An Investigation of Corporate Governance Challenges Facing Indigenous Banks in Zimbabwe

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Abstract: - **The Indigenous banks in Zimbabwe have gone through many challenges in observing the internationally accepted best practice in corporate governance. These challenges remain pertinent despite the initiation of several mechanisms by both the government and the regulatory board, RBZ. Hence the purpose of this study was to explore the challenges faced by indigenous banks in corporate governance best practices. In view of the above, the objective of the study were to as certain challenges that indigenous banks are facing with respect to the role, composition and accountability of their boards of directors, determine the level of compliance with best practice in risk management with special focus on compliance with the Banking Act and National Code of Corporate Governance in Zimbabwe (ZIMCODE), scrutinize challenges on disclosure and transparency in indigenous banking institutions and establish problems arising from the ownership structure and the role indigenous shareholders play in engendering compliance with principles of corporate governance. The methodology applied in this study was a mixed research approach which is both quantitative and qualitative. Questionnaire and interviews were used to collect primary data from the participants who were mainly from the indigenous banks' board, senior, middle and lower management. The study population were 95 participants that comprised of 85 for questionnaires and 10 for in-depth interviews. Purposive and convenient sampling techniques were used to select the participants. The major findings of the study were that indigenous banks were dominated by males. Most of the board members and other senior appointee were found to be working contrary to the principles of good Corporate Governance. Results also revealed that many indigenous banks were not complying with standards required by the regulatory authority in Zimbabwe, RBZ. It was concluded that several indigenous banks' compliance with best practice in CG leaves a lot to be desired as Zimbabwe's economy continue to face challenges. It is therefore recommended that indigenous banks should be required to comply with ZIMCODE to promote sustainability in their operations. Further areas of study would include eexamination of the challenges of corporate governance in the entire financial institutions in Zimbabwe and the investigation of the extent to which bank supervision is vital in protecting depositor's funds and prevent bank failure.**

Keywords: **Corporate governance, indigenous banks, ZimCode, financial institutions**

Definition of terms

Financial markets - A market for the exchange of capital and credit, including the money markets and the capital markets.

Foreign investors – providers of capital which flows from one country to another in exchange for significant ownership stakes in domestic companies or other domestic assets.

Indigenous banks – banks owned by black Zimbabweans.

Investments – The purchase of a financial product or other item of value with an expectation of favourable future returns. In general terms, investment means the use money in the hope of making more money.

Money market – Network of banks, discount houses, institutional investors and money dealers who borrow and lend among themselves for the short term (typically 90 days)

Risk – The quantifiable likelihood of loss or less-than-expected returns.

Structural reforms - These are loans provided by the International Monetary Fund (IMF) and the World Bank (WB) to countries that experienced economic crises

Abbreviations

ESAF: Enhanced Structural Adjustment Facility

FDI: Foreign Direct Investments

GDP: Gross Domestic Product

IMF: International Monetary Fund

KFHL: Kingdom Financial Holdings Limited

OECD: Organization for Economic and Community Development.

R&D: Research and Development.

ZIMPREST: Zimbabwe Program for Economic and Social Transformation.

Zimcode -: National Code of Corporate Governance in Zimbabwe.

I. BACKGROUND TO THE STUDY

When Zimbabwe gained its independence in 1980, it had a fairly simple banking and financial market (Maimbo, 2002). There were four commercial banks and four merchant banks all of which were foreign owned. Over the first decade post-independence the Banking Act of 1965 was the main statutory instrument used to regulate banks (Nyamutowa and Masunda, 2013). There was no corporate governance framework worthy noting at this point in time.

From 1991 to 1999 the government of Zimbabwe adopted a financial reform policy agenda under the Economic Structural Adjustment programme (ESAP) and the Zimbabwe

Programme for Economic and Social Transformation (Chigumira, 2002). This period saw a number of reforms taking place including licensing of new banking institutions which saw the emergency of indigenous banks and introduction of relatively complex financial products a direct result of defragmentation of the functions of banks.

A defining moment in Zimbabwe occurred in 2003 and 2004 with a financial crisis. The coming in of new Governor in late 2003, ushered changes in the banking sector as the Central Bank sought to realign financial institutions to a sound financial footing. As a result of tighter bank supervision the number of banking institutions declined from forty (40) as at 31 December 2003 to twenty-nine as at 31 December 2004 (Nyamutowa, 2013). Woyo (2013) and Mambondiani (2014) concurred that there was a lapse in the financials service sector in Zimbabwe since the mid 1990's up to 2005. They asserted that most local banks went under curatorship or faced closure. This is evidenced by closure of several financial institutions operating in Zimbabwe at the time. For examples banks which failed in this period include CFX Bank Limited, Century Bank Limited, Rapid Discount House, National Discount House, Intermarket banking Corporation, Inter-market Discount House, Royal Bank Limited, United Merchant bank, Time Bank, First National Building Society, and Zimbabwe Building Society (RBZ, 2012 cited in Mambondiani (2014).

Most Zimbabwean banks suffer inconsistencies in adhering to respective national regulatory framework. Munzwembiri (2015) indicated that local banks in Zimbabwe failed to continue offering financial services to the population due to the reason that was arguably associated to poor corporate governance. To that end, many banks that included United Merchant owned by Roger Boka and Universal merchant bank were affected by monumental banking crisis of 2003-04. RBZ (2016) reported that several indigenous banks were likely to face closure or placed under curatorship due to circumstance regarding their inconsistencies in corporate governance.

Gono (2004) in his monetary policy statement opined that bank failures over the years necessitated the establishment of the Deposit Protection Board, increased capital threshold, enactment of the Troubled Financial Institutions Act and stiffer regulation of banks by the Reserve Bank of Zimbabwe (RBZ). He noted that despite these safeguards, the country continued to experience bank failures. According to Chinamasa (2014), Zimbabwe, after experiencing record hyperinflation in 2008, adopted a multicurrency regime in 2009, popularly known as the dollarization era that ushered in macroeconomic stability and positive economic growth. The period 2009 to 2012 saw the economy rebounding, with growth rates averaging 8.7% per year (Chinamasa, 2014). It was also postulated that inflation stabilized; revenues and bank deposits recovered sharply. According to RBZ (2013) in its monetary statement deposits held by banks reached USD4.4 billion as at 31 December 2012. However, as stated by Government of Zimbabwe (GoZ) (2014), a new era of bank failures was noted as shown in the table 1:

Table 1 : Names of banks closed by the Reserve Bank from 2012 to 2015

Name of Bank	Date of Closure
Genesis Bank	11 June 2012
Royal Bank Limited	27 July 2012
Interim Bank Limited	11 June 2012
Trust Bank Limited	6 December 2013
Capital Bank Limited-(Renaissance Bank)	4 June 2014
Allied Bank Limited	8 January 2015
Tetrad Bank Limited	29 January 2015
Afrasia Bank Limited	24 February 2015

Source: Adapted from Depositors Protection Board (2017)

The researchers were also affected by the challenges in the banking sector, had a chance to experience and witness many local or indigenous banks facing either closure or curatorship instituted by, Reserve Bank of Zimbabwe. As researchers we further experienced irregularities where most individuals in the banking sector were exposed to corruption and circumventing the required banking regulations. In addition to the above, the financial services sector is regarded as one of critical areas in the economy of every nation where corporate governance should be highly observed.

Statement of the Problem

The success of any local banks is hinged on compliance with good corporate governance best practices. However, Zimbabwe has recorded a significant number of indigenous bank failures over the past decade (since 2003) (Sachs and Mugova, 2016). It is against this back drop that this study critically evaluated the corporate governance challenges faced by indigenous banks in Zimbabwe.

