZ)
8. Pig Industry Board
9. Media and Information Commission
10. National Aids Council of Zimbabwe (NAC)
11. National Indigenization and Economic Empowerment Fund (NIEEF)
12. National Library and Documentation Services
13. National Museums and Monument
14. New Ziana
15. National Railways of Zimbabwe (NRZ) Tobacco Research Board (TRB)
16. Radiation Protection Authority of Zimbabwe
17. Research Council of Zimbabwe (RCZ)
18. Rural Electrification Agency (REA)
19. Scientific and Industrial Research and Development Center (SIRDC)
20. Securities Exchange Commission
21. Small Enterprises Development Corporation (SEDCO)
22. State Procurement Board (SPB)
23. Tobacco Industry and Marketing Board (TIMB)
24. Tobacco Research Board (TRB)
25. Tobacco Industry and Marketing Board (TIMB)
26. Traffic Safety Council of Zimbabwe (TSCZ)
27. Trans-media Corporation
28. Urban Development Corporation (UDCOP)
29. ZARNET
30. Zimbabwe Broadcast Holdings (ZBH)
31. Zimbabwe Investment Authority (ZIA)
32. Zimbabwe Mass Media
33. Zimbabwe Mining Development Corporation (ZMDC)
34. Zimbabwe National Family Planning Council (ZNFPC)
35. Zimbabwe National Road Administration (ZINARA)
36. Zimbabwe Revenue Authority (ZIMRA)
37. Zimbabwe Schools Examination Council (ZIMSEC)
38. Zimbabwe Statistics (ZimStat)
39. Zimbabwe Schools Examination Council (ZIMSEC)
40. ZIMTRADE
Annex 2

Questionnaire on Corporate Governance in State Enterprises and Parastatals in Zimbabwe

The purpose of this questionnaire is for academic research only and the information obtained will only be used for that purpose.

Part A: Personal and General Information (Tick where appropriate)

1. State your designation
   a. Board member
   b. Senior Management
   c. Middle Management
   d. Non-managerial
   e. Other ______________________

2. How long have you been in the organization?
   a) 1-3 years
   b) 4-6 years
   c) 7 years and above

3. Level of Education
   a) Secondary
   b) Diploma
   c) Bachelor’s Degree
   d) Post Graduate
   e) Other

4. Gender
   M   F
Part B: Corporate Governance Factors

1. Strongly Disagree (SDA)
2. Disagree (D)
3. Neutral (N)
4. Agree (A)
5. Strongly Agree (SA)

1. The Role of the Minister

   a) The Minister sets policy
   b) The Minister sets the strategic direction for state enterprises
   c) The Minister appoints Board Members on merit
   d) The Minister issues directives on non-policy issues
   e) The Minister sets tariffs for state enterprises
   f) The Minister interferes with the mandate of the board

2. The role of the Board

   a) The Board formulates the Strategy of the organization
   b) The board appoints the CEO and supervises
executives

c) The board is independent and executes its mandate without interference
d) The Board policies are being followed
e) Sufficient time is allocated for board meetings
f) The Board focuses on performance rather than conformance
g) The Audit committee reports to the board
h) The Board has strong policies on risk management
i) New board members are inducted adequately
j) Board meetings focus on strategic issues
k) Board members input into the agenda
l) Non-executive Board members have separate meetings

3. **Composition and Expertise of the Board**

   a) The Board is gender balanced
   
   b) The number of non-executive directors are more than executive directors
   
   c) Directors possess expertise in a field relevant to the organization’s mandate
d) Board has effective and supportive committees  

e) Board composition is as stipulated in the Act  

f) All Board members are encouraged to participate during board meetings  

g) All or most of the board members are senior civil servants  

4. Board Committees  

a) The board has risk management, audit, remuneration, corporate governance, and nomination committees  

b) Committees meet regularly to advise the board appropriately  

c) All board committees are chaired by non-executive directors  

d) The organization has an internal audit section  

e) The internal Audit section reports to the CEO and the Board
5. Tenure of the board

- The board is appointed for a term of 3 years
- The term of the board is renewed once
- Term of the board is renewed when it expires
- The board continues to sit after the expiry of its term
- The board’s tenure can be indefinite

6. Board and CEO Remuneration

- The board understands and effects appropriate incentives for enhanced performance
- The Board has an effective remuneration committee
- Board approves remuneration packages that reflects the financial status of the organization
- Ministry of State Enterprises and Parastatals sets the remuneration for the Board and Chief Executive.
- Board is sensitive to the organization’s survival when paying bonuses to its executives
- The non-executive directors receive reasonable remuneration
7. Board Evaluation

a) The board insists on measurable, objective, standards for monitoring the organization

b) The Board carries out annual self-evaluation in line with international good corporate governance practices

c) The Board chairman evaluates performance of board members

d) Non-performing board members are removed.

e) The Board has enough independence to perform its mandate

8. Frequency of Board Meetings

a) Board meetings are held as stipulated in the Act

b) Board meetings are held quarterly

b) Board meetings are held bi-annually

d) Directors are too busy to attend board meetings

9. Disclosure and Transparency

a) The Board is fully appraised of the budget before asked to approve
b) The salary for the CEO is revealed in the annual report

c) Audited financial statements made are available to shareholders

d) The Board fully appraised of the audited financial statements before approving

10. Organization’s Performance

a) The organization has made a profit in the last 5 years

b) The organization has broken even in the last 2 years

c) The organization has been able to pay its employees’ salaries in the past 2 years

d) The organization has declared a dividend to government in the past 5 years

e) Organizational risk has been well managed

f) The organization has produced audited financial statements on time

g) The organization has attracted foreign direct investment in the past 5 years

h) The organization has achieved at least 90% of its KRAs or KPIs in the past 5 years

i) The organization has not received funding from government in the last 5 years
Part C: General Questions

11. Do you think good corporate governance has any impact on performance in your organization?
Yes/No. Please explain your answer. -----------------------------------------------
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12. What are the challenges in improving corporate governance in your organization?
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13. How do you see good corporate governance improving your organization’s performance?
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Yes/No. If yes do you think it is helpful in improving corporate governance in your organization?
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15. Do you think there was value in a separate ministry of state enterprise in improving the governance of state enterprises and parastatals?

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16. Do you see the current efforts of commercialization and privatization improving the performance of the concerned state enterprises?

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17. What would you recommend in terms of restructuring of your organization?

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18. Do you have any other comments?

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