

CORPORATE GOVERNANCE INDICATORS AND FIRM VALUE: THE CASE OF 119 ZIMBABWEAN COMMERCIAL BANKS

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Abstract

The financial crisis that occurred between the period 2008-2009 left many banks collapsed and thus this raised more questions than answers about relation with corporate governance and firms' value. In Zimbabwe more than 20 banks were closed during the period of 1980 to 2017. This dissertation investigated the relation between firm-level corporate governance and firm value based on a large and previously use questions measuring corporate governance from Laporta which comprise 24 questions. However, the researcher used on a set of 17 individual questions as they suit the Zimbabwean commercial banks to come up with three corporate governance indices. The researcher employed explanatory research methodology. For all three indices the researcher found a strong and positive relation between firm-level corporate governance and firm valuation. In addition, disclosure of information was found to be improving the Tobin'Q by 0.7% and a strong causation was found on the board composition and performance as indicated by an increase of 26% on Tobin's Q of banks. However, ethics and conflict of interest was found to be reducing firm's value by 0.2%. Regardless of whether these attributes are considered individually or aggregated into indices, and even when "standard" corporate governance attributes are controlled for, they exhibit a positive and significant effect on firm value. The findings are robust to alternative calculation procedures for the corporate governance indices and to alternative estimation techniques. The study found out that firm value was driven by information disclosure and board composition and thus the researcher recommends that banks should continue improving their information disclosure and keep abiding by IFRS and IAS in doing so. The board composition was found to be contributing more to firm valuation, thus the researcher recommends that the shareholders should chose the appropriate board members and any member who will be underperforming must be thereof be removed from the board. The ethics and conflict of interest was found to be reducing the firm valuation implying that banks should revisit their ethical standards and what constitute conflict of interest. By so doing the banks can improve their firm valuation.

Key words Corporate governance; firm value

1. Main text

Background of the study

The world financial crisis of 2008-2009 raised more troublesome questions pertaining the issue of corporate governance of financial institution with particular focus on banks ((Aebi, Sabato, & Schmid, 2012; Akpan & Amran, 2014; Alabdullah, Yahya, & Ramayah, 2014; Dalwai, Basiruddin, & Rasod, 2015; Jan & Sangmi, 2016; Omankhanlem, Taiwo, & Okorie, 2013; Roudaki, 2013). The application of corporate governance has a positive on the firm performance and firm's value as well as profitability (Akbar, 2015; Ahmed & Hamdan, 2015; Gebba, 2015; Kaur, 2014; Sakilu & Kibret, 2015; Yousuf & Islam, 2015).

Corporate governance gained much attention in Zimbabwe due to high profile scandals and collapse of many commercial banks during the period of 2003 to 2015 and around the same period about 20 cases of bank failures were documented (Reserve bank of Zimbabwe (RBZ), 2015). The table 1.1 shows some of the banks which were either closed or failed due to corporate governance issues. The period of financial crisis led the financial regulators to put much more emphasis on the issues of corporate governance. Furthermore, data providers have arisen to admonish corporates on governance issues and evaluate the strength of their corporate governance (Byrnes et al., 2003). For instance, the RBZ produced and issued two major frameworks on corporate governance and minimum audit in banking institution in 2004 (RBZ, 2015). The Zimbabwean financial system, however adopted the national code of corporate governance

Table 1.1 Names of banks closed by the Reserve bank of Zimbabwe because of corporate governance related issues from 2012 to 2015

Bank Name	Closure Date
Genesis Bank	11 June 2012
Royal Bank Limited	27 July 2012
Interim Bank Limited	11 June 2012
Trust Bank Limited	6 December 2013
Capital Bank Limited	4 June 2014
Allied Bank Limited	8 January 2015
Tetrad Bank Limited	29 January 2015
Afrasia Bank Limited	24 February 2015

Source: Changunda and Foya (2019)

Corporate governance and the Zimbabwean financial crisis

Corporate governance background starts back in the 19th Century, the time when corporate laws were incorporating the rights of corporate boards without undisputed agreement of the shareholders (Nyamutowa, 2013). Corporate governance is defined as the wide range of practices and institutions, from accounting standards and laws concerning financial disclose, to executives, to size and composition of corporate d boards (Nyamutowa, 2013). In other wider understanding corporate governance is a harmonizing bundle of legal, economic and social bodies that safe guard the interest of firm's owners. In order for the efficient operation of the corporate, the shareholders had to be given statutory advantages such as appraisal right. The case of Solomon vs. Solomon (1987) which two issues risen related to agency problems. Agency problem emanate from two aspects which are separation of ownership and control. In today's globalized financial system, corporate governance has become one of the hot topic being discussed by several governments, people, academics industry operations, directors, shareholders and multinational corporation to list but a few. The following issues emerged since the enactment of corporate government principles; transparency, financial disclosure, independency, board size, board composition, board committees, board diversity and among other (Akbar, 2015; Ahmed & Hamdan, 2015).

World over researchers were carried out with the hope to find the impact of corporate governance indicators on firms' value (Chong and

Lopez-de-Silance, 2007; Klapper and Love 2005 and Durnev and Kim, 2015). While the authors were much concerned with particular aspects of corporate governance such as ownership or board structure, some of the literature deals with aggregated corporate governance indicators to come up with corporate governance indices. For examples studies carried out in US (Gomper et al., 2003; Bebchuck and Cohen, 2015; Bechuck et al., 2017)) showed that firms value is dependent on aggregated corporate governance index.