The purpose of the study was to examine corporate governance challenges being faced by indigenous banks in Zimbabwe

Research Questions

The major questions which were addressed by this paper are:

- What are the challenges faced by indigenous banks pertaining to the role, composition, and accountability structures of boards of directors of the indigenous banks?
- To what extent do indigenous banks comply with the Banking Act and ZimCode and what are the compliance challenges are they facing?
- What are the corporate governance shortcomings with regards to disclosure and transparency in the way indigenous banks do their business?
- What are the challenges posed by ownership structures of indigenous banks and what role do the

shareholders play in fostering compliance with good corporate governance principles?

II. REVIEW OF RELATED LITERATURE

Key Concepts Defined

It is critically important to define key terms relevant to the area of study before examining the literature on challenges being faced by indigenous banks in Zimbabwe. Hence key concepts such as 'corporate governance', 'challenges', and 'indigenous banks' in relation to the financial services sector are defined in the context of this paper.

Cadbury (1992) defined corporate governance broadly as the system by which companies are directed and controlled. Following the series of governance failures, Cadbury chaired a committee whose aims were to investigate the British corporate governance system and to suggest improvements to restore investor confidence in the system. This is critical for proper running of organisation and their success.

Mathiesen (2002) defined corporate governance as an economic field, which dwells on how to secure effective management of organizations by use of incentives like organizational structure and legislation. He added that corporate governance is concerned with finding ways of improving financial performance of an organization. In this vein, Shleifer and Vishny (1997) shared a similar view to Mathiesen, by defining corporate governance as the means by which a company's financiers guaranteed themselves of getting significant returns on their investments.

In his study, Matyszak (2012) also theorizes corporate governance as the set of processes, customs, policies, laws and institutions affecting the way a corporation is directed, administered or controlled. He further stated that corporate governance also includes the relationships among the stakeholders involved and the goals for which the corporation is governed (Ibid). According to Natarajan (2011) the principal players/stakeholders are the shareholders, employees, customers, community and the Board of Directors.

According to Indian Central Banking Enquiry Committee (1931) indigenous banks are "any local financial institution receiving deposits and lending money". One of the distinguishing features of indigenous bankers cited by the committee is that they are owned by locals and provide credit to their customers just like any other bank.

The financial sector in any country that includes the banking industry is considered by various governments as a strategic industry. Mugova et. al. (2016) highlighted that in order to gain control over this strategic industry, the government has to increase participation of indigenous people in the banking sector through the indigenization laws. It is hoped that this in turn would improve access to credit for indigenous businesses and priority sectors of the economy. To this end, developing countries like Zimbabwe and South Africa established indigenization and economic empowerment policies that seek to empower the indigenous to control, manage and contribute to the overall growth of their economies.

Matyszak (2012) highlighted that the establishment of indigenisation and economic empowerment Act (Chapter 14:33) which was passed by parliament in December 2007 had the intention of empowering indigenous Zimbabweans. By definition as per the aforesaid act "indigenous Zimbabwean" means any person who, before the 18th April, 1980, was disadvantaged by unfair discrimination on the grounds of his or her race, and any descendant of such person, and includes any company, association, syndicate or partnership of which indigenous Zimbabweans form the majority of the members or hold the controlling interest (Indigenization and Economic Empowerment Act, 2007). In terms of the law "controlling interest", in relation to a company, means the majority of the voting rights attaching to all classes of shares in the company which enables the holder thereof to exercise, directly or indirectly, any control over the activities or assets of the business. The Indigenization and Economic Empowerment Act also provides that when there is a change in the shareholding of a foreign company or when a foreign investor established a new company in Zimbabwe, at least 51% of the equity of the reconstituted or new company must be held by "indigenous Zimbabweans".

Woyo (2014) defines banking sector as a part of the economy that consists of banks and other financial institutions which receive deposits and provide lending and investment opportunities. These financial institutions also administer current accounts for their clients and enable them to pay and be paid by third parties. Before distinguishing banking sector from financial sector it is necessary to define what institutions make up the banking sector.

According to the Reserve Bank of Zimbabwe (RBZ) (2017) and for the purpose of this study the banking sector is made up of formal banks licensed under the Banking Act. Therefore, the main research focus of this study is on banks in the formal sector. The reason for this is that better data is available for these banks. As at 31 March 2017 Zimbabwe banking sector consists of 18 commercial banks, 4 building societies and 1 savings bank.

Mambondiani, Zhang and Arun (2012 define challenges as inconsistencies that hamper full compliance with best practices. It is difficult to look at challenges alone without relating the term to the elements of corporate governance. According to CACG Guidelines (1999) cited in Agyemang, Aboagye, and Ahali (2013) common elements of good corporate governance are efficiency, probity, responsibility, transparency and accountability. Nevertheless, due to the prevailing economic meltdowns across the globe, there is no doubt that the implementation of the principles or best practice of good corporate governance is vitally significant to ensuring good corporate governance in every economy. It is against this backdrop that some financial institutions like indigenous banks are confronted by challenges with regards to compliance with globally acceptable doctrines of corporate governance.

It can be noted that many banks have been facing a plethora of challenges or inconsistencies that range for flouting of legal and regulatory frameworks, lack of accountability and transparency, and controversies that arise from double standards from the board of directors and founders of various organizations (Gono, 2008). Good corporate governance regime can absolve the harm that emanates from corporate deficiencies and address issues such as poor business leadership, unrelenting poor firm performance and a common wearing away of confidence in and around corporate organizations (Agyemang, Aboagye, and Ahali, 2013).

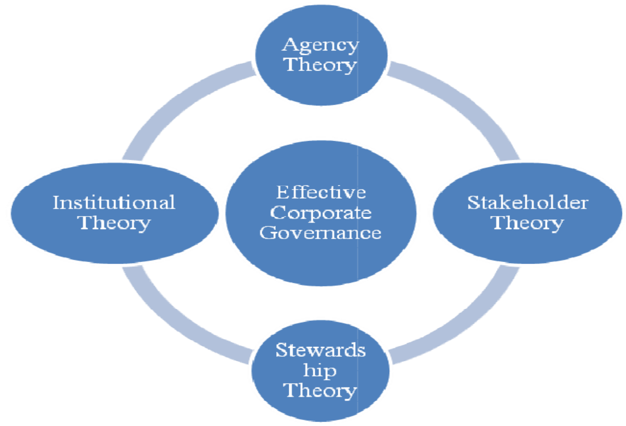
Muranda (2006) is of the strong view that in Zimbabwe, Corporate governance has gained tremendous importance since the financial crisis in 2003 to 2004. Several banks faced difficulties associated with corporate governance deficiencies in Zimbabwe. Banks worthy noting are United Merchant Bank (UMB), ENG Capital and Barbican Bank. The major cause of these corporate scandals in Zimbabwe was centered mainly on poor corporate governance (Sifile, 2014).

Until 2015 Zimbabwe which became independent in 1980 did not have a legislated national code of corporate governance along the lines of the King Code, Cadbury Code or Sarbanes Oxley Act. (Deloitte and Touche, 2012). Before year 2015 corporate governance practices in Zimbabwe were regulated by the Companies Act (Chapter 24:03) and Zimbabwe Stock Exchange Act (Chapter 24:18) (ZSE) listing requirements, the Banking Act, Public Finance Management Act (Chapter 22:19) (PFMA) as well as the rules of various professional bodies such as the Institute of Directors of Zimbabwe (IoDZ). As evidenced above, conflict between shareholders and managers has been with us for centuries and will continue to be a matter for concern so long as business activity is conducted through the corporate form. Future economic shocks and corporate scandals will no doubt raise afresh concerns about managerial and corporate accountability.

