ENTRENCHING CORPORATE GOVERNANCE: THE CHALLENGE TO THE NEW MILLENNIUM DEVELOPMENT IN AFRICA

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Abstract

Africa to a large extent has continue to remain a paradox. Apart from the landmass and its huge population, it has varieties of both solid and mineral resources. Yet a greater percentage of its people live in abject poverty. The level of development in Africa vis-à-vis other continents, particularly the industrialized nations of the world has been a great concern to scholars and the international community which led to the millennium development goals (MDGs). However, the inability of most of the countries to meet these goals has brought to the front burner the factors responsible and ways of overcoming them. This paper situate corporate governance as a critical factor in the development of the continent, investigates available literature on the challenges of development in Africa and conclude that lack of corporate governance in both private and public sector is a setback. It looks at the MDGs and some prominent theories on corporate governance, examining the various challenges in Africa in this regard and concludes that for effective growth and economic development of the continent entrenching effective and qualitative corporate governance is of great significance. This will lead to all round effective leaders, thus redeeming business image, attracting more funding and increasing inflow of investment both within and outside its continent.

Keywords: Corporate Governance, Africa, New Millennium, MDGs, Economic Development.

Introduction

Africa, a continent entangled in war, hunger and political instability is blessed with abundant range of resources but the developmental challenges facing this continent are complex and huge in all spheres. In 2000, the international community in its wisdom came up with the millennium development goals (MDGs) and encouraged nations that have ratified the treaty to meet the goals by the year 2015. To solve some of the problems facing the world, 189 head of states met in 2000 and approved the millennium declaration. It was envisaged that most if not all countries will be able to achieve the MDGs by the end of the 15 years term allocated to the attainment of the goals.

The MDGs was aimed at making the world a better place for all by the year 2015 with target at developing countries which Africa is amongst. Africa is regarded the poorest of all the continents in the word, this is mostly due to the menace it suffered from its European
colonial master who took advantage of it abundant repertoire of resources for the growth and development of their countries.

In fact African continent which is most behind has failed to achieve the MDGs by the end of 2015. Now the post 2015 development agenda is on point as the option in continuance of the drive of making the world a better place for all. Since most countries particularly in Africa have failed to attain the MDGs. Scholars and the international communities are trying to find out what went wrong and what could be done to achieve the post development 2015 agenda. The post 2015 development agenda is referred to as the new sustainable development agenda.

It became evident that Africa would not meet the 2015 deadline of attaining the new millennium development goals even before 2015, measures are been put in place to determine the reasons why Africa failed to meet the MDGs. The continent is characterised by conflicts, crisis and wars of different magnitude. One of the challenges facing this achievement is the fact that corporate governance is not properly entrenched in Africa. Most of Africa’s corporate governance codes are merely mimicked from that of developed countries without taking into account Africans own peculiarities.

Corporate governance has increasingly become a management concept of utmost concern for successful development in the world. However, most of the researches on corporate governance have concentrated on developed countries with little research on developing countries. Most of Africa’s corporate governance practices and codes has been greatly influenced by that of the European countries which colonized them. Despite divergence in the colonial legacies of Africa’s 53 countries, there seems to be similarities in how corporate governance is institutionalized. There is a great need for corporate governance in quoted, unquoted and state run enterprises due to the global acceptance of the fact that it can enhance the economic growth, development and long term sustainability of corporations.

Countries in the mid-stream of development which is a term used for the heterogeneous group of companies mostly found in African continent are tagged developing countries. The drive towards quality corporate governance is required to achieve the new millennium development goals. Good corporate governance can improve corporation’s reputation and consequently attract local and foreign investors. Furthermore, Africa has presented an image that is characterized by corruption and unethical business practices, good corporate governance can redeem the region’s business image and in turn lead to sustainable development in the continent. According to Armstrong, (2003), market discipline and transparency resulting from good corporate governance drives the quest for good corporate governance in Africa.

Although corporate governance is linked to country specific characteristics, it progress within a framework of international commitments, developmental visions and plans such as the new millennium development goals cannot be overlooked. Africa has failed to meet the 2015 deadline for the achievement of the United Nations millennium development
goals which was drawn taking into cognisance the varieties of challenges such as the eradication of poverty, child mortality etc. hope is not lost as efforts can still be made towards the actualisation of the post 2015 agenda. Therefore, the purpose of this paper is to enhance a better understanding of how entrenching good corporate governance can lead to sustainable development in Africa. Due to the linkages between development and corporate governance, good corporate governance requires integration of tools which I believe is currently available in Africa into management systems of corporations. It evaluates entrenching corporate governance as an obstacles to achieving the MDGs, it provides an overview of how corporate governance entrenchment can affect companies, investors and how it can help to achieve economic growth and sustainable development in Africa. This paper might be significant to both private and public sector companies, scholars, government, regulatory bodies, corporations and other parties concerned with governance and development in Africa.

