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Corporate governance appraisal: annual reports disclosure by commercial banks in Zimbabwe

Abstract

The study sought to explore and examine commercial banking sector's governance practices in Zimbabwe on disclosure of corporate governance issues. This paper is premised on the stakeholder theory that explains the relationship of the firm to its external environment, and its behavior within this environment. The study was based on descriptive research design which aims to provide information about corporate governance disclosure by commercial banks in Zimbabwe. As is associated with qualitative research approach purposive sampling technique was used. Data analysis and scoring of the disclosure for each bank was conducted through a content analysis. The findings of this study suggest that disclosure on financial situation and governance of the company is relatively fair whereas poor disclosure is on ownership. The study concluded that comparatively there is fair transparency in corporate governance in the commercial banks of Zimbabwe which means that commercial banks are gradually appreciating the best practice in satisfying stakeholders through transparency on corporate governance. The study sheds more light on the level of corporate governance disclosure and transparency by the commercial banks in Zimbabwe and pragmatically notifies stakeholders of the standing slits that require attention so as to gain full-bodied corporate governance procedures. The study adds to the body of knowledge in that it is directed in the Zimbabwean context and provides more influential insights; since it is a specific economy it has its exceptional national characteristics. Subsequently, probing studies on institutional governance of Zimbabwe banks, grounded on information disclosed in annual reports are comparatively rare in the literature.

Keywords: corporate governance, commercial banks, stakeholder theory, Zimbabwe, disclosure requirements, transparency.

JEL Classification: G21, G34.

Introduction

The eminence of corporate governance of banks remains grave, predominantly in developing frugalities like Zimbabwe, in outlook of their influence to economic evolution. According to Salami, Johl and Ibrahim (2014) the topic of corporate governance has been a responsive to corporate organizations failure as corporate scandals can be traced to Medici Bank in 1494 when the bank managers engaged in profligate spending and due to absence of control mechanism the bank became bankrupt. Similarly, in the early 1900s, Allied Crude Vegetable Oil Refining Corporation was involved in what is known as commodities trade scam. The company swindled its clients, including Bank of American by making them believe that they engaged in vegetable oil transaction. Recently the absence of transparency and disclosure was often regarded as one of the major cause of the recent corporate outrages and governance catastrophes (Enron, WorldCom, and Tyco etc.), badly affecting public confidence in the dependability of corporate and financial reporting.

At global level corporate governance disclosure has increasingly become one of the most deliberated topics with many changes that appeared in regulation, supervision and surveillance of financial institutions. According to Ștefănescu (2012) there is a continuously increasing importance given to corporate governance and transparency, as a result

of the most topical financial calamities, corporate failures and accounting scandals, among regulatory authorities, at companies' level, and in academic milieu. These crunches have provoked regulators to provide financial security laws and codes of conduct (Fathi, 2013). In the banking industry, corporate governance has a higher level of significance since banks mobilize public saving, depend on public trust, and have more diverse stakeholders. Weak governance in banks has resulted in the collapse of banks during crises, as well as financial scandals involving the owner and management, which could have systemic impacts on the economy (Darmadi, 2011) and Zimbabwe has not been exempted. However, the aforementioned financial mishaps have initiated both incredible change and fantastic development in the financial sector in some countries athrowt the "orb". The changes in the "banking panorama" and financial tumults have directed policy makers' and industry players' focus on the apt role and formation of banking supervision and regulation.

In Zimbabwe the banking sector has undergone a fundamental revolution owing to liberalization, privatization and globalization; altogether control banks' performance and competency. In a study, Ndlovu, Bhiri, Mutambanadzo, and Hlahla (2013) found that the wakefulness on the importance of sound corporate governance practices was of substandard levels for both domestic and multinational banks in Zimbabwe. Hence, it befits imperious for the banks to augment their disclosures in their financial annual reports as per the path of

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the Reserve Bank of Zimbabwe. Due to the banks' diverse stakeholders, such governance mechanisms need to be disseminated and disclosed in corporate reports (Darmadi, 2011). The central bank of Zimbabwe has been issuing multifarious guidelines for better disclosures, levels and transparency by the banks.

Against this background the paper seeks out to:

- ◆ explore the commercial banking sector's governance practices in Zimbabwe on disclosure of corporate governance issues;
- ◆ examine the effectiveness of corporate governance practices by commercial banks in Zimbabwe.

