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"Promoting global best practices in corporate governance in Africa"

Executive Summary

In spite of recent progress in diversification and expansion of the non-oil sector, Nigeria's economic growth has been hampered by a deficiency in corporate governance practices. The past decade has been turbulent for the private sector, particularly with failure of banks due to mismanagement and unethical and risky practices. In response to these challenges, senior executives of private companies, the civil service, public and private institutions of learning were invited to attend an executive training on corporate governance to exchange ideas and share their experiences with a view towards developing a best practice model for private and public organisations. The training was underpinned by the need to improve knowledge of global best practices in corporate governance, the need to promote corporate social responsibility and gender equality, and the overarching need to improve performance and productivity of companies/institutions. As such, leadership and ethics, value creation, boardroom processes and interactions, and gender equality were amongst the topics covered.

The training highlighted five key qualities that characterise organisational leadership: exercise of power; creation of vision; communication with followers; intellectual stimulation and development of followers; and moral standards. Participants reflected on the connection between ethics and leadership, and how this manifests in various ways in different countries. Participants also explored the evolution of corporate governance practices in the UK, especially with respect to the structural transformation of the UK economy from a predominately manufacturing economy to what is now essentially a services-led economy. This is held up as an example of how a country's corporate governance practice reflects, and meets the needs of the economic structure of that country.

Based on the training, best practice recommendations in corporate governance were provided.

Introduction

As African nations chart a new course towards the expansion and structural transformation of the continent's economy, the role of the private sector cannot be over-emphasized. While African countries are not lacking in ambitious entrepreneurs, there appears to be a deficit and disadvantage in knowledge and skill set in corporate governance, relative to the rest of the world. As a result, businesses tend to grow at a relatively slow rate, and there are challenges associated with transfer of family businesses across generational lines, as well as a wide range of management challenges that hinder or limit growth and expansion of businesses. At the heart of these is the fundamental issue of corporate governance. This training programme, held in January 2012, is an intervention to help business and organisational leaders in Africa develop their management skills and keep up with global best practices in corporate governance and ethics. The view is that an awareness of the importance of corporate governance and ethics can help them to become more accountable and effective in their efforts towards expanding opportunities for economic growth and poverty reduction.

The training is part of CAEL's ongoing Knowledge Transfer intervention in the areas of capacity building for entrepreneurship education and leadership development in Africa. The Centre runs executive training programmes focusing on leadership development and entrepreneurship education in Africa. More than 150 executives from more than 40 higher institutions in Africa, including vice chancellors, provosts, and directors of innovation and entrepreneurship centres have participated in the training programmes.

Corporate governance: key issues

Corporate governance has been broadly defined as a system of "laws, regulations and accepted business practices, which together govern the relationship, in a market economy, between corporate managers and entrepreneurs ("corporate insiders") on one hand, and those who invest resources in corporations, on the other" (Oman, 2001). The institutions of corporate governance vary from country to country, in forms and substance, and in how they interact and evolve over time. Nevertheless, in spite of the different dynamics and peculiarities that obtain in various countries, corporate governance serves two common objectives in all countries: to enhance better *performance* of companies and ensure *conformance* to laws and regulations.

Put in another way, corporate governance is concerned with the delicate balancing of the interests of management and owners in a modern corporation. The dynamic can become problematic when the interests of those who exercise effective control over a firm are different from those who supply the firm with external finance (Okeahalam and Akinboade, 2003). There is also a peculiar challenge associated with the owner-managed firm, as the owner manager possessed two different principal attributes in making management decisions for the firm and laying a claim to the firm's profits (Marks, 1999).

The quality of corporate governance is vital to company growth and stability. It helps to provide investors and shareholders with assurance and confidence that their interests are secure and the company's assets are safeguarded. Among other things, good corporate governance helps to i) attract local and foreign investors on the basis that their assets will be well managed in a transparent and accountable process; ii) create competitive and efficient companies; iii) enhance the accountability and performance of those entrusted with management responsibilities; and iv) promote effective and efficient use of limited resources (Okeahalam and Akinboade, 2003).

The peculiar challenge of corporate governance in Africa owes to the fact that African countries are essentially economies in transition. There are still large numbers of state owned enterprises, corruption is endemic and the business environment is weak. Moreover, the lack of effective institutional and regulatory framework is a major hindrance to the quest for good corporate governance in Africa (Rossouw, 2005).

The two dominant models of corporate governance are: institutionally based system and market-based systems (Rwegasira, 2000). The institutionally based system focuses on stakeholders, rather than just shareholders. It has also been called the "inclusive model" (Rossouw, 2005), as it recognises, along with shareholders, the interest of workers, government, and financial and non-financial organisations with whom the firm is in relationship. There are variants of this model in different countries. In Germany, for example, this model includes a two-board system: a supervisory board (whose members are not in management) whose role is general oversight and resolution of conflict arising between management, shareholders and workers; and a management or executive board entrusted with running the business (Rwegasira, 2000).

The market-based system of corporate governance, which is especially popular in the US and the UK, is based on ownership of company shares by widely dispersed owners. In this system, shareholders elect the board members and the management, which usually enjoy close relationship with the board and largely free from close scrutiny and control. The benefits of a market-based system have been highlighted as: fostering greater incentives to research firms to trade and make profit in big, liquid markets; ease of takeovers and tying managerial compensation to firm performance; facilitating risk management; and limiting the power of banks (Levine, 2002).

