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# CORPORATE GOVERNANCE IN ZIMBABWE: THE ZIMCODE AND STATE OWNED ENTERPRISES CONNECTION

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**Abstract**

*The Zimbabwe corporate governance code (ZIMCODE 2014) was introduced in April 2015 in an effort to incorporate corporate governance in Zimbabwe and improve the performance of organizations. The purpose of this study is to examine the implementation of Zimbabwe corporate governance code (ZIMCODE) by State Owned Enterprises (SOEs). A survey of SOEs was carried out in Harare and Bulawayo between October and December 2014 using a structured questionnaire. A sample of 100 respondents of top and middle managers was used. Information obtained indicates that the SOEs do not have a model to use in the implementation of corporate governance code. The authors develop a nested model that adds to the existing body of studies on the corporate governance code.*

*Keywords: ZIMCODE, public enterprise, organizational performance, corporate governance*

## INTRODUCTION

Corporate governance is viewed worldwide in the business arena as, in part, incorporating transparency, fairness, independence, accountability, responsibility, integrity and social responsibility, among other things. These characteristics of corporate governance form the basis of corporate discipline of “Best practices” (Strenger, 2004) of any organization. Corporate governance has found its place in both developed and less developed economies as well as emerging economies (Liu, 2006; Leech and Manjon, 2002). Most countries that implement corporate governance start by preparing a code that epitomises “Best Practices” (Cromme, 2005; Strenger, 2004; Fernandez-Rodriguez, et al., 2004; Akkermans, et al., 2007 and Dedman, 2002) and an adherence to code was then measured using various models such as scorecard and market-based models, among others (Liu, 2006). Zimbabwe adopted its Zimcode in (2014) in an effort to follow the band-wagon of corporate governance best practices.

The authors for this study define Zimbabwe national code on corporate governance (ZIMCODE) as the yardstick that guides companies in Zimbabwe to adhere to the code of “Best Practice” (Strenger, 2004) in organizational performance and its implementation of corporate governance in Zimbabwe. The state owned enterprise is a form of an organization whose origin is the state. Like private public enterprise where suppliers of finance are separate from managers that run the enterprise, so is the state owned enterprise. The state that provides the initial funding allows board of directors appointed by the state to run the enterprise. Corporate governance has long been adopted by the countries in developed economies in order to improve the performance of organizations. However this has not been the case in Zimbabwe’s state owned enterprises (SOE). As has been previously mentioned, most countries that implement corporate governance start by preparing a code of best practices on the basis of which the enterprises in the respective countries measure their performance with respect to corporate governance. There are various approaches that have been developed and used by different countries to measure the implementation of corporate governance. For example, USA and UK use market-oriented model (Liu, 2006), Germany uses scorecard model (Sprenger, 2004), China employs control-based approach (Liu, 2006), and Spain uses power indices approach (Leech and Manjon, 2002), among others.

Corporate governance and its implementation are expected to curtail or deal with company failures. Zimbabwe has experienced poor performance of state owned enterprises in the period between 1990 and 2015 (Sikwila, Chavunduka & Ndoda, 2015). The corporate failure and/or dysfunctional nature of SOEs could be noticed in Zimbabwe Steel Company, Zimbabwe Railways, Cold Storage Commission, Agriculture Development Authority (ADA), among others. In fact, the company failures were more pronounced in the private sector in the financial and banking industry between 1994 and 2015. The failed banks and financial institutions include: Trust Bank, Barbican Bank (2004), United Merchant Bank, Genesis Investment Bank, Capital Bank Corporation, Royal Bank, Zimbabwe Building Society, Renaissance Merchant Bank, Time Bank, First National Building Society, National Discount House (2004), Prudential Discount House (1998), CFX – Universal Bank, Tetrad Investment Bank, Interfin Merchant Bank (2014), and more recently (2015) AfrAsia Bank (Kingdom Bank). Most of the company failures were, in part, a result of ills such as corruption, fraud, excessive remuneration for board of directors and poor management of resources by board of directors in SOE and private sector, among other things (Zvavahera and Ndoda, 2014; Iskander and Chamlou, 1999). It is against this background that the current study attempts to improve the implementation of corporate governance in SOE, thereby ameliorating poor performance. The problem is that the state owned enterprises (SOE) lack a model for use in implementation of ZIMCODE. The purpose of the study is to provide a theory and means to assist the public enterprises in Zimbabwe to implement the ZIMCODE. The objective is to develop a model for implementation of ZIMCODE by SOEs. The question that has not been answered is how should the state enterprises implement the ZIMCODE? The importance of the study was that the model that is proposed is expected to assist SOEs to reduce corruption tendencies, and improve on use of public resources. The nested model developed is expected to enhance SOE performance, and thereby improve their contribution to national development. The model is different from the existing models in that it embeds the ZIMCODE within the strategic plan. This approach makes it easy to implement the corporate governance best practices in that all stakeholders are involved in implementation of the strategic plan.

