Chapter 5

Corporate governance and accounting ethics
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Role of Board of Directors and Board Committees in Corporate Governance

Learning Objectives

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

1. Define and describe the structure and composition of a corporate board of directors.
2. Explain the roles and responsibilities of the board in corporate governance.
3. Distinguish between executive and non-executive directors and their governance implications.
4. Identify and evaluate the functions of key board committees, including the audit, risk management, nomination, and remuneration committees.
5. Analyze how effective board leadership and independence influence corporate performance and accountability.
6. Assess real-world examples of board practices in Nigerian and international corporations.

5.1. Introduction

The highest internal governance organ of any corporate is the Board of Directors (BoD). It is the connection between the shareholders and the management and it is mainly involved in the role of making sure that the company is strategically oriented, managed and answerable to the stakeholders. Board effectiveness is a vital factor that defines the performance of the firm, transparency, and ethical behavior.[1,2]

The law of the Nigerian context specifies the structure, composition and functions of boards and their committees in the Companies and Allied Matters Act[3], the Nigerian Code of Corporate Governance[4] and others, including the rules of the Securities and Exchange Commission (SEC).

5.2. Board of Directors Organization and Structure

Codes of corporate governance focus on the fact that an efficient board should be sized correctly, be diverse, and balanced in terms of executive, non-executive directors.[5] The make-up of the composition is such that there is no dominant decision maker and also that the board serves the common interest of the company.

- The company has Executive Directors who are members of the management. They are involved in day-to-day business and practice.
- Independent oversight of the management performance and policies can be done by Non-Executive Directors (NEDs) as they bring outside views to the management.
- Independent Directors according to the definition of the NCCG[3] are the individuals who are not connected or do not have interests that may affect their objectivity.
- In case of listed companies in Nigeria, the NCCG suggests that most of the board members are supposed to be non-executive and at least one-third of the board members is supposed to be independent directors.
- Diversity in terms of gender, skills, experience, and nationality is becoming more and more acknowledged as enhancing the quality of board decision-making and the reputation of the firm.[6,7]

5.3. Board Functions and Responsibilities

The board functions are multi-dimensional, which includes the strategic, fiduciary, ethical, and oversight roles.

5.3.1. Strategic Role

The board determines the strategic goals, mission, and corporate vision, which should be in line with interests of shareholders and other stakeholders. It sanctions long-term strategies and major investments, as well as, major changes in the organization.[2]

5.3.2. Fiduciary Role

Fiduciary duties of good faith, good care and loyalty are owed by directors to the company. They should be honest, free of conflict of interest and make sound judgment in every decision they make CAMA.[3]

5.3.3. Oversight Role

The board oversees the performance of the management, internal controls and risk management structures in order to ensure that the organization is performing efficiently and ethically.

5.3.4. Ethical and Compliance Role

Boards have a role of entrenching systems of compliance and ethical culture. They also make sure that regulatory obligations, environmental standards, and professional codes are followed (OECD, 2023).

5.4. Leadership and Independence by the Board

It is recommended by the NCCG (2018) and OECD (2023) that the roles of the Chairman and the Chief Executive Officer (CEO) should not be combined because concentration of power will occur. This implies that:

- The Chairman is the leader of the board, sets meeting agenda and maintains good communication between the directors.
- CEO takes care of the operation management and realizes the strategies that are approved by the board.

The independence of the board is a guarantee of objectivity. The independent directors introduce impartial judgments especially on performance evaluation, risk and audit. It has been demonstrated through empirical data that board independence has a positive impact on a firm and transparency.[10]

5.5. Role of Board Committee in Corporate Governance

The boards have special committees which undertake specific governance roles in order to increase efficiency. According to the NCCG[4], the following core committees must be constituted by listed firms:

5.5.1. Audit Committee

Audit Committee oversees integrity of financial statements, adherence to the accounting standards and the internal control systems. It is provided in the Section 404 of CAMA[3] in Nigeria that any public company must have an audit committee, which includes directors and shareholder representatives in equal measures.

- It audits performance and scope of the internal and external auditors.
- It investigates the process of risk management and whistle-blowing systems SEC.[9]

5.5.2. Risk Management Committee

This committee recognizes, evaluates, and tracks the crucial business risks. It makes sure that risk-taking is done in a manner that is consistent with the risk appetite and strategic objectives of the company.[8]

5.5.3. Nomination and Governance Committee

The nomination and governance committee are in charge of performance appraisal, succession plans and board composition. It makes sure that the appointment of board members is made on merit, competence, and the diversity factor.[5]

5.5.4. Remuneration Committee

The executive compensation is designed and considered by this committee in order to coordinate incentives to the managers with long-term shareholder value. It encourages openness and equality in the compensation policies.[11]

5.5.5. Sustainability or CSR Committee

Several companies have started to create sustainability committees to manage the environmental, social, and governance (ESG) performance. This is an indication of the increased value of corporate sustainability reporting and responsibility to the ethical.[12,13]

5.6. Board Evaluation and Accountability

The boards will also be required to go through performance appraisals yearly to determine their performance level, leadership, and quality of decision making. They could be internal evaluation (by the company secretary) or external evaluation (by independent consultants).

The mechanisms of accountability are:

- There is open reporting of the board business and meetings.
- Remuneration based on performance.
- Disclosure of conflict of interest.
- Governance compliance reporting.[4]

Aguilera[10] argues that transparency in the performance of the board will promote the confidence of the investors and the credibility of the market.

5.7. Boards in Nigeria: Challenges

1. Lack of effective enactment of governance codes -Most companies do not enforce their codes symbolically but use them as mere facades.
2. Politicization of appointing boards to boards- The appointment of a board is occasionally done on the basis of relationships as opposed to merit.
3. Little independence - Family/majority shareholders can control decision making.
4. Lack of diversity - There is lack of diversity in terms of gender and skills.
5. Moral violations and bribery - Cases of invalid financial reporting or insider trading will affect the credibility of the governance.[14]

5.8. Best Practices of Effective Boards

Usually are there are best practice of effective board. The following could be termed are boards best practice:

1. Have a good board size (8 -12 members suggested by NCCG).
2. Make most of the non-executive directors independent.
3. Lower Case gender and professional diversity.
4. Impose board and committee reviews on an annual basis.
5. Promote transparency and accountability.
6. Have frequent board training and orientation.

5.9. Case Study: Board Governance practices in firms in Nigeria

A comparative study of Dangote Cement Plc and Zenith Bank Plc reveals that both companies have undergone progressive governance structure. According to their annual report, they are over 60 percent board independent, they have active audit and risk committees, and they adhere to the guidelines of sustainability reporting.

The practices enhance investor confidence and corporate reputation, which demonstrates how sound governance at board level is.

This chapter has brought to light that the Board of Directors and the Board Committees play a pivotal role in effective corporate governance. The board offers a direction to the strategy, oversees the management, imposes the ethical standards, and protects the interests of the shareholders. Governance is made more efficient and accountable with specialized committees, such as audit, risk, nomination, remuneration and sustainability.

The boards that are effective are independent, diverse, transparent and loyal- all these enhance the corporate trust and sustainability.

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