1. Literature review

Corporate governance is an agenda for legal, institutional, and cultural factors determining the patterns of influence that stakeholders wield on managerial decision making. Executive decision making is engrossed on crafting value for stakeholders via competent utilization of capital and accurate disclosure and communication of a firm's resources. Hence effective corporate governance practices are indispensable to accomplishing and maintaining public trust and confidence in the banking system, which are critical to the proper functioning of the banking sector and economy as a whole (Basel Committee on Banking Supervision, 2010). In particular, when the market becomes aware that a bank is in a deteriorated position it may react more harshly than is necessary from the point of view of the authorities who have responsibilities for depositors' protection and for managing systemic risk (Basel Committee on Banking Supervision, 1998). More so, Ștefănescu (2012) posits that corporate governance disclosure concept derives from the most well-known agency theory that enlightens the differences in behavior or decisions between the two parties – “the principal” that delegates work to “the agent” – by noting that the two parties often have different goals and, independent of their respective goals, may have dissimilar attitudes toward risk, all of these leading to the agency problem.

Grounded on agency theory, a good corporate governance system providing more transparent disclosure information seems to be a key issue in safeguarding stability to the financial sector and sustainability to the economy as a whole (Ștefănescu, 2014). The board should disclose information in a manner that enables stakeholders to make an informed analysis of the company's performance, and sustainability (King, 2006). Transparency is one tool to aid emphasize and implement the foremost principles for good corporate governance (Basel Committee on

Banking Supervision, 2010). According to Young (2010) described transparency as the ease with which an outsider is able to analyze a company's actions, economic fundamentals and the non-financial aspects germane to the company's business. As such, it measures how good management is in making information available to mirror the true situation of the company. The substance of a regulatory system that supports the growth, proficiency, stability, integrity and governance of the banking system is embraced of information and its disclosure, incentives for market discipline, supervisory verification and support of market monitoring, and diversification necessities (Barth, Caprio Jr., & Levin, 2006). It can be argued that higher principles of corporate governance are appropriate for financial institutions compared to other businesses, and that superior concentration needs to be upon governance provisions protecting non-shareholder stakeholders.

Many countries in the world have encountered banking crises, occasionally leading to costly bank malfunctions and generally commotion in economic activity. Maune (2015) revealed that, corporate governance in Zimbabwe became a major topic for discussion after the Zimbabwean financial crisis of 2003 that saw the near collapse of the financial services sector. Poor corporate governance can contribute to bank failures, which can in turn pose significant public costs and consequences due to their potential impact on any applicable deposit insurance system (Basel Committee on Banking Supervision, 2010). Therefore to attract investors to participate in financial markets and to follow codes of good governance, financial authorities request and encourage companies to disclose also voluntary information (Fathi, 2013). Different countries have developed different sets of corporate governance principles and codes. Occasionally, they are issued by stock exchanges, governments or government-related bodies in consultation with corporations, institutional investors, or associations (institutes) of directors and managers. At present, these are generally found in the form of guidelines which may over a period of time evolve as regulation of law (Samiksha and Nangia, 2014).

Moreover, disclosure and the excellence of corporate governance structure are more frequently cherished as closely connected thoughts – the higher the level of transparency, the better the quality corporate governance practices. According to Rossouw (2005) there are many obstacles in Africa that frustrate the quest for good corporate governance. Prominent on the list of hindrances are the lack of effective regulatory and institutional frameworks that can ensure the implementation of the standards of good corporate governance. If the governance

mechanisms are not disclosed, the organization's stakeholders may not be able to access such information. In banking sector, due to its impervious and highly-regulated characteristics, corporate governance is subject to the regulation of banking authority. Hence, disclosure on governance mechanisms may play a more important role compared with that in other sectors (Darmadi, 2011). If the enterprise is to be successful, the board will also have to consider stakeholders such as employees and creditors who supply the firm with resources and who also need access to timely and relevant information (Jesover and Kirkpatrick, 2005).

Where stakeholders participate in the corporate governance process, they should have access to relevant, sufficient and reliable information on a timely and regular basis (OECD, 2004). However, Basel Committee on Banking Supervision (1998) argued that it is clear that a bank, due to the need to preserve a degree of confidentiality, e.g., in relation to customers, cannot publicly disclose all data that may be relevant to an assessment of its activities and risk exposures. King (2009) recommends that it is recognized that in what is referred to as the enlightened shareholder model as well as the stakeholder inclusive model of corporate governance, the board of directors should also consider the legitimate interests and expectations of stakeholders other than shareholders. The way in which a company treats its stakeholders reflects its ethical standards. It is consequently to be anticipated that enterprises for which ethics is precedence will be sensitive to its stakeholders. According to Rossouw (2005), this moral sensitivity will be reflected in the identification of stakeholders as well as in the manner in which they are being engaged by the company.

