Corporate Governance Practices and Challenges in Africa

Ayandele, I. A, (Ph.D) & ISICHEI EJIKEME EMMANUEL

1. Department of Business Management, University of Uyo, Uyo- Nigeria.
2. Department of Business Management, University of Uyo, Uyo- Nigeria.

Email: isichei_ejike@yahoo.com

ABSTRACT

This paper examined the practice of corporate governance in developing countries, and specifically in Africa. To carry out the exercise, the efficacy of corporate governance mechanisms and legal (legislation) framework were examined. The paper observed a weak or non-existing compliance and/or enforcement of corporate governance legislation. It concludes that corporate governance in most African countries is ineffective, inefficient and has ultimately failed. The paper therefore, recommends that for African countries to reap the benefits of effective corporate governance there is the need to review existing legislations and to strengthen the enforcement mechanism of the regulatory institutions.

Key Words: Governance, Stewardship, Stakeholders, Ethics, Accountability.

INTRODUCTION

The experience of developed economies of the world has demonstrated a positive marriage of convenience between well coordinated and managed wealth and economic development. On the other hand, lack of framework to manage wealth continues to plague and plunge many corporate entities in many developing countries of the world and especially in Africa into the vicious circle of liquidation. Majority of the business entities and in particular financial institutions in Africa have been found to lack the ability to manage wealth by effectively developing and encouraging indigenous and foreign investors to stake their capital for reasonable returns. This according to Bhimani (2008) has a direct relationship with the need for an effective and efficient corporate governance practices.

Corporate governance according to Sullivan (2000) covers a large number of distinct concepts and phenomena as can be seen from the definition adopted by Organisation for Economic Cooperation and Development (OECD - 2005). By their definition “Corporate governance is the system by which business corporations are directed and controlled”. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders and spells out the rules and procedures for making decisions in corporate affairs. By doing this, it also provides the structure through which the company’s objectives are set, the means of attaining those objectives and the instruments for monitoring performance.

From the aforementioned, it is very clear that corporate governance includes the relationship of a company with its stakeholders and the society; the promotion of fairness, transparency and accountability; reference to mechanisms that are used to “govern” (manage) and to ensure that actions taken are consistent with the interests of key stakeholders groups. The key points of interest in corporate governance according to Young (2003) include issues of transparency and accountability, the legal and regulatory environment, appropriate risk management measures, information flows and the responsibility of senior management and the board of directors.

Corporate governance according to Clark (2004) is relatively a new concept to many companies in Africa. Scientific research on the subject matter is very scanty. However, a few academic and corporate researchers (Maisenbach, 2006; Padilla, 2002; Kwakwa and Nzekwu, 2003) conducted researches on it in Africa and have identified institutional, legal and capacity developments as pivotal to the development of corporate governance. This paper is therefore, designed to examine in details the practice and challenges of corporate governance in Africa. Specifically, the paper examines the concepts; theories and empirical frameworks of corporate governance as practiced in some selected African countries.

CONCEPTUAL FRAMEWORK

The term “corporate governance” has a clear origin from a Greek word “Kyberman”, meaning to steer, lead or govern. From the Greek usage of the word, it was adopted into the Latin language where it was referred to as
“gubernare” and the French version known as “govern or”. It could also mean the process of decision making and a systemic process by which decisions may be implemented. However, corporate governance has much a different meaning to different organizations.

Agbonifoh (2010) says corporate governance is all about ethical business conducts, transparency, integrity in running a business and about making a distinction between personal and corporate funds in the management of a company. Put differently, Kwakwa and Nzekwu (2003) define corporate governance as a “vital ingredient in the maintenance of dynamic balance between the need for order and equality in society; promoting the efficient production and delivery of goods and services., ensuring accountability in the house of power and the protection of human rights and freedoms”. Similarly, Oman (2001) defines corporate governance as the network of relationships between a corporation’s board of directors and members of its management team that help to define who has control over what issues and who makes pivotal decisions within the organisation.

Also, Oyejide and Soyibo (2001) define corporate governance as the manner in which the power of a corporation is exercised in the stewardship of the corporation’s total portfolio of assets and liabilities with the objective of maintaining and increasing shareholders’ value and satisfaction of other stakeholders in the context of its corporate mission. In the opinion of Oman (2001) corporate governance is the private and public institutions practices, which in the economy govern the relations between corporate managers and entrepreneurs (corporate insiders) on the one hand, and those who invest resources in corporations, on the other.

