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# Good Corporate Governance - Enhancing Increased Accountability And Entrepreneurship In Namibia

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## ABSTRACT

*"Foreign Direct Investment (FDI) is viewed as a major stimulus to economic growth in developing countries" (Ama, M. 2003). The establishment of sound corporate governance in the public and private sectors is, therefore, pivotal to Namibia attracting the essential FDI it needs to augment its economic growth. Of course, there may be often equally significant factors such as tax holidays and various investment incentives, that entice foreign investment and support economic growth. Inappropriate governance is unlikely to sway investors' decisions to bring in international resources on a sustainable basis. Good corporate governance will enable Namibia to put in place the financial infrastructure, strengthen the banking systems, develop proper capital markets by accelerating the pace of privatization and broadening the domestic investor base, formulate an appropriate regulatory framework and liberal investment regime, reform the judiciary system and contain corruption. These are the answers to the question of accountability that enhances the promotion of entrepreneurship in an economy.*

*This paper explores the concept of corporate governance in Namibia, how accountability on the part of business leaders, companies and industries will lead to trust and support of stakeholders; and the promotion of entrepreneurship that will provide the economic growth so desperately needed to emancipate the people from economic desperation and the doldrums.*

## 1. Introduction

Extending the view put forward by the opinion leaders' report on Namibia's Vision 2030, that "creation of confidence in the economy and in the people depends on good governance", it is necessary to stress the fact that corporate governance has emerged from obscurity into being a main stream topic. Barely a decade ago, the concept of corporate governance was little known beyond specialists in a few developing countries, including the whole African continent. This is rapidly changing.

The King's Report on Corporate Governance in 1994, which was authored in South Africa and regarded as a global benchmark on the topic, has brought rapid growth in the development of the African thinking on corporate governance. "In many African countries this interest in corporate governance has its origins less in the context of private sector financial systems and more in the need to improve the performance, and then privatize state enterprises". (Godfrey, S. 2002). Nevertheless, today many countries in Africa, especially in the SADC region, recognize the importance of good corporate governance.

The recent collapse of a prominent company like Enron in the USA, the Ongopolo Mine in Namibia and many others in the region, have stimulated considerable debate about the importance of effective corporate governance. While the Namibian economy still enjoys an average growth rate of between 2% to 3% annually, the recent trend in many of the state enterprises clearly shows that considerable scope still exists for the existing entities in the public and the private sectors to improve aspects of their corporate governance. Lamberti, L (1987) stressed that "it is inadequate that corporations and their officers behave properly; it is a must that they be seen to do so. Without a demonstrated good governance, entrepreneurs will sadly be denied their right to be rewarded for exercising their vision, leadership and creativity in serving society.

It should further be stressed that in a small country like Namibia where savings are insufficient, relative to the potential demand for investment, foreign capital is a fruitful means of stimulating rapid growth, financing of a balance of payment deficit and setting up of subsidiary companies for domestic production of goods which are currently being imported from foreign countries. The question addressed by this Paper is not why or whether,



but how the Government, the public and the private sector could work together to promote good governance to entice entrepreneurial development and also attract Foreign Direct Investment (FDI) into the country, to promote economic growth and development.

## 2. What Is Corporate Governance?

"The phrase Corporate Governance has become rather popular of late. It rolls easily off the tongue and is useful to encapsulate a number of processes directed at achieving accountability within an organization. There is, of course, the chance that the term might be used loosely so as to obscure its meaning". (Butler, B. 1999). The concept, no doubt has been given varied connotations by different countries and even authors. Corporate governance, nevertheless, is a branch of Finance that studies how decisions are taken in companies, how managers are monitored by the stock market or stakeholder and under what circumstances contracts change hands. Sheridam and Kendal (1992:27) have broadened the meaning when they stated, "we believe that good corporate governance consists of a system of structuring, operating and controlling a company such as to achieve the following:

