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Corporate Governance Practices in Commercial Banking Sector of Malawi: Evidence from Annual Reports

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Abstract

Effective corporate governance practices are essential to achieving and maintaining the public trust and confidence in the banking system, as a result they are critical to the proper functioning of the banking sector and economy as a whole. However, little attention has being given to corporate governance of banking sector especially in developing economies. The study examines corporate governance practices of commercial banks in a developing country by measuring the level of corporate governance related disclosures in the annual reports in light of the corporate governance guidelines for Banks. Using a corporate governance disclosure index the study results give an overall disclosure score of 0.69 indicating that on average 69% of the items of disclosure were actually disclosed in the annual reports of the sampled banks. The overall score is a comforting and good sign of progress by the banks. The study apart from providing insight and evidence of the extent of corporate governance practices of banks in developing countries, it further highlights to the regulators and practitioners in the banking industry of existing gaps that need filling in order to fully comply with the corporate governance guidelines for banks in Malawi.

JEL classification numbers: G34
Keywords: Corporate governance, corporate governance disclosure index, commercial banks, Malawi

1 Introduction

Although corporate governance is essential to all sectors of the economy, it is however crucial to the banking sector due to the sector's critical role and impact on the entire economy. According to Hambrick et al. (2008), not only do the constituents of banking sector stand to gain or lose due the quality and nature of corporate governance therein, but the entire national systems can be propelled or stymied as well. "The health of the economy

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is closely related to the soundness of its banking sector" (Katrodia, 2012). Consequently, Handley-Schachler et al. (2007) posited that banks require different and more extensive corporate governance arrangements. Arun and Turner (2004) also argued that the unique nature of the bank both in the developed or developing world requires a broad view of corporate governance to be adopted for banks.

Banks generally occupy a special position of trust in the national economy (Reserve bank of Malawi, 2010). According to Bank for International Settlements (2010) effective corporate governance practices are essential to achieving and maintaining the public trust and confidence in the banking system, hence critical to the proper functioning of the banking sector and economy as a whole. Weak corporate governance system have the capacity to undermining stability of the banking system, leading to a loss of confidence in the ability of the banks to properly manage their assets and liabilities, including deposits and possible runs on banks affecting adversely the economy's enterprise and household sectors (Mustafa et al., 2009; Bank for International Settlements, 2010). In fact weak and ineffective corporate governance mechanisms in banks have been pointed out as the main factor that contributed to the recent global financial crisis (Marcinkowska, 2012).

At present there is no universally accepted definition of corporate governance, however different definitions exist analysing specific aspects of corporate governance (Talamo, 2011). The majority of the definitions articulated in national and international codes tend to relate corporate governance to control and to supervision of the company or of management or of managerial conduct (Talamo, 2011). Cadbury committee defined corporate governance as "the system by which companies are directed and controlled" (Cadbury, 1992). The Organisation for Economic Cooperation and Development (OECD) defined it as "the structure through which company objectives are set and the means of attaining those objectives and monitoring performance" (OECD, 2004). Researchers have also endeavoured to define corporate governance, for instance Hambrick *et al*., (2008) described it as the structures and processes by which an organization's assets and activities are overseen. Donker and Zahir (2008) referred it as the internal and external monitoring mechanisms that have an impact on the decision of managers in the context of separation of ownership and control. From the banking industry perspective, Bank for International Settlements (2010) described corporate governance as involving the allocation of authority and responsibilities, i.e. the manner in which the business and affairs of a bank are governed by its board and senior management.

According to Onakoya et al. (2012) corporate governance is about building credibility, ensuring transparency and accountability as well maintaining an effective channel of information disclosure that fosters good corporate performance. The current study examines corporate governance practices in commercial banks by measuring the level of corporate governance related disclosures in the annual reports of the banks. Both international and national corporate governance codes require disclosures of the corporate governance measures being undertaken as a means of promoting corporate transparency and accountability (Adekoya, 2011) and permitting stakeholder evaluation of the adequacy and effectiveness of the corporate governance in the organisations. Thus Bank for International Settlements (2010) state that:

> *"Timely public disclosure is desirable on a bank's public website, in its annual and periodic financial reports or by other appropriate forms. It is good practice that an annual corporate governance-specific and comprehensive statement is in a clearly identifiable section of the annual report depending on the applicable*

