

**Shareholder Activism: A fact or fiction. An analysis of Zimbabwean companies
listed on the Stock Exchange.**

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DEDICATION

This dissertation is dedicated to my family.

DECLARATION

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

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Students Signature

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Date

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Supervisor's Signature

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Date

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My utmost gratitude goes to the Almighty God for this far he has brought me, for the strength and wisdom to complete this programme.

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ABSTRACT

Shareholder activism is an emerging phenomenon globally in the corporate governance discourse. The major purpose of this research was to explore the nature, form and extent of shareholder activism as a corporate governance mechanism in Zimbabwe public listed companies. The research was driven by the little body of knowledge regarding shareholder activism in the Zimbabwe corporate governance environment. Existing literature was reviewed on the subject of shareholder activism particularly its history, the regulatory framework that governs shareholder activism, motivations and drivers to shareholder activism, shareholder activism and its relationship and impact to corporate governance and the agency dilemma and the strategies that can be employed to enhance shareholder activism. The research used a qualitative methodology guided by the phenomenology research philosophy and the research design was a case study. The sample consisted of 21 participants comprising of directors, company secretaries, market analyst, majority and minority shareholders, the regulator of capital markets and the media. In the research primary and secondary sources of data were used. Primary data was collected through in-depth interviews using an interview guide and non-participant observations.

The research findings revealed that there are a number of factors that have hindered vibrant and effective shareholder activism in Zimbabwe listed companies and has resulted in shareholder apathy and lack of compliance to corporate governance standards. These factors include lack of an enabling legal framework that promotes shareholder activism, a board culture that is not receptive to activism especially during annual general meetings and underdeveloped capital and financial markets that do not generate much interest in shareholder activism by activist. Further the study revealed that lack of a Code specifically of Corporate Governance for companies listed on the Stock Exchange in Zimbabwe, lack of an effective shareholder association and weak internal corporate governance structures hindered effective shareholder participation. The study recommended that the regulatory framework should be reviewed so as to enhance shareholder participation, formulating a Code of Corporate Governance specifically for listed companies that promote shareholder participation, formulating a shareholder association that protects and advances the interest of minority shareholders, management to strengthen their internal governance structures such as annual general meetings so as to promote an environment of shareholder activism. The study objectives were met.

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ABBREVIATIONS

AGMs	Annual General Meetings
EGMs	Extraordinary General Meetings
NSSA	National Social Security Authority
RTG	Rainbow Tourism Group
SECZ	Securities and Exchange Commission of Zimbabwe
ZITF	Zimbabwe International Trade Fair

CHAPTER ONE: INTRODUCTION

1.0 INTRODUCTION

This Chapter is an introduction to the research as a whole mainly focussing on critically analysing the nature and extent of shareholder activism on companies listed on the stock exchange as a corporate governance mechanism in Zimbabwe whether it is happening in reality or not. Shareholder activism as a corporate governance tool is widely known to protect and safeguard interests of shareholders and lead to better management of firms. According to Gillian and Starks (2000) shareholder activism is premised on the fact that shareholders who act as activists owners are able to put checks and balances on managerial opportunistic inclinations thereby effectively promoting good corporate governance. Globally shareholder activism is rising rapidly and is regarded as one of the major principles that have greatly affected corporate governance. In Africa issues of governance have been the major highlight. According to Dyck (2001) he postulates that for the past 45 years Africa's greatest difficulties have been directly connected to governance issues and problems.

The purpose of shareholder activism directed specifically at public listed companies where shareholders who have invested in listed companies has been aptly stated by Wessing (2012) as pursuing a return on their capital, ensuring compliance to a different corporate strategy so as to improve performance and profitability, ensuring changes in the company board, increasing company efficiency by acquiring or disposing of assets that are under performing, influencing the outcomes of takeovers, mergers and acquisitions. Special interests groups such as environmental, social and labour may also be activists and pursue their own agendas. According to Tricker (2010) he argues that in many nations globally, shareholders face difficulties in probing and questioning management as the chairman of the board has the sole discretion to allow or disallow such in annual general meetings. Further it has become difficult for shareholders to put issues onto the agenda of shareholder meetings or monitoring new directors. Thus it can be safely said management now holds more power than shareholders in most big corporations. Generally some

shareholders in Zimbabwe have taken a laid back approach on how companies they have invested in are managed.

According to Becht, Franks, Mayer and Rossi (2006) they argue that shareholder activism has become a force for good and has constantly been growing with the globalisation of markets. Literature reviewed and various researches have writings on shareholder activism in other jurisdictions. However there is a major gap in research writings identified regarding the extent of shareholder activism as a tool for corporate governance for Zimbabwe listed companies which this particular research will aim to explore. Thus according to Ettore, (1992) he states that the time for passive shareholders has elapsed and is being overtaken by the principle of accountability led and replaced by shareholder activists, law makers and concerned executives of corporates. Thus in Chapter One a background to this study will be outlined and presented, together with the research problem, research objectives, research questions and the research proposition. Further justification of the research and scope of research will also be presented. Finally, the research outline and chapter summary will be presented.

1.1 BACKGROUND TO THE STUDY

According to Gillian and Starks (2000) shareholder activism has been a growing phenomenon globally in the last two decades as active shareholders have been putting pressure on management of firms that are poorly performing to improve performance and increase shareholder value. Adegbite, Amaeshi and Amao (2010), aptly states that in the extant of corporate governance writings, shareholder activism has become a dynamic power for the good of companies. Gillian and Starks (1999) also submits that in the last fifteen years shareholder activism also referred to as relationship investing has transformed and has become an important characteristic of financial markets.

Zimbabwean companies have been facing tough economic challenges which have led to the delisting of companies from the stock exchange and closure of some of the companies. The Zimbabwe Stock Exchange has reported that ten companies in 2013 were delisted from the Stock Exchange and in 2014 more companies were also delisted (Newsday: 2013). Apart from other factors attributed to delisting such as failure to meet

requirements needed for delisting and failure to raise the much needed capital. The lack of shareholders who bring management and directors accountable has been a major factor contributing to this phenomenon as part of meeting corporate governance standards.

The Media in Zimbabwe has been very active in reporting on the issue of shareholder activism in Zimbabwe. Lack of accountability of company directors, passive investors and shareholders who are not holding company executives to account have also attributed to closures of companies listed on the stock exchange (ZBC News Online 18 June 2014). However apart from the various media reports not much research has been done in the Zimbabwean context to critically assess and evaluate the extent of shareholder activism as a tool and mechanism for corporate governance.

However the extent of our own shareholder activism is a replication of a country's corporate governance trademark. Therefore in this study shareholder activism will be explored in Zimbabwe listed companies as a corporate governance mechanism. This choice is not illogical as it has been motivated by the topical and contemporary advances in the country and globally that have furthered a forceful energy to corporate governance and shareholder discussions. Shareholders and investors have a critical role to play to ensure that companies are properly managed and governed. Thus this research will provide a critical and detailed analysis of whether or not shareholders are playing a critical role in the Zimbabwean context and what can be done to ensure that shareholders and investors bring company directors to account.

Shareholder activism in Zimbabwe is currently an unexplored area as compared to other jurisdictions globally. Thus across many jurisdictions shareholder activism has become an important corporate governance mechanism. Thus the principal agent problem as a management problem mainly arises on issues of shareholder activism. Thus management may not have the capacity and knowledge on how to engage with shareholders for the better running of companies and as a corporate governance mechanism. Unlike other jurisdiction such as USA, South Africa and the United Kingdom that have Corporate governance Codes and laws that govern shareholder activism, Zimbabwe lacks such. Consequently both management and shareholders have not put in mechanisms that ensure that shareholder rights are recognised. As a result shareholders have not been seen to bring management to account and management also have not been seen to encourage

shareholder activism. Therefore this study was an investigation into the nature, form and extent of shareholder activism as a corporate governance mechanism in public listed companies.

1.2 RESEARCH PROBLEM

This area warrants academic scrutiny and empirical enquiry in that the lack of standards and codes that govern shareholder activism has led and contributed to Zimbabwean shareholders not taking an active approach in bringing management to account on the day to day running of the company. Be that as it may, the Securities and Exchange Commission, through the Securities Act (Chapter 24:25) has a mandate to ensure shareholder awareness and education. But the question that remains is how effective has been the Commission in ensuring that shareholders actively participate and bring management to account. Zimbabwe is currently drafting a National Code on Corporate Governance as such currently it has no code governing corporate governance standards. Unlike South Africa which has the King 111 Code which sets out principles that need to be adhered to by both listed and non-listed companies and the Code for Responsible Investment which ensures that shareholders act in an accountable way. The importance of these codes is that it ensures that stakeholders and shareholders hold management accountable.

Probably the most convincing argument to investigate this area is derived from the fact that publicly listed companies generally, management and directors in their annual reports account to their shareholders. However a cause for concern in Zimbabwe is that annual general meetings have been reduced to mere formalities. Shareholders rarely question the board of directors on the resolutions passed by the board and the annual report. According to Denis (2010), he states where there is a strong shareholder activism it has a beneficial effect in promoting a culture of good corporate governance. As a consequence of lack of proper disclosure, information asymmetry between the board and the shareholders coupled with the agency problem, shareholder activism remains problematic not only in Zimbabwe but in other jurisdictions (Tricker 2010). According to the SECZ Annual Report (2012) it noted with concern the impending divergence of standard market best practices as demonstrated by the frequency of limited disclosure of information and general weak corporate governance standards by many market players listed on the stock exchange.

Despite the relatively small capital market compared to other jurisdictions shareholder activism in Zimbabwe continues to attract interest and attention and little may be known on the reasons why shareholders do not actively participate and bring management to account. Shareholder activism to continue to play a key role and having a great impact on public companies, thus there is great need to pay particular attention to this crucial issue.

1.3 RESEARCH OBJECTIVES

1.3.1 Main Research Objective

The objective of this research is to investigate the nature, form and extent of shareholder activism as a corporate governance mechanism in Zimbabwe public listed companies.

1.3.2 Specific Sub Objectives

- a. To identify the main motivations and drivers to shareholder activism in Zimbabwe public listed companies.
- b. To assess the effectiveness of the regulatory framework in enhancing shareholder activism in public listed companies.
- c. To investigate whether shareholder activism in public listed companies has managed to solve the agency problem.
- d. To assess the relationship and linkage of shareholder activism and its impact on corporate governance standards in public listed companies.
- e. To make necessary recommendations from the research findings.

1.4 RESEARCH QUESTION

1.4.1 Main Research Question

What is the nature, form and extent of shareholder activism as a corporate governance mechanism in Zimbabwe listed companies?

1.4.2 Research Sub questions:

- a. What have been the main motivations and drivers for shareholder activism in Zimbabwe public listed companies?
- b. Has the absence of an enabling regulatory framework impacted on shareholder activism in Zimbabwe?
- c. Is shareholder activism effective in solving the agency problem in Zimbabwe public listed companies?
- d. What has been the relationship of shareholder activism and its impact on corporate governance standards in public listed companies?
- e. What recommendations can be made from the research findings?

1.5 Research Proposition

The following proposition will inform the research: It is proposed that shareholders in public listed companies do not actively participate in companies they would have invested in bringing management to account as a corporate governance mechanism.

1.6 Justification of Research

There has not been much research focusing on shareholder activism in Zimbabwe public listed companies as compared to other jurisdictions despite the fact that shareholder activism is an important corporate governance tool and mechanism. Thus this research will assist policy makers, management and shareholders to implement successful shareholder activism laws and policies which will allow active participation of shareholders and corporate governance compliance in listed companies.

1.6.1 Organisational Level

This study is important in that it will have practical implications on both management and shareholders in Zimbabwe listed companies to ensure that shareholders actively participate in the companies they would have invested in. Management will be able to appreciate the role of shareholder activism and not see it as a management problem but as a positive corporate governance mechanism. The researcher is employed in one of the

listed companies on the stock exchange therefore the study will provide an insight and solutions to an everyday and real-world work related problem.

1.6.2 National Level

Shareholder activism as a corporate governance mechanism will ensure that Codes of Corporate Governance and principles that are developed in Zimbabwe encourage and promote shareholder activism like other jurisdictions such as South Africa and the United Kingdom. The practicality of this research will also inform policy makers in other institutions in Zimbabwe such as parastatals where this research can also be applied.

1.6.3 Contributions to the Study

This study will contribute to literature writings on shareholder activism in Zimbabwe and the recommendations with a particular focus in the Zimbabwean corporate governance landscape. Lack of a Zimbabwean corporate governance code more particular a shareholder investor code that promotes shareholder activism in public listed companies. Extensive literature has been written on shareholder activism in other jurisdictions and not in Zimbabwe. Thus this research will add to the literature available on the nature and extent of shareholder activism as a corporate governance mechanism.

The study is important in that in Zimbabwe shareholder activism is recently a new phenomenon. Currently shareholders are increasingly conscious of their legal rights in the face of compliance to corporate governance standards. Thus in Zimbabwe strategies need to be employed by both management and shareholders to ensure that shareholders actively participate and bring management to account.

1.7 Scope of Research

This research seeks to study shareholder activism for listed companies on the Zimbabwean Stock Exchange (ZSE). The companies to be studied data would be drawn specifically from each of the following sectors on the Zimbabwe stock exchange, Beverages sector, tourism, and banking sector. The researcher may not be able to cover all the companies due to time and financial constraints.

1.8 Dissertation Outline

The research is divided into five chapters and the outline of this dissertation is as follows: Chapter one introduces the study and explores the background to this study. Further it covers the problem statement, objectives of the research, research questions, research proposition, and the justification to the study and the background of the research. Chapter 2 will look into the Literature Review of the subject in question. In Chapter 3 a deeper insight in Research Methodologies will be given and in Chapter 4 the researcher will present Data Analysis and Findings. Chapter 5 will provide Recommendations and Conclusions.

1.9 Chapter Summary.

Chapter 1 has provided a bird's overview of the research under study on shareholder activism in the Zimbabwean context specifically looking at public listed companies on whether or not shareholders are actively bringing management to account in the day to day running of these companies. Thus lack of shareholder activism as a corporate governance mechanism may result in corporate failures therefore it is crucial that the current study be carried out to effectively recommend ways in which shareholders and management take a proactive approach in Zimbabwe to ensure compliance with corporate governance standards. Chapter 2 will provide an insight into the literature underlying this research.

CHAPTER TWO: LITERATURE REVIEW

2.0 Introduction

This chapter will look at the relevant and existing literature on shareholder activism including, journals; articles and books on shareholder activism. In particular it analyses the concept of shareholder activism in corporate governance and its effectiveness and importance in public listed companies as corporate governance mechanism. Further it touches on strategies employed to ensure that shareholder activism is implemented effectively as a critical management issue in public listed companies. Various literatures have been written on shareholder activism from various angles and perspectives. In addition shareholder activism in other jurisdictions will be used and reviewed as a comparative study. Authors argue from different angles on the role of shareholder activism, the various forms it takes and its justification and effectiveness in corporate governance. Rowley and Slack (2004) submits that the purpose of literature review is to summarise the current literature in a subject. Thus its main objective is to summarise the views made by a number of authors into a subject.

2.1 DEFINITION OF SHAREHOLDER ACTIVISM

Studies and literature whose research is mainly related to corporate governance topics define shareholder activism in various ways. According to Bethel (1998) he defines it as the publicised objective of influencing company policies. On the other hand Prigge and Steenbock (2002) cited in Thamm (2012) define shareholder activism as every corporate governance measure initiated by a shareholder. Whereas according to Gillan and Starks (2007) they define it as consisting of investors who are discontented with some aspects of a firm's management or actions and they try to bring about change within the company without a change in control. According to Stadler (2010) cited in Thamm (2012) further defines shareholder activism as consisting of shareholders who are disgruntled with the performance of a particular firm and do not desire a stake in the company, thus they attempt to make an influence on the firms so as to improve the firms strategy through engagement and putting pressure on management. This view is also shared by Gillian and

Starks (1998a) who state that the most common meaning of shareholder activism mainly refers to a shareholder who endeavours to transform change through mainly using voice expressions as an option with no intention of commencing any change in how the firm is controlled. According to Chung and Talaulicar (2010) they define shareholder activism as consisting of the various actions taken by investors and shareholders so as to make an influence on management of corporates and boards with the aim of changing of the companies' social responsibility (CSR) and boards or improvement on financial results. Thus shareholders act as "watchdogs" over corporate activities as they can challenge excessive director's fees among other things. Whilst Smith (1996) defines shareholder activism as consisting of endeavouring to monitor and align structure of organisations to firms that are apparently failing to pursue goals of shareholders of profit and wealth maximisation. Guay, Doh and Sinclair (2004) also defines shareholder activism as a mixture of having investments that are socially responsible, compliance to corporate governance and capitalist nature of shareholders. Therefore shareholders ultimately mandate firms to be compliant with corporate governance principles and to be sustainable.

