THE IMPACT OF CORPORATE GOVERNANCE ON FIRM PERFORMANCE IN THE ZIMBABWEAN MANUFACTURING SECTOR

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Abstract

Corporate governance studies in Zimbabwe have concentrated on existence of frameworks that control firms. This study focused on the corporate governance factors that are associated with firm performance in the Zimbabwean manufacturing sector. We investigated a sample of 88 companies which were operating at least 80% capacity from 2009 to 2012.Using Return on Assetst (ROA) as a measure of performance and the dependent variable, and 14 corporate governance proxies encompassing board structure, board composition and board procedures as the independent variables, a bivariate and multivariate regression analysis was performed. The results indicated that shareholder concentration, proportion of independent directors, board tenure and access to financial statements are positive and significant to firm performance in the bivariate analysis. On the multivariate regression analysis however, independent directors was positive but not significant. Researchers have not been able to agree on these factors and since corporate governance is largely endogenously determined it can be concluded that factors are influenced by country effects. Thus further studies focusing on similar countries need to be undertaken.

Keywords: Corporate Governance, Firm Performance, Significant Factors

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1 Introduction

The paper examines the corporate governance factors that that have an impact on firm performance in the Zimbabwean manufacturing sector. This is in light of the attention corporate governance has receives fuelled internationally by corporate scandals like Enron and WorldCom in the United States of America and Marconi in the United Kingdom that made global headlines and equally in Zimbabwe where the financial sector has had its share of corporate scandals that saw the closure of several financial institutions which were focusing more on non-core business. In the absence of corporate governance framework and Zimbabwe being in the throes of recovery there is need to extrapolate what works for Zimbabwe. This follows onto the theory of Dynamic Managerial capabilities which postulate that the most competitive firms are those which can re-configuration existing resources and capabilities into new competencies in response to changes in the environment (Teece et al 1997). Globalization has ushered in such kind of dynamism and empirical evidence can be deemed necessary to guide the Zimbabwean manufacturing sector at this stage of its history given the fact that it has been earmarked by the government to spearhead economic recovery.

Research is continually revealing that corporate governance has an effect on company performance (Aluchna 2009).Corporate governance looks at the agent-principal nature of the relationship between shareholders and the board of directors to ensure that their interests are in sync. It follows then that the way an organization is directed and controlled can affect the performance of the organization. Thus ownership structure and concentration can affect quality of decisions as dominant shareholders' might thwart minority shareholders. On the positive however, independent directors positively influence corporate performance providing objectivity and professionalism Aluchna (2009). The presence of institutional investors might also attract investment and influence performance through experience and superior skill.

Research by (Bauer and Guenster 2003) indicates that companies with better corporate governance guarantee the payback to the shareholder and limit the risk of the investment. Further in a separate research by McKinsey, investors are willing to pay a special premium for shares of the companies, which comply with corporate governance rules ranging from 18 per cent for countries of strong institutional order (UK, USA) to as much as 27-28 per cent for countries

characterized by weak shareholder protection (Venezuela, Colombia).

Past studies are in consensus that corporate governance has a positive impact on firm performance and the majority of these have however concentrated on individual or a couple of corporate governance factors (Ntim and Osei 2011; Azim 2012;Black 2012; Grosfed 2006; Dahya et al 2006; Lopes et al 2011). Furthermore there has been a large contingent of studies focusing on the developed world perhaps ignoring idiosyncrasies of developing economies. The endogenous nature of corporate governance has not been fully examined.

