

Sound corporate governance will help African business flourish

It's said that the importance of good corporate governance in business should no longer be ignored, as companies which adopt best practices are more likely to be profitable and sustainable.

AMSCO (the African Management Services Company) is promoting the importance of good corporate governance and sound business ethics in Africa, with the goal of helping the continent's businesses and public sector companies to improve their sustainability, profitability and competitiveness.

That's the word from Abraham Lanor, regional manager for Southern Africa at AMSCO. He says that African companies need to adopt best practices in corporate governance because it makes good commercial sense.

Says Lanor: "Corporate governance is at the top of the agenda for businesses across the world. Companies in the US and Europe have been forced to adopt more rigorous governance following the accounting scandals of the early 2000s, while the topic is also assuming more importance in developing countries.

"Africa is no exception. As the continent's businessmen seek to play a bigger role in the global economy, they are becoming aware that they need to follow best practice in corporate governance to be competitive with rivals in the rest of the world."

What is corporate governance?

Corporate governance may be defined as the rules, structures and processes in place to direct and control a company's relationships with its stakeholders including management, shareholders, consumers, creditors, employees, the general public, and suppliers.

The point of corporate governance is to ensure that management and majority shareholders at companies behave in a manner that balances the profit motive with the interests of minority shareholders and other stakeholders. It includes aspects such as financial transparency and disclosure; treatment of minority shareholders; organisational structure; and the structure of the board of directors.

"We advocate that companies have a separation of the chairman and CEO roles and a strong non-executive board, in line with best practices outlined in documents such as the UK's Cadbury Report and South Africa's King II," says Lanor. "Other elements of corporate governance include internal and external audits, risk management, succession planning, minority shareholder rights, disclosure of information to analysts and shareholders, as well as compliance with legislation, stock

exchange regulations and industry regulatory frameworks, and so on.”

“Corporate governance is not solely about complying with a legal or (voluntary or involuntary) regulatory framework, but also about doing the morally right thing,” he adds. As such, AMSCO regards issues such as health and environmental standards and hiring policies that don’t discriminate on the basis of race, gender or religious affiliation as part of sound corporate governance.

The value of best practices

Says Lanor: “African businesses, particularly SMEs, have not always understood the value of corporate governance. Adopting best practices in corporate governance can seem expensive and complicated for small businesses in a growth phase.

“However, the picture is changing as African companies start to understand that good corporate governance can be a competitive differentiator. It can help companies to attract funding from domestic and international investors – indeed, most serious investors insist on it.”

Lanor points out that companies doing business in the international market also come under pressure from their customers to show that they have good corporate governance and ethical credentials.

“There is strong evidence that companies with good corporate governance are more likely to be profitable and sustainable than ones without it. Concern for shareholders, employees, the broader community and the environment improves rather than harms profitability,” he adds.

AMSCO is helping to champion best practice in corporate governance in Africa by helping governments and business associations to establish corporate governance frameworks and by helping its client companies to put good governance processes and structures in place.

AMSCO has developed and launched corporate governance manuals of best practice in partnership with governments and business groups in Ghana, Malawi, Mozambique, Zambia and Zimbabwe. In each of these countries, it has successfully rallied support for its cause from key business leaders.

Concludes Lanor: “Many entrepreneurs recognise the value of good corporate governance but don’t have the experience or in-house resources to adopt them alone. AMSCO helps such companies to achieve their goals of improving corporate governance as part of the package of management and consulting services it offers.”

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