



**Midlands State University**  
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**FACULTY OF COMMERCE**

**Department of Accounting**

Research Topic

**THE NEXUS BETWEEN BOARD REMUNERATION AND PERFORMANCE OF  
STATE ENTERPRISES IN ZIMBABWE**

BY

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The nexus between board remuneration and performance of state enterprises in Zimbabwe in  
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## **DEDICATION**

I dedicate this study to my lovely wife Lucy, two lovely sons Craig Takunda and Carlton Kuzivakwashe for untiring support.

## **ABSTRACT**

There was an outcry in the past three years over the salaries that State Enterprises and Parastatals bosses were awarding themselves yet service delivery has been lacking. This was termed the “Salarygate” by the media and saw a number of executives being relieved of their duties. The government moved in and set a top salary cap of \$6,000 for all heads of SEPs, including benefits. Albeit all the efforts by the government, the Executives continued to receive huge salaries against perennial losses that have been experienced in the country. A positivism philosophy was used with a cross-sectional analysis of 72 SEPs with a total directorship of 504. A sample of 252 respondents were included in the research study. A combination of questionnaires and ordinary least square (OLS) analysis was used to analyse the data. It was found that board remuneration, because they constitute an insignificant part of the total SEPs expenditure have a positive relationship with firm performance. This is based on the fact that in order to create value for the firm, the board has to be remunerated well. It was also found that there are a number of factors that have a bearing on the firm performance such as industrial/sector performance, economic and legislative environment and the innovation and invention skills within the management of the firms. It was recommended that the Corporate Governance (CG) codes should enshrine the procedures and framework for board remuneration determination and that that board diversity and skills development should be emphasized.

*Key Words: Board diversity, Corporate Governance Codes, Agency theory*

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## **CHAPTER 1: INTRODUCTION**

### **1.0 Introduction**

This chapter introduced the research subject briefly giving the background and the research problem that was identified. An outline of the research questions, objectives have been clearly outlined and highlighted and hypothesis are then derived from these research questions and objectives. The scope, significance, the limitations and the delimitations have been provided including the definitions of the key terms that will be used throughout the research.

### **1.1 Background of the study**

Parastatals or State Enterprises are institutions that are wholly owned or partially owned by the central government. They play an important role of facilitating the provision of infrastructure and other utilities such as roads, air and rail transport, telecommunication electricity and water (Corporate Governance Framework for State Enterprises and Parastatals in Zimbabwe, 2010).The Constitution of Zimbabwe amendment (No.20) Act (2013) Section 194(a and b) states that state government controlled entities and other public enterprises must adhere to high standards of professionalism and ethics. SEPs should promote efficient and economic use of resources, meaning that in managing public finance there should be transparent and probity amongst the executives (Section 195)(1) of the Constitution of Zimbabwe Amendment number 20 Act.

However these SEPs have not been performing as to expectations and during the past 5 years, there has been a public outcry in Zimbabwe over the remuneration packages paid to the executives vis the State Enterprises and Parastatals (SEPs)'s financial performance (Nguwi, 2017). Mambo (2013) reported that the Chief Executive Officers' (CEO's) were getting mega salaries as compared to other CEO's in the private sector.

Mambo (2013) reported a story in which the then Minister of State Enterprise and Parastatals set a salary ceiling for all SEPs at \$6,000.00 per month. The publication of these based on the monthly remunerations of the Chief Executive Officers of various SEPs, against the threshold set out by the government. These basic salaries have a bearing on the overall staff remuneration costs of the individual entities. Table 1.1 below shows the board allowances, including the retainer fees, main board sitting and committee sitting fees which board members are entitled to on a selected number of SEPs. There is also a column relating to the 2015 financial performances, measured by profitability.

**Table 1.1 Board Fees and Firm Performance (2015-2016)**

SEP	QUARTERLY FEES-RETAINER ALLOWANCE (\$)			BOARD SITTING FEES/PER SITTING(\$)			COMMITTEE SITTING FEES(\$)		Basic Salaries plus Allowances	2015 Performance Profitability \$
	Chairman	Deputy Chairman	Other Member	Chairman	Deputy Chairman	Other Member	Chairman	Other Member		
NSSA	3,325.00	2,595.00	2,145.00	900.00	780.00	650.00	720.00	560.00	348,744	<b>40,487,403</b>
NRZ	2,825.00	2,225.00	1,850.00	750.00	650.00	535.00	600.00	460.00	166,368	<b>(13,100,025)</b>
Air Zimbabwe	3,000.00	2,280.00	1,560.00	1,000.00	900.00	800.00	500.00	300.00	88,656	<b>(43,822,590)</b>
EMA	1,500.00	1,500.00	1,500.00	750.00	500.00	300.00	500.00	250.00	128,808	<b>280,740</b>
CSC	825.00	735.00	570.00	500.00	400.00	300.00	300.00	-	49,272	<b>(3,253,803)</b>
GMB	2,500.00	1,800.00	1,500.00	1,000.00	750.00	500.00	800.00	600.00	214,284	<b>(10,618,221)</b>

*Source: Public Enterprises Analysis-Ministry of Finance and Economic Development 2015-2016*



Fees as high as \$3,000 for a retainer to the board members for the chairperson have been awarded to SEPs boards in Zimbabwe and this has led to a number of complaints by the citizenry that most of these SEPs have lost touch with their mandates. Entities like National Railways of Zimbabwe (NRZ), Zimbabwe Post (ZIMPOST) and Air Zimbabwe are perennial losses makers but they have been awarding their board members huge allowances ranging from retainer fees and cell phone allowances and fuel allowance oblivious of the effect of these allowances on the profitability.

According to Treasury Instructions Section IV, Government of Zimbabwe has set a ratio of remuneration costs of SEPs not to be 30% of the revenue raised in that particular financial year but that circular has been disregarded by many of these SEPs (MOFED, 2014).

A number of SEPs have been approaching Treasury for operational financing each quarter yet they have been awarding themselves huge salaries and allowances, which are not in tandem with their profitability levels and hence being a burden to the fiscus (Supplementary Budget Statement, 2016). According to The Minister of Finance and Economic Development, Cde P. Chinamasa, there is need to rationalise these SEPs in line with the International Monetary Fund (IMF) recommendations to reduce the wage bill to at least 20% (Budget Statement, 2017).

Submitting evidence to Parliament in 2010, the then Minister of State Enterprises and Parastatals, Gordon Moyo highlighted that there has been a number of factors which have been cited as the causes of the loss making trends within the SEPs in Zimbabwe, but chief among them were corruption, corporate misgovernance incompetence's and misappropriation of funds (Mambo, 2013). Miyianda et al (2014), noted that firm performance is influenced by both external and internal factors. *ibid*, noted that emphasis has been put on financials rather than on other qualitative factors such as consumer satisfaction and innovativeness which are equally important.

The paramount aspect of the board of directors is to establish the match between the executive salaries being given and the value addition being created (Scholtz and Smit, 2012). As a director therefore when remuneration far outweighs the value added, then you would definitely know that you are up against a corporate monster which has destroyed many corporates (Nguwi, 2017). Erick et al (2014) noted that it will be difficult for directors not to be remunerated well if there is underlining evidence that the directors have earned it by value addition.

The National Code on Corporate Governance, Zimbabwe (NCCGZ), Section 169 (c) denotes that board fees to for Non-Executive Director (NED) should be approved in advance by the board and not by ratification. In line with section 126 of the NCCGZ, the remuneration for the CEO should be approved by members in a general meeting convened for that purpose. Fernandes (2014) noted that the corporate governance structures of firms, whether listed or not have a bearing on the remuneration packages offered to the directors. Fernandes (2014) however did not proffer whether the remunerations are linked to performance.

The Government of Zimbabwe has embarked on the process to classifying SEPs according to their economic zones (MOFED, 2016), such that best practice is achieved in coming up with a remuneration framework, which is not in existence at the moment. It is in this vein that the classified SEPs can be drivers of economic growth as alluded to by (Armstrong, 2014). When SEPs perform well it eases the budgetary pressures on the fiscus and thereby directing resources to other sectors of the economy.

According to Dai (2014), the most prudent and logical way of measuring firm performance is by way of net profit and other calculable variables like return on equity, return on assets and gearing levels. Pursuant to the above should these institutions' boards perform work out of magnanimity or should they be remunerated for achieving the social service mandate under their purview. The

major question that the citizenry will continue to ask and not given the appropriate answers is “For how long will the tax payers continue to carry the burden of these losses?”

## **1.2 Statement of the problem**

The remuneration of the Boards of State Enterprises and Parastatals (SEPs) in Zimbabwe reveal that they are is no governing framework and the circular issued by Ministry of Finance is not being adhered to, and different SEPs have differing remuneration threshold. Good remuneration schemes stimulate executives to make decisions that will maximise the wealth of the shareholders. Some SEPs executives have awarded themselves huge salaries during the period 2012 to 2016, yet their profitability is low and huge losses are declared (Mbo and Adjasi, 2013). Remuneration ranging from retainer allowances to board sitting allowances for sub-committees has been high as compared to the ailing SEPs. Most of the SEPs have become a drain to the fiscus yet they reward their executives’ huge salaries and allowances. There is also a need to look if there are compensation schemes that govern the remuneration of the board and executives. This has led to the need to establish the relationship between board remunerations and firm performance within selected SEPs in Zimbabwe.

## **1.3 Purpose of the study**

The main purpose of the research is to find the nexus between the board remuneration and the performance of State Enterprises and Parastatals in Zimbabwe.

## **1.4 Conceptual framework**

The following conceptual framework will be linked to the theoretical analysis of corporate governance. In giving the theoretical analysis, the variables in the conceptual framework will be linked to the literature based on each theory. The conceptual framework will look at the following

corporate governance theories that is the agency theory and the marginal productivity theory (MPT).

### **Agency Theory**

According to Ruparelia and Njuguna (2016) the agency theory perspective links the relationship between firm performances to directors' compensation. Directors' compensation including remuneration, board fees, committee representation fees and other allowances are used as an incentive on solving the agency problem (Mukaila, Sanda and Garba, 2005; Padilla 2002; Miyienda et al2012). Directors are engaged as agents of the shareholders (in this case shareholders are the government representing the taxpayers and general public) and as such they are supposed to be compensated for their efforts, this will ensure that the agents work in the interest of the principal who are the shareholders (Hahn and Lasfer, 2010; Sami, Wang and Zhou, 2011; Stanwick and Stanwick, 2010).

The executives of SEPs in Zimbabwe acts as agents of the appointing authorities which is the government and based on this theory will pursue personal interest rather than the mandate of service delivery. An appraisal of the appalling state of social and economic deliverables presided over by SEPs such as PSMAS, ZBC and City of Harare shows that there is a miss match between service delivery and remuneration which the executives are enjoying (Ncube and Maunganidze, 2014).

### **Marginal Productivity Theory (MPT)**

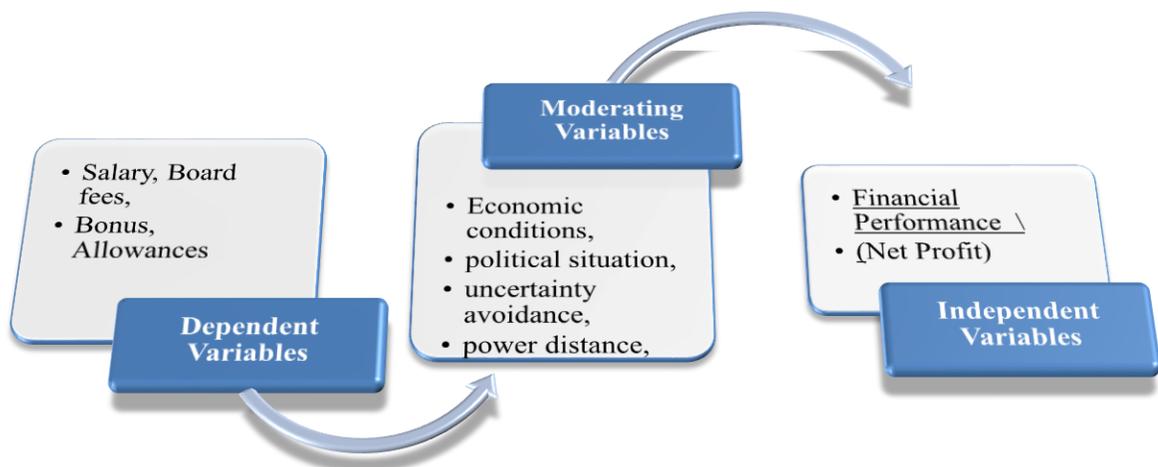
The marginal productivity theory is premised on the value approach, in which the remuneration of the directors is linked to the productivity attained (Otten, 2013). He noted that the value of the inputs determines the revenue attained at the output level. Bonuses for examples are mostly

productive based and are a value approach driven. Mandel (2014) noted that the difference in the distribution of wages and remunerations is based on the marginal productivity theory.