The Zimbabwean banking sector has been making impressive profits over the past decades despite the poor performance of the real sectors of the economy over the same period. The alleged failure by the Central Bank to take action against the “rogue” banks inculcated a culture of speculative risk-taking by the majority of banks, especially emerging indigenous banks. This speculative risk behavior culminated in a liquidity crunch in the fourth quarter of 2003 when the newly appointed Reserve Bank Governor, Dr. Gideon Gono, delivered a restrictive monetary policy statement that tightened conditions for accommodation (Changunda and Foya, (2019). The tight liquidity management policy adopted by the Reserve Bank of Zimbabwe on December 18 2003 was enough to burst a speculative asset bubble that had hitherto characterized the local banking sector. Banks struggled to dispose of their speculative assets, and this triggered a fall in asset prices, thereby eroding balance sheet values.

Subsequent monetary policy measures included higher minimum capital requirements and statutory reserve requirements for all public demand, savings and time deposits. Liquidity management and corporate governance got revived emphasis. The tight regulatory regime closed the main avenues for making money that had previously buttressed the impressive bank profits.

Banks recorded substantial deterioration in loan book values, especially with respect to speculative loans, which inadvertently suffered from the fall in speculative asset values following the monetary policy measures taken by the Reserve Bank of Zimbabwe. Huge losses were particularly recorded on non-performing insider loans due to lack of corporate governance practices and this compromised the capacity of bank credit operations to contribute to total bank profits. All these and other factors placed tremendous pressure on bank treasuries to develop effective strategies that would ensure that reasonable returns would be earned on the increased shareholder funds without compromising the risk position of the bank, especially with regard to bank liquidity.

Firm Value

Gibson and Singhal (2010) opined that firm value can be derived from organizational performance measures such as the accomplishments by a firm that is evident through various measures such as meeting targets, time frame for meeting targets and achieved efficiency and effectiveness. Firm’s performance can be measure financially or non-financially. Financial terms are the productivity of a firm measured in terms of revenue growth, profit and, dividend payout ratio, price-to-book ratio Tobin’s Q measurement and the acquired market share relative to other entities in the industry. Efficient and effective cost control mechanisms, can be used to measure the financial performance of a firm. According to Vemkatraman and Ramanujan (1986) as cited in Odawa (2016) firm’s performance can be measured in term financials like return on investment (ROI), sales growth and profit generated over a specific period, firm’s effectiveness and whole firm’s performance in general.

However non-financial performance considers qualitative aspects of the business such as product and service quality, firm’s innovativeness, customer contentment, customer relationship management and loyalty. Non-financial performance can be measured through customer base growth and customer value. It also encompasses employee’s contentment which in turn increases their productivity (Gibson and Singhal, 2010). The balanced score card can be used to summarized firm’s performance as it looks at four basic elements like financials, customer contentment, efficiency of control mechanisms and firm’s productivity.

Problem Statement

The financial crisis that occurred between the period 2008-2009 left many banks collapsed and thus this raised more questions than answers about relation with corporate governance and firms’ value (Alabdullah et al., 2015; Omankhanlem et al., 2017). In Zimbabwe more than 20 banks were closed during the period of 1980 to 2017 (RBZ, 2019). The after tax profits of many banks declined by a

whopping 56% in 2019 when compared to prior periods (Inclusive Government, 2009-2013). The general business problems are that many bank managers are not able to steer the banks to the viability which subsequently increases firm's value. The specific dilemma is that some bank managers have not yet fully embraces all the principles of good corporate governance. It is against this background that this research seeks to critically evaluate the impact of corporate governance indicators on firms' value using the case of all commercial banks in Zimbabwean banking sector

Objectives of the study

The main objective of this study is to establish the relationship between corporate governance indicators and firm's value with the particular focus on the commercial banks in the Zimbabwean banking sector. In line with this objective the study was also guided by the following sub-research objectives: -

1. To investigate the effect of disclosing vital information as a way of abiding to good corporate governance practices on Tobin's Q ratio of banks.
2. To evaluate the effect of board of directors' composition and performance on Tobin's Q ratio of banks.
3. To find out the significance of ethics and conflict of interest on Tobin's Q ratio of banks.

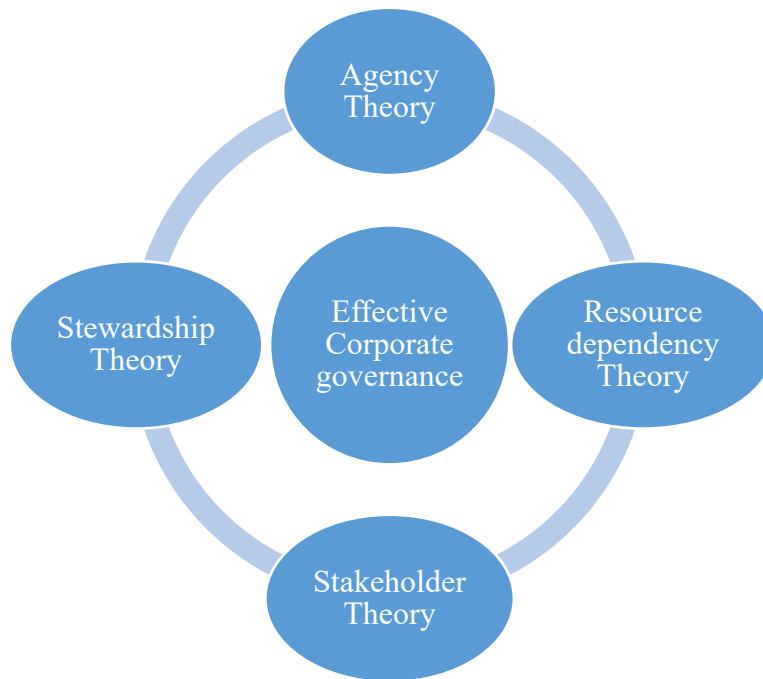
corporate governance and measures of firm's value. The research made use of the Agency Theory, Stewardship Theory and Stakeholder Theory as a theoretical framework guiding this research.

