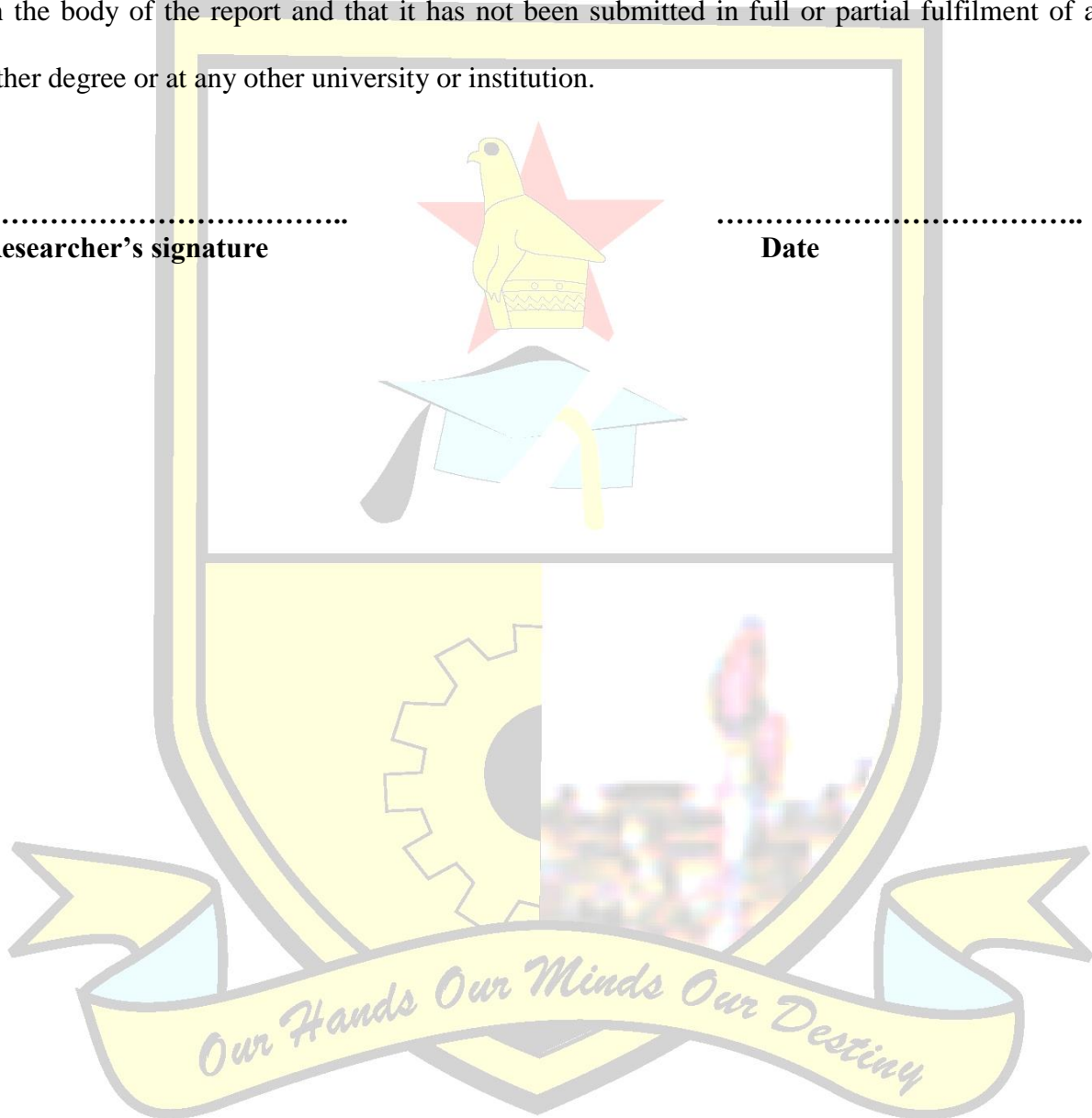


Declaration

I **Ncube Nothando R144273C** do hereby declare that this dissertation is a product of my own work and research except to the extent indicated in the acknowledgement, references and report in the body of the report and that it has not been submitted in full or partial fulfilment of any other degree or at any other university or institution.

.....
Researcher's signature

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Date



Approval form

The undersigned certify that they supervised the dissertation of **NCUBE NOTHANDO** with registration number **R144273C** entitled **‘AN ANALYSIS OF THE IMPACT OF CORPORATE GOVERNANCE ON THE FINANCIAL PERFORMANCE OF STATE ENTERPRISES AND PARASTATALS: A CASE OF AIR ZIMBABWE’**. The dissertation was submitted in partial fulfilment of the requirements of the Bachelor in Commerce Accounting Honours Degree (HACC) at Midlands State University.

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Dedications

I dedicate this work to my loving mother, sister and brothers who have been sources of inspiration in my studies and to all those who made this dissertation a success in one way or the other.



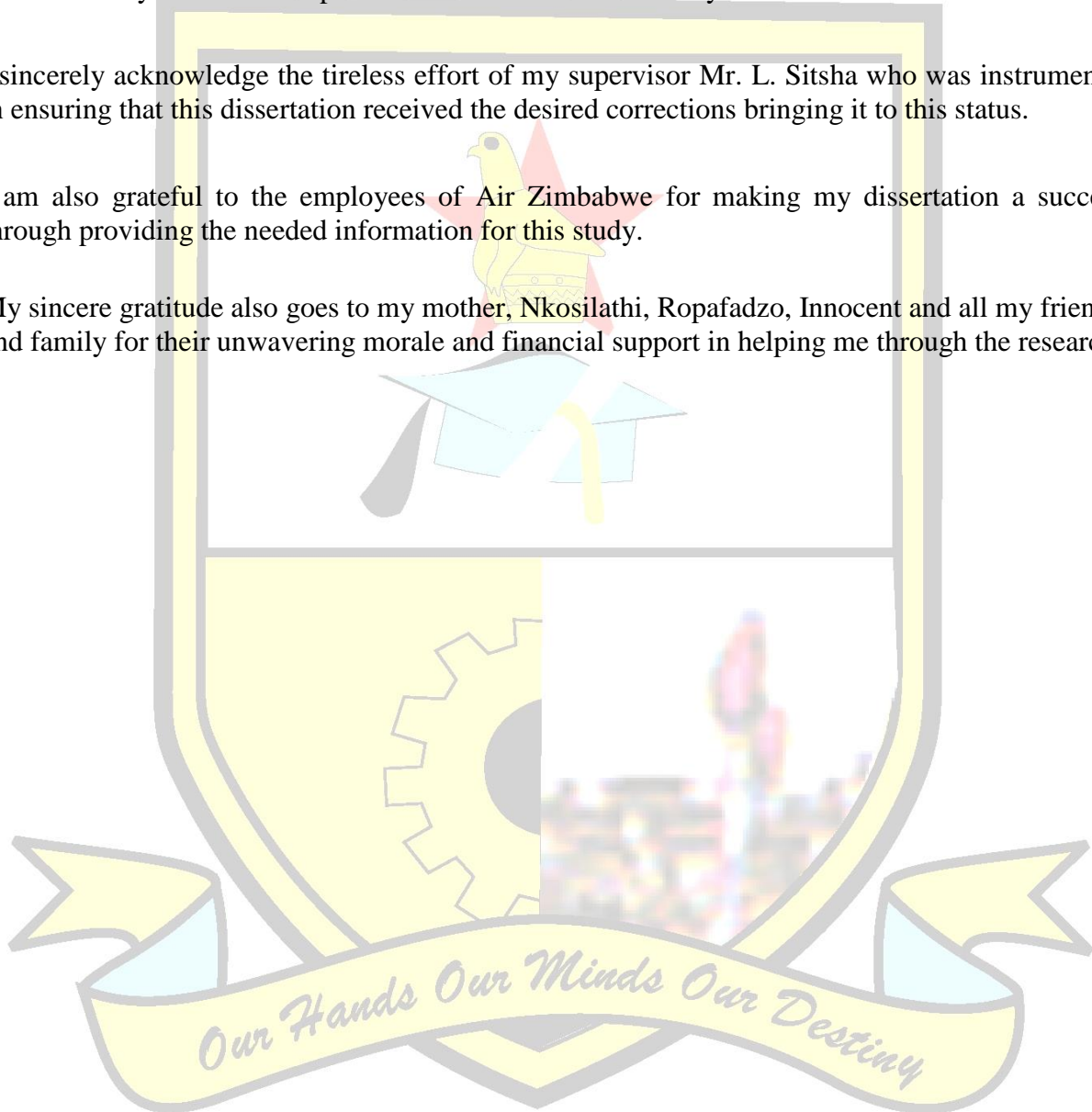
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Abstract

This research is an investigation of the relationship between corporate governance and financial performance at Air Zimbabwe. The objectives of this research were to investigate the extent to which Air Zimbabwe has been implementing corporate governance principles and whether a relationship exists between corporate governance and financial performance. Literature reviewed corporate governance fundamental theories such as agency, resource dependency and stewardship to portray how corporate governance can impact financial performance. The researcher used primary data collected through structured questionnaires with closed ended questions. They were conducted using principles articulated by the Organization for Economic Cooperation and Development (OECD). The information obtained were analyzed using statistical tool of analysis including, percentage, frequencies, mean, standard deviations and statistical package for social sciences for regression analysis. To measure financial performance an accounting based performance measure Return on asset (ROA) was used. Multiple regression was also used to measure the extent to which corporate governance influence financial performance and the results were that corporate governance variables like independence of the audit committee, board's ownership, CEO duality, board's independence positively influence financial performance while board size negatively influence financial performance. The recommendations were that Air Zimbabwe should incentivize programs meant to foster and implement corporate governance and to effectively adopt IPSAS (International Public-Sector Standards) so as to advance financial reporting.



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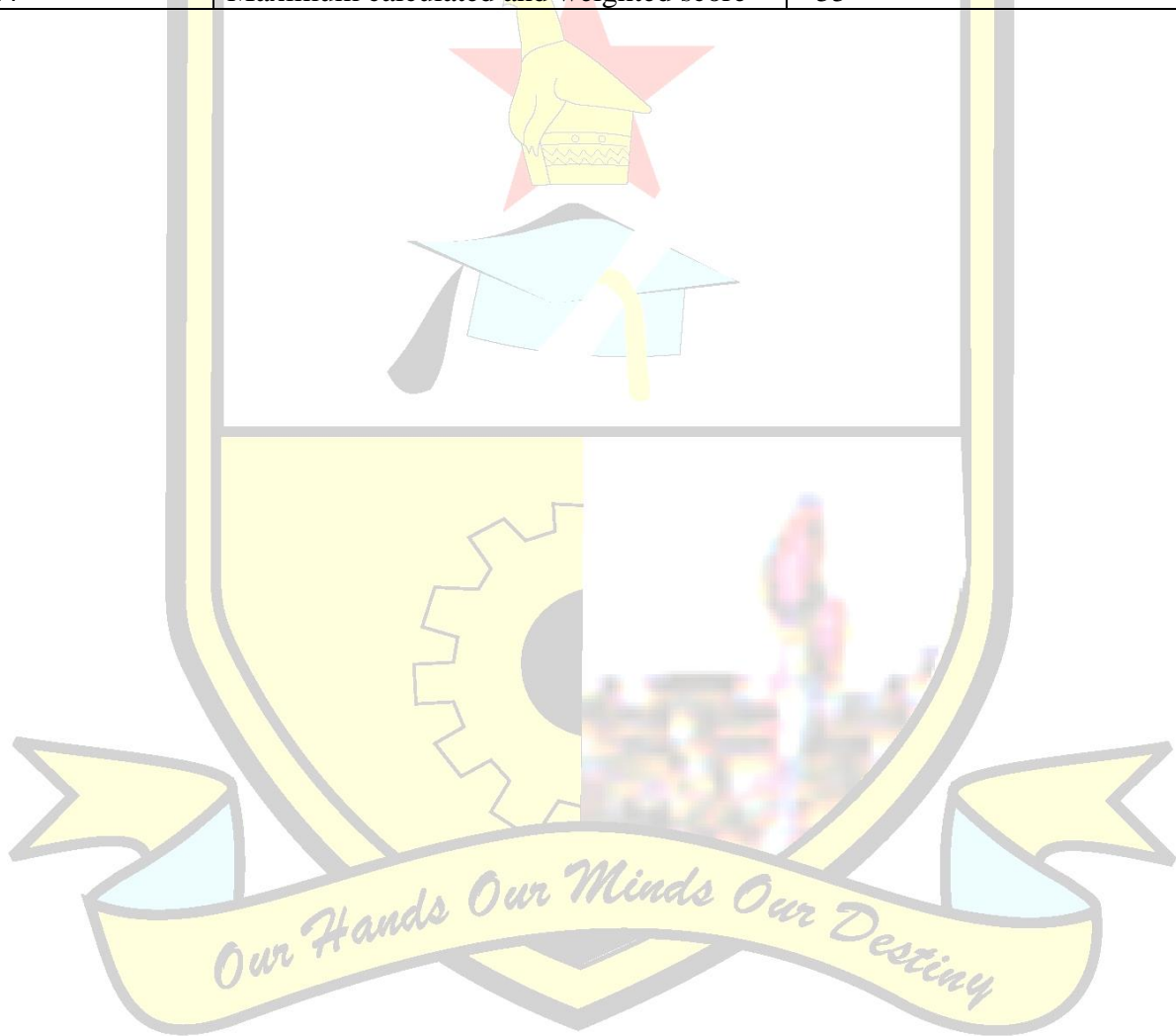
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CHAPTER ONE

1.0 Introduction

This is an introductory chapter for this research paper entitled; an analysis of the impact of corporate governance on the financial performance of state owned enterprises: a case of Air Zimbabwe. This chapter provides the research problem, research objectives, research questions, significance of the study, delimitations of the study, limitations, definition of terms and abbreviations and the chapter summary.

1.1 Background to the problem

State enterprises and parastatals are important in Zimbabwe's economy as they promote socio-economic development through provision of various goods and services while giving room for other economic activities to grow and this is outlined in the government's economic blueprint which is the ZIMASSET (2013-2018). Maune (2015) describes corporate governance as the way in which corporations/organizations are conducted. The World Bank expresses corporate governance as the mechanisms employed to enhance how organizations are directed and governed and that it bestows a tenable economic development through the improvement of the performance of organizations whilst enlarging investment opportunities (World Bank 2015).

The definitions of the term 'corporate governance' is diverse in other contexts and in different countries (Solomon and Solomon 2014). The definitions of corporate governance change depending with the environment, circumstances, different viewpoints of different researchers and the cultural position at a specific time (Armstrong & Sweeney 2016). The corporate governance system setup in a country consists of a portion of a broader institutional network that controls or direct the relationship among executives and stakeholders who have a large interest in the organization's activities (Carney and Gedajlovic 2014).

Gompers et al (2013) expound that the approach of corporate governance emanated from first world countries in the 1980s and 1990s when citizens perceived that there was a duty to establish means to control funds required by an organization. The Cadbury report of 1992 then became the internationally recognized handbook for corporate governance. Following the Asian crisis of 1997-2000, and the failures of global corporations such as Enron in which its market value declined from US\$ 80 billion in August 2000 to less than US\$ 1 billion in 2001; corporate

governance became the focus of attention and heightened the role of business ethics (Rossouw 2015). The other worldwide financial crunch that ushered a lot of attention to the issue of corporate governance was that of 2007-2008 (Kumar & Singh 2014) and is considered to be the ultimate severe financial climacteric after the great depression which ended in 1939 and some scholars entangle this crisis as being caused by a lack of good corporate governance. These particular commercial downfalls induced worldwide fascination on the connection of corporate governance and financial performance of organizations.

The subject of corporate governance came to the attention of the government of Zimbabwe owing to the incurring of losses by state enterprises and parastatals which have continued to double since 2011 (Machivenyika 2017). A corporate governance framework for state enterprises and parastatals in Zimbabwe of 2010 was then released to be a guide and a way of restructuring these state enterprises. The National Code on Corporate Governance (ZimCode), was also published by The Institute of Directors Zimbabwe (IoDZ) in April 2015 and was also generally acknowledged nationwide as the principal corporate governance framework for the public and private sector. In June 2017 a Bill, Public entities corporate governance was published in the gazette to cater for the corporate governance of state enterprises and parastatals.

Corporate governance is not yet passed as a law in Zimbabwe (Sibanda 2017) however the approach that is used in regard to these codes is the “apply or explain” basis which entails that the principles outlined are to be complied with but not obligatory and the organization will have to offer suffice reasons for not complying. Mudimu (2018) outlines that once the Public entities corporate governance bill is tabled in parliament then it will eventually be a law before the end of June 2018. The corporate governance framework of Zimbabwe is socially constructed as its application is based on the principle and philosophy of ‘Ubuntu’ or ‘Unhu’ which is the foundation of good human relations in African communities.

The corporate governance framework of Zimbabwe has its foundation centered upon four pillars which are responsibility, accountability, fairness and transparency (RAFT). It can be deduced from this that Zimbabwe has put significant efforts into cultivating a corporate governance framework that helps in the advancement of a good corporate governance. The basis of the ZIMCODE is rooted on the establishment, acknowledgement, appreciation and buildup of the legal privileges of stakeholders by the organization in its ventures. It also contributes instruments for commitment and clarity amidst the organization and its distinct stakeholders and this is

accordant with the OECD instructions which point out that an identification of the firm's accountability concerning all its stakeholders desires the firm to communicate on their relationship with all stakeholders (National code on corporate governance 2010).

The prospect of the Public entities corporate governance Bill is that by reconstructing internal management systems of firms in the public sector, the firms may enhance their achievements. The projected statute concludes the foundation of chapter 9 of the Constitution of Zimbabwe amendment (no 20) of good governance which contributes for the supervision of public entities. The Bill interrelates with an edict published on the 22nd of January 2018 by the OPC to ministers, their deputies, permanent secretaries, principal directors along with board chairpersons of state enterprises, board representatives and chief executives of these organizations to officially disclose their assets not after the 28th of February 2018. It is widely acknowledged that the bulk of the firms in the public sector are largely incompetent and have incurred unceasing losses and obtained enormous government financial rescue. The large number of weight these state enterprises have been putting on the fiscus has been monumental, by that advanced the untenable fiscal debts that have amassed headaches for the fiscal authorities (Public entities corporate governance bill 2017).

Zimbabwe's corporate governance framework for state enterprises can be paralleled with the framework of South Africa since both countries company laws have been historically appropriated out of United Kingdom's company law and their corporate governance practice comprise of obligatory and self-organized features (Shana G 2015). South Africa is the first developing country to originate a corporate governance code which is the 1994 King Report (Mallin 2014) and the main principles were drawn from the Cadbury report of 1992. The instructions of the 1994 King Report (hence King I) were cognizant of the UK's Cadbury Report of 1992 (Mangena & Chamisa 2018). In conjunction with the Cadbury Report, the King I embraced an Anglo-American manner of incorporating an entire board of directors, comprising of executive and non-executive directors (NEDs), who are for the most part answerable to shareholders. It is also a requisite for South African companies to bisect the duties of the chairperson and Chief Executive Officer and to establish an audit, appointment and remuneration committees and two non-executive directors as board members.

With the appointment of a democratic government the country had to initiate corporate governance rectifications so as to control requests from investors which were international,

handle the prerequisites for foreign financial assistance and advocate for an elevated grade of corporate governance in South Africa (Mallin 2014). The Institute of Directors of South Africa (IoDSA) was the earliest leading body which was energetically involved in the advancement of good corporate governance by way of consolidating its duties in the progress of establishing the King Report on Corporate Governance (King Reports I-III). The predominant informant of corporate governance in South Africa comprise of the Constitution of the Republic of South Africa (Act 108 of 1996), Acts of Parliament, Public Finance Management Act (PFMA) 1 of 1999 and Companies Act 71 of 2008, the Johannesburg Stock Exchange (JSE) Listings Requirements (Moloi 2018).

The Constitution of South Africa is the principal legislation of the country and engages all jurisdiction, administrative and authoritative sections of the state at each and every level in the government. On chapter 10 of the Constitution of South Africa it seeks to advance good corporate governance by requiring the efficient employment of state resources, an elevated degree of adept ethics, candidness, equity and responsibility in the management on all of state and public entities.

The Companies Act of South Africa is also applicable to state owned enterprises. The Act expressly asserts that any principle outlined in the Act that is applicable to a public firm pertains also to a state-owned firm, other than to the magnitude that the Minister has admitted an exemption in agreement with the stipulations of subsection 3. The PFMA was announced on the 2nd of March 1999 and came into effect on the 1st of April 2000. It declared void the Reporting by Public Entities Act 93 of 1992. The PFMA aspirations are to solidify clarity, responsibility, and responsible administration of income, expenses, assets and liabilities of departments, state entities, constitutional institutions and provincial houses.