The forces of demand and supply are the determinants of remuneration for executives and are not therefore predetermined (Balsam, 2012). By taking a look at the Zimbabweans SEPs scenario, one could be tempted to doubt the role of this theory to the remunerations paid to SEPs executives as the cap on salaries was a government directive (Ruhanya, 2014).

The one size fit all situation created has a bearing on the productivity and profitability of the enterprises. This means the SEPs with high productivity and/or meeting their social service delivery are bunched together with those not achieving anything. NRZ, GMB, Airzim to mention a few are perennial loss makers but are on the same pay threshold as NSSA, Petrotrade and TelOne as per the government directive.

**Fig 1.4 Conceptual framework**



*Source: Author's Design*

According to Tahla et al (2012) directors remuneration consists of payments made to directors on behalf on the organisations and are in the form of basic salary, in the form of board fees, bonuses, allowances and other fringe benefits are the dependent variables in this framework. Silingiene et al (2015) highlighted these as determinants of executive remuneration and they are internally generated and have an impact on the firm performance.

These dependent variables are deemed to influence firm performance in the form of net profit over a financial period. These remuneration packages have a damaging impact on the companies' reputations (Silingiene et al (2015). The wide spread issue of ZBC and PSMAS salarygate scandals comes into mind if we look at the effects of these variables on profitability. The study by Tahla et al (2012) has indicated that the executives /agents can use their agency power to reward themselves high salaries and benefits at the expense of the shareholders/principals. This is a clear indication on the Zimbabwe salarygate scandal.

The moderating variables are those that are outside the control of the directors. According to Erick et al (2014) firm performance is affected by events which are not in managerial control these includes economic conditions, political environment, uncertainty avoidance, power distance and individualism (Balsam, 2012), argued economic conditions can change without the control of the directors in such a way that firm performance can be affected and the directors will have no control at all.

When the political situation change on the other hand, the directors cannot influence how operations will go and same as when uncertainty and power distance arises. Individualistic tendencies within the directors can have a bearing on the performance of the firm and in some instances the directors/or the board will have little or no control at all in those circumstances. This

therefore means that the variables need to be factored as we try to find the causality between remuneration of the board and firm performance.

### **1.5 Research objectives**

The research seeks to achieve the following objectives,

- ❖ To establish factors that determines board remunerations in SEPS,
- ❖ To establish the role of Line Ministries in SEPs remuneration determination,
- ❖ To determine whether boards should decide their own remuneration,
- ❖ To evaluate the effects of board remunerations on firm performance,
- ❖ To establish the correlation between board remuneration and value addition,
- ❖ To suggest the best practice in determining board remuneration in SEPs

### **1.6 Research hypothesis**

The research hypotheses are as follows:

- i. **H0**: There is a correlation between board remuneration and firm performance.
- ii. **H1**: There is no correlation between board remuneration and firm performance.

### **1.7 Research methodology**

The research will use post positivism methodology which is able to use quantitative research designs. According to Creswell (2014) postpositive view is ideal for the research which will be looking at the relationship between variables and the quantitative aspects of the conceptual framework of the study.

The researcher will use questionnaire and the ordinary least square (OLS) analysis to bring out conclusions to this research study. The OLS analysis is mainly used to bring out issues that are

cross sectional and the relationships of the data should be between dependent and independent variables of the occurrence being researched (Matelomila, 2015). Shakir (2015) in analysing board size, board compensation and property firm performance in Malaysia used the least square. Borrenbergs et al (2017) in analysing the remuneration committees' gender composition as a determinants of executive board compensation structure in Netherlands used the OLS model to determine the correlation between the analysed variables. The data gathered will be analysed using quantitative analysis. Diagrams, tables, graphs and equations will be used to present the findings of this research.

A stratified sample procedure will be used to select respondents from the current seventy –two (72) State Enterprises and Parastatals (SEPs) based so that all subgroups are represented in the population. Permission for the administering the questionnaires will be done to all selected (SEPs), this means that three (3) different sets questionnaires and research questions will be administered to the stratified classes.

**Table 1.2 Stratified Sampling of respondents**

Strata/Class	Population		Sample		Justification
	Number of SEP's	Number of Directors	Number of Selected SEP's	Number of selected Directors	
Regulatory SEPs	16	112	8	56	A sample of 50% of the population is more reflective of the
Commercial SEP's	46	322	23	161	
Strategic SEPs	10	70	5	35	
Total	72	504	36	252	

					population.(Mugenda and Mugenda, 2009)
--	--	--	--	--	--

Source: State Enterprises Restructuring Agency (2016)

A total of 504 is the number of directors as per head counts of enabling Acts of parastatals and head count conducted by the State Enterprises Restructuring Agency, which represented 72 SEP's. A sample of two hundred and fifty-two (252) respondents was used as the baseline survey for the research in order to reach all the respective groups of the State Enterprises and Parastatals and try to get as much respondents as possible according to the classes. The aim is to get an equal chance of the respondents from the selected classes.

The research used a 5-point Likert scale ranging for the questionnaire gathering instruments to obtain primary data, while journals, publications and other materials was used for secondary data gathering.

### **1.8 Significance of the study**

The study will contribute immensely to the remuneration policies of the State Enterprises and Parastatals not only in Zimbabwe but the world over. Remuneration packages should be attractive enough to retain the expertise and commitment of the board of directors and as such the results of this study will inform the appropriate packages that should be offered to the members. Further the results of this study will also act as the pointer of the effects that remuneration packages have on the performance of the firms and in particular SEPs in Zimbabwe. As such that will enhance policy making in SEPs' remuneration policy and its determinants.

### **1.9 Assumptions**

In this research the following assumptions are made:

- ❖ That the current legislation governing SEPs in Zimbabwe will remain in force for the duration of this research study,
- ❖ No significant changes will happen to the boards of the selected SEPs for the foreseeable future,

### **1.10 Delimitation of the study**

The study will be delimited based on the following factors,

#### **Geographical Area delimitation**

The research is mainly focused on State Enterprises and Parastatals situated in Harare.

#### **Scope Delimitation**

The focus will be on the factors and performance relationship considered in the remuneration of board of directors and this will try to underpin the cost and logistical constrains.

#### **Time delimitation**

The study will be delimited for the period 2012-2016 and will be completed by April 2017

### **1.11 Limitations of the study**

#### **Financial Constraint**

Financial resource is a limiting factor as the researcher will only be relying on his salary for the financial needs. The salary is already depressed with other needs but however for the purposes of the research an allocation has been set aside.

#### **Confidentiality**

Due to confidential material in the Government of Zimbabwe some of the information will not be availed without prior approval. Prior approval will be sought to counter this.

### **Time constraint**

The research time is limited due to work commitments and the deadline within which I am supposed to have completed the research. Working in late hours will help the researcher to do the research without compromising other demanding needs of work and family.

### **1.12 List of acronyms**

CEO- Chief Executive Officer

CSC- Cold Storage Company

ED- Executive Director

EMA- Environmental Management Agency

IMF- International Monetary Fund

NED- Non-Executive Director

NCCZ- National Code on Corporate Governance Zimbabwe

MOFED- Ministry of Finance and Economic Development

SEPs-State Enterprises and Parastatals

## **1.13 Dissertation outline**

### **Chapter 1**

This chapter introduced the research topic, and give a brief background of the study regarding the research that has to be undertaken. Other aspects that has to be covered in this chapter are the statement of the problem, purpose of the study, conceptual framework, research objectives, research hypothesis, research methodology, and significance of the study, assumptions, scope of research and list of acronyms being the last part.

### **Chapter 2**

This chapter will review the literature of the perceived study. It will dwell much on role of Line Ministries in SEPs remuneration determination, should boards decide their own remuneration, effects of board remunerations on firm performance, correlation between board remuneration and value addition, best practice in determining board remuneration in SEPs.

### **Chapter 3**

The chapter looks into research methodology, population of the study, research design and sampling, data collections methods and instruments, validity and reliability.

### **Chapter 4**

In this chapter the findings by the researchers analysed using the data that would have been collected. The instruments which will be used to gather data are questionnaires and interviews. The chapter discusses and analyse the responses that will be alluded from both the questionnaires and the interviews. The data will be presented and displayed using graphs, charts and tables

## **Chapter 5**

This chapter will look into the summary, conclusion of findings and recommendations. In brief, the chapter will attempt to review the research that would have been undertaken, giving conclusion and recommendations. The last part of the research however list the references that would have been used by the researcher during the research writing to acknowledge the works of other authors for using their materials.

### **1.14 Chapter summary**

The chapter highlighted the background of the research problem, statement of the problem, purpose of the study, conceptual framework, research questions, research objectives, research hypothesis, research methodology and significance of the study, assumptions, delimitation, limitations and list of acronyms.

## **CHAPTER 2: LITERATURE REVIEW**

### **2.0 Introduction**

The chapter discusses both the empirical and theoretical literature relating to board remuneration and firm performance. Empirical review discusses the research topic based on the findings of other countries in which reviews have been done. On the other hand the theoretical review will explore foundations of directors' remuneration and firm performance. Focus will be on the both remuneration and firm performance as measured by the net profit and other variables like net profit to total asset ratio and net profit to equity ratio.

### **2.1 Factors that determines board remunerations in SEPS**

There are a number of factors that have been highlighted by the scholars that determine board remunerations within the SEPs, namely firm performance, board size, value addition /productivity, entity size and the need to retain key personnel.

#### **2.1.1 Firm performance**

Silingene et al (2015) noted that when firms are operating profitably, there will be a justification in remunerating directors accordingly. This is because the firm will have the ability to honour those remuneration packages. The Corporate Governance Framework for State Enterprises (2010) section 3.13, states that remuneration should be driven by affordability, sustainability and reasonableness. This means that when State Enterprises peg their remuneration packages, there is need to have that in mind driven by the performance of the companies. According to the stakeholder theory, the achievements of the board in meeting the needs of the stakeholders leads to an improvement in the performance of the companies and hence there will be a residual which acts as the remuneration need of the directors.

Lee and Isa (2015), argued that there is a positive correlation between remuneration and firm performance because the agency would always want to justify the benefits obtained. This benefit to the principal is an agency cost, which will need to be justified (Onyancha et al 2014). Ibid concluded that the two most important variables in remunerations are firm performance and productivity level. Kuo and Yu (2014) have also attributed the higher salary payments in Taiwan to the performance of the firm in terms of its net profit, return on assets and return on equity. This is commonly true in SEPs that are commercial driven rather than those that are service oriented especially in the developing countries.

Contrary to the assertions above, Ansong (2015), noted that this is contrary in Small to Medium Enterprises (SMEs), which are family driven. This means that they are remunerated as per the wishes of the members than to analyse the performance of the firm. Many SEPs in Zimbabwe have been perennial loss makers yet they have been awarding their executives with huge salaries and which agrees with (Ansong, 2015).Darmadi (2011), opined that the directors remunerations should be determined at the shareholders wealth rather than on the agency perspective.

