

An Analysis of Corporate Governance in Nigeria

Posted on [April 23, 2020](#)[April 24, 2020](#) Written By [ABUAD Law Review](#) Posted in [ABUAD Law Review](#) Tagged [Analysis](#), [Corporate governance](#), [Historical analysis](#), [Regulatory mechanisms](#)

ABSTRACT

When the term “corporate governance” is mentioned, two things come to the fore, “corporations” and “governance”. It follows therefore that corporate governance simply refers to the way an organization governs itself. The importance of corporate governance in any corporate entity or any economy cannot be over emphasized considering the principles it promotes, such as accountability, transparency and fairness. The unexpected collapse of prominent companies like WorldCom and Enron led many developed countries to pay better attention to corporate governance. Regulators established codes of governance which were to serve as a guide to corporate behavior. This paper examines the history of corporate governance in Nigeria, alongside the effort she is making to develop a corporate governance framework that will stand the test of time considering the recent issuance of the Nigerian Code of Corporate Governance 2018. This paper will also consider the issues which corporate governance framework faces in Nigeria which range from institutional challenges, corruption, poor corporate governance culture, multiplicity of codes on corporate governance and weak regulatory mechanisms to protection of whistle blowers to ascertain if the main challenge of our corporate governance framework is actually inadequacy of laws or ineffective implementation of recommendations by the codes. The findings in this paper reveal the viability of Nigeria’s corporate laws and codes on corporate governance and concludes that the challenges that come with the practicability of corporate governance in Nigeria require the combatting of corruption, effective implementation of the recommendations of the codes, effective monitoring by the Corporate Affairs Commission (CAC) and the Securities and Exchange Commission (SEC) of business practices by entities and lastly, the protection of whistle blowers stating in passing the framework of the United Kingdom.

Keywords: *Analysis, Corporate governance, Historical analysis, Regulatory mechanisms*

Introduction

Corporate governance is usually concerned with the structures within which a corporate entity or enterprise receives its basic orientation and direction[1]. This view perceives corporate governance in terms of issues relating to shareholder protection, management control and the popular principal-agency problems of economic theory.[2] This is the narrow view of the concept. In contrast, Sullivan[3], a proponent of the broader perspective uses the examples of the resultant problems of the privatization crusade that has been sweeping through developing countries since the 1980s, and the transition economies of the former communist countries in the 1990s, that issues of institutional, legal and capacity building as well as the rule of law, are at the very heart of corporate governance.

Besides, the bitter experience of Asian financial crisis of the 1990s, underscores the importance of effective corporate governance procedures to the survival of the macro economy [4] This crisis demonstrated in no unmistakable terms that “even strong economies, lacking transparent control, responsible corporate boards, and shareholders rights can collapse quite quickly as investor’s confidence collapse”[5] and emphasizing the need for mutual cooperation between the public and the private sector in developing the capacity to ensure effective corporate governance with a view to ensuring the development of market-based economies and democratic societies based on the rule of law.

The first corporate governance codes in England were introduced in December 1992 in response to corporate failures in the United Kingdom. A report, known as the Financial Aspects of Corporate Governance, was produced by a committee headed by Sir Adrian Cadbury. Now referred to as the Cadbury Report, the report significantly influenced corporate governance thinking around the world.[6] Other countries followed suit: 1France (Vienot Report, 1995); South Africa (King Report, 1994); Canada (Toronto Stock Exchange recommendations on Canadian board practices, 1995); The Netherlands Report (1995); and Hong Kong (a report on corporate governance from the Hong Kong Society of Accountants, 1996). These reports tried to forestall the abuse of power by corporate entities.[7]

Nonetheless, considering the developing awareness and relatively low institutionalization of leading governance practices in Nigeria, the implementation of these governance practices may be challenging for those who have not previously had to comply with any corporate governance codes.[8] The aforementioned does not water down the importance of corporate governance. Former Central Bank Governor, Sanusi Lamido Sanusi once stated that:

Good (corporate) governance is an important step in building market confidence and encouraging stable, long-term international investment flows into the country. Since the business corporation is an increasingly important engine of wealth creation and growth, not only in our economy but also worldwide, it is imperative that our companies operate within the standards that keep them well focused on their objective and hold them accountable to the shareholder and for their actions.[9]