Corporate Governance Theories

According to Cornforth (2003) some of the major theories which have been used to explain how the governance function is exercised include agency theory, stewardship theory, institutional theory, resource dependence theory, network theory, stakeholder theory, a democratic perspective and managerial hegemony theory. Cornforth (2003) however is of the view that all the theories give a partial and limited account of governance. He further notes that the governance of non-profit and sport organizations is under-theorized compared to the governance of business entities. Tricker (2015) argues that the theories have limitations and advises to look at corporate governance using multiple theories or lenses. He noted that there is no general theory as governance ranges from regulatory level with laws, rules and regulations which require conformation and compliance; voluntary codes of conduct or behaviour; and personal beliefs and behaviour.

Figure 1 : Corporate Governance Theories



Source : Tricker (2015)

Agency Theory and Stewardship Theory

Jensen and Meckling, (1976) established that the Agency theory, developed in the financial economics literature, has significantly attracted organization theorists and organizational management scholars in a number of studies over the last three decades. In line with the above Burke (2015) remarks that with the onset of the Industrial Revolution, enterprises had grown in size and a new enterprise structure was necessary. A number of investors called shareholders owned these new enterprises called limited companies. As it was impossible for all these shareholders to manage the enterprise, they appointed managers on their behalf to manage the enterprise.

The original comprehensive academic explanation of agency theory was offered in Jensen and Meckling (1976). They identified managers of the enterprise as the agents and the shareholder as the principal. In terms of this agency theory, the shareowner is regarded as the principal, that is the person with the moral and legal rights to the enterprise whilst the managers are regarded as being the agents, tasked with acting in the principal's best interest, in exchange for a fee. Therefore, the shareholders as principals appoint directors/managers as their agents.

Berle and Means (1936) were of the view of that this situation results in the separation of ownership and control. The challenge highlighted by agency theory is that shareholders cannot always rely on managers to act in their best interests resulting in the agency problem. Essentially, it is posited that people will often do what is in their own best interests as opposed to what they are tasked to do. Shankman, (1999) cited in Hoye et al., (2006) asserts that if managers are greedy and having access to the bank accounts of the enterprise and the authority to choose how to spend the enterprise's money they may be tempted to spend it in ways that best suit the managers themselves for example excessive remuneration, excessive expense claims some luxurious offices.

Hoye et al., (2006) posits that both principal-agent theory (agency theory) and stewardship theory focus on the internal monitoring issues of governance. Agency theory assumes that owners of an organization will have different interests to those that manage the organization and seeks to promote shareholders' interests in decisions concerning the operation of an organization. Agency theory helps to explain the monitoring behaviour of boards that shows the board as controlling the mission and purpose of an organization, overseeing programmes and services, undertaking strategic planning, implementing fiscal control and evaluating the Chief Executive Officer. Managers, who are the agents who have been tasked with running the organization should be subject to extensive checks and balances by the governing board in order to reduce the potential for mismanagement or misconduct that may threaten shareholders' interests. This view is further supported by Al Mamun et al., (2015) that agency theory predicts that the CEO and the Chairman positions should be held by different individuals to protect shareholder's interest.

Two agency problems arise under circumstances of incomplete information and uncertainty: adverse selection in that the principal cannot assess if the agent fulfills his ability for the job for which he is being paid, and moral hazard – the principal cannot be sure if the agent has exerted his maximum effort (Eisenhard, 1989). Both individuals are motivated by opportunities for their own personal gain, and conflict occurs when the interests of the agent diverge from those of the principals (Jensen and Meckling, 1976). The interest divergence among the two actors may lead to losses for the principal, who ends up imposing control structures upon the agent to mitigate the potential abuse of delegation and information asymmetry (Eisenhardt, 1989).

Jensen and Meckling, (1976) cited in Daily et al, (2003) established that the objective of Agency Theory is, precisely, to reduce the agency costs derived from the principals' internal controls to keep the agent's self-serving behavior in check. Agency Theory prescribes several governance mechanisms to protect shareholders' returns and facilitate principal-agent interest alignment. Some of those mechanisms are financial incentive schemes, such as long-term rewards for the agent tied to company performance, or the design of an appropriate governance structure for the company, such as increasing the number of outside board members to perform audits and evaluations (Daily et al., 2003).

The 'model of man' underlying Agency Theory is that of a rational actor who seeks to maximize his or her utility with the least possible expenditure (Jensen and Meckling, 1976). Agency Theory assumes that a human being is rational, self-interested, and opportunistic (Eisenhardt, 1989); a calculating individual who seeks to attain rewards and avoid punishments, especially financial ones. Donaldson and Davis, (1991) strongly argues that the company is conceived as a nexus of contracts, and it is assumed that contracts can motivate, reward and supervise agents' efforts. Hoskisson et al., (1999) is of the view that an economics view of the organization has often been criticized for its reductionist model of human motivation, an over-simplification for mathematical modelling. Perrow, (1986); Ghoshal and Moran, (1996) articulated that despite this reductionism, the validity of a model in science has traditionally rested on the utility of its predictions, not on the accuracy of its assumptions.

Steward theory developed by Donaldson and Davis (1991) is a relatively new perspective to understand the existing relationship between ownership on one hand and management of the company on the other hand. Stewardship theory makes a related set of observations about the motives of senior executives. Contrary to agency theory's pessimistic assumptions about the self-interested and self-serving motives of executives, stewardship theory suggests the potential for what it calls the 'pro-organizational' motives of directors. What drives performance here is not the aligned greed of an executive but their personal identification with the aims and purposes of the organization. Stewardship theory refutes the assumption that executive aims and motives are opposed to those of the shareholder; both, it insists, have an interest in maximizing the long-term stewardship of a company and are therefore already well aligned. From this stewardship theory suggests the potentially negative impact of a division of responsibilities between a chairman and chief executive. The roles, it suggests, should remain combined in order to protect a key aspect of high performance; the strength and authority of executive leadership. Arguably the key contribution of stewardship theory lies in its questioning of agency theory's pessimistic assumptions about human nature.

According to Donaldson and Davis, (1993), Stewardship Theory has been framed as the organizational behaviour counterweight to rational action theories of management. It holds that there is no conflict of interest between managers and owners, and that the goal of governance is, precisely, to find the mechanisms and structure that facilitate the most effective coordination between the two parties. Stewardship Theory holds that there is no inherent problem of executive control, meaning that organizational managers tend to be benign in their actions (Donaldson, 2008). The essential assumption underlying the prescriptions of Stewardship Theory is that the behaviours of the manager are aligned with the interests of the principals. Stewardship Theory places greater value on goal convergence among the parties involved in corporate governance than on the agent's self-interest (Van Slyke, 2006). Researchers, in general, have tended to ignore the principal as the agent and have overemphasized the role of the manager as the agent.

The 'model of man' in Stewardship Theory is someone whose behaviour is ordered such that pro-organizational behaviours have higher utility than individualistic behaviours (Davis et al., 1997). This model of man is rational as well, but perceives greater utility in cooperative behaviours than in self-serving behaviours. A steward's utility function is maximized when the shareholders' wealth is maximized. The steward perceives that the utility gained from interest alignment and collaborative behaviour with the principal is higher than the utility that can be gained through individualistic, self-serving behaviours (Davis et al., 1997). Stewards are motivated by intrinsic rewards, such as reciprocity and mission alignment, rather than solely extrinsic rewards. The steward, as opposed to the agent, places greater value on collective rather than individual goals; the steward understands the success of the company as his own achievement. Therefore, the major difference between both theories is on the nature of motivation. Agency Theory places more emphasis on extrinsic motivation, while Stewardship Theory is focused on intrinsic rewards that are not easily quantified, such as growth, achievement, and duty.

Hoye et al (2006) go further to explain stewardship theory starts with the opposite inference of agency theory. The authors posit stewardship theory proposes that managers are motivated by a need for achievement, responsibility, recognition and respect for authority, rather than seeking to maximize their own interests over those of shareholders. The board therefore needs to focus on managerial actions, and to increase the quality and quantity of information for shareholders in order to provide some assurance that managers will seek outcomes that maximize shareholder wealth and reduce risk. This theory helps to explain how governance systems work in the banking industry where there is a wide range of individual, institutional and government shareholders.

