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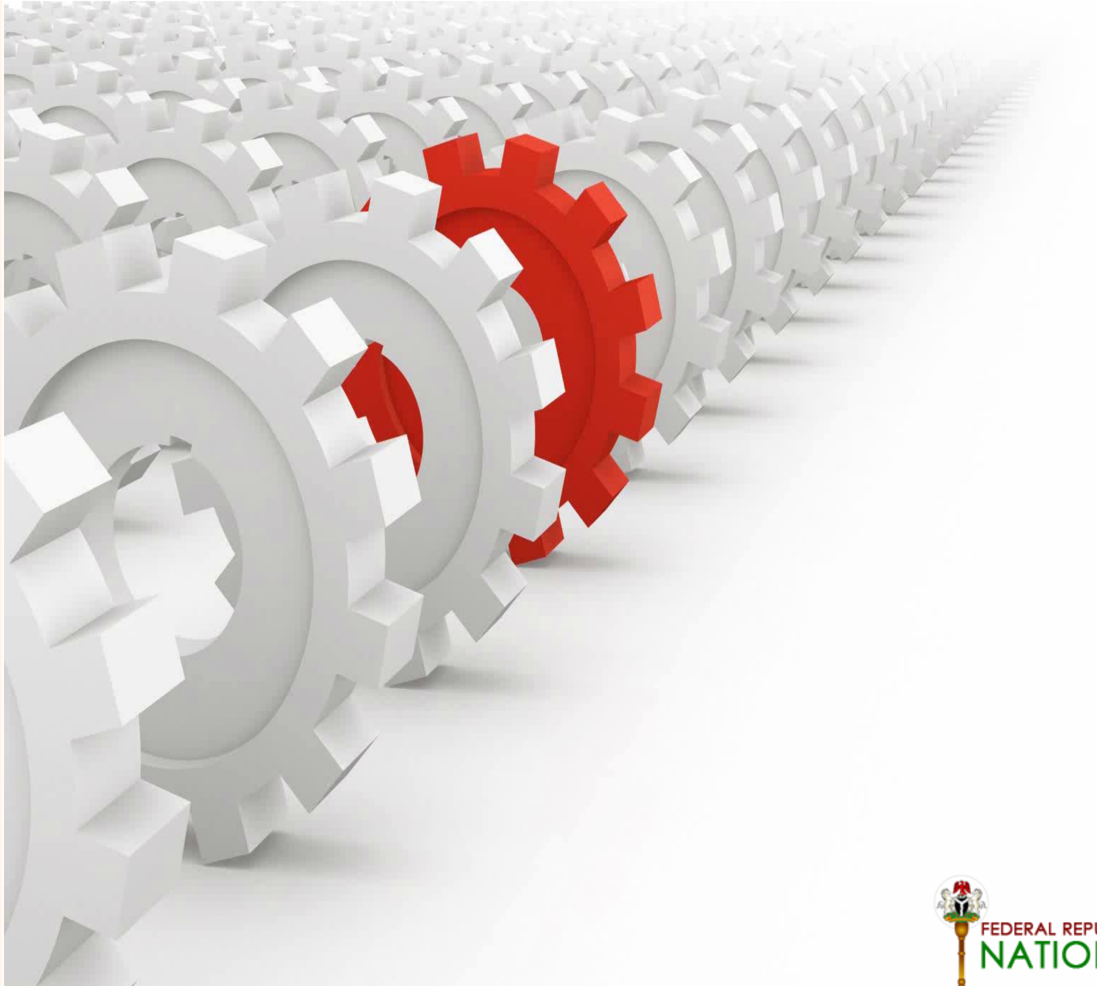

FEDERAL REPUBLIC OF NIGERIA
NATIONAL ASSEMBLY

Corporate Governance Mechanisms: Internal & External Perspectives

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June, 2022

Outline

- ❑ Overview of the Various Mechanisms of Corporate Governance
- ❑ Understanding Internal & External Corporate Governance
- ❑ Corporate Governance Issues

What are Corporate Governance Mechanisms?

