

Impact of Corporate Governance on Service Delivery in Murewa Rural District Council (MRDC), Zimbabwe

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Abstract

Past studies on corporate governance sought to outline the best practices in corporate governance and other related areas. However, a study on the impact of corporate governance on service delivery in rural local authorities, especially Murewa Rural District Council (MRDC) has never been done. Data was collected through questionnaires administered to MRDC management, staff, District Administrator and the Council Committee while a focus group discussion was held with MRDC staff and the Council chairperson. The study established that corporate governance has an impact on service delivery. The study also established that corporate governance at MRDC is hindered by structural and deliberate factors. Structural factors were policy and national in nature while deliberate factors were administrative and could be solved at local level. The study also noted that, Murewa RDC is doing its best in trying to adhere to best practices in corporate governance regardless of the militating factors. The research recommends that government should take a deliberate stance in resolving militating factors by coming up with minimum qualifications for councillors and a quota system for women representation in Council. There is a feasibility of coming up with a Code of Corporate Governance for Local Authorities in Zimbabwe.

Keywords: Agency, corporate governance, rural local authorities, service delivery, stakeholders, Zimbabwe.

1.0 Introduction

This study seeks to establish the relationship between corporate governance and service delivery in Zimbabwean rural local authorities. In this study, corporate governance is considered to consist of the following elements: audited books of accounts, size of the board, presence of female board members, duality of the CEO, education level of board members, working experience of the board, compensation of the board, duty to uphold the law, stewardship, openness, integrity, objectivity and selflessness. The research is set to evaluate the impact of corporate governance on service delivery in Murewa Rural District council with results being able to be inferred to other rural local authorities.

1.1 Background to the Study

Corporate governance issues are tropical issues both in the private and the public sector in Zimbabwe. The study will primarily focus on the relationship between corporate governance practices and organizational performance (service delivery). Many empirical studies have been conducted over the last two decades to ascertain the relationship between corporate governance and a firm's performance in the world. However, similar studies in the context of Zimbabwean rural local authorities have never been done. As such, this study aims to quantify the contribution of corporate governance to the performance of Zimbabwean Rural local authorities the case of Murewa Rural District Council.

Before independence there existed a dual system of local governance comprised of rural council serving the predominately white commercial farming areas and district Council serving the predominantly black communal areas. Thus rural councils were better financed and well managed as compared to the counters parts the district councils that were poorly financed and poorly managed by incompetent personnel. After 1980, notably in 1984 the Prime Minister's directive resulted in the amalgamation of rural councils and district council to form Rural District Councils and an Act of Parliament was enacted to regulate the affairs of the RDCs that the Rural District Council Act of 1988 revised in 1996. In Zimbabwe for that long, rural local authorities were creatures of statute, which is the Rural District Council Act (29:13) until 2013 when they were constitutionalized under the new constitution. The Principal Act for rural local authorities, which is the Rural District Council Act (29:13), confers 64 functions to rural local authorities. These 64 functions are the service delivery mandates conferred to these entities by central government. The strong emphasize on the study of the relationship between corporate governance and organizational performance has been triggered by the various corporate governance scandals that brought down big organizations to their knees. In recent years from the 1990s to date so many Rural local authorities are grappling with corporate governance issues ranging from mal-administration of Councils to corruption and greed but the extent to which how these vices has affected service delivery is yet to be fully studied.

Local authorities provide diverse services to both the private and the public corporates thereby providing a platform upon which other activities can ride and grow such as infrastructure development, water and sanitation, physical and land use planning. Despite the importance of such organizations in Zimbabwe they have been

performing beyond and below expectation due to financial challenges and general weakness arising from weak corporate governance enforcement mechanisms.(RBZ Report, 2003).