So there is therefore conflicting outcomes that are brought about by the authors in regard to the issue of whether the firm performance drives remuneration policy of firms.

### **2.1.2 Size of the board**

Ansong (2015),in carrying out a study on the determinants of remuneration in Ghana, noted that when the board size is not larger than ten (10)members, companies will be able to remunerate them highly as compared to firms with a bloated board. Fauzi and Locke (2012), have however noted that the large the size of the board, the more meaningful are the discussing because directors scrutinizes the work of the executives. Ibid noted that from an agency point of view, there is wider thought from the number of directors around the board. In support of the assertions of Ansong (2015), Topal

and Dogan (2014), Kim (2013) and Saravanan (2014), however concluded that larger boards have less effectiveness and usually have lower remunerations.

Uwuigbe and Fakile (2011), has noted that the board of directors with a number of thirteen (13) and below are better remunerated in the Nigerian Banking sector than the boards above thirteen (13) directors. This means that the boards should be reasonably composed such that the remuneration can be determined in a modesty and effective way than when there are many directors. SEPs in Zimbabwe have an average of eight (8) eight boards according to the various enabling legislations. Shakir (2014), noted that meaningful discussions are hampered by larger board composition and hence the value addition created by that board. But however in all these SEPs there are other issues that determine the ultimate remunerations than the board itself.

According to section 3.13 of the Corporate Governance Framework for State Enterprises and Parastatals, there is need for the approval of the board remuneration by the responsible authority. Which means differing Ministers can come up with different determinations. This becomes a challenge in the public sector.

### **2.1.3 Value addition and productivity**

Halbay (2014), noted that there is need to remunerate directors well if productivity has to be achieved. This means that the Directors should bring in value addition to the company in order to have claim on their remuneration. Onyanha et al (2014) in support to Halbay (2014), also argued that, productivity can lead to higher remuneration. Ibid noted that the use of productivity as an anchor for remuneration of directors brings stability in cost containment.

Moragwa (2013), argued that the pay system in organisations are based on the employee productivity, both at the individual level and as a team level. Which means that the productivity of

the employees brought into the workforce determines the remuneration of the organisations. Although this has been aimed at the banking system in Kenya, the same can be said about the SEPs with a commercial approach in Zimbabwe.

The efficiency wage theory as highlighted by Bussin and Blair (2015), states that the CEOs remuneration is based on the productivity. This is also in line with the Marginal Productivity Theory which states that the remuneration increase should be based on the product related to that remuneration. Bussin and Blair noted that the postulates of the MPT is that the CEO should be remunerated based on the value created over time. There is therefore need to creating monitoring mechanisms in order to track the value addition activities.

#### **2.1.4 Size of the entity**

Darmadi (2011), noted that the larger the size of the company the higher the ability to pay high salaries. The researcher argued that smaller firms oftenly struggle to honour remunerations than their larger counterparts. Dai (2014), also opined that firm size has a positive relationship with remuneration packages. This research was based on the firms in the New York state.

According to Xiao et al (2010), the firm with high turnover but under a weak government control have a tendency of having high remunerations than those with the same turnover but with a strong government control. The control of SEPs in Zimbabwe have been under a number of Line Ministries and as such some do not have the strongest of monitoring and evaluation mechanisms, such that the directors determine their remuneration without going through the respective Minister.

Bruce and Skovoroda (2015) elaborated that the size of the firm plays an important role in the determination of executive compensation but however the process is very robust as it includes so many variables to determine how big a firm is in the industry it operates. Branca and Imeilmann

(2011) concurred that although it is important to compensate the executives based on firm size it was difficult to measure the size of the firm due to differences in industries. They went on to say it is difficult to measure the firm size as some firms are socially constructed which means that the compensation of executives is beyond the value of money.

Iqbal et al (2012) argued that the firm size was the best significant way of determining executive compensation despite the contract tenure and the performance of the firm.

## **2.2 Should boards decide their own remuneration,**

There are a number of issues that need to be addressed as a matter of determining whether there is need for the boards to determine their remunerations, namely role of remuneration committees and the role of the line ministries in determining remunerations

### **2.2.1 The role of the remuneration committee**

According to the Institute of Directors Ireland the remuneration committee is a committee constituted within the board of a firm to advice and look into issues to do with compensation of both the executives and the employees. This committee should consist of mainly non-executive directors (King report IV). National Code on Corporate Governance (NCCG) section 165 also recommends the establishment of the remuneration committee and section 166 state the composition of the remuneration committee.

Institute of directors Ireland policy on remunerations has argued that the determination of directors' remunerations is the most challenging issues of board decisions. Bussin and Blair (2015) noted that the SOEs in South Africa's remuneration policies are as a result of the work of the remuneration committee. However, Bussin and Blair (2015), further noted that in many SOEs, the remuneration committees are not aware of the standard to use and this means that the determination of salaries

varies in each year. Fauzi and Locke (2012), opined that the remuneration policy is the cornerstone in the determination of the board remuneration.

Camara (2012), further argued that the remuneration committees promotes in a decisive nature, rigor and transparency of the remuneration setting process. This is the reason why even the National Corporate Governance Code in Zimbabwe has advocated for the setting of the remuneration committees.

National Social Security Authority in its 2017 budget submission, noted that they have used the lower of the financial services sector to determine their remuneration policies. Many other SOEs however do not have the yard stick to determine their remuneration policies. This trend is however not in the best of the government because the factors will not be consistent in each financial period. The Swedish Code of Corporate Governance (2010) in Jantén and Hjälms (2015), argued that the role of the remuneration committee will be to proffer recommendations to the board of directors on how to remunerate themselves.

Section 32 of King IV report on corporate governance has included some more requirements of remuneration definitive disclosures on the remuneration of the directors. These disclosures are stated as background statement, overview of the remuneration policy and the remuneration implementation report. There is always opinion that the directors should not determine their own remuneration given that they are interested parties. Institute of Directors of Ireland policy on board remunerations, noted however that the determination of remuneration by the directors themselves is a good practice.

However the OECD code of corporate governance board practices, argued that there are some perceived risks associated with greater disclosure of directors' remuneration committees. This is

contrast to the King IV, section 32, report which calls for greater disclosure as a means of bringing transparency to the allowances of the board.

Governance Institute of Australia (2014) suggested that the roles of the remuneration committee should be to craft the remuneration approach and policy as well as to monitor and give support advice to the board in relation to the remuneration matters within an organisation.

### **2.2.2 The role of the line ministries**

According to the Corporate Governance Framework on State Enterprises and Parastatals in Zimbabwe (2010) section 2.1.1, the role of line ministries in the remuneration of the board is to monitor the policies and approve the proposed remuneration in line with the mandate of SEP's. The Minister should approve the board remuneration in consultation with the Minister of State Enterprises and Parastatals. The Corporate Governance Code for Trinidad and Tobago (2015), alluded to the fact that Line Ministries are the custodians of day to day operation of the SEPs while the Ministry of Finance drives the reforms agenda.

State Owned Enterprise Network for Southern Africa (SOENSA) (2014) added on that the role of government and line ministry is draw the mandates of the parastatals and monitor their implementation. This can be done through reports to parliament committees which would then translate their performance reports and as such performance contracts in conjunction with other instruments should be used to control and monitor the performance and operations of the parastatals.

SOENA (2014), also went on to suggest that the government should put limits in the remuneration of the executives and this should be done in line with the current policies and they should be according to the size of the entity and sector in which the SEP's operate. OECD (2011), noted that the SOEs should be clustered and be put under one Minister to enable remuneration moderation.

### **2.3 The effects of board remunerations on firm performance,**

Dai (2012) noted that board performance in terms of return on assets and profitability are affected by remuneration levels. This is premised on the fact that remunerations are a component of the staff costs components of the expenditure. OECD (2014), alluded that the higher the remuneration paid to the directors the lower the net profit that is recorded by the firm.

Bryson et al (2012), noted that directors are concerned about their remuneration and this has led to the lower returns paid to the shareholders. The Agency theory drive such philosophy on board remunerations and firm performance. Ibid noted that the elasticity of the board incentives and firm performance is more pronounced in the Asia markets than the Americas.

Vo and Fan (2013), however opined that there is a negative relationship between board incentives and firm performance in that the higher the incentives the low the reported net profit of the firm. The situation in Zimbabwe's SEPs is that even if there are no adequate revenue derived during that financial period. This in itself does not relate to the empirical studies per Vo and Fan (2013), Dai (2012) and Tsoku (2014)

Miyianda et al (2013), in a study on firm on the Nairobi Stock Exchange, concluded that there is always a positive relationship between board remuneration and Earnings After Tax (EAT), Return on Assets (ROA) as measures of firm performance. This means that when firm directors' remuneration increases, it also motivates them to push for more favourable results on the firm's overall performance. Higher remuneration therefore act as a motivational tool for the directors to minimise costs and maximise revenue streams.

Rehman and Khalid (2014), results on the Pakistan firms listed were consistent with the findings of Miyianda et al (2013). Rehman and Khalid (2014) noted further that the pay per performance theory

of agency is tested on its colleniality with the overall firm performance. It can therefore be concluded that the more the directors are remunerated, the better the value added to the overall firm performance in terms of profitability. Ismail et al (2014), also allude to a positive relationship between the two variables using panel firms from the Malaysia food sector from 2006 to 2010.

Even though a number of studies point to a positive relationship between board remuneration and firm performance, the Study by Karzan (2016) on Scandinavian Countries show that there is a non-significant negative relationship between the two variables. This supports the earlier results of Tariq (2010), whose study of the Swedish firm concluded that there is always a negative relationship between directors pay and firm performance.

This is based on the thinking that remuneration weighs down the profit line and hence all other variables like Earning After Tax (EAT) and Return on Assets (ROA). Aduda (2011) also conclude the negativity of the two variables in a study of the Kenyan listed firms. Ayodele (2012) in Ogbeide and Akanji (2015) further reinforced this conclusion opining that executive remuneration is one of the most important myriad of factors impinging on firm performance.

There seems to be no definite answer on the relationship between remuneration and firm performance as the various scholars have differing conclusions depending on the country and firm sample sizes. In Zimbabwe, a number of SEPs (NRZ, Air Zimbabwe and GMB), struggle and have negative bottom lines but have a high director's remuneration platform. This links well with the conclusions by Tariq (2010), Karzan (2016) and Aduda (2011). However others like ZINARA, NSSA, TelOne and Net One fit well in the conclusions by Miyienda et al (2013), Ismail (2014) and Rehman and Khalid (2014), who alluded to positivity in the two variables namely remuneration and firm performance.

## **2.4 Correlation between board remuneration and value addition,**

Gunawan and Amalia (2015), noted that there is a positive relationship between remuneration and work productivity. Ibid argued that, this is because remuneration creates the motivation to work harder and thereby achieving high productivity. Tsoku (2014), noted that in South Africa 1990-2011, there has been a positive relationship between the two variables. Tsoku (2014), further noted that there is long-term cointegration relationship between remuneration and employee productivity that 1% increase in productivity led to a 1.9% increase in wages.

Muogbo (2013), attributed the high remuneration to employees' productivity, noting that, in order to retain employees there is need to reward them accordingly. There has been a brain drain in Zimbabwe during the period 2005-2013, and the SEPs were also hard hit. In order to curtail that the SEPs had to up their rewards in order to retain critical and expert skills. However there is a mixed reaction to whether rewards are linked to the productivity or the fulfilment of their mandates, for example the National Railways of Zimbabwe plying the Harare-Bulawayo route. This means that all the productivity of this route is implied to cover both operational costs and other obligations.

A further analysis of ZESA Holdings for example reveals that power generation activity are below 70% of capacity (ZERA. 2016). Still on ZESA, its power distribution arm ZETDC is failing to complete the smart meter roll out for which only 800 000 households have been connected out of possible 2,8million users (ZERA, 2016). This therefore shows that productivity and remuneration are not at parity.