imitations and covid-19 outbreak.

Literature review

The application of corporate governance theories it not the same across the world as it depends with the level of development of the nation (Guo et al., 2013). For example, in developing countries where regulatory framework is weak, the agency theory is more applicable (Al Mamun et al., 2013). Political, cultural, social and precedent events also affect the application of these theories (Fauziah et al., 2012). A combination of corporate governance theories can be the best and an efficient and effective way of applying corporate governance practices than basing corporate governance on single theory (Yussuf and Alhaji, 2012). The diagram on figure 1.2 below summarises major corporate governance theories that underpin this study.

Figure 1.2: Corporate Governance Theories



Source: Changunda and Foya (2019)

Corporate governance

According to Shleifer and Vishny (1997) corporate governance encompasses system that almost guarantees suppliers of finance will be adequately compensated on their investment. In finance terminology corporate governance are principles that are there to address what is known as “agency problems” between the suppliers of funds, the shareholders and the stewards, the management (Yussuf and Alhaji, 2012). This implies that corporate governance is there to make sure that investors get their money back regardless that they have given someone, “agents” or managers the mandate to make all decisions regarding how their money is utilized. There are a number of corporate governance indicators that are in the literature (Klapper and Love, 2004; Black, 2001; Black, Love and Rachinsky, 2006; Lefort and Walker, 2005) but all seem to converge to the following indicators corporate governance; disclosure, composition and performance of the board of directors, ethics and conflict of interest and shareholder’s rights.

The board of directors is the major component of good corporate governance mechanism (Blair, 2015) and is known to be the company officers according to company law (Coleman, 2018). The literature postulate that board structure is regarded as the good proxy for measuring corporate governance practices in firms (Enobakhane, 2015).

According to Enobakhane (2015) board size is defined as the total number of directors in a board structure. According to RBZ the minimum number of directors in a board structure is 5. The number and quality of directors has an impact on the function of the board, hence the firm’s value. The empirical studies show that the best board size affecting the firm’s value. Williams (2015) advocated for a large board size because it has the best chance of performing well due to the abundance of skills and knowledge within the board. However, Romano et al., (2017) and Jensen (2018) argued that if the board becomes bigger is size, it becomes less effective. They further added that, the concept of individual responsibility is eradicated and the bureaucracy related problems comes in. Several studies have shown than organizations such as bank holdings are such that they require a larger board size and the such larger size is inevitable due to the fact that additions of directors with subsidiary directorships (Romano et al., 2017). Cornett et al., (2019) argued that the bigger the

board of directors the greater the firm's value and performance.

The board composition is the total quantity of directors brought from outside the corporate to sit on the corporate board divided by the board size in a given period (Enobakhane, 2015). The board composition has been chosen as the corporate governance indicator because the literature has shown a correlation between board composition and good corporate governance practices among banks. Furthermore, board composition can influence board deliberation and the ability to manage top management decisions and outcomes. However, there is no optimum formula (Vance, 1978), the independence of the board has been part of corporate governance related issue under scrutiny. According to Ramano et al., (2017) the presence of non-executive and independent directors within the board has contributed much to the issues of accountability and firms value. However, authors like De Andres and Vallelado (2018) argued that the number of non-executive directors should not be excessive because it may end up damaging the advisory role of the board because the executive directors have the role to facilitate information transfer between the board and the management and knowledge sharing, and such information would be difficult for the non-executive directors to collect. Empirical studies show that most of the financial reporting related fraud committed are largely attributed to poor directors domiciled inside the board (Farber, 2015; Romano et al., 2017). It is against this, that most countries such as Zimbabwe have strengthened recommendations on board composition and independence in the corporates (Huse, 2015). The emphasis is on board independence especially in the bank's management (Busch, 2018).

Corporate Governance in Zimbabwean Commercial Banks

In 2008 most banks faced a numerous problems or inconsistencies that encompassed flouting of legal and regulatory frameworks, accountability issues, transparency coupled with double standards from the board and the founders themselves (Gone, 2008). Changunda and Foya (2019) have the strong point of view of that in Zimbabwe, the issue of corporate governance gained much attention since the financial crisis in 2003 and 2004. Numerous banks faced challenges that were attributed to corporate governance noncompliance, examples can be drawn from closed financial institutions such as United Merchant Bank (UBM), ENG Capital and Barbican Bank. Zimbabwe by 2015 did not have legislated national code of corporate governance along with lines of the King Code, Cadbury Code or Sarbanes Oxley Act (Deloitte and Touché, 2019).

