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ENTERPRISE GOVERNANCE, INVESTOR TRUST AND LIQUIDITY IN THE BANKING INDUSTRY: EVIDENCE FROM AN EMERGING ECONOMY

ALEXANDER MAUNE

CEMS, University of South Africa, South Africa

Tel: +263 71 756 7452;

Email: **alexandermaune6@gmail.com**

Abstract

This article provides a descriptive examination of the role of enterprise governance in restoring investor trust and liquidity in the banking industry. For the purpose of this study, data was gathered through consulting secondary sources such as financial statements, company publications, annual reports, central bank reports and journal articles. The article looks at the shift in focus towards enterprise governance and its effectiveness in restoring investor trust and liquidity in Zimbabwe. The value and number of transactions going through the banking system had significantly reduced compared to the situation that prevailed in the late 1990s. This reflects the state of the economy and the decline in investor trust and confidence in the banking sector. Low liquidity and low investor confidence remains the main worry for regulators as deposits are concentrated in only five banks with the remaining the institutions sharing the remainder. The deposit market share structure signifies an oligopoly banking sector where few banks dominate the market. The findings from this article will assist policy formulation, policy implementation and further future research. This article, however, is of great importance to government, the private sector and the academia.

Keywords: **Enterprise Governance; Corporate Governance; Investor Trust; Liquidity; Banking Industry; Financial Sector; Emerging Economy**

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INTRODUCTION

Zimbabwe`s corporate scandals notably those at First National Building Society, ENG Capital, Barbican bank, Trust Bank, Royal Bank, CFX FS Limited and many other local as well as international scandals such as Enron, WorldCom and Parmalat have saved to channel the focus towards the significance of good enterprise governance. Much emphasis has been placed on the role of enterprise governance in restoring trust and liquidity especially in the banking industry. The Zimbabwean financial crisis (2003 to 2009) and the global financial crisis of 2008 were largely attributed to lack of good enterprise governance. This resulted in a liquidity crunch in both cases.

The Zimbabwean financial sector has been replete with corporate governance challenges that ranged from improperly constituted boards of directors, poor board oversight, inexperienced management, undue influence to dominance of few shareholders. Some banking institutions went to the extent of fraudulently maintaining two sets of financial records one for regulatory convenience at licensing and the other one reflecting the correct profile of the institution. Many other financial institutions made use of their holding companies to evade regulation to channel depositors' funds to associate companies and to related parties such as asset management and investment companies. There were rampant unethical activities to conceal under capitalization with some banking institutions inflating their capital positions by under-providing for non-performing loans as well as falsifying transactions. Excessive levels of non-performing insider loans was a result of poor enterprise governance, weak underwriting and monitoring standards as well as superfluous growth. Many financial institutions lacked comprehensive liquidity, risk and funds management strategies and policies. Inadequate liquidity risk management systems and poor board oversight further aggravated the liquidity problems. As a result many banking institutions failed to competently manage liquidity and market risk. This then resulted in deposits flight to banks that were perceived as less risky there by exacerbating the liquidity crisis for smaller banks.

Chirozva highlights that in the absence of proper enterprise governance; problems in the banking sector could create dangers of financial collapse and economic retardation. Authorities argue that the Zimbabwean banking crisis emanated largely from poor enterprise governance. Lack of enterprise governance led to the loss of confidence in the banking sector by depositors, creditors, shareholders and the whole economy. The collapse of many institutions during this period negatively affected the Zimbabwean economy. The crisis also led to the persistent lack of public trust and confidence in the financial institutions.

The changeover to dollarization in early 2009 saw the emanation of liquidity problems within the economy and the banking industry in particular as banks struggled to raise deposits due to foreign currency shortages. Statistics as at December 2009 showed that total deposits were at US$1.33 billion [1] a figure that can hardly sustain the more than twenty (20) deposit-taking financial institutions in the country.

The Zimbabwean banking system comprised 14 operating commercial banks, 4 building societies, a merchant bank and a savings bank as at 30 June 2014. The market share of commercial banks in terms of assets stood at 82.42% as at 30 June 2014 [2]. Building societies, on the other hand follow a mortgage finance business model, with a market share of 14.88% as at 30 June 2014 [2]. The savings bank is owned by the government and its market share amounted to 1.46% as at 30 June 2014 [2]. Table 1 below shows the architecture of Zimbabwe`s banking sector from 2003 to 2016. The fluctuation in the number of financial institutions is as a result of the collapse of some banking institutions during the period due to corporate governance related issues (Table 1).

Table 1: Architecture of Zimbabwe`s Banking sector from 2003 to 2015.

Type of Institution	**2003**	**2004**	**2005**	**2007**	**2009**	**2012**	**2013**	**2014**	**2015**	**2016**
Commercial banks	17	16	13	14	17	16	15	14	13	13
Merchant Banks	6	6	5	5	4	2	2	1	1*	1*
Building societies	5	5	4	4	4	3	3	4	4	4
Savings banks	-	-	-	-	1	1	1	1	1	1
Total	28	27	22	23	26	22	21	20	19	19

Source: Author (Consolidation from RBZ monetary policy statements)
Note: *Tetrad under provisional judicial management of the Deposit Protection Corporation effective 1 July 2015.

Although research linking investor trust and corporate governance has largely produced inconclusive findings, research by McKinsey and Company [3] discovered in their USA global investor opinion survey on corporate governance that good enterprise governance affects investor confidence. The following were some of the findings:

- 63% investors would avoid companies with poor corporate governance,
- 57% would change their holdings,
- 31% would avoid investing in countries known for poor governance practice and regulation,
- 28% would change their holdings in some countries if their governance practice varied and
- 73-78% would pay a premium for a well governed company.

The study therefore intends to find out whether the implementation of enterprise governance as outlined by the RBZ- Bank Licensing, Supervision and Surveillance Guideline number 01-2004/BSD, Zimbabwe Stock Exchange (ZSE) and the Institute of Directors (IOD) and other international guidelines has been effective in restoring trust and liquidity in the banking industry in Zimbabwe. These organisations have been campaigning for good enterprise governance.

The remainder of this article is structured into four sections as follows: Section 2 outlines the literature review; section 3 explains the methodology used in the analysis; section 4 discussions of findings and section 5 concludes with recommendations.

