

CORPORATE GOVERNANCE, ETHICS & DISCIPLINE-FOUNDATIONS FOR NATIONAL SUCCESS

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Presentation Outline



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- What is National Economic Success (NES)
- NES, Discipline Governance and Ethics
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- Conclusion
- Innovation

Introduction



- **Nothing is more harmful to the service, than the neglect of discipline; for that discipline, more than numbers, gives one army superiority over another."**

— George Washington

Terms and Definitions



Ethics



- Ethics are standards of beliefs and values that guide conduct, behavior, and activities - a way of thinking that provides boundaries for our actions.
 - “obedience to the unenforceable”. Lord Moulton
 - *The application of a moral code of conduct to the strategic and operational management of a business*

You can abide by the law and still act in an unethical way.

What is Corporate Governance?



- A system through which powers are exercised and shared by different stakeholders and groups to ensure the achievement of an entity's goals.
- ***“... an internal system encompassing policies, processes and people which serves the needs of shareholders and other stakeholders, by directing and controlling management activities, with good business savvy, objectivity, accountability and integrity...”*** by Gabrielle O'Donovan.

Discipline



- *Nothing of importance is ever achieved without discipline - Bertrand Russell*
- Discipline is defined as a force that prompts individuals and groups to observe rules, regulations, systems, processes and procedures which are considered to be necessary for the effective functioning of an organization.

Operational Discipline



“...the deeply rooted dedication and commitment by every member of an organization to carry out each task the right way every time.” Expressed more succinctly, OD means “Everyone Do It Right Every Time. Operational Discipline,” is a culture of order and predictability – operating excellence

Discipline, CG & Business Ethics Initiatives are Tied to...

- Greater economic efficiency
- Greater employee commitment
- Improved financial performance
- Higher product quality
- Lower cost for capital
- Improved decision making
- Increased customer loyalty
- Improved reputation





What does National Economic Success Look like?

"A man without decision of character can never be said to belong to himself He belongs to whatever can make captive of him."

— John Foster *Author*

National Economic Success (NES)



- Gross Domestic Product?
- “If we have the wrong metrics, we will strive for the wrong things.”
- The intriguing term “gross national happiness” was coined in 1972 by Bhutan’s then king, Jigme Singve Wangchuck
- GDP is not bad — it just measures what it measures, and what it measures is limited

What does Economic Success look like?



- Social Progress Index:-

- ▣ Does a country have the capacity to satisfy the basic human needs of its people?
- ▣ Does a country have the institutions and conditions in place to allow its citizens and communities to improve their quality of life?
- ▣ And does a country offer an environment in which each citizen has the opportunity to reach his or her full potential?


What Creates NES?



- No nation ever became great or sustained its greatness without a strong economy.
- Economy is driven by creativity, innovation.....
- Why are some countries more successful innovators than others?
- Successful economies do have one thing in common – they have **low levels of corruption and good corporate governance.**

ingredients for national economic success

- Natural resources (low hanging fruits -tangible)
Land, climate, minerals, relatively functional infrastructure
- Labour, which converts these natural resources into goods.
- Consider countries like Japan, Singapore
 - ▣ They have managed to grow their economies based on Policy, Strategy, planning AND Implementation and monitoring
- Dubai has Oil - using natural resources to diversify its economies
 - ▣ set itself up as a service delivery hub
 - ▣ air traffic hub in the region and now they are talking about a health city

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- Closer to home – Botswana has leveraged on its diamond resources to grow its economy
 - Zimbabwe – Known for its vast natural resources and educated people.....
 - Natural Resources and labour account for only part of an economic system.
 - These resources must be **organized** , **controlled** and **directed** as efficiently as possible.
 - To do this we need competent and ethical and disciplined managers, responding to signals from markets.
 - Top down chain of command; Board – CEO - who makes sure that the entire business runs smoothly and efficiently, through various lower levels of management responsible for coordinating different parts of the enterprise, down to the foreman on the shop floor.



- **And herein lies the Zimbabwean Challenge...**

- *“Talent without discipline is like an octopus on roller skates. There’s plenty of movement, but you never know if it’s going to be forward, backwards, or sideways.” - H. Jackson Brown, Jr*

- “they have managed to grow their economies based on Policy, Strategy, Planning AND Implementation and monitoring

- CG, Discipline and ethical conduct



Putting it ALL - together

Corporate Governance and National Prosperity




- The relationship between corporate governance and NES is self-evident.
 - ▣ Public companies, which manage a country's human and financial capital, are important contributors to economic growth and financial well-being.
 - ▣ It is therefore in the national interest for companies to be managed by the most competent and ethical business leaders.
 - ▣ Companies which embrace the spirit and principles of good governance create long-term value for customers, employees, shareholders and society