Prior to 2015, Zimbabwean banks corporate governance practices were being legislated by the Companies Act and the Zimbabwe Stock Exchange Act listing requirements, the banking Act, Public Finance Management Act as well as rules set by bodies such as Institute of Directors of Zimbabwe (IoDZ). As noted in the above literature conflicts between shareholders and managers has been a problem for centuries and will exist to an issue for concern as long as banking business is carried through the corporate form and future economic turmoil and corporate scandals will continue to rise afresh.

According to Changunda and Foya (2019) the Public Entities Corporate bill was gazette on 21 July 2017. The bill deals with issues relating corporate governance, the bill stipulates that assets and wealth accrued violation of good corporate governance and looting of public funds will seized. The bill also suggested that there should be a Corporate Governance Unit in the Office of the President and Cabinet and that no one is allowed to sit on two boards concurrently and the board members must serve only two four terms.

According to a study conducted by Changunda and Foya (2019) showed that the good principles of corporate governance are not being effectively followed in the Zimbabwean banks. They further discovered that about 57.9% of banks disagree that the board of most indigenous banks are ensuring that there is an effective monitoring of management by the board and from the interviews with several bank, it was noted that most of the directors are not independent because one way or the other they are the owners of the banks.

Commenting on the role, composition and accountability Changunda and Foya (2019) opined that most banks are facing a challenge on the role, composition and accountability as their boards has significant undue influence from the shareholders of their banks they represent, and thus the indigenous banks are violating the ZimCode chapter 3 section 55.

On insider loans, Changunda and Foya (2019) reported in their study that about 68.4% of board members with the ingenious banks had

borrowed money from their banks and they attributed this to lack of transparency and they further went on to say that since these directors have a great influence on the management, they create loopholes which allows the senior management to approve such loans without questioning. Changunda and Foya (2019) noted that the economic and political environment in Zimbabwe is making it difficult for commercial banks to fully comply with good corporate governance principles.

On disclosure of information, Changunda and Foya (2019) discovered that most non-executive directors were not getting access to information and most of the banks lacked sound risk management policies. The problem was attributed to the fact that the non-executive directors have little information that allows them to effectively manage risk and execute appropriate decisions pertaining their banks. Non-executive directors and executive directors thus affecting transparency and disclosure.

There is a strong evidence that Corporate governance is not being followed by most bank and the results of the Changunda and Foya (2019) showed that the firm value is premised on the firms' compliance on the corporate governance of the, thus this study seeks to establish to what extent does the corporate indicators affect the firms value.

Firm Value

Gibson and Singhal (2010) opined that firm value can be derived from organizational performance measures such as the accomplishments by a firm that is evident through various measures such as meeting targets, time frame for meeting targets and achieved efficiency and effectiveness. Firm's performance can be measured financially or non-financially. Financial terms are the productivity of a firm measured in terms of revenue growth, profit and, dividend payout ratio, price-to-book ratio Tobin's Q measurement and the acquired market share relative to other entities in the industry. Efficient and effective cost control mechanisms, can be used to measure the financial performance of a firm. According to Vemkatraman and Ramanujan (1986) as cited in Odawa (2016) firm's performance can be measured in term financials like return on investment (ROI), sales growth and profit generated over a specific period, firm's effectiveness and whole firm's performance in general.

Several scholars have utilized one of three approaches of measuring firms value; accounting ratios (Griffin and Mahon, 1997; Bayoud, Kavanagh and Slaughter, 2012) or market valuation (Kiel and Nicholson, 2003; Arnold, Bassen and Frank, 2012) or accounting and market base mixed ratios (Mulyadi and Anwar, 2012). It is against this background that that this study uses dividend payout ratio (DPR) which is measured as the quotient between cash dividend and net earnings (La Porta et al., 2006), price-to-book value (PBV) which is measured as the quotient between market per share and the book value (Leal and Carvalhal-da-Silva (2005) and Tobin's Q (TQ) which is measure as the market value of assets minus book value of equity plus market value of equity all divided by the book value of assets (Morck, Shleifer and Vishny, 1988; La Porta et al., 2002; Gompers et al., 2003).

2.6 Corporate governance and firms' value

Black (2001) is considered to be one of the earliest researches which tried to investigate the correlation between corporate governance and firm's value by studying 21 large Russian firms. The results were that there was a strong association between firm valuation and quality of their corporate governance. Cornet et al., (2006) and Dedman (2002) also found that there is a positive correlation between corporate governance and marker valuation a measure of firm value. This therefore implies that investors tend to invest or assign a higher valuation on firm with follows principles of good corporate governance.

Empirical literature review

A study by Gonzalez and Garay (2019) considers the impact of corporate governance and firm value using the case of Venezuela a developing country in which the issue of corporate governance is understudied. They constructed the corporate governance index and regressed it against measures of firm value such as Tobin Q, price to book ratio and the dividend payout and they discovered that about 1% increase in the corporate governance will cause 11.3% in dividend payout ratio, 9.9 % to price to book ratio and 2.7 % in Tobin's Q.

