Building an African Corporate Governance

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RECOMMENDATIONS

- Governments must undertake ongoing reforms of the business climate. Making regulatory demands manageable is a key area.

- Africa must consciously nurture its corporate governance infrastructure. Both state- and privately-run institutions are critical for conducting research and training, and for developing corporate governance systems. Several governments have helped establish bodies such as institutes of directors. These must be well-resourced and operationally independent, especially as they are critical for navigating the sensitive interface between political and business interests in Africa's economic take-off.

- Cross-border co-operation on corporate governance is imperative. The assistance provided by South African experts in developing codes elsewhere, and the information exchange intended by the African Corporate Governance Network, should be emulated and expanded. Partnerships between businesses, professional bodies, governments and academia should be encouraged.

- Reliable information enables well-informed solutions, founded on evidence. Rectifying information deficits is critical for Africa's long-term economic prospects.

EXECUTIVE SUMMARY

Developing a suitable system of corporate governance is an important priority for Africa. Corporate governance is underdeveloped on the continent – outside particular pockets – but the emerging system reflects a mix of universal and distinctly African elements. Central to the latter is the recognition that corporate governance demands consideration of the interests of stakeholders beyond businesses, and that socio-economic rather than purely financial criteria should measure their activities. South Africa's King Code is a trendsetter here. Going forward, Africa needs to nurture its corporate governance system with an eye to what is possible for its emerging business sector, so that the demands are realistic and contribute to business growth.

LESSONS FROM PEER REVIEW

The African Peer Review Mechanism (APRM) process is based on the understanding that for Africa to progress and prosper, the continent must find durable, home-grown responses to its challenges. Africa's problems must be understood in their own contexts; solutions must be framed within the capabilities available to the continent, and in line with its social and cultural mores. 'African solutions for African problems' has become the unofficial tagline of the process.

Among Africa's developmental priorities is maintaining a robust economic trajectory. This demands a vastly expanded business community, as well as more businesses geared towards growth and innovation. How the business environment is structured to achieve this is critically important. In this respect, building a suitable system of corporate governance is an under-acknowledged challenge.

This policy briefing draws on recent research interrogating what the APRM Country Review Reports (CRRs) have said about corporate governance in the six states of the Southern African Development Community (SADC) that have thus far undergone review – Lesotho,

Mauritius, Mozambique, South Africa, Tanzania and Zambia.[2] It uses the findings of this research to describe the emerging system of corporate governance in Africa, with a stress on whether it demonstrates distinctively 'African' characteristics.

WHY CORPORATE GOVERNANCE?

Corporate governance is an important element of the APRM's 'good governance' agenda. Globally, the indispensable role of the private sector is recognised. However, highly publicised scandals have illustrated the consequences of corporate malfeasance, not just for shareholders but also for employees, business partners and the reputation of the business community.

Corporate governance concerns the management of corporate power, the central issue being the need for the prudent stewardship of companies. To achieve this, corporate governance systems seek to ensure oversight and accountability to hold business operations to legal and ethical strictures. The goal is not only to ensure probity in business but also to encourage efficiency and, in the view of some observers, to ease access to finance.

CORPORATE GOVERNANCE: GLOBAL AND AFRICAN PERSPECTIVES

Internationally, the objectives of corporate governance are reasonably consistent, but it is an evolving practice and varies across societies.

Corporate governance partly reflects legal and political traditions. For example, among the world's developed economies, the patterns of corporate governance in the so-called 'Anglo-Saxon' countries are different from those in 'continental' Europe. In the former, common law, an attachment to private property and competitive markets have placed shareholder interests at the centre; in the latter, civil law and a social democratic impulse have elevated the interests of other stakeholders.

Beyond the political and legal traditions are cultural norms. An Indian observer notes:[3]

> The structures, institutions, and legal framework of corporate governance are developed and administered by individuals whose behaviours are shaped by social and personal concepts of hope, ambition, greed, fear, uncertainty, and hubris, as well as by the social ethos.

This makes national cultures a dominant influence on corporate governance.