LITERATURE REVIEW

A number of comprehensive books, codes, guidelines and journal issues have been devoted to enterprise governance especially after the global financial crisis of 2008. This section looks at the theoretical formula that underlines the principle of effective enterprise governance in restoring investor trust and liquidity. As a way of highlighting some of the main issues in this article, it is imperative that one examines some of the available related literature on enterprise governance. This whole issue dovetails around trust, that is, covenantal relationships which are relational rather than contractual relationships which are transactional. The culture of individualism and pursuit of self-interests has had detrimental effects to society and business. Without trust the market economy fails like in the prisoner`s dilemma where both parties lose at the end.

Background to enterprise governance

Gay and Simnet [4] define enterprise governance as the system by which companies are governed and controlled. Whereas, et al. [5] define enterprise governance as a catch all phrase used to refer to management issues, incorporations and the mechanisms by which corporate management can be supervised and made accountable to its members, employees, creditors and the community.

Research has revealed a number of possible definitions of enterprise governance [6-9]. For the purpose of this study, the article adopted the following definition by RBZ [7].

> Enterprise governance refers to the processes and structures used to direct and manage the business and affairs of an institution with the objective of ensuring its safety and soundness and enhancing shareholder value. The process and structure define the division of power and establish mechanisms for achieving accountability between board of directors, management and shareholders, while protecting the interests of depositors and taking into account the effects on other stakeholders, such as creditors, employees, customers and the community [7].

This definition makes emphasis on processes, structures, safety, soundness of institutions and shareholder value. It also looks at protecting the interests of various stakeholders among other important facets.

International perspective of enterprise governance

The history of enterprise governance is virtually as old as that of Capitalism itself with the first recorded dispute in 1622 in the Netherlands, and whilst Adam Smith understood the issues of enterprise governance in 1776, he did not use the phrase enterprise governance [10]. The first recognized academic work on the issue of enterprise governance was Berle and Means, followed by Coase [11] as they recognized ownership/performance issues arising from the growing separation of power between executive management of major public companies and their increasingly remote and diverse shareholders. In more recent times the term "corporate governance" first surfaced in the 1970s in the USA to describe the role, functions and responsibilities of the board and management but did not appear in print until 1983 [12].

The link between enterprise governance and principal-agent problems is further highlighted by Farrar [13] who traces the development of corporate governance with the appearance of managerial Capitalism and the need to raise capital from the public. Farrar`s view is that in the absence of a countervailing power, management have a tendency to pursue their own self-interest at the expense of the corporation. There is a need then to monitor management to prevent shirking and other opportunists' behavior. The corporate governance issues were controlled by both fiduciary restraints developed in the common law and supplemented by legislation so that modern directors` duties are an amalgam of common law, equity and statute. The market for corporate control rewards good performance but judge under-performance with either falling share price as investor leave the stock or takeover bids occur by more aggressive managers.

The spectacular corporate collapses in the USA in 2001 and 2002 put the spot light on corporate governance; particularly the conduct of the directors themselves, enterprise governance was high on the UK agenda before they occurred. Over the decade of the 1990`s the UK had been recognized as the world leader on the best practice of enterprise governance leading to a number of reports and codes or guidelines on enterprise governance.

Principles of enterprise governance that affect investor trust and liquidity in the banking industry

Enterprise governance is about building trust, credibility, ensuring transparency and accountability as well as maintaining an effective channel of information disclosure that would foster good enterprise performance. It is also about how to build trust and liquidity and sustain confidence among the various interest groups that make up an organization. Indeed the outcome of a survey by McKinsey in collaboration with the World Bank in June 2000 attests to the strong link between enterprise governance

and stakeholder confidence [14]. There is evidence that investors value companies with good enterprise governance. McKinsey surveyed over 200 institutional investors and finds that 80% of respondents would pay a premium for well-governed companies, from 11% in Canada to 40% in Egypt [3]. King [15] identifies nine characteristics of good enterprise governance:

Discipline

It is increasingly being recognized that market discipline plays an important role in promoting financial system stability and in encouraging the maintenance of sound enterprise governance and risk management practices. Banks are more likely to be attentive to risk management in an environment where poor risk management and financial performance are penalized by the market, and strong risk management and financial performance are rewarded by the market. In the longer term, effective market discipline is likely to enhance financial stability and efficiency by strengthening the incentives for the efficient management of risks and by weeding out poor performers [7]. The banking industry the world over has been characterized by gross lack of discipline evidenced by top bank officials being involved in cases of fraud, insider and connected lending and the banks have been embroiled in parallel market dealings in foreign currency. King [15] states that, enterprise discipline is a commitment by a company`s senior management to adhere to behavior that is universally recognized and accepted to be correct and proper.

Transparency

According to Matama [16] transparency is integral to corporate governance as higher transparency reduces information symmetry between management and financial stakeholders, mitigating the agency problem in corporate governance. King [15] defines transparency as the ease with which an outsider is able to make meaningful analysis of a company`s actions, its economic fundamentals and the non-financial aspects pertinent to that business. In Uganda lack of transparency is attributed to the closures of commercial banks [17]. King [15] further argues that transparency is a measure of how good management is at making necessary information available in a candid, accurate and timely manner- not only the audit data but also general reports and press releases. Gelos, et al. [18] find that more transparency attracts more foreign portfolio investment. Lower transparency causes managers to exploit their claimants through outright looting or excessive risk-taking [19]. However, some authors such as Caprio and Levine [19]; Furfine [20]; Levine [21] and Morgan [22] argue that due to the nature of bank operations and activities, it is difficult to maintain the highest level of transparency in banks. Such disclosure and transparency may compromise investment decisions such that management may be highly risk averse at the expense of profitable ventures.

Weak transparency, however, makes bank assets risks opaque. Stock market participants including professional analysts such as Moody encounter difficulties in measuring banks credit worthiness and risk exposures [22-24]. Ball [25] argues that timely incorporation of economic losses in the published financial statements (that is,

conservatism) increases the effectiveness of enterprise governance, compensation systems, and debt agreements in motivating and monitoring managers.

An empirical study conducted by Chiang [26] on enterprise governance and transparency in the high-tech industries of Taiwan found a significant positive relationship between enterprise transparencies and operating performance. Outside investors can then rely on the information provided by the company to make their decisions. Chiang [26] finds a positive association between voluntary disclosure of enterprise governance information and the ability to raise equity capital. Salzberg, CEO Deloitte LLP asserts that the USA capital markets are the deepest, most liquid and most transparent in the world and they are built on public trust, and the foundation of that trust is the integrity of the financial reporting and corporate governance processes of public companies. Kueppers, Deputy CEO- Regulatory and Public Policy, Deloitte LLP adds that transparent financial reporting, a reliable audit process, and sound corporate governance are interrelated issues of critical importance to investor confidence, trust and to the health of capital markets.

