



Approaches to the Application of Corporate Governance Regulations

Ekundayo Veronica Ngozi^{1*} & Bankole Sodipo²

¹Phd Researcher, School of Law and Security Studies, Babcock University, Ilisan-Remo, Ogun State, Nigeria

²Professor, School of Law and Security Studies, Babcock University, Ilisan-Remo, Ogun State, Nigeria

*Corresponding author: ekundayov@babcock.edu.ng, sodipob@babcock.edu.ng

Citation: Ekundayo, V.N., & Sodipo, B. (2022). Approaches to the Application of Corporate Governance Regulations. *Society & Sustainability* 4 (1), 94-106. <https://doi.org/10.38157/ss.v4i1.425>.

Research Note

Abstract

To enhance good corporate governance practices, companies, as well as countries, have adopted and promulgated regulations and codes of best practices. To implement these regulations and practices, regulators adopt various approaches which can be broadly classified into voluntary, mandatory, and hybrid. This study examined the aforementioned approaches with particular attention to their strengths and weaknesses. The study employed a qualitative methodology using the doctrinal research method. The doctrinal method relied on primary and secondary sources. The primary sources included legislations and corporate governance codes while the secondary sources included books, e-books, journals, and articles. This methodology was deployed in appraising, interpreting, and applying these various sources of material used in the study. The study found that there are different variations and modifications to the approaches to the application of corporate governance regulations and practices. To facilitate a more efficient and effective corporate governance regime, a combination of the rule-based and principle-based approaches to the application of corporate governance is required.

Keywords: Corporate governance, Companies, Codes of corporate governance, Approaches, Nigeria

1. Introduction

In today's competitive business environment, adopting good corporate governance practices gives a company a competitive edge. Companies with transparent business dealings and accountable dispositions are more likely to earn the trust and confidence of shareholders and other stakeholders. Building trust amongst a company's stakeholders entails disclosure and fair practices which are the hallmark of good corporate governance. Thus, companies that embrace these principles are inevitably investors' favorites (Chih & Tan 2020).

Attracting local and international investors is important but protecting investors' interests is a much bigger concern of corporate governance. Protection of investors' interest in companies requires effective enforcement of corporate governance best practices (Berglof & Claessens, 2004). Investors will only invest in countries they consider stable and safe for investment. Countries riddled with corrupt practices, weak laws, and poor enforcement mechanism is incapable of protecting the investment and contractual rights of investors. Countries seeking to attract investment, therefore, require developing a framework of a corporate governance enforcement mechanism to assure investors of the safety and security of their investments. This foregoing assertion is corroborated by the finding in the study of La Porta et al. (2008). The study found that jurisdictions with better enforcement mechanisms notwithstanding the content of their laws have a

better financial market (La Porta, et al. 2008). Without a doubt, enforcement is germane to good corporate governance.

Chen Li & Shapiro, (2011) argue that the best corporate governance codes and laws not accompanied by effective enforcement mechanisms cannot ensure good investors' protection. A similar view was expressed by the study of Mulili and Wong (2011) when they held that good law and codes are not enough to guarantee good corporate governance practice. Castrillón (2021) posits that beyond good codes and laws, good enforcement is required for return on investments and other additional benefits for investors. This takes us back to the central argument of this study that effective enforcement is the crux of good corporate governance practice.

Regulation of corporate governance has taken different forms depending on the legal environment of a country. Some countries have adopted soft laws such as voluntary codes of corporate governance, some hard laws such as mandatory regulations in statute, and others a hybrid approach which is a combination of soft and hard regulations or laws.

The primary objective of this study is to examine the various approaches to the implementation of corporate governance regulations and practices. The study will also evaluate the strengths and weaknesses of these approaches and make recommendations to improve a better corporate governance regime. Finally, the study will consider the benefits of good corporate governance practices.

To achieve the aforementioned objectives, the study has been divided into five broad parts. The first part evaluates the mechanisms for the implementation of corporate governance practices. The second part compares the voluntary and mandatory corporate governance regulations in order to determine the merits and demerits of both. The third part generally discusses the importance of corporate governance while the fourth section includes the conclusion of the study. Limitations and directions for further studies are discussed in the fifth part.

2. Mechanisms for the implementation of Corporate Governance

Corporate Governance is concerned with processes, principles, practices, and policies by which companies are controlled and directed towards the attainment of their goals. Therefore, the aim of corporate governance regulation is to align company practices to acceptable global standards. To achieve the foregoing, regulators of corporate governance adopt various mechanisms or approaches. These approaches include Self-Regulation Approach, Principle-Based Voluntary Approach, Rule-Based Mandatory Approach, and the Hybrid Approach. The Summation of all these various approaches is to ensure effective implementation of good corporate governance, thereby promoting transparency, accountability, responsibility, and ethical conduct in companies. However, each approach has its merits and demerits.

2.1. Self-Regulation Approach

Companies once incorporated in accordance with the national laws are recognized as corporate citizens of the country of incorporation. To this end, companies are expected to be good corporate citizens by obeying the laws, regulations, and other social norms of the countries where they carry on businesses (Ping & Teck, 2020). It is therefore common practice for companies to set up internal mechanisms and processes to prevent violations of laws and regulations and also to ensure compliance with corporate governance best practices. In addition to external regulations and laws, companies may also have internal regulations to govern their operations. These internal regulations are measures put in place by companies to monitor and ensure that directors, employees, and the company's operations and activities comply with best practices in their sphere of business. Earlier work by Soyemi, (2020) on the internal regulation of companies mainly focused on the corporate governance role of Auditors which is only an aspect of internal or self-regulation. This current study is however concerned about internal/self-regulation by companies holistically.

