

Corporate governance and business ethics structural failure for Kingdom Bank Africa Limited (KBAL) Botswana

ABSTRACT

The thrust of this study is to investigate the corporate governance and business ethics structural failure for Kingdom Bank Africa Limited (KBAL) Botswana. The research viewed various literature elaborating on the various causes of failure of corporate governance within KBAL. Both quantitative and qualitative methods were used to gather data in the form of questionnaire, telephone interviews from 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 and data collection techniques, 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 effective remuneration and incentive schemes for key executives and also middle management, that referenced 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 risk management policies, the role of external auditors in the collapse of the bank and its resultant effect on the banking confidence in Botswana.

Key Words : *Corporate Governance, Business Ethics, Kingdom Bank, Afriasia, Unethical practice*

1. INTRODUCTION

In many developing economies, corporate governance and structural failure issues in Africa have been neglected by many researchers, especially that of banks (Caprio and Levine, 2002). Traditionally distressed banks especially in Africa have been placed under curatorship first before being handed over for provisional liquidation and final liquidation. 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 who seem to benefit from such schemes at the expense of depositors, and the banks themselves never resuscitate after the provisional management at curatorship level or

even 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. 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.

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 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). 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 according 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.(www.herald.co.zw).

In a related regulatory development, the bank of Botswana streamlined and down-graded the capital requirement of commercial 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). According to 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 (Monitor; 2015).

KBAL risk profile and management practices seems was evidently deficient 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 resulting in the negative impact on the credibility of the entire banking sector and eventually disadvantaging staff members and their banking clients. This study therefore seeks to establish the extent of the level of compliance with minimum regulatory requirements of the central bank of Botswana, 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, and to also investigate the extent to which the corporate government structural failure have contributed to the collapse of KBAL.

77 **2. MATERIAL AND METHODOLOGY**

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80 This study is premised on a conceptual framework and has adopted the Agency Theory from
81 a corporate governance perspective. Agency Theory holds a central role in corporate
82 governance literature. It describes the fundamental conflict between self-interested
83 managers and owners, when the former have the control of the firm, but the latter bear most
84 of the wealthy effects. Large shareholders are argued to monitor the management better
85 than small shareholders as they internalize larger part of the monitoring costs and have
86 sufficient voting power to influence corporate decisions. Agency Theory is largely concerned
87 with articulating and harmonizing the conflicting interest of principals and agents. Jensen's
88 and Mecklings (1976) model on agency costs and ownership structure holds a central and
89 conceptual role in corporate governance literature.

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91 The descriptive function of research is heavily dependent on instrumentation for
92 measurement and observation (Borg and Gall, 1989). Descriptive survey method, sometimes
93 called normative is appropriate for those data that are derived from simple observational
94 situation, whether they are physically observed or observed through the benefits of
95 questionnaires or poll techniques (Leedy 2001;92). To obtain the results, qualitative and
96 quantitative methods were employed. By applying quantitative methods, that is, simply a
97 collection of numerical data to explain a particular phenomenon. In this approach, both the
98 use of structured and unstructured open-ended questions were used, so as to minimize
99 professional and researcher bias. The use of structured questions on a large number of
100 respondents where the research questions are predetermined were supported by Williman
101 (2011) who argued about their pivotal role. According to Williman (2011), qualitative
102 research seeks to understand the feeling and qualities of the respondents-In this case
103 qualitative approach was then employed, in order to have a clear understanding of
104 respondents views, qualities and experiences behind their reasoning. The quantitative
105 research approach was conducted using surveys and interview, as justified by Mounon
106 (2001).

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108 In using both the quantitative and qualitative methods it bridges the gap between the
109 weakness of the two methods, and also eliminates researcher's bias. Target population, also
110 known as theoretical population (Castillo, 2009) is the entire group of individuals or objects
111 who can be used by the research for application purpose so as to draw conclusions. The
112 target population used for the study were the top management (4), middle
113 management(10),branch managers(2), supervisors(8), tellers(12) and bank customers(15).

TABLE 1

Number	F TEST FOR TWO SAMPLES OF VARIANCE (Kingdom Bank Botswana Top Executives)		
	Respondents	Top and Middle level Executives	Bank Employees

UNDER PEER REVIEW

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
F-Test Two-Sample for Variances

	Top and Middle Executives	Bank Employees
	0.79	0.8
Mean	0.765185185	0.765185185
Variance	0.002410541	0.002541311
Observations	27	27
Df	26	26
F	0.948542601	

TABLE 3 STUDY RESPONDENTS

Column1	Column2	Column3	Column4	Column5	Column6
	Top Executives	Middle Executives	Managers	Employees	Customers
Strongly Agree	60%	68%	80%	85%	80%
Agree	19%	30%	10%	10%	10%
Indifferent / Not sure	10%	1%	5%	2%	0%
Disagree	8%	1%	3%	2%	10%
Strongly Disagree	3%	0%	2%	1%	0%
TOTAL	100%	100%	100%	100%	100%

3. RESULTS AND DISCUSSION

As depicted from the results, KBAL's failure to adhere to the corporate governance frameworks and principles shows and revealed that the majority of the respondents highlighted that they were no effective risk management 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. 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 in KBAL all desperate efforts and attempts by the new and existing shareholders to recapitalize the institution in compliance with the 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. Remuneration and incentive schemes for key executives and also middle management, much debated in the OECD (2004), does not appear equally relevant in the bank.

4. CONCLUSION

The research study of KBAL therefore revealed that ineffective corporate governance structures, inadequate risk management assessment structures and profiles, and failure to benchmark with best practice corporate governance policies and structures currently in operation worldwide were the major causes of the insolvency and finally cancellation of the banks license. There was 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 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 risk management policies, the role of external auditors in the collapse of the bank and its resultant effect on the banking confidence in Botswana.

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