Available on: https://jefrr.ep-journals.org/ E-ISSN: 3051-3650 P-ISSN: 3051-3642

Journal of Economic Finance Research and Review

Volume: 01 Issue: 06 December 2025

Fundamental Issues in Corporate Governance: Theory, Practice, and Global Developments

Dr. Abu Kai Kamara
University of Sierra Leone – Fourah Bay College

Dr. Dante Alie Bendu
University of Sierra Leone – Fourah Bay College

Published Date: December 25, 2025 **Article DOI: 10.65150/EP-jefrr/V1E6/2025-05**

CHAPTER ONE: BASIC PRINCIPLES OF CORPORATE GOVERNANCE

1.0. Introduction

The separation of ownership from management control in modern corporations leads to both positive and negative externalities. While this division allows for professional management and improves organizational efficiency, it also introduces challenges in effectively overseeing and protecting stakeholder interests. These issues underscore the importance of corporate governance, which seeks to ensure that managerial decisions reflect the broader goals of the company and its stakeholders.

Corporate governance refers to the system of principles, structures, and processes that guide and oversee a company. It includes the mechanisms that allocate rights and responsibilities among different participants—mainly shareholders, the board of directors, and management. Effective corporate governance encourages accountability and transparency, boosts long-term shareholder value, and helps prevent conflicts of interest between owners and managers. Clarifying the roles and expectations of shareholders and executives helps reduce agency issues and improve organizational performance.

This chapter provides an overview of corporate governance practices within corporations and public institutions, with a particular focus on assessing the effectiveness of governance mechanisms in minimizing principal–agent conflicts. The review adopts multiple theoretical and practical perspectives to illustrate how corporate governance facilitates alignment between managerial actions and shareholder interests. Furthermore, it emphasizes the importance of developing positive relationships between managers and owners through well-designed governance frameworks, which can lead to improved decision-making, reduced agency costs, and enhanced organizational sustainability.

1.1 Main Issues Covered by Corporate Governance

1.1.1 Nature of Corporate Governance

Corporate governance encompasses a wide range of activities and responsibilities associated with the effective functioning of an organization. Its scope and application vary across industries, legal systems, and cultural contexts, making it challenging to adopt a single, universally acceptable definition. Although corporate governance applies broadly to all types of business entities, the issues surrounding ownership and control are most pronounced in publicly listed corporations. In private firms, where owners and managers are often the same individuals, agency problems tend to be less significant.

To better understand the concept, it is useful to consider the key terms separately. The term *corporate* refers to a legal entity that is distinct from its owners, possesses limited liability, and operates within regulatory frameworks for the purpose of conducting business. *Governance*, on the other hand, refers to the systems and processes used to direct and control an organization. It encompasses accountability, transparency, ethical conduct, and decision-making processes.

Thus, corporate governance can be viewed as the framework within which corporate objectives are set, performance is monitored, and organizational responsibilities are fulfilled. It is not limited to compliance with legal requirements but also involves ethical considerations, leadership practices, risk management, social responsibility, and corporate culture. Effective governance integrates policies, values, and codes of conduct that guide how organizations operate on a daily basis.

According to Llopis et al. (2007), corporate governance takes into account the interests of all stakeholders, including shareholders, directors, managers, employees, and consumers. Practicing strong corporate governance provides numerous benefits, such as reducing investor risk, enhancing organizational performance, and increasing the firm's attractiveness to external capital.

Different scholars define corporate governance from various perspectives. For example, Shleifer and Vishny (1997) describe corporate governance as the mechanisms through which providers of finance ensure a return on their investment. Similarly, the OECD (1999) defines corporate governance as "the system by which business corporations are directed and controlled." Despite variations in definitions, a common theme emerges: corporate governance is fundamentally concerned with ensuring accountability, protecting stakeholder interests, and guiding organizations toward ethical and efficient conduct.

1.1.2. Corporate Governance in the Contemporary Global Economy

In today's interconnected global economy, corporate governance has evolved beyond its traditional conception as a technical or administrative framework confined to boardrooms. It now functions as a comprehensive system embodying trust, fairness, and accountability among corporations and their diverse stakeholders. Corporate governance is commonly defined as the set of rules, practices, and processes through which corporations are directed and controlled. It fundamentally shapes not only organizational performance but also the broader economic welfare of employees, investors, regulators, consumers, and society as a whole (OECD, 2015).

The critical significance of corporate governance has been highlighted by major corporate collapses such as Enron and WorldCom, where deficiencies in governance mechanisms and transparency produced catastrophic outcomes—most notably the erosion of investor confidence, corporate insolvencies, and widespread economic disruption (Tricker, 2019; Mallin, 2019). These failures precipitated a global wave of governance reforms that underscored transparency, ethical conduct, and accountability as essential pillars of sustainable business practice. At its core, corporate governance delineates the relationships among management, boards of directors, shareholders, and other stakeholders, influencing the integrity of financial reporting—the principal medium through which firms communicate their performance and long-term viability (Solomon, 2020; Spencer Stuart, 2021).

Effective governance structures—such as independent boards, audit committees, and robust internal control systems—cultivate a culture of oversight that mitigates risks of fraud and misrepresentation. Such mechanisms enhance investor confidence and support sustainable, long-term organizational growth. In a globalized context where corporate activities exert profound social and economic impacts, governance frameworks therefore extend beyond mere compliance; they embody the ethical and fiduciary responsibilities that connect enterprises to the societies in which they operate.

The importance of corporate governance becomes especially evident when examined against the backdrop of historical corporate failures. Scandals such as Enron and WorldCom vividly demonstrated how weak governance, inadequate oversight, and opaque financial practices can destroy shareholder value and destabilize entire markets (Tricker, 2019). These events served as stark reminders of the consequences of neglecting transparency and accountability: job losses, depleted pensions, and diminished public trust. Consequently, they spurred international reform initiatives that positioned transparency, integrity, and ethical leadership as non-negotiable standards of modern corporate management (Mallin, 2019).

At its essence, corporate governance concerns the network of relationships between those who manage corporations and those who provide them with capital. It represents a balance of power and trust in which boards of directors oversee managerial actions, shareholders exercise ownership rights, and other stakeholders seek assurance that their interests are safeguarded (OECD, 2015). The quality of governance determines the reliability of financial disclosures—the central narrative through which organizations articulate their economic health and strategic direction. When conducted effectively, financial reporting becomes a credible source of information that enables investors to make informed decisions, regulators to uphold public confidence, and employees to trust in the stability and ethical standing of their employer (Solomon, 2020).

Robust governance manifests through tangible institutional mechanisms. Independent audit committees ensure financial accuracy and accountability, boards composed of diverse and objective directors provide strategic oversight, and strong internal control systems protect against unethical behaviour and operational inefficiencies (Spencer Stuart, 2021). When these mechanisms operate cohesively, they foster a corporate culture characterized by transparency and ethical discipline—attributes that significantly reduce the likelihood of fraud or misstatement and, in turn, reinforce the trust upon which market confidence depends.

1.2. Basic Theories in Corporate Governance

1.2.1 Agency Theory

Agency Theory remains the most widely cited framework in corporate governance and financial reporting research. Originating from the key insights of Berle and Means (1932) and later formalized by Jensen and Meckling (1976), the theory explains the principal–agent relationship that occurs when shareholders (principals) delegate decision-making power to managers (agents). Since managers usually have better information about the firm's operations and might pursue personal goals—such as perks or empire-building—information asymmetry develops. This situation increases the risk that managerial actions could diverge from shareholder interests.

To mitigate this risk, Agency Theory advocates for governance mechanisms designed to align the incentives of principals and agents while reducing agency costs—namely, the costs of monitoring, controlling, and motivating management. Commonly proposed mechanisms include an effective and independent board of directors, the establishment of audit committees, external audits conducted by reputable firms, and compensation schemes that link managerial rewards to long-term organizational performance.

Financial reporting plays a central role within this theoretical framework. Transparent and reliable financial statements reduce information asymmetry and provide shareholders with the means to monitor managerial performance. Empirical studies in both developed and developing economies support the agency-theoretic proposition that firms with stronger governance structures tend to exhibit higher-quality financial reporting (e.g., Dechow et al., 2010; Klai & Omri, 2011).

Despite its prominence, Agency Theory has notable limitations. It has been criticised for its narrow focus on shareholder wealth maximisation and its reliance on control-oriented governance mechanisms, potentially overlooking broader social responsibilities and the intrinsic motivation of managers. These critiques have encouraged the development of complementary perspectives, including Stakeholder and Stewardship theories.

1.2.2. Stakeholder Theory

Stakeholder Theory, initially articulated by Freeman (1984), expands the scope of corporate governance beyond the traditional principal–agent dyad by recognising the firm's obligations to a wide range of stakeholders, including employees, customers, suppliers, creditors, government agencies, and local communities. Each stakeholder group contributes resources essential to organizational success and therefore holds a legitimate claim on the firm's accountability.

Within this framework, financial reporting is conceptualised as a tool that serves diverse informational needs rather than those of investors alone. High-quality, timely, and transparent financial disclosures enable creditors to assess solvency, assist regulators in monitoring legal compliance, inform employees about job security, and help the public understand the firm's broader economic and social impact.

In contexts where communities and government bodies closely scrutinise corporate behaviour, Stakeholder Theory underscores the importance of financial statements that reflect not only profitability but also sustainable and responsible operations. Governance mechanisms such as stakeholder representation on advisory boards can facilitate the incorporation of diverse interests into decision-making processes.

While Stakeholder Theory provides a more holistic conception of corporate accountability, critics note that balancing the often divergent interests of multiple stakeholders can be challenging and may lead to conflicts of prioritisation. Nonetheless, the theory offers a valuable complement to the more shareholder-centric Agency Theory.

1.2.3. Stewardship Theory

Stewardship Theory presents an alternative view of managerial behaviour. Developed by Donaldson and Davis (1991), it posits that managers act not merely as self-interested agents but as stewards who are intrinsically motivated to pursue the best interests of the organization and its stakeholders. From this perspective, managers identify closely with the firm's mission and derive personal satisfaction from its success.

Consequently, governance mechanisms should focus not solely on monitoring and control but also on empowering managers, fostering trust, and supporting long-term strategic leadership. Boards of directors, in this model, function as strategic partners rather than adversarial overseers. Stewardship Theory implies that, given sufficient support and alignment with organizational goals, managers will naturally strive to produce accurate and transparent financial reports.

However, the theory assumes a level of managerial professionalism and integrity that may not always be present, particularly in environments characterised by limited regulatory oversight. For this reason, scholars often advocate for a balanced approach that combines trust-based governance structures with appropriate monitoring mechanisms.

1.2.3. Legitimacy Theory

Legitimacy Theory offers an additional lens through which to understand the relationship between corporate governance and financial reporting. Rooted in institutional theory, it posits that organizations seek to ensure that their actions are perceived as legitimate—that is, aligned with societal norms, values, and expectations (Suchman, 1995).

Financial reporting serves as a key instrument through which firms convey legitimacy. By complying with International Financial Reporting Standards (IFRS), meeting national regulatory requirements, and voluntarily disclosing environmental, social, and sustainability information, corporations signal their commitment to transparency and responsible conduct. In emerging markets where public scrutiny is increasing, legitimacy is essential for maintaining the support of regulators, investors, and local communities.

Governance mechanisms such as independent audits, transparent annual general meetings, and the publication of sustainability or integrated reports help reinforce the organization's legitimacy. Nevertheless, critics argue that societal expectations are often fluid and context-dependent, making Legitimacy Theory difficult to operationalise empirically. Despite this limitation, the theory provides an important explanation for why firms frequently adopt disclosure practices that exceed minimum statutory requirements.

1.3. Key Corporate Governance Attributes

The corporate governance framework identifies several structural and procedural attributes that are widely regarded as critical determinants of financial reporting quality. These attributes shape the effectiveness of oversight, the credibility of disclosures, and ultimately the confidence placed in financial statements by various stakeholders.

1.3.1. Board Size and Composition

The size and composition of the board of directors constitute a central governance attribute. An optimally sized board—neither excessively small nor overly large—facilitates both strategic guidance and effective monitoring. Boards that incorporate an appropriate balance of executive and non-executive (particularly independent) directors are better positioned to provide objective oversight, challenge managerial decisions, and enhance the integrity of financial reporting. While larger and more diverse boards may contribute broader expertise and perspectives, excessively large boards can lead to coordination difficulties and diminished monitoring efficiency.

1.3.2. Audit Committee Characteristics

The audit committee is widely recognised as a cornerstone of high-quality financial reporting. A competent and independent audit committee strengthens governance by overseeing the financial reporting process, monitoring internal control systems, engaging with external auditors, and addressing issues related to financial integrity and compliance. Empirical evidence consistently demonstrates that audit committee independence, expertise, and activity levels are positively associated with enhanced reporting quality and reduced likelihood of misstatement.

1.3.3. Ownership Structure

The ownership structure also plays a significant role in shaping financial disclosure. Concentrated ownership—such as the presence of a dominant institutional investor—can heighten monitoring intensity and encourage rigorous financial reporting practices. Conversely, when ownership is highly dispersed, individual shareholders may lack the capacity or incentive to monitor management effectively, thereby increasing reliance on formal governance mechanisms such as strong boards, independent audits, and comprehensive internal controls.

1.3.4. External Audit Quality

The quality of external auditing is a further determinant of reporting credibility. Engagement of reputable audit firms enhances the reliability of financial statements by applying professional scepticism, detecting material misstatements, and reinforcing compliance with accounting standards. High-quality audits, therefore, serve as a critical mechanism for reducing information asymmetry and bolstering stakeholder confidence.

1.3.5. Internal Control Systems
Robust internal control systems, including effective risk management and compliance frameworks, are essential for ensuring the accuracy, completeness, and reliability of financial information. Strong internal controls facilitate the timely identification of irregularities, improve operational efficiency, and support adherence to regulatory and reporting standards.

1.3.6. Dimensions of Financial Reporting Quality
Governance attributes influence several key dimensions of financial reporting quality, including:

- **Accuracy and Faithful Representation** – Financial statements must provide a true and fair view of the firm's financial position and performance, free from material error or bias.
- **Timeliness** – Information must be disclosed promptly to remain relevant to users' economic decision-making.
- **Comparability and Consistency** – Reports should allow users to compare performance across periods and with peer firms.
- **Transparency and Disclosure Completeness** – Comprehensive and transparent disclosures, including relevant non-financial information, are essential for reducing information asymmetry.
- **Compliance with IFRS and National Regulations** – Adherence to internationally recognised accounting standards enhances reliability and facilitates comparability across jurisdictions.

1.3.7. Moderating and Contextual Factors
The relationship between governance mechanisms and financial reporting quality is contingent upon contextual and environmental factors. Elements such as regulatory strength, enforcement effectiveness, firm size, market competitiveness, and industry characteristics can moderate or mediate the influence of governance attributes. For instance, even well-structured governance systems may yield limited benefits in jurisdictions where enforcement mechanisms are weak or where market incentives for high-quality reporting are minimal. Conversely, in environments characterised by strong regulatory oversight and active capital markets, governance mechanisms tend to exert a stronger, more positive influence on reporting outcomes.

1.3.7. Intersecting Concepts
Corporate governance and financial reporting quality (FRQ) function as interdependent constructs rather than isolated organisational processes. Their effectiveness is shaped not only by internal governance mechanisms but also by broader institutional, regulatory, and cultural environments. Regulatory frameworks, national governance codes, organisational ethics, and the prevailing corporate culture collectively influence how well governance structures operate in practice.

In the context of Sierra Leone, the Companies Act (2009) and the Corporate Governance Code issued by the Bank of Sierra Leone (2019) establish the formal regulatory foundations for governance practices. These instruments outline expectations regarding board composition, director responsibilities, disclosure requirements, and accountability mechanisms. However, the mere existence of regulatory provisions does not guarantee effective governance. The capacity and authority of enforcement bodies—including regulatory agencies, the judiciary, and professional accountancy organisations—play a critical role in ensuring that governance standards translate into tangible improvements in corporate behaviour. Robust enforcement is widely recognised as a prerequisite for high-quality financial reporting, particularly in emerging markets where institutional constraints may limit regulatory effectiveness.

Ethical leadership and organisational culture further shape the relationship between governance mechanisms and financial reporting quality. Even comprehensive governance frameworks can be rendered ineffective in environments where unethical conduct is tolerated or where senior executives fail to establish a credible ethical tone at the top. Ethical leadership fosters a culture of integrity, strengthens compliance with reporting standards, and reduces opportunities for earnings manipulation and fraudulent behaviour. Consequently, the interaction between formal governance structures and informal behavioural norms is central to understanding variations in FRQ across firms.

In sum, corporate governance provides the institutional and structural foundation necessary to promote reliable, transparent, and timely financial reporting. Governance attributes—such as board structure, audit committee competence, ownership configuration, and internal control systems—serve as critical levers for enhancing reporting quality. In firms such as Sierra Leone Brewery Limited, operating within the constraints and opportunities characteristic of emerging markets, sound governance mechanisms are especially vital. They not only safeguard investor interests but also contribute to broader economic development by fostering trust, accountability, and stability within financial markets.

1.4. Corporate Governance: Concepts, Theoretical Foundations, And Contemporary Debates
Corporate governance refers to the system of structures, rules, processes, and relationships that guide and regulate the direction and control of a corporation. It encompasses the mechanisms through which organisations balance the often-competing interests of their stakeholders—including shareholders, managers, employees, customers, suppliers, the state, and the wider community—to promote long-term sustainability and responsible corporate behaviour (Abdullah & Valentine, 2009). Fundamentally, corporate governance aims to ensure that corporations operate ethically, transparently, and accountably while maximising shareholder value and safeguarding stakeholder interests.

Corporate governance also involves the framework of rules, processes, and relationships through which corporations are directed and controlled. It aims to ensure that corporate decisions reflect accountability, transparency, fairness, and responsibility. In contemporary business environments characterized by globalization, technological advancement, and heightened stakeholder expectations, corporate governance has evolved to include not only internal organizational controls but also broader ethical, social, and sustainability considerations (Solomon, 2020). This chapter examines the core issues traditionally associated with corporate governance while integrating current and emerging challenges relevant to modern organizations.

The Organisation for Economic Co-operation and Development (OECD) offers one of the most influential global frameworks for corporate governance. The OECD (2015) Principles conceptualise governance as a network of relationships among a company's board, management, shareholders, and additional stakeholders. These principles serve as benchmarks to support countries in strengthening their legal and regulatory systems in pursuit of economic efficiency, sustainable growth, and financial stability. Effective corporate governance under such frameworks fosters trust and confidence among stakeholders and enhances organisational legitimacy.

1.5. Definition of Key Terms

Accountability

Accountability refers to the obligation of public officials and institutions to justify their decisions and actions to stakeholders, particularly concerning the use of public resources. In public procurement, accountability requires that the rules, procedures, and criteria governing procurement processes are transparent, accessible, and open to scrutiny by all interested parties. This ensures that public officials can be held responsible for their conduct and decisions, thereby enhancing trust in public institutions.

Codification

Codification denotes the systematic use of standardized symbols, codes, or identifiers to classify and distinguish goods held in inventory. This practice facilitates efficient stock management, tracking, auditing, and retrieval, while minimizing errors in identification and documentation across the procurement and supply chain.

Consultant

A consultant is an individual or firm engaged to provide specialized intellectual or advisory services based on expert knowledge. In public procurement, consultants contribute analytical, technical, managerial, or professional expertise to support policy development, project design, feasibility analysis, and other knowledge-intensive functions.

