

## ETHICS IN CORPORATE GOVERNANCE

CHIDINMA CHIZURU AKPARANTA\*  
&  
UGONNA SHARON IHEKORONYE\*\*

### Abstract

*This paper is an overview of ethics in corporate governance. It examines the relevance of ethics in corporate governance. The objective of this paper is to examine ethics and how it relates to corporate governance because an organization ought to carry out its operations and profit-making based on the parameters of ethical practices and not otherwise. The paper examined the different interpretations given to the concept of ethics, and its relevance to corporate governance. The doctrinal methodology which involves primary and secondary sources of law was examined and these include legislations, articles, dictionaries, and textbooks. The finding of this paper is the nexus of ethics and corporate governance in broad and narrow views. Organizations that uphold good ethical standards are less likely to be victims of poor corporate governance. This paper made recommendations for achieving effective corporate governance based on good ethical standards.*

**Keywords:** Corporate governance, ethical principle, corporate failure, corporate entity, financial institutions.

---

\* LL.B, B.L, LL.M, Lecturer, Faculty of Law, Adeleke University, Ede. Osun State.  
Email: [chyzranta@yahoo.com](mailto:chyzranta@yahoo.com)

\*\* LL.B, B.L, LL.M, Head Of Chambers, Olumuyiwa Obanewa & Co, Opposite Sagamites Club, Sagamu, Ogun State. Email: [ugonnasharon.ihekoronye@gmail.com](mailto:ugonnasharon.ihekoronye@gmail.com)

## 1. Introduction

Ethics forms the bedrock of good corporate governance. The outcome of the practice of good corporate governance has an effect on various people who are stakeholders of a corporation and they include employees, shareholders, consumers, clients, vendors, investors, the community, pressure groups, etc. Ideally, every corporation should have its code of conduct which prescribes the appropriate standards of behaviour as it concerns various aspects of the business. In addition to this, various sectors such as the financial sector also have policy documents on ethics prescribed for them by their industry or the government. Ethics is a concept that if overlooked can result in problems for corporations locally and globally. This explains the need for firms to focus on identifying ethical goals and adhering to them.

It is the responsibility of the board, management team, and other employees to ensure that ethical culture is maintained in an organization. The board oversees corporate management to protect the interests of shareholders. The management team is not left out in promoting a culture of ethics in a firm. They are involved in the day-to-day running of an organization, part of which involves setting up and implementing of code of ethics and conduct, and deciding the penalties for defaulting staff members, etc. Employees also have a responsibility to uphold ethics and corporate governance in their relationships with colleagues, clients, vendors, and other stakeholders. According to an English court, auditors were liable where they failed to audit the accounts properly.<sup>1</sup> The law requires directors to observe utmost good faith in any transaction with a company or on its behalf.<sup>2</sup> Ethics can be regarded as an underlying factor of the principle of utmost good faith.

A conceptual framework for ethics and corporate governance, the relationship between ethics and corporate governance, fundamental principles of ethics, ethical issues in corporate governance, the relevance of ethics in corporate governance, effects of non-compliance

---

<sup>1</sup>*Re: Thomas Gerrard & Sons Ltd.* [1968] Ch 455.

<sup>2</sup>*Okeowo v Miglore* [1979] SC 133.

with ethics in corporate governance, conclusion, and recommendations are contained in this work.