> *financial reporting framework. All material developments that arise between regular reports should be disclosed without undue delay."*

The study focuses on banking sector of developing country on African continent for three major reasons. Firstly, even though the ideals of good corporate governance have been adopted by developing countries since the 1980s (Mulili and Wong, 2011), most of the numerous studies have been carried out in developed countries with minimal research done on developing countries (Tsamenyi et al., 2007). Okeahalam (2004) asserted also that corporate governance is under-researched in Africa thus according to Abor and Fiador (2013) it is still in budding stage. Therefore there is dearth of literature on corporate governance relating both to developing countries and Africa. Secondly, Okeahalam (2004) intimated that there is an urgent need to embark on meaningful analysis and development of policy on corporate governance in Africa. Mulili and Wong (2011) also intimated the need to develop corporate governance models that consider the conditions in each developing country that are not directly borrowed from developed countries. This is the case because developing countries face different needs and demands when compared with their counterparts in the developed world, hence, their institutions and structures should be expected to differ (West, 2009). Furthermore, Adegbite and Amaeshi (2010) stated that the path to achieving good corporate governance may differ from one country to another given that countries face issues which may require specific approaches to address them. As a result, specific studies are needed to provide meaningful analysis and empirical information in order to develop polices that promote effective corporate governance practices that are in harmony with contextual factors.

Lastly, in addition to the minimal corporate governance research in developing world generally, furthermore there is little attention being given to corporate governance particularly of banking sector (Caprio and Levine, 2002 cited in Arun and Turner, 2004). However, Arun and Turner (2004) stated that:

> *"The corporate governance of banks in developing economies is important for several reasons. First, banks have an overwhelmingly dominant position in developing-economy financial systems, and are extremely important engines of economic growth.... 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 liberalised their banking systems through privatisation/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 study is therefore significant as it contributes to literature by providing empirical evidence of extent of corporate governance practices of commercial banks in developing countries. It furthermore empirically informs the policy makers and practitioners in the banking industry particularly in Malawi of the current status of corporate governance, the gaps that need filling in order to have a robust system of corporate governance.

The remainder of the paper is structured as follows. Section 2 reviews prior studies on corporate governance in developing countries and banking sector, corporate governance disclosures and the theoretical framework. It is followed by Section 3, which briefly discusses the methodology employed and Section 4 presents the results of the analysis and further discussions. Finally, Section 5 concludes the paper.

2 Literature review

2.1 Corporate Governance

Currently, corporate governance is a buzzword in the business world (Mulili and Wong, 2011) and an evolving field which have gained popularity (Adekoya, 2011). It is acknowledged to play an important role in the management of organizations (Mulili and Wong, 2011). Nevertheless it is under-researched in Africa (Okeahalam, 2004) and in developing countries (Tsamenyi et al., 2007). This section reviews available studies that were carried out in developing countries and banking sector examining different aspects of corporate governance.

Mulili and Wong (2011) studied the concept of corporate governance from a historical perspective focusing on public universities in Kenya. They explored how the agency theory and stewardship theory affect corporate governance practices. Through an extensive review of literature they found three major issues. Firstly, despite the ideals of good corporate governance have been adopted by developing countries since the 1980s, there was little research in the area. Secondly, there are myriad challenges or areas in need of reforms. Thirdly, corporate governance practices used in developed countries are not directly applicable in developing countries. Therefore they intimated the need for more research and development of corporate governance model appropriate to the conditions in developing countries.

Wanyama et al. (2009) investigated perceptions about corporate governance practices in the developing African nation of Uganda. The findings suggested that pervasive corruption and weaknesses in underlying frameworks have hampered attempts to improve practice. The results further indicated that mere emergence of detailed governance codes in developing countries does not necessarily mean that de facto practices will improve. Related results were found in Nigeria. Adekoya (2011) discovered that some of the challenges to corporate governance reforms in Nigeria stemmed from the country's culture of institutionalised corruption and political patronage which was characterised by weak regulatory frameworks and refusal of government agencies to enforce and monitor compliance. Besides, the complexity of these challenges were found to be compounded by the wide spread poverty and high unemployment which discourages a culture of whistle blowing.