In all, effective governance of the modern organisation is of interest to shareholder activist, business people, business writers and academic scholars. One reason for this interest is the belief held by some that corporate governance is not real but a myth (in some organisations) and specifically its mechanisms have failed to adequately monitor and control top level managers’ strategic decisions.

1. Corporate Governance Mechanisms
The corporate governance mechanisms consist of the internal and the external elements.

   i. Internal Mechanisms and Controls

   The internal mechanisms and controls refers to measures taken within the organisation by the owners and managers of the enterprises aimed at monitoring the activities of organisational players with a view to detecting sources of inefficiencies and taking corrective actions to accomplish organisational goals (Hitt, Ireland & Hoskinson, 1999). These factors relate to the board of directors, the management system and code of ethics.

   a. Board Structure and Performance

   The key issues in board structures which have implications for the quality of corporate governance open to a firm include, whether there are two tier structure; in conglomerates there may be a two tier boards with one board at the divisional (SUB) level and another at the corporate level. Others are the size and composition of the board of memberships, separation of the position of Chairman and Chief Executive Officer (CEO); the presence and the role of independent or otherwise of the audit committee.

   b. Management System

   The issues of interest here which impinge on the quality of corporate governance includes the existence and quality of internal control systems and procedures, including the internal auditing system, employee training, compliance monitoring and an effective whistle-blowing system. Others include reporting practices, corporate culture, regular review of code; remuneration disclosure in order to ensure that remuneration is tied to performance and balance of power.

   c. Code of Ethics

   Internal mechanisms and controls may include the existence of ethical codes of conduct that covers any combination of the following issues; obeying laws and regulations, prohibition of giving and receiving of bribes and gifts that has the capacity to influence decisions; prohibition of facilitation of payments, prohibition of donations to political parties, conflicts of interest, ethical and healthy business competition, anticompetitive practices and use of company resources.
ii. External Corporate Governance Mechanism and Controls

These are the controls which external stakeholders exercise over the organisation. Some of these are: government regulations including those imposed by regulatory agencies, competition, media pressure, criteria for listing companies on the stock exchange, strong regulatory legislations that promote good governance; shareholders activism, takeovers and managerial labour market.

2. Principles of Corporate Governance

The organisation for Economic Cooperation and Development (OECD) published a set of principles for corporate governance in 1999. However, the principles were later reviewed in 2004. Though they are non-binding principles, they are however aimed at guiding corporate governance debate and are used as standard or benchmarks by regulators and corporate decision-makers alike. The April 2004 edition of the principles according to Agbonifoh (2010) covers the following areas:

a. Ensuring the basis for an effective corporate governance framework (that promote transparency, efficient markets, rule of law and division of labour among different supervisory, regulatory and enforcement authorities).

b. The rights of shareholders and key ownership functions (that protect and facilities the exercise of shareholders’ right).

c. The equitable treatment of shareholders.

d. The role of stakeholders in corporate governance.

e. Disclosure and transparency.

f. The responsibilities of the board.

According to Okafor (2009), these principles include but are not limited to the following:

i. Selflessness on the part of employees, management and board members in taking decisions.

ii. Integrity, that is, employees, management and board members should not place themselves in situations that will comprise them in taking decisions.

iii. Accountability of employees, management and the board members for actions taken by them on behalf of the company; and

iv. Honestly, that is, employees, management and board members should be transparent when, for example, they find themselves in situations of conflict of interest.

3. Problems of Corporate Governance

The under listed are some peculiar problems associated with corporate governance.

a. Demand for information: in order to influence the directors, the shareholders must combine with orders to form a significant voting group which can pose a real threat of carrying resolutions or appointing directors at a general meeting.

b. Monitoring Costs: A barrier to shareholders using good information is the cost of processing it, especially to a small shareholder.

c. Supply of Accounting Information: Financial accounts form, a crucial link in enabling providers of finance to monitor directors. Imperfections in the final reporting process cause imperfections in the effectiveness of corporate governance (Adepoju, 2010).

