MIDLANDS STATE UNIVERSITY

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Permanent Address 28 Wentworth Road South Downs, Gweru

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MIDLANDS STATE UNIVERSITY

APPROVAL FORM

The undersigned certify that they have read and recommend to Midlands State University for acceptance of a research project titled ‘The impact of Perceived Risk in the adoption of mobile-banking in Zimbabwe’ by NNM3 in partial fulfilment of the requirements for Masters in Marketing Strategy.

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SUPERVISOR	DATE
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PROGRAMME/ SUBJECT COORDINATOR	DATE
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EXTERNAL EXAMINER	DATE

DEDICATION

This research is dedicated to the queen of my heart my mother and best friend and to my lovely son Ryan. Thank you for your patience and support during this time.

ACKNOWLEDGEMENTS

Firstly l would like to appreciate my supervisor Dr. N Nkomazana, for his guidance supervision and support throughout this project. Secondly NMB Bank management team for the time they allocated me to conduct my research, thirdly to my friends and colleagues who assisted and stood with me all the way and last but not least, to all participants for their valuable time in completing the questionnaires.

ABSTRACT

The current liquidity challenges being experienced in the banking sector and the economy, continue to be an issue of major concern to the Zimbabwean citizens. It is in an effort to try and establish one of the reasons that could be contributing to these challenges that prompted the researcher to investigate the effects of board independence on liquidity risk management in the Zimbabwean banking sector. Literature on board independence and its implication in decision making in the banking sector and other sectors , brought out different views among researchers on the extent to which board independence can influence the kind of decisions made at the highest decision- making body in the banking sector. It is within the believe that such decisions to do with risk management policies are also made. Liquidity risk management policies were also explored. The researcher made of questionnaires and in-depth interviews and desktop research to collect data. This dissertation presents findings from a research covering twenty seven (27) out of thirty (30) respondents, representing a ninety percent (90%) response rate. The findings revealed that Zimbabwean banks are still not observing board independence. Not much has been done by the Central banks to ensure compliance. The findings also revealed that most banks are not compliant with the liquidity risk management policies as stipulated by the Basel committee of bank supervision. For the few banks that are now compliant, the policies and frameworks have not been fully implemented to the rest of the bank employees. The failure of banks to implement such major policies in corporate governance and risk management has weakened the bank positions in managing liquidity. It is therefore the researcher's recommendations that board independence be viewed from the level of the Reserve bank down to the individual banks. It is the researcher's believe that a number of incorrect decisions being made at these board rooms can be avoided. There is also urgent need for the implementation of risk management policies bank wide.

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LIST OF ACRONYMS

RBZ	**:**	Reserve Bank of Zimbabwe
GDP	**:**	Gross Domestic Product
ALCO	**:**	Asset Liquidity and Liability Committee
BOD	**:**	Board of Directors
BCBS	**:**	Basil Committee on Bank Supervision
BM	**:**	Board Member
DC	**:**	Divisional Chiefs
NED	**:**	Non- Executive Director
ED	**:**	Executive Director
Stan Chart	**:**	Standard Chartered Bank
BI	**:**	Board Independence
LRM	**:**	Liquidity Risk Management

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CHAPTER ONE

GENERAL INTRODUCTION

1.0 Introduction

The subject of board independence takes a center stage as we try to unravel the impact of board independence on liquidity risk management in the Zimbabwean banking sector. This chapter introduces the whole research. It informs the reader about the background of the study, that is, the trends and developments in the area of study over the years. It also gives the reasons why the researcher undertook the study which is the statement of the problem. The chapter informs the reader about the objectives of the study, research questions, significance of the study, and delimitations of the study and the limitations of the study.

1.1 Background to the Study

Corporate governance issues have resurged since the Asian financial crisis in 1997 and following the highly publicised corporate failures of big US companies such as Enron and WorldCom. In 2008 the global financial turmoil, triggered widespread bank and financial institutions failures in the entire world. Firstly in the developed countries and later spread to developing countries, has made the world, once again, became aware of the consequences of bad corporate governance. This time interest is to governance issues in financial and banking institutions, (Mambondiani, Zhang and Arun, 2012).

There is so much literature on corporate governance in general and yet not as much has been written on corporate governance of banks. Even in developed economies, corporate governance of banks has only recently been discussed in the literature (Rose and Crosson, 2012). There is in particular a void of literature on governance issues of banks in developing countries. Research on how banks are governed in the context of developing countries is warranted in the wake of the 2008 financial crisis. (Mambondiani, Zhang and Arun, 2012).

Good governance is integral to the very existence of a company. It inspires and strengthens the investor's confidence by ensuring the company's commitment to higher growth and profits. Corporate Governance must be based upon the principles of transparency in board processes and independence of boards, accountability to stakeholders, fairness or all stakeholders; and social, regulatory and environmental concern. The board should be properly structured with adequate number of non-executive and independent directors. Board procedures and practices should be transparent and decisions should be informed, independent and objective. The board should keep the shareholders informed of the relevant developments of the company. The board should monitor functioning of the management team and remain in effective control of the company (Hothi, Gupta and Gupta, 2011).

According to the King Committee on Corporate Governance, board independence is the ability of the board to come up with policy decisions without undue influence from interested parties, such as the shareholders, the government, the pressure groups as well as the internal staff members who might benefit from unscrupulous decisions they might influence. The Financial dictionary (2012), defines board independence as the state in which all or a majority of the members of a board of directors do not have a relationship with the company except as directors. For example, they may not be relatives of the company's founders, key players or major employees. An independent board is a corporate board that has a majority of outside directors who are not affiliated with the top executives of the firm and have minimal or no business dealings with the company to avoid potential conflicts of interests. An independent board is expected to provide vigilant oversight over firm executives to mitigate managerial opportunism and promote shareholder value. (Ross and Crosson, 2012). further states that, the state in which all or a majority of the members of a board of directors do not have a relationship with the company except as director. For example they may not be relatives of the company's founders, key players or major share holders

Corporate governance codes and stock exchange listing rules in the developed world, call for independent outside (non-executive) directors to play a vital role in the unitary board. Independence is precisely defined to ensure that these directors have no interest in the company that could adversely affect genuine independent and objective judgment. The number or percentage of independent board members on listed company board is usually specified. Audit, remuneration and nomination committees of the board must be mainly or wholly comprised of these independent, outside directors, (Allaire, 2008).

Post-Enron reforms in the United States imposed substantial changes on corporate boards. In 2003 the New York Stock Exchange (NYSE) and NASDAQ altered their listing rules, requiring domestic US issuers to appoint a majority of independent directors to the board and to establish audit, nominating, and compensation committees composed entirely of independent directors by the end of 2004. Outside the United States similar, though nonbinding, recommendations were made through corporate governance codes. There were also recommendations to reduce board size and appoint directors with enough free time. The Basel recommendations on bank governance issued in 2006 endorsed these measures but also emphasized qualifications: 'Board members should be qualified for their positions, have a clear understanding of their role in corporate governance and be able to exercise sound judgement about the affairs of the bank (Principle 1). Basel also extended the concept of independence to mean independent from management and from large shareholders, including the state, (Becht, Bolto and Roell, 2002).

The corporate Governance pillar of Independence has become the cornerstone, indeed, of good Corporate Governance. In other words good Corporate Governance cannot be measured without looking at the area of board Independence. In response to the concerns of large institutional investors during the 1980s, exchange listed companies in Canada, the UK and United States began modifying the composition of their board to ensure that a majority of directors qualify as independent from management. By the end of 1990, more than 60% of the board members were independent at least by the standards of the time, (Allaire, 2008).

The need for Corporate Governance resulted in the limitations of the neo-classical theory, which makes the assumption that the firm is owner controlled, yet in the twentieth century this is less likely to be the case. (Rose,Crosson,2012). It is a result of the growth in Joint stock firms and the separation of ownership from control that the need of corporate Governance exists. This separation has been cited by (Ross and Crosson, 2012), as giving rise to the principal-agent problem. This comes from the differences that might arise between the principal and agent.

In the less developed markets, where institutions are weak and ownership is concentrated, corporate governance issues go beyond agency problems. The controlling shareholder generally takes an active interest in running the company and holds executive roles. Minority shareholders and other may be constantly confronted with acts reflecting lack of property rights, contract violations, transfer pricing, targeted issues and repurchasing, self-dealing, asset stripping and abuse of minority positions etc., which remain unpunished. The dominant conflict observed in the less developed markets between the dominant shareholders/managers and other stakeholders, especially the outside investors and creditors is referred to as the 'expropriation problem' (Alaire 2008)

To emphasize the above view point, the Zimbabwean banking sector makes a perfect example, suffice to say the same industry which has been hard hit by company closures. The 2003 banking saga, started off by experiencing high inflation which caused most banks to find home for their liquid cash which was losing value. A number of banks got engaged in non-core banking activities by investing depositor's funds outside the normal banking investments instruments. According to Makoni (2011, this was necessary for the banking sectors considering the market conditions. The banks started experiencing acute shortages in liquidity and were failing to meet the depositors' demand for cash. The central bank having attributed these liquidity constraints to speculative activities by banks, and failure of bank boards to alleviate these due to their improper structures. These board structures comprised mainly the major shareholders of these banks being both the CEOs and the chairpersons of their board.

Founding member of NMB Bank, Dr. Julius Makoni was also the CEO of the company and involved in the day to day running of the company. The founder of Trust banking Corporation Mr. Trust Nyemba was also the CEO, Mr. Nyerero Hlupo, the Finance Director and Chris Goromonzi the executive Director. All the three were major shareholders and Founding members of the bank. Barbican bank which was also forcibly closed in 2004 had its major shareholder and founder Professor Mthuli Ncube being the CEO of the bank.

These challenges in the Zimbabwean financial sector have haunted this sector and the economy at large for almost a decade, bank closures have become the order of the day. Cost of capital has remained high and this has resulted in high lending rates and bank charges, as the Reserve Bank of Zimbabwe (RBZ) is promoting market determined charges and interests for all bank products and service. These high lending rates are discouraging borrowing by major productive sector and high bank charges are discouraging mobilization of savings. This makes sourcing and management of liquidity difficulty in such an environment. Depositors' confidence was lost during the hyperinflationary era and is still very low. All these challenges have limited liquidity for banks' survival and made liquidity management complex (The Reserve Bank of Zimbabwe, 2011).

In 2007 the Reserve Bank of Zimbabwe produced the 'Reserve Bank of Zimbabwe Liquidity Risk Management Guidelines' , trying to improve the situation. This gave guidelines on: (i) the liquidity management policies of the Board of Directors (BOD), (ii) the roles of the Asset Liability Committee (ALCO), (iii) the effective information system for monitoring and reporting liquidity risk, and (iv) the roles of internal control systems for liquidity management (Chikoko, 2009).

The hyper-inflation environment persisted that was experienced in Zimbabwe in 2009 and led to the introduction of the multiple currency system. This regime improved the stability of prices and imposed fiscal discipline, (Chikoko 2009). However, the multiple currency environment reduced the capacity for direct monetary policy intervention in the economy. This is because monetary authorities no longer issued high powered money and hence they were left with limited capacity to control money supply. The adoption of such a regime also limited the number of financial instruments to trade, and the money market collapsed as there were no treasury bills issued by the government which had a tight budget leaving the interbank market with less activities. The reserve bank lost its function of the lender of last resort as well (Reserve Bank of Zimbabwe, 2011).

In 2011 the Reserve Bank of Zimbabwe issued Guideline No. 1-2010/BSD:" Technical guidance on Basel II implementation in Zimbabwe". The framework sets out a revised criterion for calculating bank's institution regulatory capital requirement, the minimum disclosure requirement as well as the supervisory review process. All this was in view of guiding liquidity management which is affected by the level of capital in a bank. Banks are facing a lot of liquidity challenges even after all the guidelines set by the central bank to improve liquidity. Of recent, Renaissance Merchant bank was placed under curatorship in 2011, Genesis Investment Bank surrendered its license, Interfin bank was placed under curatorship and Trust banking license was its license was cancelled again in December 2013. Royal bank is still under liquidation (Reserve Bank of Zimbabwe, 2012).

The Reserve Bank of Zimbabwe announced a minimum capital requirement of $100 million in 2012 to be met initially by December 2014. But this has since been revised as per the table below;

Table: 1.1 New Capital Threshold

TYPE OF BANK	CURRENT CAPITAL THRESHOLD	NEW THRESHOLD LEVEL
Commercial Banks	$25m	$100m
Merchant Banks	$25	$100
Building societies	$20m	$80
Finance Houses	$15m	$60
Discount Houses	$15m	$60m
Microfinance Banks	$5m	$10m
Microfinance Institutions	$5000	$25 000

Source: Reserve Bank of Zimbabwe, (2014)

By January 2013 a total of 14 out of 19 banking institutions met the 31 December 2012 minimum threshold. Five (5) banking institutions were said to be with significant progress towards compliance, in terms of the credibility of their capitalization plans. Two (2) banking institutions have recapitalization plans in need of further improvement to render them credible, (Reserve Bank of Zimbabwe, 2013).

Given such a background one can see that banks are facing liquidity challenges and are having trouble in raising the capital required. In an environment with lost confidence, no lender of last resort, less activity in the interbank market and the money market the research seeks to find out what could be the challenges causing the continued strain on banks even after introduction of the multi- currency system.

1.2 Statement of the Problem

Zimbabwe adopted a multiple currency system in 2009 and The Reserve bank of Zimbabwe, has put some liquidity management guidelines and strategies in place to help with liquidity management yet banks are still facing liquidity challenges, with some failing to meet the minimum capital required and some ending up closed or placed under curatorship. The trend continues with more banks closing or requiring close monitoring. The confidence in the banking sector has continued to deteriorate as a result. The country currently does not have a corporate governance policy which could also be a major contribution to the failures of a number of banks even after certain measures were put in place by the central bank. This research therefore seeks to find out how the corporate governance issues, in particular, the strengthening of board independence, can assist to improve liquidity management in a multiple currency environment.

