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Local Content Seminar

15 September 2010

Corporate Governance & Compliance Issues

Outline



Part 1 – Introduction



Part 2 – The Principles



Part 3 – Insights



Positioning to take advantage of the Local Content Development Act

Warning: this document has been prepared for use in a presenter-led discussion of the subject matter at the local content seminar organised by PricewaterhouseCoopers on 15 September 2010 and is not intended and has not been prepared for usage outside of that forum.

Part

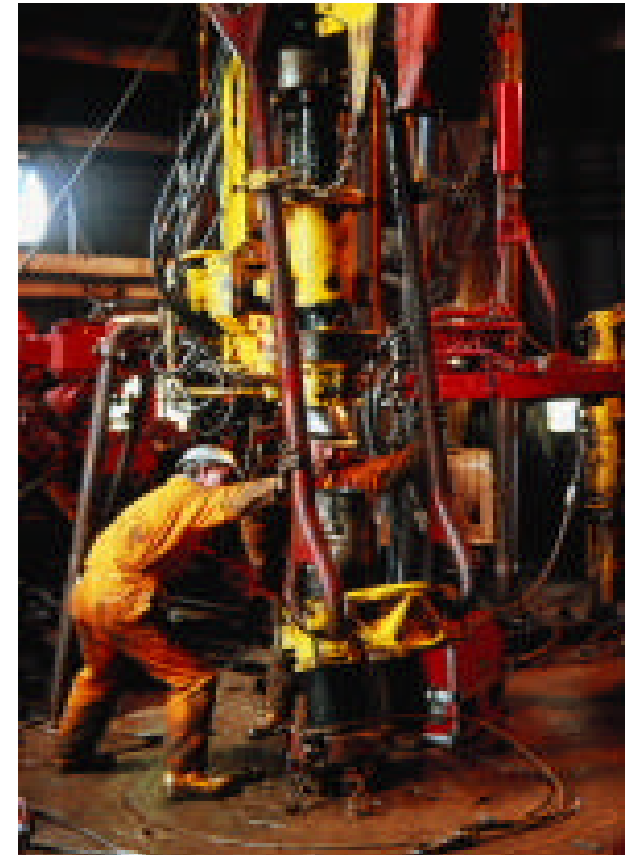
Introduction

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1. Introduction

The Nigerian Content Development Act seeks to increase local participation in the country's oil and gas sector

- “Local Content” means indigenous participation in the value-addition activities taking place in a country
- These activities include local recruitment, training, procurement of goods and services that are designed to develop the industrial infrastructure and skills
- There are two interrelated objectives (1) to stimulate the development of indigenous companies; (2) to encourage foreign investment and participation
- "Local Content" should translate to the empowerment of indigenous entrepreneurs for nation building and global competitiveness.



1. Introduction

The Act

The success of our (Nigeria) local content efforts may be affected by the following reasons;

- Lack of technical and management expertise
- Bureaucratic or ineffective laws and regulations
- Challenging operational conditions such as poor infrastructure, corruption, etc
- Difficulty in meeting quality and safety standards
- Lack of long term financing
- inadequate Corporate Governance structures.

The local content reforms in the oil and gas industry will remain strategically ineffective for indigenous companies without adequate **Corporate Governance** structures.

1. Introduction

What is “Corporate Governance”?

... the set of processes, customs, policies, laws, and institutions affecting the way a corporation is directed, administered or controlled. *(Wikipedia Online Encyclopedia)*.

It is about building effective mechanisms and measures, either in order to satisfy current social expectations or to satisfy the narrower expectations of shareholders. *(Letza et al, 2004)*.

“Corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment”. *The Journal of Finance*, Shleifer and Vishny [1997].

“It requires a clear understanding of the respective roles of the board, management and shareholders ,and their relationships with each other, and their relationships with others that have an interest in the company and its well-being.” [- *Business Roundtable, Principles of Corporate Governance–2010*]

1. Introduction

Salient Issues arising from the definitions

- Strategy, processes, structures and systems (internal and external)
- Customs and ways of doing things within the organization (Corporate culture)
- Enabling policies & laws (responsibility of the government & its institutions)
- Objectivity and integrity in decision making
- Human Capital (people) is critical to success.
- Systems of control to ensure compliance

Doing the right things right and managing the interests of stakeholders

1. Introduction

Corporate governance is about oversight and effective control of power within the organisation

It is about ...

Establishing direction and shaping strategy.

Improving transparency and reputation via checks and balances.

Shaping the relationship between the business owners and the managers.

Providing appropriate oversight of senior management

Determining the rights and equitable treatment of stakeholders

It is not about...

The day to day operations of the organisation.

Implementation of structures to achieve operational efficiency.

Revenue generation.