Scholarship increasingly recognises that the intersection of legal, political and cultural factors produces the strain of corporate governance that emerges in any context. In Asia, for example, the prominence of family-owned businesses and the Confucian tradition raises the importance of family relationships and familial hierarchy – with corresponding implications, good and ill, for corporate governance.

Although surveys show enormous entrepreneurial energy in Africa, its private sector – although with pockets of excellence – is embryonic. African businesses are typically small and unsophisticated. Many are established in the informal sector and never graduate to formality. Ownership structures are usually simple, with sole and family ownership predominating. In common with much African social organisation, the trust arising from personal relationships appears to be a key element in conducting business.

Africa has few large indigenous companies, although the state-owned sector, partly a legacy of past statist economic policies, is of considerable importance. The past two decades have also seen the growing presence of large foreign operations.

The overall business environment is a challenging one, imposing obstacles and raising numerous issues for a corporate governance system to navigate. Africa's entrepreneurs face poor physical and institutional environments. Deficient infrastructure, an inadequately educated workforce, a lack of finance (especially through formal institutions), corruption and poorly functioning administrative and justice systems test their resourcefulness. Frustration at red tape and harassment are disincentives for entrepreneurs to expand their businesses in terms of competitiveness beyond small local markets – or even to venture into the formal sector at all.

Furthermore, Africa's leadership tends to view business through a social lens: the contribution business can make to combatting poverty and to state budgets. In view of Africa's developmental challenges, this is understandable; all the more so since people with a background in business do not feature prominently among the continent's leadership.

The impulse to view business through a social lens must be tempered by analysis if it is to produce good

policy. Unfortunately, analysing Africa's business and economic environments, as the APRM acknowledges, is complicated by critical information gaps. Until these are addressed, misplaced interventions are a danger.

Despite these difficulties, there is a growing acceptance of the need for good corporate governance in Africa. It is young, although attempts are being made to build it. In most countries, these attempts have achieved limited practical success thus far. The Lesotho CRR speaks for many other countries in noting that 'although good corporate governance appears to be embraced in Lesotho to some extent, it remains largely at the policy level rather than at the implementation level'.[4]

The problems confronting corporate governance in Africa mirror the deficits in the business environment. A key difficulty for Africa's small businesses is meeting 'global' reporting standards, which are important for keeping track of company resources. However, the International Accounting Standards Board has developed new standards specifically intended for Small and Medium Enterprises (SMEs); this may help to resolve the problem.

Similar problems exist in national corporate governance infrastructures. In most countries, institutes of directors and professional associations, critical to maintaining the professional skills that support corporate governance, do exist, but they struggle to execute their mandates with constrained resources in tough environments.

Particularly serious are the shortages of skills necessary to make corporate governance work. The APRM shows a widespread concern about the lack of accountants and the inadequate preparation of many who enter the profession. Company boards likewise struggle to find suitable candidates, repeatedly drawing on the same narrow pool of people.

Together, these issues raise strategic concerns about pitching the demands of corporate governance at a level manageable for the businesses applying them. A corporate governance regime needs to balance demands and practicability carefully.

The implications of personal and family relationships for corporate governance are touched on by the APRM. Some CRRs argue that family relationships produce company boards serving the controlling family rather than good governance. At present, this problem is limited by the lack of sophistication of the business community in most of the continent – relatively few firms have boards – but as it matures, more intricate management systems will be needed.

It is important, however, not to view family ownership and trust-based business relationships as negative. As Germany's SME community demonstrates, if properly managed there is no reason why they might not prove to be a significant asset. For this reason, it is critical that business policy and corporate governance be sensitive to the needs and concerns of family-owned and -run businesses.

Often the largest participants in African economies, state-owned enterprises (SOEs) have an important demonstration effect. SOEs in less-developed countries such as Angola have helped to develop the concept of corporate governance in these environments.

Political interests exert a more concerning influence on business. These interests may determine access to economic assets and finance, and to licences and permissions, and provide immunity from or susceptibility to harassment by the authorities. Where private sectors are underdeveloped and political divides run deep, these can produce worrying economic distortions and undermine healthy competition. This must be guarded against tenaciously.