The paper is divided into five sections. Section one presents the introduction in which the contextual aspects of the study is explained. Section two gives the literature review. Section three presents the methodology while section four presents the results (Nested Model) and discussion. Finally section five gives the conclusion.

## LITERATURE REVIEW

The theory of corporate governance is premised on the link on one hand, between the owners of the resources that provide investment funds as well as take the risk and on the other the board of directors that provide stewardship of the organisation financial and physical assets. Corporate governance ensures that the board of directors take appropriate decisions (Shleifer and Vishny, 1997) that ought to allow organizations to take into account the interest of key stakeholders. According to Sir Adrian Cadbury (1999): "Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals.....the aim is to align as nearly as possible the interests of individuals, corporations and society." *Sir Adrian Cadbury, Corporate Governance Overview, 1999, World Bank Report.*

The definition by Sir Adrian Cadbury holds for the private and state owned enterprises. In a report by the World Bank (2014), state-owned enterprises are still the major players in the economic activities of their nations despite the trend toward privatization over the past 20 years. For the foreseeable future, they will continue to deliver critical products and services. As in many parts of the world, State enterprises the world over are under pressure to improve their performance so as to create greater value for their economies as well as reduce their fiscal dependence. In an attempt to achieve this expectation, the respective governments have to engage in efforts to reform and implement corporate governance.

This view is corroborated by Nevondwe, Odeku & Tshoose (2014) who report that the importance of governance to SOE has become very important since these organizations have tremendous impact on the economies in which they operate. This means that the practice of proper corporate governance issues should not be confined to the private sector. After looking at various institutions in the public sector in South Africa, Nevondwe, et al (2014) argue that the effectiveness and accountability of the SOE could be improved significantly if the principles of corporate governance were applied correctly. These points to the crucial role that corporate governance plays in any sector, including the public sector (Blowfield and Murray 2011: OECD Report, 2014). This also means that it is not the mere presence of the code for corporate governance that is important but more so how the code is implemented.

Nevondwe, Odeku & Tshoose (2014) assert that corporate governance can and should be extended beyond those firms in the private sector and should form the basis of all management in all sectors as issues of accountability, values and behaviours cut across all economic sectors. In fact, the inclusion of corporate governance in SOE is expected to curb the tendency by public servants to use their positions for personal gains, at the same time, assisting them to pursue the achievement of the vision and mission of their organizations.

**Corporate Governance in Selected Developed Countries**

While Jackson, (2010) reports that the system of corporate governance in the United States has not been easy to comprehend as it shifts from one form to another. The bottom-line is that it is a shareholder-oriented corporate governance system and sometimes also equated with a model for good corporate governance. This system has also affected the operation of the public enterprises in the USA. Even in the State enterprises, corporate boards tend to be small and incorporate a high proportion of outside or independent members. There is also decentralization by use of committees to improve board processes. The internal and external aspects of corporate governance are linked through the monitoring of gatekeepers, such as audit firms, that help to put controls and to instil discipline on poorly performing firms. These elements give a firm base for the entities to operate a positively and mutually reinforcing system of effective corporate governance. Based on these characteristics, USA governance systems are widely cited as global standards for good corporate governance. Scandals are few and spaced. This is not to say that there are no challenges especially with the onset of the recent financial crisis and the resulting global economic downturn which has raised renewed questions about the fundamental effectiveness of U.S. corporate governance institutions.