Muhammad and Rashid (2019) investigate the impact of corporate governance on firm value using the case of small, medium and large firms in Pakistan. They discovered that corporate governance had a major role in determining market valuation of most firms in Pakistan. They further discovered that market value of the firms did vary with its insiders' ownership and the trend of valuation was dependent on corporate governance and insiders' ownership and the corporate will be highly valued if it is high in corporate governance coupled with lower management and on other hand if the firm has weak corporate governance then the valuation is also lower.

A research by Pombo (2007) on the corporate governance its effects on the firm value and economic growth in Columbia by using 108 corporates using financial ratios which measure both financial performance and firm valuation ad he discovered that a positive relationship exist between separation of ownership and firms value, however the relationship was no monotonic.

Apadore and Zainol (2014) investigate the impact of corporate governance and firm valuation and on constructing the corporate governance index they include issues like ownership concentration, audit quality, board independence and CEO duality and the findings shows that a proportion of director's independence may help the firm top management to make quality decisions that will result in the improvement in the firms' valuation and performance.

Coming to Zimbabwean context, Shungu, Ngirande and Ndlovu (2014) looked at the level of corporate governance and the performance of commercial banks in Zimbabwe, they used data from 2009 to 2012 and their results showed that unidirectional causal association from corporate governance and banks performance. The board size and board composition was found to have a strong relationship with banks performance. Therefore, the study suggested that banks in Zimbabwe should adhere to good corporate governance practice if they are to register a positive improvement in their performance and valuation.

On the most recent study by Changunda and Foya (2019) discovered that most of the banks in Zimbabwe are not fully complying with good corporate governance principles. Their study concluded that banks value was affected largely by the economic environment, however the issue of corporate governance should not be eradicated as the study shows that most banks were not complying with the ZIMCODE principles.

Methodology

Research design

The researcher used explanatory research design which is a unique means of data collection. According to Kumar (2016) explanatory research design attempt to clarify why and how there is a relationship between two aspects of the situation or phenomenon. The explanatory research design assist the researcher determine causal relationship between variables (Mensah, 2015)

Model specification

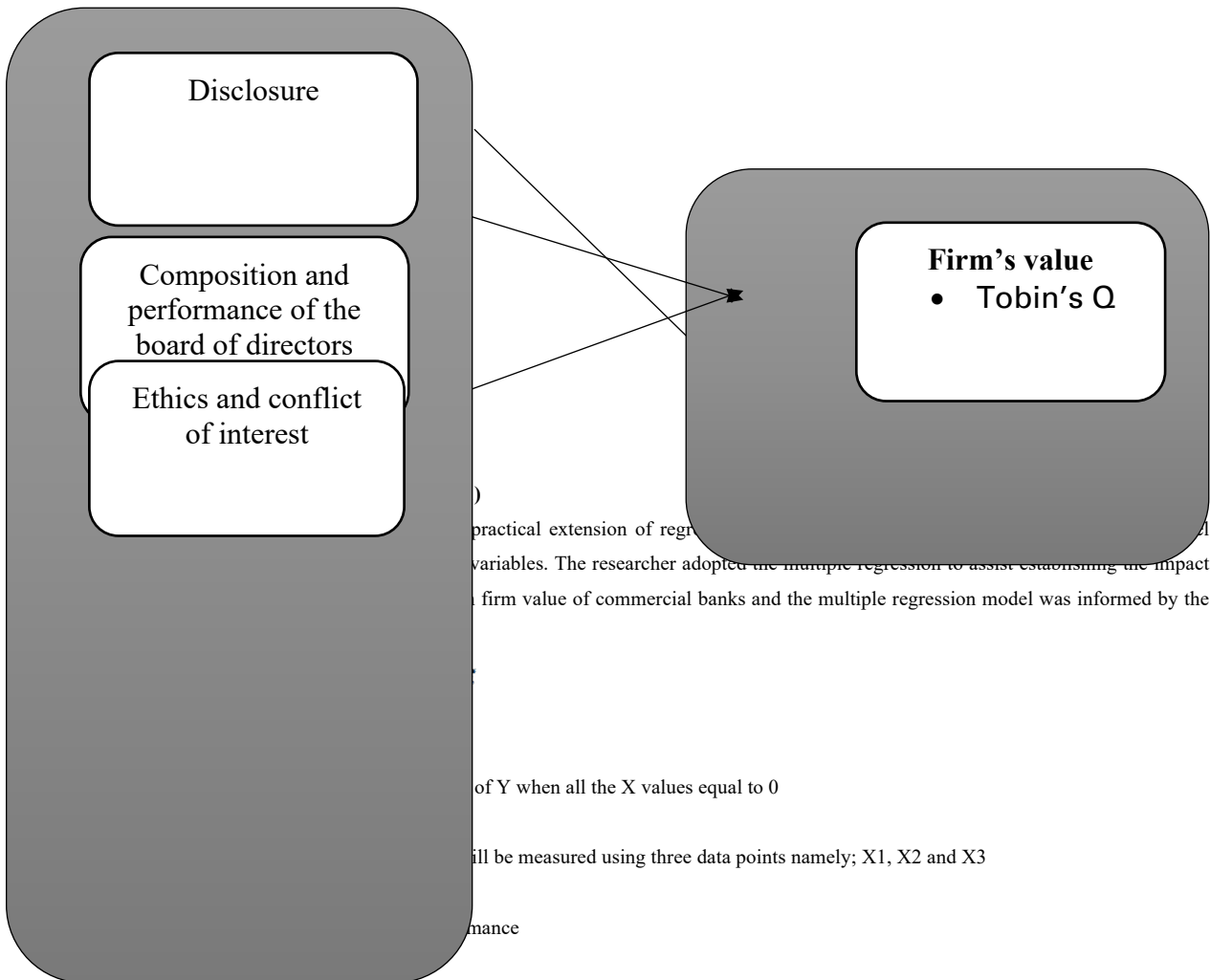
Corporate governance is a significant means for banks to achieve better financial performance in present day's service economy and in addition satisfied consumers tend to return for another business and thus influences firms' profitability (Garay and Gonzalez, 2005). Past researches has showed that corporate governance has an important role in the firm valuation. Therefore, this research aims to investigate the impact of corporate governance on Zimbabwean commercial banks valuation.