Stakeholders and shareholder Theory

A broader definition of a stakeholder is offered by Bryson (2004) who explained that a stakeholder is an independent party, person, group, organization, member or system who affects, can affect or has interest or concern in something. The definition by Freeman (2004) and Bryson (2004) bode well with AusAid (2000) and UNIC (2011) that a stakeholder is any entity with a declared or conceivable interest or stake in a policy concern.

Craig (2010) asserted that the view of stakeholder theory is that all the stakeholders have a right to access information about how the organisation is affecting them even if they choose not to use the information and even if they cannot directly affect the survival of the organisation. Such practice will increase the transparency of organisational activities and performance. Craig, (2010) however noted, stakeholder theory is not explicit about what information should be disclosed other than stating that the provision of information can be useful for the continued operations of a business entity. Within the same line of thought, Roberts (1992) contended that disclosing necessary reporting to the shareholders is the duty of management and proper disclosure can build good relationship between owners and managers while at the same time reducing agency problem. Therefore, it can be said that stakeholder theory enables firms to achieve one of the corporate governance mechanisms, which is transparency.

Bordean (2012) further stated stakeholder theory examines the relationships between organizations and their stakeholders. Banks need to manage relationships with a number of these groups including, depositors, funding agencies, regulators, the general public, affiliated organizations, staff, board members, government agencies and suppliers. According to Cornforth, (2003a) the implication for governance is that organizations must integrate the views of a number of these different stakeholder groups on their boards, so that the board is able to respond to stakeholder concerns. Cornforth (2003b) further noted most banks are governed as per tenets of Western democracy and provide opportunity for any member to be elected regardless of skills or experience. Ironically, it is these democratic ideals that sometimes hinder the ability of banks to develop good governance structures, processes and systems.

Critics of the stakeholder theory suggest that it is impossible or difficult to meet the needs and interests of all different stakeholders. Goodpaster (1991) advanced the argument that the relationship between management and shareholders is ethically different from the relationship between management and other stakeholders. Goodpaster (1991) further argued that although managers have many non-fiduciary duties to various stakeholders, their duties are only to shareholders.

Legal Framework of the Banking Sector

According to Dhliwayo, the regulatory framework of the banking sector in Zimbabwe comprises the legal and technical framework. The legal framework is the law in place to regulate the operation and administration of the banks whereas the technical framework comprises guidelines, standards and code(s) to supplement the legal framework in areas which are purely technical that the law cannot afford to accommodate.

In Zimbabwe the banking sector is regulated by the Reserve Bank of Zimbabwe through its Bank Licensing, Supervision and Surveillance Division. In terms of the Banking Act some of the roles of RBZ include the promotion of financial stability through the registration of new banking institutions, conducting offsite, surveillance and conducting on-site risk based inspections. The current regulatory framework came about as a result of the 2004 bank failures which saw 13 indigenous banks being liquidated, put under curatorship, and some of them administered by the Reserve Bank of Zimbabwe under the auspices of the Troubled Banks Fund.

To this end, the obtaining regulatory system sought to address the problems that caused bank failures in 2003-2004 which were identified as poor risk management and corporate governance malpractices, liquidity problems, non-performing insider loans, poor board oversight, owner managers, related party transactions, amongst other factors. Dube echoed the same sentiments, attributing the problems in the banking sector to alleged insider loans, banks engaging in non-banking activities using depositors' funds as well as inadequate checks and balances on the operations of owner-managed banking institutes.

Regulation is primarily statutory with legislation enacted by Parliament, regulations and guidelines made by the Reserve Bank of Zimbabwe or The Minister of Finance, forming the core of the framework. The Reserve Bank of Zimbabwe administers the following enactments: Reserve Bank of Zimbabwe Act (22:15) as well as Amendment No 1 of 2010 which make provision for the Reserve Bank of Zimbabwe to supervise banking institutions, foster stability and proper functioning of the financial system; Banking Act (24:20) and the Banking Regulations SI 205 of 2000, and The Deposit Protection Corporation Act (24:29) which establishes an organization that stands for the protection of depositors, by reimbursing their deposits when a bank faces problems, especially small depositors because they cannot distinguish a good bank from a bad one; The Companies Act (24:03) which regulates the incorporation of companies and sets out the duties, obligations and powers of shareholders, directors and other officers of companies; Zimbabwe Stock Exchange Act (24:18).

As a result of the lax corporate governance structures in the financial sector in the period preceding 2003, the RBZ issued various corporate governance guidelines for banking institutions. These Guidelines largely address issues particular to banking companies like risk management, audit standards and general corporate governance issues in the Corporate Governance Guideline and its Addendum. As a consequence of the 2003-2004 bank failures, the RBZ created the Troubled

Bank Resolution Framework to resolve solvency and liquidity deficiencies in the banking sector. The framework was designed to strengthen the banking sector and promote sound banking practices, to develop permanent solutions for troubled banks, to promote economic growth and development, to restore stability to the financial sector and to preserve the indigenization of the financial sector. The resolution techniques which were applied include liquidation and the restructuring of troubled banks through amalgamation, acquisitions and mergers.

Global corporate governance frameworks

The governance of corporations can be on a statutory basis, a code of principles and practices or a combination of the two (Ehlers and Lazenby, 2011). In the case of The United States the country has chosen to codify a significant part of its governance in an act of the congress popularly known as the Sarbanes-Oxley Act of 2001(SOX). As an act of congress the corporate governance compliance becomes statutory (Ehlers et al., 2011). The cost so far of compliance by American companies with section 303 of SOX, which deals with verification of internal controls, is estimated at US264 billion since the inception of SOX in 2002 (King Committee on Corporate Governance, 2009). In other words according to the King (2009), the total cost to the American economy of complying with SOX is more than the total write-off of Enron, World Com and Tyco combined.

The 56 countries in the Commonwealth and the 27 states in the European Union, have opted for a code of principles and practices on a “comply or explain” basis, in addition to certain governance issues that are legislated. In the case of United Kingdom there is the Cadbury Code of Best Practice which was established as a set of 19 recommendations on sound corporate governance (Ehlers et al., 2011). Jordan (2012) highlighted that the Cadbury report exposed a lot of issues that were contrary to best practices in corporate governance hence became popular in the UK and abroad. He added that though the report and its appendices runs to some 90 pages, "the heart" of the report and what made it famous was the *Code of Best Practice* which was implemented by the London Stock Exchange on a comply or explain basis.

Muranda (2006) and Sifile et al., (2014), are of the strong view that in Zimbabwe corporate governance has attracted a lot of attention since the financial crisis in 2003. Several companies have faced difficulties associated with corporate governance flaws in Zimbabwe. Of note are companies such as Air Zimbabwe, Premier Service Medical Aid Society (PSMAS, Zimbabwe Broadcasting Corporation (ZBC), African Renaissance Bank (AFRE), United Merchant Bank (UMB), ENG Capital and Barbican Bank. The major cause of these corporate scandals in Zimbabwe was centered mainly on poor corporate governance (Sifile *et al.*, 2014).

