INSTITUTE OF CHARTERED SECRETARIES AND ADMINISTRATORS IN ZIMBABWE

ANNUAL EXCELLENCE IN CORPORATE GOVERNANCE AWARDS

ADJUDICATION REPORT 2017

Introduction

The 2017 Excellence in Corporate Governance Awards were presided over by a Panel of seven adjudicators who used the **ICSAZ Corporate Governance Scorecards** and Questionnaires to assess corporate governance disclosures by participating entities under three major institutional categories namely ***Listed Companies, Banking Institutions and State Enterprises & Parastatals (SEPs).***

The ICSAZ Corporate Governance Scorecard is a robust framework that draws from the National Code on Corporate Governance (ZimCode), the Corporate Governance Framework for State Enterprises and Parastatals, the Companies Act, the Banking Act and the ZSE Listing Requirements, will form the basis of assessment. The adjudication criteria followed the "**apply-or-explain**" principle prescribed by the ZimCode.

Companies listed on the Zimbabwe Stock Exchange (ZSE) as well as on the Financial Securities Exchange (Finsec) were assessed for three awards namely ***Shareholder Treatment Disclosures, Stakeholder Practices & Sustainability Reporting and Board Governance Disclosures***.

Banking Institutions were assessed for three awards namely Banking Board ***Governance Disclosures, Banking Risk Management Disclosures and Banking Internal Audit Disclosures***.

The State Enterprises & Parastatals were assessed for best ***Corporate Governance Disclosures*** awards.

The Adjudication Process

The adjudication process for the 2017 Excellence in Corporate Governance Awards implemented **two Phases of assessment**:

Phase 1

During Phase 1, the Adjudicators used the ICSAZ Corporate Governance Scorecards to assess participants based on the disclosures in their 2016 Annual Reports and other publicly available sources. The scores garnered by participants in Phase 1 were then used to produce a short list of **Top 5 participants** under each category.

Phase 2

The Top 5 short-listed participants after Phase 1 were subjected to further assessment based on information supplied by the participants in self-completed questionnaires administered by the Institute. An analysis of questionnaire responses assisted the Adjudicators to come up with the **final Top 3 winners** from the Top 5 short-listed participants per each category who are going to receive the **main awards** tonight. The Institute then decided to give **Merit Awards** to the other two participants who were short-listed into Phase 2 of adjudication under each category. So, over and above the usual **three main winners** per each category, we will, beginning at this Fifth Edition of the ECG Awards, present Merit Awards to the losing two finalists in recognition of their effort for making it into the Top 5.

The Major Highlights from the 2017 Adjudication Process

Listed Companies

A total of 57 annual reports were evaluated this year, up from 53 evaluated in 2016. The number of active participants from the bourse increased slightly for the adjudication period under review to 62. Companies that were evaluated for the first time this year are Axia Corporation, Getbucks Financial Services and Simbisa Brands. When the awards started in 2013, we evaluated a total of 60 companies. This number has been going down over the years partly due to some delistings and suspensions from the bourse. Annual reports for 2016 for the following companies were not made available up to the close of the adjudication exercise:

- Rainbow Tourism Group Limited, and
- Zeco Holdings Limited.

The following counters remained suspended and were excluded from the adjudication process:

- The Cotton Company (Cottco),and
- PG Industries

Annual reports of two counters with secondary listings on the ZSE, Old Mutual Plc and Pretoria Portland Cement (PPC) were considered outliers for inclusion in the adjudication process this year due to the absence or scanty nature of the disclosures on their Zimbabwean operations. Going forward, the Adjudicators will refine their methodology in order to evaluate even those companies with secondary listings on the ZSE for benchmarking purposes where possible.