- (i) Fulfill the long-term strategic goal of the owners which, after survival, may consist of building shareholder value or establishing a dominant market share or maintaining a technical lead in a chosen sphere, or something else, but will certainly not be the same for all organizations.
- (ii) Consider and care for the interests of employees, past, present and future, which we take to comprise the whole life-cycle including planning future needs, recruitment, training, working environment, severance and retirement procedures, through to looking after pensioners.
- (iii) Take account of the needs of the environment and the local community, both in terms of the physical effects of the company's operations on the surroundings and the economic and cultural interaction with the local population.
- (iv) Work to maintain excellent relations with both customers and suppliers, in terms of such matters as quality of service provided, considerate ordering and account-settlement procedures, etc.
- (v) Maintain proper compliance with all the applicable legal and regulatory requirements under which the company is carrying out its activities."

They further stated, "We believe that a well-run organization must be structured in such a way that all the above requirements are catered for and can be seen to be operating effectively by all the interest groups concerned. There must be sufficient transparency for this to be readily observable by them without their having to rely on extensive and expensive independent monitoring procedures. A company achieving its owners' goals under such an organizational structure will, we believe, have a good and effective form of corporate governance".

Corporate governance is also concerned with ethics, values and morals of a corporation and its directors. As pointed out by Sheikh and Chatterjee (1995), it is concerned with establishing a system whereby directors are entrusted with responsibilities and duties in relation to the direction of a company's affairs. It is founded on a system of accountability primarily directed towards the shareholders, in addition to maximizing shareholders' welfare.

Corporate governance is, therefore, inextricably linked with accountability. The term is useful for gathering a number of processes, directed at ensuring accountability within an organization. Indeed, as pointed out by Cadbury "it is however the continuing concern about standards of financial reporting and accountability, heightened by BCCI, Maxwell and the controversy over directors' pay, which has kept corporate governance in the public eye". Similarly scandals like the Botswana Housing Corporation case in 1994; the Enron collapse in the USA and locally the Social Security Commission misappropriation and mismanagement of funds and many others that amplified the postulation even further. As warned by Adam Smith:



*"The directors of joint stock companies being the managers of other people's money than of their own, it cannot well be expected that they should watch over it with the same anxiety with which the partners in a private copartnery frequently watch over their own."*

As expected, "product safety, environmental protection, the removal of gender and racial discrimination, the fair treatment of suppliers, the maintenance of employees health and safety, and the creation of meaningful and rewarding work, are the widespread modern concerns". (Smith, J. 1995). But do corporations actually care about these responsibilities? These corporate social responsibilities dischargeable by firms are, more often than not, ignored.

Accountability is, however, not negotiable. People occupying positions must be ready to comply with acceptable standards of transparency and governance within the letter and spirit of the law if they should not lose the trust and support of stakeholders. An effective corporate governance system should, therefore, provide mechanisms for regulating directors' duties in order to restrain them from abusing their powers and to ensure that they act in the best interests of the company, in its broad sense.

It is equally important to note that the same applies to countries. Those countries that fail to establish acceptable standards of transparency and governance; within the bonds of good laws and an efficient criminal justice system, will lose the trust and support of their citizens and the international community. In fact, such countries will find it increasingly difficult to attract trade and FDI. "Foreign investors will definitely assess political risk, business risk, market risk and currency risk, but they will shy away from the risk of lawlessness and the corruption that too often results from poor governance". (Lamberti, 1987).

This issue is particularly pertinent to Namibia today if it should become a serious competitor for FDIs and also escape the predicaments of a similar nature, that have saddled many countries on the continent. The establishment of sound governance in the public and private sectors is crucial.

### **3. Corporate Governance In The Private And Public Sector Institutions**

Corporate governance should not be seen in isolation from the wider concept of corporate citizenship. Taking responsibility in cooperation with government in the development of sustainable business and commercial activities that serve the society, should be the guiding principle of any successful modern company. Shareholders value and profits are not sustainable in isolation from this broader business strategy, which demands quality services, the goodwill of society, and a belief in the ethical standards of companies. Indeed companies must pay penalties when they forfeit public trust.

