International
Journal
Of Advanced Research in Engineering & Management (IJAREM)

The contribution of good governance to stakeholder satisfaction in Zimbabwe listed companies.

Faitira Manuere
Chinhoyi University of Technology, Zimbabwe.
Edson Gwangwava
Chinhoyi University of Technology, Zimbabwe

Abstract: The purpose of this study is to examine the contribution of good corporate governance practices on stakeholder's satisfaction among companies listed on the Zimbabwean Stork Exchange. The target population comprised of Chief Executive Officers (CEO) and Directors of listed companies. Thus 52 CEOs participated in this study by completing and returning questionnaires. The research used purposive sampling techniques to select the respondents to this study. At the same time convenience sampling techniques were employed to select Chief Executive Officers. With the aid of SPSS the following statistics were used: descriptive statistics to have clear picture of study variables. Cronbach alpha to measures the internal consistency of the construct, Kurtosis and Skegness values to check the normality of each variable used and correlation analysis to measure the relationship between the variables and validated by Subject-completed Instruments The findings revealed that all the four constructoof good corporate governance namely; reputation, ethical conduct,transparency,independence and leadership accountability, fairness and responsibility had a significant and positive relationship with stakeholder's satisfaction. The research recommends that appropriate models of stakeholder management must be used to identify and address the overall needs of various stakeholders. This calls for social investment, environmental investment and economic investment.

Key words: Good corporate governance, stakeholders, shareholders, satisfaction, Zimbabwe Stork Exchange and social investment.

Background of the study

The history of corporate governance is characterised by the development of a number of reports. (Turnbill, Greenbury, Hampel, Higgs and Smith reports), codes of best practice (Coyle,2006), and legislation designed to address corporate governance issues in the corporate world. In the United Kingdom (UK), financial scandals involving UK listed companies during the 1980s, provided the platform for the development of corporate governance practice in companies. The drive for change was facilitated by financial institutions that had become concerned by the poor quality and accuracy of financial reporting which threatened to undermine investor confidence and stakeholder satisfaction. Therefore a voluntary code of corporate governance was introduced in the UK in 1992 on the recommendations of the Cadbury Report. A subsequent report was published on director's remuneration (the Greenbury Report), and a further report with recommendations on the current situation in the UK (the Hampel Report) led to the consolidation of the voluntary rules on corporate governance into a Combined Code in 1998. The corporate governance principles and provisions have been continually reviewed. In January 2003, two major reports were published, the Higgs Report on the effectiveness of non-executive directors and the Smith Report on audit committees. The recommendations of these reports were included in a revised version of the combined code on corporate governance, published in 2003 and republished in 2005. In 2002, following a number of corporate governance scandals such as the Enron and World com, tough new corporate governance regulations were introduced by the Sarbanes - Oxley (Sox) Act.

The research problem

Poor corporate governance is one of the most critical factors that contribute to poor performance among the listed companies in Zimbabwe. Poor corporate governance is caused by a number of factors ,such as, weak internal control systems, poor risk management, non executive directors not exercising their independence, weak judicial systems, appointments based on political patronage, disregard for cannons of prudent lending, absence of risk management processes, insider abuses and fraudulent practices remain a worrisome feature of the banking system (Soludo, 2004).However, it does not follow that those who have good governance processes will perform well or be immune from failure. Risk exists to some extent at the heart of any business. Risks are taken in the search for rewards. No system of corporate governance can prevent mistakes or shield companies and their stakeholders from the consequences of error. Corporate failures will occur." (Owen. J 2003).Good corporate governance is also no guarantee of success. It is a necessary but not sufficient foundation for success as many factors come to play most especially is strategic factors play important role in determining the eventual success or failure of an organization. It is in the light of the above debate, that this research work studied Good Corporate governance prerequisites among listed firms in Ghana. Finally, it went further to its effect on stakeholder's satisfaction.

Purpose of the Study

The general purpose of the study is to investigate the effect of corporate governance practices on stakeholder's satisfaction in Zimbabwe listed companies.

Objectives

To investigate the relationship between corporate governance practices and principles of leadership, responsibility, transparency, independence, accountability, and ethcal conduct and risk management.