1.4 Research Objectives

The main objective of the study is to find the relationship between board independence and liquidity challenges faced by the banking sector in Zimbabwe. Below are some secondary objectives;

- To examine the effectiveness of policies put in place by the central bank as a way of improving liquidity management in the midst of corporate governance failures.
- To examine the board structures of banks in Zimbabwe
- To establish the relationship between board independence in banks and the bank failures witnessed in Zimbabwe
- To find out if the absence of independence at board level can lead banks to fail to raise adequate capital as enshrined by the minimum capital levels of the central bank.

1.3 Research Questions

The study will answer the following questions in order to achieve its objectives;

1. Is there a relationship between board independence and liquidity challenges faced by the banking sector in Zimbabwe?
2. How effective are the policies and guidelines relating to independence of board of directors put in place by the central bank as a way of improving liquidity management?
3. Is board independence being observed in the banking sector?
4. What role does the board management play in ensuring adequate capital levels are met?

1.4 Significance of the Study

The researcher will build up research skills and gain deeper knowledge and better appreciation of the different policies and guidelines that the RBZ put in place for liquidity management through corporate governance pillar of independence as well as the central banks' role in liquidity management. This will benefit the banking sector and its board management in ensuring compliance to these policies

Other students will be able to refer to this research for their future research. And also in their studies of policies and responsibilities of the central bank to the banking sector and that of the banks to their clients. It will also suggest other areas of research that other students can look at. New modules may be identified that may be added to the current ones to increase students' knowledge about the area of study.

The research will suggest policies or guidelines that can be implemented to improve the central bank's role in helping banks with liquidity management problems. The suggestions made by the researcher might help banks' with liquidity management strategies that they can implement and therefore improving their liquidity position which eventually improves the liquidity position of the entire economy.

Liquidity challenges do not only affect sector, but affect its public and other sectors in the economy. Suggestions on board independence coming out of this research will therefore improve confidence in the banking sector and this will have a repo effect on the performance of the entire economy.

1.5 Assumptions of the study

This study makes the following assumptions;

- All banks have clearly defined boards
- All banking institutions are listed on a stock exchange
- Every bank publishes its financial statements before the due date
- The Central bank is well capitalized.
- There is no liquidity crunch caused by macro-economic factors as most liquidity constraints are mainly institution specific.

1.6 Delimitation of the Study

The study was carried out at Commercial banks' head offices. The study will analyze the corporate governance pillar of independence that is being implemented by the central bank and the commercial banks to improve liquidity management in Zimbabwe. The study will cover the period from January 2009 to March 2014; results will be analyzed to draw meaningful conclusions.

1.7 Limitations to the Study

The major challenge was in accessing information from the Reserve bank of Zimbabwe, most staff were not privy to bank records. The researcher obtained some of the information on the internet and used telephone interviews for some questions. Most people did not have much time for the in-depth interviews. Most banks did not want to disclose confidential information and others were reluctant to give true information as they feared that the information would be used against them. The researcher persuaded the providers of information to sincerely give information since it was only for academic purposes and be held in confidence. The results are however limited to the period of research any developments after this period will not be captured.

1.8 Definition of terms

Liquidity management- the ability to meet obligations as and when they fall due.

Multiple currency regime - referred in the study as dollarization. It is when a country adopts as legal tender another country's currency.

Central bank liquidity management- to the framework set of instruments, and the rules that the monetary authority follows in managing systemic liquidity, consistent with the ultimate goals of monetary policy.

1.9 Chapter Summary

This chapter was mainly introducing the domain of the study, looking at the background that has caused interest to the study. The chapter also highlighted objectives too be achieved and questions that need to be answered at the end of the study. The area of study and limitations being encountered are also highlighted. Chapter two mainly analysis and reviews literature in similar topics. Chapter 3 explains research methodology. Chapter 4, looks at the findings, through data gathering by use of questionnaires, in-depth interviews and desk-top research. These are analyzed and interpreted using tables and graphs. The last chapter, chapter 5 g gives conclusions and recommendations for further study.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter will focus on literature review. Literature review reflects a demonstration of knowledge about the topic on study. The researcher will spell out what other authors say about the role of the central bank in liquidity management, the role of Corporate Governance in effectively managing corporates and the effects of Corporate Governance on liquidity management in the banking sector. The literature is reviewed to shed more light on the topical issues. This chapter reviews information on theories about central bank liquidity management, that is what previous authors believed to be true and empirical evidence with regard to the works of those who tested the validity of the theories put forward by scholars. In this paper, we will try to unravel the gap which seems to exist between the developed and the developing countries in how their banking systems have embraced the tenet of corporate governance. We will cover countries such as Korea, Japan, South Africa and then Zimbabwe. In making a comparison based on empirical evidence, it will assist in realizing whether a gap exist within Zimbabwe's banking sector through its failure thereof of putting prominence on independence of the board of directors. What could be making Zimbabwe's case quite unique in our study is the alleged lack of independence by the Reserve bank of Zimbabwe which led to a decimation of its local currency following years of uncouth involvement of politicians in decision making at the central bank. The use of a multicurrency system in Zimbabwe will also make the study unique.

2.1 Board Independence

According to Farlex Financial Dictionary (2012), board independence is the state in which all or a majority of the members of a board of directors do not have a relationship with the company except as directors. For example, they may not be relatives of the company's founders, key players or major employees. The Dey committee (1994) refers to an independent director as “unrelated director” defines it as a director who is independent of management and is free of any interest and any business or any other relationship which could, or could reasonably be perceived to materially interfere with the director’s ability to act in the best interests of the corporation, other than interests and relationships arising from shareholdings. The Cadbury Report (1992) in the United Kingdom, uses the concept of independent director to mean an outside director, which is to say a non-executive. An outside director may be related or unrelated. Ticker and Mallin (2010), make this contribution to the definition of board Independence. To be considered independent a director must have no relationship with any firm in the up-stream or down-stream added-value chains, must not have previously been an employee of the company, nor be a nominee for a shareholder or any other supplier of finance to the company. The definition of independence is so strict that an independent director who has served on the board for a long period is often assumed to have become close to the company and is no longer considered independent.

Dasherw (2009) adds a slightly deeper meaning to the issue of board independence. She besides the general definitions as above, she also adds that independence comes from the character and values of the directors. She looks at issues like, a commitment to serve the company with due diligence and integrity, good judgement and common sense, and sufficient self-esteem and confidence to stand up for independent point of view.

According to Ross and Crossan (2012), explained board independence according to the Combined Code originally implemented in 1998 as a consequence of leading reports (Cadbury, 1992; Greenbury, 1995; Hampel, 1998). The report makes a number of key recommendations mainly on the independence of the board and the need for independence between the chairperson and CEO. The Code says that, board of directors leads and controls the company by determining the company’s aims and objectives whilst the board monitors the company’s aims and reports on the performance of the company and the performance of individual directors. It also maintains that the board also acts as the link between managers and owners. The role of chairman and CEO has to be separated in order to prevent conflict of interest. To limit this conflicts of interest the Combined Code (Financial Reporting Council (FRC), 2006.) recommends, that ‘‘there should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company’s business. No one individual should have unfettered powers of decision’’.

It is the role of the chairman to ensure that the board performs its function and meets the company objectives agreed in the company’s corporate governance guidelines, while the role of CEO is to represent the company’s management. To ensure independence and prevent the concentration of power, the role of Chairmen and CEO should be separated. (Andrew Ross and Kenny Crossan – 2012) The spreading wave of non-executive directors having to outnumber the executive directors is a direct attempt to strengthen independence of the board.

2.2 Importance of Board Independence

Corporate Governance has a critical role in corporate management, as management has the primary responsibility for creating an environment in which a culture of performance with integrity is achieved. As in most parts of the world, legislation and agency rule-making are important to establish the basic tenets of good corporate governance, over-reliance on legislation may not be in the best interest of shareholders, companies of society. Ticker and Mallin (2010) therefore came up with market-based governance solutions for any industry they came up with ten (10) core principles on governance. The researcher’s main interest will be on principle seven (7) which states “The Commission supports the NYSE’s listing requirements generally providing for a majority of independent directors, but also believes that companies can have additional non-independent directors so that there is an appropriate range and mix of expertise, diversity and knowledge on the board”. They insisted that the boards should seek an appropriate balance between independent and non-independent directors to ensure an appropriate mix of expertise, diversity and knowledge. The NYSE’s Listing Standards however, should not limit a board to just one non-independent director.” Ticker and Mallin (2010), emphasize on the importance of board independence and consider it the most important governance topic, and that non-independent directors are an irritant worth creating.

Dashew, (2009) also makes interesting contributions on the importance of board independence. She stipulates that having truly independent directors serve on boards of companies has always been considered best practise. With the increase in corporate scandals of recent years, the independence of the board has become a vital tool. She also says that an independent board allows a director to be objective and evaluate the performance and well-being of the company, without any conflict of interest or the undue influence of interested parties. Dashew (2009) also feels that board independence is important as independent directors can bring expertise and objectivity in the board room. This she maintains is achieved through, assurance to owners that the company is being run, legally, ethically, effectively and in their best interest. The representatives, who are objective, have "no ex to grind" and will look at issues with no vested interest or hidden agendas. She concludes that, having an independent board will add great value to the business.

Hardley-Schachler, Juleff and Paton (2007) bring out the importance of corporate governance in the financial services sector. They postulate that financial services are a critical part of any economy. Banks are the most important component within financial services, providing deposit and loan facilities for personal and corporate customers, making credit and liquidity available in adverse market conditions, and providing access to the nation's payments systems. The other main areas are life assurance, and a broad range of fund management activities. Recent corporate collapses and malpractices within the sector suggest that, despite UK financial markets being well-developed and relatively sophisticated, there have been Sufficient system weaknesses to enable episodes of financial company malfeasance. These weaknesses can be linked to corporate governance issues. (Hardley-Schachler, Jeff and Paton, 2007).

2.3 Definitions of liquidity

The Basil Committee on Banking Supervision (2008), defines liquidity as the ability to fund increases in assets and meet obligations as they come due. Central to this definition is an assumption that obligations will be met "at reasonable cost". This involves meeting uncertain cash flow obligations, which depend on development of external factors and behavior of other market participants. The fundamental role of banks in facilitating the maturity transformation of short-term deposits into long-term loans makes banks inherently vulnerable to liquidity risk. This is the main function of banks and therefore makes it important to do proper liquidity management so that they meet obligations timeously and at a reasonable cost. In February 2008 the Basel Committee on Banking Supervision published 'Liquidity Risk Management and Supervisory Challenges'. The difficulties outlined in that paper highlighted that many banks had failed to take account of a number of basic principles of liquidity risk management when liquidity was plentiful. Many of the most exposed banks did not have an adequate framework that satisfactorily accounted for the liquidity risks posed by individual products and business (Basel Committee on Banking Supervision, 2008).

The bank of international settlements (2008), defines liquidity as Liquidity is the ability of a bank to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses. The fundamental role of banks in the maturity transformation of short-term deposits into long-term loans makes banks inherently vulnerable to liquidity risk, both of an institution-specific nature and that which affects markets as a whole. Virtually every financial transaction or commitment has implications for a bank’s liquidity. Effective liquidity risk management helps ensure a bank's ability to meet cash flow obligations, which are uncertain as they are affected by external events and other agents' behaviour. Liquidity risk management is of paramount importance because a liquidity shortfall at a single institution can have system-wide repercussions. Financial market developments in the past decade have increased the complexity of liquidity risk and its management. (The bank of International Settlements, 2008)

2.4 Management of Liquidity Risk

Liquidity management refers to the planning and control necessary to ensure that the organization maintains enough liquid assets either as an obligation to the customers of the organization so as to meet some obligations incidental to survival of the business or as a measure to adhere to the monetary policies of the central bank. For a commercial bank to plan for or manage its liquidity position, it first manages its money position by complying with the legal requirement. Actually, management of money position is essential if a bank must avoid excesses or deficiencies of required primary reserves. Where there is a decline in market price of securities or where additional funds needed to correct the bank reserve position are for a very short time, it will be definitely expensive to sell securities than to borrow from another bank (The Basil Committee on Banking Supervision, 2008).

2.4 Governance of Liquidity Risk Management

The bank for international settlements (2008) stipulates that, the board of directors is ultimately responsible for the liquidity risk assumed by the bank and the manner in which this risk is managed and therefore should establish the bank’s liquidity risk tolerance. This tolerance should define the level of liquidity risk that the bank is willing to assume and should be appropriate for the business strategy of the bank and its role in the financial system and reflect the bank's financial condition and funding capacity. The tolerance should ensure that the firm manages its liquidity strongly in normal times in such a way that it is able to withstand a prolonged period of stress. The risk tolerance should be articulated in such a way that all levels of management clearly understand the trade-off between risks and profits. This governance should unsure that senior management develop a strategy, policies and practices to manage liquidity risk in accordance with the risk tolerance and to ensure that the bank maintains sufficient liquidity. Senior management is also expected to continuously review information on the bank's liquidity developments and report to the board of directors on a regular basis. A bank's board of directors should review and approve the strategy, policies and practices related to the management of liquidity at least annually and ensure that senior management manages liquidity risk effectively. The development and implementation of a liquidity risk management strategy in accordance with the bank's risk tolerance should be the responsibility of senior management, (The Bank of International Settlements, 2008).

This strategy should specify policies on liquidity management which include the following;

- Composition and maturity of assets and liabilities
- The extent of the diversity of funding services
- How liquidity will be managed in different currencies, across boarders and across business lines of legal entities
- The approach to intraday liquidity management and the assumptions on the liquidity and marketability of assets (Bank of international settlements, 2008)

All this should be approved by the board of directors and be reviewed at least annually.