Thus shareholder activism is the ability of shareholders to bring management to account and be involved in the decision making of corporates as a corporate governance mechanism. This may take various ways such using the media or campaigning publicly, resolutions filed by shareholders, using legal processes or engagement with management. Thus stakeholders of a corporate have varying interests in a firm as a result, corporate governance has become complex because of these multiple stakeholders. These have also acquired power through the media and public opinions thus compelling corporates to behave in certain ways.

2.2 HISTORY OF SHAREHOLDER ACTIVISM

To have an understanding of the concept of shareholder activism a brief history of it will be outlined. Literature writings tend to agree that the concept of shareholder activism is not a new concept. According to Adegbite, Amaeshi and Amao (2010) they argue that shareholder activism in the extant of corporate governance literature has become a force for good. Thus in this section the history of shareholder activism would also be traced in

the United Kingdom. Its developments will also be traced back in the United States of America's context. Tricker (2010) argues that the concept of shareholder activism can be originally been drawn from the 19th century model of the company. In that era the model of the company was characterised by shareholders who were mainly individuals who would meet from time to time to be presented the reports and accounts of their directors. This would include re-election, proposing new ones and approve any new ones as required by corporate law or the articles of association of a company. Therefore a particular share had a right to vote thus ensuring shareholder democracy and governing power was the basis of any ownership.

According to Eisenhofer and Barry (2009) they argue that shareholder activism can be traced back to the 1930s. In that era shareholders realised that the new laws that were aimed at business reforms were not enough after the great depression. In the 1930s and 1940s shareholder activists were hardly active and effective as those who were active were not able to gather much support to influence change. In that era shareholder activism was in the form of shareholders selling shares as a way of expressing their dissatisfaction with the corporate's actions and governance practices. On the other hand according to Marens (2002)'s view that shareholder activists of the 1940s and in the 1950s were considered as the creators of shareholder activists and activism and that the conflicts between shareholders and managers of publicly traded firms could also be traced back to the English East India Company in the 18th century. Further shareholder activism started in the mid- twentieth century and in the early ninety seventies it increased its drive.

According to Armstrong (n.d) he argues that shareholder activism as a corporate crisis that is looming today is characterised with different actors but having the same stories. Eighty years ago shareholder activism can be traced back with Henry Ford who chose to cancel a special dividend and consequently decided to spend the money on advancing social objectives. A new paradigm in shareholder activism was sparked by the courts which finally agreed with the dissenting shareholders and reinstated the dividend. However in the 1980s shareholder activism was characterised by trying to get control through leverage buy outs, hostile takeovers for those corporates that were underperforming and undervalued. Shareholder activism in the 1990s was again characterised by pension funds playing an active role.

2.2.1 Shareholder Activism in United States of America (USA) and shareholder Activism in United Kingdom (UK) contexts.

According to Fairfax (2008) changes and growth of shareholder activism was mainly in the USA and the UK as the demand for an increase in shareholder power was the norm in the USA and globally. On the other hand according to Loring and Taylor (2006) in the USA in 1929 as a result of active shareholders and discontent of investors the Securities Exchange Control Act of 1934 was enacted and coincided with the Wall Street collapse in the same year. Further in USA the enactment of the Sarbanes-Oxley Act 2002 particularly Rule 14A- 8 as a legal instrument had the main objective of protecting shareholders in the light of the Enron Scandal. Thus Dhir (2006) stated that SEC Rule 14A-8 had provisions for corporate mechanisms and a platform to enable dialogue among shareholders and the firm's management as this was meant to enable shareholders to voice their opinions and not assume the powers of management.

Glac (2010) also states that shareholder activism has an extensive history in corporate firms in America, which started with a primary struggle to secure more shareholder awareness, rights and voice, and extending today with an emphasis on a range of critical social and environmental issues. In America Hendry, Sanderson, Barker and Roberts (2006), submits that America's history on shareholder activists consisted of mainly activist who were acting in their individual capacity and various groups of religion who were advocating in companies and institutions on specific moral or social issues. Social activists were later joined by other influential groups in the mid -1980s. In America according to Rosenberg (1999) states that Robert A. G. Monks was an individual activists who held various stakes in firms that were underperforming and mainly challenged mandatory boards of directors and firm's management. According to Gillian and Starks (1998b, 2000) and Useem,(1996) CalPERS as a large public pension fund and TRIAA-CREF as part of shareholder activism used their power to vote so as to bring pressure on corporates so that they improve their corporate governance practices.

2.2.1.1 UNITED KINGDOM

In the UK the developments of shareholder activism were mainly based on the same foundations and developments as those in America. Solomon and Solomon (1999), states

that the Committee on Corporate Governance 1998a's recommendations were targeted also at encouraging the growth of shareholder activism and relationships between companies and investors. The Cadbury Report also outlines the role and relevance of shareholders and institutional investors. Howarth (2003) outlined a case of Barclays in UK in which the board was put to task by ABI as a major shareholder in explaining the promotion of the chief executive to the post of chairman. This appointment seemed contrary to the Higgs code of corporate governance which instructed the non-promotion of an incumbent chief executive officer to the position of a company chairman.

2.2.1.2 South Africa

The King Report on Corporate Governance for South Africa in 2009 referred to as King III and the other succeeding Codes stimulated and promoted shareholder activism in firms. The adoption of King 11 Code in 2002 in South Africa has made strides and progress in institutional investors in changing their attitudes and those of directors. Non-compliance with the guidelines in King 11 Code was a major reason in the rise of shareholder activism in South Africa.

2.3 MOTIVATIONS / DRIVERS OF SHAREHOLDER ACTIVISM.

Adegbite, Amaeshi and Amao (2010) postulates that shareholder activism cannot be classified as a homogenous practice as it is motivated by various actors who have divergent interests therefore impacting differently on firms that have been targeted. Thus there are various reasons why shareholders protest against management and motivated to shareholder activism. Further these reasons may be classified as political, legal, social and economic. However the main reason driving shareholder activism is the non-compliance to corporate governance standards. According to Jayaraman and Tate (1993) a company that fails in its strategy choices is likely to be affected by shareholder activism. Hendry *et al.*, (2006) also argues that there are various other factors that may give rise to shareholder activism such as responsible ownership other than the main assumption of shareholder activism which is maximising shareholder wealth. Thus consequently these motivations have different impacts on firms.

2.4 Causes of Shareholder Activism

According to Judge, Gaur, and Muller-Kahle, (2010) shareholder activism can be driven by social or financial motives. Romano (2001) and Guay et al., (2004) agree that firms that have poor corporate governance standards and are performing poorly are targets of shareholder activist. Accountability is one of the main pillars of good corporate standards. Thus according to Guay et al., (2004) management is held accountable for the company's performance by the board that represent the shareholders interest and directors who are also accountable to shareholders. This lack of accountability may give rise to shareholder activism. Further the author states that where firms are mismanaged shareholder activism is likely to occur as managers will not be acting in the best interests of shareholders. According to Al Hawamdeh and Snaith, (2005) they argue that dialogue and disclosure with shareholders and also participants in the market are crucial in maintaining good corporate standards. Further the author states that dialogue can be formal consisting of periodic reports such as financial annual reports, periodic circulars and statements trading updates, and informal channels such as using the media. Informal dialogue which may consists of selective and private briefing has the benefit of shareholders and investors to be involved in corporate governance monitoring. This has advantages for the corporates as lack of dialogue may give rise to shareholder activism.

Where there are irregular board appointments and due process is not followed in the appointment of directors lacking formality and transparency gives rise to shareholder activism. According to Kahan (2007) hedge funds questioned the board of directors for lack compliance to corporate governance standards where a chief executive's mother was appointed by the chief executive to serve on the board.

2.4.1 Remuneration of Directors.

According to Gleason (2001) he argues that since 2001 firms have been expected to answer tough questions from shareholders on the executive director's remuneration. According to the King 111 Report it encourages corporates to be transparent as regard remuneration of directors. On the other hand according to Fairfax (2008) shareholders have also targeted their efforts in seeking a voice on the remuneration of directors and executive management. Consequently due to the perceived excessive executive

remuneration shareholders and law makers have targeted their efforts in curbing executive pay through shareholder activism.

2.4.2 Economic Motivations/ Drivers.

Hendry et al., (2006) states shareholder activism's current studies presumption is that it is mainly motivated by shareholder maximising their value and returns. Thus shareholders may be driven by political and or moral motivations which are also related to the need for responsible ownership. Thus shareholder activism from these authors views has mainly been driven by corporate's need to position themselves against a changing legal and political environment and competitors with the main aim of profit maximisation. This has had an impact and has transformed the non-financial outlooks and prospects of their customers.

2.4.3. Moral and Political Drivers.

As argued by Romano (2001) that apart from other motivations for shareholder activism, political motivations have been on the agenda of some institutions. On the other hand Thompson and Davis (1997) argues that shareholder activism in the UK was also politically motivated. According to Gillian and Starks (1999) they argue that separation of ownership and control was the main foundation of shareholder discussions as evidenced in most contemporary publicly traded companies which had the potential of giving rise to different political views in the firm.

2.4.4 Motivations for Responsible Ownership.

Responsible Ownership has also been a driving force and a motivator for shareholder activism. Pension funds have been insisted on by Government to act as owners who are responsible through upholding corporate governance standards. This is also done through companies being held accountable for their financial and general performance. According to Hendry et al., (2004) they argue that this has been evident in other European and British Governments who have called for corporates to be responsible owners not as an economic duty but also as a moral duty.

2.5 Causes Of Shareholder Passiveness or Apathy.

Various reasons have been advanced on why shareholders maybe passive or inactive. According to Davis and Thompson (1994) complicated legal rules made it cumbersome and expensive for shareholders to own higher amount of shares thus making it difficult for shareholders to be active in in the United States of America. Further he argues that the agency dilemma in which the shareholders appointed a board of directors to be a steward of their investments and their assumption that the directors will effectively manage the firms in which they would have invested in on their behalf might also lead to shareholder passivity. Shareholders may also only be concerned about dividend payments than bringing management to account. On the other hand Ettorre (1992) also argues that the board of directors have had an image that they are entities that are powerful, thus shareholders may not question them as they would have given the boards power to run the companies.

Annual general meetings are mandatory for public listed companies. However according to Tricker (2010) directors may not encourage shareholders to attend these annual general meetings as they may not like to be questioned by shareholders. Thus shareholder passiveness is a relief to most directors and the management. Again the attitude of directors may not be conducive for shareholders to probe management as the directors tend to be arrogant and not entertain shareholder issues. According to Bolodeoku (2007) he also argues that shareholder passiveness has also been influenced by lack of incentives to shareholders who may want to monitor the actions of management. The investment strategy of a particular shareholder also determines their activism or passiveness as short term investors are not active as compared to long term investors.

2.6 Shareholder Activists Classification

According to Chung and Talaulicar (2010) shareholders may be driven by financial motives whose main aim is economic incentives or driven by social motives whose aim is for principle based activism. These activists demand attention from management and they aim to challenge and raise awareness so as to promote and boost the performance of the firm financially and socially. These activist investors include institutional investors, social groups, and individual investors. Whereas Marens (2002) classifies shareholder activists into these types: Firstly they are shareholder activists who are advocates of corporate

governance reform and are mainly concerned with executives' remuneration, the process in the election of directors, and policies on takeover. Secondly they are shareholders who are social activists mainly looking at policies relating to corporate social responsibility, environmental laws, and labour laws and their rights thereto. Thus among social activists they are those with financial interests and those who have political objectives.

According to Glac (2010) shareholders are commonly considered the owners of a corporation. Shareholders who are mainly majority and minority are found in any public company as either institutional or individual shareholders. Institutional shareholders may consist of social groups, private equity funds, public pension funds, and associations of business. On the other hand Bolodeouk (2007) also argues the various actors have different motivations for shareholder activism as individual and institutional shareholders have divergent views on their involvement and participation in corporate governance. Thus to have an understanding of shareholder activism a deeper analysis of the different types of shareholder activists will be analysed below.

2.6.1 Shareholder activists who are individuals.

Shareholders who own shares in their personal capacity are mainly referred to as individual shareholders'. According to Loring et al (2006) he states that these individual shareholders invest in shares of a company with the aim of profit maximisation. Further they are also characterised as risk averse with a minute shareholding than the strong and dominant institutional investors as they are targeting highest expected returns with a corresponding and acceptable level of risk.

2.6.2 Institutional shareholder activists.

According to Black (1990) he argues that institutional investors own a large number of shares in in most public listed companies. Institutional shareholder activists can be classified as a group of persons whether juristic or not. These include institutions and corporates such as banking institutions, building societies institutions, insurance firms, pension funds, and trust and investment schemes. Loring et al (2006), these shareholder activists owe a fiduciary duty to the shareholders and the beneficiaries and their objective is enhancing shareholder wealth. Thus they generally wield a lot of power as they have the capacity to influence management to implement proposals without going through a vote.

On the other hand since they are representing different constituencies conflicts of interest may arise making them ineffective in some instances.

2.6.3 Activists driven by market forces.

These activists mainly focus on profit making from their investments and have a focus on the market forces and they invest in firms with potential to grow, with those which are poorly performing are disinvested in. According to Davis and Thompson (1994), they state that these private equity funds and hedge funds are mainly investors who are passive. Further their ability to sell shares as they deem fit is one of the main causes for shareholder passivity by mutual funds; pension funds and banking institutions. Hedge funds as short term investors have the objective of making a quick return on their investments as their main focus is the current share price of a company's shares. Activism by hedge funds as market driven activism have become critical players in corporate governance and they have gradually influenced management of firms and business strategies.

2.6.4 Government as an activist.

The state as a politically driven activist would accomplish its main goals of corporate law through the concept of commanding and controlling in which laws and policies to be followed would be specified may also impose penalties to ensure compliance by corporates. Thus government may impose laws that promote shareholder activism.

2.6.5 Public Pension Funds.

According to Gillian and Stark (2000) public pension funds shareholder activism started in the USA by the submission of proxy proposals and recently targeted firms on their performance standard. According to O'Connor (2000) these pension funds mainly focus on the competence and board structure, through poison pills, executive compensation's limits, and an improvement of board independence and declassification of boards. According to Gillian and Stark (2000), on the other hand challengers of institutional activism argue that expertise is lacked by public pension fund managers to properly give advice to management in corporates. Further shareholders who are activists' their main role is not solely advisory but also act as watchdogs on compliance to corporate governance issues.

2.6.6 Social activists/ advocates.

According to Guay *et al.*, (2004) he states that they have seen an increase in social activists who raise shareholder resolutions commending firms to implement socially responsible business practices. According to Waddock (2000) he also states that firms are gradually being assessed on compliance to social as well as financial performance. Davis and Thompson (1994) argue that social advocates may demand support for their concerns through social movements if their concerns are not being taken into account.

2.6.7 Other coordinated activist and human rights groups.

These are activists in different groups and interests who may have a particular common interest and desire to achieve a set objective may join hands so as to increase their influence. Guay *et al* (2004) argues that companies are also responsible to other stakeholders and not only their shareholders but also communities, employees, suppliers and environmentalist groups. Thus these activists are very influential and can bring changes in organisations.

2.6.8 Communities activists.

Communities as activists are influential stakeholders who are able to have a positive or negative impact through their activism where there are any initiatives that have been proposed by corporates in their societies. Further these communities may resist any proposed plans by corporates if they are not consulted or if the decisions are made arbitrarily.

2.6.9 Environmental rights activists.

These are mainly environmental law rights activists who advocate for compliance with sustainable environmental rights and sustainable issues by corporates. This also includes environmental laws that are in place ultimately making environmental a corporate governance principle.

2.6.10 Labour rights groups' activists.

According to Schwab and Thomas (1998) they argue that recently institutional investors have now been composed of forceful and vigorous labour rights groups. Labour unions are critical stakeholders in a company as they are employee representatives especially on issues of collective bargaining. Thus Weller and White (2001) states that labour unions

influence shapes corporate behaviour for instance that the remuneration and compensation policies be fairly distributed. They advocate that company executives' compensation should be aligned to the performance of the company and further share options should be spread amongst all employees. Further O'Connor (1997) also states that in their quest for corporate governance compliance labour activist gain sympathy and media attention that is favourable to them. Thus they are portrayed as a powerful and effective force to confront managerial power. Thus labour activist are very influential in shareholder activism as corporate governance measure and mechanism.