Methodologies

This study is based on a descriptive survey in which data was collected using questionnaires. All companies listed on the Zimbabwe Stock Exchange constituted the target population for this study. The researcher used purposive sampling to select 52 companies for this study. The questionnaire included some items whose validity and reliability, had been derived and confirmed in previous research. Such items were on accountability and transparency. The rest of the items were developed to meet the needs of this study. Therefore the dependent variables is the stakeholder's satisfaction while the independent variables include; accountability, transparency, company reputation, independence, ethical conduct, leadership role and risk management role. Control variables included; company age, company size, ownership and control. The scales for this study using Cranach's alpha.

Participants

The target population comprised CEO of listed companies in Zimbabwe. A sample of 52 respondents returned their questionnaires.

Data collection

Data were collected through the use of a structured questionnaire. The questionnaire was divided into five sections. Section A elicited general and biographical information about respondents. Section B elicited information on Responsiveness. Section C sought information on Transparency. The questions in Section D elicited information on Accountability The section E sought information on leadership. The questions in Section F elicited information on Stakeholders satisfaction. Likert scales anchored by strongly disagree (1) and strongly agree (5) were used.

Data analysis

The data is collected and entered into a computer using SPSS. The following statistics were used: Values of Cronbach's alpha for the research dimension which measures the internal consistency of a construct. Pearson correlation (r) was adopted to determine the relationship between good corporate governance and stakeholders satisfaction. According to Sekaran (2003) the correlation between two variables is considered a perfect positive correlation when it is close to 1 or perfect negative correlation when it close to -1.

Literature review

The company can be considered as a community of shared interests, it is a "nexus of specific investments" made by the stakeholders (Blair, 1995). The stakeholders are defined as "any group or individual who can affect or is affected by the achievement of the organization's objectives" (Freeman, 1984:46). The management goal is to meet the stakeholder's needs and to maintain with them good long-term relationships (Dwyer et al, 1987; Wilson, 1995). In this regard, the stakeholders can claim the right to be informed, to be consulted or to participate in decision-making (Ljubojevic and Ljubojevic, 2009:26). Bussing assumes that satisfaction depends on the comparison between the current situation and aspirations, problem solving strategies, etc. (Büssing, 1992:245). Transposed to the stakeholders, their satisfaction depends on the company's ability to meet their personal expectations and maximize their utility functions. In spite of these interests are interdependent, companies are forced to make choices, tradeoffs and establish some priorities between the different interests involved (Mitchell et al,(2007:854). Given the complexity of meeting stakeholder's needs, corporate governance can contribute to solving this problem. Strong et al (2001) identified three management practices leading to the stakeholder's satisfaction: i) empathy and concern for fair treatment, ii) honesty and integrity of information, iii) timeliness of the communication (Strong et al, 2001:225). Gaa (2009) considers that disclosure is an important aspect in the sustainability of the relationship between the company and its stakeholders. Moreover, stakeholder's satisfaction is linked to the company's ability to harmonize, balance and accommodate their interests (Susniene and Vanagas, 2007:26).

Principles of good governance

The report identified and defined seven general principles of conduct that should underpin public life and recommended that all public sector entities should draw up codes of conduct incorporating these principles. These fundamental principles of life are:

- Reputation
- Ethical conduct
- Transparency
- Independence
- Leadership
- Accountability

This study also focuses on risk management as a special responsibility of both the management and the board of directors.

Accountability

Accountability is the process by which public sector entities and the people within them are held responsible for their actions (Arfoon, 2005). The fundamental issue of accountability is to provide the platform on which stakeholders have access to all the information pertaining to the management and performance of the organisation (Sheerer, 2002). Stakeholders have the duty to evaluate the organisation in order to increase the credibility, reliability and reputation of the organisation (Epstein and Birchhard, 199). In effect, accountability is the obligation to answer for a responsibility conferred.

