Antecedents of Corporate Governance and Customer Satisfaction in the Banking Sector of Zimbabwe

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Abstract: **Customer satisfaction remains one of the pillars of company performance in the banking sector of Zimbabwe. The aim of the study is to measure the relationship between customer satisfaction and corporate governance in the banking sector. There are thirteen commercial banks in Zimbabwe. These banks include Agriculture Development Bank of Zimbabwe, BancABC, First Capital Bank Limited, CBZ Bank Limited, Ecobank Zimbabwe Limited, Stanbic Bank Limited, Nedbank Zimbabwe Limited, Metbank, NMB Bank, Stanbic Bank, Steward Bank and ZB Bank. A review of extent literature shows that no study has been done to investigate the impact of corporate governance on customer satisfaction in the commercial banks of Zimbabwe. Therefore, this study makes use of two corporate governance variables. These are: CEO duality and outside directors. A structured questionnaire was used to collect primary data for this study. The systematic sampling technique enabled the research to generate a sample of 163 customers from the given commercial banks. Hierarchical regression tests were used to test the hypothesis in this study. The results showed that CEO duality is associated with poor customer satisfaction. However, there is no significant relationship between outside directors and customer satisfaction. The study recommends that commercial banks should provide both efficient and attractive services in order to lure more customers.**

Key Words: **Corporate governance, CEO duality, outside directors, banking sector, Zimbabwe**

I. INTRODUCTION

The board has a significant role of ensuring that the decisions made by the CEO and the behaviours of the executive members of the board pursue the interest of the main stakeholders of the firm, who are the customers(Finkelstein and D'Aveni, 1994). Several research studies have been carried out to ascertain the relationship between corporate governance practices in the banking sector and customer satisfaction (Peng, 2004; Rechner and Dalton, 1991). Customer satisfaction remains an important organisational outcome today (BaysingerDumi, 2004; Kosnik and Turk, 1991; Zahra, Newbaum and Huse, 2000). The success of any business depends on its ability to create a satisfied customer (Drucker, 1974). Several studies have established that there is a positive relationship between corporate governance and customer satisfaction (Brandy and Cronin, 2001). Customers who are satisfied with the products of a bank will always communicate positive information about the firm to friends, relations and new customers (Swanson, 2003;Mithias, Morgeson and Krishnan, 2006, Luo, 2007).According to Luo and Homeburg (2007), customer service information is easily available and this information enables potential customers to make informed decision about the banks' management and organisational cultures. There is enough evidence to suggest that customer dissatisfaction affect customer satisfaction negatively. Research studies have shown that a highly satisfied customer is six times more likely to pre-purchase the bank's products compared to a customer who is not satisfied (Jones and Sasser, 1995). Banks are therefore motivated to build a strong customer relationship to reduce high turnover rates in order to increase profitability (Reicheld and Sasser, 1990). Customer satisfaction is capable of improving repeat business, future revenues positive word of mouth, market share productivity, cross-buying and long-term growth. (Fornell et al, 2006).

The goal of every firm is to exceed customer expectations and this is necessary for long term corporate growth and survival (Epstain and Jones, 2000). Recent research studies have confirmed that both customer satisfaction and customer loyalty are key measures that lead to high financial performance (Winters, 2008). Firms that have loyal customers tend to register higher customer satisfaction, increased sales, lower costs and more predictable profit margins (Grossman,1998). Customer satisfaction is the attitude that customers develop about the firm when the expectations have or have not been met over the life time of the firm's product or service (Caccioppo, 2000). Therefore, improved corporate governance leads to the growth, survival and increased performance of the Bank hence there is need to develop a relevant framework to measure the quality of corporate governance practices in the banking sector (Caccippo, 2000). Numerous rating models focus on management inputs such as board composition, CEO duality, roles of the chairman and activities of outside directors (Caccippo, 2000). However, such models do not pay sufficient attention to the decision-making process, the quality of information generated by the board, brand image, customer satisfaction indices, or profitability and value creation (Caccippo, 2000).