Contract

A contract is a legally binding agreement between a procuring entity and a supplier, contractor, or consultant that outlines obligations, rights, responsibilities, and terms under which goods, works, or services are to be delivered. It formalizes the outcome of the procurement process and establishes enforceable commitments to ensure compliance and performance.

Contract Management

Contract management refers to the systematic and strategic administration of procurement contracts to ensure that goods, works, or services are delivered in accordance with agreed terms. It includes monitoring performance, ensuring compliance, managing risks, resolving disputes, and maintaining documentation throughout the contract lifecycle.

Contractor

A contractor is a natural or legal person engaged through a contractual agreement to deliver civil works or construction-related services to a procuring entity. Contractors execute physical infrastructure projects such as buildings, roads, or water systems based on technical specifications defined in the contract.

Corrupt Practices

Corrupt practices encompass any act of offering, receiving, soliciting, or providing undue advantage, whether monetary or otherwise, to manipulate procurement decisions or contract execution. Such acts compromise fairness, distort competition, and undermine public trust in procurement systems.

Ethical Approach

An ethical approach refers to the application of ethical principles—such as integrity, objectivity, fairness, and professionalism—to guide the behavior of all public officials involved in procurement. It ensures decisions are free from undue influence, conflicts of interest, and corrupt behavior, thereby protecting public resources.

Fairness

Fairness denotes the consistent and impartial treatment of all stakeholders involved in the procurement process. It requires that procurement activities are conducted in a manner that upholds justice, equality of opportunity, and non-discrimination, ensuring that no bidder is given undue advantage.

Finance and Ordinary Act

A Finance and Ordinary Act is legislation passed by government to regulate financial operations, including the authorization of public expenditure, revenue collection, and financial procedures. Such laws provide the legal framework for budgeting, expenditure control, and procurement financing.

Financial Governance

Financial governance is the system of rules, practices, and processes through which public financial resources are managed to ensure transparency, value for money, accountability, and sustainability. In procurement, it ensures that purchases are economically justified and aligned with fiscal discipline.

Financial Management

Financial management refers to the structures and processes responsible for planning, controlling, and supervising financial resources within public institutions. It includes budgeting, accounting, auditing, financial reporting, and ensuring compliance with regulations governing public expenditure.

Good Governance

Good governance represents an effective, transparent, accountable, and participatory system of managing public affairs. In procurement, it ensures that public resources are used efficiently and ethically, promoting fairness, transparency, and value for money while enhancing public welfare.

Goods

Goods refer to tangible items of any kind—including commodities, materials, equipment, and supplies—that may exist in solid, liquid, or gaseous form. The definition also includes incidental services necessary for their supply, provided the value of such services does not exceed that of the goods themselves.

Probity

Probity signifies the adherence of procurement officials to the highest standards of moral integrity, honesty, and ethical behavior. It requires impartiality, accountability, and avoidance of conflicts of interest throughout the procurement cycle.

Procurement Entity

A procurement entity is a public institution, department, or unit authorized to undertake procurement activities using public funds. It bears responsibility for planning, conducting, and managing procurement processes in accordance with legal and regulatory frameworks.

Procurement

Procurement is the structured process through which public entities acquire goods, works, or services from external providers. It involves planning, bidding, evaluation, contract award, and contract administration aimed at achieving value for money.

Procurement Officer

A procurement officer is an authorized public official responsible for managing procurement activities within a procuring entity. Their role includes planning procurement, preparing bidding documents, evaluating bids, and ensuring compliance with procurement laws and regulations.

Procurement Policy

Procurement policy comprises the principles, laws, regulations, and guidelines that govern procurement decision-making and practices. In Sierra Leone, these include the Public Procurement Act (2016) and the Public Procurement Regulations (2020).

Procurement Process

The procurement process refers to the sequence of activities involved in acquiring goods, works, or services. It typically includes needs identification, market assessment, tendering, evaluation, contract award, contract management, and post-procurement evaluation.

Professionalism

Professionalism denotes the application of specialized knowledge, skills, and ethical conduct by procurement practitioners. It embodies competence, integrity, accountability, and adherence to standardized procedures.

Public

The term public relates to the government, state institutions, or resources intended for the benefit of the citizenry. It emphasizes collective interest over private gain.

Public Fund

Public funds include all monetary resources belonging to the state, donor aid, grants, or extra-budgetary resources utilized for public procurement. Their use is governed by strict legal and financial regulations.

Public Expenditure

Public expenditure refers to the spending of state funds on goods, services, and works intended to promote public welfare. It encompasses all government financial obligations borne in the public interest.

Public Scrutiny

Public scrutiny describes the active oversight and monitoring of procurement processes by citizens, civil society, the media, and oversight institutions. It enhances transparency and mitigates corruption risks.

Public Procurement

Public procurement is the process through which governments acquire goods, works, and services necessary to deliver public services. It constitutes a key function of public financial management and contributes to development, governance, and public accountability.

CHAPTER TWO: GOVERNANCE STRUCTURES AND STAKEHOLDER ROLES

2.1 The Board of Directors

The board of directors holds ultimate responsibility for overseeing corporate management, ensuring alignment with organisational strategy, and safeguarding compliance with applicable laws and regulations. Boards are also central to risk oversight and strategic decision-making. Their effectiveness is shaped by their composition, independence, expertise, and capacity to act in shareholders' and stakeholders' interests (Kamara, 2021).

2.2 Shareholders, Employees, and External Stakeholders

Shareholders, as residual claimants, maintain a vested interest in organisational success. Employees operationalise strategy and contribute to value creation. Beyond these primary actors, customers, suppliers, communities, and civil society organisations increasingly influence governance outcomes through activism, advocacy, and market pressure (de Bakker & den Hond, 2008). The broadened stakeholder focus reflects the rising prominence of environmental, social, and governance (ESG) considerations.

2.3. Drivers of Corporate Governance Reform

Corporate governance reforms globally have been catalysed by the need to restore public confidence following major financial scandals, the growing complexity of corporate operations, and the increasing recognition of ESG imperatives (Johnson et al., 2000; Millar et al., 2005). Governance improvements are also essential for reducing information asymmetry between managers and shareholders, thereby curbing agency costs (Jensen & Meckling, 1976).

2.4. Agency Costs and Internal Governance Mechanisms

Empirical research highlights mixed findings about the extent to which governance reforms effectively reduce agency costs. McKnight and Weir (2009) demonstrate that changes implemented after the Cadbury Report often failed to generate significant reductions in agency costs, suggesting variability in the effectiveness of governance mechanisms. Some mechanisms—such as nomination committees—may unintentionally increase agency costs, whereas board ownership and prudent debt usage can mitigate them. Evidence also shows that internal governance mechanisms, including monitoring by independent directors, can reduce agency-related inefficiencies (Gul et al., 2004).

2.5. Organisational Structure and its Influence on Governance

Organisational governance can be centralised, decentralised, or combine elements of both. Centralised structures emphasise hierarchical decision-making and consistent organisational control, while decentralised structures empower lower-level managers and employees, promoting innovation and rapid decision-making (Vagneur, 2019). Each structure presents advantages and limitations, reinforcing the need for clearly defined roles, transparency, and accountability regardless of organisational design.

2.6. Executive Directors, Non-Executive Directors, and the Monitoring Function

Effective governance requires a combination of executive and non-executive directors (NEDs). While executive directors manage daily operations, NEDs offer oversight, expertise, and independence. Research shows that independent directors can provide valuable monitoring that aligns managerial actions with shareholder interests (Fama, 1980; Fama & Jensen, 1983; Singh & Davidson, 2003). NEDs are particularly effective in audit, remuneration, and nomination committees, although concerns about their independence and conflicts of interest persist.

2.7. Theoretical Perspectives on Corporate Governance

Corporate governance scholarship draws from diverse theoretical traditions:

- **Agency Theory**: Highlights conflicts between principals (shareholders) and agents (managers) (Jensen & Meckling, 1976).
- **Stewardship Theory**: Suggests managers are intrinsically motivated to act in the organisation's best interests.
- **Stakeholder Theory**: Expands governance concerns to all stakeholders who affect or are affected by the firm's activities (Phillips et al., 2005).
- **Resource Dependency Theory**: Emphasises external relationships and access to critical resources (Pfeffer & Salancik, 1978).
- **Transaction Cost Theory**: Focuses on minimising the costs of coordinating external transactions.
- **Political Theory**: Highlights the influence of power and governmental actors on corporate decision-making (Lawal, 2012).

These theoretical perspectives collectively shape modern corporate governance frameworks and best-practice codes such as the UK Corporate Governance Code and OECD Principles.

2.8. Corporate Governance, Firm Value, and Enforcement

Strong corporate governance is associated with improved firm value, reduced agency problems, and enhanced economic development (McKnight & Weir, 2009). Governance-prediction studies further examine how governance evolves over the corporate life cycle (O'Connell & Cramer, 2010). However, enforcement remains a challenge—particularly in developing countries where political and institutional constraints impede effective oversight (Berglöf & Claessens, 2004).

2.9. Stakeholder Influence and Corporate Accountability

Secondary stakeholders—including NGOs, social movements, and civil society—now play substantial roles in shaping corporate behaviour (de Bakker & den Hond, 2008). Greater accountability and transparency are demanded in the wake of major scandals such as Enron, WorldCom, and Parmalat. These crises underscored directors' legal responsibilities and catalysed reforms aimed at enhancing board effectiveness (Klausner, 2005).

2.10. Academic Directors, Expertise, and Board Composition

The inclusion of academic directors on corporate boards introduces specialised knowledge, analytical rigor, and broader networks. Studies show that academics contribute expertise important for research-intensive, high-uncertainty, and high-information-asymmetry firms (Audretsch & Lehmann, 2006; Coles et al., 2008). However, concerns remain about their practical business experience, independence, and geographic distance from firms (White et al., 2013). Boards must therefore carefully evaluate the balance between diverse expertise and potential coordination costs.

2.11. Board Composition and Structure

A fundamental issue in corporate governance is ensuring that the board of directors is structured in a way that promotes effective oversight and balanced decision-making. To prevent excessive concentration of power, many governance models recommend separating the roles of the Chief Executive Officer (CEO) and Board Chairperson. Combining these roles risks granting one individual disproportionate influence over strategic and oversight functions, potentially compromising accountability (Tricker, 2019).

Boards should include an adequate number of non-executive (or independent) directors, who are free from relationships that might compromise their judgment. Independent directors provide external perspectives, monitor managerial performance, and help safeguard shareholder interests. Recent governance reforms also emphasize board diversity—including gender, ethnicity, professional background, and cognitive diversity—given its positive association with innovation, ethical decision-making, and firm performance (Terjesen, Aguilera, & Lorenz, 2015).

2.12. Executive Remuneration and Incentive Alignment

Another key governance issue involves developing fair, transparent, and performance-driven compensation structures for executive management. Compensation packages must be aligned with long-term organizational goals rather than short-term financial gains to mitigate risk-taking behavior that may jeopardize the firm's sustainability (Bebchuk & Fried, 2004).

Modern governance also requires companies to disclose remuneration policies, performance metrics, and incentive schemes. Increasingly, firms are linking executive pay to Environmental, Social, and Governance (ESG) performance indicators as part of broader sustainability commitments (Eccles & Klimenko, 2019). This shift reflects growing stakeholder expectations that corporate success must include responsible conduct and long-term value creation.

2.13. Risk Management and Internal Control

Boards are ultimately responsible for identifying, assessing, and managing organizational risks. Effective corporate governance requires establishing clear risk governance frameworks, internal control systems, and audit functions that monitor compliance and financial reporting integrity (Committee of Sponsoring Organizations of the Treadway Commission [COSO], 2017).

In recent years, the scope of risk oversight has expanded to include:

i. **Cybersecurity risks**, such as data breaches and privacy violations.

ii. **Operational disruptions**, including supply chain vulnerabilities.
iii. **Reputational risks**, especially those linked to public ethical failures or social media incidents.
iv. **Technological risks**, including artificial intelligence and algorithmic decision-making.
v. **Climate-related and sustainability risks**, prompting companies to report under frameworks such as the Task Force on Climate-related Financial Disclosures (TCFD).

Boards are expected not only to protect shareholder value but to evaluate whether organizational strategies appropriately balance risk and return while meeting stakeholder expectations.

2.14. Risk Management in Corporate Governance

Within contemporary corporate governance frameworks, risk management committees (RCs) play a central role in monitoring firms' exposure to risk while balancing the objective of maximising shareholder returns (Tao & Hutchinson, 2013). The RC provides the board with guidance on current risk exposures and on future strategic approaches to risk management (Walker, 2009). Similarly, compensation committees (CCs) oversee remuneration systems designed not only to attract and retain skilled employees but also to align managerial incentives with shareholder risk preferences (Murphy, 2000). Because managers are generally more risk-averse than shareholders, remuneration contracts must be structured to encourage managers to undertake an optimal level of risk that is consistent with shareholder interests.

Signalling theory offers useful insights into the role of governance structures in reducing information asymmetry between firms and external stakeholders. It suggests that firms may disclose their governance practices—including the formation of specialised committees—to create favourable market perceptions and to mitigate potential devaluation resulting from uncertainty (Certo, 2003). However, symbolic adoption of governance structures remains a concern. Menon and Williams (1994) argue that some committees exist merely to convey an appearance of sound governance rather than to provide substantive oversight. Therefore, the competence of committee members, rather than the mere existence of committees, is critical to the effectiveness of governance (Akhigbe & Martin, 2006). Directors with specialised knowledge, especially in the financial sector, contribute substantially to the monitoring and advisory function of these committees.

Given that RCs and CCs are both board-level monitoring mechanisms, similar factors influence their governance effectiveness. Drawing on the characteristics identified by Xie et al. (2003) as determinants of audit committee effectiveness, the efficiency of RCs and CCs can be evaluated through independence, expertise, activity level, and committee size. First, independence enhances the capacity of committees to provide unbiased oversight, consistent with agency theory, which posits that independent directors better align managerial actions with shareholder interests (Fama & Jensen, 1983; Jensen & Meckling, 1976; Pincus et al., 1989). Second, committees require members with relevant expertise and adequate tenure in order to exercise informed judgement and professional scepticism (Raber, 2003). Third, frequent committee meetings improve the timeliness and thoroughness of monitoring activities (Lipton & Lorsch, 1992). Finally, committee size may influence monitoring effectiveness, though empirical evidence is mixed (Tao & Hutchinson, 2013).

Effective monitoring by RCs and CCs—captured by independence, expertise, activity, and size—is expected to reduce managerial risk aversion and increase firm risk-taking in ways consistent with shareholder preferences (Tao & Hutchinson, 2013). Pathan (2009) finds that strong board monitoring is positively associated with bank risk-taking, reflecting shareholders' incentives for higher risk-return profiles, although excessively restrictive governance structures may reduce risk-taking. Thus, characteristics of the RC and CC are likely to exhibit a positive association with firm risk insofar as shareholders generally prefer more—not excessive—risk (Jensen & Meckling, 1976; Pathan, 2009).

2.14.1. Types of Risk

2.14.1.1 Financial Risk

Financial institutions face multiple categories of risk. Financial risk includes traditional balance sheet and income statement risks, such as credit and solvency risk, as well as treasury-related risks arising from financial arbitrage activities. Treasury risks include liquidity, interest rate, currency, and market risks, all of which may interact in complex ways to amplify a bank's overall risk profile. For example, foreign exchange operations may expose a bank simultaneously to currency, liquidity, and interest-rate risks if open positions are maintained.

2.14.1.2. Operational Risk

Operational risk arises from deficiencies in internal processes, compliance failures, technological vulnerabilities, fraud, governance weaknesses, resource allocation issues, and customer-related processes. Strategic planning, organisational structure, and human resource management also shape the operational risk landscape. Environmental risk encompasses macroeconomic, regulatory, legal, and infrastructural factors that may jeopardize a bank's operations or long-term viability.

2.14.2 Directors' Dual Membership on the RC and CC

The formation of specialised committees may create information asymmetries within the board itself, despite reducing asymmetries between insiders and external stakeholders (Bradbury, 1990; Reeb & Upadhyay, 2010). Board sub-committees enhance monitoring, yet also introduce coordination and communication challenges that may undermine holistic decision-making (Tao & Hutchinson, 2013). One proposed solution is the strategic overlap of directors across committees whose functions are interdependent. For instance, the RC determines the firm's risk appetite, while the CC designs compensation structures intended to influence managerial risk-taking. Directors serving on both committees may therefore improve coordination and mitigate conflicting incentives.

Research indicates that dual membership affects monitoring quality. Laux and Laux (2009) suggest that overlapping membership between compensation and audit committees reduces the reliance on incentive-based pay, leading to lower levels of earnings manipulation but also potentially reducing audit committee vigilance. Empirical work by Hoitash and Hoitash (2009) supports this finding. Within financial institutions, coordination between RCs and CCs is particularly critical because the alignment of compensation with the firm's risk appetite affects both risk-taking behaviour and firm performance (Tao & Hutchinson, 2013). Excessive risk-taking, which may be unintentionally encouraged by poorly designed incentives, poses heightened systemic consequences in the financial sector (Gordon, 2011). A holistic approach to risk management, supported by inter-committee communication, has been found to improve organisational outcomes (Gordon et al., 2009). Accordingly, dual committee membership may promote more conservative decision-making that limits excessive risk-taking.

2.14.3. Governance Principles of the Basel Committee

The Basel Committee emphasises that sound governance can be achieved through varied organisational forms, provided that essential oversight functions are preserved (Greuning & Bratanovic, 2020). Four key oversight mechanisms include board-level supervision, independence of oversight bodies, effective line supervision, and robust risk management, compliance, and audit functions. Fit-and-proper assessments of key personnel are also essential. Implementation of governance standards should be proportionate to an institution's size, structure, complexity, and risk profile, and must align with national legal and regulatory frameworks.

2.14.4. Risk and Firm Performance

Risk management is broadly defined as the cultural and structural processes aimed at exploiting opportunities while mitigating adverse outcomes (ASX Corporate Governance Council , 2007). Although historically neglected in early conceptualisations of board responsibilities, risk oversight has become a core element of modern governance (Kiel & Nicholson, 2002; De Lacy, 2005). If RCs and CCs effectively monitor risk-taking in alignment with shareholder preferences, a positive association between risk and performance would be expected (Tao & Hutchinson, 2013).

Asset-pricing theory maintains that only systematic risk is rewarded in diversified portfolios (Bodie et al., 2009). Excessive risk-taking in financial firms can increase systemic risk, thereby lowering expected returns by raising the risk-bearing premium (Gordon, 2011; Gordon & Muller, 2011). Thus, while shareholders may prefer higher risk-taking, they are also sensitive to the potential negative consequences of systemic failures.

Empirical findings on the relationship between committee composition and firm performance are mixed. While some studies find no significant association (Ellstrand et al., 1999), others report positive (Young & Buchholtz, 2010) or negative (Klein, 1998; Adams & Mehran, 2008) relationships. The effectiveness of governance mechanisms appears contingent on contextual factors, including levels of uncertainty and firm risk characteristics (Gordon et al., 2009). RC and CC compositions that enhance monitoring capacity can contribute to superior performance by identifying and mitigating excessive risk. Moreover, committee members are incentivised to perform effectively because their reputations and future career prospects depend on firm outcomes (Harrison & Harrell, 1993).

2.14.5. Board Responsibilities in Financial Risk Management

Banking regulations consistently identify the board of directors as the central authority responsible for overseeing risk management (Greuning & Bratanovic, 2020). Core responsibilities include establishing risk policies, clarifying delegation structures, approving risk tolerance levels, ensuring that management identifies and monitors risks effectively, reviewing internal controls, overseeing capital adequacy, and evaluating senior executives' performance. Boards must also ensure that audit processes test compliance with policies, that reporting systems are robust, and that remuneration practices support sound governance.