Transparency

Transparency refers to the case with which an outsider is able to make a meaningful analysis of a company and its actions (Coyle, 2004). Transparency is all about the provision of information on the financial position of the company and also on non-financial matter concerning strategic management risk management the work of board committees, voting rights and directors' remuneration (Shafi, 2004). Stakeholders are satisfied when the company does not work in secret, and that financial matters are openly disclosed. If investors can understand a company from the information provided, and if they believe that information, the necessary trust between investors and the company should be established.

Reputation

A good reputation is the greatest asset a company can possess at any give time. A company that has shares traded on the market cannot afford to have a bad reputation. A strong share price facilitates the raising of extra cash from existing and new members. A good reputation makes the company's shares acceptable as a way for paying for acquisitions, remunerating staff and generally enhancing the way the business is viewed by the financial community. Damage to a company's reputation is very quickly reflected by a drop in its share price, thereby reducing all these advantages (Coyle, 2004).

Independence

The term independence is relevant to non-executive directors. Non-executive directors are appointed to bring appropriate qualities to the board of directors, namely:

- Independence
- Impartiality
- Experience
- Specialised knowledge
- Personal qualities

Non-executive directors are considered independent when they are able to express their honest and professional opinion without being influenced by the board of directors. The independence of non-executive directors can easily be affected by having some connections in the board or by depending on the goodwill of management. An auditor may not be independent if the audit firm relies on the company for a larger percentage of its annual income.

Ethical Conduct

Ethical conduct is behaviour that is sanctioned by written or unwritten code of ethics and set of moral values. Individuals in positions of power may not follow the written or unwritten codes of conduct and may want to appease their personal interests. Laws, regulations, accounting standards and codes are made on the assumption that they will be followed and respected. In corporate governance, ethical conduct has the effect of protecting stakeholder interests and ensuring that there is fairness in dealing with stakeholders (OECD, 2004). Strong et al (2001) suggests that the board of directors must be guided by the code of ethics in their work to avoid corruption, bribery, nepotism and political patronage.

Openness

The concept of openness refers to the willingness of directors and management to give information to individuals and groups, about the company. Shareholders and investors need to know what the position of the company is and will benefit from timely information, delivered perhaps through the company's web-site on a regular basis, about current developments in the company's affairs. Stakeholders are very much interested in the activities of the board, especially, when they do not hide anything and openly disclose the financial position of the company (Shafi, 2004).

Leadership

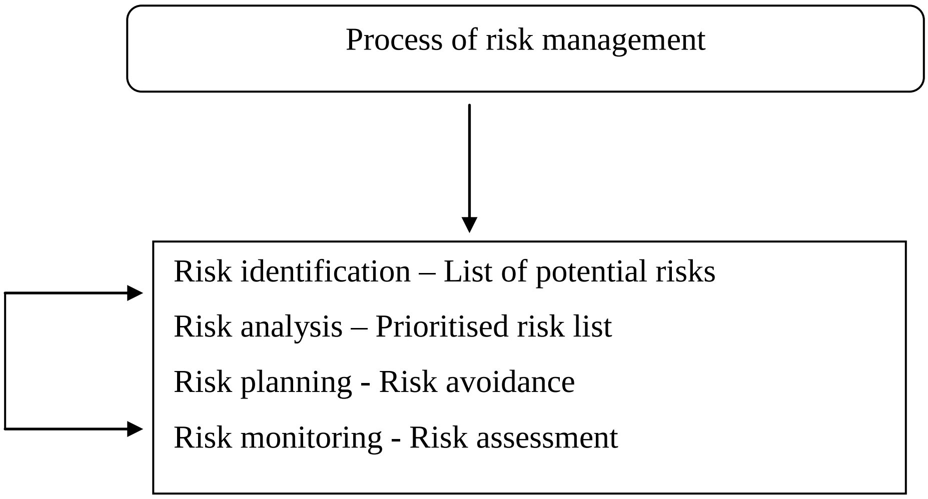
The board of directors provide leadership by crafting short-term and long-term strategic plans and by ensuring that adequate funds are available for the effective operation of the organisation. The board is elected by the shareholders of a corporation to oversee, govern and manage the board and to make corporate decisions on their behalf. As a result, the board is directly responsible for protecting and managing shareholders' interests in the company. The board of directors has to be truly effective. Therefore the board has to be objective, and proactive in its policies and dealings with management. This helps to ensure that management is generating stakeholder value. A more objective board of directors is likely to promote and at the same time protect the interests of the company's stakeholders. Investors who feel that a company does not show an adequate level of commitment to stakeholders can always sell their investment. Thus, all directors are subject to the following fiduciary duties:

- Exercise honesty in all judgements;
- Act in good faith at all times;
- To act in the best interests of the company;
- Exercise diligence, care and skill; and
- Exercise prudence.