2. Theoretical framework

This paper is premised on the stakeholder theory that explains the relationship of the firm to its external environment, and its behavior within this environment. Stakeholders are defined as any person (it can be individual or company) who is affected by corporation's decisions or activities (Bryson, 2004). They are groups or individuals that benefit or harmed, and whose rights are desecrated or treasured by organization's operations (Freeman, 2010). Therefore, according to Mainardes, Alves & Raposo (2011) stakeholder theory is concerned with the idea that business organizations should be worried about the interest of other stakeholders when taking strategic decisions (Salami et al., 2014). Corporate governance moves and in turn gets moved by the stakeholders concerned who embrace externally – customers, financiers, suppliers, both existing external shareholders and potential shareholders, and communities, and internally – employees, executives and board of directors. Rossouw (2005)

cited that the leading model of corporate governance that surfaces in African national codes is an inclusive model of corporate governance in which boards of directors are not just accountable to shareholders but also responsible to all other stakeholders of the establishment. According to Basel Committee (2010) the governance of the bank should be adequately transparent to its shareholders, depositors, other relevant stakeholders and market participants. Albeit voluntary in nature, all these codes do accentuate the essential for a sufficient legal and regulatory structure.

Stakeholder theory offers method by which stakeholder onuses are derived and an admonition that managers must account for the interests of these stakeholders when making decisions (Phillips, 2003). However, Sundaram & Inkpen (2004) argued that the objective of shareholder value maximization matters because it is the only objective that leads to decisions that enhance outcomes for all stakeholders. In addition to that Key (1999) criticized Freeman who postulated the stakeholder theory as focused on a technique rather than theory which lacks explanation of the process, incomplete linkage of internal and external variables, insufficient attention to the system within which business operates and the levels of analysis within the system, and inadequate environmental assessment.

Nevertheless, it is commonly asserted that stakeholder theory implies that all stakeholders must be treated equally irrespective of the fact that some obviously contribute more than others to the organization (Phillips, 2003). The central idea is that an organization's success is dependent on how well it manages the relationships with key groups such as customers, employees, suppliers, communities, financiers, and others that can affect the realization of its purpose (Freeman and Phillips, 2002). According to Damak-Ayadi & Pesqueux (2005) corporate governance issues highlight any and all relationships that may exist between a firm and its partners who have contributed momentarily to the development of stakeholder theory's practical aspects.

3. Methodology

The study was based on descriptive research design (du-Pooley-Cilliers, Davi & Bezuidenhout, 2014) which aims to provide information about corporate governance disclosure by commercial banks in Zimbabwe. As is associated with qualitative research design purposive sampling technique was used. The commercial banks were selected because of some defining characteristic that makes them the holders of the data needed for the study (Maree, Creswell, Ebersohn, Ferreira, Ivankova, Jansen, Nieuwenhuis, Pieterse, Plano Clark, V.L. & van der Westhuizen, 2013). The sample frame and sample size

for the study was made up of all the fifteen commercial banks and eleven commercial banks respectively that were operating in Zimbabwe during the financial year ending December 2013 with annual reports on their websites (RBZ, 2014). Annual reports for the year ending 31 December 2013 were the recent uploads for all the banks included in the sample size. The entire fifteen commercial banks have websites but only eleven banks had their annual reports disclosed on the website. Basel Committee on Banking Supervision (2010) and UNCTD (2006) recommend that disclosure should be accurate, clear and presented in an understandable manner and in such a way that all stakeholders can consult it easily and, timely and publicly disclosed desirably on a bank's public website, in its annual and periodic financial reports or by other appropriate forms. The sample size is considered to be a representative sample which shares the characteristics of the larger population (du-Pooley-Cilliers et al., 2014) in the commercial banking division.

A comprehensive checklist, comprising items related to ownership, financial situation and performance, and governance of the company as developed from a number of studies and guidelines (see Appendix 1) (Basel, 1998; OECD, 2004; Reserve Bank of Zimbabwe, 2007; Darmadi, 2011; Lipunga, 2014). Basel Committee on Banking Supervision (1998) and OECD (2004) has identified the following broad categories of information, each of which should be addressed and disclosed in unblemished terms and appropriate detail to help achieve a satisfactory level of bank transparency: financial performance; financial position accounting policies; and basic business, management and corporate governance information. The OECD Principles of Corporate Governance, originally adopted by the 30 member countries of the OECD in 1999, have become a reference tool for countries all over the world (Jesover and Kirkpatrick, 2005). Both the Basel Committee and OECD share the similar guidelines. In Zimbabwe it is the central bank which has express contact with the banks and for that reason represents the main line of defence against risky and rickety banking practices. Reserve Bank of Zimbabwe (2008) Bank Licensing, Supervision & Surveillance (Guideline No. 01-2008/BSD) issued Minimum Disclosure Requirements for Financial Institutions and the expansive areas (ownership, financial situation and performance, and governance) institute the minimum disclosures that mean to be covered by every banking institution when reporting its half year and year-end results.