The Act provides regulatory and an operative independence to public entities and it endorsed various precepts from the *King Reports* to advance the efficiency of the boards of public entities. The PFMA portrays a crucial function in governing corporate governance systems and exhibits additional extensive standards for informing and responsibility by welcoming different propositions to the administration of finance in public entities that desires a good achievement for instance in the conveying of services and in the economic and effective disposal of assets and resources of the state. It is involuntary for firms to abide by the stipulations of the PFMA and the Act dictates punishments for repudiation.

State enterprises are legal entities which partake in commercial activities on behalf of the government. Zimbabwe has 107 state owned enterprises with 43 being the only commercial entities, representing about 14% of the gross domestic product with commercial SEPs bringing in about 7,5%(Gagare 2017). These entities are vital to the Zimbabwe's economy because of the role they play on socio-economic transformation, employment generation and economic growth and it is of grave importance that state enterprises perform their very best.

State enterprises and parastatals in general have been performing poorly as evidenced by the World bank economic update report of 2016 on Zimbabwe which affirms that commercial SEPs went close to the break-even point in 2011 and reported combined losses under US\$340 million with sectors such as water and agriculture registering losses consistently and the mining sector having a reduction in profitability in recent years (Gagare 2017). A major concern of the government is that most state enterprises are not conforming to the principles set in the Corporate Governance Framework (Zwinoira 2016).

The auditor general released on 22 June 2017 a report which exposed weaknesses of parastatals consisting of governance issues, debt recovery and procurement of goods and services. The major reasons why state-owned enterprises and parastatals are failing are due to poor management of resources by board of directors, fraud, corruption and exorbitant remunerations for board of directors (Zvavahera and Ndoda 2014). ZESA subsidiaries have been implicated in some tender scams for instance the Zimbabwe Power Company was entangled in a tender scandal with Intratrek costing US\$5 million which was not authorized by the board and ZETDC lost US\$200 million between the months of February and March 2015 through overtime monies which were un-procedural (Zwinoira 2016).

The minister of finance and economic planning publicized in the Zimbabwe national budget statement of 2018 that SEPs offering to the state's gross domestic product had dropped coming out of a good 60% to about 2%. In spite of the underachievement of SEPs, managers proceeded to delight themselves with humongous salaries and additional fringe benefits, which was a violation of the Cabinet's injunction which stated that benefits for the management must not surpass 30% of the entire revenues. Ncube and Maunganidze (2014) also mention that amidst the period of July 2011 and July 2013 711 firms shut down their businesses and 300 operated underneath the judicial management.

Air Zimbabwe dates to Central African Airways (CAA) which was established on the 1st of June in 1946 as a consolidated airline of South Rhodesia (Zimbabwe), Northern Rhodesia (Zambia) and Nyasaland (Malawi). Air Zimbabwe Rhodesia then emanated in 1979 and paved the way to Zimbabwe in 1980 and that's when the airline rooted on its name. Air Zimbabwe under the Ministry of transport and infrastructure development became an entirely owned government private company as from 20 November 1997.

The major objectives and goals of Air Zimbabwe are to provide top-quality innovative service for passengers so as to create repeat customers which in turn increases revenue, to perpetuate commercial sustainability and to exercise topmost ethical behaviors. Since its inception the organization has been struggling and had various challenges which include unsustainable debt, low productivity, ever increasing wage bills and lack of capital (World Bank 2016). Sadly, the airline has not been able to achieve its objectives (Ndhlukula 2017).

Muli (2014) mention that Air Zimbabwe has had immense budget deficits, liabilities, substandard debt servicing, operational difficulties which prompted the aircraft being confiscated as collateral in the United Kingdom. Additional evidence of failure involves the removal of the airline from lucrative routes which is Europe by the European commission and the incapability to fulfil the company's legal responsibilities (Kamhungira 2018). From a Pro- government perspective Air Zimbabwe's substandard performance can be attributed to the aged fleet, a harsh economic operating environment, economic sanctions imposed, poor local and international publicity. Air Zimbabwe currently has debts which are more than \$300 million and have been contemplating leasing an aircraft from Malaysia (Vambe 2018).

Mugabe (2015) also published an article of an Air Zimbabwe executive who was pronounced guilty for devising and executing a spurious transaction together with the previous Air Zimbabwe CEO. The firm lost \$10 million in a fraudulent aviation insurance transaction to the advantage of Navistar Insurance brokers.

Below is a table disclosing some of the statistics of fraudulent corruption cases made by State enterprises and Parastatals in the preceding years.

FIG 1.1

YEAR	PARASTATAL	AMOUNT\$
2013	ZBC	900 000
2014	ZINARA	2015 650
	ZESA HOLDINGS	6 000 000
	ZBC	1300 000
	ZIMRA	1 000 000
	CMED	3 000 000
2015	AIR ZIMBABWE	10 000 000
	CENTRAL VEHICLE REGISTRY	16 500 000
2016	ZPC	5 000 000
	ZESA	500 000 000

Source: Annual Corruption report (2013-2015)

Therefore, because of the above recognized problems in the administration of SEPs specifically Air Zimbabwe this has prompted the researcher to carry out a thorough investigation on the effects of implementing good corporate governance principles to increase productivity and profitability to try to eradicate the above stated weaknesses.

1.2 Statement of the problem

Air Zimbabwe has shown in the past years a decline in profitability, an increase in the number of allegations of fraud and an increase in the amount of external debts. The organization also has been failing to expand its services through new routes and new airlines.

The large numbers of fraud in appointment of board members, debts, perennial losses and alleged corruption currently being experienced at Air Zimbabwe has developed a concern that the organization has not been correctly implementing sound corporate governance in their operations as evidenced by the poor performance. This therefore prompted the researcher to explore more on the corporate governance being employed at Air Zimbabwe and how the corporate governance can influence financial performance.

1.3 General aim

The main purpose of this research is to establish the effect of corporate governance on the financial performance of Air Zimbabwe by identifying corporate governance variables with positive or negative effects on financial performance.

1.3.1 Research objectives

The objectives of the study are

- To investigate the extent to which Air Zimbabwe has adopted and adhered to corporate governance principles
- To establish whether there is a relationship between employment of corporate governance principles and the financial performance of Air Zimbabwe
- To examine the limitations of implementing sound corporate governance principles in Air Zimbabwe
- To draw conclusions and give recommendations on how Air Zimbabwe can promote and implement good corporate governance principles

1.4 Main research question

The main research question that this research paper will attempt to answer is: To what extent does the implementation of corporate governance principles influence the financial performance of Air Zimbabwe?

1.4.1 Research questions

The other sub-questions are

1. To what extent has Air Zimbabwe adopted corporate governance principles in their operations?
2. Is there a relationship between employment of sound corporate governance principles and

financial performance of Air Zimbabwe?

3. What are the limitations encountered in the implementation of sound corporate governance principles at Air Zimbabwe?

4. What recommendations can be offered to Air Zimbabwe to advance their use and application of corporate governance principles?

1.5 Significance of the study

The research justification chronicles the extent of the usefulness of information to the stakeholders that maybe affected or benefit from the research paper. The importance of SEPs to the economy of Zimbabwe cannot be underestimated as they have the potential of contributing about 40% of the Gross Domestic Product (Corporate Governance Framework 2010).

- The findings of this study may benefit the government on the making of national policies or reforms which may help curtail the reliance of SEPs on the fiscus and increase their contribution to economic growth
- The findings of the study also add on to the present pool of literature to the readers for greater comprehension of the subject and for researchers, this study can act as reference material on other research papers
- The findings can assist Air Zimbabwe to improve areas which are proving to be a challenge
- Furthermore, to the researcher the study enlarges their knowledge base on the subject

1.6 Assumptions

This research was conducted based on the following assumptions:

- Respondents will completely understand the questions.
- The sample chosen fully represents the whole market.
- Questionnaires and interviews will be answered to in good faith to allow precise judgements to be made.

1.7 Limitations

1. Financial

The researcher incurred some financial constraints due to some costs involving the research which needed to be funded for example travelling and printing expenses.

2. Acquiring of evidence

Collection of reliable data a posed a challenged as some employees could not divulge some confidential information. Triangulation was used to obtain various sources of information and includes review of documents, interviews and questionnaires.

3. Time

The period required by the university to complete the research paper was too limited as there were also other modules to attend lectures to.

1.8 Delimitation

This research was limited to an analysis of the impact of corporate governance on the financial performance of Air Zimbabwe in Harare from the year 2013 to 2018. Other state enterprises and parastatals countrywide would be precluded from the research nonetheless the results would be concluded over the entire population of 103 state enterprises and parastatals.

1.9 Definition of terms and abbreviations

- **Corporate governance**
The means through which organizations are directed and controlled
- **Financial performance**
The extent to which financial objectives are being achieved
- **SEP**
State enterprises and parastatals
- **CEO**
Chief executive officer
- **CGF**
Corporate governance framework
- **PFMA**
Public finance management Act

Chapter summary

This chapter provides a background on what brought about this research and gives the inspiration behind this researcher taking upon a thorough research and investigation on corporate governance and its effect on the financial performance of Air Zimbabwe. It also provides us a number of questions which are going to be addressed in detail by the research, its aims, and importance and also the objectives to be met. The subsequent chapter is on literature review.



CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter sets up the foundation of the study by considering and summarizing information other researchers have discovered in their researches in the same field of study.

Different models of corporate governance used in various parts of the world are examined in this chapter to get a better understanding of the other approaches to corporate governance and determine their usefulness to establish the constitution of a good corporate governance for state enterprises and their implications on the organization's financial performance.

This chapter also covers the theories underlying corporate governance principles and their best practices and some of the limitations encountered on trying to implement corporate governance principles in state enterprises and their impact on financial performance of SEPs. Several scholarly articles and books were examined and combined to present a recapitulation of the major points and propositions for an effective corporate governance framework.

2.1 Theoretical perspective of corporate governance

2.1.1 Agency theory

Corporate governance has concentrated on the partition of ownership which developed principal-agent issues emerging from the separation of ownership in firms (Berle & Means 2014). Corporate governance was looked upon as a system in which board of directors were a critical component which was set to reduce the number of problems effected by the principal-agent relationship. In this manner managers are regarded as agents, owners as principals and the board of directors pose as overseers (Mallin 2014).

Corporate governance model of Anglo-America is established based on the agency theory viewpoint (Sian and Roberts 2016). The heart of the agency theory stems on that shareholders,

by means of the board of directors give authority to the top executives to be in charge of directing the firms and they are presumed to employ their significant knowledge and expertise and efficiently using the firm's resources thereby maximizing shareholders returns. The firm transpires as a legal fiction not as a singular person, where there are conflicts of interests with different individuals and the clashing objectives of distinct individuals are unified into an equilibrium. These legalized relationships do not comprise of employees only, but also include suppliers, customers and creditors (Jensen & Meckling 2016).

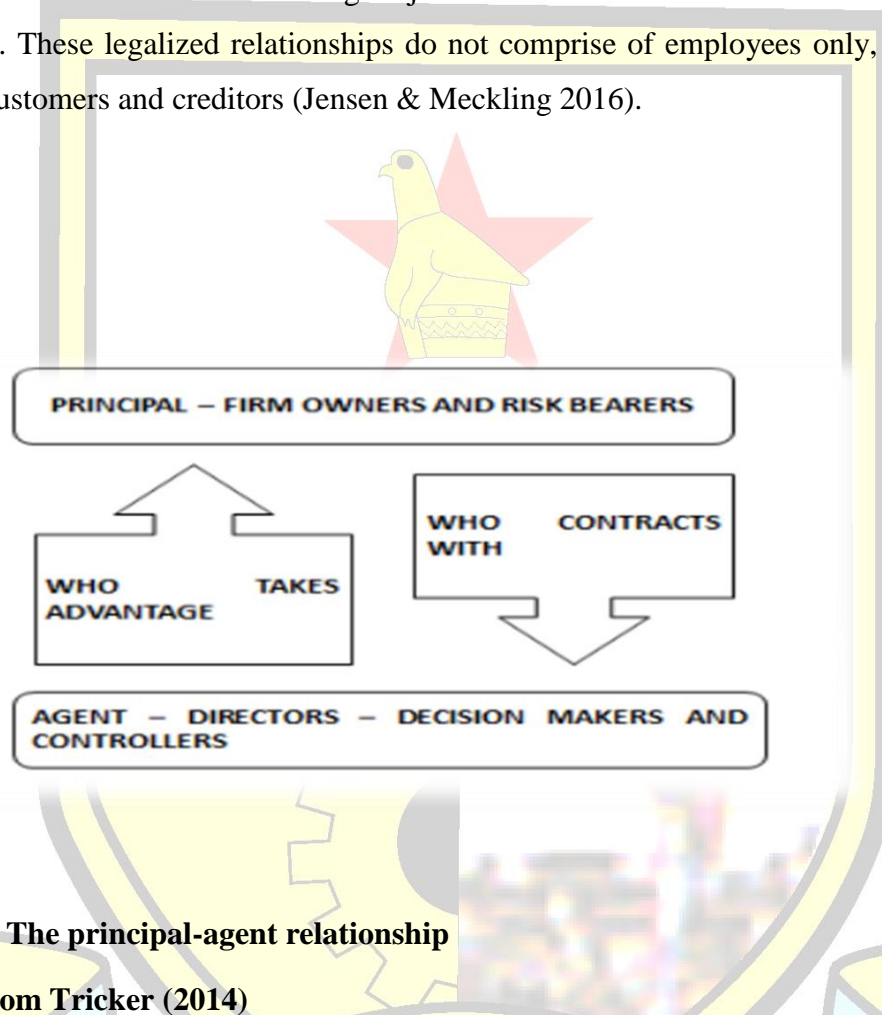


Figure 2.1: The principal-agent relationship

Adapted from Tricker (2014)

The agency problem then emerges on prompting the agent to operate in the finest interest of the principal. This leads to agency costs which involve monitoring costs and enlightening the agent to impede abuse (Shleifer & Vishny 2017). Jensen and Meckling (2016) describe agency costs as the total amount of monitoring costs incurred by the principal to restrict the atypical agent activities. Surplus loss equal to the cutting down of welfare on account of the difference between the judgement of the agent and those judgements that would maximize the principal's welfare.

Spanos (2015) alludes that the agency problem however relies upon the ownership attributes of various countries. Countries which have diffused ownership structures operate in a way in which if the investors are contradicting with management or are dissatisfied with how the firm is performing, they use make use of the exit options, which results in a drop of share prices. Countries with condensed ownership structures and a big number of controlling shareholders gravitate towards dominating the position of the managers thereby limiting the number of minority shareholders so as to attain private control advantages.

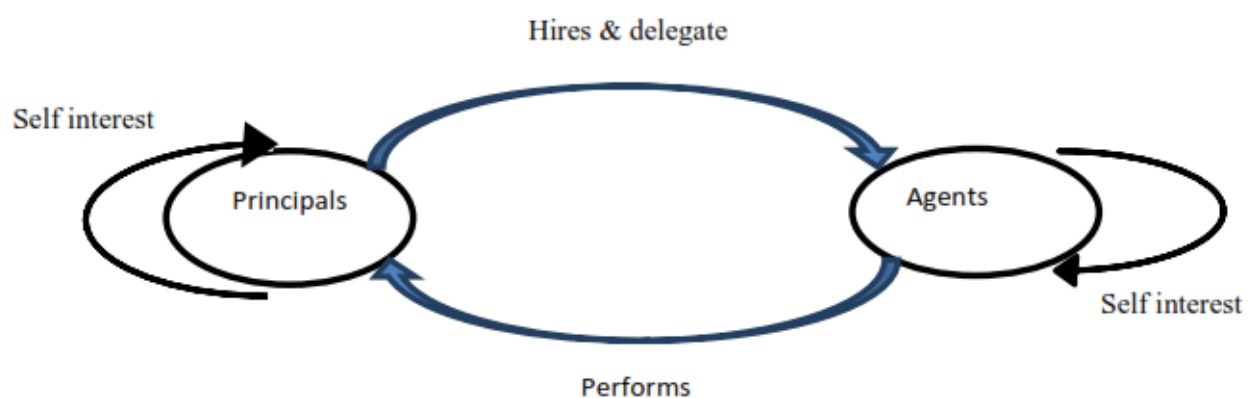


Figure 2.2: The agency model

Adapted from Abdallah (2014)

The agency model therefore concludes that distinctive persons have the ability to obtain outright information and investors are endowed with eloquent knowledge on governance activities and whether they suit their desires with the board well versed with the investors preferences (Smallman 2014). Hence agency theorists conclude that an effective market is one that thought-out to be the answer on how to solve the agency problem which involve creating effective markets for firm jurisdiction, labor administration and corporate information (Clarke 2014).

2.1.2 Stewardship theory

A steward is a person who harbors and maximizes the wealth of shareholders; through the performance of the firm his expediency is also maximized (Clarke 2014). This theory attests that stewards are the firm executives who incorporate management thereby work for shareholders. Unlike agents on the agency theory, stewards safeguard the firm and maximize profits for the

shareholders. The theory bases not on the ideas of individualism as the agency theory but stewards are gratified and motivated when the firm accomplishes its goals Smallman (2014).

Gay (2015) illustrates the stewardship theory as being drawn from the economic model of human behavior; the McGregor theory Y which explains that people are innately motivated to work. In this manner, the theory expresses that no conflict exists between managers and owners and an outstanding governance structure permits coordination of firms to work towards bettering the interest of the owners. An assumption of this stewardship theory is that senior management chiefly absorb their working lives in the firms that they are responsible for therefore they are more inclined to appreciate the activities of the organization in a more excellent manner as compared to external directors and are able to effect better decisions (Donaldson and Davis 2016).

Managers are motivated to behave in a way which results in the success of the firm. When managers are good stewards, working for the good of shareholders, monitoring expenditures decline significantly (Donaldson 2016). The stewardship theory aids the joining together of the Chairman's role and the CEO so as to lessen agency expenses thereby acting as stewards of the firm.

2.1.3 Stakeholder theory

Freeman (2014) was the first to propound the stakeholder theory supporting the idea of allied accountability to a vast number of stakeholders. He alluded that the theory disputes the assumptions of the agency theory which are the supremacy of the interests of the shareholders so it focuses on the distinctive elements which make up the organization. Therefore, it asserts that a firm must be governed in such a way that all interests of the shareholders are met.

Blair (2015) concurs that employees and varied shareholders are the extra risk takers in an organization hence the investment of any definitive skill by an employee at an organization indicate that they need to have a say in the management of the organization. Besides employees, customers and suppliers also possess a downright interest in the performance of the organization and at the same time local communities and the environment altogether have a genuine interest in the firm.

By this, firms must offer an open voice to its stakeholders on issues such as management and in addition designate persons who will represent minority owners, community representatives, consumers, employees and suppliers to the board of directors. Sternberg (2016) points out that the stakeholder theory is deluded and erroneous as it debilitates personal property, agency and wealth and is antagonistic with the firm's operations and with corporate governance. Coleman (2018) also agrees that the theory is too confined as it only recognizes shareholders as the only constituent of an organization that is relatively interested in the firm.

Despite the negative views the stakeholder theory has attracted, it has evolved into something more prominent as it has led researchers to perceive that the activities of the organization impresses on the outside environment therefore bringing out the need to be accountable to a large number of people than its shareholders only. For example, McDonald and Puxty (2014) projected that firms are not mechanisms of shareholders anymore but resides inside a community so it has an obligation to that community.

2.1.4 Resource dependency theory

This theory is the last backing theory of corporate governance that this research depends on. It conveys that the establishment of internal corporate governance systems for instance boards of directors is not essential for guaranteeing that management is efficiently supervised, but that they act as an important link amidst the company and the important resources vital for the maximization of financial performance (Pfeffer 2015).

The board and non-executive directors are capable of offering the most vital resources for instance proficient advice, savvy information, independence and knowledge (Haniffa & Cooke 2015). They can also effectuate reputability of the firm and bring important business contacts (Haniffa & Hudaib 2015). The third thing they bring is a connection to the business and political elite, information and capital (Nicholson & Geoffrey 2016). The last thing provided by the board is that the board supplies an important link amidst an organization's extrinsic environment and stakeholders for example customers and competitors.

It is then asserted that more connections to the outside environment are affiliated with an exceptional access to resources (Nicholson & Geoffrey 2016) and this will have a positive effect on the financial performance of an organization. The advocates of this theory contend that environmental connections amid the organization and external resources is essential (Wan &

Idris 2016). These environmental connections assist the organization to dwindle transaction costs affiliated with environmental correlations (Williamson 2017). Resource dependency theory withal vigorously stresses the duty of the board in contributing resource necessities in order to position the organization for the next level.