## 2. Meaning of Ethics

The word, ethics has its source from the Greek word, 'ethos' and the latter refers to 'way of living'.<sup>3</sup> Ethics is sometimes referred to as moral philosophy and has been defined in different ways, one of which is that it is a philosophical study of the concepts of what is morally right and wrong and good and bad. It is considered a branch of philosophy that has to do with the conduct of human beings, and more particularly dealing with the behaviour of individuals in society.<sup>4</sup> It has also been defined as a concept that examines the rational justification for moral judgments that are given by persons.<sup>5</sup> Also, ethics is considered a system or code of rules that pertain to moral rules, principles, or values.<sup>6</sup> Furthermore, ethics is the discipline regarding what is morally right or wrong and good or bad.<sup>7</sup> Ethical principle is a pointer to what is considered right or wrong, just or unjust, good or bad, and what should be taken into cognizance in the process of making decisions.<sup>8</sup> Ethics gives insight into the justification for the moral judgements which are made by people. It provides or sets standards for how things should be done. Morality which has to do with the system of values and principles of conduct is a concept closely related or synonymous with ethics because it deals with principles that relate to the distinction between what is right and wrong or behaviour that is good and bad. Ethics is multi-disciplinary as it cuts across various disciplines. It is also applicable to culture, profession, religion, and various groups. Every discipline strives to have a code of ethics/conduct which is an official policy document that

---

<sup>3</sup> 'What is ethics?' <<https://www.canada.ca/en/treasury-board-secretariat/services/values-ethics/code/what-is-ethics.html>> accessed 25 October 2022.

<sup>4</sup> *ibid.*

<sup>5</sup> *ibid.*

<sup>6</sup> 'Ethics' <<https://www.britannica.com/topic/ethics-philosophy>> accessed 26 November 2022.

<sup>7</sup> *ibid.*

<sup>8</sup> 'Ethical Principles' <<https://pallipedia.org/ethical-principles/>> accessed 27 October 2022.

provides official standards of conduct that every member of a group is required to uphold.<sup>9</sup> For instance, the code of ethics in the medical profession amongst binds health workers while has its rules of professional conduct for legal practitioners, and other fields of endeavours have their code of ethics. There is a consequence for non-compliance with the code of ethics of any organization or industry and such violation implies that a rule has been disobeyed and therefore, this will attract punitive measures like imposition of fines, withdrawal of professional licence, etc. all with an aim to deter further non-adherence.

Fundamental principles of ethics are beneficence, non-maleficence, autonomy, justice, truth-telling, and promise-keeping; they form the bedrock of ethics. Ethics do not provide a direct guide that ensures that a person makes a decision that is ethically correct but instead, it points to considerations that should be weighed when decisions are to be made.<sup>10</sup> The moral choices that are made by directors, management, and other employees in the course of work are informed by ethics.

### **3. Meaning of Corporate Governance**

Corporate governance is a practice that involves governing and controlling a business to increase the values of shareholders and also to meet the needs of other stakeholders. It is also described as a set of rules, regulations, and controls which prescribe the corporate behaviour of an organization. These principles, rules, regulations, and controls provide the ethical standards of a corporation.

It is used to ensure the smooth running of a corporate entity to enable it to achieve its set objectives and goals. Corporate governance which involves identifying and seeking to balance the various interests of the stakeholders of a corporation can achieve this when ethics is placed on the front burner of such an organization.

### **4. Relevance of Corporate Governance**

---

<sup>9</sup> 'Code of Ethics' <<https://www.dictionary.com/e/pop-culture/code-of-ethics/>> accessed 7 November 2022.

<sup>10</sup> 'Ethical Principles' <<https://pallipedia.org/ethical-principles/>> accessed 5 November 2022.

The relevance of corporate governance cannot be over-emphasized for various reasons. If ethical principles are taken into cognizance in corporate governance practices, it will result in good corporate governance. On the other hand, a practice of good corporate governance depicts that a corporation is ethically guided. With corporate governance, a corporation will be able to establish and effectively regulate a good relationship with stakeholders. This can happen when a firm does its financial reporting as required by law because it means that the firm is ethically responsible to its shareholders, government, and other stakeholders. An ethically responsible firm will ensure that it is accountable to its shareholders who are the owners of the business and it does this by auditing and financial reporting of the financial statement of the corporation. The ethical principle involved here is accountability. Another ethical principle that is showcased by the act of financial reporting is transparency which involves setting out facts, records, and other relevant information of the firm to the shareholders and other stakeholders as may be required.