Data analysis and scoring of the disclosure for each bank was conducted through a content analysis using Atlas.ti qualitative research data analysis software. Scoring of the items was basically dichotomous, where an item scores 1 if disclosed and 0 if it is not,

without any consequence for each undisclosed item (Darmadi, 2011). The higher the disclosure percentage (index), the more translucent the commercial bank is in publicizing information on its corporate governance issues in the annual report. The items for disclosure were put in three classes that are financial situation and performance, ownership and governance of the company. Each class of items was analyzed separately before the overall scoring including all class items.

The study adds to the body of knowledge in two imperative directions. Mainly, this study is directed in the Zimbabwean context. Albeit studies using data across different countries, such as those conducted by Haniffa and Hudaib (2007) and Hassan and Harahap (2010), may provide more influential insights, studies in the context of one solitary economy are still vital since one specific economy has its exceptional national characteristics (Darmadi, 2011). Subsequently, probing studies on institutional governance of Zimbabwe banks, grounded on information disclosed in annual reports are comparatively rare in the literature.

4. Findings and discussion

The findings presented were gathered through the analysis of the data in three classes and finally an overall presentation of the scores both disclosure by item and by bank. The study first presents the results from the analysis of the three classes and ultimately the overall score analysis.

Figure 1 below depicts disclosure scores on financial situation and performance items by all the sampled banks. In this category the highest disclosure was on financial statements and capital adequacy with 100% each, showing that all the banks have disclosed the two items. This is attributed to the fact that the financial statements form the basis of the annual reports and in Zimbabwe every banking institution shall at the end of each financial year, prepare a financial statement; reflecting, in accordance with sound accounting practices, the institution's operations and financial condition (Chapter 24:20 Banking Act, Acts 9/1999, 22/2001) and submit to the Reserve Bank the complete sets of their financial statements and reports at least seven working days prior to the proposed publication date (RBZ, 2007). Solvency position, chairman's statement and notes to the financial statements items have scored 91% each. The lowest disclosed item is company objectives which were never disclosed by any bank giving a nil overall score. Disclosure by bank percentage scores shows that most of the banks have a relatively satisfactory disclosure of most items with the highest two banks having 81% each followed by bank with 75% score. The least bank has 25% having disclosed only four items out of sixteen items. The overall disclosure score in percentage is 60%.