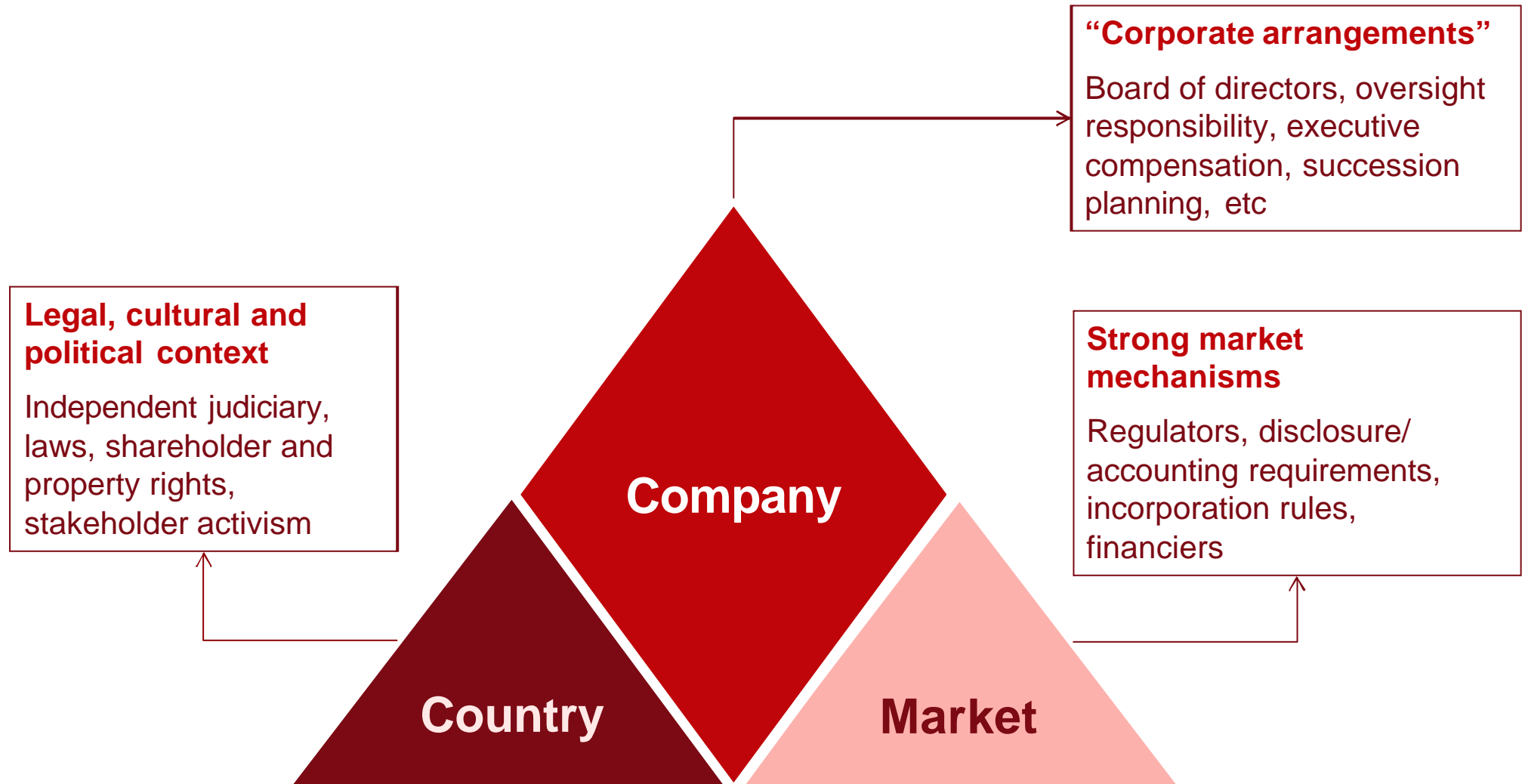
Part

The Principles

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2. The Principles

A framework for corporate governance



2. The Principles

The local content reforms will remain strategically ineffective for indigenous companies without adequate Corporate Governance structures.

