CORPORATE GOVERNANCE PRACTICES IN FIVE SUCCESSFUL COMPANIES LISTED ON THE ZIMBABWE STOCK EXCHANGE.

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by

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Chapter One

Introduction and Background

Following a wave of global corporate scandals witnessed at the turn of the new millennium, new corporate governance practices are evolving around the world. Widely reported corporate failures and scandals witnessed worldwide post – 2000, seem to have acted as catalysts, making these reforms in corporate governance inevitable. The Enron bankruptcy accompanied by the WorldCom debacle and other corporate scandals in 2000 has caused a sea of change in the attention given to corporate governance worldwide. Global corporate scandals have also changed the way the public, investors, shareholders, regulators and the judiciary view corporate boards, executive management, accountants and auditors. In response to these corporate failures and scandals, governments, regulators, shareholders and other stakeholders worldwide are demanding greater accountability, transparency and efficiency in the manner in which corporations are governed.
Corporate governance worldwide is thus operating under new sets of rules meant to prevent eruption of new corporate scandals and failures, stabilize the national economies, maintain stability and integrity of financial markets restore investor confidence, and protect shareholder and stakeholder interests.

In Zimbabwe, the corporate governance changes were fuelled by the ENG Asset Management Company collapse in 2003. The collapse of ENG exposed massive corporate scandals in the banking and financial services sector, which severely affected the Zimbabwean financial services and markets. These corporate failures left the government and regulatory authorities such as the Zimbabwe Stock Exchange (ZSE) and the Reserve Bank of Zimbabwe (RBZ) calling for tougher rules and laws relating to the supervision and monitoring of public companies, banks and other financial services institutions.

The aim of this study is to critically examine the nature and effectiveness of corporate governance practices by 5 successful companies listed on the ZSE. Corporate governance relates to the manner in which the business of enterprises is directed and controlled, how the corporate objectives are set, how the corporate activities and expectations of stakeholders are aligned. The significance of corporate governance is now widely recognized as essential for national prosperity, corporate competitiveness and good corporate citizenship. In fact, the King Report of 2002 put great emphasis on corporate discipline, transparency, independence of board members and committees, fairness, accountability and social responsibility as essential pillars of good corporate governance. Corporate governance is also an effective mechanism for encouraging efficiency and combating corruption. Transparency and accountability reinforce one another.

Good corporate governance also embraces both sound financial performance and conformance to relevant laws and regulations. Although there is no one universal model of good corporate governance, corporate governance standards in any context should reflect the value system of the society in which it operates. A good corporate governance environment depends on the quality of economic, regulatory, fiscal, institutional, and judicial mechanisms in a country. For instance, regulatory enforcement of sound accounting standards and sophisticated shareholders provide checks and balances in the private sector. Corporate governance has, therefore, converged with broader issues such as national governance, corporate citizenship, and action against corruption, regulatory adequacy, environmental and social responsibility. The state of corporate governance in a country is thus critical for financial and economic development of the nation as a whole.

Not only for comparative purposes, but also for insights to be gained, corporate governance practices being applied in western countries will be looked at, with a view to establish whether or not there are lessons to be learnt by Zimbabwean companies.

Statement of the Problem

The research strives to identify and establish the corporate governance practices adopted by 5 successful companies listed on the Zimbabwe Stock Exchange. The research question is:

What Corporate Governance practices are carried out by 5 successful companies listed on the Zimbabwe Stock Exchange?

The research will be carried out through a questionnaire, interviewing senior managers and chief executive officers, newspaper articles and annual reports of the companies chosen for the study.

Justification For Studying Corporate Governance Practices

Zimbabwean companies in the financial sectors including banks have collapsed resulting in many institutional investors losing billions of investor funds. Most banks faced serious liquidity and solvency problems which were attributable to poor corporate governance practices. In 2004, the Reserve Bank of Zimbabwe placed several of Zimbabwe's newly opened banks and asset management firms under its direct control.

Given the above, all organizations could certainly benefit from a study on Corporate Governance practices by successful companies. Implementation of such practices could save some companies from collapse. International Corporate Governance practices will be looked at with a view to consider how Zimbabwean companies could benefit from them.

Chapter 2

Literature Review

In Zimbabwe, institutional investors such as pension funds, financial institutions (banks), insurance companies and other public institutions have rather developed a passive approach to corporate governance. Institutional investor activism in Zimbabwe is still in its infancy and is only starting to have an impact on the development of corporate governance practices in Zimbabwe. As such, there is not much literature that has been written or studies carried out on corporate governance practices by Zimbabwean companies. The collapse of some financial institutions, which resulted in institutional investors losing billions of investor funds, seems to have woken institutional investors. The literature review is going to concentrate on literature written on corporate governance practices in developed countries. An assessment will be made to determine whether there are important lessons that can be learnt by Zimbabwean companies.

"Corporate and business governance is the system that maintains the balance of rights, relationships, roles and responsibilities of shareholders, directors and management in the direction, conduct, conformance and control of the sustainable performance of the company /business with honesty and integrity in the best long term interests of the company, shareholders, and business and community stakeholders" (Hendrikse & Hendrikse,2004:102). "It is also an effective mechanism for encouraging efficiency and combating corruption" (King 2 report, 2002:14).

The researcher uses the literature of Schleifer and Vishny (1997), who, after an extensive survey of corporate governance around the world, concluded that advanced economies have partially, although not perfectly , solved the problems related to corporate governance, but not so for the rest of the economies. On the other hand, firms in the small group of developed countries have an assured flow of huge amounts of capital to invest in all kind of projects. On the other hand, firms in emerging countries sometimes can not even fund superb projects due to fear of not getting their money back. This risk is the essence of corporate governance and the empirical evidence shows that there are great differences among corporate governance mechanisms around the world.

Hendrikse and Hendrikse (2004:99) state that 'good governance is the foundation of good business.' A successful business needs more than good management to be a good corporate citizen.' Good management means the business is operationally effective, but it might still be ineffective in its relationships among shareholders, directors, management and other stakeholders.' Hendrikse and Hendrikse (2004:97). The purpose of business governance is to match business behaviour and management conduct with the corporate intentions, mission and objectives of the business. According to Hendrikse and Hendrikse (2004), the benefits of business governance are:

- Increases the value of the firm
- Nurtures a spirit of enterprise
- Gives confidence to the market
- Enhances the reputation of the business
- Enhances empowerment of all stakeholders
- Improves efficiency
- Encourages innovation
- Enhance competitive advantages
- Meets financial, legal and statutory obligations.

Research finds that banks are critically important for industrial expansion, the corporate governance of firms, and capital allocation. When banks efficiently mobilize and allocate funds, this lowers the cost of capital to firms, boosts capital formation, and stimulates productivity growth. Thus, the functioning of banks has ramifications for the operations of firms and the prosperity of nations. Given the importance of banks, the governance of banks themselves assumes a central role. If bank managers face sound governance mechanisms, they will be more likely to allocate capital efficiently and exert effective corporate governance over the firms they fund.

The following elements are essential components of good corporate governance and each of these components will be reviewed:

- Director and Chairperson Appointment
- Board Of Directors - Composition and Responsibilities

- CEO – Appointment and Responsibilities
- Board Effectiveness Evaluation
- Business and Corporate values and ethics
- Corporate Strategy
- Code of Ethics (compliance with King 2)
- Organisational Structure
- Director Rewards and Performance
- Internal and External Audit Effectiveness
- Accounting Policies and Practices
- Disclosure communication to shareholders
- Investor and shareholder Activism

Director and Chairman – Appointment, Duties and Responsibilities

In terms of the King Report, an executive director is essentially a salaried, full time employee of the company of which such person is a director while a 'non-executive director' is defined to comprise directors who are independent of management, deriving only a fee but this is not intended to exclude persons appointed as non-executive directors who have a contractual nexus with the company for reward. The King Report provides some useful guidelines for directors in regard to their duties and responsibilities, emphasizing the principles of duty of good faith and duty of care and skill. The King Report deals with a number of constituent concepts relative to corporate governance, culminating in a set of recommendations encapsulated by The Code of Corporate Practices and Conduct ("the code"). The Code requires that the selection and appointment of directors should be a matter for the board as a whole. It is the opinion of the King Committee that non-executive directors should not be appointed for a specified term, while an executive director's service contract should not exceed five years in duration unless otherwise approved by shareholders' in general meeting. The King Report emphasizes that non-executive directors are not "watchdogs" but rather partners providing a guiding influence to their executive colleagues on board. The Code requires that the roles of chairman and chief executive officer should preferably be separate, with the Chairman being a non-executive director. However, it is recognized that there may be circumstances where a board may consider it to be in the company's interest for an executive to occupy the position of Chairman, particularly in companies where the founding family still has shareholding control and plays an active part in executive management.

The Chairman is pivotal in creating the conditions for overall board and individual director effectiveness, both inside and outside the boardroom. Specifically, it is the responsibility of the chairman to:

- run the board and set its agenda;
- ensure that the members of the board receive accurate, timely and clear information, in particular about the company's performance, to enable the board to make sound decisions;
- ensure effective communication with shareholders ;

- ensure that the members of the board develop an understanding of the views of the major investors;
- manage the board to ensure that sufficient time is allowed for discussion of complex issues;
- take the lead in providing a properly constructed induction programme for new directors;
- take the lead in identifying and meeting the development needs of individual directors;
- ensure that the performance of individuals and of the board as a whole and its committees is evaluated at least once a year; and
- encourage active engagement by all members of the board.

The appointment of directors revolves around" the competence of the directors to act as directors of the company (director competence), and the distinction between directors who have to run the business, and those who run the board (board independence)" (Hendrikse and Hendrikse (2004:155). Some of the criteria to be used in assessing prospective and current directors to the board are , hands on experience, degree qualifications, experience in particular sector /industry, age, sex and contacts with government.

Critics of corporate governance have typically argued that directors' appointments to other boards reduce their ability to contribute to decision making at the focal board. Such an argument assumes that knowledge and perspective gained on other boards are largely irrelevant to decision making at the focal firm. In contrast, our sociocognitive perspective indicates how experience on other boards can enhance or diminish directors' ability to contribute to strategy, by focusing their attention on relevant strategic issues. Useem (1982) observed that executives use their board appointments as a way to scan the environment for timely and pertinent information. He quotes several executives who suggest that board appointments provide a vehicle for learning: i.e., "direct involvement in other companies' affairs replaces an awful lot of reading...it's a hell of a tool for top management education" (1982: 209-210). Similarly, directors can learn about the efficacy of different practices and how to implement them properly by observing the consequences of management decisions (Haunschild, 1993). Such learning is particularly vivid because directors observe the decision making process first-hand in their monitoring role, participate actively by giving advice to management, and then witness the consequences of those decisions.