Integrally linked to the issue is the critical linkage of the economic and political governance criteria. Naturally, no rules and policies could thrive without the political will of the government. Key issues such as the rule of law and enforceability of contracts, as well as globalisation of markets to promote competition are basic requirements that the economy expects from the political leadership.

A publication "Corporate Practices and Conduct" by an Australian working group on the corporate governance debate identified the basic principles of good corporate governance as involving appropriate disclosures, the development of codes of conduct for company directors and the development of internal structures which provide for independent review of processes and decision-making within a company. It stresses that "disclosure and the presence of well informed independent directors and auditors with the ability to independently confirm that the data presented by the corporation is true and fairly stated" (Butler, 1999), are perhaps the most important basic ingredients.

"Is corporate governance relevant to the public sector?" This is a common question at the heart of many observers. It must, however, be emphasized that the original concept of Corporate Governance is developed in



the context of the private sector perspective, it is also a useful construct for application in public sector organizations.

Corporate Governance is about the fact that corporate officers operate best when they are held to account for what they do. Accountability is holding the management of an organization responsible for its performance and it entails making judgments on the proper use of executive power. Accountable individuals know that they have accepted the responsibility and that they must be prepared to defend their decisions.

#### 4. Standards Of Good Corporate Governance

“The most significant access to be addressed by corporate governance can be easily described as the efficient, responsible, transparent and honest governance of economic entities, whether they be private or state owned, medium or small”. (Godfrey, 2002). These principles and codes have been supported and concretized by both the Cadbury and King’s Reports on Corporate Governance.

The pillars of corporate governance are accountability, openness and transparency, integrity, commitment, leadership and integration.

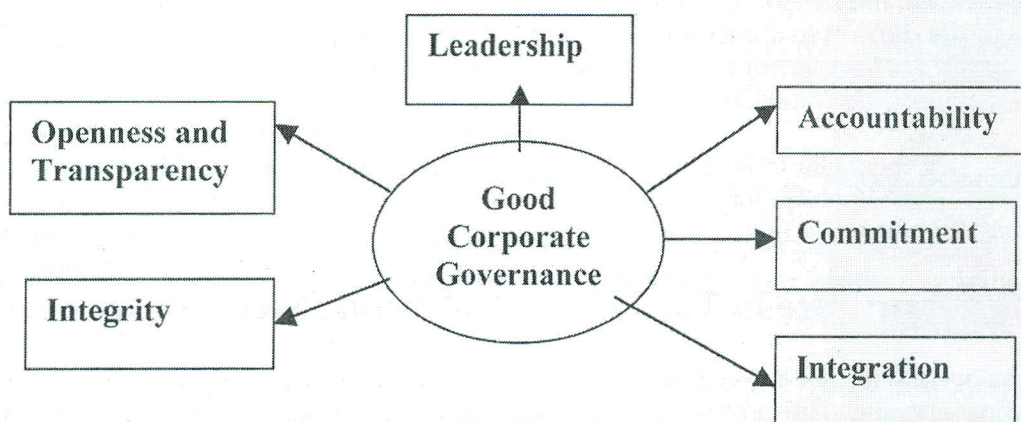


FIG. 1: Key steps to enable good Corporate Governance

These pillars must be supported by adequate legal and regulatory structures that have credibility and are enforceable. An elaboration of these principles is necessary.

##### 4.1 Leadership

An effective governing Board and/or executive management, capable of steering the affairs of the organization, is a necessity. In addition, effective framework requires clear identification and articulation of responsibility and a real understanding and appreciation of the various relationships between the organization, stakeholders and those who are entrusted to manage resources and deliver required outcomes. Executive management must also have a collective ability to provide leadership; to communicate a coherent set of governance principles throughout the organization, and to ensure the operation of checks and balances which good corporate governance demands. Executives leading by example are perhaps the most effective way to encourage accountability and improve performance.



## *4.2 Accountability*

The accountability of professional management to the elected board is a central issue in the quality of governance. The principles of corporate governance require those involved to identify and articulate their responsibilities and their relationships, consider who is responsible for what, to whom, and by when; knowledge and relationship that exist between stakeholders and those entrusted to manage resources; and deliver required outcomes. It provides a way forward to those, whether in the public or private sectors, who find themselves in somewhat different relationships than they had previously experienced.