Since 1980, Zimbabwe, does not yet have a legislated national code of corporate governance along the lines of the King Code, Cadbury Code or Sarbanes Oxley Act. Suffice to say the national code of corporate governance in Zimbabwe which was launched in 2015 is yet to be embraced by listed entities argues Deloitte and Touche (2016). At present, corporate governance practices in Zimbabwe are regulated by the Companies Act (Chapter 24:03) and Zimbabwe Stock Exchange Act (Chapter 24:18) (ZSE) listing requirements, Public Finance Management Act (Chapter 22:19) (PFMA) as well as the rules of various professional bodies such as the Institute of Directors of Zimbabwe (IoDZ). The ZSE has adopted listing rules based on those of the London Stock Exchange (LSE) and the Johannesburg Stock Exchange (JSE). The IoDZ has been effective in enforcing corporate governance standards as derived from the United Kingdom Cadbury Report and the South African King Report. The Commonwealth Secretariat has worked closely with the IoDZ to provide training to directors and shareholders. From a commercial point of view, corporate governance standards are high in Zimbabwe, even though the fear is that the political governance standards might spill into the area of commerce (Maune, 2015).

At the time of this study Matabvu and Gwata (2017) reported that the Public Entities Corporate Governace Bill was gazetted on 21 July 2017. In terms of the bill the state will seize assets and wealth amassed from violation of good corporate governance and looting of public funds. It is also proposed to create a Corporate Governance Unit in the Office of the President and Cabinet. Further, no one is allowed to sit on more than two boards concurrently and board members can only serve two four terms.

An effective corporate governance framework can limit the scope for managerial discretion. Therefore, the corporate governance, legal, and regulatory frameworks in outsider systems have developed in response to the particular problems arising not only from the separation of ownership and control, but also from the diffuse nature of share ownership (Maher and Andersson,1999).). Several of the reforms or practices that have arisen aim at addressing weaknesses in monitoring; at strengthening managerial accountability; and at aligning the objectives of managers more closely with those of shareholders. To that end corporate governance frameworks like Cadbury, combined code, King Four, National Code of Corporate Governance has been initiated to facilitate the smooth running of corporate organizations like the banking sector.

Board structures and Composition

This section deals with best practices on the structure and composition of the board.

Corporate governance roles board of directors

A company acts through natural persons, mainly board of directors which is the governing and controlling body of a company (Zimbabwe code of corporate governance, 2015). The board should therefore provide leadership by setting the company's strategic aims and ensuring that the necessary financial and human resources are in place for the company to meet its objectives and review management performance.

King (2010) requires board to have a charter setting out its role and functions which include

- Monitoring on a continuous basis the company's solvency and ability to pay its debts as they fall due and making necessary and reasonable interventions in this regard.
- Supervise the affairs of the banking institution, and be regularly informed of the banking institution's condition and policies in ensuring that the banking institution is soundly managed.
- Adopt and follow sound policies and objectives which have been fully deliberated.
- Exercise leadership, enterprise, integrity and shrewd judgment in directing the banking institution so as to achieve continuing viability for the banking institution and shall always act in the best interest of the institution.

Conduct and responsibilities of the board and directors

UK corporate Governance code, (2012) argues that in the discharge of its role and functions every board must conduct itself with honesty and integrity and above all, it must always act in the best interests of the company. Every director must possess good leadership qualities, and core competencies required by the company to oversee its operations. The performance of the company's management is monitored and evaluated against set targets, complemented by an appropriate reward system in order to attract and retain talent (ZIMCODE, 2015).

Directors have legal duties of faith, loyalty, care, skill and diligence in the discharge of their functions. Duty of good faith and loyalty requires that directors should honestly apply their minds and act in the best interests of the company at all times, ensure that there is no conflict of interest between their interests and those of the company and that they are loyal to the company and its business (Companies Act). Duty of care requires that directors should act with the degree of care expected of reasonable person in charge of the assets of an incapacitated person and that they are good stewards of the company's assets.

Duty of diligence requires directors to understand the information given to them and come to any decision making forum fully prepared and informed about the issues to be discussed. In this regard directors must study, understand and implement every duty imposed on them by law or by best practice.

Director Selection and Appointment

All directors should be appointed through a formal, robust and transparent process that reflects broadly the divest of the shareholders. A nomination committee should be established with clear terms of reference on how to invite and recommend the nomination of new directors by the board and their re-election by the shareholders.

King (2010) prescribes that where a nomination committee is established it must be chaired by an independent non-executive director, be wholly composed of independent non-executive directors and its tasks include recommending selection of board members on the basis of established and approved criteria only.

Board Composition, Structure and Number of Independent Directors

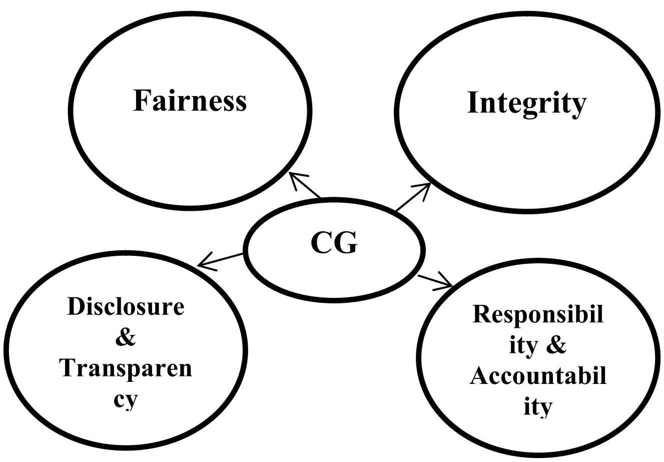
Cadbury (1992) requires that a board should be appropriately composed and structured so as to ensure that power is evenly balanced and that is exercised in the best interest of the company. The board should ideally have a majority of non-executive members, the majority of whom should be independent as defined in the code. The Board should not be dominated by a single individual or a group of individuals. ZimCode (2015) requires that 60 % of board members should be non-executive directors and majority of non-executive directors should be independent. The Banking Act requires that the board should operate through committees composed of non-executive directors in the majority. These committees should have properly formulated terms of reference which include the scope of authority, composition, roles, responsibilities and duties of the committees. The essential committees required are Audit committee, Risk and

Compliance committee, Remuneration Committee and Nomination Committee.

Pillars of CG- major principles of corporate governance

Good corporate governance ensures processes and structures used to direct and manage the business and affairs of an institution are in place with the objective of ensuring its safety and soundness and enhancing shareholder value. The processes and structures delineate the division of power and establish mechanisms for achieving accountability between board of directors, management and shareholders, while protecting the interests of depositors and taking into account the effects on other stakeholders, such as creditors, employees, customers and the community ensures that the business environment is fair and transparent and that companies can be held accountable for their actions. Conversely, weak Corporate Governance leads to waste, mismanagement, and corruption.

Figure 2 :Four Pillars of Corporate Governance



Source: Youssef (2009)

Mugova and Sachs (2016) indicated that the three pillars of corporate governance transparency, accountability, and security. All three are critical in successfully running a company and forming solid professional relationships among its stakeholders which include board directors, managers, employees, and most importantly, shareholders. Corporate governance has gained tremendous importance in recent years. In Zimbabwe corporate governance has attracted a lot of attention since the financial crisis in 2003 (Muranda, 2006). Several companies have faced difficulties associated with corporate governance flaws in Zimbabwe. Of note are banks such as Interfin, Kingdom Bank, African Renaissance Bank (AFRE), United Merchant Bank (UMB), ENG Capital and Barbican Bank. The major cause of these corporate scandals in Zimbabwe was centered mainly on poor corporate governance (Sifile et al., 2014).

The role of Corporate Governance in the banking industry

Effective corporate governance is critical to the proper functioning of the banking sector and the economy as a whole considering that banks perform a crucial role in the economy by intermediating from the savers and depositors to activities that support enterprise and help drive economic growth (Bank for International Settlements, 2015). In other words, banks perform three primary functions in an economy: the operation of the payment system, the mobilization of savings and allocation of savings to investment projects. By allocating capital to the projects with the highest net present value while limiting risks and costs involved the banking sector can positively influence the overall performance of the economy and is therefore of macro-economic importance (Roland, 2013).

