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# Corporate Governance and Business Ethics Structural Failures for Kingdom Bank Africa Limited (KBAL) Botswana

Conelia Farai Mazhambe<sup>1\*</sup>

<sup>1</sup>*Department of Business Management, Baisago University, Botswana.*

## **Author's contribution**

*The sole author designed, analyzed, interpreted and prepared the manuscript.*

## **Article Information**

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## **ABSTRACT**

The thrust of this study is to investigate the corporate governance and business ethics structural failures for Kingdom Bank Africa Limited (KBAL) Botswana. The research reviewed various literature elaborating on the various causes of failure of corporate governance within KBAL. Both quantitative and qualitative methods manipulating both random and non random sampling methods were used to gather data in the form of questionnaire, telephone interviews of the cross sectional sampling frame from KBAL's top management to the banking clients. The triangulation methodology was employed for manipulating both probability and non-probability methods, research questions based on corporate governance report (Kings Report III – Raft principles), data collection techniques based on Descriptive statistics, and the electronic data analysis processing. The study revealed that majority of the respondents highlighted that they were no effective risk management policies set in place to provide proper guidelines against unethical conduct and insolvency. All efforts and stop gap measures by the shareholders to recapitalize the institution in order to comply with minimum capital requirements and maintain liquidity failed to yield positive results. Results also depict that the other reasons that contributed to the collapsing of the bank were non performing loans extended to top executives and serial debtors. The study also revealed that there was no full disclosure of remuneration and incentive schemes for key executives and

\*Corresponding author: E-mail: [conniemazh@gmail.com](mailto:conniemazh@gmail.com);

middle management, with reference to the best practice corporate governance reports. The research of KBAL therefore revealed that there was no evidence of at least implementing the corporate governance framework best practices to safeguard the new shareholders and the general banking public. Lack of accountability and non-disclosure of financial information took its heavy and negative toll on KBAL, thereby disadvantaging the banking clients and staff. This study therefore recommends a further study on KBAL Enterprise Risk Management (ERM) policies, the role of external auditors in the collapse of the bank and its resultant effect on the banking confidence in Botswana.

*Keywords: Corporate Governance; business ethics; Kingdom bank; Afrasia; unethical practice; Kings Report III; Enterprise Risk Management (ERM).*

## 1. INTRODUCTION

Corporate governance and structural failures have been neglected by many researchers in and many developing economies, especially that of banking and financial services sector [1]. Africa has been notably lagging behind [2] as compared to the Western and Eastern countries, in terms of development and effective implementation of respective country corporate governance and ethics codes. Traditionally distressed banks especially in Africa have been placed under curatorship first before being handed over for provisional liquidation and final liquidation. The Zimbabwe National Chamber of Commerce (ZNCC) in the 2015 publication [3], contended that the simple reason for curatorship placement is mainly a desperate attempt to try provide a new lease of life to an already failed, insolvent institution. Reality seems to be knocking on the minds of regulators, depositors and the public at large that only the appointed curators themselves seem to benefit from such schemes (RBZ, 2015) at the expense of depositors, and the banks themselves since they never resuscitate after the provisional management at curatorship level or even after intervention by the central banks. Kingdom Bank Africa Limited (KBAL) is an off-shore investment bank based in Botswana Investment and part of Botswana International Trade Centre (BITC), with strong linkages with former parent bank, Afrasia Holdings Zimbabwe Limited and the current major shareholder, Brotherhood Holdings Limited are all Zimbabwe based entities. According to Marcinkowska [4] the mismanagement of banks in Africa and the world at large seems to be evidently caused by lack of corporate governance and business ethical structures on the part of the banks, shareholders and executives, resulting in the short changing and negative impact on both the employees and the banking community at large. The gap

between information availability between the privileged and the remote body of shareholders, creates "conflict of interest" [5].

According to the Reserve Bank of Zimbabwe (RBZ) 2015 Monetary policy statement, "The primary purpose of placing the banking institution under curatorship was to protect depositors and preserve assets of the banking institution, with the intent of resuscitating the banking institution to become a viable concern". Afrasia Bank Zimbabwe, founded as Kingdom Financial Holdings by Nigel Chanakira has collapsed after the central bank confirmed the cancellation of its licence. Kingdom Financial Holdings Zimbabwe struggled financially for a lengthy period of time, headed by its founder, Mr N Chanakira and was resuscitated after a takeover by a Mauritius based Afrasia banking group. The group was then rebranded to Afrasia Zimbabwe. RBZ imposed mandatory capital requirements on the entire banking sector in 2012 and Kingdom Financial Holdings was one of the affected banks which failed to meet the new compliance requirements. Afrasia acquired 35% interest in Kingdom Financial Holdings for about US 9.5 million in 2012 ([www.sundaymail.co.zw](http://www.sundaymail.co.zw)) [6].