Directors also learn about business practices through their communication with other directors in board and committee meetings. Information acquired from fellow directors may be particularly influential because it often comes from a trusted source (Useem, 1982; Davis, 1991; Weick, 1995). This information is typically more timely and up-to-date than that derived from secondary sources, and it may also be more salient due to its recency (Kahneman, Slovic & Tversky, 1982). Thus, a sociocognitive perspective on board involvement emphasizes how directors' social structural context, including their ties to other boards, provides direct strategic experience and indirect access to strategic information through social contact with other directors, which in turn can critically inform the knowledge structures used to monitor decisions or give advice on the focal board.

Board of Directors – Composition and Responsibilities

According to the OECD Principles of Corporate Governance (2004), Board structures and procedures vary both within and among OECD countries. Some countries have two-tier boards that separate the supervisory function and the management function into different bodies. Such systems typically have a "supervisory board" composed of non-executive board members and a "management board" composed entirely of executives. Other countries have unitary boards which bring together executive and non-executive board members. It is critical for shareholders to ensure their companies have a board of directors in place. The King Report identifies this board as the focal point of corporate governance. According to the King Report, The Code requires the board to retain full and effective control in monitoring executive management and ensuring that material decisions remain within its jurisdiction. The Code requires the board to meet regularly, at least once quarter. Together with guiding corporate strategy, the board is chiefly responsible foe monitoring managerial performance and achieving an adequate return for shareholders, while preventing conflicts of interest and balancing competing demands on the corporation. In order for boards to effectively fulfill their responsibilities they must be able to exercise objective and independent judgement.

Another important board responsibility is to oversee systems designed to ensure that the corporation obeys applicable laws, including tax, competition, labour, environmental, equal opportunity, health and safety laws. In some countries, companies have found it useful to explicitly articulate the responsibilities that the board assumes and those for which management is accountable. The board is not only accountable to the company and its shareholders but also has a duty to act in their best interests. In addition boards are expected to take due regard of, and deal fairly with, other stakeholder interests including those of employees, creditors, customers, suppliers and local communities. Board members should act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the company and the shareholders. Nigel Payne states in his article that "the board is in a position to create either a virtuous or a vicious circle. It is clear that the board of Enron was riddled with individuals who had conflicts of interest , and who did little or nothing to stop the dishonesty in their midst." (Accountancy SA January 2002).

The Board must have a charter containing its responsibilities, which must be revealed in the annual report and clearly spelt out. Corporate governance entails a lot more than just having a properly constituted board of directors with appropriate policies in place." Effective directors maintain an attitude of constructive skepticism; they ask incisive, probing questions and require accurate, honest answers; they act with integrity; and they demonstrate a commitment to the corporation, its business plans and long term stockholder value."(South Africa Business Round Table (BRT, 2002:3). BRT also emphasizes the importance for directors to question the processes used by to arrive at decisions and figures, given that they rely on reports from senior management, auditors and other expert counsel.

"Responsibility defines the scope and range of the directors' activities. Whereas duties focus on commitments, attitudes, time management and the overall duty to act in the best interests of the shareholders and the company, responsibilities focus on specific governance and management activities in relation to areas of effectiveness and efficiency" (Hendrikse and Hendrikse (2004:165). It is important that the board understands its responsibilities to oversee and monitor the CEO and senior management and steer clear of micro – managing the business as this may frustrate efforts and work to the detriment of the business. The board is also responsible for the company's human resources strategy.

CEO - Appointment and Responsibilities

It is critical that the Chief Executive Officer (CEO) manages the company in accordance with the strategy, plans and policies approved by the board to achieve the agreed goals. It is therefore important that the board selects, compensates appropriately and evaluates the CEO to ensure that his conduct is aligned with shareholder interests and adheres to corporate governance codes. In particular, the CEO's responsibilities are listed by BRT as follows:

- Strategic Planning: Ensuring that the crafting of strategic business plans for the board's approval is carried out as well as implementation of the plans and recommend any changes which may be necessary.
- Operating the Company: Ensuring the day to day running of the business is efficiently carried out. This entails implementing the strategic business objectives within the annual operating plan and budgetary parameters approved by the board.

Hendrikse and Hendrikse (2004: 167) list the CEO's key responsibilities as follows:

- Taking and approving all and any actions initiatives required to deliver the company's strategic and operational plans as approved by the board;
- Ensuring transactions outside the CEO's delegation levels are referred to the board for approval;
- Ensuring that all actions comply with the organization's policies in force from time to time' and
- Carrying out other responsibilities as delegated by the board to the CEO.

It is important that CEO and senior management remain focused and in control of operations to avoid the pitfalls of the likes of Kenneth Lay, former chairman and CEO of Enron." With great ambition, vision and optimism, Lay transformed the company into a diversified conglomerate, but had lost the control over the operations, especially to unethical misconducts" (Culpan & Trussel, 2005: 71). Culpan and Trussel also tell of a man who allowed his trusted subordinates to mismanage and defraud the company.

Board Effectiveness Evaluation

The Code provides that the board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors. Individual evaluation should aim to show whether each director continues to contribute effectively and to demonstrate commitment to the role (including commitment of time for board and committee meetings and any other duties).The chairman should act on the results of the performance evaluation by recognizing the strengths and addressing the weaknesses of the board and where appropriate, proposing new members be appointed to the board or seeking the resignation of directors. The board should state in the annual report how such performance evaluation has been conducted. However, BRT recommends annual evaluation of the CEO by a board committee comprising independent directors. This committee can also participate in evaluation of senior management, together with the CEO. The King Report also recommends that directors should evaluate regularly the CEO's performance against set goals and strategies contained in a job description and that this evaluation must be conducted by non executive directors.

It is the responsibility of the chairman to select an effective process and to act on its outcome. The use of an external third party to conduct the evaluation will bring objectivity to the process. The non executive directors, led by the senior independent director, should be responsible for performance evaluation of the chairman, taking into account the views of executive directors... The evaluation process will be used constructively as a mechanism to improve board effectiveness, maximize strengths and tackle weaknesses. The results of board evaluation should be shared with the board as a whole while the results of individual assessments should remain confidential between the chairman and the non-executive director concerned.

Business and Corporate Values and Ethics

Business ethics "is concerned with good and bad or right and wrong behavior and practices that take place within a business context" (Carroll & Buchholtz, 2003:170).Ethics and values are intimately related. Ethics is also seen as the set of moral principles or values that drives behavior. Values, on the other hand, are the individual's concepts of the relative worth, utility or importance of certain ideas. George Steiner once stated that "every executive is at the centre of a web of values" and that there are five principal repositories of values influencing business people. These five include religious, philosophical, cultural, legal and professional values.

Corporate Strategy

Directors observe the decision making process first-hand in their monitoring role, participate actively by giving advice to management, and then witness the consequences of those decisions. Directors also learn about business practices through their communication with other directors in board and committee meetings. A perspective on board involvement emphasizes how directors' social structural context, including their ties to other boards, provides direct strategic experience and indirect access to strategic information through social contact with other directors, which in turn can critically inform the knowledge structures used to monitor decisions or give advice on the focal board.

Environmental stability refers to the extent to which a firm's competitive environment is complex, uncertain, and prone to strategic change (Huber & McDaniel, 1986). It is emphasized here because such stability is a key determinant of the particular strategic issues facing a firm and its top management (Duncan, 1972; Wiersema & Bantel, 1993). Accordingly, the level of stability versus turbulence in the environment may be an important factor in determining how directors can contribute to strategic decision making. Theory and research on environmental turbulence and strategic decision making distinguishes between two basic strategic issues in the decision making process – the development of new strategies and the implementation of existing strategies – and suggests that in stable environments the latter issue is relatively more important: if there is less change in the environment, there is less need to regularly identify new strategic alternatives in order to maintain fit with the environment, so that firms in stable environments are more likely to compete primarily through the better implementation of existing strategies (Andrews, 1971; redrickson, 1984; Ginsberg, 1990; Tushman & Romanelli, 1985). Moreover, Fama and Jensen (1983) explicitly recognize board monitoring of strategy implementation as an important component of the board's obligation to protect shareholders. How then might directors' ties to other boards enhance their ability to monitor and advise management on the implementation of existing strategies (i.e., in stable environments)? We suggest that directors will be better able to contribute to strategy in such environments to the extent that their board ties are strategically related to the focal firm.

Strategically related board ties refer to a director's appointments to boards of other companies that follow similar corporate strategies and operate in similar product-market and international-market contexts. Given that such ties enable directors to observe first-hand the experiences of other firms in implementing similar strategies, they provide directors with a more sophisticated understanding of the combination of systems and structures needed for successful implementation of the firm's strategy. Moreover, strategically related board ties also help directors acquire relevant knowledge through social interaction with other directors in board and committee meetings, as board members evaluate management and raise ideas and suggestions for better strategy implementation. From a sociocognitive perspective, these social connections and opportunities for vicarious learning can lead to more highly developed knowledge structures for implementing the focal firm's strategy.

Research on sociocognition has shown that individuals who have experience concentrated in a related domain, rather than dispersed across different contexts, have more highly developed knowledge structures for that domain, with less schema categories and more information units per category (Lurigio & Carroll, 1985; Sujan, Sujan, & Bettman, 1988;Day & Lord, 1992). As a result, individuals engaging in problem solving for domains (e.g., strategies) where they have concentrated experience not only have more information at their disposal, but that information is also structured more efficiently, and this leads to faster and more accurate information processing (Day & Lord, 1992).In addition, while related board ties can provide relevant strategic knowledge and information, they may also enable directors to communicate that knowledge to managers more efficiently. The top management team literature, which is often rooted in sociocognition (Walsh, 1995), suggests that similar backgrounds and experiences result in common perspectives on strategy, which in turn allows for more efficient communication among decision makers (Haleblian & Finkelstein, 1993; Hambrick & Mason, 1984; Finkelstein & Hambrick, 1996; O'Reilly, Snyder & Boothe, 1993). Thus, when directors have experience with related strategies through their ties to other boards, such related experience should lead to more efficient communication, which can facilitate collective problem solving in the implementation process. Taken together, to the extent that firms in stable environments compete primarily through better implementation of existing strategies (i.e., rather than identifying new strategies to fit a changing environment), strategically related board ties should enhance directors' ability to contribute to strategic decision making in stable environments.

Code of Ethics

According to The King Report, the Code requires that an appropriate Code of Ethics should be adopted as part of an organisation's corporate governance. In summary this should:

- Commit an organization to the highest standards of behaviour;
- Be developed in such a way as to infuse its culture in all its stakeholders;
- Receive total commitment from the board and CEO;
- Be sufficiently detailed to provide a reasonably clear guideline for the benefit of all employees of the organization concerned.