Good governance is therefore essential for the success of any organization (banks included) and is now more important than ever. In the 1980s Corporate governance, phraseology that was only used by a handful academics and shareholders, has now become the life and soul of business and a staple of discussion in corporate boardrooms, academic meetings, and policy circles around the globe (Becht, Bolton, and Röell, 2003). Most of the funds used by banks to conduct their businesses belong to their creditors, in particular depositors. Linked to this is the fact that the failure of a bank affects not only its own stakeholders, but may have systematic impact on other banks. All the more reason therefore to try and ensure that banks are properly managed (Gono, 2008)

Banks are different from other companies because they are looking after other people's money. From this point of view, it the responsibility of the board to ensure that policies are in place to manage special risks to which the bank is exposed (Muranda, 2006). This is not to say the board should actually draft and formulate these policies itself. That can be left to the executive management. But the policies should certainly be approved by the board. As to whether the regulator is placing too much burden on the non-executive directors, it should be recognized that being a director of a bank does involve heavy responsibilities. Moreover, the criminal sanctions in the amendments to the Banking Act Chapter apply to all directors whether they are executives or non-executives (Mataruka, 2017).

The global effects of bank failures on the economy have become so enormous that the interests of the stakeholders have been attracted towards discovering the cause of the frequent failure. The prevalence of lop-sided corporate governance systems, accentuated by greed-driven and rent-seeking inclinations to graft, as well as lack of integrity, is cancerous (Gono, 2004). The rising tide of corporate governance around the globe left traces on the African continent. Corporate governance has attracted a great deal of attention since the mid-1980s when concerns about the way companies were controlled and held accountable were overshadowed by their commercial success unlike the 1970s, which had seen some trying economic struggles around the world (Crowther and Seifi, 2011). After the big corporate scandals such as Enron, Worldcom, Parmalat, and various other failures of global corporations, corporate governance has become the focal point and has increased to the role of business ethics (Rossouw, 2005; Crowther and Seifi, 2011). Contrary to the above notion Malherbe and Segal (2001) highlighted that corporate governance in South Africa has changed from being 'soft" to mainly ethical to a "hard" issues, recognized as pivotal to the success and revitalization of the country's capital markets and, ultimately, the prospects of corporate economy. It is those parameters that have produced a succession of measures aimed at transforming corporate governance in the economy.

Mawonga (2012) concurred the South African government, under the leadership of the Department of Corporate Governance and Traditional Affairs, embarked upon a campaign to encourage good governance within the public sector. South African corporations went through many changes that saw the prevalent of fraud and corruption as noted by Dye (2007) in Mawonga (2012), This has also led to the enactment of The Prevention of Corruption Act, 1992 (Act No 94 of 1992). This act defined corruption as the process of getting involved in any offense that include accepting, obtaining and agreeing to accept any gift as an inducement or reward for himself or herself or any other person.

The financial sector that includes the banking sector has also not been spared in terms of what can happen to institutions if there is no compliance with corporate governance. The 2008 global financial turmoil, which generated widespread bank and financial institutions catastrophes in developed countries and later spread to developing countries, has made the world, once again, became aware of the consequences of bad corporate governance (Mambondiani, Zhang and Arun, 2012).

III. RESEARCH METHODOLOGY

The researchers used a combination of the two approaches which provide the collection of data that allow comprehensive analysis of the research questions. The researchers adopted a cross sectional survey research design. This design enables the measuring of corporate governance practices from respondents at one point in time and it is inexpensive to run. Since this design measured corporate governance aspects at only one point in time, the research attempted to overcome this drawback by seeking respondents' views concerning past events.

This type of research design has been chosen as it enabled the assessment and analysis of certain behaviour and information from the respondents. This method depends a great deal on the willingness, honest and capabilities of the respondents. With a descriptive research design, the researchers were able to collect data and perform analysis as well as assessment that often lie on the blind side of the public and regulatory domain. The research design has been chosen as it aids enhancing a deeper understanding of phenomena and deemed to produce a strong descriptive result.

Furthermore, surveys do offers the opportunity to execute studies with various and signs, each of which is suitable for addressing particular research questions of long-standing interest to social researchers. According to Glasgow (2005) citing Isaac & Michael (1997, pp. 136) Survey research is used:

> *to answer questions that have been raised, to solve problems that have been posed or observed, to assess needs and set goals, to determine whether or not specific objectives have been met, to establish baselines against which future comparisons can be made, to analyse trends across time, and generally, to describe what exists, in what amount, and in what context*."

Surveys are also used on questions that are targeting at extracting data from a wide spectrum of participants in a study.

There are a total of 17 banks operating in Zimbabwe. In this study the target population consists of all indigenous banks in Zimbabwe and from each bank that the researcher selected from 5 senior employees at management level at the head offices of the 17 banks.

The study used purposive sampling method in the selection of respondents. The researchers used his judgement in selecting those respondents who are well positioned to provide the valuable information applicable to the study. The researcher will concentrate on the CEOs, MDs, FDs, and other executive directors in charge of banking as well as senior management and company secretaries of indigenous banks in Zimbabwe.

In this study both interviews and questionnaires were used to collect data from executive board members, company secretaries and senior management of the indigenous banks. This study employed key informant interviews to gather qualitative data for the study. To this end, the researchers needed to obtain first-hand information from some knowledgeable informants in corporate governance best practices. The researchers were able to deduce from what is in the respondent's mind. In-depth Interviews were done with the CEOs, MDs, FDs, Banking Executive directors, company secretaries and senior management of the indigenous banks as they were the key informants in the study.

IV. FINDINGS

4.1 Role, Composition and accountability of directors

The findings do indicate that 57.9% disagree that the boards of indigenous banks ensure there is strategic guidance and effective monitoring of management by the board itself. The above findings were buttressed by the interviews that indicated that most of the directors are not independent, given that they are in one way or another related to the owner of the indigenous banks.

This study notes that it is difficult for the board to ensure independent and strategic guidance as well as monitoring of management considering the related party relationships between directors. They call this relationship, "boy's club arrangement". In addition, the findings indicate that the cosy relationship between directors diminishes their accountability to all stakeholders including the depositor. They creatively convert the depositors' funds for their own personal use.

It was further noted that during the interviews with key informants, most of them stated that indigenous banks were facing a plethora of challenges in terms of the role, composition and accountability of their board of directors. Several respondents indicated that their board of directors has significant influence from the shareholders of their respective banks.

The above findings show that indigenous banks are in contravention of the ZimCode on the role and function of the board. This code requires the board to set the company's strategic objectives and promote oversight function on the operation of the bank (ZimCode, Chapter 3 section 55). King (2010) concurs with the above notion that the board is the focal point regarding the strategic management of the company and majority of the directors should be independent non-executive directors. It was proved that stock prices adjusted quickly to any changes in a company's corporate governance revealing the importance of corporate governance to firm performance. They however, highlighted that that components of corporate governance strategies that markets pay attention to varied across countries but the most common strategy was the nature of board of directors' composition and performance.

The findings denoted that 68.4 % of the respondents admitted that board members had borrowed money from their respective indigenous owned banks, whilst 31.6% denied the same. The large percentage of board members' borrowings from banks may be linked to lack of transparency. The response from interviews revealed that most of the board members had a great influence on the senior management hence they created loopholes when bank managers are making decisions on the approval of loans. It was also indicated in the interviews that some board members' influence may contribute to the approval of unsecured bank loans that may be attributable to the increase in non-performing loans in several locally owned banks. The other reason that was also evident from the interview findings revealed that most of the board members had a greater political influence on day to day operations of the banks, hence, exert more pressure on junior management.

