

"FOSTERING CORPORATE GOVERNANCE THROUGH A STRATEGIC & CONSTRUCTIVE PARTNERSHIP FOR 2008 & BEYOND"

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The PNGID (Papua New Guinea Institute of Directors) is about seven (7) years old and mainly deals with its subscribed membership of 300, which comprises of Chairman's, Managing Director's, CEO's, Executive Directors, Board Members, Executive managers, General Managers, Sole Proprietors, and Departmental Heads, and one or two MP's. All membership is jointly from the GOVERNMENT, PRIVATE or the NGO SECTOR. In comparison, the AUSTRALIAN INSTITUTE OF DIRECTORS is almost 30 years old and has membership strength of 19,000 members.

The PNGID mainly promotes Corporate Governance through its Director training programs in conjunction with IBBM-Institute of Banking and Business Management. In the 2008 calendar of activities, we have in focus the theme "FOSTERING CORPORATE GOVERNANCE THROUGH A STRATEGIC & CONSTRUCTIVE PARTNERSHIP" with the likes of the WORLD BANK, IBBM-Institute of Banking and Business Management, IPA-Investment Promotion Authority, PRICE WATER HOUSE COOPERS, THE PNG GOVERNMENT MAIN LINE DEPARTMENTS, the entire PRIVATE SECTOR, PNG Chamber of Commerce, Leadership PNG, TRANSPERANCY INTERNATIONAL and other entities that are interested.

It is the PNGID's intention to initiate a series of workshop and seminars, firstly and initially, to establish a collaborative table of dialogue between the Private Sector, all partners and the PNG Government mainline agencies. Secondly, would be to get the forum participants, especially the government sector to sign a memorandum of agreement to recognise the private sector participants in the PNGID membership as NON-STATE ACTORS (NSA), and thirdly to get the Government to agree, and support the institution of effective corporate and prudent management programs for the accelerated development and strengthening of the domestic, private and NGO sectors throughout Papua New Guinea through capacity, and capability building measures.

The role of Government management in the development process is changing at a dramatic pace; current trends are indicating a growing emphasis on supporting and identifying partnerships with the collective in-puts of the "ALL SECTORS PARTICIPATION". This partnership will also be encouraged to recognise and pay particular attention to small organisations which have the capacity to reach and represent venerable and or isolated groups of population. It is also anticipated that the *NON-STATE ACTORS* be allowed to participate in development policy through agreed cooperation programmers" and policy dialogues with its government and NGO partners.

Through these workshops and seminars PNGID would like to encourage the launch of a process of rationalization, harmonization and simplification of decision procedures and implementation modalities for all types of Government budget lines, as indicated in the 2008, National Budget presentation we can identify the PNG government's instruments for providing Community aid and development cooperation, their revisions rectification, priorities and the possible achievable tax and incentive regimes.

PNGID also anticipates that through these workshops and seminars the PNG government can recognise the role of the Non State Actor's in trade, commerce and development, and to foster the participatory approach and include the NSA's in and at all levels of the country's development,

fundamentally because *NON-STATE ACTORS*-NSA's partake in the design, implementation of national development strategies, all because their missions and functions vary. Some of these NSA's carry out projects while others operate on the premise of commerce and trade all aimed explicitly at implementing and complimenting government "Country strategy papers or regional strategy papers, developed, assigned or adopted. NSA's are always involved in many aspects of development policy regardless- not only in the implementation of country development strategies but also in their own design.

Consequently here at the Secretariat, we have to deal with many pressing requirements for Directors and Board Members of various types of Organization's and entities, concurrently we are posed with the urgency to maintain an understanding of Global actions and initiatives, currently under taken by responsible private and government sectors in partnership. PNGID queries itself as to how much of a relationship exists between Corporate Governance and Economic development and the derivation of any benefits from such relations and or partnerships. It is our belief and operating principal that corporate frame works benefit entities through greater access to financing, lower costs of capital, better firm performance and more favorable incentives and treatment of all stakeholders.

Imperatively PNGID desires to address the varying inconsistencies' due to the lack of Corporate Governance and prudent participatory management culture.

In a varying of examples, we start with the non-existent of DIRECTORS REMUNERATION guidelines which is largely due to the fact no such survey has been conducted or any such related documentation is available, to establish the founding bases to create or if not propose a guideline to Calculate Directors Remunerations. As a consequence, Directors and CEO's are paid significant sums of monies with a regulated guideline. For the Private Sector this may considered a in-house issue addressed according to their private financial threshold, however for the semi-government and actual government entities, this would be a large punch into the public coffers.