While neither model is inherently superior to the other, a number of scholars have observed that the market-based system assumes a number of characteristics that are not readily realizable or well developed in Africa's transition economies. Among other things, a market-based system presupposes "a low degree of concentration of ownership of company shares trading in liquid markets, limited bank shareholding, less inter-company shareholding, and a faster turnover of controlling blocks in the companies" (Rwegasira, 2000, pp.8). Conversely, the institutionally-based model may be more suitable for African countries as the sophistication of Africa's capital markets is low, bank financing is predominant, and Africa's companies are more likely to be small and medium scale, with heavy reliance on borrowed funds (Rwegasira, 2000). Moreover, others have observed that the inclusive nature of the institutionally-based model, incorporating both stakeholders and shareholders, is well attuned to the African value system captured by the commitment to coexistence, consensus and consultation (Rossouw, 2005)

Overview of training activities

The training was delivered at the University Of Wolverhampton, UK to sixteen participants comprising of chairmen of boards, CEOs of Private Companies, Heads of Civil Service, Consultants, and Principal Officers of Higher Institutions. The training was carried out through intensive interactive sessions led by academic and industry experts in corporate governance and ethics. Among other activities, participants were able to network with leading UK academics and businesses. That was important to gain deeper insight, through one-on-one interactions, of the nuances and strategies of managing challenging situations and exploiting new opportunities in the corporate work place. Furthermore, the delegates, working alongside experts and facilitators, were able to develop templates in corporate social responsibility and workforce diversity, particularly useful for developing countries, where there is a well-documented history of corporation vs community conflicts and gender discrimination. Amongst others, the training highlighted a number of factors that influence board task performance and overall firm performance: use of knowledge and skills; quality of communication; trust; cohesiveness; and social distancing. Participants were also invited to reflect on the connection between ethics and leaderships, the different manifestations of this from country to country and how ethical issue may affect leadership and organisational performance. Organisational leadership is characterised by five key qualities: exercise of power; creation of vision; communication with followers; intellectual stimulation and development of followers; and moral standards. Finally, participants were taken through an overview of corporate management in the UK, with a view to identifying best practices that may be suitable to adapt or adopt in the Nigerian context. In particular, there were discussions around board structure and membership, board management, directors' remuneration, financial controls, accountability and audit and shareholder relations. This discussion also focused on how corporate governance practices in the UK have reflected significant structural changes in the UK economy over the past three decades, from a largely manufacturing economy to higher skill-led, service-based economy.

Participants' reflections

The participants indicated that the training helped them to gain new knowledge and skills with which they have been able to improve the performance of their organisations. Mr Olusanya Yomi, the CEO of a Nigerian media company, Media Marks Lithographics Ltd, stated that the training had boosted his self-confidence and opened his eyes about the critical importance of knowledge and the need to invest resources in acquiring new knowledge. He added that, following the training, he had restructured his company, and transmitted the new knowledge and ideas he acquired to his staff: "I was the Managing Director and CEO at that time, but I am now the Chairman. The training really helped me. We needed to expand the company, and this has now taken us to Ghana. I was encouraged that we should not be limited to the environment we are. We approached the government of Ghana and we were approved. We are also looking to expand beyond West Africa". To underscore the multiplied impact of the training, Mr Olusanya narrated how he transmitted some of the knowledge to his staff, following the training: "I gathered my staff together after attending the training and shared with them the insights I gained from the training. This has helped overall performance of the company. In particular, the person who is managing the business now was benefited a lot from the training, as went through details of the new ideas I gained with her"

Dr Abraham Emmanuel, who is the proprietor and chairman of a private institution in Lagos Nigeria, said that the training helped him to cope better with the challenges of managing departmental heads: "at the time, the key managerial challenge for me was that of supervision. I had heads of departments who could not really take responsibility. They tend to pass the bucks. After the training I was able to equip them and encourage them to take control and take responsibility. Those are the issues: 'take charge, take control, and take responsibility'. This change of orientation has helped the institution to run smoother with better efficiency and productivity"

The training underscores how knowledge of global best practices in corporate governance can help owners and managers of firms to improve efficiency and productivity. It also highlights the strategic importance of interventions targeted at top management of organisations. In particular, the feedback from participants highlights how innovative ideas and practices are diffused through the chain of leadership, towards the overall improvement of company performance and productivity. Finally, the training affirms the need to focus more attention on owners and proprietors of small and medium scale enterprises, as they constitute the bulk of the private sector in Africa, and they are also more likely to require support in terms of upgrading knowledge and skills to keep up with global best practices.

Recommendations

In the light of the training, the followings recommendations provide good practice model in corporate governance for developing countries

1. Adoption of corporate governance culture that focuses more on creating and improving value, rather than focus on preventing value destruction.
2. Adoption of pay packages that incentivise not only management but also employees towards better individual and improved firm performance.
3. Focus on developing appropriate strategies, monitoring and control to improve firm performance.
4. Development of a corporate governance culture that entails a good mix of legislation, non-legislative codes, self- regulation, best practice, culture and board competence, among others.
5. Use of the Nolan Principles of Public Life which focus on the following key components: selflessness, integrity, objectivity, accountability, openness, honesty and leadership.
6. Fostering of business relationships with suppliers, customers and others.
7. Adoption of sustainable business practices with due consideration of the impact of company activities on the environment and the community at large.
8. Focusing adequate attention on building reputation for high standards of business conduct.
9. Development of competitive advantage through continuing focus on identifying, developing and sustaining core competence and distinctive capabilities.
10. Development of a management culture that is adaptive to change and capable of identifying and exploiting new opportunities in a 21st-century environment characterised by rapid changes.

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