Corporate governance is also necessary since it will enable the board to pursue objectives that are not just beneficial to the corporation but that are in alignment with the interests and goals of the shareholders and other stakeholders. With the practice of good corporate governance, a firm will become a good corporate citizen and this is because since good corporate governance is founded on adhering to good ethical principles, such a company will act like good corporate citizens by abiding by laws, rules, and regulations as required. As firms comply with legal and regulatory requirements, it goes to prove that they are good corporate citizens.

Corporate governance enables a corporation to reduce the risks associated with running the business, i.e. corporate risks. Corporate governance practices founded on good moral principles will ensure that a firm reduces or avoids risks. Risks result in operational challenges to business entities which sometimes lead to reputational damages of companies. A corporation has improved efficiency in its operations with the practice of good corporate governance. Beyond the business, the society where the business operates also becomes a beneficiary of the improved efficiency of the corporation. The ethical

principle of trust will be the resultant effect of the practice of good corporate governance. Various stakeholders will better trust a firm that practices good corporate governance than otherwise. This makes them want to do business with the firm.

### **5. Fundamental Principles of Ethics**

Ethical principles are useful for the evaluation of the actions of humans. There are four fundamental principles of ethics and they are: beneficence, non-maleficence, autonomy, and justice.

Beneficence as a principle of ethics implies the duty to always act in the best interest of others which include clients, patients, etc. This means that a person must always act having in mind the utmost good of the other person for whom he is acting. Going by this principle of beneficence, treating a person in an ethical manner is respecting the decisions of such persons, protecting them from harm, and making efforts to secure their well-being.<sup>11</sup> In the financial industry, the ethical principle of beneficence means that the activities of the banks, insurance companies, mortgage banks, etc. must always be in the best interest of their clients and other stakeholders. Two rules have been formulated by the principle of beneficence and they are: do not harm and maximize possible benefits and minimize possible harm.<sup>12</sup>

Non-maleficence on the other hand is the duty to do no harm to a person and to protect other persons from harm and this also extends to maintaining the professional competence of oneself.<sup>13</sup> The ethical principle of autonomy has to do with a person's duty to respect and promote the choices of a person for himself in achieving what he considers to be in his best interest. However, if this best interest of an individual is an infringement on the best interests of other persons i.e. detrimental to another individual, it will be limited or curtailed. This duty pertains to respect for confidentiality and privacy; privacy with respect to information and freedom from unwanted or unnecessary

---

<sup>11</sup> 'Basic Ethical Principles' <<https://www.stmarys-ca.edu/institutional-review-board/basic-ethical-principles>> accessed 5 November 2022.

<sup>12</sup> *ibid.*

<sup>13</sup> 'Ethical Principles' <<https://pallipedia.org/ethical-principles/accessed>> 5 November 2022

inference by other people.<sup>14</sup> Justice as a fundamental principle of ethics recognizes that everyone in a society has equal moral worth and should be treated fairly.<sup>15</sup> Whatever is meant to be distributed ought to be fairly distributed on the basis of justice. The reverse would be the case if what a person ought to receive is denied him for no justifiable reason or when a burden is imposed unduly. This is referred to as injustice.

### **6. Relationship Between Ethics and Corporate Governance**

Corporate governance is an aspect of ethics. In a narrow sense, corporate governance is subsumed in ethics but in a broad sense, imbibing ethical principles makes for good corporate governance. Corporate governance ethics implies the moral justifications for carrying out our corporate governance practices; whether the practices are good, bad, right, wrong, just, or unjust. The concept of ethical principles considerations in corporate governance is necessary because it sanitizes a corporation; it ensures that governance practices are carried out in good faith to promote not just the objectives of a corporation but also the values of the same and to strengthen the confidence of investors. The practices in a corporation must conform to good ethical practices to pass the test of good corporate governance. Ethics is important in achieving good corporate governance. Failure to do this may result in ethical issues of corporate governance pertaining to transparency, accountability, conflict of interest, oversight issues, ethics violations, etc. Corporate governance is a practice that finds proper definition when situated within the context of ethics and the practice of good governance in any corporation sets it apart in a positive light. Corporate governance practices and codes provide the guidelines for ethical practices in a corporation. They contain what is right and wrong in the practice of corporate governance.