2.0 LITERATURE REVIEW

2.1 Introduction

In order to shape the focus and design of the study, the researcher carried out a review of national and international documents and research papers or articles in and around the area of corporate governance and service delivery in Zimbabwe and the world over. Of critical importance was the need for the researcher to be acquainted with the provisions of the Rural District Council's Act, prominent national and international audit reports on corporate governance notably the King 1, 2 and 3 Reports and the Nolan Report the Official Secrecy Act, National and International codes of corporate governance and the national constitution. This research makes use of Council sensitive data, thus there was need to understand the different Acts associated with information to be used.

2.1 THEORETICAL FRAMEWORK

2.1.1 The Agency theory

Most research on corporate governance was grounded on the agency theory. It emphasizes separation of ownership from control (Clarke, 2004). According to Mallin (2004), agents are managers, principals are the owners and the board acts as the monitoring mechanism. It is assumed if management is not controlled they will run with profits and resources. The theory assumes management is selfish and reluctant to forward the interest of principals hence they should be controlled and monitored.

2.1.2 The Stakeholder Theory

The stakeholder theory is one of the renowned corporate governance theories as it argues that, organizations do not operate in a vacuum but in the communities and society therefore should be responsible to the stakeholders. The theory also postulates that, the organisation has various and diverse stakeholders who have interest that should be balanced by the corporation (Clarke, 2004). Some of the stakeholders include ratepayers, employees, government, creditors and civic organisation. The stakeholder theory is valuable in exploring the importance of corporate governance in service delivery especially in organizations with multiple stakeholders like local authorities.

2.1.3 The Performance Prism Theory

On the service delivery aspect which is essentially performance the performance prism theory will be used. The performance prism framework has five facets, the top and bottom facets and three other facets (Adams and Andersen, 2015) The facets represent stakeholder satisfaction, stakeholder contribution, strategies, processes and capabilities (Adams and Andersen, 2015) The most important aspect in the performance prism is what the stakeholders expect from the organisation and what the organisation expects from the organisation. Corporate governance issues affect delivery of services to stakeholders.

2.2 CORPORATE GOVERNANCE OVERVIEW

Barrett (2002) postulates that corporate governance entails the following two areas which are the obligation of the board: Performance, being monitoring the performance of the firm through the CEO and compliance with legal, corporate governance, industry standards and accountability to relevant stakeholders.

2.3 CORPORATE GOVERNANCE AND LOCAL AUTHORITY PERFORMANCE.

Local authorities are entities created by governments all over the world to carry out mandates which by their nature do not attract investments (Peterson and Ferrell: 2005). At the same time the mandates are such that they cannot ordinarily be carried out by a government department.

Evidence from empirical studies has sought to confirm the effect of corporate governance on firm performance. Studies show that, the following characteristics are applied to corporate governance such as board size, presence of female board members, duality of CEOs, education level of the board, board working experience and board compensation.

Board Size: There are two different views on board size. Lipton and Lorsch (1992) argue that a small board is effective for organizational performance while Pfeffer *et al.* (1972), argue that a bigger board is effective as it brings in varied views needed for organizational performance.

Female Boards: Smith *et al.* (2006) recognized two possible explanations why boards with female members are effective. Females are viewed as being sensitive to community needs and are sensitive to changes in taste and style more as compared to their male counterparts.

Duality of the CEO: Doubling the CEO and chairperson positions was seen as compromising the effectiveness of the organizational performance. Duality of being CEO and board chair usually results in abuse of power and general organisation inefficiency. There should be a separation of duties between CEO and board

Chair.

Level of Education for board members: A board is a control mechanism in the organisation and provides strategic direction and guidance (Fama: 1996). Accordingly an educated board will be able to articulate issues better than uneducated boards.

Board Experience: It is argued that, board members with a higher average age and more working experience have much greater impact on organizational performance than younger boards. However at the extreme older age board members appears to be more aggressive and dictatorial in decision making thinking they know it all.

Multiple Board membership: Some prominent personalities seat in more than two boards whilst being CEO of other companies.

Board Compensation: One of the key objectives in modern corporate governance is to deal with the agency problem. The needs of management and that of the board are usually at variance. The board will maximize their return by paying less to management whilst management always seeks to increase their reward minimizing return for the board members.

