Emmanuel Tumusiime-Mutebile: Promoting and strengthening good corporate governance in Uganda

Remarks by Mr Emmanuel Tumusiime-Mutebile, Governor of the Bank of Uganda, at the Gala Dinner of the Institute of Corporate Governance of Uganda, Kampala, 26 February 2015.

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The President, Members of Council and CEO of the ICGU;

Distinguished Guests;

All Stakeholders in the Corporate Governance Fraternity;

Ladies and Gentlemen;

I would like to thank the Institute of Corporate Governance of Uganda, for inviting me to give the keynote address at this first corporate governance gala. It is an honour to address you all at this event. I would also like to commend the Institute for the work it is doing to promote good governance in Uganda, which is of crucial importance to the development of a modern, competitive market oriented economy. I hope this gala event will contribute to strengthening the culture of corporate governance in our society.

Recent headlines from around the world have brought the issue of corporate governance to everyone's attention. Numerous scandals have beset the corporate world, not least in the banking industry where large international banks have been fined heavily for various forms of malfeasance, especially in the United States. The common denominator in most of these scandals is that public and private sector officials were not acting in the best interest of their organizations, their shareholders, or employees, and were often acting in violation of the law. They were able to act in this manner because of a combination of inadequate monitoring, a breakdown in internal controls, and often the ignorance and incompetence of directors.

In Uganda, the problem of weak corporate governance is compounded by an often haphazard appointment process for company boards. Unfortunately, the appointment of board members is not necessarily based on merit. Hence the caliber of directors is not always as high as it should be. It is also common knowledge that many directors overstep their roles and get involved in micro-managing their company or institution. There is a failure to understand clearly the proper role of a board of directors in the running of a company or institution, and in particular what the oversight function of a board of directors actually entails.

The oversight function of the Board of Directors is primarily strategic. The Board must provide the vision and set the tone at the top. It must also be responsible for fiduciary standards and prescribe methods to monitor and control the management so that abuses can be prevented. In addition the Board must ensure compliance with legal and regulatory requirements. This is why there is a shift in emphasis towards appointing non-executive and independent directors, who are people who are not part of the management team of the company. These directors are supposed to act as an independent check on corporate management.

The role of a corporate board of directors has become technical and demanding and hence directors are required to have business and technical expertise. They must be able to understand the nature of the firm's business, its financial performance and the risks facing the firm. I should add that the responsibility of directors today carries serious personal and collective liabilities.

To maintain public confidence, companies must demonstrate a strong commitment to the development and enforcement of rigorous standards of corporate governance. These standards must encompass the relationship between a company's board of directors, its management, and its shareholders. They must require corporate leaders to be faithful to shareholder interests and act with both competence and integrity. Corporate governance has become the sine qua non for any business which cares about its reputation.

The various scandals I noted earlier have been a loud wake-up call, focusing attention on the need to strengthen corporate governance, to improve accountability, transparency and control. In response, a number of measures have been taken or proposed by various countries to improve corporate governance, such as the Sarbanes Oxley Act in the United States.

In Uganda, the Financial Institutions Act (FIA) 2003, includes an entire chapter devoted to corporate governance. In addition, the BOU has issued additional Corporate Governance Guidelines for the financial sector. The Companies Act 2012 (chapter F) also reinforces corporate governance.

Good intentions do not always prevent unintended consequences – which is why a forum such as this one can be very helpful in illuminating the potential pitfalls of well-intended corporate governance proposals. Some unintended side-effects might include high compliance costs, ambiguous liabilities, or reduced innovation. It is counterproductive to make disclosure so onerous as to make the cost of compliance prohibitive or impractical. Regulations and standards, whether by regulators, government, trade groups, or the companies themselves, should not impede the ongoing process of innovation. Rather we must ensure an environment that is conducive to effective and efficient operations.

A credible case can be made that we should focus on principles as the bedrock for rules. We should establish key principles against which corporate decisions should be evaluated, regardless of whether or not a certain type of behavior is prohibited. In this way, when innovations make old rules obsolete, corporate leaders would have to consider not only whether some action would violate the law but whether it would violate a principle of good corporate governance. Rules are clearly necessary but they cannot replace ethics and exemplary leadership.

Timely and regular flow of information to stakeholders is the grease that engenders trust. In elevating the standards of corporate governance in any sector, shareholders must play an active role to engage boards and hold them accountable. But for this to happen, shareholders, and indeed consumers, must have adequate and relevant information on the performance of their organizations.

To conclude, I want to re-emphasize that good corporate governance is critical to the health of the business sector, our financial system, and the wider economy. Our economy will be stronger if corporate decisions are made with competence and integrity, and if shareholders and the public can appropriately assess the profitability and riskiness of corporations' business activities.

I thank you for your attention.