Profit can be maximized and the reputation of a corporation is made good if good ethics are established and also upheld by a firm. Ethical conduct is capable of influencing the objectives of an organization. Therefore, adherence to good ethical principles will positively affect

---

<sup>14</sup>*ibid.*

<sup>15</sup>*ibid.*

the achievement of the objectives of a corporation. If bad ethical principles are promoted by a corporation, it will mar the success of such a business entity. Complying with ethical values or standards impact positively on the performance of a corporation.

Prescribed standards of behaviour for business entities are established by virtue of ethical principles. Ethical principles are applicable to both individuals who work in an organization and the organization as a corporate entity. Principles such as integrity, honesty, loyalty, fairness, concern for others, promise-keeping, trustworthiness, concern for persons, benevolence, respect for others, fidelity, veracity, commitment to excellence, etc.<sup>16</sup> are often associated with ethical conduct. Making these principles a culture of an organization ensures the well-being of a business entity. Also, putting the right leadership in place to set the tone for the establishment of a good ethical culture in a corporation cannot be over-emphasized. Recruiting persons who already are ethically inclined will ensure a smoother adherence to ethical principles when they are employed. Some of the principles of ethics are discussed below.

#### **i. Integrity**

Integrity has been described as an attribute of being honest and having and sticking to strong moral principles.<sup>17</sup> It has also been defined as “adherence to moral and ethical principles; soundness of moral character”. Put differently, when a person commits to doing what he said he would do, he is said to be one with integrity.<sup>18</sup> A person who is said to have integrity believes in and exhibits ethical values irrespective of the circumstances he finds himself. Such a person or organization is said to act in an upstanding way because he/she conducts himself in an ethical manner. This principle is expected of board members, executives, and employees of a corporation.

---

<sup>16</sup> ‘Ethical Challenges of Financial Services

Industry’ <[https://www.researchgate.net/publication/346016256\\_Ethical\\_Challenges\\_of\\_Financial\\_Services\\_Industry\\_Paper\\_Presented\\_in\\_the\\_Finance\\_Conference\\_on\\_Contemporary\\_issues\\_in\\_Finance\\_organized\\_by\\_Gujarat\\_Technological\\_University](https://www.researchgate.net/publication/346016256_Ethical_Challenges_of_Financial_Services_Industry_Paper_Presented_in_the_Finance_Conference_on_Contemporary_issues_in_Finance_organized_by_Gujarat_Technological_University)> accessed 4 November 2022.

<sup>17</sup> ‘Integrity’ <<https://dictionary.cambridge.org/dictionary/english/integrity>> accessed 9 November 2022.

<sup>18</sup> ‘Integrity’ <<https://www.dictionary.com/browse/integrity>> accessed 9 November 2022.

They are required to uphold what is right at all times and refrain from indulging in unethical practices. When persons in a corporation are faced with improper deals that may yield profit to the individuals to the detriment of the firm or yield profit to the firm but in an improper way, by the ethical principle of integrity, they are expected to not indulge in such sharp practices because they are unethical. Sometimes, firms make promises of all kinds to clients and consumers all to no avail. For instance, a situation where a corporation promises to give scholarships to residents of a community where it does business as part of its corporate social responsibility and fails to honour this promise is a show of lack of integrity which is at the root of unethical practices. This ought to be discouraged if good corporate governance is to be achieved. It could be a promise to maintain a certain local content quota in the employment of persons from the community where the firm operates (as in the case of some oil companies that operate in the Niger Delta region of Nigeria) or improve the infrastructure in those communities and they fail to do so. Therefore, a corporation with integrity is one that seeks to close the gap between its promises and actions and make sure that its dealings with stakeholders are in conformity with its goals.<sup>19</sup> A firm that upholds high integrity will give hope to the shareholders and other stakeholders that the managers and board members of the firm know what they are about and can help in achieving the objective of the firm as well as sustainability.

