**INSTITUTE OF CHARTERED SECRETARIES AND ADMINISTRATORS IN ZIMBABWE**

**ANNUAL EXCELLENCE IN CORPORATE GOVERNANCE AWARDS**

# ADJUDICATION REPORT 2016

## Introduction

The 2016 Excellence in Corporate Governance Awards were presided over by a Panel of eight adjudicators who used the **ICSAZ Corporate Governance Scorecards** to evaluate corporate governance practices as disclosed in annual reports of qualifying entities under three major categories;

- ***Zimbabwe Stock Exchange (ZSE)-listed companies;***
- ***Banking Institutions and;***
- ***State-owned Enterprises & Parastatals (SEPs).***

ZSE-listed companies were evaluated under three sub-categories namely ***Shareholder Treatment, Stakeholder Practices & Sustainability Reporting and Board Practices***.

Banking Institutions were evaluated under three subcategories of ***Governance, Risk Management and Internal Audit Disclosures***.

The SEPs were evaluated were for one category of ***Corporate Governance Practices.***

## Qualifying entities

All companies listed on the Zimbabwe Stock Exchange were eligible for evaluation. The population of such companies was 58 as per the listed companies. Companies with secondary listing on the ZSE and which did not publish sufficient corporate governance reports on their Zimbabwean operations were excluded. There were two such companies. Three counters were new listings and they did not have the 2015 annual reports on the ZSE website. These were also excluded. Therefore, a total of 53 ZSE-listed companies were evaluated for the 2016 Awards, down from 57 companies last year.

For the Banking Institutions category, 15 banks were evaluated for the 2016 Awards, the same number as last year.

A total of 97 entities under the State Enterprises and Parastatals (SEPs) category were eligible for evaluation. The adjudication team faced challenges in obtaining information for evaluating State Enterprises and Parastatals. The majority of SEPs do not have up-to-date annual reports from which the adjudicators could obtain the necessary information for adjudication. The Institute wrote letters to all the 97 SEPs inviting them to submit their 2015 annual reports. The deadline to submit the annual reports was 31 July 2016. Only six 2015 annual reports were received by the 31 July deadline. The deadline was extended to 31 October with limited responses received. This therefore resulted in the Adjudication Panel evaluating only 10 SEPs out a population of 97 SEPs for the 2016 Awards. One report was disqualified for late submission. The evaluation was based on the 2015 annual reports.

**The Adjudication Process**

The adjudication process involved going through publicly available sources of information which mainly comprised of 2015 annual reports and other publicly available governance-related information. The adjudicators used this information to score **evaluation questions** posed by the Institute in the various **Corporate Governance Scorecards**.

. In awarding scores to participants, adjudicators were looking for evidence of the following:

1) Innovative and informative forms of disclosure which moved away from 'box-ticking';
2) Comprehensive explanations of departure from expected best practice;
3) The integration of governance into the strategy and day-to-day operations and decision-making of the company;
4) An indication of comprehensive understanding of the link between corporate power, responsibility and shareholder value creation;
5) Prioritization of governance issues in corporate reporting as indicated by the inclusion of a Corporate Governance Statement with a coherent cross-referencing to other sections in the Annual Report;
6) Demonstration of a holistic board thinking that had due regard for different stakeholder priorities;

7) Evidence of all forms of organisational compliance by preparing and presenting a 'qualifying' statement to that effect;
8) The existence of fully functional board committees with well-documented charters; and,
9) Directors' observance of their statutory duties, including meeting attendance.

**<u>The Major Highlights from the Adjudication Process</u>**

**Zimbabwe Stock Exchange-Listed Companies**

A total of 53 annual reports were evaluated this year, down from 57 companies evaluated in 2015. The number of active participants from the bourse continues to decline. When the awards started in 2013, a total of 60 companies were evaluated. The 2015 annual reports for the following companies were not available:

- CFI Holdings Limited,
- TSL Limited,
- Pelhams Limited, and
- Zeco Holdings Limited.

**<u>Shareholder Treatment:</u>**

Under this category, the objective was to look at how well the companies were upholding and protecting shareholder rights. The major focus was on the quality and quantity of information that companies supply to their shareholders and relevance. The main question which adjudicators posed and tried to answer using published information was, **'Do companies provide sufficient and timely information to shareholders to enable them to make decisions about their investments?'**

The adjudication exercise revealed that there is very little disclosure in the following areas;

- <u>Dividend policy;</u>
    - The majority of companies do not disclose the existence of any dividend policy which they follow in distributing returns to their owners.
- <u>Policy on directors' remuneration;</u>
    - . As reported last year, there was basically no detailed disclosure on directors' remuneration as required by best corporate governance practice. The Adjudication

Panel however observed that companies with ZSE and other foreign listings generally had more detailed disclosures on directors' remuneration and thus scored highly in this area. The local stock exchange regulations may need to address this shortcoming in reporting.

- <u>Management's shareholding</u>
  - There has been improvement in this area. However, most companies were disclosing management shareholdings which lacked detailed breakdown to allow users to assess beneficial ownership.

Generally, the Adjudication Panel observed that companies tend to be following some reporting templates year in and year out without serious efforts to disclose relevant information to shareholders. Companies did not make efforts to change their practices as evidenced by lack of new disclosures. Shareholder participation in the market remains low and the chances that companies will undergo disclosure reforms to benefit outside shareholders without regulators' intervention require improvement.