Omar and Rahman (2010) in their study describe self-regulation as companies' compliance with voluntary codes of corporate governance. A similar definition was put forward by Ntongho (2009) when he described it as a means by which companies are given wider regulatory powers by third parties to regulate themselves. The said study found that these internal regulatory powers enable companies to determine how best to achieve good corporate governance. The perceptiveness of this current study on what constitutes self-regulation however differs from the two aforementioned studies. Firstly; self-regulations should be based on internally generated regulations or codes of conduct not external codes from a third party or regulatory bodies. Secondly; the regulation should apply specifically to the company in question and be aligned to suit their peculiar corporate governance needs.

The company's self-regulation is generally composed of internal codes of conduct. These codes of conduct are the written internal policies of the company tailored to align its business activities with corporate governance best practices. It sets out standard behaviors and modes of operations expected of employees in the course of their work. It stipulates processes for carrying out certain actions and itemizes conducts not acceptable in the company. In addition, this code of conduct sets out the internal processes for ensuring compliance and for addressing non-adherence to recognized best practices. Some companies take extra precautions to ensure compliance by appointing compliance officers to manage the internal compliance process of the company. Corroborating the foregoing view, Griffith (2016) recommends that for the self-regulation approach to work effectively, good policies and well-drafted procedures are not enough. He posits that companies also require the appointment of a person whose primary responsibility is to ensure compliance and implementation of the internal regulation of the company.

It is however important to note that self-regulation cannot be effective even with the appointment of an enforcement or compliance officer if the board and top management of the company fail to support the process and initiative. Thus, a major weakness of the self-regulation approach to corporate governance is that it may lead to a conflict of interest. The conflict of interest occurs when violations of internal regulations are by directors or top management. Another weakness of this approach is that it creates a lack of standardization of corporate governance practice as different companies adopt individual internal regulations (ECPR Standing Group, 2010).

The articles of association of a company is also a good source of internal self-regulation of a company. It regulates the activity of the board of directors, the employees, and the business processes of the company. Furthermore, it defines the relationship of the company with its members and determines the rights of each party and how such rights can be protected (Singh, 2014).

2.2. Principle-Based Voluntary Approach:

In the 1980s in the wake of various corporate governance scandals, the UK government saw the need to intervene and safeguard the interest of the investing public (Tricker, 2013). In response to these scandals, Cadbury's committee was set up to investigate and make recommendations to enhance corporate governance best practices (Milhaupt, 2017). The Cadbury Committee came up with several recommendations in their report, one of which is the 'comply or explain' corporate governance model for the UK (Chartered Governance Institute of UK, 2021).

The 'comply or explain' approach is a principle-based approach to corporate governance. This approach comprises a set of voluntary best practices. These best practices are customarily contained in the codes of corporate governance such as the NCCG 2018 and CBN Code 2014. Code of best practices is sometimes referred to as soft law. Its recommendations or regulations are flexible, non-statutory, and somewhat voluntary (Higgs, 2003). This approach recognizes that no size fits all, so companies, their directors, and shareholders are given the flexibility to generate processes and adapt the corporate governance principles most suitable for their company. The soft law has also been described as a discretionary regulation, stipulating benchmarks for attaining best practices.

This approach is preferable to companies as it facilitates the use of discretion by the board and top management of companies in the use of corporate governance principles. There are also claims that this approach, in the long run, may produce better corporate governance practices leading to economic development. More so this approach allows companies to either comply with recommended rules provided for in codes of corporate governance or otherwise explain reasons for non-compliance.

The 'comply or explain' approach which originated from the UK has been adopted and modified by several countries to suit their corporate governance peculiarities and needs. For example, the 'apply or explain' approach was adopted in South African King Code III. This approach unlike the 'comply or explain' approach which only gives companies the option to either comply or not comply, gives more flexibility and choices. (Milhaupt, 2017) explains that the 'comply and explain' approach allows companies to either comply with the provisions of the code as it is, or explain how they intend to achieve best practices using other means. This approach allows adaptation of the corporate governance principles in the codes to suit the particular business need of a company and to explain how this was achieved.

An additional modification of the 'comply or explain' approach is the 'apply and explain' approach.' This is the approach adopted by the NCCG 2018 and South Africa King Code IV of 2016. This approach is geared towards encouraging companies to apply the recommended best practices in the codes and explain how the application was actualized. The 'apply and explain' is a softer approach to enforcement of corporate governance. It completely removes any element of compulsion. It is the view of this study that the word 'apply' instead of 'comply' may have been used intentionally in the NCCG 2018 to emphasize the voluntariness of the code. 'Comply' generally signifies a command or call to obey an instruction, hence not an appropriate term for a voluntary code.

The 'apply and comply' approach has been described by Arjoon (2006) as moulding corporate governance to fit the peculiar need of companies. The approach is more optimistic than the others but remains voluntary. It is based on the assumption that companies are more likely going to apply the practices in the code once they realize the benefits. The formulators of the 'apply and explain' approach expect companies to be more intentional about corporate governance.