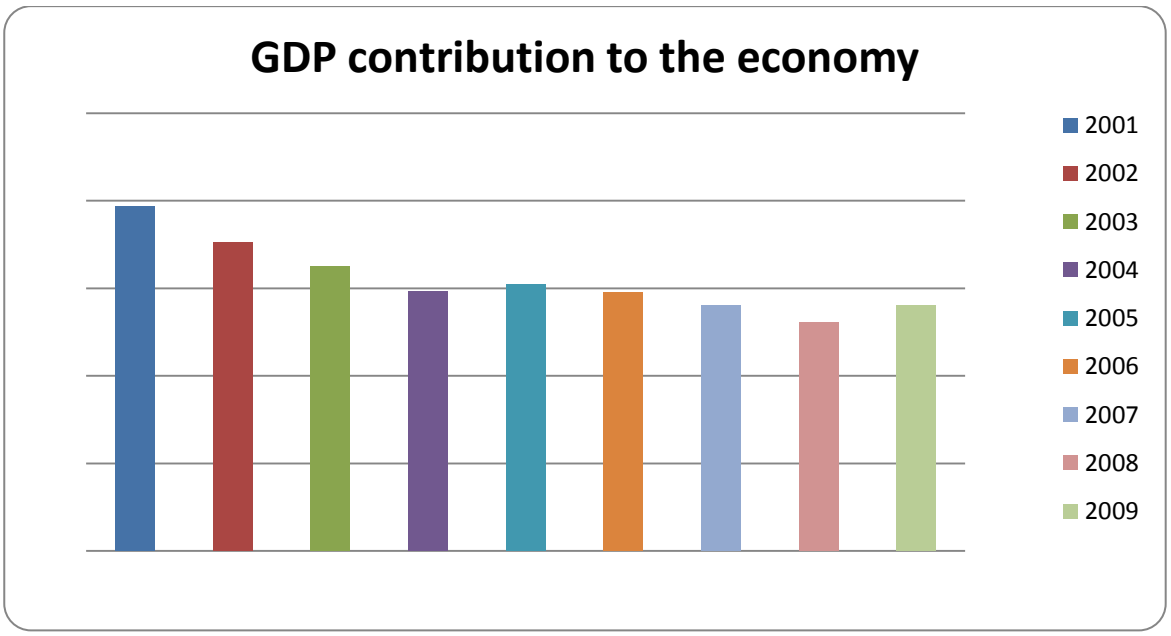
This paper contributes to the extant literature in the following ways. First, using a sample of 88 companies both private and public from 2009 to 2012 we provide evidence of the critical corporate governance factors affecting performance in the Zimbabwean manufacturing sector. To the best of our knowledge, this paper presents a first attempt at modelling corporate governance - firm performance association within the Sub-Saharan African context, with special reference to Zimbabwe thus significantly increasing the body of knowledge for a developing economy. Secondly, contrary to prior studies we use panel data because better results are obtained by pooling of cross-section and time-series company data. Panel data sets give more data points, more degrees of freedom, reduce co linearity among variables and therefore, produce more efficient estimates than pure cross-sectional or pure time-series data sets. Third, and distinct from most prior studies, we use an econometric model that sufficiently addresses firm heterogeneity (i.e. firm-specific variables) and time-specific variables which could bias estimates if omitted, as the case in pure cross sectional and time series studies as suggested by Ehikioya (2009).

The rest of the paper is organised as follows. Section 2 provides an overview of the Zimbabwean manufacturing sector; Section 3 reviews the Corporate governance environment in the Zimbabwean manufacturing sector. Section 4 reviews the prior literature on the impact of corporate governance on firm performance. Section 5 describes the research methodology. Section 6 reports empirical analyses, while section 7 concludes.

2 Zimbabwe manufacturing sector

This study focused on the manufacturing sector of Zimbabwe. The sector developed during the Federation days when Zimbabwe then Southern Rhodesia was the industrial hub of the three countries making up the federation namely Northern Rhodesia (Zambia),Nyasaland (Malawi) and Southern Rhodesia (Zimbabwe) (Chiripanhura 2010). When the unilateral declaration of independence was done in 1965, the sector adapted an import substitution strategy to cushion it against sanctions that resulted from the illegal stance. This strategy saw the proliferation of the manufacturing sector which was highly diversified manufacturing more than 6000 products with little or no integration(CZI 2011). The graph below shows the GDP contribution of the manufacturing sector from 2001 to 2009.

Figure 1.GDP contribution to the economy



Source: Zimstat 2010

Though the contribution to GDP has been declining, the sector still remains very important in the country as there are major correlations between agriculture, mining and manufacturing. The major subsectors are food and beverages, clothing and textiles, leather and leather products, fertilizer, chemicals and pharmaceuticals, timber and wood, motor industry, metal and non-metal products, plastic and packaging and rubber and tyre manufacturing. The Government through the Industrial Development framework has identified six priority sectors as the pillars for growth in the manufacturing sector namely Agro-processing (Food and beverages, Clothing and Textiles, Wood and Furniture), Fertilizer Industry, Pharmaceuticals and Metals industry (Industrial Development Framework 2011). This study focused on these subsectors as issues of corporate governance will remain at the fore in an effort of making the subsectors achieve superior performance in a bid for economic recovery. The sector however is facing a myriad of challenges in recovery and firm closures are the order of the day. Added to that, there is a dearth of investors to inject much needed capital to replace the largely antiquated machinery. The companies that are open are operating at below 40% capacity which affected sampling. The researcher worked with a sample of 88 firms operating at least 80% capacity.

3 Zimbabwe corporate governance context

The following is empirical literature on the corporate governance scenario in the Zimbabwe manufacturing sector. The majority of the firms in the manufacturing sector are privately owned (89%) with only 9 out of 78 companies listed on the Zimbabwean stock exchange in the manufacturing sector. Consequently, the majority of firms have very high shareholder concentration with 82% holding more than 30% of the shares. There is a low level of shareholder obscurity and therefore a high likelihood of knowing the person behind the corporate governance set up as noted by (Daily, Dalton & Cannella 2003) that the higher the concentration of shareholding in one person, the more likelihood the corporate governance issues to be spearheaded by that person. There are no hard and fast rules as to the level of allowable shareholder concentration in Zimbabwe except in the banking sector where one shareholder cannot hold more than 10%. This is in sync with an observation made by (Ehikioya 2009) that ownership /shareholder concentration is high in developing countries because of the poor legal system to protect shareholders and interests of investors. Further to that ownership is hardly shrouded in mystery as the majority of the firms are locally owned and with the indigenization drive which is an effort by the government to increase local ownership of individual firms to a ratio of 51% local and 49% foreign, transparency of ownership has come to the fore.