The Cadbury Report (1992) Report of the committee on financial aspects of corporate governance outline three fundamental tenants of good corporate governance as:

Openness: An open approach is required to ensure all interested parties are confident in the organisation itself. Being open in the disclosure of information leads to effective and timely action and lends itself to necessary scrutiny.

Integrity: This is described as both straight forward dealing and completeness. It should be reflected in the honesty of an organization's annual report and its portrayal of a balanced view. The integrity of reports depends on the integrity of those who prepare and present them which, in turn, is a reflection of the professional standards within the organisation.

Accountability: This is the process whereby individuals are responsible for their actions. It is achieved by all parties having a clear understanding of those responsibilities, and having clearly defined roles through a robust structure.

3.0 RESEARCH METHODOLOGY

The research followed a descriptive methodology and employed the following: focus group discussions with council staff, councillors and district officers; direct observation and questionnaires. The research used information which was collected for other purposes and already existed in the information bureau archives, government sources which are reliable sources and normally refereed as mass communication documents (Dwivedi, 1998) and this included The Rural councils Act (Chapter 211 of 1974), The District Councils Act (Chapter 231 of 1974), The Rural District Councils Act (Chapter 29: 13) and statutory instruments and audit reports.

4.0 DATA ANALYSIS

4.1 RESPONDENTS CHARACTERISTICS

4.1.1 Location

Of the 30 wards in Murewa Rural District Council area there are 23 communal area wards, two wards in old indigenous farms, three wards in resettlement areas, and one township and one growth point.

4.1.2 Literacy

On average 60% of the respondents had a good appreciation of corporate governance. However the only concern is that some of the participants could not comprehend the subject matter. Corporate governance was found not to be a general subject to some of the participants. The study sample was constituted of 46% males and 54 % females representing national population distribution between males and females which is around 48% / 52 %.

4.1.3 Age

Respondents came from between below 30 years to more than 60 years across the.

4.1.4 Level of Education

All members of council staff responded have a minimum of a diploma in his field of work. Most respondents from the residents have acquired a minimum of Ordinary Level signifying the level of literacy in the country in general and Murewa RDC in particular.

4.2 PRESENTATION AND ANALYSIS OF FINDINGS

4.2.1 Age and Gender

Of the 45 questionnaires returned it was noted that 54% were from females and 46% were from males. Of the females 38% were of the 31-40 age range and 5% were of above 60 years. Of the males 34% were between the 31-40 age group and 5% were above 60 years of age.

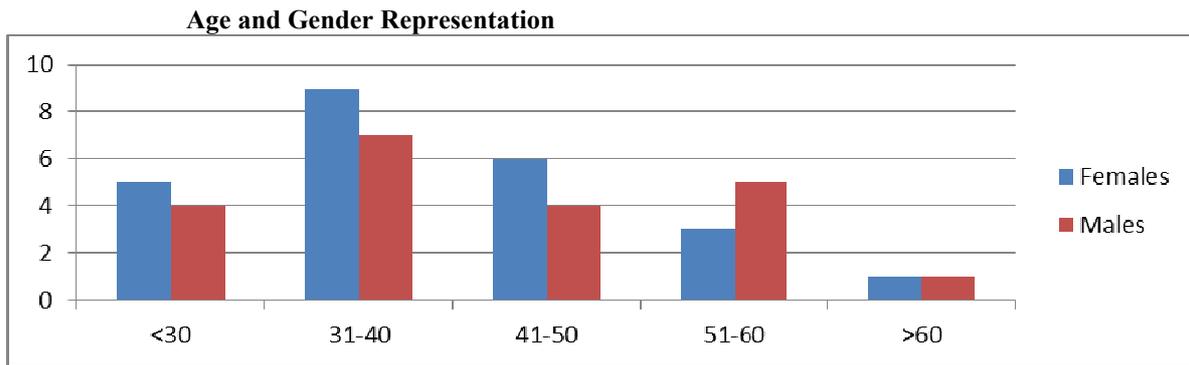


Figure 4.1: Age and Gender of Participants

As is shown on figure 4.1, females and males between the age group of 31-40 years were the major respondents, signifying their presence and dominance at the various workplaces and public spaces in the community. Females and males of above 60 years were the lowest participants also signifying their absence in the workplaces and public spaces in the community. However, women were the major respondents in the study as compared to men, representing their larger share even in terms of national population which currently stands at 52%.