2.7 Shareholder Activism and the Role of Media.

According to Girard (2011) he states that the media and the judiciary are used as the most influential activities by shareholder activists. Thus activists may seek media coverage on the concerns that they are advocating for civil law suits and class actions may also be filed through the judiciary. According to Thomas (2002) shareholder activists groups in the United States of America have demonstrated that the board of directors normally act differently when pressure and heat is applied in public. Thus the media has a major role to play in shareholder activism as it is a quickest form to communicate shareholders unhappiness as these disgruntled shareholders normally call for press conferences to communicate their concerns. The type of media platforms can range from the internet, print media, radio and television among other media platforms. The intention of this is naming and shaming, settle scores and defaming some companies. This is also an easier solution to embarrass corporates that fail to adhere to corporate governance policies and standards. In Zimbabwe the media has been vocal in expressing and unearthing non-compliance of corporate governance standards in state owned enterprises which led to the sacking of the Chief Executive Officers and slashing of salaries of employees in state owned enterprises consequently leading to the drafting of the National Code on Corporate Governance. According to Marens (2002) he argues shareholder activist use the media and at annual general meetings as a platform to be engaged in activism. However the role of the media should also not be to embarrass corporates but also to positively highlight issues that are of public interests.

2.8. Actions of activist investors and forms of shareholder activism.

According to Hirschman (1971), in agreement with Gillian et al. (2000) as proponents of shareholder activism argue that shareholders have three main options when they are dissatisfied with the corporates not acting in the best interests of shareholders. Firstly the shares may be sold this involves using their feet to vote, secondly the shares may be held on to and shareholders may engage with management using their voices, thirdly they may hold on to their shares and will not engage in any form of activism. These options have been mainly referred to as exit, voice and loyalty. This view is also shared by Admati, Pfleiderer and Zechner (1994) who point out that when firms are not aligning with the interest of their shareholders, shareholders who may be aware rationally may follow the so called “Wall Street Rule” or “Wall Street Walk”. Further where shareholders threaten to exit it is also considered a form of shareholder activism.

Hendry, Sanderson, Barker & Roberts (2004) states that the majority of large investors mostly question and probe companies on issues such as corporate governance practices and policies, they also vote against management and in some cases involve the press in making their criticism known. Further Chung and Talaulicar (2010) further classify the actions of activist investors. Walk activism may involve shareholders who are not happy and are dissatisfied may discipline management through selling their shares. Chung and Talaulicar (2010) agree that voice activism consists of shareholders influencing management through either having dialogues, communication and negotiation directly with management. Gillian and Starks (2007) argues that the takeover market is the most extreme form of activism where shareholders start takeovers aimed at having corporate changes that are crucial.

2.9 Views on Shareholder Activism

Thus notwithstanding the positive views of shareholder activism, its controversy cannot go unmentioned. Tricker (2010) argues that shareholder activism can be controversial. The reason being that shareholders having elected their directors should allow them freedom to act without having the business decisions second guessed. Authors agree that separation between shareholders and top management lies at the heart of governance system. Boards are required to make business decisions in good faith without any interference from institutions. As a result boards may respond to investor pressure and may fail to make crucial long term investments. Some boards of directors are not

enthusiastic about shareholder involvement. Therefore shareholder activism is irresistible leading to an inevitable struggle between shareholders and top management.

According to Becht et al., (2006) they argue that shareholder activism can be a solution to resolve the problems associated with monitoring and incentives in widely held firms as a way of improving their performance. On the other hand shareholder activism can be argued as an ineffective, disturbing and opportunistic mechanism used by managers of various funds to pursue their own agenda. This suggests that shareholder activism can be used as a space for fights and struggles among the interested groups. Further Tricker (2010) argues that some boards of directors prefer shareholders who are passive and readily confirm board resolutions. The agency theory also looks at corporate governance through the agency dilemma. However on the other hand shareholders are mainly interested in dividend payments and the growing in the value of the company stock and value thus they may decide not to actively participate and bring management to account where the company is performing well.

2.10 Impact of Shareholder Activism

Authors have different views on the effect and impact of shareholder activism as some has sceptical views about it as argued by Sjostrom (2008). According to Brav, Jiang, Partnoy, and Thomas (2008) activism by hedge funds has been found to improve the financial performance and increase dividend pay-outs. However on the other hand according to Hoffman (1996) the success of the impact of shareholder activism largely depends on various factors such as the culture of the targeted company, the political climate wherein the resolution is filed and the influence and power of the activist group. According to Romano (2001) in American studies on shareholder activism this has been found to have little or no effect on the performance of companies. According to Carleton, Nelson and Weisbach (1998) they argue that the role and impact of vast shareholder activism is that corporate's value can be affected through private engagements, dialogues and negotiations. Further according to Pound and Zeckhauser (1990) they also state that large shareholders are present where there are high expected growth rates in firms resulting in more monitoring and more information disclosure.

Tricker (2010) states that shareholders presently in most listed companies globally now constitute most corporate institutional investors including individuals. These numerous and varying shareholders have varying interests and expectations. Thus previously the one share one vote currently does not provide for shareholder influence and control. Consequently involvement by shareholders in the governance of companies has been called for due to an increase in the failure of compliance with corporate governance standards and poor corporate performance, company closures, collapses unwarranted director's fees and rewards and a loss of investor confidence. According to Gillian and Starks (2000) they state that shareholder activism has been quite significant in the last two decades with mainly activist shareholder pressuring managers of firms that have poor performance in their respective portfolios who advocate for a shareholder value that is enhanced and an improvement in the financial performance.

2.11 Shareholder Activism in Other Jurisdictions.

Various jurisdictions globally have seen and have recognised extensively the growth of shareholder activism as a crucial corporate governance mechanism. According to Armour and Cheffins (2009) they state that shareholder activism by hedge funds in the last few years has become a main corporate governance phenomenon. However according to Adegbite, Amaeshi and Amao (2010) he argues in Sub Saharan Africa there is an extensive literature gap on issues of shareholder activism and corporate governance. Thus the following jurisdictions will be briefly analysed on their extent of using shareholder activism as a corporate governance tool and the strategies employed to ensure that shareholders actively participate in the corporates that they would have invested in.

2.11.1 NIGERIA

According to Adegbite et al., (2010), argues that Nigeria has evidenced a major increase in shareholder activism activities and shareholder associations' in the past five years which has resulted in shareholders gradually become responsive and aware of their legal rights and obligations'. These developments in Nigeria include the promulgation and implementation of the Code of Corporate Governance (2003), the compulsory Code of Corporate Governance for Nigerian Banks and the recent significant developments on the Code of Conduct for Shareholder Associations in Nigeria.

2.11.1.1 Regulatory Framework in Nigeria

According to Adegbite *et al.*, (2010) they state that the Companies and Allied Matters (CAMA) 1990, with its amendments is the primary statute that empowers Nigerian shareholders to make interventions in a company's affairs. This includes among other actions bringing court actions against directors. Further the Nigerian Securities and Exchange Commission introduced the Code of Corporate Governance for Public Companies in Nigeria (2003). The main aim of this code focusses on rights and responsibilities of shareholders and stakeholders in relation to public listed companies. An express provision in the code encourages shareholder activism by expressly stating that the shareholder activism shall not be discouraged by the company or the board when practised by groups of shareholders and institutional investors'. Further according to Adegbite *et al.*, (2010) he states that in Nigeria:

The Independent Shareholders Association of Nigeria, the Association for the Advancement of the Rights of Shareholders of Nigeria and the Nigerian Shareholders Solidarity Association consists of an association of shareholders that are united. (page 10).

These associations share common interests by giving mainly minority shareholders a voice.

2.11.2 UNITED KINGDOM (UK).

Hendry, Sanderson, Barker & Roberts (2004), argue that activism of institutional investors in UK has increased notably. In UK a number of tools can be used by activist shareholders in trying to seek a change in a listed company. These may be classified as soft; non statutory based tactics. The use of soft tactics consists of dialogue with the target's management, if not effective the publication of open letters criticising the listed company and ultimately seeking to solicit shareholder support for the activist's objective.

According to Winston & Strawn (n.d) further in the UK, the Financial Reporting Council publishes the UK Stewardship Code which is a code specifically for institutional investors when they engage with the UK listed companies. Thus the "comply or explain" approach in UK is mainly directed to firms such as insurance firms and social security or pension funds who manage assets on behalf of institutional investors. The code provides for the establishment of clear guidelines on the ways in which institutional investors and

recommendations to institutional investors escalate on their stewardship activities. The process is initiated by discussions on a confidential basis, failure of these institutional investors may consider to escalate their action for instance meetings maybe held with the relevant management to discuss such concerns or expressing these issues with the company's advisors.

2.11.3 SOUTH AFRICA

South Africa as compared to most African countries in the Sub Saharan region has a much more advanced and progressive democracy , thus it can provide insightful and deeper understandings for corporate governance improvements in the Sub Saharan region specifically Zimbabwe. According to Vaughn and Ryan (2006) concurring with Adegbite (2008), quoted in Amaeshi and Amao (2010) made a finding that in sub Saharan Africa, South Africa, has an advanced system of corporate governance evidenced by active investor interests and a vibrant shareholder activism practice. South Africa further has a more advanced regulatory framework where shareholder activists who are aware of their legal rights have had the platform to challenge boards on corporate governance issues. This has also had an impact in significant changes in the board structure and a robust managerial rethinking. Thus in South Africa they are principles and practices which are not legislation that are adhered to on the basis of “comply or explain approach”. This includes the Code for Responsible Investment (CRISA) that encourages best practices by shareholders and companies. In South Africa on 1 March 2010 the King Code of Governance Principles and the King Report on Governance (King 111) came into effect thus replacing the King 11 Report.

2.11.3.1 South African Companies Act 71 of 2008

The South African Companies Act also defines the relationships between companies and their respective shareholders or members and directors. Thus it has key provisions that raise director's accountability to their shareholders. Thus the likelihood of increased shareholder activism and the liability to a wider class of actions that has been extended to a wider class of persons will likely follow the trend of shareholder activism in other jurisdictions such as USA, UK and Australia. They have experienced increasing litigation targeted against companies, company officers and directors.

2.12 Theoretical Framework: Agency Theory

According to Gillian and Starks (1998a) they argue that agency conflicts are important in having an understanding of shareholder activism. On the other hand Frankforter, Davis, Vollrath and Hill (2007) states that the agency theory has been a foundation for most researches on corporate governance and shareholder activism. However the authors argue that shareholder activism is too limited to conceptualise the multidimensional dynamics behind shareholder activism and the agency theory. Thus according to the mainstream theories of Jensen and Meckling (1976); Fama (1983) and Eisenhardt (1989) cited in Gillian and Starks (2007) mainly treat shareholders and company managers' relationship as that of principal and agent. The agency theory arises whereby shareholders who are owners of the firm have a wide range of rights including appointing company directors. Consequently company directors acting as agents of the shareholders their responsibility is also to monitor the performance of corporate management and of their firms they manage. This principal agency relationship is also illustrated in Figure 1 below.

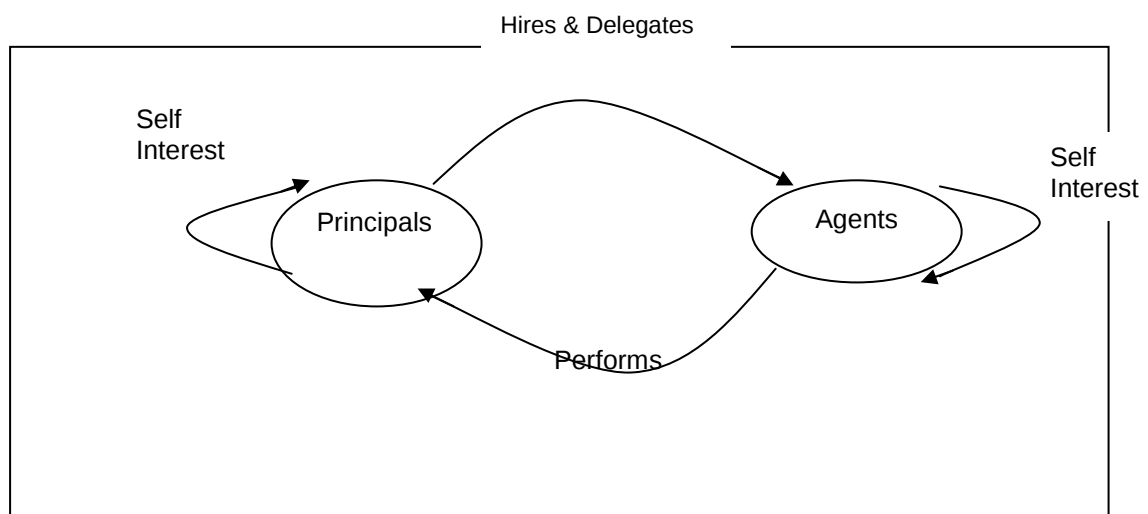


Figure 1: Principal Agency Model of Corporate Governance

Source: *Donaldson and Preston (1995:64)*

As a result shareholder activism may arise when shareholders presume that the board maybe failing in executing their duties and their performance is dissatisfactory. Thus balancing of power between shareholders and the board of directors has emerged as the cornerstone of the debate on corporate governance and accountability. According to Shleifer and Vishny (1997) they argue that the main assumption is that managers'

objective is to advance their own interests as they are assumed to be rational utility maximizers. Thus the major issue for shareholders is how to align managers to act in line with the shareholder interests.

However authors agree that there are three main ways and mechanisms to achieve this problem. Firstly managers may be disciplined to act in shareholders' interests through market for corporate control that is the takeover market as such managers may risk job losses resulting from a hostile takeover. Secondly incentives such as remuneration incentives which seek to align interests of managers with those of shareholders. Thirdly control of management decisions and active monitoring by shareholders most commonly found in a diversified ownership systems and block shareholders. Hendry et al., (2004) argues that all institutional investors in the companies that they invest, they normally engage in some form of monitoring of the companies. This may include analysing their financial reports, strategic statements, meeting and questioning their senior executives in the case of larger institutions. However on the other hand some authors and academic literature particularly Bainbridge (1995) argue that shareholders who may try to monitor and influence the board decisions may find it excessively expensive to do so in comparison to the returns that they may potentially have. Consequently in any management of the firm major decisions are taken by the board as a result weakening the ability of shareholders to act as true owners of the firm irrespective of the corporation in which they hold shares.

2.13 Regulatory Framework in Zimbabwe

The Zimbabwean Companies Act Chapter (24:03), the Securities Exchange Act (Chapter 24:25) and the Zimbabwe Stock Exchange Act (Chapter 24:18) will be looked at briefly in analyzing the role of shareholder activism in corporate governance. However one of the objectives of this study is to assess the effectiveness of the regulatory framework in enhancing shareholder activism.

2.13.1 Securities and Exchange Act (Chapter 24:25).

The Securities and Exchange Act (Chapter 24:25) in section 3 established the Securities and Exchange Commission (SEC) of Zimbabwe which is the regulatory and governing body for the securities and capital markets in Zimbabwe. Its mandate also includes

investor and shareholder education and awareness. Unlike other jurisdictions such as Nigeria, South Africa, UK among others our Zimbabwe SEC has no code for corporate governance for public listed companies that promote shareholder activism.

2.13.2 The Companies Act (Chapter 24:03).

The Zimbabwean Companies Act will be looked at in analysing the role of shareholder activism in corporate governance. Currently the Act has no explicit rights to shareholder activism and protection of shareholder rights. Section 175 of the Act provides a cumbersome procedure for removing directors. The process involves the passing of a resolution to remove a director before the expiration of his tenure in office by the passing of a special resolution. However the director is permitted to make written representations to the company or he may make oral presentations. Further there are no Codification of Corporate Governance standards thus shareholders and directors are not mandated to manage their companies in line with best practices.

However Doing Business in Zimbabwe Report (2015) presents research findings on the ease of doing business in Zimbabwe. Related to this particular research is the strength of the governance structure of companies in Zimbabwe, the provision on the extent director suits, and the ease of shareholder suits together with the extent of disclosure requirements as provided for in Figure 2, 3, 4 and 5 .