The Concept of Corporate Governance

There are several attempts and efforts made to define the concept of corporate governance by different scholars and theorists alike. However, the definition of the Organisation for Economic Cooperation and Development (OECD) is said to symbolize the international consensus on the meaning of the concept, which it defines as:

The system by which business corporation are directed and controlled. The corporate governance structure specifies the distribution of right and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders and spells out the rules and procedures for making

decisions on corporate affairs. By doing this it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance.[\[10\]](#)

According to Dar, Naseem, Rehman and Niazi, corporate governance reduces transaction cost, cost of capital and vulnerability of financial crises.[\[11\]](#) It leads to the increment of shareholders wealth, survival of companies in turbulent periods, development of capital market and strengthens the global economy.[\[12\]](#) The concept of corporate governance as it relates to management performance is conceived from the increasing need to separate ownership from control and management of companies.[\[13\]](#) The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation such as the board members, shareholders, and the stakeholders and spells out the rules and procedures for making decisions on corporate affair.[\[14\]](#)

Corporate governance in Nigeria is governed by the twin theories of stewardship and agency.[\[15\]](#) The theory of stewardship suggests that directors are ordinarily trustworthy and are therefore capable of acting bona fide in the interest of the public and the shareholders. The basic root of this theory is found in their fiduciary relationship with the company which in reality is constituted by the company's shareholders. Agency theory on the other hand presumes that directors cannot really be trusted to act in the public good in general and in the interest of the shareholders.[\[16\]](#)

Historical Analysis of Corporate Governance in Nigeria

The idea of corporate governance is not a new concept in Nigeria and cannot be separated from company law in general. The emergence of corporate governance principle in Nigeria can be traced to the Companies and Allied Matters Act (CAMA) 1990, which replaced the Companies Act of 1968. Over centuries, corporate governance system has evolved. Thus, it is crucial to discuss the evolution of corporate governance in Nigeria.

In the year 1960, after Nigeria attained her independence, the Companies Ordinance of 1922 was repealed and replaced by the Companies Act of 1968, which was modelled after the English Companies Act of 1948. The Act became the principal legislation regulating companies in Nigeria.[\[17\]](#) It contained comprehensive provisions concerning the running of the affairs of companies particularly in relation to the roles of the board of directors and that of members in general meetings.[\[18\]](#) However, the Companies Act of 1968 failed to appreciate the economic realities and settings of Nigeria. In 1972, the Federal Government promulgated the Nigerian Enterprises Promotion Decree.[\[19\]](#) However, this decree has been repealed.

As noted above, the CAMA repealed and replaced the Companies Act of 1968 as the primary law regulating companies in Nigeria and at that time, corporate governance was yet to emerge as a distinct concept.[\[20\]](#) However, it makes provisions which are fundamental to corporate governance practice in Nigeria which include; required accounting and auditing standards, equity ownership disclosure, minority shareholders' rights and equality of members, oversight management where Corporate Affairs Commission (CAC) and other regulators are expected to regulate the activities of the companies.[\[21\]](#) Another significant feature of CAMA was the codification of directors' duties.[\[22\]](#)

Apart from the CAMA, Nigeria also had other legislations which companies were obligated to comply with; such as the Central Bank of Nigeria (CBN) Act[\[23\]](#), Banks and other Financial Institutions Act (BOFIA)[\[24\]](#), National Insurance Commission (NAICOM) Act[\[25\]](#), Pension Commission (PENCOM) Act[\[26\]](#), Financial Reporting Council (FRC) Act[\[27\]](#), Nigerian Deposit Insurance Corporation (NDIC) Act,[\[28\]](#) Nigerian Communications (NCC) Act[\[29\]](#) and Investment and Securities Act (ISA)[\[30\]](#) among others.