The board's broader functions include strategic direction, performance oversight, appointment of key executives, and monitoring of management. Although corporate governance research has extensively examined board structures and processes (Daily et al., 2003; Denis, 2001; Forbes & Milliken, 1999), the risk oversight role of boards remains comparatively underexplored.

2.15. Business Ethics, Corporate Social Responsibility, and Sustainability

Corporate governance extends beyond financial accountability to include ethical and socially responsible behavior. Firms are expected to adopt ethical corporate cultures, promote transparency, and demonstrate responsibility to communities, employees, and the environment. The increasing relevance of **ESG** standards reflects the belief that long-term business success requires social legitimacy and environmental stewardship (Freeman, 1984; Khan, Serafeim, & Yoon, 2016).

Organizations are also expected to protect whistleblowers, ensuring that individuals who report misconduct are shielded from retaliation. Strong whistleblower policies promote transparency and prevent the concealment of unethical or illegal practices (Dyck, Morse, & Zingales, 2010).

Conclusion

Corporate governance is a dynamic and evolving field shaped by theoretical debates, institutional developments, and practical challenges. Effective governance enhances firm performance, mitigates agency problems, and strengthens stakeholder trust. As global expectations shift toward sustainability, transparency, and ethical conduct, corporate governance frameworks must continue to adapt to ensure organisational resilience and long-term value creation.

Corporate governance has evolved from a narrow focus on shareholder oversight to a broader framework that encompasses ethical conduct, sustainability, risk governance, and stakeholder engagement. Effective governance requires a balanced and independent board, fair executive compensation aligned with long-term performance, comprehensive risk management systems, and strong commitments to social responsibility and ethical behavior. As global business environments continue to change, corporate governance must adapt to new challenges to maintain trust, stability, and organizational effectiveness.

CHAPTER THREE: RELEVANCE OF CORPORATE GOVERNANCE STANDARDS

3.1 Overview

Corporate governance frameworks are designed to address a range of fundamental issues that arise from the separation of ownership and control within modern corporations. At their core, governance mechanisms seek to ensure that organisations are directed, managed, and monitored in a manner that promotes accountability, transparency, and long-term value creation.

One of the primary issues addressed by corporate governance is the mitigation of agency problems. These emerge when the interests of managers diverge from those of shareholders or other stakeholders, leading to potential conflicts over the use of organisational resources. Governance structures such as independent boards, audit committees, and performance-based compensation systems are therefore established to align managerial decisions with organisational objectives.

A second key issue concerns the integrity and reliability of corporate reporting. Effective governance ensures that financial and non-financial information disclosed to stakeholders is accurate, complete, and timely. This emphasis on transparency not only enhances investor confidence but also supports informed decision-making by regulators, creditors, employees, and the wider community.

Corporate governance also addresses the need for effective oversight and control. This includes monitoring managerial behaviour, evaluating strategic decisions, managing risk, and ensuring compliance with legal and regulatory requirements. Internal control systems, external audits, and board-level risk management committees are central to this oversight function.

Additionally, governance mechanisms respond to broader societal expectations regarding corporate conduct. Increasing attention to ethical behaviour, environmental sustainability, and social responsibility has expanded the scope of corporate governance beyond narrow financial interests. As such, contemporary governance frameworks seek to balance the expectations of multiple stakeholders and to ensure that corporate activities contribute positively to societal welfare.

Hence, corporate governance provides the structural and behavioural foundation through which corporations address agency conflicts, enhance the quality of corporate reporting, strengthen oversight and risk management, and respond to evolving societal expectations. Together, these elements enable organisations to operate responsibly, achieve strategic objectives, and maintain legitimacy within the economic and social environments in which they function.

In recent decades, corporate governance has gained considerable global attention due to a series of high-profile corporate failures, financial scandals, and economic crises. The collapse of major corporations such as Enron, WorldCom, Parmalat, and Lehman Brothers exposed serious deficiencies in governance practices, including weak oversight, unethical leadership, inaccurate financial reporting, and ineffective risk management systems (Clarke, 2020). These events highlighted the importance of establishing robust corporate governance standards to ensure accountability and transparency in the management of business organizations.

The expansion of global capital markets has further increased the need for strong governance structures. As businesses increasingly operate across borders and attract investment from diverse stakeholder groups, concerns about fraud, corruption, insider trading, and money laundering have grown. Effective corporate governance mechanisms contribute to reducing these risks by promoting compliance with legal and regulatory requirements and by fostering ethical corporate cultures (Aguilera & Crespi-Cladera, 2016).

For developing economies, including African countries such as Sierra Leone, the need for sound corporate governance is even more pronounced. Weak institutional frameworks, limited regulatory enforcement, and concentrated ownership structures may heighten vulnerabilities to corruption and mismanagement. Financial institutions—such as the Sierra Leone Commercial Bank—face increased pressure to adopt governance frameworks that align with global standards to strengthen investor confidence, expand access to capital, and promote sustainable economic growth (World Bank, 2022).

3.2 The Need for Strengthened Stakeholder Protection

As ownership and control have become increasingly separated, primary stakeholders—particularly shareholders—are often distanced from day-to-day managerial activities. This separation gives rise to the principal–agent problem, wherein managers may act in their own interest rather than in the interest of shareholders. Corporate governance standards are therefore essential to monitor managerial behavior, align incentives, and ensure that organizational resources are used responsibly (Tricker, 2019).

Furthermore, governance frameworks play a crucial role in protecting minority shareholders, employees, customers, and the broader community. Modern corporate governance approaches emphasize stakeholder theory, recognizing that firms create value not only for shareholders but also for a wide range of societal actors (Freeman, 1984; Harrison & Wicks, 2019).

3.3 The Role of Auditors and Regulatory Standards

The relevance of corporate governance is reflected in international auditing and regulatory frameworks. The International Auditing and Assurance Standards Board (IAASB) emphasizes communication between auditors and those charged with governance. In particular, **ISA 260 (Communication with Those Charged with Governance)** requires auditors to communicate audit findings, internal control weaknesses, and governance concerns to the board or audit committee in a timely manner (IAASB, 2018).

In situations where governance structures are unclear or poorly defined, auditors are required to identify and communicate with individuals responsible for governance oversight. This requirement underscores the necessity for organizations to establish formal governance systems, assign responsibilities clearly, and maintain documentation of board decisions and delegated duties.

3.4 Accountability, Delegation, and Board Responsibilities

Even when responsibilities are delegated, accountability remains with the Board of Directors. Delegation of authority does not imply a transfer of liability. The board must maintain clear documentation of decisions, delegation processes, and oversight activities. Board minutes should reflect strategic discussions, risk assessments, and monitoring activities to ensure transparency and traceability (Solomon, 2020).

Boards should also establish standardized agendas to ensure that key governance matters—such as financial performance, risk assessment, executive compensation, sustainability reporting, and internal audit outcomes—are addressed regularly and consistently.

Senior management and board members must be aware of which matters require escalation and which can be resolved at operational levels. Effective communication between management and governance bodies ensures that strategic and operational alignment is maintained.

Conclusion

Effective corporate governance standards are essential for ensuring organizational integrity, trust, and long-term sustainability. They safeguard stakeholder interests, strengthen corporate accountability, enhance transparency, and support ethical business conduct. As global markets evolve and regulatory environments become more complex, the role of corporate governance will continue to grow in importance. Organizations that fail to implement robust governance mechanisms risk operational instability, financial failure, and loss of stakeholder confidence.

CHAPTER FOUR: CORPORATE GOVERNANCE AND DIGITALPROCUREMENT IN UNDERDEVELOPED COUNTRIES

4.0 Introduction

Corporate governance has become a fundamental element of organizational success and sustainability in both developed and emerging economies. It offers a structured framework that organizations use to ensure accountability, transparency, and responsible resource management (Tricker, 2019). According to the International Finance Corporation (IFC, 2015), effective governance is a critical factor in building investor confidence, gaining access to capital, and enhancing overall firm performance. In modern business environments marked by globalization and technological progress, corporate governance goes beyond mere regulatory compliance to include risk management, ethical leadership, sustainability efforts, and stakeholder engagement.

4.1 Enhancing Access to Capital and Market Valuation

A principal advantage of robust corporate governance is its positive effect on a firm's ability to attract capital. Companies with transparent governance systems are more likely to secure investments from domestic and international markets, as investors associate good governance with reduced risk and financial reliability (Claessens & Yafeh, 2012). Empirical studies indicate that firms with strong governance structures often enjoy higher market valuations, lower capital costs, and stronger investor loyalty (La Porta, Lopez-de-Silanes, & Shleifer, 2008).

For emerging markets, where investor protection and regulatory frameworks are often underdeveloped, corporate governance is particularly critical in establishing credibility. Organizations in these contexts that adopt global governance standards—such as independent boards, transparent financial reporting, and protection of minority shareholders—are better positioned to attract foreign direct investment and private equity (World Bank, 2022).

4.2 Improving Organizational Performance

Corporate governance strengthens organizational performance by promoting strategic clarity, managerial accountability, and efficient decision-making. Well-structured governance ensures that management operates in the best interest of the organization and its stakeholders, mitigating agency conflicts between owners and executives (Tricker, 2019). Mechanisms such as board performance evaluations, succession planning, and managerial oversight enhance operational effectiveness and long-term organizational stability.

Research demonstrates that firms with effective governance structures exhibit greater resilience during economic crises and are better able to manage market fluctuations (Solomon, 2020). Additionally, governance practices that emphasize ethical leadership and organizational integrity foster trust both internally and externally.

4.3 Adding Value and Strengthening Strategic Relationships

Corporate governance is also recognized as a value-adding mechanism. Multilateral institutions, including the IFC, emphasize that enhancing governance practices contributes not only to firm-level benefits but also to broader economic development objectives (IFC, 2015). Strong governance supports competitive advantage by:

Increasing operational efficiency

Promoting innovation and responsible strategic expansion

Strengthening stakeholder trust and corporate reputation

Thus, governance represents a strategic asset that extends beyond regulatory compliance, fostering sustainable growth and economic impact.

4.4 Reducing Investment and Operational Risk Effective governance mitigates financial and operational risks. Poor governance environments are frequently associated with fraud, mismanagement, corruption, and weak regulatory enforcement, which deter investment and threaten organizational continuity (Aguilera & Crespi-Cladera, 2016). Through mechanisms such as internal controls, audit committees, and risk management frameworks, organizations can detect irregularities early and respond proactively.

In high-risk markets, robust governance enhances organizational safety, facilitates investor confidence, and provides reliable exit strategies for investment institutions.

4.5 Promoting Sustainability and Corporate Responsibility

Modern corporate governance increasingly incorporates environmental, social, and governance (ESG) considerations. Firms are now expected to account for a broader set of stakeholders, including employees, customers, creditors, regulators, communities, and the natural environment (Khan, Serafeim, & Yoon, 2016). Companies with strong governance frameworks integrate sustainability into business strategies, report climate-related risks, and adhere to ethical labor and supply chain practices.

Key indicators of governance-driven sustainability include:

i. Transparency in environmental and social reporting
ii. Ethical labor and employment practices
iii. Responsible supply chain management
iv. Long-term sustainability planning

By prioritizing ESG practices, firms enhance resilience, protect brand value, and contribute to global development initiatives, including the United Nations Sustainable Development Goals (UNSDGs).

4.6 Corporate Governance and Procurement

Corporate governance encompasses the system of rules, practices, and processes through which organizations are directed and controlled (Tricker, 2019). In public and private sector procurement, governance ensures compliance, transparency, and accountability in resource management. Digital procurement, which includes e-procurement platforms, electronic payment systems, and supplier databases, offers opportunities to enhance procurement efficiency and competitiveness. However, its success is contingent upon effective governance mechanisms, especially in under-developing countries such as Sierra Leone.

Several theories inform the understanding of corporate governance and digital procurement adoption:

Technology Acceptance Model (TAM): Explains adoption behavior based on perceived ease of use and perceived usefulness of technology (Davis, 1989).
Diffusion of Innovations (DOI): Describes how new technologies spread across organizations and societies (Rogers, 2003).
Principal-Agent Theory: Focuses on accountability between principals and agents, reducing risks of corruption and inefficiency (Eisenhardt, 1989).
Contingency Theory: Emphasizes aligning strategies, processes, and technologies with organizational and contextual conditions (Fiedler, 1964).

4.6.1 Conceptual Framework

Corporate Governance and Digital Procurement Key Constructs:
Independent Variable: Digital Procurement Technologies – e-procurement platforms, electronic payments, digital supplier databases, and monitoring tools.
Dependent Variables:

a) Procurement Efficiency
b) Transparency and Accountability
c) Supplier Participation and Competitiveness
d) Moderating Variables:
e) ICT Infrastructure
f) Digital Literacy
g) Policy and Institutional Support
h) Corporate Governance

Conceptual Relationships: Digital procurement technologies can improve procurement outcomes, but their effectiveness is moderated by governance structures and contextual factors. Strong corporate governance ensures accountability, compliance, and the sustainable adoption of digital tools.

4.6.2 Empirical Evidence

Procurement Challenges in Under-Developing Countries: Procurement systems in low-income countries often face inefficiencies, corruption, bureaucratic delays, and limited supplier participation (Ambe & Badenhorst-Weiss, 2011; Thai, 2001). Weak governance exacerbates these challenges, highlighting the need for reforms.
Developed Countries: High adoption rates supported by strong governance and ICT infrastructure (Gunasekaran et al., 2017; Monczka et al., 2015).
Emerging Economies: Moderate adoption constrained by infrastructure gaps and low digital literacy; governance is critical for compliance (Ambe, 2012; Adebayo, 2023).
Under-Developing Countries: Limited adoption, but digital procurement can enhance efficiency and competitiveness; barriers include poor infrastructure, inadequate training, and weak governance (World Bank, 2018; UNDP, 2019).

4.6.3 Gaps in the Literature

Limited Country-Specific Evidence: Sierra Leone-specific studies are scarce.
Incomplete Outcome Assessment: Most research focuses on efficiency or transparency, neglecting supplier participation and competitiveness.
Underexplored Moderators: The role of governance, ICT infrastructure, and digital literacy is insufficiently studied.
Methodological Limitations: Overreliance on cross-sectional and quantitative studies limits long-term understanding.
Adoption Barriers: Resistance to change, cultural factors, and inadequate training remain underexplored.

4.6.4 Implications

Practice Corporate governance is central to maximizing the impact of digital procurement:
Ensures transparency, accountability, and ethical procurement practices.
Mitigates corruption and operational risks.
Strengthens the implementation and sustainability of digital procurement systems.
Aligns technological adoption with organizational objectives and contextual realities.

Summary

This chapter underscores the pivotal role of corporate governance in enhancing organizational performance, attracting capital, reducing risks, and promoting sustainability. In the context of underdeveloped countries, effective governance is essential for the successful adoption of digital procurement systems. Key insights include:
Procurement inefficiencies, corruption, and low supplier participation are major challenges in underdeveloped countries.
Digital procurement offers improvements in efficiency, transparency, and competitiveness.
Corporate governance mechanisms moderate these outcomes, ensuring sustainable and accountable adoption.
Research gaps remain in country-specific evidence, holistic outcome assessment, contextual moderators, and adoption barriers.
Overall, corporate governance serves as a strategic enabler that ensures digital procurement contributes to organizational efficiency, stakeholder trust, and broader economic development

CHAPTER FIVE: RIGHTS AND RESPONSIBILITIES OF SHAREHOLDERS IN A CORPORATE SYSTEM

5.0. Introduction

Corporate governance frameworks are designed to protect the interests of shareholders while ensuring that corporations are managed effectively and responsibly. According to the *OECD Principles of Corporate Governance* (OECD, 2015), a sound corporate governance system must both safeguard and facilitate the exercise of shareholder rights. Shareholders, as equity owners, possess certain legal and economic claims, including the right to share in company profits, transfer ownership, and influence major corporate decisions. At the same time, the effective functioning of a corporation requires a balance between shareholder oversight and the managerial autonomy necessary for efficient decision-making.

Shareholders play a crucial monitoring role in corporate governance, but they do not manage the daily operations of the firm. Management and strategic control are delegated to the board of directors and executive leadership, who are responsible for acting in the shareholders' best interests. Therefore, shareholder rights are concentrated primarily around the election and removal of directors, approval of major strategic decisions, and access to material corporate information (Tricker, 2019).

5.1 Fundamental Shareholder Rights

Shareholders' rights constitute the core legal entitlements associated with owning equity in a corporation. These include:

1. Secure Ownership Registration – Shareholders have the right to clear and legally protected mechanisms for registering and transferring share ownership.
2. Right to Transfer Shares – Shares may be bought, sold, or transferred without undue restriction.
3. Right to Access Information – Shareholders are entitled to timely, accurate, and relevant information related to the company's performance, governance, and financial reporting.
4. Right to Participate and Vote in General Meetings – Shareholders can attend general meetings and exercise voting rights on key corporate matters.
5. Right to Elect and Remove Board Members – Shareholders influence governance primarily through voting on board composition.
6. Right to Share in Profits – Shareholders may receive dividends or capital gains, subject to company performance and board decisions.

These rights ensure that shareholders can exercise oversight and hold directors accountable (Mallin, 2019).

5.2 Participation in Fundamental Corporate Decisions

Shareholders should be provided sufficient and timely information to participate in major corporate decisions. Such decisions typically involve:

- Amendments to corporate governing documents
- Authorization of new share issuances
- Approvals of mergers, acquisitions, or sales involving substantial corporate assets

These decisions may materially affect ownership structure and shareholder value. Inadequate transparency in such processes can result in value expropriation, particularly in companies with concentrated ownership or insider control (La Porta, Lopez-de-Silanes, & Shleifer, 1999).

5.3 Effective Participation in General Shareholder Meetings

General meetings offer shareholders an opportunity to engage directly with the board and executive management. To ensure meaningful participation:

- **Meeting details** (agenda, time, location) must be communicated early.
- Shareholders must have the right to place items on the agenda and propose resolutions.
- Shareholders should be able to ask questions, including those related to audit outcomes and executive remuneration.
- Voting mechanisms should allow in-person and remote (absentee or proxy) voting with equal effect.

Global trends increasingly support digital or hybrid shareholder meetings, particularly following lessons from the COVID-19 pandemic, where digital participation improved accessibility and voter turnout (OECD, 2022).

5.4 Shareholder Influence and Board Elections

Shareholders influence governance most directly by electing the board of directors. Effective board elections require transparency in nomination procedures, disclosure of board competencies, and shareholder ability to vote without coercion.

Shareholders also increasingly expect to express views on **executive compensation**. "Say-on-pay" policies have gained wide adoption globally, allowing shareholders to approve remuneration packages and ensuring alignment between pay and performance (Bebchuk & Fried, 2004).

5.5 Disproportionate Control and Disclosure Requirements

Certain ownership structures—such as dual-class shares, pyramid ownership systems, and cross-shareholdings—may allow some shareholders to gain disproportionate control relative to their equity holdings. While such structures can support long-term strategic vision, they can also marginalize minority shareholders and reduce accountability (Bebchuk & Kastiel, 2019).

For this reason, corporate governance standards require full disclosure of:

- Shareholder agreements
- Voting caps
- Controlling shareholder arrangements

Effective disclosure enables informed investment decisions and protects minority shareholders from undue influence.