4. Corporate Governance Legislation

Various companies existing in Africa are regulated by companies and Allied matters laws. A good example is the companies and allied matters decree (CAMD) of 1990 in Nigeria laws. In such laws are the following prescribed and clearly stated to regulate the practice of corporate governance.

a. Disclosure and Transparency Issues

It provides that the directors of every company shall prepare financial statements reflecting a true and fair view of the operations of the company during the financial year. The financial statements must include among others, the balance sheet and profit and loss accounts; the sources and application of funds, giving information about the generation and utilization of funds; the value added statement report, the wealth created by the company during the financial year. The financial statement must be laid before the shareholders at the annual general meeting (AGM). These statements
must reach the shareholders, who must decide whether to approve or reject the financial statement at least 21 days before the AGM. The law also provides for the annual preparation of the directors’ reports. The board must give information about emoluments of directors including emoluments waived, pensions and compensation for loss of office to directors and past directors.

b. Auditing Matters/Required Accounting and Auditing Standards
The company law specifies that all companies must appoint an auditor or auditors to audit the financial statements of the company and hold office until the next AGM. In cases where no auditors are appointed or re-appointed, the law empowers the directors to appoint a person to fill the vacancy. To ensure the independence of the auditor, the law prohibits any officer or servant of the company from being an auditor, neither can who is a partner or is in the employment of any office of the company nor is any person or firm that offers consistency services to it. The law also requires that the financial statement prepared by each company should conform to the accounting standards laid down by the statements of Accounting Standards issued from time to time by the accounting Standards Board, provided such Accounting standards do not conflict with the provision of the law.

c. Requirement for equity ownership disclosure
The law requires that each company must keep a register of members/ shareholders where the shares held by each holder is recorded as well as the amount paid or agreed to be paid. Whenever shares are sold they must also be recorded in the register.

d. Disclosure on sundry issues and items
An important issue in corporate governance relates to the requirement of the company law in relation to disclosure on identity, compensation, background of directors and senior managers as well as disclosure of related party transactions. Any change in ownership interest and values must also be updated and be made known to all shareholders who have a right to ask for a copy of the register, or any part thereof, albeit at a fee.

e. Oversight Management
The law also specifies rules and regulations for ensuring that management of companies act in the interest of investors and of the firms. Among these are the shareholders’ meeting which have supervisory functions over the companies; the requirements that financial accounts of companies be certified by external auditors; the different returns the companies are expected to send to regulatory agencies which have regulatory and supervisory mandate over the companies.

f. Liabilities and Sanctions for Directors who fail to perform
The AGM with its power to appoint and remove directors as well as approve their remuneration is expected to act as check on the performance of directors. Accordingly, directors will endeavour to bring to the AGM results that will win the approval and commendation of shareholders. Besides, certain sections of the company law prescribe penalties for erring directors and officers of the company.

THEORETICAL FRAMEWORK
The fundamental corporate governance theories range from the agency theory and expanded into the stewardship theory, stakeholder theory. Resources dependency theory, transaction cost theory, political theory and ethics related theories. These theories are briefly reviewed below:

a. Agency theory
Agency theory having its roots in economic theory was exposited by Alchian and Demsetz (1972) and further developed by Jensen and Meckling (1976). Agency theory is defined by Hillman, Canella & Paetzold (2000) as the relationship between the principals, such as shareholders and agents such as the company executives and managers. In this theory, shareholders who are the owners or principals of the company, hires the agents to perform work. The principals delegate the running of the business to the directors or managers, who are the shareholders’ agents (Clarke, 2004). The theory stipulates that the shareholders expect the agents to act and make decisions in the principal’s interest.
b. Stewardship theory
This theory has its roots from psychology and sociology and is defined by Davis, Schoorman & Donaldson (1997) as a steward protects and maximizes shareholders wealth through firm performance because by so doing, the steward’s utility functions are maximized. In this perspective, stewards are company executives and managers working for the shareholders, protect and make profits for the shareholders. Unlike agency theory, stewardship theory stresses not on the perspective of individualism (Mak and Kusnadi, 2005), but rather on the role of top management as stewards, integrating their goals as part of the organisation. The stewardship perspective suggests that stewards are satisfied and motivated when organisational success is attained.

c. Stakeholder Theory
Stakeholder theory was embedded in the management discipline in 1970 and gradually developed by Freeman (1984). Wheller, Colbert & Freeman (2003) argue that stakeholder theory derived from a combination of the sociological and organisational disciplines. Stakeholder theory suggests that a stakeholder is “any group of individual who can affect or is affected by the achievement of the organisation’s objectives. Unlike agency theory in which the managers are working and serving for the stakeholders, stakeholders theorist suggest that managers in organization have a network of relationships to serve the key elements of the business survival ; which include the suppliers, employees and business partners. It was argued that this group of network is important to the owner-manager-employee relationship as in agency theory (Freeman, 1999).