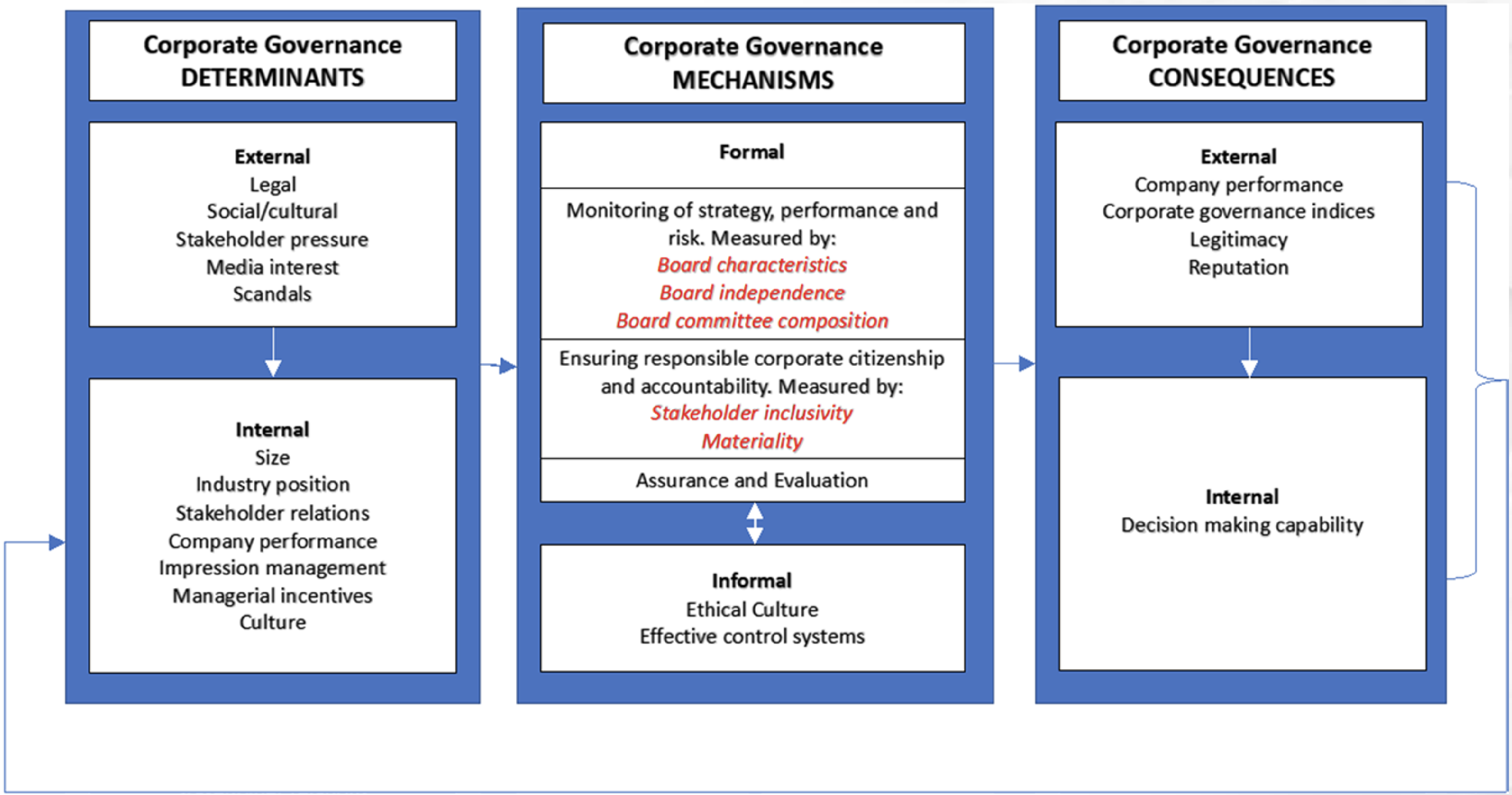
These are **the policies, guidelines, and controls to manage an organization and reduce inefficiencies**.

Business owners and leaders use these mechanisms to help managers and employees understand the acceptable behavior when completing business functions.

Corporate governance mechanisms can also provide motivation factors in an organisation. Goals and objectives may include incentives to reward individuals for following a company’s internal operating standards.

Common corporate governance mechanisms include a board of directors, **internal controls**, balancing power, and compensation.

Corporate Governance Mechanisms



Link.springer.com

Types of Corporate Governance Mechanisms: Internal & External

The internal governance mechanisms primarily focus on boards of directors, ownership and control, and managerial incentive mechanisms

External governance mechanisms cover issues related to the external market, laws and regulations

Types of Corporate Governance Mechanisms: Internal & External

Internal mechanisms. These controls monitor the progress and activities of the organization and take corrective actions when the business goes off track.

Maintaining the corporation's larger internal control fabric, they serve the internal objectives of the corporation and its internal stakeholders, including employees, managers and owners.

These objectives include smooth operations, clearly defined reporting lines and performance measurement systems.

Internal mechanisms include oversight of management, independent internal audits, structure of the board of directors into levels of responsibility, segregation of control and policy development.

Types of Corporate Governance Mechanisms: Internal & External

External control mechanisms are controlled by those outside an organization and serve the objectives of entities such as regulators, governments, trade unions and financial institutions.

These objectives include adequate debt management and legal compliance. External mechanisms are often imposed on organizations by external stakeholders in the forms of union contracts or regulatory guidelines. External organizations, such as industry associations, may suggest guidelines for best practices, and businesses can choose to follow these guidelines or ignore them.

Typically, companies report the status and compliance of external corporate governance mechanisms to external stakeholders.

Types of Corporate Governance Mechanisms: Formal & Informal

Formal Mechanisms

Corporate governance mechanisms within a firm (as distinct from those mechanisms imposed externally by a country's legal framework) comprise the set of rules, processes and processes that either formally or informally enable the board of directors to govern.

These enable the monitoring of strategy, performance and risk and encourage good corporate citizenship and organisational accountability.

There are several proxies used as measurements of formal corporate governance mechanisms, the most common of which are board size and composition, committee size and composition, board independence, and factors such as meeting frequency.

