The Role of CORPORATE GOVERNANCE in Creating Business Sustainability.

Presented by
Tsitsi Mutasa
Managing Consultant
Zimbabwe Leadership Forum (ZIMLEF)
ICAZ Winter School 2013
Introduction

- The global financial crisis and indeed our own economic turmoil has highlighted the challenge of establishing stability and growth in the face of global recession. It has also brought into focus the critical importance of the ethical dimension in leadership styles and strategies, since the financial crisis emanated at least in part from a breakdown in responsible and ethical behaviour.
Manica Post

21 – 27 October 2005

PROSTITUTES

DEMAND

PAYMENT

IN DIESEL
That period now over!

Process of re-engaging

- International community
- Revitalise industry
- Take advantage of opportunities

RESTORE ECONOMIC SANITY
Return to the basics
“Sustainability is as foreign a concept to managers in capitalist societies as profits are to managers in the former Soviet Union.”

William Ruckelshaus
CEO, Browning Ferris
The Many Faces of Shareholder Value

Building Tomorrow's Opportunity

Nurturing Internal Capabilities
- New Skills Repositioning
- Cost and Risk Reduction

Managing Today's Business
- Growth Path Trajectory
- Reputation Legitimacy

Engaging External Constituencies
Governance for sustainability:

“From the perspective of corporate sustainability and corporate social responsibility (CSR), however, governance refers to managing competing corporate interests for the organisation, for the wider good of society, and for the planet as a whole” (Benn & Bolton, 2011).
Sustainability

- the capacity to endure.
Buzzwords

- Environmental Management
- Corporate Social Responsibility
- Greening
- Stakeholder Management
- Life-Cycle Management
- Pollution Prevention (P2)
- Sustainable Development
- Corporate Citizenship
- Voluntary Regulation
- Urban Reinvestment
- Full Cost Accounting
- Closed Loops
- Resource Productivity
- Sustainable Technology
- B24B
- Systems Thinking
- Corporate Governance

Clean Technology
Eco-Efficiency
Industrial Ecology
Triple Bottom Line
Inclusive Capitalism
Base of the Pyramid
Sustainable Livelihoods
Waste Reduction
ISO 14001
Risk Management
Pro-poor Business
Leapfrog Technology
Cradle to Cradle
Restorative Technology
Take Back
Transparency
The Buzzword Sort

• Eco-Effectiveness
• Leapfrog Technology
• Sustainable Technology

Clean Technology
• Restorative Technology
• Systems Thinking

Internal
• Greening
• Emission Reduction
• Eco-Efficiency

Pollution Prevention
• ISO 14001
• Waste Reduction
• Resource Productivity

Tomorrow

Innovation & Repositioning

Cost & Risk Reduction

Today

Growth Path & Trajectory

Reputation & Legitimacy

Product Stewardship

Base of the Pyramid

Sustainable Development
Pro-poor Business
Urban Reinvestment

Social Entrepreneurship

External

Life-Cycle Management
Design for Environment (DfE)

Transparency
Corporate Governance

Cost & Risk Reduction

Reputation & Legitimacy
Business and society are interdependent

“All businesses are an integral part of society – one cannot survive without the other. Their welfare and growth is also dependant on this mutuality. Since businesses survive and grow because of society, they owe some responsibility towards the society. It has been generally observed that the success of a business depends to a large extent on society perceptions of it. A firm carrying a very positive image in society has a very strong probability of lasting growth vis-a-viz others having poorer social image”

3 BL

Venn diagram showing the intersection of People, Planet, and Profit with subcategories of bearable, equitable, sustainable, and viable.
advantages of applying sustainable business practice:

- Be more efficient and competitive
- Engage in responsible entrepreneurship
- Increase their financial return and reduce risk for shareholders
- Attract and retain employees
- Improve customer sales and loyalty
- Grow supplier commitment
- Strengthen community relations
- Contribute to environmental sustainability
Principles for sustainable business

- There are two types of principles; operational and strategic. Operational principles are practical –
  - they address the question of what we do and how we do the business on a day to day basis.
- The strategic principles tend to be used as guidance in setting the direction of the business
  - They will be used to help decide how things are done within the business.
Corporate Governance in Zimbabwe.