West (2009) on the other hand, reviewed the developments in South African corporate governance since the end of apartheid, with a view to identifying themes and points of convergence and/or divergence with other models. The results showed that South African corporate governance broadly followed the Anglo-American examples with the notable exception of stakeholder inclusiveness introduced by the two King reports. However, it was noted that there had not been any substantial incorporation of stakeholder interests into formal corporate governance structures such as board structure and financial reporting.

In relation to the corporate governance in banking sector, Arun and Turner (2004) examined the corporate governance of banks in developing economies in the context of ongoing banking reforms. The study showed that development of effective corporate governance is incumbent on the enabling regulatory regime and national policies. Thus, based on a theoretical discussion they suggested full implementation of prudential regulatory system as prerequisite for banking reforms and increased competition resulting from the entrance of foreign banks as one factor that may improve the corporate governance of developing-economy banks.

Adams and Mehran (2003) carried out a comparative study between banking and manufacturing firms. They analyzed a range of corporate governance variables relating to a sample of bank holding companies (BHCs) and manufacturing firms. They found that BHCs had larger boards and that the percentage of outside directors on their boards was significantly higher. Furthermore, BHC boards have more committees and meet slightly more frequently. On the other hand, they found that the proportion of CEO stock option pay to salary plus bonuses as well as the percentage and market value of direct equity holdings are smaller for BHCs and that fewer institutions hold shares of BHCs relative to shares of manufacturing firms, and the institutions hold a smaller percentage of a BHC's equity. They interpreted these observed differences in variables as a suggestion that governance structures are industry specific.

2.2 Corporate Governance Disclosures

Corporate governance generally aims at promoting corporate transparency and accountability (Adekoya 2011). According to Donker and Zahir (2008) any model or a governance structure must entail the four basic ingredients that include accountability and transparency. Katrodia (2012) posited that disclosure and transparency are key pillars of a corporate governance framework because they provide all the stakeholders with the information necessary to judge whether their interests are being taken care of. The disclosures are not only important to an individual firm, but also are critical for the functioning of an efficient capital market (Enofe and Isiavwe, 2012). Organizations usually provide disclosure through regulated financial reports, including the financial statements, footnotes, management discussion and analysis, and other regulatory filings (Enofe and Isiavwe, 2012). Public disclosures may also be made on website (Bank for International Settlements, 2010).

Studies have been carried out examining corporate governance practices by measuring the amount and quality of the corporate governance disclosures and factors which influences the level of disclosure in developing countries and others in relation to banks. Other studies evaluated relative disclosure levels between the banking sector and other sectors. Ntim et al. (2012) investigated the effect of the new shareholder and stakeholder corporate governance disclosure rules on firm value, as well as the relative value relevance of disclosing good corporate governance practices on shareholders versus stakeholders in South Africa. It was found that disclosing good corporate governance practices on both shareholders and stakeholders impacts positively on firm value. However, the results suggested that disclosing shareholder corporate governance practices contributes significantly more to firm value than stakeholder ones.

Tsamenyi et al. (2007) used disclosure scores to examine corporate governance practices of Ghanaian listed firms. They further examined the extent to which factors such as ownership structure, dispersion of shareholding, firm size, and leverage influence disclosure practices. They found that the level of disclosure in Ghana was generally low. Furthermore, they found that ownership structure, dispersion of shareholding, and firm size had significant effect on corporate governance disclosure. However, insignificant correlation was found between disclosure and leverage. Enofe and Isiavwe (2012) examined the extent to which banks in Nigeria comply with best practices in the performance of the financial accounting cum disclosure function with a special focus on corporate governance and corporate disclosure. The results showed that banks in Nigeria had generally maintained a high standard of information disclosure for the year 2010. The findings also indicated that board size, board independence and financial experience had a significant influence on the disclosure of information in the annual reports.

A number of comparatively disclosure studies have also been carried out. Mustafa et al. (2009) investigated the quality of corporate governance in the financial institutions (banks and insurance companies) in Kosovo. The results suggested that both banks and insurance companies were very diligent about issues related to transparency and disclosure; however banks in general published more information than do insurance companies. In India on other hand, Katrodia (2012) found that Indian banks were far behind their foreign counterparts in disclosing information to the public. Darmadi (2011) explored corporate governance disclosure in annual reports of Islamic commercial banks in Indonesia. It was found that Bank Muamalat and Bank Syariah Mandiri, the country’s two largest and oldest Islamic commercial banks, score higher than their peers. Further analysis of corporate governance disclosure dimensions, found that disclosures relating to board members and risk management were strong and on the other hand disclosures on internal control and board committees were generally weak.