Board composition and board tenure are significant aspects of the corporate governance scenario of Zimbabwe. At least 50% of the board members in the manufacturing sector are independent. The issue of board independence has been revered in corporate governance literature as critical as it encourages accountability and minority shareholder protection (Black et al 2011). There is no specified tenure period for the board members some having served in excess of 10 years. Shareholder selection is by en large independent probably following onto the fact that the majority of companies are privately owned and have a free reign in board selection. At least 36% of the organizations' CEOs chair their boards. Literature points out that there is a danger in is this dual relationship, where the CEO can exert undue influence and to some extent even override board decisions (Muranda 2006). Local firms which are privately owned have a prevalence of this relationship. Public firms on the other hand are more inclined towards the agency theory than privately owned firms as 90% of them have a separation of CEO roles. Interestingly, through a chi square test, a close relationship was found between firm ownership and CEO duality, X^2 (2, N = 62) = 23.64, p = 0.001.

The board of directors is a major decision making body and its size has an influence on the quality of decisions made and the adherence to corporate governance issues (Kumar & Singh 2013. The majority (93%) of the boards do not exceed 10 in membership. It should be noted that board size has a bearing on the amount of money spent by the organization on board remuneration. Research has indicated that a board size of more than 10 members become counter-productive and does not add value to the firm (Dahya et al 2006). Membership of 10 was viewed as optimum (Kumar & Singh 2013). Out of these boards, comes the committees that run the business of the firm. Corporate governance is seen in better light if there are a number of board committees such that decisions are not vested in individuals. The level of accountability is higher in such situations. The most important committee as postulated in literature is the audit committee (Azim 2012). The majority of the firms (88%) have at least 4 board committees including the audit committee which demonstrates a level of trust in the committees system. Literature does not indicate the number of committees rather the types of committees.

The results indicate that the auditor selection is not independent as the majority (97%) indicated that there is some relationship with the company.

Corporate governance also involves the quality of and access to financial statements. Ideally financial statements should be prepared in accordance to prevailing financial standards, should also adhere to the laws of the land and be certified by independent auditors. They should disclose enough for a would-be shareholder and even board members to make informed decisions. The selection of auditors however

was not independent in the majority of the cases. There is however a positive demeanour as far as access, quality and timeous disclosure. Zimbabwean firms are mandated to report every year in tandem with the tax laws which are very stringent to the point of instituting heavy penalties for late reports from companies.

4 Prior literature on corporate governance and firm performance

4.1 Corporate governance theories

Corporate governance is underpinned by the agency and stewardship theories. Agency theory also known as the shareholder theory is a relationship between a principal and the agent where the shareholders are seen as the principals and the management as the agents. The theory as put forward by Jensen (1976), argues that agents act with self-interest which may not be in tandem with what is necessary to maximize the principals' return. The theory advocates for incentives and financial reward for the agents to motivate them to maximize shareholder interests. The stewardship theory also known as the stakeholder theory, as postulated by Donaldson (1985) departs from the idea of a manager being an opportunistic, but rather that essentially a manager wants to do a good job, that is to be a good steward of the corporate assets. Thus, stewardship theory holds that the performance of the manager is influenced by the structures under which he has to facilitate the achievement of goals. The issue then becomes whether the organizational structure is conducive to formulate and implement plans for high corporate performance (Donaldson & Davis 1991). Corporate governance is then viewed as a necessary anecdote for the problem of greed and as a catalyst for the creation of adequate organizational structures. Thus the definitions point to the fact that corporate governance upholds the protection of the stakeholders taking cognizance of the fact that shareholders run the risk of financial loss as opposed to management who can easily jump ship and move on to greener pastures and that corporate governance compliance is necessary to create the requisite structures for better performance.

4.2 Importance of corporate governance

In the last 20 years the importance of corporate governance has been championed by government's regulators and researchers. This can be attributed to the liberalization and internationalization of economies which has brought with it the growth of institutional investors, privatization, and rising shareholder activism and the integration of capital markets (Aguilera and Cuervo-Cazurra 2004). These developments in the ownership structure have increased attention towards the monitoring of overall corporate governance structures, financial controls and financial performance (Azim 2012). Research has shown that good corporate governance can serve as a tool for attracting better quality investors as well as influencing stock prices (Korac-Kakabadse, Kakabadse and Alexander Kouzmin 2001) . In the same vein the McKinsey 'Global Investor Opinion Survey' (2002) shows that 15 per cent of European institutional investors consider corporate governance to be more important than a firm's financial issues, such as profit performance or growth potential in their investment decisions. Additionally, 22 per cent of European institutional investors are willing to pay an average premium of 19 per cent for a well-governed company (Bauer, Guenster and Otten 2004).