2.5 Empirical Evidence

2.5.1 Studies in Korea

Korea recently pulled through an economic storm that began in late 1997. This crisis, which rallied markets all across Asia, had threatened Korea's remarkable economic achievements. With capital threshold equivalent to US$32 million which is a far cry from the Zimbabwean levels. A modern, market based economy cannot function efficiently without dynamic and well supervised financial institution. The Financial Supervisory Commission [FSC] which serves as a regulatory mechanism to establish universal banking practices, has created a new system of prudent regulations and supervision as well as a schedule for reform implementation. In the process of reform, the government has closed a number of non-viable financial institutions. As a result of these restructuring efforts, just over 40% of all financial institutions nationwide- a total of 867 including savings banks and credit unions have been dissolved since 1997. Korea had 1377 financial institutions in operation at the end of 2009, (Choi, Hasan and Waisman 2009).

The restructuring of the Korean code of conduct in 2006 which saw the tenets of corporate governance being strengthened witnessed a strong recapitalization and disposal of non-performing loans. The financial institutions have also intensified their own rehabilitation efforts, including downsizing and the inducement of foreign capital investment. (Choi, Hasan and Waisman, 2009)

There was empirical evidence gathered that the more independent the boards of Korean banks became, the more capitalized they were as the risk management framework was strengthened (Choi, Hasan and Waisman, 2009) The concept of owner managed banks is not popular in Korea given that the socialist ideology overrides the capitalist tendencies, by default this could have strengthened independence of their overall banking system.

2.5.2 Studies in Lebanon

Lebanese financial markets are weak and have challenges with liquidity. They do not have anywhere near the level of sophistication of those of neighbouring countries. The resurgence of the banking sector after 15 years of civil war (1975-1990) was needed and necessary in providing the funds needed to rebuild the country. The relative restoration of confidence and the flow of foreign investments encouraged a large number of foreign banks to return and open branches in Lebanon. (Chahine and Safieddine 2008). As of year-end 2004, a total of 59 commercial banks (or representative offices) existed in Lebanon, 17 of which were subsidiaries of foreign banks. According to the IMF Lebanon has the most sophisticated banking system in the MENA region. The Lebanese banking sector is by far the most advanced sector in Lebanon with total deposits of nearly 60 billion US dollars, equivalent to more than three times the country's gross domestic product (GDP). The ownership structure of Lebanese Banks in 2002 was 44.38 percent by other local or foreign banks, 27.83 percent by institutional investors, 13.49 percent by government entities (e.g. Central Bank), and 14.3 percent by individual investors (Chahine and Safieddine, 2008).

The legal and regulatory environment has important consequences for the role that commercial banks play in a country's financial and corporate governance systems. The role of commercial banks play is to ensure that corporate boards are effective monitors. Boards of directors are considered to be an effective internal corporate governance device when external structures such as the legal environment, enforcement, and market discipline, are not sufficiently developed to ensure better corporate governance, as in Lebanon. The Lebanese banks have taken corporate governance to a different level being enforcing it on their customers. Meaning all companies intending to open accounts at any Lebanese bank, have to have their corporate governance issues in place (Chahine and Sefieddine, 2008)

2.5.3 Studies in Zimbabwe

The liquidity crunch in 2003, which some authors attribute to monetary policy changes and alleged risky behavior practices (Noko, 2011), while some (Makoni, 2011) attribute to the macroeconomic policy makers and overzealous actions of the central bank. Others blamed it on political interests and personal vendettas (Makoni, 2011). The central bank, blamed the failure by indigenous banks to observe the corporate governance principles, in particular the issue of board independence. The central bank accused bankers of speculative activities and diverting from their core business, which resulted in them diverting depositor's funds to other business activities (Makoni, 2011). He argues that the speculative investments engaged in by the bankers was a reflection of the market realities and also necessary for the Banks's survival. The central bank then issued stringent corporate governance directives that saw bank owners being separated from the running operations of their own banks. However (Makoni, 2011) also argues that the issue of separation of duties from bank ownership as having no effect when he cites the example of Sandy Weil who was a major shareholder and CEO of Citicrop. He also cites the Central bank itself as having not set a good example as the Governor, who was the CEO then, and board chairman at the same time. As at 2006 the board of directors of the Reserve of Bank Zimbabwe (Reserve Bank of Zimbabwe, 2006) comprised four executive directors, (the Governor and three deputies) and four independent directors, (Makoni, 2011). He points out that the Central bank cannot be modeling Corporate Governance to the financial services to which it directs that good Corporate Governance requires a certain number of independent directors and a non- executive chair of the board.

The liquidity problems faced by the Zimbabwean banks were eminent again during the inflation era in 2007 to 2008. In 2007 the RBZ introduced the Reserve Bank of Zimbabwe Liquidity Risk Management Guideline trying to improve the situation, this gives guidelines on: (i) the liquidity management policies of the Board of Directors (BOD), (ii) the roles of the Asset Liability Committee (ALCO), (iii) the effective information system for monitoring and reporting liquidity risk, and (iv) the roles of internal control systems for liquidity management (Chikoko, 2009)

Muranda (2006), studies the banking failures in Zimbabwe from the days of the growth in the banking sector of 1991. And his focus is on financially distresses institutions during the Zimbabwean dollar era. He looks at all pillars and issues in corporate Governance and how this contributes to financial distress. He brings out how the removal of market-segments, facilitated the entry of more institutions into the sector, which appeared to be anchored on a laissez faire policy approvals, where no diligence appeared to have been conducted on license applicants. Ideally it was to move the economy away from an inefficient and monopolistic private sector, where no attention at all, was paid to corporate Governance.

Muranda (2006) also makes mention of speculative activities, in the form of black market trading and unorthodox means of profiteering by banks. He pins these speculative engagements by banks down to the other reason for the eventual collapse of the newly established banks. He also highlights the issue of non-performing loans, as the major problem weakening operations of locally owned banks. Where the central bank has had to, sometimes intervene through forcibly removing managers considered a burden or not adhering to started board structures of at least 60% independent non-executive directors. This is a major issue in addressing Corporate Governance issues in banks.

In his findings Muranda established that, out of the eight institutions under study, only one had a memblance of board independence, due to the fact that the reaction time by the board was immediate to the problem. Board restructuring had taken place and forced changes at board level. He further concluded that, boards of financial distressed companies fail to adapt to demand of changing competitive environment. They failed to keep up with competition in their core areas of business and ended up surviving on non- interest bearing transactions. And whilst in a bid to survive all principles of good corporate Governance protocols and guidance were discarded. (Muranda, 2006)

Mambondiani, Zhang and Arun (2012), makes interesting contribution to this topic. He looks at corporate governance on banks in Africa with a particular interest on Zimbabwe and associate corporate governance to bank performance. His focus was on Zimbabwean commercial banks that have undergone changes and turmoil over the years. He focused mainly on, board of directors, risk control and disclosure. He also looks at liquidity management of banks and highlights that it is closely related to corporate governance. He further explains this relationship, that, solvent financial institutions may be driven towards insolvency by poor management of short-term liquidity. He is also mentions that liquidity of banks is a necessary condition for ongoing banking operations and that any severe liquidity challenges can lead to bank failure. Results of his correlational test between the selected corporate governance issues showed that, some variables had a negative correlation, whilst others had a positive one. According to his results there was no strong correlation between corporate governance and performance variables. He however concludes that this does not necessarily disprove the claim that good governance leads to good performance.

2.5 Forecasts and Publications

According to Fujiwara (2005) the publications and forecasts of Central Bank are highly important. Having analyzed the behavior of other forecasting agencies prior to and after Central Bank's publications, Fujiwara (2005) inferred that they adjust their predictions in line with Central Bank's information Fujiwara (2005) claims that most economic agents may be considered to form rational expectations based on professional forecasts, whereas professional agents base their forecasts on the data from the Central Bank's reports, (Romer & Romer, 2000) state that Central Bank possesses information about the future development of the economy which is far beyond what is known to market participants. Hence, their predictions of future market development are based on asymmetric information which they have at their disposal. Under such conditions, the publications of Central Bank reduce the information asymmetry. And it is optimal for commercial forecasters to modify their forecasts and adopt the data of Central Bank. (Geraats, 2002) adds that Central Bank's publications also act as a signal about the way Central Bank views the macroeconomic situation. On the basis of this information, market agents might predict the future steps of Central Bank and adjust their strategies accordingly.

However, (Great’s, 2002) notes that this effect takes place only if market agents act rationally and have confidence in Central Bank’s consistency. As (Geraats, 2002) put it, rational expectation theory only works when the Central Bank as well as other authorities act consistently and have sufficient public credibility. With regards to developing economies and those in transition, the situation might differ. (Geraats, 2002) claim that, due to corruption, macroeconomic instability and weak governmental institutions, Central Bank might lack credibility.

When discussing the effect and role of Central Bank’s forecasts on expectation formation (Geraats ,2002) claims that the issues of transparency and credibility of Central Bank’s forecasts are crucial. Whereas transparency is defined as "the absence of asymmetric information between monetary policy makers and other economic agents" (Geraat, 2002). He claims that transparency, credible and consistent information reduces the likelihood of heterogeneous behavior resulting from different expectations of the further macroeconomic development. Referring to the practice of developed countries, (Geraats, 2002) states that the Central Banks of New Zealand, Canada, the UK and Sweden specifically adopted new procedures to increase the level of transparency, known as explicit inflation targeting. The similar approach was also adopted by the Central Banks of Brazil, the United States, Japan and Switzerland.

With regards to credibility of the information supplied by the Central Bank employees, (Cechetti, Krause, 2002) note that this information shall create the proper set of expectations and reduce the noise which might stem from the Central Bank’s interventions and other activities. In other words, one of the major roles of information coming from the Central Bank is to create a set of expectations which will enable rational market agents to respond accordingly to the given information. As a result, the Central Bank might predict the possible behavior of other agents and plan its policy accordingly. Moreover, the consistency of information coming from the Central Bank with its steps, promotes the potential efficiency of markets.

2.6 Central bank's role in liquidity management

2.6.1 Lender of last resort

In the 1800s, Thornton (1802) and Bagehot (1873) outlined the elements of the central bank's LLR policy. The key elements were that in the event of liquidity crises, the central bank should be prepared to supply liquidity on a large scale, against provision of satisfactory collateral and at a high interest rate. Satisfactory collateral was considered necessary so that central banks did not have to conduct a credit assessment in each individual case. In practice, the posting of collateral took the form of banks discounting bills of exchange in the central bank. The central bank was able to increase the supply of liquidity by accepting several types of bills (for example bills with a longer residual maturity than was normally accepted). The cost to the central bank was that a broader set of bills normally meant poorer securities quality and a higher credit risk. Central banks have traditionally had a role as lender of last resort (LLR). This means that the central bank can supply extraordinary liquidity to an individual bank or the banking system when demand for liquidity cannot be met from other sources.

Liquidity problems may arise for many reasons, in the form of a liquidity shortage for an individual bank or the banking system as a whole. According to the Norges Bank's research they appear to have been of the opinion that the central bank should primarily supply liquidity to the market by general means, and let the interbank market handle the distribution of the liquidity. This is because banks that are sound and have good risk management systems will normally enjoy confidence in the markets, and will therefore also have adequate access to liquidity. If the central bank grants extraordinary loans to the individual bank too frequently, lenders to banks may have less incentive to monitor the banks' financial situation and may provide credit too cheaply. This may induce banks to take too much risk. Reliance on extraordinary support from the central bank may also make banks less motivated to find market solutions in the event of liquidity problems. The result may be a less stable banking system. (The Basel Committee on Bank Supervision, 2008)

However Gedrup, (2005), says that the possibility cannot be excluded that even sound banks may suffer a loss of confidence on the part of depositors and other creditors because they are less well informed about the quality of banks' assets than the banks' management. This is referred to as 'asymmetric information'. When liquidity problems compel a bank to sell its assets, creditors may incur substantial losses. In such cases it may be maintained that the central bank should grant extraordinary loans to the crisis-hit bank in order to avoid an ineffective winding up of a bank that is fundamentally sound. In practice, however, it is very demanding for the central bank or supervisory authorities to evaluate the financial strength of a bank in a short space of time, both because of asymmetric information and because the bank itself does not have full information.(Gedrup, 2005)

The central bank therefore risks incurring a loss if it provides a loan and the market's assessment later prove to be well-founded. A basic principle is that central banks should not extend loans to banks with solvency problems. In principle, such problems should be solved by the owners supplying fresh capital or through mergers or acquisitions by private-sector operators. (Gerdrup, 2005)

The responsibility for the lender of last resort function is overwhelmingly assigned to the central bank. Giving central banks a high degree of independent responsibility for the extension of last resort loans raises governance issues. Such loans may provide the liquidity needed to facilitate a withdrawal of uninsured funds, potentially leaving a government deposit insurance agency with a larger deficit to make up. Last resort loans are normally secured to protect the central bank and ultimately the taxpayer, but in extremis the quality of the collateral or the extent of cover may be allowed to fall in an effort to forestall wider ramifications, (Basel committee on Bank Supervision, 2008).

The central banks' rule on access to last resort facilities, and the terms on which emergency liquidity is provided (including with respect to collateral requirements), vary across institutional types. For example, closely regulated banks usually have preferred access relative to that of less regulated funds management companies. Choices made by the central bank on conditions for access may have implications for the structure of the financial sector and of financial regulation. And access to central bank emergency liquidity for different types

of financial institutions – including those that are partially or fully owned by the government – may come under pressure in various ways, (Basel committee on Bank supervision 2008).
Similarly, with respect to intervention in the foreign exchange market, the place that operations occupy within governance arrangements depends very much on the degree to which conditions are normal and on the central bank's view on whether operations should be rule-driven or instead adjusted to the subtleties of market conditions. On both scores, decision-making tends to be made at higher levels than is the case for liquidity management. For many central banks, foreign exchange market intervention is consistent with abnormal conditions by virtue of policy design. And especially for those that intervene in exceptional circumstances, it is the nature and timing of the intervention, rather than the weight of money, that is thought to matter for success or failure (Gudrun, 2005). The multiple currency regime means that there is nothing much happening in term of foreign exchange market therefore the central bank loses its role of intervening in the foreign exchange market as a way of intervening in liquidity management, (Gudrun, 2005)

In exceptional circumstances, such as during the current financial crisis, liquidity management is brought to center stage. Both of the key central bank roles – for financial stability and for price stability – may be relevant in such management. With respect to financial stability, the current financial crisis has demonstrated forcefully the increased role that markets are playing in the day-to-day funding of intermediation. Accordingly, the disruption of normal functioning in short term money markets and in wholesale financial markets more generally has had a bigger impact than in earlier crises. Central bank instruments that once were used primarily for the implementation of monetary policy are now considered highly relevant to limiting the propagation of financial crises and restoring market functioning. To a significant extent, during 2008 several major central banks used liquidity management tools to fill a role previously played by the network of market participants, becoming in the process the central intermediary for short-term financing. Substantial changes in procedure were developed and adopted in a remarkably short time frame. (Basel committee on Bank Supervision, 2008).

