Building trust through governance

Joël Rault

These days, states are alternately releasing their post-quarantine plans, a sign that the peak of the pandemic is well underway, and we have reason to hope that mastery of Covid-19 is in the news. The reintroduction of freedom of movement will start a gradual return to business, which will not be without problems.

The health crisis that led to near-global confinement has also postponed several management decisions which will now have to be fully endorsed. The health crisis will gradually give way to the economic crisis, which will now occupy our daily lives for a relatively long period.

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Cash-flow issues or inappropriate business models will force a certain number of distressed companies to lay off their employees, in an attempt to survive.

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The IMF projects a substantial contraction in GDP per capita to reach a meagre 4% on average, a poor performance partially caused by the global collapse in supply and demand and its consequences on the price and volumes of commodities. Also, the voluntary or involuntary depreciation of some currencies, rising inflation and difficulties in importing raw materials together with health barriers infringing free movement have contributed to the current situation.

At the internal level, governments have taken budgetary and monetary measures to ensure the viability of the system and liquidity in the markets, and the idea of a moratorium or cancellation of debts is gaining ground internationally. But these measures alone will not ensure recovery.

African companies of all sizes must take advantage of this crisis and the lethargy it has created to restructure their activities and operating methods by rebuilding themselves on modern, efficient and transparent models.

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With the influx of requests from companies or groups of companies in difficulty and looking for financial support, Corporate Governance will be more than ever the key to finding external financing essential to the pursuit of activity in the long term.

Good governance creates the climate of trust, transparency and accountability, crucial for long-term investments and for maintaining financial stability.

The adoption of these principles of corporate governance should be part of a coherent restructuring of companies and will often need to moving away from entrenched habits, especially in family businesses or those in which the majority of shareholders are family-owned.

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But it also concerns any business that has difficulty accessing bank loans or investment because of their poorly constituted structures and the opacity of their accounting practices.

Poorly constituted structures and opacity are not necessarily fraudulent. They are often symptomatic of rapid business growth in developing countries pushing entrepreneurs to adopt pragmatic business models. They are unfortunately out of step with the expectations of investors who are often charmed by the operational model but uncomfortable with the structural realities.

The restructuring will first require a reorganization of constituent components of the company with a credible, fully empowered and respected board of directors, giving strategic directions and monitoring the activities of management while ensuring accountability to shareholders.

Representativeness on boards of directors will have to be reviewed to integrate competent external and independent directors who will bring the necessary value and independence. This is pivotal to ensure that the board of directors and management, at all times, represent the interests of the company and shareholders.

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Ensuring a balance between the interests of shareholders and those of other stakeholders provides a competitive advantage to the company which will see its valuation grow while opening up new external financing opportunities, at reduced capital costs, to finance its growth.

This good governance, notably embodied and guaranteed by independent directors, will give confidence to local and foreign investors and creditors, whether they provide debt or equity.

In the absence of a State or Parastatal institutions deciding on governance standards, the soundness of internal control bodies will have to be further strengthened by the independence of the external auditors. This independence of directors and auditors will create an environment which is essential to building trust.

Almost all companies and groups of companies will need pragmatic advisers to support them in this strategic, legal and financial restructuring. The transformation will most probably precede the reforms which will be subsequently undertaken by the Governments.

Covid-19 reminded us of how fragile and interconnected the economic world is. The butterfly effect was rapid, brutal and global but the chaos will push companies to articulate in-depth and essential reforms, which without the pandemic, would have been unduly delayed.■

Former ambassador of Mauritius to France and Special Advisor to the Ministry of Finance in Mauritius, Joël Rault is now based in Paris where he founded Hermès Advisory.

Hermès Advisory is a consultancy firm acting as a global strategic advisor for corporates on all continents.

With his vast public-private experience, Joël Rault also advises a couple of developing States in the field of economic development.

Joël Rault was ambassador in various multilateral institutions including OIF, UNESCO, UNWTO and OECD Dev, institutions with which he maintains an ongoing relationship.