In Figure 2 it presents the strength of governance structure index in Zimbabwe which has a fairly strong governance structure ranked third compared to its counterparts in the region. This entails provision of laws and regulations that generally cover the ease of doing business in Zimbabwe. Figure 3 presents Zimbabwe being ranked very highly on the extent of disclosure requirements as the regulatory framework provides for stringent disclosure requirements. This involves the disclosure requirements required by the Companies Act and the Zimbabwe Stock Exchange listing rules. Figure 4 Zimbabwe is ranked low as regards the ease of shareholder suits as shareholders are not able to access internal corporate documents. It also provides in Figure 5 for a very low director liability index. Thus directors may opt not to comply with the principles of corporate governance as the legal framework is weak in protecting shareholders and other stakeholders against director's misnomers.

Thus according to the Doing Business Report Zimbabwe is ranked at number 87 from 189 various economies in Sub Saharan Africa as regards the strength of minority shareholder protection which is an indication that the country needs to do more as regards shareholder protection. However this study will also investigate the nature form and extent of shareholder activism in Zimbabwe given the legal framework that protects shareholders and high disclosure requirements ratings.

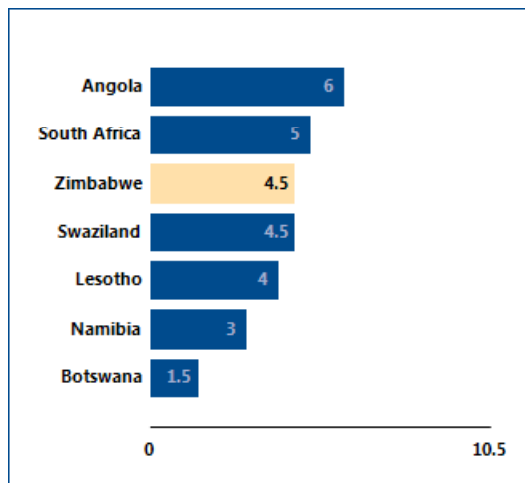


Figure 2: Strength of Governance Structure
Source: *Doing Business 2015*(pg 53)

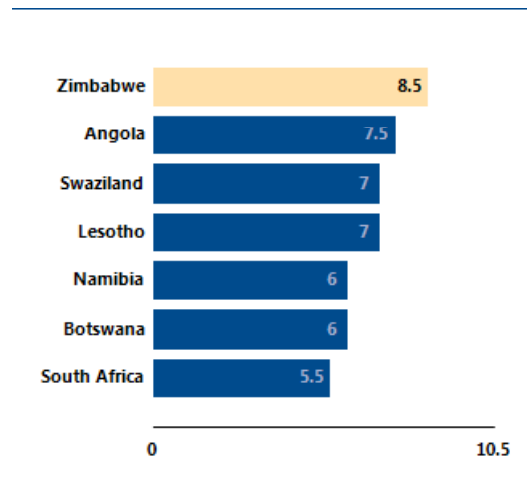


Figure 3: Extent of Disclosure Requirements
Source: *Doing Business 2015*(pg 53)

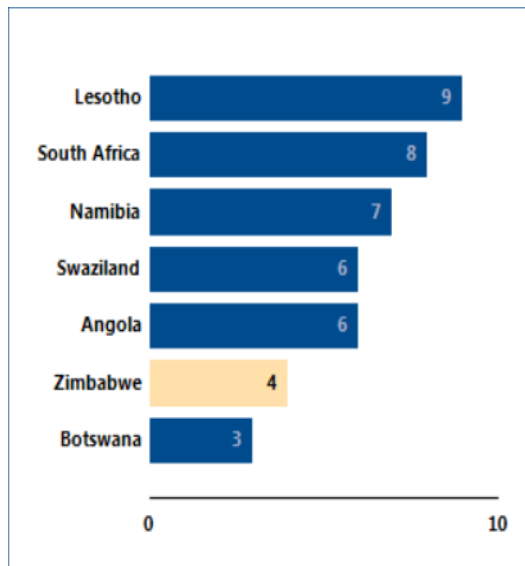


Figure 4: Ease of Shareholder Suits
Source : *Doing Business 2015*(pg 52)

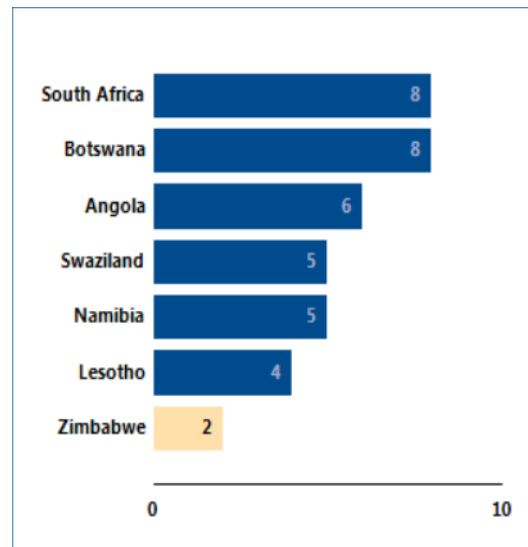


Figure 5: Extent of Director Liability Index
Source *Doing Business 2015*(pg 52)

2.13.3 Zimbabwe Stock Exchange Act (Chapter 24:18)

The Zimbabwe Stock Exchange Act (Chapter 24:18) regulates the stock market that is buying and selling of shares. It also supervises and monitors the stock market trading so as to ensure transparency and fairness by stock market participant's .The ZSE also provides for listing rules and guidelines for public listed companies. However the Act has no express provision in promoting shareholder awareness and participation in the stock market.

2.14 SHAREHOLDER ACTIVISM AND CORPORATE GOVERNANCE.

According to Grienberger (1995), Jarrell and Brickley (2007), Kotler and Lee (2005) define corporate governance as consisting of the set of processes, customs, policies , laws and practical systems and institutions controlling and exercising power on the conduct of a firm how it is directed, controlled or administered. Grienberger (1995) argues that the various stakeholders have relationships among them. Thus the board havea relationship with its internal various committees, with other stakeholders such as local communities, key customers and suppliers, employees. On the other hand Jackson and Carter (1995) define corporate governance as consisting of the efforts by the companies to ensure that their house is in order. According to Guay et al., (2004) they refer to

corporate governance as central to the concept of agency theory and a relationship between management and the firm owners.

Jacks (2007) argue that good corporate governance standards are crucial to ensure the success of any entity. Thus lack of good corporate governance standards is likely lead to shareholder activism. The King 111 Report (2010) and the (OECD) Principles on corporate governance (2004) concur that good corporate governance principles that are key involve integrity, transparency, sustainability, responsibility, accountability, compliance, independence, fairness and risk management. Accountability is the key backbone of corporate governance as provided in the Cadbury Report. According to the Cadbury Report (1992), the OECD Principles(2004)and the UK Sarbanes Oxley Act provide the most common accepted principles of corporate governance that realise shareholder activism and these are :

1. Recognition of the shareholder rights and realising the important ownership functions whereby a firm's corporate governance framework should ensure the protection and facilitation of shareholders exercising their rights.
2. Shareholders treatment should be equitable. This entails the corporate governance framework that ensures minority and foreign shareholders to be treated equitably.
3. An opportunity for effective redress mechanism in case of violation of their rights should be available to all shareholders.
4. Transparency and Disclosure as a key corporate governance mechanism. This entails the corporate governance framework to provide for disclosure which is timeous and accurate to all material issues that pertains to the corporation. This includes the financial condition of the firm, the financial performance, the firms' ownership and its governance.

Therefore according to Gower and Davies (2008) states that in the traditional model of the firm directors accountability to shareholders largely depends on the capability of shareholders to constantly review board performance and to make decisions if in their view board performance has not been satisfactory and adequate. Therefore it can be concluded that shareholder activism cannot be separated from corporate governance standards.

2.15 Strategies employed by the United Kingdom listed companies to prepare for shareholder activism.

According to Winston and Strawn (2014) and Wearing and Millo (2011) they provide for the key options available to activist shareholders and specifically how UK listed companies should conduct themselves in the face of shareholder activism. Consequently a listed company should have company tools and take continual steps and strategies in place so that it may effectively and positively deal with an activist shareholder that appears on the register of a company. These strategies serve as a guideline for any listed company and include the following:

a. Monitoring of the Company's Shareholder Base

Public listed companies should maintain a comprehensive shareholder base as a way of looking for shareholder activists. This includes monitoring and observing borrowing activities and stock lending in relations to the shares in a company. This may point out to hedge funds activist, or shareholder activist who may be interested in such shareholder activism in the targeted firm.

b. Proactive discussions with key investors

An important strategy is continuous holding of pro-active discussions with key investors. Engaging with shareholders at a greater level is important as shareholders are given the ability to air their concerns' and the firm an opportunity to address such concerns. Thus maintaining a written record of meetings with the concerned parties and the issues raised is crucial in any engagement. Thus constant engagement with the shareholders by the company reduces the inclination of shareholders to support an activist shareholder or shareholders to engage in shareholder activism.

c. Identifying the beneficial owner

A strategy that can be used is first identifying the beneficial owner in firms is crucial since most of the shares in listed companies are held through nominees thus searching the shareholder register it is very unlikely to reveal the true identity of the beneficial holders. In the United Kingdom the legal framework enables and requires a public company incorporated in the UK to disclose from any party it believes has or had an interest in its shares at any time during the previous three years.

d. Maintaining of good corporate standards

Activist shareholders normally protest and complain about poor corporate governance standards. Thus management and board of directors should ensure that high standards of corporate governance are maintained.

e. Adequate preparation for annual general meetings

This entails preparing for any eventualities in relation to general meetings, preparing scripts and a written question and answer draft. Guidelines should also be available on how such matters as to how to deal and relate with difficult shareholders. Requesting shareholders to submit in advance their questions in writing is crucial. Monitoring of voting patterns is important in analysing the different types of shareholders and their attitudes in voting against any type of resolutions.

f. Maintaining good investor relations and use of publicity effectively.

Clearly articulating the company's strategy and demonstrating that the board is implementing the strategy and maximising shareholder value. Constant monitoring of press and social media for any comments about the company, competitors and the general industry is crucial. Thus having good relations with industry or financial journalists coupled with regular dialogues with key analyst and monitoring coverage of the company.

g. Evaluating existing structural defences

Ensuring a constant review of structural defences and policies and articles of association provide for proper shareholder engagement for the benefit of all shareholders.

h. Legal and Regulatory Strategies

Keeping up to date with legal and regulatory developments is another strategy that can be used by firms with the in house legal team being up to date with any developments and training of the board and management are constantly carried out.

2.16 CONCEPTUAL FRAMEWORK

According to Miles and Huberman (1994) they postulate that a conceptual framework explains in narrative form, or in a graphically form the key aspects to be studied. These

include the key factors, concepts or variables' and the assumed relationships among them. The model consisting of the actual ideas and beliefs of what the researcher planned to study was developed. The conceptual framework developed by the researcher from the research objectives and the literature reviewed is premised on the concept that shareholder activism in public listed companies is driven by various independent variables which may be, social, moral, legal and political. Shareholders may actively participate in the companies where they are issues of irregular board appointments, remuneration of directors and lack of compliance to corporate governance standards among other issues. However shareholder activism may be impacted upon by variables factors such as the regulatory framework in a particular country and the media's role which may be used by shareholder activists to name and shame companies that are failing to comply with corporate governance standards particularly ensuring shareholder engagement and rights. The media may report positive or negative aspects of shareholder activism in annual general meetings. However the outcomes and impact of shareholder activism may include increase in the financial performance of a firm, compliance to corporate governance standards such as dividend pay-outs, profitability and maximisation of shareholder value. This is presented below from the researcher's own construction.

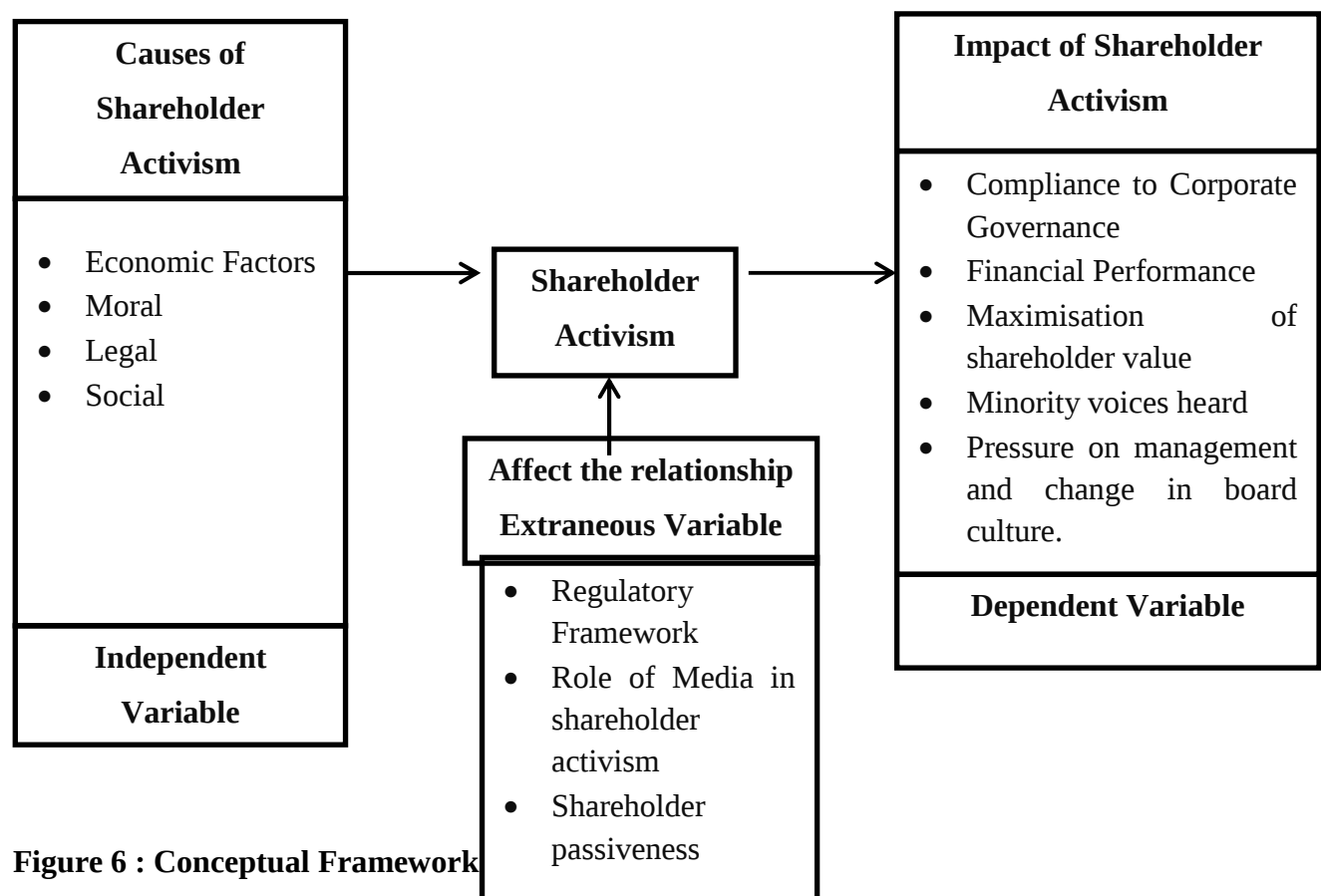


Figure 6 : Conceptual Framework

2.17 CHAPTER SUMMARY

This chapter analysed and discussed the existing literature on the subject on shareholder activism. From the literature reviewed shareholder activism has been tackled from many angles. As such they are motivators and drivers of shareholder activism which may be socially driven or financially driven shareholder activism. Shareholder activism in other jurisdictions has also been analysed with these jurisdictions such as the UK, Nigeria and South Africa having codes and principles that encourage and promote shareholders who are active. The theoretical framework underpinning the concept of shareholder activism was also discussed which included the agency theory. The Regulatory landscape has also been highlighted whether it promotes an enabling environment for shareholders and management to actively engage with each other. An analysis of the different types of shareholder activists was also highlighted and the different forms activism. The relationship between shareholder activism and corporate governance was emphasised and concluded that shareholder activism is an important corporate governance mechanism. The realisation that shareholder activism plays a major role in corporate governance has led to an environment that is conducive to activism in most jurisdictions. Thus shareholder activism is an old concept. However in Zimbabwe its extent needs to be explored further. Chapter 3 introduces the research methodology underpinning the study.

