Envisioning Sustainable Governance Through Alternative Models: Finding the right fit for Africa

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This paper proposes a corporate governance model that reflects economic, political, social, and cultural aspirations of Africa. A model that complements the market structure, minimize stakeholders conflict, ensures stability and is fit for an emerging market seeking to compete and integrate with the rest of the world.

1. Introduction

There are several models of corporate governance. Weimer and Pape identify up to four models: Anglo-Saxon model, Germanic model, Latin model and Japanese model.¹ These models have different characteristics, but the dividing tenets are; the level of social consideration, the use of productive private property and the operation of the market.² These factors have been utilised by scholars to categorise corporate governance models into two broad types, the stakeholder model and the shareholder model.

These are also the two models copied by African countries and for this reason, this paper would focus on the above two models of corporate governance.

The two models can be traced back to class and industrial conflicts and how the government resolved them.³ For instance, in Germany, the strength of trade unions is reflected in their involvement in decision making through membership on supervisory board.

Governance models do not function in isolation because they interact with other factors of the economy.⁴ This is so because the effectiveness of any governance model depends on how well it fits within...

² Uwe Becker, (2009), Open Varieties of Capitalism: Continuity, Change and Performance, Palgrave, Macmillan.
other features of the country.\textsuperscript{5} This paper adopts this approach in proposing an alternative corporate governance model that is more attuned to the realities in Africa.

It begins by analysing the shareholder and stakeholder model applicable in Africa focusing on their characteristics before proposing alternative models for Africa.

\textbf{2. Current Corporate Governance Models in Africa}

Stakeholder and shareholder models have divergent characteristics as reflected in their approach towards capitalism and socialism. Characteristics of the two models are examined and later analyzed in conjunction with the realities in Africa pointing out elements of the two models that should or should not be borrowed by Africa.

\textit{2.1 Characteristics of Stakeholder Model}

Stakeholder model is premised on the idea that corporations should be managed for the interest of all stakeholders and not only for profit maximization for shareholders.\textsuperscript{6} The system caters for the interest of the nation as a whole and firms are considered to exist for the common good of the economy and not only for shareholders. Stakeholder model includes all interest groups in the corporate governance framework and utilizes a distributive approach in the management of corporations. The aim is to benefit all those who contribute in sustaining a corporation.\textsuperscript{7} In addition, the system provides non-shareholder stakeholders with enough powers to monitor management.\textsuperscript{8} Other interest groups such as employees can directly protect their interest through seats on the supervisory board. It promotes a ‘stakeholder society’ where corporations have regard to economic, social and political consequences of their decision as oppose to the sole aim of creating wealth for shareholders.


\textsuperscript{7} See Dean J., (2001), \textit{Directing Public Companies}, London: Cavendish

\textsuperscript{8} W. Hatton, (1995), \textit{The state we’re In}, London: Jonathan Cape.
Characteristics of a stakeholder model includes one in which there is pressure for low risk investment and expansion, pressure for the minimisation of disruptive organisational changes, and preferences that favour employee incentive. The system discourages shareholder driven stimulus such as high incentive compensation and hostile takeovers.\(^9\) Stakeholder model have a socialist’s policy where the rights of employees and the community are protected.\(^10\)

2.2 Characteristics of Shareholder Model

Shareholder model is design to maximize profit for shareholders with little regards to the interest of other stakeholders.\(^11\) Workers receive a wage for their productivity and must ensure that the company makes profit as a condition for their continuous employment.\(^12\) Unlike in stakeholder model, non-shareholder stakeholders have no institutional claim to share in the profit of corporations because shareholders are the residual owners and get all the profit.\(^13\) Corporate governance in shareholder model is defined narrowly, and limited to shareholders interest.\(^14\) Responsibility of supervising managers is also limited to shareholders.\(^15\)

The model is premise on capitalist tendencies where profit maximisation is paramount.\(^16\) The system gives shareholders complete control over the allocation of production that is; they decide what is produced and how it is done. In shareholder economies, the interests of other interest groups are not protected and they have no direct means of monitoring management. The interests of trade unions, ethnic groups and local communities are considered as external interests and not directly protected.\(^17\)

As a consequence, corporate governance rules are designed to give shareholders greater power to monitor management and receive

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\(^9\) Mark Roe, (2003), *Political Determinant of Corporate Governance*, Oxford University Press.
\(^13\) Anthony Giddens (1998) op cit
\(^16\) William K. (2000), ‘From Shareholder Value to present –day Capitalism’, Economy and Society,
information at the expense of other stakeholders. Board composition, which is an important monitoring organ, is designed with only shareholder representatives by excluding other stakeholder groups from the board. Market mechanisms of monitoring such as takeovers and market for corporate control are common.\textsuperscript{18}

3. Alternative Corporate Governance Models for African

There is no conclusive evidence that any one model of corporate governance is superior to the other as both shareholder model and stakeholder model have their advantages and disadvantages. For instance shareholder model with market-based governance structure enhances corporate accountability by aggregating information in the market and disseminating them to investors.\textsuperscript{19} On the other hand, stakeholder model is better at preserving stability as involvement of other stakeholders prevents conflict.

The effective of any model of corporate governance is thus dependent on how well it is coordinated and blended into other factors of a region. For this reason, this paper would focus on the characteristics that should be present in any African corporate governance model. The model can be adjusted in different markets and in line with developments in a market.