Oberholzer and Theunissen (2012) noted in their research on benchmarking of CEO compensation that the firms listed on the Johannesburg Stock Exchange had positive correlation with performance since the increase of compensation was only done when the firm performance increases. They were being looked in relation to the firms' turnover, total income and earnings before interest and tax.

## **2.5 Best practice in determining board remuneration in SEPs**

A number of best practice has been proffered for the determination of directors remuneration in SEPs and these includes among others, establishment of the remuneration committees, designing performance based contracts for directors, SEPs clustering, benchmarking and enshrining remuneration policies in CGC.

### **2.5.1 Establishment of remuneration committee.**

There is need to establish remuneration committees that oversee directors' remunerations as per the King IV report and the National code of Corporate Governance in Zimbabwe. Bussin and Blair (2015) alluded that the need for the remuneration committees is an important aspect of the boards in that the determine remuneration in line with the sectorial trends and expectations. Following the research on by Fauzi and Locke (2012), it was concluded that the coming in of the remuneration committees aids the correction of remuneration policies and fair awards to the directors.

Tariq (2012), argued that the independence of the remuneration committees directs the proper salary determination of the directors. One challenge within the Zimbabwean SEPs is that there is no remuneration policy guiding the work of the remuneration committees. Kercher (2013) noted that the establishment of the remuneration committee should review the remuneration policies of the executives and directors. All the recommendation should be well scrutinised by the board before implementation.

Puni (2015) suggested that the establishment of the remuneration committee is to ensure that the remuneration of the executive and directors should be tied against the performance of the firm and in correspondence with the shareholders wealth thereby aligning the agency theory.

### **2.5.2 Performance based contracts**

Anderson (2012), noted that the derivative of performance based remuneration leads to improved output quality and service delivery through employee motivation. Potemski and Rowland (2012), also alluded to the higher achievements of firm profitability when the remuneration policy is performance based rather than when its incentive driven. This means that in order to be remunerated more, the directors will put more effort into their performance, since they derive their living from that production. De Silva (2013) in a study on the pay systems in the Asian region opined that there is greater emergence of performance based pay system that the input and output so produced by the employees. There is a greater tendency towards the value added by the individuals or by teams than to have government regulations determine pay packages.

In Zimbabwe, although there is no remuneration policy, the SEPs are nowhere near to be paid using this method. The challenge has been the diverging mandates of the SEPs. Most are not in the commercial business but derive their mandate from service delivery and just offering a service to the citizenry. In Japan, South Korea and Singapore, as allude by De Silva (2013), have moved high volume output in the technological front with the performance based pay system.

Anderson (2012), argued that the administration of the performance based pay system can be linked with high costs. Solmon and Pudgursky (2013), also noted that the performance based pay system has a bearing on the product quality. The motivation is to achieve high productivity even if it means compromising on quality of the output.

### **2.5.3 Use of market benchmarks (Benchmarking)**

PwC (2014), alluded that the benchmarking of remuneration plays an important role in retaining key and critical members of the boards especially in the areas of skills shortages. This was further

reinforced by the European Banking Authority (EBA) (2016) postulated that there is need for benchmarking of remuneration of directors especially those in the same sector. Benchmarkme (2014), also concluded that the failure for a firm to benchmark salaries may lead to loss of critical skills and expertise. Ibid opined that a 5% remuneration gap can lead to serious directors' flight to organisation with better remuneration.

Benchmarking of remuneration in Zimbabwe is not feasibly especially in the SEPs environments because these SEPs are not clustered into any grouping either as a result of performance or sectorial. Rajkumar (2015) also was of the opinion that market remunerations on firm similar in nature and composition need not be farfetched in their remuneration scales, but need to have benchmarking as a standard measure of the remuneration policies.

Lewellen (2015) argued that benchmarking executive remuneration with peer groups will inflate the remuneration packages because each and every firm would want to pay anything above other peer groups thereby increasing the remuneration of the executives and the directors. Elson and Ferrere (2013) argued that benchmarking is the best way of setting and curbing the escalation of remuneration of the board.

This gives more logical pay schemes which are in line with the current trends not by the internal matrices which may be prone to fabricated impression. Ibid also argued that benchmarking does not take into accounting the other internal variables which may affect in the determination of executive compensation. Jurow et al (2012) opined that benchmarking of executive compensation will lead to the viability of firms in the long run and it will help in the destruction of the shareholder value because the board will try to peer benchmark with other peers forgoing the mandate to add shareholder value.

#### **2.5.4 Enshrine remuneration policy in CGC**

Yatim (2013), proffered that countries need to include the remuneration policies in the code for corporate governance, such that transparency and accountability are achieved at large. This notion was also supported by Cheng et al (2014), who alluded that if firms are not family driven, there is need to create regulations guiding remuneration of directors and one such regulation is the inclusion of remuneration issues in the national codes of corporate governance.

In a study of the Asian remuneration issues, Tahla et al (2012), highlighted that the normalisation of remuneration in the Asian region has been fronted by efforts to include remuneration in corporate governance codes. The United Kingdom Code of corporate Governance section D.1.1 states that there should be inclusion of the role played by the remuneration committees in guiding directors' remuneration. This is also the case in the National Code of Corporate Governance in Zimbabwe, in which section 169 also highlights the need to include provisions of the remuneration guidelines.

The King IV report on Corporate Governance in South Africa part two (2) also has provisions of remuneration guidelines in order to bring accountability and transparency in directors' remuneration.

#### **2.5.5 Clustering SEPs under a single minister**

The OECD (2011), argued that the fragmented approach in which SEPs falls under various Ministers does not work, especially in relation to regulation. The body argues that there is need to create a Ministry that oversee all the SEPs. Between 2009 and 2013, this was the scenario in Zimbabwe in which the SEPs were under the regulation and oversight of the Minister responsible for State Enterprises and Parastatals.

Onyancha et al (2014), alluded to the same when they concluded that there is improvement of remunerations when there is a single Ministry that runs SOEs. They argued that the revenue collection differs and there is need for moderation and clear determination of the remuneration across the SEPs environment.

According to a bulletin by the Government of Ukraine on SOEs reforms, all the SOEs are under the arm bit of the Ministry of Economy and they speared the restructuring and regulation aspects in the Country.

## **2.6 Chapter summary**

This chapter reviewed literature of other school of thoughts based on the relationship between the executive compensation and firm performance. This included the factors that determines board remuneration, decisions on board own remuneration, effects of board remuneration on firm performance, correlation o between board remuneration and board value addition and the best practice of remuneration committee.

## **CHAPTER 3: RESEARCH METHODOLOGY**

### **3.0 Introduction**

The purpose of this chapter is to address the research strategy and methodology used in guiding the research. The other matters to be address comprises population, sampling, data collection procedures and technique used for data analysis in achieving the objectives of the research.

### **3.1 Research philosophy**

Saunders et al (2007) defined research philosophy as the elaboration of the research background, research information and its relation to the environment. Cohen et al (2011) also described the research philosophy as the paradigm, which can be described as the broad framework and it comprise of opinions, views and understanding numerous practices and theories that are used in conducting the research. This research followed the positivism approach in conducting the study.

#### **3.1.1 Positivism**

According to Saunders et al (2007) s the positivist position is derived from the natural sciences and is categorised by testing of hypothesis from existing theory through measurement of observable social realities. Creswell (2014) also noted that this approach is best designed when there is need to prove a hypothesis numerically. This approach has been used because the research would want to prove whether there is a nexus or casualty between board remuneration and firm performance within the public sect in Zimbabwe, particularly State Enterprises and parastatals.

### **3.2 Research design**

Collins and Hussey (2009) defines the research design as the planning of how the research is going to be conducted giving and making sure that valid results are achieved and will be of significance use in the area of research. Therefore research design is the action plan and techniques to be used in the research. The researcher is going to pursue a quantitative research design for this research

project. This is because, according to Creswell (2014), if a research is positivism in nature the need to conclude results quantitatively will follow the quantitative research design not a qualitative approach.

### **3.3 Quantitative research design**

According to Creswell (2014), this design is used when the research has to collect and analyse the data set given in numerical format. Sukamolson (2013) also defined the quantitative design as the numerical representation and manipulation of collected data. Williams (2007), opined that research selection is dependent on whether there information to be collected is textual, numerical or a combination in order to determine the research design.

In this case the research adopted the quantitative approach because of the need to collect numerical data to determine whether there is a positive or negative relationship between the board remuneration and performance of the SEP's. The intention of this design is to ensure that the causality between the variables will be tested. The researcher will use this design because, of the need to quantify certain data sets and also to calculate the relationship that should be achieved using the ordinary least square method.

### **3.4 Research population, sampling and sampling design**

The population, the sample and the sample design plus the justification will be analysed under this area.

#### **3.4.1 Population**

According to Truskin and Small (2012), population is the aggregation of all the elements in a set. This was also alluded to by Barreiro and Albandoz (2010), who noted that the entire elements of a study defines the population of the research area. The population of the research is drawn from the SEPs in Zimbabwe per the Ministry of Finance listing as of December 2016. The assumption

made is that all the SEPs have an average of seven (7) directors on its board. These are then clustered according to the nature of the SEPs as follows:-

**Table 3:1 Population, sample and justification**

Strata/Class	Population		Sample		Justification
	Number of SEP's	Number of Directors	Number of Selected SEP's	Number of selected Directors	
Regulatory SEPs	16	112	8	56	A sample of 50% of the population is more reflective of the population. (Mugenda and Mugenda, 2009)
Commercial SEP's	46	322	23	161	
Strategic SEPs	10	70	5	35	
<b>Total</b>	<b>72</b>	<b>504</b>	<b>36</b>	<b>252</b>	

*Source: Author's Design*

### 3.4.2 Sample

Westafall (2008) defined a sample as the selection of part of the whole (population), this means that when it is practically impossible to analyse the whole population of the data set, it will be prudent to make a leaner selection of the data set which should be reflective of the whole population. Molenberghs (2011) noted that sampling allows one to obtain a fairly true representation of the whole population without studying all the elements of the data set.

#### 3.4.2.1 Sampling method and sample selection

The sample in this case has been selected using a stratified sampling method because the classes of the SEPs are initially put into strata, depending on the nature of the SEPs. These strata are highlighted

in table 3.1 above as, regulatory, Commercial and Strategic SEPs. According to Molenberghs (2011), in considering the sample selection, it is imperative to achieve precision at population level and estimation of strata and sub-strata levels of the elements in the research. In this research therefore the research will have to achieve as much precision by ensuring that all the strata are covered by the respective respondents. A number of sampling methods can be used for this research study, but the research had to select the stratified random because of the need to put the respondents in strata according to their nature as shown in Table 3.1 above.

### **3.5 Data collection instruments**

According to Sukamolson (2013) questionnaires are ideal for quantitative research since they bring about the needed precision on the casualty relationship between variables. Furthermore, Abawi (2013) alluded that when a research seek to collect accurate and complete data in a logical flow, then a questionnaire is the most appropriate tool to use. The researcher is going to confirm to the questionnaire as a primary data collection tool, because of the choice of the research design which is quantitative in nature. The data gathered through the questionnaires will be quantifiable and analysed in coming up with the correlation between the two variables, that is, the board remuneration and firm performance. Interviews gives qualitative responses and therefore will not suit the selected research design by the researcher.

#### **3.5.1 Questionnaire**

Questionnaire were first developed by Sir Francis Galton in 1883 and have been used since then in both quantitative and the mixed approach, that is a combination of quantitative and qualitative approach to research design (Abawi, 2013). The researcher used the questionnaire as it has the same pattern for response, frequency is easy to determine and the success rate can be determined. Morgan

and Harmon (2010) defined questionnaires as, any type of any written questions for which the participants will respond to by ticking or circling certain response choices.