It is notable that the King Committee recommends that a Code of Ethics should be adopted in all business enterprises.

Organisational Structure

The Organisational structure must clearly show the major structural levels of firstly a board of directors, secondly, committees acting on behalf of the board and thirdly the management/employee level. The King Report of 1994 specifically provides that there must be a board of directors headed by a chairman and directly reporting to the shareholders of the company. This board is responsible for the governance of the company and is mandated to monitor executive management. The board is also "accountable to the stakeholders of the company" (Roussouw, 2002:407) and all its actions must serve their best interests.

Director Rewards

The King Report states that The Code requires full requires full and clear disclosure of the aggregate remuneration paid to directors , split as to executive and non- executive, separated into salaries, fees, benefits, share options and bonuses. In this regard, the Code requires that the remuneration of executive and non-executive directors should be considered by a Remuneration Committee, which would submit its recommendations to the board. The Remuneration Committee should comprise a majority of non-executive directors, of whom one should be the Chairman and who it is recommended must be present at annual general meetings to deal with any queries concerning directors' remuneration.

Internal and External Audit Effectiveness

The King Report indicates the internal audit function as another integral element of corporate governance. Accordingly, the Code requires that companies should have an effective internal audit function that has the respect and co-operation of both the board of directors and management. Functionally, internal audit is identified as an independent, appraisal function giving assurance to both executive management and the board in the discharge of their duties relating to the safeguarding of assets, the operation of adequate systems and controls, risk management and the integrity of financial statements and reporting. Of particular relevance, is the need to review operating structures and systems to ascertain whether defined objectives and the plans are being attained and to ascertain the effective conduct of such systems and controls having regard to internal (policies, plans and procedures) and external (laws and regulations) factors.

The Code requires the highest level of business and professional ethics to be observed by the auditors and, in particular, insists that the independence of the auditor should be neither impaired nor compromised in any way.

Accounting Policies and Practices

"In the light of corporate collapses, and particularly the collapse of Enron , coupled with an allegation that its auditor was not only aware of the creative accounting at the company, but also effectively aided it, the need for globally accepted accounting standards has increased" (Hendrikse & Hendrikse, 2004:219)

Disclosure communication to shareholders

With few exceptions, companies and financial markets in developing and emerging market economies are opaque. This was the resounding opinion of the Roundtables, and devising regional strategies to increase transparency one of their key goals. A lack of transparency contributes directly to tunneling by concealing related party transactions: both in direct disclosure about the transactions and their nature, and by obscuring the beneficial ownership of contacting parties. More generally, this opacity obscures corporate performance and creates a serious barrier to informed decision making by investors.

Investor and shareholder Activism

Shareholder activism is about influencing the behavior of companies so that shareholder interests are kept as the prime focus of their endeavours. It is about using the power of ownership to help companies develop and implement successful strategies to maintain high standards of governance and to improve productivity, thus maximizing returns for the ultimate beneficiaries. Large institutional investors, predominantly pension funds and insurance companies, have historically played a significant role in engaging with companies to raise concerns over corporate governance. This is driven by both the scale of their investments and their longer-term interest. Given their longer term perspective, pension funds in particular are considering the impact their investments are having on the world their members will retire into. Shareholder activism is particularly strong in the UK and US. In the UK, the Association of British Insurers (ABI) and National Association of Pension Funds (NAPF) have developed their own best practice guidelines for corporate governance. Together with advocacy organizations, such as the Pensions Investment Research Consultants (PIRC) and Institutional Shareholder Services (ISS), these organizations monitor corporate governance activities and provide voting advice. Collective abstentions or votes against management at Annual General Meetings (AGMs) send strong messages to company boards. In the US, the California Public Employees' Retirement System (CalPERS) 13 has considerable influence in altering company corporate governance practices. In the UK, shareholders have seen their influence sky-rocket.

Chapter 3

Methodology

Introduction

The objectives of the research were to find out " the corporate governance practices of companies listed on the Zimbabwe Stock Exchange (ZSE)". The study tried to establish if good governance resulted in their success.

Research Design

Companies listed on the Zimbabwe Stock Exchange were chosen for the research because it is easier to get information on listed companies than unquoted companies. A survey approach was used for the study. Data was collected through interviews, questionnaire as well as company annual reports and newspaper articles. According to Saunders, Lewis and Thornhill, 1997, the advantage of using the survey method is that:

i. A well carried out survey generally produces credible results.
ii. A questionnaire is usually used which produces standardized and comparable data.
iii. A large amount of data can be collected from a large part of the population in an economic way.

The study was of a descriptive nature. Questionnaires were sent to CEOs because they, together with senior managers formulate and enforce their companies' strategies.

Population and Sampling Design

There were seventy-seven companies listed on the Zimbabwe Stock Exchange as at 20 April 2006.The research covered successful companies listed on the Zimbabwe Stock Exchange as at that date. The criteria used for deciding whether a company is successful is its peak net worth , that is, assets less liabilities or value of shares. Five companies were identified as being successful, namely Kingdom Financial Holdings Limited, Old Mutual Zimbabwe, Delta Corporation, Meikles Africa Limited and Barclays bank of Zimbabwe. When it is possible to observe or test each individual item in a group, we say that a census is taken (Ringrose, 1983). From a statistical point of view since five companies participated in the study, the results reliably demonstrate the corporate governance practices the ZSE listed companies are employing.

Instrumentation

Data collection was carried out using a questionnaire, which is designed specifically for this study to accurately capture Zimbabwean company corporate governance practices. Supplementary data was also collected through telephone and personal interviews, company annual reports and newspaper articles. The questionnaire targeted senior company executives as they assume more active roles in governance. Measures listed below were taken to ensure the questionnaire was valid and reliable. Validity is one aspect of credibility and is the extent to which the research findings accurately represent what is really happening in the situation (Hugh, 1992). Reliability is the other aspect of the credibility of research findings and if a research finding can be repeated, it is reliable (Raymond, 1993). In other words, it measures what it is supposed to measure, the following measures were taken;

- Designed clear and unambiguous questions.
- Most of the questions were close ended to elicit specific responses.

The main weakness of a questionnaire is that the response rate is very low. To increase the response rate telephone calls were made to companies after questionnaires were sent to push for a response.

CHAPTER FOUR

Research Findings

4.1 Introduction

A total of four companies responded to the questionnaire out of the five companies listed on the Zimbabwe Stock Exchange that were identified as being successful. Caims Holdings is the only company that did not respond. It was therefore, excluded from the study because without a completed questionnaire and cooperation from the company, there would not be adequate information to draw valid conclusions from.

The questionnaire's emphasis was on finding out the following:

a) The reasons for the companies` success
b) Corporate Govemance practices the companies are carrying out in their businesses.
c) The success of the Corporate Govemance practices being carried out.

4.2 Analysis of the companies being researched

4.2.1 KINGDOM FINANCIAL HOLDINGS LIMITED (KFHL)

Kingdom Financial Holdings Limited (KFHL) is a Zimbabwe-based holding company of a group of businesses spanning a range of activities in the financial services industry. Since Its establishment on 25 August 1995, Kingdom Financial Holding s Limited has experienced significant organic growth. The expansion of the group was consolidated in a merger in 1999 with DCZ Holdings Limited (DCZH), the holding company for The Discount Company of Zimbabwe Limited, the oldest and largest discount house in Zimbabwe. Also in the same year, Meikles Africa limited acquired 24.91% stake in KFHL and became a strategic partner. Following the merger, DCZH, which was listed on the Zimbabwe Stock Exchange, changed its name to Kingdom Financial Holdings Limited.

In the year 2000 the accepting house licence was converted to that of a commercial bank. This development saw the launch of a commercial bank in 2001 in which the first retail branch was opened. In 2002 the group introduced leasing services and micro finance services to cater for the needs of its different clientele in the market. The group featured in the top 10 quoted companies of the Zimbabwe Stock Exchange (ZSE), in 2001.

KFHL serves its clients in the areas of money, equity, capital and foreign exchange markets. The Company is also involved in investment banking, portfolio management, company research and advisory services. The Holding Company has the following principal subsidiaries: -

- Kingdom Asset Management (Pvt) Ltd

The company manages institutional and private client's funds in order to maximize their returns through portfolio management and unit trusts. The company provides services to individuals, partnership, companies and pension and provident funds.

- The Discount Company of Zimbabwe Ltd

The company offers fixed income securities dealings and is heavily involved in local money market, government and municipal stocks. It also offers research in money and capital markets.

KINGDOM Financial Holdings Ltd is one of the few indigenous institutions to survive the 2004 banking turmoil. This is attributed to good corporate governance practices that are carried out. Global Ratings Co gives Kingdom Bank Limited a short term rate of A2 and a long term rate of BBB+. This decision reflects the turn around shown at the interim stage, as well as the support provided by Meikles Africa. Kingdom is founded on sound business principles and values and fosters an environment which upholds transparency, innovation, entrepreneurship and which encourages continuous learning. KFHL's mission is to provide superior returns and excellent services for its clients, employees and shareholders based on sound business values.

Corporate Governance Policy at KFHL

When it comes to the rights of shareholders and duties of the Boards, KFHL uses other literature on corporate governance such as the King Report and the mandatory Reserve Bank of Zimbabwe guidelines on corporate governance. Some of the issues are contained in company policy documents. The company has a code of conduct and ethics which deals with rules of disclosure. This is in addition to disclosure rules set out in the Companies Act and other relevant legislation. The policies of the company regarding public investors are available at the company's registered office. There is a code of conduct for non-managerial employees in the banking industry and then there is the code of conduct which applies to directors and senior management which is an internal document. The Code of Conduct is available at the KFHL`s registered office. The code of conduct highly takes into account the following,

- Ethical standards in dealing with customers, vendors and other relevant parties.
- Company expectations of management and employees
- The privacy of information about outsider companies.
- The privacy of information about employees.
- The importance of compliance with laws and regulations.

Twelve members sit on the Board of Directors of KFHL. The majority of directors are non-executive directors. The outside directors meet without management as and when the need arises. The roles and responsibilities of directors are clearly spelt out in their appointment letters where their terms of reference are specified. The roles and responsibilities are also spelt out in the Directors Charter as well as in other relevant regulations issued by the Reserve Bank of Zimbabwe (RBZ), Zimbabwe Stock Exchange (ZSE) and the Companies Act. The board of directors conducts formal meetings four times a year. To a certain degree, there are potential conflicts of interest between the company and its members of the board of directors. The company seeks to avoid any conflicts of interests but where they do arise, outside counsel is sought and the director with the potential conflict of interest is excluded from any discussion or decision on the issue likely to give rise to the potential conflict. The following committees are actively functioning in KFHL,

- Audit Committee
- Compensation Committee
- Risk Management Committee
- Executive Committee

The following are not functioning at all,

- Nomination Committee
- Insurance Committee

There is a formal performance appraisal for the board of directors which is carried out once a year. The board of directors constantly monitors the results of the business. It receives monthly performance updates. KFHL's vision, mission, business plan and strategic plan are the responsibility of the board of directors. The board of directors is given introduction training. Ongoing training is provided once a year over a period of three to five days. The board has implemented mechanisms designed to identify areas of potential problems in performance before crisis occurs. It has a checklist identifying potential risks and their resolution. This is updated regularly as and when potential risks are identified.