4.3 Current service evaluation

One of the objectives of the study was to assess the impact of strategy implementation on service delivery by Murewa Rural District Council. In order to accomplish this objective, respondents were asked what they thought could be the resultant impact on service delivery, if the MRDC strategic plans were fully implemented. The following were results that were seen or expected from the elicited responses on the impact of strategic implementation.

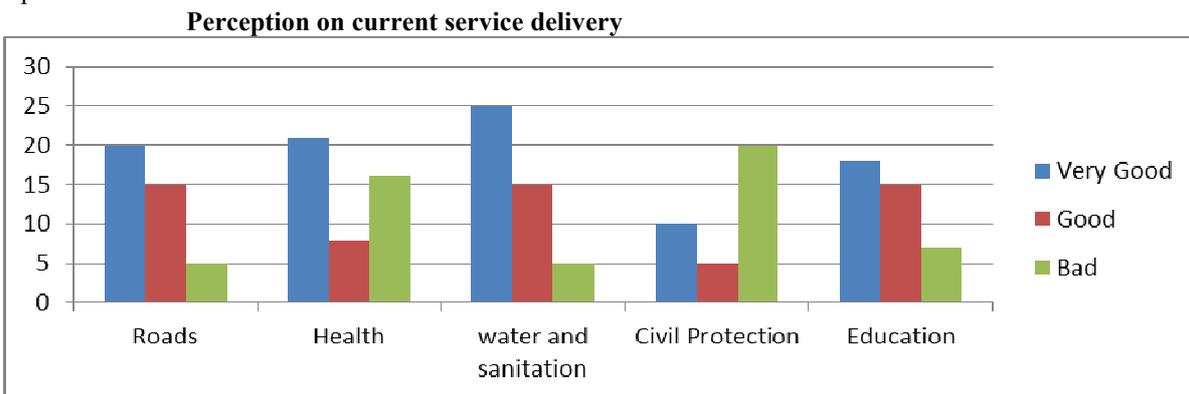


Figure 4.2 Perceptions on Current service delivery

The findings above show that most respondents viewed Murewa RDC as scoring good in terms of service delivery programmes ranging from provision of water and sanitation facilities, health, education and roads. However, most respondents felt that, council is not doing enough in terms of civil protection issues. The issue of civil protection was also noted as a concern at the focus group discussion where council acknowledged not having enough fiscal space to fund civil protection activities and it was noted the civil society organizations could assist to cover the vacuum.