This was supported by one of the informants who stated that,

> *As a board member, I normally get instruction from higher authority or founders of the bank to follow certain set of commands that involves making decisions. Most of the decisions that are made by board members are compromised for the fear of victimization*

Some respondents also noted that,

> *The modern world has been sophisticated were individuals in the board are abusing their positions and influence by co-opting to the board their friends and relative or accomplices. Hence, the so called "Boys club philosophy" is rampant in most indigenous banks in Zimbabwe. This involves various scandals associated with financial illicit like borrowing of unsecured loans with no intention to repay them." This may be detrimental to decision making given that the involved individuals are conflicted.*

Some respondents form the interviews also stated that the economic environment in Zimbabwe was not favourable therefore created an atmosphere where internal and external politics plays a critical role in the overall decision making. This was most prevalent in banks that the government have a larger stake in terms of shareholding. It was also noted from the interviews that most managers and board members as well as Chief Executive Officers normally get a directive from higher office to authorise some disbursements or approval of larger sums of withdrawals, overdrafts, and loans or release of funds to buy assets for speculative reasons.

However, the findings from some of the key informants argued for the need to balance the composition of board members by complimenting skills and expertise from a diverse selection of professionals. It was raised that some of the board members maintained the same position for consecutive terms contrary to best practice stipulated in the ZimCode and Banking Act.

Findings from respondents for both questionnaire and interviews on how indigenous banks were complying with the Banking Act and National Code of Corporate Governance in Zimbabwe (ZimCode) are shown below. A total of 79% of the respondents disagreed with the assertion that indigenous banks comply with the ZimCode. The performance of these financial institutions clearly shows there is very strong level of non-compliance. Further to the above, most of the interviewees were of the view that banks are focusing on complying with the Banking Act 24: 20 rather than the ZimCode. In their view ZimCode is considered a guideline that does not compel the banks to comply with stipulated provisions. One of the Key informants said that,

You will recall that the ZimCode was put in place as a mere guideline and compliance with it is not compulsory. You will notice that banks are not required to disclose incidence of non-compliance with the code.

The results from the survey are congruent with the ZimCode provisions which justify why indigenous banks need to comply with best practice. ZimCode (2014) asserts that in 2003 and 2004 the banking sector was rocked by institutional failures arising from factors that are related to inadequate risk management control, and non-banking business characterised by misuse of depositors' funds. This is also supported by Erkens (2012) who reported that financial firms with greater institutional ownership took more risk before the 2007- 2008 financial crisis and subsequently suffered larger losses over the period in question. Similar findings are reported by Beltratti and Stulz (2012) who documented a strong relationship between concentrated ownership and bank risk-taking during the 2007 to 2008 financial crisis in United States.

These 56.7% respondents strongly argued that there were no effective management policies hence, there was no effective governance in these institutions. The net result was the collapse of the financial institutions. A smaller percentage of 34.2 % of the respondents agreed that there were effective risk management policies and were at pains to explain the situation. Key informants in the interviews supported the findings gathered by questionnaire, that indigenous banks have inadequate risk management policies. At the centre of this problem is the fact that non-executive directors have limited access to information that enables them to manage risk and make informed decisions on the operation of their respective banks.

The researchers established that non-performing loans are a hindrance to the ability of banks to continue operating as a going concern. In view of the above, 61.9% of the respondents agreed that NPLs affect the ability of indigenous banks in Zimbabwe to comply with good corporate governance. These findings were supported by RBZ (2017) which reported that ZAMCO had a portfolio of NPLs amounting to USD 812,52 million as at 30 June 2017. Sibanda (2017) reinforced that the proliferation of NPLs in the banking sector post dollarization is partly blamed on poor credit assessment and risk management.

The above findings show that the first reason for inadequate risk management at the board level lay in the lack of access to risk-relevant information. It was highlighted that several critical information pieces were not passed on to the board a situation which illustrates the problem of CEO's having excessive power. The research findings further argue that existing information asymmetries need to be reduced by building trust between the different hierarchical levels. Hierarchies are, however, inherently ill-equipped to foster trusting relationships due to the power differentials between individuals.

The research findings concluded that most of the indigenous banks does not adhere to the stipulated legal framework required by the banking sector as they may be politically affiliated to powerful influential individuals. Hence, it makes it hard for the monitoring arm to place control measures. Most of the interviewees were of the opinion that the level of compliance with national code of corporate governance in Zimbabwe is of great importance as it improves the performance of the bank.

Findings revealed that indigenous banks are facing many challenges that are associated with disclosure and transparency in the way they operate. 31.6% of the respondents strongly disagreed that appropriate board procedures are in place on conflict of interest and full disclosure, while those who disagreed were 26.3%, and those who strongly agree and agree were 21.1% each. The results indicated that the respondents disagree with the opinion that appropriate board procedures are in place on management of conflict of interest indigenous banks. Findings do indicate that financials were not prepared according to international standards. If it was prepared in that manner, then the challenges that face these financial should not have arisen. Some of the respondents during the interview highlighted that some non-executive members often bypass the normal procedures when borrowing from their respective banks. These findings on whether insider loans are disclosed in the financial statements. The results cumulatively indicate that 57.9% disagreed that the financial statements reflect insider loans which are granted to shareholders. The reasons being that a lot of documentation does not reflect reality on the ground as most of the activities border on criminality on the part of chief executive offices and other directors within these banks.

The findings do show a deliberate lack of effective communication between the executives and non-executive directors. Findings show that 55.3 % of the respondents did not agree that there is adequate communication between executive and non-executive board members. It is therefore evident that lack of communication is one of drawbacks to achievement of transparency and disclosure in indigenous banks.

Efficient and transparent appointment process for board members

The figures do indicate that 27.6 % of the respondents agreed that there is efficient and transparency in the appointment process of the board members, whilst 35.2 % did not agree with this assertion.

From the above figures it can be argued that indigenous banks are infiltrated by non-performing loans that arise from poor checking, scrutinizing and disclosure of the identity of the applicants for loans. It was also established that some applicants have relationship with either board members or senior management they are normally allowed to bypass the borrowing process and control that are set by banks. As researchers we noticed that some applicants misrepresent their relationships with the superiors and shareholders of the bank. It was further argued by some respondents that some board members are involved in elicit deals that are contrary to the banking sector. To this end, corruption was noted by most of the key informants as rampant in many indigenous banks due to relationships between those responsible as gatekeepers of best practices in corporate governance and the borrowers.

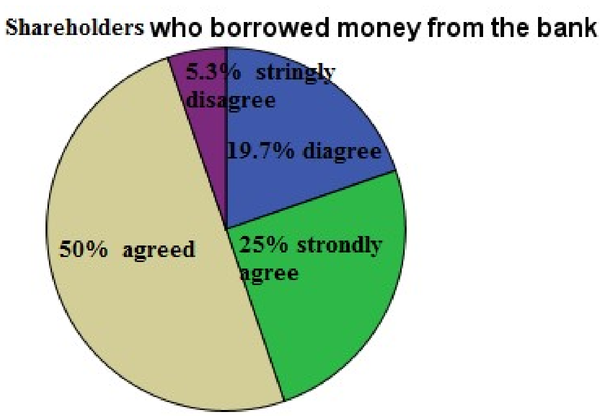
The study highlighted that during the appointment of board members and other senior management they are supposed to disclose their assets fully. Therefore, more than sixty percent of respondents noted that problems in disclosure are sometimes caused by lack of transparency and the need to take advantage of poor control systems to accumulate wealth. Some Indigenous banks, as indicated by most respondents, fail to attract talent. The irregularities regarding compliance with principles of corporate governance in indigenous banks sometimes promote high staff turnover. Some interviewees stressed that directors and senior management abuse their privileges by borrowing unsustainable amounts. Some individuals in the board and senior management allow members to borrow large sums of loans without proper collateral security or regular income.

A number of authorities in the area of corporate governance have made their position clear about accountability and transparency at board level.