5.6 Institutional Investors and Fiduciary Responsibilities

Institutional investors (e.g., pension funds, asset managers, sovereign wealth funds) increasingly hold significant equity stakes. Their voting and engagement practices shape corporate governance outcomes.

Institutional investors should:

- Disclose their voting and corporate governance policies
- Manage and report conflicts of interest
- Engage responsibly with investee companies

Responsible shareholder engagement is now linked to improved sustainability performance and long-term firm value (Eccles & Klimenko, 2019).

Conclusion

Shareholders play a pivotal role in corporate governance through ownership rights, oversight functions, and participation in major decisions. However, exercising these rights requires transparency, accessibility of information, fair voting systems, and strong legal protections. Strengthening shareholder rights contributes to organizational accountability, market confidence, and sustainable corporate performance.

CHAPTER SIX: THE ROLE OF STAKEHOLDERS IN CORPORATE GOVERNANCE

6.0. Introduction

Corporate governance extends beyond the protection of shareholder interests to include the fair and responsible treatment of all stakeholders who contribute to the corporation's value and long-term success. According to the *OECD Principles of Corporate Governance* (OECD, 2015), effective governance frameworks should recognize and protect stakeholder rights as provided by law and mutual agreements, while also encouraging active cooperation between corporations and stakeholders in promoting sustainable economic performance.

In modern corporate governance, stakeholders include shareholders, employees, creditors, suppliers, customers, communities, regulators, and the natural environment. These groups contribute to the functioning and sustainability of the organization in diverse ways, ranging from capital investment and labor contributions to regulatory compliance and social legitimacy (Freeman, 2010). Corporations that align their strategies with stakeholder interests are better positioned to build competitive advantage, enhance reputation, and sustain long-term profitability (Harrison & Wicks, 2013).

6.1 Stakeholder Rights and Legal Protections

Stakeholder rights are typically determined by national legal frameworks, industry regulations, collective bargaining agreements, and contractual relationships. These rights may include employment protections, creditor rights in insolvency proceedings, intellectual property protections, environmental safeguards, and consumer protections.

Even where stakeholder interests are not explicitly legislated, corporations may voluntarily commit to broader responsibilities as part of environmental, social, and governance (ESG) policies or corporate social responsibility (CSR) initiatives. Such commitments are influenced by reputational concerns, investor expectations, and sustainability imperatives (Eccles & Klimenko, 2019).

6.2 Access to Redress and Legal Remedies

A functional corporate governance system ensures that stakeholders are able to seek redress when their rights are violated. Transparent legal and institutional frameworks should enable stakeholders to dispute decisions, challenge misconduct, and pursue remedies without fear of retaliation. This is particularly important for minority shareholders, employees reporting abuses, and creditors affected during insolvency processes (Tricker, 2019).

Ensuring access to justice reinforces accountability, strengthens ethical corporate culture, and discourages exploitative practices.

6.3 Employee Participation and Corporate Performance

Employees represent a critical stakeholder group because they possess firm-specific knowledge and contribute directly to organizational productivity. Mechanisms for employee participation—such as works councils, employee representation on boards, financial participation schemes, and consultative committees—can enhance commitment, innovation, and workplace stability (Bamber, Lansbury, & Wailes, 2019).

Countries vary widely in employee governance participation models:

i. Germany employs co-determination, granting employees board representation.
ii. Nordic countries emphasize collective labor agreements and collaborative decision-making.
iii. Anglo-American firms traditionally prioritize shareholder primacy, though they are increasingly adopting employee voice mechanisms due to ESG expectations.

6.4 Access to Relevant Information

To contribute meaningfully, stakeholders involved in governance processes require timely, accurate, and comprehensive information. This includes data on financial performance, sustainability practices, strategic direction, and risk exposures. Transparent reporting enhances trust, facilitates informed decision-making, and aligns stakeholder expectations with corporate objectives (Kolk, 2016).

The global rise of Integrated Reporting (IR) frameworks and sustainability disclosures under standards such as the Global Reporting Initiative (GRI) and the International Sustainability Standards Board (ISSB) highlights this trend toward broader information accountability.

6.5 Whistleblowing and Ethical Conduct

Stakeholders, particularly employees, must be protected when reporting unethical or illegal activities within the corporation. Whistleblowing protections are essential to detecting fraud, corruption, safety violations, and environmental harm. Many governance frameworks now require confidential reporting channels, board-level oversight, and protections against retaliation (OECD, 2021).

Establishing ethical reporting structures improves transparency, safeguards reputation, and reduces litigation and regulatory risks.

6.6 Creditor Rights and Insolvency Frameworks

Creditors are key stakeholders whose financial capital supports corporate operations. The security and enforceability of creditor rights influence credit availability, cost of borrowing, and investor confidence. Effective corporate governance must therefore be complemented by a reliable and efficient insolvency system to manage restructuring, liquidation, and recovery processes (La Porta, Lopez-de-Silanes, & Shleifer, 1998).

Strong insolvency frameworks:

- Encourage timely disclosure of financial distress
- Balance debtor and creditor interests
- Provide mechanisms for business recovery
- Promote stability within capital markets

Companies with transparent governance practices tend to receive more favorable credit terms and higher creditworthiness evaluations.

Conclusion

Stakeholders play an integral role in the functioning, accountability, and long-term sustainability of corporations. Effective corporate governance recognizes these contributions and ensures that stakeholder rights are respected and protected. By promoting cooperation among stakeholders, corporations enhance innovation, reduce risk, strengthen reputation, and support sustainable economic growth.

CHAPTER SEVEN: THE ROLE OF INSTITUTIONAL INVESTORS IN CORPORATE GOVERNANCE

7.0 Introduction

Historically, ownership of corporate equity was dominated by individual shareholders—wealthy business owners, families, and entrepreneurs who often had both financial and personal interests in the companies in which they invested. Over time, however, global financial markets underwent a significant transformation, leading to the emergence and dominance of **institutional investors**, such as pension funds, insurance companies, mutual funds, sovereign wealth funds, private equity firms, and hedge funds (Gillan & Starks, 2020). Today, institutional investors hold a substantial portion of the equity in publicly listed companies worldwide and exert considerable influence over corporate governance structures and practices.

This shift has important implications for corporate governance. Institutional investors generally possess greater financial resources, data access, analytical capabilities, and professional expertise than individual shareholders. Consequently, they are better positioned to monitor managerial performance, influence board composition, engage in proxy voting, and shape corporate policies (Ferreira & Matos, 2019). As a result, institutional investors play a vital role in reducing agency problems and promoting accountability and transparency within corporations.

7.1 Growth and Influence of Institutional Investors

The increasing dominance of institutional investors has been driven largely by the growth of retirement savings systems, the expansion of financial markets, and broader public participation in indirect investment mechanisms such as mutual funds and employer-sponsored pension plans. Globally, households now hold more of their financial wealth in institutional investment vehicles than in personal savings accounts (OECD, 2021).

With this shift, the governance role of institutional investors has strengthened. Institutional investors often have both the capability and the incentive to monitor corporate governance because weak governance can negatively affect investment returns. Unlike dispersed retail shareholders, institutional investors can **exercise collective influence**, making their role pivotal in corporate oversight (Coffee, 2018).

However, this trend has also introduced concerns regarding **concentration of corporate control**. The rise of large asset managers—such as BlackRock, Vanguard, and State Street—has resulted in significant power being centralized in a small number of institutions that may influence corporate policy across multiple sectors (Bebchuk & Hirst, 2019).

7.2 Institutional Investors as Governance Monitors

Institutional investors contribute to corporate governance in multiple ways:

1. **Proxy Voting:** Institutional investors cast votes at annual general meetings and other shareholder meetings. Many investors now publish their voting policies and rationales, promoting transparency and accountability (European Securities and Markets Authority, 2022).
2. **Engagement and Stewardship Activities:** Investors increasingly meet with corporate boards and senior executives to discuss governance practices, executive compensation, environmental sustainability, risk management, and ethical conduct (Stewardship Code, UK Financial Reporting Council, 2020).
3. **Shareholder Activism:** Some institutional investors—particularly hedge funds and activist funds—actively seek to change managerial decisions, corporate policy, or board composition to improve firm performance (Brav et al., 2018).
4. **Promoting Environmental, Social, and Governance (ESG) Standards:** Growing emphasis on climate change, social responsibility, and ethical supply chain practices has led many institutional investors to integrate **ESG principles** into investment decisions (Global Sustainable Investment Alliance, 2021).

7.3 Challenges and Limitations

Despite their importance, institutional investors face constraints:

- Some, particularly pension funds and mutual funds, may be **passive investors** and therefore reluctant to challenge management.
- Conflicts of interest may arise when investment firms provide financial services to the companies they are invested in, weakening their governance oversight (Rhee & Fiss, 2014).
- Index funds hold shares in large numbers of companies and may lack the capacity to actively monitor all firms in their portfolios.

These limitations highlight the need for ongoing regulatory oversight and governance reforms to ensure that institutional investors fulfill their stewardship responsibilities.

Conclusion

Institutional investors have become central actors in corporate governance systems worldwide. Their influence, derived from the scale of assets under management and expertise in financial analysis, positions them as key monitors of corporate management. When institutional investors exercise their governance rights responsibly—through active engagement, informed proxy voting, and long-term stewardship—they enhance corporate accountability, reduce agency conflicts, strengthen investor confidence, and promote the long-term sustainability of corporations.

However, their rising power also necessitates continued transparency, regulatory oversight, and ethical responsibility. Ensuring that institutional investors act in the interests of the beneficiaries they represent remains a critical priority for modern governance systems.

CHAPTER EIGHT: RELEVANCE OF DISCLOSURE AND TRANSPARENCY IN CORPORATE GOVERNANCE

8.0 Introduction

Disclosure and transparency are fundamental pillars of effective corporate governance. The corporate governance framework requires that firms provide timely, accurate, and comprehensive information on all material aspects of their operations—including financial performance, ownership structures, risk exposures, and governance practices—to enable stakeholders to make informed decisions (Organisation for Economic Co-operation and Development [OECD], 2015). Transparent disclosure supports accountability, enhances investor confidence, and contributes to the integrity and stability of financial markets.

In modern global markets, disclosure obligations have expanded beyond traditional financial reporting to include environmental, social, and governance (ESG) performance, cybersecurity risks, climate-related impacts, data protection practices, and sustainability strategies (International Sustainability Standards Board [ISSB], 2023). As expectations evolve, disclosure is no longer regarded solely as a compliance exercise, but as a strategic tool that reflects a company's commitment to ethical conduct and responsible stewardship.

8.1 Mandatory and Voluntary Disclosure

Most jurisdictions require public companies to provide **mandatory disclosures**, typically through audited annual reports, quarterly statements, and regulatory filings. Increasingly, stock exchanges and regulatory agencies require real-time reporting of **material developments**, such as mergers, financial distress, cybersecurity breaches, or leadership changes (U.S. Securities and Exchange Commission [SEC], 2022).

In addition to required disclosures, firms often engage in **voluntary disclosure** to enhance corporate reputation, attract investment, or meet stakeholder expectations. Examples include sustainability reports, integrated reports, corporate social responsibility (CSR) disclosures, and forward-looking performance indicators. Voluntary transparency signals good governance and can differentiate firms in competitive markets (Healy & Palepu, 2001).

8.2 Importance of Disclosure for Market Confidence and Governance

A robust disclosure regime promotes market-based monitoring, enabling shareholders and analysts to evaluate managerial performance and corporate strategy. Transparent reporting is associated with:

i. Lower cost of capital, as investors have greater confidence in financial integrity.
ii. Improved resource allocation, as markets can efficiently assess firm value.
iii. Stronger investor protection, reducing opportunities for fraud or insider abuse.
iv. Enhanced corporate accountability, aligning management decisions with stakeholder interests (Bushman & Landsman, 2010).

Conversely, weak disclosure practices contribute to market misconduct, mispricing of securities, capital flight, corruption, and financial instability, as demonstrated during the Enron, WorldCom, Carillion, and Wirecard corporate scandals.

8.3 Materiality and Equitable Disclosure

Disclosure requirements are often guided by the principle of **materiality**, which states that information must be disclosed if its omission could influence investment decisions. Firms must also ensure equitable disclosure, preventing privileged access to market-sensitive information by certain investors, which could lead to insider trading and market manipulation (OECD, 2015).

To maintain fairness, companies must communicate significant developments simultaneously to all shareholders, often through regulated news services or stock exchange announcements.

8.4 Key Disclosure Areas

According to global governance standards (e.g., OECD, 2015; IFRS Foundation, 2023), essential disclosure areas include:

(i) Financial Performance and Position

Annual financial statements—comprising balance sheets, income statements, cash flow statements, and explanatory notes—must reflect the company's true financial condition. Increasingly, firms must disclose off-balance-sheet exposures, special purpose entities, and contingent liabilities, which may conceal hidden risks if undisclosed.

(ii) Corporate Objectives and Strategy

Beyond profit goals, companies are expected to disclose commitments relating to:

- Business ethics
- Sustainability and climate action
- Human rights and labor practices
- Community engagement: This information helps stakeholders assess long-term corporate accountability and societal impact.

(iii) Ownership Structure and Voting Rights

Investors must be informed about major shareholdings, beneficial ownership, and voting arrangements. Such disclosure prevents hidden concentration of control and enables identification of conflicts of interest and related-party influence.

(iv) Board Composition and Executive Remuneration

Shareholders require information regarding:

- Board member qualifications and independence
- Executive and director compensation policies
- Incentive structures (e.g., bonuses, stock options, golden parachutes)
- Transparent remuneration disclosure is vital to prevent excessive pay and ensure alignment with long-term firm performance (Edmans, Gabaix & Jenter, 2017).

(v) Related Party Transactions

Companies must disclose transactions involving significant shareholders, executives, or affiliates to prevent misuse of corporate assets and preferential treatment.

(vi) Risk Factors and Risk Management

Firms must disclose foreseeable risks, including:

- Industry and market risk

- Cybersecurity and digital data protection risks
- Environmental and climate transition risks
- Currency, commodity, and interest rate fluctuations
- Clear risk disclosure supports shareholder understanding of the firm's resilience and risk appetite.

8.5 The Role of Accounting and Auditing Standards

High-quality disclosure relies on internationally recognized reporting standards, such as International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA). Independent audits provide objective assurance that financial statements fairly present the company's performance and internal control environment (IFRS Foundation, 2023).

Conclusion

Disclosure and transparency are critical to maintaining trust in corporate systems. In an era of globalized investment and heightened stakeholder expectations, disclosure extends beyond financial reporting to encompass governance integrity, sustainability commitments, ethical behavior, and risk resilience. A transparent corporate environment strengthens investor confidence, supports efficient capital allocation, and promotes stable and fair market systems.

CHAPTER NINE: NATURE AND ROLES OF THE BOARD OF DIRECTORS IN A CORPORATE GOVERNANCE SYSTEM

9.0 Introduction

The Board of Directors is the central governing body responsible for providing strategic direction, oversight, and accountability within a corporation. According to the Organisation for Economic Co-operation and Development (OECD, 2015), an effective corporate governance system should ensure that the board provides strategic guidance to the company, supervises managerial performance, and remains accountable to shareholders while considering the interests of broader stakeholders. The board plays a crucial role in balancing power, preventing managerial misconduct, and ensuring sustainable corporate success in an increasingly complex business environment.

9.1 Board Structures in an International Context

Board structures vary significantly across countries and legal traditions:

- **Two-tier board system:** Common in Germany and several European states, this model separates oversight and management. A supervisory board composed mainly of independent or shareholder-elected members oversees a management board composed of senior executives (Tricker, 2019).
- **Unitary (single-tier) board system:** Common in the United States, United Kingdom, and many Commonwealth countries, this system integrates both executive and non-executive directors on a single board (Mallin, 2019).
- **Hybrid governance structures:** Some countries enhance board oversight through mandatory committees such as audit, remuneration, sustainability, and risk management committees.

Regardless of structure, contemporary governance frameworks emphasize that boards must be composed in a way that fosters independence, accountability, and balanced decision-making.

9.2 Core Responsibilities of the Board

Boards are responsible for guiding corporate strategy, monitoring performance, protecting shareholder interests, and ensuring long-term organizational sustainability. Key responsibilities include:

(i) Strategic Direction and Corporate Purpose

The board sets the company's strategic direction by approving business plans, reviewing major investments, and assessing risk tolerance. Modern governance requires that strategy integrate digital innovation, sustainability, climate transition goals, cybersecurity preparedness, and stakeholder value creation (World Economic Forum, 2020).

(ii) Oversight of Management

The board appoints, evaluates, compensates, and may dismiss the Chief Executive Officer and other key executives. Effective succession planning is crucial to maintaining leadership continuity and corporate resilience (Kirkpatrick, 2009).

(iii) Ensuring Compliance and Ethical Conduct

Boards must ensure that corporations adhere to legal requirements, regulatory standards, and ethical norms. This includes compliance with labor, tax, data protection, environmental, and anti-corruption laws. Many organizations now adopt **codes of ethics and conduct** that guide expected behaviors and establish boundaries for conflicts of interest (OECD, 2015).

9.3 Fiduciary Duties of Board Members

Directors are expected to uphold two primary fiduciary duties:

- **Duty of Care:** Directors must act with diligence, informed judgment, and due competence in decision-making.
- **Duty of Loyalty:** Directors must act in the best interest of the company and all shareholders, avoiding personal gain or conflicts of interest (Tricker, 2019).

These duties ensure that directors make unbiased decisions based on corporate—not personal—interests.

9.4 Fair Treatment of Shareholders

Boards must treat all shareholders fairly, including minority or foreign investors. This safeguard is essential in companies where controlling shareholders could dominate decisions. Fair treatment reinforces investor confidence and prevents abusive practices such as related-party transactions and preferential voting rights (OECD, 2015).

9.5 Ethical Leadership and Corporate Culture

Boards play a critical role in setting the ethical tone of the organization. Ethical leadership influences internal behavior and external perception. Many companies now publish:

- Sustainability frameworks
- Anti-bribery and corruption standards
- Diversity and inclusion policies

A strong ethical culture enhances corporate reputation, resilience, and stakeholder trust (Brown & Treviño, 2020).

9.6 Keyboard Functions

Modern boards are expected to:

1. Review and approve corporate strategy.
2. Monitor governance structures and internal controls.
3. Oversee executive appointment, evaluation, compensation, and succession.
4. Align reward systems with long-term strategic goals.
5. Ensure transparent and merit-based board nomination processes.
6. Prevent conflicts of interest and oversee related-party transactions.
7. Ensure the integrity of financial reporting and the effectiveness of audit functions.
8. Oversee enterprise risk management, including:
    - Cybersecurity threats
    - Climate and environmental risks
    - Supply chain vulnerabilities
9. Ensure effective disclosure and stakeholder communication.

Boards increasingly require specialized committees—such as audit, risk, nomination, and sustainability committees—to manage complex oversight needs (Mallin, 2019).

9.7 Board Independence and Diversity

Independence is essential for objective oversight. Many governance codes recommend the separation of roles between the Board Chair and the Chief Executive Officer (CEO), or the appointment of a lead independent director to reduce management dominance (Tricker, 2019).

There is growing recognition that gender, ethnic, professional, and cognitive diversity improve board decision-making and enhance innovation and corporate resilience (Adams & Ferreira, 2009). Many global regulators now set mandatory or voluntary diversity targets.

9.8 Access to Information

Board members require accurate, timely, and relevant information to make well-informed decisions. Non-executive directors, in particular, must have access to:

- Internal auditors
- Risk officers
- Company secretaries
- Independent external advisors

Access to information ensures informed oversight and accountability (OECD, 2015).