4.4 CORPORATE GOVERNANCE COMPLIANCE

Perception on Corporate Governance Compliance

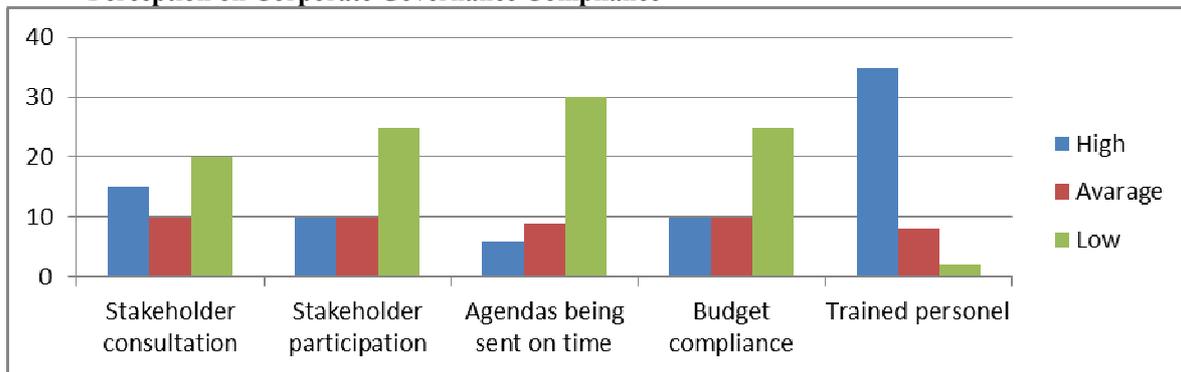


Figure: 4.3: Perception on corporate governance compliance

The findings above showed that, respondents rated council highly in terms of having enough trained personnel to champion corporate governance ethos in council. However council is being perceived as not doing enough in terms of stakeholder participation, stakeholder participation, meeting procedures and budget compliance. The areas council is being perceived as low are so critical that, at the focus group discussion councillors felt they are not getting their minutes and agendas in time to prepare for meetings. This will inevitably affect the quality of debate and decisions in council meetings.

4.5 Corporate governance systems and practices at Murewa RDC

The other objective of the study was to ascertain the corporate governance systems and practices being implemented at Murewa RDC. These were found to be:

accountability, responsibility, stakeholder, consultation, citizen participation, transparency, and fairness.

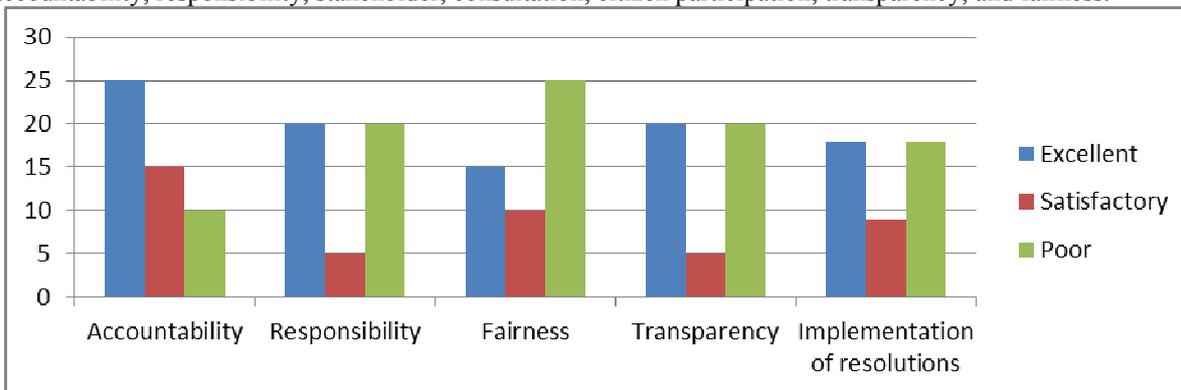


Figure: 4.4 Perception on pillars of corporate governance

Respondents felt that accountability was high at council as well as responsibility. However most participants felt council lacked fairness in their dealings with the public especially in the area of recruitment of casual labourers and repossession of stands. Implementation of resolutions was also observed to be weak at council. At the focus group discussion council official consented that implementation of resolutions might not be high mainly as a result of the budget not performing to meet the budgeted expenditures.