Humphrey & Keleher (2002) and Gerdrup (2005) state that acting as LLR Central Bank minimizes the potential risk of disruption of the whole banking system. As Gerdrup (2005) makes it clear, under certain situations, the market and interest rate volatility might create a problem of insolvency where a single bank might fail to meet its obligations in intra-bank relations. This case might create a domino (knock-on) effect, creating a negative impact on the whole banking system. At the same time, Driffill (2003) argue that the excessive support of banks in terms of LLR activities might induce a form of moral hazard. Referring to the case of the US banks, they claim that commercial banks and other financial institutions may overestimate the favorability of stable macroeconomic climate and the Central Bank support.

As a result, these players might commit to risky portfolios of loans and deposits failing to take into account present market risks. Consequently, the short-term exchange rate fluctuation might create the insolvency problem and create a necessity for Central Bank to bail-out the banks which are in trouble. The threat for macroeconomic stability is that the mass insolvency might undermine the Central Bank's capacity to cover all insolvency issue, meaning the whole financial system might face a crisis. However in Zimbabwe no matter how many banks are troubled because of the multiple currency regime the central bank is not able to provide liquidity to the economy through its lender of last resort function. Therefore the study seeks to find ways in which the central bank can contribute or implement for the improvement of liquidity management in the economy, (Humphrey and Keleher, 2002).

2.7 Monitoring and Examination

According to the Bank of Japan 2000, to prepare for the appropriate provision of the Bank's credit including the function of the lender of last resort, the Bank conducts "on-site examinations" and "off-site monitoring" with respect to financial institutions' business and financial conditions. In doing so, the liquidity risk situation and its management system are important items for research and analysis. In conducting on-site examinations and off-site monitoring, the Bank utilizes various kinds of information. For example, financial data of financial institutions, settlement developments through the Bank's current accounts, and various kinds of knowledge, information, and data about the economy and financial markets obtained through the conduct of monetary policy and central banking operations. As a result, the Bank can accurately gauge the liquidity risk situation of counterparty financial institutions, and promptly address the problems. This could be very helpful if done in Zimbabwe however there seem to be a challenge of getting funds for this monitoring and examinations.

2.8 Bank Supervisory Role

Humphrey and Keleher, (2002) state that current practices in most partially dollarized countries are not effectively addressing the vulnerabilities of dollarized environments. This shortcoming stems from two sources. First, many highly dollarized countries fall short of fully implementing The Basil committee on Bank Settlement guidelines for the management of key risks. Second, few supervisors have taken provisions to ensure that the adequate buffers are in place to cover the higher solvency risks of these banking systems. Many countries have implemented measures to achieve adequate protection from foreign exchange and liquidity risks, but few have sought to ensure adequate protection to cover currency-induced credit risks. In Zimbabwe these buffers are not set and banks are struggling to get them as it is a liquidity constrained environment.

Humphrey and Keleher, (2002), gave two elements that could help towards implementing better supervisory practices in managing liquidity management in a partially dollarized economy. The first element entails the implementation of risk-based supervision, along the lines of the Basel Core Principles for Effective Supervision (BCBS, 1997) and the guidelines for the management of credit, liquidity, and market risks, and taking into account their implications for highly dollarized financial systems. The guiding principle behind this is that the responsibility for managing risks lies in banking institutions.

However, supervisors can use their powers to induce banks to better manage their risks by setting high standards for risk management. In a dollarized environment, this implies that the supervisory processes should seek to ensure that banks adequately manage all their risks, including currency-induced credit risk and liquidity risks of a systemic origin. These aspects are frequently overlooked by supervisors of highly dollarized countries. This could be very useful in Zimbabwe to improve liquidity management because the central bank is operating under a tight budget the cash to do ongoing supervision is not available to ensure that the banks are adequately managing their risk. This is why it was found out just when Interfin was going under that it was having problems and there was no proper liquidity management (Bank Supervision on Bank Settlement).

The second element as stated by (Humphrey and Keleher), requires that supervisors ensure that banks have adequate buffers to protect their solvency and liquidity from these risks, including a reasonable protection for large low-probability shocks. These large shocks would be left largely uncovered if unregulated and could have serious consequences, not only for individual banks, but for the banking system as a whole and, thus, for financial stability. Reasonable buffers should be calculated based on an assessment of the shocks that could occur and their potential impact on bank solvency and liquidity. The main goals would be to compensate for the underlying distortions that lead to the underpricing of risks, as close as possible to their source and to induce agents to better internalize and price the risks of operating in a dollarized environment. Minimum capital and provisioning requirements should be used to create the reasonable buffer to protect banks solvency from all credit risks, including currency induced credit risks. In turn, minimum liquidity standards are recommended to create a buffer for liquidity risks. The banks are however facing challenges raising the minimum capital required and most are going under some being placed under curatorship. Mergers would be a solution for the banks as this will increase their capital base.

2.8 Chapter Summary

Chapter two discussed relevant literature and reviewed such in the context of the central bank's role in liquidity management and theories for liquidity management by banks. Theories and empirical findings were incorporated in an argumentative way. The next chapter takes a look into the methodology to be used for the study and the various tools which will be employed.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter looks at the research methodology as a way of systematically solving the research problem. It is designed in such a way that the requisite data can be gathered and analysed to arrive at a solution for the problem that influenced the research project. It starts with the research design and explanation about methodology that was applied and methods and tools used to perform this research.

3.1 Research Design

A descriptive research design was used in this study to establish the effects of board independence on liquidity risk management. This design was used in order to show the relationship between board independence and liquidity risk management in the banking sector in Zimbabwe. The descriptive research design was used to obtain first hand data from the respondents so as to formulate rational and sound conclusions and recommendations for this study. It also allows the researcher to gather information about the current existing conditions in the banking sector to do with board independence and liquidity risk management. This will allow the researcher to draw up reliable results within a short period of time given.

3.2 Research Population

The research population was defined as all the commercial banks in Zimbabwe, in particular the Risk managers. These are the custodians of all management risk policies and are the champions of risk management. The unsure that their banks are in compliance with the requirements of the risk management policies. The board members of these banks will also formulate the population. These are idea as they are the highest decision makers in any bank. They are also custodians of all bank policies and strategies. Company secretaries from these commercial banks will also make up the population. These are strategically positioned to guide the banks legally including issues to do with corporate governance. From the Reserve bank of Zimbabwe the researcher will also use Divisional chiefs in the bank supervision departments. These will be necessary because of their expertise in bank supervision. They will have all information on bank compliance issues including all policies and requirements of the banks.

3.3 Research Sample

The sampling method used was a combination of non-probability judgemental and purposive sampling. These approaches were selected because they enabled the researcher to use her judgment to select cases that could best answer the research questions and meet the research objectives. The cases in this study are informative and enabled the researcher to undertake an in-depth study which focused on a small sample selected purposively. The researcher therefore selected the following financial institutions for the study; Stanbic, Standard chartered, NMB, MBCA, Allied, and Metbank, FBC, AfriAsia, Barclays bank and The Reserve Bank of Zimbabwe. Senior Managers and board members from these banks were selected as shown on table 3.1.

Table 3.1 Research Sample

Department/ Position	Male	Female	**Total**
Risk	10	2	**12**
Legal	3	4	**7**
B.M	5	1	**6**
D.C	5	0	**5**
Total	**23**	**7**	**30**

3.4 Data collection Method and Research instruments

Both primary data and secondary data sources were used for this research. The data was collected as first hand data specifically for this research to solve the research problem. This data collection method also helped the researcher with information that was pertinent to the problem. The data collection instruments that were chosen were questionnaires, in-depth interviews and Desktop research. The questionnaires were distributed in person whilst some were emailed to the respondents.

3.4.1 Questionnaires

A questionnaire is a document containing a list of questions or statements to which an individual is asked to respond in writing. Questionnaires were used as they are the best way of soliciting information from literate people such as bankers. The questionnaire is a list of questions, which provide a relatively fast and effective method of obtaining information. The questions used in this case were mainly closed and required that the respondents select answers among the provided responses

The self-administered questionnaire as a method of collecting data is cheaper than mail and telephone interviews; it saves time and avoids problems such as bias associated with the interviews. It enables the researcher to collect data from many people in a relatively short time. It gives the respondent more time to think about the questions asked. They are easy to administer to respondents. Questionnaires were handed out to respondents for completion during the respondent's own time. It is because of the easy administering of this technique which prompted the researcher to adopt the questionnaire as the preferred data collection technique for employees of banks. However the questionnaire lacks validity because the researcher has no control over who fills in the questionnaire. Respondents can consult each other or ask other people, who are not the ones selected through purposive sampling, to fill in the questionnaire for them, thus affecting the reliability of the research findings. Questionnaires are also shallow hence they fail to dig deeply enough to unveil the truth. If instructions are not clear respondents will not know what is required as there is no room for further probing. To curb these limitations in the questionnaire the researcher also used the in-depth interview technique.

3.4.2 In-depth Interview

An in-depth interview, is viewed as a face to face questionnaire. An interview is therefore a verbal interaction between individuals where the interviewer solicits for specific data. The researcher intended on conducting a total of ten (10) interviews. These would comprise of three (3) risk managers, four (4) board members and three (3) divisional chiefs. In the interview, the interviewee come face to face and assessment is made to what the respondents really mean. The Interview was flexible and adjustable in that the questions could be repeated, rephrased and classified and there was room for further probing. Respondents had the chance to ask questions and seek clarification on issues they were not sure of. Through the in-depth interviews the researcher was able to observe facial expression and gestures thereby getting an insight into the real feelings of the respondents. The technique enhanced chances of the interviewer to collect non-verbal information from respondents. However the respondents can feel uneasy and adopt avoidance tactics if the questions are personal. The researcher tried to minimize this by being careful when asking questions and avoid invading respondent's privacy by asking personal questions. Incorrect responses may be given for such as suspicion, indifference, lack of motivation, lack of knowledge and wanting to please the interviewer. Clarifying the purpose of the interview and making the interviewee feel at home might help maintain and minimize this problem

3.4.3 Desktop Research

Desktop research was used to gather information on the current liquidity positions of banks and on the current board structures of all commercial banks in Zimbabwe. Desktop research is less expensive and less time consuming. The researcher made use of literature from The Reserve Bank of Zimbabwe journals and monetary policy statements and statements, to make an analysis of these banks. The aim was to build up on information on the reason topic. Desk research was also used as a way of complimenting research instruments stated earlier.

3.5 Validation and Reliability Tests

In regard to this study inquiry, the researcher used two approaches: the cognitive approach and an expert panel. The main aim of cognitive approach to pre-testing is to help identify questions that stimulate multiple interpretations. This approach allows the researcher to test for semantics or problems affecting how easily the question can be understood (Keyton 2001:182). Additionally, the expert panel approach to pre-testing was used. The researcher used experts' research methodologies to assist in improving the questionnaire.

Keyton (2001) acknowledged that because they are experts, this approach to pre-testing can pinpoint semantic problems on how questions are worded, as well as potential problems encountered with analyzing the data after the survey is complete. A pilot study is a small preliminary study conducted before the main research in order to check the feasibility or to improve the design of the research.

Harper Collins (2000) defines a pilot study as “a small-scale experiment or set of observations undertaken to decide how and whether to launch a full-scale project”. A pilot study is important because it enables the researcher to come up with strong data collection tools that could be replicated under different settings and situations.

It is the extent to which an instrument measures what it is supposed to measure. Validity focuses on how well the instrument compares with external variables considered to be direct measures of the characteristic or behaviour being examined. Validity is often used to indicate whether the instrument, on the face of it, appears to measure what it claims to measure.

To do away with cases of ambiguity of the research instruments as well as irrelevant questions in the questionnaire, the researcher carried out a pilot to perfect the research tools by removing unnecessary questions and simplify questions which were not clear. Shutleworth (2009) defines reliability as a way of ensuring that any instrument used for measuring experimental variables gives the same results every time the research is carried out. To guarantee reliability of the research instruments, the researcher has ensured that the measurement tools sought to gather accurate and precise data in a consistent manner.

3.6 Data Analysis and Presentation

Data collected from the above mentioned sources will be processed by means of tables, charts and graphs to enhance clarity of the findings. The data collected was collated, coded, edited, summarized and interpreted. Coded data was tabulated for presentation as findings. Simple descriptive statistical analysis was employed. This involved use of a correlational test to establish the relationship between board independence and liquidity risk management. The researcher made use of figures, and percentages to describe the responses on relevant issues that emerged from the research and also use of tables, charts and graphs to enhance clarity of the findings.

3.7 Ethical Considerations

The data gathered by the researcher will be strictly used for this research project only. The researcher is well aware of the ethical considerations that go with a research project to do with human beings. The researcher was warned beforehand by prior researchers of the ethical treatment of research participants. The subject's rights were safeguarded throughout the research process, (Cooper & Schindler, 2009). In this regard, all the information that was supplied to the researcher will remain confidential and will be used only for the purpose of this study. The researcher notified the respondents of the purpose of this study on the introduction part of the questionnaire. The data collected was not being tempered with in any other way other than the purpose of analysing and interpreting it as discussed above.