In this research corporate governance index (CGI) is calculated using three major components of good corporate governance as follows; disclosing vital information, board of director's composition and performance and ethics and conflict of interest. The firm's valuation is measured using Tobin's Q. The research model is shown in figure 1.3 below.

Figure 1.3 : Research Model

Independent Variables

Dependent Variable

Corporate Governance Index**Firm Valuation**

ϵ = Error term.

The model assumes that the error term (ϵ) is normally distributed with mean zero.

Justification of variables

The explanatory variables of this study are components of corporate governance which are board of directors' composition and performance, vital information disclosure and ethics and conflict of interest. These explanatory variables are expected to influence the dependent variable positively. According to study carried by La Porta, Lopez-de-Silance, Shleifer and Vishny (2015) this theoretical framework were positively correlated with firm's value, the reason is that when a firm has good corporate governance practices it increases investor. La Porta et al., (2016) discovered that firms in nations where investors are well protected shows an increase in Tobin's Q than that of firms in nations in which investors are poorly safeguarded. Tobin's Q is a measure of firm that has been used by authors of corporate governance such Leal and Carvalhal-da-Silva (2005) for Brazil. Asia (2015) conducted similar study and found out that good corporate governance practices have an impact on the confidence of investors in banks and the situation decreases the cost of capital and

as result increases firms value. Klapper and Love (2004) are among the first and more detailed studies on the interaction of corporate governance in the emerging markets, by taking corporate governance practices of 495 firms from 25 emerging markets and found out good corporate governance is highly correlated with better operational performance and marker valuation. This variable was calculated as:

$$\frac{\text{Book value of assets} - \text{book value of equity} + \text{market value of equity}}{\text{Book value of Assets}}$$

Data Types and Sources

Research problem is often solved by a careful gathering of primary data and secondary data (Saunders et al., 2016). This means that they are two types of research data: field (primary) data and desk (secondary) data. The researcher used both the primary data and secondary data as it actually helps to measure and understand the phenomenon under study.

Primary Data

According to Saunders et al., (2016), primary data is that type of data that has been collected for the first time and has not been used before or for any research. Methods of collecting primary data may include: the use of questionnaires, interviews, focus groups, interviews, experiments and observations. However, the researcher is not going to administer questionnaire to enable construction of CGI, just like most studies on corporate governance. This methodology is not going to be used in this study because of two reasons; one self-selection bias and two self-report bias. Self-selection bias occurs when the firm under study has low corporate governance ratings tend not to respond to the questionnaires and self-report bias occurs to those firms that respond to the questionnaire, there is tendency of them presenting not as there are in relation to corporate governance practices but as they want to see themselves in the future (Garay and Gonzalez, 2018). In the same spirit of a study by Leal and Carvalhal-da-Silva (2005), the researcher follows their methodology to construct CGI by answering the questions himself using publicly available information.

Leal and Carvalhal-da-Silva (2005) presented 24 questions which the researcher ended up having 13 questions that are applicable to the Zimbabwean setting. Each question will be answered using publicly available information. The questions will be grouped into three sub index, namely; information disclosure (DIS, five questions), composition and performance of the board of directors (BOA, five questions) and ethics and conflicts of interest (ETH, three questions). The questions are presented in the table 1.2 below and sources of data.

Table 1.2: Corporate Governance Indices (CGI)

NO	SUB INDEX: DISCLOSURE
1	Does the bank show in its charter, annual reports, or in any other way, the consequences against the management in case of violation of its chosen corporate governance practices
2	Does the bank show reports of its audited financial statements timeously
3	Does the bank apply international accounting standards (IFRS and IAS)
4	Does the bank use recommended/ credited auditing firms
5	Does the bank disclose, in any way, the reimbursement of the general manager and of the BOD

NO	SUB INDEX: COMPOSITION AND PERFORMANCE OF THE BOARD OF DIRECTORS
1	Are the chairman of the board and CEO the same person
2	Does the bank employs the services of monitoring committees such as appointments and compensation committees
3	Is the BOD explicitly comprised of non-executive or external members that are totally independent once
4	Is the BOD made of five to nine members, as per international recommendation of good corporate governance practices
5	Is there a permanent auditing committee?
NO	SUB INDEX: ETHICS AND CONFLICT OF INTEREST
1	Is the bank free of any penalties or fine for violation of good corporate governance practices in the last years
2	Taking into consideration the agreements among shareholders, are the controlling shareholders of less than 50% of the voting shares
3	Is the capital/voting rights ratio of controlling shareholders greater than 1

Source: Leal and Carvalho-da-Silva (2005)

Secondary Data

Secondary data is the information that is readily available and the data is relevant to the topic under study Saunders et al (2012). Secondary data is sometimes known as desk research; the reason is that the main source of such data is company reports, information from the National Statistics Bureau and professional journals. This study used financial statement of the banks as the secondary sources of data to be able to draw some meaningful generalizations. The dependent variable Tobin Q was calculated from the financial statements of each bank.