Directors have statutory duties such as the duty to keep accounting records which are,1) sufficient to show and explain the company's transactions, and 2) to disclose with reasonable accuracy, at any time, the financial position of the company.

Risk Management

Risk is the "chance of exposure to the adverse consequences of future events." Risk management is therefore the process of reducing the possibility of risk occurring. The board of directors is responsible for establishing a risk management system in an organisation. The process of establishing a risk management system can be summarised as follows:



Source: **Zandstra and,Gerald (2002:16-19)**

Figure 2, shows that an organisation should have a procedure for reviewing the risks it faces, and to identify what they are. The evaluation of risks calls for procedures to assess the potential size of the risk. The measures taken to deal with each risk are decided by management. Finally, control systems should be established to monitor risks.

King II Report on corporate governance provides a summary of Code of Corporate Practices and Conduct for boards of directors on risk management. According to the report, the board is responsible for the total process of risk. The board uses recognised models to provide reasonable assurance that risk management and internal control are serving objectives to, 1) to provide effective and efficient operations, 2) safeguard assets, 3) comply with laws and regulations, 4) ensure business is sustainable, 5) reliable reporting, and 6) a responsible attitude to stakeholders.

Findings

In Table 4, the scales used give a Cronbach alpha greater than 0.75 which shows a good reliability.

Table 4: Statistics of CFA

Variable	Average variance extracted	Range of Loading	Composite reliability
Stakeholder’s satisfaction (SS)	46%	0.42-0.78	0,80
Leadership (LED)	68%	0.70-0.90	0,89
Responsibility (RS)	79%	0.83-0.92	0,89
Transparency (TR)	64%	0.68-0.86	0,80
Independence (IN)	69%	0.69-092	0,79
Accountability (ACC)	78%	0.85-0.96	0,92
Ethical conduct (EC)	66%	0.54-0.90	0,84
Risk management (RM)	63%	0.68-0.87	0,83

Table 3 shows a positive relationship between the dependent and the independent variables. The correlation results are consistent with the hypothesis. There are no correlations greater than 0, 92 which shows the absence of multicollinearity between the independent variables.

Multiple regression analysis

The multiple regression analysis was used in this study. Therefore Table 6 shows the results of the two regressions, Model 1 (without control variables) and Model 2 (with control variables).

Table 6: Results of regression analysis of stakeholders' satisfaction

	Model 1		Model 2	
	Beta	**t-value**	**Beta**	**t-value**
Stakeholder satisfaction (SS)	-2.05	-1.30	-2.20	-1.40
Leadership (LED	0.30*	1.69	0.34**	2.04
Reputation (RP)	0.50**	2.05	0.62**	2.36
Transparency (TR)	0.38	1.62	0.42*	1.74
Independence (IN)	0.11	1.00	0.03	0.18
Accountability (ACC)	0.22*	1.78	0.30**	2.46
Ethical conduct (EC)	0.11	0.561	0.14	0.88
Risk management (RM)	0.23	1.44	0.18	1.17
Company Age (CA)	--	--	0.13	0.88
Company Size (CS)	--	--	-0.14	-1.16
Ownership & Control (OAC)	--	--	-0.24**	-2.04
R^2	**0.63**		**0,59**	
F – test	**6.30*** **		**5.66*** **	

***p<0.10, **p<0.05, p<0.001: N=52**

The model is statistically significant and shows a predictive capacity of $R^2 = 0.59$, P<0.001.

Confirmation of hypothesis

The results of the study suggest that there is a positive relationship between good corporate governance practices and stakeholder satisfaction.