A wider disclosure study was conducted by Othman (2012) relating to Africa. The study examined the impact of the board structure and process disclosure (BSPD) level on corporate performance, depending on the Anglophone vs. Francophone business culture prevailing in African emerging markets. The BSPD score was measured by searching 220 annual reports for information of 35 items from 11 emerging markets in Africa. The results showed that African companies from countries having historical links with Great Britain exhibit substantially higher BSPD scores than those from countries having historical links with France. Furthermore it was found that the influence of BSPD level on corporate performance was more pronounced for financial Anglophone African companies than non-financial Anglophone African companies.

In summary, the forgoing review indicates a wide range of research angles that have taken in attempting to study the concept of corporate governance. The review has tackled corporate governance generally and corporate governance disclosures focusing on prior studies from banking sector and developing countries. It can be observed that no study from Malawi was reviewed; however there is recognition of the importance of corporate governance of banks and related disclosure in annual reports by the supervisory authorities of the banking industry. The central bank in Malawi issued corporate governance guidelines for banks in 2010 setting out the corporate governance framework for the banks operating in Malawi. One of the provisions is that the banks in Malawi should be making appropriate disclosures to facilitate market discipline (Reserve Bank of Malawi, 2010). The guidelines further direct the board to demand integrity both in financial reporting and in timeliness, accuracy and balance of disclosures on the affairs of the banks.

2.3 Conceptual Framework

The study is premised on the stakeholder’s theory. The theory presumes that organizations serve a broader social purpose than just maximizing the wealth of shareholders (Mulili and Wong, 2011). Organisations are seen as nexus of incomplete contracts with diverse transaction partners, including shareholders, creditors, employees, suppliers, and customers

(Hambrick *et al*., 2008). The stakeholder theory which is also called stewardship theory assumes also that board of directors and the CEO, acting as stewards, are more motivated to act in the best interests of the firm rather than for their own selfish interests (Mulili and Wong, 2011).

Banks have far more stakeholders with different and often diverging interests (Kalezić, 2012). The success of the banks is incumbent on their ability to balance the conflicting demands of their various stakeholders (Tandanu and Wibowo, 2008). As a result performance is judged by their knack to add value for all their stakeholders (Mulili and Wong, 2011). The corporate governance guidelines for banks in Malawi therefore require banks in Malawi to include in their annual report information of how they have served the interests of their stakeholders (Reserve Bank of Malawi, 2010). Considering the interests of all stakeholders is therefore considered as essential to governance. Katrodia (2012) posited that "corporate governance philosophy of banks has to be based on pursuit of sound business ethics and strong professionalism that aligns the interests of all stakeholders and the society". Hence Talamo (2011) stated that:

> *"Corporate governance is increasingly concerned with the role of stakeholders and its impact on the collective welfare of. This is a long-term approach to defining corporate governance and takes account of the interests of both shareholders and stakeholders. Therefore, the content of corporate governance has to be extended to include also responsible corporate governance that is about balancing the legitimate interests of all stakeholders involved, with ethics and sustainable growth being of fundamental importance."*

3 Methodology

3.1 Sampling and Data Collection

The sample frame for the study was made up of all the commercial banks that were operating in the year 2011 in Malawi. According Reserve Bank of Malawi (2011) there were eleven commercial banks operating. The sample however comprised the banks that presented the full version of the copy of the annual report on their website. All the eleven banks has website but only five (5) presented their 2011 annual report online representing 45% of the population. The sample size is acceptable as according to Belal (2001) cited in Masud and Hossain (2012) for descriptive studies, a minimum acceptable size is considered to be ten (10) percent of the population.

Data was collected from the downloaded annual reports of the commercial banks. Annual reports are considered as the common and popular means of communication to stakeholders (Masud and Hossain, 2012). Furthermore according to Enofe and Isiavwe (2012) the published financial statements in general and for banks in particular remain the primary means of informing shareholders and other users about the financial performance, progress and position of the business. Furthermore, Othman (2012) observed that annual reports are increasingly providing narrative information including a significant section on governance practices, and more particularly, on the activity and characteristics of the board of directors. Besides corporate governance guidelines for banks operating in Malawi requires corporate governance disclosures to be included in the annual reports (Reserve Bank of Malawi, 2010).