This study establishes that indigenous banks have their ownership structures that are different from international banks as noted by the most of the interviewees. Close to sixty percent of the respondents maintained that indigenous banks have shareholders who are and transparency not playing their role in ensuring compliance with principles of good corporate governance.

Figure 1 below shows respondents' views on the borrowings of the money by the shareholders of indigenous banks.

Figure 1: Borrowings of the money by the shareholders of indigenous banks



In the above figure, 50% of the respondents strongly observed that shareholders borrowed money from their respective banks and 25% strongly agreed. The findings indicated that shareholders borrowed money from the bank. As a result of the above, this means that there are problems when the bank is owned by shareholders who have a direct interference in its operation. Some Indigenous banks that are owned by individuals who are either politically positioned or linked to the wealthy individuals.

The findings from this study revealed that there is high prevalence of corporate governance malpractices on indigenous banks in Zimbabwe. Indigenous banks in Zimbabwe are facing many challenges in regards to corporate governance as noted in the findings.

Demographic characteristics of the respondents

From the demographic characteristics of the respondents it was noted that there is low female participation in corporate governance as there is low number of females in the management levels of banks. It is also generally noted that indigenous banks are dominated by males who are either in the board and senior management. The results also indicated that most of the board members are their 40s in terms of age.

Corporate governance principles challenges by indigenous banks in Zimbabwe

Indigenous banks in Zimbabwe are facing many challenges with regards to corporate governance as noted in the above findings. The findings in question revealed that many indigenous banks in Zimbabwe operates in a volatile environment that is not conducive to doing business and hence the temptation and pressure not to comply with corporate governance principles. Corporate governance proved to be a complex issue that are supposed to be viewed by many entities including banks.

Corporate governance in relation to the regulatory framework in Zimbabwe

Respondents argued that the regulatory framework in Zimbabwe is fragmented given that aspects of corporate government are viewed from various angles. This includes various statutory instruments that attempts to prescribe best practices with respect to corporate governance within the financial entities under study. It was also noted that the board of directors and management are exposed to irregular practices in the performance of their duties. They sometimes receive directives from high authorities like government officials without the knowledge of the board.

It was noted that corporate governance and risk management could not be separated as they interchangeably affect each other. The issue of non-performing loans as highlighted in the study places many financial institutions at high risk that may create negativity amongst the prospective investors and depositors. The poor risk management or credit assessment may be one of the factors that may lead to poor NPLs in Zimbabwe. The results also indicate that many financial institutions in Zimbabwe collapsed as a result of NPLs. They indicated that agribusiness divisions of commercial banks in Zimbabwe that account for 30% of loan portfolio, were not fully using modern credit risk frameworks or models and were solely relying on traditional credit management techniques.

Corporate governance the role, composition and accountability of various boards

The major findings show that the role, composition and accountability of various board members that sit on different indigenous banks leave a lot to be desired. Hence, the issue of compliance with regards to transparent and disclosure is prominent in the findings as some board members are not complying with the corporate governance best practice.

V. CONCLUSIONS

The study would want to draw the following conclusions for this paper.

The demographic aspects of the study noted that the indigenous banking system of the study was dominated by males, which yielded a percentage of 68.4 % and 31.6% for males and female respectively. The main reasons were that the sector was predominantly male dominated.

The study concludes that there is strong evidence that was found which indicates established has shown that the board s of directors of indigenous banks are lacking in providing strategic guidance and effective monitoring of management. Primary data collected from the study points to lack of risk management skill on the part of directors of the indigenous bank. As a result of this skills gap non-performing loans have affected the ability of a significant number to continue operating as a going concern. Primary and secondary data analyzed during the study confirms that indigenous banks do not endeavor to comply with the ZIMCODE. In other words, bank makes effort to ensure compliance with the Banking act without making reference to ZIMCODE.

The conclusions from this study are a summary of major findings that the researcher made in line with each of the research objectives.

- The first research objective sought to ascertain challenges that indigenous banks are facing with respect to the role, composition and accountability of their boards of directors. Opaqueness in the manner in which board are constituted came out as a major issue during the study.
- Study concludes that corporate governance is hinged on the regulatory framework that is set by the regulatory board which RBZ. Best practices and principles of corporate governance are stipulated in the regulatory framework that is also aligned to the international standards. Empirical evidence from shows that Zimbabwean's indigenous banks are to a greater extent legging behind the required standards set by the Banking Act and ZIMCODE. Findings stated that most indigenous banks fraught the required procedures when it comes to their operations.
- The study concludes that most of the respondents from the study indicated that board members and management were legging behind in terms of disclosure and transparency. This was evident as banks have an increase in the number of NPLs, borrowing of unsecured loans by board members, related transactions issues of dominance in decision by a particular group of directors.
- It was concluded that ownership structure remains a challenge in indigenous banks in Zimbabwe. Some of the indigenous banks that are partly owned by government face major challenges in complying with good corporate governance and continuous interference of their operations in terms of decision makings. Banks that are partly owned by government may be affected by directives from high authority that is contrary to good corporate governance.

The study attempted to shed light on the corporate governance challenges being faced by indigenous banks in Zimbabwe. The findings specifically demonstrated that indigenous banks need to embrace best practice on board structures, transparency and disclosures as well as risk management and compliance with ZIMCODE. It is strongly believed that indigenous banks in Zimbabwe like any other banks globally are very fragile institutions which are built on customers' trust and brand reputation. RBZ (2012) indicated that the failure to comply with best practice can bring about closure of banks and loss of depositors funds. Therefore, the board and shareholders must take utmost care in identifying corporate governance compliance gaps and tackle those effectively. Moreover, bankers must see compliance with best practice on corporate governance as an on-going and invaluable activity with the board leading from the front.

VI. RECOMMENDATIONS

From the study, the researcher has made the following recommendations, which must be adopted by in Zimbabwe.

- In view of the results of the research findings summarized above the researcher recommends that the compliance with ZIMCODE should be compulsory for all banks in Zimbabwe. Failure to comply with ZIMCODE should attract penalties or sanctions by the Central bank.
- Where a bank has not complied with ZIMCODE the researchers recommends that the degree of noncompliance should be disclosed fully in the annual report. This should include actions that the board should take to resolve compliance gaps identified and timeframes within wish the bank should accomplish full compliance.
- In light of the high incidence of bank failures as shown by the findings insider or related party loans should be outlawed. What it entails is that where shareholder wants to raise funds for his/her project he/she should approach other banks rather than his/her bank.

- Directors need to receive adequate training in the area of risk management considering that most respondents alluded to poor risk management practices as part of corporate governance challenges that banks are facing.

- The Central bank, RBZ, should enforce criminalization of directors of failed indigenous banks by ensuring that they are personally liable to the depositors. They must be dealt with in their personal capacity where there is proof that directors have been negligent in their conduct of business. There is a need to consolidate corporate governance laws or guidelines. There is the Banking Act, Companies Act, ZimCode, the corporate governance guidelines for public entities.

- Unsecured non-performing loans (due to poor credit risk management practices) have affected the ability of indigenous banks to continue operating. Considering that risk management is one of the key tenets of good corporate governance, indigenous banks must minimise lending on unsecured basis and safeguard depositors' funds. Security ensures that in the event of default by debtors indigenous banks have a fall-back position.

- Empirical evidence has shown that there is information gap between executive management and non-executive directors of indigenous banks. It is therefore recommended that indigenous banks require robust policies on communication between executive and non-executive directors. The policies should provide guidance on the minimum information that should be communicated in board meetings so that non –executive directors play their oversight role from an informed point of view.

- At the core of the corporate governance faced by the government owned indigenous banks in Zimbabwe is the issue of Minister with the power to dissolve the board without proper consultation and without considering individual's performance. Empirical evidence has shown that Ministers have power to dissolve board of directors so that they co-opt directors that are close to them should them should be outlawed.

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