The appointment of external auditors is the preserve of the audit and finance committee although management is able to recommend suitable candidates. There is no definitive formulae for CEO compensation at KFHL although all the above factors, including industry norms, are taken into account in determining the CEO's compensation. All the other board members formally evaluate the CEO's strengths, weaknesses, objectives, personal plans and performance once a year. The performance of each of the directors is periodically reviewed once a year or when a complaint has been raised. Where there are non performing directors, they are asked to resign. The other senior managers are evaluated by the CEO. There is an ongoing directors training which has corporate governance as a major component.

Shareholder rights at KFHL

The annual shareholders meeting is conducted within six months after the accounting year end in accordance with company law regulation. The shareholders are given at least 28 days notice of the annual shareholders meeting. There is adequate opportunity for shareholders to receive and review the financial reports in order to ask for questions to be put on the Agenda at the annual shareholders meeting.

Disclosure policies and practices at KFHL

KFHL publishes its financial results and management analysis for distribution to analysts. It provides shareholders and investment analysts' equal access to information.

4.2.2 OLD MUTUAL ZIMBABWE

Old Mutual has one of the largest financial services distribution networks in Zimbabwe, with approximately 243 full-time and salaried agents and arrangements with more than 28 brokers as at June 2001. The Group's life business is conducted principally by Old Mutual Life Assurance Company, (OMLAC), which provides life, disability, retirement savings and investment products for individuals and groups. The Group provides a multi-country asset management capability with specific local and global investment and asset management expertise. Old Mutual Asset Managers is a leading fund manager in Zimbabwe, characterised by strong growth in assets under management. The Group's Unit Trusts provides an exciting range of funds for investors seeking minimised risks and long-term capital appreciation.

The Group's banking business is conducted principally by Central Africa Building Society, (CABS). Its short-term insurance business is conducted principally by RM Insurance, in which the Group has a controlling interest and an effective economic interest of 51%. RM Insurance writes motor, fire, accident and engineering business. RM Insurance distributes its products primarily through brokers and Old Mutual's full-time agents.

Introduction and Combined Code Compliance

The directors of Old Mutual submit their report and the audited financial statements of the Group for the year ended 31 December. The Group is committed to the objective of achieving high standards of corporate governance, which are designed to provide assurance that the organisation is directed and controlled by its Board of Directors and through systems of delegation and escalation so as to be able to achieve its business objectives responsibly and in accordance with high standards of accountability and integrity.

The principal governance rules that apply to UK companies listed on the London Stock Exchange are set out in the Combined Code appended to the Listing, Prospectus and Disclosure Rules of the Financial Services Authority (the Combined Code). As the Company's primary listing is on the

London Stock Exchange, this report mainly addresses the matters covered by the Combined Code, but the Company also has regard, where appropriate, to govemance expectation in the five other territories where its shares are listed (South Africa, Sweden, Namibia, Zimbabwe and Malawi).

In the year ended 31 December 2005 and in the preparation of its Annual Report and Accounts, the Company has complied with the main and supporting principles and provisions set out in the Combined Code. The Company's compliance with Combined Code provisions C1.1, C2.1, C3.1, C3.2, C3.3, C3.4, C3.5, C3.6 and C3.7, and the statement relating to the going concem basis adopted in preparing the financial statements, are reviewed by the Company's auditors, KPMG Audit Plc, in accordance with guidance published by the Auditing Practices Board.

Board of Directors

Membership and directors' interests

The Board currently has ten members, consisting of three executive and seven non-executive directors. Details of the directors' interests (within the meaning of section 346 of the Companies Act 1985, including interests of connected persons) in the share capital of the Company and quoted securities of its subsidiaries at the beginning and end of the year under review are set out in the Corporate Governance and Directors Report of the 2005 Annual Report. The Company has entered into a Deed of Indemnity in favour of each of its Directors. A specimen copy of the terms of such indemnities is available below.

Rotation/Re-Election of Directors

The Articles of Association of the Company require that any newly appointed directors be subject to election at the next following Annual General Meeting and also that at least one-third of the directors (excluding those appointed by the Board during the year) shall retire by rotation each year. These provisions are applied in such a manner that each director will submit himself for election or re-election at regular intervals and at least once every three years.

The Nomination Committee considered the candidates who are standing for election or re-election at this year's Annual General Meeting (as referred to in Ordinary Resolutions 3 (i) to (iv) in the Notice of Annual General Meeting in the Annual Report, at its meeting in February 2006. Plans for refreshing and renewing the Board's composition are proactively managed by the Nomination Committee so as to ensure that changes take place without undue disruption and that there is an appropriate balance of experience and length of service. That Committee also has regard, in making recommendations, to independence of candidates and their suitability and willingness to serve on other Committees of the Board. All of these aspects are currently believed by that Committee to be satisfactory and appropriate for the requirements of the Group's business. While there are currently only two executive directors, members of the Board have regular contact with the other most senior executive management (including the chief executives of the most significant business units of the Group), through the periodic participation in Board meetings and other briefing sessions by those executives. The Board also receives Minutes of Management Board meetings, which are attended by those and other senior executives and at which high-level business and strategic matters are considered and discussed.

Mandate, governance and Scheme of Delegated Authority

The Board's role is to provide entrepreneurial leadership to the Company within a framework of prudent and effective controls which enable risk to be assessed and managed. The Board sets the Company's strategic aims, ensures that the necessary financial and human resources are in place for it to meet its objectives and reviews management performance. It regularly reviews strategic issues through the Chief Executive's report and has a two-day strategy session during the second quarter of each year at which high-level strategic matters are thoroughly debated. The Board sets the Company's values and standards, and ensures that its obligations to shareholders and others are understood and met.

The Board receives a wide array of information on the Group's businesses on a regular basis. Monthly management accounts are circulated to each member of the Board within three weeks of the month-end. These contain detailed analysis of the businesses' financial performance, including comparisons against budget. Any issues arising from these are addressed at Board Meetings or can be raised directly with management. The Board calendar ensures that all key matters are dealt with on a scheduled basis over the course of the year, including presentations on each of the Group's major businesses. Board meetings are held regularly in the principal overseas territories where the Group operates, at which local management make detailed presentations of business and strategic issues affecting those businesses.

The Board has oversight of the Group's wholly-owned businesses, but also: (i) delegates specific responsibilities for certain matters to its committees (Executive, Group Capital Management, Nomination, Remuneration, Group Audit, and Actuarial Review), subject to their respective terms of reference; and (ii) receives assurance from boards (and their respective committees) at the Group's subsidiaries.

The policyholders' funds of the Group's South African and Zimbabwean life assurance operations have holdings representing in aggregate in excess of 20% of the issued share capital of a number of major South African and Zimbabwean companies listed on the JSE and the Zimbabwe Stock Exchange, respectively. These are held purely as investments, and the companies concerned are not subject to the governance or control structures of the Group. The Chairman and Company Secretary are both involved in ensuring good information flows within the Board and its committees and between senior management and the non-executive directors, as well as in facilitating induction and encouraging non-executive directors to attend courses at the Company's expense to update their skills and knowledge. On appointment, new directors receive induction, including information about matters of immediate importance to the Group, such as the current budget, strategy document, management accounts, the Scheme of Delegated Authority and details of the Company's directors' and officers' liability policy. They are also have a series of meetings with other directors, senior management and external advisers (such as the auditors).

Processes are in place for any potential conflicts of interest to be disclosed and for directors to recuse themselves from participation in any decisions where they may have any such conflict or potential conflict. The directors may take independent professional advice at the Company's expense, if necessary, for the furtherance of their duties, whether as members of the Board or of any of its committees. The Company maintains directors' and officers' liability insurance in respect of legal action against its directors. All directors have access to the Company Secretary, who is responsible to the Board for ensuring that Board procedures are complied with. There is an agreed list of matters reserved for the Board's decision:

these are set out in the Company's Scheme of Delegated Authority and currently include, among other things, the following:

- payment or recommendation of dividends;
- approval of results announcements, interim and annual reports and any other public statement relating to the Group's financial position which is likely to have a material impact on the Group's reputation;
- approval of the Group's budgets and the formulation of medium and long-term direction and strategy for the Group;
- establishment of committees of the Board, their constitution and terms of reference;
- monitoring of compliance with the Group's environmental policies;
- approval of the acquisition or disposal of any business or investment ;
- approval of expenditure by a Principal Subsidiary in excess of its respective delegated expenditure authority;
- approval of significant changes to the accounting policies or practices of the Group;
- approval of appointments to the Board and renewal of non-executive directors' appointments, following prior review by the Nomination Committee;
- approval of any major decision relating to the conduct or settlement of any material litigation involving the Company or its subsidiaries;
- appointment and removal of the Company Secretary;
- appointment or termination of appointment of key professional advisors to the Group; and

- any other matters which are likely to have a material effect on the Group's financial position, future strategy or reputation.

Executive and non-executive roles

The executive element of the Board is balanced by a strong independent group of non-executive directors so that no individual or small group of individuals can dominate the Board's decision-making. The non-executive directors scrutinise the performance of management in meeting agreed goals and objectives, and monitor the reporting of performance. Procedures are in place to enable them to satisfy themselves on the integrity of the Group's financial information and that financial controls and systems of risk management are robust and defensible. Those non-executive directors who are members of the Remuneration Committee are responsible for determining appropriate levels of remuneration for the executive directors, and members of the Nomination Committee have a primary role in recommending the appointment, and where necessary removal, of executive directors. The Board as a whole receives and considers regular reports on talent management and succession planning.

Separately from the formal Board meeting schedule, the Chairman holds periodic meetings with the other non-executive directors, without any executives being present, in order to provide a forum for any issues to be raised. He also conducts, in consultation with the senior independent non-executive director, an annual performance evaluation of each of the other non-executive directors, the results of which are reported to the Nomination Committee. These are designed to ensure that each director is continuing to contribute effectively and to demonstrate commitment to the role (including commitment of time for Board and Committee meetings and any other duties). The outputs from these performance evaluations are taken into account by the Nomination Committee in deciding whether to recommend to the Board the extension of engagement of any non-executive director and also whether to recommend to shareholders the re-election of any non-executive director who is due to retire by rotation at the Annual General Meeting. They would also form the basis, if the need arose, for the Chairman to act to address any weaknesses identified in the Board by seeking the resignation of underperforming directors or proposing, through the Nomination Committee, that additional directors be appointed.