Mathers et al (2007), however noted that if questionnaires are to produce meaningful and logical information they have to be design in such a way that the dispel ambiguity and monotony. The researcher used this because it is simple to administer and it quick for the respondents to complete and return. Morgan and Harmon (2010), further distinguished between open-ended and closed ended questionnaires.

By definition closed ended questionnaires are those that are designed for respondents to deal with provided responses and there is no need to add their opinions or thought process in the responses like in open ended questions. Open ended questions are meant to give the respondents opportunity to put their own analysis and thinking on the provided questionnaires and it is most common to many respondents.

### **3.5.2 Ordinary least square**

According to Benoit (2010) the use of ordinary least square in statistical analysis is ideal as it is applicable in dealing with issues that are cross sectional in nature. Ibid the method is ideal to use in investigating the relationship between two or more variables.

Data from the remuneration packages and firm performance from the selected SEPs as outlined in table 1.1 will be used for the ordinary least square. With the board remuneration being the independent variable and firm performance being the dependent variable. Basically the researcher will use secondary data from the Ministry of Finance and Economic development for this data type. The information will be placed in the SPSS version 16 analytical tool and the colleniality will be determined from the results obtained.

The ordinary least square regression equations will be based on the following formula:-

$$b = \frac{n \sum xy - (\sum x)(\sum y)}{n(\sum x^2) - (\sum x)^2}$$

$$a = \frac{\sum y - b \sum x}{n}$$

Where (a) is the (y) intercept and (b) is the (x) intercept.

The dependent (y) variable is represented by the firm performance which is the net profit.

The Independent (x) variables are basic salary and retainer fees for the board members as illustrated in the table 1.1 above.

### 3.5.2.1 Covariance of the data set

From the data set, the researcher will also find the directional effect of the relationship between the variables. According to Columbia academic research, when the covariance is positive, it means the variables are positively related. Which means that when one variable falls the other will follow suite, while a negative relationship denotes a negative relationship between the variables

### 3.5.2.2 Coefficient of variation

$$r = \frac{n \sum xy - \sum x \sum y}{\sqrt{(n \sum x^2 - (\sum x)^2)(n \sum y^2 - (\sum y)^2)}}$$

(r) is the Pearson's coefficient of variation measuring the correlation between board remunerations and firm performance.

The coefficient of variation, also known as the relative standard variation, will be used to determine the dispersion of the probability distribution. This will be used to show also the relational direction of the two variables in the data set.

### **3.6 Data sources**

In this study a two types of data types will be used, namely primary data and secondary data. Primary data will be obtained by means of the questionnaires administered, while secondary data like reports and correspondences between the Ministries and the respective SEPs.

#### **3.6.1 Primary data**

Primary data are collection carried out by the research for the specific study areas. This means that no other person has gathered that data before. The advantage is that primary data is original and relevant to the specific study area. Another advantage is that the researcher has control on the quality and quantity of such response rate can data and can cover a wider geographical area if research instruments are administered widely. Primary data is current and gives realistic evaluation of the phenomenon under consideration. However primary data collection is costly especially if it includes wide geographical area, which requires travelling. Primary data also has the weakness that it is subject to manipulation by the researcher and that hinder reliability.

#### **3.6.2 Secondary data**

This is data collected by third parties for their own specific needs and might not directly relate to the particular area of study by the researcher. Secondary data may come as electronic, written or typed and can be classified according to sources, that is, internal or external. Internal data is that type of data generated by the firm itself while external data are data compiled by third parties outside the organisation, like industrial, sectorial associations. Secondary data to be used for this research

are those internally generated by the SEPs, the Government and previous researcher on the phenomenon under consideration.

Secondary data has the advantages that it is readily available and that it has low costs of collection unlike primary data. Therefore it saves time, effort and money in the process of collection. The other advantages is that it has been authenticated by it being published either internally or externally. It has however the following disadvantages, i) not research area specific, ii) can become obsolete with the passage of time and that its reliability and authenticity can be questionable. Lastly data collected for a given geographical area or location cannot reflect on data collected in the other areas.

### **3.7 Reliability and Validity**

According to Tovakol and Dennik (2011), reliability and validity are an important aspect of the quantitative research because they enhance the accuracy of the assessment. Creswell (2014:201), noted that these two aspects have differing meanings depending on the type of research design, that is, quantitative and qualitative.

#### **3.7.1 Validity**

Heale and Tywecross (2015) defined reliability as the extent to which a concept is measured with accuracy in a quantitative research study. Thatcher (2010), defined validity as the extent to which any measuring instrument measures what it purports to measure. Therefore the research would need to explicitly ensure that the concept are measurable in the practical sense.

The researcher will achieved content validity carrying out a pilot questionnaire administration research. In using the research instrument the research will ensure that the above validity items are taken into account. In both classes of validity i.e. Content, construct and criterion, the researcher will pre-test the questionnaire and the data for OLS as pilot to ensure that they try as much as

possible to measure what they are designed to measure and that there is no ambiguity in the results obtained.

### **3.8 Reliability**

Heale and Tywcross (2015) defines reliability as a measure of the consistence, stability and repeatability of the instruments to bring out results. Reliability is obtained when the same instruments can be used to bring consistency of results in identical situations but different circumstances.

As the researcher carries out the questionnaire administration and the OLS, stability of results will be analysed and compared to second pilot study in a different environment to ensure that there is consistence of results obtained. The results from the questionnaire will be compared to the results to the OLS in order to achieve triangulation of the results

### **3.9 Ethical consideration**

Ethics is the study of good conduct and of the grounds for making judgements about what is good (Stevens, 2013) and follows under the following classes in quantitative research.

In order to achieve informed consent the researcher will draft letters of consent which will be signed by the chairperson of the department as proof that the researcher is carrying out the study for academic purposes only. As a professional assurance, the researcher will by all means abide by ethical consideration and will ensure that respondents' data is kept confidential and all sources used for idea gathering are acknowledged accordingly. Assurance will be given also to the respondents that information provided will be used for academic purposes only and no commercial benefit will be derived from it.

### **3.10 Data analysis and presentation**

Vosloo (2014) defines data analysis as the examination and categorising of data that has been obtained in order to reach a conclusion. The researcher in the process of data analysis will screen the questionnaires that would have been returned for errors and consistence before categorising and tabulating the final tally sheet of all the responses. The secondary data on director's remuneration and firm performance will be analysed using the Ordinary Least Square method in order to obtain congruence from primary data obtained through questionnaires. The data gathered will be presented by way of charts, graphs and tables and the ordinary least square equations.

### **3.11 Chapter summary**

The chapter looked at the research methodology highlighting the use of the quantitative research design as the research theory and the positivism as the research philosophy used in this research. Furthermore the population derived from all the SEPs directorship and its accompanying sample were highlighted. The questionnaire are the research instruments used since the research design is numerical that textual. Data sources were highlighted and are primary and secondary sources. Reliability, validity and ethical consideration issues were proffered and analysed in this chapter and then the data presentation methods given.

## CHAPTER 4: DATA ANALYSIS AND PRESENTATION

### 4.0 Introduction

The chapter was designed to analyse the data that was obtained from the research instruments administered. These instruments includes the questionnaires and the secondary data. The secondary data analysis will be done using the ordinary least square data tool. Both the primary data from questionnaires and the OLS will be done using the SPSS data tool.

### 4.1 Questionnaire response rate

Table 4.1: Response rate from questionnaires administered

Questionnaire response rate				
		Frequency	Valid Percent	Cumulative Percent
Valid responses	No. Returned	191	75.8	75.8
	No. Not returned	61	24.2	100.0
	Total	252	100.00	

Data Source: Primary

A total of 252 questionnaires were administered by the researcher and only 191 were returned, representing 75.8%, while the remaining 61 questionnaires that were not returned represents 24.2%. According to Punch (2003), a response rate of 50% or more is reflective of allowable response and therefore warrants further analysis of the data.

### 4.2 Section A

Demographical issues are analysed under this particular section

#### 4.2.1 Years in service

Table 4.2: Years in service

Years	Frequency	Percentage
5 and below	38	19.9
6-10	34	17.8

<b>11-20</b>	98	51.3
<b>21 and above</b>	21	10.9
<b>Total</b>	<b>191</b>	<b>100.0</b>

Data source: Primary

A total of 38/191(19.9%) of the respondents were in employment of the State Enterprise for a period of 5 years and below, 34/191(17.8%) have been with the Enterprise for periods between 6 years to 10 years. The modal class of the respondents was the 11-20 years where a total of 98/191(51.3%) of the respondents have been in association with the entity either as managers or as directors. Respondents representing 21/191(10.9%) have been with the companies for a period of 21 years and above.

The mode for this distribution is the 11-20 years class, while the mean class has been the 11-20 years class again. This means that on average respondents have been in association with the organisations for periods of more than 10 years. This means that the respondents are very knowledgeable of the operational modalities of the entities. This outcomes justifies the belief that many boards had the same members for much of their existence, with no renewal or fusion of new members.

#### 4.2.2 Position in Organisation

Table 4.3: Position in Organisation

<b>Position</b>	<b>Frequency</b>	<b>Percentage</b>
<b>Board Chairperson</b>	3	1.6
<b>Non-Executive Director</b>	102	53.4
<b>Executive Director</b>	47	24.6
<b>Other (Company secretary, Legal advisor etc.)</b>	39	20.4
<b>Total</b>	<b>191</b>	<b>100.0</b>

Data source: Primary

3/191(1.6%) of the respondents were board chairperson, 102/191(53.4%) were Non-Executive Directors and 47/191(24.6%) were Executive directors. 39/191(20.4%), were other class of the

directorate, like the company secretary and the legal representatives of the entities. These members sit in the board as ex-office members of the boards.

It can be concluded that the target of non-executive members were deliberate in that they have an independent opinion on the affairs of the entities, than the executive members who have to protect their remuneration packages.

### 4.2.3 Qualifications held

Table 4.4: Respondents qualifications

Qualification	Frequency	Percentage
<b>Post Graduate</b>	88	46.1
<b>Graduate</b>	34	17.8
<b>Tertiary (Technical : Engineers, Boilermaker, Technicians)</b>	22	11.5
<b>Others (A levels, CIS, certificate in Bookkeeping etc.)</b>	47	24.6
<b>Total</b>	<b>191</b>	<b>100.0</b>

Data source: Primary data

A total of 88/191(46.1%) of the respondents held post graduate qualifications, while 34/191(17.8%) held graduate qualifications. 22/191(11.5%) held technical qualifications like boilermakers, technicians etc. The remaining 47/191(24.6%) had other qualifications like certificates in bookkeeping, CIMA, CIS etc. The modal class of the qualifications was the Post Graduates and the mean class were the Graduates.

The results of these analysis shows that the majority of the members of the boards had appropriately qualifications and therefore had the knowledge to effect board resolutions and decision making participation

## SECTION B: TECHNICAL ASPECTS OF THE BOARDS OF DIRECTORS

### 4.3 Causes of perennial underperforming in SEPS

Underperforming of the SEPs are as a result of, lack of oversight by the board on strategy, excessive remuneration awards, lack of board cohesion unethical behaviours, lack of board diversity.

#### 4.3.1 Lack of board oversight on Organisational strategy

<b>Table 4.5: lack of board oversight</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	101	40.1	52.9	52.9
	Agree	52	20.6	27.2	80.1
	Uncertain	25	9.9	13.1	93.2
	Disagree	13	5.2	6.8	100
	Total	191	75.8	100.0	
Missing	System	61	24.2		
Total		252	100.0		

*Source: Primary data*

101/191(52.9%) of the respondents strongly agreed that lack of board oversight on strategy is the major cause of perennial losses that the SEPs are experiencing. 52/191(27.2%) agreed, while 25/191(13.1%) were uncertain over the perceived cause of perennial losses. 13/191(6.8%) disagreed that perennial losses are caused by the lack of board oversight on the organisational strategy. The distribution had a modal class of strongly agreed, while a mean of strongly agreed as well was determined and the median of the same class, meaning the distribution is normal distributed around the mean.

