Policy Dialogue On Corporate Governance Issues

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ECCB and ECSE
2nd Meeting of the Caribbean Corporate Governance Forum

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Salutations…. 
Still Learning

Since the last meeting of this Caribbean Corporate Governance Forum in September 2003, we have witnessed significant developments in the pursuit of effective corporate governance internationally, regionally and in individual Caribbean states.

Most significant is the recent revision of the OECD Principles of Corporate Governance adopted in 1999, which quickly became the international benchmark for corporate governance. OECD Governments in April 2004 agreed on the New Principles, which takes into account the recent experiences of Corporate Governance failures and their widespread impacts on the international financial system, both in terms of investor confidence and market stability.

The New Principles foster an approach towards effective Corporate Governance that is based on continuing dialogue among stakeholders and an appreciation of the dynamism of the corporate environment.

There is much that we are still learning about corporate governance; it’s dimensions, and the economic and political ramifications of its failures. In 2005 it is now well understood that effective Corporate Governance is the result of an evolving process that is facilitated by continuous dialogue among stakeholders.

The Current Challenges
The criticality of Corporate Governance in the financial sector in today’s “globalize” environment where there are increasing conditions for contagion, systemic risks and economic crises cannot be overstressed. Despite the fact that our national regulatory frameworks already reflect some of the core corporate governance principles, the challenges we face as developing countries are still very significant.

The 2nd meeting of the CCGF is being convened at a most significant time when the Caribbean region is taking bold steps into the formation of a Caribbean Single Market and Economy. The current focus on Corporate Governance presents a unique opportunity for establishing an appropriate corporate governance framework that supports the CSME and fuels our aspirations towards a single economy.

**Essentially, regional business means regional responsibility** and as such the advent of the CSME adds a new dimension to our collective responsibility for ensuring the integrity of businesses and markets which is central to the vitality and stability of our economies.

With the evolving practices and perceptions of what constitutes good practice, the Caribbean finds itself on the cutting edge of the evolution of corporate governance principles. Much work has been done and is ongoing at the global or international level on developing a common set of rules for conduct of business that is both timely and useful to us at this juncture in our development. Nevertheless, the challenge remains for us to adapt the implementation of these principles to the Caribbean’s unique legal, economic and cultural circumstances.

The CCGF has been at the forefront of this initiative and this meeting is poised for the adoption of Draft principles for the Caribbean. I wish to
congratulate you for the hard work that you have undertaken in advancing this process and your deliberations over these two days will mark a significant achievement on the roadmap towards effective governance and the attainment of a new standard for business in the Caribbean

The Principles for the Caribbean

Corporate governance is concerned with the duties and responsibilities of a company’s board of directors in managing the company and their relationships with the shareholders and other stakeholders. Drucker (1974) observed that corporate boards have one thing in common “they do not function”. Mace (1971) referred to them as “ornaments”, and a most picturesque description was quoted by Leighton and Thain in 1997, “…like ants on a log in turbulent water who think they are steering the log”. In summing up the performance of Corporate Boards, John Carver states, “…if Boards have been ineffective for much of corporate history they have been even more unobserved”.

Based on that commentary it is clear that up till now the Caribbean has kept up well with the global trend in board performance.

The draft principles for the Caribbean sets clear guidelines for the function and performance of corporate boards, shareholders and other stakeholders. The objective is not to merely specify how the job of managing corporations should be carried out but to define what the job is.

John Carver neatly sums up the challenge by saying, “There is nothing new about the challenge of getting one’s arm around the company while keeping one’s finger out, but the pressures of this new age make that task both more necessary and more difficult at an alarming rate. The problem is greater than that
traditional practices are inadequate. Existing concepts of governance are not up to the task. We need new paradigms that re-examine and re-design the fundamental task of governing boards”. And with this, I Agree.