#### ii. **Honesty**

The word, honesty has been defined as “adherence to the facts and straightforwardness of conduct”.<sup>20</sup> It is when a person refuses to steal, lie, or deceive.<sup>21</sup> It is a principle of ethics found in the business environment. Management, board members, management, and other employees of a firm are expected to be honest in their business as individuals and in their business dealings. Imbibing the ethical principle of honesty means that a corporation

<sup>19</sup> ‘Business Integrity: What Does it Mean, and Why Does it Matter?’ <<https://www.diligent.com/insights/esg/business-integrity/#:~:text=The%20definition%20of%20integrity%20in,permeates%20your%20entire%20organiz>> accessed 9 November 2022.

<sup>20</sup> ‘Honesty’ <<https://www.merriam-webster.com/dictionary/honesty>> accessed 10 November 2022.

<sup>21</sup> *ibid.*

does not engage in misrepresentation, overstatements, falsification of accounts, deliberate omissions, or inclusions of false information in its business dealings. Dishonest dealings with specific reference to accounting/financial misrepresentations have led to scandals and the eventual collapse of global corporations such as Enron, Lehman brothers, Polly Peck, Cadbury, and Nigerian banks such as Oceanic and Intercontinental banks. Accounting firms have been pinpointed as being complicit in these dubious acts of misrepresentation or window-dressing of the financials of a firm. Honesty plays a key role in business and corporate governance precisely because with it the culture of an organization can be established, its values determined and this will lead to sustained success for the organization.<sup>22</sup> Imbibing the principle of honesty in a workplace will help to ensure that there is consistent behaviour in the workplace.<sup>23</sup> This is because the employees of a corporation who have honesty as a watchword will stay true to the values of the business irrespective of what they may be faced with. They will be sincere in their dealings with all stakeholders of the corporation. Whatever the culture of the firm, they will be consistent with it. Employees that uphold honesty will not engage in window dressing of its financials or other matters associated with the corporate governance of the firm. When customers know that a business upholds honesty as a principle, they will be comfortable in having business dealings with such a firm. Clients trust the activities of a firm which has honesty as an underlying principle of its operations. When a firm engages in its business in the right way, the benefit will reflect on increased patronage of customers, positive involvement of other stakeholders, good reputation, and increase in yield for the business.

### iii. **Accountability**

This ethical business principle is responsible for ensuring that shareholders are kept in the loop of how their investments are utilized and managed with the aim of achieving the set goals and objectives of the business. The board of directors and management of a business have a fiduciary duty to the

---

<sup>22</sup> 'Why is honesty important in a business?'

<https://smallbusiness.chron.com/honesty-important-business-22624.html> accessed 10 November 2022.

<sup>23</sup> *ibid.*

shareholders of the business to run the business effectively and to give them the necessary information as required by the law, part of which is by making available to the shareholders the financials of the corporation through a proper financial reporting devoid of misrepresentations. Shareholders and indeed other stakeholders ought to know the true position of things in the Firm.

iv. **Loyalty**

Loyalty Is An Expression of support for someone or a cause. It also involves allegiance to the same. This principle of ethics is shown when directors, executives, and employees exhibit devotion to their duty, support for the business and colleagues at work, avoidance of conflict of interest in carrying out their duties at work, confidentiality, etc. Loyalty is essential for any business entity to function effectively and avoid ethical issues associated with the non-loyalty of directors, management, and other employees.

v. **Fairness**

This is a principle of ethics that refers to being impartial and having to treat people in a just manner, devoid of discrimination. It is a relevant ethical principle of business that will enable a corporation to relate better with its clients, customers, and employees. It will enable employees to deal with one another conscientiously. Executives of a corporation are by this principle required to be fair and just in their dealings both with employees, clients, vendors, shareholders, etc.

## 7. Ethical Issues in Corporate Governance

Ethics is multidisciplinary which implies that it is applicable to different disciplines. Therefore, in the financial industry, with specific reference to the area of corporate governance, there exist different ethical issues including board diversity, remuneration, stakeholder accountability, conflicts of interest, misappropriation of assets, inadequate or non-disclosure, lack of direct chain of command, financial reporting and analysis, and transparency, etc. Effective corporate governance can be attributed to effective adherence to ethical principles. It is the duty of every stakeholder of a business to maintain a good ethical culture.