The bank was grossly undercapitalized and facing chronic liquidity challenges, it surrendered its licence to the RBZ and members of the public were alerted in an RBZ statement issued on 24 February 2015. The Reserve bank subsequently applied for the liquidation of the institution in terms of section 57 (1) of the Banking Act (chapter 24:20) after Afrasia surrendered to central bank regulator (Zimbabwe Companies Act Chapter 24:20) [7].

In a related regulatory development, the bank of Botswana streamlined and down-graded the capital requirement of commercial banks after it had mopped up excessive liquidity in the banking sector. The central bank executives confirmed

the declining profitability of banks caused by expenses increasing faster than income at different banking institutions. ([www.themidweeksun.co.bw](http://www.themidweeksun.co.bw)). According to the Monitor [8] the banking industry insiders in Botswana and Zimbabwe, KBAL liquidity and possible solvency matters largely stem from a shareholder dispute at its parent company in Harare, which resulted in the offshore bank losing US 17 million (P 161 million) in near crash financial instruments invested in a Zimbabwean parent bank. The Monitor (Monday, 16 February, 2015) further reported that, KBAL management made two unsuccessful attempts within a period of 3 months to voluntarily surrender the banking licence to the Bank of Botswana [8]. Lack of comprehensive effective internal controls and ethical culture practices in financial institutions has been blamed [9] as the main reason for bank failures. The United Nations Economic Commission for Africa [10] disclosed that corporate governance literature in Africa is limited and just emerging, in spite of the vast literature discussions in developed economies, and this is partially attributed to the fact that concept of corporations that separate ownership and control is fairly new and gaining momentum.

KBAL risk profile and management practices seems evidently deficient [11] and contributed to the placing of the bank under provisional liquidation, then liquidation, insolvency and finally to the cancellation of the banking licence by the central bank. KBAL level of compliance to the central bank minimum regulatory requirements seemed to be compromised, and the situation seems to be have been accelerated by the collapse of business ethics and corporate governance structures. This resulted in the negative impact on the credibility of the entire banking sector and eventually disadvantaging staff members and their banking clients [12]. This study therefore seeks to establish the extent of the level of compliance with minimum regulatory requirements of the central bank of Botswana, Enterprise Risk Management (ERM) structures and also to establish the extent of collapse of business ethics and corporate governance structures, and its result and effect towards the cancellation of the bank licence. The research objective is to evaluate the effectiveness of corporate government and ethical structures at KBAL, in line with corporate governance best practice report based on Kings III principles and to also investigate the extent to which the corporate government structural failure have contributed to the collapse of KBAL.

## 2. MATERIALS AND METHODOLOGY

This study is premised on a conceptual framework and has adopted the Agency Theory from a corporate governance perspective. Corporate governance is defined as accepted business practices in both public and private institutions, in a market economy, that govern relationships between corporate insiders and investors [13].

Agency Theory holds a central role in corporate governance literature. It describes the fundamental conflict between self-interested managers and owners [14], when the former have the control of the firm, but the latter bear most of the wealthy effects. Large shareholders are argued to monitor the management better than small shareholders as they internalize larger part of the monitoring costs and have sufficient voting power to influence corporate decisions. Agency Theory is largely concerned with articulating and harmonizing the conflicting interest of principals and agents. Jensen's and Mecklings [14] model on agency costs and ownership structure holds a central and conceptual role in corporate governance literature. According to the Kings report III [15] report it stipulates that, corporate leadership is characterised by ethical values of Responsibility, Accountability, Fairness and Transparency (RAFT), which constitutes good governance. The Agency Theory is the most appropriate theory which can be applied in this study, due to the perennial problems of separation and control currently prevailing in Africa. The study shall manipulate the core principles of RAFT on Kings Report III, which is more relevant to the southern African context.

Research questions explored during the course of the study:

1. To what extent did the collapse of KBAL business ethics and corporate government structures impact on the staff and banking clients?
2. What is the level of compliance of KBAL to the central Bank of Botswana minimum requirements and in terms of corporate governance best practices?

The descriptive function of research is heavily dependent on instrumentation for measurement and observation [16]. Descriptive survey method, sometimes called normative is appropriate for those data that are derived from simple

observational situation, whether they are physically observed or observed through the benefits of questionnaires or poll techniques (Leedy 2001;92). To obtain the results, qualitative and quantitative methods were employed. By applying quantitative methods, that is, simply a collection of numerical data to explain a particular phenomenon. In this approach, both the use of structured and unstructured open-ended questions based on random and non-random sampling were used, so as to minimize professional and researcher' bias. The use of structured questions on a large number of respondents where the research questions are predetermined were supported by Williman [17] who argued about their pivotal role. According to Williman [17], qualitative research seeks to understand the feeling and qualities of the respondents-In this case qualitative approach was then employed, in order to have a clear understanding of respondents views, qualities and experiences behind their reasoning. The quantitative research approach was conducted

using surveys and interview, as justified by Mounon [18].