**New millennium development goals**

In the year 2000, the United Nations (UN) General Assembly adopted the millennium declaration which compels both the developed and developing countries to do all it takes to eliminate poverty, promote dignity and equality of all humans, and above all achieve peace, democracy and sustainability of the environment. The millennium development goals (MDGs) evolves from the millennium declaration. The MDGs are defined as a set of specific, quantified and time-bound targets on the various dimensions of human development – income, poverty, hunger, health, education, gender equality and environmental sustainability (Bertucci, 2007).

These goals are important for producing a peaceful world for the entire human race and a better life for those living in extreme poverty. These goals have remained the most widely supported and complex targets the world has created having in mind the common men towards poverty reduction and human development. The eight MDGs include Eradicating Extreme Poverty and Hunger which is aimed at reducing by 50% the proportion of people living on less than a dollar a day and those who suffer from hunger. The second goal of Achieving Universal Primary Education is to ensure that all children regardless of their gender will be able to complete in full their primary education by 2015 (Bertucci, 2007).

The third goal of Promoting Gender Equality and Empower Women is to eliminate by 2005 gender disparity in both primary and secondary education and at all levels by 2015. The fourth goal is to Reduce Child Mortality which is to reduce by half the rate of death of children under five years of age by 2015. The fifth goal is to Improve Maternal Health by Reducing by three-quarters, maternal mortality rate by 2015. The sixth goal of Combating HIV/AIDS, Malaria and Other Diseases is to stop and begun to reverse the spread of HIV/AIDS and the incidence of malaria and other diseases by 2015 (Bertucci, 2007).

The seventh goal of Ensuring Environmental Sustainability is to integrate the principle of sustainable development in to policies and programmes of countries and reverse the loss of
environmental resources, halve by 2015, the proportion of people without sustainable access to safe drinking water and achieve a great improvement in the lives of not less than 100 million slum dwellers by 2020. The eight goal of Developing a Global Partnership for development is aimed at further developing an open, rule-based, predictable, non-discriminating trading and financial system both nationally and internationally, addressing the special needs of less developed countries through measures such as exports that are tariff-and-quota free, enhancing programme of debt relief etc. (Bertucci, 2007).

It also aims at cooperating with developing countries to develop and implement strategies for decent and productive work for the youth, and also provide access to affordable essential drugs in developing countries and make available the benefits of new technologies, especially information and communication technologies by cooperating with pharmaceutical companies in the former and the private sector in the latter.

Despite significant achievements made on the MDGs worldwide, there exist significant gaps as success is not evenly achieved across regions, countries and continents (Ban ki-moon, 2015). Many people are still lagging behind, sadly in Africa, big gaps still exist between the poorest and richest of its populace as well as between its rural and urban areas. For instance on the goal of poverty reduction, only 6 out of its 53 countries have achieved this target, some countries are almost there but the situation of others worsened, among these countries are Central African Republic, Nigeria, Madagascar, Kenya, Guinea Bissau and Cote D’ivoire (MDG report 2014). Conflicts, terrorism and violence still remained a huge threat to human development in Africa.

A good example is Nigeria where the terrorist group (Boko Haram) has hindered the country’s development since the early 2000s rendering a lot of its populace homeless, others widowed, children fatherless, some motherless and most orphans. The height of this conflict is the adoption of over 200 female student in Chibok and a lot more. This has made the achievement of the MDGs more difficult in Africa with more children as refugees, increase in the numbers of out-of-school children and above all increase in rate of poverty. According to (Ban ki-moon, 2015), the maternal mortality ratio in the developing regions is 14 times higher than that of developed regions.