Estimation Procedure

The data captured through the answered questions was organized according to the responses of each bank. The responses were aggregated to compute one measure for each CGI index and was assigned as an independent variable. The same process was done on all other index. The secondary data collected from financial statements (Tobin's Q) was also aggregated and an average measure was calculated for a period of 5 years (2016-2020) and was assigned as the dependent variable. The independent variables (explanatory variables) were regressed against each dependent variable to determine the impact of corporate governance on firm's value. The classical assumption test was conducted on the independent and dependent variables. The tests conducted are normality test, Multicollinearity test, heteroscedasticity and autocorrelations test.

Data presentation and analysis

Diagnostic Test Results

Normality test

Table 1.3: Tests of Normality

	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	Df	Sig.	Statistic	df	Sig.
TQ	.150	13	.200*	.949	13	.589

*. This is a lower bound of the true significance.

a. Lilliefors Significance Correction

Shapiro-Wilk normality test stipulates that if the probability or the significant value is above 0.05 implies that the data is normally distributed, otherwise if it below 0.05 implies that the data is largely deviating from a normal distribution and in such circumstances the data needs to be normalized using logarithm method. The table 1.3 shows the results for normality test for Tobin's Q and the results shows that data for Tobin's Q comes from normal distribution as shown by significant value of 0.589 which is above 0.05. Thus, data was good fit for multiple regression.

Multiple regression model

The study sought to establish the impact of corporate governance on the firm value of Zimbabwean commercial banks. Thus, the study carried a multiple regression to establish the effects of each of the indices that build up the Corporate Governance Index (CGI).

The findings are discussed below gives the regression model summary results. the R value is the measure of relationship between the dependent and the independent variables, the R^2 which is the coefficient of determination measuring the extent at which the independent variables influence the dependent variable and the Adjusted R^2 which measures the reliability of the regression results. This explains the extent to which change in the dependent (firm value) variable can be explained by percentage variation on the change in the independent variables (information disclosure, ethics and conflict of interest and board composition and performance). The three independent variables studied, explain 94.6% of variance in the firm value of Commercial banks in Zimbabwe as represented by the R^2 . The adjusted R^2 of 92.8% indicate the model is very reliable in explaining the dependent variable. This is significant at 0.05 as shown below. This means that other factors not studied in this research about 5.4% of variance in the dependent variable. This therefore reveals that the regression model developed is statistically significance and the variation in the results is insignificant and therefore the model can be relied upon to explain the effect of corporate governance on firm value of commercial banks.

Table 1.4 : Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.973 ^a	.946	.928	.00187514

a. Predictors: (Constant), Ethics_and_conflict_of_interest, Disclosure, Board_Composition_and_performance

b. Dependent Variable: TQ

The ANOVA results in the table 4.5 shows how the model developed is reliable in explaining the association between research variables. The significant level of this model is 0.05. The table 1.5 shows that the independent variables are statistically significant in predicting the firms value as shown by $p=0.000$. The F-statistic of (3, 9) = 52.848 also confirms the significant of the model.

Table 1.5 : ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	.001	3	.000	52.848	.000 ^b
Residual	.000	9	.000		
Total	.001	12			

a. Dependent Variable: TQ

b. Predictors: (Constant), Ethics_and_conflict_of_interest, Disclosure, Board_Composition_and_performance

Table 1.6 shows the coefficient of the regression model. According to the results disclosure of vital information and board composition and performance were statistically significant in predicting the firm value as their p-values are below 0.05. However, ethics and conflict of interest was not statistically significant in explaining variance in the dependent variable, firm value, as its p-value of 0.577 which is above 0.05.

Table 1.6 : Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.597	.009		63.178	.000
Disclosure	.007	.001	.465	4.924	.001
Board_Composition_and_performance	.026	.004	.763	5.822	.000
Ethics_and_conflict_of_interest	-.002	.003	-.073	-.578	.577

a. Dependent Variable: TQ

The resulting regression model is

$$Y = \beta_0 + X_1\beta_1 + X_2\beta_2 + X_3\beta_3 + \epsilon$$

$$\text{Firm value} = 0.597 + 0.007\text{Disclosure} + 0.26\text{Board composition and performance} - 0.002\text{ethics and conflict of interest}$$

The regression equation above, holding corporate governance constant firm value would still be 0.579. Furthermore, for every addition in information disclosure there would be 0.7% increase in firm value. Based on these results the hypothesis 1H₀ is accepted to be true. A unit increase in board composition and performance brings about 2.6% increase in firm value. Based on these results the hypothesis 2H₀ is

accepted to be true. However, a unit increase in ethics and conflict of interest brings 0.2% decrease in firm value. Therefore, based on these results the hypothesis $3H_0$ is rejected and $3H_1$ is accepted to be true.