3.2 Data Analysis

A disclosure score sheet was designed to score the sampled banks on their level of disclosure (Tsamenyi et al., 2007). Corporate governance disclosure index (CGDI) was used to measure the level of disclosure consistent with other related studies such as (Tsamenyi et al., 2007; Darmadi 2011; Othman, 2012). CGDI was constructed by modifying the index that was used by Tsamenyi et al. (2007) in light of the corporate governance guidelines for banks in Malawi. According to the corporate governance guidelines, annual reports for banks should accurately make disclosures in the following areas:

- *Basic organisational structure; major share ownership and voting rights, beneficial ownership, major shareholder participation on the board or in senior management positions;*
- *Board and senior management structure with qualifications and experience;*
- *Nature and extent of transactions with affiliates and related parties including any institutional matters for which members of the board or senior management have material interests either directly, indirectly or on behalf of third parties;*
- *Remuneration policy for members of the board and information about board members, including their qualifications, the selection process, other company directorships and whether they are regarded as independent by the board; and*
- *Foreseeable risk factors.*
- *Information of their activities, performance and how they have served the interests of their stakeholders.*
- *The nature and extent of their social activities, ethical, safety, health and environmental management policies and practices.* (Reserve Bank of Malawi, 2010)

Furthermore the general code of best practice for corporate governance in Malawi specifically highlights issues relating to the board, related party transactions, risk management and internal controls, ethics, good citizenship, sustainability, external communication, integrated reporting and auditing (Institute of Directors – Malawi, 2010). Marcinkowska (2012) also presented that key aspects requiring attention relating to enhancement of corporate governance are the role, constitution and accountability of board, risk management, management remuneration, and transparency.
The CGDI contains 33 disclosure items (see Table 1) divided into three categories namely: ownership structure (4), financial transparency and information disclosure (18) and board and management structure and processes (11). The index is the ratio of the actual disclosure score to the expected disclosure score (Boolaky, 2011). The level of disclosure was determined by the following formula:

$$CGDI = TD/M = \sum_{1}^{m} d_i \Big/ \sum_{1}^{n} d_i$$

Where:
CGDI= Total Corporate Governance Disclosure Index;
TD= Total Corporate Governance Disclosure Score;
M= Maximum Corporate Governance Disclosure score.
d= item of disclosure;

m=actual number of relevant disclosure items and
n = number of items expected to be disclosed.

Each item of disclosure was scored on a binary basis for objectivity, and an overall score assigned from the number of attributes present out of the 33 information items in the annual report (Tsamenyi et al., 2007). The item scored one (1) if it was disclosed in the annual report and zero (0) if not disclosed (Hossain and Reaz, 2007).

Table 1: Corporate Governance Disclosure Items

A: Ownership structure
Does the annual report contain:
1. A description of the share ownership
2. A list of largest shareholders
3. Number of shares held by largest shareholders
4. List of and number of shares held by directors
B: Financial transparency and information disclosure
Does the annual report contain information on:
1. The company's accounting policy
2. Consistency with international accounting standards
3. Performance ratios/indicators (e.g. ROE/ROA)
4. External auditor's fees
5. Social responsibility
6. Corporate governance statement and awareness
7. Five year financial summary
8. Forward looking information
9. Qualitative historical information
10. Foreseeable risk factors
11. Statement certifying board's risk management ability
12. Chairman's statement
13. Managing director's review
14. Director's report
15. Value added statement/information
16. Compliance to the code of ethics
17. Adherence to RBM corporate governance guidelines
18. Attestation of the adequacy of Internal controls
C: Board and management structure and processes
Does annual report contain:
1. List of board members
2. List of board committees
3. Audit committee
4. Board Attendance
5. Board performance evaluation
6. Details of director remuneration on an individual basis
7. Related party transactions
8. Separation of chairman and CEO
9. Information on board directors qualifications and experience
10. Information on senior management qualifications and experience
11. Changes in board directors

4 Main Findings and Discussion

The study employed mainly three levels of analysis of the corporate governance scores namely: the overall scores for all the banks, scores by bank and scores by item. This section presents the results of the analysis and the discussion.