Shareholder Treatment Disclosures:

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 relevance and reliability of information that companies supply to their outside shareholders. The main question which adjudicators sought to answer was, '**Do companies provide sufficient and timely information to shareholders to enable them to make investment decisions?'**

The adjudication exercise revealed that there exists very little to no disclosures in the following areas;

- Policy on directors' remuneration;
    - Only one listed company presented detailed disclosures on the remuneration of its directors. The local stock exchange regulations need to address this shortcoming if our companies are to attract long-term foreign investment.
- Policy on use of material inside information
    - The majority of listed companies did not disclose a policy on the use of material inside information aimed at stamping out insider trading thereby protecting the interests of outside shareholders.
- Board member profiles
    - Most companies did not disclose detailed board member profiles in their annual reports or websites to enable minority shareholders to have a say in board member nominations. This is a continuing trend from previous years.
- Directors' and Management's shareholding

- While there has been an improvement on disclosures relating to directors' shareholding, most companies are still failing to provide detailed breakdown of management shareholding to allow users in assessing beneficial ownership.

Generally, there has been a slight improvement in corporate governance disclosures with regards to shareholder treatment. Commendable areas of improvement were mainly on dividend policy disclosures and disclosure of shareholders who own more than 5% of the issued shares. However, mechanisms to encourage shareholder participation have remained relatively low. Market regulators' intervention is strongly recommended for companies to undergo disclosure reforms so as to benefit the outside shareholders.

Stakeholder Practices and Sustainability Reporting

The purpose of stakeholder engagement is to strengthen the organisation and promote its long-term success so that it benefits stakeholders and shareholders alike. Where it is done properly, it is used to inform the decisions that the board takes, whether about the products or services it provides or about its strategic direction, its long-term health, and its relationship with its workforce and the society in which it operates. Reporting on stakeholder engagements should therefore be taken seriously by companies for those reasons.

The adjudication process revealed the following issues under Stakeholder Practices and Sustainability Reporting:

- Some companies reported having adopted global sustainability reporting frameworks but failed to comply with their requirements. The Adjudicators considered such reporting to be misleading to users.
- In scope of reporting by listed companies, compliance with International Financial Reporting Standards (IFRSs) is being given higher priority over other non-financial reporting areas. The adjudication revealed that more than 75% of the information contained in annual reports is mainly financial and IFRS notes. This is however an improvement from more than 80% reported last year. The balance between financial and no-financial information in corporate reporting still remains poor.
- Companies continue to litter their annual reports with Corporate Social Responsibility stories but fail to support these stories with quantitative measures of

performance as required by global sustainability reporting frameworks. As a result of this missing reporting link, the adjudicators could not reward them for their efforts.

Generally, the quality of disclosures under "**Stakeholder Practices and Sustainability Reporting**" is poor. Environmental monitors and regulators like the **Environmental Management Agency, the Radiation Protection Authority and the National Biotechnology Authority** should consider working with corporate reporting regulators like the ZSE, SECZim, the PAAB and IPEC to encourage corporates to disclose relevant information on the environmental impact of their operations. Overall, the use of global sustainability reporting guidelines as recommended under Section 4 of the **Zimbabwe National Code on Corporate Governance** remains relatively low.

<u>Board Governance Practices and Disclosures</u>

The board should set the tone for corporate governance and compliance. Adjudication under Board Governance Practices and Disclosures aimed to evaluate the effectiveness of **corporate boards in carrying out their oversight role** in directing 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 Governance Practices and Disclosures were as follows:-

- The majority of listed companies did not disclose personal profiles of board members in annual reports or on their websites. As a result, Adjudicators could not assess board composition in terms of skill, experience, age and gender diversity. Scores under these headings were therefore low for the adjudication period under review;
- The role of the board in ensuring compliance with laws, regulations and relevant standards was assessed to be at its lowest this time around;
- As reported last year, Adjudicators found it difficult to assess "**board independence**" because most companies did not disclose personal profiles of board members. In the few cases where board member profiles were disclosed, companies failed to

distinguish between “**Independent**” and “**Non-Executive Directors**” as required by the ZimCode;

- About 30% of listed companies reported to have applied the ZimCode for their corporate governance. The remainder applied various other codes like the Kind Codes and the UK Combined Code; and
- Only three companies reported on their board evaluation processes during the year under review and on director training on corporate governance and ethics.