Disclosure

Given the recent corporate scandals US based; Enron, WorldCom [27] and Uganda Based; Greenland bank Ltd, ICB [28], restoring public trust is at the top of the agenda of today`s business leaders. Greater information provision (disclosure) on the company`s capital and control structures can be an important means to achieve this goal. Full disclosure seeks to avoid financial statements fraud [29,30]. Sengupta [31] suggests that bondholders and underwriters do consider corporate disclosure policy when determining the risk premium applicable to interest rates on debt instruments. Collett and Hrasky [32] find that board size was positively correlated with firm value, and that a positive relationship existed between the proportion of inside directors and the market based measures of performance. Doucouliagos and Hoque [33] find that enterprise governance is an important determinant of Australian bank`s stock prices. The direct effect on share prices operated through willingness to pay a premium or a discount for banks that have good/ poor enterprise governance characteristics.

The implementation of robust financial disclosure requirements for corporate and banking institutions is an essential complement to sound enterprise governance. Financial disclosure is essential as a means of strengthening the accountability of directors and senior management and enhancing the incentives for risk management. It is also essential for market participants and observers particularly the larger creditors of banks, news media, financial analysts and rating agencies to effectively monitor the performance and soundness of banking institutions and to exercise appropriate discipline on those institutions which do not perform well or fail to meet acceptable prudential standards [7].

The most common arguments against voluntary disclosure from a managerial perspective are fear of giving away sensitive information to competitors and procurement of extra costs for collecting and disclosing the information [34-36].

Levitt [37], states that information is the lifeblood of markets. But unless investors trust this information, investor confidence dies. Liquidity disappears. Capital dries up. Fair and orderly markets cease to exist. These sentiments were also echoed by King [15]. As the volume of information increases exponentially, the quality of information for investors and the markets they comprise must be the signal concern. Competitive intelligence will be the solution.

Independence

The extent to which the entity has put in place mechanisms to ensure that decisions made are informed, objective and only in the best interests of the business of the entity and that those decisions are not influenced by personal, group or other interests or by dominant influences. These mechanisms range from the composition of the board, to appointments, to committees of the board, and external parties such as the auditors [15]. Bank officials have devised ways of circumventing this provision especially on lending decisions. Cases of connected lending by banks to companies indirectly owned by bank directors have been unearthed. Young [38] argues that the general inability by researchers to correlate board independence with firm performance may also reflect a more fundamental issue. Researcher Young [38] has theorized that while independence may improve directors` performance as monitors; it may be counterproductive with respect to managerial tasks.

However, King [15] argues that lack of this relationship between board independence and performance across a large number of companies does not, however, mean that increased independence is not the right prescription for any individual company`s board. Young [38] is of the opinion that even though there is no relationship between the two, a board falls short of fulfilling its monitoring duties, for example, where executive compensation is excessive in relation to performance or where the integrity of financial controls has been compromised in the past. Increasing the number of independent non-executive directors on the board could reduce the likelihood of the problem recurring. He, however, argues that increased board formal independence should not be viewed as a panacea for poor corporate performance or board failure.

Accountability

The extent to which the entity has put in place mechanisms to ensure that those who are entrusted with the power, assets and resources of the entity, make decisions and take action on specific issues on behalf of the entity are regularly and constantly held to account for the exercise of the power, for their decisions and actions, and in addition that those who have entrusted the power are provided with a meaningful mechanism to query and assess the actions of those to whom that power is delegated. King [15] goes on to vilify corporate accountability to consider only the key stakeholders other than all legitimate stakeholders since, to ask boards to be accountable to everyone would result in their being accountable to no one. This therefore provides investors with the means to query and assess the actions of the board and its committees.

Responsibility

The banks have to ensure that those entrusted with directing, managing and controlling understands that they are collectively responsible and personally liable and that delegating authority to board committees or management does not in any way mitigate or dissipate the discharge of their duties and responsibilities or remove their personal liability. That because the only reason that society licenses the business enterprise to operate in, and on society is because the business enterprise will efficiently and effectively supply the goods and services desired by society, the business entity and hence those entrusted to run it have responsibility to improve the wealth producing capacity of the resources entrusted to the entity.

With regard to management, responsibility pertains to behavior that allows for corrective action and for penalizing mismanagement. While the board is accountable to the company, it must act responsively to and with responsibility towards all stakeholders of the company [15]. RBZ [7] concurs with King [15].

Fairness

The extent to which the entity has put in place mechanisms to ensure that it acts fairly and justifiably considers the interests of all those who have an interest in the entity, its success and future, and that the rights and interests of all stakeholders are recognized and addressed [15].

Social Responsibility

A well-managed company will be aware of, and respond to, social issues, placing a high priority on ethical standards. A good corporate citizen is increasingly seen as one that is non-discriminatory, non-exploitative, and responsible with regard to environmental and human rights issues [39]. A company is likely to experience indirect economic benefits such as improved productivity and corporate reputation by taking those factors into consideration [15]. The business entity can make decisions and take actions that shape the economy, the society and lives of individuals within the society for a long time to come, the enterprise and those who run it have fundamental social responsibilities to ensure that the enterprise is a ‘good citizen’, acts responsibly with regard to environmental, societal and human rights issues and adheres to the highest ethical standards.

Integrity

According to Cadbury [40] integrity means both straight forward dealing and completeness. The integrity of a bank, its activities and its reports depends on the integrity of those who direct, manage and work for the bank [7,15,41].

Cases of enterprise governance, investor trust and liquidity

According to Okeahalam [42], writing on the political economy of bank failure and supervision in the Republic of South Africa argues that, a number of banks failed since 1990 due to liquidity and poor management. This has been the trend across the African region and beyond. The failure of Alpha Bank in 1990 as a result of high level fraud, which was heightened by the risk exposure of its holding company Pinnacle Holdings, was the first of several bank failures in South Africa. Cape Investment Bank (CIB) was the victim of fraud as it failed to disclose the significant number of its non-performing assets in its balance sheet until this was exposed when Prima Bank withdrew from a takeover deal.

Sechold Bank failed in December 1993 because of liquidity problems brought on after a wholly owned subsidiary Securities Equities Limited lost R180 million in derivative trading positions. This resulted in a loss of depositor and investor confidence and resulted in significant erosion of the Sechold capital base.

The Islamic Bank of South Africa (IBSA) also failed in November 1997 as a result of bad management and improper accounting and management systems. Apparently, a large amount of insider unsecured lending has taken place which has resulted in a large proportion of non-performing assets in the balance sheet.

