Chapter 7

Corporate governance and accounting ethics
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Role of Governance in Sustainability

Learning Objectives

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

1. Define corporate sustainability and explain its linkage to good governance practices.
2. Discuss the principles of environmental, social, and governance (ESG) responsibility.
3. Analyze how governance structures promote sustainable corporate strategies and long-term value creation.
4. Identify mechanisms through which boards and management integrate sustainability goals into decision-making.
5. Evaluate the impact of governance on corporate social responsibility (CSR) reporting and stakeholder engagement.
6. Discuss global and Nigerian examples of sustainable governance practices.

7.1. Introduction

The contemporary business world is now a place where corporate governance and sustainability cannot be discussed as two different concepts. The concept of sustainability is centred on the long-term value creation that aims at balancing economic performance, environmental responsibility, and social equity, i.e. the so-called Triple Bottom Line (TBL) model.[1]

Corporate governance offers the institutional context within which the sustainability strategies are made, put into practice, and observed. Proper governance guarantees that such principles of sustainability as ethical conduct, openness, responsibility, and inclusion of various stakeholders are incorporated into corporate culture and decision-making.[2, 3]

The concept of sustainability governance has become a central concern in the Nigerian context due to the introduction of the frameworks of Nigerian Code of Corporate Governance,[4] the FRCN Sustainability Disclosure Guidelines,[5] and the SEC Rules on ESG Reporting.[6]

7.2. Concept of Sustainability and Corporate Governance

Sustainability can be defined as long term viability of an organization (or company) through a combination of environmental, social, and governance (ESG) into its strategies and operations.[7]

Corporate governance, however, makes sure that companies are managed and governed in a way that is favourable to shareholders and stakeholders. Strong governance mechanisms boost the sustainability performance of a firm by improving accountable and ethical decision-making,[8] and responsibilities.[9]

Sustainability governance therefore gives the confluence of these two important fields:

- Corporate governance: Providing control, honesty, and transparency; and
- Sustainability management: Accountability in the long run, both environmentally, socially and ethically.

7.3. Dimensions of Corporate Governance Sustainability

There are three pillars of sustainability which are interrelated and these are the economic, environmental and social sustainability.

7.3.1. Economic Sustainability

Economic sustainability is concerned with sustained profitability, financial friends of the earth, and innovation without jeopardizing the long-term societal and environmental health. Good governance facilitates effective allocation of capital, sound risk management as well as ethical decision making in investments.[10]

7.3.2. Environmental Sustainability

Environmental sustainability is the concern of a firm that minimizes the adverse environmental effects like pollution, carbon emissions, and depletion of resources. Governance systems will make sure that there is adherence to the environmental laws and use of green technologies.[11]

7.3.3. Social Sustainability

Social sustainability concerns the roles of a company to the employees, customers, suppliers and communities. Fair labor, diversity, occupational health as well as the development of the community is ensured through governance mechanisms.[12]

The board control and ethical leadership helps to monitor and maintain these three dimensions.

7.4. Sustainability Governance mechanisms

In order to entrench principles of sustainability, corporations count on certain governance mechanisms including:

Board Oversight and Responsibility: The board must establish policies to verify that the administration processes do not violate any ethical standards or laws.[13]

7.4.1. Board Oversight and Responsibility

The board should develop the policies to ensure that the process of administration does not contravene any ethical or legal standards.[13]

The boards are very important in making sure sustainability is a strategic priority. The NCCG[4] states that the directors should guarantee the creation of long-term value is achievable through incorporating the risks and opportunities of sustainability into the corporate strategy.

Nigerian firms (e.g. Zenith Bank, Dangote Group, etc.) most of them have instituted Sustainability Committees, which monitor the ESG policy implementation and reporting.

7.4.2. Corporate Culture and Ethical Leadership

Ethical leadership will make sure that sustainability is not merely adhered to but it is practiced. The models of integrity, fairness, and stewardship are exhibited by leaders and create a culture of responsible corporate citizenship.[14]

7.4.3. Stakeholder Engagement

An effective governance situation must acknowledge that corporations have the responsibilities not only to the shareholders, but even to the employees, consumers, the regulators and communities.[10] Sustainable decision-making is based on the stakeholder theory, which asserts dialogue, transparency, and collaboration.

