

## **ADJUDICATION REPORT**

**(PRESENTED IN A SPEECH BY THE INSTITUTE OF CHARTERED SECRETARIES & ADMINISTRATORS IN ZIMBABWE'S CHIEF EXECUTIVE & SECRETARY AT THE ANNUAL EXCELLENCE IN CORPORATE GOVERNANCE AWARDS PRESENTATION DINNER - 2013 )**

We had a team of six adjudicators who were chosen because of their expertise in the various aspects of corporate governance and analytical skills. The adjudicators used the ICSAZ Corporate Governance Scorecard to rate companies on their corporate governance practices, utilizing publicly available information; the main source of information being companies' annual reports. All ZSE-listed companies, which published annual reports in 2012 and are currently trading on the bourse, were evaluated. Consideration was also taken of any governance-related subsequent information issued to investors in the form of corporate announcements and company website information in the adjudication process. The important issue to note here is the source of the information used in the adjudication. We deliberately decided to use the publicly available information, so anything that is not in the public domain was not used in the process.

For the 2013 Inaugural Awards for ZSE-listed companies, we have three Awards Categories:

1. Best Shareholder Treatment,
2. Best Stakeholder Practices & Sustainability Reporting, and
3. Best Board Practices.

In evaluating corporate governance practices of corporate boards under the above three Awards Categories, the adjudication panel looked for evidence of the following:

- Innovative and informative forms of disclosure which moved away from 'box-ticking';
- Comprehensive explanations of departure from various codes provisions;
- The integration of governance into the strategy and day-to-day operations and decision-making of the company;
- A comprehensive understanding of the link between corporate power and responsibility and shareholder value creation;
- Prioritization of governance through a coherent cross-referencing to other sections in the Annual Report;
- Demonstration of a holistic thinking that had due regard for different stakeholder priorities;
- The existence of fully functional board committees;
- Directors' satisfaction of their statutory duties, including meeting attendance, in promoting the success of the company.

## **Summary of findings from the Adjudication Process**

### **Shareholder Treatment:**

This section is about how well the company treats its shareholders in terms of the information it supplies to the shareholders. The main question addressed here is, do the shareholders get the information they require to make decisions about their investment?

The major themes that came out during evaluation and assessment under Shareholder Treatment were as follows:-

- AGM Notices were mostly standard and brief. A few made attempts to give more information on normal and special business;
- Related party disclosures were mostly driven by IFRS reporting. Very few companies provided extra information;
- Directors' fees were often AGM Agenda items;
- Audit fees were part of expenses, and in some cases given as AGM Agenda items;
- Proxy Forms were given as standard practice;
- No attempt was made to address details of non-audit services by auditors. Only one company put a note to explain non-audit services by its auditors;
- Giving directors' profile and history was not consistent practice. Some companies limited this to names only;
- The duration between Notices and AGM meeting dates ranged from 3 weeks to 90 days.

The majority of company annual reports reviewed did not provide information on the following:-

- Dividend Policies
- Corporate actions
- AGM attendance data
- Voting methods
- Minority shareholder management

### **Stakeholder Practices and Sustainability Reporting**

This section focused on the treatment of the wider stakeholders and the issue of the sustainability of the company's operations or its methods of operating, how they affect other stakeholders and the environment and finally how it is reported.

The major themes that came out during evaluation and assessment under Stakeholder Practices and Sustainability Reporting were as follows:-

- A number of companies did not make full disclosures on environmental matters despite their companies interacting with the environment on day to day basis;
- Some companies just made statements that could not be supported by any further information or performance of reported practices;
- A majority of companies did not show or indicate the relevance of stakeholder engagement;

- No framework was being used in non-financial information disclosure by the majority of companies;
- Only a minority of companies provided quantitative performance measures using an internationally recognized framework of sustainability reporting.

Overall, this area needs more attention by companies as issues of sustainability are gaining prominence in corporate governance.

### **Board Practices**

This section related to practices followed by the board and how the boards perform their oversight tasks in governing the company. It also looked at the structure of the boards.

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

- Most company boards met at least four times during the period under review;
- Board meeting attendance by directors averaged 45%;
- A majority of corporate boards did not disclose full information to enable the identification of beneficial share-ownership;
- Almost all companies failed to include various board committee reports in their annual reports despite reporting the existence of such committees;
- Most companies reported the roles and responsibilities of board committees and their membership;
- In some companies the same individuals sit in more than two board committees as chairmen;
- Most companies published their reports within three months of the end of their reporting year;
- Most companies clearly distinguished the roles of the board and management;
- Almost all companies did not disclose any information on board annual self-assessment nor annual assessment of the chief executive officer/managing director;
- Almost all chairmen of the corporate boards evaluated were non-executive directors;
- The proportion of board members who were independent in most company boards could not be established because of lack of full disclosure on other director interests.

### **General**

The initial stage of the adjudication process revealed that some companies failed to publish full annual reports. They instead published abridged reports which could not provide all required information for the purposes of adjudication. The results of the second stage of adjudication indicated that detailed disclosures came from the same few companies as evidenced by their high scores for each category of the awards.

A cursory look at the balance of the board indicated that most boards, on the surface, do not appear to be balanced in terms of composition. For example, about 60% of the board membership of ZSE-listed companies are from one profession. Gender and age balance is another important issue that needs to be worked on by companies. This obviously raises issues in terms of the diversity required on the board.

### **Limitations**

One of the challenges faced was the absence of a wholly local report by one multinational (Old Mutual) whose report is a combined report covering the consolidated

reports for the global company. Due to the difficulty in extracting the locally relevant information, the adjudication team was not able to consider Old Mutual in adjudication. It is hoped that a way will be found in future to include them in the process since the Institute's idea of awarding excellence in corporate governance is going to be an annual event.

#### **Corporate Governance Practitioner of the Year**

The team considered evaluating for the Corporate Governance Practitioner of the Year Award. It however decided that this award category scorecard needed some refinement. Due to this, the team settled on the non-presentation of the award for this year. It will however be presented next year where we expect to reward and acknowledge individual governance professionals, under the "Achievement Award" category for individuals. The Achievement Award will be given to a corporate governance professional in recognition of individual achievers in the field of corporate governance annually. This individual achievement award will be given to board members, company secretaries or legal counsels, risk managers, financial controllers and compliance managers/officers working for any organisation in Zimbabwe during any period under review.

Ladies and gentlemen, this is the summary of the adjudication process which resulted in the awards being presented today.

In today's presentations we are only going to mention the top three in each category. As indicated elsewhere, all the companies listed on the Zimbabwe Stock Exchange were considered. They were thus ranked from 1 to 60. The ranking of all companies will be shown on the Institute's website at most by Monday 18 November 2013. The winners of the Annual Excellence in Corporate Governance Awards will be seen to exemplify excellence in corporate governance in Zimbabwe.

I thank you for your indulgence.