The existence of formal procedures and policies, for example whistle-blowing policies, and external assurance, are also examples of formal governance mechanisms

Types of Corporate Governance Mechanisms: Formal & Informal

Informal Mechanisms

Ethical culture: The tone at the top of an organisation is likely to determine how corporate governance practices are institutionalised.

Studies have found that when employees perceive management as trustworthy and ethical, the performance of the firm is stronger, indicating that traditional measures of corporate governance may have less of an impact than originally thought Indeed, many corporate governance scandals are centered on stories of unethical leadership.

However, despite the importance of corporate culture to the effectiveness of corporate governance mechanisms, it is difficult to measure through corporate governance reporting, although potential measures could include a reduction in corporate scandals, or improvement in corporate reputation rankings.

Types of Corporate Governance Mechanisms: Internal & External

Informal Mechanisms

Effective control systems corporate culture can be considered as part of the wider scope of both formal and informal management control systems.

Evidence has shown, however, that not only are management control systems used to embed corporate governance practices, they can also change them

Control systems are usually studied qualitatively, yet qualitative studies constitute a tiny proportion (less than 1%) of studies into corporate governance, and there have been calls for more research of this type to yield deeper insights

The dominance of quantitative research methods, rather than qualitative or mixed methods, has led to corporate governance processes themselves being bypassed in academic research and poorly understood as a result (parker 2017).

Key Issues in Corporate Governance

This refers to the basic problems which corporate governance attempts to address with regulations, recommended best practices and ethical standards.

Board & Director Appraisals

2.8 Board Appraisal

2.8.1 There shall be annual Board and Directors’ appraisal covering all aspects of the Board's structure, composition, responsibilities, processes, relationships and performance or as may be prescribed by the CBN.

2.8.2 The annual Board appraisal shall be conducted by an independent consultant. The report shall be presented to shareholders at the AGM and a copy forwarded to the CBN by the independent consultant, not later than March 31 of the following year.

Are independent appraisals conducted annually?

Whistleblowing

5.3 Whistle Blowing

5.3.1 MFBs shall have a whistle-blowing policy made known to employees and other stakeholders.

5.3.2 The policy shall contain mechanisms, including assurance of confidentiality that encourages all stakeholders to report any unethical activity to the bank and/or the CBN.

5.3.3 MFBs are required to submit returns on the compliance with the whistle-blowing policy on a semi-annual basis to the Director, Other Financial Institutions Supervision Department, not later than 7 days after the end of the relevant period.

Do current practices promote whistleblowing?

Resort to anonymous petitions.

Conflicts of Interest

7.2.1 Every MFB shall have in place an approved policy on conflict of interest.

7.2.2 The Board shall be responsible for managing conflicts of interest.

7.2.3 Directors shall promptly disclose to the Board any real or potential conflict of interest regarding any matter before the Board/ Committees.

7.2.4 Directors on any matter in which they have or may have a conflict of interest shall abstain from discussions and voting

7.2.5 Directors who are aware of a real, potential or perceived conflict of interest on the part of a fellow Director, have a responsibility to promptly raise the issue for clarification, at the board meeting.

7.2.6 Disclosure by a Director of a real, potential or perceived conflict of interest or a decision by the Board as to whether a conflict of interest exists shall be recorded in the minutes of the meeting.

Do current practices promote full disclosure & monitoring of conflicts of interest?

Shareholder Engagement & Sustainability.

Do current practices Promote long term sustainability?

S3.1.3

In addition to the traditional means of communication, MFBs are encouraged to have a website and communicate with shareholders via the website, newsletters, Annual General Meetings (AGMs) and/or Extraordinary General Meetings (EGMs). Such information shall include major developments in the MFB, risk management practices, executive compensation, establishment of investment in subsidiaries and associates, Board and top management appointments, sustainability initiatives including Corporate Social Responsibilities (CSR), and any other relevant information.

The Board should monitor the implementation of sustainability policies and report on compliance.

General Corporate Governance Issues!!

Director’s Remuneration

Fixing of directors’ remuneration must be the responsibility of remuneration committee comprising non-executive directors.

The objective is to institute best practices and deter directors from getting excessive pay

Financial Report & Auditing

Standards and best practices that will enable directors present accounts devoid of misleading statements.

Auditor’s roles in the preparation of accounts and their independence of the company are the main criteria for determining the reliability of financial statements.

Company Stakeholder Relations

For companies to be sustained they need to maintain an amicable but professional relationship with their stakeholders.

It is important to encourage shareholders to make full use of their powers at general meetings.

Information & Communication

Major shareholders can no longer be left in the dark. They need to carry them along in major corporate decisions is critical for enduring corporate institutions.

Example: MOFI's decision to identify, professionally manage and monitor its investments.

Risk Management

Calculated risk must be taken. Therefore, the urge for growth must be balanced with the need for capital protection.

Rules must therefore be obeyed about what directors can invest in and when such investments are best made. (Delegated Authority)

Ethical Conduct & Social Responsibility

Corporate governance is mainly concerned with ethics and best practices.

Companies are expected to behave in socially acceptable and ethically sound ways as this will ensure sustainability.

Questions?

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