According to James Wolfensohn former World Bank Group President, corporate governance is about promoting corporate fairness, transparency and accountability. In Uganda, the factors responsible for poor corporate performance in banks emanate from lack of transparency, accountability, disclosure and poor ethical conduct [43]. Commercial banks failures have been linked to self-inflicted causes resulting from bank owners; ICB (International Credit Bank), GBL (Greenland Bank), and Coop Bank were afflicted with one-man management syndrome of corporate governance exemplified by Thomas Kato (ICB), Sulaiman Kiggundu (GBL) and USAID (Coop Bank). There was no separation between senior management and the board of directors in ICB or GBL and that management took little account of depositors` interests.

The board of ICB consisted of four members of the Kato family including a six-year-old child. GBL had two boards of directors but neither had a say in the running of the bank for instance ICBs audit report cited connected or insider lending to a tune of Ushs.4 billion. In the case of GBL the July 1998 Bank of Uganda (BOU) audit Report stated that as of the 30th of June 1998, insider lending stood at Ushs.22,722 million representing 47% of customer deposits and accounting for 55% of the total loan portfolio yet the maximum amount the bank could lend according to FIS 1993 was Ushs.975 million only. The report also cited that in most cases credit was extended on the sole instructions of then Managing Director without any or minimal documentation.

It is worth highlighting that, insufficient financial disclosure evidenced by high level of off-balance sheet items, lack of transparency resulting from gross mismanagement and dubious accounting actions as observed in cases of ICB, GBL [17] and TransAfrica Bank Ltd [44] were detrimental to the interests of banks stakeholders

especially the depositors.

Bank governance in developing economies

Although the subject of enterprise governance in developing economies has recently received a lot attention in the literature [45-48], enterprise governance of banks in developing economies has been almost ignored by researchers [19]. Even in developed economies, enterprise governance of banks has only recently been discussed in the literature [49].

Enterprise governance of banks in developing economies is important for several reasons. First, banks have an overwhelmingly dominant position in developing economies financial systems, and are extremely important engines of economic growth [50,51]. Second, as financial markets are usually underdeveloped, banks in developing economies are typically the most important source of finance for the majority of firms. Third, as well as providing a generally accepted means of payment, banks in developing countries are usually the main depository for the economy`s savings. Fourth, many developing economies have recently liberalized their banking systems through privatization/disinvestments and reducing the role of economic regulation.

Consequently, managers of banks in these economies have obtained greater freedom in how they run their banks. The unique nature of banking firms, whether in the developed or developing world, requires that a broader view of enterprise governance, which encapsulates both shareholders and depositors, be adopted for banks.

A prudential approach to regulation which involves banks having to hold capital proportional to their risk-taking, early warning systems, bank resolution schemes and banks being examined on an on-site and off-site basis by banking supervisors, typically result in banks in developing economies having to raise equity in order to comply with capital adequacy norms. Consequently, prior to developing economies deregulating their banking systems, much attention will need to be paid to the speedy implementation of robust enterprise governance mechanisms in order to protect shareholders. However, in developing economies, the introduction of sound enterprise governance principles into banking industry has been partially hampered by poor legal protection, weak information disclosure requirements and dominant owners [52]. Good enterprise governance results in the following:

- Improving access to capital [15,40],
- Improving performance [40,53],
- Attract good non-executive directors and
- Macroeconomic effects: Growth effects and stability effects [54].

The importance of enterprise governance to economic recovery

Sound enterprise governance is based on four main principles: fairness,

transparency, accountability and responsibility; and besides reducing the vulnerability to financial crises. These principles reflect the standards necessary to provide legitimacy to the corporate sector and to broaden and deepen access to capital [55]. This is bound to have a positive, ultimate impact on growth, as shown in the literature [56]. Literature has also shown that countries can undergo better development and have higher standards when enterprise governance is prudent and appropriate [56].

The OECD principles define corporate governance as involving a set of relationships between a company`s management, its board, its shareholders, and other stakeholders [55]. If implemented properly, enterprise governance benefits companies in many aspects, such as improving access to capital, attracting premium valuations and financing on improved terms. Moreover, it improves company performance by producing superior leadership, oversight and strategic direction, efficient information flows and work processes and better compliance, accountability and less conflict [56].

Banks, of course, play a vital role in the economy, and the continued strength and stability of the banking system is a matter of general public interest and concern both in regard to its linkages with the real sector and for providing the payment and settlement systems. Effective enterprise governance is essential then to achieving and maintaining public trust and confidence in the banking system, which is critical to the proper functioning of the banking sector and the economy as a whole. Poor enterprise governance may contribute to bank failures, which can pose significant public costs and consequences due to their potential impact on any applicable deposit insurance systems and the possibility of broader macroeconomic implications such as contagion risk and its impact on the payment system.

Generally, there are several avenues that the literature identifies through which enterprise governance might affect growth. These are:

- Increased access to external financing by firms, which can lead to greater investment, higher growth and more employment creation.
- Lower cost of capital and the associated higher firm valuation, which makes investment more attractive and again further employment creation.
- Better operational performance through better allocation of resources and better management, which creates and adds to wealth.
- Reduction in the risk of financial crises and just as important in the large economic and social costs that they usually entail.
- Better relational relationships with all stakeholders, which help improve social and labor relationships and deals more favorably with issues such as environmental protection.

Apart from the above channels, an important feature that has been revealed to enhance good enterprise governance and furthers its favorable growth implications is more competitive markets. Equally important is the fact that without a properly functioning financial system these positive effects arising from good enterprise governance would be difficult to attain. The relationship between financial system

and economic growth has been well recognized and emphasized in the field of economic development. And the numerous theoretical and empirical writings on the subject in the last decades acknowledge that financial development is important as it leads to economic growth. This is achieved through a variety of mechanisms, including mobilizing savings, collecting and analyzing information, screening potential entrepreneurs, allocating investment to highest-return projects, exerting corporate control, sharing risk, providing liquidity as well as overcoming asymmetric information problems that typically exist in financial markets.

METHODOLOGY

A research design is the basic plan that guides the research process, especially in the data collection phase and the final analysis [57]. This basic plan functions as a framework that specifies the type of information collected, the sources of data, and the data collection procedure, which, if thoroughly made, ensure that the information gathered is effective and consistent with the research objectives [57].