CHAPTER 3: RESEARCH METHODOLOGY

3.1 INTRODUCTION

The main purpose of this chapter is to critically discuss and present the research methodology used and utilised by the researcher in this study. This includes the research design, philosophy, strategy and the study population and sample and the sampling techniques. The research instruments used will also be introduced including methods of data collection, processing and data analysis. Furthermore in this chapter the research limitations, ethical considerations and data credibility will also be outlined. The purpose is to link the research methodology with the research objectives in addressing the research problem as outlined in Chapter one. The study used in depth interviews to assess the nature and extent of shareholder activism as a corporate governance mechanism in Zimbabwe companies listed on the stock exchange. This approach was considered to be effective as it examined issues in depth from different perspectives.

3.2 RESEARCH DESIGN

The purpose of the research design as aptly stated by Saunders, Lewis and Thornhill(2000) is to collect evidence that would allow an answer to the research questions by the researcher. This is through a thorough definition of steps undertaken for the research to have valid findings. Hussey and Hussey (1997) and Saunders et al., (2000) both state that there are many alternatives to research designs. These include using surveys, grounded theory, action research, use of case studies, and the creation of experiments.

3.2.1 Research Philosophy

In the study a choice between two main alternatives of research philosophies was made, the positivists (quantitative) and the phenomenological (qualitative or interpretivist) philosophy as illustrated below.

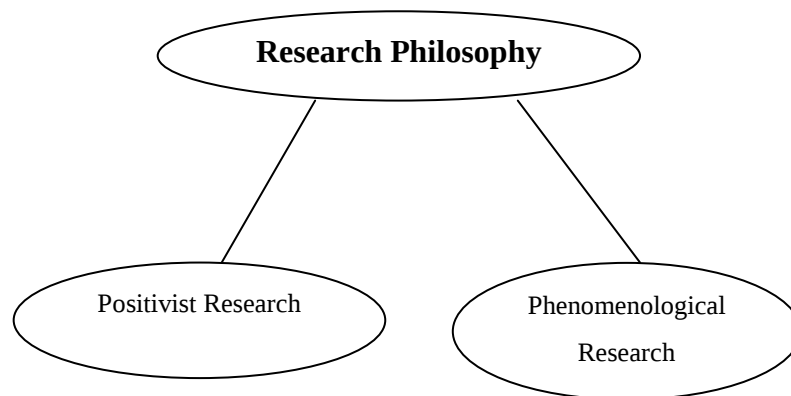


Figure 7: Alternatives of Research Philosophies:

Source: Tobin (2006)

This study used mainly the interpretivist philosophy as a qualitative approach. This consisted of an inductive approach and involved collection of data and arriving at a possible conclusion. According to Saunders et al., (2009) qualitative (phenomenological or interpretivism) approach makes an assumption that the social world consists of many complexities difficult to be assessed on set principles or laws normally used in the physical sciences which has the probability of rejecting the rich insights given in a complex social world. According to Easterby, Thorpe and Lowe (1991) they state that a research philosophy relates to the belief about how information about a phenomena should be collected, examined and used. In this research a phenomenological philosophy was used as opposed to the positivist philosophy.

Phenomenological research is in describing an experience that is lived of a phenomenon. According to Welman and Kruger (1999) phenomenologists are mainly concerned with the social and psychological phenomena from people's perspectives. Thus according to Greener (2008) an interpretivist researcher's main aim is in seeing the world as it is through the eyes and lenses of the people or participants under study so as to allow them to have many viewpoints and perceptions of the reality in the world than the positivists' one reality. According to Kothari (2004) a qualitative methodology generates and produces results in a non-quantitative form or in a form which is not subject to rigorous quantitative analysis. On the other hand this contrasts the positivist philosophy which only provides for objectively verifiable and observable facts which are the only acceptable subject of study. Thus according to Massingham, Massingham and Diment

(2012) they argue that positivist researchers mainly maintain objectivity of their data by mainly distancing the positivist researchers from the data. They discover the reality or certainty of the phenomena which is under investigation.

The concept of shareholder activism suits well in qualitative research. This concept deals with the subjective interpretation of the various people and shareholders involved in shareholder activism. Shareholder activism in its own social setting when fully implemented it reflects the reaction and subjective understanding of the people involved. However the quantitative approach can also be used to this study where necessary, where the researcher is concerned with quantitatively verifiable and evident facts. However there is no single methodology of research which is fundamentally better or superior than the other as these methodologies are unique in their own regard (Kaplan and Duchon, 1988).

3.2.2 Research Strategy.

According to Saunders, Lewis and Thornhill (2009) research strategies involve surveys, case studies, grounded theory, and ethnography and action research. A case study has been defined by Robson (2002:178) as quoted in Saunders et al (2009) as consisting of having a strategy that is used for engaging in a research and involves practical investigation of an existing real life aspect in its lived and natural context. Further the case study strategy is mainly used in explanatory and exploratory research. A distinction is made between four case study strategies as amplified by Yin (2003) quoted in Saunders et al (2009) as consisting of a single case study as opposed to case study with a multiple approach and a holistic case study as opposed to a multiple case study.

This research adopted the form of a multiple case study which analysed companies listed on the stock exchange with a particular focus on the Beverage Sector, Banking Sector and the Tourism sector. The study can be generalised to other sectors of a similar nature. Issues were analysed in greater depth and provided answers to the what, why and how questions (Saunders et al, 2009). In this study a multiple case study involving more than one case was used. The reason and rationale for using a multiple case study was the need to focus on whether the findings of the first case occurred in other cases and as a consequence the need to generalise the findings.

The organisations were selected for the case study for various reasons including a wider shareholder base which may generate much shareholder activism. Again the multiple case study strategy was also important as the researcher wanted to gain a deeper understanding of the context of the research and the processes being enacted. The researcher also had a particular interest on the issues at hand and is employed in one of the beverage organisations as such shareholder activism is of much interest.

Myers (2009) also states that qualitative research methods and data sources also include observations, participant's observation, interviews and questionnaires, and also the researcher's impressions and responses. According to Kaplan and Maxwell (1994) they state that the main aim of having an understanding of a phenomenon from the angle of the participants in relation to the particular social and institutional context is lost mainly when textual data is quantified.

3.3 Population and Sampling Techniques

According to Collins and Hussey (2009) they define a population as a body of people under study for statistical purposes. Whilst according to Coldwell and Herbst (2004) a sampling technique refers to a procedure undertaken to choose subjects from the population in such a way that the respective individual adequately represent the population.

3.3.1 Population

Patton (2001) argues that a population consists of all the objects that are under study. Thus the target population for this study consists of companies publicly listed on the stock exchange. At the time of writing this dissertation there were approximately (66) listed firms on the Zimbabwean stock exchange and they are classified into (18) sectors. Such classification is done by the Zimbabwe Stock Exchange. However three sectors were chosen that is the beverage sector, banking and the tourism sector for the purposes of this study.

3.3.2 Sampling

Sampling is a procedure undertaken to select subjects from the population in a way that the individuals satisfactorily represent the population and to bring out conclusions about

the population under study (Coldwell and Herbst, 2004). According to Saunders, Lewis and Thornhill (2009) a sample is usually ideal as compared to the whole population as it is less expensive to observe a part of the population under study rather than the whole population under study.

3.3.2.1 Sampling Methods

According to Saunders et al., (2009) states that samples may consist of probability or non-probability samples. Thus in probability samples there is a possibility of an individual being chosen from the population and the probability is known and identical for all the individuals. In non-probability sampling the probability of each individual being selected from the populations is unknown. According to Levy and Lemeshow (1999) probability samples comprises of simple random sampling, also stratified sampling; systematic sampling, and further cluster sampling. Non probability samples are those grounded on the following techniques: convenience sampling, quota sampling and judgment sampling.

3.3.2.2. Sampling Techniques. Judgemental (Purposive) Sampling

To select participants in this study non-probability purposive sampling was used to select participants in the study. This sampling method allowed the researchers to select participants that could best answer the research question and addressing the research objectives. Participants and informants selected were knowledgeable about the study in question with informative insights and views into the research area. The researcher was working with an informative small sample this proved to be an appropriate sampling method. According to Saunders et al (2009) judgmental purposive sampling cannot produce samples that can be a representative of the population statistically.

The sampling technique used was the purposive and judgmental technique in that the participants were regarded as knowledgeable in discussing or responding to questions raised. This also involved the selection of key informants within the companies listed on the stock exchange. Key informants were participants with the information or the know-how of the subject in question. These included informants from, the regulatory authority, Company Secretaries, Shareholders, board members, market analysts and the media. Board members had varying experience as they sat on a number of boards on public listed

companies and shareholders also had varying interests and investments in listed companies. As such they provided rich information on the subject under study.

Thus these key informants from the beverage, tourism and banking sector constituted the sample population for the study. These sectors were chosen so as to get varied data on the nature and extent of shareholder activism in these various sectors. The sample size mainly consisted of at least one company secretary chosen within each of the sectors represented. The sampling technique used was also purposive and judgmental in that participants were regarded as knowledgeable in having a discussion and responding to questions that were raised in the data collection. The sample population for this study consisted of sixty six companies listed on the stock exchange comprising of eighteen different sectors.

Company secretaries are custodians of corporate governance standards and maintain the shareholder registers in public listed companies. They also act as a point of contact between company's board of directors and their shareholders. Securities Commission is mandated in terms of the law to ensure investor education and shareholder awareness education. The media has also been vital in informing the public on shareholder activism and reporting on annual general meetings. Board members are also custodians of corporate governance standards and are mandated by the shareholders to run the company efficiently. Shareholders are crucial as they ensure that checks and balances are kept in check towards the board.

3.3.3 Snowball/ Chain Sampling

This method was also used greatly where key informants also referred the researcher to other likely key informants in this research. Thus the researcher was able to interview a number of board members and shareholders who may be difficult to access due to their tight schedules.

3.3.4 Choice of Participants/ Informants

According to Holme and Solvange (1997) the authors state that when doing interviews the choices of participants should not be random but systematic using the researchers own formulated theoretical and defined criteria. The participants chosen possessed deep and comprehensive knowledge in the subject matter of interest. The aim of the chosen

sample was to conduct interviews with a sample of key informants on the other hand taking it account the researchers time limitations and at the same time not sacrificing the depth of the interviews. A total number of 21 participants chosen from the three different sectors were thus considered as being an appropriate number because in this research it allowed in depth knowledge and at the same time, to gather insights from a variety of different sources. The following key informants were chosen.

Table 1: Information Provided by Key Informants

KEY INFORMANTS		INFORMATION PROVIDED
Shareholders : Minority Majority	8	Information on shareholder awareness and activism/ apathy.
Regulatory Authority (SEC)	1	Involved with investor relations and shareholder awareness.
Directors	5	- Experience with Shareholders - Encounter shareholders on a frequent basis.
Media	2	Role in reporting on shareholder rights and Annual General Meetings.
Company secretaries Company Secretary /Legal Advisor	3	- Have a regular encounter with shareholders - the face of the corporate governance when dealing with shareholders, - Maintain the shareholder register.
Market Analysts	2	Involved with analysing the financial markets focussing on shareholder activists.

3.5 Sources of Data

The researcher used primary and secondary sources of data in this research.

3.5.1 Primary Sources

Zikmund (2003), states that primary data is raw data that is mainly collected for the purpose of the study at hand. Primary source of data consists of documents or records that contain first-hand information or original data on a particular research area or topic. This includes primary sources of data collected from journals, interviews, newspapers,

magazines. These were utilised in this research and semi structured interviews were also used as a source of primary data

3.5.2 Secondary sources of data

According to Cooper and Schindler (2001) secondary sources of data are mainly interpretations of primary data. These can be internal or external to the organisation and includes financial statements, reports and data bases. External sources may include news reports; survey reports form the stock market. These sources may exist from publications or relevant to the study at hand but not gained specifically for the purposes of the study at hand. In this research annual reports of the companies under study were analysed so as to get any trends and reports on shareholder activism.

3.6 DATA COLLECTION PROCEDURE(Research Instrument (s))

Research instruments are the tools which are used by the researcher in collecting data (Luck and Rubin, 1987). For the purposes of this research the researcher focussed on data relevant to the research objectives and the data was classified by source. Data was collected from websites of the companies listed on the stock exchange, annual reports and published reports of the companies. According to Preece (1994) he states that various methods are used to collect empirical material such as interviews, questionnaires and observations. In this study a mixture of qualitative research methods was adopted so as to provide an informative and broad account of the research.

3.6.1 Archival Research

This research also made use of archival research and a study of documents. Saunders et al (2009) further argues that archival research, records of an administrative nature, and documents as the main source of data. In this study archival research was done so as to get an understanding of the company's shareholder structure and their relationship with shareholders. Thus the annual reports were perused and statements issued by the respective companies giving rise to patterns that emerged from this study. Archival research was useful also useful in formulating the interview guide as issues that emerged from these reports which were also clarified from the participants.

3.6.2 Semi Structured Interviews and In Depth Interviews.

According to Silverman (1993) he states that qualitative research can be best carried out through observations, analysing texts, interviews, recording and transcribing data. Further the author states that interview questions that are standardised are proper so as to increase research reliability and authenticity. In this study qualitative interviews were used so as to get deep insights about the informants' experiences, their impressions and interpretations of social occurrences around them on shareholder activism. In this study in depth and semi-structures interviews were used in order to obtain data from the selected participants. In this research an interview guide was made use of in conducting interviews with the selected participants.

According to Saunders et al., (2009) this involves the researcher constructing a set of questions which will guide the inquiry into the research. Further semi-structured and in-depth interviews allowed for probing by the interviewer so as to get detailed information and understand specific meanings and concepts being given by the informants. However new and emerging issues could be pursued that were not initially part of the interview. Further the questions from the interview could be modified and the researcher was not mandated to follow any specific order.

The interview guide was used in conducting the in depth interviews. Thus questions were structured as some were closed and others were open ended questions which were utilised in order to obtain extensive and rich responses from the participants experience in business and personal opinions on shareholder activism unrestricted from fear and bias. The interviews ranged an average of sixty minutes. Since some of the respondents were high profile individuals with experience in corporate governance issues they made deep insights and rich comments on shareholder activism in public listed companies. Thus the researcher was able to clarify any unclear questions to the participants and also be given clarification on unclear responses.

The interview guide provided a defined structure to the interviews conducted and allowed similar data to be collected and emergent themes to be discovered. Audio recording of the interviews was done so as to ensure that all the data was captured and could be analysed later. Transcribing of notes was also done to ensure all relevant information was captured.

3.6.3 Non Participant Observations.

During the course of this study the researcher was able to attend two annual general meetings of the beverage and tourism companies so as to observe and have an understanding of shareholder activism in this context. This was a helpful method as the researcher was able to triangulate the data from interviews, the literature reviewed and the observations.

3.7 DATA ANALYSIS

In analysing the qualitative data, the researcher used the written notes and the audio recordings extracted during the interviews. These were consequently transcribed verbatim. All the data was summarized and looked across to identify the common issues recurring and identifying main themes that summarized all the views that the researcher collected. The interview guide formulated from the research objectives and the research questions was used to categorize the responses into themes. All the data gathered and the data categorization was also aligned with the conceptual framework formulated in Chapter 2. Data was also coded by writing codes on the margins of the transcript. Data was also taken out of extracts from their original context and was put with other data of a similar nature on the same issue so as to look for patterns across the data. Thus the patterns and relationships under the themes was the basis of this research report.

3.8 Research limitations

Qualitative research allows the researchers to be present during data gathering as such this was a limitation as it might have affected the participant's response. To overcome this researcher was sensitive to the needs of the interviewees by being non-judgmental and having an interest in their views so that the interview was not an interrogation. Participants had information that they considered to be confidential as such they were not at liberty to disclose such information and their anonymity would be protected. However the researcher in gaining the confidence of the participants had to explain to them the ethical issues that relates to privacy and confidentiality which the researcher was mandated to observe. They were also assured that this research was mainly for academic purposes.

3.9 Research Ethics and Data Credibility

3.9.1. Research Ethics

In this research ethical considerations were taken into account in data collection and interviews. According to Cooper and Schindler (2008) they define ethics as the standards of behaviour that guide people's moral choices in the way they conduct themselves and their relationships with others. Saunders et al (2009) provides the main ethical issues that normally arise at each stage and duration of the research project. These include:

1. Rights of participants to freely participate in the research and to freely withdraw from the interview process.
2. Guaranteed privacy of the participants in the research study.
3. Guaranteed maintenance of- confidentiality of the research data provided by the participants and anonymity of the participants.
4. Taking into account the responses in the way the researcher collected data including but not limited to protecting participants from anxiety, embarrassment, discomfort and harm.

