

ADDRESSING CORPORATE GOVERNANCE ISSUES IN APRM COUNTRY REVIEW REPORTS: A FRAMEWORK THAT WORKS



BABARINDÉ RENÉ ADEROMOU
AND MCBRIDE NKHALAMBA



Executive Summary

Establishing integrated reporting and thinking within mainstream business practice as the norm in the public and private sectors is fundamental. Corporate governance assessment in the APRM Country Review Reports is not done in a way to enable more decision-useful reporting. This policy brief urges APRM's consultants to adopt a particular approach to frame Corporate Governance assessment. By adopting an inductive qualitative approach, retrieving academic articles and institutions' reports from the literature, this study develops a novel framework to ensure more reliability, completeness, consistency and comparability in the Country Review reporting. It is contended that such reporting can assist the APRM Country Review Missions in corporate governance assessment.

Emerald Group Publishing Limited
Howard House, Wagon Lane
Bingley BD16 1WA, United Kingdom

T +44 (0) 1274 777700

F +44 (0) 1274 785201

E emerald@emeraldinsight.com

Introduction: The Context and the Issue Definition

Good corporate governance is an essential means to create an environment of market confidence and business integrity that supports capital market development and corporate access to equity capital for long-term productive investments. As a matter of fact, the quality of a country's corporate governance framework is of decisive importance for the dynamics and the competitiveness of a country's business sector. Reporting on Corporate Governance has also become central to several Corporate Governance Codes, rules and guidance aimed at improving managers' accountability (Florio et al., 2021; OECD, 2019).

In addition, it is widely believed that sound corporate governance is universally recognised as essential to market integrity and efficiency, by providing a vital underpinning for financial stability and economic growth (Clarke, 2020). Corporate governance is understood as a set of mechanisms and institutions which are intended to provide efficient monitoring and control over a firm's strategy and operation (Aluchna & Idowu, 2017; Chen & Zhang, 2014; Claessens, 2006; Lazonick & O'sullivan, 2000).

For these obvious benefits, many institutions have begun to explore and experiment with a framework for the implementation of corporate governance (AFDB, 2007; Iskander & Chamlou, 2000; OECD, 2019). This is exemplified in the Country Review Missions undertaken by the African Peer Review Mechanism (APRM). The four thematic areas of APRM are democratic and political governance, economic governance and management, socio-economic governance, and corporate governance.

Currently, more than twenty African countries have been assessed and the Country Review Reports have been published. Previous published reports, with regard to corporate governance area, are limited to legal system surveys while APRM definition of Corporate Governance involves all aspects that govern a company's relations with shareholders and other stakeholders.

Instead of assessing the present status of corporate governance in the countries, some parts of the reports which are not the recommendations are stated as challenges that countries must face. In addition, Corporate Governance issues aspects in Country Review Reports which are not presented in a way that enables comparison with other countries to the extent it is material to the country's own ability to create value over time through companies.

A global coalition of regulators, investors, companies, standard setters, the accounting profession, academia and Non-governmental organisations (NGOs), named International Integrated Reporting Council (IIRC), share the view that communication about value creation, preservation, or erosion is the next step in the evolution of corporate reporting. The more integrated thinking is embedded into an organization's activities, the more naturally will the connectivity of information flow into management reporting, analysis and decision-making be. It also leads to better integration of the information

systems that support internal and external reporting and communication, including preparation of the integrated report (IIRC, 2021).

An integrated Corporate Governance Report in the Country Review Reports should provide insight into the nature and quality of the APRM's relationships with its key stakeholders, including how and to what extent the APRM Secretariat understands, considers, and responds to their legitimate needs and interests.

This policy brief urges APRM's consultants to adopt a particular approach to frame Corporate Governance issues in Country Review Reports. The study adopted an inductive qualitative approach, retrieving academic articles and institutions' reports from the literature. A thematic analysis approach was employed for the literature analysis.

Findings

The literature review indicates, in line with political cost and resource dependence theories, not only a statistically significant and positive nexus between compliance with stakeholder Corporate Governance provisions and financial performance (Beiner et al., 2006; Ntim, 2013), but also the existence of internal (Ballester et al., 2020; Hongxing & Yuna, 2013; Kamardin & Haron, 2011; Martínez-Ferrero & García-Meca, 2020) and external (Aguilera et al., 2015; Fan & Wong, 2005; Jacoby et al., 2019; Shi et al., 2017) governance mechanisms that can be classified in a framework. Interestingly, external mechanisms of corporate governance were observed to be legal system, corporate control, external auditing and rating organizations (Gao & Kling, 2012). Internal mechanisms of corporate governance are consisting of the structure, operation and composition of the board of directors, the ownership structure, Disclosure and Transparency, and Corporate Social Responsibility (CSR) and ethics.

Further literature analysis (OECD, 2017, 2019; The World Bank, 2018) showed that corporate governance assessment can be conducted using the following framework:

- The corporate and market landscape;
- Commitment and Enforcement;
- The rights and equitable treatment of shareholders and key ownership functions;
- The corporate board of directors
- Disclosure and Transparency;
- Board Practices and Company Oversight;
- Institutional Investors and Shareholder Engagement;
- Governance of Public Sector Companies;
- Corporate Social Responsibility (CSR) and ethics.