There are several types of research approaches that can be used depending on the purpose of the study such as, exploratory, descriptive, conclusive or performance-monitoring research. In this study, the descriptive research approach was chosen. Descriptive research studies are those studies concerned with describing the characteristics of a particular individual, or group [58]. Hence Ary, Jacobs and Razavieh [59] explain descriptive research, as that which describes and interprets, the, what is, aspect of a question. It is concerned with conditions or relationships that exist; practices that prevail; beliefs; points of view or attitudes that are held; processes that are going on; effects that are being felt, or trends that are developing. Its major purpose is to tell what is.

The descriptive research design describes systematically the facts and characteristics of a given population or area of interest factually and accurately. Descriptive research can be used to describe past or current events or even illustrate the background to certain phenomena and various consequences or relations between specific events [60]. Furthermore, it is useful to consider if any previous studies have been done in that particular area, by whom and for what purpose. Also, it is important to look at the conclusions already made and what sort of complementary research might be necessary [61]. For the purpose of this study, data was gathered through consulting secondary sources such as financial statements, company publications, annual reports, central bank reports and journal articles.

This study is considered to have a high level of validity. This study is based on peer reviewed journal articles written by experts with knowledge in enterprise governance. The validity of the study implies that the research is, in fact focused in measuring that which was intended [62].

A study also needs to have a high degree of reliability. If different people conducted the same study at a later time, the results should be pretty much the same. This is

however, more relevant for quantitative rather than qualitative research [62]. The reliability of a study is usually considered low in qualitative studies. However, the sources used in this study are trustworthy. The potential subjectivity of the study in the choice of literature and articles, as well as in the material itself, was eliminated through the selection of a variety of sources and peer reviewed articles.

DISCUSSION OF FINDINGS

The findings show that there is a strong link between enterprise governance, investor trust and liquidity in the banking industry in Zimbabwe. This is in line with the outcome of a survey by Mckinsey in collaboration with the World Bank in June 2000 that attests to the strong link between enterprise governance and stakeholder confidence [14]. The results support the evidence that investors value companies with good enterprise governance. However, it was noted that the political and economic environment has hindered the liquidity levels in the banking industry and the economy at large. This has scared international investors and reduced the lines of credits to the banking industry. The situation was exacerbated by the land reform programme that saw the re-distribution of land to the once marginalized black people due to colonial imbalances. In respond to that, Zimbabwe was slapped with economic sanctions. These had detrimental effects to liquidity as the international financiers, such as the IMF and World Bank, responded by cutting credit lines with the country resulting in the liquidity crunch that saw the country abandoning its currency and adopting a multi-currency regime.

Authors like Mark [14] and Gordon [54] concur with the sentiments that link enterprise governance, investor trust and liquidity. They argue that, when investor confidence is high, the share price of the company soars. They further argue that it is crucial for a company to keep its investors in mind before taking important decisions and to maintain a flawless management quality. Recent studies have also shown that companies that rated high in good management practices had higher returns than those rated low on the same parameters [54]. Therefore, if enterprise governance is sound, it has a beneficial effect on investors.

From the findings of this study, it is evident that enterprise governance plays a pivotal role in restoring investor trust and liquidity in the banking industry. This is also in line with the McKinsey quarterly survey quoted in Mark [14] and the enterprise governance survey by the Kuala Lumpar Stock Exchange and accounting firm PWC. In these surveys it was noted that there is a link between enterprise governance, the restoration of investor trust and liquidity in the banking industry due to investor`s willingness to inject more funds in a well-governed firm. King [15] notes the same relationship. Enterprise governance plays a major role in the Zimbabwean banking industry and the economy at large due to the unique economic situation which the economy experienced. This included liquidity challenges, hyperinflation running into billion percentages and the political polarization together with economic sanctions. The Zimbabwean political and economic environment called for effective enterprise governance as was indicated in the RBZ Guideline on Corporate Governance of 2004. The Zimbabwe deposit market share structure signifies an oligopoly banking

sector where few banks dominate and these are perceived to have high standards of enterprise governance as is indicated Table 2 below as of December 2009 after the adoption of the multi-currency regime.

Table 2: Zimbabwe`s bank deposits, market share and tier as at 31 December 2009.

Bank	Deposits	Market Share	Tier
CBZ	357,659,684	26.5%	1
Stan chart	224,136,700	16.6%	
Stanbic	170,746,000	12.6%	
Barclays	121,786,302	9.0%	2
FBC	95, 177, 870	7.0%	
MBCA	72, 850, 519	5.4%	
ZB	49, 190, 428	3.6%	3
CABS	35, 778, 170	2.6%	
Kingdom	35, 619, 832	2.6%	
ABC	32, 075, 000	2.4%	
Interfin	28, 429, 851	2.1%	
Renaissance	28, 300, 612	2.1%	
Premier	23, 521, 739	1.7%	4
NMBZ	20, 640, 021	1.5%	
POSB	18, 004, 978	1.3%	
TN	13, 183, 390	1.0%	
Metropolitan	12, 107, 943	0.9%	5
CBZ BS	5, 156, 501	0.4%	
ZB BS	3, 812, 119	0.3%	
CFX	1, 697, 866	0.1%	
FBC BS	1, 385, 860	0.1%	
IBC	53, 457	0.0%	
Total	1, 351, 314, 842	100%	
Source: Author (Based on MMC Capital Investment Research-April 2010 data) (Where BS means Building Society)			

Figure 1 below also shows how the Zimbabwean banking sector deposits performed since the adoption of the multicurrency regime in 2009. The graph depicts an upsurge in total deposits from USD705.76 million in June 2009 to USD6 511.83 million in December 2016. This scenario can be interpreted as an improvement in confidence and trust in the banking sector though other factors are at play. Authorities are of the opinion that there is a corresponding share of foreign currency that is circulating in the informal sector of the economy due to lack of confidence and trust in the banking sector.

