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THE ROLE OF CODES OF CORPORATE GOVERNANCE ON ETHICAL BEHAVIOUR OF BOARD MEMBERS

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Abstract : This research paper examines the role of code of corporate governance on ethical behavior of board members. A case design methodology was adopted for corporate organizations board members in Lagos State, Nigeria. Of the 45 questionnaires administered, 40 were returned using percentages for analysis and the one way ANOVA technique to test the hypothesis. As examined, finding from the research depicted code of corporate governance has significant impact on ethical behavior of board members. It was recommended, there is need for effective communication of the code, monitoring by regulatory agencies of government, transparency in appointment and periodic training of board members would ensure effectiveness of the code of corporate governance in Nigeria.

Keywords: Ethical Behaviour, Corporate Governance, Board Members, Regulatory Agency

1.0 INTRODUCTION

The Financial Reporting Council (FRC) in year 2018 issued a draft of the Nigerian Code of Corporate Governance. Prior to the draft issuance, existing code of conduct in Nigeria were those issued by the Central Bank of Nigeria, the National Insurance Commission, the Nigerian Communications Commission and the National Pension Commission which regulate which regulate respective industry operators. Furthermore, the Securities and Exchange Commission (SEC) issued in 2011 the code of corporate governance for public companies which replaced the Securities and Exchange Commission of 2003 (Adegbite 2018; Alawode 2018; Adavize 2018).

This research focuses on the role of codes of corporate governance on ethical behavior of board members with consideration to board members commitment to the code of corporate governance, contribution of the code to the firm's sustainability, effectiveness on communication of the code and board members expertise. A critical examination revealed little research papers on code of corporate governance with relationship to ethical behaviors of board members. Section two reviews literature, section three discusses research method, section four analyses data while section five concluded with recommendations.

2.0 REVIEW OF LITERATURE

2.1 Conceptual Framework

2.1.1 History and Development of Corporate Governance in Nigeria

A fifteen man Technical committee comprising representatives of industry professionals, regulatory agencies and experienced individuals vast in corporate governance areas on 18 January 2018 was constituted by the FRC board with the mandate to review the suspended 2016 National codes and make recommendations of the code revision to the board of the FRC for its consideration.

Corporate governance is defined as a system by which corporate organizations are governed and controlled to increase shareholders value and meet other stakeholders' expectation. The collapse of corporate organizations in and out of Nigeria necessitates the need for good corporate. Corporate governance is at its rudimentary stage in Nigeria as only about 40% of listed companies recognized the codes of corporate governance in place.

With the adoption of the "Apply and Explain" principle, the Nigeria Code of Corporate Governance put into place the legal system, culture, history, structure, policies, state of the economy, political climate, level of foreign investment inflow and global economic climate.

The code shall be applicable to public companies, private companies, concessional and privatized companies. Part A of the code discussed the role of the board, board structure and composition, officers of the board, executive directors, company secretary, access to independent advice, meetings of the board, board committees, appointment to the board, induction and continuing education, board evaluation, corporate governance evaluation and remuneration governance (Chukwuyem 2018; Ekegbe 2018; Etomi 2017; Mahmoud 2018; Okereocha 2018; Onyekwere 2018; Proshare 2018; Obasesin 2019; Olaoye et al 2019; Olaofe-Obasesin et al 2020)..

2.1.2 The Concept of Ethics

Ethics is a branch of philosophy that seeks to determine the right or wrong of human activities based on experience or principles of reason encompassing consequentialism, deontology, virtue ethics and natural law. It seeks to incorporate sensitivity and methods to moral values discernment through normative judgments and moral obligations (White 2002; Valiance 2004; Obasesin & Olaoye 2019).

2.2 Empirical Review

Nworji, Olagunju and Adeyanju (2011) investigated the relationship between corporate governance and banks failure. A finding from their research depicted code of corporate governance is ideal to halt bank failures. The study prioritized corporate governance prevents bank distress with recommendation on the need by regulatory agencies to enforce implementation strategy on compliance for a sustainable macroeconomic stability. Alnasser, Shaban and Alzubi (2013) studied the effect of code of ethics, sound corporate governance in curbing financial crisis. They opined factors to financial comprise lack of trust, visibility and confidence with conclusion on availability of code of ethics and sound corporate governance can minimize financial instability. In a market based mechanism, corporate governance as a process is affected by legal and regulatory framework that improves the confidence of the investor, promotes corporate accountability and enhances qualitative financial reporting. Abdulnasser, Messara and Elgammal (2015) studied ethical practice on corporate governance in Lebanon and Egypt with ethics having positive impact on all corporate governance categories. The lower level of corporate governance as evidenced in the research paved way for ethical practice adoption. The work of the duo on ethics, corporate governance and financial reporting in the Nigerian banking industry recommended regulatory authorities in Nigeria to ensure firms adopt the international financial reporting standard for qualitative financial reporting. Their research finding revealed a major challenge to the banking industry in Nigeria is poor ethics and poor corporate governance (Adegbite and Fofah, 2016)