In another instance, housing rental rates offered by the private sector are either exorbitant or just unaffordable by simple minimum wage earners. Many are forced to reside in areas with low security and clean water access as the rentals in such localities are just barely affordable. PNGID anticipates that through these discussion forums, practical regulatory balances can be forged and agreed too, with regard to the issues relating employee accommodation and employee housing woes.

In another instance public schools are now experiencing overcrowding, wherein the children are sitting four children on one desk. Perhaps through this partnership the government can get the school desk constructors and sellers to exempt that product so that it becomes affordable for the schools to procure, and as such improve the sitting conditions of the schools. Or in the alternate the lecture chair could be adopted per child.

We could go on and on to site various other many case studies, however that can be best dealt with in a forum or a seminar like setting. Fundamentally PNGID believes and identifies that there exists evidence that when a country's overall corporate governance and property rights systems are weak, voluntary and market corporate governance mechanisms have limited effectiveness.

Less evidence is available on the direct links between corporate governance and poverty. There are also some specific corporate governance issues of banks, family owned firms, and state owned firms which are not well understood, nor are the nature and detriments of enforcement. Importantly, the dynamic aspects of corporate governance-that is, how corporate government regimes change over time.

¹HOW DOES CORPORATE GOVERNANCE MATTER FOR GROWTH & PERFORMANCE?

Literature has identified several channels through which corporate governance affects growth and development.

- ***The first is the increased access to external financing by firms. This in turn can lead to larger Investment, high growth, and greater employment creation.***

The Private based investment process- underpinned by good corporate governance, is now much more important for economies than it used to be. Privatization has raised corporate governance issues in sectors that were previously in the hands of the state. Firms have gone to public markets to seek capital, and mutual societies and partnerships have converted themselves into listed corporations.

- ***The second channel is a lowering of the cost of capital and associated higher firm valuation. This makes more investments attractive to investors, also leading to growth and more employment.***

Due to technological progress, liberalization and opening up of financial markets, trade liberalization, and other structural reforms - notably, price deregulation and the removal of restrictions on products and ownership - the allocation within and across countries of capital among competing purposes has become more complex, as has monitoring of the use of capital. This makes good governance more important and imperative, but also more difficult.

- ***The third channel is better operational performance through better allocation of resources and better management. This creates wealth more generally.***

The mobilization of capital is increasingly one step removed from the principal-owner, given the increasing size of firms and the growing role of financial intermediaries'. The role of institutional investors is growing in many countries, with many economies moving away from "pay as you go" retirement systems. This increase delegation of investment has raised the need for good corporate governance arrangements.

- ***The fourth, good corporate governance can be associated with a reduced risk of Financial crises. This is particularly important, as financial crises can have large economic and social costs.***

Programs of deregulation and reform have reshaped the local and global financial landscape. Long standing institutional corporate governance arrangements are being replaced with new institutional arrangements, but in the meantime, inconsistencies and gaps have emerged.

- ***Fifth, good corporate governance can mean generally better relations with all stakeholders. This helps improve social and labour relationships and aspects such as environmental protection.***

International Financial integration has increased, and trade and investment flows are increasing. This has led to many cross boarder issues in corporate governance. Cross border investment has been increasing, for example, resulting in meetings of corporate governance cultures that are at times uneasy.

¹Corporate Governance & Development-Professor Stijn Claessens, Global Corporate Governance Forum.

All these channels matter for growth, employment, poverty, and well-being more generally. Empirical evidence using various techniques has documented these relationships at the level of the country, the sector, and the individual firm and from the investor perspectives. A review follows.

² “Standards of corporate governance are determined by the measures which companies take for themselves, whether they are voluntarily or otherwise, to improve the way they are directed and controlled, and by the legal, financial, and ethical environment in which they work. However, the actions which corporations take to improve their internal governance cannot make up for the deficiencies in the external framework, notably if an appropriate and enforceable legal system is lacking. This provides useful guidance for where the priorities for reform lie, especially as the study makes the point that poor corporate governance is a particular handicap for small firms. It is the growth potential of such firms which is crucial to improving the economic prospects of countries in the course of development.”

Finally, PNGID believes that further and more emphasis must be placed in the promotion and advocacy of corporate governance and this can be greatly achieved if the support we seek is given and the partnership we desire is fostered and strengthened.

Analytical brilliance and the display of intelligence is impractical when we are operating in isolation and for that such reasons Papua New Guinea Institute of Directors is desirous of a relationship and partnership with all and every stake holder that comprise today's market place, a partnership that will strive on fair play and push the boundaries of trade towards innovative win-win scenarios for all concern.

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² *Sir Adrian Cadbury.*