Informal meetings among the non-executive directors, without the Chairman or any executive being present, are also facilitated by the Company. Among the activities carried out at such meetings is the annual review of the Chairman's own performance, under the aegis of the senior independent non-executive director, who also obtains input for such purpose from the executive directors. Where directors have concerns that cannot be resolved about the running of the Company or a proposed action, they are encouraged to make their views known and these are recorded in the Minutes of the Board meeting. No written statements on resignation containing matters of concern, such as are referred to in paragraph A.1.4 of the Combined Code, have been received by the Chairman.

The division of responsibilities between the current Chairman and the Chief Executive is documented so as to ensure that there is a clear division of responsibilities between the running of the Board and executive responsibility for running the Company's business. This, together with the Scheme of Delegated Authority and the matters reserved for decision by the Board, ensures that no one individual has unfettered powers of decision.

Responsibilities of the Chairman include those contained in the Supporting Principle to paragraph A.2 of the Combined Code, namely leadership of the Board, ensuring its effectiveness in all aspects of its role and setting its agenda; ensuring that the directors receive accurate, timely and clear information; ensuring effective communication with shareholders; facilitating the effective contribution to the Board of non-executive directors in particular; and ensuring constructive relationships between the executive and non-executive directors.

The Board has determined that, in the absence of exceptional circumstances, no non-executive director's three-year cycle of appointment (which is itself subject to re-election and to Companies Act provisions relating to the removal of a director) should be renewed more than twice, i.e. that non-executive directors should serve a maximum of nine years in that role, and that no non-executive director should continue beyond his seventieth birthday. The renewal of non-executive directors' terms for successive three-year cycles is not automatic and the continued suitability of each non-executive director is assessed by the Nomination Committee before renewal of his appointment takes place. A particularly searching review is carried out at the end of six years. The section of the Remuneration Report entitled 'Non-Executive Directors' Terms of Engagement' describes the current position of each of the non-executive directors with respect to their maximum three terms of three years and how the extension process has been applied to the directors concerned.

The Board conducts an annual self-assessment exercise to evaluate the effectiveness of its procedures. In 2005, this process was carried out through a detailed questionnaire, with returns being submitted anonymously to the Company Secretary, who collated a report on the outputs for the Chairman and the Board. The Chairman took these into account in one-to-one meetings between himself and the other directors, so as to ensure that any concerns about Board processes or capabilities were identified and aired. As a consequence of the 2005 survey a number of topics have been identified as warranting additional coverage at Board meetings to be held during 2006.

Independence of non-executive directors

Six of the eight non-executive directors other than the Chairman are considered by the Board to be independent within the meaning of, and having regard to the criteria set out in, paragraph A.3.1 of the Combined Code - i.e. independent in character and judgment and there being no relationships or circumstances which are likely to affect, or could appear to affect, their judgement.The terms and conditions of engagement of each of the non-executive directors are available in the Corporate Governance section of the Company's website, and these include details of the expected time commitment involved (which each of the non-executive directors has accepted). Other significant commitments of potential appointees are considered by the Nomination Committee as part of the selection process and are disclosed to the Board when recommendation of an appointment is submitted. Non-executive directors are also required to inform the Board of any subsequent changes to such commitments, which must be pre-cleared with the Chairman if material. The executive directors are permitted to hold one external (i.e. non-Group) non-executive directorship (but not a chairmanship) of another listed company, subject to prior clearance by the Board and the directorship concerned not being in conflict or potential conflict with any of the Group's businesses.

Committees

The Board has a number of standing committees or sub-committees, to which it has delegated various matters in accordance with their respective terms of reference. It also establishes committees on an ad hoc basis to deal with particular matters as and when thought fit. In doing so, it specifies a remit, quorum and appropriate mix of executive and non-executive participation.

Internal Control Environment

The Board acknowledges its overall responsibility for the Group's system of internal control and for reviewing its effectiveness, whilst the role of executive management is to implement Board policies on risk and control. Executive management has implemented an internal control system designed to facilitate the effective and efficient operation of the Group and its business units and aimed at enabling management to respond appropriately to significant risks to achieving the Group's business objectives. It should be noted that the system is designed to manage, rather than eliminate, the risk of failure to achieve the Group's business objectives, and can only provide reasonable, and not absolute, assurance against material misstatement or loss.

This system of internal control helps to ensure the quality of internal and external reporting, compliance with applicable laws and regulations, and internal policies with respect to the conduct of business. The Board has reviewed the effectiveness of the system of internal control during and at the end of the year. This review covered all material controls, including financial, operational and compliance controls and risk management systems.

The Board is of the view that there is a sufficient ongoing process for identifying, evaluating and managing the significant risks faced by the Group. The process accords with the Tumbull guidance set out in 'Internal Control Guidance for Directors on the Combined Code' and is regularly reviewed by the Board.

Approach to risk management

Creating shareholder value is the Group's overriding business objective, and the Group therefore derives its approach to risk management and control from a shareholder value perspective. As a result, the risk process is based on an Enterprise Risk Management (ERM) concept, which takes a holistic approach to managing risks on an enterprise-wide basis. This involves focusing on the identification of the key risks that affect the achievement of Group's objectives. Such risks are firstly understood on an inherent basis, which involves understanding the main drivers to such risks in the absence of any controls. Thereafter there is an assessment of the residual level of risks, taking into account the controls that are in place to manage such risks. Where the residual level is outside the risk appetite, further controls and action are defined to bring the risks within the risk appetite. An important aspect of this approach is the recognition that risk management is not limited solely to the downside or risk avoidance, but is about taking risk knowingly.

In order to meet its ERM objectives, the Group applies the ERM framework issued in September 2004 by COSO (Committee of Sponsoring Organisations of the Treadway Commission). This risk framework contains the following components: (i) a robust risk governance structure; (ii) risk appetites established at Group and subsidiary level; (iii) Group-wide risk policies; and (iv) methodologies that focus on risk identification, risk measurement, risk assessment, action plans, monitoring and reporting. Each component is explained in more detail below.

Risk governance

The Group's risk governance model is based on three lines of defence. This model distinguishes between functions owning and managing risks, functions overseeing risks, and functions providing independent assurance:

Under the first line of defence, the Board sets the Group's risk appetite, approves the strategy for managing risk and is responsible for the Group's system of internal control. The Group Chief Executive, supported by the Management Board, has overall responsibility for the management of risks facing the Group and is supported in the management of these risks by management at the operating subsidiaries. Management and staff within each business have the primary responsibility for managing risk. They are required to take responsibility for the identification, assessment, management, monitoring and reporting of enterprise risks arising within their respective areas.

The second line of defence comprises, firstly, the Group Chief Executive supported by the Management Board and the principal subsidiary and business unit management when performing risk monitoring and oversight, and, secondly, the Group Finance Director, Deputy Group Finance Director, Head of Group Risk & Compliance, subsidiary Chief Risk Officers, supported by their respective Finance and Risk functions, and other specialist in-house functions at Company and subsidiary levels, who provide technical support and advice to operating management to assist them with the identification, assessment, management, monitoring and reporting of financial and non-financial risks. The Group risk function recommends Group Risk Policies to the Board for approval, provides objective oversight and co-ordinates ERM activities in conjunction with other specialist risk-related functions. Group Risk is not, however, accountable for the day-to-day management of financial and non-financial risks.

The third line of defence is designed to provide independent objective assurance on the effectiveness of the management of enterprise risks across the Group. This is provided to the Board through the Group internal audit function, the external auditors and the Group Audit Committee, supported by audit committees at subsidiaries.

Internal Audit

The Group internal audit function operates on a decentralised basis, with teams established at all major businesses. Reports are submitted directly to the Group Internal Audit Director, who in turn reports to the Chairman of the Group Audit Committee and the Group Chief Executive. Internal audit carries out regular risk-focused reviews of the control environment and reports on these to local executive management. It also enjoys unrestricted access to the audit committees of the Group's principal subsidiaries.

The internal audit function has recently moved to a single audit methodology, updated and aligned to current international standards by a Professional Practice Unit, which is a centralised function responsible for ensuring quality and consistency of internal audit working practices and staff competency around the Group. The roll-out of this methodology has been timed to coincide with the change to the TeamMate™ software, which is now used by all internal auditors across the Group.

The next major review of internal audit by external experts is planned for 2008, in keeping with the IIA Inc standards of professional practice.

Risk appetite

The fundamental purpose of the Group's risk appetite is to define how much risk the Group is willing to take. Risks or events falling outside the agreed risk appetite are identified for immediate remedial action and subjected to executive management and audit committee oversight. The Group's risk appetite framework is developing well. Upon completion it will encompass: (i) a process for setting the Group risk appetite; (ii) a process for allocating the Group risk appetite among the business units; (iii) risk reporting against those limits; (iv) application of stress and scenario testing; and (v) risk appetite governance laid down in a Group risk appetite policy.

Some components of the Group risk appetite are dependent on the Group's Economic Capital Project, which is currently scheduled to be completed later this year.

Group risk principles

Group risk principles have been established for each major risk category to which the Group is exposed. These are designed to provide management teams across the Group with guiding principles within which to manage risks. Business unit risk policies expand on these principles and contain detailed requirements for the specific business concerned. Adherence to these principles provides the Board and the Company's stakeholders with assurance that high-level common standards are consistently applied throughout the Group and also contributes to how the Group governs itself.

Risk Methodologies

Risk identification

Strategic objectives reflect management's choice as to how the Group will seek to create value for its stakeholders. Strategic objectives are translated into business unit objectives. Risks (and risk events) are then identified that would prevent the achievement of both the strategic and business objectives, i.e. objective-setting is a pre-condition to the risk management process. For this reason, risk identification is part of the annual business planning process as well as an ongoing process. The resultant risks are recorded in a risk log with details of risk owners, existing controls or actions to mitigate the risks and any associated time frame, and a measure of the residual risk.

Risk assessment and measurement

Various means of assessing and measuring enterprise risks and risk events are used throughout the Group. These include estimating the financial impact and the likelihood of risk occurrence, trend and traffic light assessments and high/medium/low assessments. With regard to credit risk, asset and liability risk and market risk, a mixture of quantitative and qualitative measurement methods is used by the business units commensurate with the complexity of the risk, such as exposures against limits, stress and scenario testing, sensitivity analysis and value-at-risk measures. Action plans to implement the risk management strategy in respect of key risks or to remedy a material breakdown in control are recorded on risk and control logs maintained by each business grouping.

