Board of directors essay

? Question: Critically analyse the state of corporate governance in both the private and public sector in Zimbabwe. [100] Introduction The definition of corporate governance most widely used is " the system by which companies are directed and controlled" (Cadbury Committee, 1992). More specifically it is the framework by which the various stakeholder interests are balanced, or, as the IFC states, " the relationships among the management, Board of Directors, controlling shareholders, minority shareholders and other stakeholders". Ramman (2009) defined corporate governance as the practice by which companies are managed and controlled.

Corporate Governance is a set of processes, customs, value codes, policies, laws and institutions governing the way a corporation is directed, administered or controlled and held to account. Corporate Governance ensures that the organization is running properly, goalsare being achieved and funds are being managed with high standards of propriety and probity. Policy makers in both developed and emerging economies face challenges in ensuring good corporate governance and the Principles of Corporate Governance originally produced by Organization for economic Cooperation and Development set out a framework for good practice.

The fundamental principles which drive corporate governance include the following: AccountabilityOrganizations should recognize that they have legal and other obligations to all legitimate stakeholders. Organizations should develop a code of conduct for the directors and executives that promotes ethical and responsible decision making. ResponsibilityThe roles and responsibilities of the board including structures and procedures must be clearly stated. The government must have in place an effective institutional and legal framework to support good corporate governance practices.

Fairness There is need for a corporate governance framework that protects and facilitates the exercise of shareholders’ rights. They also strongly support the equal treatment of all shareholders, including minority and foreign shareholders. Transparency Transparency can be defined as a principle that allows those affected by administrative decisions, business transactions or charitable work to know not only the basic facts and figures but also the mechanisms and processes.

It is the duty of civil servants, managers and trustees to act visibly, predictably and understandably. If a company is transparent enough and reports material facts in real time, stakeholders will have more confidence in the management. Consequently, they will be more willing to invest in the company, thereby reducing the cost of capital. Transparency also helps those in charge to avoid fraud and put measures in place against it. All these factors put together enable the firm’s productive capacity and productivity to improve.

(Byrne, 2011) Social Responsibility Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large. (Richard Watts, 2004) Discussion Sound Corporate Governance is a prerequisite for the success of any entity, both in the public and private sector which in turn translates to sustainable socio-economic development for the country.

Whilst some of the companies in the private sector are subject to Corporate Governance compliance regulations and guidelines through the Zimbabwe Stock Exchange (ZSE), a real challenge arises from the fact that the bulk of SEPs and most small private sector companies are not listed and therefore not subject to the ZSE regulations. This leaves the Companies Act (Chapter 24: 03) and the enabling Acts as the only Corporate Governance regulatory instruments for unlisted private companies and SEPs.

Given that the Companies Act and the enabling Acts only provide for broad Corporate Governance guidelines, there is no comprehensive and enforceable Corporate Governance instrument to regulate these entities, hence the need for a Corporate Governance Framework for public entities. The Ministry has drafted a Corporate Governance Framework. (Ministry of State Enterprises and Parastatals, 2013) For Dairibord Zimbabwe (Pvt) Ltd, the Board of directors is responsible for the direction and control of the company, setting its strategic aims, providing

leadershipto put them into effect, supervising management and reporting to shareholders on their stewardship. To that end it has established appropriate policies and procedures to govern the conduct of the company's business and deliberations of the board. The company supports the Code of Corporate Practices as contained in the King 3 Report on Corporate Governance. Issues of corporate governance and ethics are taken very seriously at Dairibord Holdings. The group operates a " zero tolerance to corruption" policy. It also encourages employees to bring to the fore any incidents of corruption or theft in the company.

The Group values strong corporate governance ethics and it is one of the first private sector companies in Zimbabwe to have come up with its own corporate governance manual that seeks to ensure that group members continue to uphold the principles central to good governance namely, accountability, responsibility and transparency. The present Dairibord Holdings Board comprises of eight non-executive directors (including the chairman) and three executive directors. (www. dairibord. co. zw) Econet wireless is one of the companies in Zimbabwe which has flourished due to upholding sound corporate governance principles.