Objectives of the Study

1. To examine the relationship between CEO duality and customer satisfaction.

2. To evaluate the relationship between the presence of outside directors in the board and customer satisfaction.

II. THE REVIEW OF RELATED LITERATURE

Corporate governance

Corporate governance is the system by which organisations are directed and controlled (Cadbury Committee, 1992; Mark, 2000, Kerish, 2006). Corporate governance is premised on several principles, such as accountability, transparency, accurate disclosure of financial information and building trust and sustaining confidence among the various stakeholders who constitute the banking sector (Tuisenge, 2018). The primary function of the board is to ensure that the behaviours of board members, the interests of the board members and the decision made by the board aligned to the interests of the shareholders (Frenkelstein and D'Aveni, 1994) good corporate governance has always been associated with positive financial performance, increase in profitability and a positive growth in the market share of the organisation (Peng, 2004; Swanson, 2003; Luo, 2007; Fornell et al, 2006). Despite the fact that customer satisfaction is critical to the success of every firm, no corporate governance research has ever investigated its association with CEO duality and outside directors. The aim of this paper is to fill this knowledge void by examining the impact of CEO duality and outside directors on customer satisfaction.

Significance of corporate governance

Organisations that rely on corporate governance to increase company performance have the capacity to streamline company operations and to increase profits in the long run. Corporate governance guidelines enable companies to create operating standards and to attract goodwill from customers. Corporate governance frameworks help companies to discipline employees and to encourage employees to adhere to codes of ethics on the workplace. Good corporate governance is a panacea for corporate success and economic growth. Good corporate governance is important for brand information and development. Good corporate governance practices reduce the capital cost. Strong corporate governance maintains investor confidence and this scenario helps companies to raise more capital to improve performance.

CEO duality

The academic discoveries over the effects of the quality of the functions of the Chief Executive Officer (CEO) and the Chairman of the Board (duality) on customer satisfaction is still unresolved. Some studies have concluded that duality leads to customer satisfaction (Cannella and Lubatkin, 1993; Sridharan and Marsinko, 1987). Whereas, some other authors believe that it is important that the firm is managed by the same person to avoid miscommunication (Gordard and Schatt, 2000). Other studies have concluded that firms that adopt the separation of the two functions of CEO and chairman of the board perform better than the firm combining these two functions (Berg and Smith, 1978; Boya, 1995; Pi and Timme, 1983).

The argument put forward is that the combination of the two functions decreases the effectiveness of the board of directors and increase the risk of opportunistic action by the CEO who takes the position of judge and party (Blibech and Berraies, 2018). Several studies have recommended the separation of functions as this arrangement allows the shareholders to control the board's decisions and to curb agency conflicts in the long run (Fama and Jensen, 1983; Pi and Timme, 1993; Jensen, 1993).

Outside directors

Outside directors refers to board members who are not employed by the firm permanently and do not receive a salary for their services (Dalton et al, 2007). The agency theory in corporate governance suggests that the presence of Non-Executive Directors (NEDS) in the board helps to monitor the activities of the board and to act as an independent voice in the board (Dalton et al, 2007). Thus, it can be concluded that boards that are dominated by outside directors are more independent compared to boards that are dominated by outside directors. Several studies have investigated the effect of outside directors on customer satisfaction and the findings have been mixed and inconclusive (Chen et al, 2006). The provision of quality services and customer satisfaction are both a function of effective strategic corporate planning and organisational commitment. According to (Baysinel et ai, 1991 and Zahra, 1996) outside directors have a negative impact on R&D Investments and corporate entrepreneurship because outside directors tend to focus less on strategic issues of firm performance compared to inside directors (Baysiinger et al,1991 and Zahra, 1996)

Hypothesis

Hypothesis1: CEO duality is not significantly related to customer satisfaction

Hypothesis2: The percentage of outside directors is negatively related to customer Satisfaction

III. RESEARCH METHODOLOGY

This study provides the methodology which was utilized to collect data, analyze data and to present the function of the study. Quantitative research was used in this study. Quantitative research involves a large number of respondents who provide descriptive evidence that cannot be simply projected on the whole population of study. The questionnaire approach was used to collect data from a sample of 163 customers of commercial banks in Chinhoyi Business District. The population of study consisted of all commercial banks in Chinhoyi Business District as they represented the unit of analysis. The respondents were the potential clients who bank with the commercial banks in question. There are six banks in Chinhoyi. These are; The National Merchant Bank of Zimbabwe, Zimbabwe Bank, Banc ABC, FBC Bank, CBZ