The 'comply or else' approach is yet another modification of the 'comply or explain' approach, but somewhat mandatory. It is principle-based also but denotes that a company is obliged to abide by its provisions as non-compliance will attract sanctions. Consequently, this approach, unlike the other modifications to the UK 'comply or explain' approach has an element of compulsion.

This current study differs slightly from the views of earlier mentioned researchers on the voluntariness of Principle-based codes of corporate governance. This study does not consider the 'comply and explain' approach and 'Apply and Explain' as entirely voluntary approaches. It employs moral and ethical persuasions to ensure enforcement. A good example is the 'apply and explain' approach provided in Paragraph C of the Code of NCCG 2018. The aforementioned provision of the NCCG 2018 requires individual companies to explain how the corporate governance provisions in the code have been achieved. The code, therefore, expects companies to disclose and explain the extent of their compliance. The aforementioned mechanism in itself drives compliance. Thus, disclosures of non-compliance by companies and the explanations given are usually made public to the company shareholders and investors. This practice, therefore, promotes compliance with the code of corporate governance by companies. This is so because companies do not want to be labeled or seen as deviating although compliance with the codes is said to be voluntary. More so, consistent disclosure of non-compliance or deviation may affect investors' confidence in the company and expose it to reputational risk.

In addition, members at a general meeting may begin to doubt the ethical and moral standing of directors if it regularly deviates from best practices provided in the code. It is therefore not in the best interest of the company not to comply with the code although it is deemed voluntary. As earlier discussed, the 'comply or

else' approach is not entirely voluntary, which further goes to confirm that a principle-based approach is not synonymous with voluntariness. It is the position of this study that principle-based depending on the approach adopted by the code could be voluntary or semi-mandatory. The foregoing is true as compliance with the provision of such code may not necessarily be achieved through compulsion, but by persuasion through public opinion, shareholder activism, and other softer social control mechanisms.

Notwithstanding the numerous benefits of the principle-based approach to corporate governance, it has been criticized as a mere box-ticking exercise due to its celebrated attribute of flexibility. Another attribute of this approach is that it creates a platform for securing adherence to a minimum standard of corporate governance (McConvill, 2005). This aforementioned attribute although a benefit may also be perceived as a weakness. It is the view of this study that attainment of a minimum standard as provided in the codes impedes self-regulation which has the potential of further promoting corporate governance practices in a company. Companies being satisfied with attaining the minimum standards of corporate governance may make no further effort to improve their corporate governance practice.

2.3. Rule-Based Mandatory Approach

Categorizing enforcement of corporate governance into Principle-based and Rule-based approaches demarcates the voluntary regulation by companies from the state regulation. The gap between these two forms of approaches seems to be closing up gradually, as good corporate governance practices which were originally found in the so-called 'voluntary codes' are now being incorporated into mandatory or hard laws. This view is particularly true of Nigeria as several provisions of the CAMA 2020 are similar to those provided for under the NCCG Code 2018 (see, section 275 CAMA, Principle 7 of NCCG).

The rule-based mandatory approach to corporate governance is sometimes referred to as hard law. Corporate governance regulation in hard law format is an exemption or aberration of the common practice where corporate governance regulations are contained in voluntary codes. Hence, the Sarbanes-Oxley Act of the United State which was passed in 2002 has been adjudged a clear departure from corporate governance regulation. This Act is mandatory and like other mandatory laws, contains legal sanctions for non-compliance. The Sarbanes-Oxley Act was enacted in response to the corporate governance scandals of WorldCom and Enron in the United States. The Act was also designed to improve the corporate governance practice of American Companies and re-establish investors' confidence.

Rule-based mandatory corporate governance regulation signals the seriousness of government on the enforcement of corporate governance best practices. Since rule-based regulations are mandatory, companies are not given the discretion on whether to comply or not, hence non-compliance attracts strict penalties. The rule-based mandatory approach is an imposition of legislative base corporate governance standards and its introduction as earlier mentioned is due to the failures of the self-regulatory and principle-based approaches.

Undeniably, the rule-based approach brings about uniformity in corporate governance standards, unlike the self-regulatory and the principle-based approach. Investors' interests are better protected as they facilitate greater compliance and monitoring by regulatory bodies. Notwithstanding the obvious benefits of the rule-based approach, (Arjoon, 2006) posits that principle-based provides the opportunity for fine-tuning and adaptation of the regulations to suit the peculiarity of any individual company, this benefit in his opinion is lost in a rule-based approach.

Arcot and Bruno (2007) aver that the rule-based mandatory approach creates the one-size fit all models which are generally considered too restrictive. More so, when corporate governance principles are incorporated into legislation such as CAMA 2020, amendment of such provisions becomes cumbersome thereby creating a slow response to demands for changes in regulations by investors and other stakeholders.

2.4. Hybrid Approach

The dominant or popular approaches to corporate governance enforcement have been the principle-based soft law and rule-based hard law approaches. These two approaches are based on voluntary, semi-mandatory, or mandatory approaches. Some countries are beginning to move towards the hybrid approach. These countries include the United Kingdom, Malaysia, and Australia (Ping & Teck, 2020). The hybrid approach to enforcement of corporate governance can be simply defined as a combination of voluntary soft law and mandatory hard law approaches. This can also be described as a mid-way approach. It is not in doubt that the hybrid approach combines both the soft law voluntary characteristic with the hard law mandatory approach; however, there are diverse perspectives to this approach.