## *4.3 Openness and transparency*

The administration of entities should be characterized by openness and transparency in their relations with members (Harvey, 1995). This requirement translates specifically into an obligation upon a society's elected directors. It is incumbent upon company directors to provide stakeholders with complete confidence regarding the decision-making processes. Being open, through meaningful consultations with stakeholders and communication of complete, accurate and transparent information, lead to effective and timely action, thus enhancing scrutiny. Such transparency is also necessary to ensure that public bodies are fully accountable and is, therefore, central to good governance.

## *4.4 Integrity*

Integrity based on honesty and objectivity as well as high standards of property and profit in the awarding of public funds and the management of an organization's affairs, is dependent on the effectiveness of the control framework and on the personal standards and professionalism of the individuals within the organization. This is reflected in the organization's decision-making practices and procedures and in the quality and creditability of its performance reporting.

## *4.5 Integration*

The real challenge is not simply to define the various elements of effective corporate governance, but to ensure that they are holistically integrated into a coherent corporate approach by individual requisitions which are well understood and applied throughout the organization. When effectively implemented, corporate governance should provide the integrated strategic management framework necessary to achieve the output and outcome performance standards required to fulfill organizational goals and objectives.

## *4.6 Commitment*

Too much emphasis has been placed on the form rather than the substance of corporate governance in both the public and private sectors. Effective corporate governance is more than just putting in place structures, such as committees and reporting mechanisms, to achieve desired results. Rather, it requires a strong commitment by all participants to effectively implement all elements of corporate governance. An effective framework is very much people oriented, involving the company management, a greater emphasis on corporate values and ethical conduct, risk management, relationships with clients and quality service delivery.

The guidelines set out by the Commonwealth Association for Corporate Governance (CACG) are a well recognized benchmark within the member countries. These principles have been designed with particular focus on the emerging economies like Namibia and also to meet the needs of international investors and multinational agencies.



Concrete examples of the CACG guidelines are being used in some African countries including South Africa, after the publication of the Kings Report, the Private Sector Corporate Governance Trust in Kenya and in Ghana, through the efforts of the African Capital Markets Forum.

## 5. Improving Corporate Governance In Namibia

Governance is obviously topical in the country because a number of large corporate failures have exposed unbridled greed, appalling management and inadequate governance. The recent developments in corporations like Air Namibia, Social Security Commission, the Ongopolo Mine, the Airports Authority, to mention but a few have called to question the credibility of corporations, their leaders, their banks and their auditors.

An effective regime of corporate governance is definitely a necessity to control mismanagement and enhance shareholders' confidence in corporations in the country. Good corporate governance will contribute to the development of both capital market and to the promotion of FDI in the country. Taking cognizance of these facts, the country, like many young and emerging economies in Africa, lacks certain pertinent pre-requisites to have effective corporate governance in place, and all efforts on the part of the political and business leadership should cooperate with each other in addressing the following issues.

- 5.1 The capital market or stock exchange which influences the application of good corporate governance practices, is not fully developed. The NSE is at an infantile stage and membership is not compulsory and, unlike the JSE where compulsory adherence to the corporate code of ethics is required, compliance at the NSE is voluntary. Adhering to the code of corporate governance must be compulsory and enforceable and to this end, professional associations, the state and other institutional societies should bring pressure to bear on organizations that fail to adhere to the code.
- 5.2 Despite the application of general principles to corporate governance, corporate entities require special rules regarding the appointment of senior personnel, and on the relationships between the executive, parliament and the managers of business. Any interference in the required order disrupts and threatens the existence of good corporate governance.
- 5.3 The Bank of Namibia has a very significant role to play to exert influence over the activities of the commercial banks, set requirements for licensed commercial banks and expect them to meet international banking standards. These banks on their part can recommend good corporate governance practices for their customers, whether listed or unlisted, on the stock market.
- 5.4 Cultural change is another element required by good corporate governance, and cannot be created by regulations from above only. In this regard, the standard for progress should include adoption of codes by rational business associations such as the NCCI, the professional associations and groupings.
- 5.5 Other forms of business enterprises such as operatives and community based small and medium size businesses are a very significant part of the Namibian economy. One way to reach them is through the supply chain of the larger companies and parastatals. The importance of business-to-business standards in advancing good corporate governance cannot be over-emphasized, and national strategies should take this into account and require large entities to meet their obligations.
- 5.6 In Namibia, like most African countries, the challenges of corporate governance is compounded by inadequate administrative systems, weak human resource capacity, infrastructural and financial resources. This requires careful targeting of efforts in capacity building in the civil service and the private sector.