Conclusion

The board of directors is central to effective corporate governance and organizational sustainability. In today's complex business environment, boards must balance profitability with ethical conduct, shareholder value with stakeholder welfare, and strategic growth with environmental and social responsibility. An effective board is independent, diverse, informed, accountable, and focused on long-term value creation.

CHAPTER TEN: SPECIMEN GUIDELINES ON SIGNIFICANT CORPORATE GOVERNANCE ISSUES FOR BOARDS OF DIRECTORS

10.0. Introduction : Corporate Governance Guideline

Corporate governance guidelines serve as frameworks that enable boards of directors to discharge their oversight responsibilities effectively while maintaining flexibility to adjust to dynamic corporate environments. These guidelines are *principles-based*, not rigid rules; organizations continuously review and revise them in response to strategic priorities, regulatory changes, and evolving stakeholder expectations (Organisation for Economic Co-operation and Development [OECD], 2015). As seen in the governance practices of multinational corporations such as Allergan (2020), the guidelines articulated below illustrate current governance standards intended to promote accountability, transparency, and strategic leadership at the board level.

These specimen guidelines may evolve, as the board is responsible for periodically assessing their relevance and adapting them to emerging corporate challenges such as digital transformation, sustainability, cybersecurity, and geopolitical risk (Mallin, 2019). Therefore, the guidelines should be viewed as a dynamic governance tool rather than a static framework.

10.1. Selection Approaches

1. Selection of the Chairman and Chief Executive Officer (CEO)

The board retains discretion to determine the leadership structure best suited to the organisation’s strategic needs. This includes deciding whether the roles of Chair and CEO should be separated or combined. Contemporary governance research strongly supports role separation to enhance independence, reduce conflicts of interest, and improve oversight of management (Tricker, 2022). Where roles are combined, a **Lead Independent Director** is often appointed to provide balance and facilitate independent board deliberations.

2. Executive Sessions of Independent and Non-Executive Directors

Independent directors should meet regularly without management present to enhance candid discussion, lessen undue executive influence, and reinforce board independence. In jurisdictions such as the United States, at least one session per year must include *only* independent directors, in accordance with New York Stock Exchange (NYSE) Listing Standards (NYSE, 2023). These sessions may occasionally include dialogue with the CEO when deemed appropriate.

3. Board Committees and Their Composition

Modern governance standards recommend the establishment of specialized committees to ensure effective oversight. Common committees include:

Committee	**Key Focus Area**	**Independence Requirement**
Audit and Finance	Financial reporting, internal controls, risk management	Entirely independent directors
Corporate Governance and Compliance	Governance evaluation, ethics oversight, regulatory adherence	Entirely independent directors
Organization and Compensation	Executive compensation, succession planning	Entirely independent directors
Science & Technology / Strategy Committee (where applicable)	Innovation, digital transformation, research portfolios	Mix allowed, but majority independent recommended

Committee structures should be periodically reviewed to ensure relevance to organizational needs and external regulatory environments.

4. Assignment, Rotation, and Membership Tenure

Committee assignments are recommended to be determined by the Corporate Governance Committee in consultation with the CEO. While periodic rotation (every 3–4 years) helps maintain objectivity and broaden board experience, flexibility should be maintained to retain specialist expertise where continuity is valuable (Solomon, 2021).

5. Meeting Frequency, Agenda Preparation, and Information Flow

Committees and the full board must meet regularly—with pre-distributed materials—to enable informed decision-making. Clear and forward-looking agendas support strategic planning and allow directors to identify emerging risks. Effective governance also requires that board materials remain concise, accurate, and timely to prevent "information overload" while enabling robust oversight (OECD, 2015).

6. Access to Management and External Advisors

Directors should have unrestricted access to senior management and external experts where necessary. This promotes informed deliberation, especially regarding areas such as digital risk, sustainability obligations, mergers and acquisitions, and geopolitical uncertainties. External advisors should be engaged at the corporation's expense to preserve independence (Mallin, 2019).

7. Board Composition, Size, Diversity, and Independence

A board size of **9–13 members** is often considered optimal, as it allows diversity of expertise while preserving efficiency in decision-making. Modern governance emphasizes diversity—including gender, ethnicity, professional background, and global experience—due to its positive association with improved innovation and stakeholder representation (World Economic Forum, 2020). The majority of board members must be independent, and independence must be reviewed annually.

8. Director Orientation, Continuous Education, and Performance Evaluation

New board members should undergo structured orientation to understand governance expectations, company strategy, and regulatory obligations. Continuing education is essential in areas such as cybersecurity, ESG (Environmental, Social, and Governance) reporting, artificial intelligence, and international compliance frameworks. The board should also undergo annual performance evaluations and adjust governance practices accordingly (Tricker, 2022).

9. CEO Performance Evaluation, Succession Planning, and Management Development

The Compensation Committee evaluates the CEO's performance annually against financial, strategic, and ethical criteria. Succession planning should be continuous and include both emergency and long-term development pathways. Management development programmes strengthen leadership pipelines and sustain organizational knowledge (Solomon, 2021).

10. Board Communication with Media and Investors

To maintain consistency, reduce reputational risk, and manage strategic messaging, only senior executives—typically the CEO or designated investor relations officers—may speak publicly on behalf of the corporation. Board members should refrain from unauthorized engagement with external parties, including shareholders, analysts, and the media.

Conclusion

These guidelines reflect widely endorsed global governance principles and are intended to support boards in promoting accountability, ethical leadership, and long-term corporate sustainability. Because both the economic environment and regulatory landscape continually evolve, boards must review and refine these principles regularly to ensure ongoing relevance and effectiveness.

CHAPTER ELEVEN: ENHANCING THE ROLE OF THE BOARD OF DIRECTORS IN STATE-OWNED ENTERPRISES (SOES)

11.0. Introduction

In many countries, State-Owned Enterprises (SOEs) play a pivotal role in delivering essential public services, supporting industrial policy, and stabilizing national economies. Their significance became particularly visible during global disruptions such as the 2008 financial crisis and the COVID-19 pandemic, where governments relied on SOEs to maintain critical market functions and protect employment (Bruton et al., 2015; OECD, 2021). However, the governance of SOEs remains complex due to dual commercial and social mandates, political oversight, and public accountability expectations.

This chapter differs from earlier policy discussions by emphasizing the perspectives of board chairs and members, recognizing that effective reform requires understanding internal governance dynamics. Insights are drawn from OECD country interviews, comparative studies, and current governance frameworks. The core objective is to identify barriers to effective board performance and propose strategies for building autonomous, professional, and value-adding SOE boards.

11.1. Rationale

SOE boards have become central to efforts aimed at improving performance, transparency, and accountability. Governments increasingly expect SOEs to operate with commercial discipline, while also contributing to broader developmental, social, and ESG objectives (Musacchio & Lazzarini, 2018). These rising expectations require SOE boards to adopt modern governance practices similar to those in large private corporations. However, SOE boards face specific contextual pressures, including ministerial influence, politicized appointments, unclear mandates, and public scrutiny (Vining, Panzer, & Pearl, 2015). Therefore, improving SOE governance requires both structural reforms and a shift toward a professionalized board culture grounded in strategic decision-making.

11.1.1 Board Performance as a Priority Issue

Over the past two decades, SOE boards in many jurisdictions have seen an increase in decision-making authority, stronger oversight responsibilities, and higher expectations for strategic leadership (OECD, 2015). Reforms have focused on:

- Ensuring board independence
- Strengthening professional competencies
- Implementing performance evaluations
- Separating ownership and regulatory functions
- Enhancing transparency and reporting standards

Countries that implemented these reforms—such as New Zealand, Norway, and Singapore—report improved SOE performance and reduced political interference (Christensen & Lægreid, 2021).

11.1.2 Rising Expectations and Workload

SOE board members today must devote increasing time to governance oversight. Chairs may spend 40–90 days per year on board activities due to expanded responsibilities in:

- Strategic planning and oversight
- Audit and risk management
- Sustainability, climate, and social performance monitoring
- Stakeholder and government engagement

The expansion of responsibility reflects global concern about long-term value, public accountability, and risk exposure—including cybersecurity, supply chain vulnerability, and reputational risk (PwC, 2023).

11.1.3 Emulating Private Sector Governance Practices

Many governments emulate listed-company governance standards, including:

- Independent directors
- Audit and remuneration committees
- Performance-linked remuneration
- Disclosure aligned with IFRS and ESG reporting

Examples such as Norway's partial listing of major SOEs illustrate how market discipline can strengthen governance, reduce arbitrary political intervention, and enhance transparency (Goldeng et al., 2008). However, reforms must be adapted to context; not all SOEs operate under commercial objectives or competitive markets.

11.1.4 Key Differences Between SOEs and Private Firms

Despite growing alignment, SOEs differ from private firms in:

Dimension	**SOEs**	**Private Firms**
Ownership	State	Private investors
Objectives	Commercial + social/public policy	Profit maximization
Accountability	Government, citizens, legislature, media	Shareholders
Risk tolerance	Often lower; political sensitivity	Market-determined
Appointment powers	Often political	Market and shareholder determined

These differences create governance tensions, especially when political goals conflict with long-term sustainability and investment needs.

11.2 Key Challenges for SOE Boards

11.2.1 Clarifying the Role of the Board

Ambiguity regarding the role of the board, management, and the ownership entity remains a primary challenge. The OECD SOE Guidelines (2015) call for a three-tier governance system:

1. State ownership unit sets objectives.
2. Board provides strategic oversight.
3. Management executes operations.

However, in many jurisdictions, political directives bypass the board, undermining authority and accountability.

11.2.2 Conformance versus Performance

Boards often overemphasize compliance and underemphasize strategic value creation. A shift toward performance orientation requires:

- Clear strategic mandates
- Balanced scorecard performance systems
- Risk-based oversight rather than rule-based monitoring

11.2.3 Strategic Thinking and Value Addition

To add value, boards must:

- Act as partners, not adversaries, to management
- Bring diverse expertise and long-term perspective
- Engage in horizon scanning, innovation planning, and sustainability alignment

11.3 Improving Board Performance

11.3.1 Board Composition

Effective SOE boards require:

- Industry and financial expertise
- Independent directors to reduce political bias
- Diversity (gender, professional background, nationality)
- Clear separation of CEO and Chair roles

11.3.2 Group Dynamics and Board Culture

Interpersonal skills, trust, and open deliberation are essential. Even technically qualified boards fail when group dynamics are dominated by political influence or powerful executives.

11.3.3 Role of the Chair

The chair is the central governance integrator, responsible for:

- Cultivating constructive board interaction
- Structuring strategic dialogue
- Mediating between state ownership and management.
- Manage board meeting

11.3.4 Transparent Nominations Processes

Merit-based appointments and public disclosure reduce political capture and enhance credibility.

11.4.5 Board Evaluation

Annual board evaluations—preferably led by independent advisors—strengthen continuous improvement.

11.4 Special Governance Issues

Dividends

Conflicts arise between the SOE's reinvestment needs and the government's revenue extraction.

Executive and Board Remuneration

Remuneration must balance public expectations and market competitiveness.

Corporate Social Responsibility

SOEs face higher ESG and transparency expectations than private firms.

11.5 Pathways to Stronger Board Governance

Strong SOE governance requires:

- Political commitment to board autonomy
- Professional state ownership entities
- Transparent accountability and reporting systems
- Ongoing board development and review

11.6 The Importance of Clear, Considered, and Formal Policies

Effective corporate governance relies on clarity, consistency, and shared understanding. In many State-Owned Enterprises (SOEs), governance problems arise not due to the absence of rules, but due to ambiguity regarding roles, expectations, and authority (OECD, 2015). Well-designed governance policies must clearly outline the purpose of state ownership, define decision-making parameters, and specify appropriate channels for government influence.

11.7. The Role of Ownership Policy

A formal state ownership policy provides the overarching rationale for owning SOEs, articulating whether the objective is commercial profitability, public service provision, strategic national interest, or a combination of these (Musacchio & Lazzarini, 2018). Such a policy should also outline:

- The boundaries of government intervention
- The rights and responsibilities of ownership entities
- The expected governance standards of SOEs

Strong ownership policies require broad political and parliamentary consensus to ensure stability across electoral cycles and reduce the risk of politicized, short-term directives (Christensen & Lægreid, 2021).

11.7.1 Letters of Intent and Strategic Alignment

The broader ownership policy must translate into SOE-specific statements, often referred to as letters of intent, shareholder compacts, or performance agreements. However, overly prescriptive or technical letters often lead to rigidity and bureaucratic overload. Best practice emphasizes:

- Strategic focus, not operational micromanagement
- Clear identification of strategic priorities and prohibited actions
- Limited, realistic performance indicators

Governments should avoid "expectation overload," whereby SOEs are tasked with excessive goals that dilute accountability and impair performance.

11.7.2 Clarity and Governance Stability

When rules, objectives, and boundaries are clear, SOE boards gain the necessary authority to operate without inappropriate interference. Countries with effective SOE sectors—such as Norway, Singapore, and New Zealand—demonstrate the benefit of having clearly defined governance frameworks that emulate private-sector discipline while reflecting public values (OECD, 2021).

11.8 Respecting Established Policies

Clear rules alone are insufficient; they must be respected and consistently applied. In practice, SOE governance often involves both formal procedures and informal norms that guide behavior (Vining, Panzer, & Pearl, 2015). Informal norms can support good governance—such as ministers voluntarily following independent nomination processes—even where legal authority allows for direct appointment.

However, informal practices can also **undermine governance**. Boards may hesitate to make decisions if they expect political override, creating a culture of passivity. In such contexts, accountability is weakened because authority and responsibility are misaligned.

11.8.1 Respect vs. Enforcement

Best practice countries emphasize voluntary compliance grounded in shared intent, rather than coercive enforcement. Respect for governance rules grows when:

- Stakeholders understand and agree with the structure of governance
- Policies are seen as fair, rational, and performance-enhancing
- The state refrains from opportunism or inconsistent interference

Thus, long-term governance quality depends not only on institutions, but also on trust and shared commitment.

11.9 Awareness and Training

Strengthening governance requires building human capital across boards, senior management, and public administration. Awareness and training efforts ensure that stakeholders understand governance principles, their roles, and the strategic objectives of state ownership (PwC, 2023).

11.9.1 Awareness Building

In countries where SOE governance reform is emerging, awareness campaigns help clarify:

- The strategic role of SOEs in the economy
- The responsibilities of boards versus government ministries
- The importance of transparency and performance accountability

Awareness building is often necessary before structural reforms can be effective.

11.9.2 Board Training and Development

Surprisingly, board members in long-established governance systems often rely less on formal training and more on experiential learning, including:

- Induction programs
- Interactions with external auditors and experts
- Cross-board membership experience

However, research indicates that relying solely on experiential learning may lead to underinvestment in governance skills, particularly in areas such as risk management and digital transformation (Mayer & Roche, 2020). In developing economies—where experienced board members are scarce—formal training programs through business schools, director institutes, and international networks are especially important.

11.10 Communication

Effective governance requires open, structured, and strategic communication channels between the chair, the CEO, and the state ownership entity. Strong communication enables:

- Constructive challenge and oversight
- Early detection of strategic or operational risks

- Alignment of SOE and state objectives

The board chair plays a particularly crucial role as an intermediary with responsibility for maintaining trust, ensuring balanced engagement, and preventing political overreach.

11.11 Public Transparency

Transparency is a fundamental governance mechanism and a safeguard against misuse of authority. Best practice SOEs disclose:

- Financial performance
- Governance policies and board decisions
- Remuneration structures
- ESG impacts and sustainability commitments

Transparency reduces opportunities for corruption, strengthens stakeholder trust, and ensures accountability to citizens, who are, ultimately, the owners in the case of SOEs (OECD, 2021).

11.12 Privatization and Partial Listings

Some countries improve SOE performance by emulating private-sector governance standards while retaining state ownership, while others pursue partial or full privatization.

11.12.1 Partial Listings

Partial listings subject SOEs to:

- Capital market discipline
- Shareholder scrutiny
- Mandatory reporting and transparency standards

These mechanisms can significantly strengthen board professionalism and operational efficiency (Goldeng et al., 2008).

11.12.2 Full Ownership Reform

Where state ownership is retained, success depends on consistent political commitment to professional, non-political governance. Without this commitment, structural reforms are likely to erode over time.

CHAPTER TWELVE: THE EUROPEAN UNION (EU) APPROACH TO CORPORATE GOVERNANCE

12.0 Introduction

Corporate governance within the European Union (EU) has evolved significantly over the past two decades, shaped by financial crises, corporate scandals, increased cross-border business operations, and the deepening of the European Single Market. The EU's approach emphasizes transparency, accountability, investor protection, and sustainable long-term corporate performance (European Commission, 2021). This chapter examines the major stages in the EU's corporate governance reform process, including the 2003 Action Plan, the development of corporate governance codes, the strengthening of board oversight, transparency obligations, and ongoing reforms addressing sustainability and stakeholder interests.

12.1 The 2003 Action Plan: Modernizing Company Law and Corporate Governance

The origins of recent corporate governance reforms in the EU can be traced to the 2002 Report of the High-Level Group of Company Law Experts. The report emphasized the need to modernize company law to address a series of governance failures that had contributed to corporate scandals, such as those involving Parmalat in Italy and Ahold in the Netherlands (European Commission, 2003). These scandals damaged public trust and highlighted weaknesses in board oversight, financial transparency, and shareholder protection.

In response, the European Commission issued its 2003 Communication "Modernizing Company Law and Enhancing Corporate Governance in the European Union", which outlined a structured reform agenda. The Action Plan sought to:

- Strengthen shareholder rights
- Improve corporate transparency and disclosures
- Promote board accountability and independence
- Adapt corporate governance rules to support cross-border investment
- Encourage the use of digital technologies in corporate reporting

Former Internal Market Commissioner Frits Bolkestein emphasized that strong corporate governance is essential for protecting stakeholders and sustaining economic growth within globalized markets (European Commission, 2003).

The Action Plan further encouraged companies to adopt governance practices that support sustainable long-term value creation rather than short-term financial gains. These priorities remain central in current EU reforms, particularly in relation to environmental, social, and governance (ESG) frameworks (European Commission, 2021).

12.2 Corporate Governance Codes of Best Practice in EU Member States

The EU does not impose a single, uniform governance code for all Member States. Instead, it promotes convergence and coordination of national codes. A comparative study conducted by the Commission in 2002 concluded that harmonization should focus on improving shareholder participation and reducing barriers to the free flow of investment across the EU (European Commission, 2002).

Most Member States implement their governance codes under the "comply-or-explain" principle, under which companies must either comply with the recommended governance standards or explain why they do not. However, to be effective, disclosures must be meaningful rather than symbolic. The EU Corporate Governance Forum (2006) stressed that national regulators and shareholders must enforce this principle to prevent superficial compliance.

The 2006 Directive on corporate governance reporting requires all listed companies to publish an annual corporate governance statement that outlines:

- The code followed
- The degree of compliance
- Explanations for deviations

This increases transparency and enables investors to assess governance quality across companies and countries.

12.3 Board Structure, Independence, and Leadership

12.3.1 Board Composition and the Role of Independent Directors

The 2004 Commission Recommendation encouraged Member States to strengthen the role of independent non-executive directors. Independent directors serve as a counterbalance to executive management, helping prevent conflicts of interest and ensuring objective decision-making (Tricker, 2019).

Key expectations include:

- Separation of the roles of Chairperson and Chief Executive Officer
- Establishment of independent Nomination, Remuneration, and Audit Committees
- Annual evaluations of board performance
- Transparent mechanisms for managing conflicts of interest

These principles align EU corporate governance with international standards.