However, soon after the promulgation of CAMA, the corporate challenges around the world brought the issue of corporate governance to the fore, as a result of which different countries across the globe started reviewing their corporate governance practices.[\[31\]](#) This made certain countries to issue corporate governance codes of practices to address new issues that were not adequately and specifically covered by the company legislation. Nigeria happened to be one of them.[\[32\]](#) With the collapse of Enron, Arthur Anderson and other major corporations in United States of America and United Kingdom in early 2000s, the concept of corporate governance gained wider consideration worldwide.[\[33\]](#)

In August 2003, the Code of Corporate Governance for Banks and other Financial Institutions in Nigeria was issued by the Bankers' Committee.[\[34\]](#) It was deliberated and compiled by the Bankers' Committee's Sub-Committee on corporate governance. The code was applicable to all banks and other financial institutions operating in Nigeria when it was issued. Although the code was comprehensive, it had little or no impact in the end because of the issuance of Code of Best Practices on Corporate Governance in Nigeria in October, 2003 by Security and Exchange Commission (SEC).[\[35\]](#)

The code issued by the SEC made an impact at the corporate scene in Nigeria being the first corporate governance code to be issued by any regulator in Nigeria. It was however, replaced with the Code of Corporate Governance in Nigeria 2011 on the 1st April 2011 by SEC. In 2006 the CBN came up with a mandatory code of corporate governance (Code of Corporate Governance for Banks in Nigeria Post-Consolidation) applicable to all banks licensed in Nigeria.[\[36\]](#)

The National Pension Commission (PENCOM) issued its own code in 2008, known as the 2008 PENCOM Code.[\[37\]](#) Subsequently, the National Insurance Commission (NAICOM) issued its Code of Corporate Governance for the Insurance Industry in 2009.[\[38\]](#) These three industry-specific codes were meant to address the issues that were not addressed in the SEC legislation. However, in 2011, SEC released the Code of Corporate Governance for Public Companies in Nigeria, which served as a replacement for its 2003 legislation[\[39\]](#). This Code was adjudged the most comprehensive code on corporate governance in Nigeria being anchored on five main principles, which include: leadership, effectiveness, accountability, remuneration and relations with shareholders.[\[40\]](#)

In 2014, the Code of Corporate Governance for Banks and Discount Houses in Nigeria and Guidelines for Whistle Blowing in the Nigerian Banking Industry was issued.[\[41\]](#) In the same year, the Code of Corporate Governance for Telecommunication Industry was issued by the NCC.[\[42\]](#) The NCC code sought to foster good corporate governance

practices in the Nigerian Telecommunications Industry, which provisions are based on the international best practices. In 2018, the Financial Reporting Council of Nigeria (FRCN) by virtue of its powers in Sections 50 and 51(1) of the Financial Reporting Council of Nigeria Act issued the Nigerian Code of Corporate Governance 2018 on the 15th of January 2019.[\[43\]](#) The objective of the code is to institutionalise corporate governance best practices in Nigerian companies particularly those who are not already by sectoral regulation. Furthermore, the Code is the first national code of corporate governance that cuts across all sectors.

It is however important to take note of an earlier attempt by the FRCN to include a Private Sector Code (PSC) in its National Corporate Governance Code was challenged and defeated in court. In the case of *Eko Hotels Limited v. Financial Reporting Council of Nigeria*,[\[44\]](#) Justice O.E. Abang held that the FRCN's power, as stated in its enabling Act, covers only public interest entities and that this does not extend to regulation of private companies.

Challenges of Corporate Governance in Nigeria[\[45\]](#)

There are many challenges to the effectiveness of corporate governance in Nigeria. They range from institutional challenges, corrupt practices and other factors.

The Institutional Challenges

One of the challenges of the enforcement of corporate governance in Nigeria is the interwoven relationship the public regulators and the private sector. Public office holders use private companies to launder money stolen from the public sector (among other atrocities), thus, influencing their independence in the enforcement of a strong regulatory framework.[\[46\]](#) Offending companies are covered even when it is obvious they are defaulting.[\[47\]](#) For there to be effective enforcement of corporate laws, sanction should be imposed without prejudice. This weak institutional framework contributes to the inefficiency of the Nigerian corporate governance framework. As Adegbite puts it, "the Nigerian weak institutional context makes corporate law enforcement and self-regulatory initiative remain in idealism."[\[48\]](#)

Corruption[\[49\]](#)

Corruption is one of the major challenges to the smooth practice of corporate governance in Nigeria. It is the widespread belief that you cannot get anything, especially from government or public officials without offering a bribe. Therefore, private business managers who need to obtain some permission or waivers from government cannot do so unless through corrupt practices. According to Yakasai,[\[50\]](#)

The greatest challenge to corporate governance in Nigeria is corruption. It is a real problem in any non-transparent developing nation whereby corporate executives milk their own companies and become "fat cats" while the investors become "anemic", a situation very prevalent in Nigeria.