3.0 RESEARCH METHOD

This research seeks the role of codes of corporate governance on ethical behavior of board members. The

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primary source of data was questionnaire with the use of 4 point Likert scale. The population of study comprises board members of corporate organizations in Lagos State. Results were presented using percentages, averages and standard deviation. Seven questionnaires were administered to professionals. A total of 45 questionnaires were administered to the respondents, while 40 were retrieved representing 88%. The percentage retrieved was alright. These were analyzed using the One-Way ANOVA technique. The test of significance is performed using n-1 degree of freedom @ 0.05 level of significance.

4.0 DATA ANALYSIS

4.1 Presentation of Data

Table 1: Distribution of Responses on the Role of Codes of Corporate Governance on Ethical Behaviour of Board Members

		4	3	2	1
	Corporate Governance and Ethical Behaviour	%	%	%	%
1	Board members show high commitment to the code	32.5	27.5	22.5	17.5
2	Code contributes to long term sustainability	75	15	7.5	2.5
3	Board ensures effective implementation of code	30	17.5	35	17.5
4	Code is effectively communicated to the management	25	37.5	22.5	15
5	Board members possess the skill and expertise	35	17.5	32.5	15
6	Codes curb financial crisis	52.5	25	12.5	10
7	Code is at the right level for the organization	27.5	30	17.5	25
	Source: Survey				

Control Activities: Of the 40 respondents, 60% agreed board members show high commitment to the code while 40% disagreed. On whether code contributes to long term sustainability, 90% agreed while 10% disagreed. 52.5% of the respondents disagreed the board ensures effective implementation of code while 47.5% disagreed. On whether the code is effectively communicated to the management, 62.5% were of the agreed opinion as 37.5% disagreed. 52.5% of the respondents opined the board members possess the skill and expertise while 47.5% disagreed. As noted, 77.5% of the respondents agreed the codes curb financial crisis while 22.5% disagreed. Lastly, 57.5% agreed the code is at the right level for the organization while 42.5% disagreed.

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4.2 Analysis of Data

Table 2: Analysis of Responses on the Role of Codes of Corporate Governance on Ethical Behaviour of Board Members

	Corporate Governance and Ethical Behaviour	Mean	Std.Dev.	Var.	Skew	Kur
1	Board members show high commitment to the code	2.25	1.104	1.218	.316	-1.223
2	Code contributes to long term sustainability	1.38	.740	.548	2.052	3.715
3	Board ensures effective implementation of code	2.40	1.105	1.221	-0.34	-1.359
4	Code is effectively communicated to the management	2.28	1.012	1.025	.343	-.908
5	Board members possess the skill and expertise	2.28	1.109	1.230	.130	-1.392
6	Codes curb financial crisis	1.80	1.018	1.036	1.038	-.105
7	Code is at the right level for the organization	2.40	1.150	1.323	.204	-1.383

Source: Author's Computation

As computed from the above table, the mean comparability depicted the board ensures effective implementation of code and the code is at the right level for the organization at 2,40 while 1.150 further explained the code is at the right level on standard deviation. The contribution of the code to long term sustainability has least variance computation and highest skewness. The sharpness of the frequency as computed shows negativity except the contribution of the code to long term sustainability at 3.715.

4.3 Test of Hypothesis

Table 3: Corporate Governance and Ethical Behaviour

ANOVA – Single factor

Sources of Variation	Sum of Squares	df	Mean Square	F	Sig	F Crit
Between Groups	221.245	3	73.748	601.671	.000	2.87
Within Groups	27.68	36	0.769			
Total	248.68	39				

HYPOTHESIS:

H0: Code of corporate governance has no significant impact on ethical behavior of board members

H1: Code of corporate governance has significant impact on ethical behavior of board members

At the level of significance 0.05, with degree of freedom at 3 and 36, observed F is 601.671 which is greater than 2.87. H0 is hereby rejected, thus code of corporate governance has significant impact on ethical behavior of board members.

5.0 CONCLUSION AND RECOMMENDATIONS

The conclusion of this research paper is that the code of corporate governance has significant effect on the ethical behavior of board members based on the statistical analysis result where observed F of 601.671 was greater than the 2.87 critical value through the Statistical Package for the Social Sciences.

The following recommendations will be useful:

- Effective communication of the code of corporate governance to business organizations stakeholders for organizational success.
- Proper monitoring by regulatory agencies of the government on firms adoption and implementation.
- Transparency in appointment of board members for qualitative service delivery
- Periodic training via conference sponsorship for board members on corporate governance issues.

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