In this study permission was sought to carry out the study for academic purposes from the relevant informants. Authority from the employer was also sought in this regard. The researcher is employed in the beverage sector and has close working relationships in the tourism sector and with the relevant stakeholders dealing with corporate governance issues. Thus this assisted in easing the problems relating to access the required data and to the participants. Again the snow balling technique was useful in gaining access to the required participants. The objective of the study was also explained to participants who were informed also of their right to participate in the study. During data collection permission was also sought from the participants to do audio recordings, the reasons for audio recording and the assurances of deleting the recordings after the completion of the research. Participants were also informed that the information will be kept confidential and their anonymity protected.

3.10 Data Credibility

According to Joppe as cited in Golafshi (2003) reliability is expounded as the degree to which the findings of the research are consistent over a specified period

3.10.1 Reliability and Validity

Reliability and validity are relevant to research as they assist to define the strength of the data.

3.10.2 Reliability

According to Saunders et al., (2009) reliability can also be assessed whether the same conclusions in the research can be reached by other researchers and the extent of the interpretation of the raw data. Again it can be determined and assessed through the measures utilized by the researcher if they give the same results on other occasions. However in qualitative research according to Ritchie and Lewis (2003) they state that qualitative research replication may not be achieved since the research findings are a reflection of the reality of the situation at the time of the study.

3.10.3 Validity

According to Saunders et al., (2009) validity refers to the correctness or precision of a research finding. Thus validity makes a determination on whether the research correctly measures what it was supposed to measure or how correctly and truthfully the research results are. According to Ritchie and Lewis (2003), validity is categorized in two dimension i.e. external and internal validity. Therefore internal validity denotes to whether the researcher is researching what they claim to be researching. External validity refers to the degree in which the research findings can be applied to other settings or to groups within the population.

To increase validity of findings in this research evidence was sought from a wide range of sources and comparing the different findings from the sources. Semi structured and in depth interview was used to get data from the various participants. In formulating the interview guide the questions were aligned to the research objective and research questions. The interview guide also ensured validity and reliability of the responses as the interviews were guided by the interview guide. The audio recordings, written notes and the transcribed documents were carefully analysed. Thus validation of the research findings was also justified using the various research instruments and research designs.

3.11 Chapter Summary

This chapter presented the research methodology used by the researcher in this particular study on the extant of shareholder activism in Zimbabwe. This research was underlined by the phenomenology interpretivist approach and the qualitative research design using the multiple case studies was used in this study. This was presumed to be a better approach as it allowed an expression of participant's views and attitudes in relation to the research study in question. Data collection methods, ethical issues and data reliability and validity were presented and justified.

CHAPTER 4: RESEARCH FINDINGS AND DISCUSSIONS

4.1 INTRODUCTION

This chapter specifically presents the research findings and their discussion. The main purpose of this study was to investigate the nature, form and extent of shareholder activism as a corporate governance mechanism in Zimbabwe public listed companies. The research was carried out using the interpretivist qualitative approach and a multiple case study strategy to explore the study in greater detail. In this research in depth interviews, non-participant observation was used in combination with the use of archival or documentary research.

The interview questions were structured around the main study areas which were linked to the study objectives and the research questions. These areas are as follows: (i) Nature, form and extend of shareholder activism in public listed companies, (ii) Motivations or Drivers to Shareholder Activism in public listed companies (iii) Effectiveness of the Regulatory Framework in Ensuring Shareholder Activism (iv) Shareholder Activism and the Agency Problem (v) Relationship between shareholder activism and its impact on corporate governance standards in public listed companies (vi) Strategies that can be employed by public listed companies to use shareholder activism as corporate governance tool and its effectiveness. Therefore these research findings are discussed around these major areas in relation to the conceptual framework and the literature reviewed on shareholder activism in public listed companies.

4.2 Sample Description.

In this study collection of data was achieved through in depth interviews with a purposive sampling of 21 Respondents from public companies listed on the stock exchange specifically the Beverages Sector, Tourism Sector and the Banking Sector. The informants consisted of shareholders, market analysts', the media, company secretaries, regulatory authority and board members. The participants were selected as they have varied experience in corporate governance issues thereby making rich and in depth comments on shareholder activism in public listed companies. The chosen sample consisted of two females and nineteen males. Their ages ranged from 30 years to 55

years. The level of education ranged from degree to postgraduate level. They had served in their respective and other various capacities from periods that ranged from five years to thirty years.

4.3 RESEARCH FINDINGS

The following sections will deal with the results of the study as far as the objectives of the study are concerned. In conducting the interviews with participants use was made of the interview guide as a tool so as to get responses on the defined themes that were aligned to the researches questions and the study objectives. Various questions were asked under each theme and confirmation of the responses was done through archival research where necessary.

4.3.1 Objectives on the nature, form and extent of shareholder activism in public listed companies

A key finding in answering the nature and extent of shareholder activism in public listed companies, participants highlighted and shared a common view that the nature form and extent of shareholder activism in the Zimbabwe context is mainly affected by our capital and financial markets which are generally “small”, “underdeveloped” and “inactive” and affected by market liquidity problems to create much anticipation for shareholder activism as a corporate governance mechanism as compared to other jurisdictions (P1ED, P2NED, P4NED, PMA18, PMA19, P6CS, P7CS). PMA18 aptly stated that “When we talk of shareholder activism in Zimbabwe we need to look at the size of our market which is generally small such that effectively there is not much generated in terms of enthusiasm on issues of shareholder activism as compared to other markets....It is happening but not to such levels as those in the UK, USA, China or South Africa but we need to be prepared as we are seeing it gradually emerging”.

However according to Coffee (1993) they argue that corporate governance is impaired and hampered by market liquidity problems. Participants in this study were generally aware of the concept of shareholder activism in public listed companies and endorsed this concept as a slowly emerging phenomenon which cannot be ignored. They expressed a wide range of opinions on the meaning of shareholder activism. Participants viewed it as

mainly consisting of shareholders as owners who may perceive that the actions and behaviours of the directors are believed to be ‘unsatisfactory’, and were they have “failed to execute their duties” in protecting shareholder value. Thus shareholders may take appropriate action in asserting their powers as owners effectively influencing company behaviour and strategies through active participation.

From the findings participation by minority shareholders meant to them attending AGMs without making any contributions. However they faced a myriad of challenges in fully participating effectively. The majority shareholders or investors in AGMs would protect their own interest at the expense of the minority shareholders. Participant P16MS stated that “.....to me shareholder activism implies those who have invested in a firm, who take interests and participate and see what’s happening in it.....But you know business issues are too technical for people like us at times we do not understand some of the issues being tackled and their consequences....the majority shareholders are always leading at our expense.” Participant P14MS also said “Participation involves attending the AGM....they do send us the AGM notices..... I have attended most AGMs.....This is the only time you get to meet the directors and hear what they have to say but as minority I cannot influence any decision made by virtue of me being a minority”.

PMNS16 “ I feel as long as the company is doing well and I receive my dividends that’s good enough for me.....I just attend AGMs so as to hear what the management is saying...so I believe my participation can be said to be my presence. I have not had the guts yet of asking questions as the environment in which these AGM meetings takes place is too serious and formal. It is like they every proposal they are saying is accept it whether you like it or not.” Thus minority shareholders the concept of shareholder activism is only relevant to majority shareholders in AGMs; however it was a platform where they felt ineffective in shareholder activism.

However with the majority shareholders they were of the view that they looked at the long terms value of the company and were not there to manage the companies they would have invested in but to ensure that their rights are protected, by managers who are stewards of their shares. (P11MJS, P12MJS, P13MJS). More particularly P11MJS aptly stated that ‘.....in the context of majority shareholders, shareholder activism is not about

having that energy to interfere or to manage the company as this is what executives are hired for.But we are there to ask them...err executives because they are our stewards to act in our best interest.....remember we are long term shareholders and we want a long term sustained value....so activism is good and keeps them in check...especially when it comes to corporate governance issues.”

A finding from the study from the participants was that shareholder activism was also dependant on the corporate practices, compliance to levels of corporate governance and the targeted firm’s financial performance. Where a corporate had high levels of corporate governance it was unlikely to attract much shareholder activism. Participant P8CSLA stated that “OurCompany has international investors, we have no option but to have strict corporate governance standards entrenched in our corporate philosophy hence we do not attract much negative attention from our shareholders”.

Participants had a remarkable common view of their experiences especially relating to annual generating meetings and extraordinary generally meetings where shareholders approved any proposed resolutions without probing management on the meaning and consequences of these proposals. Participants mainly stated that AGM and EGM meetings mainly constituted “shareholder non-participation” and “apathy” on the issues put on the agenda at shareholder meetings. Thusshareholders particularly minorities were taken to be “inexperienced”, “simple”, “unsophisticated” and generally unaware of their rights (P2NED, P5NED, P6CS, P7CS, PMJS 11, PMNS13, P17REG, P18MA, P19MA, P20MED, P21MED). P2NED stated that “Shareholders especially minority shareholders in our Zimbabwean environment are generally inexperienced, their attendance to general meetings is largely low, and even if they attend they do not even attempt to ask management on meaningful questions. They do not know that they have the right to probe management where they feel their interests are being affected.....”

Further a finding from the participants’ was that the AGM meetings and the EGMS were too “formal”, “serious” and of “shorter duration” such that issues were not explored in detail. At some instances management were not able to explain to the shareholders any proposal they would have put on the agenda. During the period of this research, the researcher attended two AGMs of public listed companies and observed the formality of the AGMs proceedings and shareholder passiveness was the norm. However participant

P18MA, P19MA, P20MED, P21MED were also of the view that recently shareholder activism has taken a new shape exacerbated by the dollarization of the economy where shareholders whether minority or majority's power can no longer be underestimated.

Participant P21MED elaborated that "the AGMS, EGMs of yester year have taken a new shape...Yes previously passivity was the norm because of various factors, now that we are in a dollar economy shareholders now want a value for their investments. It is no longer business as usual and management have to be prepared in all their annual general meetings. We are seeing a new wave of shareholder activists who are brave enough to question management." Further another finding from the research was that due to the fact that some AGMs and EGMs are normally held in the capital cities as such some shareholders were not able to attend such meetings due to distance from the venues. They were also not aware of their right to use a proxy in the event of their failure to attend the meetings where their opinions may be taken into account.

On the otherhand minority shareholders' common perception was that they could not meaningfully participate in shareholder activism in the listed companies due to the small amounts of their respective investments and their lack of financial muscle to effectively engage with management. PMNS13, PM14NS, PMNS 15, P16MNS also stated that due to the information asymmetry between them and the majority shareholders who normally have access to non-public information they are not able to know what's happening in the companies. According to participant PMNS13:

As much as we want to participate in holding management to account there is so much information lacking from our side. Some major shareholders are able access non-publicised information from management because of their status of being a controlling shareholder. Look at the banking sector.....so many corporate governance mishaps happening, insider loans which the controlling shareholders are benefiting from. So in this case how can we effectively bring management to account when we do not have information? Look at how the financial statements are presented, negative information is hidden from us minority shareholders....but you hear tomorrow that this bank has been closed yet the financial statements are reading otherwise. We do not have proper information in the companies in which we are investing. AGMs are just talk shows and window dressings platforms as

decisions are already made by majority shareholders who are already privileged with non-public information.

Participants were agreeable that shareholder activism could not be effectively achieved where there is information asymmetry as shareholders do not have the necessary information which may enable them to effectively engage in activism. P1ED stated the “where there is information disclosure this reduces the corporate governance misnomers we are experiencing in our country...shareholders are able to probe management when they have adequate information at hand.” Thus according to Tricker (2010) information asymmetry, lack of proper disclosure has been a major hindrance to corporate governance standard and shareholder activism globally.

It was also a finding of this study that management also faced difficulties as regards balancing the interests of shareholders especially with director/s who maybe representative of a particular shareholder’s interests normally referred to as “a representative director/s”. This view was shared by P1ED, P2NED, P3NED, P6CS, P7CS, P8CSLA and P18REG. According to P2NED he stated that:

“A director representing a particular shareholder on a board who maybe a majority or controlling shareholder usually safeguards that particular controlling shareholders interests. Thus this representative director, to take into account other interests of minority shareholders is usually impossible. Thus we have a problem here.....being a representative and trying to balance all the interests of the various stakeholders....”.

From the research findings the participants’ common views and opinions on the form of shareholder activism were mainly in the form of annual general meetings, engagement and dialogue with directors particularly by majority shareholders. These were highlighted as the major forms of shareholder activism in listed companies P1ED, P2NED, P5NED, P6CS, P8CSLA, P17REG, P18MA, P20MED and P21MED. This was mainly attributed to the fact that annual general meetings are made compulsory under the Zimbabwean company laws as such this is a major platform of interaction between management and shareholders. However the participants mainly highlighted that the main reason for these forms of activism could be attributed to the values, principles, beliefs and

socialisation of Zimbabweans as part of their culture. Zimbabweans' are generally perceived to be more reserved in questioning and probing those in management and the board culture in turn may not be receptive to shareholder activism (P12MJS, P13MJS, P16MNS, P17REG, P18MA, P19MA, P20MED and P21MED). Further some shareholders in Zimbabwe have also been known to comply with whatever decisions are made by management. As one participant aptly stated the influence of culture:

P4NED: The way Zimbabweans have been cultured and socialised traditionally especially on the fact that they should obey their leaders and not question their decision making power has also been extended to the business arena....Thus out of respect they prefer to engage and be diplomatic and not question the authority of leaders in public fora such as AGMs. When they do that the situation would have been not been managed at its early stages”

However other participants had differing views as they attributed this to general lack of business acumen, lack of knowledge on shareholder rights and due diligence on the part of both majority and minority shareholders who fail to bring management to account (P6CS, P8CSLA, P11MJS and P15MNS). Other participants also stated that some shareholders have effectively used their voting rights positively in annual general meetings, they also have paid due regard to the composition of the board and issues of compliance to corporate governance standards. (P1ED, P3NED, P4NED, P7CS).

In investigating the nature, form and extent of shareholder activism in Zimbabwe public listed companies, management's attitudes, reactions, anticipations' perceptions to shareholder activism was investigated so as to have an understanding of how management dealt with the various forms of shareholder activism and their diverse demands. On managements attitudes towards shareholder activists the following was deduced from the participants. Management's reaction to shareholder activists varies from company to company depending on the culture and attitudes of the board towards shareholder activism. These were classified as “positive” or “negative” attitudes. Management's attitudes and actions were also classified as being reactive or proactive. Management could also resist the shareholder demands or they would implement them.

A finding from this study was the general common perception among the shareholders was that the board's reaction to shareholder activism to a greater extent was hostile, defensive and unwelcoming. However management's reaction to shareholder activism was largely depended on whether the proposals made were legitimate and represented the entire shareholder interests for instance compliance to corporate governance standards. According to participant P11MJS stated that:

Our query in the AGM was in the board composition. The directors were actually incensed from my view...a lay person raising such issues with no industry knowledge criticising them on their failure to have a proper board composition ...they were actually hostile and defensive but eventually they give in. It's common that in companies they do not welcome shareholder who may be active as we may create a lot of noise. We had to do it...

However management's perceptions to shareholder activism were generally that they would resist or ignore shareholder activist, or they would cooperate and adopt the proposal made by shareholders. However ignoring shareholder activism usually posed and escalated problems to litigation and media attention which companies try to avoid. (P2NED, P5NED, P7CS, P8CSLA). Participant P1NED stated that: "As management our attitude is that we do not ignore sincere concerns that are raised by shareholders. We run the businesses on their behalf obviously in their interests but we try as much to address their concerns if they are legitimate".

Thus from the findings shareholder activism in Zimbabwe is still emerging and is yet to find its way in most public listed companies who have not yet embraced the culture of shareholder activists. The participants also noted that in Zimbabwe there is a remarkable lack of activism by pension funds and insurance companies who have maintained a low profile. This is due to the fact that they are major shareholders as they already have existing and likely business potential in the companies they would have invested in.

The study revealed that participants understood the concept of shareholder activism. However various factors are impeding on the effectiveness of shareholder activism in Zimbabwe. These factors range from lack of shareholder awareness on their rights, lack of financial muscle of minority shareholders to effectively engage with the management,

a culture of passiveness among shareholders and a board culture which has not yet embraced shareholder activism. The main forms of activism are shareholder dialogue and engagement and participation through AGMs. Further the size of our financial and capital markets are not yet conducive and do not generate much anticipation in shareholder activism issues. Information asymmetry and lack of proper disclosure by firms was another contributory factor cited as an impediment to effective shareholder activism.