As of now it has so many products to offer its valued customers thereby maintaining their position in the market. Econet believes its future depends on the sustainable development of our communities. They remain firm in their belief that a company’s success cannot be measured on financial performance alone. They believe the true measure of a successful company is its ability to positively transform its communities. Every business has a responsibility beyond its basic responsibility to its shareholders; it is a responsibility to the people of the communities in which it serves.

As a pioneering Company, they are moving beyond corporate social responsibility to social innovation. Econet believes thattechnologythat does not transform lives is irrelevant. Econet’s involvement in the community is through one the following programme: Joshua NkomoScholarshipFund. The Fund is a Pan African Scholarship in honour of one of our country's founding fathers, Joshua Mqabuko Nkomo. Each year, the scholarship sponsors hundreds of the country's brightest high school and tertiary students, irrespective of social standing or race. The JNSF, which was launched in 2005, and issued

its first scholarships in 2006, is administered through a registered independent trust that is governed by a board of trustees who are independent of Econet and its Management. Zimbabwe's private and public sectors have experienced a number of corporate scandals involving senior management, obviously due to the absence of a binding corporate governance framework. During the first half of the year 2012, the transacting public was shocked after the ReNaissance Financial Holdings had underhand dealings that resulted in the bank being placed under curatorship.

Whatever happened at ReNaissance is a clear indication of lack of corporate governance as some shareholders of the company and directors worked in cahoots with pliant management to plunder ReNaissance Merchant Bank. Depositors funds were looted and inter-party transactions were rife. In the process, Rainbow Tourism Group and Afre Corporation were affected resulting in the two companies being suspended from trading on the Zimbabwe Stock Exchange. A number of companies have been involved in shareholder fights due to lack of transparency and accountability.

Executives are no longer transparent and accountable to shareholders. They lack responsibility and fairness whenever they are making decisions and implementing strategies. Companies have collapsed not only because of the prevailing liquidity challenges but lack of corporate governance. The composition of many boards has been queried, as they now comprise of people who are aligned to certain shareholders and their decisions would be biased. The National Railways of Zimbabwe (NRZ) is yet to have a fully constituted board of management.

Members of the board occupy positions beyond terms of appointments. Appointments to the board and management show visible preference for people with military background. NRZ also has an obese structure that is increasingly proving to be difficult to manage, given that it is yet to recover from most of the operational challenges inflicted by the socioeconomic meltdown, namely, aging traffic system, skilled manpower shortage, deteriorating infrastructure, theft and vandalism, poor signalling system, shortage of spares for locomotives and signaling equipment.

It is currently debt-ridden, operates below the 18 million tonnes of freight traffic per annum, has dilapidated equipment, and is struggling to pay its employees. Scenarios at the NRZ pose a serious threat to industrial production and the current national socioeconomic recovery drive. The Grain Marketing Board (GMB) is currently 100 per cent state owned and has National Strategic Reserve status. It has 44 depots in operation across the country. Despite its exposure to some commercialization in the post 1990s, GMB remains among the highest loss making and debt-ridden entities earmarked for robust restructuring.

It is struggling to service funds owed to various companies and countries in the region that supplied maize to Zimbabwe during the period of socioeconomic meltdown (2000 and 2008). Besides having a board and management that is questionable in terms of professional background and competence, its operational problems are deep-seated. GMB has since independence served as a patronage-dispensing mechanism. The Audit

Report 2010 refers to several cases in which maize and subsidized inputs were looted by high ranking government officials and politicians (GoZ Audit Report, 2010).

Zimbabwe Electricity Supply Authority (ZESA) was unbundled in 2002 into five subsidiary companies (the Zimbabwe Power Company, the Zimbabwe Electricity Transmission Company, the Zimbabwe Electricity Distribution Company, the ZESA Enterprises and the Power Tel under ZESA Holdings. However, the benefit streams from the unbundling process are yet to bear fruits as most of the electricity supply problems experienced during the socioeconomic meltdown are still manifest. The supply of electricity remains erratic while its capacity to raise working capital is compromised by political patronage and inept management.