Conclusion

In Zimbabwe, there are no research studies on the impact of corporate governance on stakeholder's satisfaction. Many companies have closed and the economy is now dominated by small to medium enterprises. Consequently, researchers may not see the need for investigating the effect of corporate governance on stakeholders' satisfaction. Also, corporate governance practices in Zimbabwe are not well developed compared to the situation in developed countries. Therefore the results of this study cannot be generalised to the situation in all other Zimbabwean companies. However, this study is the starting point in generating interest in the association between corporate governance and stakeholder' association.

References

[1]. Cornellissen, J. and Harris, P. (2001). The corporate governance identity metaphor: Perspectives, problems and prospects. Journal of Marketing Management 17 (1): 49-41.
[2]. Dentchev, N. A. and Hene, A. (2003). Managing the reputation of restructuring corporations: send the right signal to the right stakeholder Journal of Public Affairs 4 (1): 56-72.
[3]. Gillan, S.L. and Starks, L.T. (2003) Corporate governance, corporate ownership, and the role of institutional investors. Journal of Applied Finance 13 (2): 4 – 22.
[4]. Hillman, A. J. and Keim, D.G. (2001). Shareholder value, stakeholder management, and social issues: What's the bottom line? Strategic Management Journal 22 (2): 125-139.
[5]. Swift, T. (2001). Trust, reputation and corporate accountability to stakeholders, Journal of Business Ethics 10 (1): 16-26.
[6]. Wiederman, K.P. and Buxel, H. (2005). Corporate reputation management in Germany: Results of an empirical study. Corporate Reputation Reviews 8 (2): 145-163.
[7]. Susniene, D. and Vangas, P. (2007). Means for satisfaction of stakeholder's Needs and Interest, "Engineering Economics," 5 (55), 24 -27.
[8]. Van den Buerghe and Levran, A. (2003) Measuring the Quality of Corporate Governance: In Search of a Tailor made Approach, "Journal of General Management", 28 (3), 71-84.
[9]. Clarkson, M.E. (1995). "A Stakeholder Framework for Analysing and Evaluating Corporate Social Performance," Academy of Management Review, 20, 1 pp. 92-117.
[10]. Donaldson, T. and Preston, L. E. (1995) "The Stakeholder Theory of the Corporation: Concepts, Evidence and Implications," Academy of Management Review, 20, 1, pp.65-91.

[11]. Jensen, M.C (2001). "Value Maximisation, Stakeholder theory and the corporate objective functions," European Financial Management, 7, pp 297-317.
[12]. Harrison, J.S.DA Bosse, and R.A. Philips (2010). "Managing for stakeholders, stakeholder utility functions, and competitive advantage," Strategic.
[13]. Vining Aidan R, and Boardman, A.E. (1992). Ownership versus competition: Efficiency in Public Enterprise. Public Choice. 73, 205-239.
[14]. Wang, J. and Dewhirst, H.D. (1992). "Boards of directors and stakeholder orientation" Journal of Business Ethics, 11 (2), pp. 115-121.
[15]. Westphal, J.D. and Milton, L.P. (2000). "How experience and network ties affect the influence of demographic minorities on corporate boards." Administrative Science Quarterly, 45 (2), pp. 366-398.
[16]. Westphal, J.D. and Zajac, E.J. (1998). "The symbolic management of stakeholders: Corporate governance reform and shareholder reactions." Administrative Quarterly, 43 (1), pp. 127-153.
[17]. Deakin, S. Hobbs, R. Konzelmann, S. and Wilkinson, F. (2002). Partnership, ownership an control: The impact of corporate governance on employment relations, employee relations, 24 (3): 335 – 352.
[18]. Andreassen, T.W. and Lindestad, B. (1998). Customer loyalty and complex services. The impact of corporate image on quality, customer satisfaction, and loyalty for customers with varying degrees of service expertise. International Journal of service Industry Management, 9 (1), 7-23.
[19]. Helm, S. (2007). The role of Corporate reputation in determining investor satisfaction and loyalty. Corporate Reputation Review, 10 (1): 22-37.
[20]. Fornell, C. (1992). A national customer satisfaction barometer. The Swedish experience. Journal of marketing, 56:6-21.