Corporate Governance and National Prosperity

- Good corporate governance is therefore synonymous with NES.
 - ▣ Companies manage a nation's human and financial capital.
 - ▣ Capital and investment amplify the impact of creative ideas and productive labour, accelerating economic development.
- Countries with low productivity are often suffering from poor governance and inefficient management.
 - ▣ The checks and balances that should guide managers to produce respectable returns on investment are missing or are distorted.
 - ▣ Corporate leaders are not held accountable by shareholders or regulators.
 - ▣ Poor performance, related-party transactions and opaque financial reporting are tolerated.
- Setting high-standards of corporate governance should therefore be an important goal for our country's economic policy makers



Our Zimbabwe

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- Poor corporate governance practices are often part of a broader economic and social pattern where barriers to entry are high, resources are controlled by a privileged few and conformity is prized.
 - State-owned companies, over ambitious businessmen with political connections, corruption, hostility to outsiders, distrust and poor governance all go hand-in-hand and, together, they thwart a nation's natural spirit of innovation, productivity


Recent headlines!



- ❑ **MEGA Perks for tender Boss – raked in \$210k in allowances**
- ❑ **PSMAS shock salary schedule**
- ❑ **CMED in US\$3m fuel scandal**
- ❑ **US\$2m housing scandal at ZBC**
- ❑ **ZBC boss in \$1m scandal**
- ❑ **Airzim bigwigs fleece millions**
- ❑ **Tender scandal hits ZINARA**
- ❑ **SPB in solar tender flout shocker**

Dangers of a 'People, Power and Politics' Model

- Country's economic opportunities are monopolised by well-connected business groups to the detriment of society as a whole.
- Politicisation of economic life suffocates innovation, investment, entrepreneurship and competitiveness.
- Talent emigrates to societies with more social mobility and economic freedom. The long-term consequences for the economy are severe.
- A 'people, power and politics' culture - disproportionate economic opportunity, assets and wealth.
- *Who You Know is more important than What You Know.*
 - *Ambitious business people compete for political patronage instead of competing to develop better products, invent new technologies and lower production costs.*
 - *Financial capital and management time are spent on nurturing relationships while productive investment is neglected.*
 - *The results are corruption, wasted resources, capital misallocation, unfair competition and lower economic competitiveness*

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- Open, transparent and merit based societies provide equal opportunities for individuals and companies to climb the ladder of success.
 - Advancement is based on *What You Know* rather than *Who You Know*.
 - *Principles, productivity and performance are valued*



Salary Gate

FAT Cat Directors or Job Well-Done?

FAT Cat Directors or Job Well-Done?

Jeffery H. Boyd of Priceline.com

- One-year total compensation \$50.2 million
CEO since 2002 and has delivered an annualized 51% to shareholders during his tenure. Priceline's sales have grown from \$997 million to \$4.3 billion over the same time period.

Charif Souki of Cheniere Energy Inc.

- One-year total compensation \$142 million
- Souki's compensation included a \$133 million stock award that vests as his company hits certain financial and operational goals. He also received a \$3.68 million cash bonus and a salary of \$800,000
- Cheniere surged 30-fold since November 2009, as executives positioned the company to become the first to export liquefied natural gas produced from the U.S. shale boom.



- **David Cote of Honeywell**

One-year total compensation \$55.8

Cote's bonus (\$23.3 million) was tied to Honeywell's 13% sales growth and 19% segment profit growth. Honeywell's stock was up 15%.....


- **John Hammergren of McKesson**

One-year total compensation (\$MIL): \$131.2

CEO at Calif.-based medical supply company, for 13 years.

The bulk of 2011 pay came from cashed out stock options with his salary and bonus remaining flat from a year ago.

MCK stock was up 20% in fiscal year ending.....

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- **PSMAS shock salary schedule**
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 - negotiating



- What of CG, Ethics and Discipline?

- **We are what we repeatedly do, excellence then is not an act, but a habit."**

— Aristotle



Yesterday, Today and Tomorrow

WHY this forum?



Yesterday

- 1. Controllershship duties - These make up the backward looking part of a CFO's job.
 - ▣ Controllershship duties hold you responsible for presenting and reporting accurate and timely historical financial information of the company you work for. Every stakeholder in the company relies on the accuracy and timeliness of this information.




Today

2. Treasury duties – The CFO is also responsible for the company's present financial condition, so he or she must decide how to invest the company's money, taking into consideration risk and liquidity

Tomorrow

- 3. Economic strategy and forecasting - A CFO must be able to identify and report what areas of a company are most efficient and how the company can capitalize on this information.

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- CEOs count on them to challenge the company's strategy.
 - The CFO of tomorrow should be
 - ▣ a big-picture thinker, rather than detail-oriented,
 - ▣ outspoken rather than reserved,
 - ▣ prefer to delegate rather than be hands-on, emphasize what gets done rather than how things are done,
 - ▣ make collaborative rather than unilateral decisions.
 - ▣ The CFO must serve as the financial authority in the organization, ensuring the integrity of fiscal data and modelling transparency and accountability
 - The CFO is as much a part of governance and oversight as the Chief Executive Officer (CEO), playing a fundamental role in the development and critique of strategic choices.