Monitoring and Control

The Board regularly receives and reviews reports on risks and controls across the Group. These reviews cover all material controls, including financial, operational and compliance controls and risk management systems. Management teams in each subsidiary and business unit have performed annual reviews of the control environment in their business and have produced reports reflecting appropriate assurances. Risk monitoring is further undertaken at Group, principal subsidiary and business unit level by management, ERM functions, specialised risk management functions, internal audit and subsidiary audit committees.

The following are some of the other key processes of risk monitoring used around the Group:

- The Group Finance Director provides the Board with monthly performance information, which includes key performance and risk indicators. These are complementary to the monthly management reports, which include a status report on key risks to the achievability of business objectives;
- Items on risk logs and control logs (which contain details of any control failures) are reported pursuant to an escalation protocol to the appropriate level of management board or committee, where rectification procedures and progress are closely monitored. Planned corrective actions are independently monitored for timely completion by internal audit and, as appropriate, by the Group Audit Committee and Board;
- Exposure reporting, risk concentrations and solvency and capital adequacy reports are submitted to the relevant credit and capital management committees in the normal course of business. Where exposures are in excess of limits, they are treated in the same way as control breakdowns and reported on the relevant control log for audit committee review.

Reporting

As part of the Board's annual review process, the Chief Executive of each of the Group's major businesses completes a letter of representation. This letter confirms that there has been no indication of any significant business risk occurring, nor any material malfunction in controls, procedures or systems during the reporting period, resulting in loss or reputational damage, which impacts negatively on the attainment of the business's objectives during the year and up to the date of approval of the Annual Report. Exceptions are noted and reported. In addition the letter confirms that the business unit will continue as a going concern for the year ahead. The collated results of these letters are reported to the Group Audit Committee.

Relations with shareholders and analysts

The Company regards clear and direct dialogue with its shareholders and analysts as important in raising their understanding of the Group's strategy, operational and financial performance, management and prospects. Its Investor Relations department has a dedicated programme for facilitating regular communication between the executive management team and a wide range of institutions and investors worldwide within the constraints of the Listing, Prospectus and Disclosure Rules. The Board is regularly updated on key issues arising from any shareholder communications and provided with reports to enable it to monitor accurately changes in market or shareholder opinion. The Chairman, with the senior non-executive director and other members of the Board, is available to meet investors by prior arrangement.

The Company's public announcements and statements, including its annual and interim reports, are intended to give a detailed account of the Group's activities, its operational and financial performance and its prospects. Group strategy and performance are communicated to financial markets through annual and interim reports, news releases, speeches, transcripts and presentations, using a wide range of internal and external communication channels. All major announcements by the Company are emailed to the Investor Relations department's investor database as they are made public.

4.2.3 MEIKLES AFRICA LIMITED

Meikles Africa is a hospitality and retail group operating properties in several major cities across Zimbabwe. The group's portfolio includes luxury hotels, such as the five-star Meikles Hotel in Harare and a 50% interest in Victoria Falls Hotel. Other Meikles Africa businesses are department-stores operating as Meikles, Barbours, and Greatermans, the TM Supermarkets chain, and the Zimbabwean franchise for Clicks Stores. Meikles Africa also owns 33% of Kingdom Financial Holdings, which operates Kingdom Merchant Bank. The company was listed on the Zimbabwe Stock Exchange in 1996.

The company's top ten shareholders are:

Meikles Consolidated Holdings (Pvt) Ltd	52.77%
Old Mutual	15.25%
MAL Share Participation Company Limited	2.26%
Waughco Nominees (Pvt) Ltd	2.20%
National Social Security Authority	2.08%
AATC	2.05%
First Mutual Life	2.01%
Velacott Investments (Pvt) Ltd	1.71%
Fed Nominees (Pvt) Ltd	1.30%
Temple Asset Management Nominees (Pvt) Ltd	1.28%

Corporate Governance Policy

Meikles Africa has a comprehensive manual of corporate governance for the whole group which is reviewed and updated periodically where issues are highlighted. The written code of corporate governance where the rules of disclosure are specified is included in the same manual.

Risk Management

The Board has endorsed a formalized risk management policy, which hinges primarily upon:

- Corporate governance excellence.
- Development and protection of the people, the assets and the operations of Meikles Africa Limited with a strong focus on physical controls, financial efficiency and internal controls.

The risk management function is ultimately accountable to the Executive Director Finance and Administration and the Audit Committee. The Group Risk Manager formally reports quarterly to the Audit Committee. Each operating unit has an internal audit department, the head of which reports to the audit committee of each division. Formal reports are presented to the Audit Committee quarterly. The Group operates a central treasury function, the objective being to provide competitive funding costs and investment income as well as the monitoring of financial risk. The Group treasury y activity is routinely reported to Executive Directors, and is subject to review by the internal and external auditors. In accordance with Group policy, Group treasury does not engage in speculative activity. The objective is to reduce the risk to short term profits of exchange rate volatility. The Group has significant foreign currency assets, and interest and transactional exposures are covered with foreign currency income.

The objective is to ensure continuity of funding at low cost and to avoid significant exposure to changes in interest rates. Exposure to liquidity risk is managed through a diversity of funding sources and a spread of debt maturities. With residual cash reserves, net of all borrowings, of $2,896 billion, and unused bank facilities of $280 billion, the Group is able to meet all short-term commitments. The interest rates for both interest receivable and payable locally are mostly flexible, and pegged to the commercial banks' minimum lending rate. The objective is to reduce the risk of loss arising from default by counterparties. The Group's cash resources are invested with the most reputable financial institutions, whilst at the same time, where possible, spreading risk across a number of banks and similar institutions. At the balance sheet date US$27.3 million (Z$2,707.5 billion) was invested with the Reserve Bank of Zimbabwe in accordance with its directive. The principal amounts of all monetary financial assets and liabilities are fixed, and not subject to market related value adjustments.

Board of Directors

The structure of the Board and its various standing committees is as follows: -

The Board currently consists of the Chairman, two executive and three non-executive Directors, and meets at least quarterly. The key matters reserved for the decision of the Board are Group strategy y, acquisition and divestment policy, approval of the Group budget and major capital projects, and general treasury and risk management policies. The Group operates a decentralized subsidiary/divisional structure. Each subsidiary or division has a formal operating Board with a clear definition of responsibility, which operates within well-defined policies. There is comprehensive financial reporting with actual results reported monthly against budget and prior year.

Committees

The Audit Committee is chaired by Michael Wilson and normally meets four times a year. The Executive Director Finance and Administration and the Group Financial Controller attend these meetings by invitation. The Committee reviews the Group's interim and annual financial statements before submission to the Board for approval. Its objectives are to ensure that the Board is advised on all matters relating to corporate governance and the creation and maintenance of effective financial controls, as well as advising the Board and management on measures which ensure that respect for both regulatory issues and for internal financial control is demonstrated and stimulated. Accordingly, it reviews the effectiveness of the internal audit function, its programmes and reports, and also reviews all reports from the external auditors on accounting and internal control matters, and monitors action taken where necessary. The Committee also recommends the appointment and reviews fees of external auditors.

The Remuneration Committee is chaired by John Moxon and meets as required during the year. The terms of reference of the Committee are to determine the Group's policy on the remuneration of executive Directors and senior executives, including individual salaries and other terms of the remuneration packages.

Transparency: Quality and Integrity of Financial Reporting

The Disclosure Committee and the Board are responsible for publishing financial statements and the annual report with the active participation of management. Meikles Africa follows international reporting standards, and its financial statements generally adhere to Generally Accepted Accounting Principles (GAAP). The financial reports are audited by an independent auditor. The company discloses ownership and control information every month, and does not enter into any shareholder agreements that may negatively affect its corporate governance system or its treatment of shareholders. In addition, the company discloses all business relationships and material provisions of contracts to shareholders. Meikles Africa recognizes that it must continue to improve its governance framework as it strives to maximize shareholder value.

4.2.4 DELTA CORPORATION LIMITED

Delta Corporation Limited is a holding company, that has invested in and taken management responsibility for a broadly based portfolio of businesses, which operate throughout Zimbabwe. The company is listed on the Zimbabwe Stock Exchange and was first registered in 1946 as Rhodesian Breweries Limited. Its origins, however, were even earlier. In 1898, the country's first brewery was established in Cameron Street, Salisbury.

The Company remains at the forefront of Corporate Governance practices and its broad principles are detailed below. The focus of risk management in Delta is on identifying, assessing, managing and monitoring all known forms of risk across the Company. An appropriate risk analysis framework is used to identify the major risks which the Company must manage in serving its stakeholders. The environment in which the Company operates is subject to such levels of change that regular reassessment of risk is necessary to protect the Company. In view of this, each part of the business has developed detailed contingency action plans to minimize the lead-time necessary to adapt to changes in circumstances. These plans are then updated whenever a change is noted or anticipated. The management of risk and loss control is decentralized, but in compliance with Company policies on risk, the process is reviewed centrally on a quarterly basis and is supervised by the Audit Committee.

Corporate Governance at Delta

Board Of Directors

The Boards of Directors of Delta and its listed subsidiary are constituted with an equitable ratio of executive to non-executive directors and meet at least quarterly. There are twelve board members comprising of the Chairman, CEO, two executive directors and eight non-executive directors. Non-executive directors chair the Delta Board and that of its listed subsidiary. The Board meets at least quarterly. A non-executive director chairs the Delta Board.

Directors Interests

Each year Directors of the Company are required to submit in writing whether they have any material interest in any contract of significance with the Company or any of its subsidiaries which could have given rise to a related conflict of interest.

Code Of Ethics

Delta personnel are committed to a long-published code of ethics. This incorporates the Group's operating, financial and behavioral policies in a set of integrated values, including the ethical standards required of members of the Delta family in the interface with one another and with all stakeholders. There are detailed policies and procedures in place across the Group covering the regulation and reporting of transactions in securities of Group companies by directors and officers. The Code is applicable to the Company and its subsidiaries.

Stakeholders

Delta has formalized its stakeholder philosophy and introduced structures of corporate governance to manage the interface with the various stakeholder groups. Delta has in place throughout the company, responsive systems of governance and practice which the Board and management regard as entirely appropriate and in accordance with the code of Corporate Practices and Conduct contained in the Cadbury and King Reports on Corporate Governance. Delta applies various participative practices in its relationships with non-management employees, primarily in respect of operating matters and plans, on the basis of mutual information sharing.