Banking Institutions

The Banking Act was amended in 2015 and one of the objectives was to improve corporate governance in banking institutions. The adjudication criterion for Banking Institutions was reviewed accordingly to incorporate all corporate governance issues contained in the amended Banking Act. Examples of issues incorporated include the shareholding limits and restrictions in Section 15, specifications on composition of boards of banking institutions in Section 18, restrictions on directorship in Section 19, bank executive management specifications in Section 20 and other matters.

The major highlights from the assessment of Banking Institutions were as follows:-

- Only one banking institution disclosed detailed remuneration to its individual directors;
- One board met 13 times during the period under review for which the bank failed to provide reasons to its stakeholders;
- Disclosures on related party transactions were limited in most cases to IFRS requirements;
- Some Banking Institutions reported as Group Companies and this shrouded their reporting as banks in line with the current regulatory framework;
- Director shareholding in holding companies of banks by directors of subsidiary boards was not disclosed. Focus in reporting was on the boards of the holding company.
- Almost all banks failed to fully disclose the nature of internal audit work carried out in the period under review;
- Only two banks disclosed information on director training and board evaluation;

- There was an improvement in gender balance on the boards of banking institutions, especially those banks owned wholly or partly by the Government of Zimbabwe.
- The state of sustainability reporting by banking institutions is relatively poor. While there was some reporting on **Corporate Social Responsibility**, it was observed to be largely philanthropic and the Adjudicators could not link the CSR to the Institutions' business models in any way.

State Enterprises and Parastatals

A total of 97 State Enterprises & Parastatals were eligible for assessment for the period under review of which only 13 of these entities made their 2016 annual reports available for evaluation. Of these 13, two entities presented their 2016 annual reports with FY2014 and FY2015 financial statements. However, these were all evaluated for the Awards.

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

- The Boards of most SEPs assessed were fairly diversified in terms of gender but poorly diversified in terms of age, experience and skills;
- One State Enterprise was observed to be operating without a functional board since 2009;
- The SEPs with functional boards that were reviewed met regularly during the period under review in line with corporate governance best practice;
- One SEP produced its 2016 annual report using FY2015 financial statements;
- About 30% of SEPs evaluated presented their 2016 annual reports with unaudited financial statements;
- SEPs present relatively detailed board member profiles in their annual reports.
- Most SEPs had ex-officio board members representing the Government on the board but these were not appropriately qualified and experienced in most of the cases;

Generally, 87% of SEPs failed to submit their 2016 annual reports for evaluation by the Institute. The Panel of Adjudicators observed that most SEPs have failed to produce full annual reports in 2016 even after holding annual general meetings (AGMs). Failure to timely produce annual reports by State Enterprises is worrisome and is expected to persist unless the Government as the shareholder, in particular the **Parliament of Zimbabwe** does not demand accountability from the boards of these entities.

Individual Awards

The Institute will once again present individual awards to **Governance Professionals**. The aim of this individual award is to recognise Corporate Governance Practitioners who work with their boards to observe and implement good corporate governance practices. The individual awards are presented to **Company Secretaries from Listed Companies**.

There are going to be two recipients of the **Governance Professional Awards** tonight. The first recipient is going to receive an award for ensuring that his/her company **consistently won the ECG Awards over the last four editions**, including the current. The second recipient is going to receive an award for the **most improved ranking of his/her company on the Awards this year**.

Also tonight Ladies and Gentlemen, the Institute is going to present a **Special Award** to one Zimbabwean for his role in pushing forward the Corporate Governance agenda in our country. This is a special award and will be presented by the Institute as and when there is a candidate who can be accredited with some excellent corporate governance deeds which the public generally agree that they should be honoured.

Conclusions

Evidence from the 2017 adjudication exercise revealed that our reporting entities are following some **rigid templates year in and year out** without conscious efforts to disclose relevant and reliable information to users. What the Institute recognises in the ECG Awards are **voluntary as opposed to mandatory disclosures**. Any corporate board that takes corporate governance seriously should not wait for a “stick” to whip the organisation into doing the right thing. Paying lip service to stakeholder engagements and box-ticking in corporate reporting are of little value to anyone and will not bring in the much needed foreign direct investment to the country.

I Thank You.