12.3.2 Criteria for Director Independence

To ensure independence and objectivity, directors must not:

- Have recent employment ties with the company
- Receive substantial financial benefits beyond board compensation
- Represent controlling shareholders
- Hold long-term board tenure that could compromise objective oversight

This guidance aims to prevent excessive influence by corporate insiders and dominant shareholder groups.

12.4 Directors' Remuneration

Executive remuneration has been a focal issue, particularly following corporate scandals and public concern about excessive CEO pay. The **2005 Recommendation** requires companies to disclose:

- Total remuneration packages
- Performance-linked incentive structures
- Share-based compensation
- Pension and severance arrangements

Shareholders must also be given a say on remuneration policies—an approach known as **"**say on pay" (Ferrarini & Moloney, 2012).

12.5 Transparency, Audit, and Reporting Requirements

The 2006 Statutory Audit Directive strengthened auditor independence and established audit committees in public interest entities. This was followed by the Transparency Directive (2005), requiring:

- Regular financial disclosures, including quarterly or interim management statements
- Reporting on changes in major shareholdings
- Standardization of financial information across Member States

These measures are designed to enhance investor confidence and reduce information asymmetry.

12.6 Current & Emerging Issues in EU Corporate Governance

Recent reforms increasingly emphasize:

- Sustainability and ESG reporting, including climate risk disclosure
- Gender diversity on boards
- Digital and cybersecurity governance
- Stakeholder capitalism rather than narrow shareholder primacy

The Corporate Sustainability Reporting Directive (CSRD), effective from 2024 onwards, marks a major shift, requiring companies to report on environmental and social impacts with the same rigor as financial reporting (European Commission, 2022).

Conclusion

The EU's approach to corporate governance has evolved from promoting shareholder protection and market integrity to incorporating sustainability, transparency, and stakeholder interests. Ongoing reforms aim to ensure that corporations contribute to economic resilience, social responsibility, and long-term environmental sustainability.

CHAPTER THIRTEEN: THE ROLE OF SENIOR MANAGEMENT IN A CORPORATE GOVERNANCE SYSTEM

13.0 Introduction

Senior management plays a pivotal role in the effective functioning of a corporate governance system. While the board of directors provides strategic oversight and ensures accountability, senior executives are responsible for executing board directives, operational decision-making, and establishing a culture of ethical and responsible conduct within the organization (Mallin, 2019). In modern corporate governance frameworks—especially within the financial sector—senior management's responsibilities have expanded to include strategic leadership, risk governance, regulatory compliance, and sustainability integration (OECD, 2023).

13.1 Strategic Top Management Leadership

Strategic management involves defining the organization's direction and making decisions that influence long-term performance. According to the Financial Supervision Commission's *Guidance on Corporate Governance for Banking Institutions*, senior management must ensure the existence of an effective strategic planning process that aligns the organization's objectives with its operating environment and risk profile.

Key responsibilities of senior management include:

1. **Developing Corporate Strategy**
   Senior management must develop and recommend to the board a coherent corporate strategy that accounts for competitive conditions, macroeconomic trends, technological developments, and regulatory requirements (FSC, 2018).
2. **Setting Business Objectives**
   Management translates strategic goals into measurable business objectives across operational areas, ensuring alignment across departments.
3. **Preparing Business and Operational Plans**
   These plans outline resource allocation, market priorities, performance targets, and financial assumptions.
4. **Executing Strategy and Monitoring Performance**
   Senior management ensures implementation, supervises daily operations, and evaluates progress against strategic benchmarks.
5. **Annual Review of Strategy**
   Strategies and plans must be updated regularly to ensure adaptability in volatile business environments, especially in contexts of rapid innovation or economic uncertainty.
6. **Reporting to the Board**
   Management must provide timely, accurate, and comprehensive updates that enable informed board oversight and decision-making.

In today's governance landscape, senior executives are also expected to integrate sustainability, digital transformation, and stakeholder engagement into strategic planning (European Banking Authority, 2021).

13.2 Risk Management Responsibilities

Risk governance has become a core dimension of senior management accountability, especially following financial crises and corporate failures linked to inadequate oversight. Senior management must establish and maintain an effective enterprise-wide risk management (ERM) framework.

Responsibilities include:

1. **Identifying and Assessing Risk Exposures**
   Risks may be credit, operational, market, liquidity, reputational, cybersecurity, or emerging ESG risks (BCBS, 2023).
2. **Measuring Aggregate Risk Exposures**
   Management must ensure that risk measurement systems capture interdependencies across business units.
3. **Developing Risk Management Policies**
   Policies should define risk tolerance levels, escalation procedures, and hedging or mitigation strategies.
4. **Submitting Risk Policies for Board Approval**
   The board retains final authority over risk appetite and risk governance structure.
5. **Implementing Effective Controls and Monitoring Systems**
   This includes establishing internal audit, compliance monitoring, and reporting mechanisms.
6. **Reporting to the Board**
   Senior management must communicate risk developments and control weaknesses promptly and accurately. Modern risk management also increasingly prioritizes **cybersecurity resilience, third-party risk, climate-related risk, and AI-related risk assessments** (OECD, 2023).

13.3 Liquidity and Funding Management

Liquidity and funding management is essential to ensure the organization can meet financial obligations without incurring unacceptable losses.

Senior management must:

1. **Assess Liquidity Requirements**
   Consider current operations, anticipated growth, and stress conditions.
2. **Develop Funding Strategies and Liquidity Policies**
   Policies must prevent excessive concentration of funding sources, maturity mismatches, or foreign exchange risks.
3. **Implement Liquidity Management Procedures**
4. These procedures must adhere to board-approved liquidity risk appetite.
5. **Maintain Contingency Funding Plans**
   Including response protocols for market disruptions, deposit withdrawals, or credit access restrictions.

As demonstrated during the 2008 Global Financial Crisis and recent bank failures, weak liquidity governance can rapidly destabilize even profitable institutions.

13.4 Capital Management

Capital management ensures that the organization maintains sufficient capital to support ongoing operations and absorb unexpected losses.

Senior management is responsible for:

1. **Determining Capital Requirements**
   Reflecting business growth, risk exposure, and regulatory standards.
2. **Recommending Capital Strategies to the Board**
   Including dividend policy, funding structure, and capital instruments.
3. **Monitoring Capital Adequacy Ratios**
   Ensuring compliance with regulatory frameworks such as Basel III (BCBS, 2019).
4. **Managing Capital Efficiently**
   Balancing profitability, solvency, and shareholder value creation.

Increasingly, capital planning incorporates stress testing and scenario analysis to anticipate crisis conditions.

13.5 Business Conduct and Ethical Leadership

Corporate governance requires a culture of integrity. Senior management sets the tone for ethical conduct across the organization (Tricker, 2019). Responsibilities include:

1. **Developing Codes of Conduct and Ethical Standards**
   These should emphasize fairness, transparency, confidentiality, and compliance with legal and regulatory expectations.
2. **Promoting Ethical Culture**
   This requires training, open reporting channels, and enforcement mechanisms against misconduct.
3. **Reporting Ethical Compliance to the Board**
   Misconduct, conflicts of interest, and breaches must be reported promptly.

Today, ethical leadership also involves **anti-money laundering (AML) compliance, ESG responsibility, whistleblower protection, and diversity and inclusion priorities**.

Conclusion

Senior management plays a strategic and operational leadership role in corporate governance. Their responsibilities span strategy formulation, risk oversight, capital stewardship, liquidity management, and ethical culture development. In a rapidly evolving global environment shaped by technological change, regulatory reform, and sustainability imperatives, effective senior leadership is fundamental to organizational resilience and long-term value creation.

CHAPTER FOURTEEN: ROLES OF EXECUTIVE AND NON-EXECUTIVE DIRECTORS IN CORPORATE GOVERNANCE SYSTEMS

14.0. Introduction

Corporate governance frameworks rely heavily on the structure and effectiveness of a company's board of directors. The board is typically composed of two key categories of directors—executive directors and non-executive directors (NEDs)—each playing distinct yet complementary roles in directing and overseeing corporate affairs (Tricker, 2019). The effectiveness of corporate governance depends significantly on the balance between these two roles, the independence of judgment, and adherence to accountability principles.

14.1 Roles of Executive Directors

Executive directors are full-time employees involved in the day-to-day operations and strategic management of the company. As highlighted in the Cadbury Report (1992), executive directors are responsible for implementing corporate strategies, managing business resources, and ensuring that operational decisions align with shareholder interests. Their employment terms and remuneration are contractually defined, typically through performance-linked contracts.

To prevent excessive power concentration and reinforce transparency, the Cadbury Report recommended that executive directors' contracts should generally not exceed three years unless shareholder approval is obtained. Furthermore, remuneration policies must be clear, disclosed, and determined by an independent remuneration committee composed predominantly of non-executive directors (Financial Reporting Council, 2018). The increasing use of performance-based pay, share-option schemes, and long-term incentive plans links executive compensation to corporate outcomes and market value creation (Mallin, 2023).

14.1.1. Key Roles of Executive Directors

- Strategic Planning: Guiding corporate strategy and resource allocation.
- Operational Oversight: Managing daily operations for efficiency and growth.
- Reporting and Disclosure: Ensuring timely and compliant financial and operational disclosures.
- Leadership and Performance Culture: Shaping ethical leadership and organizational culture.

In today's governance environment, executive directors must also ensure compliance with environmental, social, and governance (ESG) standards, cybersecurity resilience, and risk oversight frameworks (OECD, 2023).

14.2 Roles of Non-Executive Directors (NEDs)

Non-executive directors do not participate in daily management. Instead, they provide independent oversight, constructive challenge, and strategic guidance. Their role became especially emphasized after corporate scandals such as Enron and WorldCom, which demonstrated the dangers of passive or conflicted boards.

According to the Cadbury Report (1992) and UK Corporate Governance Code (Financial Reporting Council, 2018), effective NEDs must:

1. Exercise Independent Judgement in board deliberations.
2. Have no significant business or financial ties to the company beyond director fees or shareholdings.
3. Avoid participation in share-based incentive schemes that may compromise independence.
4. Be appointed based on clear nomination procedures and subject to periodic re-appointment based on performance review.

5. Be able to seek external professional advice at the company's expense when necessary.

NEDs serve as a bridge between shareholders and management, enhancing accountability and reducing agency conflicts (Hillier, Ross, Westerfield & Jaffe, 2021).

14.2.1. Contemporary Expanded Duties of NEDs

- Overseeing ESG performance and sustainability reporting.
- Monitoring data protection and cybersecurity governance.
- Evaluating CEO succession and leadership pipelines.
- Ensuring whistleblower protection and ethical compliance cultures.

14.3 Audit Committees and Internal Control Governance

The audit committee, typically composed of independent non-executive directors, plays a central role in ensuring financial integrity and internal control effectiveness. According to the UK Corporate Governance Code (2018), the audit committee must:

- Monitor the integrity of financial statements.
- Review the effectiveness of internal audit and risk management systems.
- Recommend the appointment or removal of external auditors.
- Ensure auditor independence and review non-audit service fees.
- Oversee whistleblowing and fraud-reporting mechanisms.

Internal audit supports governance by assuring internal control systems, risk exposure, and compliance processes. The audit committee's independence increases stakeholders' confidence in the company's financial transparency (Spencer Pickett, 2022).

14.4 U.S. Corporate Governance Reforms: The Sarbanes-Oxley Act (2002)

Following the Enron and WorldCom scandals, the Sarbanes-Oxley Act (SOX) was enacted to restore public confidence in corporate accountability. SOX requires:

- Senior executives to certify the accuracy of financial statements (Section 302).
- Public companies to maintain and report robust internal controls (Section 404).
- Establishment of the Public Company Accounting Oversight Board (PCAOB).
- Increased penalties for financial fraud and document tampering.

While SOX compliance initially imposed high regulatory costs—particularly for smaller firms—it has significantly strengthened internal controls, financial transparency, and ethical corporate practices (Coates, 2017).

Effective corporate governance requires a board structure that combines executive leadership and independent oversight, supported by transparent reporting and robust internal controls. The evolution of governance practices—including ESG oversight, whistleblower protection, and strengthened audit committee roles—continues to shape how corporations operate in an increasingly complex global environment.

14.7 The Nature of Internal Controls

Internal control forms a critical foundation in both financial and operational corporate governance systems. The widely adopted definition developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) describes internal control as a process carried out by an entity's board of directors, management, and employees, intended to provide reasonable assurance regarding the achievement of objectives in three key areas—operations, reporting, and compliance (COSO, 2013). This definition emphasizes that internal control is not an event, but rather a dynamic system integrated into the organization's culture, structure, and daily activities.

Internal controls function as mechanisms for monitoring, directing, and safeguarding corporate resources. They protect both tangible assets (e.g., buildings, equipment, inventory) and intangible assets such as reputation, digital information, and intellectual property. Effective internal controls mitigate fraud, reduce operational inefficiencies, and enhance the reliability of financial reporting (Spencer Pickett, 2022).

Historically, internal control principles have existed for centuries. For example, in Hellenistic Egypt, a dual administrative structure separated revenue collection from oversight, thereby embedding accountability and review into governmental operations (Van Creveld, 1999). Contemporary internal control frameworks continue to reflect this logic: separation of duties, oversight, verification, and documentation remain foundational.

Internal controls may be understood at two levels:

Level	**Focus**	**Purpose**
Organizational Level	Governance, strategy, compliance	Ensures financial reporting reliability and compliance with laws
Transaction Level	Operational workflows	Ensures that individual transactions are authorized, valid, and recorded accurately

Predictability, transparency, and accountability are therefore direct outcomes of sound internal control systems.

14.8 Nature, Scope, and Relevance of Internal Control Systems in Corporate Governance

Internal control systems are crucial to the effective functioning of corporate governance. A strong internal control system enhances financial performance, improves the reliability of financial and operational reporting, and strengthens stakeholder trust (Ray & Kurt, 2001). In both private and public institutions, well-designed internal controls promote accountability, safeguard resources, and support ethical decision-making.

However, research has shown that internal control implementation does not automatically guarantee improved performance. Even with robust frameworks, many institutions—particularly in the public sector—continue to struggle with inefficiencies, weak accountability, and corruption

(Office of the Auditor General of Canada, 2010). This gap often arises from challenges such as insufficient oversight, inadequate training, outdated information systems, and weak governance culture.

Effective internal control is therefore influenced by:

- Leadership commitment
- Staff competency
- Information and communication systems
- Monitoring and evaluation mechanisms

These systems are strongly linked to corporate governance because internal controls enforce compliance and ensure managerial accountability (KPMG, 2002). In governmental contexts, internal controls serve an additional role—ensuring that public resources are used efficiently, transparently, and responsibly, supporting national development goals (World Bank, 2007).

14.9 Internal Control and Internal Control Systems

Internal control refers to the **total system of checks and procedures** established to ensure:

1. Efficiency and effectiveness of operations,
2. Reliability of internal and external reporting, and
3. Compliance with legal and regulatory obligations (CIMA, 2006).

Meanwhile, an internal control system refers to the individual policies, practices, guidelines, and activities that managers implement to achieve these objectives. These systems support orderly operations, maintain accurate accounts, and ensure the integrity of financial information.

14.10 Types of Internal Control Systems

Multiple scholars classify internal controls differently, yet the following categories are widely recognized:

14.10.1 Directive Controls

Directive controls establish policies, guidelines, and expectations that guide employee behavior. They set standards for ethical conduct, quality, performance, and compliance.

Examples: organizational policies, staff training, codes of conduct.

14.10.2 Preventive Controls

Preventive controls aim to prevent errors or irregularities before they occur.

Examples:

- Separation of duties
- Authorization protocols
- Access control systems

14.10.3 Compensating Controls

Compensating controls are alternative measures used when ideal controls are impractical.

Example: maintaining printed backup records to compensate for system downtime.

14.10.4 Detective Controls

Detective controls identify issues after they occur, ensuring that errors or fraud do not go unnoticed.

Examples: audits, reconciliations, and variance analysis.

Detective controls are essential, but function best when supported by effective preventive controls.

14.11 Effectiveness of Internal Controls

Internal control effectiveness is evaluated based on how well the control components operate collectively. A system is deemed effective when management and the board have reasonable assurance that:

- Operational objectives are being achieved,
- Financial statements are accurate, and
- Laws and regulations are being obeyed (COSO, 2013).

Weaknesses such as system overrides, insufficient staff skills, inadequate monitoring, or poor documentation undermine effectiveness. Therefore, internal controls must be continually tested and updated.

14.12 Benefits of an Effective Internal Control System

Effective internal controls:

- Strengthen accountability and stewardship,
- Support performance improvement,
- Reduce risk of fraud and asset misappropriation,
- Improve compliance,
- Enhance stakeholder confidence (Green, 2007; Berkowitz, 2005).

They are therefore essential to long-term sustainability and governance credibility.

14.13 Governance in the Public Sector: A Governing Body Perspective

14.13.1 Scope in the Public Sector Context

Public sector governance differs from private sector governance due to:

- Political oversight,
- Public accountability,

Corresponding Author: Dr. Abu Kai Kamara

- Service delivery objectives rather than profit motives.

Public sector governing bodies must therefore emphasize transparency, integrity, legality, and accountability while managing state resources (IPSASB, 2014).

14.13.2 Accountability in the Public Sector

Governance in the public sector involves multiple role-players, including:

- Legislature – oversight and scrutiny
- Executive – implementation and resource administration
- Governing Bodies – strategic leadership and performance monitoring

The Legislature authorizes public resources and requires accountability reports, while the Executive manages day-to-day operations, financial controls, and service delivery.

14.13.3 Oversight Function of the Legislature Contrasted with the Executive Function of Government

In most public sector governance systems, a clear separation of powers exists between the Legislature and the Executive. This separation ensures that no single body exercises unchecked control over public resources, public policy, or administrative decision-making. The Legislature, commonly constituted as Parliament or an equivalent representative body, is responsible for granting the authority to acquire and use public financial resources and for exercising oversight over how these resources are managed. In contrast, the Executive—comprising Ministers, Cabinet, government ministries, departments, agencies, and state-owned enterprises—is responsible for the administration and management of these resources.

The Legislature plays a central role in authorizing the public budget, determining revenue and expenditure limits, and approving borrowing, investment, and program implementation frameworks. Once this authority has been granted, the Executive becomes responsible for preparing detailed budgets, allocating resources in line with approved priorities, and overseeing the implementation of policies, programs, and services. This includes ensuring compliance with relevant laws, promoting efficiency and economy in the use of public funds, safeguarding public assets, and accurately measuring and reporting performance.

The Executive, therefore, carries out the day-to-day operations of government. Its responsibilities include maintaining effective internal controls, applying appropriate accounting policies, ensuring the prudent use of resources, and preparing performance and financial reports to demonstrate accountability. These reports form a key component of the accountability cycle, as they enable the Legislature to assess whether the Executive has acted in accordance with its mandate and the authority delegated to it.

Because the Legislature is the source of public financial authority, it has both the right and the duty to hold the Executive accountable for the administration of public funds and the results achieved. Accountability involves an obligation to report, explain, and justify decisions and performance to those who have conferred responsibility. In this way, the Legislature occupies a central and indispensable oversight role in public sector governance.

To ensure transparency, legislative oversight commonly includes the review of annual financial statements, program performance reports, and audit findings. Legislative review often occurs through specialized committees, such as Public Accounts Committees, which examine reports from the Supreme Audit Institution and seek explanations from Executive officers. Hearings are generally conducted publicly to reinforce trust, transparency, and legitimacy.