3.1 Characteristics of an African Model of Corporate Governance

Africa can be divided into two groups in terms of their approach towards regulating corporate governance. The first group is countries with corporate governance codes (mostly Anglo-Saxon countries and some Arab countries). The second group is countries without corporate governance codes (mostly Francophone countries and also some Arab countries). Countries with corporate governance codes with the exception of Nigeria adopted an inclusive approach more in line with the stakeholder model. On


the other hand, African countries without corporate governance codes adopted a shareholder model, such as OHADA\textsuperscript{20} states.

In the case of OHADA states, the rules were largely foreign\textsuperscript{21} while in Anglo-Saxon states the codes reflected the UK corporate governance Codes though with some exceptions.

Mindful of the need for corporate governance to reflect economic, political and socio-cultural challenges in African, the paper argues that the following features should be included in any African model of corporate governance.

3.1.1 Inclusive approach with stakeholders’ involvement

Part of the problem leading to conflict in the management of natural resources in Africa is poor management of rival groups, in particular, failure to have regard to the interest of all stakeholders. Some scholars have argued that the protection of the interest of all stakeholders should not be left at the discretion of managers and shareholders.\textsuperscript{22} To avoid conflict and ensure stability, the interest of all stakeholders should be directly included into the corporate governance framework.

An inclusive approach is more pertinent considering the fact that many companies in Africa are involved in natural resource exploitation viewed as belonging to every citizen. It is also in line with Africa’s communitarian values. This can be done in several ways such as employees’ and local community representatives on boards, providing equal opportunity to local and foreign workers in terms of career progression and board diversity as discussed below.

3.1.2 Diverse and Independent Board with Employee Representatives

In keeping with an inclusive approach, employees and other stakeholders group should be provided with seats on boards. Some countries such as

\begin{footnotesize}
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\item \textsuperscript{20} OHADA stands for Organisation pour l’Harmonisation en Afrique du Droit des Affaires’ or Organisation for the Harmonisation of Business Law in Africa.
\item \textsuperscript{22} Timothy J. Lewis, Silke Machold, David Oxtoby, and P.K. Ahmed, (2004), op cit.
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Ivory Coast already has such a provision. It is argued that other stakeholders other than shareholders are highly committed in their responsibility to contributing to governance and monitoring of senior managers.\(^\text{23}\) Some have argued that this may be one of the reasons why executive compensation in stakeholder states are lower compared to shareholder states.\(^\text{24}\)

Research has equally shown that women on boards improve access to information and monitoring and enhanced creativity while providing a wider view of issues.\(^\text{25}\) According to the 2014 MSCI survey of women on board, 15.1% of board members in Africa and Middle East are women. In Nigeria, the Central Bank of Nigeria 2013 statistics figures indicates that 15% of board members are women.\(^\text{26}\) South Africa’s score is better at 17.9 according to the MSCI 2014 survey of women on board.\(^\text{27}\)

Absence of women on boards in Africa reduces the pool of knowledge and varied perspective that women have been shown to bring on boards.\(^\text{28}\) Boards with women according to MSCI are less corrupt, fraudulent, involve in bribery and shareholder battle.\(^\text{29}\)

### 3.1.3 Application of Domestic or Regional Rules

Low level of competition, legal and institutional arrangement of corporate governance, ownership structure, and political and social orientation of Africa are not always suitable for international norms and practices. The purpose of corporate governance is to ensure that specific objectives of individual corporations are achieved. Domestics rules that would achieve

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\(^{26}\) Ibid.


these objectives should be encouraged because they are easily understood compared to international rules. Rules chosen should reflect corporate history, size, jurisdiction and stakeholder composition.\textsuperscript{30} Any regulation on corporate governance should combine these factors and create an enabling environment where market actors clearly understand the rules. Foreign rules do not always work well in Africa. For instance, in Cameroon, practitioners do not understand what a ‘bilan social’ (social balance sheet) is as it is a concept imported from France\textsuperscript{31}.

This paper is not rejected international rule as in some cases such as in accounting, it can be beneficial to adopt international accounting rules for standardization. But in other areas, rules imported from the West that do not blend neatly into African legal systems are difficult to implement and should be cautiously adopted.

3.1.4 Mandatory rather than Self-regulation in key areas

As Panitch and Gindin argue, “State intervention, do not necessarily distort efficiency.”\textsuperscript{32} Corruption is a major factor in limiting competition in Africa. It equally affects trust and the free flow of the market.

As a result of corruption, weak competition, little regard for corporate social responsibility and business ethics and a market more exposed to fraud, mandatory rather than self-regulation can boost trust in the market. Disclosure rules on corporates social responsibility and ethics should be mandatory. Individuals such as directors should be liable to fragrant breach of health and safety and accounting rules.

As Nordberg and McNulty mentions, the financial crisis of 2008 exposed some of the limitations of self-regulation.\textsuperscript{33} For instance, a cap on executive pay by the European Union to prevent exorbitant remunerations is an example of failure of the market to regulate itself. Mandatory rule in

\textsuperscript{30} Elaine Sternberg (2004) op cit. p. 158
key areas such as board representation and employee rights can prevent social conflicts in Africa.

Conclusion

As Letza and Kirkbride argue, “corporate governance is a social rather than purely economic or mathematical reality, a processual rather than fixed and relatively enduring reality.”\textsuperscript{34} It cannot therefore be isolated from social, political, legislative, cultural, institutional, and other domestic factors.\textsuperscript{35}

This paper advocates a pluralistic and flexible approach that fits the market realities in Africa rather than a system copied from the west. A good starting point is the variety of capitalism literature, which discusses the different approaches to capitalism and corporate governance models.\textsuperscript{36}

Irrespective of the model adopted by African counties, due regards should be given to the specific aspiration of the region rather than the urge to blindly follow international trend that may not reflect African values.

\textsuperscript{35} Ibid.