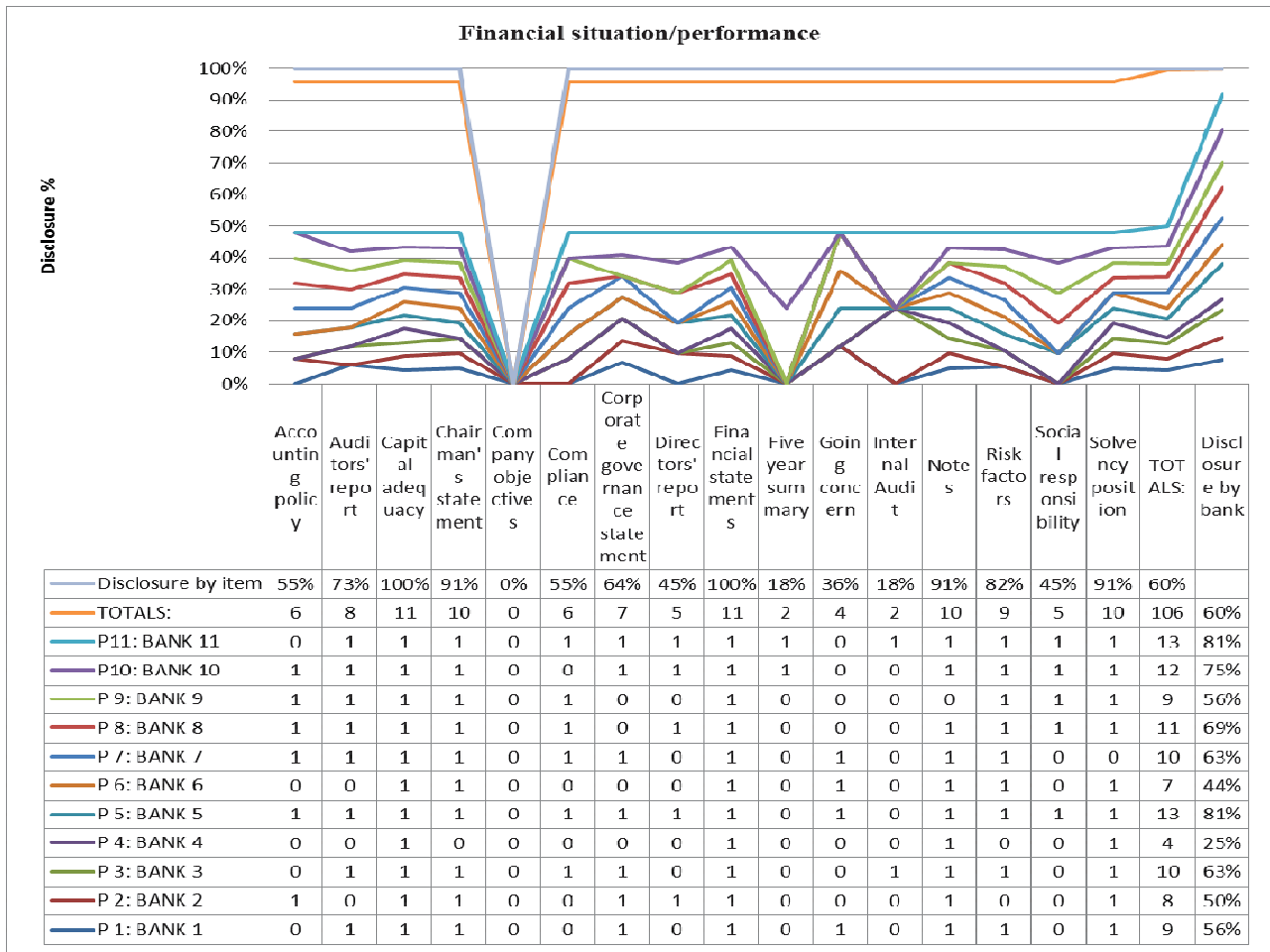


Fig. 1. Financial situation and performance

Fig. 2 exhibits disclosure of items under the cluster of governance of the company which comprises seven items as depicted in the figure below for all the sampled banks. It can be noted that board attendance item has the highest disclosure of 10 out of 11 giving 91% this shows that only one bank did not disclose the item. Board committee and audit committee items both have 82% followed by related party transactions with 73%. The least disclosed items in this class were directors' remuneration policy and board assessment both with 18%, this means that the two items were only disclosed by two banks. The overall class score percentage of 58% shows that there is a fair disclosure of governance items by the banks in Zimbabwe as

seven banks have more than 50% disclosure of the seven items with two banks having 86% each and four with 71% each. The other four banks have less than 50% with least bank having 14% showing disclosure of two items.

Comparatively, results from Darmadi (2011) study in Indonesia found that most banks in the sample did not disclose any information regarding board meetings, meeting attendance and board remuneration. His results differ from this study's results in that board meeting attendance in Zimbabwe's commercial banks is high, but in terms of board remuneration the results are similar.

