Local Content Seminar
15 September 2010
Corporate Governance & Compliance Issues
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.

<table>
<thead>
<tr>
<th>It is about …</th>
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<tbody>
<tr>
<td>Establishing direction and shaping strategy.</td>
<td>The day to day operations of the organisation.</td>
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<td>Improving transparency and reputation via checks and balances.</td>
<td>Implementation of structures to achieve operational efficiency.</td>
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<td>Shaping the relationship between the business owners and the managers.</td>
<td>Revenue generation.</td>
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<td>Providing appropriate oversight of senior management</td>
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<td>Determining the rights and equitable treatment of stakeholders</td>
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Part 2
The Principles
2. The Principles

A framework for corporate governance

- **Country**
  - Legal, cultural and political context
    - Independent judiciary, laws, shareholder and property rights, stakeholder activism

- **Company**
  - “Corporate arrangements”
    - Board of directors, oversight responsibility, executive compensation, succession planning, etc

- **Market**
  - Strong market mechanisms
    - Regulators, disclosure/accounting requirements, incorporation rules, financiers
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
These eight principles deal more directly with the board.

Balanced composition

Strong, involved board of directors

Strong, independent directors

Effective monitoring of management

Oversight and effective control of power within the organisation

Avoidance of excessive power at the top

Competence and commitment

Risk assessment and control

Strong audit and assurance process

Board structure and composition

Board operation and effectiveness
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

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.

Positioning to take advantage of the Local Content Development Act
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.

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

<table>
<thead>
<tr>
<th>Board Structure &amp; Composition</th>
<th>Board Operation and Effectiveness</th>
<th>Strategy, Planning and Monitoring</th>
<th>Robust Risk Management and Compliance Processes</th>
<th>Transparency and Disclosure</th>
<th>Corporate Citizenship (Social, Ethics, Environment)</th>
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<tr>
<td>• Composition and organisation</td>
<td>• Boardroom conduct and relationship</td>
<td>• Vision and mission</td>
<td>• Risk management framework</td>
<td>• Financial reporting</td>
<td>• Code of conduct</td>
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<td>• Induction and training</td>
<td>• Audit committee</td>
<td>• Strategic / corporate plan</td>
<td>• Internal control system</td>
<td>• Enhanced reporting</td>
<td>• Business ethics</td>
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<td>• Board remuneration</td>
<td>• Nomination committee</td>
<td>• Corporate and management performance monitoring</td>
<td>• Audit/controls/ compliance</td>
<td>• Stakeholder engagement</td>
<td>• Employee relations / Health and safety</td>
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<td>• Succession planning / identification &amp; nomination of potential directors</td>
<td>• Remuneration committee</td>
<td>• Human Resources</td>
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<td>• Conflicts of interest</td>
<td>• Social responsibilities</td>
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<td>• Independence</td>
<td>• Governance committee</td>
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Thank you.