Nigeria ranks 144th out of 180 countries and this show that corruption is a serious challenge faced in Nigeria.[\[51\]](#) Accordingly, the resultant effect of deeply-rooted corruption is poor governance, which in turn hinders the effective implementation and enforcement of laws.[\[52\]](#)

Multiplicity of Codes on Corporate Governance and Weak Regulatory Mechanisms

A study by Osemeke[\[53\]](#) finds that the issues relating to the multiplicity of codes includes the lack of specificity (i.e. presence of ambiguities) in the code's recommendations and the conflicts among them. The study concluded that multiple codes of corporate governance are ineffective in regulating the corporate sector, particularly in developing countries. The existence of multiple conflicting codes leads to "reduced compliance by firms and ineffective enforceability by regulatory agencies". The study further noted that conflicts of codes are further influenced by the sociological and institutional environment in which managers and business organizations are embedded. Thus, the need to harmonise the various corporate governance codes.

Poor implementation and weak enforcement of the codes of corporate governance code have prevented corporate entities like the banks from achieving its objectives of ensuring proper corporate governance in Nigerian banks.[\[54\]](#) These challenges are embedded in the corporate governance environment and the weak enforcement mechanisms because events have shown that the CBN Code was either not complied with completely by the banks or its enforcement deliberately compromised by CBN and other regulatory agencies.

Protection for Whistle Blowers[\[55\]](#)

The fear of victimization has kept many potential whistle blowers from speaking up against corporate governance malpractices.[\[56\]](#) When people who are in the position to report these malpractices keep shut for fear of losing their jobs or being "harmed" in the process, this becomes a challenge to the effective operation of corporate governance practices. Nigeria does not have any specific comprehensive whistleblowing legislation.[\[57\]](#) There are, however several bills before the National Assembly which aim to regulate the receipt and investigation of wrongdoing in the public sector, as well as the protection of whistleblowers from reprisals and other adverse actions.[\[58\]](#) In the absence of specific whistleblowing legislation, the Federal Ministry of Finance has set up a whistleblowing programme, which is designed to encourage members of the public to report any violation of financial regulations, mismanagement of public funds and assets, financial malpractice, fraud and theft.[\[59\]](#) There are also various guidelines (for instance the PENCOM Guidelines) across different sectors which provide for whistleblowing mechanisms and also provide for the protection of whistleblowers.

Despite these challenges, Nigeria still ranks among the top five countries in Africa for compliance with the Organisation for Economic Co-Operation and Development Principles of Corporate Governance (OECD). The ranking followed a study jointly published by the Association of Chartered Certified Accountants (ACCA) and KPMG titled “Balancing Rules and Flexibility for Growth”TM.[\[60\]](#)

An Analysis of the Codes of Corporate Governance in Nigeria

In Nigeria, various Corporate Governance Codes have evolved, most of which are industry/sector specific. Though there are noteworthy similarities between the corporate codes, there are fundamental differences in their provisions. This section seeks to highlight some of the provisions of the Financial Reporting Council of Nigeria Code of Corporate Governance 2018, SEC Code of Corporate Governance in Nigeria 2011, the CBN Code of Corporate Governance for Banks in Nigeria Post-Consolidation 2006, the PENCOM Code of Corporate Governance for Licensed Pension Operators and the NAICOM Code of Corporate Governance for the Insurance Industry in Nigeria 2009.