The entity is currently struggling to shrug off claims that some high profile government officials, some government departments, some party offices and some senior politicians have not been paying electricity bills for long periods while ordinary consumers have been subjected to billing systems that are not transparent (http://www. dailynews. co. zw). There are also claims that the entity is prioritizing paying huge salaries to its executives over service provision and serving of its financial obligations to power suppliers in neighbouring countries.

In Zimbabwe corruption is a menace especially in state owned enterprises and parastatals. Corruption is primarily a result of poor governance, thus a solid framework of administrative strategies to manage society’s needs is required across state public enterprises. When formal systems break down in governance, it becomes harder to implement and enforce laws and policies that ensure accountability and transparency (UNDP 2004: 2) in the management of public activities. Corruption, in the case of state public enterprises in the Harare metropolitan area, is now systemic in nature.

The abnormal way of conducting business in state public enterprises is now normalised, and indeed something has gone wrong in the governance of these institutions. Public officials are up to personal enrichment. They are maximising their takings without regard to the impact corruption has on the well-being of the citizenry (Hope & Chikulo 2000: 1 and Goredema 2000: 2). The poor directing and control of public entities (weak corporate governance) is a source of corruption. Principally, corruption in public enterprises is afailureof governance and it results in unfair public resource manipulation (UNDP 2004: 2).

Public enterprises are subject to manipulation in many ways, clear examples of resource manipulation in some public enterprises in the Harare metropolitan area are highlighted next. In 2003, Zimbabwe School Examinations Council (ZIMSEC) senior management crafted a vehicle policy which saw seven senior managers acquiring a vehicle each every four years of their employment at zero book value. ZIMSEC officials also awarded business contracts to unqualified bidders and in most cases these unqualified bidders were companies/organisations of their friends and relatives (Shana 2006: 1).

In the same year, Zimbabwe United Passenger Company (ZUPCO) board of directors was involved in fraudulent dealings with a foreign company that supplied the enterprise with small passenger buses. These small buses were earmarked for servicing urban routes. The chairperson of the board, among others, received bribes in order to favour the company that supplied buses although they were not suitable for the required operations (Shana 2006: 1). The Institute of Directors Zimbabwe (IoDZ) is the lead organization in promoting corporate governance in Zimbabwe.

The IoDZ launched a Midlands Chapter in Gweru, the first step in a process that will see other chapters established in Matabeleland, Manicaland and a Diaspora chapter to be based in the United Kingdom. Since inception in 1958 the IoDZ has played an important role in promoting good corporate governance, training and developing directors, influencing public policy, with a view to contributing to the creation of anenvironmentthat is conducive to the economic development andpovertyreduction in Zimbabwe. (Newsday: 24 October 2011) Conclusion

Following the much publicised global corporate governance failures and scandals, corporate governance has been concentrated on the activity of organisations deemed " systemically" important to the economy. Yet, comparatively minute conversations have been directed towards corporate governance in public sector organisations that debatably have as much impact on the lives of people globally. It is therefore, agreeable that though the origins of corporate governance reform lie in the private sector, attention should also be given to governance of public sector organisations.

Within the Zimbabwean context, there are still a variety of notable State agencies, enterprises and parastatals in operation such as Air Zimbabwe, Grain Marketing Board, National Railways of Zimbabwe, etc, the majority of which are generally funded by the Treasury. The idea of State enterprises is common across the world where various governments have been widely involved in the direct ownership of companies, production and distribution of a variety of goods and services. In Zimbabwe the State enterprises and parastatals have room for improvement when it comes to their performance and management.

Good governance structures within these SEPS can result in meaningful use of the taxpayers’moneyand can help the Zimbabwean economy reach its full potential. It is therefore crucial to state at the onset that public money is not the same as private money; therefore the parameters of accountability should be more rigorous and stringent. Clearly from the discussion in this paper the state of corporate governance in the public sector is in shambles, as compared to the private sector.

As far as the private sector is concerned principles of corporate governance have been maintained to a larger extent as compared to the public sector. There is a need to ensure that there is accountability of a board and key overseeing management for the stewardship of resources. Therefore, there is no doubt that in any organisation good corporate governance is ultimately about effective leadership. The establishment of a national code on corporate governance will minimise corporate collapses, establish minimum standards for corporate leadership, attract and preserve investment for overall national economic turnaround and growth.