Discussion of results based on objectives

The first objective of the study was to establish the effect of disclosing vital information as way abiding to good corporate governance principles. The study concluded that there is a positive relationship that exist between these variables. Based on these results the hypothesis $1H_0$ was accepted to be true. This result is marginally statistically significant ($t = 4.924$, $p < .05$), these results replicated the study by Black (2001) who conducted a study of 21 large Russian firms. Despite the small sample, he found a surprisingly strong correlation between firm valuation and the quality of their corporate governance. Furthermore, these results replicated the study by Bortolotti and Beltratti (2018) who researched the impact of an improved disclosure standards and share price in China and they found out that it had a significant effect on the share price. The similarity of the results could be attributed to the fact firms are complying with good corporate principles. The results are agreement with several papers that suggest that firm-level governance has more influence on valuation (Black, Jang, and Kim, 2006; La Porta, Lopez-de-Silanes, 2007; Bruno and Claessens, 2007). Firms with good corporate governance practices have the advantages of attracting more external finance and this has an impact on the firm's value by altering the book value of shares and market capitalization.

The second objective of the study was to establish the impact of board composition and performance on firm value. The results show a positive correlation between board composition and performance. Based on these result the $2H_0$ was therefore accepted to be true. This result is marginally statistically significant ($t = 5.822$, $p < .05$), being consistent with the results obtained by Garay and González (2005) for Venezuela and by Leal and Carvalho-da-Silva (2005) for Brazil, who found an increase in TQ of 2.24 per cent and 3.1 per cent, respectively. Klapper and Love (2004) also found a positive significant relation between the TQ and the CGI for their sample of emerging market firms. The result in tandem with Nenova (2015) who conducted a study on the effect of shareholder rights and share price of the firms in Brazil and she found out that share price increased when after the law that protect the minority shareholders was altered. This therefore implies that shareholder rights a major component of corporate governance can have causal relationship with share price and subsequently the Tobin's Q and dividend payout ratio.

The last objective of the study was to establish the impact of ethics and conflict of interest on Tobin's Q. The results obtained showed a negative relationship between ethics and conflict of interest and Tobin's Q. The hypothesis $3H_1$ was therefore accepted to be true. This result is marginally not statistically significant ($t = -0.578$, $p > .05$). These results were consistence with the study by La Porta et al., (2014) of a sample of 49 nations and they concluded that nations that were governed by Civil Law which capture ethical standards of firms, and with particular reference to French Legal system which provides a less protection to investors had an under developed capital markets relative to the nations that are governance by Common Law which in turn provides a number of protections laws to the investors. Their research also discovered that one of ways to protect the firms form agency problems was for the firms to have a dividend policy in place. Another study by Atanasov et al., (2017) on the impact of legal rules and the firm valuation in Bulgaria. They discovered that price of shares jumped for firms with good corporate governance rules. This result is in agreement with Black and Khana (2017) who conducted similar research in India's adoption of major governance reforms which needed firms to set up audit committees, a least quantity of non-executive directors and CEO/CFO authentication of financial statements and set up internal control mechanism. These reforms were applied to both small and big firms and the results were that the firms' value increased, though there was a differential effect on values of large relative to small firms. These results are in tandem to the theoretical model spearheaded by La Porta, Lopez-de-Silanes, Shleifer and Vishny (2017) in which positive effects on firm valuation were discovered on firms with strong corporate governance adherence. The cost of capital is also lowered in this situation and increases the firm value. These results are all in tandem with the agency model of dividend payout in corporate governance framework developed La Porta, Lopez-de-Silanes, Shleifer and Vishny (2000b).

Conclusion

The first objective of the study was to establish the effect of disclosing vital information as way abiding to good corporate governance principles. The study concluded that there is a positive relationship that exist between these variables. Based on these results the hypothesis 1H₀ was accepted to be true. This result is marginally statistically significant ($t = 4.924$, $p < .0.05$).

The second objective of the study was to establish the impact of board composition and performance on firm value. The results show a positive correlation between board composition and performance. Based on these result the 2H₀ was therefore accepted to be true. This result is marginally statistically significant ($t = 5.822$, $p < .0.05$)

The last objective of the study was to establish the impact of ethics and conflict of interest on Tobin's Q. The results obtained showed a negative relationship between ethics and conflict of interest and Tobin's Q. The hypothesis 3H₁ was therefore accepted to be true. This result is marginally not statistically significant ($t = -0.578$, $p > .0.05$). The model predicting firm value was determined as

$$\text{Firm value} = 0.597 + 0.007 \text{Disclosure} + 0.26 \text{Board composition and performance} - 0.002 \text{ethics and conflict of interest}$$

Recommendations

The study found out that firm value was driven by information disclosure and board composition and thus the researcher recommends that banks should continue improving their information disclosure and keep abiding by IFRS and IAS in doing so. The board composition was found to be contributing more to firm valuation, thus the researcher recommends that the shareholders should chose the appropriate board members and any member who will be underperforming must be thereof be removed from the board.

The ethics and conflict of interest was found to be reducing the firm valuation implying that banks should revisit their ethical standards and what constitute conflict of interest. By so doing the banks can improve their firm valuation.

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Appendix A. An example appendix

Authors including an appendix section should do so after References section. Multiple appendices should all have headings in the style used above. They will automatically be ordered A, B, C etc.

A.1. Example of a sub-heading within an appendix

There is also the option to include a subheading within the Appendix if you wish.