3.8 Chapter Summary

This chapter looked at the research methodology. It detailed how the research will be designed. The researcher stated how the sample will be drawn from the target population. Data collection instruments and the procedures followed to collect data were highlighted. The chapter also looked at validity and reliability of research tools. A pilot study was conducted. Sources were stated and discussed. Formatting for data analysis and presentation was also discussed

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CHAPTER 4

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.0 Introduction

This chapter discusses the presentation of data, analysis and interpretation of findings of the study. These findings are analysed from the in-depth interviews and questionnaire distributed to various banks. The findings are presented graphically**,** using tables and pie charts.

4.1 Analysis of Response rates

Out of the thirty (30) distributed questionnaires twenty seven (27) were completed as per the researcher's request and three (3) were not returned. This makes it a ninety (90%) percent response rate. This is considered a high retention rate, making the results of the study valid and reliable. This was highly attributed to follow-ups through phone calls, visits and reminders sent through emails. Table 4.1 summarises the response rate.

Table 4.1 Summary of questionnaire responses

Respondents by group	**Questionnaires distributed**	**Responses Received**	**Response rate %**
Risk Managers	12	12	100
Company Secretaries	7	6	85
Board Member	6	5	83
Divisional Chiefs	5	4	80
Total	**30**	**27**	**90**

Source: Survey

Most of these questionnaires were sent via email to enable ease of follow-ups. These were done through the use of a return receipt, which enabled the researcher to monitor the actual number of questionnaires received and read. Reminders through emails were sent periodically to outstanding respondents. The researcher was privileged in that, during the period of research, she worked for one selected bank and found the distribution ad follow-ups of questionnaires easier and also made use of the connections through branch managers in Gweru, and this increased the response rate. Only a few were delivered as hard copies.

The researcher also conducted successful in-depth interviews, where the interactions with the interviewees helped in which that needed further elaboration. The researcher's intention was to contact ten (10) interviews, but due to other commitments by the intended interviewees only eight (8) where successful. This is eighty percent (80%) response rate, which is considered quit good. The summary of the in-depth responses are tabulated in table 4.2.

Table 4.2 Summary of Interview Responses

Respondents by Group	**Intended Interviews**	**Successful Interviews**	**Response Rate %**
Risk Managers	3	2	66
Board Members	4	4	100
Divisional Chiefs	3	2	66
Total	**10**	**8**	**80**

Source: Survey

4.2 Data Presentation and Analysis

4.2.1 Importance of board Independence

Results from the survey on the importance of board independence in the banking sector, showed that ninety-eight (98%) percent managers, felt that board independence was important in the banking sector and only, two percent (2%) felt it was not important. This concurs with the views by Muranda (2006), when he stipulates that, lack of board independence inadvertently creates an epicentre for corporate governance failures. Good corporate governance is an outcome of cognitive processes and space for application. Without space for acceptance and adoption of board member contributions, board effectiveness collapses. (Muranda, 2006). Similar results were found by Gordon, (2006). He concluded that, a board that includes members truly independent of mind is more likely to be vigilant about the reliability of the information provided to financial markets and to act quickly to replace an under-performing chief executives (Gordon, 2006).

4.2.2 Existence of Board Independence

Having confirmed the importance of board independence as per the findings above, the researcher further established whether board independence is being observed in the banking sector and the results were as shown in Figure 4.2.2 below;

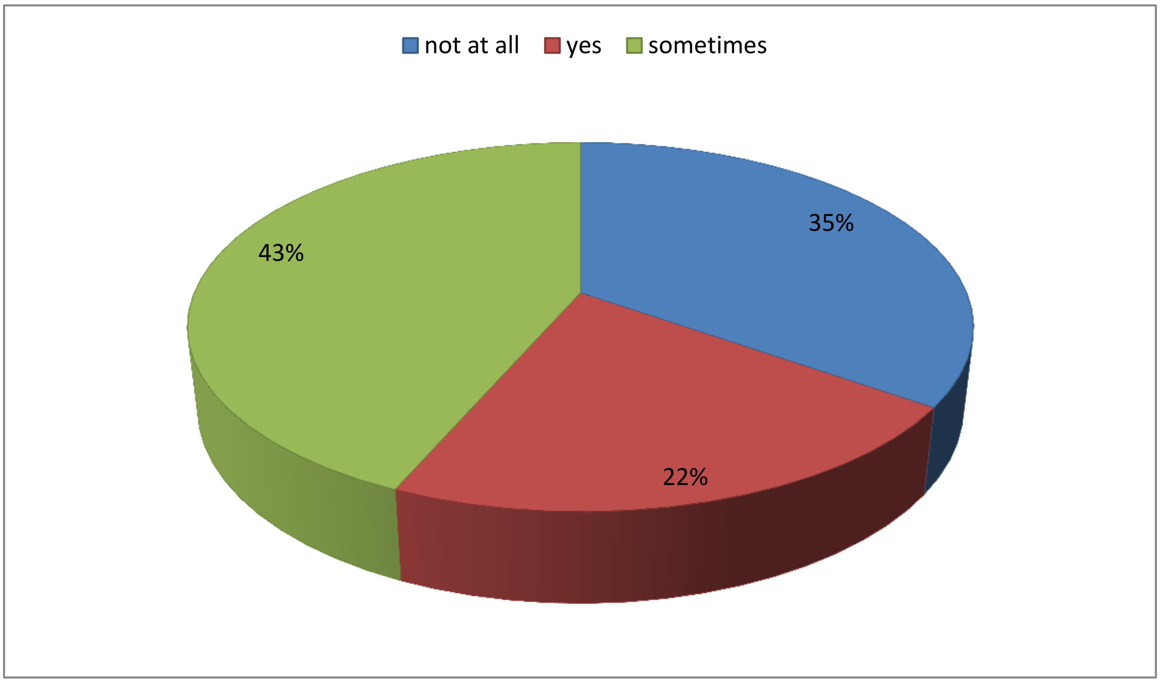


Figure 4.2.2 Existence of Board Independence

Forty-three percent (43%) of managers indicated that board independence is sometimes observed in the banking sector. Thirty-five percent (35%) felt that board independence was not at all observed, whilst twenty-two percent (22%) believed that board independence was being observed. The results show the varying views or uncertainty as to whether board independence was being observed. The interesting scenario was incidents where managers from the same bank would have different views on whether board independence was observed. This is an indication of failure by banks to clearly state their position with regards to corporate governance issues. It becomes strange when senior bank managers, who are meant to have clear understanding of the bank’s position, do not know where their banks stand. Some researchers have attributed the failure by banks to observe board independence to complexities associated with corporate governance in the banking sector. They believe the special nature of banking means a more complex governance system to address more complicated agency problems. In many developing countries, the issue of bank corporate governance is further complicated by extensive political intervention in the operation of banks through government ownership and restrictions on foreign bank entry (Arun and Turner, 2004). A related issue in developing economies which has determined how and in whose interests banks are governed is the activities of distributional cartels or entrenched interest groups. In addition, many developing countries have subjected their banking sector, to liberalisation and other reforms, adding even more to the complexity of governance issues in the sector, (Mambondiani, Zhang and Arun, 2012).

4.2.3 Ranking of board Independence

Having established whether board independence exists in the Zimbabwean banks, the researcher further established how bank managers ranked the independence of their boards and the results are as shown in figure 4.2.3 below;

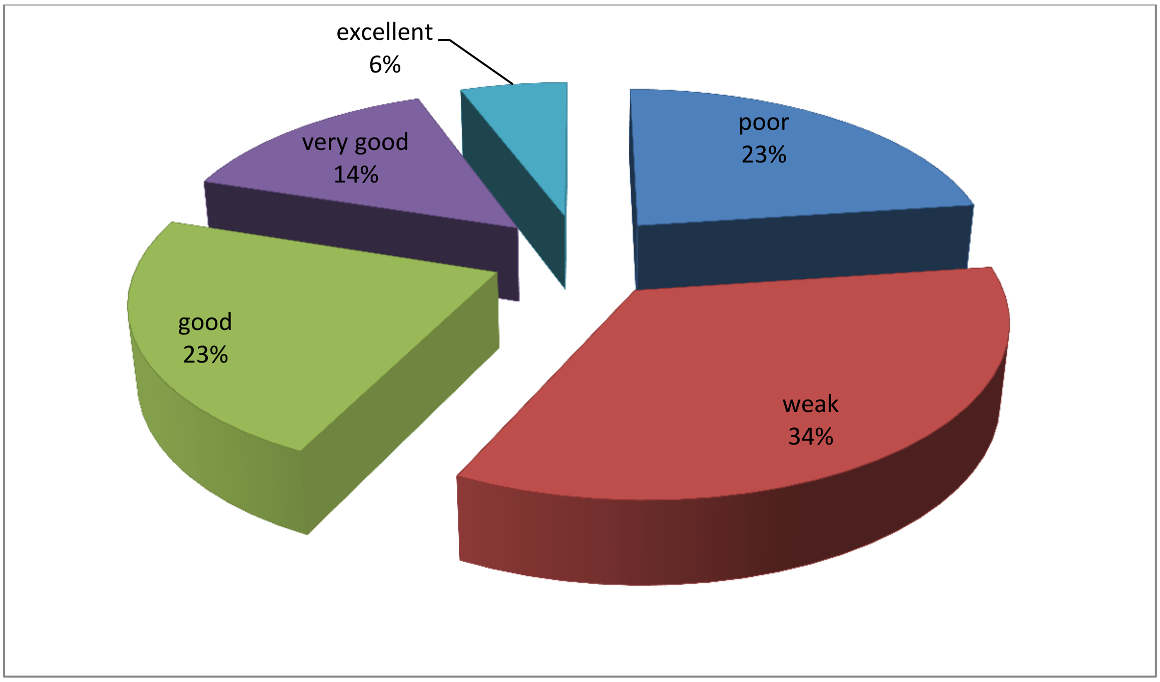


Figure 4.2.3 Ranking of Board Independence

Thirty-four percent (34%) of the managers felt that the independence of their board was weak, in other words it is non-existence. Twenty-three percent (23%) said it was poor, another twenty-three percent (23) said it was good, fourteen percent (14%) felt it was very good whilst only six percent (6%) ranked it as excellent. Generally most managers ranked their board independence as poor. This is seen by the total of sixty-seven percent (67%) of the negative results. This further elaborates on the fact that board independence was non-existent. This results concur with a case study carried by Muranda (2006), where he was investigating the following variables, Ownership structure, board Independence, corporate ethics, board decision making process, regulatory authority response and organisational system adequacy. He was investigating on these corporate governance attributes in the context of financial distress in Zimbabwe. He did a case study of eight (8) financial institutions that went into a financial distress. His results show that of the eight financial institutions under study, only one had a semblance of board independence. He called it a semblance because the reaction time by the board was immediate to the problem. The other seven financial institutions whose board independence was viewed through the role of non-executive directors was concluded to be almost non-existent. Muranda (2006), further concludes that Lack of board independence inadvertently creates an epicentre for corporate governance failures. Good corporate governance is an outcome of cognitive processes and space for application. Without space for acceptance and adoption of board member contributions, board effectiveness collapses.

4.2.4 Effect of Board Independence on Liquidity Risk Management

The topic under study is to establish if there is a relationship between board independence and liquidity risk management. In an effort to establish this relationship the researcher had to investigate the effect of board independence on liquidity risk management and the results of the survey are indicated in figure 4.2.4.

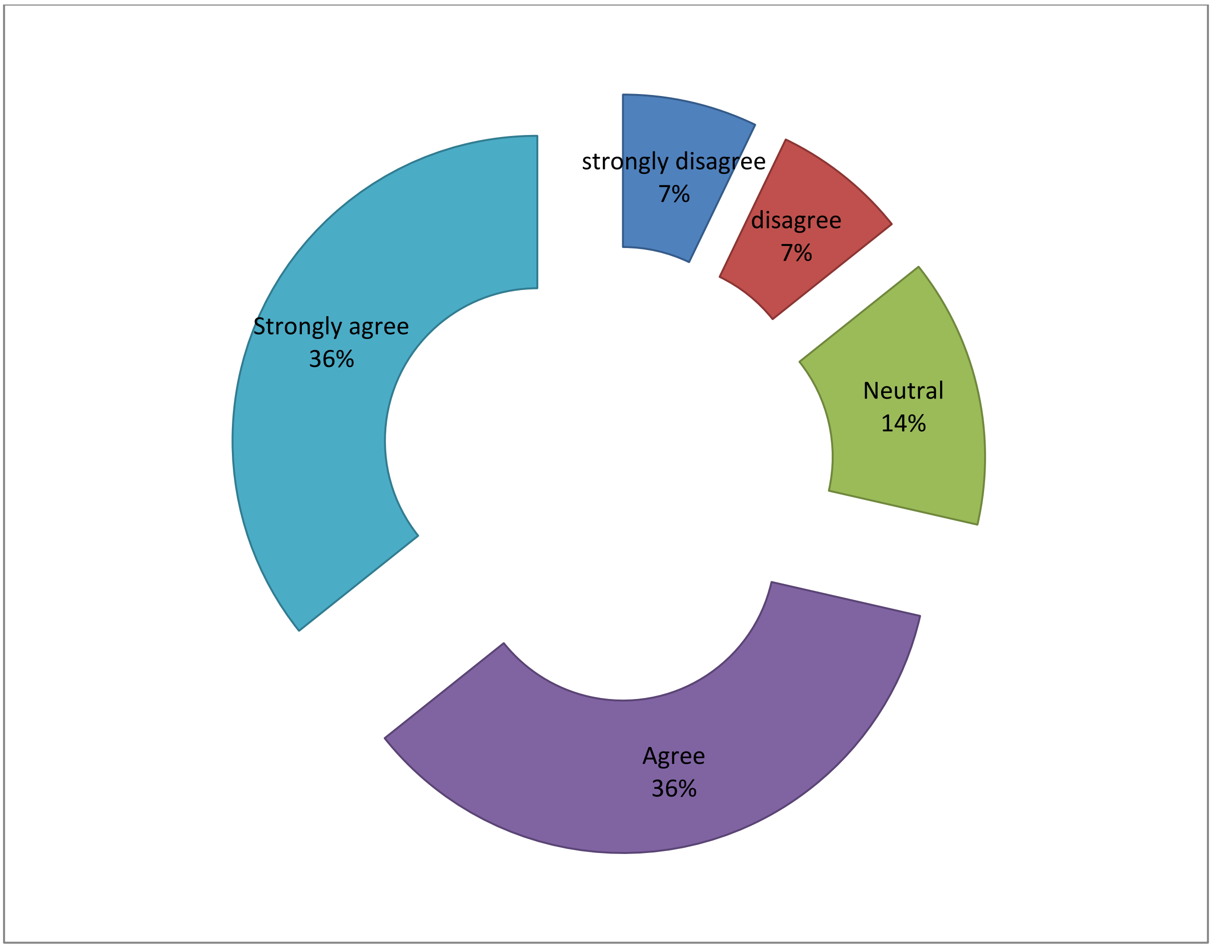


Figure 4.2.4 Effect of Board Independence on Liquidity Risk Management.