4.3.2 Motivations or Drivers to Shareholder Activism

The study also sought to investigate the motivations and drivers to shareholder activism in Zimbabwe public listed companies. A finding from this study participants in this research shared a remarkably common agreement that shareholder activism in Zimbabwe was mainly driven by non-compliance to corporate governance standards and economic factors. This arises in instances where management proposes for share buy backs thereby failing to pay a dividend despite the company making substantial profits. Participants agreed that non-payment of dividend pay-outs were an important aspect that generated much shareholder engagement in Zimbabwe in AGMs (P1ED, P2NED, P5NED, P6CS, P7CS, and P8CSLA). The reason advanced being that shareholders always seek for a return on their investment. A finding from this study was the case of an institutional investor NSSA and Government as majority shareholders in Zimbabwe Financial Holdings Limited Bank debated on a special resolution to be passed on the AGM where directors were seeking the approval of shareholders for a share buyback. The directors justified their position stating that they need to recapitalise the company's subsidiaries. P11MJS stated that:

Companies are in the habit of declaring profits but they always talk of share buy backs. They do not explain to us why. When we ask they are defensive and the reasons they give are not even justifiable to us. At least they should pay us dividends and they owe us an explanation. We have invested and we expect a return on our investment.

P17REG confirmed that share buy backs was a critical concept not understood by shareholders as the effects and consequences of share buy backs are not explained to shareholders. They were a major reason companies are not paying out dividends. Further

P17REG stated that, 'hence we are educating shareholders on this we want them to be aware of what this means and its effects. However literature reviewed therefore confirms that dividend pay-outs are a major motivator for shareholder activism (Gillian and Starks 2008).

The study also revealed that a major motivator for shareholder activism was the issue of non-compliance to corporate governance standards particularly irregular board appointments, and board structure and its composition (P1ED, P3NED,P5NED,P6CS,P7CS,P8CSLA).These two aspects were crucial from the participants view that board compositions relates to the independence of the board and diversity of board members. An independent board dominated by outsiders is considered to be more cautious in monitoring behaviour of managers and their decision making abilities than a board dominated by insiders.

Participant P1ED stated that:

What causes most excitement to shareholders is the board structure and how the directors are appointed. Diligence is needed. Look at most boards in our country they are composed of people not appointed on merit but on a need to know basis...this has resulted in poor corporate governance standards and companies failing to sail through in this economy. On the other side, look at the case in point of RTG they were intense board squabbles, or no proper board composition and representation. The AGMs were heated up...but eventually the board composition was rectified. It is one of those cases that you look at and see that shareholder activism is taking up shape slowly.

This position was confirmed through the archival research in the RTGs annual Report (2012).Other factors from this study that caused shareholder engagement also included remuneration of directors, markets abuses and insider trading. The study on the other hand revealed that shareholder apathy was attributed to the regulatory framework which did not encourage an environment of shareholder activism. Further minority shareholders lack the financial muscle to effectively engage in shareholder activism participant P8CSLA had this to say: Though the companies Act provides for minority shareholder protection in certain circumstances, the process is cumbersome; very few minorities pursue that route as they do not even have the money to engage in litigation....”

Further despite the investor education awareness by SEC participants indicated that their role was divorced from the targeted people as their voice was not being effectively heard. Lack of incentives to shareholder to monitor board actions was also a major reason for shareholder passiveness. (P14MNS, P15MNS, P6CS, P5NED). This also confirms the literature argued by Bolodeoku (2007). A further finding from this study from the participants was that boards generally have created a sovereignty power that cannot be challenged attributed to the fact that shareholders delegates power to the board to manage the companies on their behalf. Where shareholders are concerned with a constant dividend pay-out they tend to be passive (P8CSLA). Thus in summary shareholder activism is mainly driven by economic factors such as dividend pay-outs. Further irregular board appointments and board composition are also triggers of shareholder activism. Shareholder passiveness is also attributed to lack of incentives on the minority shareholders to engage in activism.

4.3.3 Objectives on the Effectiveness of the Regulatory Framework in Ensuring Shareholder Activism

The Securities and Exchange Commission (SEC) is a regulatory body that regulates the securities and capital markets in Zimbabwe and one of its major key functions is in promoting investor education. (<http://www.seczim.co.zw/about-secz/who-is-secz>). In this research one of the objectives was to investigate and assess the effectiveness of their legal role in promoting investor awareness. Findings from this study indicated that the Commission in its endeavours to promote investor education and awareness was involved in a number of initiatives which were articulated by participant P17REG as follows:

Investor Education and awareness is in the form of social media, publication of quarterly bulletins on shareholder awareness and rights on the SEC website. These bulletins are also distributed in hard copies to all relevant stakeholders. Further articles on shareholders awareness and other issues that affects investors such as share buy backs are published in the Monday Herald on a weekly basis. Their main aim is to educate shareholders particularly minority shareholders who are largely disadvantaged. The commission in its endeavour to disseminate

information on investor education has also partnered with Universities and the Ministry of Education so as to educate school going children on capital markets. Their presence in information dissemination is seen at exhibition such as the ZITF and the Agricultural show. As aptly stated by participant P17REG, that “we realised an information gap on security markets in Zimbabwe. It is an area that most people lack knowledge on and we want to target the younger generation so that as they are growing they are knowledgeable about such issues”.

SEC has also partnered with the Ministry of Labour and the Parliamentarians as an outreach program on investor education and awareness. The main aim is to equip the lawmakers on investor information and knowledge. Further a finding from this study was that under the Securities Act, SEC established an Investor Protection Fund whose purpose is to compensate investors (both local and outside) investors who experience losses as a result of a licenced player by SECZ who is unable to meet their liabilities due to malpractice, being insolvent or other reasons. These losses may be directly linked to a market player financially collapsing. P17REG stated that the fund is currently sitting at six million five hundred united states dollars. However participant indicated that so far the fund has not been utilised yet.

It was a finding from this study that SEC’s other major role was to protect the interests of minority shareholders who are largely disadvantaged by virtue of being them minorities in companies. In this endeavour SEC is now attending AGMs and EGMs of listed companies so as to monitor on the protection of shareholder rights. In this research a finding from the participant was that SEC in its endeavour to protect minority shareholders may partner with an investor for class actions.

SEC instituted a case in the High Court of Zimbabwe together with the minority shareholder. This involved the ***Securities Commission of Zimbabwe, and Ambassador Mutsvangwa versus Lifestyle Holdings Limited and the Zimbabwe Stock Exchange***. The reason for instituting this case on an urgent basis by SEC and protecting the minority shareholder was that Lifestyle Holdings was seeking to delist itself from the Zimbabwe Stock Exchange so as to list on the Mauritius Stock Exchange. However the company was in violation of listing rules, there was no proper disclosure of the Scheme document, and there was no provision for satisfactory and reasonable compensation for minority

shareholders who wanted to be paid out in terms of the proposed scheme. Further other shareholders, invested funds and legal advisors in this company were all related parties to Lifestyle Holdings such that there were no independent advisors to the transaction who could also protect minority interests. SEC together with a minority shareholder was seeking to interdict Lifestyle Holding from holding an EGM and a Scheme meeting. Thus SEC was seeking for an order that the Zimbabwe Stock Exchange had a duty not to delist the shares until certain conditions were met. However the case was not heard on the merits and was dismissed as the court deemed it not to be urgent. Majority shareholders voted for the scheme together with the minority shareholders who were not aware of the transactions and consequences of this decisions. Therefore this case is an indication of the weakness of minority shareholders who are unaware of their rights and a legal framework that is not effective in ensuring protection of minorities.

Thus it can be said SEC has made some strides in protecting minorities and ensuring shareholder awareness. However much still needs to be done in investor awareness and education. Despite companies listed on the stock exchange collapsing due to a variety of problems, including those provided in the Securities Act minorities have not yet been able to engage SEC to recover their monies through the Investor Protection Fund. This is an indication of lack of investor education and awareness. On the other hand minority shareholder participants indicated that there were not aware of the role of SEC in protecting minority rights and the Investor Protection Fund (P14MNS, P15MNS). They indicated that if this role could be extended to forming a shareholder association that specifically looks at protecting shareholder rights.

Participant P14MNS stated that “we have associations that represent various interests in this country...why not have a shareholder association that is overseen by the Commission so that they work hand in hand. We have many minority shareholders but if we have a strong voice that speaks on our behalf things will change for the better in these companies. At least boards will not sleep on duty.” A general finding from this study was the need for a Code for corporate governance for listed companies that promote shareholder awareness and rights.

The reasons advanced included consistency in the application of corporate governance standards particularly shareholder activism. Additionally codes act as guidelines which

can be followed (P5NED, P6CS, P8CSLA, P10MJS, P13MJS, and P17REG P18MA) and ensure that shareholders and management are aware of their obligations. According to participant P2NED, P3NED and P7CS they had varying views on the need for a code for shareholder awareness and rights. They advocated that codes were not necessary to ensure compliance with corporate governance mechanism as this was not a guarantee to compliance to corporate governance. P2NED aptly stated that “At times we tend to codify a lot; companies need to be left to be doing things in their own appropriate way. The reason being that if we are excessively rigid this encourages minimum compliance.”

Further participants in this research also indicated that the regulatory framework as regards shareholder awareness and rights is fragmented. The Companies Act regulates company laws and has no specific provisions for shareholder awareness and rights. The Securities Act Regulates securities and capital markets and on the other hand the Zimbabwe Stock Exchange Act regulates the stock exchange and provides for the listing rules for listed companies. Thus participants stated that if they are an amalgamation of these laws so that there are clear rules and regulations on shareholder awareness and one regulator who oversee compliance to shareholder rights and activism.

Thus in summary the SEC is playing a major role in investor awareness and education. However there is need to strengthen their capacity as this area is of major importance especially on the Investor Protection Fund which minority shareholder who may be affected may take advantage of. Participants highlighted the need for a code for shareholder awareness so as to protect their interest. A code would provide standards for both shareholders and listed companies to comply with on shareholder awareness. Further they advocated for a shareholder association that represents the interests of minorities.

4.3.4 Shareholder Activism and the Agency Problem/ Dilemma

One of the objectives of the study was to assess the effectiveness of shareholder activism as a corporate governance tool to solve the agency dilemma. Further to investigate the strategies that have been employed by public listed companies to balance the power between management and shareholders in Zimbabwe public listed companies. This

section examined the role and effectiveness of shareholder activism in mitigating the agency problem.

From the study the participants classified the agency dilemma as consisting of the principal and agent dilemma and the principal to principal agency problem. The majority of participants stated that where the interests of managers are not aligned with those of shareholders. Shareholders take action so as to remedy and align the conflicting interest through incentives, share ownership schemes share options as a form of compensation. P8CSLA stated that “if you analyse most public listed companies they have put measures so that the interests of management are in line with those of shareholders. We have shareownerships schemes for all our employees and management incentives. Further a strict adherence to corporate governance is adhered to and a close monitoring so that interests are aligned.

Further from the study, participants were also in agreement that shareholder activism is also effective in public listed companies as a form to mitigate the principal agency problem where shareholders insist on having independent chairmen, an independent board with a large number of independent directors and non-executive directors. Thus this finding is confirmation with the literature written Byun and Khim (2013).

The study participants highlighted that in the Zimbabwe corporate governance discourse the principal to principal agency dilemma was arising where there is a conflict between the majority/controlling shareholder and minority shareholders. Controlling shareholders usually do not act in the interests of minority shareholders especially where the controlling shareholders may tunnel firm resources and have related party transactions at the expense of minority shareholders. This dilemma could be solved through shareholder activism by minorities. However the lack of a mobilised minority shareholder representative was lacking in this jurisdiction. Participant PCS7 stated that:

The problem with listed companies is that of channelling of resources by a controlling shareholder, they have related party transactions with their associated companies for their own benefit. Minorities are effectively prejudiced. Minorities do not speak with one voice in such cases, they are fragmented and taken by surprise, and they do not have adequate information. Lifestyle holdings, our banking sector is a good example that comes to

mind, it involves a lot of redirecting of resources and transactions that involved friends, family, money somewhere else to benefit the controlling shareholder at the expense of minorities who are not aware of what is happening”

In summary a lack of a coordinated shareholder organisation specifically for minority shareholders in Zimbabwe that acts as a social movement pursuing a social agenda that strengthens various minority shareholder groups and gather public attention which can be used to effectively exert pressure on controlling shareholders has affected the effectiveness in mitigating the principal to principal agency problem. These coordinated shareholder associations may use the media, litigation, engagement and dialogue on behalf of minority shareholders as a means to effectively mitigate the principal to principal agency problem

4.3.5 Relationship between shareholder activism and its impact on corporate governance standards in public listed companies

The study sought to investigate the relationship between shareholder activism and its impact to corporate governance standards in Zimbabwe public listed companies. Thus in this endeavor shareholder rights; their participation and equitable treatment in corporate governance and boards role as regards its responsibilities, disclosure and transparency were looked into.

The study revealed that when shareholders exercise their rights as owners in a public listed company they meaningfully and significantly make an influence on the board of directors and management thereby greatly impacting on the company's behavior in various ways. Therefore it was established from the participant's views that a strong shareholder activism promotes compliance to good corporate governance standards. P3NED stated “that active shareholder participation is lacking greatly in our nation hence we see a sluggish approach to issues of corporate governance....listed companies are not being brought to account by shareholders who at times just watch them and do nothing, shareholders have been largely passive thereby leading to corporate failures.”

Participants in the study also highlighted that vibrant shareholder activism in other jurisdictions has led to the shaping of the corporate governance arena unlike in Zimbabwe listed companies where lack of it has led to non-compliance to corporate governance standards by some companies. Participants stated that shareholders who are active are the leaders in driving good corporate standards and capital and financial markets that are sustainable and highly performing.

P19MA highlighted that “Our neighbour South Africa’s shareholder vibrancy can be seen on the performance of its Johannesburg Stock Exchange, their shareholder activists range from Government, Pension Funds, individuals such as Botha, these have changed the face of corporate governance in South Africa. They have a code on corporate governance and an enabling environment for shareholder activism. P17REG on the other hand argued that “corporate governance compliance is difficult to assess in the Zimbabwe as we do not have a standard that we have to measures on corporate governance compliance. Listed companies voluntarily adhere to corporate governance standards of other countries and somelisted companies do not even attempt to have a framework for it.

Participants’ views were varied on the relationship between shareholder activism and its impact on corporate governance mechanism. Some participants were arguing that corporates with shareholders who are active and more engaged have high chances of being successful than those that have passive shareholders (P2NED, P4NED, P6CS, P9MJS, P10MJS). The participants further argued that shareholders who are vigilant reduce the complacency of boards and management because where there is poor performance of companies’ shareholder activist brings change quickly so that management is aligned. This position is confirmed by Gillain and Starks (2008) that shareholder activism has positive impact on compliance to corporate governance standards as it acts as an accountability mechanism. Further Eisenhofer and Levin (2005) concluded that firms that have adopted specified procedures and practices intended to ensure management accountability to shareholders and bring into linemanager’s interests to those of shareholders have a stronger performance than their counterparts.

The participants were in agreement that were firms have a weak corporate governance system they tended to perform poorly that those with a strong corporate governance mechanism. Participant P5NED stated that “.....the top ten performing companies on the

stock exchange that are performing well.....this could be attributed to strong corporate governance mechanism. They have foreign investors who demand compliance to corporate governance standards and are actively involved in their affairs as such even their performance in this current economy is commendable''Therefore in listed companies in Zimbabwe it can be safely said there is a strong positive link between shareholder activism and compliance to corporate governance standards.

4.3.6 Strategies that can be employed by public listed companies to use shareholder activism as a tool for corporate governance

From the findings of this study participants alluded to the fact that the strategies that they employed varied from firm to firm with others having no strategy at all put in place. Participants P1NED, P5NED, P6CS, P7CS, P8CSLA had the following strategies put in place. Participants constantly monitored the firm's shareholder base so as to have knowledge of their shareholders and monitoring shareholder activists. Further adhering to good corporate governance standards was another mechanism used to ensure non attraction to shareholder activists.

Further other strategies employed include forming an emergency response team whenever there are indications of shareholders who want to vigorously engage management. This assist firms in developing a response plan and take any corrective corporate governance correction if any. Participant P1ED stated that "having an ad hoc team is crucial whenever we anticipate angry shareholders... Shareholders at times have a confrontational approach and are at times rude thus we speak with one voice so as to avoid contradictions among management."