2.2 Principles of corporate governance

Good governance basically revolves around an effectual leadership (King Code 2009). The Corporate governance framework of 2010 outlines that an effective leadership is portrayed by the following principles:

➤ Ubuntu

This emanates from an African philosophy which promotes community orientation, shared interests and mutual responsibility

➤ Responsibility

A responsible management will formulate the right strategies in line with the organization's goals in order to achieve a sustainable corporate performance

➤ Accountability

Decision makers in organizations should be able to give reasons for and to be able to defend themselves on the exertion of authority done on certain issues concerning the business. They should also implement the right mechanisms to allow effective accountability to take place

➤ Fairness

Systems in existence in an organization should be balanced in including all stakeholders through acknowledging and respecting their various rights

➤ Transparency

Management should avail the essential information in a candid and precise manner timeously to stakeholders so that they can be able to comprehend how an organization makes its decisions

2.2.1 OECD Principles of corporate governance

OECD (2014) explain that OECD principles exhibit the first step take by an inter-governmental organization to create the foundation of good corporate governance principles. These principles can also be used by governments as a benchmark for appraisal and amending their national codes of corporate governance. There are six principles vital to a sound corporate governance framework and these are:

- Effecting the foundation for an efficient corporate governance framework.

The corporate governance framework should encourage translucent and effective markets, homogeneous with the edict of law and plainly express the separation of responsibilities amid disparate enforcement, regulatory and supervisory authorities (OECD 2014)

- The rights of shareholders and essential proprietorship duties

The corporate governance framework must safeguard and ease the exercise of shareholders' right (OECD 2014)

- The impartial treatment of shareholders

The corporate governance framework need to make sure that an impartial treatment of all shareholders is effected inclusive of minority and foreign shareholders. Every shareholder must be given the chance to restore effectively any encroachment of their rights

- The responsibility of stakeholders in corporate governance

The corporate governance framework ought to identify the rights of stakeholders incorporated by either law or by means of mutual concurrence and boost co-operation among corporations and stakeholders whilst making wealth, creating jobs, and maintaining financially sound firms.

- Disclosure and Transparency

A corporate governance framework must make sure that well-timed and precise disclosures are contrived on all important issues concerning the firm along with the financial position, accomplishments, ownership, and firm governance.

➤ The Responsibilities of the Board

The corporate governance framework ought to make sure that there is a crucial management of the firm, efficient control of management by the board, and the board's responsibility to the firm and the entire shareholders

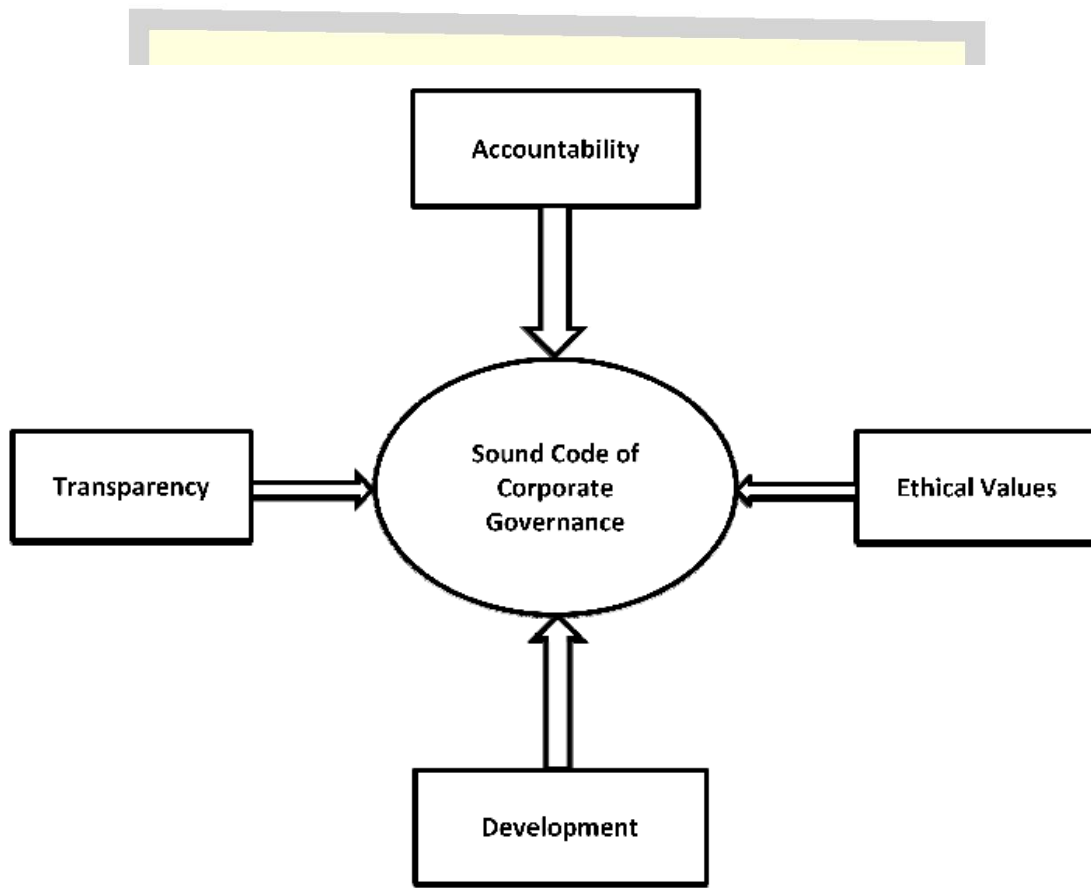


Figure 2.3: Fundamentals of a good corporate governance framework (Roussov 2016)

2.3 Overview of corporate governance in state enterprises and parastatals in Zimbabwe

Zimbabwe attained its independence in April 1980 and the subsequent ten years comprised of different policies meant to curtail the inequalities which prevailed before independence (Zhou & Zhou 2014). Despite admirable effort by the creators of the policies, Zimbabwe experienced economic and social hardships which led to a decelerated economic growth, aggravated levels of

poverty and ever-increasing amount of debts. These challenges have encompassed state enterprises as well and they have carried on bleeding the nations' coffers because of substandard performance (Zvavahera 2014).

Zimbabwe reacted to international progression due to the diverse challenges of state enterprises and designed a corporate governance framework for state enterprises and parastatals in 2010 to abate additional episodes of corporate failure Zhou (2014). On the 21st of July 2017, a public entities corporate governance bill was gazetted so as to insure consistency on the activities of all state enterprises. In cultivating corporate governance techniques, Zimbabwe embraced several aspects from the corporate governance practices of developed economies for instance South Africa and this was done in a bid to make sure that the code would correspond to the frameworks of the trading partners of Zimbabwe and that the fundamentals established would match international standards Clarke (2014).

2.3.1 Zimbabwe national code on corporate governance (ZIMCODE)

Strenger (2015) describes the code as a standard that directs corporations in Zimbabwe to conform to the code of "Best Practice". The aim of the ZIMCODE is to explicitly state how private and public entities at all stages approach complications resulting from corporate governance in Zimbabwe and how to execute good corporate governance practices which are acknowledged internationally. The ZIMCODE uses the "apply or explain" way, meaning that organizations must employ the principles of the code and are obliged to disclose any excuses as to failure to comply with the regulations Zvavahera (2014).

Under the chapter of ownership and control the ZIMCODE advocates for the rights of varied categories of shareholders and clearly explains that power must be at an equilibrium among the different shareholders who supply the firm with capital, management and the board of directors (National code on corporate governance 2014). On the chapter entitled board of directors and directors the code illustrates that board of directors should have incontrovertible attributes, perform specific duties and tasks.

The code also spells out that the management of the organization must apprehend risk and its measurements so that it can be eradicated or diminished. The chapter on information management and disclosure contend that the publishing of information about the organization

and how reachable it is to varied stakeholders is important to the practice of erecting confidence, responsibility and trust inside the firm.

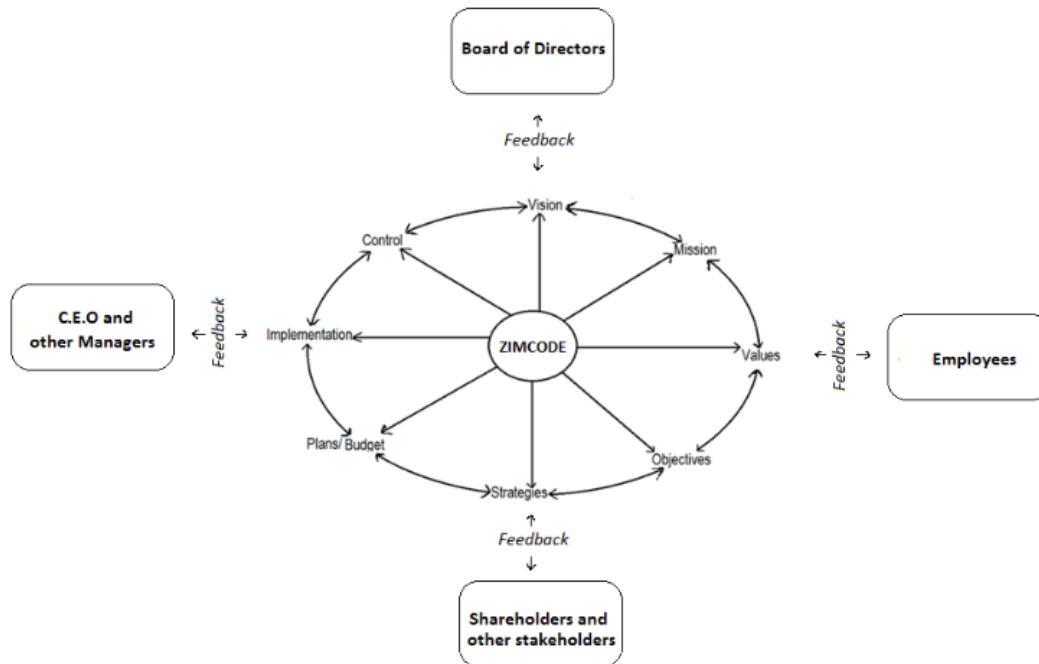


Figure 2.4: The Nested model- How to implement the ZIMCODE to SEPs (Chavunduka & Sikwila 2015)

The nested model (Figure 2.3) expresses that the ZIMCODE should be in the middle of each and every important plan in the management of state enterprises and parastatals. The board of directors must fuel into the crucial plans and decide the approaches to be taken regarding conduct and responsibility. The board of directors' manner is anticipated to leak to the chief executive officers and to the management that execute the firm's duties from day to day. Consequently, the management team operate hand to hand with the employees on the exercise of corporate governance principles in the firm. The responses of an efficient crucial plan is then thought to advance to the firm's shareholders, stakeholders and the community Chavunduka & Sikwila (2015).

2.3.2 Corporate governance framework for state enterprises and parastatals of 2010

The CGF came consequently through sequential progression of thorough stakeholder deliberations and was authorized and initiated in November 2010. Principles employed were appropriated from some regional and international codes of corporate governance in designing the framework which involve the Malawi code, the King III code of South Africa and the OECD guidelines Zhou & Zhou (2014). The government of Zimbabwe put forward the framework when they became aware that corruption and dishonest manners had gone out of hand in the state enterprises and parastatals Zvavahera (2014). The most important aim of the framework was the promotion of the effective and efficient employment of state resources and the precondition of responsibility for the ownership of the resources of the state so as to insure that state enterprises produce a clear-cut contribution to the country's gross domestic product Chavunduka & Sikwila (2015).

The corporate governance framework caters to the government, state entities and parastatals and stakeholders through an accepted outline of corporate governance affairs yet it is not compulsory Ncube & Maunganidze (2014). It is relevant to parastatals entrenched by way of an Act of Parliament and state enterprises incorporated through the Companies Act. The Framework was fashioned to operate encompassing the four mainstays of corporate governance which are fairness, responsibility, transparency and accountability (The corporate governance framework for state enterprises and parastatals 2010)

Vital axioms that make up the foundation of the framework are

- The superiority of shareholder's interest. The board of directors and management must be the prime stewards of the shareholders' interest
- The dispensing of sufficient jurisdiction, accountability and proficiency to the board and managers for an impressive culmination of their duties
- The unambiguous divorce of control amidst the board and the managers for answerability and clarity intentions
- The appointment of precise description and complaisant proceedings and domestic and extraneous control and appraisal frameworks

- The right to a satisfying firm autonomy reaching out to corporate accountability outside the demand to maximize profits for shareholders, but to the consideration of stakeholders concerning organizational, civil and environmental obligation (Corporate governance framework for state enterprises and parastatals 2010)

The CGF is chiefly interested with the setup of the intrinsic and extrinsic environment which is favorable for the SEPs to flourish, prosper and make a tenable expansion for Zimbabwe at the same time behaving as altruistic corporate civilians. The implementation must be based on the concept and ideas of **Ubuntu**. The Ubuntu belief is the ground for acceptable human association in various societies in Africa. It is entrenched in an African ideology that eminently esteem caring, giving, inclusivity, mercy, and socialization. The framework also advocates for unequivocal corporate governance features that acknowledge the assessment of conformity to these instructions and to undertake responsibility from the managers and the board of directors (Corporate governance framework for state enterprises and parastatals 2010).

2.3.3 Public entities corporate governance bill of 2017

The bill caters for the corporate governance of firms in the public sector which are parastatals, some constitutional commissions plus commercial entities possessed or directed by the government of Zimbabwe PCG (2017).

On the assignment of board members, it was projected that selected persons will not labour for a period of four years, nonetheless a stipulation for being re-elected for an additional term is allowable. The Bill also imposes that no one will be admitted working on two boards or more at any given time PCG (2017).

The Bill basically summarizes the following points:

- It seeks to emphasize the accountability of line Ministries to efficiently guide, administer and manage the executive operations of state enterprises to guarantee adherence with the stipulations of the Bill, not contravening the independence of state enterprises.
- It also summarizes the duties and tasks of the Corporate Governance Unit inside the Office of the President and Cabinet (OPC) as an integrated consultant, overseer and aid practice for line Ministries in reference to the effecting of the Bill.

- It will acquaint itself with persistence in the plight of duty of board members of state enterprises. For instance, it will desire the need for individual persons to embark onto performance agreements with the government of Zimbabwe and acquiesce their salaries and benefits to be restricted.
- Likewise, the regulations of the plight of duty of the chief executive officers and more higher-level staff members of state enterprises will permit their allowances to be restricted.
- It will also grant response to the National Code on Corporate Governance Zimbabwe (2010) to the magnitude that it is relevant to in state enterprises.

2.4 Overview of corporate governance in South Africa

The law regarding corporate governance is constantly being renovated to keep in touch with the latest progress worldwide and the dynamic environment which the business operates in. Hence it is necessary that countries execute legislation that are harmonious with international finest systems Petra (2017). However, there can be no specific commonly appropriate system of corporate governance as countries vary in terms of their culture, governance, constitutions and how businesses are administered Strenger (2015).

So, it is consequently expedient that Zimbabwe must correspond its legislation and governance framework of corporate governance with those of other countries thereby lowering costs of running business and advance certitude for firms which are international and financiers to the advantage of local firms tangled in trading internationally and investment Pfeiffer (2015). Owing to the close geographical vicinity, the economy of Zimbabwe depends massively on South Africa as it has an identical cultural, economic and political relationship. South Africa's judicial mechanisms held much power in the formation of Zimbabwe's judicial mechanisms (Besada & Werner 2014).

Throughout the era of apartheid in South Africa, the standards of corporate governance were jeopardized due to the financial and trade sanctions dictated by the United Nations and this developed into the country incurring different challenges in communicating with the worldwide market commercially (Afolabi 2015). This led to the South Africa's corporate systems, rules and governances not integrating with internationally accepted norms and directors of organizations disregarding valuable corporate administration and proficient ethics.

With the appointment of a democratic government the country had to initiate corporate governance rectifications so as to control requests from investors which were international, handle the prerequisites for foreign financial assistance and advocate for an elevated grade of corporate governance in South Africa (Mallin 2014). The Institute of Directors of South Africa (IoDSA) was the earliest leading body which was energetically involved in the advancement of good corporate governance by way of consolidating its duties in the progress of establishing the King Report on Corporate Governance (King Reports I-III)

The predominant informant of corporate governance in South Africa comprise of the Constitution of the Republic of South Africa (Act 108 of 1996), Acts of Parliament, Public Finance Management Act (PFMA) 1 of 1999 and Companies Act 71 of 2008, the Johannesburg Stock Exchange (JSE) Listings Requirements (Moloi 2018). The Constitution of South Africa is the principal legislation of the country and engages all jurisdiction, administrative and authoritative sections of the state at each and every level in the government. On chapter 10 of the Constitution of South Africa it seeks to advance good corporate governance by requiring the efficient employment of state resources, an elevated degree of adept ethics, candidness, equity and responsibility in the management on all of state and public entities.

The Companies Act of South Africa is also applicable to state owned enterprises. The Act expressly assert that any principle outlined in the Act that is applicable to a public firm pertains also to a state-owned firm, other than to the magnitude that the Minister has admitted an exemption in agreement with the stipulations of subsection 3.

The PFMA was announced on the 2nd of March 1999 and came into effect on the 1st of April 2000. It declared void the Reporting by Public Entities Act 93 of 1992. The PFMA aspirations are to solidify clarity, responsibility, and responsible administration of income, expenses, assets and liabilities of departments, state entities, constitutional institutions and provincial houses. The Act provides regulatory and an operative independence to public entities and it endorsed various precepts from the *King Reports* to advance the efficiency of the boards of public entities.

The PFMA portrays a crucial function in governing corporate governance systems and exhibits additional extensive standards for informing and responsibility by welcoming different propositions to the administration of finance in public entities that desires a good achievement for instance in the conveying of services and in the economic and effective disposal of assets and

resources of the state. It is involuntary for firms to abide by the stipulations of the PFMA and the Act dictates punishments for repudiation.

2.5 Measurements of corporate governance

Adeusi et al (2016) points out that the level of corporate governance employed can be assessed through analyzing the correlation among the variables of corporate governance which are board size, independence of the board, board's ownership, CEO duality and independence of the audit committee. Boards can be organized in numerous ways so that the obligations of the firm can be met. The difference in these boards portray two distinct perspectives Gay (2015).

The first one is that it is understood that boards are created to enhance to the uttermost the supervision of the governance of an organization by accepting arrangements that grant jurisdiction of the board by executives, developing in a remarkable performance because of the internal knowledge and an improved comprehension of the obligations of the organization which is unattainable to external liberated directors (Berle & Means 2014). The other angle is that boards are organized in a bid to lessen agency expenditures by the embracing of configurations that necessitate for the go-ahead and supervision of managers conduct through the assistance of external directors thereby lessening the distinction amidst shareholders and managers interest Coleman (2018).

The OECD points out that the board of state enterprises duty is to oversee management and equip them with sufficient crucial direction in correspondence with the goals established under the aegis of the shareholders Pfeiffer (2015). The function of SEP boards is ambiguous in comparison with that of private firms for a number of reasons. The first exposition is that these boards have not yet prevailed while absolutely empowered and in addition they are also incapable of adequately and autonomously performing their tasks which is probably owing to the statutory status these firms possess, a deprivation of clarified goals and incompetent administrative and jurisdictional frameworks (Mwaura 2017).

The accountability of state enterprises board can perchance be portrayed or immensely maneuvered by the government as it is the sole shareholder. entity. In this way, the board is

therefore not commissioned to undertake issues which maybe of paramount importance will be subject to the control of the government (Fredrick 2016).

2.5.1 Board size

With the conception of boards, one may readily presume that a board which is bigger maybe favored by way of allowing the addition of varied board members which are proficient in distinct fields; however, a bigger board size leads to a rise in issues dealing with management and exchanges of information thereby hindering the effectiveness and efficiency of the board (Jensen 2016). Lipton & Lorsch (2014) found out that a bigger board are distinguished by a dwindling capability of directors to assess management and to examine and determine how firm performance can be improved.

The CGF (2010) depicts that boards of SEPs comprise of the essential part of corporate governance and have to be trustworthy to guarantee a favorable outcome in the organization. Board size comprises of the optimal board members and Lipton and Lorsch (2014) recommended an optimal board size of approximately seven to nine directors, asserting that this augments the time employed to effect decisions. The consequence of this led to smaller boards which were more adept in comparison with bigger boards because of huge processing, monitoring and integration, nevertheless a difference of opinion from Yermack (2016) is that small boards can easily be influenced or controlled.

Ahmed et al. (2016) state that devising and incorporating fresh concepts and concurring on diverse points of view are to a lesser extent not likely to occur in bigger boards, which leads an advancement of the responsibility of the board to supply management with more prominent concepts and contributions. In this way, contention in the board indicates that the members of the board will to a larger extent not operate to the direct interests of the shareholders thereby creating the agency problem Spanos (2015).

The main issue on board size is on the capabilities of the board to manage and supervise managers Blair (2015). If the supervision role is intently done the conduct of the managers will be curbed and the agency problems will be lessened leading to an exceptional firm financial performance Wan (2016). With the restriction of managers, it will be strenuous for them to digress from accomplishing the owner's interests there will be a tight supervision from the

members of the board which navigates to the undertaking of decisions to the escalation of the shareholder's value and better organizational financial performance Strenger (2015).