The Audit Committee

The Audit Committee of the Board deals, inter alia, with compliance, internal control and risk management. It is regulated by specific terms of reference, is chaired by a non-executive director, has a majority of non-executive directors and incorporates the Chief Executive Officer as the only executive member. It meets at least twice a year with the Company's external auditors to discuss accounting, auditing, internal control, financial reporting and risk management matters. The external auditors have unrestricted access to the Audit Committee.

The Remuneration Committee

Delta's Remuneration Committee is constituted and chaired by non-executive directors, save for the membership of the Chief Executive Officer. It acts in accordance with the Board's written terms of reference, to review the remuneration of all Delta directors and senior executives.

Disclosure

The Company is dedicated to achieving meaningful and responsible reporting through the comprehensive disclosure and explanation of its financial results. This is done to assist objective corporate performance measurement, to enable returns on investment to be assessed against the risks inherent in their achievement and to facilitate appraisal of the full potential of the Company.

The core determinant of meaningful presentation and disclosure of information is its validity in supporting management's decision making process. While the accounting philosophy encourages the pioneering of new techniques, it endorses the fundamental concepts underlying both the financial and management accounting disciplines, as enunciated by The Institute of Chartered Accountants of Zimbabwe, The International Accounting Standards Board and The International Federation of Accountants. The Company is committed to regular review of accounting standards and to the development of new and improved accounting practices. This is done to ensure that the information reported to the management and stakeholders of the Company continues to be internationally comparable, relevant and reliable. This includes, wherever it is considered appropriate, the early adoption of accounting standards.

4.2.5 BARCLAYS BANK OF ZIMBABWE

Board of Directors

The board of directors at Barclays Zimbabwe continues to work hard to maintain good Corporate governance by giving strategic guidance to the bank, effective monitoring of management, and ensuring timely and accurate disclosure of material information about the bank. The law and regulations which protect various rights of stakeholders including employees, customers and shareholders are observed. The board of directors is committed to protecting the rights of shareholders and ensures equitable treatment of minority and majority of shareholders. To ensure good corporate governance, the directors hold four board meetings per year at which they discuss policies and strategies relating to the company. The board is comprised of executive and two Independent non-executive directors. The roles of the Managing Director and Chairman are not vested in the same person.

Executive Directors bear the responsibility under the leadership of the managing Director for making and implementing operational decisions running the bank's businesses. The bank has robust and well developed structures to identify and manage the risks faced by all banking institutions including liquidity, credit, operational, interest rate and reputational risk. The structures that manage risk and ensure good corporate governance include the following committees:-

Audit Committee

The Audit Committee ensures the continued promotion of better corporate governance of the bank through a review of its financial condition, internal audit controls and performance. The Audit Committee reviews the effectiveness of the internal financial control systems of the bank to ensure that they address critical risk areas in the bank and makes recommendations to the board on the appointment of the external auditor, audit fee and on any question of resignation or dismissal of the external auditor which may arise. The Committee also reviews the objectives and operations of the internal audit function to assess the adequacy of performance and findings that it considers significant and reports these to the board. At each meeting the Committee reviews management's response to reported weaknesses in controls and any deficiencies in systems and makes recommendations for improvement. The Committee monitors the Ethical conduct of the bank, its executives and senior officers and advises the board as to whether or not the bank is complying with the aims and objectives for which it has been established. The Committee also ensures that the accounts are prepared in timely and accurate manner and ensures the prompt publication of annual accounts. The Committee comprises four independent non-executive directors.

The Board Credit Committee

The Board Credit Committee is tasked with an overall review of the quality of the bank`s lending policy. It reviews and oversees the overall lending policy of the bank and at each meeting, deliberates and considers loan applications beyond the discretionary limits of management. It ensures that there are effective procedures and resources to identify and manage irregular problem credits, minimize credit loss and maximize recoveries . It also directs, monitors, reviews and considers all issues that may materially impact on the present and future quality of the Bank Credit Risk Management. The Committee comprises two executive members and two independent non-executive directors.

Loan Review Committee

The Loan Review Committee has overall responsibility for complete review of the quality of the bank's loan portfolio to ensure that the lending function conforms to sound lending policies and keeps the Board and Executive adequately informed on portfolio risk. It assists the Board with discharging its responsibility to review the quality of the bank's loan portfolio. At every meeting, it reviews the quality of its loan portfolios with a view to achieving the objectives of the Banking Regulations Statutory Instrument. The Committee conducts loan reviews independent of any person or Committee responsible for sanctioning credit . The Committee is comprised of a minimum of two independent non-executive directors and two executive directors.

Human Resources Committee

The Committee assists the board in the review of critical personnel issues as well as acting as Remuneration and Terminal Benefits Committee. The Committee reviews and approves overall recommendations on employee remuneration as well as approves managerial appointments . The Committee ensures that the remuneration of directors is not out of line with the nature and size of operations of the bank. The Committee comprises three non executive directors and one executive director.

Risk Management Committee

The Committee ensures that the management and operation of the bank's business is done within the governance and control framework established by Barclays and other regulatory bodies and ensures reliability of the Bank's risk management. It determines and approves business level policies , ensuring consistency with Barclays Africa policies. It assists the Board of Directors in the discharge of its duties relating to the corporate accountability and associated risks in terms of management, assurance and reporting. At every meeting of the Committee, the Committee reviews and assesses the integrity of the risk control systems, ensures that the risk policies and strategies are effectively managed. The Committee also monitors external developments relating to the practice of corporate accountability and reporting of specifically associated risks including emerging and prospective impact. The Committee comprises executive directors and management.

Executive Committee (Also known as the Country Management Committee, CMC)

The Executive Committee is the operational management forum responsible for the delivery of the bank`s operation plan. The Executive Committee acts as a link between the board and management and is responsible for implementation of operational plans, annual budgeting and review of group operations, strategic plans, identification and management of key risks and opportunities. The Executive Committee also receives and approves guidelines for employee remuneration. It assists the Managing Director to manage the bank, to guide and control the overall direction of the business of the bank and acts as a media of communication and coordination between business units and the board.

Asset and Liability Committee (ALCO)

The achievement of sustainable and stable profits within a framework of acceptable financial risks and controls is the responsibility of ALCO. ALCO ensures that an undertaking to maximize the value that can be generated from active management of the bank`s balance sheet and financial risk within agreed risk parameters is achieved. ALCO manages the funding and investment of the bank`s balance sheet , liquidity and cash flow of the bank, and exposure of the bank to interest rate, exchange rate, and commodity and equity market movements. It ensures that the bank derives the most appropriate strategy in terms of the mix of assets and liabilities given its expectation of the future and potential consequences of interest rate movements, liquidity constraints and foreign exchange exposure and capital adequacy. It also ensures that the strategies of the bank conform to the bank's risk appetite and level of exposure as determined by the Risk Management Committee. The Committee comprises executive directors and management.

5.0 FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter deals with the main conclusions drawn from the study which sought to find out the good corporate governance practices being applied by five companies listed on the ZSE.

The boards of directors are generally well-balanced with more non-executive compared to executive directors. Having more non-executive directors is generally considered to be better for good corporate governance because independent non-executive directors are more inclined to critically look at company performance and make recommendations without fear or favour.On the other hand, chief executive officers as humans may take constructive criticism as a personal attack on their ability. Executive directors could be dismissed by the chief executive officer if he feels they are too critical of the way the company is being run. The CEO's are well educated with degrees and also master of business administration degrees. The good corporate governance practices can be attributed to theses aspects.

Separation of Chairman & CEO

A key principle in the majority of corporate governance codes is the clear division of the responsibility for running the board and the executive responsibility for running the company's business. The idea is that no one individual should have unfettered powers of decision. The role of the chairman in leading the board, ensuring its effectiveness through dissemination of accurate, timely and clear information and communication with shareholders, is highlighted in a number of codes. In the case of Meikles Africa Limited, the Chairman is also the major shareholder. This shareholding creates potential conflict of interest with other shareholders In some countries, such as Sweden, the legislation requires an executive managing director separate from the none. How global is good corporate governance The highest proportion of companies with separate chair and chief executives within a unitary board structure are in Ireland and Luxembourg, although this figure is a little distorted by the relatively small number of large and medium cap companies from these countries listed on the index used for the purpose of this research. In Australia, the UK and New Zealand over 95% of companies separate the roles.

Motivations

It is often asserted that corporate governance impacts on the bottom line. Good corporate governance practices may grant a competitive advantage allowing companies to achieve:

- • lower borrowing costs
- • lower litigation costs
- • reduced chance of being targeted for
- shareholder action and negative proxy
- votes
- • increased chance of recruiting and
- retaining high quality directors
- • increased market trust in reported
- earnings
- • a higher stock price

This view is clearly now shared by the five companies studied. High governance standards are defined, as: majority of outside directors; outside directors being truly independent with no ties to management; directors with significant shareholdings; a material proportion of directors' pay being stock-related; formal director evaluation in place; and responsiveness to investor requests for information on governance issues. Top reform priorities were: Strengthening corporate transparency; More independent boards; Greater boardroom effectiveness through such steps as better director selection. Active dialogue frequently occurs between companies and their shareholders as companies are challenged on their disclosures of noncompliance with corporate governance codes. A balance is sought between securing good governance through compliance with corporate governance codes without creating overly proscriptive requirements that may damage companies and result in unnecessary additional costs.

Board size and structure

In a number of countries minimum board size is determined by national law or listing requirements. The 'appropriate' board size may be dependent upon company size and sector. Corporate governance codes have tended to shy away from the complex and potentially restrictive task of recommending a specific size, instead employing more general guidance. For example, "An effective board should not be so large as to become unwieldy. It should be of sufficient size that the balance of skills and experience is appropriate for the requirement of the business and that changes in the board's composition can be managed without undue disruption." Higgs Review (2003) Analysis of EIRIS data reveals that New Zealand has the smallest average board size of 7.2 directors. Austrian and German boards are largest with an average of 18.1 and 22.1 directors respectively. The smallest board range (four) is also found in New Zealand with boards of between five and nine directors. The largest range is found in Japan (47) where board size varies dramatically between three and 50 directors. Interestingly, a recent study investigating corporate boards in OECD countries found a negative impact of board size on company value.

Board diversity

There is growing consensus that increased diversity contributes to a more effective board as verse perspectives are taken into account in board decision-making. One of the non-code recommendations made by Derek Higgs in the 'Review of the role and effectiveness of non-executive directors' suggested that boards should draw more actively from areas where women tend to be more strongly represented when making appointments. A report in June 2003 by Laura Tyson17, Dean f the London Business School, called for an annual census of boardroom diversity and emphasized that diversity in backgrounds, skills and experiences of non-executive directors enhances board effectiveness by bringing a wider range of perspectives to bear on issues of company performance, strategy and risk.