Ping and Teck (2020) in their study regard this approach as a corporate governance regime that allows for flexibility and discretion without compulsion. They further explained that the hybrid approach also constitutes a self-enforced regulation since failure to comply may bring about dire consequences. A good example of this is the Australian Securities Exchange (ASX) Principles of Good Corporate Governance and Best Practices. It is made up of voluntary rules and guidelines to facilitate best practices in corporate governance. It applies ‘comply or explain’ principles; however, non-compliance by a company could lead to delisting from the exchange (Ping & Teck, 2020).

A second perspective to the hybrid approach is where a corporate governance regulation combines both the voluntary principles which companies can apply at their discretion and mandatory rules which must be complied with (Zadkovich, 2007). Zadkovich describes this approach as a blend of both mandatory hard law and voluntary soft law in a corporate governance regime. This approach is also supported by (Ajibo & Ajibo, 2019) when it describes an ideal approach to corporate governance as one which adopts a combination of a flexible ‘comply or explain’ approach with a mandatory regime. They further posit that this approach is most appropriate as it allows for optimization of the benefits of both the voluntary and mandatory approaches.

Another perspective to the hybrid approach is one in which a legal framework for corporate governance allows both a principle-based voluntary code of corporate governance to operate simultaneously with a rule-based mandatory corporate law. This approach resonates well with the Nigerian approach to corporate governance. Nigeria operates a seemingly principle-based voluntary code of corporate which is provided for in the NCCG 2018 and a rule-based mandatory law under CAMA 2020. Ajibo and Ajibo (2019) describe it as a fusion of Anglo-American and German models of corporate governance. The aforementioned study also referred to this approach as the hybridization of both soft law and hard law to deliver the best benefits of corporate governance to users.

The NCCG 2018 complements and fills in the gap in CAMA 2020. It suffices to know at this stage of the study that certain provisions in the NCCG 2018 which are voluntary have now been made mandatory by CAMA 2020. Typical examples are the separation of the role of the Managing director and the chairman of the board and the appointment of an independent non-executive director on the board of public companies (Olayimika & Somuyiwa, 2018). With the incorporation into CAMA of some global best practices, the Nigerian approach to corporate governance is tending more towards a mandatory corporate governance regime. Nwoke *et al* (2019) aver in their study that a voluntary soft law approach cannot guarantee good corporate governance in Nigeria. They explained that the Nigerian corporate sector is faced with several challenges beyond what a principle-based soft law approach can resolve. Some of the challenges identified by their study include; corruption, undue influence by politicians, and over-concentrated ownership structure of companies. A similar view was expressed by Adekoya (2014). In his study, he recommended a hard law approach to corporate governance.

This current study differs from those of Ajibo (2019) and Olayimika (2018), Nwoke (2019) and Adekoya (2011), which mainly focused on the weakness of the principle-based and the promotion of the rule-based

approach. This current study is committed to how best to effectively enforce corporate governance under CAMA 2020 seeing that it now incorporates corporate governance best practices.

3. Voluntary and Mandatory Corporate Governance Regulations

Voluntary and mandatory regulations are the two broad approaches to corporate governance. Both approaches give rise to the voluntary and mandatory regulations for achieving corporate governance best practices. These two types of regulations have their strengths and weaknesses, merits, and demerits. The purpose of this aspect of the study is to highlight and examine the merits and demerits of one of these regulations against the other.

One major advantage of the voluntary corporate governance regulation is its flexibility. It incorporates a flexible framework of guidelines, practices, procedures, and recommendations. A good example of voluntary corporate governance regulation is the NCCG 2018. Due to its flexibility, its application is discretionary and it is easily adaptable to suit a company's business plan, goals, and objectives. The flexibility and amendable nature of Corporate Governance Codes are evident in the ease of reforms and rate of development in form of amendments, repeals or replacement of codes over time.

In Nigeria, the first code of CG for banks was issued by the Bankers' Committee in 2003 and by 2006 CBN had issued a more comprehensive code for the banking industry. In the year 2014, CBN replaced the 2006 Code with the Code of CG for Banks and Discount Houses. Four (4) years later CBN had issued five specific codes of corporate governance to regulate the various financial institutions within the banking sector. Within seventeen years, the banking sector had witnessed a total of Nine (9) Codes of CG. For the Security and Exchange Commission, the first Code for public companies was issued in 2003 and the latest is the SEC Code of 2011. This shows that the SEC as a regulating agency issued two codes of corporate governance within eight. This flexible nature of codes is not restricted to Nigeria alone, as there are examples from other jurisdictions such as South Africa and the United Kingdom to buttress this.

The First code of CG issued in South Africa is King Code 1 published by the Institute of Directors in 1994. The Code applied to all public companies registered on the Johannesburg Stock Exchange, banks, and large public entities. The code made recommendations for the standard of conduct of board directors. By 2002, King 1 was revised to include recommendations on sustainability and risk management. The revised code was called King II. In 2009, King III was published. It replaced the earlier King II Code. The code recommended the need for an integrated report on governance, strategy, and sustainability in the annual financial report which was a departure from what was obtainable under King II. The fourth revision of the King code of South Africa is King IV which was published in 2016. The code focused on making its provisions more accessible and applicable to non-profit organizations, private companies, and entities in the public sector.