Another sound corporate governance situation is reflected in the way the system has been applied in German (as amended on May 26, 2010). The German Corporate Governance Code[1] is recognized as presenting an essential statutory framework for the governance of German enterprises and it contains internationally and nationally recognized standards for good and responsible governance. It has managed to promote transparent systems that inspire the confidence of international and national investors, customers, employees and the general public in the management and supervision of listed German stock corporations. The system is such that there is a supervisory board that appoints, supervises and advises the members of the management board of the enterprises. The same board is directly involved in the making of decisions which are fundamental to the enterprise. Members of the supervisory board are elected by the shareholders at the General Meeting. These representatives, because they are elected and can be removed by the shareholders are obliged to act in the best interest of the enterprise. This has the effect of ushering in transparency and accountability to the whole system.

**Corporate governance experiences in Asia**

Literature shows that there are lessons that can be derived from the Asian experience. Afsharipour, (2009) contends that the Asian experience demonstrates that corporate governance is critical to the respective trends of growth of their national economies. This is corroborated by the OECD (2010) which reports that the scale and scope of state-owned enterprises in many Asian economies calls for specific attention to their corporate governance. This is despite the fact that some of them contribute significantly to the economies. “In India and Thailand they roughly contribute 25% of the GDP, in Malaysia and Singapore close to 15%. SOEs might also represent a not insignificant part of total employment (15% in China, 5% in Malaysia) or of fiscal revenues (25-30% in Vietnam)” OECD, 2010:5). However, improving the corporate governance of these enterprises is still necessary in order to ensure improved economic performance. The move it is argued (Afsharipour, 2009) could potentially lead to significant efficiency gains, improvement in the quality of public services, a further decrease in the fiscal burden and public debt. Additionally, improved corporate governance is likely to also improve the overall public governance through greater transparency. This way it would open the doors for greater involvement by investors more effective competition with the private sector.

Significant reforms that have occurred in the Asian governments in the area of corporate governance include the setting up of centralised ownership entities, i.e. the SASAC in China in 2003, the SCIC in Vietnam in 2007 and more recently the Druk Holding and Investments in Bhutan Qiang, 2008; OECD Report (2010). The same source also shows that Pakistan has recently issued a code for corporate governance for its state enterprises while in Malaysia there is a far reaching and encompassing transformation programme that has given some impressive results. All this goes to show that proper implementation of the governance code is likely to promote greater economic progress in the state enterprises. This is a challenge and wake up call for Zimbabwe. With its state enterprises, Zimbabwe has a long way to go to have efficient and transparent enterprises governed by strong boards, active state ownership without undue interference in day-to-day business and fair competition between enterprises and private sector companies. The contention in this paper is that public sector governance reforms need to be supported in the long run to reach sustainable results. This is the unfinished business with the ZIMCODE for corporate governance. Liu (2006) explains that China model for implementation of the Chinese code was a different strand from the British and American market orientation approach. The Chinese used what Liu (2006) called a control based model. In most of the listed organisations in China, the state owns the majority of shares; in that case, boards could be biased toward the state policy demands compromising on effective corporate governance (Liu, 2006). Liu's (2006) observation could apply to other countries where companies are privatised, but the state still owns the majority shares. The literature has shown that countries have different strands of best practice codes and models used to measure the level of governance in organisation (Strenger, 2004; Cromme, 2005 and Akkermans, et al., 2007).