- 5.7 Directors of companies must be trained in their duties and responsibilities. Professional institutions such as the Institute of Chartered Secretaries and Administrators (ICSA), the Institute of Chartered Accountants, Legal, and management training centres must be established to offer this training.
- 5.8 Development of reporting and enforcement is critical in the country. Measures and penalties for non-compliance must be in place. An agreed upon system of penalties for infringement, such as debarring and disqualification from the relevant market or professional body, must be instituted and enforced.
- 5.9 The government agencies and parliament should pass legislation and set up the monitoring of agreed upon instruments for good practice in corporate governance. The recent appointment of Dr. Abraham Iyambo as Chairman of the Committee monitoring corporate activities in the country, is a move in the right direction. Parliament should, if its leadership is to be credible, set its own standards of corporate governance, and the recent decision by parliamentarians to declare their assets is also a move in the right direction.
- 5.10 Appropriate targets and indicators should include an agreement of a national framework for corporate governance suitable for Namibian conditions and priorities, treating the subject in its full dimension of conformance and performance and as a lever for change, not just regulations. In addition to this is a need for the establishment of a national monitoring and reporting system led by government and parliament. This must involve the private sector and the professional bodies if it is to succeed.

## **6. Governance: Country Comparison: A Statistical Analysis**

Table 1 (Appendix 1) shows governance indicators of 11 SADC countries. It illustrates four-year average (1999 – 2002) of each of the governance factors, namely accountability, political stability, government effectiveness, regulatory quality, rule of law and control of corruption.

The graphical presentation, figure 2 (Appendix 2), is based on the total average of those countries. A comparison of these graphs reveals a unique situation of the governance in the region. From these graphical analyses, it is quite clear that only four out of the eleven have favourable governance above 50% average, and thus the need for those countries to make necessary adjustments in order to achieve good governance. With a 68% average, Namibia is third only to Botswana and Mauritius in the region in terms of good governance.

This shows that comparatively, Namibia offers attractive investment opportunities and is a favourable destination for attracting FDI. The picture, however, does not augur well for the majority of the countries in the region. They must improve their investment climate if the region should holistically enjoy growth and development.

## **7. Foreign Investment And Corporate Governance**

Dahiya, S.B and Gupta, D (2001) have defined foreign investment as "the acquisition by governments, institutions or individuals in one country of the assets in another." Foreign Direct Investment (FDI) is welcomed and actively sought by all African countries. FDI inflows have increased in importance and have become the single most important component of total capital flow to developing countries. Between 1990 and 1995, sub-Saharan Africa received the largest share of the official development finance provided to all developing countries.



7.1 The contributions that FDI can make to their economic development and integration into the world economy is widely recognized. FDI can contribute to the developing countries in the following ways:

- ◆ FDI makes direct contribution through positive externalities such as economies of scale, employment creation, etc. which benefit local enterprises.
- ◆ FDI contributes to the development of local entrepreneurship. It has been the main source of more efficient production and management techniques.
- ◆ FDI introduces competition and encourages local enterprises to allocate available resources more efficiently, which in turn favours productivity.
- ◆ FDI contributes as a vehicle for advanced foreign technology and managerial know-how to the host countries.