The financial industry is made up of corporations doing business in the financial sector and they include, Insurance companies, mutual funds companies, banks, mortgage lenders, securities firms, investment banks, pension fund firms, etc.<sup>24</sup> Ethical issues result from non-compliance or adherence to ethical values. Ethical lapses may occur in a corporation for different reasons but adherence to a good ethical culture in the financial sector will make the business more profitable, give it a good image, or help in sustaining an already good image of a business. Businesses must seek to align with international best practices of ethics to be situated in the scheme of things globally and nationally. Basic issues involved in ethics include virtues/vices, greed, satisfaction, free will, utilitarianism, altruism, confidentiality, conflict of Interest, whistle-blowing, acceptance of gifts, insider dealing, etc.

### **7.1 Conflict of Interest**

This is one of the issues of ethics that can be experienced in the financial sector and which is a corporate governance concern. It refers to a situation where there are conflicting interests. The outcome of this conflict of interest is such that one person will by the action carried out derive benefit to the disadvantage of the other. It is important for members of the board to know what makes up a conflict of interest and how it can be managed so that the integrity of the board can be guaranteed.<sup>25</sup> A way to do this will be to ensure that what constitutes conflict of interest, how to manage it, what to do with defaulters etc. are all contained in the code of ethics of a corporation for easy access to staff members and the board. Conflict of interest can occur when an employee is working in another firm while working in his/her current job, working in a company that is in competition with the current company, board members make disclosures that can jeopardize the interest of the firm they work in, etc.

### **7.2 Engaging in Excessively Speculative Investments**

---

<sup>24</sup> 'Ethical Issues in the Financial Services Industry', <<https://www.scu.edu/ethics/focus-areas/business-ethics/resources/ethical-issues-in-the-financial-services-industry/>> accessed 4 November 2022.

<sup>25</sup> 'Conflicts of Interests' <<https://leadinggovernance.com/blog/resources/conflicts-of-interest/>> accessed 21 December 2022>.

A speculative investment is a type of investment where there is a high risk of loss to be experienced. If an investor or a corporation embarks on such a venture, the chances that it will be profitable will be very low. Therefore, when a firm engages in such manner of business at a very high rate, it is unethical and results in huge losses rather than gains for the firm. Organizations are set up with the goal of making profit and not losses. The element of profit-making can only be discountenanced in not-for-profit organizations but for a business outfit to want to take on any investments, it must not be done arbitrarily without first taking into cognizance the chances of viability or otherwise of the intended investment. The investment must first be tested and proven or if not previously tested, then embarking on it ought to be done only on a low scale to avoid accruing huge losses for the firm.

### **7.3 Poor Credit Lending Practices**

Banks being a part of the financial sector contributes to the high rate of unethical practices for which the industry is known for. This occurrence is notable due to the arbitrary giving of credit facilities to undeserving persons (corporations or individuals) in a society. For instance, a socially irresponsible organization should not qualify for credit lending by a bank.<sup>26</sup> This practice is unethical and is capable of leading to the collapse of a corporation. When a corporation decides to give credit facility, it must do so after having done the necessary due diligence on the potential client.

### **7.4 Inadequate Disclosure**

Disclosure is essential in business and inadequacy of disclosure or total lack of disclosure is one of the ethical issues that can arise in a corporation. The practice of disclosure means that a corporation is involved in the process of letting the public have facts or information as may be considered necessary. When a corporation makes proper

---

<sup>26</sup> 'Ethical Challenges of Financial Services Industry'

<[https://www.researchgate.net/publication/346016256\\_Ethical\\_Challenges\\_of\\_Financial\\_Services\\_Industry\\_Paper\\_Presented\\_in\\_the\\_Finance\\_Conference\\_on\\_'Contemporary\\_issues\\_in\\_Finance'\\_organized\\_by\\_Gujarat\\_Technological\\_University](https://www.researchgate.net/publication/346016256_Ethical_Challenges_of_Financial_Services_Industry_Paper_Presented_in_the_Finance_Conference_on_'Contemporary_issues_in_Finance'_organized_by_Gujarat_Technological_University)> accessed 4 November 2022.

disclosure, it gives its stakeholders relevant information. This also includes information that a corporation ought to give to its shareholders. Such information ought to be proper, adequate, and timely.