On the global scale it has been noted (Aguilera and Cuervo-Cazurra, 2004:423) that corporate governance codes are widely accepted. Aguilera and Cuervo-Cazurra (2004:423) have provided a cross-national study of countries worldwide that have adopted codes of good governance "Best practices" for 49 countries that covered Europe, Asia and Americas. The "best Practice" code it seems has been widely accepted as a means to improve governance and accountability of boards of directors to stakeholders. Not surprisingly, Zimbabwe has followed the world's bandwagon in developing its own ZIMCODE in an effort to improve the effectiveness of governance in both state owned enterprises and the private organisations.

## METHODOLOGY

A survey of five public enterprises and their subsidiary were carried-out in the course of October to December 2014 in Harare and Bulawayo which form the two main business centres in Zimbabwe. A total of 100 self designed questionnaires were distributed to the top and middle level managers of state owned enterprises that included Zimbabwe Railways, Zimbabwe Electricity Supply, and Grain Marketing Board. A simple random probability sampling method (from the sampling frame) was used to select the respondents that were included in the sample. The structured interviews used both closed and open ended questions to obtain information from the selected respondents. A Likert scale of measurement was utilized to solicit for information from the respondent and a response rate of 85% is perceived satisfactory.

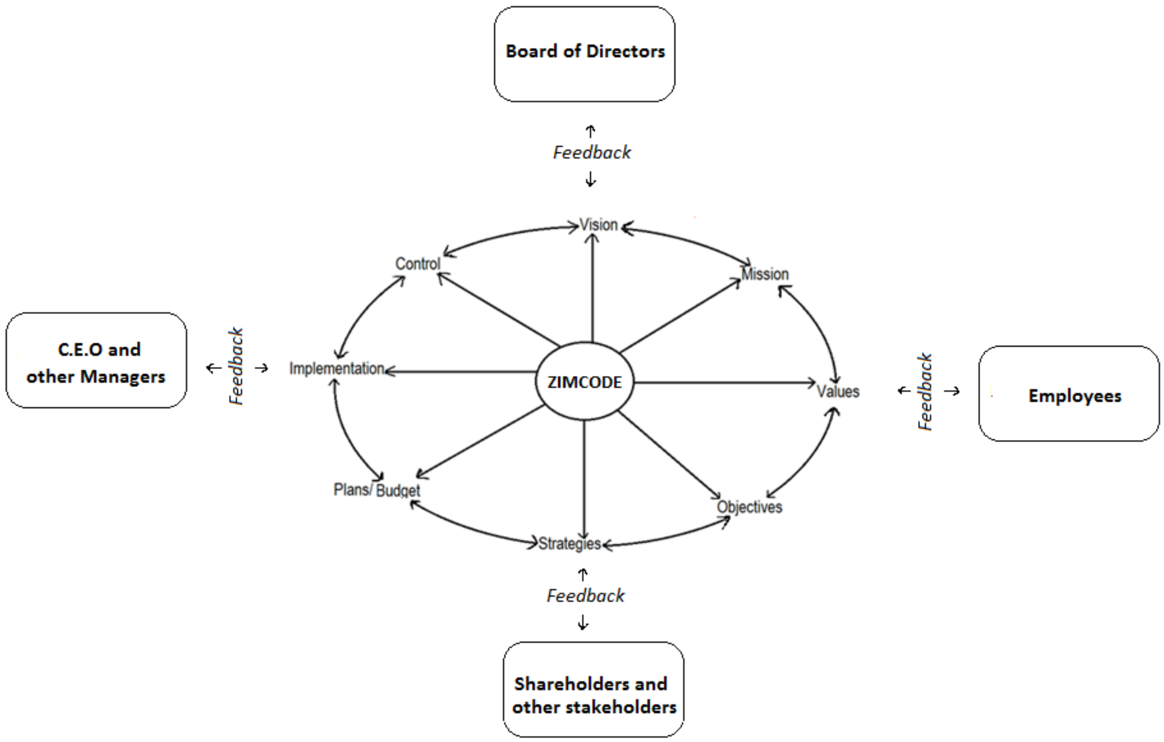
## RESULTS AND DISCUSSION

A total of 75% of the total respondents indicated that they lacked information regarding the implementation of ZIMCODE. The other 25% believed that the ZIMCODE was applicable to companies listed on the stock exchange, where shareholders met with mangers of companies in general meetings. The responses obtained from the survey clearly show the need of an instrument for implementation of the ZIMCODE.