2.5.2 CEO duality

CEO duality is another important control instrument rooted from the agency angle which is the partition of the duty of the CEO coming out of the chairperson's role (William, Judge and Koutzevol 2016). It can also involve circumstances in which the CEO of the organization acts also as the chairperson of the board of directors. On the contrary, non-duality is a leadership design that allows the detachment of the duties of the chairperson of the board and the CEO. Three theoretical premises in respect of the nonduality of CEO were formulated and they are: stewardship, resource-dependence and agency theories. The stewardship and resource-dependence theories propose that duality has a definite good effect on the performance of the organization Adeusi (2016).

Weir *et al.* (2016) argue that being an associate, the CEO is likely to be brimming of vast knowledge and a more elevate level of perception and greater experience of the most critical disputes and favorable circumstances, encountered by the organization as compared to a non-executive chairperson. The second argument is that duality allows an appealing CEO the chance to absolutely concentrate on the goals of the organization (Haniffa & Hudaib 2015).

Boyd (2015) alludes that in order to establish an equilibrium of capability and control, organizations should create a coherent and agreed upon division of accountabilities within the head of the organization. By this no persons have uncontrolled authority to engage in decision making. This is basically the divorce of the post of chairperson coming out of the CEO and this eventually cuts down the entire agency expenditures. Moloji (2018) state that the role of the chairperson must be ultimately detached from the Chief Executive Officer. Duality exhibits serious problems as the persons accountable for the performance of the organization are alike to those that adjudicate its effectiveness.

Abor and Biekpe (2015) established that organizations that divided these posts are likely to preserve an optimal capital structure alongside liabilities being utilized as an element of supervision for ethical jeopardy. Contrary to this, Donaldson and Davis (2016) advanced on to

explain that joining these positions is likely to be appropriate in small organizations. With that, they speculated that an independent non-executive director must work as deputy chairman or an autonomous non-executive director on the board.

The King III code of governance state that the board must appoint a chairman of the board who is an autonomous non-executive director and the CEO of the firm should not be allowed to occupy the post of being the chairman of the board. Section 3.11 in the Corporate governance framework for state enterprise and parastatals (2010) states that the duty of the chairperson and of the Chief Executive Officer must not be designated to the individual with either one of those roles as it is mandatory to eradicate the friction of roles.

2.5.3 Independence of the audit committee

Fundamental committees that must be in the board are the audit, remuneration and nomination committees McDonalds (2014). Based on specific organizations the risk committee, information technology and governance committees are extra committees that could be deliberated. Board committees consist primarily of autonomous non-executive directors and these committees work to the so as to safeguard the interest of the shareholders. The committees also assist in the efficient operations of the board of directors Fredrick (2016).

Audit committees bear a substantial task to perform in accordance with worldwide systems Weir (2016). The Sarbanes-Oxley Act from the USA together with the UK's Smith Report is the chief dominant regulatory scheme in regard to audit committees. King III desires the need for an autonomous and appropriately adept audit committee. Audit committees also encompass sanctuary roles in accordance with the Companies Act 71 (2008) of South Africa, separate from the board. The committee is also established to grant supervision and affirmation of honesty in the publishing of financial reports and the disclosing of the organization's performance. The precision of how they report influences how the organization is apprehended to the stakeholders and potential financiers Lipton (2014).

The King III for South Africa (2009) on section 3.1 elucidate that the board must make certain that the organization employs a proficient and autonomous audit committee that will be adjoin regularly using stipulations sanctioned by the board. Chairmanship must be occupied by an independent non-executive board member and this produces a section of the requisite

determinants encompassing the development of how to regulate risk. The entire audit committee members are supposed to be independent non-executive directors.

Mallin (2014) postulates that the audit committee is a crucial sub-committee of an organization's board considering the imperative function they execute in safeguarding the interests of the shareholders by regulating finances and supervision of it. This assists in the assuagement of agency predicaments by expediting the prompt delivery of unprejudiced information of accounts from management to shareholders, stakeholders and creditors thereby curtailing down the irregularity that comes with information among internal and external stakeholders Wan (2016). With an efficient control, it compels a much greater organizational performance and this is directly connected with the portion of external directors' present in the audit committee.

Abbott, Parker and Peters (2016) suggest that a self-sufficient audit committee emanate into an impressive guide in the course of accounting for finances. This self-sufficiency involves its particular perils as the directors which are autonomous may be deficient in the requisite industry prowess and can also be engrossed in their individual issues which culminates in little time being actually consecrated to business of the organization Nicholson (2016).

Klein (2018) alludes that the capability of effectuating fraudulent financial activities is dwarfed through the overseeing of the audit committee which reinforces the confidence of the investors and the financial worth of the organization. Audit committees call for an advancement of clarity from the managers hence intensifying the conditions of publication of financial reports especially to shareholders thereby the problems associated with agencies will be lessened Moloji (2018).

2.5.4 Board's ownership

The percentage of the board with director's owning shares is an addition an interior corporate governance tool that was tendered in a bid to resolve complications surrounding agencies. Jensen and Meckling (2016) propound that clashes amidst the shareholders and management crop up reason being that the managers possess surplus claims which are below 100 per cent. By this they cannot obtain a complete gain emanating out of the operations which seek to boost profit yet they put up with up the whole expenditure coming forth from these activities. Vambe (2018) alludes that this results in a reduction of the effort put into regulating the resources of the organization. These ineffectual routines can be cut down when management owns the bigger chunk of the equity of the organization.

Grout and Stevens (2014) propound that the effects of dynamic ownership systems in the long run especially amidst the government and private proprietorship are contentious. They also assert that the motivation for the government to hold shares in any organization may be accompanying certain political targets. Despite this, the government may occupy a hefty cut of equity in an organization so as to have charge of the organization. Shleifer and Vishny (2017) express that ownership by the government negatively affects performance of an organization. Shleifer and Vishny (2014) also state that ownership by the government is susceptible to agency issues. This is as a result of the inclination of management to pursue their individual interests rather than commercial goals for instance maximization of profit, the government gravitate towards employing the assets of the organization to attain their political goals.

The government is mostly concerned with the overseeing of rights of ownership as opposed to cash flow rights Ndhlukula (2017). This distinction and red tape induces the privation of motivation for the administrative body striving for the maximization of profit. Grout & Stevens (2014) account that aggressive markets along with private companies are to a greater extent profitable and adept in comparison with state enterprises. In like manner, Najid and Abdul Rahman (2016) allude that state enterprises are not ingenious and have a shortage of an entrepreneurial vigor which results in an exiguous financial performance of an organization.

2.5.5 Board's independence

The independence of the board is one of the most argued upon matter in corporate governance analysis owing to the fact that it has the capacity to impact board discussions and to dominate resolutions reached by management in the firm Williamson (2017). It is contended that directors which are autonomous usually behave in order to maximize the shareholders interest in an excelling manner in contrast with directors who are internal as they do not possess some motivation to work jointly with inside managers to maximize the wealth of the shareholders (Monks & Nell, 2004). An autonomous and efficient board of directors will reinforce the characteristics and number of information supplied by those within the firm directed towards the community thereby assisting in the cutting back of unfavorable selection expenditures Clarke (2014).

The Central bank of Kenya (2014) suggests that non-executive directors must encompass at least 3/5 of the whole board so as to intensify accountability. The theory of agency suggests that there is a necessity to engage directors who are independent in the board of the organization to enable the control of some egoistic behaviors done by management in order to abate agency expenditures (Williams *et al.* 2017).

The elected directors by the CEO may fail to adequately supervise the CEO. Byrd and Hickman (2014) propound that even a proficient and exceptional CEO can designate directors who are independent in a bid to delight shareholders with a misapprehension that an effectual control of the activities of the organization is there when in fact it is not available. Social psychology suggests that people are ingrained with an inclination to comply with jurisdiction thereby they behave in an optimal manner despite not earning anything when they stick up for an erring chief executive officer (Morck 2017). With a decline in the performance of an organization, autonomous board of directors are usually inclined to choose a substitute of the chief executive officer externally as opposed to an internal contender (Borokhovich *et al* 2016).

Albeit the suggestions of the agency theory of incorporation of autonomous non-executive directors to help build up the board's autonomy from management, it was noticed that autonomous directors are usually not the cause of misconducts executed by the firm's executives on the assets of the firm which steers a performance which is negative (Morck 2017). It is also widely recognized that internal directors embody certain internal information the firm that is not available to external directors. Their active engagement in the administration of the organization leads these internal directors to obtain an easy access to essential information which can be employed to advance the financial performance of the organization (Najid 2016).

Internal directors nonetheless abuse this privilege of obtaining this information and transmit the wealth of the shareholders to themselves even in the propinquity of the autonomous directors (Beasley 2016) and all the inquiries concerning the activities of the organization are aimed at the internal directors during the board meetings and they are expected to comprehensively answer (Anderson & Reeb 2014). This assists in relief of difficulties encompassing information asymmetry. Morck(2017) assert that it can be contended if autonomous directors are absolutely autonomous as they may hold secret bonds with the chief executive officer.

2.6 Measurement of financial performance

Heremans (2017) defines financial performance as the engagement of financial pointers to be able to calculate the magnitude to which objectives have been accomplished and availability of financial reserves. Rutagi (2016) describes financial performance as how effectively firms operate. Financial performance also constitutes financial management in state enterprises which comprises of the skills of how financial resources are regulated (Jacobs 2016). This is a sector which necessitates knowledge and aptitude and the achievement of objectives which are: profit maximization, obtaining a bigger share of the market along with reduction of staff turnover.

Jacobs (2015) outlines that performance measurement is imperative when in a bid to calculate how an organization is financially performing. Two divisions can be made on performance measurement and they are financial performance measurement and non-financial performance measurement. Financial performance measurement relies on the financial ratios of organization's which include profitability ratios along with liquidity ratios Strenger (2015).

The second performance measurement is non-financial and this one is instinctive as it is based on service offered to the customers, the wellbeing of the employees in terms of their employment and how cash flow movements vary in a certain time frame (Haber & Reichel 2015). Financial performance can be computed through the employment of investment ratios which are return on assets and return on equity (Schniederjans 2014). Another method of computing financial performance is through accounting-based performance measures which typically uses financial information articulated in the organization's reports.

Investor returns which are share price and Tobin's Q which illustrates the financial worth of shares or the market and accounting returns also depict financial performance (Griffin & Mahon 2017). Share price is induced by the apprehension of the shareholders on returns appropriated by the organization and this will be the guide to the organization's market value. Accounting-based measures comprise of various ratios for instance the gearing and efficiency ratios formulated from the organizations financial reports and they are able to depict an organization's financial performance Weir (2016).

2.7 Relationship between corporate governance and firm financial performance

Okwee (2015) carried out a study on corporate governance and financial performance of companies in Lango sub region of Uganda. The study involved a sample size of 63 companies that were drawn from a population of 75 firms in Lango sub region. The findings from the analyzed data revealed that a significant number of firms were found to comply less with corporate governance guidelines, risk was found to be weakly and negatively correlated with corporate governance and financial performance where as corporate governance and financial performance were found to be strongly positively correlated. The study also outlined a number of corporate governance practices that are likely to impact on the financial performance of organizations. These practices include CEO dualism, board size, board's ownership, board's independence and boards structure (Okwee 2015).

Liech (2016) also conducted a study on the relationship between corporate governance practices and financial performance of local airlines in Kenya. The aim of the study was to establish how corporate governance practices affect the financial performance of local airline companies. The study measured corporate governance by using a corporate governance index (GCI), which is a score of various corporate governance questions derived from the various corporate governance codes of the Capital markets authority. The findings by Liech (2016) indicate that there is a significant relationship between corporate governance practices and financial performance of airlines. It was also evident that airlines with strong corporate governance practices also have better financial performance.

Van den Berghe and Levrau (2014) utilized data derived out of emanating markets and constructed that there is confirmation of a positive correlation amidst corporate governance and organizational financial performance. They propounded that firms should not disregard the demands of the investors in relation to matters involving corporate governance. There is no distinct way to assess corporate governance hence scholars have adopted ample sphere of ways to permit them to probe the varied components of corporate governance (Van den Berghe and Levrau 2014).

Wan (2016) illustrates that different performance indexes are available and any one of them can be chosen to gauge the financial performance of organizations thus selection of method to employ hinge on the interest of the researcher. Bourne and Franco (2015) describe organization's performance meters as effectiveness, leverage, cost-effectiveness and liquidity. They continue

explaining that an upright gauge of financial performance should encompass the important distinguishing factors of being a widely used measure with an organized comprehension of stratagems whilst making available the responses and act on the outcomes. This research was fixated on these standards which are imperative to organizations.

Bourne and Franco (2015) affirm that an improved corporate governance results in a satisfying financial performance of a firm as it thwarts the seizure of regulating shareholders and thereby guarantying improvements in the executions of decisions. Iskander, Magdi and Chamlou (2017) argue that organizations incorporating corporate governance principles incur lesser costs of capital moreover this also leads to an improvement in organization's performance. With this an organization employing good corporate governance will help in the reinforcement of a corruption-free community. Adams and Mehran (2016) agree that poor corporate governance in organizations paves the way for corruption alliances amidst the politicians and state enterprises. McKinsey and Company (2017) performed a survey in Malaysia and the results were that investors were more inclined to offer a premium to organizations with a good corporate governance.

Brickly *et al* (2015) projected a definite positive correlation amidst corporate governance and firm financial performance though Park and Shin (2015) could not corroborate the connection amid the two variables. Young (2015) could also not find any significant relationship between corporate governance and financial performance and several explanations have been given to account for these apparent inconsistencies. Brenes *et al* (2015) also conducted a study on corporate governance and financial performance of state enterprises using only two variables and the results were negative. Gani and Jermias (2016) argued that the problem lies in the use of either publicly available data or survey data as these sources are generally restricted in scope. It has also been pointed out that the nature of performance measures (i.e. restrictive use of accounting based measures such as return on assets (ROA), return on equity (ROE), return on capital employed (ROCE) or restrictive use of market based measures (such as market value of equities) could also contribute to this inconsistency.

2.7 Limitations on the implementation of corporate governance in state enterprises and parastatals

Hostfede (2016) outlines that proponents of corporate governance in Nordic countries agree that adherence to the principle is robustly affected by the organization's size. Herring &

Chatusripitak (2015) did a research and the findings of that research portrayed that the organization's size signals the level of distinction in investment in that organization.

Ikotun(2017) elucidate that good corporate governance in state enterprises rises with a decline in the level of corruption in the country. In countries with rampant corruption it is then difficult to implement properly good corporate governance. One explanation of dishonest and immoral behaviors in organization's can be ascribed to a corrupt management and a privation of responsibility. Ikotun (2017) further elaborates that in Zimbabwe poor leadership and governance has led to corruption being a statecraft.

Cohen (2016) outlines a few points curbs the application of corporate governance in state enterprises and they are:

Financial resources: The challenge faced with this is that state enterprises lack appropriate funding as they are not in the business of making a profit but of delivering a service. Implementation of good governance then becomes difficult as a result of fewer finances.

Lack of knowledge at national level which results in a lower level of participation in corporate governance matters. Ikotun(2015) argues that good governance in any nation is the relative absence of corrupt practices in all its ramifications. The implication of this position is that in a nation where corruption has almost become the norm, such a nation cannot claim to experience good governance. One of the reasons attributable to the unethical practice of corruption in a nation is that of weak leadership and lack of accountability of public officials. Commenting on the state of corruption in Zimbabwe, Ikotun (2015), points out that corruption has been converted into statecraft in Zimbabwe because there has been a failure of leadership and accountability in the government.

Cohen (2016) propounds that: to create the conditions for good governance and fight corruption, a whole array of institutions has to be strengthened within each country so that core strategy is the one that requires much more than declarative intent. It requires a major shift that recognizes as necessary stakeholders in the efforts to achieve good governance and to win the fight against institutionally embedded corruption. Other important challenges at the national level include the lack of civic education among citizens and civil society leading to low participation in the political process at both national and local levels, low gender participation especially in the legislature, weak exploitation of the potential of traditional rulers in the governance process, and

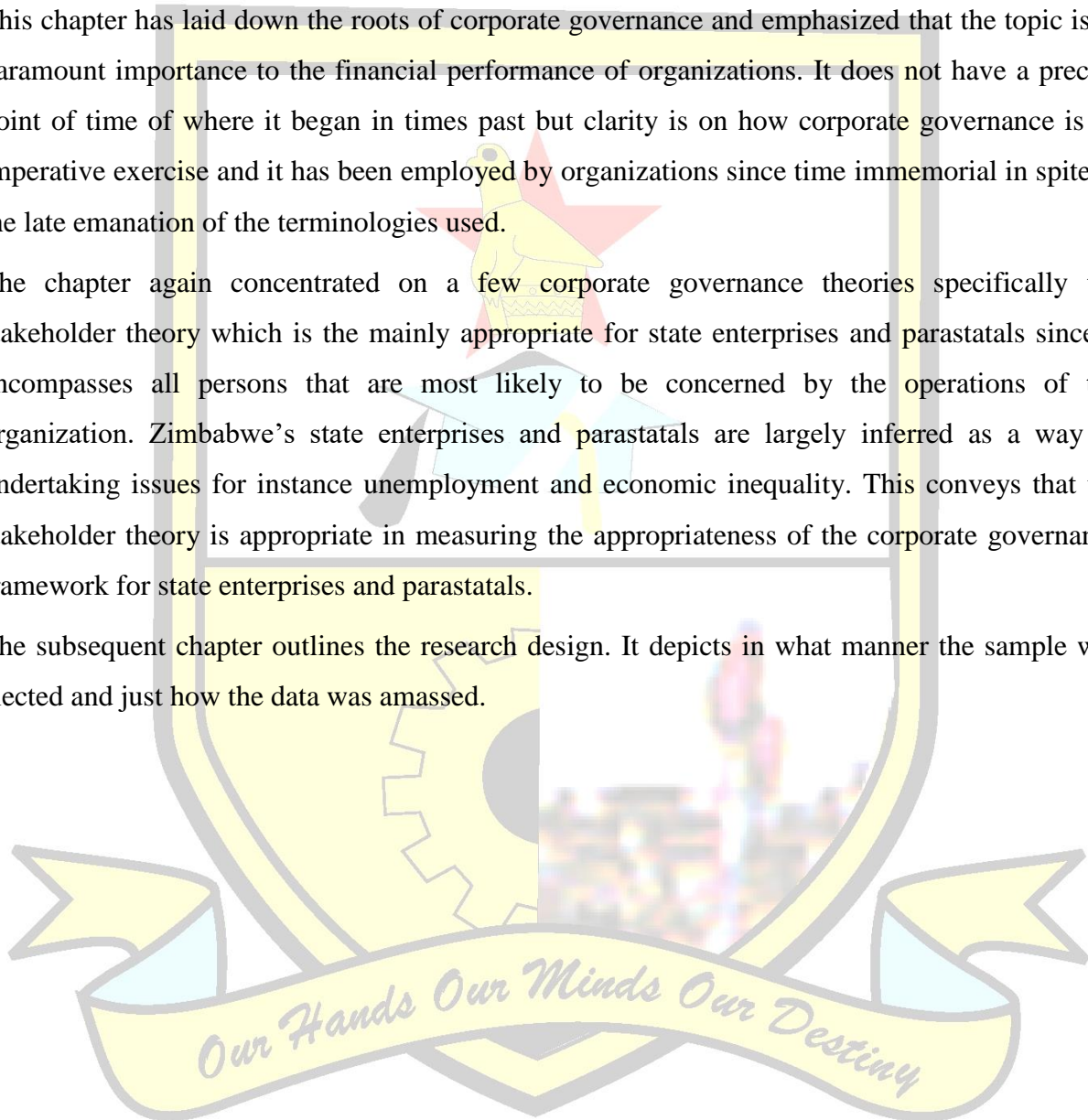
the lack of credibility of the electoral system, especially of the Electoral Commissions Petra (2014).

Chapter summary

This chapter has laid down the roots of corporate governance and emphasized that the topic is of paramount importance to the financial performance of organizations. It does not have a precise point of time of where it began in times past but clarity is on how corporate governance is an imperative exercise and it has been employed by organizations since time immemorial in spite of the late emanation of the terminologies used.

The chapter again concentrated on a few corporate governance theories specifically the stakeholder theory which is the mainly appropriate for state enterprises and parastatals since it encompasses all persons that are most likely to be concerned by the operations of the organization. Zimbabwe's state enterprises and parastatals are largely inferred as a way of undertaking issues for instance unemployment and economic inequality. This conveys that the stakeholder theory is appropriate in measuring the appropriateness of the corporate governance framework for state enterprises and parastatals.