**Corporate governance in Africa**

Scholars have agreed that corporate governance is linked with growth and development of the economy. In recent times it is becoming more evident that for Africa to prosper and gain a respectful position in the world, there is a need to establish, strengthen and maintain sustainable companies that can compete effectively in the global world. This requires an organisation of capital human and material resources which is concentrated in grave quantities and entrusted to men and women who run such enterprise. Decisions made by these people have great consequences for the society, communities, each country and above all Africa as a whole.
For corporations to achieve their objectives and those entrusted to run the enterprises to discharge their responsibilities effectively and efficiently, they require qualitative and effective leadership. These leadership must be responsive, articulate, transparent and accountable with focused intelligence to acquire and apply knowledge and knowhow for production and wealth maximisation. Therefore corporate governance is hence the requirement for prosperous Africa. In 1922, Cadbury committee simply defined corporate governance as the systems used for directing and controlling companies. According to Ehikioya 2009, it is the process and structure through which measures are taken to protect the interest of stakeholders by members who are interested in the overall well-being of the company. These definitions are simple and does not adequately give a concise meaning of corporate governance, corporate governance is concerned with how managers, and board of directors take cognizance of its stakeholders welfare in delivering their responsibility of managing the companies day-to-day business, hiring or firing executives, deciding compensation policies etc. The importance of corporate governance is further emphasized by the recent corporate scandals of companies such as Enron and WorldCom in developed nations where corporate governance seems more developed. Theoretically, ownership concentration should be considered an efficient corporate governance mechanism in most parts of Africa most especially due to the difficulty in accessing global financial markets (Shleifer and Vishny, 1997). This is so because large shareholders can monitor the management of a company than many small shareholders who are scattered all over. Although a study by Tsegba and Herbert (2011) concluded that ownership structure like concentrated ownership is not significantly related to firm’s performance in Nigeria, hence advising a reconsideration on using it as corporate governance mechanism. Ayogu, (2001) is of the opinion that this could be as a result of crony capitalism and large block holders who can extract rents in a similar way like managers could. Moreover, these views are subject to debates because there is the likelihood that concentrated ownership can be the answer to what governance practices should be adopted if applied in less corrupt markets with better protection for its minority shareholders. Sadly most countries in Africa are faced with high level of corruption. Board of directors and its characteristics is another corporate governance mechanism of significance, scholarly research as to what board size should be has led to mixed results with some in support of larger boards and others for smaller boards. The general view has been that larger boards are less effective in decision making. This notion is due to the fact that larger boards can mean delayed decision making or wrong decision taken due to distractions or inability to reach a compromise where their exists various views. Hermalin and Weisbach, (2001) found a negative correlation between increasing board size and performance of companies. But studies in Nigeria, Kenya, Ghana and South Africa has shown that larger boards are positively related to enhanced corporate
performance and enhanced share value (Kyereboah-Coleman, 2007). This implies that larger boards’ works better in the African context.

Further development and research into Africa’s corporate governance is the South African Kings Report of 1994 which introduced a corporate governance model that is wider than the pioneer Cadbury Report (1992) just a few years earlier. The report is purposely to advocate the highest standards of corporate governance that protects the interest of a wider range of stakeholders and for companies to realise that their actions are not independent of the society and the environment (King Report 1994).

The Kings Report has been revised twice to take cognisance of the economy, ecology and social aspect which implies that committee in charge of the report considered their environment’s culture, system and the African worldview. The South African Kings Report can be viewed as a successful development of corporate governance practices but that of its Nigerian counterpart (Nigerian corporate governance code 2003) was less successful. Nigeria adopts the United Kingdom’s Company’s Act with little or no adjustment so that it can fit the peculiar circumstances of its economic and political environment.

The development of its corporate governance is exogenous because despite gaining independence, British businessmen still controlled most of its companies thereby instilling much dependence on British rules on governance. These corporate governance practises which does not consider the tribal conflicts, culture peculiar environmental circumstances as well as corruption failed because it doesn’t suit Nigeria. Although Nigeria developed its corporate governance code in 2003 with much review afterwards, it failed to consider corruption which has eaten deep into the country (Okike, 2007).

In fact corruption seems to have become an acceptable way of life for most of the countries populace. Most corporations encourage corrupt practices amongst their staff indirectly, they do not care if appropriate steps are taken towards the attainment of its objectives, and all they want is to see results. On the other hand it even seems like the code that considered some of its peculiar characteristics came rather too late to fight corruption or better still do not have the requisite to fight corruption due to the fact that they were developed given little or no attention to the level of corruption in the country.

Furthermore, Adegbite (2012) opines that African countries do not have the requisite to successfully implement corporate governance as developed countries as a result of the traits of their economy and political systems, this include state ownership of companies, closely held family businesses, weakness in both legal and judicial systems etc. Effective corporate governance must entail transparency, accountability, consistency, fairness, proper and adequate disclosure of relevant information. It most also incorporates the protection of not only shareholders but all stakeholders as well as independent directors who make effective and efficient decisions regarding growth and development the corporations.

**Theories**
There are various theories used to explain corporate governance but agency theory is the prominent of them. The understanding of corporate governance is greatly influenced by the agency theory. It posits that managers will only work towards maximization of shareholders returns when appropriate and adequate governance structures are entrenched and enforced to safeguard the interest of shareholders of corporations (Jensen and Meckling, 1976; Fama and Jensen 1983).