According to (Naidoo 2009), the major advantage of good corporate governance is better access to capital as such companies can attract foreign and institutional investors which aids in sustainable growth. Foreign ownership is one way of technologically upgrading organizations in emerging economies through import of new capital and new technologies (Haat et al 2008). (Naidoo 2009) further postulates that banks will most likely charge a lower interest rate to better governed firms thus enhancing access to capital. In agreement (Klapper and Love 2004) indicate that firms with better governance mechanisms can significantly lower their cost of capital. Companies which are properly governed, have the foresight to reduce risk as they are better able to attract top notch human resources which eventually translates into profit. Corporate governance also contributes towards creation of competitive advantage. By attracting better quality, larger and cheaper funding, a company can create trust, business confidence and indispensable social capital that affect performance (Naidoo 2009:22). In agreement, (Haat et al 2008) indicates that good corporate governance practices like better financial reporting and transparency improves investor confidence.

4.3 Firm type and corporate governance

Corporate governance though important to all companies it is noted that not all aspects of it matter to all firms as each entity will benefit from different corporate governance aspects. One determinant of this difference has been firm size. According to (Black 2012), larger firms could need more formal governance to respond to their more multifaceted operations. Such firms have a higher reliance on agency and therefore could have greater potential for agency costs due to greater financial resources or less concentrated ownership. Invariably, larger firms would have more investors who are likely to be more attentive to how governance affects the value of the firm .Smaller firms on the other hand have lower institutional ownership and thus pay less attention to governance issues (Black 2012) . In terms of profitability, highly profitable firms do not need outside capital and can afford to ignore corporate

governance aspects as they have less need to comply for the sake of attracting investors. Klapper & Love (2004) note that manufacturing firms which have substantial tangible assets are more acquiescent to external oversight, including creditor monitoring. They may therefore have less need for equity governance, and benefit less from governance than other firms. Faster growing firms need external capital to prolong growth, and therefore might choose better governance to continue to attract investors.

The question to be asked perhaps is that should there be universal corporate governance practices or corporate governance also depends on the country characteristics. Black et al (2011) posit that country characteristics strongly influence of corporate governance determinants and what matters in corporate governance from country to country may not be fully captured in popularly used indices. Differing laws, ownership patterns, political orientations have an influence on the corporate governance framework of countries and their companies. It is suggested to have an index that takes into account the country characters of that country (Black et al 2011)

4.4 Corporate governance and firm performance

Research from as far back as 1976 has indicated a positive relationship between corporate governance ratings and company performance (Jensen and Meckling 1976), as the ratings translate into improved operating performance and a higher market value. The role of corporate governance has generally been accepted as affecting performance but empirical research has remained inconclusive regarding the degree to which individual governance monitoring mechanisms enhance firm performance and shareholder value (Pham et al 2011). Although it is easier to show that adverse outcomes are associated with failures of corporate governance than higher standards of corporate governance contribute significantly to firm success, it is still arguable that entities collapse due to deficiencies in corporate governance (Chambers 2012). Firms with stronger governance structures are most likely to perform better than those with weaker structures. Corporate governance influences the ability of the firm to exploit opportunities, create effective strategies and develop technological capabilities (Chambers 2012). He further points out that in many cases when a firm has excellent results, the role of corporate governance is not applauded but it is good corporate governance that positions these entities for competitive advantage.

The norm to determine the relationship between corporate governance and firm performance seems to be an examination of a subset of governance elements which results in some provisions being linked to operating performance and others not. These provisions hover around board composition, board independence, presence of an audit committee and transparency in disclosure to name the most popular. Results indicate that better corporate governance is associated with higher operating performance (return on assets, ROA) and higher Tobin's Q (Haat et al 2008, Brown& Caylor 2009, Pham et al 2011). Tobin's q is generally used as the measure of firm valuation . 'Tobin's q is defined as the market value of assets divided by the replacement value of assets. Thus

$$\text{Tobi's Q} = \frac{Equity\ market\ value + Liabilities\ book\ value}{Equity\ book\ value + liabilities\ book\ value}$$

Using Tobin's Q, a research carried out in Malaysia has shown that practising good corporate governance is an important factor that influences firm market performance (Haat et al 2008:756).

It also implies that the greater the real return on investment, the greater the value of Q . For the US market, Gompers et al. (2003) in inquiring on the relationship between corporate governance and long-term equity returns, firm value and accounting measures of performance found out that well-governed companies outperform their poorly governed counterparts. Well-governed companies have higher equity returns, are valued more highly, and their accounting statements show a better operating performance. Thus the general consensus is that corporate governance has an impact on firm performance but results across the world differ as to the significance of each of the corporate governance determinants. Given below is a summary of findings over the years on the significance of corporate governance variables.