Thirty six percent (36%) of the managers strongly agree that board independence does have a major influence on liquidity risk management. Another thirty six percent (36) agree, whilst fourteen percent (14%) are neutral, seven percent (7%) disagree and another seven percent (7%) strongly disagree. The results show that most of the managers agree that board independence is important in liquidity risk management the only difference is in the level of importance, which is varied by the extent of the agreement. Nam and Lum 2006), further elaborate on how board independence affects liquidity risk management when they state that, firms as complex as banks rely not just on external corporate governance to discipline managers, but also on the internal governance mechanisms to show the commitment of bank managers and equity owners to depositors. The Basel Committee on Banking Supervision (2008) emphasizes the role of the board of directors in the internal governance system. Nam and Lum (2006) further suggests that board size, composition and activity affect the board's effectiveness, which in turn affects bank value. Similar results were found by Nyamongo and Temesgen (2013), where he established a relationship between independent directors and return on assets. The results showed that on average, in the baseline model the estimated coefficient of independent directors is positive. Introducing other variables in the model yields results that are positive and significant at conventional levels. This evidence therefore supports the notion that the higher the number of independent directors, the greater will be the return on assets and hence a sound liquidity position.

4.2.5 Governance in the Banking Sector.

In trying to establish the role The Reserve Bank of Zimbabwe has played in promoting corporate governance the researcher investigated on whether The Reserve Bank had done enough. The results are shown on figure 4.2.5 below;

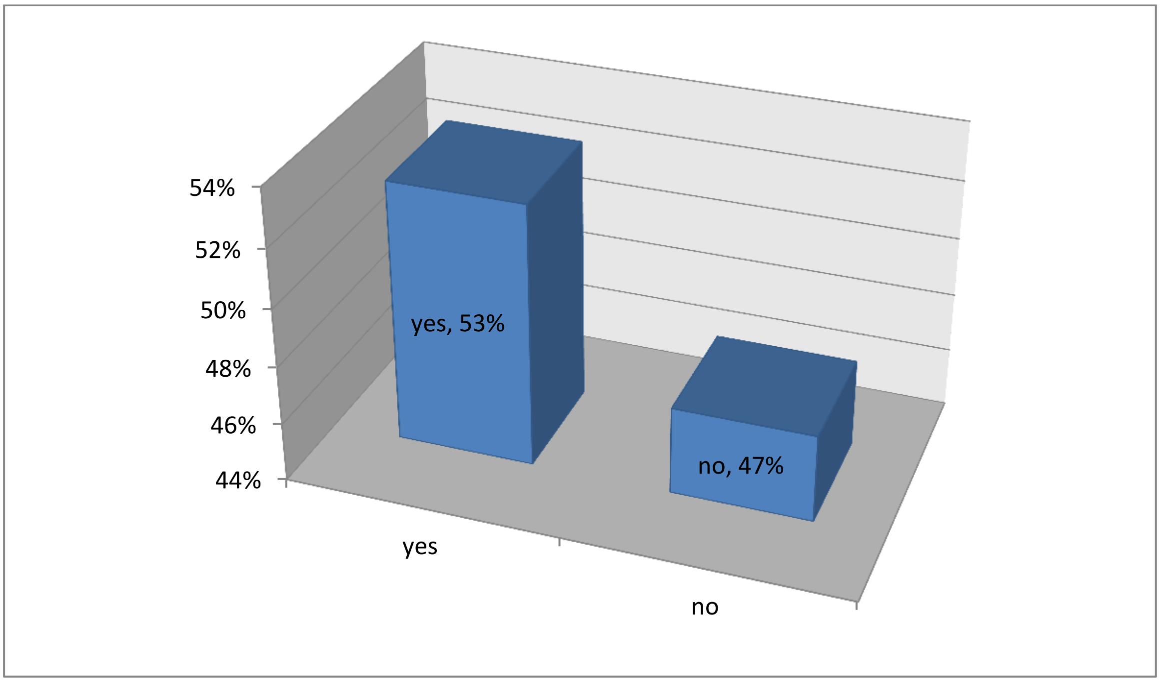


Figure 4.2.5 the Role of the Reserve Bank of Zimbabwe in Promoting Corporate

Fifty-three percent (53%) of the managers interviews said yes, whilst forty-seven percent (47%) said no. This question is further elaborated in the in-depth interview to probe on what has been done and also what could have been done from those who said no. Mambondiani, Zhang and Arun(2012) contributed to the issue where they concluded in that, bank founders in private indigenous banks were required to reduce their shareholding by The Reserve Bank and some were forced out of their companies under varying pretexts. New regulation required that shareholding by any individuals must not exceed 10 percent of the bank's shareholding. They also felt that the ownership regulations have not always been forcefully enforced and it is unsurprising that some banks have found ways to get round this regulation. These regulations were intended to improve corporate governance through a shift from owner-controlled to manager-controlled banks. Makoni (2011) is of the view that enough has been done by The Reserve bank but was not really effective. His views are that best the international best practise being referred to by The Reserve Bank of Zimbabwe under the OECD guidelines on corporate governance cannot be generalised.

4.2.6 Drivers of Bank Failures in Zimbabwe

To establish the major causes of bank failures in Zimbabwe, from the views of the banking professionals, the researcher had the results as stated in figure 4.2.6 Responses above show that forty percent (40%) of responses attributed bank closures to Liquidity challenges, thirty percent (30%) to Corporate governance issues. The two attributes account to eighty percent (80) of the total responses. Muranda (2006) confirms the results above, when he concluded that high turbulence has been recorded in two sectors, i.e. commercial banks and discount houses. In both instances inadequate capitalisation and unsatisfactory corporate governance practices appear to have played a major role. Daily and Dalton (1994) have also provided evidence that the likelihood of bankruptcy is related to corporate governance characteristics. They found this by comparing healthy firms with firms that have already entered bankruptcy. Financial distress has also been noted to create opportunities for a beneficial reallocation of resources, within the firm through the use of corporate governance mechanisms. Such reallocation can enhance the likelihood of firm survival (Muranda, 2006).

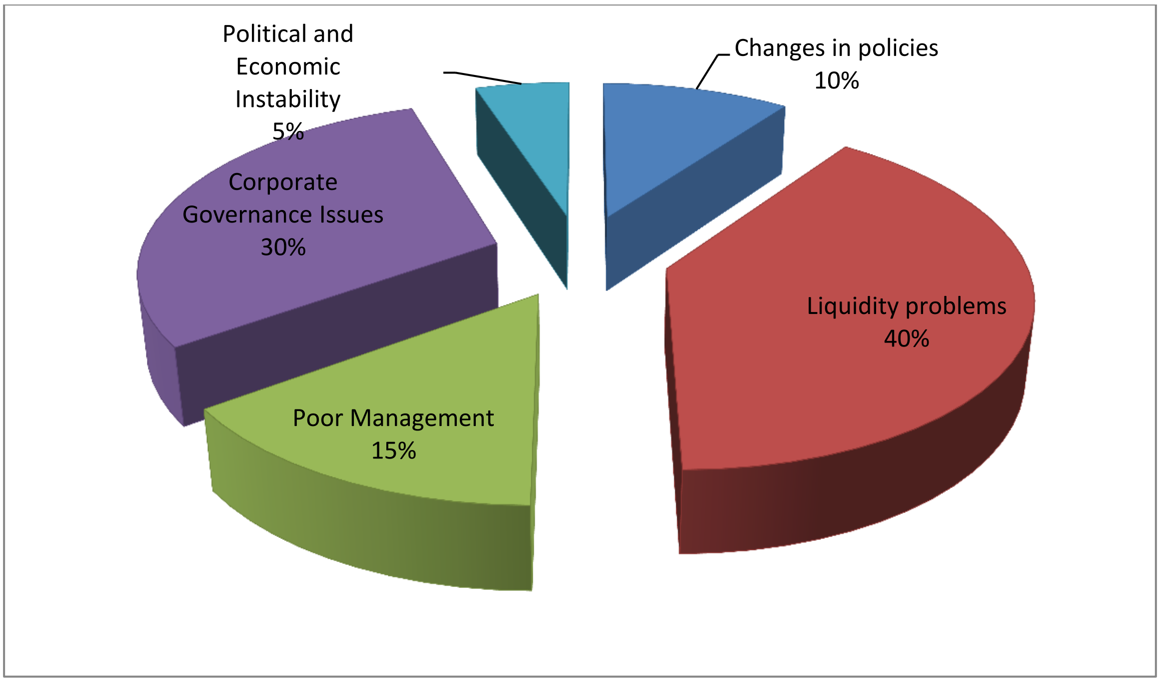


Figure 4.2.6 Drivers of Bank Failures in Zimbabwe

The Reserve Bank of Zimbabwe in its analysis of the causes of bank failures in 2003/4, does state, amongst other reasons, that corporate governance issues and inadequate capitalisation of banks were the major causes of bank failures. It is this reason that The Reserve bank, directed that all owner managed banks, change their board composition to ensure a larger percentage of non-executive directors. In the same policy The Reserve bank ordered all bank owners who were also involved in the running of banks, to either give up their shares or their positions in the banks.

4.2.7 Board Independence and Bank failures

The researcher wanted to establish if the bank professionals in their capacity as board members, risk managers, company secretaries and divisional chiefs understood what board independence really meant. Eighty percent of the respondents articulated board independence well, fifteen (15%) had a relative good idea and five (5%) where not very sure. For those who knew very well what board independence was tried to emphasise the point that company operations have to be separated from control. If a company fails to separate this, then it means there is no board independence. One respondent went on further to say that an independent director is independent of management and is free of any interest or any other kind of relationship. The board therefore becomes a key mechanism to monitor managers' behaviour to ensure that their decisions are in line with the wishes of shareholders. Where any other kind of relationship exists, such monitoring will be compromised. A total of eighty percent (80%) of the respondents new that board independence had to do with proper board composition.

All the managers interviewed believe board Independence is of vital importance in the financial sector. They believe that the financial sector is a custodian of people's savings, they are entrusted with such responsibility by the entire nation and are therefore expected to ensure safety of such funds through the practice of good corporate governance. Some believe bankers set the pace of an economy and the rest of other industries and are therefore, more than any other industry expected to ensure good corporate governance is observed at all cost. In a country like Zimbabwe where there is no corporate governance code to guide company operations and external forces are not favourable to business operations, the board of directors' acts as an internal corporate governance device to ensure good corporate governance is in place.

On the issue of board independence and company performance, the general feeling was that, there is a positive relationship between board independence and company performance. This is in line with the view by Rachinsky and Love (2006), which stipulates that, an independent board results in higher interest income and lower interest expense, with the net effect of significant relationship to net interest income. This also falls in place with the notion that better governance systems allow banks to cut the expenses and gain from higher interest rates on loans. Whilst board Independence is vital in the performance of a company there are also other elements that contribute to company performance.

4.2.8 Comparison of the extent of board independence of local Banks to Foreign Owned banks

In comparing the extent of board independence of local banks to International banks, the interviewees brought about interesting observations. They indicated that foreign banks, due to the fact that they are subsidiaries of international banks, their operations where of international standards. They believe such banks are more sensitive to board structures and ensuring an independent board because it is an international requirement from their mother boards. This also evidenced in (table 4.2) above, on board structures of banks, where most if not all banks with foreign ownership or directors have a larger number of non-executive directors than the local banks. This is also consistent with the findings by Choi, Hasan and Waisman (2009), when they documented a strong positive association between outside directorships, in general, foreign ownership, foreign directorship and bank performance. Their results suggest that even the mere existence of a foreign owner is important while the extent of foreign ownership has a significant effect on performance, and that the involvement of foreign board members in the local board is associated with significantly higher returns as well. They also concluded that banks with a combination of foreign owners and directors on the board are associated with a strong performance, (Choi, Hasan, and Waisman, 2009).

4.2.9 Reasons for the continued failure of banks in Zimbabwe

To further elaborate on this question which was asked earlier, managers had different views though a larger potion did concur with the results of the questionnaire, that corporate governance issues and inadequate capitalisation are the major contributors of bank failures. They felt that failure to adequately capitalise banks is common in indigenous banks. This is mainly because local owners do not have the capacity to raise the capital required for bank operations. Comparisons where made with the international banks and they indicated that they these are sufficiently capitalised since they have operated for a longer period with an international base and therefore can be easily supported by their international resource. In contrast local banks are only relying on local funding which is already strained by the economic environment. They felt the level playing ground of international banks and local banks cannot be compared. A few of the managers agreed with the views by (Makoni, 2011), who felt that corporate governance issues are not the reasons for bank failures, as there is currently no evidence in all the research on corporate governance and bank performance, that has proved that there is a relationship. He also sights that best practice is not generalizable and that Worldwide there are numerous examples of banks with owner managers e.g. Sandy Weil, was a major shareholder and CEO of Citicorp, with strong managerial control, for years. (Makoni, 2011).