In total 153/191(80.1%) were in agreement, while the remaining 38/191(19.9%) were in disagreement. This was in congruence with the postulates by Dogan (2014), Kim (2013) and Saravanan (2014), who noted that when the board lack oversight, the strategic plan cannot be implemented appropriately. This showed that the board some of the board members do not have oversight of their mandates and of the organisation they sit in. It can then be concluded that the

SEPs perennial losses that are experienced are as a result of the lack of board oversight on the organisational strategy.

#### 4.3.2 Excessive remunerations to boards

Table 4.6: Excessive remunerations to boards					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	89	35.3	46.6	46.6
	Agree	67	26.6	35.1	81.7
	Uncertain	11	4.4	5.3	87.0
	Disagree	23	9.1	12.0	99.0
	Strongly disagree	1	0.4	1.0	100.0
	Total	191	75.8	100.0	
Missing	System	61	24.2		
Total		252	100.0		

Source: Primary data

89/191(46.6%), strongly agreed that excessive remunerations paid to the boards has a bearing on firm performance and are attributed to the perennial losses experienced by the SEPs in Zimbabwe. 67/191(35.1%) agreed and 11/191(5.3%) were uncertain. 23/191(12%) disagreed while 1/191(1%) strongly disagreed that the excessive remunerations paid to the board members are the causes of the perennial losses experience by the SEPs in Zimbabwe. This result can be linked to the outrageous salary payments that where being paid to the CEO's of such organisations like ZBC, PSMAS etc. in comparison with their performance and service delivery to the public.

In total, 156/191(81.7%) were in agreement while the remaining 35/191(18.3) were in disagreement. The conclusion reached here are in line with the conclusions reached by Uwuigbe and Fakile (2011) and Ansong (2015), who asserted that the excessive payments to board members has a bearing on the overall firm performance. This means that the losses that are experienced are as a result of the excessive remuneration payments. It can be concluded that the huge payments of remunerations to boards has a bearing on the performances of the SEPs in Zimbabwe.

### 4.3.3 Lack of cohesion within boards

Table 4.7: Lack of Cohesion		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	105	41.6	55.0	55.0
	Agree	49	19.4	25.7	80.7
	Uncertain	18	7.1	9.4	90.1
	Disagree	10	3.9	5.2	95.3
	Strongly disagree	9	3.6	4.7	100.0
	Total	191	75.8	100.0	
Missing	System	61	24.2		
Total		252	100.0		

Source: Primary data

A total of 105/191(55%) of the respondents strongly agreed and 49/191(25.7%) agreed that the lack of board cohesion has a bearing on the losses that the SEPs are experiencing in Zimbabwe. 18/191(9.4%) were uncertain, and 10/191(5.2%) disagreed, while the remaining 9/191(4.7%) strongly disagreed that the lack of cohesion within the boards leads to perennial losses as those experienced in Zimbabwe.

In total 154/191(80.7%) were in agreement to the notion that lack of board cohesion leads to perennial losses in SEPs. The remaining 37/191(19.3%) were in disagreement. This links with the conclusions by Kuo and Yu (2014 and Onyancha et al (2014), who opined that cohesion within boards leads to proper strategy implementation and monitoring of activities of the management. As highlighted by the result is shows that cohesion in the SEP's boards does not exist which means that it has a bearing on the performance of the firms. In conclusion therefore, board cohesion is required if the firm performances have to improve in SEPs, without this cohesion therefore the perennial losses experienced will continue into the future.

### 4.3.4 Unethical behaviours within management boards

Table 4.8: Unethical behaviours in boards	Frequency	Percent	Valid Percent	Cumulative Percent
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Valid	Strongly agree	144	57.1	75.4	75.4
	Agree	33	13.1	17.3	92.7
	Uncertain	-	-	-	92.7
	Disagree	14	5.6	7.3	100
	Strongly disagree	-	-	-	
	Total	191	75.8	100.0	
Missing	System	61	24.2		
Total		252	100.0		

*Data source: Primary data*

Unethical behaviours, like underhand dealings, frauds and other shenanigans can have a bearing on the performance of the organisation. 144/191(75.4%) of the respondents strongly agree that the unethical behaviours of the boards have contributed to the perennial losses of the SEPs in Zimbabwe. This can be attributed to the ZBC saga in which the CEO is being accused of doing underhand dealings in procurement of the OB van from China. 33/191(17.3%) of the respondents agreed and 14/191(7.3%) disagreed that unethical behaviour by boards has a bearing on the performance of the firms.

In total, 177/191(92.7%) of the respondents were in agreement that underhand dealings and other unethical conducts can cost organisations in terms of performances. The remaining 14/191(7.3%) were in disagreement. This is in congruence in literature from the study by Lee and Isa (2015), who opined that were unethical conducts such as underhand dealings, frauds and shenanigans can lead to losses within SEPs.

It can be concluded that the unethical behaviours within the SEPs boards has a bearing on the firm performances.

#### **4.3.5 Lack of Board Diversity**

Table 4.9: Lack of board diversity		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	85	33.7	44.5	44.5
	Agree	62	24.6	32.5	77.0

	Uncertain	25	9.9	13.1	90.1
	Disagree	10	3.9	5.2	95.3
	Strongly disagree	9	3.6	4.7	100
	Total	191	75.8	100.0	
Missing	System	61	24.2		
Total		252	100.0		

Source: Primary data

Lack of board diversity can also bring out some challenges on the profitability of the SEPs, as 85/191(44.5%) of the respondents strongly agreed. 62/191(32.5%) agreed while 25/191(13.1%) were uncertain and 10/191(5.2%) disagreed. 9/191(4.7%), strongly disagreed that the lack of board diversity causes the perennial lack of performance of SEP's.

#### 4.4 The following factors are used to determine board remuneration in companies.

Determinants that determine the remuneration of the board within the SEP's namely firm performance, board size, value addition/productivity and size of the entity.

##### 4.4.1 Firm performances

**Table 4.10: Firm performances**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	10	3.9	5.2	5.2
	Agree	22	8.7	11.5	16.7
	Uncertain	19	7.5	9.9	26.6
	Disagree	42	16.7	21.9	48.5
	Strongly disagree	98	38.9	51.5	100.0
	Total	191	75.8	100.0	
Missing	System	61	24.2		
Total		252	100.0		

Source: Primary data

Firm performance is not determinant in the determination of the remuneration of the firm as 98/191 (38.9%) strongly disagreed. 42/191 (16.7%) disagreed, 19/191 (7.5%) were uncertain and 22/191

(8.7%) agreed. 10/191 (3.9%) strongly agreed that firm performance is used in determination of the remuneration of the board. Silingene et al (2015) argued that if the firms are operating profitably they will be a justification in remunerating the directors and the executives.

#### 4.4.2 Board size

<b>Table 4.11: Board size</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	15	5.9	7.8	7.8
	Agree	26	10.3	13.6	21.4
	Uncertain	38	15.1	19.8	41.2
	Disagree	51	20.2	26.7	67.9
	Strongly disagree	61	24.2	32.0	100.0
	Total	191	75.8	100.0	
Missing	System	61	24.2		
Total		252	100.0		

Source: Primary data

Although the board size vary within the SEP's 61/191(24.2%) strongly disagreed that board size is used to determine the remuneration of the board. 51/191 (20.2%) disagreed, 38/191 (15.1%) were uncertain, 26/191 (10.3%) agreed and 15/191 (5.9%) strongly agreed. Ansong (2015) noted that the board size which has less than ten (10) members will be able remunerate them highly as compared to those with larger members. Most of the board sizes in Zimbabwe have an average of seven (7) members and these usually are appointed according to the governing act of parliament.

#### 4.4.3 Productivity

<b>Table 4.12: Productivity</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	6	2.4	3.1	3.1
	Agree	10	3.9	5.2	8.3
	Uncertain	15	5.9	7.8	16.1
	Disagree	92	36.5	48.3	64.4
	Strongly disagree	68	26.9	35.6	100

	Total	191	75.8	100.0	
Missing	System	61	24.2		
Total		252	100.0		

*Source: Primary data*

Halbay (2014) noted that there is need to remunerate directors well if productivity has to be achieved. But 68/191 (26.9%) strongly disagreed that productivity is used in the determination of remuneration in Sep's. 92/191 (36.5%) disagreed, while 15/191 (5.9%) were undecided. Only 10/191 (3.9%) and 6/191 (2.4%) agreed and strongly agreed respectively. Marginal Productivity Theory (MPT) state that the remuneration increase should be based on the productivity related to that remuneration.

#### 4.4.4 Size of the entity

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	7	2.8	3.7	3.7
	Agree	10	3.9	5.2	8.9
	Uncertain	39	15.5	20.4	29.3
	Disagree	57	22.6	29.8	59.1
	Strongly disagree	78	30.9	40.9	100
	Total	191	75.8	100.0	
Missing	System	61	24.2		
Total		252	100.0		

*Source: Primary data*

Size of the firm is not a determinant in determining the remuneration of the board. 78/191 (30.9%) strongly disagreed that it is used in the determination of the remuneration, 57/191 (22.6%), 39/191 (15.5%) were uncertain, whilst 10/191 (3.9%) and 7/191 (2.8%) respectively. Bruce and Skovoroda (2015) elaborated that the size of the entity plays important role in the determination

of executive compensation although there are many variables to determine how big the firm is in the industry it operates.

#### 4.5 Determinants of board remuneration in companies

There is need for the boards to determine their remuneration, namely the role of remuneration committees and the role of the line ministries in the determination of remuneration.

##### 4.5.1 Board remuneration committees

<b>Table 4.14: Board remunerations committees as determinants of remunerations</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	35	13.9	18.3	18.3
	Agree	72	28.5	37.7	56.0
	Uncertain	34	13.5	17.8	73.8
	Disagree	15	5.9	7.9	81.7
	Strongly disagree	35	13.9	18.3	100.0
	Total	191	75.8	100.0	
Missing	System	61	24.2		
Total		252	100.0		

Source: Primary data

Establishment of the remuneration committees within the board of the firm is to advise and look into issues to do with compensation of both executives and the employees. 35/191 (13.9%) strongly agreed that remuneration committee has an input in the determination of remuneration, 72/191 agreed, 34/191 were uncertain, 15/191 (5.9%) disagreed and 35/191 (13.9%) strongly disagreed. National Code on Corporate Governance (NCCG) section 165 recommends the establishment of the remuneration committees and section 166 states the composition of the remuneration committee. The remuneration of these board members is pegged by the government with the recently pegging of salaries of the executives, board members as announced by the Minister of Finance and Economic Development.

## 4.5.2 Line Ministries approval

<b>Table 4.15: Line Ministries as determinants of remuneration</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	92	36.5	48.2	48.2
	Agree	54	21.4	28.2	76.4
	Uncertain	28	11.1	14.7	91.1
	Disagree	15	5.9	7.9	99.0
	Strongly disagree	2	0.8	1.0	100.0
	Total	191	75.8	100.0	
Missing	System	61	24.2		
Total		252	100.0		

Source: Primary data

Line ministry should monitor policies and approve the proposed remuneration in line with the mandate of Sep's (Corporate Governance Framework on State Enterprises and Parastatals in Zimbabwe (2010). 92/191 (36.5%) strongly agreed that line ministry is determinant in the determination of remuneration, 54/191 (21.4%) agreed, 28/191 (11.1%) were uncertain. 15/191 (5.9%) disagreed and 2/191 (0.8%) strongly disagreed. State Owned Enterprise Network for Southern Africa (SOENSA) (2014) opined that government and line ministry is to draw the mandates of the SEP's and monitor their implementation rather than control the remuneration.