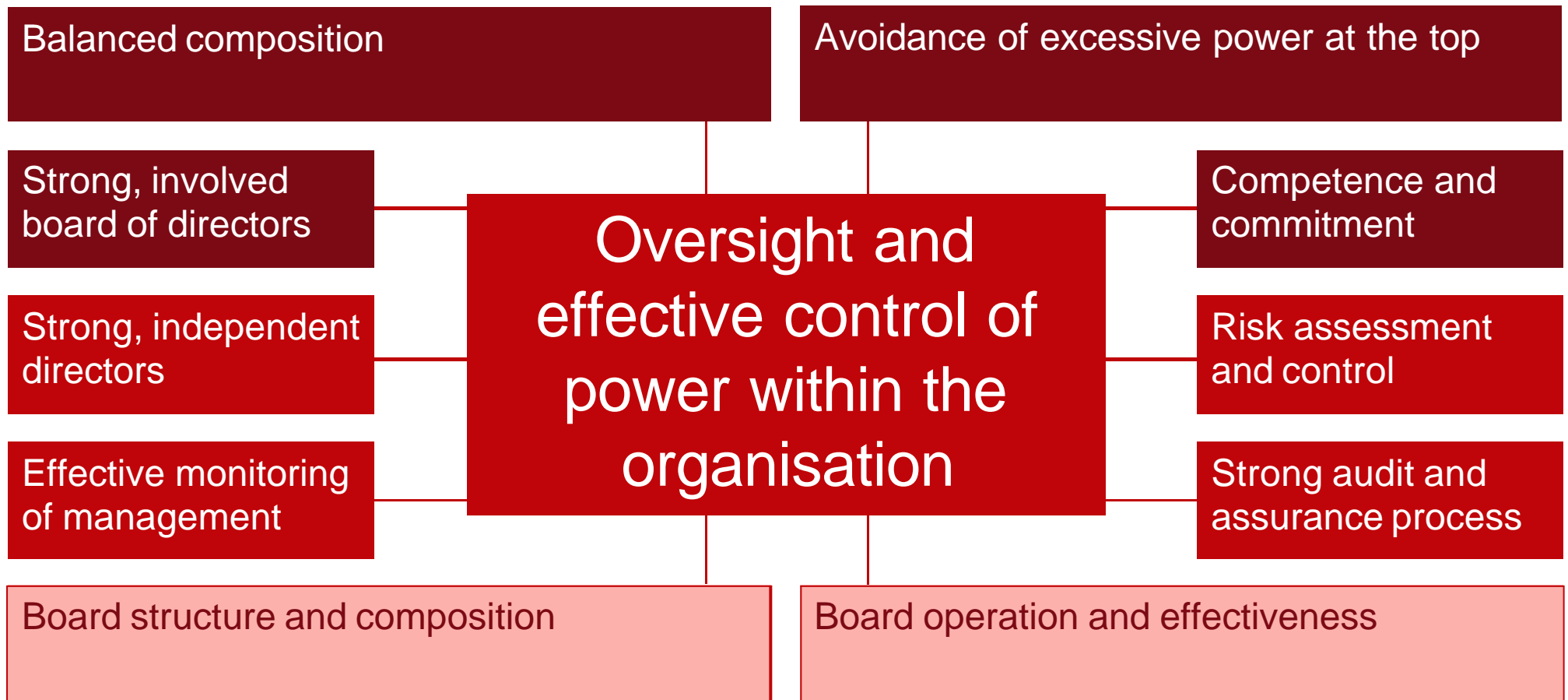


Corporate Governance requirements include;

1. Strong boards and a long-term view
2. Transparency in business transactions
3. Standard accounting practices
4. Transparent disclosure and reliable public reporting
5. Mechanism for risk management
6. Compliance with regulatory requirements
7. Succession planning
8. Consistency in corporate structures and policies

2. The Principles

These eight principles deal more directly with the board



2. The Principles

Why is corporate governance important?



Generally:

- Enhanced productivity
- Better credit rating
- Lower cost of capital
- Employee attraction
- Improved Social value

2. The Principles

Positioning to take advantage of the Local Content Development Act

What Nigerian Oil & Gas companies need to do



1. Establish a strong and balanced board of directors
2. Select a CEO and senior management based on proven competence and integrity
3. Guide corporate strategy and monitor corporate performance
4. Establish appropriate succession planning
5. Monitor effectiveness of the governance arrangements and change as necessary.

2. The Principles

Positioning to take advantage of the Local Content Development Act

What Nigerian Oil & Gas companies need to do (cont'd)



6. Align key man compensation with long-term interests of the company and shareholders.

7. Monitor and manage potential conflicts of interest of management, board members and shareholders

8. Ensure integrity of the company's accounting and financial reporting systems, including proper controls

9. Oversee process for disclosure and communications.

Part

Insights

3

3. Insights

There is no single model of corporate governance

- ✓ SMEs have been identified as the back-bone and catalysts of the economic development of most countries
- ✓ Principles are evolutionary in nature and should be reviewed in light of changes in circumstances.
- ✓ To remain competitive indigenous companies must adapt their governance arrangements to meet new demands and grasp new opportunities in the local content arena.
- ✓ Government also has a responsibility to shape the regulatory framework to the flexibility required for Nigerian O & G companies to function effectively.
- ✓ The banking sector provides the more recent examples of high-profile cases of corporate governance failure.
- ✓ Good Governance makes good business sense

3. Insights

PwC uses a comprehensive framework in reviewing and helping companies improve their governance arrangements

Board Structure & Composition	Board Operation and Effectiveness	Strategy, Planning and Monitoring	Robust Risk Management and Compliance Processes	Transparency and Disclosure	Corporate Citizenship (Social, Ethics, Environment)
<ul style="list-style-type: none">• Composition and organisation• Induction and training• Board remuneration• Succession planning / identification & nomination of potential directors• Independence	<ul style="list-style-type: none">• Boardroom conduct and relationship• Audit committee• Nomination committee• Remuneration committee• Governance committee• ‘other’ committees	<ul style="list-style-type: none">• Vision and mission• Strategic / corporate plan• Corporate and management performance monitoring• Human Resources	<ul style="list-style-type: none">• Risk management framework• Internal control system• Audit/controls/compliance	<ul style="list-style-type: none">• Financial reporting• Enhanced reporting• Stakeholder engagement• Conflicts of interest	<ul style="list-style-type: none">• Code of conduct• Business ethics• Employee relations / Health and safety• Social responsibilities

Thank you.



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