The experience is no different in the United Kingdom. (Solomon, 2003) The first code of CG in the UK is the Cadbury Code of 1992. This code was followed by the Greenbury Code in 1995. Hampel Committee was set up in 1996 and it recommended the combination of the Cadbury and Greenbury Committee reports. The integration of the aforementioned reports was thereafter published in 1998 as the UK Combined Code. There have been rapid reforms and development of codes of CG in the UK, leading to the promulgation of the UK Code of Corporate Governance of 2014 and the most recent in 2018.

Mandatory corporate governance regulations are more difficult to amend. It took a period of twenty-two years to replace the 1968 Nigerian Company Law with CAMA 1990. Despite the public outcry regarding the obsolete provisions of the CAMA 1990, it took another thirty years to repeal it and to enact CAMA 2020. Considering the evolving nature of corporate governance, frequent reforms are needed for the effective and adequate regulation of companies. With the use of codes, regulators can put in place mechanisms for rapid reforms to meet up with current challenges frequently encountered in the running of companies.

Despite the aforementioned advantage of the voluntary corporate governance regulation, one major merit of mandatory regulation is that it is prescriptive. It sets minimum standards that companies must comply with. States and government intervention in the protection of investors' interests are made possible under mandatory regulations such as laws. Mandatory regulations allow for uniformity since the same rules apply across industries and mostly to all sizes of companies. The mandatory regulations are usually comprised of rule-based hard laws while the voluntary regulations are mainly made up of principle-based soft laws.

Compliance is higher in the mandatory than the voluntary instruments due to compulsion and sanctions for non-compliance, however, the voluntary regulations are more convenient and preferable to companies. The mandatory instruments are more cost-effective from the perspective of the investors and the companies as the cost of enforcement and compliance mechanisms are borne by the state, government, or regulatory agencies. On the flip side, the voluntary instrument is more cost-effective for the state and government as individual companies are responsible for putting mechanisms in place to facilitate adherence to best practices.

Effective implementation and enforcement of voluntary regulations are not guaranteed, as companies are usually left with a choice of either to comply or explain the reasons for non-compliance. This has led to an insufficient level of compliance by companies.

Most mandatory corporate governance regulations are statutes enacted by the legislative arm of government. For instance, CAMA 2020 provides for the incorporation, capitalization, registration, organization, and management of companies. Seeing that mandatory regulations are usually statutes, it is the National Assembly that is vested with the powers to make such laws for the peace and good governance of Nigeria. Voluntary corporate governance regulations may be issued internally by companies through self-regulatory mechanisms or externally by regulatory bodies such as FRCN.

Despite the notable differences between the voluntary and the mandatory regulation of corporate governance, there are also many similarities. Both regulations evolved to solve problems associated with the governance of companies. They are concerned with proper regulation of the company to achieve its set objectives. Both comprise regulations to uphold best corporate law practices, define relationships and prescribe expected behavior from those involved in the management of companies. These regulations also specify the roles and duties of persons responsible for the management of companies, such as members of the board of directors and the Chief Executive Officer (S3 & 6 SEC Code).

4. Benefits of Good Corporate Governance Practices

The OECD Secretary-General, Angel Gurría declares that the aim of good corporate governance is to bolster a system of confidence, accountability, and transparency vital for promoting long-lasting investment, financial security, and business integrity thus resulting in sustainable growth and more inclusive societies (OECD, 2021). Good corporate governance is of importance not only to corporations but also to the capital market and the economy of nations. Studies have shown that poor corporate governance practices negatively affect the capital market and the economic growth of a country (Ogbodo & Umoru, 2018).

4.1. Transparency and Accountability

One of the core principles of good corporate governance practice is transparency. A corporation that upholds corporate governance will be transparent in its dealing. (Crowther & Shahla, 2011) posit that transparency facilitates the availability of free and accessible information to those who will be affected by the decisions of a corporation. Brian explains that it relates to both financial and non-information information, such as its strategic objectives, the direction the company is taking, and so on (Coyle, 2009). This study aligns with the view of the aforementioned authors but further provides that transparency

enhances the ease by which an outsider is able to make a meaningful analysis of a corporation's activities and actions.

Transparency establishes that if the decision-making process of a corporation is without discrepancies, it can be trusted. It shows that outcomes that are reached or decisions that are made are based on clear and visible processes even to an outsider. Transparency is of particular importance to external users of corporate information as these users lack the background details and knowledge available to internal users of such information. A corporate governance framework ensures that accurate and timely disclosure is made on all material matters concerning the corporation, including performance, the financial situation, governance of the company, and ownership.

Keye (2017) defines accountability as a process involving four stages. The first stage requires the board to keep shareholders informed of its decisions by providing precise information. In the second stage, the board is required to justify the actions and risks undertaken in the process of making its decisions. Keye posits that these first two stages make up transparency as an element of good corporate governance. Keye further postulates that the other two stages are essential for effective accountability. The third stage involves examining the justifications provided by the board in the second stage and judging their necessity. The fourth, being the final stage involves feedback based on the judgment of the shareholders and administrative consequences where there is disapproval of board decisions by members.

