Chapter 2

Corporate governance and accounting ethics
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Codes Of Corporate Governance

Learning Objectives

At the end of this chapter, students should be able to:

1. Explain the concept and objectives of corporate governance codes.
2. Identify and describe key local corporate governance codes in Nigeria (FRCN, SEC, CBN, NAICOM).
3. Discuss international codes and frameworks (OECD, UK Corporate Governance Code, US Sarbanes–Oxley Act).
4. Compare and contrast local and international corporate governance practices.
5. Analyze the significance of codes in promoting ethical leadership, accountability, and corporate sustainability.

2.1. Meaning of Corporate Governance Codes

Corporate governance codes are principles, rules, and best practices that manage how boards of directors and management should behave, structure and its obligations in organizations. They serve as a standard of accountability, transparency and integrity and make sure that corporations act in a manner that safeguard stakeholder interests and lead to the creation of long-term values.

Solomon[(1)] argues that governance codes are crucial tools that help to bring the abstract notion of good governance into practice, that is, into the form of guidelines to be followed by corporate behavior. According to OECD[(2)], codes of governance are described as soft law tools which are not binding but influential, which supplements the statutory laws and enhances corporate conduct.

The development of codes of corporate governance in the world was due to a succession of corporate collapses, including Enron, WorldCom, and local cases in Nigeria, Cadbury Plc and Oceanic Bank, which demonstrated internal control inefficiency, board supervision and ethics. These scandals made it apparent that formal governance structures are needed.[(3)]

Corporate governance codes thus serve the role of:

- Make the roles of management and board clear;
- Enhance disclosure and transparency;
- Secure shareholders and other stakeholders;
- Develop investor confidence and market integrity; and
- Promote morality and sustainability.

2.2. Codes of Corporate Governance Evolution

Codes of corporate governance have developed in waves:

1. First Generation (1990s): These were the early principles of board responsibility and executive compensation established by the UK Cadbury Report (1992) and Greenbury Report (1995).
2. Second Generation (2000s): OECD Principles (1999, revised 2004 and 2015) and the Sarbanes-Oxley Act (2002) in the US are the results of globalization.
3. Third Generation (2010s-2020s): Incorporation of sustainability, risk management and ESG issues- as in the example of the UK Corporate Governance Code and the FRCN Code[(4)] in Nigeria.

The gradual shift of the strictly compliance-grounded systems to the so-called principles-based systems is the indication of the transition to the ethical leadership and self-regulation.

2.3. Nigerian Codes of Corporate Governance

Nigeria has increasingly grown government structures to enhance accountability and ethical leadership. Some of the major national codes are those issued by the Financial Reporting Council of Nigeria (FRCN), Securities and Exchange Commission (SEC), Central Bank of Nigeria (CBN) and National Insurance Commission (NAICOM).

2.3.1. Code of Corporate Governance of Financial Reporting Council of Nigeria, 2018 [4]

The FRCN has published the Nigerian Code of Corporate Governance (NCCG, 2018) that governs all sectors in Nigeria. It substituted various industry codes and standardized governance practices in the industries. The objectives of the FRCN Code (2018):

- Create corporate awareness about the necessary corporate values and ethics;
- Improve non-financial and financial reporting;
- Promote good leadership, risk management;
- Improve the relationships with stakeholders; and
- Create sustainable business and competitiveness in the long run.

The Code has several important principles (FRCN, 2018):

1. Board Leadership and Effectiveness: Boards ought to offer strategic direction and supervision.
2. Ethical Culture: Organizations should have values as well as policies that foster integrity.
3. Accountability and Transparency- Boards should have proper disclosure of operations and performance.
4. Risk Governance: Effective systems should be able to recognize and eliminate organizational risks.
5. Stakeholder Communication: There is a need to engage the stakeholders continuously and fairly.
6. Sustainability: Environmental and social issues in corporate strategy.

Implementation Mechanism

The code works on an Application and Explain principle, that is, the companies have to implement each of the principles and provide an explanation of how it was carried out. This facilitates flexibility and accountability.[5]

2.3.2. SEC code of Corporate Governance (2011) Securities and Exchange Commission

The first proper governance framework of the public companies in Nigeria was the SEC Code (2011). It was intended to enhance the protection and confidence in the financial market amongst the investors. The key Provisions:

- Effective separation of the duties of the Board Chairman and CEO;
- Compulsory board committees (Audit, Risk, and Governance Committees);
- One-third of board of directors must be independent;
- Tenure restrictions and compulsory performance appraisals on the part of directors;
- Frequent and prompt reporting of both financial and non-financial information.

Impact

The SEC Code helped to stabilize corporate practices within the capital market of Nigeria, but it was not enforced because of poor sanctions and poor awareness.[5]

2.3.3. Central Bank of Nigeria (CBN) Bank and Discount House Corporate Governance code (2014)

Due to the systemic role of banks, the CBN designed a specific code of governance that deals with the specificity of the financial industry. The key Features:

- Up to tenure of Managing Directors (10 years).
- Compulsory division of the Board Chair and CEO.
- Board Audit Committee, Board Risk Management Committee and Board Remuneration Committee.
- At least two non-executive directors.
- Outlawing of insider-related credit and conflicts of interest.
- Certification of compliance done annually to CBN.

Rationale

There is poor governance in Nigeria, which has contributed to the 2009 banking crisis in Nigeria whereby the banks incurred huge non-performing loans due to poor risk management and insider lending.[6] The CBN Code therefore aimed at ensuring that the same would not happen again by improving board oversight and risk management systems.