The subsequent chapter outlines the research design. It depicts in what manner the sample was elected and just how the data was amassed.





CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter explains how the data was collected and the statistical techniques used to deliver the outcomes of this study. It will portray the methodology applied for this research paper and the research limitations, sampling, data collection method and tools, data analysis and the research design.

3.1 Research Design

Higson (2015) illustrates research design as a procedure that leads the researcher in the gathering of data along with the examining the results. It also comprises of a consistent sequence of ascertaining the research questions, the procedure to be employed to acquire the appropriate data and how it will be effected so as to accomplish the research objectives. The research design preferred by the researcher was the descriptive research design.

3.1.1 Descriptive research design

A descriptive research design is explained by Best (2014) as a research plan appearing as the actual experiences of the major theme in the research. The author also exhibits descriptive research design as one which concentrates more on studies embarked on by certain individuals and groups. The design also seeks to answer the how, what, when, where and who of the

research questions. Thyer (2016) points out that descriptive research design assists researchers to acquire knowledge on the variables occupied as well as forming a relationship of the variables. A descriptive research design was employed in this study to acquire the opinions of persons in the target population concerning the factors influencing how Air Zimbabwe is adhering to the corporate governance practices set and the extent to which it affects their financial performance. The benefit of this research design is that it yields both qualitative and quantitative evidence arising out of the portion chosen to stand for the entire population. It also allows the accumulation of results of the research to be presented by way of either oral and/or written channel of communication. Additionally, the design allows an easy statistical presentation of results (Mastropieri 2017). This research design is economical and can considerably lessen financial constraints which is one of the limitations of this research paper (Garland 2014).

3.1.1.2 Qualitative approach

Qualitative approach was employed in this research as it provides the background of the study areas and the researcher found it reliable. Cottrell (2014) say that it involves examining and reflecting on the less tangible aspects of a research subject, for example values, attitudes, perceptions.

3.1.1.3 Quantitative approach

Quantitative research is the collection and analyzing of numerical data Gay (2016); it concentrates on measuring the scale, range, frequency of phenomena (Hair 2015). It is highly detailed and structured and results can be easily collated and presented statistically. Quantitative method was used to present the findings using graphs and tables.

3.1.1.4 Case study

The researcher focused on a case study of Air Zimbabwe. A case study is an important research tool that address areas of paramount importance at hand. The advantages in connection with a case study is that, they facilitate examination of data often conducted within context of its use and also focuses on both qualitative and quantitative researches which enables the researcher to have a holistic approach.

3.2 Research population

Population is described as all components that fit the model standard for incorporation in the study Groove (2014). Mastropieri (2017) explain that a research population is a number of people with mutual knowledge from which can enable a sample to be selected. The entire directors, executive members and other Air Zimbabwe employees in the finance department who are pertinent to this study encompassed the research population.

3.2.1 Census

Australian Bureau of Statistics (2015) describes a census as a study of everyone or everything in a population (complete enumeration). The researcher used the census to extract more reliable data due to the existence of a small group of individuals within the target population at Air Zimbabwe. The distribution of population is as follows:

Population identity	Target population	Census population	Interviews	Questionnaires
Directors and Executives	5	5	5	5
Top Management	7	7		7
Finance Department	17	17		17
TOTAL	29	29	5	29

Table 3.1 Researcher statistics

Given the above population, the researcher chose to use census over sampling to enable the exploration of adequate data to make the research feasible. The respondents were apportioned into three segments by their distinctive posts they occupy and other appropriate information the researcher desired to utilize.

3.3 Data sources

3.3.1 Primary data

This refers to data that is accumulated straight from the source Cottrell (2014). It comprises of data amassed with the help of observations, interviews along with questionnaire. Cooper and Schindler (2014) points out that primary data is eminently valuable as the data amassed will be in

a raw state thereby turning into first-hand data. The data is therefore unprejudiced and credible in comparison with data gathered from secondary sources.

The cons of this method are that it consumes a lot of time during the accumulation of relevant data and it relies heavily upon the behavior of the respondents concerning the supply of information required. Some respondents intentionally misstate details so this results in the researcher having a difficult time to process the data into considerable information Cottrell (2014).

3.3.2 Secondary data

Cooper and Schindler (2014) describes secondary data as that type of data that was previously compiled by other researchers, and is easily accessible for the public. This study utilized secondary data which include the Auditor general reports (2014 to 2017), The King codes of South Africa, Corporate governance framework for SEPs (2010), published journals on corporate governance and other appropriate information the researcher desired to utilize. This source of data is easily accessible, inexpensive and does not consume a lot of time in accumulation.

3.4 Research instruments

Rusere (2017) describes research instruments as means and procedures employed that gears up the researcher on his relevant study to obtain relevant information which will be unavailable on public websites and published articles and journals. On the collection of information for this study, the researcher made use of questionnaires and interviews in order to answer the research problem and this aided the researcher on the assessment of the varied responses given by the target population.

3.4.1 Questionnaires

Cooper & Schindler (2014) chronicle a questionnaire as a research tool that comprise of an array of questions along with other cues contrived as a means of accumulating information from the target populace. The researcher employed a number of questions calculated to produce data that is vital for achieving the research objectives utilizing a questionnaire. The principal objective of this study was to determine the impact of corporate governance on the financial performance of Air Zimbabwe hence considering the nature of the indicated objective, it necessitated an analysis

which is quantitative therefore the researcher elected a closed ended questionnaire with a Likert scaling.

The Likert scale is a technique of scaling answers provided by the respondent. Various notions are allocated certain points and the points are then combined to get an intermediate attitude outlook on the issue being deliberated upon Leary (2016). This research paper made use of five options which are strongly agree, agree, neutral, disagree and strongly disagree on the Likert scale.

Likert scale

Attitude	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Points	5	4	3	2	1

Table 3.3 Cresswell (2014)

The number one reason of why questionnaires are dispensed is that questionnaires standardize the responses given by the respondents and they also concentrate chiefly on the research problem Hair (2015). Questionnaires typically dwindle prejudice by eradicating the entanglement of the researcher probing so this results in efficacy when gathering relevant data for the study Cresswell (2014). The researcher made certain that the questionnaires distributed did not any way impinge upon the privacy of persons and the confidentiality of Air Zimbabwe.

3.4.2 Interviews

The researcher utilized the face to face approach to acquire information which pertains to the questions of the study. The interviews performed were oral interviews so as to mitigate the chances of acquiring diverse information (Cooper and Schindler 2014).

3.5 Data collection procedures

3.5.1 Questionnaires – drop and pick method

The questionnaires were left to the target populace and were collected subsequently after a period of approximately two days owing to the nature of their activities. This technique gave ample time to the respondents to ponder on their responses and it was also advantageous to the researcher. The questionnaires were uncomplicated and effortlessly comprehensible which in turn assisted the respondents to respond and give them back within a short time.

3.6 Validity and reliability of findings

Hair (2015) alludes that questionnaires give the assurance of reliability of information amassed heightened due to the employment of varied questions. Pre-testing was engaged to assist the researcher in correcting errors which may be on the questionnaires. Examination of the questionnaire prior to its distribution to the target population was done with the help of the researcher's colleagues and the dissertation supervisor.

3.7 Data analysis and presentation tools

Findings of this study were categorized commensurate with the Likert scale and assigned into clusters depending with the answers to the questionnaire so as to allow for a smooth examination and presentation Leary (2016). Findings of this research paper were exhibited through tables, graphs and charts in order to give an illustration of the results. The researcher also filtered out some questionnaires in order to ponder upon those that encompassed data which was suitable and applicable to this study. Analysis of data carried out utilizing statistical techniques.

3.7.1 Data analysis technique

Regression analysis was used in order to examine the relationship between corporate governance and financial performance of Air Zimbabwe. The analytical model engaged in the examination of the relationship amidst the dependent and independent variables is:

$$Fp = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5 X_5 + b_6 X_6$$

Where:

Fp is the financial performance of Air Zimbabwe calculated using return on asset (ROA).

x1 is the board size

x2 is the independence of the board

x3 is the structure of the board

x4 is CEO dualism

X5 is the independence of the audit committee

X6 is the ownership of the board

3.8 Budget

The budget for this study was fully funded by the researcher. The expenditures incurred included travelling and printing costs.

Chapter summary

The research methodology employed for this study was summarized in this chapter and the extent reached to the research design, sampling techniques, instruments for the research, research participants and how data will be analyzed. Ethics were also taken into account during the gathering of data. The subsequent chapter concentrates on the analyzation, examination and apprehension of the findings.



CHAPTER FOUR DATA PRESENTATION AND ANALYSIS

4.0 Introduction

This chapter analyzes what was found on the research in order to arbitrate whether there is a connection between corporate governance variables and financial performance of Air Zimbabwe. Examination of these findings will be executed so as to answer the research questions outlined in the first chapter of this research paper.

4.1 Response rate

The researcher dispersed twenty-nine questionnaires to the directors, management and other employees in the finance department who composed the entire sample. Of the twenty-nine distributed, twenty-three questionnaires were conveyed back to the researcher and the response rate was 79%. Trochin (2014) expresses that a response rate which is between 65% to 88% can

be deemed favorable. The response rate of this study was high as the respondents were accommodating therefore the researcher can deduce inference from this data.

21% is the percentage of questionnaires which were not returned

Description	Questionnaires distributed	Questionnaires returned	Response rate
Directors/executives	5	5	100%
Senior/junior management	5	5	100%
Accountants	10	6	60%
Accounts assistants	7	7	100%
TOTAL	29	23	79%

Table 4.1 Response rate (Sampling survey)

4.2 Preliminary data analysis

This section outlines an overview of the respondent's information for instance their demographic information along with further attributes that permit an enhanced comprehension of the determinants influencing the way they responded.

4.2.1 Gender distribution

The bulk of the respondents were 17 males which constituted 73% and the females were 6 and constituted about 27%. Based on these findings it can be denoted that the organization is to a greater extent dominated by males. These findings are in tandem with a research done by Carli (2010) in New Zealand who observed that female counterparts comprised only constituted only 7% of the entire management team in state owned enterprises. Gumbi (2016) also did a study in South Africa and it revealed that women only made up about 18% in senior management in state owned enterprises.

Occupation	Male	Female
Directors and executives	4	1
Senior management	3	2
Finance department	10	3

Total	17	6
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Table 4.2 (Gender analysis)

4.2.2 Educational qualifications

This research also took into account the academic qualifications of the respondents as the findings are more likely to be valid and reliable if collected from personnel which is knowledgeable and proficient and these qualifications were sorted into four divisions. The findings indicate that 16 respondents (70%) had their bachelor’s degree, 5 respondents (22%) had their Master’s degree and only 2 respondents (8%) had diplomas.

The pie chart below illustrates the educational qualifications in percentages of the respondents.

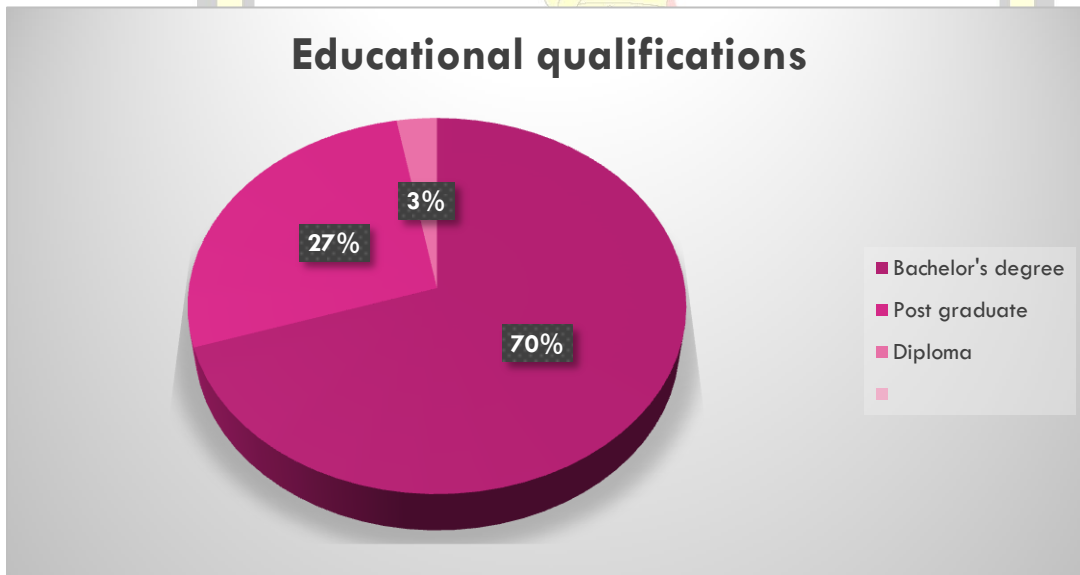


Figure 4.1 Source (Primary data)

These results correspond with studies executed by Lybaert (2015) which depicted that higher academic qualifications are substantial for the survival of state owned enterprises and also agrees that a greater number of qualified personnel in the board of directors augment the knowledge base of the organization hence it promotes a contemplative way of resolving challenges which the firm faces. Thus, these findings can be termed reliable and valid as the data was amassed from people who are eminently qualified.

4.2.3 Duration at Air Zimbabwe

The findings reveal that 44% of the respondents which are 10 people have been employed at Air Zimbabwe for more than 10 years, 44% of the respondents again which are 10 people have been working at the organization for about 5 to 10 years and 12% of the respondents who are about 3 people have been at the organization for less than 5 years.

The diagram below exhibits the results of the findings:

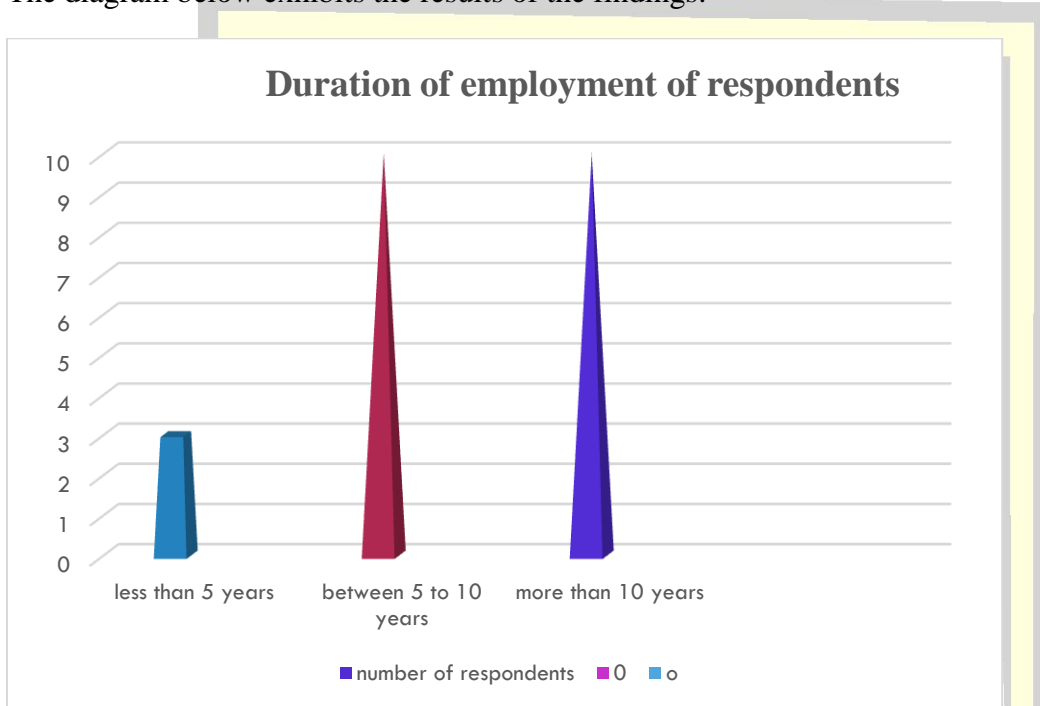


Figure 4.2 Source (Primary data)

As depicted from the above figure it can be deduced that the bulk of the respondents at Air Zimbabwe have been working at the organization for at least 5 years therefore the findings extends an extra level of assurance that the bulk of the respondents are well cognizant of corporate governance issues occurring at the organization. More than 50% of the respondents have worked at Air Zimbabwe for more than 8 years hence the findings can be considered reliable and valid by virtue of their capability to answer the questions which they are knowledgeable of.

4.3 Questionnaires response: Presentation and analysis

4.3.1 Appreciation of corporate governance

Respondents were asked if they knew and understood what corporate governance is. Senior management and the directors seemed to have an idea of what it corporate governance making

up 43% of the respondents. Employees in the finance department who comprehended corporate governance made up 13% of the respondents. The rest of the respondents (44%) in the finance department were uncertain as to what corporate governance was and its principles.

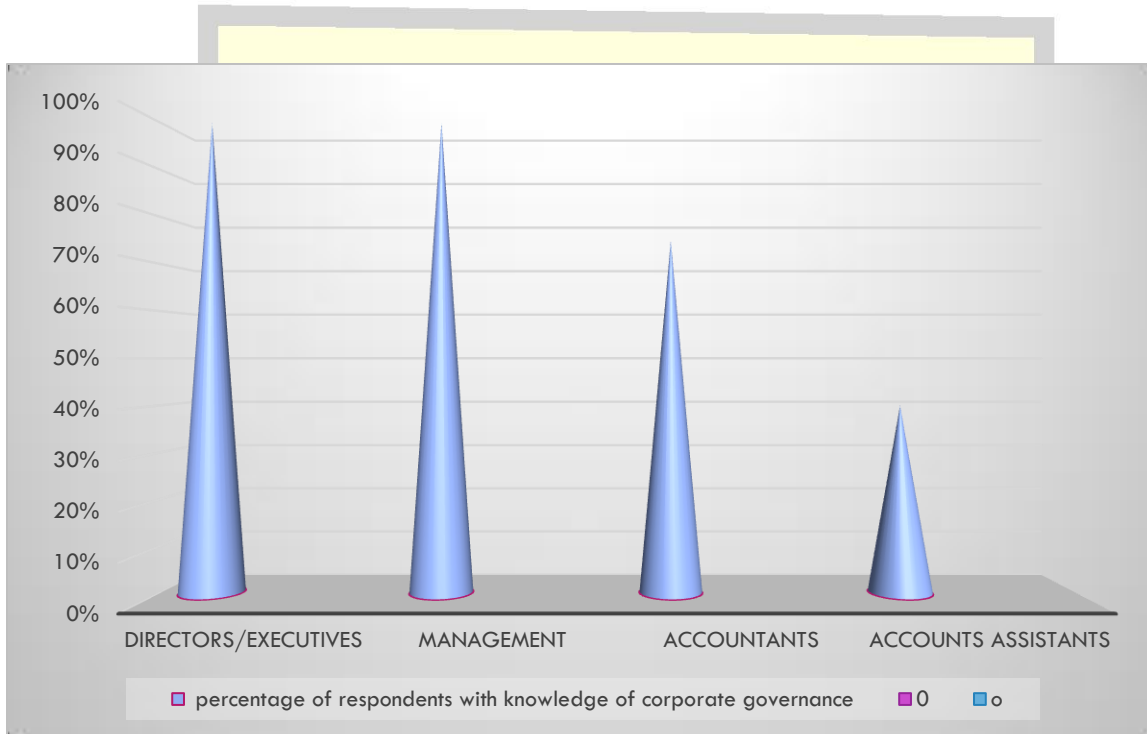


Figure 4.3 Source (Primary data)

Of the 44% of the respondents who showed little understanding of corporate governance indicated that the concept would not achieve much under the current political environment which suggested political interference in the running of the airline. Fama (2015) alludes that employees in an organization with little comprehension of corporate governance causes questions to be raised on the competency of some individual members in discharging their mandate for the company though self-reported awareness of corporate governance is not a guarantee that the individuals would adhere to the principles Byrd (2014).

4.3.2 Extent to which Air Zimbabwe adheres to the corporate governance framework

This section aims to answer the research question; to what extent has Air Zimbabwe adopted the corporate governance principles outlined in the corporate governance framework. This study employed the corporate governance index basing with the information gathered on the questionnaire distributed to respondents which was formulated based on the 5 OECD Principles of corporate governance (2014) and these principles were used in the preparation of Zimbabwe's Corporate governance framework of state enterprises and parastatals (2010), the ZIMCODE and PCG Bill (2017). Points were assigned to each question using the Likert scale. Questions which represent good corporate governance principles and were presented to the respondents with the aim of establishing how effectively the organization is complying with these recommendations.

Corporate governance factors currently in use at Air Zimbabwe?