4.2.10 Liquidity Risk Management

Most managers where able to define what they understood by liquidity risk management. Which is defined according to the Basel Committee on Bank supervision (2008), as the ability of a bank to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses. They say that effective liquidity risk management helps ensure a bank's ability to meet cash flow obligations, which are uncertain as they are affected by external events and other agents' behaviour. Other managers managed to give the definition in terms of liquidity risk which is in agreement to The Reserve bank of Zimbabwe (2008) that liquidity risk, involves the inability to fund increases in assets, manage unplanned changes in funding sources and to meet obligations when required, without incurring additional costs or inducing a cash flow crisis. Primarily, an effective and strong liquidity risk management policy and framework will ensure that a bank has sufficient liquid assets to meet liabilities that fall due in the short term and to meet any unexpected demands for funds by its depositors or creditors. The effectiveness of a bank's liquidity risk management will determine the extent to which the institution may be subject to cash flow crisis and additional costs (The Reserve Bank of Fiji, 1995).

4.2.11 Liquidity Risk Management Policies

In response to the question on whether Zimbabwean banks have well defined liquidity risk management policies eight-three percent (83%), managers indicated that their banks had well defined liquidity risk management policies and only seventeen percent (17%), indicated they did not have. The Basel committee on bank supervision (2008) requires that all banks must have well defined liquidity risk management policies that are known to every staff member. This is a major requirement of all bank operations. It is surprising to find out that there are some banks that are still not compliant of this basic requirement world over. Further probing on what level the banks that have this framework are on, showed that, most Zimbabwean banks on currently on Basel 11. The highest level or the latest level in the first world countries is Basel 111.

4.2.12 Causes of Liquidity Problems in Banks

Having established that a good number of banks do have well defined liquidity risk management policies, the researcher then further asked on what the managers thought were the major challenges to liquidity crisis in the banks in Zimbabwe, and what measures could be put in place to manage this challenge. Figure 4.6.2 below, shows responses to the major attributes of liquidity problems in the Zimbabwean banks. Thirty five percent (35%), of respondents attributed it to inadequate internal controls, while thirty percent (30%), attributed it to poor corporate governance and twenty percent (20), to poor decisions by the board. The three contributed a total of eighty five percent (85%) of the total respondents.

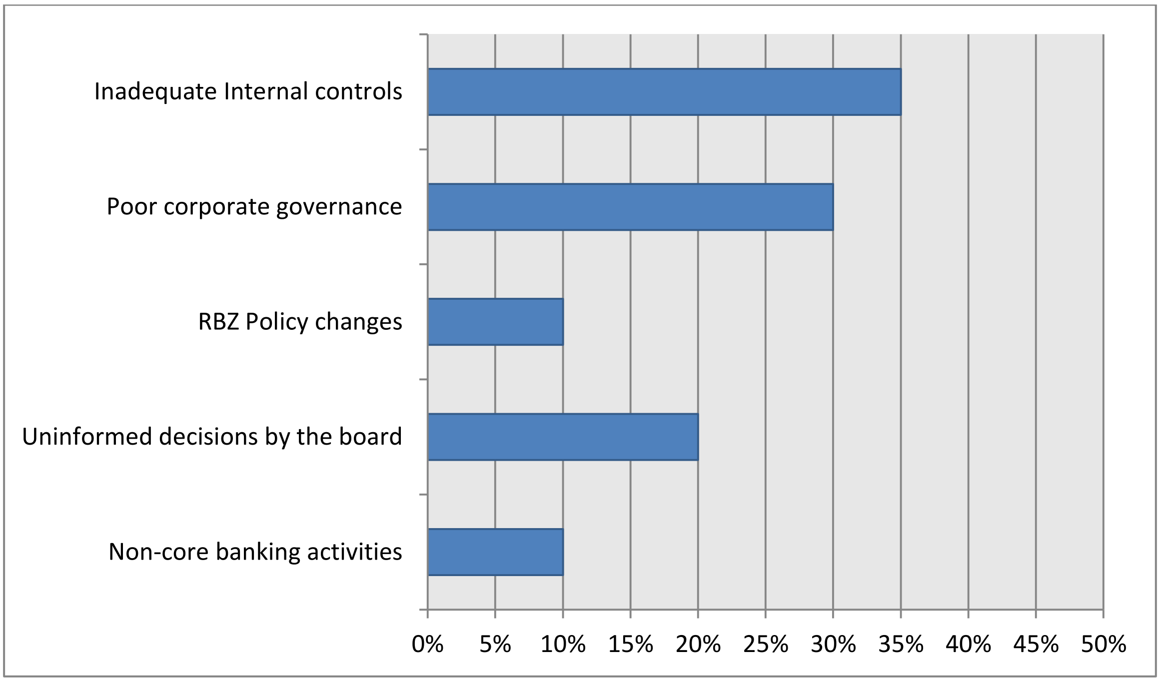


Figure 4.2.12 Causes of liquidity problems in the banks

All the three major contributors, that is inadequate internal controls, Poor corporate governance and uninformed decisions by the board can all be associated with board failures or corporate governance issues. Poor governance resulted in failure to manage internal controls and therefore causing liquidity risk problems.

Mambondiani, Zhang and Arun (2012), concur with these findings when they confirm that firms as complex as banks rely not just on external corporate governance to discipline managers, but also on the internal governance mechanisms to show the commitment of bank managers and equity owners to depositors. The Basel Committee on Banking Supervision (2008) also emphasizes the role of the board of directors in the internal governance system. This therefore suggests that board size, composition and activity affect the board's effectiveness, which in turn affects bank value (Nam and Lum, 2006).

After the 2003/4 bank failures, a number of analysis and reasons where given to the reasons of these failures. The Reserve Bank of Zimbabwe (2004) attributed these failures to a number of issues, which included speculative activities by the banks and corporate governance failures by entrepreneurial banks where most banks where being run by the banks' major share- holders. These bank owners blamed it on policy changes by The Reserve Bank of Zimbabwe. (Makoni, 2011). This then brought about the major changes in policies especially on corporate governance issues that were put in place by The Reserve Bank of Zimbabwe. This confirms the results of the survey on whether the central bank has done enough to promote corporate governance.

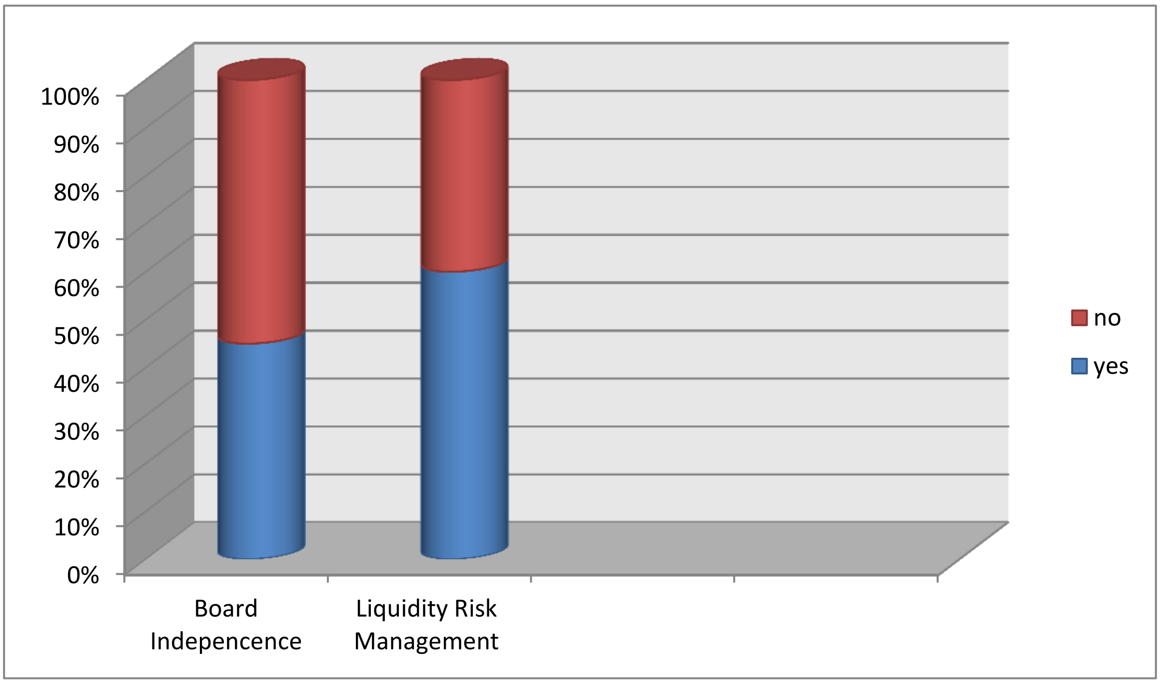
4.2.13 Measures to Control Liquidity Problems

The respondents suggested the following as measures that can be put in place by banks to control liquidity challenges;

They felt that a number of banks still lacked best practise in corporate governance. They felt that most strategic decisions in banks are made at board level. If the board lacks proper structures, even the decisions made will be affected. Adopting best practise is the first step in correcting this problem. Some respondents felt that Indigenous banks were mostly affected because they lacked implementation of proper liquidity management policies that are being implemented in International banks. Indigenous banks either did not have the resources to invest in such systems or they failed to realise its importance in liquidity risk management. Thorough monitoring activities by The Reserve Bank of Zimbabwe on liquidity risk policy implementation strategies was also a popular suggestion amongst the managers. This is also highlighted by The Darling Consulting Group (2010). They also emphasise on the importance of evaluation and overseeing of policies and procedures on an annual basis, by The Asset Liability Committee (ALCO) and the board of directors. These must also implement effective and extensive contingency plans.

4.2.14 Role Played By The Reserve Bank in Managing Liquidity and Board Independence

Figure 4.2.14 below shows responses from interviewees on whether The Reserve Bank of Zimbabwe has done enough to ensure board Independence and Liquidity Risk management policies are in place in the Zimbabwean banks. On board Independence forty five (45%), said yes, The Reserve bank has done enough and sixty five (55%) said no. When asked to further elaborate their no answer, the respondents felt that the Reserve bank had made efforts to try and implement board Independence, but had failed to enforce the policy. The implementation was seen after the 2003/4 bank closures that saw the Reserve bank, blaming these bank failures to failure by bank owners to separate control and bank operations. The ones that said yes also made reference to the same initiative of ensuring entrepreneurial directors would either seat on the boards as non-executive directors or give up their shares to run the banks. They believe before this policy was put in place, corporate governance was non-existent in the banking sector, hence the bank failures of 2003/4.



4.2.14 Role Played By The Reserve Bank in Liquidity Risk Management and Board Independence

On the issue of whether The Reserve Bank of Zimbabwe has done enough to curb the liquidity challenges in the banking sector, the results show that sixty percent (60%) said yes, whilst forty percent (40%) said no. The respondents who said yes believe that, the increase in minimum capital requirement, that was recently introduced by The Reserve Bank of Zimbabwe, is the best policy that would improve liquidity Risk management in the banking sector. They also believe that the recent closures of banks like Trust and Interfin, is a way of enforcing proper liquidity management policies, where The Reserve Bank continues to take stiff action to those banks that fail to comply. Contrary to most views by the respondents Muranda (2006) suggests that, in all instances where financial institutions have been placed under the Troubled Bank Fund, placed under the management of the curator or, liquidated, the Central Bank was reacting to a crisis situation rather than taking proactive action. It therefore means before showing signs of financial distress, the Central bank had little regard to the exercise of corporate governance in most institutions. Although the Central Bank has instruments for both off-site and on-site examination and surveillance it appears they always acted after a complete breakdown in corporate governance practices. Much as there is benefit to moral suasion, there is more to be achieved from using the regulatory enforcement to avert regulatory arbitraging by boards and management of companies. The return to stability of distressed institutions only occurs if the regulatory option is exercised at the instance when distress sets in. (Muranda, 2006).

4.2.15 Relationship between Board Independence and Liquidity Risk Management

Most of the respondents believe there is a relationship between board independence and liquidity risk management. When further probed on how this relationship is, they attribute it to decision making at board level, which affects the operations of the banking institution. They believe that the structure of the board affects its decision making, the more independent the board is the more thorough are its decisions. This is confirmed by (Nyamongo , Temisgen, 2013) in their analysis of corporate governance and the Banking sector in Kenya. They concluded that, the higher the number of independent directors, the greater will be the return on assets. Their finding supports Young (2003), Liang and Li (1999), Fama (1980), Fama and Jensen (1983), where it is shown that enhanced director independence, is intuitively appealing and is associated with higher return on investment. This finding therefore supports agency theory, which contends that a greater proportion of outside directors will be able to monitor any self-interested actions by managers and so will minimize the agency costs. Therefore it is expected that a higher level of independent directors will be positively influence liquidity. To further investigate the relationship between board independence and liquidity risk management. A survey of board profiles of banks was done and their liquidity positions as on table 4.2.15. It shows the results of the survey done to establish the board structures of the eleven (11) sampled banks. The percentage column shows the percentage of non- executive directors to the total size of the board. The results show that whilst all banks except The Reserve Bank of Zimbabwe have more non-executive directors, only four have a percentage of at least sixty percent (60%) non-executive directors. Wu, (2009), mentions an important function of the board is to reduce agency cost and handle conflicts that cause the separation of ownership and management. This is ensured by having a higher number of non-executives directors. In his investigation on what makes a good board (Wu, 2009), concludes that an independent board is one of the major characteristics and a board is independent when it has more non-executive directors. It is however interesting that, The Reserve Bank of Zimbabwe which is meant to be the controlling body of financial institutions actually has failed to lead by example and have board independence in its own board. Most of the banks, according to the results above have shown to have independent boards, but the question however is, “are they really independent”?

