What is Corporate Governance?

Taken literally, corporate governance is about how companies are governed. Corporates, in this context, are not just large companies but both large and small, profit and not-for-profit, public and private entities. Governance refers to control or influence or regulation through management processes, policies, procedures, manuals that spell out or define corporate behaviour.

At the centre of a good system of governance is the board of directors (although they are not the only stakeholders). Good corporate governance defines relationships between key stakeholders in an organisation (whether social or institutional relationships) in terms of their rights and responsibilities. It defines the structure, the power that resides with each role in the structure and recommends conflict resolution procedure in the event of conflicting roles or personalities within the structure.

Why pay attention to Corporate Governance?

Corporate Governance improves the performance of an organisation, passively and actively. It improves passively because its absence is more likely to result in systemic dislocation. Good corporate governance however actively improves the performance of any organisation in many ways:

- *Competitive advantage*

  Good corporate governance has a signalling effect to both investors and customers.

  Customers will perceive the organisation as well managed, and they increasingly relate with good management since it often implies an ethical, socially responsible and environmentally aware organisation. Once customers resonate with such high order virtues, it significantly impacts their buying preferences and behaviours. Additionally, it will be very difficult for them to switch to competition as the choice of products is driven by these virtues and not just the product specs.

  Investors on the other hand are interested in the continuity, business integrity and the direction of the organisation. A good corporate governance system communicates

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where the organisation stands on these matters and it also helps manage the relationship between the entity and its stakeholders.

- *Effectiveness and continuity.*

  Corporate Governance provides a toolkit to manage the organisation. Many entities centre on the heroics of individuals and therefore have a high key-man risk. Such organisations are characterised by patronising management methods as opposed to systems-based management. A good Corporate Governance system helps to first define the objectives of the organisation itself and then breaks down how the different leadership roles fit into the attainment of those objectives. This gives purpose to each leader (regardless of their level), helps improve the objectivity of leadership across all ranks and this energises the entire organisation in terms of innovation, problem solving, critical thinking and ideation. A low-level leader is clear on their role and empowered to contribute as an original thinker rather than always second guess their superior and try to demonstrate loyalty ahead of objectivity. Companies with this good corporate governance are more likely to sustainably perform and live beyond individuals.

- *Risk Management*

  Corporate Governance gives deserved attention to risk management first by establishing a risk management layer at board level. It also insists on risk management frameworks which essentially anticipate likelihood and impact of a risk occurring.

- *Culture*

  A good corporate governance system will help set a culture in the organisation.

  - Ethical behaviour of both the organisation and the people who work in it. What is good for self must be good for the other.
  - Compliance with laws and regulations.
  - Manner of resolution of conflicts arising from incompatible objectives and or personality clashes.

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Emerging Realities

Corporate governance is even more important given Zimbabwe's emerging realities of Rule-Based Monetary and Exchange rate policies which at some point resulted in director incarcerations; a Private sector led economic recovery plan which requires board members to think beyond their own entities' survival or profiteering but to look at the recovery holistically; a widening gap between parallel market rates and the RBZ auction rate which is a nightmare for pricing and remuneration policies for employees; a Covid-19 pandemic that started in 2020 and has changed the operating environment significantly; and more than 49% of Zimbabweans living in extreme poverty which requires boards to think about the communities in which they operate.

In view of these emerging realities, directors need to think of the following corporate governance issues:

Board leadership in dynamic environments

The centrality of boards to govern organisations is very obvious but it is equally important to continuously assess the effectiveness of these boards. The modern Zimbabwean board is faced with complex, shifting, operating laws and regulations; changing customer and other stakeholder needs; globalisation; digitalisation and growing socio-economic issues. This requires boards to always actively seek new information, process it and create solutions continuously. The board composition is important for the board to maintain high levels of such board dynamism. The board has to be diverse by blending experienced board members with youthful ones (such as millennials); it must have gender balance and it must have a diverse array of technical competencies. Boards that are dominated by few people get decisions faster but are likely to underperform in the longrun as the lack of diversity creates pockets of blindspots. In some cases the board is diverse theoretically but power is overly concentrated on individuals in that board such as the Executive Chairperson models in private organisations or Ministerial veto powers in Parastatals.

Boards therefore need to celebrate diversity and be deliberate in harvesting different perspectives to shape sound decision making that will remain relevant into the future.

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Balanced Organisational Objectives

Boards need to continuously review how balanced their entities' objectives are. Profit making organisations need to evaluate how much they contribute to national development goals or strategy, how much they contribute to social challenges of Zimbabweans such as poverty or public facilities development. More can be done by corporates (as a collective) in terms of fighting poverty and this conversation needs to get going in the right forums with corporate leaders.

Not-for-Profit organisations also need to balance up on matters of efficiency, transparency and process approach. While these organisations are largely oriented towards societal benefit, they should still aim to deliver effectively and efficiently. They must still appreciate that they have a responsibility towards their stakeholders to apply resources and time in the most efficient and effective manner.

Risk Management in Zimbabwe

Entity rewards are ever conjoined to some risks and board leaders usually are faced with a challenge of whether to regard a possibility as an opportunity or as a threat. With the prevailing dynamic operating climates, boards must increasingly improve their views to risk by transforming how the board identifies and views opportunities. An entity's future offering is identified faster if board members have open minds on how the current assumptions may shift in future. The boardroom must therefore manage the risk of not identifying an opportunity in time consequently exposing the entity to winds of change.

In addition to having the right balance in risk identification and assessment, directors also need to improve on their risk responses. Boards need a framework which helps determine whether to live with the risk, or to put mitigation controls, or transfer the risk elsewhere or to eliminate that risk completely. These possible responses have a major impact on the success of an organisation.

Ethics and Compliance

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The operating environment has resulted in several rules-based interventions in the business environment. This approach has in some cases, resulted in several laws being introduced but these laws may have had unintended negative consequences. In other words the need to legislate something may be there, but the stakeholders are not active in contributing to the crafting as they should or the state has crafted a law in a hurry and in the end the law inadvertently creates other challenges. Directors in Zimbabwe must therefore be proactive in engagement with government to avoid bad laws from being crafted but even after the crafting, directors must collectively (in good faith) be part of ideation and solution seeking efforts to minimise collateral damage of badly crafted laws.

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