## 4.6 There are institutional structures to determine board remuneration in companies

<b>Table 4.16: Institutional structures</b>		Frequency	Percentage
<b>Yes</b>		132	69.1
<b>No</b>		59	30.9
<b>Total</b>		<b>191</b>	<b>100.0</b>

Source: Primary data

132 (69.1%) of the despondence agreed that there are institutional structures to determine the board remuneration in the SEP's and only that they are not being adhered to whilst 59 (30.9%) say that

there are no such structures in the SEP's, which means they do not exist all in the SEP's. this notion means that there is institutional structures but they are not being used or there is manipulation of these structures by those in control of the SEP's structures.

#### 4.7 It is imperative that boards should decide their own remunerations

<b>Table 4.17: Boards should decide their own remuneration</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	93	36.9	48.7	48.7
	Agree	13	5.2	6.8	55.5
	Uncertain	8	3.2	4.2	59.7
	Disagree	12	4.8	6.3	66.0
	Strongly disagree	65	25.8	34.0	100.0
	Total	191	75.8	100.0	
Missing	System	61	24.2		
Total		252	100.0		

*Source: Primary data*

Should the board decide their own remuneration 93/191 (36.9%) strongly agreed that the board should decide their own remuneration and 13/191 (5.2%) also agree. Bussin and Blair (2015) allude that there is need for the board to determine its remuneration through the remuneration committees in line with the sectorial trends and expectations. 8/191 (3.2%) were uncertain, 65/191 (25.8%) strongly disagreed that board should determine its remuneration and 12/191 (4.8%) disagreed with the assertion.

#### 4.8 Parastatals should use benchmarking in remuneration determination

<b>Table 4.18 : SEPs should use bench marking</b>		Frequency	Percentage
Yes		56	29.3
No		135	70.7
Total		191	100.0

*Source: Primary data*

A total of 56/191 of the respondents, strongly agreed that benchmarking should be used by parastatals as a remuneration model. 135/191(70.7%) of the respondents were in disagreement that the use of benchmarking will be the best way in ensuring remuneration determination. This means that benchmarking will not be the best practice to the determination of the remuneration of the board of directors.

According to Miyianda et al (2012). The use of benchmarking g has been used at the basis of remuneration in the developed world. This differs with the developing country in which benchmarking is not regarded as a principle for remuneration determination.

#### **4.9 The remuneration committee should be autonomous and retains the initiative in remuneration policy**

<b>Table 4.19: Autonomous and Initiative by Remuneration committee</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	13	5.2	6.8	6.8
	Agree	3	1.2	1.6	8.4
	Uncertain	25	9.9	13.1	21.5
	Disagree	51	20.2	26.7	48.2
	Strongly disagree	99	39.2	51.8	100.0
	Total	191	75.8	100.0	
Missing	System	61	24.2		
Total		252	100.0		

*Source: Primary data*

13/191(6.8%) of the respondents strongly agreed that the current remuneration committees do not have the initiatives and the autonomous determination of the remuneration policies. This is because there has been interventions of the government and other lobby groups which makes the role of the remuneration committees redundant. 3/191(1.6%) of the respondents opined in agreement that the current remunerations in the SEPs are not as per the initiatives and independency of the remuneration committees. 25/191(9.9) were uncertain, while 51/191(20.2%) were in disagreement

and 99/191(39.2%) of the respondents strongly disagreed that the remunerations committees have control over the determination of the board remunerations.

In total, 16/191(8.4%) of the respondents were in agreement, while the remaining 175/191(91%) of the respondents were in disagreement. This can be linked to literature, where Bussin and Blair (2015) and Fauzi and Locke (2012) opined that when the remuneration committee is independent and has its autonomy, then the remunerations can be benchmarked to the market or industrial trends. It can therefore be concluded that the SEPs salary determination in Zimbabwe is not based on the initiatives of the remuneration committees and that these committees are not autonomous.

#### 4.10 Effectiveness of the remuneration committees in determining board remuneration

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very effective	33	13.1	17.3	17.3
	Not effective	96	38.1	50.2	67.5
	Fairly effective	62	24.6	32.5	100.0
	Total	191	75.8	100.0	
Missing	System	61	24.2		
Total		252	100.0		

*Source: Primary data*

The issues of effectiveness of the remuneration committees, 33/191(17.3%) of the respondents noted that there are very effective, while 96/191(50.2%) noted that the remuneration committees are not effective and 62/191(32.5%) were not of the opinion that the remuneration committees were fairly effective.

According to the available literature, Miyianda et al (2013) opined that the role of the remuneration committees in the public sector entities has been compromised by political interferences.

It can therefore be concluded that the role of the remuneration committees has been affected by the interventions of the political dimension,

#### 4.11 Remuneration of boards are linked to performance

Table 4.21: Institutional structures	Frequency	Percentage
Yes	52	27.2
No	139	72.8
<b>Total</b>	<b>191</b>	<b>100.0</b>

*Source: Primary data*

A total of 52/191 (27.2%) agree that the remuneration of the boards are linked to performance, whilst 139/191 (72.8) disagree with the notion. This is because most SEP's are operating at a loss but executives are getting hefty packages.

#### 4.12 Relationship between boards remuneration and firm performances

Table 4.22 : Institutional structures	Frequency	Percentage
Yes	90	47.1
No	101	52.9
<b>Total</b>	<b>191</b>	<b>100.0</b>

*Source: Primary data*

A total of 90/191 (47.1%) of the respondents were in agreement that there has been a positive correlation between board remuneration and firm performances .The remaining 101/191(52.9%) of the respondents were of the opinion that there has not been a positive correlation between remuneration and firm performances. This has been based on the understanding that even the least performing SEPs in Zimbabwe have been linked with high board remunerations. The results show that there is no much information given to the public about the operations of the SEP's. They only get to know when the scandals are reported through the media and forensic audits.

According to Gunawan and Amalia (2015), Tsoku (2014) and Muogbo (2013), remuneration should lead to value addition and hence strong firm performance. This is however in contrary to the practicality of the firm performances in Zimbabwe as compared to remuneration.

#### 4.13 Ordinary least square

The Ordinary list square analysis carried out of the CEO Salaries and firm performance yielded the following results:-

The results were derived after selecting data from the table 1.1(see attached appendix IV) using both SEP's which made profits and those that made losses. In order for the data to come up with we had to use precision to cut the zeros to make significant figures without affecting the actual result.

**Table: 4.23 Ordinary least square analysis**

DATA STATISTICS		
<b>Sample size:</b>	6	
<b>Pearson correlation</b>	0.785765127	
<b>Square of correlation</b>	0.617426835	
	<b>Independent</b>	<b>Dependent</b>
<b>Mean</b>	165.67	-1298.33
<b>Standard Deviation</b>	97.03	25318.05
<b>Variance</b>	9414.89	641003861.56
<b>average deviation from mean</b>	77.00	18760.00

From the above data, it can be established that the correlation co-efficient (r) of the two variables is 0.62 showing that the there is a positive relationship between board remuneration and firm performance within the selected SEPs in Zimbabwe. Using the ANOVA, the following results were obtained as a triangulation with the questionnaires and the OLS

**Table 4.24: ANOVA analysis**

ANOVA <sup>a</sup>					
Model	Sum of Squares	df	Mean Square	F	Sig.

1	Regression	2362258574.248	1	2362258574.248	6.327	.066 <sup>b</sup>
	Residual	1493528061.752	4	373382015.438		
	Total	3855786636.000	5			
a. Dependent Variable: Performance						
b. Predictors: (Constant), Remuneration						

The table shows that there is a positive correlation between the board remuneration and firm performance as calculated by ANOVA. The result of 0.066 shows that although there is positive correlation between the remuneration and firm performance is insignificant to affect the performance or profitability of the SEP's. This means that although the remunerations are regarded as high, there are positively correlated to the firm performance as evidenced by the ANOVA. The results showed that although the remuneration of the board and executives is regarded as high in Zimbabwe they are positively correlated but the remunerations are insignificant to make an impact on the firm performance, this means there are other factors other than remuneration that is causing the SEP's to make losses.

Gunawan and Amalia (2015), noted that there is a positive relationship between board remunerations and firm performance. This was also supported by Tsoku (2014) and Muogbo (2013), who all noted that higher board remunerations are meant to attract and retain competent board membership.

#### 4.14 Best practice in board remuneration

##### 4.14.1 Establish remuneration committees

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	92	36.5	48.2	48.2
	Agree	47	18.7	24.6	72.8

	Uncertain	42	16.7	21.9	94.7
	Disagree	8	3.1	4.2	98.9
	Strongly disagree	2	0.8	1.1	
	Total	191	75.8	100.0	
Missing	System	61	24.2		
Total		252	100.0		

Source: Primary data

A total of 92/191(48.2%) ,strongly agreed that establishing competent remunerations committees will be part of the best practice in the determination of the board remunerations. 47/191(24.6%) agree and 42/191(21.9%) were uncertain on whether the establishments of remuneration committees in SEPs will ensure appropriate board remunerations. 8/191(4.2%) and 1.1%), disagreed and strongly disagreed respectively.

In total 139/191(72.8%) were in agreement while the remaining 52/191(27.2%) were in disagreement that the establishment of the remuneration committees improves the determination of the board remunerations. This is in line with literature, where King IV report on corporate governance, which states the importance of the remuneration committees, which are independent and which retains autonomy of the remuneration determination.

**4.14.2 Offer performance based contracts**

**Table 4.26: Offer performance based contracts**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	109	43.2	57.1	57.1
	Agree	48	19.0	25.5	82.6
	Uncertain	22	8.7	11.5	94.1
	Disagree	7	2.8	3.7	97.8
	Strongly disagree	5	1.9	2.2	100.0
	Total	191	75.8	100.0	
Missing	System	61	24.2		
Total		252	100.0		

Source: Primary data

Managers' needs to work on a performance based contracts in order to add value to the organisation. 109/191(57.1%) of the respondents strongly agrees and 48/191(25.5%) were in agreement that the offering of performance based contracts improve performance of SEPs. This showed that most respondents were in agreement that offering performance based contracts to the board members will foster growth and performance in the operations of the SEP's in Zimbabwe. 22/191(11.5%) and 7/191(3.7%) were uncertain and disagreed respectively that performance based contracts improves firm performances. 5/191(1.9%) of the respondents strongly disagreed. In Total 157/191(82.2%) of the respondents were in agreement and 34/191(17.8%) were in disagreement. Literature by Potemski and Rowland (2012) and De Silva (2013) yielded the same results as the above analysis. However, Solmon and Pudgursky (2013), opined that the thrust on firm performance can lead to quality compromise. It can then be concluded that performance based contracts for directors are desirable as long as product or service quality is not compromised as a result.

#### 4.14.3 Benchmarking remuneration

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	93	36.9	48.7	48.7
	Agree	29	11.5	15.2	63.9
	Uncertain	18	7.1	9.2	73.1
	Disagree	13	5.2	7.0	79.9
	Strongly disagree	38	15.1	19.9	100.0
	Total	191	75.8	100.0	
Missing	System	61	24.2		
Total		252	100.0		

Source: Primary data

93/191(48.7%) and 29/191(15.2%) of the respondents contributing to a overall total of 122/191(63.9%) strongly agreed and agreed respectively that the use of salary benchmarking leads to appropriate board remuneration being attained within the SEPs. 18/191 were uncertain, while 13/191(7%) and 38/191(19.9%) disagreed and strongly disagreed respectively that benchmarking can lead to appropriate remunerations being paid to the boards.

Supporting this conclusion from literature, Rajkumar (2015), Benchmarkme (2014) and European Banking Authority (EBA) (2016) were of the opinion that benchmarking is the appropriate remuneration determinator. However, Lewellen (2015), was of the opinion that for the smaller players in the market, it means the raising of remunerations above their ability to pay will be obtained. This does not bring congruence to the best practice of having remuneration paid per the size and nature of organisation.