CFO - Discipline, CG & Ethics




- Your role steward, operator, strategist and catalyst
- Steward – duty of care
- operator – Duty of skill
- strategist – Duty of Diligence (know your stuff)
- catalyst - Good Faith

Window dressing



Business ethics

- CG, Ethics and Discipline should **permeate the whole organisation**
Not a series of boxes to be ticked, including ensuring that the business is perceived to be ethical.
- Often this results in grandiose statements or whole reports in the annual accounts about all the initiatives the company funds, participates in or supports in other ways.
- Worthy as these initiatives may be, in our view, in most cases this is at least as much (or more) about the perception than a real commitment to running the business ethically.
- To do this requires business ethics to permeate the whole organisation - including/especially the recruitment process - and have measures in place to catch questionable practices.

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- Great companies are founded upon a strong moral purpose and the values of integrity, transparency and accountability. Companies that put these values at the centre of their corporate cultures lay a strong foundation for lasting success.

Ethical Demands




- Company to be a good corporate and global citizen
- Understand its ethical and social responsibility to stakeholders, environment, and to its community
- Achieve growth, innovate within a proper environment of corporate governance, this means genuine transparency in corporate governance and strict adherence to the highest ethical standards.
- To have a well-functioning board
- To have proper management infrastructure in place
- To have a safe working environment
- Production of environmentally friendly goods and services





Towards NES

Why business should take leadership on matters of ethical behaviour?

- As citizens businesses have a role to play in influencing and shaping ethical conduct
- Economy is a major building block of any society and because businesses run the economy, business leader have greater leverage in promoting and driving ethical issues
- Businesses have the most to loose from unsound ethical behaviours and practices

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- “Capital will go where it is wanted, and it will stay where it is well treated.” *Walter Wriston, Former Chairman of Citibank*
 - Nations and companies with high standards of governance attract the creative talent and investment capital they need to build flourishing economies
 - The moral challenge for businesses here in Zimbabwe is attracting investment and trade from ethical businesses. This is the problem that Zimbabwe face as its current moral expectations are often more lax, and multinationals for the most part are tempted to lower their standards when situations permit.

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- Danger of being exploited if no systems of monitoring ethical practice exist. It is one of the reasons that 3rd world economies suffer, -
Dumping

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- Responsible Investors Provide Capital and Oversight
 - Capital is an accelerator of prosperity. Wisely used, it empowers ideas and innovation, enabling entrepreneurs and companies to create products and services which meet the needs of society.
 - Investors have an important role in ensuring accountability by company management for their financial and ethical performance.
 - Responsible investors engage corporate governance issues where they encounter them, as an intrinsic and necessary component of professional investment management.

Sustainable Economic Development



- Business Ethics - a prerequisite for conducting sustainable businesses
- Sustaining advantage requires DISCIPLINE. It demands that business leaders exploit, rather than ignore industry trends and one of the major trends is the demand of good corporate governance.
- Successful business must treat the parties affected by the corporation's actions as constituents to be consulted rather than spectators to be ignored.
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Back to Basics



“Zimbabwe or the organisations we work for, cannot transform us into men/women of proper standing, on the contrary, we as men/women can transform Zimbabwe and organisations into what we ourselves wish them to be. To do this effectively, we have to change our present ways of thinking.

“We can not solve our problems with the same level of thinking that created them” A. Einstein

Developing Trust & Confidence in Business

- To be successful, a business needs to espouse a set of virtues that are reality-based, non-contradictory, integrated, and comprehensive
- individuals alone did not cause our current crisis
- the following stakeholders were all involved in supporting a culture of deception, corruption & manipulation
 - board members
 - top management
 - attorneys
 - accounting firms
 - securities analysts
 - regulators
 - politicians
 - mass media
 - investors
 - colleges of



Conclusion



- “Corporate Governance and Ethics are not an optional add-on to ‘normal’ business, nor ‘soft’ issues.
- CG & Ethics holds enormous risks for companies, but more importantly creates reputational and competitive opportunities.”
- Zimbabwe’s turnaround – we need capable, competent, disciplined and ethical leaders in all entities who adhere to principles of good corporate governance.
- The chance to improve the ethical quality of our economic activities can only be taken if our motivation is genuinely ethical; that is, only if we want to realize ethical conduct for its own sake.

“like love: only those who love their partners in and for themselves will enjoy all the blessings of a loving relationship.

Conclusion



- Zimbabweans should be disciplined, courageous and skilful to overcome challenges facing the economy. In his maiden statement as central bank chief yesterday, Dr Mangudya expressed optimism that Zimbabwe would overcome its challenges, but only if it was disciplined in the efficient use of resources.
- “The greatest panacea of our challenges is discipline. The discipline to know that we need to increase production before we increase consumption. We need to refrain from living beyond our means, as this would bring greed and corruption.” *Reserve Bank of Zimbabwe Governor Dr John Mangudya, May 2014.*

Every man must decide whether he will walk in the light of creative altruism or in the darkness of destructive selfishness. Martin Luther King, Jr.

Questions & Discussion