Table 4.2.15 Relationship between Board Independence and Liquidity Risk Management

BANK	BOARD SIZE	EXECUTIVE DIRECTORS	NON-EXECUTIVE DIRECTORS	% NON-EXECUTIVE DIRECTORS	LIQUIDITY LEVEL (millions)
CBZ	10	5	5	50	111.79
StanChart	7	3	4	57	56.60
BancABC	8	4	5	62.5	38.42
Barclays	9	3	4	44	34.30
ZB	6	3	3	50	32.34
Kingdom	12	3	9	57	28.79
Ecobank	10	3	7	70	28.18
FBC	12	4	9	75	27.97
MBCA	10	3	7	70	27.14
NMB	14	6	8	57	25.01
RBZ	9	4	5	55	N/A

Source :RBZ (2013).

The Reserve Bank of Zimbabwe regulations require that banks have a minimum of five directors, at least sixty percent (60%), of whom must be independent non-executive directors.(RBZ, 2008). It is assumed, by addressing the issue of composition of the board, corporate governance is improved (RBZ, 2008). Contrary to this requirement, four (4) of the surveyed banks meet the sixty percent (60%) or above requirement of non-executive directors and six (6) do not. The Reserve Bank of Zimbabwe it's self as the regulatory body has failed to meet its own set standard. To establish if this relationship between board independence and liquidity risk management exists, a coefficient test was done and the results are shown in table 4.2.16

4.2.16 Coefficient Test Between of the Relationship between Board Independence and Liquidity Risk Management

The general statistical interpretation of correlation coefficients, a positive correlation coefficient is interpreted to mean that as the value of one variable increases, the value of the other variable increases whilst a negative correlation indicates that as one variable increases the other one decreases (Lomax, 2007). Second, the absolute value of the correlation coefficient is taken to measure the strength of the relationship between the variables. A correlation coefficient of r=0.50 or greater is taken to indicate a stronger degree of linear relationship than one below 0.50.21

The regression analysis is calculated in order to identify the existence or absence of any linear relationship between Board Independence and Liquidity risk management. The significant value of Board Independence is equal to 0.000 proving it to be significant and R is equal to 0.366 which implies that an increase in Board Influence by 36.6% increases the liquidity. The significant value of Liquidity is equal to 0.429 which is greater than 0.09 therefore it is not significant and R is equal to 0.051.

Table 4.2.16 Coefficient Test of the Relationship between Board Independence and Liquidity Risk Management

Model	Standard Coefficients				
	β	Std. Error	β	t	P-value
Board Independence	0.393	0.074	0.366	5.334	0.000
Liquidity Risk Management	0.039	0.049	0.051	0.793	0.429

a. Dependent variable: Liquidity Risk Management

4.3 Chapter Summary

The results from the above survey revealed that board Independence has a direct influence on liquidity risk management. The more independent the board the stronger the bank's liquidity position. A number of boards especially of indigenous banks are still not considered independent in every sense of the word. Whilst the Reserve Bank of Zimbabwe has made some efforts into ensuring there is independence of boards, they have failed to enforce this as a policy. Enforcement might be a challenge to the Reserve Bank of Zimbabwe since they have also failed to ensure there is an independent board for the central bank. This has as a resulted contributed to continuous liquidity challenges in the banking sector. The results also clearly showed the difference between international banks and indigenous banks from the board structures to liquidity positions.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the summary conclusions and recommendations that were derived from the research. The research objectives were achieved and all research questions have been answered. Recommendations on the way forward arising from the research are given and possible areas for further research.

5.1 Summary

The study sought to investigate the effects of board independence on liquidity risk management in the Zimbabwean banks. The study was largely prompted by the continued closure of banks in Zimbabwe and the continuous liquidity challenges facing the economy. The major concepts from the literature reviewed show that inadequacies in corporate governance issues in the banking sectors especially in the developing countries are major issues of concern. Though no confirmation of a direct relationship between company performance and corporate governance failures has been proved, the lack of it has shown to be a major contributing factor to negative company performance. (Mambondiani, Zhang and Arun, 2012). Some concepts have developed and analysed the meaning of being independent in directorship and have explored it to mean having no other form of relationship with senior management or major shareholders of the company (Allaire, 2008). The board composition has been shown as being of major importance in determining board independence, as it is expected that external directors would serve as checks and balances on executive directors and bring in expertise, objective judgement and other valuable resources (Lawrence and Stapledon, 1999) .

The key findings were that, board independence is of vital importance in the banking sector, which must be observed as a regulatory matter and enforced to ensure compliance. Failure by The Reserve Bank of Zimbabwe to enforce this has resulted in continued bad decisions by the boards of banks. The findings also show that most banks in Zimbabwe are still not observing board independence including The Reserve Bank of Zimbabwe.

The liquidity challenges that continue to affect the Zimbabwean banks are emanating from inadequacies in corporate governance issues and failure to implement risk management policies by most banks.

Finally the study demonstrated that a relationship exists between board independence and liquidity risk management. Where board independence is not observed, there is inadequate monitoring at board level due to power imbalances in board decisions, which negatively affects decisions regarding liquidity risk management.

5.2 Conclusions

From the aforementioned research findings the following conclusions were made based on the research questions;

5.2.1 Board Independence

From the survey of banks, it is clear that board independence is still not fully implemented in the banking sector. The composition of the board is the first step in analysing its corporate governance and hence its independence is equally vital. Where a board is weak it also relates the weakness to the operations. In most cases the percentage of non- executive directors is way below the sixty percent (60%) level that is stipulated by the Reserve Bank of Zimbabwe. In other cases the board might be structured as per stipulation but lack the independence that is required in every sense of the word. In other words most boards still comprise of the 'old boys' networks. The Reserve bank of Zimbabwe board is chaired by the governor. And comprises fifty five percent (55%) non- executive directors, yet it requires that banks have at least sixty (60%) non-executive directors on their boards. Clearly the issue of board independence has not been taken seriously. This as a result has weakened the Reserve bank's abilities to enforce this policy on the rest of the banks in Zimbabwe. Board independence should therefore not just a be taken as amoral concept but a regulatory.

It therefore suffices to say a board that is not independent is considered weak. It makes strategic decisions from a weak stand point. It cannot adapt to the changing demands of a competitive environment. In a bid to survive such an institution will disregard all protocols of good corporate governance,

5.2.2 Liquidity Risk Management

The survey revealed that most banks are lagging behind in the implementation of world standards on liquidity risk management policies. For the few banks that have these policies in place. They are not fully implemented. The Zimbabwean banks have still not appreciated a risk culture, the level of risk tolerance in the banks is still very low. There is no urgent need for Banks to invest in liquidity risk management programmes and this has resulted in the continuous liquidity challenges in the banking sector.

5.2.3 Reserve bank supervision and control

The researcher acknowledges the policies and extent that The Reserve Bank of Zimbabwe has put in place to ensure board independence and liquidity risk management programmes. It is however of major concern that the Central banks has failed to enforce these policies. It is therefore the reason why these polices have not yielded any results. All decisions made by the Reserve Bank of Zimbabwe on troubled banks were a reaction to a crisis situation than has already happened. A proactive position would have been taken had such decision been made by a strong board. The decisions made by the Reserve are not sensitive to corporate governance issues because they are originating from a weak board. There is therefore need for the correction of this position as a matter of urgency.

5.3 Recommendations

The study makes the following recommendations;

5.3.1 Board Independence

All banks must ensure that their boards are independent. This independence is checked in the following areas;

- The Reserve Bank of Zimbabwe must lead by example and correct the anomalies on its board of directors. These are the independence of the board and the board composition.
- As per the requirements by the Reserve bank of Zimbabwe, the percentage of non-executive directors should be a minimum of sixty percent (60%)
- The non-executive directors should have no other form of relationship with the executive directors, shareholders or management.
- Board member must be credible, in that their experience and expertise must be relevant to the specific issues and challenges of the organization.
- A director's individual credibility should be from his or her specific expertise and experience, grounded in independent thinking

5.3.2 Liquidity Risk Management

- All banks should have a clear liquidity risk tolerance that is appropriate for its business strategy and its role in the financial system.
- A bank's board of directors should review and approve the strategy, policies and practices related to the management of liquidity at least annually.
- Banks should have sound processes for identifying, measuring, monitoring and controlling liquidity risk.
- It is advisable for banks to conduct stress tests on a regular basis for a variety of short-term and protracted institution-specific and market-wide stress scenarios (individually and in combination) to identify sources of potential liquidity strain.
- A bank should have a reliable management information system designed to provide the board of directors, senior management and other appropriate personnel with timely and forward-looking information on the liquidity position of the bank. (Basel committee on banking supervision, 2008)

5.3.3 Bank Supervision

- The Reserve Bank of Zimbabwe should come up with effective monitoring mechanisms in the area of Liquidity risk management.

- The Reserve Bank should set up a corporate governance committee for banks, which monitors corporate governance issues in banks.
- Board appointees for all banks should be assesses by this committee.
- There is need for the Reserve Bank of Zimbabwe to increase their onsite bank examinations and check for full implementation of risk management programmes, instead of relying on periodic reports generated by the banks, which can be manipulated.

5.4 Suggestions for future Areas of Study

This study looked at the effectiveness of board independence on liquidity risk management in the banking sector in Zimbabwe. The lack of board independence has been explored and its effects in the management of liquidity. It is the researcher's view that further research could be carried out on the level of risk tolerance that Zimbabwean banks have in place and these can be compared to international standards.

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APPENDIX A: COVER LETTER

Midlands State University

P Bag 9055

Gweru

April 2014

Dear Sir / Madam

Re: Research on the effects of board independence on liquidity risk management in the Zimbabwean banking sector.

I am Thandiwe Kamaliza studying towards Masters in Marketing Strategy at Midlands State University. I am currently conducting a research on *the effects of board independence on liquidity risk management in the Zimbabwean banking sector*.

I would be most grateful if you could respond to the questionnaire. These responses are used purely for academic purposes. Data provided would be held in confidence.

Yours faithfully,

Thandiwe Kamaliza

Registration Number R13268E

APPENDIX B

QUESTIONNAIRE FOR BANKING PROFFESSIONALS

Instructions

Kindly Tick the answer that corresponds to the option of your choice.

To be completed by Risk Managers/ Board Members/Company secretary

Section A: Basic Information

1. Type of bank(Ownership)

   Local Bank ☐

   Foreign bank ☐

2. Indicate the year the bank was established ....

3. Designation of respondent

   Risk Manager ☐

   Company Secretary ☐

   Board Member ☐

4. Number of years of respondent within the bank

   Less than five years ☐

   Between five and ten years ☐

   Above ten years ☐

Section B: Governance Profile of Bank

5. Indicate number of directors on your institution's board

   Male ……………… Female ………………

6. Indicate number of:

   Independent Non-Executives ……………………………………

   Non-Executive Director ……………………………………

   Executive Directors ……………………………………

7. What is the maximum term of service for board members in your organization?

   …… Years

8. Do you think board independence is important in the banking sector?

   Yes ☐

   No ☐

9. How do you rank the independence of your board in decision making?

Poor	Weak	Good	Very good	Excellent
☐	☐	☐	☐	☐

10. How important is board independence in governance of banks?

Not important	Important	Relatively important	Very Important	Extremely important
☐	☐	☐	☐	☐

11. Do you think board independence has an influence on liquidity risk management?

Strongly Disagree	Disagree	Neutral	Agree	Strongly agree
☐	☐	☐	☐	☐

12. Has your bank ever been placed under curatorship?

Yes ☐

No ☐

13. What are the major contributors to bank failures?

Liquidity Challenges	Poor Management	Corporate Governance issues	Economic/political Conditions	Changes in policies
☐	☐	☐	☐	☐

14. Do you think the Reserve bank of Zimbabwe has done enough to promote sound corporate governance practices?

Yes ☐

No ☐

Section C: The Role of RBZ as the Regulator

15. From the list below kindly indicate what you consider as the key roles(s) of RBZ? (If more than one, rank them on a scale of 1-5 with 1 being the least important and 5 being the most important).

	Roles of RBZ	
A	Executing the monetary policy	☐
B	Regulation and supervision of the banking sector	☐
C	Monitoring the business community at large	☐
D	Capacity building in industry	☐
E	Act as state agent in monetary activities	☐

16. In your own opinion do you regard such measures as adequate to effectively regulate and monitor corporate governance practices in the sector? (Please tick)

No ☐

Yes ☐

17. Which supervision method(s) have been used by the RBZ on your institution and how often is each method used?

Method	**No**	**Yes**	**How Often**
Onsite	☐	☐	
Offsite	☐	☐	
Any other (specify)			

....

18. Indicate the level of prominence that is given to the area of corporate governance during an examination by the RBZ (Please tick)

- ☐ High
- ☐ Medium
- ☐ Low

19. Indicate whether at any time your institution flouted corporate governance regulations? (Please tick)

- ☐ No
- ☐ Yes

20. In your opinion, was the action taken by the RBZ adequate and effective to encourage your institution to address the violation(s)? (Please tick)

- ☐ No
- ☐ Yes

End of Questionnaire

Thank you for your cooperation

APPENDIX C

IN-DEPTH INTERVIEW GUIDE

Interview guide for the banks' chief risk officer, board Members and Reserve bank's bank supervision officials.

Section A- Board Independence

1. How would you define board independence?
2. How important is it in the financial services sector?
3. How does it affect company performance?
4. How would you describe the extent of board independence of locally owned banks in comparison to International banks?
5. What would be the major reasons for the continued failure of banks in Zimbabwe?
6. Can you make a comparison of local bank ownership and control to that of International banks?
7. Does this have any effect on company performance?

Section B – Liquidity Risk Management

8. How would you define liquidity risk management?
9. Do you think the Zimbabwean banks have well defined liquidity risk management structures?
10. If yes, what do you think are the challenges causing liquidity crisis in the banking sector?

Section C – Bank Supervision

11. Do you think the Reserve bank of Zimbabwe has done enough to ensure board independence compliance?
12. If not what do you suggest should be done to ensure board independence in Zimbabwean bank?
13. Do you think there is a relationship between board independence and liquidity risk management?
14. To what extent does board Independence affect liquidity risk management?