4.1 Corporate Governance Overall Scores

Table 2 presents the overall corporate governance scores for individual corporate governance category and the average score all the sampled banks. The table shows that all the sample banks made some sort of corporate governance disclosures in all the three corporate governance categories in their annual reports. Furthermore in all the categories there was at least an item that was disclosed by all the banks indicated by the maximum scores of 1s. Besides in all categories two third of the items of disclosure were disclosed exhibited by the average scores of above 66% for all of them.

The overall disclosure score was 0.69 indicating that on average 69% of the items were actually disclosed by the sampled banks. The score is comforting and a good sign of the considerable effort that the banks are undertaking towards achieving information symmetry with external stakeholders with respect to corporate governance.

Table 2: Levels of disclosure of the Sampled Banks

CG Categories	Percentages of disclosing Banks	Minimum	Maximum	CG Score
Ownership structure	100%	0.60	1.00	0.80
Financial transparency and information disclosure	100%	0	1.00	0.68
Board and management structure and processes	100%	0	1.00	0.67
Overall CSR Score				**0.69**

4.2 Corporate Governance Scores by Bank

Figure 1 presents the corporate governance scores for each individual sampled bank. It can be observed that the highest bank score 0.82 and the lowest scored 0.45. The figure further indicate that 80% of the banks had a score of equal or greater than 0.7. The results tend to confirm that banks individually are making considerable efforts towards ensuring corporate transparency.

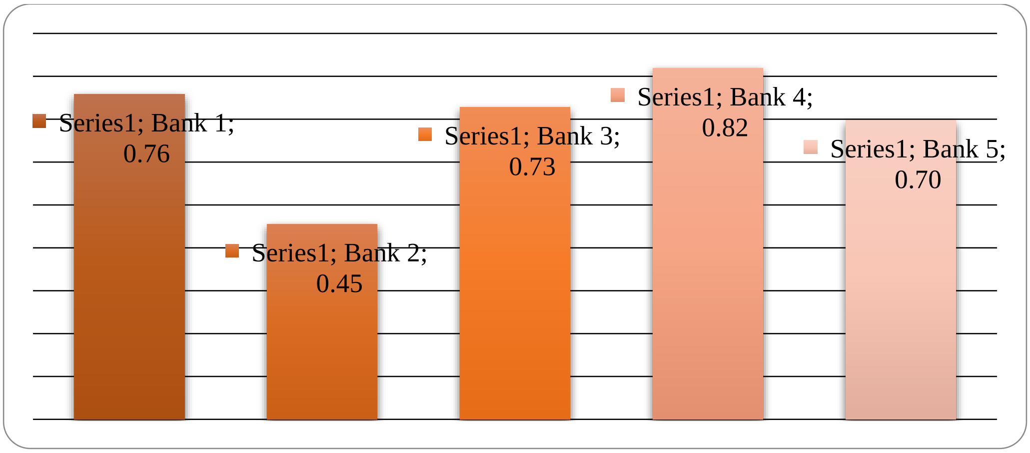

Figure 1: CG score by bank

4.3 Corporate Governance Scores by Item

Corporate governance score by item show the level of disclosure on individual item basis. Appendix presents the scores of all the disclosable items making up the index. However, this section highlights specifically the items that obtained the maximum score (1) and those that had the lowest score (0).

Table 3 presents items that were disclosed by all the sampled commercial banks. The table exhibits that out of the 33 items of disclosure about a third (10) were disclosed in the annual reports of all the sampled banks. It can be noted that out of the four items under ownership structure category only one (1) was disclosed by all the banks. Under financial transparency and information disclosure out of the eighteen expected items, five (5) achieved 100% disclosure, whereas under board and management structure and processes only four (4) items achieved 100% out of twelve items.

Table 3: 100% disclosure

Item under Ownership structure
1. A description of the share ownership
Items under Financial transparency and information disclosure
2. The company's accounting policy
3. Consistency with international accounting standards
4. Foreseeable risk factors
5. Statement indicating board's risk management ability
6. Director's report
Items under Board and management structure and processes
1. List of board members
2. Audit committee
3. Related party transactions
4. Separation of chairman and CEO

Table 4 presents item that were not disclosed by all the sampled banks. It can be observed that only three items (9%) were not disclosed by any of the sampled banks in their annual reports. The items are "value added statement/information" and "attestation of the effectiveness of the internal control system" under financial transparency and information disclosure category and "details of director remuneration on individual basis" under board and management structure and processes category.