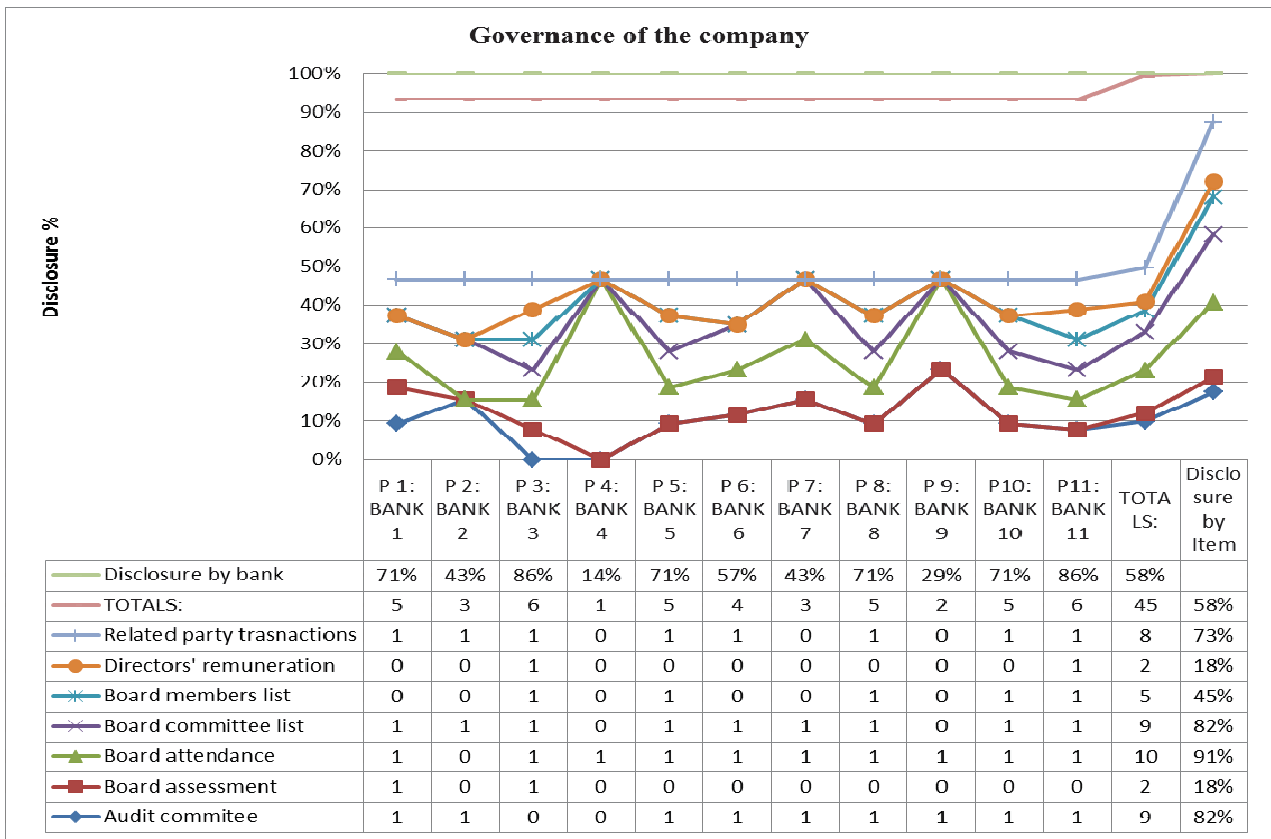


Fig. 2. Governance of the company

Fig. 3 below presents disclosure of items under the category of ownership which includes share ownership and voting rights by all the sampled banks. The study found out that this class of disclosure items had the lowest scores with an overall percentage of 18%. Only one bank has a disclosure of both the two items giving a 100% disclosure. The other two banks have at least disclosed one item each showing a disclosure of 50% each and the remaining eight banks have no disclosure on the

two items. Disclosure by items percentage shows that share ownership and voting rights have 27% and 9% respectively which is very low despite the recommendation by OECD, 2004 that one of the basic rights of investors is to be informed about the ownership structure of the enterprise and their rights vis-à-vis the rights of other owners. The right to such information should also extend to information about the structure of a group of companies and intra-group relations.