We must, therefore, view the **Draft principles for the Caribbean** as the platform for such a paradigm shift in our corporate culture. Many of our individual national Governments can argue that some measure of the provision of the “Principles” are already enshrined in our Companies Bills. In Saint Lucia’s case, our recent Companies Bill is progressive, in terms of balancing the relationship amongst shareholders and protecting the rights of minority shareholders in particular.

To further ensure accountability and good governance in St. Lucia, we recently passed in the House of Parliament the Government Corporations Act which mandates that companies in which Government is a major shareholder to make certain yearly disclosures financial and otherwise to the Parliament of St. Lucia.

However, we must embark upon the task of adopting these “Principles” perceiving that they represent the threshold of the new corporate culture for this new age, in which effective corporate governance is critical to economic stability and Justice.

Consequently, as we deliberate in this forum on exploring the imperatives for application of corporate governance principles, ensuring that the principles are embedded in the legal and regulatory infrastructure, and based on the rule of law, we must bear in mind that the desired paradigm shift must be brought about through the realms of education and information. The principles adopted at this historic gathering must ultimately translate into concrete incentives for realizing the following critical actions:
1. compliance on the part of corporations (Boards and Management);
2. a willingness to utilize available information and to take responsibility on
   the part of individual investors;
3. strategic actions for streamlining and strengthening the corporate
   governance control architecture across the region;
4. concrete actions by the national authorities to reduce incongruence among
   our financial infrastructures and deepen the process of integration;
5. increased capacity and motivation to use information and exercise rights
   by all stakeholders.

**A Comprehensive Approach**

The above points demonstrate the importance of a comprehensive approach

towards corporate governance reform. **The CCFG must therefore continue to
spearhead a comprehensive process of corporate governance reform that
embraces all the stakeholders and all key components of the financial sector.**

The **Draft principles for the Caribbean** that emanates from this Forum must also
be viewed as foundational for improving the legal, institutional and regulatory
framework that underpins corporate governance.

The importance of these **“Principles for the Caribbean”** for streamlining
business practices is paramount, but it should not be limited to this. It is equally
valuable in defining specific opportunities for strengthening the role of
regulators, investors, corporations and other parties that are involved in the
process of developing good corporate governance. CCGF should play a critical
role in ensuring that such opportunities are exploited. We must therefore ensure that there are adequate follow-up actions at national and regional levels to bring these “Principles” into practice, and to realize their full potential for impacting the development process.

Good corporate governance also dictates that the responsibilities of third parties re auditors is clear and that the perception and avoidance of conflict of interest is observed as a rule.

**Conclusion**

Given the heterogeneity of our existing financial infrastructure, our financial architecture across the region has to be gradually changed by integrating existing institutions and building new ones on the basis of sound financial governance principles.

While these concerns have their root at the national level, they are brought into sharp focus with the advent of the CSME. As we seek to integrate financial and economic systems across the region, it is imperative that we develop a coordinated and consistent approach towards addressing these challenges. In this regard, the CCGF constitutes a unique opportunity for the Caribbean countries to forge a unified corporate governance approach that is in keeping with the thrust towards economic integration through the CSME.

Finally, it is important to note that the uniqueness of our circumstances in the Caribbean at this juncture could lend much to the ongoing pursuit of knowledge in the area of effective corporate governance.
At national and regional levels we recognize the need for gradual development of institutions and domestic markets rather than merely applying the popular framework. Consequently, the financial governance solutions or approaches that we adopt (or rather adapt) will have to be monitored and evaluated, so that process can be continuously strengthened by the experiential information. We must remember that the developed countries are not ahead of us in this area and we have an opportunity to contribute meaningfully to the evolving dialogue.

I am therefore challenging the academics, researchers and policy analysts across the region to become more active participants and contributors in the process of corporate governance reform. Let us document our experiences and develop a body of relevant literature in this critical area. I believe that this is absolutely necessary since, to a large extent, our economic future and safeguarding of the interest of stakeholders (justice for the common man) hinges on good corporate governance. We have only scratched the surface.

I thank you.