Bank and POSB Bank. Each bank provided 27 respondents except for CBZ bank which provided 28 respondents, since it is the biggest bank in Chinhoyi. The researcher thoroughly checked the research instruments to ensure that they do not have vague words, double barreled questions, leading questions, unreasonable questions and biased questions. A pilot study was conducted to ensure that the research instruments contain the validity and reliability it deserves.

IV. DATA PRESENTATION AND ANALYSIS

Table 1: Descriptive Statistics and Correlations

	Mean	S. D	1	2	3	4
Customer Satisfaction	75.33	6.88				
Firm size (log)	9.74	1.38	0.47			
Board Size	11.70	3.02	0.02	0.48		
Outside directors (%)	0.84	0.24	-0.04	-0.06	0.13	
CEO duality	0.567	0.60	-0.01	0.33	0.03	0.3

No. of observations = 163, *** p<0.01, ** p<0.05, * p<0

Table 2 gives the regression results. Model 1 is the base model that includes the two control variables – firm size and board size. To test hypothesis 1 that predicts a negative relationship between outside directors and customer satisfaction, the study added outside directors in Model 2. As shown in Model 2, hypothesis 1 was not supported because the percentage of outside director was not significantly related to customer satisfaction. To test hypothesis 3 that predicts the non-significant effects of CEO duality in Model 3, interestingly, the results, show that CEO duality has a significant negative relationship with customer satisfaction. The study used test procedures in stata and found the change R^2 was significant. The study used 'VIF' function in stata to test multi-collinearity and found the VIF score was below 10. Thus, the multi-collinearity did not become an issue for the study

Table 2: Hierarchical Regression Analysis Results.

	Model 1	Model 2	Model 3
Firm Size (log)	0.23	0.45	0.55
Board Size	-0.06	-0.12	-0.16
Outside directors (%)		-1.61	0.05
CEO Duality			-2.08***
Constant	74.33***	75.66***	75.33***
R^2	0.00	0.00	0.03

No. of observation; ***p<0.05, **p<0.05, *p<0.1

V. DISCUSSION

All banks should strive to deliver service quality at it can provide competitive advantage .But to provide this requires action on the part of management. A dissatisfied customer or service failure is a very important and necessary process for any service organization like a Commercial bank, and continual development and improvement of this process is necessary. Customer satisfaction is reflected in specific behaviours of customers, and as the word-of-mouth is very much associated with both customer satisfaction and dissatisfaction, this aspect cannot be ignored by the bank. Specific strategies need to be developed in order to retain customers. While employees are perceived to be critical in the retention of customers, banks need to ensure that they continue training employees to ensure that employee skills are at an optimal level and are useful to customers.

Limitations of the study

There are a number of limitations associated with the study. It was conducted in commercial banks in Zimbabwe, which cannot be regarded as representative of other non-commercial banks. This means that the results of this study cannot be generalized. Low levels of reliability in the survey also impacted the results.

For further research, little research has been published regarding corporate governance and customer satisfaction in the commercial banks in Zimbabwe. Research needs to include other factors, such as, personal factors, price, and product quality.

This exploratory study investigates the relationships between corporate governance and customer satisfaction. We relied on secondary data of 163 to test our hypotheses. We do not find outside directors having a significant impact on customer satisfaction. Yet, we find CEO duality is negatively related to customer satisfaction such that a separate leadership structure increases customer satisfaction.

VI. CONCLUSION

Corporate governance and customer satisfaction are important constructs in the service industries, and this is also the case in the banking sector of Zimbabwe. The purpose of this research was to investigate the relationships between corporate governance and customer satisfaction. While customer satisfaction is largely positive, maintaining these positive perceptions is important for the continued satisfaction of both existing customers while also providing satisfaction to new customers. This would be done through the continued attention to interaction-between corporate governance and customer satisfaction.

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