The accountability cycle typically involves four sequential stages:

1. Audit and reporting by the legislative auditor,
2. Legislative committee hearings to review findings,
3. Legislative recommendations to the Executive, and
4. Executive response and implementation of corrective actions.

The effectiveness of this cycle relies on timely reporting, competent review, and follow-through by both the Legislature and Executive. Performance audit reports—aimed at assessing economy, efficiency, and effectiveness—are particularly valuable when the Legislature actively utilizes them and when the legislative auditor performs follow-up reviews to assess whether corrective actions have been implemented.

Different jurisdictions organize their oversight systems differently. For example, in most Anglo-Saxon governance systems, Public Accounts Committees provide this oversight function, whereas countries such as France employ financial commissions in both legislative chambers. In all cases, committee systems are designed to provide expertise and focus necessary for informed scrutiny. However, oversight effectiveness may vary due to limitations on legislative authority, insufficient access to information, or weak governance practices in state entities. Therefore, ensuring that government-controlled organizations remain responsive to public needs and stakeholder concerns is essential for effective governance. Subsequent chapters discuss governance arrangements for improving such accountability.

14.13.5. The Public and External Organizations

Public servants are representatives of the state and therefore play a critical role in sustaining public trust. Their interactions with citizens, civil society groups, business partners, and other public organizations should reflect the values of professionalism, impartiality, and public service ethics (OECD, 2019). Ensuring respectful and responsive communication not only reinforces organizational credibility but also contributes to public confidence in government institutions.

Accordingly, public service personnel are expected to engage with members of the public and external organizations:

- In a helpful, courteous, and respectful manner;
- On a timely, reliable, transparent, and, where necessary, confidential basis; and
- In a manner that is fair, open, and efficient, avoiding preferential treatment or bias.

This expectation aligns with modern principles of citizen-centered governance, which emphasize accessibility, dignity, and equitable service delivery (United Nations, 2021).

14.13.6. Employees and Internal Relationships

Respectful workplace relationships are essential to fostering productive and ethical public institutions. All public servants have a fundamental responsibility to treat colleagues with:

- Openness, honesty, and courtesy in all professional dealings;
- Consideration for personal well-being, including health, safety, and welfare; and
- Zero tolerance for harassment, discrimination, bullying, or abuse based on gender, ethnicity, religion, disability, or any other protected characteristic (International Labour Organization, 2020).

Governing body members also have a duty to foster a positive organizational culture grounded in fairness, inclusivity, and psychological safety. This includes implementing transparent procedures for addressing staff concerns, grievances, and conflicts of interest.

To encourage accountability and ethical conduct, entities are advised to appoint a confidential ethics or whistleblowing officer to whom staff may report misconduct without fear of retaliation. Whistleblower protection is now recognized globally as a critical safeguard in preventing corruption and promoting institutional integrity (Transparency International, 2022).

14.13.6 Suppliers and Contracting Partners

Public servants must maintain the integrity of procurement and contracting processes. Because procurement involves significant public expenditure and can be vulnerable to corruption, strict adherence to fairness, transparency, and value-for-money principles is essential (World Bank, 2020). Suppliers should therefore be treated consistently and evaluated based on objective criteria such as:

- Quality and suitability of products or services,
- Price and value for public funds, and
- Compliance with ethical and regulatory standards.

Public employees must avoid any actions that could create real or perceived conflicts of interest, including accepting gifts, entertainment, or incentives from suppliers. Procurement staff must:

- Comply fully with procurement legislation and internal procurement policies,
- Ensure supplier deliverables meet required technical and quality standards, and
- Ensure timely payment for goods and services rendered

14.13.7 Organizational Structures and Processes

Effective public sector governance requires sound organizational structures and clear operational processes that ensure accountability, transparency, and performance. Governing bodies must ensure:

- Compliance with statutory accountability requirements;
- Proper stewardship and accountability for public funds;
- Clear and open communication with stakeholders; and
- A transparent allocation of roles and responsibilities between non-executive board members and executive management (Institute of Internal Auditors, 2021).

14.13.8 Statutory Accountability

Public sector entities operate under legal mandates, which define the scope of their authority, functions, and financial powers. Governing bodies must ensure full compliance with relevant legislation, regulatory frameworks, and recognized standards of best practice. Failure to comply can result in legal sanctions, loss of public trust, and reputational harm.

A designated senior executive—often titled Compliance Officer, Chief Legal Advisor, or Secretary to the Board—should be responsible for advising the governing body on statutory obligations and ensuring proactive mechanisms for detecting and preventing breaches (OECD, 2015).

14.13.9 Accountability for Public Money

Public funds must be managed ethically, efficiently, and transparently. Accountability involves demonstrating how public resources are:

- Safeguarded from misuse or waste,
- Allocated and spent to achieve intended outcomes, and
- Managed in accordance with legal and policy requirements (Public Sector Accountability Frameworks Act, 2020).

An effective internal control system, supported by accurate financial reporting and audit processes, is central to sustaining accountability.

14.13.10 Communication with Stakeholders

Because public entities exist to serve the public interest, communication must be transparent, accurate, and timely. Clear communication:

- Enhances public trust,
- Enables informed public engagement, and
- Strengthens democratic accountability (United Nations Development Programme, 2022).

Stakeholder communication should include performance reports, published service commitments, complaints mechanisms, and formal channels for participation in governance processes.

14.13.11 Balance of Power and Authority

Good governance requires a clear separation of roles to avoid concentration of power. The governing body should include a majority of independent non-executive members, and the roles of Chairperson and Chief Executive should be separated to ensure independent oversight (Cadbury Committee, 1992; OECD, 2023).

14.13.12 Governing Body of a Public Sector Entity

The governing body is collectively responsible for strategic direction, oversight of performance, risk management, leadership appointments, and safeguarding public reputation. Regular board evaluations, training, and ongoing professional development are essential to maintain competence and governance quality.

14.13.13 Appointments to the Governing Body

Effective public sector governance requires that appointments to governing bodies be made through a formal, transparent, and merit-based process. Appointment procedures must ensure that individuals selected possess the necessary professional competence, integrity, and capacity to carry out their responsibilities within the organization (Organisation for Economic Co-operation and Development [OECD], 2023). Merit-based appointments enhance credibility, strengthen decision-making, and reduce the risk of political patronage or undue influence (World Bank, 2019).

The authority responsible for appointments varies across jurisdictions. In some systems, the governing body itself may select and appoint new members; in others, the power is vested in a minister or executive authority, as defined by statute. In such cases, the governing body may have limited influence over the selection process (Mulgan, 2018). Additionally, many jurisdictions impose statutory limits on tenure, ensuring rotation of membership and reducing the risk of stagnation or concentration of power (Public Service Commission, 2021).

Public governance structures also differ depending on the government level. For example, in New Zealand, school boards are elected by parents of students under the Education Act (1989), which outlines not only appointment processes but also governance responsibilities and accountability requirements (New Zealand Government, 1989).

Where a governing body has the authority to appoint members, it should assess the skills matrix needed for effective performance. Considerations may include expertise in finance, legal affairs, public policy, technical operations, or stakeholder engagement. When the governing body is large, a nominations committee—comprised primarily of non-executive members—may be established to evaluate candidates and make recommendations (Institute of Public Administration, 2020). Membership of such committees should be disclosed in the annual report to promote transparency.

Regardless of the appointing authority, the overriding principle is that appointments are made on merit. This ensures that the governing body, as a collective, has an appropriate mix of capabilities relevant to its responsibilities. Clear role descriptions, appointment letters, and performance evaluations should support accountability and clarity of expectations (OECD, 2019).

14.13.14 The Chairperson of the Governing Body

The Chairperson provides strategic leadership and ensures that the governing body fulfills its mandate effectively. The role must be formally documented and is distinct from that of the Chief Executive, who is responsible for organizational operations and implementation of policy (Cadbury Report, 1992).

The Chairperson is preferably an independent non-executive member. Where the Chairperson is an executive member, the non-executives must exercise enhanced oversight to mitigate potential conflicts of interest. The Chairperson must:

- Promote cohesive teamwork among governing body members;
- Ensure members receive necessary briefing, training, and performance appraisal;
- Facilitate effective meeting processes and quality decision-making;
- Ensure statutory and ethical obligations are respected; and
- Ensure that minutes and records accurately reflect decisions and relevant discussions (Institute of Internal Auditors, 2021).

Because the role demands significant time and judgement, the Chairperson must possess both competence and adequate availability to discharge the role fully.

14.13.15 Non-Executive Members

Non-executive members provide independent oversight and objective judgement on issues related to strategy, performance, resourcing, and ethical conduct. They must be free from business or personal relationships that could compromise their independence (Transparency International, 2022). Non-executives are generally compensated with a fee reflecting their governance contribution, rather than through employment contracts, ensuring that they remain structurally independent of management.

14.13.16 Executive Management

Executive management is accountable to the governing body. Of particular importance are three roles:

- Chief Executive – responsible for organizational leadership and operational performance.
- Chief Financial Officer (CFO) – responsible for financial stewardship, reporting accuracy, and internal financial controls.
- Compliance Officer – responsible for ensuring adherence to legislative, regulatory, and governance requirements, similar to the company secretary in the private sector (OECD, 2015).

While these roles may be combined in smaller organizations, concentration of authority carries governance risk. Therefore, splitting these functions is considered good governance practice (Nolan Committee, 1995).

14.13.17 Remuneration Policy

Remuneration must be fair, transparent, and designed to attract and retain competent members. Non-executive remuneration generally consists of a standard fee, while executive remuneration may include performance-related components aligned with organizational objectives (World Bank, 2020). A Remuneration Committee, composed entirely of independent non-executive members, should recommend or determine executive pay packages. No individual should be involved in setting their own remuneration. Annual reporting of remuneration policies and outcomes supports accountability and public trust.

14.13.18 Internal Control

The governing body of a public sector entity has a responsibility to ensure that an effective internal control framework is both established and functioning in practice. This includes providing a clear statement within the annual report regarding the **effectiveness** of the entity's internal controls (Institute of Internal Auditors, 2020). A robust internal control system supports sound governance by safeguarding public resources, ensuring reliable reporting, promoting operational efficiency, and maintaining compliance with applicable laws and regulations.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) defines internal control as a process effected by the governing body, management, and employees, designed to provide reasonable assurance regarding the achievement of objectives in three key areas:

1. Effectiveness and efficiency of operations
2. Reliability of financial reporting
3. Compliance with laws and regulations(COSO, 2013).
   Similarly, the Criteria of Control Board (COCO) expands this definition to include objective setting, risk management, and corrective actions as integral components of internal control (Canadian Institute of Chartered Accountants, 1995). The COCO approach emphasizes the alignment of controls with broader strategic priorities and organizational culture.

Internal control is an ongoing process, and its effectiveness may vary over time. The governing body must seek reasonable assurance, rather than absolute certainty, that the organization is achieving its objectives effectively and lawfully. To do so, regular monitoring, evaluation, and reporting are required. This may involve:

- Systematic review of control activities;
- Identification of risks and emerging vulnerabilities;
- Assessment of staff competencies; and
- Implementation of improvements where necessary (OECD, 2019).

Importantly, staff must have the skills and training needed to maintain the internal control environment, particularly during periods of organizational change. Because organizational objectives evolve, internal control systems must also adapt to remain relevant and reliable (IFAC, 2021). Management retains primary responsibility for implementing and monitoring internal control systems, while the governing body ensures accountability.

14.14 Budgeting, Financial Management, and Staff Training

14.1 Budgeting

Budgeting in the public sector represents a core mechanism of resource allocation, financial control, and performance evaluation. While the Legislature authorizes the overall public budget, the governing body of an individual entity typically approves a financial plan consistent with national priorities (World Bank, 2020). The annual budget serves multiple purposes: it aligns financial resources with strategic objectives, ensures transparency in expenditure decisions, and provides a basis for evaluating performance.

Best practice budgeting often integrates medium-term expenditure frameworks, covering three to five years, to link short-term decisions with longer-term goals (Allen & Tommasi, 2023). This approach allows entities to:

- Forecast resource availability;
- Prioritize programs; and
- Align expenditures with policy objectives.

However, several recurring challenges have been documented in developing countries, including weak feedback mechanisms, lack of integration between budgeting and accounting, one-year budget horizons, and failure to link budgets to performance outcomes (World Bank, 1995). To address these, budgeting must be closely connected to the accounting system, allowing for meaningful comparison between planned and actual results (IPSASB, 2022). Even when using accrual-based reporting, cash-flow forecasting remains essential for managing liquidity and ensuring timely payments.

14.2 Financial Management

Financial management provides the framework for efficient and effective use of public resources, ensuring that outputs are delivered economically and contribute to desired policy outcomes (OECD, 2019). Strong financial management encompasses:

- Cash and treasury management
- Capital planning
- Costing and pricing of services
- Financial risk management
- Integration of financial and performance data

Effective financial management systems require clear accountability, reliable information systems, and appropriately trained personnel. The focus should shift from compliance-based administration to results-oriented performance management, where outputs and outcomes drive decision-making (IFAC, 2021).

14.3 Staff Training

Public sector performance is directly dependent on the skills and capacity of its personnel. Governing bodies must ensure that structured training programs are in place to equip staff with necessary competencies, particularly in areas such as financial reporting, auditing, budgeting, cost analysis, governance, negotiation, and conflict management (International Monetary Fund, 2022). Competitive remuneration is important to attract and retain qualified professionals in a labor market where public sector salaries may lag behind private sector rates.

Staff performance evaluations should be aligned with organizational objectives, with **incentives** for high performance and appropriate consequences for underperformance. Training programs must be ongoing and tailored to career development, combining formal instruction with supervised, practical experience.

14.4 External Reporting

14.1 Annual Reporting

Annual reporting promotes transparency and accountability and ensures that stakeholders—including taxpayers, oversight bodies, and legislators—have access to clear and balanced information regarding financial position, performance, and future prospects (IPSASB, 2022). Reports must include:

- Audited financial statements
- A statement of objectives and performance outcomes
- Governance disclosures
- A going concern assessment

Timely reporting is critical. IPSAS 1 recommends issuing financial statements within **six months** of year-end, with three months being considered best practice.

14.2 Use of Appropriate Accounting Standards

Financial statements should be prepared in accordance with International Public Sector Accounting Standards (IPSAS) or another recognized reporting framework to enhance consistency, comparability, and credibility (IPSASB, 2022). While legislation may override certain accounting requirements, such departures must be disclosed.

14.3 Performance Measures

Performance measurement enables entities to evaluate whether resources have been used:

- Economically (lowest cost),
- Efficiently (optimal resource use), and
- Effectively (achievement of objectives) (OECD, 2019).

Performance indicators must be relevant, reliable, comparable, and subject to review. Performance information is strengthened when externally verified.

14.3 Benchmarking

Benchmarking allows comparison with leading organizations to identify opportunities for improved performance. Benchmarking may be internal, competitive, or sector-wide and contributes to continuous improvement (Camp, 2019).

14.4 External Audit

External audit enhances public trust by independently verifying financial statements and assessing compliance, value for money, and governance effectiveness (Supreme Audit Institutions, 2021). The **audit committee** oversees the audit relationship, ensuring auditor independence and reviewing implementation of audit recommendations.

14.5 Chief Executives

In public sector governance, the Chief Executive occupies a pivotal leadership position and is accountable to multiple stakeholders. Primarily, the Chief Executive is answerable to the Minister or political authority who appointed them; however, accountability also extends to the Legislature for the operational performance and stewardship of public resources (OECD, 2019). As a result, Chief Executives may be called to provide testimony before legislative committees such as the Public Accounts Committee, particularly where audit reports raise concerns regarding governance, performance, or financial integrity (INTOSAI, 2021).

Appointment to the office of Chief Executive confers responsibility for the overall management, organization, strategic direction, staffing, and financial oversight of the public body (IFAC, 2021). The role is inherently personal and requires the Chief Executive to demonstrate leadership in ensuring that systems, procedures, and resource usage align with statutory and policy expectations. Where the Chief Executive also acts as the head of the governing body, the individual assumes direct responsibility for establishing controls that safeguard public funds, encouraging efficiency, economy, and effectiveness, and ensuring compliance with all applicable authorities (IPSASB, 2022).

14.5.1. Accountability for Processes

Chief Executives are responsible not only for the outputs delivered, but also *how* they are achieved. Public administration emphasizes adherence to due process, respect for ethical norms, and observance of transparent procedures (OECD, 2019). Thus, effective performance must align with legal requirements, public expectations, and principles of fairness and propriety. To support this, the Chief Executive must institute systems to ensure compliance with relevant legislation, regulations, and best practice standards (COSO, 2013).

14.5.2 Accountability for Public Resources

The Chief Executive is charged with ensuring effective financial stewardship, which includes:

- Accounting for the use and performance of public funds and other assets;
- Maintaining a transparent, efficient, and reliable system of financial control, including risk management and budgeting;
- Ensuring value for money in the use of resources;
- Safeguarding the organization's assets and managing its liabilities;
- Taking appropriate steps to:
    - Collect revenue due;
    - Prevent wasteful or unauthorized expenditure;
    - Prevent losses from fraud or criminal activity;

- Ensure expenditure aligns with legislative authority (INTOSAI, 2021; IFAC, 2021).

14.5.3 Accountability for Performance

Beyond financial accountability, the Chief Executive is responsible for strategic priorities and service quality. This includes defining objectives, allocating resources according to strategic priorities, and ensuring that public services are delivered to agreed standards of quality (OECD, 2019). To support independent judgment, some jurisdictions recommend the establishment of Advisory Boards composed of experienced professionals. For example, in New Zealand, advisory boards provide Chief Executives with non-binding but informed advice conducive to sound governance and strategic decision-making (New Zealand State Services Commission, 2020).

14.5.4 Relationship Between Executive and Staff

Transparency in the appointment process for Chief Executives reinforces public trust and reduces the perception of political patronage (World Bank, 2020). To strengthen accountability, the appointing authority may enter into a performance agreement with the Chief Executive, outlining key expectations, performance indicators, and evaluation mechanisms (IMF, 2022). While Ministers may retain the power to dismiss Chief Executives, such decisions are typically subject to procedural safeguards and rights of appeal, ensuring fairness.

Where authority is delegated, clear lines of responsibility must be maintained so that individual accountability for decisions is traceable and enforceable (IFAC, 2021). Performance contracts may also be established between the Chief Executive and senior managers, aligning departmental performance with the organization's strategic and operational plans.

Where a Minister issues a directive that could result in illegal, improper, or irregular expenditure, the Chief Executive has a duty to provide written advice drawing attention to the risk. Should the Minister insist on proceeding, the instruction must be documented, and a copy forwarded to the legislative auditor (INTOSAI, 2021). This mechanism protects both the public interest and the integrity of the Chief Executive.

14. 4.5 Communication with Stakeholders

Effective governance requires clear, consistent, and transparent communication with stakeholders. The Chief Executive must commit to **openness**, subject only to necessary confidentiality in sensitive matters (OECD, 2019). Mechanisms to enhance communication may include:

- Regular external performance reviews;
- Publication of performance reports;
- Consultation forums with the community and service beneficiaries;
- Engagement with regulators and oversight bodies.

Such practices ensure that services meet required standards, legal obligations are fulfilled, and stakeholder confidence is maintained (IFAC, 2021).

14.5.6 Control and External Reporting

The guidance on risk management, internal audit, internal control, budgeting, financial management, performance measurement, and external audit applies fully in central government environments (IPSASB, 2022). Public sector entities must produce timely annual reports, adhere to recognized accounting standards such as IPSAS, and undergo independent external audits to maintain integrity and accountability.