5 Research design

5.1 Data

A total of 88 questionnaires were administered, forming the sample from the population of all the registered manufacturing entities in operating above 80% capacity Harare Zimbabwe. A total of 62 questionnaires were usable giving a response rate of 45%. The respondents were wary of releasing data especially financial data given the collection period's proximity to the elections held in July 2013. The researcher used analytical software, STATA, for data analysis. Descriptive statistics concerning the variables were looked at and the results of the regression model came up with critical determinants for corporate governance.

In order to determine corporate governance factors influencing firm performance as suggested by (Brown & Caylor 2008:136) 16 determinants were regressed using a stepwise approach.

5.2 Variables

The table below gives a summary of the characteristics of the variables and the literature

support for the factors influencing corporate governance.

Table 1. Corporate governance variables

Variable	Description	Reference
Ownership structure	-Shareholder concentration -Shareholder identity -Transparency of ownership	Aluchna 2009:187 Pham & Zein 2011:375
Board structure	-Board composition -Board tenure -Proportion of independent directors -Is CEO chairman of the board	Aluchna 2009:187 Pham & Zein 2011:375
Board Size	Number of board members -Number of board committees	Black et al 2012:939
Board procedure and ethical conduct	-Presence of an audit committee -Tenure of auditors -Independence of auditors -Selection of auditors	
Disclosure	-Quality of financial statements -Availability of financial statements -Access to information -Scope of the information -Timeous disclosure	Black et al 2012: 939

5.3 Regression model

Given the panel nature of our data, and as suggested by prior research and random effects method, the following econometric model was used.

ROA= CG_{it}

Where

ROA= Performance measured by Return on assets

CG_{it} = Factors influencing corporate governance over time

i = the ith firm (i.e. the cross section dimension)

t = t -th year (the time series dimension)

These factors are elaborated in the expanded equation below.

$$\text{ROA} = \alpha + \beta_1 SC + \beta_2 SI + \beta_3 TO + \beta_4 BT + \beta_5 ID + \beta_6 CEO + \beta_7 BE + \beta_8 BS + \beta_9 BC + \beta_{10} AC + \beta_{11} SAC + \beta_{12} IA + \beta_{13} AS + \beta_{14} FS + \beta_{15} AFS + \beta_{16} TD$$

Where

α and β= the parameters to be estimated

SC= Shareholder concentration

SI= Shareholder identity

TO= Transparency of ownership

BT= Board Tenure

ID= Independent directors

CEO= CEO chairing the board or not

BE= Board of directors' educational level

BS= Board size

BC= Presence of board committees

AC= Presence of an audit committee

SAC= Selection of the audit committee

IA= Independence of the auditors

AS= Auditor selection

FS= Quality of financial statements

AFS= Access by the board to financial statements

TD= Timeous disclosure of financial statements

6 Results and discussion

6.1 Correlation Matrix

We conduct correlation analysis in order to ascertain the level of collinearity among the variables Table 2 below show that all the correlations are within the acceptable range of 0.01-0.775 as suggested by Kumar and Singh (2011). The degree of correlation between independent variables is either low or moderate, suggesting absence of multicolinearity between these variables.

Table 2. Correlation matrix

	Profit	Concen	Identity	Transp	Tenure	Ind D	CEO	B Edu	B/size	B/comm	Aud com/ sel	Ind/ aud	Aud/ sel	Quali /fin stats	Access	Discl
Profit	1.0000															
Concen	0.0746	1.0000														
Identity	0.0625	0.3668	1.0000													
Trans	0.0276	0.0938	0.4302	1.0000												
Tenure	0.0804	-0.0008	0.0743	0.0320	1.0000											
Ind/Dir	-0.0054	0.1480	0.1119	0.0739	-0.0971	1.0000										
CEO	-0.0666	0.1858	0.1177	0.1052	0.2870	-0.0921	1.0000									
B/Edu	0.0615	-0.1248	0.1515	0.0977	-0.2554	-0.1188	-0.4572	1.0000								
B/Size	-0.0409	0.0510	0.0585	-0.1191	0.0981	0.1895	0.0018	-0.0969	1.0000							
B/comm	0.0364	0.0004	0.1367	-0.0230	-0.9337	0.1264	0.0129	-0.0838	0.3361	1.0000						
Aud/comm	0.0703	-0.0722	0.2171	0.0934	-0.1777	0.2242	-0.1245	-0.5581	0.2536	0.1538						
Audi/comm sel	-0.0196	-0.2248	0.1739	0.1199	0.0711	0.1531	-0.0860	0.0386	0.2987	0.0652	1.0000					
Ind/aud	-0.0647	0.2340	-0.0469	-0.0883	-0.0088	-0.1466	-0.1422	0.1284	-0.1908	0.0209	-0.0836	1.0000				
Aud/sel	-0.0591	-0.3386	-0.0168	-0.0621	-0.1802	0.1876	-0.1496	0.0427	0.1493	0.0196	0.4486	-0.2035	1.0000			
Fin stat	0.0522	0.1383	0.1543	-0.0385	0.0023	0.1521	-0.3456	0.0338	0.1260	0.1348	0.1308	0.3442	0.0134	1.0000		
Access	-0.0371	-0.0592	-0.0216	-0.0093	-0.9329	0.1007	-0.2868	0.2099	-0.1785	0.0781	-0.1642	-0.0438	0.1508	-0.0191	1.0000	
Disclosure	0.0628	-0.1976	-0.1366	-0.0588	-0.1960	0.297	-0.4015	0.3221	-0.0855	0.1656	0.1686	0.1635	0.1599	0.2669	0.1579	1.0000