7.4.4. Internal Controls and Risk Management.

Sustainability is achieved through governance structures that identify environmental and social risks and incorporate them in enterprise risk management (ERM) systems, and enable adherence to them with internal controls.[15]

7.4.5. Disclosure and Reporting

Sustainability reporting has become a world governance prerequisite. The FRCN Sustainability Reporting Guidelines, which is in line with the Global Reporting Initiative (GRI) and IFRS Sustainability Disclosure Standards,[16] should be followed by Nigerian listed companies. Thus, opening up the report of ESG improves investor confidence and reputational capital.

7.5. Impact of the Board in Sustainability Driving

The boards should not see it as just a financial supervision but expand their scope to include environmental, social and governance (ESG) roles.

Key roles include:

1. Ratifying sustainability plans and objectives.
2. ESG monitoring risks and opportunities.
3. Sustainability report review.
4. Making sure that ESG metrics are integrated in executive compensation.
5. Managing the adherence to such international frameworks as the UN Sustainable Development Goals (SDGs).

Based on empirical data, it is argued that risk-resilient and profitability in the long term are stronger in firms where boards are active in sustainability-oriented activities compared to others.[17]

7.6. Sustainability Reporting and Accountability

Sustainability reporting increases transparency and trust to the stakeholders. Common frameworks include:

1. Global Reporting Initiative[18]: provides environmental and social performance disclosure standards.
2. Integrated Reporting: this is a combination of financial and non-financial data that is used to demonstrate how an organization can generate value over time.
3. IFRS Sustainability Disclosure Standards[5]: requires uniform reporting of ESG data worldwide.

Financial Reporting Council of Nigeria (FRCN) is currently obliging firms to make disclosure of sustainability in addition to annual financial statements. This change is based on the global trend of integrated thinking and responsible sustainability.[19]

7.7. Governance and Sustainable Development Goals (SDGs)

Using a blueprint on sustainable business practices, the United Nations Sustainable Development Goals (SDGs) offer a blueprint on how to conduct business sustainably. Corporate governance is consistent with SDGs in that:

1. SDG 8 (Decent Work and Economic Growth): Ensuring the ethical labor practice.
2. SDG 12 (Responsible Consumption and Production): the implementation of environmental responsibility.
3. SDG 13 (Climate Action): Climate risk in business strategy.

As a company, we are committed to upholding ethics and transparency, which is SDG 16 (Peace, Justice, and Strong Institutions).

Corporate boards engage in the process of linking organizational goals with the SDGs by having governance structures that facilitate their ethical development and social integration.

7.8. Sustainability Problems in developing Economies

In Nigeria and other African economies, there are a few systemic barriers of sustainability governance:

1. Lack of strong regulations that govern the environment and social issues.
2. Few knowledge and skills on sustainability reporting.
3. Short-term oriented to profits rather than long term sustainability.
4. Inadequate ESG metrics data collection systems.
5. Integrity of sustainability is compromised through corruption and ethical malpractices.

Nevertheless, companies like Dangote Cement, MTN Nigeria and Access Holdings have led by example by engaging in sustainability reporting and investment in renewable energy and community development through their annual reports.

7.9. The Advantages of the integration of Governance and Sustainability

Combining governance and sustainability is beneficial in the following ways:

1. Improved corporate image and confidence by the stakeholders.
2. There should an attributed to better access to capital, where investors have been focusing more on ESG performance.
3. Less operational and regulatory risks.
4. Greater innovation and sustainable profitability.
5. Global best practices and competitiveness.

Uwhejevwe-Togbolo[14] maintains that the convergence of ethics, governance, and sustainability is the source of the current corporate legitimacy.

7.10. The case study on sustainability governance in Dangote Group

Dangote Group, the biggest conglomerate in Africa, has incorporated the element of sustainability into its governance framework, into its Group Sustainability and Governance Committee.

The company complies with GRI Standards, releases annual sustainability reports and has environmental impact management initiatives in its cement, sugar and fertilizer units.

In 2024, the Nigerian Stock Exchange (NGX) listed Dangote as an excellent stock reporting firm in terms of sustainability. This reveals the importance of sustainability at the board level and ethical leadership to integrate sustainability within the corporate DNA (Dangote Group Sustainability Report, 2024).

Corporate governance is an important factor in achieving sustainability by ethical management, risk management, and accountability of the stakeholders. Sustainable governance does not stop at compliance, it involves the incorporation of social, environmental and ethical values in all business decision making.

The boards, regulators and accountants should work together to make sure that sustainability is a strategic imperative and not a mere show.

Over the long term, companies that incorporate sustainability into a governance structure are more resilient, highly regarded, and profitable.

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