Board Composition

The Code of Corporate Governance 2018 (FRCN Code) provides no specific number of Board members but only specifies the requirement for Board structure and composition (appropriate balance of knowledge, skills, experience, diversity and independence) to enable it effectively undertake and fulfill its role in directing the affairs of the company.[\[61\]](#) The SEC Code however, provides that the membership of the Board should not be less than five (5).[\[62\]](#) The CBN Code on the other hand, provides for a maximum number of twenty (20) members on the Board.[\[63\]](#) The PENCOM Code prescribes no maximum number of the Board members[\[64\]](#) while the NAICOM Code provides that the membership of the Board should not be less than seven (7) and more than fifteen (15).[\[65\]](#) The current position is that companies are now granted the autonomy to determine the size and composition of their Boards and this can be attributed to the Nigerian Code of Corporate Governance 2018.

The FRCN Code recommends the establishment of Board committees responsible for nomination and governance, remuneration, audit and risk management.[\[66\]](#) The SEC Code provides that the Board shall, in addition to the Audit Committee, establish a Governance/Remuneration Committee and Risk Management Committee and such other committees as the Board may deem appropriate.[\[67\]](#) The CBN Code specifies that the Board should have as a minimum the Risk Management Committee, Audit Committee, Finance and General Purpose Committee and Credit Committee.[\[68\]](#) The PENCOM Code and The NAICOM Code also have their specific provisions on these committees.

Chairman

The FRCN Code provides the Chairman of the Board should be a Non-Executive Director and not be involved in the day-to-day operations of the Company, which should be the primary responsibility of the Managing Director/Chief Executive Officer (MD/CEO) and the management team.[\[69\]](#) The code also provides that The MD/CEO or an Executive Director (ED) shall not be Chairman of the same Company unless there has been a cool-off period of three years.[\[70\]](#) The SEC Code similarly provides that the Chairman of the Board shall be a Non-Executive Director and the CEO or MD shall be the head of the management team and is answerable to the Board.[\[71\]](#) The CBN Code simply provides that the responsibilities of the head of the Board, that is the Chairman, should be separated from that of the head of Management, that is the MD/CEO, such that no one individual/related party has unfettered powers of decision making occupying the two position at the same time.[\[72\]](#) The PENCOM Code similarly provides that the role of the Chairman and the CEO should be separated to ensure appropriate balance of power, increased accountability and greater capacity of the Board for independent decision making.[\[73\]](#)

Independent Directors

The FRCN Code does not specify the maximum or minimum number of Independent Directors. The Code however, mentions criteria for the establishment of the independent status of the Independent Non-Executive Director (INED).[\[74\]](#) The criteria aim to strengthen independence on the board and ensure that directors who are classified as INEDs are “independent- both in character and in judgement”. The SEC Code provides that there should be on the Board at least one (1) Independent Director[\[75\]](#) while the CBN Code provides that at least two (2) Non-Executive Board members should be Independent Directors who should be accountable to the shareholders and the CBN.[\[76\]](#) The PENCOM Code, just like the SEC Code, provides that each Board shall have at least one (1) Independent Director.[\[77\]](#)

Internal Audit

The FRCN Code provides for the establishment of the Internal Audit Function to be headed by a member of senior management who is a professional with relevant qualifications, competence, objectivity and experience; and is registered with a recognised professional body.[\[78\]](#) The code states that the internal audit function is sufficiently skilled and resourced to address the complexity and volume of risk faced by the organization.[\[79\]](#) The SEC Code provides for the establishment of a risk-based internal audit to be headed by a senior management employee and to report to the audit committee.[\[80\]](#) The CBN Code provides that the internal audit should be headed by at least an employee on Annual General Meeting grade, and to report to the Audit committee.[\[81\]](#)

External Auditors

The FRCN Code provides that the recommendation for the appointment, re-appointment or removal of an external auditor should be made to the Board by the committee responsible for the audit.[\[82\]](#) The code also provides that the external audit firm shall be retained for no longer than ten (10) years continuously and may be re-appointed after the expiration of seven (7) years from the discontinuance.[\[83\]](#) The provisions of the SEC Code are similar to that of the

FRCN Code in this regard.[84] The CBN Code on the other hand, provides that the appointment of external auditors is subject to the approval of the CBN and the tenure of the auditors shall be for a term of five (5) years in the first instance and is renewable for another term of five (5) years.[85] The PENCOT Code has no express provisions on external auditors. The NAICOM Code makes the maximum number of years of continuous engagement to be five (5) years and appointments are subject to the approval of the NAICOM.[86]