7.2 Due to the increased volume of FDI in Africa, corporate governance has importantly become an international issue. Today recipients are being compelled towards "rules-based governance system, requiring greater transparency of information to the markets and greater protection of minority shareholders, and improvements in corporate governance systems in general." Dihiya et al. (2001). Indeed, as the capital markets are liberalized, funds at the international level will surely flow to areas with a more developed rules-based corporate governance system, where small investors and minority shareholders are more likely to be protected. Definitely, investors choose countries with stable political and economic environments. Fortunately in Africa, especially in Namibia, there has been a substantial improvement in the FDI framework as alluded to in Table 1. Due to the improvement in corporate governance, there has also been a significant shift from concentration of FDI in the traditional natural resources sector to the manufacturing and service industries.

## 8. Conclusion

Corporate governance has now become a matter of major concern in the country. It is a concept, the implementation of which requires a two-way process: attitudinal change on the part of management in the light of the concept of 'corporate social responsibilities'; and growing awareness on the part of shareholders, who would constantly operate as a watchdog for the effective implementation of the concept. (Shiekh et al. 1995)

Corporate governance is also seen as accountability and responsibility not only to the shareholders of a company, but also to its stakeholders throughout society. In a globalised economy, companies everywhere will have to conform to the highest international standards in every respect and, if a company or a country has a reputation for poor corporate governance, capital will simply flow elsewhere. With corporations growing and growing, they often become a more immediate presence to people in modern democracies than either government or other organs of civil society, and stakeholders take on a sense of ownership, accompanied by expectations of accountability, with regard to these companies. From the point of view of shareholders, too, good governance pays.

An effective corporate governance system demands that directors provide effective direction for the corporation. The roles of Chairman, Chief Executive and non-executive directors are essential to ensure checks and balances in any board structure.

It must be noted that too often potential investors discount the African continent as a location for investment and have preconceived notions of the region as a whole being a high risk area. A snapshot at Table 1 and Figure 2 confirms this fear and conceals the complex diversity of the economic performance and the existence of investment opportunities in individual countries like Namibia, South Africa, Botswana and Mauritius in the region.



As alluded to previously, experience in other regions has shown that investors choose countries with stable political and economic investments, open markets, minimal regulation, good infrastructure facilities and low production costs to invest in. The fact that these investors are mostly influenced by profit motives when they invest outside their countries, should not be under-estimated.

Namibia currently enjoys political stability, able leadership and an efficient political system. These positive factors must be jealously protected at all cost to maintain the continual aura capable of attracting even more FDI to enhance entrepreneurial development. This is needed to boost the economic growth, create employment opportunities and provide the social necessities of life to the people.

Lastly, corporate governance must not remain in the confines of the government, public and private sector institutions, to give the subject the importance that it deserves. Business faculties in institutions of higher learning in the region and in the country, in particular, have a duty to verse their graduates in its principles.

These include ethics, discipline, transparency, independence, accountability, responsibility, fairness and social responsibility. The curricula should be revised to include such subjects in collaboration with the national bodies that devise codes of conduct in business. Indeed, since business schools aim to provide professional qualifications, perhaps they should require graduates to subscribe to a code of business conduct just as other professions require of their practitioners.



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## APPENDIX 1

COUNTRY	FACTORS						
	Accountability %	Political stability %	Govt. Effectiveness %	Regulatory Quality %	Rule of Law	Control of corruption %	Total %
Angola	10	4	6	7	3	6	6
Botswana	70	74	78	78	77	77	76
Malawi	40	51	27	44	43	30	39
Madagascar	57	45	36	41	29	41	42
Mauritius	77	88	75	67	79	73	77
Mozambique	44	42	40	29	19	26	33
Namibia	61	60	69	65	77	76	68
South Africa	73	32	68	63	65	74	63
Tanzania	36	49	48	41	41	11	38
Zambia	44	23	23	54	41	22	35
Zimbabwe	24	25	23	14	35	34	26

TABLE 1: Governance Indicator Country Snapshot in the SADC region.

SOURCE: World Bank Report 2002



Fig 2: Governance indicators SADC Region