The agency theory is aimed at reducing the principal-agent problem that exist between the principal who delegates their work to the agent together with power to control and take decisions which determines the success of the company. This have consequences for the principal, the company itself, the society, country, region and the continent as a whole. The agent performs the work, use the power given to them but they usually have their own wants and desires which could make them take decisions that is not beneficiary to the principal (Lubatkin, Lane, Collin and Very, 2007). Such decisions can mar the company, and in turn could make or mar the continent.

Other theories used to explain corporate governance include the contingency and path dependency theories. According to Otley (1980), the contingency theory suggests that both accounting practices and corporate governance depends on peculiar circumstances of each individual organisation. It seeks to demonstrate how specific aspects relating to each organisation can be matched appropriately after identifying them. Other proponents of the contingency theory are Aguilera, Filatotchev, Gospel, and Jackson, they criticized the agency theory lending support for the contingency theory.

One of the criticisms against agency theory by Aguilera, Filatotchev, Gospel, and Jackson, (2008) is the fact that it is based on a more closed approach to governance and therefore they suggested a more open approach. They suggest that effective entrenchment of corporate governance is dependent on cost, contingencies and complementariness, all of which are related to specific context of each country. This means that the culture and history of countries, industry, size and age of corporations affect the kind and combinations of governance which would work effectively for each company and country in the continent. With regards to the path dependency, it explains more of the differences found in corporate governance mechanisms of each individual country which implies that the difference in individual country corporate governance mechanism is as a result of each country’s, region, or market’s own traits and peculiar conditions which serves as their governance basis. The development of each country’s governance system can be affected by their ownership structure and rules which depends on their earlier structures. This can be difficult to discard because of authorities who enjoy and benefit from them, these people have the likelihood to discourage change (Bebchuk and Roe, 1999). For countries whose ownership structure has not change, it might be unnecessary to provide new and different mechanisms for them. Although corporate governance of two countries can be the same, their might be difference in implementation and interpretation of rules.
The challenge
One major challenge that has deter the achievement of the MDGs in Africa is corporate governance. In order for Africa to achieve its aim of eradicating poverty, achieving sustainable development and global economy integration, the United Nations pledged support for Africa in its year 2000 millennium declaration. It is evident that Africa’s continued prosperity as a continent is closely associated with its ability to establish or strengthen companies to make them profitable, competitive and sustainable. The activities of those in charge of these organisations have great impact on the growth and development of Africa. Both the public and private sector as well as the government has a critical role to play in achieving the MDGs.

The private sector is predominant in areas such as business growth, employment generation, increasing both income and productivity. The government is charged with governance and regulatory framework to foster development of the sectors. There exist a mix of responsibility among both sectors and government to achieve capital, infrastructure, science, technology, and sustainable economic development. All hands must be on deck to achieve the MDGs and in totality a peaceful world. A proper blend and design of both public and private investments tend to complement each other. They are no rivals or substitutes as both are needed.

Sadly, Africa has failed to meet the MDGs by the end of 2015, entrenching good and quality corporate governance is one significant challenge to the achievement of the MDGs. Corporate governance and the MDGs are connected both directly through certain elements of corporate governance that influence the achievement of the MDGs and indirectly via the growth of the country. The achievement of the new millennium goals in Africa can be successful with the entrenchment of corporate governance. According to Ehikioya (2009), once a functioning and properly defined corporate governance is entrenched. It can enhance companies’ ability to attract investments, raise funds strengthen the corporate performance, and above all reduce vulnerability to financial distress in the future.

Although there exist a lot of obstacles that hinders the desire for good corporate governance in Africa among which include such as lack of effective and institutional frameworks that can ensure the enforcement of good corporate governance standards, lack of transparency, inadequate capacities of key actors, primarily those involved with governance and market indiscipline deter private companies from seeking listing due to the fear of greater scrutiny of their corporate activities, disclosure demands that can lead to exploitation of such companies by the government and its competitors. This creates little or no incentives for these companies to get listed and hence be in an atmosphere that requires quality corporate governance and its enforcement. Despite this challenges it is pertinent to entrench corporate governance in Africa in order to attain the millennium development goals by putting measures in place so all corporations are treated equally and not perceive to create trade barriers to them. Corporations are major economic players who play an important role in areas of the MDGs and indeed without the
involvement of companies most especially the private sector, it will be cumbersome to achieve progress with the MDGs.