d. Resources Dependency Theory
Whilst, the stakeholder theory focuses on relationships with many group or network for individual benefit, resources dependency theory concentrates on the roles of board of directors in providing access to resources needed by the firm. Hillman, et al (2000) contend that resource dependency theory focuses on the role that directors play in providing or securing essential resources to an organisation through their linkages to the external environment.

e. Transaction Cost Theory
This theory was first initiated by Cyert and March in 1963 and later theoretically described and exposed by Williamson in 1996 (Monks and Minow, 2004). Transaction cost theory was an interdisciplinary alliance of law, economics and organisations. The theory attempts to view the firm as an organisation comprising people with different views and objectives. The underlying assumption of transaction theory is that firm have become so large to the extent that they are in effect substitute for the market in determining the allocation of resources. In other words, the organisation and the structure of a firm can determine price and production. The unit of analysis in transaction cost theory is the transaction. Therefore, the combination of people with transaction suggests that managers are opportunistic and arrange firm’s transactions for their selfish interest (Rwegasira, 2000).

EMPIRICAL FRAMEWORK
A study conducted in the Middle East and North Africa according to Elebute (2000) reveals that there is a significant relationship between corporate governance and performances of banks and other financial institutions. The study used data from 249 banks from 20 countries in the Middle East and North Africa regions. The corporate governance parameters used was ownership structure and findings were related to past researches. It was discovered that foreign banks are significantly better performers than all sampled groups. However, government owned banks were discovered to perform poorly when compared to the others.

A similar research using ownership structure was conducted on Indian banks according to Maisenbach (2006). However, the performance indicators used were accounting measures, which comprised of return on assets, net interest margin and operating cost ratio. The outcome of the study showed that there is a significant positive relationship between return on assets and private ownership, but the research also showed that there is no significant relationship between return on assets and ownership variables. In another empirical analysis was also carried out in Kenya, between the relationship of corporate governance and bank performance; the outcome reveal that a significant relationship exist between the two variables in the study (Adepoju, 2010).

AN OVERVIEW OF CORPORATE GOVERNANCE PRACTICES IN AFRICA
Corporate governance has existed for centuries and has taken a stronger foothold in developed economies when
compared to emerging economies. However, African economies began to pay particular attention to the ideals of
good governance in the beginning of the 1980s. According to Soyibo, et al (2002), the term good governance was
first mentioned in a 1989 World Bank report on Sub-Saharan Africa but since the 1990s many donor agencies have
sought the pursuit of good governance.

Opinions however, differ on the content, boundaries and relevance of the theory of corporate governance in the
developing countries because of the under development, unstructured and informal nature of the economies
(Krajewski and Ritzman, 2002). However, the issues of good corporate governance cannot be overlooked in this part
of the world because of its perceived role in development and economic prosperity.

In line with the recent trend where most African countries have decided to formalize their economies, the clamour for
good corporate governance has increased. Corporate governance systems have evolved in a number of developing
African countries (Adepoju, 2010). However, Rwegasira (2000) argues that the concept of corporate governance is
not necessarily the best solution for developing economies. This is because a number of developing countries face
numerous problems that include unstable political regimes, low per capita incomes and diseases. Such problems
require more elaborate solutions than simply adopting corporate governance practices in developing countries,
especially countries in the African continent (Agbonifoh, 2010).

This lack of research can be attributed to the fact that, for a long time, the issue of corporate governance did not
receive adequate attention in the developing world. Okafor (2009) observes that historically the ability of managers
to run organisations was never questioned. Consequently, there was little concern for corporate governance or
information disclosure and transparency. That situation according to Bhimani (2001) has changed and the concept of
corporate governance is currently acknowledged to play an important role in the management of organisations in
developing economies.

Mak and Kusdi (2005) argue that developing countries are often faced with a multitude of problems that include
uncertain economies, weak legal controls, protection of investors and frequent government intervention. These
problems make it even more necessary for developing countries to adopt effective corporate governance structures.
The pressures of an increasingly globalised world economy, democratization, IMF/World Bank’s economic reforms
and the recent financial scandals in the west have forced a number of developing countries to adapt the corporate
governance ideals (Hillman et al, 2000). It has also been suggested that improved corporate governance systems can
serve as an incentive for attracting foreign investments. In fact, it is poor economic performance and high
international debt levels in emerging markets that forced the World Bank, IMF, and the IFC to intervene in an effort
to improve the corporate governance systems of these markets.