2.3.4. Code of Good Corporate Governance of National Insurance Commission (NAICOM) (2009)

The NAICOM Code offers standards of governance to insurance and reinsurance companies. It focuses on good governance of risks, internal control, and protection of the policyholders.

Key Principles:

- Minimum independent numbers of directors;
- Separation of Chair/CEO positions;
- Remuneration policies disclosure;
- Introduction of risk and investment committees;
- Annual governing report to NAICOM.

The code is in line with the international standards provided by the International Association of Insurance Supervisors (IAIS).

2.3.5. Sectoral Harmonization and Problems

Irrespective of numerous sectoral codes, the governance practices in Nigeria were challenged by:

- Duplicated regulations and incompatible requirements prior to 2018;
- Laxity of enforcement and monitoring compliance;
- Poor awareness of the small and medium enterprises (SMEs);
- Political and lack of independence of the board.

The FRCN Code[5] sought to fill these gaps through the governance expectations across all sectors being unified and harmonized.

2.4. Global Codes of Corporate Governance

Corporate governance is guided by a number of global frameworks. These global codes have impacted reforms in domestic governance of Nigeria and are essential to the multinational companies and foreign investors.

2.4.1. OECD Principles of Corporate Governance (2015)

In 1999, the Organisation for Economic Co-operation and Development (OECD) published its original principles of governance, which were revised in 2004 and 2015. These principles are the international standards of the policy-makers and regulators. There are six core principles:

1. Establishing the Groundwork to a Good Governance System: the legal and institutional underpinnings of good governance should be in place.
2. Rights and Equitable Treatment of Shareholders: Avert shareholder rights and fair treatment.
3. Institutional Investors, Stock Markets, and Intermediaries: Encourage open markets and investment.
4. Role of Stakeholders- appreciated the input of stakeholders to corporate success.
5. Disclosure and Transparency: Timely, accurate and accessible information.
6. Board responsibilities: To be board accountable, board-integrate and board-competent.

Global Significance

G20, World Bank and a number of national regulators have incorporated the OECD Principles forming the basis of most governance codes in the world.

2.4.2. UK Corporate Governance Code (2018, Revised 2024)

UK Corporate Governance Code published by the Financial Reporting Council is one of the most powerful frameworks of governance as known the world over. It is applicable mostly to firms traded in the London Stock Exchange but it can be used as a reference to other jurisdictions. The key provisions:

- Company purpose and board leadership.
- Sharing of responsibilities between Chairman and CEO.
- Board makeup, succession and review of the board.
- Internal control functions, audit and risk functions.
- The remuneration of the executives in relation to long-term performance.

"Comply or Explain" Approach

Companies must abide by the provisions or justify the non-adherence. The method supports flexibility, responsibility, but is not over-regulated.[7]

2.4.3. United States: SOX of 2002 Sarbanes Oxley

Enron and WorldCom were corporate scandals that warranted the enactment of the SOX Act. SOX is a strict compliance legislative framework unlike principles-based codes. The key provisions:

- CEOs and CFOs should sign certificates of correctness of financial statements.
- Setting up of independent audit committees.
- Whistleblower protection.
- Internal control testing (Mandatory), (Section 404).
- Strict criminal punishment of fraud in reporting.

SOX makes accountability, transparency, and protection of investors.

2.4.4. World Bank and IFC Principles of Corporate Governance

Corporate Governance Manuals and Toolkits in emerging markets have been developed by World Bank and International Finance Corporation (IFC). These guidelines emphasize:

- Board organization and independence;

- Shareholder rights protection;
- Good disclosure and transparency;
- Ethics and anti-corruption procedures of the corporation.

The IFC[8] emphasizes the need to integrate sustainability and ESG reporting into the concept of good governance, especially among developing economies.

2.5. Comparative Codes Analysis

Tabla 2.1. Comparative Codes Analysis

Framework	Nature	Scope	Approach	Unique Features
FRCN (Nigeria, 2018)	National	All sectors	Apply & Explain	Sustainability and ethics focus
SEC (Nigeria, 2011)	National	Listed companies	Mandatory	Emphasis on investor protection
CBN (2014)	Sectoral	Banks & finance	Mandatory	Risk governance and tenure limits
OECD (2015)	International	Global benchmark	Principles-based	Shareholder and stakeholder balance
UK Code (2018/2024)	National	Listed firms	Comply or Explain	Board effectiveness & culture
SOX (2002)	Legislative	U.S. firms	Rules-based	Strong sanctions and audit control
IFC (2021)	International	Developing economies	Advisory	ESG and sustainability inclusion

2.6. The importance of Corporate Governance Codes

Corporate governance codes are useful mechanisms of enhancing:

- Investor confidence and integrity of the capital market.
- Financial reporting transparency and disclosure.
- Corruption minimization and ethical behavior.
- Efficiency of risk management and internal control.
- Resilience and sustainability of the corporation in the long run.

According to Adegbite[9], codes are most useful when they are supported by a robust enforcement culture, ethical leadership and when they are supported by an empowering institutional nature. Ethical and accountable corporate conduct is anchored on corporate governance codes. They represent the best practices in the international arena modified to fit the local reality so that corporations become responsible and transparent. In the case of Nigeria, the harmonized FRCN Code is a step towards harmonizing governance with international standards as well as pulling out the local issue of poor institutions and malpractice. Close compliance with these codes is still vital in the stability of companies, investor confidence and long-term growth of the country.

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