- Lack of proactive approach by the regulatory authorities appeared to have encouraged poor corporate governance practices and that the failure by the Board of Directors to adapt to the demands of a changing competitive environment affected adherence to the principles of good corporate governance.
- First Annual General Meeting in 81 years by the Grain Marketing Board.
OUR STORY
The decade 1993 to 2003 saw the licensing of more institutions

- Trust Bank,
- Kingdom
- CFX/Interfin
- Leasing Company of Zimbabwe
- Century, United Merchant Bank
- Royal Bank
- National Discount House
- Zimbabwe Building Society
- Time Bank
- National Building Society
- Rapid Discount House
- Genesis Bank
- Metropolitan
- Barbican
Before that....

- Ruredzo
- Mwayera
- Matambanadzo
- Mushandirapamwe Hotel – still here....
- Chingaira
- Boka
Most recently...

- Mutare Board and Paper Mills
- Afrofoods
- Zupco
- David Whitehead Textiles
- Lobels
- Hunyani
What went wrong?
These challenges include:

- Absence of Governance Structures
- Lack of Succession Planning
- Technical incompetence of Board and Management
- Boardroom squabbles among Directors
- Squabbles among staff and management
- Lack of robust risk management system
- Corruption / Greed
- Ineffectiveness or absence of Boards and their Committees
- Inadequate operational and financial controls
- Abuse of corporate structures
NCCG – Zimcode

- It is against this background that the National Code on Corporate Governance in Zimbabwe was crafted.

- Almost all reported cases of corporate failures indicate some level of failure on the part of Directors to properly discharge their oversight functions and ensure that they receive all relevant information and demonstrate good faith, character...
Zimcode

- Ownership & Control
- Boards of Directors
- Governance of Risk
- Information Management
- Conflict Prevention & Resolution
- Compliance & Enforcement
- Stakeholder Relations
- Role of Government
Business sustainability is possible through adherence to the following corporate governance principles:

- Integrity and ethical behavior of leaders
- Disclosure and transparency and accountability
- They should also implement procedures to independently verify and safeguard the integrity of the company's financial reporting.
- Timely and balanced disclosure of material matters concerning the organization to ensure that all investors have access to clear, factual information.
- Rights and equitable treatment of shareholders
Impacting & Influencing

- Director Appointment
- Evaluation
- Remuneration
- Control – Governance of risk
- Term Limits
- Multiple Directorships
- Conflict of interest
- Succession Planning
- CHARACTER
The Sustainable Value Framework

**Clean Technology**
- Develop new competencies
- Pursue disruptive innovation

**Base of the Pyramid**
- Meet unmet needs
- Raise the base of the pyramid

**Pollution Prevention**
- Minimize process waste
- Enhance resource productivity

**Product Stewardship**
- Lower product life-cycle impact
- Increase transparency/accountability

(S.Hart. “Beyond greening: Strategies for a sustainable world”)
Through the Funnel

“Clean Tech”

Pollution
Depletion
Degradation
Corruption
Poverty
Population

“Meeting unmet needs”
Accounting firms worldwide will need to target several key issues in order to maintain viability

- Improve profitability,
- Retain staff and clients,
- Maintain quality
- Remain relevant in today’s marketplace
Reliance on the Financial Audit

- The audit product simply must get better in order to remain relevant and essential in today’s business world.
- Some of the recent corporate scandals are but another example of where the audit procedures did not discover and disclose essential financial information.
- E.g Lehman Brothers, World Com and Enron bankruptcies where each had been given a clean opinion on their most recent financial statements and were out of business before one year had passed.
- A year in the life of any business has become more difficult to predict as the business world has become more complex and transactions more numbered.
• Through technology, company information has become readily available and as a result the markets react faster which makes the “going concern” evaluation that auditors must perform much more challenging.

• The financial audit must get more reliable if it is to retain its relevance in the future.
• Being a senior executive today is a more complex role than ever before. It requires individuals to set the vision of the firm and then bring the other leaders along.
• It requires them to remain relevant to the firm in an ever-changing environment. It's a balancing act.
Integrity

- Integrity is the hidden logic of building sustainable economies.
If the “INTEGRITY Rope” Breaks

We All Lose!
10 messages by which to operate

- Business is good for sustainable development and sustainable development is good for business.
- Business cannot succeed in societies that fail.
- Poverty is a key enemy to stable societies.
- Access to markets for all supports sustainable development.
• Business has to earn its license to operate, innovate and grow.

• Innovation and technology development are crucial to sustainable development.

• Eco-efficiency – doing more with less - is at the core of the business case for sustainable development.

• Ecosystems in balance – a prerequisite for business.

• Cooperation beats confrontation.

• Good governance is needed to make business a part of the solution.
"Waiting for Better Times"
Conclusion

- People not codes!
- Character not legislation!
Questions & Discussion