Bidabad, Amirostovar, and Sherafati (2017) identify transparency of operations and information disclosure as foundational elements of corporate governance stressing that transparency procedures are necessary so as to check corruption and prevent fraud. Alsharqawi & Alsharqawi (2019) rightly point out that good corporate governance is characterized by quality accountability systems. It facilitates proper management, transparency, and accountability of the board to its shareholders.

Brain (2009) asserts that individuals who engage in decision-making processes in a corporation or take actions on its behalf on specific issues should be accountable for such actions and decisions. More so, shareholders should have the opportunity to assess the actions of their board of directors and the committees of the board, and have the opportunity to query them.

Andrews, therefore, endorses the view that a strong culture of accountability, and application of principles for best practice, will without doubt serve to protect a director's and a company's reputation. With boards facing increased scrutiny from stakeholders, the time taken to improve board accountability processes ought to be a worthwhile investment (Andrews, 2017).

4.2. Monitoring

Mitchell stresses that the monitoring function of good corporate governance is vital because it is responsible for generating shareholders' value (Mitchell, 2019). Good corporate governance provides a structure for the corporation and this ensures the setting of goals and means of achieving them (Ugowe, 2016). It is also via this structure that a monitoring system can be established. Aluchna and Idowu (2017), postulate that this monitoring role of corporate governance is manifested through internal institutional structures such as the board of directors. The internal institution of the board of directors helps check the managerial exercise of power thereby promoting shareholders' confidence. The powers of the board of directors in exercising its monitoring function include hiring, compensating, firing managers, checking the corporation's auditing arrangements, voting on conflicting issues, and making operational decisions (Idowu & Schmidpeter, 2017).

4.3. Good Board of Director and Shareholder Relations

A business environment where shareholders' rights are protected and their interests in wealth maximization adequately catered for, will definitely foster good board-shareholders relationships. Khitiri (2017) stress that the definition of the right and interest of the persons involved in the corporation is vital for good corporate governance. The merits of this position are evident in the realization that the possibilities of

conflict and confusion decrease where parameters for operation and parties' responsibilities are clearly defined. Good corporate governance helps to define and safeguard shareholders' rights and guarantee the fair treatment of all shareholders, including minority and foreign shareholders.

Ogbodo and Umoru (2018) aver that the protection of shareholders and creditors are a natural function of every legal system, more so protection is a necessary element of corporate finance and corporate governance. The rights of shareholders include the right to vote at and attend meetings, elect board members, to receive information on the corporation's performance in a timely manner. All these rights are to be respected and protected by the board to facilitate a good corporate relationship.

Another avenue through which good board and shareholder relations are promoted is by facilitating functioning collaboration between the corporations' stakeholders in generating wealth. There will be a good board of directors and shareholder relations where the corporation's operations yield profit and increase shareholders' wealth. The primary purpose of every corporation is to achieve maximum corporate performance. Where the corporation's corporate governance system meets this purpose, board-shareholder relationships will be harmonious. This facilitates corporation stability and greater progress.

4.4. Corporate Social Responsibility

Another purpose of good corporate governance is to create a system that attends to corporate social responsibility. It involves a recognition that the shareholders, directors, and employees of a corporation are not its sole stakeholders; its local community is also a stakeholder. In recent years, there has been a growing interest in adapting corporate governance not just for profit-making but also in considerations of social justice and environmental protection (Barsan, 2017). Corporate social responsibility does not dismiss the importance of shareholder satisfaction. It challenges corporations to rise to greater responsibility as legal persons whose actions influence the society in which they transact.

4.5. Ethical Conduct

Corporations ought to establish a code of conduct to regulate the practices of their directors and top executives at an internal level. This means that there will be a uniform standard by which the conduct of the management will be judged. This promotes a system of integrity, and responsible management and inspires investor confidence in the management of the corporation. Ogbodo and Umoru (2018) recognize that profit-making is essential for the survival of corporations; however, they caution against meeting company goals outside ethical boundaries. Corporations that display ethical conduct and operate compliance mechanisms often enjoy better corporate reputations and heightened public trust.

Corporate governance facilitates ethical conduct. It ensures that managers avoid abuse of their power or undertaking improper actions that could amount to questionable behavior. Vincent advocates the relationship between ethics and corporate governance. He further explains that this humanizes the exercise of power and renders it more credible and transparent not only to the shareholders but also to all stakeholders in general. There is therefore a strong link between ethics and governance. It contributes towards helping the company's management behave in conformity with given values and in a reasonable and acceptable manner.

4.6. Good Reputation

This study holds the view that good corporate governance practices by corporations will promote their image positively. A corporation that is known to follow due process and diligent in compliance with regulations and relevant policies is more likely to attract investors. Such companies are also unlikely to be involved in sharp and corrupt practices that may damage their image and the reputation of their directors

and managers. The aforementioned view is also supported by several studies including Gottschalk (2011), (Rensburg & Estelle, 2011).

5. Conclusion

This study found that no approach to corporate governance implementation is perfect. All approaches have their strengths and weaknesses. However, investors prefer the rule-based mandatory approach. The aforementioned preference by investors is because they perceive that this approach best secures their investment due to its mandatory and stringent implementation mechanism. The study also found that companies generally prefer self-regulation or principle-based voluntary approaches. This approach allows the use of discretion by companies in adopting corporate governance principles best suitable for their business activities. Generally, the study found that corporate governance practices are highly beneficial to all stakeholders, and thereby recommends the adoption of these practices.