Research shows that:

• Only 7% of the directors of leading companies in the major developed economies are women (7.1%)

• Over 46% of the companies have no women on the board (46.6%)

• Only 23% of the companies have more than one woman on the board (23.1%)

• North American companies are among global leaders in terms of the percentage of women on their boards, although women still represent less than 13% of directors on US boards and less than 11% of Canadian boards

The role of independent directors

All directors should take decisions objectively and in the best interests of the company. Independent oversight of board decision-making is integral to the effective functioning of a company, maintaining accountability and transparency. Recent developments in corporate governance have focused on the proportion of independent directors on the board. Designation of independence is, to a large extent, subjective, and depends on individual integrity and judgement. However, there are certain relationships that are widely perceived to influence an individual's capacity for independent decision-making. For example, EIRIS will accept a company's explicit designation of independence unless we become aware of evidence that the director:

- • has served for 10 years or more
- • has close family relationships with
- executive directors of the company
- • is an employee representative
- • is an executive of subsidiary company
- of the parent company
- • represents a major shareholder in the
- company
- • has a major supplier, customer,
- consultancy or advisory relationship
- or contract with the company
- • has been employed in an executive
- capacity within the previous three
- years

Switzerland, Canada and the USA have high percentages of independent directors on the board. In the wake of high-profile scandals such as Enron, WorldCom and Xerox, the US was quick to implement reform including the Sarbanes-Oxley legislation and new NYSE listing requirements. A key focus was independence on the board. At the other end of the scale independence on German and Austrian boards is significantly below average. In these countries, national laws require the supervisory board to consist of shareholders' and workers' representatives (including trade unions) which therefore cannot be considered independent. This law has contributed to smaller numbers of independent directors on the board.

Remuneration disclosure

Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully, but a company should avoid paying more than is necessary for the purpose. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance (Higgs Review (2003). In recent years investors have become more active in challenging remuneration packages. 2002 was a significant year for UK shareholders who successfully persuaded major companies such as Vodafone and GlaxoSmithKline to withdraw or amend share scheme proposals. Directors' pay continues to concern shareholders, though a lack of transparency in remuneration can make it difficult for shareholders to hold companies accountable. EIRIS has analyzed remuneration disclosure, where disclosure is defined as disclosure of the CEO's salary, or the salaries of all directors individually or as a whole. The quality of disclosure, e.g. full details of salary, bonuses and share options is not taken into account here. Most countries have a relatively high level of disclosure at this definition. In many cases this is because it is required by national legislation or stock exchange listing requirements. Countries without such requirements perform noticeably worse.

Code of ethics

In recent years a number of major intergovernmental, NGO and private sector initiatives have focused on the need to combat bribery and corruption, and on the underlying need to improve standards of corporate governance, ethics, transparency and integrity. The NYSE has included a requirement of listed companies to adopt and disclose a code of business conduct and ethics for directors, officers and employees as part of their listing requirements. The implementation of systems to support codes of ethics is increasingly included when looking for good governance practices.

A Code of ethics should have at least one of the following specific elements:

- • Obeying laws and regulations
- • Prohibits giving and receiving bribes
- • Restricts giving and receiving gifts
- • Prohibits facilitation payments
- • Prohibits donations to political parties
- • Conflicts of interest
- • Other – this includes 'ethical competition', anti-competitive practices, use of company resources, external activities of employees, cultural sensitivity, innovative or sector-specific elements.

The analysis shows for codes of ethics that overall all of the companies have a meaningful code of ethics or equivalent policy. The importance of systems to support a company policy is becoming increasingly apparent. While a good code of ethics and indeed systems to support it cannot protect against wrong-doing, provisions such as easily accessible 'whistle blowing' procedures will increase the chance that wrongdoing is identified.

RECOMMENDATIONS FOR FUTURE RESEARCH

Research on good corporate governance practices being applied by Zimbabwean companies in general could be carried out without limiting the study to companies listed on the Zimbabwe Stock Exchange. More research would be required because companies listed on the ZSE are generally large and more professionally run because they have to comply with the Stock Exchange regulations. The number of companies listed on the Zimbabwe Stock Exchange is small and they are not a representative sample of all Zimbabwean companies

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APPENDIX A – QUESTIONNAIRE

		Yes 1	To a Degree 2	3	4	No 5
	CORPORATE GOVERNANCE POLICY					
1	Does your company have a written code of corporate governance where the rights of shareholders, duties of the Boards are specified?					
	Notes:					
2	Does your company have a written code of corporate governance where the rules of disclosure are specified? -					
	Notes:					
3	Are the policies of the company regarding public investors readily available to the regulators and to the public?					
	3.1 If so where are they available?					
	Notes:					
4	Does the company have a compliance officer whose task is to ensure full compliance of the company with existing laws and regulations?					
	Notes:					

5	Does the company have a written code of conduct/ethics?					
	Notes:					
6	Is the code of conduct written to all the employees?					
	Notes:					
7	Is the code of conduct available to all the shareholders?					
	Notes:					
8	Does the code of conduct take into account the following issues:					
	- ethical standards in dealing with customers, vendors, and other relevant parties?					
	- company expectations of management and employees?					
	- the privacy of information about outsider companies?					
	- the privacy of information about employees?					
	- the importance of compliance with laws and regulations?					
	CORPORATE GOVERNANCE PRACTICES					
9	How many members sit on the Board of Directors?					
	Notes:					

10	Do outside directors meet without management on a regular basis?					
	Notes: Notes:					
11	Are the roles and responsibilities of the board of directors clearly spelled out in writing?					
	Notes:					
12	How many times a year does the board of directors conduct formal meetings?					
	Notes:					
13	Are there any potential conflicts of interest between the company and its members of the board of directors?					
	Notes:					
14	Which of these committees (if any) are actively functioning in your company?					
	14.1 Audit Committee – (for supervising the internal and external auditors)					
	14.2 Compensation Committee (for reviewing Board of Directors and management compensation.					
	14.3 Nomination Committee (for selecting board of directors)					
	14.4 Compliance Committee (for adherence to laws and regulations)					

	14.5 Risk Management Committee (for control and management of risk)					
	14.6 Executive Committee (for reviewing management decisions)					
	14.7 Insurance Committee (for reviewing the insurance policies of the company) Notes:					
15	Is there a formal performance appraisal for the board of directors? Notes:					
16	How often is the performance appraisal review of the board of directors?					
	Notes:					
17	How often does the board of directors actively monitor the results of the business?					
	Notes:					

18	Are the vision, mission, business plan and strategic plan the responsibility of the board of directors?					
	Notes:					
19	Are members of the board of directors given introduction training?					
	Notes:					
20	Are members of the board of directors provided with the opportunity of ongoing training?					
	Notes:					
21	Has the board implemented mechanisms designed to identify areas of potential problems in performance before crisis occurs?					
	Notes:					
22	Does your audit committee, not management, have the authority to approve the company in charge of auditing the company?					
	Notes:					

23	Has your compensation committee established formulae for CEO compensation based on long-term results and corporate performance, rather than industry norms?					
	Notes:					
24	Do outside directors formally evaluate your CEO's strengths, weaknesses, objectives, personal plans, and performance every year?					
	Notes:					
25	Is the performance of each of your directors periodically reviewed?					
	Notes:					
26	What action is taken for directors who are not performing?					
	Notes:					
27	Does the board regularly evaluate the performance of the other senior managers?					
	Notes:					

	Notes:					
28	Do directors receive proper training in corporate governance matters?					
	Notes:					
	SHAREHOLDER RIGHTS					
29	Is the annual shareholders meeting conducted within 6 months after the accounting year end in accordance with company law regulation?					
	Notes:					
30	Are all shareholders given at least 28 days notice of the annual shareholders meeting					
	Notes:					
31	Is there adequate opportunity for shareholders to receive and review the financial reports in order to ask for questions to be put on the Agenda at the annual shareholders meeting?					
	Notes:					

	Notes:					
	DISCLOSURE POLICIES AND PRACTICES					
32	Does the company publish its financial results and management analysis for distribution to analysts?					
	Notes:					
33	Does your company provide shareholders and investment analysts' equal access to information?					
	Notes:					
34	What information is contained in your annual report?					
	Notes:					
35	Do the reports prepared for the annual shareholders meetings contain only basic information of sufficient details to enable investment analysts to assess the financial and non financial performance of the corporation.?					
	Notes:					

	Notes:					

General Information for Classification of the Company

The following questions are facts about your corporation and its ownership that are required to classify the respondents in the study. The information which you provide will be held confidentially, and will not be disclosed without prior permission from you.

Name of the company:
Name of person who completed/authorised this questionnaire:
Position in the company:
Your e-mail address or other contact details:

What is the net assets of your corporation at the latest balance sheet date?

What industry does your corporation belong to?

Financial (Bank, Insurance, Other Financial Institution)
Manufacturing
Services
Utility/Energy
Other (Please specify :____________________________________)

Is your company:

a listed company?
a State Owned Enterprise?
a family controlled company?
a Subsidiary of Multinational company?

Representation from the individual who completes this questionnaire:
I, the undersigned, represent that:

1 The answer given in this questionnaire are an honest and objective assessment of the governance practices of the company
and have been given in good faith reasonable diligence, to ensure that they are complete and accurate.
2 Where necessary, enquiries have been made of relevant company officers, including Commissioners and/or Directors, and facts have been verified by reference to company records or legal documents.

3 It is reasonable for me to make this representation on behalf of the company

Signature & Date

Name & Position

APPENDIX B – COVER LETTER

P O Box BE 1185
Belvedere
Harare

15 August 2006

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....

Dear Sir

<u>Questionnaire on Corporate Governance Practices in Companies Listed On The Zimbabwe Stock Exchange</u>

My name is Caroline Mangezi. I am currently employed as the Regional Senior Finance Officer by The International Federation of the Red Cross and Red Crescent Societies. I am a final year Master of Business Leadership (MBL) student with the University of South Africa (UNISA) – School of Business Leadership. I am doing research on Corporate Governance in Five Successful Companies Listed on The Zimbabwe Stock Exchange, as part fulfillment of the MBL degree programme. I would be most grateful if you could assist me by filling in the attached questionnaire.

Zimbabwean companies in the financial sectors including banks have collapsed resulting in many institutional investors losing billions of investor funds. Most banks faced serious liquidity and solvency problems which were attributable to poor corporate governance practices.

Given the above, all organizations could certainly benefit from a study on Corporate Governance practices carried out by successful companies. Implementation of such practices could save some companies from collapse. I will give participating companies my summary of findings. I would like to assure you that your responses will be taken in the strictest of confidence and the information will not be forwarded to any other parties who may wish to use the information for unethical reasons.

Should you require further details, I can be contacted on 705166/7 or 091240076.

Yours Faithfully

Caroline Mangezi