#### **8. Reasons for Ethical Issues**

Several reasons can be attributed as the cause of ethical issues in an organization. Sometimes people perpetrate unethical practices because other people are seen to be doing it.

A business may run into ethical issues when it comes under financial pressure. This type of pressure may be as a result of the need to raise funds to cater to the financial needs of the firm. For instance cost of overhead can become an issue for the managers of a business which may lead to embarking on unethical practices to raise money to resolve their pending issues.

A corporation can also experience ethical issues when it experiences rapid growth or rapid expansion and some persons (board members, executives, or auditors) may want to engage in sharp practices in order to meet up with the growth of the business. There may also be internal pressure in the workplace from colleagues, superiors, or stakeholders to carry out unethical practices. Violation of ethical principles could be as a result of persons having the belief that it is a norm in the firm. This perception that it is a culture of the organization can be a fact or a misconception. However, if it is factual, then it will make unethical practices to thrive. But if it is a misconception, then it will be in the interest of the firm to correct the wrong impression. When unethical practice is the order of the day in a corporation, it will encourage further perpetration of the practice. When there are loopholes in a system/organization, it will affect the level of unethical concerns because persons will take advantage of these gaps or loopholes to conduct themselves unethically. For instance, a situation where staff members only get to render their services appropriately when they are bribed by clients and this goes undetected by the compliance unit or audit unit of the firm, can encourage more of such practice. Also, if a firm involved in oil and gas breaches environmental policies and laws without penalties meted out on it, this can increase the level of unethical practices of that nature. And if inadequate sanctions are

given, it can also lead to an increase in the offence. In some cases, the perpetrators may go unpunished for their offences. This becomes a motivating factor for others who will come to believe that they can commit the same offences and not be punished.

### 9. Relevance of Ethics in Corporate Governance

Ethics will foster trust in a corporation. Shareholders who have made investments in a business will trust that the management and board of the organization will take good care of their investment if the business has an effective ethics-based culture. Clients/customers will trust the brand because of the honesty, integrity, accountability, and other ethical values that form their culture and based on that they will be more loyal to the corporation.

A Firm will gain more client loyalty as a consequence of having a good ethical culture to increase the clientele base of the organization and also help to improve their brand. A good clientele base with loyal clients will help with the success of a business for different reasons, one of which is that serving an existing customer does not involve marketing costs as would acquiring a new customer.<sup>27</sup>

The reputation of an organization will be enhanced when such an organization practices good ethical principles. The Firm will have a positive image in the marketplace and gain referrals.<sup>28</sup> It will help to set a business apart from the others because of its good ethical practices and be a good advertisement for the corporation.

Ethics is relevant in corporate governance because it will provide the necessary check on managers to deter them from abusing the powers conferred on them. Unfettered powers in the hands of members of the board or management team can be harmful to the business. It will also curb their involvement in improper actions that can potentially result in scandal or losses for the corporation. For instance, a corporation with strong ethical culture will not be involved in tax evasion, non-

---

<sup>27</sup>‘The Advantages of Ethical Behaviour in Business’ <<https://smallbusiness.chron.com/advantages-ethical-behavior-business-21067.html>> accessed 11 November 2022.

<sup>28</sup>*ibid.*

compliance with industry and government regulations (such as pension remittance, labour regulations, etc.), and other forms of misconduct.

