

CORPORATE GOVERNANCE AND INVESTOR CONFIDENCE IN NIGERIA



INTRODUCTION

The potential of an economy to attract investment depends largely on the state of governance of the economy and the policy thrusts of the managers of the economy. The primary duty of the managers of an economy is to use and maximize the limited resources of the economy efficiently to achieve the objectives of the economy. Such is the case with companies or corporations.

Investor sentiments are a crucial element of success for any company because the financial strength of the equities of any company depends largely on investor confidence. If the investor confidence is high, the share price of the company soars. If the investor confidence weakens, the value of the stock plummets.

The management and administration of companies, otherwise called corporate governance impacts heavily on the investor confidence of stakeholders of the companies. Therefore, the quality of corporate governance is a key issue for the stakeholders in view of their investments in the companies. In recent years, corporate governance has received increased attention because of high-profile scandals involving abuse of corporate power and, in some cases, alleged criminal activity by corporate officers.

Corporate governance is concerned in the ways in which a firm safeguards the interests of its financiers (investors, lenders, and creditors) whilst maintaining a level of profitability. Although codes of corporate governance may differ as dictated by its goals which vary from country to country but there is a confluence of opinion that effective corporate governance relates to the promotion of the shareholders and stakeholders of a company. When governance procedures are operating successfully, the needs of the shareholders and stakeholders are being effectively met through the directing and controlling of management activities.

Corporate governance seeks the recognition of equal

rights and privileges to all shareholders irrespective of class and provision of adequate framework to ensure the protection of the rights. Because corporate governance is a board priority, directors are increasingly required to demonstrate and report to those with an interest in the company about the procedures, systems and controls they have put in place to achieve results, improve accountability and prevent malpractice or fraud. Corporate governance also endeavours to set down enduring structures for audit of companies with a view to ensuring that the management of the company does not compromise the auditor/audit committee or engaging the auditor in the performance of non-audit services.

Similarly, good corporate governance demands that organizations should develop a code of conduct for their directors and executives that promotes ethical and responsible decision making. This code of conduct should be regularly reviewed to meet changing circumstances and strictly enforced to ensure compliance.

Several multinational corporations and conglomerates such as Lever Brothers Nigeria Plc, Cadbury Nigeria Plc, Bank PHB Plc, Oceanic Bank Plc, Intercontinental Bank Plc have been exposed to the worst corporate shenanigan as a result of collusion by accountants and external auditors with companies' management and directors to falsify and deliberately overstate companies' accounts.



Against the backdrop of the corporate malpractice as stated above which adversely affected the Nigerian economy, the Securities and Exchange Commission (SEC) set up a Committee on Corporate Governance which drew the first Nigerian Code of Corporate Governance Practice in 2003. The Code adopted with little modifications a unitary board structure reminiscent of the practice in United Kingdom and United States of America with emphasis on identified triple constraints, namely, the role of board of directors and management, shareholders' rights and privileges, and the audit committee.

In 2006, Central Bank of Nigeria issued a Code of Corporate Governance for Banks in Nigeria post-consolidation. There is also Code of Corporate Governance for Licensed Pensions Operators, 2008 issued by the Pension Commission; and Code of Corporate Governance for Insurance Industry in Nigeria, 2009 issued by the National Insurance Commission.

The effectiveness of the Code of Corporate Governance Practice, 2003 and Code of Corporate Governance for Banks in Nigeria Post-consolidation, 2006 leaves much to be desired. The intendment of the codes to establish high standards of corporate

governance is ideally based on voluntary compliance with the dictates in an environment of transparency and openness. The recommendations in the codes are merely directed at establishing best practice and encouraging pressure from shareholders to hasten its widespread adoption, while allowing some flexibility and initiative in implementation.

The absence of enforcement capacity of the codes has fueled the existing insensitivity of the regulatory institutions whose responsibility it is to ensure compliance to the code. The Securities and Exchange Commission (SEC), Central Bank of Nigeria (CBN), Corporate Affairs Commission (CAC) and the Nigerian Deposit Insurance Corporation (NDIC) as regulatory authorities are not empowered under the codes to enforce compliance to the principles.

Although protecting investors is not an easy task, enacting laws to enforce high standards of disclosure, transparency and corporate governance will minimize investor risk. While corporate laws and regulations may not completely insulate investors against corporate fraud, it sends a message to investors that steps have been taken to protect innocent investors from unscrupulous financial conduct.

AUTHORS



OLUWASEUN OJO

Associate

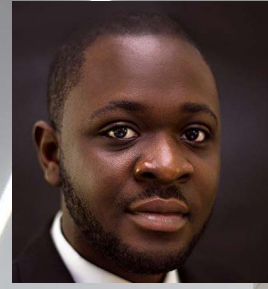
E: o.ojo@topeadebayollp.com



TOPE ADEBAYO

Senior Partner

E: t.adebayo@topeadebayollp.com



PETER OKOYOMOH

Associate

E: p.okoyomoh@topeadebayollp.com

Do you need to get in touch with us, to know how we can help you and your business?
Please contact us using any of the details provided below:

TOPE ADEBAYO LLP

25C Ladoke Akintola Street, G.R.A. Ikeja Lagos, Nigeria

p: +234 (1) 628 4627

e: info@topeadebayollp.com

w: www.topeadebayollp.com