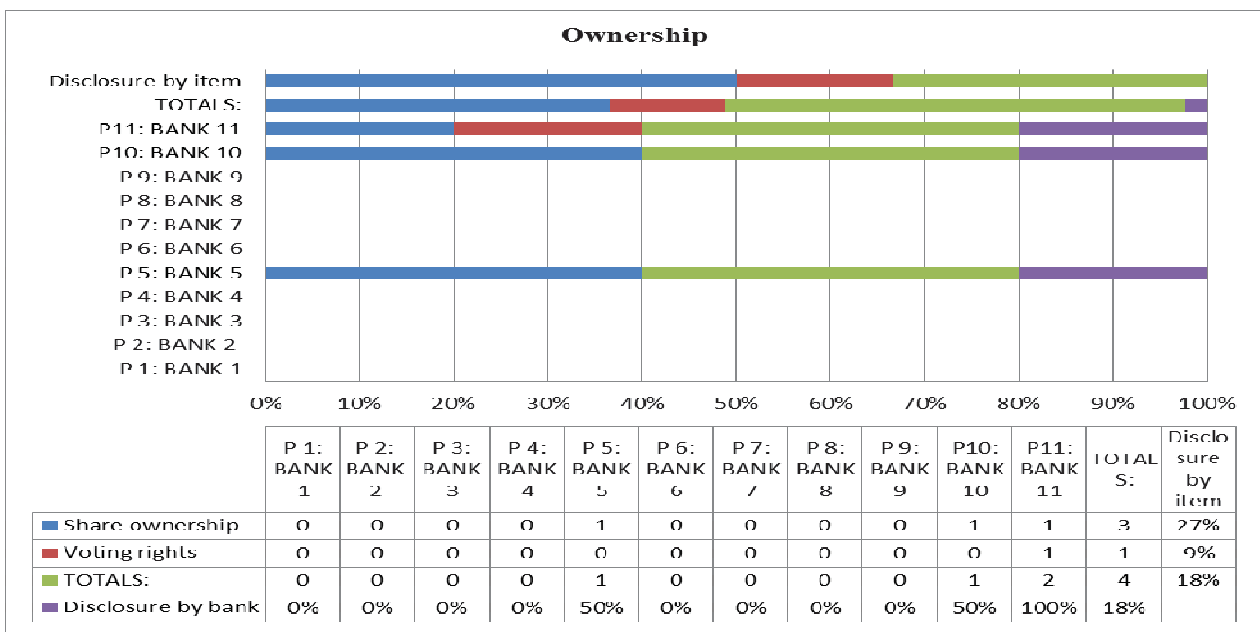


Fig. 3. Ownership

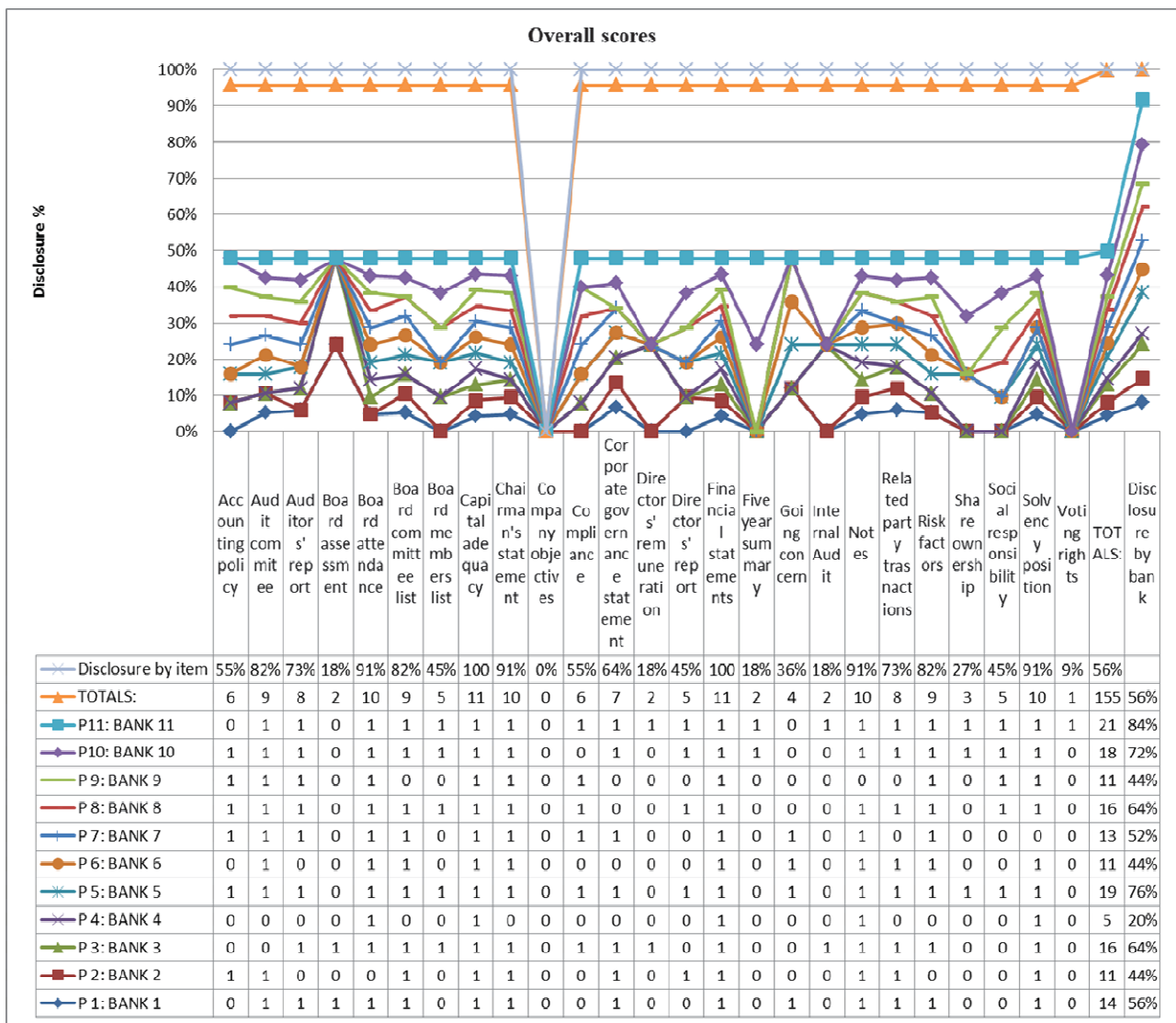


Fig. 4. Corporate governance overall scores

All in all, Fig. 4 unveils the overall scores for the expected corporate governance items to be disclosed in the annual reports by all the sampled banks. The checklist had twenty five disclosure items which were expected to be disclosed by eleven commercial banks comprising the sample size. The highest disclosed items by all the sampled banks consist of financial statements and capital adequacy with 100% each followed by solvency position, chairman's statement and board attendance with 91% each.