Table 4: 0% disclosure

Items under Financial transparency and information disclosure
1. Value added statement/information
2. Attestation of the effectiveness of Internal control system
Items under Board and management structure and processes
1. Details of director remuneration on an individual basis

It should be noted that the corporate governance guidelines for banks in Malawi provide that the board should attest by a statement on the effectiveness of the system of internal controls in the annual report (Reserve Bank Malawi, 2010). Analysis of all the annual reports found not statement to that effect. The statements relating to internal controls in the annual reports were basically statements by directors accepting responsibility over the internal controls and their desire for effectiveness. Following are two classic examples of the statements extracted from the annual reports of the banks:

> *"The directors are.... responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for maintaining adequate accounting records and an effective system of risk management. The Directors' responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances" (Bank A)*

> *"The directors have the responsibility of maintaining a system of internal controls which provides reasonable assurance that the Bank has effective and efficient systems with sound internal financial controls governing all the operations of the bank in line with best practice. The system of internal controls also ensures that there is compliance with laws and regulations" (Bank B).*

Furthermore the guidelines requires every institution to provide full disclosure in the annual report of director remuneration on an individual basis, giving details of earnings, share options, restraint payments and any other benefits (Reserve Bank Malawi, 2010). The provision was hardly followed by the sampled banks. Disclosures of remunerations were made only on total basis.

4.4 Corporate Governance Disclosure Items of Interest

This section is a discussion of items worth noting in line with the corporate governance guidelines for banks in Malawi. The guidelines emphasise some specific important provisions requiring explicit disclosures in the annual reports of the banks in Malawi. The discussion is made by isolating the specific items however under their respective corporate governance category.

4.4.1 Under board structure and processes disclosures

Board structure and processes of an organisation is a sub-category of interest to corporate governance disclosures. This is so because at the helm of the organisation is the board of directors and it is not merely part of corporate governance system, but also an enabling arm. Hambrick et al. (2008) referred corporate governance to the formal structures, informal structures, and processes that exist in oversight roles and responsibilities in the corporate context. The key role of the board of directors is oversight over day to day management of the organisation hence it is key to the strength of corporate governance particularly within the organisation.

According to Abor and Fiador (2013) important board characteristics include the size of the board, the composition of the board, and the role of the CEO. However it is not numbers of the directors per se that is important, but rather the effective integration of the skills and knowledge base of the board with the company's needs at any particular point in time (Kiel and Nicholson, 2003). A number of studies suggest that a diversified and well-balanced board of directors can significantly enhance a firm's performance (Okeahalam, 2004). Organisations are therefore required to disclose all relevant information on the board of directors including composition, training, compensation and evaluation, etc. (Othman, 2012). Othman (2012) state that this type of disclosure helps to convey valuable information to the capital market, to enable it to assess the appropriateness and effectiveness of each firm's board of directors, more specifically, they reduces asymmetries between insiders and outsiders.

Reserve Bank Malawi (2010) therefore provides that the annual report of banks should include information on the name, age, experience, education, affiliation, and committee membership of each director of the board. Furthermore it requires every director to make all efforts to attend all board meetings and that the attendances should be disclosed in the annual report. Besides, the guidelines require that at the annual general meeting, a review of the suitability of every director who has failed to attend at least 75% of board meetings. An evaluation of the effectiveness of the board is also required to be conducted annually and disclosed in the annual report that this has been done (Reserve Bank Malawi, 2010).

Table 5 presents the scores relating to the board structure and processes disclosures. It can be observed that out of the nine items only three items scored the maximum mark (1); these are 'list of board members', 'audit committee' and 'separation of chairman and CEO'. This means that all the sampled banks disclosed the names of their board members, presence of the audit committee and that the chairman and chief executive officer are different individuals.

On the other end no bank disclosed the details of director remuneration on an individual basis as required by the guidelines. However they all disclosed the remuneration in total, which is in compliance with international accounting standard (IAS) number 24 *Related party transactions* (International Accounting Standards Board, 2012). Furthermore, disclosure relating to board performance evaluation scored low (0.2), indicating that only a single sampled banks disclosed the fact that annually the performance of the board is evaluated.