14.5.7 Key Implications of Public Sector Governance Issues

The core principles of governance—openness, integrity, and accountability—are mutually reinforcing and must be implemented collectively to ensure trust and institutional legitimacy (OECD, 2019). Ongoing reforms in many countries include outsourcing, privatization, public-private partnerships, and intergovernmental service delivery arrangements. While these innovations may enhance operational efficiency, they also introduce new governance risks, requiring stronger oversight to ensure public interest protections (World Bank, 2020).

CHAPTER 15: THE EFFECT OF PUBLIC SECTOR PROCUREMENT ON GOOD GOVERNANCE IN SIERRA LEONE

15.0. Introduction

Public sector procurement in Sierra Leone plays a central role in translating state budgeting into tangible outcomes — including investments in human capital, infrastructure, and social services. The National Public Procurement Authority (NPPA), under the Public Procurement Act, 2016, provides the statutory framework to ensure that procurement across all ministries, departments, and agencies (MDAs) is conducted with integrity, accountability, and efficiency.

The objective of public procurement, whether for education, health, infrastructure, or other sectors, is to achieve "value for money" using public funds—funds that are largely derived from taxation and thus demand transparency and public accountability.

When effectively implemented, public procurement can contribute to good governance by minimizing waste, preventing corruption, and facilitating equitable distribution of public resources.

However, recent assessments indicate that despite legal and institutional reforms, challenges remain. A 2025 NPPA review of procurement practices between 2020 and 2023 revealed a persistent reliance on non-competitive methods (e.g., sole sourcing, request for quotations) in the majority of transactions — practices that weaken competition, reduce transparency, and undermine fair access.

Moreover, many MDAs still lack adequate procurement capacity: in 2022, for example, a significant share had no contract registers or access to essential legal procurement tools, and some failed to submit required data in multiple years

In response to these structural deficiencies, the government recently launched the e-Government Procurement (e-GP) system — a digital procurement platform intended to enhance transparency, accountability, and cost-effectiveness by automating tendering, contract management, and supplier registration

The e-GP initiative, together with efforts to publish tender notices and contract awards in compliance with the Open Contract Data Standard (OCDS), reflects the government's renewed commitment to institutionalizing procurement as a tool for good governance.

Thus, while public procurement in Sierra Leone remains an essential mechanism for delivering public goods and services, its effectiveness in promoting good governance depends on sustained legal enforcement, institutional capacity building, digital transformation, and inclusive, competitive practices — especially to ensure value for money, transparency, and equitable access for local contractors, including small and medium enterprises (SMEs).

15.2. Governance Theory

The concept of *good governance* lacks a single, universally accepted definition. Lane (2018) notes that the term lacks a standardized definition in major dictionaries; instead, it has evolved into a normative framework emphasizing ethical and effective management of public affairs. Contemporary governance theory highlights core principles such as accountability, transparency, participation, responsiveness, and adherence to the rule of law, all of which aim to enhance governmental legitimacy and promote sustainable development (Lane, 2018).

In development discourse, the terms *governance* and *good governance* have gained increasing prominence. Poor governance is now widely viewed as a central obstacle to social and economic progress, leading major donors and international financial institutions to tie development assistance to governance reforms. According to Lane (2018), good governance is grounded in the idea of limited but effective government—one that respects the rule of law and operates within checks and balances.

Although often discussed in contemporary policy literature, governance as a concept is not new; it is as old as human society itself. Governance refers to the processes through which decisions are made and implemented, whether in corporate, international, national, or local contexts. Analysing governance therefore requires examining the formal and informal actors—such as governments, civil society, private entities, local leaders, and social institutions—that influence decision-making and enforcement structures (Lane, 2018).

Sheng (2018) identifies eight fundamental characteristics of good governance: participation, consensus orientation, accountability, transparency, responsiveness, effectiveness and efficiency, equity and inclusiveness, and rule of law. These principles ensure that corruption is minimized, minority perspectives are considered, and the needs of vulnerable populations are reflected in public decision-making. Good governance also supports economic growth, human capital development, and social cohesion. This link is evident in global assessment tools such as the Worldwide Governance Indicators (WGI), which track cross-country trends in governance quality over time (World Bank Group, 2024).

15.3. Institutional Framework Theory

Institutional theory provides a foundational lens for understanding how public organizations adopt structures and practices not only for operational efficiency but also to gain legitimacy. Meyer and Rowan (1977) introduced the idea that organizations conform to institutional expectations to align with socially accepted norms. DiMaggio and Powell (1983) expanded this view by identifying three mechanisms of institutional isomorphism—coercive, mimetic, and normative pressures—which drive organizations to become increasingly similar to others in their field.

In the context of procurement, institutional theory explains why public agencies may adopt certain procurement procedures, not solely out of efficiency concerns but to comply with legal frameworks, donor expectations, professional standards, and public norms. Thus, procurement systems become shaped by the need for legitimacy as much as by the pursuit of cost-effectiveness.

Within Sierra Leone, the Public Procurement Act of 2016 serves as the primary institutional framework guiding procurement activities across all Ministries, Departments, and Agencies (MDAs). To enhance clarity and stakeholder understanding, the National Public Procurement Authority (NPPA) developed the *National Public Procurement Manual* (2020), which operationalizes the Act. Institutional structures mandated by the Act include the national governing board, procurement committees, evaluation committees, and the National Public Procurement Complaint Board. These mechanisms collectively support fairness, accountability, transparency, and value for money in public procurement processes.

15.4. Public Choice Theory

Public Choice Theory, pioneered by Buchanan (1962), applies economic principles to political behavior. It assumes that political actors—whether politicians or bureaucrats—are motivated primarily by self-interest, similar to how individuals behave in market environments. Shaw (1986) emphasizes that public decision-making, much like market exchange, is shaped by incentives, personal preferences, and strategic behavior.

Although Public Choice Theory highlights the risk of self-interested behavior within government institutions, the Sierra Leone public procurement system operates under a legal and regulatory regime designed to counteract such tendencies. The Public Procurement Act (2016) and its accompanying regulations (2020) ensure that procurement decisions prioritize public interest rather than individual gain. By embedding transparency, competitive bidding, and committee-based decision structures, the framework seeks to minimize opportunities for self-interested behavior and enhance accountability throughout the procurement cycle.

15.5. Principal–Agent Theory

Principal–Agent Theory examines relationships characterized by information asymmetry between a principal (e.g., a government agency) and an agent (e.g., a supplier or contractor). Jensen and Meckling (1976) argue that conflicting interests and unequal access to information can lead to inefficiencies unless proper controls and incentives are established. Chrisidu-Budnik and Przedańska (2017) explain that in procurement systems, the principal depends on the agent's actions, decisions occur under uncertainty, and some degree of goal conflict is inevitable.

In public procurement, stakeholders have varying roles and degrees of engagement. Lynch (2024) distinguishes between *actors*—those actively involved in conducting procurement—and *stakeholders*, who are affected by procurement outcomes but play a passive role. This distinction is critical in assessing accountability and transparency.

To mitigate principal–agent problems, procurement in Sierra Leone relies on legally binding contracts that include terms and conditions intended to align the incentives of procuring entities and suppliers. Contractual remedies for non-performance help ensure compliance, reduce risk, and promote effective delivery of public goods and services.

The public sector comprises government-owned institutions and agencies responsible for delivering essential services and promoting societal welfare. It includes central and local government bodies, state-owned enterprises, and other publicly funded entities whose performance is shaped by diverse stakeholders and contextual factors (Admind3asp, 2024; Haddut, 2016). Public sectors play a central macroeconomic role through legislation, service delivery, redistribution, and the stewardship of public assets (Tophoff, 2013).

Governance—an evolving concept in development discourse—refers to the structures and processes through which authority is exercised in managing national resources. International bodies, such as the World Bank, conceptualize governance in terms of political authority, institutional capacity, and policy implementation. Good governance, therefore, is characterized by transparency, accountability, rule of law, inclusiveness, and effective public management (Evan & Thomas, 2023; Ali, 2015). Effective governance enhances decision-making quality, resource stewardship, and service delivery outcomes (Tophoff, 2013).

Public procurement is a core mechanism through which governments operationalize policy goals. It involves the acquisition and disposal of goods, works, and services using public funds in a transparent, economical, and strategic manner (Augustine, 2024). Globally, procurement constitutes one of the largest components of public expenditure and functions as a tool for good governance, sustainable development, and economic competitiveness (Romadiyanti, 2022; Arribas, 2025). Procurement effectiveness relies on institutional capacity, professionalization, and digital transformation aligned with broader policy objectives (Arribas, 2025).

In Sierra Leone and similar contexts, government is the primary service provider, and public institutions are financed mainly through national budgets (Kanneh & Haddut, 2016). The regulatory foundation for procurement includes the Public Procurement Act (2004; 2016) and the Public Procurement Manual (2020), which prescribe standards, procedures, and oversight structures such as procurement committees and complaints mechanisms. These frameworks aim to ensure fairness, efficiency, and adherence to international best practices.

Challenges persist, however, as studies across developing countries highlight vulnerabilities such as corruption, capacity constraints, political interference, and weak oversight systems (Transparency International, 2009; Nuni & Feika, 2023). Strengthening accountability, integrity, and information access remains vital for maintaining procurement credibility and ensuring value for money (Adam, 2024; M'cleod & Ganson, 2018). Effective governance within procurement is associated with enhanced development outcomes, improved trust, and more sustainable and inclusive policy implementation (Phillips et al., 2015; African Development Bank, 2014; World Bank Group, 2024).

15.7 Good Governance

The concept of *good governance* has increasingly gained scholarly and policy attention in recent decades, particularly within the fields of public administration and development management. Although frequently used in contemporary discourse, the term lacks a universally accepted definition, and its scope has expanded over time to encompass a broader range of normative values and institutional practices than earlier conceptualizations anticipated. This evolution reflects the growing recognition that effective governance extends beyond administrative efficiency to include participation, accountability, transparency, and equity.

According to the Institute of Governance (2021), good governance refers to "the process whereby power is exercised, decisions are made, citizens or stakeholders are given voice, and account is rendered on important issues." This definition underscores the principles of inclusiveness, responsiveness, and integrity. The institution further emphasizes that the core aim of good governance is to minimize corruption, protect minority interests, and ensure that marginalized populations have opportunities to influence public decision-making.

Similarly, Olonwanski and Sasko (2002) conceptualize good governance as a system of norms, institutions, and interactions through which societies manage their economic, political, and social affairs. This perspective highlights the collaborative role of the state, civil society, and the private sector in shaping governance outcomes. Leauthier (2004) synthesizes common elements found across definitions of good governance and identifies key principles: the exercise of authority, mechanisms for selecting and holding governments accountable, the government's capacity to manage resources and deliver services effectively, and the overarching respect for institutions that regulate socio-economic relations.

Principles of Good Governance

The *Consultative Draft for an International Framework on Good Governance in the Public Sector* (2013) asserts that good governance in the public sector is fundamentally concerned with acting in the public interest. This requires adherence to integrity, ethical values, and the rule of law; openness and meaningful stakeholder engagement; and the pursuit of sustainable economic, social, and environmental outcomes. Additional requirements include effective leadership capacity, robust internal controls, sound public financial management, risk management, and transparency to support accountability.

The prominence of good governance in global development discourse was reinforced by the World Bank's 1989 report on Sub-Saharan Africa, which highlighted weak governance as a barrier to socio-economic development. Subsequent contributions, such as O'Reilly (2024), draw on the United Nations Development Programme (UNDP) to outline eight core characteristics of good governance: participation, consensus-orientation, rule of law, transparency, accountability, responsiveness, effectiveness and efficiency, and inclusiveness and equity. These characteristics collectively promote the protection of human rights, enhance service delivery, and ensure the involvement of all societal groups in policy processes.

15.8. Governance in the Public Sector

The public sector comprises national, regional, and local governments and their affiliated agencies, boards, commissions, and enterprises (Public Sector Accounting Standards Board [PSASB], 2005). Effective governance within this domain is associated with strong institutional mechanisms, improved policy implementation, enhanced service delivery, and reduced corruption (IFAC, 2014). The *International Framework for Good Governance in the Public Sector* provides a benchmark for assessing public sector governance performance and serves as a reference for jurisdictions developing or revising governance codes (CIPFA, 2005).

Empirical evidence underscores the importance of governance principles in strengthening public sector operations. For example, research by Herman and Yohannis (2018) demonstrates that accountability, transparency, fairness, non-discrimination, and competition positively influence the effectiveness and efficiency of good governance in e-procurement systems in Maluku Province. Improving these principles enhances procurement outcomes and overall institutional performance.

15.9 Contribution to Good Practices in Public Procurement

Enhancing good practices in public procurement requires deliberate attention to capacity-building, institutional cooperation, market intelligence, and governance alignment. One of the most significant determinants of procurement effectiveness is the competence of procurement professionals. Gabor (2023) argues that meaningful reform is unlikely to occur without sustained investment in training and skills development. He maintains that organisations should implement structured training programmes aimed at strengthening technical competencies, managerial abilities, and professional judgment among procurement staff. Such programmes should include basic procurement training, personal and general management skills development, and advanced training in specialized procurement techniques. In addition, institutions with expertise in change management should be engaged to guide selected public entities through procurement reform, with the intention of using these entities as models for broader system-wide adoption.

Another element of good practice in procurement is the cultivation of constructive relationships with suppliers. While competition remains central to public procurement, it must be complemented by cooperative engagement. This approach—often described as partnership sourcing—encourages customers and suppliers to collaborate to achieve mutual objectives such as cost reduction, improved quality, and innovative problem-solving, while avoiding purely adversarial, arm's-length interactions.

Benchmarking is increasingly recognized as an important mechanism for improving procurement performance. It allows organisations to compare their processes and outcomes against recognised best practices and to identify areas for improvement. As Gabor (2023) notes, benchmarking can act as a catalyst for organisational change, empowering employees to challenge existing procedures and adopt more efficient and innovative approaches.

Information sharing within and across public sector institutions is also fundamental to strengthening procurement practices. Because procurement personnel collectively possess substantial operational experience, the development of user-friendly information systems enables effective dissemination of lessons learned and prevents duplication of effort. Given that many procurement challenges recur across institutions, collaborative problem-solving can ensure that solutions are efficient and widely applicable.

Cooperation with suppliers must be accompanied by strong ethical standards and transparent procedures. The government must ensure that procurement processes are robust enough to prevent fraud and corruption, while also reducing unnecessary administrative burdens for suppliers. Excessive or unjustified procedural demands increase transaction costs and may discourage supplier participation, thereby reducing competition and potentially lowering value for money.

Managing change in procurement remains a significant challenge for public organisations. Poorly managed changes in requirements—particularly during contract implementation—can lead to increased costs and reduced service quality. For this reason, proposed modifications must be carefully evaluated, and their implications clearly understood. Public entities should foster relationships with suppliers based on shared risk and mutual benefit, enabling both parties to adjust effectively to evolving circumstances.

Good procurement practice must also align with constitutional and legal requirements. In many jurisdictions, constitutional provisions stipulate that public procurement processes must be fair, equitable, transparent, competitive, and cost-effective. Compliance with these provisions reinforces good governance and ensures the legitimacy of procurement systems.

Understanding the supply market is another critical factor in effective procurement. Public institutions should avoid behaviours that undermine competition, such as facilitating monopolistic dominance or creating supplier dependency. Instead, they should proactively encourage new market entrants, provide procurement information to suppliers, and maintain comprehensive databases of qualified suppliers, service providers, and contractors. Such measures support informed decision-making, promote competition, and facilitate the implementation of socio-economic development policies.

Finally, procurement must be approached as an integrated, end-to-end process. Viewing procurement holistically—from needs identification to disposal—enables public institutions to reduce life-cycle costs and improve service quality. Breaking the procurement cycle into logical, sequential steps minimizes duplication, reduces administrative burden, and enhances overall efficiency.

ACKNOWLEDGMENT

This textbook on Corporate Governance is both timely and invaluable. It offers essential insights to readers and learners seeking a comprehensive understanding of the contemporary developments that shape the design and implementation of governance systems across corporate entities worldwide. By addressing the key issues that direct and control organizational objectives, missions, visions, and core values, the text remains relevant to both advanced and emerging economies.

The book presents, with clarity and depth, the nature and scope of corporate governance, its conceptual and theoretical frameworks, and the empirical evidence that underpins modern governance practices. It further explores the roles and significance of strategic, tactical, and operational managers, highlighting their relationships, alliances, and contributions to effective corporate leadership.

A wide range of professionals—including administrators, managers, auditors, anti-graft and economic-crime practitioners, boards of directors or trustees, management consultants, researchers, educators, and officers within central and local governments—will find this textbook particularly useful and instructive.

ABOUT THE AUTHORS

Dr. Abu Kai Kamara is a distinguished Sierra Leonean scholar with extensive academic and professional qualifications. He holds a Bachelor of Science degree in Economics, with Honours in Accounting and Finance; a Master of Science in Strategic Planning; a Master of Philosophy in Accounting and Finance; and a Doctor of Philosophy in Accounting and Finance. In addition, he is a Fellow of the Association of Chartered Certified Accountants (FCCA), an Associate Chartered Accountant (ACA), and possesses several other professional certifications, including credentials obtained from the University of Edinburgh, United Kingdom.

Dr. Kamara has considerable experience in the management of projects and institutions that apply contemporary principles of corporate governance, Financial Management, and Strategic Planning. Since October 2002, he has served as a lecturer at Fourah Bay College, University of Sierra Leone, as well as at the Institute of Public Administration and Management (IPAM). He has also functioned as an external examiner for Master's degree programmes at Fourah Bay College. His teaching experience spans undergraduate, master's, master of philosophy, and doctoral levels, with academic specialization in the management sciences, particularly Accounting, Finance, Human Resource Management, Financial Management, and Strategic Planning.

In addition to his teaching responsibilities, Dr. Kamara has held the position of Head of the Department of Accounting and Finance at Fourah Bay College, University of Sierra Leone. He currently serves as the Dean of the Faculty of Economics and Development Studies and as the Finance Director of the University of Sierra Leone.

Dr. Dante Allie Bendu

Dr. Dante Allie Bendu, also a Sierra Leonean, holds several distinguished academic qualifications: BSc Economics (Honours in Accounting and Finance); MSc Economics (specializing in Accounting and Finance, including Public Sector Accounting and Financial Controls); MA Marketing and Management; ACCA; CIMA (Diploma, Advanced Diploma, among others); FeICM (UK); and a PhD in Accounting and Finance. He additionally holds multiple certifications, including computer applications training from Bluecrest College in India and IPAM, and has undertaken undergraduate law studies through the University of London (UK).

Dr. Bendu is an experienced senior lecturer in Management Sciences, teaching across Accounting, Finance, Strategic Management, Business Administration, Public Administration, Economic Policy Management, Human Resource Management, and Performance Management. He served as a Sector Expert on Corporate Governance for Sierra Leone within the African Peer Review Mechanism (APRM) from 2009 to 2018. He is also the sole author of the textbook Corporate Governance and Its Applications to the Republic of Sierra Leone.

Dr. Bendu previously served as Dean of the Faculty of Social Sciences and Law at Fourah Bay College (2016–2021) and has been an external examiner for major universities in Sierra Leone, including Njala University, Ernest Bai Koroma University of Science & Technology (EBKUST), and the Milton Margai Technical University (MMTU). He is also an active consultant in the Management and Social Sciences, as well as in Economic Policy Management.

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Corresponding Author: Dr. Abu Kai Kamara

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