A 'radically' different perspective?

While the features discussed above are important nodes of Africa's emerging corporate governance system, Africa's cultural heritage and political evolution may imply that its differences are altogether more 'radical'.

Corporate governance has historically been associated with protecting investors and opening avenues for finance. In Africa, these concerns are of less significance, since capital markets – outside particular enclaves – are small. African corporate governance is developing on a different trajectory, and needs to hinge itself elsewhere.

Paradoxically, although corporate governance in Africa as a whole is embryonic, South Africa has been a world leader in corporate governance thinking. The reports of the influential King Committee on Corporate Governance have helped to expand the scope of corporate governance beyond shareholder and even traditional stakeholder interests. Instead, the King Committee encouraged businesses to measure their activities against their social, environmental and economic outcomes – 'people, planet, profit' – emphasising the intrinsic importance of sustainability to their operations. The King

Committee has followed a principles-based approach, rather than a prescriptive, legislated one. This has the advantage of flexibility – principles can be adhered to by all business categories.

Inherent in this is the idea of corporate governance as being intrinsic to socio-economic development, rather than simply to economic growth. Moreover, the King Committee has consciously placed corporate governance within the African cultural milieu, recognising the importance of the wider community in terms of the social-ethical principle of ubuntu.[5]

Taken together, these indicate the foundations of a distinctly African interpretation of corporate governance. It seeks the business probity that is the objective of corporate governance worldwide, but differs in conception and application. Uganda-based corporate governance expert Alison Dillon-Kibirige observes:[6]

> Traditional African culture is an important differentiator in the continent's corporate governance. … Relationships are very important, and their management is a fundamental part of governance. Also in many African countries outside SA there are few listed companies so you are dealing with companies that do not have the pressure of investors as it exists elsewhere. They are not therefore forced into the compliance approach (a 'tick box' approach) to corporate governance. They can apply corporate governance tools in the best long-term interest of the companies.

CONCLUDING OBSERVATIONS

African corporate governance encompasses two things. Firstly, it describes how practices have been adopted on the continent; secondly, it denotes the aspiration for a system that agrees with the workings of the economies in which it is practised. In so doing, it aims to promote the growth of African business – a pressing need for Africa's long-term development.

African corporate governance should not be treated as a type of cultural determinism. Culture is important in moulding the form it takes, but corporate governance demands constant learning from global best practice. Successful Asian businesses managing generational succession and operational complexity are drawing on Western experiences. African businesses should do likewise, while adapting them to their own circumstances.

African corporate governance systems must recognise both global best practice and the particularities of African business. The King Committee's stress on principles rather than prescription is appropriate. A brand of corporate governance that challenges businesses to integrate governance concerns into their operations rather than demanding formalistic compliance is not only more realistic for Africa; in the long term it also stands to foster higher standards of ethical conduct. Where this requires legislation, it must be thoroughly thought through and incrementally introduced. Special regard must be paid to understanding and accommodating small and family-owned businesses.

Good, mature corporate governance will proceed in tandem with the development of Africa's business community. In an improved environment, businesses will think in terms of broader time and market horizons, the more complex marshalling of resources and, above all, growth. This will spur interest in corporate governance – successful economies will underwrite successful corporate governance, just as successful corporate governance will strengthen economies.

ENDNOTES

1   Terence Corrigan is a political and governance consultant and SAIIA Research Fellow.

2   Corrigan T, 'Getting Down to Business: Lessons from the African Peer Review Mechanism', Research Report 17. Johannesburg: South African Institute of International Affairs, August 2014.

3   Kar P, 'Culture and corporate governance principles in India: Reconcilable clashes?', *Private Sector Opinion*, 23, 10 October 2011, p. 6.

4   Panel of Eminent Persons, APRM, *Country Review Report of the Kingdom of Lesotho*, APRM Secretariat, June 2010, p. 166.

5   This is expressed through the adage 'A person is a person through other people'.

6   Email from Alison Dillon-Kibirige, 6 June 2014.