Source: Primary data

6.2 Regression analysis

Given in table 3 are the results of the stepwise regression approach to identifying which factors are positive and significantly related to operating performance. All regressions are estimated using the random effects method.

6.3 Variable findings and discussion

6.3.1 Shareholder concentration

The positive association between shareholder concentration and firm performance implies that as concentration increases, performance also improves. This is probably because if a majority shareholder has a high proportion of shares, they have more control over corporate governance influences and therefore performance. This concurs with a study carried out by (Kumar & Singh 2011) as ownership drives the promoter to seek more control of the company and gives the major shareholder an incentive to monitor and thus enhance firm value. Emerging markets generally have family owned businesses and corporate governance is greatly influenced by majority shareholders who are family members (Millar et al 2005, p. 166). However, these results were contradicted by the findings of Ongore and K'Obonyo (2011) in their study of Kenyan companies listed on the stock exchange who noted a negative and

significant relationship. This sample was a mixture of public and private companies and the results seem to be in tandem with the fact that Zimbabwean companies are privately owned and generally have high shareholder concentration and therefore control is likely to lie in one person.

Table 3. Bivariate and multivariate analysis

	Bivariate analysis			Multivariate		
Variable	**Coeff**	**Z**	**P**	**Coeff**	**Z value**	**P value**
Shareholder concentration	0.227116	2.31	0.021	0.4260	2.72	0.007
Shareholder identity	0.521468	1.11	0.916	-0.3653	0.52	0.606
Transparency of ownership	0.475324	0.07	0.948	0.9121	0.08	0.935
Board tenure	0.019681	0.35	0.730	0.4126	1.92	0.055
Proportion of independent directors	0.273544	2.41	0.016	0.1983	1.41	0.159
Role of the CEO	-0.04201	-0.32	0.745	0.0966	-0.56	0.579
Education levels of board members	-0.19787	-1.32	0.187	0.1068	-0.49	0.621
Board size	-0.00288	-0.01	0.990	-0.2724	-0.83	0.406
Board committees	0.023060	0.24	0.811	0.0889	0.74	0.460
Audit committee	0.276029	1.06	0.289	-0.1454	-0.36	0.716
Selection of the audit committee	0.118008	0.55	0.579	0.3986	1.27	0.204
Independence of auditors	0.032943	0.20	0.838	-0.1550	-0.70	0.418
Selection of auditors	0.021231	0.24	0.810	0.1052	0.89	0.375
Quality of financial statements	0.531834	1.10	0.270	0.0922	0.15	0.884
Access to financial statements	0.74081	0.04	0.968	0.4180	1.74	0.082
Timeous disclosure	0.211501	0.59	0.553	0.4180	0.94	0.347

Source: Primary data

6.3.2 Shareholder identity

An effort to identify corporate governance factors that affect firm performance also included an ability to of stakeholders to identify shareholders. Shareholders come from a variety of nationalities and beliefs which affect the decisions that are made and followed. In Zimbabwe shareholders can be private institutions like insurance companies, the government or individuals. The bivariate regression analysis indicated that shareholder identity is significantly related to firm performance therefore this variable (or shareholder identity) was not included in the multivariate analysis. Ongore and K'Obonyo (2011, p.111) also do not find a significant relationship between shareholder identity and firm performance. The most likely explanation for this difference was the focus on different types of company registration. This study focused on both private and public firms while most country studies focus on public companies (Black et al 2012).

6.3.3 Transparency of ownership

The issue at hand in this variable was whether the nationality of the owners could be identified, in a bid to understand the transparency of the nationality of the owners as nationality of owners has affects the way they do business and therefore affecting performance. Both the bivariate and multivariate regression (analyses) show that this variable does not significantly explain firm performance in Zimbabwe which result was also noted by (Ongore and K'Obonyo 2011, p.111) that there was no positive relationship between transparency of ownership and firm performance. For the Zimbabwean scenario the issue of transparency is very topical given the indigenization agenda and (98%) of the respondents were well aware of the nationality of the owners and thus the variable did not affect firm performance.

6.3.4 Board tenure

This variable captured the effect of the length of time a board member can stay on the board. Board tenure has an impact on experience for the members with the premise that probably the more experienced the board members the more robust the decisions they are likely to make and therefore it is hypothesised that there is a positive relationship between board tenure and firm performance (Aluchna 2009). The results show that the variable board tenure has a positive and significant coefficient, implying that experienced board members are an asset to the company. Brown and Caylor, (2008) also reached the same conclusion.