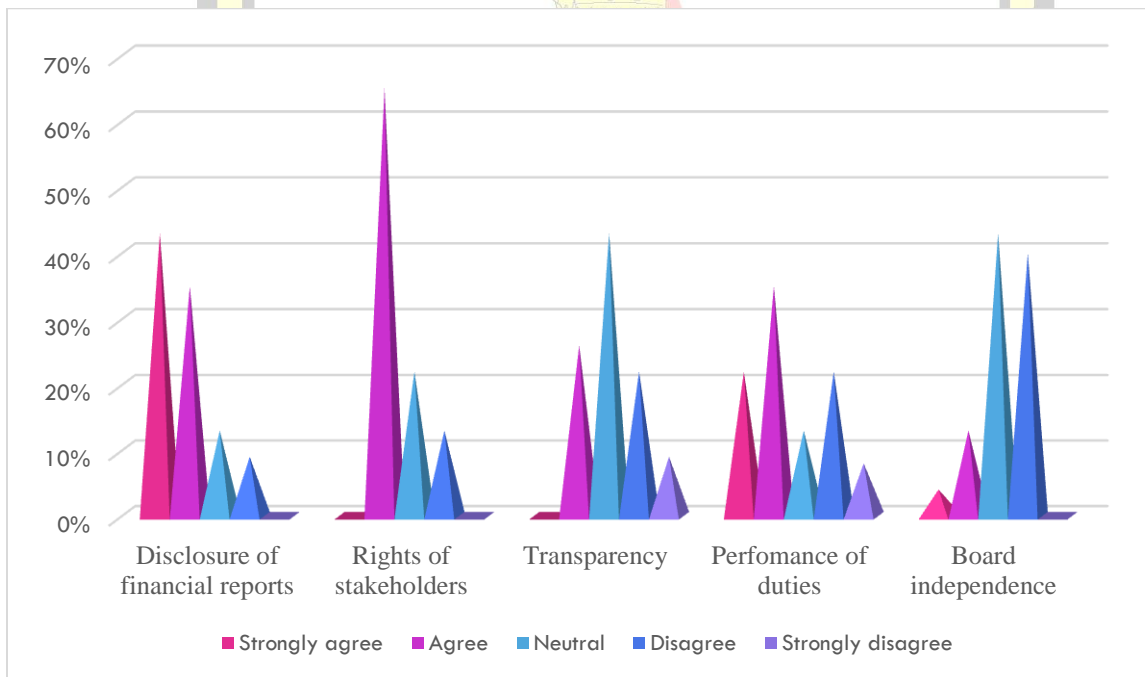


Figure 4.4 Source (Primary data)

Table 4.3 and Figure 4.4 above denotes that 10 (43%) of the respondents strongly agree that the organization is disclosing its annual financial reports, while 8 (35%) of the respondents also agree though not with the same intensity thereby we can conclude that the organization is publishing their annual financial reports; this agrees with research findings of Ke-Yi and Qian (2017) who established that disclosure and candidness are crucial to the success of state enterprises.

6 respondents (26%) agree that board members at Air Zimbabwe are transparent with business transactions which take place and 10 respondents (43%) are uncertain as to whether the board divulges important information to them and this agrees with the findings of Otiano (2015) who established that most state enterprises are not transparent and do not divulge information concerning the organization to its stakeholders.

5 respondents (22%) strongly agree that board members at Air Zimbabwe are executing their duties in the interests of their stakeholders while 35% (8 respondents) just agree, 3 respondents (13%) are neutral and 7 respondents (30%) disagree with this statement and this is in tandem with Scheifer and Vishny (2017) who argued that state enterprises which incorporate corporate governance principles to a larger extent operate in a way which only seeks to please the stakeholders. 1 respondent (4%) strongly agreed that directors are very much independent from the CEO and the government while 3 respondents (13%) just agree, 10 respondents (43%) are neutral and 9 respondents (40%) do not agree with this notion.

A scorecard approach was used to measure the level of compliance to corporate governance principles in this study. It was developed by the Banja Luka Stock Exchange with the assistance of the International Finance Corporation based on the model of the scorecard for German corporate governance. The International Finance Corporation (2014) defines a scorecard as a tool to measure the level of observance of a code or standard of corporate governance.

Maximum Calculated And weighted score using the Likert scale

Number of statements posed to 23 respondents	7
Maximum score for all questions	805
Actual score	515

Table 4.4 Source (Research data)

Based on these findings it can be deduced that Air Zimbabwe is incorporating corporate governance principles outlined in the corporate governance codes to about 64%. Todorovic (2015) asserts that a level of between 40% to 70% is not a satisfactory level for compliance to corporate governance by state enterprises as this pose business risks and lowers completeness of the organization.

4.3.3 Relationship between corporate governance and financial performance at Air Zimbabwe

Multiple regression analysis was used in this research paper in order to test the effects amongst the predictor variables of corporate governance and financial performance. Statistical Package for Social Sciences (SPSS) was employed to code, record along with calculating the extents of the multiple regressions.

The level of acknowledgement to statements relating to the financial performance of Air Zimbabwe was also asked in the questionnaire and during the interviews for clarification. The aftermath of the inquiry is presented in Table 4.4 below.

Financial performance	Mean	Standard deviation
The organization has had an increase in R.O.A in the last 5yrs	3.81	1.05
The ratio of cost to income ratio has heightened in the last five years.	3.75	1.03
The organization has been able to pay its employees' salaries in the past 2 years.	3.81	1.05
The organization has declared a dividend to the government in the past 5 years.	3.64	1.00
Organizational risk has been well managed	3.04	0.83
The organization has produced audited financial statements on time	3.20	0.88
The organization has attracted foreign direct investment in the past 5 years	3.16	0.87
The organization has not received funding from the government in the last 5 years	3.45	0.95

CUMULATIVE MEAN	3.5	1.03
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Table 4.4 Source (Survey data 2018)

Based on the analysis of the various facets which influence the financial performance of Air Zimbabwe outlined in table 4.4; the effects of the various notions have a mean of 3.50 and a standard deviation of 1.03. This denotes that Air Zimbabwe has been having a decline in profitability and it has not been performing to its full potential in the last five years.

4.3.3.1 Inferential statistics

Table 4.7 Multiple regression analysis

Model 1	Unstandardized coefficients		Standardized coefficients	T	Sig.
	B	Std. Error	Beta	B	
(Constant)	4.478	.826		3.61	.000
Independence of the audit committee	0.802	.864	0.359	8.41	0.008
Board size	-0.312	.0312	0.218	1.81	.022
CEO duality	0.238	.68	0.142	4.56	0.012
Board independence	0.465	.453	0.146	2.52	.018
Board's ownership	0.765	.238	0.044	3.34	.003

Source: Stata 11

The R^2 is used to test the goodness of fit (Kupfer 2016) and in this case the R^2 was 0.8082 which means that the model used to test the relationship is 80.82% fit for the test.

From the regression findings, the substitution of the equation

$$Y = 4.478 - 0.312 X_1 + 0.802 X_2 + 0.238 X_3 + 0.465 X_4 + 0.765 X_5 + 0.532 X_6 + \epsilon$$

With the equation in mind, encompassing all factors at a constant (zero) the financial performance of Air Zimbabwe will be at 4.478. The findings portray that a unit expansion in the size of the board induces a reduction of 0.312 in the financial performance of Air Zimbabwe; a unit expansion in the independence of the audit committee at Air Zimbabwe will prompt an increment of about 0.802 of the organization's financial performance, a rise in the duality of CEOs at Air Zimbabwe will result in a raise of 0.238 of the firm's financial performance, an extension of the independence of the board of directors of Air Zimbabwe causes an increase of 0.465 in the organization's financial performance, a unit expansion of the ownership of the board will result in growth of financial performance of 0.765.

This denotes that substantial factors are the independence of the audit committee and ownership of the board. With 5% being the level of significance and 95% level of confidence, the size of the board encompasses a 0.022 level of significance board size, while the independence of the audit committee holds a level of significance which is 0.008, the duality of the CEO incorporates a level of significance which is 0.012, the level of significance of the independence of the board is at 0.018, the board's ownership has a level of significance which is at 0.003.

The results entail that crucial determinants of financial performance of Air Zimbabwe are the board's ownership, independence of the audit committee, CEO duality and board independence respectively as they influence financial performance the most while the size of the board affects financial performance of Air Zimbabwe negatively. Zahra (2014) concurs that when board size increases ability to process problems decreases hence a decline in financial performance. Germani (2016) agrees with the results on CEO Duality that organizations with the CEO also acting as the chairman of the board perform poorer than those organizations in which the CEO is not the chairman. The findings are also in line with Nthama (2016) who concluded that independence of the audit committee positively enhances the value of the organization.

4.3.4 Factors affecting compliance to corporate governance principles at Air Zimbabwe

This section aims to answer the third research question which seeks to examine the limitations Air Zimbabwe is facing in trying to implement sound corporate governance principles. Several statements were presented in the questionnaire to enable the researcher to fully understand the notions which were presented by the respondents.

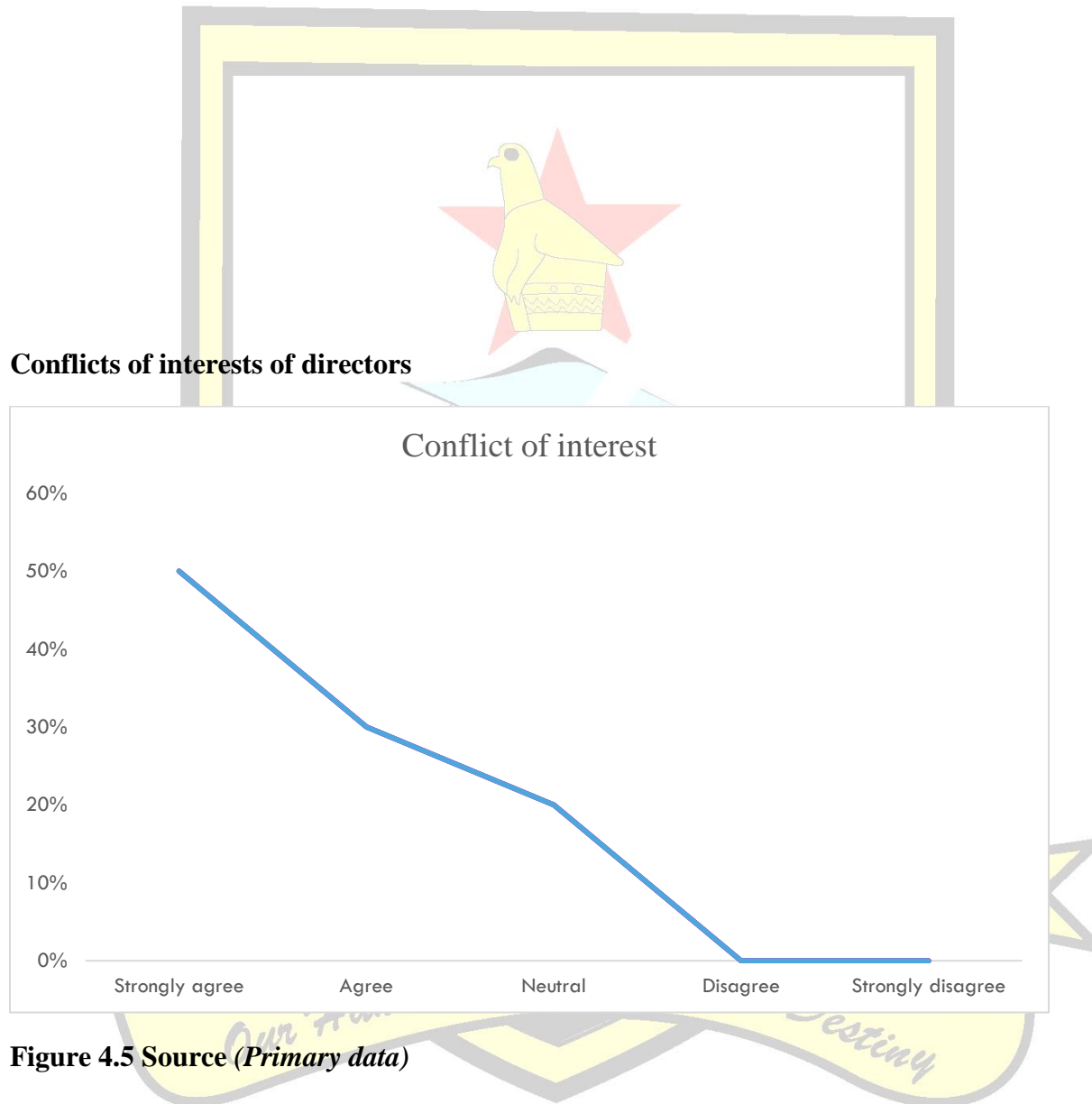


Figure 4.5 Source (Primary data)

The chart above shows that 50% (12) respondents strongly agree that conflicts of interests of directors at Air Zimbabwe is a challenge in trying to implement corporate governance, 30% (7) agree to this statement and 20% (4) respondents are neutral. Harris & Shimizu (2014) alludes that bigger conflicts of interest indicates fiscal indiscipline which is bad corporate governance. The International Finance Corporation (2014) portray that conflict of interests of directors

becomes an ethical problem if some individual tries to influence the outcome of an organization's decisions for their own personal benefit. It is the legal duty of directors to act in the best interests of the company Leary (2016) hence by doing so they will also be complying with the corporate governance principles of responsibility, accountability, fairness and transparency thereby improving the performance of the organization.

Lack of integrity

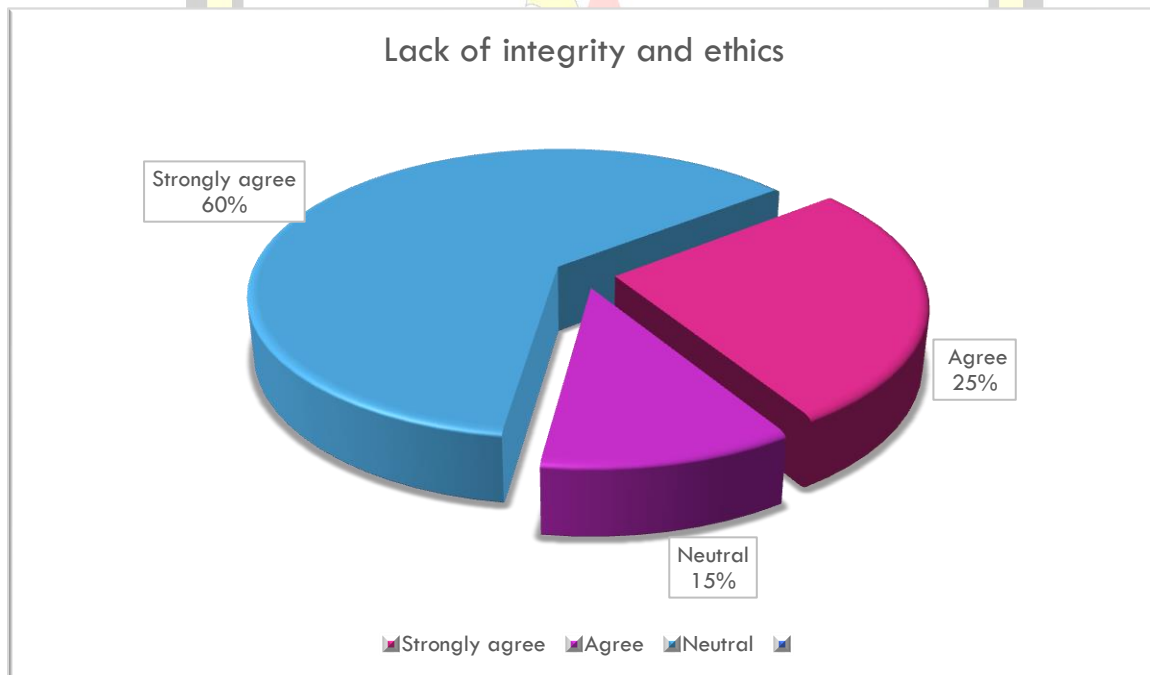


Figure 4.6 Source: (Primary data)

The results indicate that lack of integrity amidst the management of Air Zimbabwe is relatively high as 60% (14) of the respondents strongly agree and 25% (6) of the respondents also agree that it is a factor affecting compliance to corporate governance. 15% (3) of the respondents were neutral and none of the respondents disagreed to the fact that lack of integrity and ethics among top management is a reason why there is failure of compliance to corporate governance. This is in agreement with Mudimu (2018) who stated that if a large portion of the management of an organization are not honest and do not uphold ethical values then it is most likely that they do not

fully comprehend the benefits of corporate governance hence they are highly unlikely to implement corporate governance in their operations.

Poor legal controls and implementation of the law

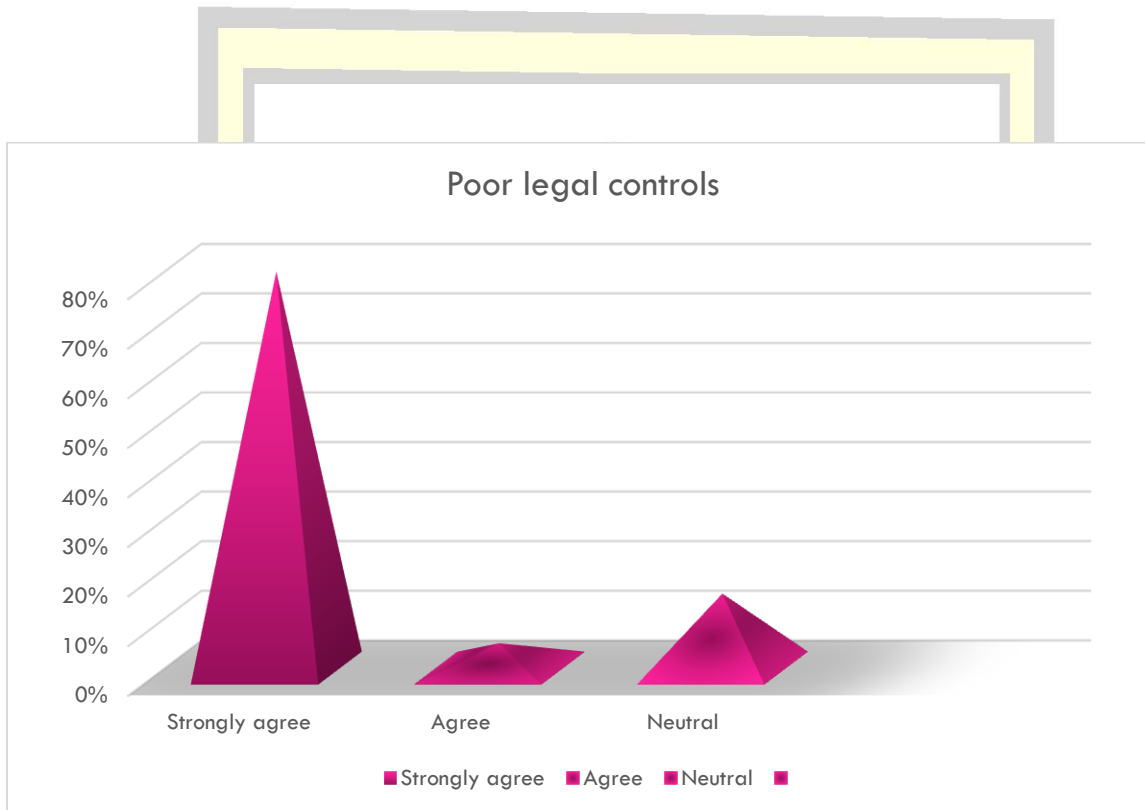


Figure 4.7 Source: Primary data

A higher level of poor execution of controls was noted by 80%(21) of the respondents who 5%(2) who just agreed on the notion. Implementation of corporate governance law in Zimbabwe has not yet been established as noted by Sibanda (2017). Zimbabwe currently follows the ‘apply or explain’ approach in regard to corporate governance, hence management may also overlook or ignore implementing corporate governance principles when they know that there are no consequences to non-implementation Williams (2017). Lack of strict monitoring and susceptibility of government institutions to manipulation by politicians makes it difficult for these firms to fully comply with corporate regulations and systems Metcalf (2018).