Table 5: Board structure and processes disclosure items

	CG Score
List of board members	1.0
List of board committees	0.8
Audit committee	1.0
Board Attendance	0.6
Board performance evaluation	0.2
Details of director remuneration on an individual basis	0.0
Separation of chairman and CEO	1.0
Information on board directors qualifications and experience	0.6
Changes in board directors	0.8

4.4.2 Under financial transparency and information disclosures

The guidelines (Reserve Bank Malawi, 2010) require the banks to disclose in their annual report the nature and extent of their social activities, ethical, safety, health and environmental management policies and practices. They further stipulate that annual accounts should include information of the bank's corporate social responsibility and activities both negative and positive. Table 6 indicates that four of the five (80%) sampled banks provide some explicit disclosures regard their corporate social responsibility. All the four banks had a dedicated section discussing corporate social responsibilities within the annual reports however they were generally positive.

The guidelines further require the banks to publish their code of ethics and make disclosures in the annual report about the steps taken to comply with the code (Reserve Bank Malawi, 2010). Table 6 shows that only two banks made such disclosure.

The final issue to note is the requirement of the guidelines for the banks to state in the annual report whether the corporate governance guidelines have been adhered to or, reasons for non-compliance (Reserve Bank Malawi, 2010). Table 6 exhibits that only one sampled bank stated in the annual report of their adherence to the guidelines.

Table 6: Financial transparency and information disclosure items

	CG Score
Social responsibility	0.8
Compliance to the bank's code of ethics	0.4
Adherence to RBM corporate governance guidelines	0.2

This section has highlighted especially to the practitioners in the banking industry of Malawi, some areas relating corporate governance disclosures that need improvement in order to fully comply with the corporate governance guidelines. It is incumbent upon individual banks to familiarise themselves with the guidelines and precisely follow them.

5 Conclusion

Although corporate governance structures in developing countries are weak (Mulili and Wong, 2011), the study indicates that the commercial banks in Malawi have adopted the ideals of corporate governance and are making considerable effort to adhere to corporate governance requirements. The study sheds more light on the level of corporate governance disclosure and transparency by the commercial banks in Malawi. It further empirically informs stakeholders of the existing gaps that need filling in order to have a robust corporate governance system. Good corporate governance can be promoted through the collective efforts of all relevant stakeholders especially regulators and professional bodies (Adegbite, 2012), hence this is a call for action to all the stakeholders. As it has been mentioned, gainers and losers with respect to the quality and nature of corporate governance are not only the individual banks but entire national systems (Hambrick et al., 2008).

The limitations of the study include the fact that it is a single year study; there is need for longitudinal studies in order to examine the trend to appreciate the degree of progress. The other limitation is the fact that the study examined only for the presence or absence of information relating to the given disclosure item in the annual reports. It felt short to further evaluate the quality of the disclosures. Future studies should consider measuring even the quality of corporate governance disclosures.

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Appendix

Corporate Governance Score Results

A: Ownership structure	**CG Score**
1. A description of the share ownership	1.0
2. A list of largest shareholders	0.8
3. Number of shares held by largest shareholders	0.6
4. List of and number of shares held by directors	0.8
B: Financial transparency and information disclosure	
1. The company’s accounting policy	1.0
2. Consistency with international accounting standards	1.0
3. Performance ratios/indicators (e.g. ROE/ROA)	0.8
4. External auditor's fees	0.8
5. Social responsibility	0.8
6. Corporate governance statement and awareness	0.8
7. Three (or more) year financial summary	0.4
8. Forward looking information	0.8
9. Qualitative historical information	0.8
10. Foreseeable risk factors	1.0
11. Statement indicating board's risk management ability	1.0
12. Chairman’s statement	0.8
13. Managing director’s review	0.6
14. Director's report	1.0
15. Value added statement/information	0.0
16. Compliance to the bank's code of ethics	0.4
17. Adherence to RBM corporate governance guidelines	0.2
18. Attestation of the adequacy of Internal controls	0.0
C: Board and management structure and processes	
1. List of board members	1.0
2. List of board committees	0.8
3. Audit committee	1.0
4. Board Attendance	0.6
5. Board performance evaluation	0.2
6. Details of director remuneration on an individual basis	0.0
7. Related party transactions	1.0
8. Separation of chairman and CEO	1.0
9. Information on board directors qualifications and experience	0.6
10. Information on senior management qualifications and experience	0.4
11. Changes in board directors	0.8