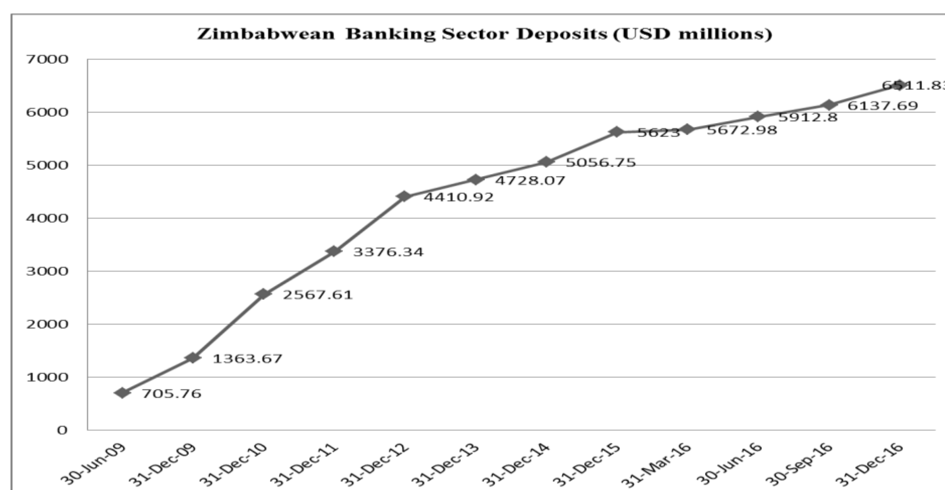
Table 3 below supports this notion as the financial inclusion indicators there have dropped significantly from 2011 to 2014. For example, adults with an account at a financial institution dropped from 39.65% in 2011 to 17.19% in 2014 with credit card dropping from 6.46% in 2011 to 1.83% in 2014. Savings at a financial institution

shows a significant drop from 17.27% in 2011 to 5.19% in 2014. Results of figure 2 are in support of the above arguments. The graph depicts a significant rise from 2009 to 2010 before a sharp decline in 2011of accounts per 1 000 adults with bank deposits to GDP and bank branches per 100 000 adults trending below 20 from 2009 to 2014.

According to World Bank [63], “accounts are a key measure of financial inclusion because essentially all formal financial activity is tied to accounts. In developed economies, 89% of adults report that they have an account at a formal financial institution, while the share is only 24% in low-income economies. Globally, 50% of the adult population more than 2.5 billion people do not have a formal account. In many countries in Africa, the Middle East, and Southeast Asia, fewer than 1 in 5 adults have a bank account.”

World Bank [63] argues that “globally, 36% of adults report that they saved or set aside money in the previous year. In high-income economies, this ratio is 58%, while in low-income economies, it is only 30%.” Similar to account ownership, the propensity to save differs across and within countries. Worldwide, 12% of bank account holders save solely using methods other than bank accounts [63]. To World Bank [63], “the reasons for this include the high costs of actively using the account, such as balance and withdrawal fees, as well as costs associated with physical distance. Policy makers or commercial bankers could introduce new products to encourage existing account holders to save in formal financial institutions.” The introduction of credit cards has had a large effect on the demand for and use of short-term formal credit [63]. In high income economies, half of the adult population reports they have a credit card. World Bank [63] argue that “despite a surge in recent years, credit card ownership in developing economies still lags far behind the rates in high-income economies; in the former, only 7% of adults report they have a credit card (notable exceptions are Brazil, Turkey, and Uruguay, where the proportion of adults with a credit card exceeds 35%)” (Figure 1 and Figure 2) (Table 3 and Table 4).

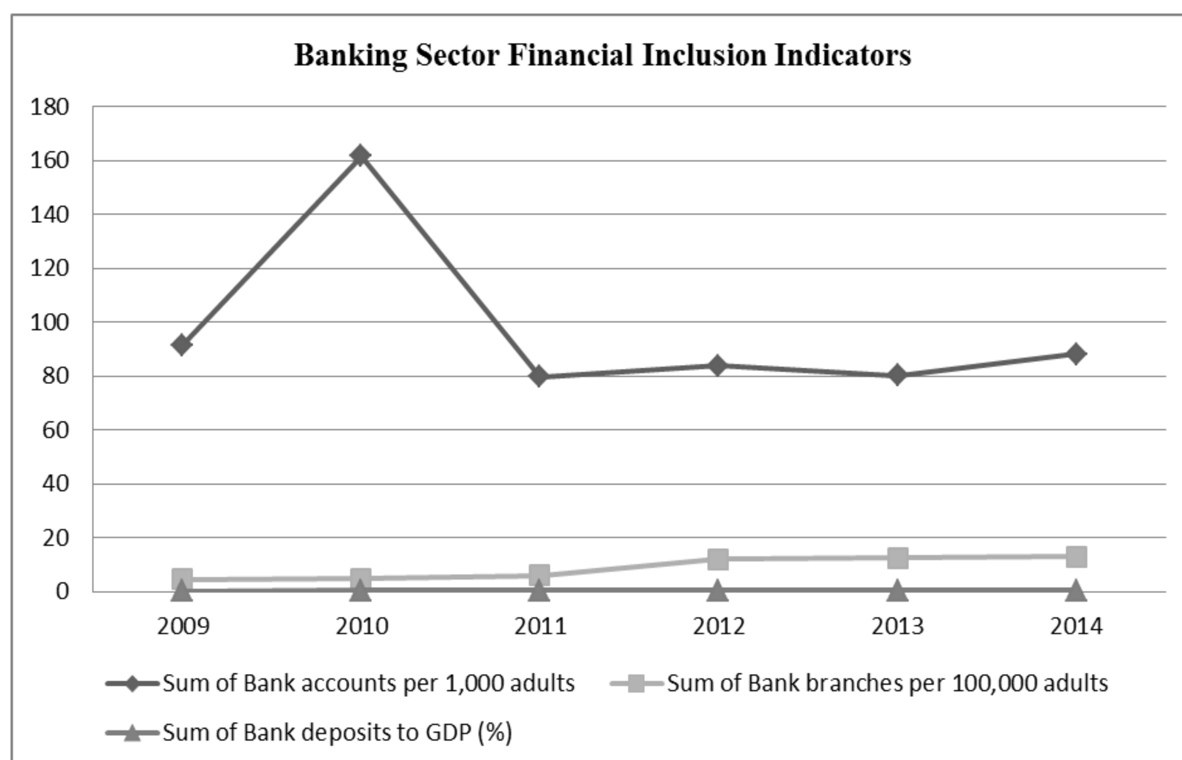
Figure 1: Zimbabwe`s Banking Sector Deposits since dollarization.



Source: Author *(Data collected from RBZ monetary policies)*
Table 3: Zimbabwe Financial Inclusion Indicators (% age 15+).

Financial Inclusion Indicator	2011	2014
Account at a financial institution	39.65	17.19
Credit card	6.46	1.83
Debit card	28.30	13.82
Main mode of withdrawal: ATM*	28.27	46.81
Main mode of withdrawal: bank agent*	0.68	1.48
Main mode of withdrawal: bank teller*	69.69	50.51
Saved at a financial institution	17.27	5.19
Source: Author (Data collected from World Bank`s Global Findex (Global Financial Inclusion database)). Note*(% with an account, age 15+).		

Figure 2: Zimbabwean Banking Sector Financial Inclusion indicators.