Ethics will also help streamline the actions and behaviours of other employees of a firm in their normal official routine work to be in conformity with the set objectives and goals of a firm. Such employees would have imbibed a particular ethical culture associated with the particular firm and which would usually be in sync with the values of an organization and be a means to achieving the objectives of the corporation.

Imbibing ethics and good corporate governance will help the firm to avoid legal suits that may arise from improper conduct or non-compliance with regulatory policies. It will also help a corporation to attract a good workforce because a firm with such practices will become reputable for best practices and attract employees. When an organization deals fairly and transparently with its employees, it stands a better chance of attracting and retaining talented employees.

Effective adherence to good ethics will enable a firm to become a good corporate citizen who complies with the policies of the industry and laws of the land as required. Profit can be maximized with good ethical principles. Ethical conduct is capable of influencing the objectives of an organization. Therefore, adherence to good ethical principles will positively affect the achievement of the objectives of a corporation. But if bad ethical principles are upheld by a corporation, it will mar the success of such a business entity. Aligning with ethical values or standards impact positively on the performance of a corporation.

#### **10. Non-Compliance with Ethics in Corporate Governance**

When a corporation establishes and practices a strong ethics-based culture which will foster good corporate governance practices the society at large will be a great beneficiary.

With poor compliance with ethics in corporate governance, a business can lose old customers and fail to gain new customers. With the advancement of technology in recent times, word can easily go around via various social media platforms on the wrong dealings that a corporation might be engaged in. This will result in poor branding for the organization and impact on its client base negatively. In the past,

an accounting firm known as Arthur Andersen became notable for sharp accounting practices. Their lack of integrity, honesty, and inability to live up to professional ethics led to the scandals and losses its clients (such as Enron, Polly Peck, Cadbury, Lehman Brothers, etc.) experienced.

Non-compliance with ethics can lead to lawsuits, legal fees, and penalties such as fines, withdrawal of license, suspension, etc.

### **11. Conclusion**

Corporate governance can be effectively achieved if efforts are made to establish and comply with ethical standards set up within organizations and those set up in the industry or by government regulators. It is expected that organizations will have an ethical culture that is known and practiced in the whole ecosystem of the organization. Every business decision has a component of ethics within it and the implication of this is that ethical consequences must be taken into cognizance before making any business decision.<sup>29</sup>This will help to curb activities that will result in loss of profit, reputation, and confidence of investors.

### **12. Recommendations**

The recommendations made below are aimed at improving the corporate governance practices of corporations. One of the recommendations is that every organization should establish an appropriate policy regarding a code of ethics. An established code of ethics or code of conduct must be bespoke to suit the needs of each organization.

Ethical standards should be raised in every firm to be in sync with global best practices to ensure that corporations are globally competitive as well as locally relevant.

It is also important for corporations to set up a committee on ethics which will be responsible for ensuring that persons who work in the

---

<sup>29</sup> 'Inter-relationship between Business Ethics and Corporate Governance among Indian Companies'

[https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1751657#:~:text=Key%20elements%20of%20good%20corporate,to%20Growing%20Profits%20and%20Reputation](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1751657#:~:text=Key%20elements%20of%20good%20corporate,to%20Growing%20Profits%20and%20Reputation). Accessed 17 November 2022.

firm comply with compliance with the ethics policy of the corporation. Likewise, regulatory bodies should set up effective ethics committees to carry out monitoring to ensure success in the implementation of the code of ethics by corporations.

Training and retraining of staff members on the code of ethics are necessary steps that will make for understanding and effective compliance of members with the code of ethics of corporations as well as those of the industry and professional bodies.

The learning of ethics as a course should be included in the curriculum of programmes of tertiary institutions, professional certifications, schools of business and management, or other kinds of organized training.

Adequate punitive measures should be meted out on defaulters of the code of ethics in corporations, professional bodies, etc. to effectively deter future defaulters.

Regulatory bodies should be required to publish reports on compliance with their code of ethics on a regular basis such as quarterly, bi-annually, or annually.

A good and functional reward system should be established to recognize and reward the efforts of adherents of ethical values or policies in the different places where they are operational.

AJLEE (2021)