Whistle Blowing

Principle 19 of the FRCN Code provides for whistle blowing. The code advocates the establishment of a whistle-blowing framework to encourage stakeholders to bring unethical conduct and violations of laws and regulations to the attention of an internal and/or external authority so that action can be taken to verify the allegation and apply appropriate sanctions or take remedial action to correct any harm done and this framework should be known to employees and external stakeholders. The whistle-blowing mechanism must be reliable, accessible and it should guarantee the anonymity of the whistle-blower and all disclosures resulting from whistle blowing are to be treated in a confidential manner. An effective whistle-blowing framework for reporting any illegal or unethical behaviour minimizes the company's exposure and prevents recurrence.

Other highlights of the 2018 Code which were not mentioned in the above analysis include that the implementation of the code is based on the "Apply and Explain" principle which assumes the application of all principles and requires entities to explain how the principles have been applied to suit their unique organization context while still achieving the intended outcome of the principles.[87] This is unlike the 2016 Code which utilized the more forceful "Comply or Else" principle. The above stated does not exhaust the recommendations of the 2018 code as it further provides on issues of annual corporate governance evaluation,[88] fair and transparent remuneration,[89] full and comprehensive disclosure of matters material to the investors and stakeholders, the need for shareholders to understand the ownership structure of the company for their own protection[90] et cetera.

Conclusion and Recommendations

This paper while commending the attempt made by the issuance of the Nigerian Code of Corporate Governance 2018, also recommends the passing of the Draft Bill to repeal the CAMA, 1990 and enact the Companies and Allied Matters Act 2018 into law without hesitation as the operation of these two laws will enhance the ease of doing business in Nigeria and will consequently encourage foreign direct investments which will boost the country's GDP. It is also recommended that this Code be enforced by the regulatory agencies responsible for monitoring and enforcing existing laws and codes. This in order to actualize true corporate governance. This suggestion stems from the fact that Nigeria has a lot of legislations put in place to regulate different sectors of the country's affairs but has a huge problem with enforceability. Again, accountability, transparency and fairness should be embraced by corporate entities in order to attain the aim of corporate governance in any economy and its major implications for corporate performance, investors' confidence and the efficient creation of wealth.

These writers second a point made by Makinde,[91] that there is a need to reduce the attention being given towards the issuance of codes. Of a truth, if the energy employed towards developing and issuing codes is channeled towards addressing issues of corruption and creating strong regulatory agencies, Nigeria's corporate governance framework will achieve the desired goal of enhancing economic growth. This can be attributed to the fact that inadequacy of laws on corporate governance is not the issue in the case of Nigeria and as a result of the multiplicity of these codes as discussed as above, we have the 2018 Code alongside the sectorial codes which brings about the question of precedence which remains unanswered.

Nonetheless, the 2018 Code of Corporate Governance is a flexible guideline which allows each corporate entity apply its provisions in accordance with its own unique business structure, thus, the impact of this Code on the actualization of true corporate governance remains one to be optimistic about considering its provisions and recommendations.

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The writers wish to express their profound gratitude to Prof. T. Yebisi and Dr. Idem, College of Law, Afe Babalola University, Ado-Ekiti, for their effort towards the success of this article.

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[67] Section 9.2 of the SEC Code.

[68] Section 5.3.11 of the CBN Code.

[69] Principle 3.2 of the FRCN Code.

[70] Principle 3.3 of the FRCN Code.

[71] Section 5.1 and 5.2 of the CBN Code.

[72] Section 5.2.1 of the CBN Code.

[73] Section 4.1.8 of the PENCOM Code.

[74] Principle 7.2 of the FRCN Code.

[75] Section 5.5 of the SEC Code.

[76] Section 5.3.6 of the CBN Code.

[77] Section 4.1.2 of the PENCOM Code.

[78] Principle 18.3 of the FRCN Code.

[79] Principle 18.3 of the FRCN Code.

[80] Section 32.3, 31.4 of the SEC Code.

[81] Section 8.1.2, 8.1.3. of the CBN Code.

[82] Principle 20.1 of the FRCN Code.

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