State of the economy of Zimbabwe

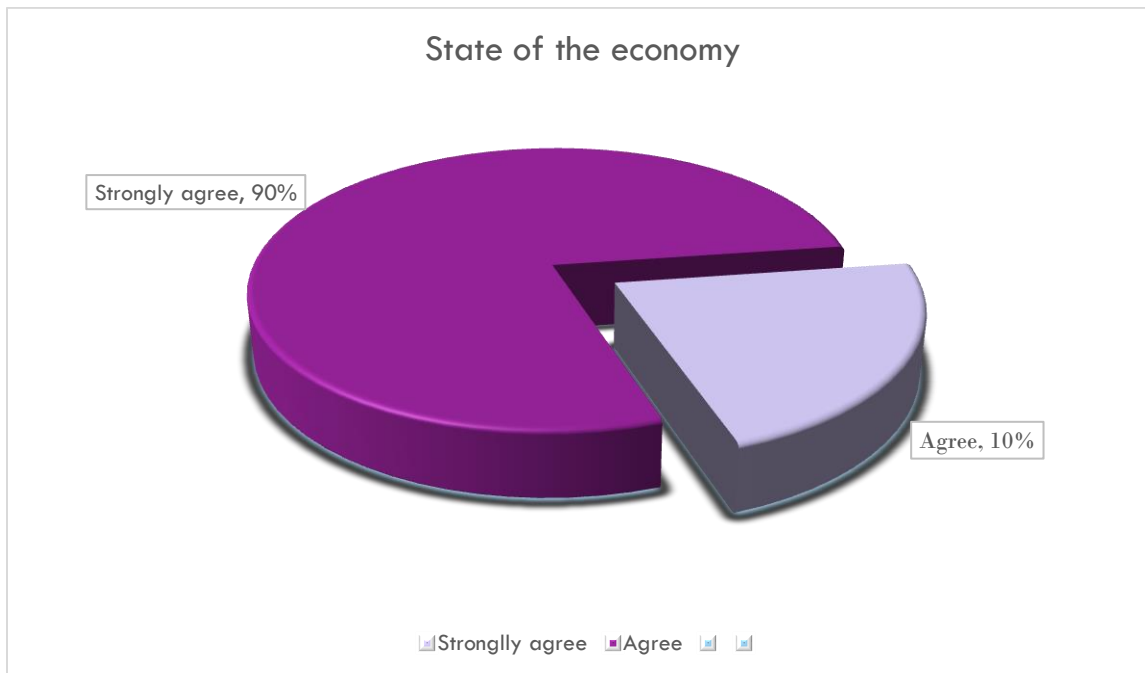


Figure 4.7 Source (Primary Data)

The state of the economy of Zimbabwe is also posing a challenge at Air Zimbabwe as they will be trying to implement good corporate governance and this is strongly agreed upon by 90% (20) of the respondents and 10% (3) of the respondents also agree. Economic changes which are series of fluctuations associated with general booms and slumps affect organizations in that when economic conditions are right organizations operate more efficiently and vice-versa Ncube (2014).

Zhou (2014) agrees with these results and says that quality of corporate governance is important as poor governance can harm national economic performance and financial stability however Zimbabwe is still a developing country and implementation of corporate governance in state enterprises is still difficult as the country does not have a long established financial institution infrastructure to deal with corporate governance issues.

The costs of implementation

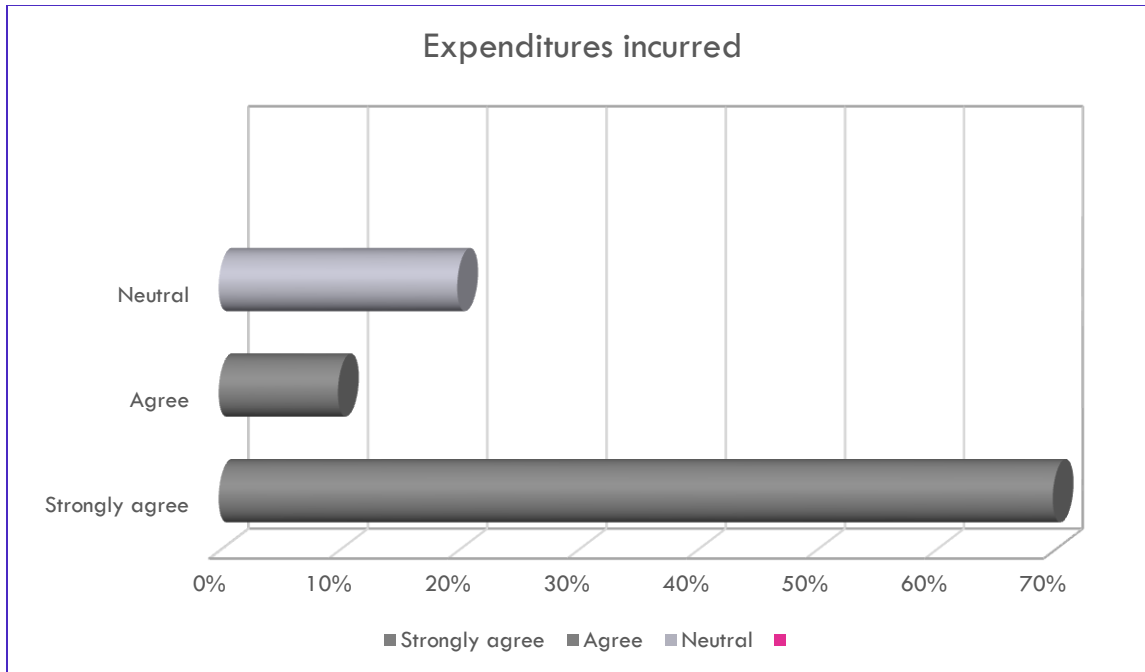


Figure 4.8 Source (Primary Data)

The results depict that 70% (16) respondents strongly agree whilst 10% (2) agree and 20% (5) respondents are neutral on high expenditures as a factor that hinders the compliance to corporate governance. Sian (2016) agrees with this and says that the cost of compliance is burdensome, measured both in terms of time and direct cost, the danger is that the board and management may become focused on compliance at the expense of organization. It is therefore the duty of the board of directors of state enterprises and parastatals to undertake a measure of risk for reward and to try to improve the economic value of a company. However Rossouw (2014) also posits that if the board has a focus on compliance, the attention on its ultimate responsibility, namely performance, may be diluted.

4.3.5 Strategies which might enhance the application of corporate governance

In a bid to answer the last research question so as to achieve the last research objective, a list of statements which are strategies which purport to enhance the adoption of corporate governance at Air Zimbabwe were given to respondents in the questionnaire and the respondents had to

express their sentiments through the Likert scale and based on their work experiences on which strategy best applies to organization. Table 4.9 below discloses the statistics.

Adopting International Public-Sector Standards

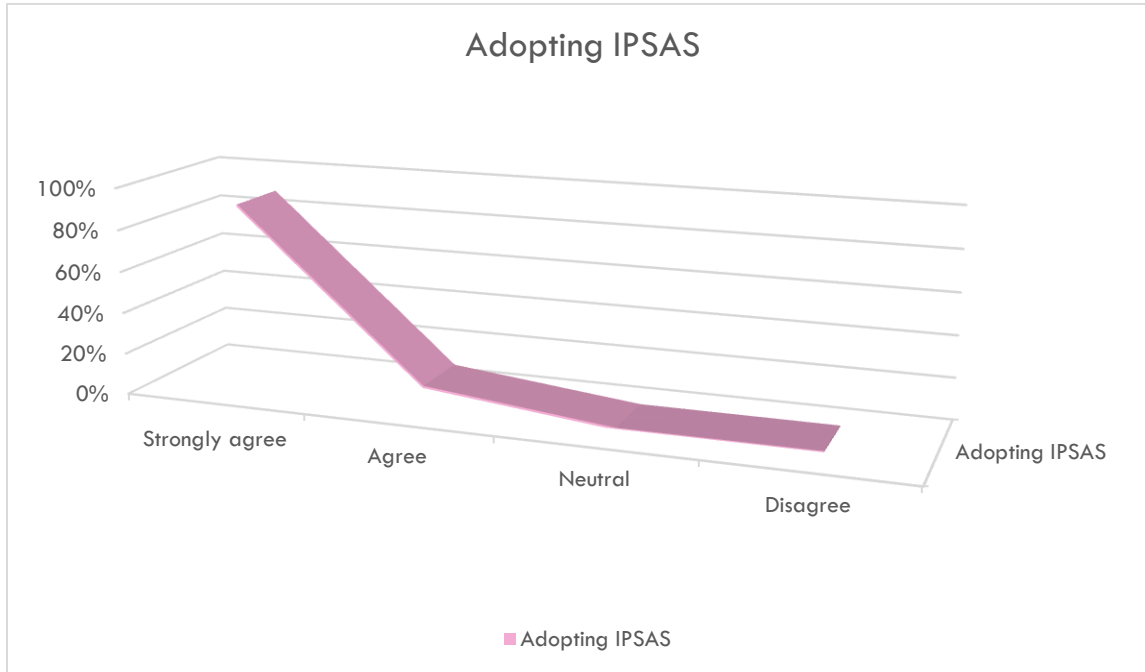


Figure 4.9 Source: (Primary data)

90% (21) of the respondents strongly agree whilst 10% (2) just agree that adopting International public-sector standards is a step closer to fully implementing corporate governance at Air Zimbabwe. This is in tandem with Najid (2016) who outlined that a growing number of governments and international organizations around the world need transparency in their finances and are, as a result, deciding to adopt International Public-Sector Accounting Standards (IPSASs). Since accurate, comprehensive and reliable financial information is fundamental to accountability and decision-making in the public sector. IPSASs are recognized as the only internationally accepted set of public sector accounting standards that provides such information.

Establishing incentive programs

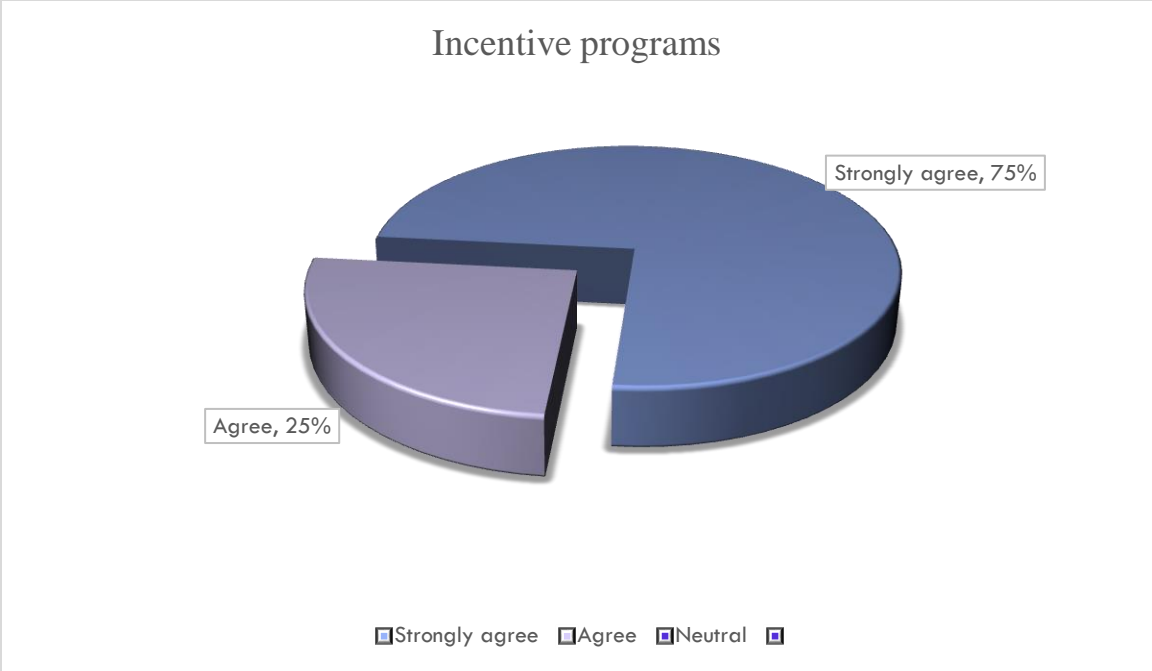
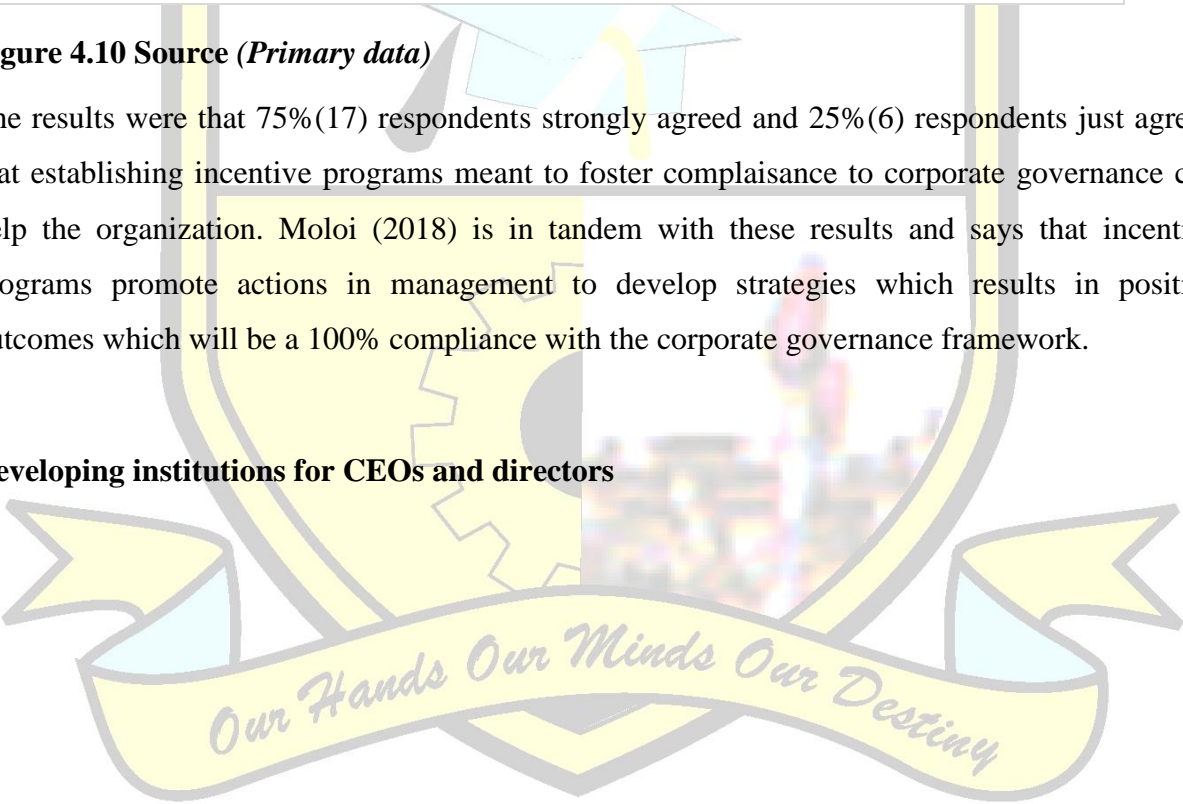


Figure 4.10 Source (Primary data)

The results were that 75%(17) respondents strongly agreed and 25%(6) respondents just agreed that establishing incentive programs meant to foster complaisance to corporate governance can help the organization. Moloi (2018) is in tandem with these results and says that incentive programs promote actions in management to develop strategies which results in positive outcomes which will be a 100% compliance with the corporate governance framework.

Developing institutions for CEOs and directors



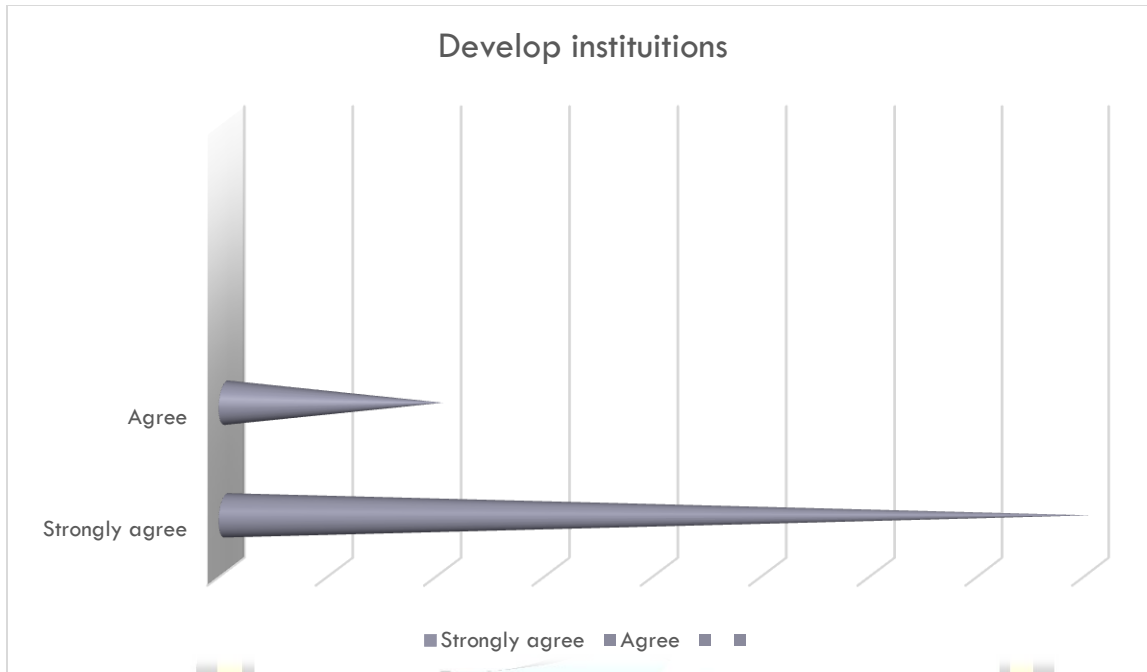


Figure 4.11 Source: (Primary data)

The results above indicate that 80%(18) respondents strongly agree and 20%(5) agree that developing institutions for directors and CEOs meant for tutoring and boosting the awareness of corporate governance can help in fostering compliance to corporate governance principles at Air Zimbabwe. IODSA (Institute of Directors in Southern Africa 2016) agrees with the results and depicts that educating directors of state enterprises helps in sharpening their judgement and decision-making skills thereby developing effective directors which will help in instilling corporate governance principles in the organization.

Attaining information and learning from other countries



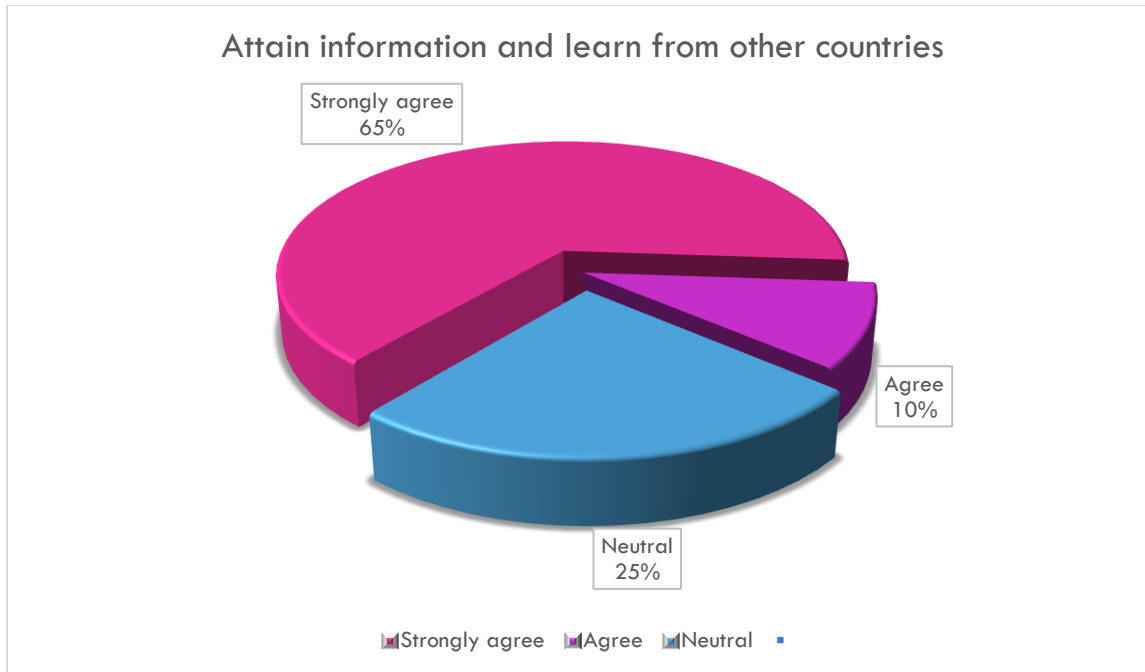


Figure 4.12 Source (Primary data)

65% of the respondents strongly agreed, 10% agreed and 25% of the respondents were neutral on the notion as to whether attaining information and learning from other countries could help the organization improve in their adoption of corporate governance principles. Rosseau (2017) agrees with these results in that the organization can actually benefit from the failures of other corporations in other countries and the remedies they used to get out of the situation they can be of great use at Air Zimbabwe.

In conclusion, the respondents were generally all in agreement that proper implementation of corporate governance has an effective role in financial and management reform for state enterprises and parastatals which leads to an increase in the investor's confidence thereby attracting foreign investment. Hence by incorporating these strategies corporate governance assists in ensuring that state enterprises operate for the good of the society as a whole and Lebas (2015) shows that such a situation will substantially improve a firm's prospects of making more profits.