6.3.5 Proportion of independent directors

A preference for independent directors is largely grounded in the agency theory which posits that agents act with self-interest which may not be in tandem with maximizing the principal's return (Jensen 1976). Independent directors protect the shareholder interests better and are therefore more trusted for this mandate than executive directors. The results show that board independence significantly influence firm performance. Studies seem to find board independence having a positive and significant relationship with performance. Dahya et al (2006) and Ho (2005,)

both studying multiple companies in the developed world agree that independent directors is positive and significant to performance. The reason for this is probably that board members have experience as they may be CEOs of other companies in the developed countries. Added to that, firms in the developed economies attach a lot of weight to structures that increase the independence of the board. On the contrary however Azim (2011) on a research of Australian firms did not find the independence of the board affecting firm performance which is a rare feat in the studies across economies.

In the Zimbabwean scenario, the majority of the companies are privately owned, coupled with high shareholder concentration and no legislated method of selecting board members, independent directors may be the linchpin to firm performance as it might be viewed as providing shareholder protection. The disparity of countries and companies might be an explanation for the difference in results.

6.3.6 Role of CEO

One of the mandates of the CEO is to spearhead the implementation of the organizational strategy and the board is responsible for monitoring progress and ensuring that the shareholders' expectations are met. For purposes of accountability and responsibility therefore it was critical to establish whether the CEO had a dual relationship as the head of the organization and also the head of the board. It is quite legal to have the CEO double up as the chairman of the board, meaning that he/she virtually monitors himself since that is one of the board of directors' mandate. The duality of the CEO role has had mixed results across many studies. The results of this study show a positive but not significant relationship between "role of CEO" variable and firm performance. The theoretical implication in the Zimbabwean context being that whether the CEO is the chairman of the board or not, has no association with the performance of the firm. Azim (2012) however found out to the contrary that the relationship was positive and significant. The probable reason for the difference being that Azim concentrated on listed firms while this research was on both private and public firms, the majority (89%) of which were privately owned.

6.3.7 Education levels of board members

Conventional wisdom suggests that the higher the level of education of the board of directors, the better they can comprehend corporate governance issues as it has a bearing on the ability of the members to read, understand and make decisions especially on financial statements. The question sought to determine the educational attainment of the board members. The results show that education levels of the members is not significantly related to firm performance. This was in tandem with Azim (2012) who found a similar result. This was probably because the majority of the firms are privately owned and the selection of board members can be largely subjective and not necessarily based on educational level. Furthermore this is a peripheral matter to corporate governance per se and significance would therefore be minimal.

6.3.8 Board size

The complexity of decision making and the quality of these decisions lies largely with the board constitution which stems from its size (Kumar & Singh 2011). There has been mixed results on the effect of board size on firm performance but popular sentiment has been that no one size fits all. There is merit in small boards for cohesiveness and productivity (Cole et al 2005). A board membership which was too small would not have the necessary resources to enhance firm performance and large boards, (8 to 10) was viewed as the optimum board size. Zimbabwean firms in the manufacturing sector fall within international contemporary board size given their size of not more than 10 members. The results show that board size has a negative but insignificant coefficient. A study of Indian firms by Kumar and Singh (2011) concurred with this result. However, a study of firms in the developed world by Ho (2005) contradicted this when he found board size positive and significant to performance. Azim (2011) having studied Australian firms found board size positive and significant to performance. The probable explanation for this difference is that developed countries have different country nuances to developing countries since similar results are reflected by that.

6.3.9 Board committees

The question sought to determine if firms had board committees and the number of such committees each board had set up. Boards can set up different committees for the execution of their mandate which indicate the level of accountability of the firm. They differ from board to board though some commonalities can be found. Ideally the committees should be staffed by independent directors (Cole et al 2005). The results show that presence of board committees was positive but not significant to performance. Contrary to this finding was that of Azim (2012,) that presence of board committees was negative and significant to performance. In the Zimbabwean scenario the majority of the firms (88%) have 4 or less board committees which is on the low side and this slow uptake of the committee system may have influenced this result.

6.3.10 Audit committee

The audit committee is revered in corporate governance literature as 'crucial' to maintaining investor confidence as independent financial reporting

and selection of independent auditors is central to investment decisions (Chambers 2012). The audit committee is ideally staffed by independent directors and should include a person conversant in auditing matters (Bouaziz 2012.) The results indicate that audit committee is negative and not significant to performance. Contrary to this Ho (2005) found that audit committees are positive and significant to performance. This significance may be explained by the fact that companies in the survey hail from those countries with historical corporate scandals thus the mandate to have audit committees which ideally should strengthen audit independence and the public views the companies with such a committee as having integrity thus building investor confidence. Added to this the audit committees' existence and composition has in some cases been enacted into law making it a prerequisite for listing (Useem 2006). In the Zimbabwean manufacturing sector only a small majority (58%) of the firms indicated that there was an audit committee showing a lack of belief in such a committee which factor probably contributed to this result.