Major aspects of those corporate governance dimensions have been uncovered by the APRM Country Review Reports.

Furthermore, many researchers suggested that African corporate governance systems must recognize both global best practice and the particularities of African

business (Corrigan, 2014; Nakpodia et al., 2018). It needs an integrated system that combines elements of both rule-based and principle-based regulation, supported by a multi-stakeholder co-regulation strategy. According to Rwegasira (2000), African economies which are restructuring need to adapt their corporate governance model to the peculiarities of specific economies and that the inputs from more than a single model will be necessary to provide for globally competitive capital markets in these economies.

The importance of Small and medium-sized enterprises (SMEs) in the economic fabric is certainly not a specificity of African economies, however, the characteristics and the economic and social importance of this sector in Africa give this sector a singular character. Abor and Adjasi (2007) and Brunninge et al. (2007) identified the extent to which the corporate governance framework can be applied to small and medium enterprises (SMEs) and concluded that corporate governance brings new strategic outlook through external independent directors and enhances firms' corporate entrepreneurship and competitiveness.

Table: Proposed framework for corporate government assessment in APRM Country Review Reports.
Source: Authors

Larger companies in the country	
1	The corporate and market landscape
2	Commitment and enforcement
3	The rights and equitable treatment of shareholders and key ownership functions
4	The corporate board of directors
5	Board practices and company oversight
6	Institutional investors and shareholder engagement
7	Governance of public sector companies
8	Corporate Social responsibility (CSR) and ethics
Small and medium enterprises in the country	
9	SME support facilities or services
10	Founders awareness, culture and commitment
11	Organizational structure
12	Decision making and strategic oversight
13	Risk governance and internal controls
14	Ownership (Founder/Shareholders/Family)
Larger companies and SME's in the country	
15	Disclosure and transparency
16	Future-oriented information

Using additional literature analysis (Abor & Adjasi, 2007; Brunninge et al., 2007; International Finance Corporation, 2019), the following lines have been added to the framework:

- SME support facilities or services (Matching Grants/ Credit; Training and management programs; Interventions that support local production systems; Support for innovation policies; Public intervention supporting access to external markets, and; Tax simplification);
- Founders awareness, culture and commitment;
- Organizational structure;
- Decision Making and Strategic Oversight;
- Risk Governance and Internal Controls;
- Ownership (Founders/Shareholders/Family).

Overall, these results (see table) indicate the appropriate framework for assessing corporate

Current approaches of corporate governance mean that Enterprise-Focus were not followed. Thus, the reports cannot enable more decision-useful reporting. Investors need information for decision-making and actions that focus on the creation of value over the short, medium and long term. Reporting policies must be followed consistently from one period to the next unless a change is needed to improve the quality of information reported to provide stakeholders useful information.

Implications

As was revealed in the findings, APRM Country Review Reports on Corporate Governance need to have a higher level of compliance with an integrated reporting framework. In this regard, this policy brief steps up and presents a model of corporate governance reporting to ensure greater compliance with some institutions corporate governance principles and guidelines. It would be in the best interest of the company's stakeholders and policy makers if full compliance is achieved.

APR secretariat should take action in order to:

- improve the quality of information available to providers of financial capital in the Country Review Reports to enable a more efficient and productive allocation of capital;
- promote a more cohesive and efficient approach to corporate governance issues reporting in the Country Review that draws on different reporting strands
- communicate the full range of factors that materially affect the ability of a company to create value over time;
- enhance accountability and stewardship for the broad base of capitals and promote understanding of their interdependencies;
- Support integrated thinking, decision-making and actions that focus on the creation of value over the short, medium and long term.

Corporate governance issues in Country Review Reports must ensure more reliability, completeness, consistency and comparability.

Recommendations

Framework adoption

There is a definite need for adopting the proposed framework to assess corporate governance in Country Review Reports. More information should be made available to provide users, such as shareholders or potential investors, with information about the countries' companies operations and financial performance, and degree of investor protection.

Consultants recruitment

Corporate governance consultants recruitment for Country Review Reports should be based on qualifications, experience and competencies specifically in Corporate Finance. Further, the Terms of reference (TOR) must clarify how the area of corporate governance part should be presented in the Country Review Reports.

Governments and stock market authorities' actions

Governments and stock market authorities must undertake reforms to improve the required data availability.

Framework implementation

Research, Methodology and Development Division team should take actions to implement the proposed Framework. The implementation will be based on four basic activities: planning to determine the changes brought by the Framework; resourcing; allocating responsibility; and evaluating and monitoring implementation and outcomes. Research, Methodology and Development Division team must then participate in peer reviewing the Country Review Reports.

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Contact details

Babarinde Rene Aderomou, Gaston Berger University, Senegal, babarinde-rene.aderomou@ugb.edu.sn

McBride Nkhalamba, APRM, South Africa, Mcbride.Nkhalamba@aprm-au.org

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