If corporations have effective and quality leadership that is accountable, transparent and responds to organisational issues with immediate effect, they will be able to achieve their objective and discharge their responsibilities effectively. The success of these corporations is the success of the communities they operate in, their countries, their continent and the whole world. When talking of corporate governance, attention is directed majorly to the directors with focus on director’s competitive performance and above all their adherence to the laid down standards as far as the goals of the company and aspirations of its owners is concerned.

Many of the companies in Africa are owned by families, states, co-operatives societies, and communities. They remained unlisted, and this creates a need as all stakeholders demand a working environment where they are convinced that fairness, accountability and transparency exist. Limited access to finance is a major constraints to the achievement of the MDGs, to achieve the MDGs, there is a need to increase investments in the economy which requires substantial financial commitment. With effective corporate governance entrenched, access to finance will be much easy as accountability, transparency and adequate control is guaranteed. This will encourage flow of investment both within and outside the continent as it has been established by Bokpin and Isshap (2009) that foreign investors avoid investment in developing countries as a result of its weak corporate governance system and practice.

Also, for environmental sustainability, corporate governance plays a vital role as well. Companies that adopt effective corporate governance practices, will take into adequate consideration how they activities affect the environment, they take measures that reduce harmful emissions and ozone depletion. Conflicts and terrorism in society serves as hinderance to development due to the fear it instil in investors, who will rather keep their money or divert their investments to other countries who are free from conflicts and incessant terrorism.

A lot of investors have already lost billions of dollar worth of investments and they no longer want to put their money where the probability of losing it is very high. Furthermore, these vices discourages the flow of investment into the continent from external or foreign investors once they are aware of the deteriorating state of corporations in such economy as a result of persistent conflicts and terrorist attacks and action needs to be taken to eradicate conflicts and terrorism.

Although there exists weak regulatory and supervisory system, their exist a need for introduction of corporate governance principles and standards that is developed, formulated and approved by Africans in a way that they do not put at a disadvantage any class of corporations or seem to establish barriers to trade for them (Gatamah, ). To entrench corporate governance in Africa effectively, corporate governance codes that will be seen as belonging to Africa must be created, formulated, and approved by Africans for
the progress of Africa taking into cognizance the peculiarities of Africa as proposed by the contingency theory of Otley, (1980) and not merely mimicked from other continents. To support these codes, a system for monitoring, evaluating and constant review of good corporate governance that has been entrenched is needed. Furthermore, a system that strengthen good corporate governance practices by providing incentives that could be inform of reward for good governance practices in corporations is needed. The improvement of institutions saddled with the responsibility of implementing and enforcing best corporate governance practices including regulators is also required. Also effective risk management system should be emphasised, the board of directors have a great role to play in these angle.

Conclusion
Corporate governance has grave implications for growth and economic development, hence entrenching effective and qualitative corporate governance in Africa is of great significance. Although Africa has failed to meet the 2015 deadline for achievement of the MDGs, the continent is still in time to achieve the post-2015 development agenda which has succeeded the MDGs if appropriate steps are taken in the right direction. As it has been established in this paper, entrenching corporate governance can influence company’s success which in turn affects the development of equity markets, as well as their economic growth and development in communities, society, countries, continents and regions, and consequently the attainment of the MDGs.
This is possible because entrenchment of quality corporate governance implies the adoption of appropriate control and leadership measures which will in turn lead to economic development in Africa as companies business image is redeemed, hence they can raise more funds from increased flow of investment both within its immediate environment and even outside its country or continent. Entrenchment of quality corporate governance also requires the establishment of an institution saddled with the work of monitoring and ensuring that all corporate governance codes are adopted, enforced and practiced efficiently and effectively.
To instil more confidence in the private sector which is an engine for innovative growth that provides income for both the rural and urban populace, sound public policies is required to achieve the MDGs. The private companies will also primarily provide the economic growth and wealth required to achieve the MDGs as they now contribute more economically by providing employment etc. This is achievable with greater vision and leadership (corporate governance) by business leaders, executives and board of directors inform of good corporate governance codes and policies and incentives to encourage companies to adhere by the codes. The incentives could be in form of awards, publicity etc.
Finally, if quality corporate governance is entrenched with its elements of fairness, accountability, corporate social responsibility, and transparency, there would be protection of shareholders right, proper disclosure of relevant and reliable information, and protection of both independent and dependent directors. This will speak well of corporations both within and outside the continents, lead to quality leadership that can be trusted, bring in
funds and investment opportunities and above all economic growth and development in the continent and consequently the attainment of the post 2015 millennium agenda in Africa bearing in mind its failure to attain the MDGs by 2015.

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