In using both the quantitative and qualitative methods it bridges the gap between the weakness of the two methods, and also eliminates researcher's bias. Target population, also known as theoretical population [19] is the entire group of individuals or objects who can be used by the research for application purpose so as to draw conclusions. The target sampling frame population, selected randomly used for the study were the top management (4), middle management (10), branch managers (2), supervisors (8), tellers (12) and bank customers (15).

### 3. RESULTS AND DISCUSSION

There was an overwhelming response rate (79,6%), as depicted from the results gathered from the researcher administered questionnaires and Interviews As depicted from the results, The

**Table 1. Respondents variance analysis of KBAL top & middle managers and bank employees on RAFT principles (King Report III) and research questions**

Number	Respondents	Top and middle level executives	Bank employees
1	60%	79%	80%
2	54%	75%	71%
3	80%	76%	77%
4	78%	70%	69%
5	78%	78%	81%
6	60%	78%	80%
7	54%	78%	79%
8	55%	75%	76%
9	42%	71%	75%
10	70%	76%	75%
11	51%	72%	73%
12	68%	70%	69%
13	85%	80%	78%
15	60%	81%	80%
16	66%	71%	70%
17	78%	78%	78%
18	75%	76%	76%
19	84%	86%	86%
20	70%	69%	68%
21	85%	72%	72%
22	81%	80%	78%
23	78%	79%	79%
24	56%	76%	75%
25	79%	78%	78%
26	80%	83%	82%
27	84%	84%	86%
28	71%	69%	71%

**Table 2. Respondents variance analysis for KBAL executives and bank employees (Validity test: F- Test two sample for variance) based on descriptive statistics (Parametric data)**

	<b>KBAL top and middle executives</b>	<b>KBAL bank employees</b>
	<b>0.79</b>	<b>0.8</b>
Mean	0.765185185	0.765185185
Variance	0.002410541	0.002541311
Observations	27	27
Df	26	26
F	0.948542601	

**Table 3. KBAL respondents study on failure of RAFT principles (Kings Report III) and research questions**

	<b>Top executives</b>	<b>Middle executives</b>	<b>Managers</b>	<b>Employees</b>	<b>Customers</b>
Strongly agree	20%	48%	60%	70%	75%
Agree	19%	30%	15%	18%	10%
Indifferent / Not sure	15%	1%	5%	0%	0%
Disagree	1%	1%	3%	0%	5%
Strongly disagree	2%	0%	0%	0%	0%
Total	57%	80%	83%	88%	90%

Study sample frame population of 51 questionnaires [KBAL's top management (4), middle management (10), branch managers (2), supervisors (8), tellers (12) and bank customers (15)] had an overwhelming response rate of 79,6% which responded to research Questions (1) and (2) and cross referencing the KBAL failure to lack of adherence to the Kings III RAFT corporate governance frameworks and principles. The majority of the respondents highlighted that there were no effective Enterprise Risk Management (ERM) policies to mitigate insolvency and effective operational corporate governance structures in place to provide proper guidelines in the operation of the bank, to guard against ethical misconduct. These results are also consistent with the literature reviewed earlier in this research, and two(2) other possible justification factors have been revealed in this research, namely that of non-performing loans to executives and serial debtors, and also non or inadequate disclosure of the bank's financial performance. It is an unquestionable reality that the banking industry plays a fundamental role in the economic development through competent distribution of economic resources by means of financial intermediation, but with KBAL all desperate efforts and attempts by the new and existing shareholders to recapitalize the institution in compliance with the central bank minimum capital requirements have failed, mainly due to non-disclosure of financial information to both the new shareholder who made a new capital

injection and also to the banking public at large. Results also depicted that the other reason that contributed to the collapsing of KBAL were insider and non-performing loans extended to top executives and serial debtors. (The Monitor 2015). This is also in line with the scientific research conducted by Mazhambe [20] who revealed that management, choose to exploit their privileged position for private gain, by manipulating financial reporting in their favour. Remuneration and incentive schemes for key executives and also middle management, much debated in the Kings report III, or other corporate governance reports adopted internationally, do not appear to have been factored extensively in the KBAL official structures both at strategic and operational level.

#### 4. CONCLUSION

The research study of KBAL based on Kings report III (RAFT) principles, therefore revealed that ineffective corporate governance structures, inadequate risk management (ERM) assessment structures and profiles, and failure to benchmark with best practice corporate governance policies and structures currently in operation worldwide were among the major causes of the insolvency and finally cancellation of the banks license. There were also no sound solid evidence of at least implementation of corporate governance framework best practices to safeguard the new shareholders and the general banking public. Lack of accountability and non-disclosure of

financial information took its heavy and negative toll on KBAL, and the subsequent concealing of privileged financial information by internal and external auditors further contributed to the disadvantaging of the banking clients and staff. This study therefore recommends a further study on KBAL Enterprise Risk Management (ERM) policies, the role of external auditors in the collapse of the bank and its resultant effect on the banking confidence in Botswana.

### COMPETING INTERESTS

Author has declared that no competing interests exist.

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