6. Limitations of study and directions for further research

Corporate governance is a wide concept with discussions and studies cutting across various disciplines. Hence a plethora of studies are available on different aspects of corporate governance from diverse perspectives. It is however instructive to note that a lot still needs to be done on approaches to corporate governance which is the focus of this study. One major limitation of this study, therefore, is that most of the available studies are jurisdiction base, thereby making it difficult to draw a general conclusion on the efficacy of the various approaches.

This study adopted a qualitative doctrinal research methodology. The finding of this research would have been more elaborate if an empirical design was adopted. The use of empirical methodology would have enabled firsthand information to be obtained from the field through tools such as interviews, questionnaires, and focused group discussions.

Considering the aforementioned limitations to this study, the following research directions can be recommended. Firstly, an empirical study on the impact of the approaches to corporate governance on the enforcement of best practices. Secondly, an empirical study on the correlation between the legal framework and the efficiency of the corporate governance approach. Lastly, a comparative study on the rule-based and principle-based approaches to corporate governance.

Author's Contributions: Veronica Ngozi Ekundayo researched the work as part of the study conducted for her doctoral research. Bankole Sodipo supervised and edited the work with valuable inputs.

Conflict of interest: The authors declare no conflict of interest.

REFERENCES

- Adekoya, AA. (2011). Corporate Governance Reforms in Nigeria: Challenges and Suggested Solutions. *Journal of Business Systems, Governance, and Ethics*, 6(1), 39-52. <https://doi.org/10.15209/jbsge.v6i1.198>.
- Ahern, D. (2010, June). Replacing 'Comply or Explain' with Legally Binding Corporate Governance Codes: An Appropriate Regulatory Response? Paper presented in ECPR Standing Group on Regulatory Governance Biennial Conference, Dublin.
- Ajibo, C.C., & Ajibo, K.I. (2019). Mandatory versus Discretionary Rule Dichotomy in the Harmonization of Corporate Governance Codes: Lessons for Nigeria Article. *Journal of African law*, 63(3), 385-411. <https://doi.org/10.1017/S0021855319000287>
- Akinpelu, A. (2011). *Corporate Governance Framework in Nigeria*, An International Review, USA: iUniverse, Inc, Bloomington.
- Alsharqawi, A. and Alsharqawi, AA. (2019). Separation of Ownership and Control in Corporate Governance' *Journal of Law, Policy and Globalization*, 84, 65-72. <https://doi.org/10.7176/JLPG/84-07>.
- Aluchna, M. & Idowu, S. O. (2017). *Responsible Corporate Governance: Towards Sustainable and Effective Governance Structures (Edn.)*. Springer.
- Anand, A. I. (2006). Voluntary vs. mandatory corporate governance: Towards an optimal regulatory framework. Bepress Legal Repository. <https://law.bepress.com/expresso/eps/566/>.