6.3.11 Selection of auditors

The audit committee of the board goes beyond the general advisory stance but is a full-fledged organ with its duties and responsibilities one of which is to select company auditors (Bouaziz 2012). Selection of auditors has to be independent and take into consideration the size of the audit firm as this has a bearing on auditor performance as suggested by Haat et al (2008). Further to that an independent audit committee is associated with independent auditors who generally improve monitoring of the financial reporting process. In the Zimbabwean manufacturing sector however selection of the auditors is positive but not significant to firm performance. This is in sync with corporate governance literature which indicates that the selection has to be transparent but hardly relate this variable to firm performance.

6.3.12 Quality of financial statement, access and disclosure

The quality of financial reporting has become pivotal in the years following the demise of huge corporations worldwide. In the Zimbabwean manufacturing firms, the quality of the financial statements according to the bivariate and multivariate regression analyses is not associated with firm performance. A result in concurrence with (Lopes et al 2011) who noted that in as much accounting information guides investment and financial decisions; it has a negative impact on firm performance. This is probably because unless backed by strong and reputable audit firm, financial statements are by en large subjective and may not have full disclosure of the situation on the ground.

Access to financial statements helps investors to trust that they are not being manipulated and it gives them an assurance that they can get firm's inside information from public financial data (Healy 2007). The question sought to determine if investors have access to financial statements to enable them to understand where their money was going. The majority of the respondents (98%) confirmed that firm shareholders have access to the company financial statements so investors in the Zimbabwe manufacturing sector have information for decision making. The multivariate regression analysis found this variable positive and significant to firm performance. This was in tandem with Augustine (2012) who also found access to financial statements positive and significant to firm performance.

Improved and timeous disclosure have been noted to contribute to lowering transaction costs and has an impact on cost of capital. It is said to improve the demand for firm's stock and this mitigation of information asymmetry reduces the danger of periodic surprises in financial markets Haat et al (2008). Timeous disclosure contributes to firm's transparency which is important for corporate governance. This variable was included in an effort to determine what matters for corporate governance in the Zimbabwean manufacturing sector. The results noted that timeous disclosure of financial statements is not positively associated with firm performance by both the bivariate and multivariate regression analyses. Haat et al (2008) also found similar results. What matters in corporate governance is probably 'what' is disclosed rather than 'when' it is disclosed.

7 Concluding remarks

The purpose of the study was to isolate the corporate governance factors that affect firm performance in the Zimbabwean manufacturing sector. The research indicated that using a bivariate and multivariate regression analysis four corporate governance influences are significantly and positively linked to return on assets the proxy for operating performance in the Zimbabwean manufacturing sector. This concurred with a study done by Brown and Caylor (2009) who noted that out of 51 corporate governance provisions only 4 were positive and significant to firm performance.

The relationship between corporate governance and company performance has been documented across a myriad of economies. Though the combination of variables under scrutiny may differ from research to research and country to country, there is evidence of common variables which can be posited as the pillars of corporate governance determinants for firm performance. These variables hover around issues of ownership structure, board composition, board procedures, board decision making structures in the form of committees and financial disclosure. Research has noted that not all of them are significant to firm

performance and in that vein, this study also comes to a similar conclusion. Added to that it was noted that corporate governance is endogenously determined as there seem to be so many country effects associated with the significance of variables.

In this study four corporate governance aspects were noted as positive and significant to firm performance and these were shareholder concentration, proportion of independent directors on the board, board tenure and access to financial statements. Interestingly these determinants stem from the afore mentioned pillars of corporate governance. For instance, shareholder ownership hails from ownership structures, proportion of independent directors is in the context of board composition, board tenure from board procedures in terms of experience to make decisions and access to financial statements is in the context of disclosure. It can be concluded that the results brings out a seemingly natural selection in flagging an aspect of corporate governance pillar as significant to firm performance thus covering the whole corporate governance spectrum, that is providing a form of representation for all the corporate governance pillars. In essence therefore, in as much as not all variables are significant to firm performance, which is in tandem with research worldwide, for the Zimbabwean manufacturing sector there is a unique factor of corporate governance pillar representation.

Further to that, the majority of the companies in the Zimbabwe manufacturing sector are privately owned which factor would greatly influence the significance of the variables. Privately owned firms in general have high shareholder concentration more-so in the Zimbabwean scenario where one person can hold up to 99% of the shares. Thus the corporate governance initiatives would be spearheaded by a few people if not one person, who can motivate for corporate governance determinants that are in sync with high firm performance. This ownership structure also influences the board structures and board tenure as the shareholder has free reign in the selection of board members and the length of time they can serve. Under such circumstances issues of transparency comes to the fore thus the significance of access to financial statements.

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