4.6 Board skill Matrix

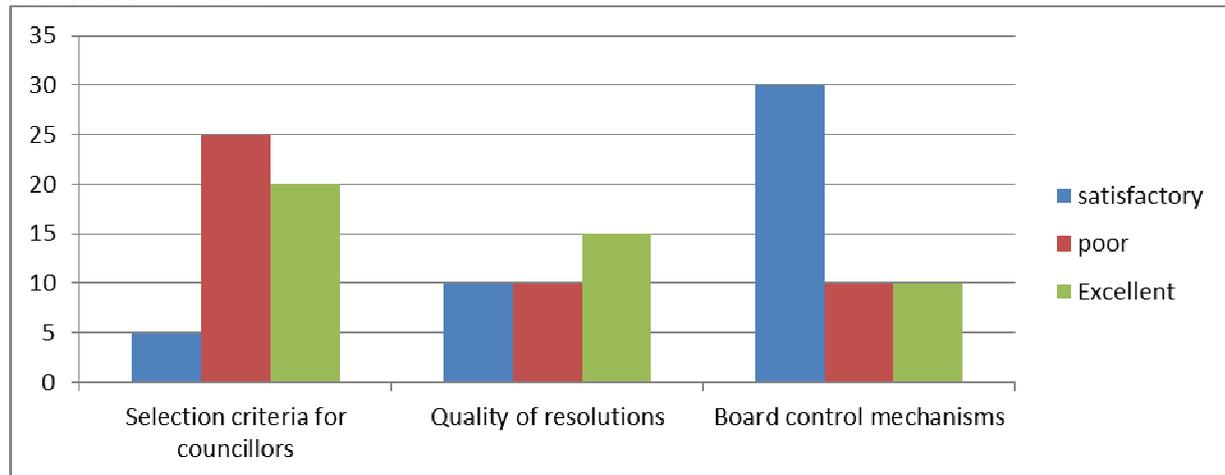


Figure 4.5: Board skills matrix

The above findings review that, respondents felt that board control mechanisms and quality of resolutions done by council were good even though as earlier noted the implementation of the said resolutions was poor. It was also reviewed from the findings that, the selection criteria for board members was very poor as there is no educational qualifications or experience required for one to be a councillors. They are just elected on the basis of popularity and sloganeering.

4.7 Relationship between corporate governance and service delivery

The other objective of the study was to ascertain the kind of relationship between corporate governance and service delivery at Murewa RDC. As will be noted the research showed a positive relationship between corporate governance and service delivery.

Relationship between corporate governance and service delivery

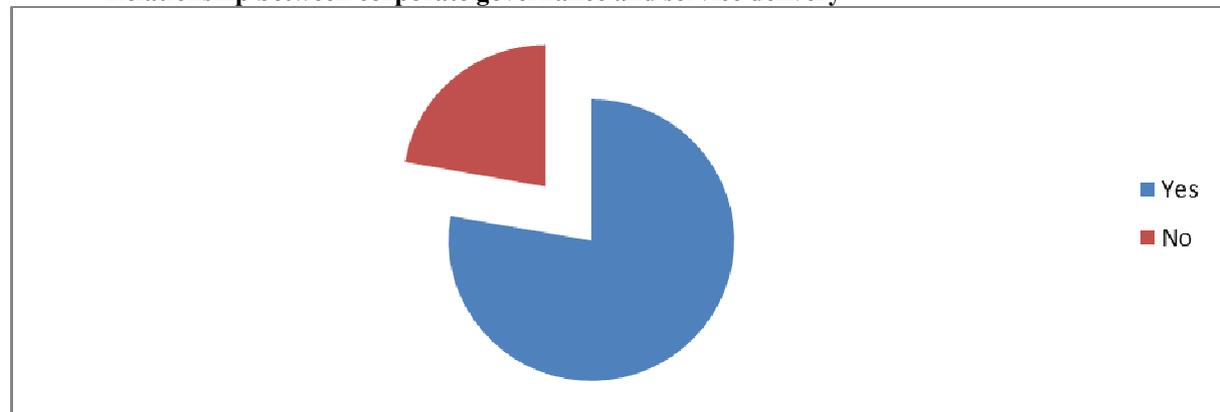


Figure 4.6: Is there any relation between corporate governance and service delivery

As is deduced from Figure 4.6 above 75% of the respondents felt that there is a strong relationship between corporate governance and service delivery.

Figure 4.7 shows that, there is a positive relationship between corporate governance and service delivery. As corporate governance compliance and adherence service delivery will be seen to be increasing. The focus group discussion held reviewed that there is a fish-borne relationship in terms of corporate governance and service delivery. For example when rate payers seems to feel that, there is accountability and transparency in the way council is handling their funds they will pay their due to council and council will be able to meet their service delivery mandate and when ratepayers feel there is no accountability and transparency in the way council is handling their funds they will be reluctant to pay their dues to council and service delivery will inevitably suffer.