Source: Author (Data collected from World Bank`s Global Financial Development database (updated 06/24/2016).

Table 4: Zimbabwe`s banking sector ratios as at 31 December 2009.

	Net Interest Margin	**Net Interest to Total Income**	**PAT to Total Income**	**ROE**	**ROA**	**Cost to Income Ratio**	**Loans to Deposits Ratio**	**Capital Ratio**
Building Societies								
CBZ	3.5%	2.5%	13.5%	3.3%	2.2%	74.5%	74.8%	49.4%
CABS	2.9%	4.6%	52.9%	15.1%	8.5%	46.7%	61.5%	55.0%
ZB BS	7.5%	3.2%	19.5%	4.9%	3.5%	80.5%	36.9%	68.0%
FBC BS	3.8%	3.1%	1.8%	0.5%	0.4%	97.2%	116.8%	95.0%
Industry	3.3%	3.8%	35.4%	9.5%	5.9%	61.5%	62.6%	66.9%
Merchant Banks								
Interfin	5.5%	29.6%	33.5%	15.9%	4.2%	71.6%	105.0%	26.0%
Renaissance	3.8%	29.7%	-53.2%	-22.2%	-4.1%	150.1%	75.9%	24.9%
Premier	-10.0%	-4.1%	-3.3%	-2.4%	-0.4%	112.4%	18.5%	
Industry	4.3%	17.5%	1.9%	1.0%	0.2%	102.9%	69.4%	25.4%
Commercial Banks								
Stan chart	3.9%	8.2%	-16.6%	-15.8%	-1.4%	122.6%	20.9%	21.8%
Stanbic	3.2%	17.7%	25.5%	35.4%	3.3%	61.6%	84.7%	20.1%
Barclays	5.7%	6.6%	8.3%	4.5%	0.9%	98.4%	16.7%	44.0%
CBZ	4.3%	30.5%	23.2%	23.9%	1.9%	56.1%	68.0%	11.1%
MBCA	17.7%	64.2%	-1.0%	-1.2%	-0.1%	89.0%	66.7%	15.2%
Kingdom	10.8%	35.2%	-11.9%	-8.8%	-1.9%	110.1%	119.4%	17.0%
CFX	8.2%	35.8%	-239.1%	-25.6%	-18.8%	357.5%	256.3%	131.0%
ABC	9.3%	25.9%	13.9%	7.8%	1.6%	94.1%	29.4%	19.0%
FBC	14.7%	38.5%	7.2%	3.6%	0.8%	90.2%	37.2%	38.0%
TN	12.8%	35.1%	-42.7%	-12.7%	-4.0%	145.9%	39.3%	47.0%
Metropolitan	0.8%	1.0%	30.6%	10.3%	5.5%	63.3%	60.8%	56.2%
ZB	14.2%	31.5%	-37.2%	-17.0%	-4.3%	153.5%	41.5%	33.9%
IBC	7.7%	1.5%	-268.2%	-15.6%	-10.7%	498.9%	12.9%	9.1%
NMBZ	4.0%	9.5%	27.1%	27.2%	5.8%	88.2%	96.2%	26.2%
Industry	6.7%	24.9%	5.6%	4.1%	0.6%	90.5%	53.7%	35.0%
Savings Bank								
POSB	15.3%		-57%	-10.1%	123.6%33	22.0%		
Grand Total	6.5%	21.6%	7.4%	4.6%	0.9%	89.2%	54.7%	37.3%

Source: Author (Based on MMC Capital Investment Research-April 2010 data).

Studies have shown a correlation between good enterprise governance and the restoration of trust, liquidity and sustainable performance. The study shows that good enterprise governance has a positive relationship with most of the financial performance dimensions in the Zimbabwean banks. The results correspond with the McKinsey quarterly survey [14]. The findings are also in line with Brown and Caylor`s [53] assertion that there is a correlation between corporate governance and company performance. The results are similar to the contentions put forward by McKinsey and the 2001 Stanford University report on corporate governance in emerging markets [15] (Table 5).

Table 5: Zimbabwe`s individual bank total assets and market share as at 31 December 2009.

Bank	Total Assets	Market Share	Tier
CBZ	405,183,603	21.5%	1
Stanchart	269,867,259	14.3%	
Stanbic	201,387,000	10.7%	
Barclays	169,312,518	9.0%	
FBC	126,950,908	6.7%	
MBCA	91,099,133	4.8%	2
Kingdom	88,848,043	4.7%	
CABS	86,008,603	4.6%	
ZB	79,724,770	4.2%	
ABC	67,597,000	3.6%	
Interfin	44,412,694	2.4%	3
NMBZ	39,433,027	2.1%	
Renaissance	35,579,867	1.9%	
Premier	33,973,338	1.8%	
CBZ BS	33,373,943	1.8%	
Metropolitan	30,087,941	1.6%	
POSB	24,281,210	1.3%	
TN	20,219,981	1.1%	
ZB BS	18,270,177	1.0%	4
CFX	12,665,528	0.7%	
FBC BS	9,368,945	0.5%	
IBC	858,032	0.0%	
Total	1,888,503,520	100.0%	
Source: Author (Based on MMC Capital Investment Research-April 2010 data).			

These findings indicate that there is a strong relationship between good enterprise governance and sustainable performance and investor trust. Statistics from the RBZ show that the five big banks which are perceived to have good corporate governance structures contribute approximately 71% of the US$1.33 billion deposits as at 2009 leaving the remaining 21 banks scrounging for the 29%. Stanbic and NMBZ yielded

the best return to shareholders with ROE of 35% and 27% respectively whilst POSB and CFX lost shareholders money with ROE of -57% and -26% respectively as these were perceived to have low enterprise governance. Table 4 below provides a detailed summary.

CBZ bank was the biggest bank by assets in 2009 with more than a fifth (21.5%) of the total banking industry assets. FBC building society and IBC had total assets less than the required minimum capital of US$10 million as at 31 December 2009. The top five banks by deposits also had the largest total assets with a combined market share of 62% of the total banking industry assets as shown in Table 5 below.

The total banking industry had positive profits of US$32.6 million whilst total losses were US$16.3 million to give a combined industry profit of US$16.36 million which can be attributed to good enterprise governance.