### The Model

A nested model (figure 1) that could be used by state owned enterprises in Zimbabwe is proposed. Figure 1 is a nested model that indicates the implementation of ZIMCODE (2015) to public enterprises. ZIMCODE can easily be integrated into organizational operations by introducing its facets at each level of strategic plan as shown in figure 1. The main components of the strategic plan start with the organisation's vision, mission statement, values, objectives, strategies, plans/budgets, and end up with implementation and control (see, Figure 1). The clockwise arrows indicate the process of a strategic plan, while the anti-clockwise arrows indicate the feed-back on ideas (figure 1). ZIMCODE then becomes the centre of planning and execution of plans (figure 1). The nested model encompassed all stakeholders in the organization. The model indicates that ZIMCODE should be at the centre of the processes of the strategic plan. The ZIMCODE attributes feed into each step in the strategic plan formulation (figure1). This is to ensure that the corporate governance principles that include transparency, fairness, independence, accountability, responsibility, integrity and social responsibility are embedded in the strategic plan and its implementation. The strategic plan and ZIMCODE are both linked to the four groups: board of directors, chief executive officer and other managers, employees and stakeholders. All the four groups are in a position to feedback to the ZIMCODE and strategic planning process (Figure 1).

Figure 1: Implementation of ZIMCODE to SOE: The Nested Model




Furthermore, the board of directors, being both the overall observer of company management and monitor of its processes in terms of financial reporting quality, needs to ensure that corporate governance is adhered to in the state owned enterprises in Zimbabwe. As already pointed out, the nested model (Figure 1) indicates that ZIMCODE ought to be at the centre of any strategic plan in state owned enterprises. The board of directors should feed into the strategic plan and set the tone of discipline and accountability. The board of directors' business culture was expected to filter to the chief executive and managers that carry out company operations on a daily basis. Invariably, the managers, in turn, work with employees to implement corporate governance values in the organisation. The feedback of effective strategic plan governance was then expected to filter to shareholders, other stakeholders and the society. The simplified nested model serves as a preliminary approach to implementation of ZIMCODE. The model was different from the existing scorecard (Sprenger, 2004), market based models (Liu, 2006) and the control based model of China (Liu, 2006). The model presented differs from the existing models in two ways. First, the model is easy to understand and to implement in that the strategic plans already exist within SOEs. The model outcome could be observed in the increase/decrease in the production of goods and services by state owned enterprises and also the increase/decrease in the level of the ills such as corruption, rent seeking behaviour and mismanagement of state resources (both physical and financial) from the time the model was implemented. Second, the model caters for all levels of management, employees and other stakeholders. The existing models used to implement and measure the corporate governance codes are complex and not clear with regard to stakeholders' participation in corporate governance practices, hence necessitating more detailed alternative. This approach is expected to improve the performance of SOEs in Zimbabwe and other similar less developed countries.

## CONCLUSION

The paper examines the implementation of ZIMCODE in state owned enterprises in Zimbabwe. The ZIMCODE was introduced in April 2015 in an effort to incorporate corporate governance in Zimbabwe and improve the performance of organizations. The current studies indicate that the "best practice" codes' effectiveness is measured, among others, by scorecard and market oriented models. A survey of state owned enterprises in the country was carried out. Primary qualitative data was obtained by administering a structured questionnaire to sample of 100 respondents. The results from the survey indicated that state owned enterprises did not have a model to measure or implement the ZIMCODE. It was against this background that the authors undertook to develop a nested model that embeds the ZIMCODE into the strategic planning processes. The model is expected to be of use to state owned enterprises and government policymakers. The study has one major limitation to do with the sample frame taken from only the two major towns in the country. This led to a less inclusive and less representative sample of the state companies in Zimbabwe and questions the generalizability of the findings.

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