The lowest disclosed item is company objectives with a nil score, followed by voting rights and board assessment both with 9% and 18% respectively. The highest bank has disclosed twenty-one items out of twenty-five items giving a percentage score of 81% followed by banks with 76% and 72% each respectively. The least disclosure is 20% from the disclosure of five items out of twenty-five followed by three banks with 44% disclosure score each. The overall disclosure score of 56% demonstrates that there is comparatively fair transparency in corporate

governance in the commercial banks of Zimbabwe. This means that commercial banks are gradually appreciating the best practice in satisfying stakeholders through transparency on corporate governance.

Similarly, Lipunga (2014), from a study found out that the overall disclosure score for commercial banks in Malawi was comforting and a good sign of the considerable effort that the banks are undertaking towards respect to transparency in relation to corporate governance. Also Lipunga's results confirm that banks individually were making considerable efforts towards ensuring corporate transparency. Whereas a study by Darmadi (2011) on Islamic commercial banks in Indonesia results suggested that disclosure of the sample banks on some dimensions, such as board members and risk management, was found to be strong. On the other hand, disclosure on internal control and board committees tends to be weak. More so, in a study in Jordan, L-Sa'eed (2013) found that Jordanian Banks comply with Principles of Corporate Governance which include

transparency from the viewpoint of Audit Committee members of Jordanian Banks and Central Bank of Jordan. United Nations Conference on Trade and Development (UNCTD) (2011) general results on a study on emerging markets suggested that the financial transparency category has the highest average level of disclosure, followed by the board and management structure and process category and the Ownership Structure and Exercise of Control Rights category. Auditing, corporate responsibility and compliance disclosures are, on average, less prevalent than other categories of disclosure. UNCTD's findings concur with this study's results.

Conclusion

It is concluded that most of the items under financial situation and performance class have a relatively satisfactory disclosure save for a few such as company objectives with a nil disclosure score. Also a fair disclosure of governance items is noted from governance of the company cluster although some banks have less than fifty percent disclosure scores. However, ownership category had poor disclosure of corporate governance items. Most of the sampled banks did not have disclosure on share ownership and voting rights.

All in all, it is concluded that even though corporate governance frameworks in developing and emerging countries are somewhat feeble the study confirms that the commercial banks in Zimbabwe have espoused the epitomes of corporate governance and are creating substantial determination to observe institutional governance necessities. Comparatively there is fair

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transparency in corporate governance in the commercial banks of Zimbabwe. This means that commercial banks are gradually appreciating the best practice in satisfying stakeholders through transparency on corporate governance.

Limitation

This study has been limited by its methodology approach which is descriptive and might be biased to a certain degree. The data gathering techniques used in this study may not epitomize the entire facets of institutional governance disclosure. Also the study only included data for one period; of which other studies involving more periods such as longitudinal studies can be done. Forthcoming studies are proposed to engage more rigorous statistical methodology in probing the elements of corporate governance disclosure.

Implications

The study sheds more light on the level of corporate governance disclosure and transparency by the commercial banks in Zimbabwe and pragmatically notifies stakeholders of the standing slits that require attention so as to gain full-bodied corporate governance procedures. Best practice in corporate governance can be stimulated by means of joint exertions of the entire germane stakeholders expressly watchdogs and expert figures. By disclosing the aspects of corporate governance in all-inclusive custom, the banks can anticipate to benefit broader recognition in the banking sector. Corporate governance disclosure creates a reputable base which can see banks attracting more customers, and potential investors.

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Appendix

Corporate governance check list

Financial situation and performance	Corporate governance of the company	Ownership
Accounting policy	Audit committee	Share ownership
Auditors' report	Board assessment	Voting rights
Capital adequacy	Board attendance	
Chairman's statement	Board committee list	
Company objectives	Board members list	
Compliance	Directors' remuneration	
Corporate governance statement	Related party transactions	
Directors' report		
Financial statements		
Five year summary		
Going concern		
Internal audit		
Notes		
Risk factors		
Social responsibility		
Solvency position		