Meanwhile, a number of developing countries have embraced the corporate governance ideas. However, developing
countries practice corporate governance models that are different from the models adopted by developed countries.
This is partly due to the unique economic and political systems found in developing countries. Sullivan (2000) argues
that developing countries are poorly equipped to implement the type of corporate governance found in the developed
market economies because developing countries are characterised by state owned firms, interlocking relationships
between governments and financial sectors, weak legal and judiciary systems and limited human resources
capabilities. Corporate governance structures in developing countries are generally weak.

Consequently, several measures have been suggested on how to improve such structures. Notable suggestions
include the use of equity instead of debt for growth, increasing overall investor confidence through increased
transparency, strengthening of capital market structures and encouraging the use of competition to improve
performance of domestic firms. The concept of competitions as a way of encouraging improvements in productivity
has been adopted in many parts of the world. Competitions mainly involve rewarding firms that excel in stated areas
and they can be administered at a national level.

CHALLENGES AND FAILURES OF CORPORATE GOVERNANCE IN AFRICA

The challenges and failure of corporate governance in Africa stems from the culture of corruption and lack of
institutional capacity to implement the codes of conduct governing corporate governance. Most company executives
enjoy an atmosphere of lack of check and balances in the system to engage in gross misconducts since investors are
not included in the governing structure. Policy and procedures required to ensure efficient internal controls are
disregarded with impunity and total lack of thorough selection process of CEO and board members – round pegs in
square holes remain a challenge to effective corporate governance.

The business cum shareholders’ interests is secondary to the self-interest of board members and the management. Limited opportunities for institutional investors and near zero interest in corporate social investments to demonstrate company’s sense of belongingness as evidenced in environmental pollutions are clear indications of failure of corporate governance. Similar to the above is the lack of managerial training and capacity development among most African executives to manage business risks. This according to Elebute (2000) has resulted in the huge agency costs and shareholders have had to shoulder several avoidable agency costs since the board of directors usually fail as a monitoring device to minimize agency problems.

The recent near collapse of the Nigerian Stock Exchange Market, the merger, outright acquisition of some financial institutions by others are pointers to systems devoid of controls and accountability, which results in lack of shareholders’ interest and confidence in the operating environment. Failure of corporate governance in Africa has also been traced to lack of effective yardsticks to evaluate board and management processes and performance, since the board sub-committees required to be fully independent, especially the audit and remuneration committees are sometimes compromised. In some countries like Nigeria and Cameroon, the auditors/audit committees of the board have been singled out as abettors of fraudulent practices given their readiness to cover-up corrupt practices for executives in a desperate bid for kick-back and to retain the audit engagements of big clients.

OBSERVATIONS, CONCLUSION AND RECOMMENDATIONS

A number of observations have been made from the practices of corporate governance in Africa. Specifically, they include the following.

Legislation relating to corporate governance and analysis of the standard of corporate governance in Africa show clearly that largely the institutions and the legal framework for effective corporate governance appear to be at a dismal level and compliance and/or enforcement appear to be weak or non-existent.

Further, we observe that with effective corporate governance based on core values of integrity and trust (reputational value), companies will have competitive advantage in attracting and retaining talent and generating positive reactions in the marketplace. The study also observes a slow pace of operational performance in most African companies especially with those with poor ethical and corporate governance practices.

Therefore, the paper concludes that corporate governance practices in most African countries are ineffective, inefficient and have ultimately failed.

RECOMMENDATIONS

Based on the observation and conclusion of this paper, the under listed recommendations are suggested.

i. Though the continuing existence of any firm is its ability to remain profitable, companies must set to make profit within the best possible ethical bounds.

ii. For African countries to reap the benefits of effective corporate governance there is the need to strengthen the enforcement mechanism of the regulatory institutions, so also there is the need to review existing legislations on corporate governance to ensure that they are in line with the prevailing challenges, and in line with the international best practices/standards.

iii. Policy formulators should attempt to account for the interactions between corporate governance and the institutional framework in different countries in Africa. The search for good practice should be based on an identification of what works in a particular country, to discern what broad principles can be derived from other countries experiences, and to examine the conditions for transferability of their practices.

iv. Business organization should be corporately responsible by giving out financial statement and other relevant document that reveal their true and current well-being. Also, executives should develop organizational values and norms centred on improving quality in order to ensure that organizational goals are met.

v. Companies should systemically ensure that all affairs that affect all stakeholders (internal and external) are disclosed to them in line with international best practices.

57
REFERENCE


Young, B. (2003). Corporate Governance: is there a relationship? Entrepreneur. Com, University of Western Ontario