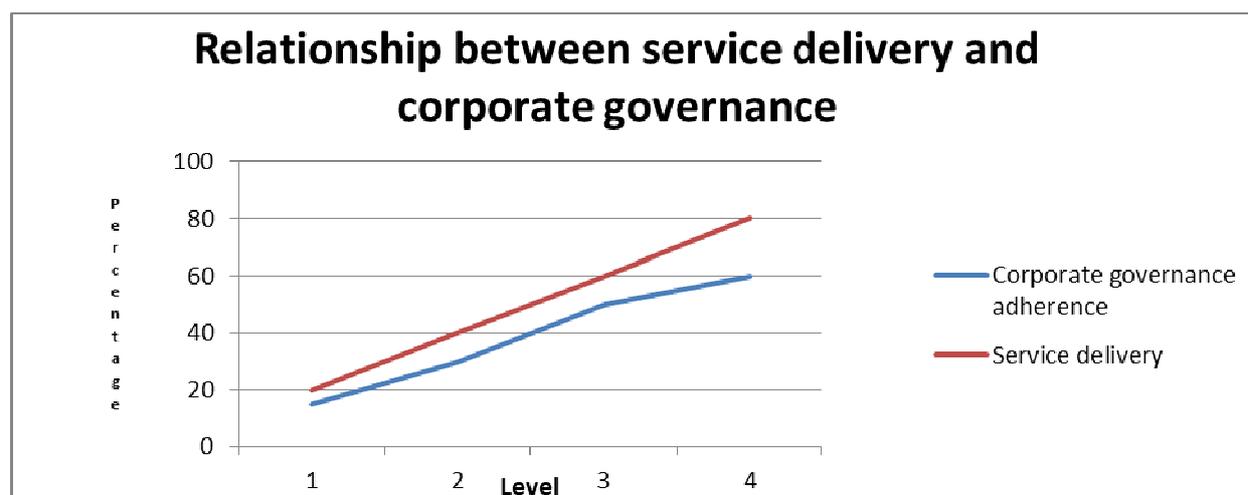


Figure 4.7: Relationship between corporate governance and service delivery

The above results also are in support of Nutt (1986) who had suggested that the tactics used in leadership styles especially with regards to adherence to corporate governance systems and practices may play important roles in overcoming obstructions that hinder provision of better service delivery programmes.

4.8 Hypotheses Testing

H₀: There is a relationship between service delivery and corporate governance at Murewa RDC.

H₁: There is no relationship between service delivery and corporate governance at Murewa RDC

Table 4.3: Contingency Table

CORPORATE GOVERNANCE	SERVICE DELIVERY		TOTAL
	HIGH	LOW	
HIGH	8	2	10
LOW	9	6	15
TOTAL	17	8	25

Since the P-value (5.76) is more than 3.841 at (0.05) significance level we can accept the null hypotheses, thus we conclude there is a relationship between corporate governance and service delivery at Murewa RDC, thus we accept H₀ and reject H₁.

4.9 Factors that enhance implementation of corporate governance systems at Murewa MRDC

The study sought to determine the factors that enhance implementation of best corporate governance systems and practices at Murewa Rural District Council. In order to establish these factors, respondents were asked to state these factors and the following were the major results:

Table 4.4: Factors enhancing corporate governance

Factors
Legal Provisions: some policies and practices in council are influenced by National policies not individual councils and might affect corporate governance systems and practices. For example the issue of separation of the roles of Chief Executive officer and Council Chair are commended.
Appointment of executives is above board as there is clear policies and circulars pertaining to qualification and experience of the various incumbents to those positions.
Availability of clear policies in Council. Murewa RDC has clear policies to be followed when discharging duties and this minimize risk for corruption. For example there are policies to do with allocation procedures for stands and even policies on recruitment and selection.
Experience of board members: Some board members come to council without any form of experience befitting the position of a board member who should provide strategic guidance to council.
Level of education of some board members: it was noted some board members are illiterate and it makes their supervisory role a challenging one.