#### 4.14.4 Enshrine remuneration policy in Corporate Governance Codes.

**Table 4.28: Enshrine remuneration policy in Corporate Governance Codes.**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	99	39.2	51.8	51.8
	Agree	44	17.5	23.0	74.8
	Uncertain	23	9.1	12.0	86.8
	Disagree	8	3.2	4.3	91.1
	Strongly disagree	17	6.7	8.9	100.0
	Total	191	75.8	100.0	
Missing	System	61	24.2		
Total		252	100.0		

*Source: Primary data*

99/191(51.8%) of the respondents strongly agreed that enshrining the remuneration policies within the Corporate governance codes. 44/191(23%) agreed, 23/191(12%) were uncertain, while 8/191(4.3%) disagreed and 17/191(8.9%) strongly disagreed that the modelling of the remuneration policies within the codes will help is determination of board remunerations.

In total 143/191(74.9%) were in agreement to this notion while the remaining 48/191(25.1%) were in disagreement. This tallies with the conclusions from previous researches carried out by Cheng et al (2014), Tahla et al (2012 and Yatim (2013), who were of the opinion that if it is not “written”, people may not want to follow it.

The conclusion which can be reached here is that enshrining the policy of remuneration determination in the Codes will ensure that the huge salaries being paid in the market at the moment will be put under scrutiny

#### 4.14.5 Clustering SEP’s under one Ministry

**Table 4.29: Clustering SEP’s under one Ministry**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly agree	63	25.0	32.9	32.9
	Agree	31	12.3	16.2	49.1
	Uncertain	28	11.1	14.7	63.8
	Disagree	19	7.5	9.9	73.7
	Strongly disagree	50	19.8	26.3	100.0
	Total	191	75.8	100.0	
Missing	System	61	24.2		
Total		252	100.0		

*Source: Primary data*

63/191(32.9%) of the respondents strongly agreed that SEPs should be monitored under the purview of a single Government Ministry, which should oversee, policy and operational modalities. 31/191(16.2%) agreed while 28/191(14.7%) were uncertain. 19/191(9.9%) and 50/191(26.3%) disagreed and strongly disagreed respectively that clustering the SEPs under a single Ministry will ensure appropriate remuneration scales are paid to SEPs directors.

In total 94/191(49.2) were in agreement while the remaining 97/191(50.8%) were in disagreement that running the SEPs under a single Ministry will help achieve considerable remunerations within SEPs. In literature this conclusion could be linked to those reached by Onyanha et al (2014) and

The OECD (2011), who opined that policy and operational modalities will be linked to the SEPs according to a one size fit all model

#### **4.15 Chapter summary**

In this chapter an analysis of the data that was obtained using the questionnaires and the OLS using the secondary data was carried out. At the end of an analysis of each portion of the questionnaire, a conclusion was reached based on the results of the research instrument. Chapter 5 then proffered conclusions and recommendations' based on the data analysed in this chapter.

## **CHAPTER 5: FINDINGS, CONCLUSIONS AND RECOMENDATIONS**

### **5.0 Introduction**

This chapter provided the findings, and brings about the conclusions and then proffers the recommendations based on the analysis carried out in chapter 4 above.

### **5.1 Chapter summaries**

Chapter 1 of the research brought about the background to the study noting that SEPs in Zimbabwe have been alleged to have been paying their executive huge remuneration packages, The statement of the problem was crafted using the background in which , the research wanted then to determine whether these salaries have a positive or negative correlation with the firm performances. The objectives were determined and the research questions, limitations, relevance of the study and the delimitations also drawn.

In chapter 2, literature was reviewed based on the objectives drawn in chapter one above. The objectives were the factors considered for remuneration determination, the relationship between these two variables, the players involved in remuneration determinations and the best practice which the SEPs can use in order to set up appropriate levels of board remunerations.

Chapter 3, brought about the methodology of the study, in which the research centred on the positivism approach and used the quantitative research design. The population was drawn from the number of Directors in the 72 SEPs in Zimbabwe and then a sample of 50% was selected as representative of the population in line with Creswell (2014). The researcher used a combination of primary and secondary data plus questionnaires and the Ordinary Least Square (OLS), data tool. Validity, reliability and ethical consideration justifications were highlighted.

In chapter 4, the researcher used the data gathered from the questionnaires to formulate tables using the SPSS version 20. The OLS was used to determine correlation using primary data as presented on background of the study in chapter 1. Conclusions on each area of the questionnaire and OLS were drawn at the end of each question.

## **5.2 Findings**

The researcher found that the remuneration policies are not enshrined in the Corporate Governance Code and remuneration committees are not autonomous and do not drive the initiatives for board remuneration determination as line ministries have influence in the determination of the remuneration and other policy issues. The board remuneration is not linked to productivity and there is no board cohesion in SEPs which causes them to make losses.

The research found that the board remuneration for SEP's is positively correlated using the OLS analysis and this shows that cumulatively the remuneration is significant given the total revenue and expenditures of the SEP's. This means that there are other determinants which causes the SEP's not to perform as per their mandates.

## **5.3 Conclusion**

In conclusion the relationship between the board remuneration and performance of the SEP's proved that there is a positive relationship, this shows that the amount of remuneration of the board members and executives have an insignificant bearing on the performance of the said SEP's. This shows that there are other determinants that are considered in determining the performance of the SEP's other than the remuneration of the board.

## **5.4 Recommendations**

There is need to enshrine remuneration policies and the procedures for their determination in the Corporate Governance Code. This will ensure that there is uniformity in the way the remunerations are determined and this uniformity will be closely monitored and evaluated in each of the respective sectors for which the SEPs is classified. Failure to enshrine will mean that each SEPs will determine its own remuneration quantum regardless of the various factors that determine what level of remuneration to give to its board, like productivity, size of the board and the operational challenges facing the particular SEP.

The boards should create autonomous and innovative remunerations committees to determine board remuneration determination. There is need for autonomy of these committees, so that their role is significantly respected, otherwise the remuneration committees will be just ceremonial without effectiveness. There is need to foster for board members to be paid based on the value that they bring to the firm. Therefore it is prudent to ensure that their contracts are performance based with incentives for higher performers.

Corporate Governance Codes (CGCs) must address board diversity in as much as gender is concerned. Although the National Code of Corporate governance, emphasis the need for gender parity and skills spread, there are boards within the SEPs that have no women representation and the skills are thinly spread.

## **5.5 Area of Further Study**

There is need to research on board diversity and firm performance within the SEPs since there is positive relationship between SEP's performance and board remuneration. It will be of great importance to look at diversity of the boards in terms of skills mix and gender balance if it has an effect of the SEP's in terms of its performance.

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## APPENDIX I

### Cover Letter

Midlands State University  
Bag 9055  
Gweru  
Telephone +263 54 227 411

24 March 2017

The Secretary  
Ministry of Finance and Economic Development  
Private Bag CY 7705  
Causeway  
HARARE

Dear Sir,

**RE: AUTHORITY TO CONDUCT RESEARCH ON STATE ENTERPRISES AND PARASTATALS**

I am a final year student at Midlands State University, pursuing a Master of Commerce Accounting Degree. In Partial fulfillment of the programme, it is a prerequisite to carry out a research project.

**My research topic is entitled “THE NEXUS BETWEEN BOARD REMUNERATION AND PERFORMANCE OF STATE ENTERPRISES IN ZIMBABWE”**

I hereby apply for authority to carry out this study in your organisation. Information gathered shall be used for academic purposes and will be treated with utmost confidence. For further clarity you may contact the University using the above numbers.

Your assistance will be greatly appreciated,

Yours faithfully

Sidney Mutusva (R12360Z)

Approved / Not approved

DATE STAMP

## APPENDIX II

### Questionnaire Cover Letter

Midlands State University  
Bag 9055  
Gweru  
Telephone +263 54 227 411

24 March 2017

### **RE: Request to collect data through questionnaire**

I am a final year student at Midlands State University, pursuing a Master of Commerce Accounting Degree. In Partial fulfillment of the programme, it is a prerequisite to carry out a research project.

**My research topic is entitled “THE NEXUS BETWEEN BOARD REMUNERATION AND PERFORMANCE OF STATE ENTERPRISES IN ZIMBABWE”**

I hereby request that you spare a moment of your valuable time to respond to the questions in the questionnaire provided. May you please kindly assist by providing relevant information to this research study. In answering this questionnaire, there are no correct or wrong numbers, it is only your factual response that matters. Information gathered through this process shall be used for academic purposes and will be treated with utmost confidence and privacy. For further clarity you may contact the University using the above numbers.

Your cooperation will be greatly appreciated,

Yours faithfully

Sidney Mutusva (R12360Z)



<b>i. Lack of boards oversight on Organisational strategy</b>	[ ]	[ ]	[ ]	[ ]	[ ]
<b>ii. Excessive remunerations awards to the boards</b>	[ ]	[ ]	[ ]	[ ]	[ ]
<b>iii. Lack of cohesion in boards performances</b>	[ ]	[ ]	[ ]	[ ]	[ ]
<b>iv. Unethical behaviours within management and boards</b>	[ ]	[ ]	[ ]	[ ]	[ ]
<b>v. Board diversity</b>	[ ]	[ ]	[ ]	[ ]	[ ]

**2. The following factors are used to determine board remuneration in your company**

Category	[ SA]	[ A]	[ U]	[ D]	[SD]
<b>i. Firm performance</b>	[ ]	[ ]	[ ]	[ ]	[ ]
<b>ii. Board Size</b>	[ ]	[ ]	[ ]	[ ]	[ ]
<b>iii. Productivity</b>	[ ]	[ ]	[ ]	[ ]	[ ]
<b>iv. Size of the entity</b>	[ ]	[ ]	[ ]	[ ]	[ ]

**3. The board remuneration in your company are determined as follows**

Category	[ SA]	[ A]	[ U]	[ D]	[SD]
<b>i. Board Committees input</b>	[ ]	[ ]	[ ]	[ ]	[ ]
<b>ii. Line Ministries approval</b>	[ ]	[ ]	[ ]	[ ]	[ ]

**4. There are institutional structures to determine board remunerations in your company**

YES		NO	
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**5. Who determines the remuneration of board members in your organization?**

Category	<input type="checkbox"/> SA	<input type="checkbox"/> A	<input type="checkbox"/> U	<input type="checkbox"/> D	<input type="checkbox"/> SD
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**6. Benchmarking should be used in Parastatals remuneration determination**

YES		NO	
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**7. The remuneration committee is autonomous and retains the initiative to set the remuneration policy and structures**

Category	<input type="checkbox"/> SA	<input type="checkbox"/> A	<input type="checkbox"/> U	<input type="checkbox"/> D	<input type="checkbox"/> SD
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**8. How effective is the remuneration committee in determining board remunerations?**

Very effective  not effective  fairly effective

**9. Remunerations of board members are linked with performance in company**

YES		NO	
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**10. There is a positive relationship between boards remuneration and firm performance in Zimbabwean parastatals**

YES		NO	
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**11. The following best practices are practiced in determining board remunerations in your company**

Category	[ SA]	[ A]	[ U]	[ D]	[SD]
<b>i. Establishment of remuneration Committees</b>	[ ]	[ ]	[ ]	[ ]	[ ]
<b>ii. Design performance based contracts</b>	[ ]	[ ]	[ ]	[ ]	[ ]
<b>iii. Benchmarking to industry /sector</b>	[ ]	[ ]	[ ]	[ ]	[ ]
<b>iv. Enshrine remuneration policy in Corporate Governance codes</b>	[ ]	[ ]	[ ]	[ ]	[ ]
<b>v. Clustering Parastatals under a single Minister</b>	[ ]	[ ]	[ ]	[ ]	[ ]

What recommendations would you give to improve the performance and remuneration system of SEPs?

.....  
.....  
.....  
.....

*Thank you for your time!!!!*

## APPENDIX IV

### Ordinary least square data analysis

<b>SEP</b>	<b>Basic salary plus allowance</b>	<b>Performance (Profitability)</b>
NSSA	348,744	40,487,403
NRZ	166,368	13,100,025
Air Zimbabwe	88,656	43,822,590
EMA	128,808	280740
CSC	49,272	3,253,803
GMB	214,284	10,618,221