4.4 Interview findings

The interview response rate was 100% as the researcher did all the 5 interviews with the directors and executives. The interview findings were that the directors alluded that the entity

desires to implement good corporate governance but that compliance costs were too high as the firm is facing some financial challenges but that plans were underway to get some financing so that corporate governance is effectively implemented so that public funds invested in the organization are not mishandled and so that they may be able to provide effective delivery of goods and services to the public. Other responses in regard to how helpful the Bill is being that it results in reduction of fraud cases and conflict of interests between management and shareholders and a reduction in the number of fines and lawsuits as good corporate governance principles require organizations to abide by the rules and regulations.

The interviewees also were not quite certain how corporate governance will effect financial performance of Air Zimbabwe as they alluded the fact that the entity was at a crumbling point and the mechanisms needed to revive the entity were far much more than corporate governance principles however the other interviewees pointed out that if unethical practices and corruption were to reduce to a minimal level or totally eradicated maybe the entity would earn some profit and be able to pay off its ballooning foreign debt.

Essentially all the interviewees shared the same sentiments on what was hindering the proper implementation of corporate governance at Air Zimbabwe. The factors which were expounded include inadequate or nonexistent law regulation systems which oversees whether or not corporate governance is being adhered to correctly in state enterprises and in cases of incompliance punishments are inflicted on the firm. Members of the board were also alluded to be deficient in the prerequisite skills for instance engineering or technical people possessing these skills are not present in the board of directors. A poor economy and immense poverty currently being experienced in Zimbabwe induced by increases in unemployment and unthriving principles of education are also impinging upon effecting corporate governance at Air Zimbabwe

Chapter summary

This chapter fixated on the illustration of the results gathered from the respondents regarding the link between corporate governance and financial performance of Air Zimbabwe as the aim was to ascertain the relationship between corporate governance and financial performance. Tables, pie charts and columns were employed to condense all that data. From the analysis of the data collected it was proved that the ownership of the board, CEO duality and independence of the

audit committee are positively correlated with financial performance of Air Zimbabwe. The subsequent chapter which is the last for this research paper consolidates all the results from the descriptive statistics to the regression analysis results so as to come to a conclusion for this study.



CHAPTER 5

Summaries, conclusions and recommendations

5.0 Introduction

This chapter's objective is to proffer the summary of this research so as to derive the conclusion together with the recommendations which are imperative supported by the qualitative and quantitative results outlined in the preceding chapter. The conclusion is in tandem with the research objectives of this research paper whilst the recommendations were deduced out of the conclusion.

5.1 Chapter summaries

5.1.1 Chapter 1

In the background to the study the researcher gave a brief explanation of the problems that Air Zimbabwe was facing which included poor performance shown by perennial losses. The evidence that was provided for poor performance was the Annual corruption report of 2015 which showed huge figures lost by state enterprises and parastatals due to a lack of proper corporate governance. The chapter also covered the statement of the problem, main research question, sub-research questions and research objectives. Delimitations, limitations, significance of the study and crucial meanings were also discussed.

5.1.2 Chapter 2

In this chapter, the researcher examined literature from different authors on the different approaches to corporate governance, how corporate governance is measured and the empirical studies on the relationship between corporate governance and financial performance. Measurements of financial performance and the factors which affect compliance to corporate

governance principles were also discussed in detail. The prominent authors for this chapter were William *et al* (2017), Ncube (2014) and Mallin (2014).

5.1.3 Chapter 3

The researcher in this chapter made use of the descriptive research study. A census of 29 Air Zimbabwe staff was used as the research population. Primary and secondary data was collected from Air Zimbabwe staff, of which primary data made use of questionnaires and interviews and secondary data came from the Auditor's general report (2014-2017), King codes of South Africa and other published journals on corporate governance.

5.1.4 Chapter 4

The presentation of data and its analysis was the objective for this chapter. The data was presented and analyzed using charts, tables and graphs and from these, the results from the questionnaires and interviews were analyzed and conclusions drawn. The research objectives were used in line with the responses to analyze the data.

5.2 Summary of key findings

- The research exhibited a 79% response rate from the 29 questionnaires which were sent to the target populace at Air Zimbabwe
- Directors/executives and accountants at Air Zimbabwe possessed absolute knowledge of corporate governance principles
- Air Zimbabwe is currently adhering to corporate governance principles stated in the Corporate governance framework (2010) and Public entities corporate governance bill (2017) to about 64%
- Regression analysis employed in analyzing the relationship which exists between corporate governance and financial performance at Air Zimbabwe confirmed that a significant relationship exists between the 2 variables
- The limitations most noted by the respondents on implementing corporate governance were the state of the economy of Zimbabwe, lack of transparency in financial reporting and the remuneration of the directors and poor legal controls and implementation of corporate governance laws

- Strategies which were recommended by the respondents were to establish incentive programs which fosters complaisance, attain information and learn from the experiences of neighboring countries and developing schools and workshops for directors and management meant for tutoring and boosting the awareness of the importance of corporate governance

5.2 Conclusions

The number one objective for this research paper was to investigate the extent to which Air Zimbabwe has adopted and adhered to corporate governance principles, the following objective was to establish whether there is a relationship between employment of corporate governance principles and financial performance of Air Zimbabwe, the next objective was to examine the limitations of implementing sound corporate governance principles in Air Zimbabwe and lastly what recommendations can be offered to advance the use of corporate governance at Air Zimbabwe.

Henceforth the conclusions that were deduced from the findings presented in chapter 4 are:

- a) Air Zimbabwe noted a compliance level of 64% to corporate governance principles which is relatively low so this study concludes that directors and management of state enterprises and parastatals should give their utmost attention on all areas which were signified as posing a challenge to the adherence of corporate governance principles for instance lack of transparency in financial reports so by increasing their adherence to corporate governance principles it could actually result in a turnaround of the organization's misfortunes
- b) In view of the results of this research it can be inferred that a clear-cut relationship exists amidst corporate governance and financial performance and the regression model affirms that the independent variables of corporate governance which are the ownership of the board, CEO duality and the independence of the audit committee when they are consistently employed in the organization's day to day operations financial performance virtually increases henceforth directors and management team of Air Zimbabwe must make sure that these determinants are incorporated and stuck to for an improvement in the organization's financial performance.
- c) The major limitations noted in this research were that the costs of implementation of corporate governance and poor legal controls and implementation of the law were hampering the implementation of corporate governance at Air Zimbabwe.

d) Strategies which might improve adherence to corporate governance according to the results of this research were that there should be strict monitoring of adherence to the corporate governance principles by the state, institutions for directors to learn more about the benefits of corporate governance should be established so that they may be able to implement it effectively at the organization and adoption of International public-sector standards which results in transparency in financial reporting.

5.3 Recommendations

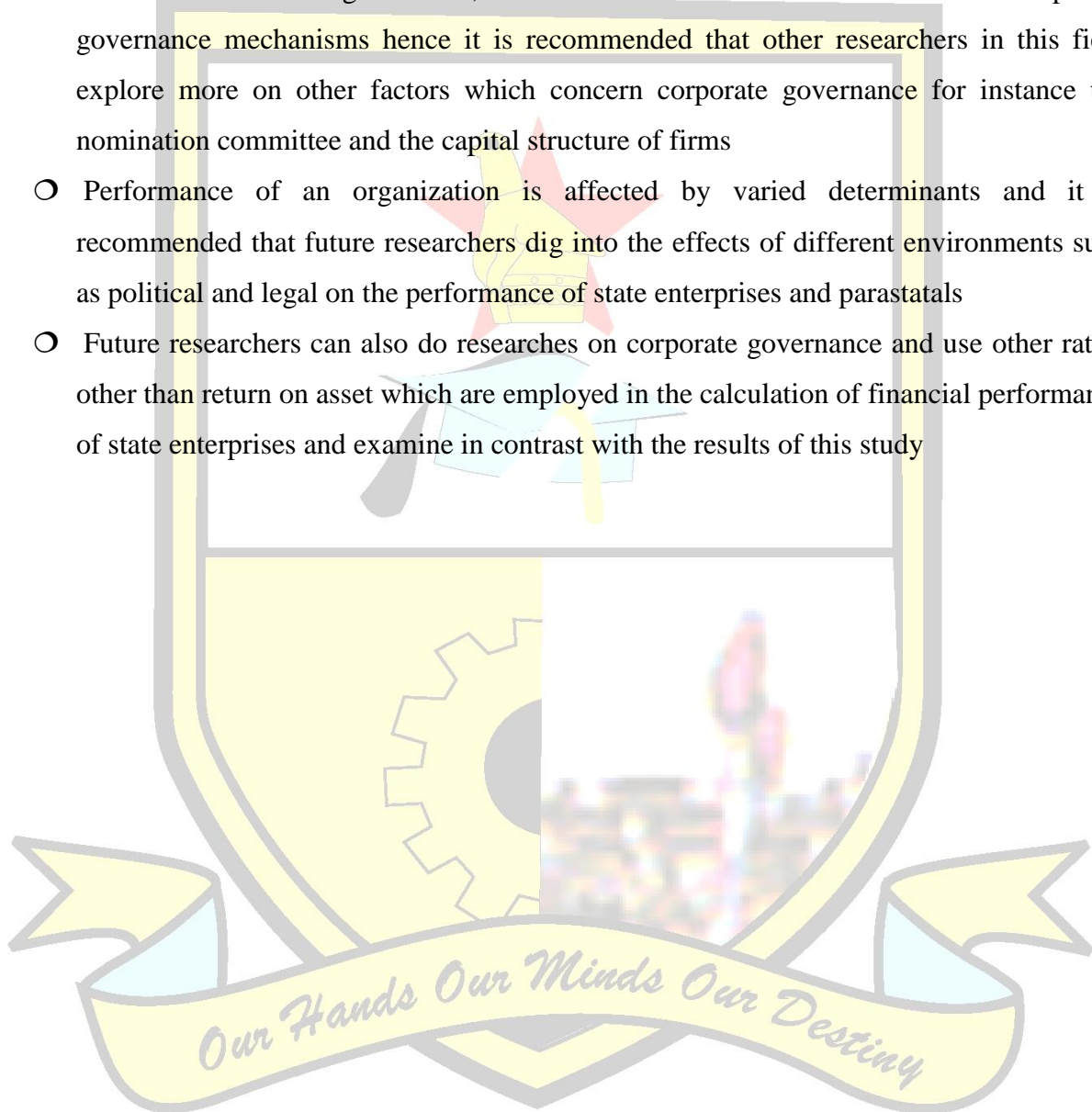
This section will be presenting recommendations which might improve the adherence of corporate governance at Air Zimbabwe and other state enterprises and parastatals emanating from the findings gathered from this study and the reviewed literature in chapter 2.

- Cutting down the expenditures which state enterprises are subject to when trying to effect sound corporate governance in their operations
- Incentive programs should be established to foster and enhance compliance to corporate governance in state enterprises and parastatals and also bi-annual training when new corporate governance guidelines are released
- Attain information and learn from the encounters of other countries in relation to corporate governance and also partaking in international events and conferences
- Effectively adopting the International Public-Sector Accounting Standards so as to establish firm accounting practices and advance the quality of financial reporting
- Conduct workshops especially for senior government officials on the subject of corporate governance and educate them on the corporate governance codes for state enterprises and parastatals and how they can be effectively employed
- Government interference should be minimized and all pertinent stakeholders for instance policymakers ought to attend corporate governance training so as to be able to be educated on all developments
- Auditing in state enterprises and parastatals should be constant and mandatory so as to establish suitable structures which enhance accountability of public monies

5.4 Further research areas

In light of the research findings and the methodology employed in this research paper, these are the propositions made by the researcher for other future studies:

- By virtue of the delimitations and limitations of this research paper which are financial constraints and shortage of time, this research was not able to examine all corporate governance mechanisms hence it is recommended that other researchers in this field explore more on other factors which concern corporate governance for instance the nomination committee and the capital structure of firms
- Performance of an organization is affected by varied determinants and it is recommended that future researchers dig into the effects of different environments such as political and legal on the performance of state enterprises and parastatals
- Future researchers can also do researches on corporate governance and use other ratios other than return on asset which are employed in the calculation of financial performance of state enterprises and examine in contrast with the results of this study



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APPENDIX A

Midlands State University

Faculty of Commerce

Department of Accounting

P O Box 9055

Gweru

1 March 2018

Dear Sir/Madam

RE: REQUEST TO RESPOND TO QUESTIONNAIRE

I am a final year student at Midlands State University named Ncube Nothando. I am investigating on the research topic: **An analysis of the impact of corporate governance on the financial performance of state enterprises and parastatals: A case of Air Zimbabwe.** The research is being done as a requirement in fulfilling a Bachelor of Commerce (Honors) Degree in Accounting. Your response will only be used for academic purposes.

Your assistance is greatly valued.

Yours faithfully

Ncube Nothando (R144273C) Contact number: **0774212038**

Email address: nottyncube5@gmail.com

APPENDIX B: QUESTIONNAIRE

A QUESTIONNAIRE SURVEY ON CORPORATE GOVERNANCE IN AIR ZIMBABWE

The following questions relate to your organization and you are required to clarify to the respondents in the survey on the relationship between corporate governance and financial performance. The information you will provide will be held in confidence, will specifically be used for academic purposes and will not be disclosed to another party without your prior permission. Please respond to the statement by a tick (√) where appropriate except where instructions are given to the contrary.

PART A: PERSONAL AND GENERAL INFORMATION

- | | |
|-------------------------------------------------------|-------------------------------------------------------|
| 1 Please indicate (√) your occupation | 4 Highest educational qualification |
| <input type="checkbox"/> Director/Executive | <input type="checkbox"/> Secondary level |
| <input type="checkbox"/> Senior management | <input type="checkbox"/> Diploma |
| <input type="checkbox"/> Middle management | <input type="checkbox"/> Bachelor's degree |
| <input type="checkbox"/> Accountant | <input type="checkbox"/> Post graduate |
| <input type="checkbox"/> Auditor | <input type="checkbox"/> Other (please specify) |
| <input type="checkbox"/> Other (please specify) | |
- 2 Gender
- Male
-

Female

3 How long have been in your present occupation

Less than one year

One to five years

Five to ten years

Ten to fifteen years

Fifteen to twenty years

Over twenty years

PART B: CORPORATE GOVERNANCE PRACTICES

Below are statements about corporate governance practices. Please Indicate the extent to which you agree or disagree with the statement by ticking (√) the corresponding number in the 5-point Likert scale below:

1	2	3	4	5
Strongly disagree	Disagree	Neutral	Agree	Strongly agree

5. Knowledge of corporate governance

	1	2	3	4	5
I fully understand and comprehend corporate governance					

6. The role of the board at Air Zimbabwe

	1	2	3	4	5
a. The Board formulates the strategy of the organization					
b. The board is independent and executes its mandate without interference					

6. Composition and expertise of the board at Air Zimbabwe

	1	2	3	4	5

a. Directors possess expertise in a field relevant to the organization's mandate					
b. Board composition is as stipulated in the Corporate governance framework					

7. Board independence at Air Zimbabwe

	1	2	3	4	5
a. Independent directors are truly independent from the CEO and the government					

8. Board committees at Air Zimbabwe

	1	2	3	4	5
a. The board has risk management, audit, remuneration, corporate governance, and nomination committees					
b. The audit committee meet regularly to advise the board appropriately and are independent					

9. Disclosure and transparency at Air Zimbabwe

	1	2	3	4	5
a. Audited financial statements are made available to shareholders					
b. The Board fully appraises audited financial statements before approving					

10. To what extent do you agree that better corporate governance will have on Air Zimbabwe's performance?

	1	2	3	4	5
a. Improve financial performance					

b. Improve the ability to generate equity capital					
c. Improve access to new capital					
f. Reduce political or regulatory intervention					

11. The financial performance of the organization

	1	2	3	4	5
a. The organization has made a profit in the last 5 years					
b. The organization has broken even in the last 2 years					
c. The organization has been able to pay its employees' salaries in the past 2 years					
d. The organization has declared a dividend to the government in the past 5 years					
f. The organization has produced audited financial statements on time					
g. The organization has attracted foreign direct investment in the past 5 years					
h. The organization has not received funding from the government in the last 5 years					

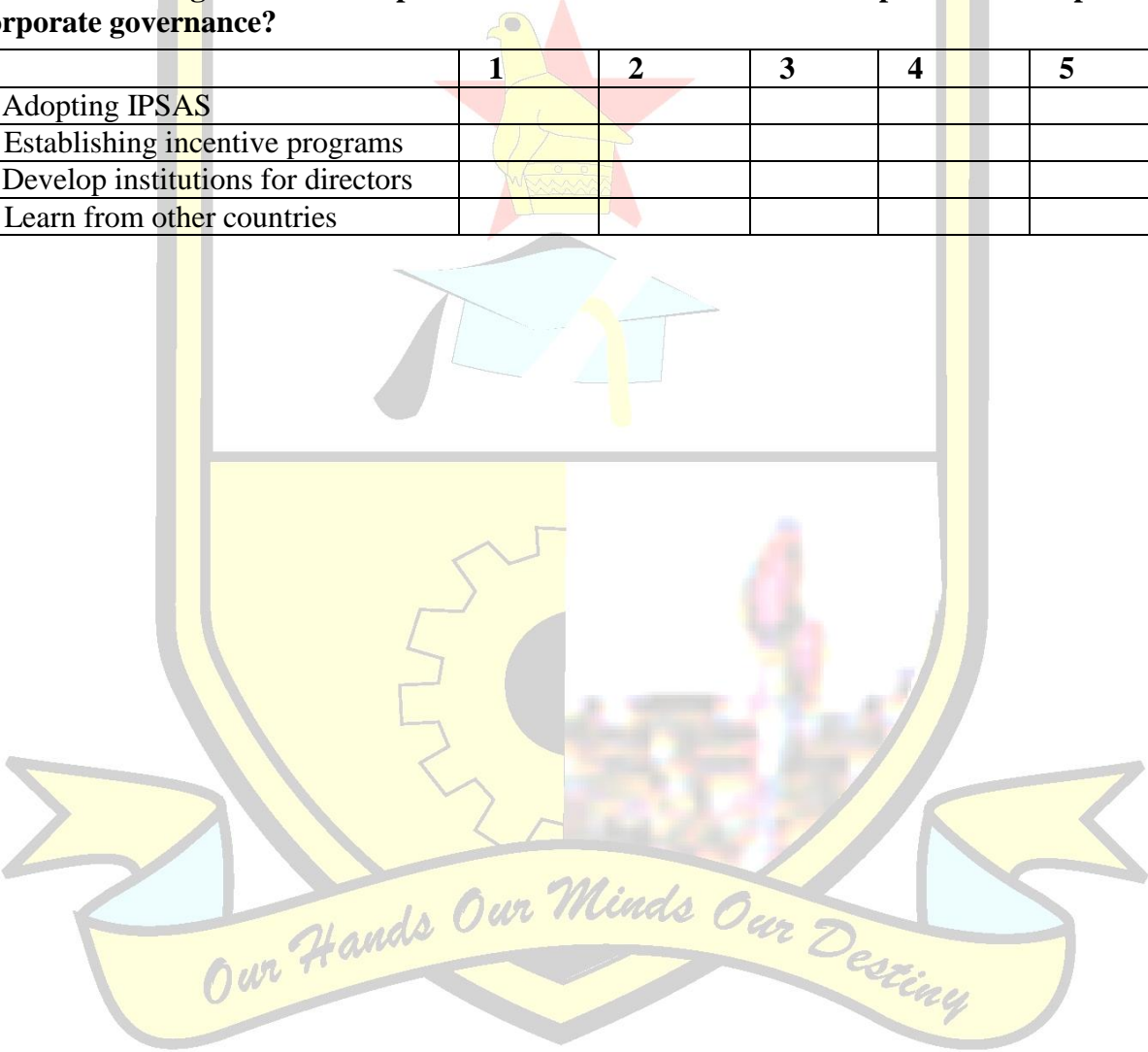
12. Indicate to what extent you regard the following corporate governance issues as either major issues or minor issues in Air Zimbabwe

	1	2	3	4	5
a. Lack of integrity and ethics among top management					

b. Conflicts of interests of directors					
c. Poor legal controls and implementation of the law					
d. The state of the economy of Zimbabwe					
e. The expenditures incurred in implementing good corporate governance preponderate the advantages					

13. What strategies can be implemented at Air Zimbabwe to improve the adoption of corporate governance?

	1	2	3	4	5
a. Adopting IPSAS					
b. Establishing incentive programs					
c. Develop institutions for directors					
d. Learn from other countries					





APPENDIX C: INTERVIEW GUIDE

1. Would you say that Air Zimbabwe complies with the rules and regulations of the following:
 - (i) Corporate governance framework for state enterprises and parastatals
 - (ii) Public entities corporate governance Bill (2017)
2. Do you think that good corporate governance has any impact on the financial performance in your organization?
3. What are the challenges you face in improving corporate governance in your organization?