**<u>Stakeholder Practices and Sustainability Reporting</u>**

This category aimed at assessing the **sustainable treatment of the wider stakeholder groups**. The main focus was to assess how participants reported the impact of their operations on the wider spectrum of stakeholders and the natural environment.

The adjudication process revealed the following issues;

- Most companies reported that they applied international sustainability reporting standards but failed to comply with these requirements. Such reporting may be considered misleading to users.
- The Adjudicators noted that International Financial Reporting Standards (IFRSs) are being used to suffocate good corporate reporting. It was observed that more than 80% of the information contained in many annual reports is mainly financial and IFRS notes. The balance between financial and no-financial information in reporting is poor.

- The state of sustainability reporting by listed companies in the banking sector is relatively poor. While there is some reporting on **Corporate Social Responsibility** (CSR), it was observed to be largely philanthropic and could not be linked to the companies' business strategy or business models of the bank in any way.
- As reported last year, some companies continued to make statements on CSR or sustainability reporting but could not substantiate their statements with any quantitative measures of performance. As such, the Adjudicators could not prove the legitimacy of these statements.
- The use of international guidelines as recommended by the **ZimCode under Section 4: "*Information Disclosure*"** remains relatively weak.

Generally, the state of reporting under "**Stakeholder Practices and Sustainability Reporting**" is poor. This can create a **Disclosure Risk profile** for the country as environmental and social risks are not generally being disclosed by many companies in Zimbabwe. The regulators like the **Environmental Management Agency and the Radiation Protection Authority of Zimbabwe could** consider working with corporate reporting regulators to encourage relevant disclosures on the environmental impact of corporate behaviour.

**<u>Board Practices</u>**

The purpose of this category was to evaluate **corporate boards in their oversight role** in governing the company for the benefit of all stakeholders. In evaluating Board Practices, adjudicators also looked at the structure and composition of the board as recommended in the ZimCode.

The major issues that came out during evaluation and assessment under Board Practices were as follows:-

- As reported in last year's Adjudication Report, some companies failed to make a distinction between Independent and Non-Executive Directors;
- Almost all listed companies failed to show evidence of application of the ZimCode in their reported board practices. In the absence of shareholder activism, there seems

to be no motivation, incentive or push for the adoption and application of the National Code by reporting entities;

**Banking Institutions**

The major issues that came out during evaluation and assessment of Banking Institutions were as follows:-

- All banks failed to disclose their dividend policy. It was therefore difficult for the adjudicators to gauge adherence to the policy;
- Almost all banks failed to fully disclose "related party transactions", outside the IFRS framework, a persisting trend from last year. Banks generally disclosed scanty information on related parties to meet the minimum requirements of financial reporting frameworks;
- Only a few banks disclosed information on all Board Committees as required by Banking Regulations.

**State Enterprises and Parastatals**

As stated earlier, only 11 SEPs submitted their Annual Reports. This might imply that only these 11 are up to date with both their Accounts and Annual Reports. If this is so, then it is a serious indictment on those who manage, the boards that govern them and the Ministries that superintend these SEPS.

The major issues that came out during evaluation and assessment of State Enterprises and Parastatals were as follows:-

- The was marked improvement in the reporting by SEPs that were evaluated last year;
- As reported last year, the Boards of most SEPs were fairly diversified in terms of gender but poorly diversified in terms of age and skills;
- One participant produced a 2015 annual report with 2014 financial statements;
- About 60% of the boards of SEPs reviewed failed to meet regularly in line with corporate governance best practice, an improvement though from 40% reported in the last year's adjudication report;

Generally, 89% of SEPs failed to submit their 2015 annual reports for evaluation by the Institute. The Panel of Adjudicators observed that most SEPs have failed to produce full annual reports in 2015 and a majority of them have again failed to hold annual general meetings (AGMs). This problem is expected to persist unless the other party on the accountability equation, that is the shareholder, seriously demands that accountability.

## Individual Awards

The Institute will tonight present for the first time awards to Individual Governance Professionals of the Year. The aim of this individual award is to recognise company secretaries, as Governance Professionals, for assisting their boards to observe and implement good corporate governance practices.. The individual awards will be presented this year first to Governance Professionals from ZSE-listed Companies Category.

Using the criteria of the Institute's Corporate Governance Panel, the Adjudication Panel identified two inaugural recipients of the Individual Award. The first recipient is going to receive an award for **consistence in the listed-Company's winning of the ECGA Awards over the last four editions**, including the current. The second recipient is going to receive an award for the **most improved company ranking on the listed Companies Category**.

## Conclusions

Evidence from the 2016 adjudication exercise reveals that reporting entities in Zimbabwe have not applied the National Code on Corporate Governance which was launched last year in April. There is also evidence of participants following some reporting templates without serious efforts to disclose relevant and reliable information to users. Best corporate governance practice recommends voluntary as opposed to mandatory disclosure regimes. Any corporate board that takes corporate governance seriously should not wait to the "stick" to do the right thing. The responsibility of stewardship should be the utmost drive to voluntarily disclose relevant and reliable information to shareholders and other stakeholders.

Let me state that only the top three are being mentioned in these awards today. However the full rankings can be found on the ICSAZ website from Monday 21 November 2016.

I Thank You.