- Andrews E. (2017). Board accountability is a key element of strong corporate governance. Grant Thornton Northern Ireland. <https://www.granthorntonni.com/news-centre/board-accountability-is-a-key-element-of-strong-corporate-governance>.
- Arcot, S. R., & Bruno, V. G. (2007). One Size Does Not Fit All, After All: Evidence from Corporate Governance (January 15, 2007). 1st Annual Conference on Empirical Legal Studies. <http://dx.doi.org/10.2139/ssrn.887947>
- Arjoon, S. (2006) Striking a Balance between Rules and Principles-based Approaches for Effective Governance: A Risk-based Approach. *Journal of Business Ethics*, 68(1), 53-82. <http://dx.doi.org/10.1007/s10551-006-9040-6>
- Barsan, I. (2017) Corporate Accountability: non-financial disclosure and liability-A French Perspective. *European Company and Financial Law Review*, 14(3), 399-433.
- Bidabad, B., & Sherafati, M. (2019). Bank Information Disclosure, Financial Transparency and Corporate Governance in Rastin Banking. *International Journal of Shari'ah and Corporate Governance Research*, 2(1), 1-13. <https://doi.org/10.46281/ijscgr.v2i1.2>
- Chen, J. & Shapiro, D.M. (2011). Are OECD-prescribed good corporate governance practices, really good in an emerging economy? *Asia Pacific Journal of Management*, 28(1), 115-138. <https://doi.org/10.1007/s10490-010-9206-8>
- Cliffe Dekker Attorneys (2002). King Report on Corporate Governance for South Africa. Cliffe Dekker Attorneys. https://www.mervynking.co.za/downloads/CD_King2.pdf
- Coyle, B. (2021). *Chartered Governance Institute of UK and Ireland Corporate Governance*. Study Text, CGI Publishing Limited.
- Crowther, D. & Seifi, S. (2011). *Corporate Governance and International Business* (4th ed.). Ventus Publishing:
- Girvin, S., Frisby, S., et al, (2010). *Charlesworth Company Law* (8th Ed.). Sweet & Maxwell, London.
- Gottschalk, P. (2011). *Corporate Social Responsibility, Governance and Corporate Reputation*, World Scientific Publishing Co. Pte. Ltd
- Higgs, D. (2003). The Higgs report: Review of the role and effectiveness of non-executive directors. <https://ecgi.global/code/higgs-report-review-role-and-effectiveness-non-executive-directors>.
- Idowu, S.O & Schmidpeter R. (2017) *Responsible Corporate Governance: Towards Sustainable and Effective Governance Structure*, Springer International Publishing Ag
- Keay, A. (2017). Stewardship Theory: Is Board Accountability Necessary? *Journal of Law and Management*, 59(6), 1292-1294.
- Khitiri, B. (2017). Theories of Corporate Governance: A Legal Analysis. *Tbilisi State University Journal of Law* (2), 117-148
- La Porta, R. & Lopez-de-Silanes, F. & Shleifer, A. (2008). The Economic Consequences of Legal Origins. *Journal of Economic Literature*, 46(2), 285–332.
- Manuel, A. & Garzón, C. (2021). The Concept of Corporate Governance. *Revista Científica Visión de Futuro*. 25(2), 178-190. <https://doi.org/10.36995/j.visiondefuturo.2021.25.02R.005.en>
- Martin, G., Cary, L., et al, (2011). *Corporate Reputation: Managing Opportunities and Threats England*, Gower Publishing Ltd.
- McConvill, J. A. (2005). Of Stewards, Surfboards and Homo sapiens: Reflections on the Regulation of Contemporary Corporate Governance, <http://www.ssrn.com/abstract=660762>
- Milhaupt, C.J. (2017). Evaluating Abe's third arrow: How significant are Japan's recent corporate governance reforms? *Columbia Law and Economics working paper*, 561, 1–4.
- Mitchell, E.W. (2019). Corporate Governance and Income Inequality. *Business and Finance Law Review*, 3(1), 49-89.
- Mulili, B.M. & Wong, P. (2011). Corporate governance practices in developing countries: The case for Kenya, *International Journal of Business Administration*, 2 (1), 14-27.
- Normah, BO. & Rahman, R. (2010). Self-Regulating Corporate Governance: Towards a Self-Governance Regime. *A paper, presented at the Conference of Science and Social Research (CSSR)*. 705 - 710. <https://doi.org/10.1109/CSSR.2010.5773874>.
- Ntongho, R. (2009). Self-regulation of corporate governance in Africa: following the bandwagon. *International Company and Commercial Law Review*, 20 (12), 427-435
- Nwoke, U., Ukaomaa, CO., & Alozie, OJ. (2019). Promoting a more efficient corporate governance in Nigeria through the law. *Commonwealth Law Bulletin*, 45 (4), 697–715. <https://www.tandfonline.com/doi/full/10.1080/03050718.2019.1708205>.
- Ogbodo, S.G. & Umoru, G.L. (2018). Imperatives of Corporate Governance on Corporate Citizenship in Nigeria'. *Annual Survey of International and Comparative Law*, 23 (1), 133-162
- Okara, G.C. (2021). Examining Corporate Governance in Nigeria under the Companies and Allied Matters Act 2020 and the Nigerian Code of Corporate Governance 2018: The Way Forward, *Journal of International Law and Jurisprudence*, 7 (1), 184-196
- Olawoyin, B. S. (2014, March). Corporate Governance in Nigeria: The Ethical and Behavioral Imperatives. Paper presented in International Conference on Arts, Economics and Management (ICAEM'14), Dubai. <http://icehm.org/upload/9731ED0314025.pdf>.

- Phillips, O. & Somuyiwa, S. (2018). The Nigerian Code of Corporate Governance 2018: An Ethical Approach to the Nigerian Corporate Governance System? *International In-house Counsel Journal*, 11 (45), 11-21.
- Ping, C.K. & Teck, S. (2020). Corporate Governance: Voluntary, Mandatory, or a Hybrid Approach? *International Business Research*, 13(1), 213-236.
- Rensburg, R. and Estelle B. (2011). Stakeholder engagement: A crucial element in the governance of corporate reputation. *University of Free State*, 16, 151-169
- Sean, G. (2015-2016). Corporate Governance in an Era of Compliance: *William & Mary Law Review*, 57 (6), 2075-2140
- Singh, A. (2014). *Introduction to Company Law*: (11th edition,). Easter Book Company, Lucknow.
- Solomon, J. (2003). *Corporate Governance Accountability* (4th Edition,). John Willey & Sons Ltd, West Sussex,
- Soyemi, K.A. (2020). Internal Corporate Governance Practices and Choice of External Auditor in Nigeria: A Logistic Regression Analysis. *Binus Business Review*, 11(1), 9-16 <https://doi.org/10.21512/bbr.v11i1.5894>.
- Szczudlik, K. B. (n.d.). Enforcement of Corporate Governance Mechanisms in Transitional Economies – Attainable Goal or Wishful Thinking [Master's thesis]. <http://arno.uvt.nl/show.cgi?fid=133515>
- Tricker, B. (2013). *Corporate governance, Principle, Policies, and Practice*: (2nd Edition). Oxford University.
- Ugowe, A.O. (2016). Monitoring Good Corporate Governance in Developing Countries: Evidence from Nigeria'. *Nnamdi Azikiwe University Journal of International Law and Jurisprudence*, 7, 125-133. 136247.



© 2022 by the authors. Licensee *Research & Innovation Initiative Inc.*, Michigan, USA. This article is an open-access article distributed under the terms and conditions of the Creative Commons Attribution (CC BY) license (<http://creativecommons.org/licenses/by/4.0/>).