A finding from the study also indicate that firms prepared for annual general meetings effectively by preparing anticipated sessions of questions and answers, identifying difficult shareholders and how to deal with them and monitoring voting patterns on resolutions passed and voted against. Participant P6CS aptly stated that ".....we no longer take AGMs for granted as we used to before you never know what may happen as shareholders may vote against our proposals in AGMs we have to prepare for the worst".

Participants also argued that as a strategy to use shareholder activism as a corporate governance tool, companies use the media effectively by continuous engagement with financial journalists and market analysts who may have a tendency of reporting negatively on firms.

Participant P5NED aptly stated that “the media is a powerful platform, we are concerned about the reputation of our company as such we engage the media as regards our strategy, performance and our shareholder/stakeholder relations. We want them to report the truth as it is and do not want to be named and shamed.” However participants P2NED and P3NED on the other hand had no specific strategies put in place for using shareholder activism as a tool for corporate governance but shareholder rights protection were realized in the course of their business by maintain good corporate standards.

4.3.7 DISCUSSION OF RESULTS WITH REFERENCE TO LITERATURE.

Participant's views as regard shareholder activism were varied but their understanding of the concept was the one shared by Stadler (2010). However on the other hand participants did not share the view of shareholder activism adopted by Guay (2004) which consist of socially responsible investments where shareholders make demands to corporates so as to be sustainable. The research findings also highlighted that shareholder activism in listed companies was not homogenous but came in various ways driven by different people with different interests with different impacts on firms. This finding confirms the writings of Adegbite, et al (2010).

The main motivations for shareholder activism in listed companies from the participants view were poor corporate standards, irregular board appointments, information asymmetry, lack of proper disclosure and no dividend pay-outs. Romano (2001) and Guay (2004) agree that firms that have poor corporate governance standards and are performing poorly are targets of shareholder activist.

In Zimbabwe listed companies from the research findings the shareholder activists were mainly classified into majority, minority, institutional investors and pension funds. This classification is also shared by Glac (2010) and Bolodeouk (2007). From the research findings social activists as shareholder activists were not aptly identified by participants

as classified by Marens (2002). The main forms of shareholder activism that were identified were mainly voice activism and loyalty. Voice activism involved private dialogue and engagements privately or in AGMs directly with management a view shared by Chung and Talaulicar (2010).

Participants were also of the view that shareholder activism was a solution to solve the problems related to monitoring and incentives of firms as a means of improving their performance a view shared by Becht, et al (2006). Thus in the research participants argued that the role of shareholder activism cannot be underestimated as it can affect a firm's value, performance and compliance to corporate governance standards a finding in line with Carleton, Nelson and Weisback (1998) and Pound and Zeckhauser (1990). Shareholder activism from the literature findings also mitigated the agency problem. Thus this finding is confirmation with the literature written by Byun and Khim (2013).

Shareholder passiveness was mainly attributed to a complex legal framework and this view is also shared by Davis et al., (1994). Board attitudes, culture and annual general meetings that were too formal were major causes to shareholder apathy. This view is also shared by Ettorre (1992) and Tricker (2010) who aptly stated that AGMs were characterised by shareholder passiveness. From the research lack of incentives to engage in shareholder activism was a main cause for shareholder apathy; and under developed financial markets and this confirms the writings by Bolodeoku (2007).

Participants stated that shareholder activism had a positive impact on firms' corporate governance mechanisms, this position is confirmed by Gillian and Starks (2008) that shareholder activism has positive impact on compliance to corporate governance standards as it acts as an accountability mechanism. Further Eisenhofer and Levin (2005) concluded that firms that have adopted specified procedures and practices intended to ensure management accountability to shareholders and bring into line manager's interests to those of shareholders have a stronger performance than their counterparts. The media's role was also highlighted by the participants as an important aspect in shareholder activism. A view also identified by Girard (2011). Thus shareholder activism in listed companies is an important and emerging corporate governance mechanism.

4.4 Chapter Summary

This chapter has presented the research findings. The findings presented are in relation to the literature reviewed in Chapter 2. It emerged from the findings that effective shareholder activism in Zimbabwe listed companies is hampered by various factors which range from lack of shareholder awareness on their rights, lack of financial muscle of minority shareholders to effectively engage with the management, a culture of passiveness among shareholders and a board culture which has not yet embraced shareholder activism. Further there is no enabling legal framework that effectively promotes shareholder activism. The main forms of activism are shareholder dialogue and engagement and participation through AGMs. Further the size of our financial and capital markets are not yet conducive and do not generate much anticipation in shareholder activism issues. Information asymmetry and lack of proper disclosure by firms was another contributory factor cited as an impediment to effective shareholder activism.

CHAPTER 5 CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

Globally shareholder activism in public listed companies is a growing phenomenon. As such Zimbabwean listed companies are not spared from these global trends. Shareholder activism has largely been used as a corporate governance tool. In other jurisdictions much literature has been written on shareholder activism. This literature and writings have mainly been written in jurisdictions where capital and financial markets are vibrant with shareholder activism and different types of activists. The aim of this study was to explore the nature, extent and form of shareholder activism as a corporate governance mechanism in Zimbabwe listed companies. The approach used in this study was a case study. The following questions were to be answered: What have been the main motivations and drivers for shareholder activism in Zimbabwe public listed companies? Has the absence of an enabling regulatory framework impacted on shareholder activism in Zimbabwe? Is shareholder activism effective in solving the agency problem in Zimbabwe public listed companies? What has been the relationship of shareholder activism and its impact on corporate governance standards in public listed companies? Therefore this chapter presents the research conclusions derived and based on the research results obtained in Chapter 4. The study's recommendations are anticipated to assist all the stakeholders involved in shareholder activism initiatives more particularly public listed companies to effectively adopt and engage shareholder activists and shareholder activism as a corporate governance mechanism. The conclusions in this research are premised on the study objectives. Further areas of study identified in this research are presented.

5.2 CONCLUSIONS

The research study's conclusions are premised on the study objectives that have been stated in Chapter 1. In this presentation a particular conclusion relates to a specific objective and anticipates answering the research question related to the research objective.

5.2.1 The nature; extent and form of shareholder activism in Zimbabwe.

Shareholder activism in Zimbabwe is still an emerging concept that has not yet realised its full potential. This could be attributed to the relatively inactive financial and capital

markets. Consequently the major forms of activism by shareholders are in the form of AGMs, dialogue and engagement with management. However these forms of activism are to a greater extent used by majority shareholders to pursue their own interest at the expense of minority shareholders. The study also concludes that information asymmetry and lack of proper disclosure of information to minority shareholders who are underprivileged greatly impacted on the extent to which they could actively participate in the companies they would have invested in.

5.2.2 Motivations or Drivers to shareholder Activism

The study concludes that shareholder activism is mainly driven by economic factors such as dividend pay-outs; irregular board appointments and board composition are also triggers of shareholder activism. Shareholder passiveness is also attributed to lack incentives on the minority shareholders to engage in activism.

5.2.3 Effectiveness of the Regulatory Framework

The study concluded that the current regulatory framework is not conducive to promote shareholder activism. Various laws such as the Zimbabwe Companies Act, the Zimbabwe Securities Act and the Zimbabwe Stock Exchange Act are fragmented in their approach to promoting shareholder activism and promoting protection of minorities. Further the processes to assert those rights are cumbersome compounded by the fact that specifically minority shareholders do not have the financial muscle to assert their rights.

The study also concluded that currently there is no Code for the protection of shareholder rights and promoting shareholder activism as a corporate governance mechanism. Further currently they are no active shareholder associations that protect and advance the interests of shareholders and investors and provide a robust joint voice for investors and shareholders so as to improve corporate governance standards and financial performance.

5.2.4 Shareholder Activism and the Agency problem

The study concludes that shareholder activism is an effective tool to mitigate the principal agent problem in public listed companies. However it has not been used effectively in Zimbabwe listed companies to mitigate the principal to principal agency dilemma caused by a lack of a coordinated shareholder organisation specifically for minority shareholders in Zimbabwe that acts as a social movement pursuing a social agenda that strengthens

various minority shareholder groups and gather public attention which can be used to effectively exert pressure on controlling shareholders has affected the effectiveness in mitigating the principal to principal agency problem.

5.2.5 Relationship and Linkage between shareholder activism and its impact on corporate governance standards in public listed companies

The study concludes that there is a strong positive link between shareholder activism and compliance to corporate governance standards.

5.2.6 Strategies that can be employed by public listed companies to use shareholder activism as a tool for corporate governance.

Further it can be concluded that some listed companies employ various tools to ensure that they use shareholder activism as a tool for corporate governance.

5.3 Proposition of the Study

The research was seeking to test this proposition that shareholders in public listed companies do not actively participate in shareholder activism as a tool for corporate governance. The research to a greater extent confirmed this proposition. Shareholder activism as a corporate governance mechanism is not being used effectively and to a lesser extent they are isolated cases where shareholders have brought management to account. The researcher established that there are a number of factors that have hindered shareholder activism in Zimbabwe which include a fragmented legal framework that does not promote shareholder activism and, lack of awareness on shareholder rights especially on the part of minority shareholders. Further lack of a corporate governance code for listed companies that promotes shareholder activism is a major contributory factor. Further a culture of passiveness and apathy among shareholders and a board culture that does not promote and accept shareholder activism. This has effectively resulted in many corporate failures and companies delisting on the stock exchange in Zimbabwe

5.4 Recommendations

In view of the conclusions drawn from the study, the following are recommendations made to address the vibrant lack of shareholder activism as an important discourse in public listed companies as a corporate governance mechanism.

5.4.1 Policy Recommendations

5.4.1.1 Reviewing the Legal Framework dealing with shareholder rights and promotion of shareholder activism

There is need to have an enabling legal framework that promotes shareholder activism in public listed companies. There is need to harmonise Company laws, Securities laws and the Zimbabwe Stock Exchange laws so that there are specific provisions under one Act that deal with shareholder activism and promotion of shareholder rights. Procedures for enforcement of shareholder rights should not be cumbersome.

5.4.1.2 Strengthening the training capacity on investor education by the Securities and Exchange Commission

SEC needs to strengthen their education awareness programmes by creating a vibrant special institution that trains minority shareholders with relevant securities laws, refining their ability in dealing with swift changes in financial, capital markets and continuously fighting risks that may arise. Training should also be extended to boards of directors and management so that they are continuously aware of their mandate in the emerging concept of shareholder activism in the corporate governance discourse. This will also enhance their attitudes to shareholder activism and create a board culture that is aware and receptive to shareholder activism.

5.4.1.3 Formulating a Zimbabwean Code of Corporate Governance for Public Listed Companies

There is need for a specific code for listed companies which clearly outlines and addresses important aspects of corporate governance standards particularly shareholder activism. This will enhance a sense of ownership and compliance of the Code among listed companies. Currently listed companies use their discretion to follow corporate governance standards. The success of a Code for listed companies to promote shareholder

activism in public listed companies has been evidenced in other jurisdiction such as China, Nigeria, UK and South Africa.

5.4. Managerial Recommendations to Public listed Companies.

5.4.4.1 Strengthening of protection of minority shareholders rights and awareness

Minority shareholder rights should be protected and observed in listed companies. Listed companies should adopt the shareholder oriented approach that entails the principle that the firm is owned by all shareholders and any activities done by the firm should serve all the interests of shareholders as the first and final goal. This will enhance shareholder participation by all shareholders and ensure compliance to corporate governance standards.

5.4.4.2 The internal governance structure of listed companies to be improved through general meetings of shareholders

There is need to monitor the Annual General Meetings so as to ensure that shareholder rights are taken into account. Powers of controlling shareholders should be restricted so as to strengthen minority shareholder rights. This ensures that controlling shareholders do not manipulate general meetings and that the minority shareholders' interests are also taken into account. In this regard SEC should ensure that there is disclosure on voting's outcomes in any AGM proposal which are to be reported continuously to it to ensure compliance to corporate governance standards particularly shareholder activism.

5.4.4.3 Engagement and Dialogue

Public listed companies should continuously engage with both majority and minority shareholders and any shareholder activists. Further boards of directors and management should carefully review their approach when dealing with shareholder activists. This will ensure that boards of directors and management are fully equipped in traversing through this new era of shareholder activism in Zimbabwe.

5.4.5 Establishing an association or organisation that effectively represents the interests of shareholders particularly minority shareholders.

There is need to establish an association or organisation that effectively represents the interests of shareholders particularly minority shareholders. Therefore it is critical to have an effective, vibrant special shareholder organisation that protects particularly minority shareholders rights and interests composed of experts in securities laws and security markets. These may assist shareholders to participate in any general shareholder meeting, liaising with the Securities commission in keeping communication with minority shareholders, engaging litigation in case of violation and protection of minority rights and interests. This effectively enhances shareholder activism to be used as corporate governance mechanism.

5.5 Research Limitations

This particular study used a case study approach so as to have a deeper insight into the research topic under study. However whilst this approach provided new insights adequate care and caution must be taken in generalising the results to other organisations not specifically studied in this research.

5.6 Areas of Further Study

This particular research employed a qualitative research approach and used multiple case study strategy. A study of this nature using a quantitative approach would be commendable as this will produce results that can be generalised to other organisations. From the course of the study other areas of interest that generated interests and to be explored further include the fact that Shareholder activism needs to be further investigated in Zimbabwe particularly shareholder activism and the adoption of Corporate Governance Code for listed companies, and shareholder activism and the protection of minority shareholders, shareholder activism and remuneration of directors in the Zimbabwe listed companies.

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APPENDIX 1: INTERVIEW GUIDE SHEET

1.0 Personal details of the interviewee.

Gender.....

Range in age.....

Position in the organisation.....

Academic Qualifications.....

Length of service in the organisation.....

a. Objectives on nature, form and extent of shareholder activism in public listed companies.

- 1) Shareholders in public listed companies are generally expected to actively participate in bringing management to account. To what extent have they been able to fulfil this mandate? Please explain.
- 2) What has been your experience as regards shareholder activism in public listed companies?
- 3) Can you elaborate the nature and form of activism that has mainly taken place in public listed companies?
- 4) Can you explain management's attitude towards shareholder activists and shareholder activism.

b. Motivations or Drivers to Shareholder Activism

- 1) Shareholder activism is generally motivated by various factors. What has been the main motivation of shareholder activism?
- 2) What are the main factors that may hinder shareholder activism?
- 3) Have these drivers/ motivations effective in bringing change in your firm.

c. Effectiveness of the Regulatory Framework in Ensuring Shareholder Activism.

- 1) Has the current enabling regulatory environment effective in ensuring shareholder activism.
- 2) In your view do we need a code that governs shareholder activism and shareholder rights? Why. Why not.
- 3) Annual general meetings are mandatory in terms of the Zimbabwean company laws. How effective have they been in ensuring shareholder activism.

- 4) What regulatory framework can be implemented to ensure shareholder activism in public listed companies?

d. Shareholder Activism and the Agency Problem.

- 1) In your view how effective has been shareholder activism in solving the problem of separation of powers between management and shareholders' in Zimbabwe public listed companies.
- 2) What approaches can be employed to ensure the balance of power between management and shareholders in Zimbabwe public listed companies.

e. Relationship and linkage between shareholder activism and its impact on corporate governance standards in public listed companies.

- 1) Explain the relationship or linkage if any between shareholder activism and compliance to corporate governance standards.
- 2) What impact has shareholder activism had on public listed companies?

f. Strategies that can be employed by public listed companies to use shareholder activism as a tool for corporate governance.

- 1) What strategies if any that can be employed by public listed companies to use shareholder activism as a tool for corporate governance?
- 2) How effective are these strategies so as to ensure compliance to corporate governance standards.

APPENDIX 2: INTERVIEW CODES: KEY

P1ED	Participant	1	Executive Director
P2NED	Participant	2	Non-Executive Director
P3NED	Participant	3	Non-Executive Director
P4NED	Participant	4	Non-Executive Director
P5NED	Participant	5	Non-Executive Director
P6CS	Participant	6	Company Secretary
P7CS	Participant	7	Company Secretary
P8CSLA	Participant	8	Company Secretary/Legal Advisor
P9MJS	Participant	9	Majority Shareholder
P10MJS	Participant	10	Majority Shareholder
P11MJS	Participant	11	Majority Shareholder
P12MJS	Participant	12	Majority Shareholder
P13MNS	Participant	13	Minority Shareholder
P14MNS	Participant	14	Minority Shareholders
P15MNS	Participant	15	Minority Shareholders
P16MNS	Participant	16	Minority Shareholders
P17REG	Participant	17	Regulator
P18MA	Participant	18	Market Analyst
P19MA	Participant	19	Market Analyst
P20MED	Participant	20	Media
P20MED	Participant	21	Media