It was found that despite a number of banks going under, the Zimbabwean banking industry managed to uphold high standards of enterprise governance during the financial crisis. This view is shown by the resilience of many banks as shown by their overall deposits and assets despite the financial crisis that saw the level of trust and confidence in the market dropping significantly. It was, however, argued that although the banking sector is proud of have around US$1.3 billion in deposits, another US$1 billion in approximation was being held by the informal sector due to mistrust and lack of confidence with the financial system. To Choruma [64], enterprise governance has undoubtedly improved in Zimbabwe over the last five years. He argues that the nation has made significant progress in creating awareness and raising corporate governance standards in all sectors of the economy. His arguments were centered on many organizations having basic enterprise governance structures such as a board of directors and board committees. However, although nationally Zimbabwe banking industry has made significant strides in embracing corporate governance reforms enshrined in international corporate governance codes, the nation still lag behind in many aspects. Good enterprise governance should not be a tick box approach. It is ethics based. Corporate governance should be driven by principles as opposed to instruction. As King [15] puts it, principle is better than instruction. What this means is that directors should adopt a principle-based governance approach. A principles based governance approach is about ethics and values; self-introspection; voluntary compliance; self-regulation and voluntary application of best practice principles.

The findings of this study also support Chansa and the Australian Prudential Regulatory Authority, who emphasize that bank failures are a result of poor enterprise governance. The fact that most bank failures in Zimbabwe between 2003 and 2009 was due to poor corporate governance, lack of adequate management, critical liquidity crisis, weak auditing and poor accounting systems, high reputation risk, engagement in non-banking activities in violation of the Zimbabwean Banking Act and structural flaws is also in tandem with the conclusions made by Bown and Caylor [53] and Doucouliagos and Hoque [33].

Poor enterprise governance in Zimbabwe saw the collapse of Trust Bank, Royal Bank, Barbican Bank, Time Bank and CFX bank between 2003 and 2009. This saw the amalgamation of Trust, Royal, Barbican banks into the Zimbabwe Allied Banking Group (ZABG) which later collapsed due to poor corporate governance. These corporate scandals have caused a lot of public anger at the failure of the governance systems to protect investor interests. This resulted in the lack of public trust, a decline in confidence in the integrity of the financial system and the overall loss of confidence in the manner in which the corporations are governed. Transactional relationships, pursuit of self-interest where raised as the causes of bank failures among other factors. This also led to the drastic fall in the number and value of transactions going through the banks as compared to the situation that prevailed in the late 1990s. This is a reflection of the state of the economy and also, to some extent, a lack of confidence by clients in the banking sector. The growth in the banking industry hinges on the players` ability to come up with innovative ideas to convince the public to channel their savings into the financial system as 78% of potential depositors in urban Zimbabwe are either keeping their cash outside the banking system. It is argued that 22% of Zimbabwe`s urban population operates accounts with commercial banks while a negligible 11% still transacts through building societies.

The research findings are in line with Brown and Caylor`s [53] examination on whether firms with weaker enterprise governance are less profitable than with stronger enterprise governance in which they found out that firms with weaker enterprise governance are less profitable. They have lower return on assets, lower return on average equity, lower return on average investment, lower return on equity, and lower return on investment than do firms with stronger governance. In support of their argument, Brown and Caylor [53] give International Business Machines Corp. (IBM) as an example which had a return on equity that was 70.75% above the industry average, and a net profit margin of 64.76% above the industry average. Occidental had a return on equity that was 29.31% above the industry average, and a net profit margin of 23.18% above the industry average. However, Sholodge had a return on equity that was 29.57% below the industry average and a net profit margin of 70.19% below the industry average. Media Bay had a return on equity that was 30.83% below the industry average, and a net profit margin of 5.84% below the industry average. IBM and Occidental are considered excellent examples of good enterprise governance whilst the reverse is true for Sholodge and Media Bay.

From the research, it seems as if, on the overall, enterprise governance is of greater relevance in developing countries and is so vital to economic recovery. This supports Arun and Turner [52] assertions on the importance of enterprise governance of banks in developing economies. The research findings show that enterprise governance has been of relevance to economic recovery as evidenced by bank deposits that increased by 35% during the last quarter of 2009 from US$1 billion to US$1.35 billion due to growth in business activity, increased confidence in the financial sector and raising industry capacity utilization. Loans and advances for the quarter grew by 39.6%, while loans to deposit ratio increased from 55.2% to 57.7%. The market weighted growth for the rest of the banks was 1.4%. The high deposit

growth rate has had a ripple effect on the stock exchange as evidenced by high and positive correlation of 80% between the growth rates of deposits and the indices, RBZ. The bank attributed the reasons for such strongly correlated growth to an increase in advances for working capital, thereby increasing capacity utilization of companies. Save for IBC, all other banks had capital ratios above the minimum regulatory requirement of 10%. In absolute terms, however, 10 out of the 22 reported banks had capital levels below the required US$12.5 million for commercial banks and US$10 million for merchant banks and building societies [65].

CONCLUSION

The purpose of this article was to examine the role of enterprise governance in restoring investor trust and liquidity in the banking industry in Zimbabwe. A descriptive examination was carried out through a review of related literature such as financial statements, company publications, annual reports, central bank reports and journal articles. In light of the findings of this study, enterprise governance has proved to be critical in restoring investor trust and boosting liquidity in the banking industry given the special characteristics of the sector. From the evidence gathered it leaves no doubt that corporate governance is a very important element in Zimbabwean banks if viability is to be attained. Good enterprise governance should not be a tick box approach. It should be ethics based. Corporate governance should be driven by principles as opposed to instruction [15]. Although the Zimbabwean banking industry upholds satisfactory corporate governance standards there is need for much improvement in compliance with international guidelines.

Figure 1 depicts an upsurge in total deposits from USD705.76 million in June 2009 to USD6 511.83 million in December 2016 through authorities argue that there is a corresponding share of foreign currency that is circulating in the informal sector of the economy due to lack of confidence and trust in the banking sector. The financial inclusion indicators dropped significantly from 2011 to 2014. For example, adults with an account at a financial institution dropped from 39.65% in 2011 to 17.19% in 2014 with credit card dropping from 6.46% in 2011 to 1.83% in 2014. Savings at a financial institution shows a significant drop from 17.27% in 2011 to 5.19% in 2014. Results of figure 2 depicts a significant rise from 2009 to 2010 before a sharp decline in 2011of accounts per 1 000 adults with bank deposits to GDP and bank branches per 100 000 adults trending below 20 from 2009 to 2014. According to World Bank [63], accounts are a key measure of financial inclusion because essentially all formal financial activity is tied to accounts. Worldwide, 12% of bank account holders save solely using methods other than bank accounts [63]. To World Bank [63], “the reasons for this include the high costs of actively using the account, such as balance and withdrawal fees, as well as costs associated with physical distance.

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