4.10 Factors that hinder implementation of good corporate governance systems at MRDC The study also sought to determine the factors that hinder implementation of best corporate governance systems and practices at Murewa Rural District Council. In order to establish these factors, respondents were asked to state these factors and the following were the major results:

Table 4.5: Factors hindering corporate governance

Factors
Legal Provisions: some policies and practices in council are influenced by National policies not individual councils and might affect corporate governance systems and practices.
Selection criteria of Councillors; The selection criteria of councillors was noted to be another challenges affecting corporate governance in rural local authorities, According to Peterson R.A (2000),the board should provide strategic direction to council but one would wonder how an illiterate councillor voted on party ticket and sloganeering could be able to provide strategic direction to council. The net result will be management to make the decisions and the board will just rubber stamp them which also has an effect on agency issues.
Financial constraints: Lack of adequate financial support affect implementation of systems to improve corporate governance for example funding for capacity building programmes for board members.
Political will by elected official: Elected officials might not have the political will to make some robust decisions affecting corporate governance in local authorities. For example decisions remuneration of official is a thorny issue.
Agency problem: The issues of separation of ownership from control are topical issues in corporate governance. The research found out that on paper there is separation of ownership and control in rural local authorities however in practice the councillors have little say on the direction council should take as most of them are illiterate and fail to comprehend strategic planning issues. In the end management will assume ownership and control with the board playing a ceremonial role.
Level of education of some board members: It was noted that, some board members at Murewa RDC are semi illiterate. Some of them cannot read and write. This has a bearing on the quality of decisions made in the boardroom which later affect service delivery.
Experience of some board members: Some board members have no experience in leadership let alone leadership at a strategic level. Those without requisite experience are seen violating council procedures even meeting procedures and their contribution to council business will be severely affected.

5.0 Conclusion

From the findings of the research it can be concluded that there is a direct relationship between service delivery and corporate governance. When corporate governance systems and practices being observed service delivery will also be improve and when corporate governance adherence is poor, service delivery will also suffer due to bad vices of corruption, greed, nepotistic appointments and allocation of resources. Also when corporate governance is low ratepayers will be more likely not pay their dues to council and the revenue flows to council will dwindle inevitably leading to poor service delivery.

The following factors support corporate governance systems and practices at Murewa RDC: legal provisions, clear policies and circulars on appointment of senior executives of council, level of education of some board members who bring valuable advice and strategic direction to council and experience of some board members

It is also concluded that the following factors hinder adherence to best practices of corporate governance at Murewa RDC and other rural local authorities in general: legal provisions stifling decentralization and devolution, selection criteria of board members, level of education of board members and experience of board members

Recommendations

Government must put in place minimum qualifications for board of directors or councillors preferably those who can articulate strategic management issues.

The presence of female board members in the board improves the quality of decisions and even limit corrupt tendencies as women are risk averse. It was also noted that MRDC has just 5 women councillors out of the 30 councillors translating to 16,6%, which is too low. Thus government should set up a quota system for women board members in councils as it is done in parliament.

MRDC should promote stakeholder consultation and participation especially on formulation of by-laws and annual budgets.

Executives are advised to monitor the strategic plan and keep it alive by regular updates, examining its underlying assumptions and continued validity of its strategic objectives and the influence of unexpected eventualities, while staying committed and expanding skills through employee involvement and strategic alliances and partnerships.

Councils should change their auditors frequently preferably after three years as is good practice elsewhere.

Councils should develop capacity building programmes whereby board councillors are trained on various matters concerning corporate governance and the formulation of strategic plans.

Management of Councils should ensure that all information concerning council programmes is at the disposal of all stakeholders and be in format that is understandable by the people who would be involved in the implementation process.

Recommendations for Further Research

A recommendation for further research is proposed on the feasibility of having a code of corporate governance specifically for local authorities as they have peculiar working arrangements different from those in the public private sector or public sector in general.

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