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# The Study on the Implementation of Corporate Governance Codes of Best Practice in Sierra Leone: Case Study of Corporate Affairs Commission in Sierra Leone

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## Abstract

The Corporate Governance practice has been in existence but became topical and the focus of research interest with the collapse of organizations such as Enron, Parmalat, Tyco, WorldCom, Barings, Volkswagen, and Lehman Brothers. The collapse of these organizations brought waves of panic to shareholders, stakeholders, and governments, which resulted in the establishment of well-developed corporate codes of governance in Europe and the United States of America (USA). But this has not been the case in most of the emerging economies, and Sierra Leone is not an exemption. This research focused on the search for codes of best practice in corporate governance practiced in Sierra Leone and the aim is to contribute to the suggestions of specific codes of best practice based on good practices adopted in developed economies that have successfully implemented Corporate Governance Codes. This research reviewed available records and related literature for data collection and search for good practices of corporate governance. The findings suggest that Corporate Governance is still in its embryonic stage in Sierra Leone, and the effectiveness of the newly formed National Corporate Affairs in spearheading and providing guidance for the implementation of corporate governance is yet to be tried and tested in the short-term, medium-term, and long-term. Therefore, future research is recommended to assess the performance of National Corporate Affairs in spearheading and providing guidance on the implementation of Corporate Governance in Sierra Leone and other future research is also recommended. Effective corporate governance is critical to the long-term success of any company, and it is important for companies and governments to continually evaluate and improve governance practices in companies to ensure that they are aligned with evolving best practices and stakeholder expectations. Hence, Corporate Governance Reforms have become a global issue over the last decades. Countries around the world have been amending their legal systems and stock exchange listing requirements to reform corporate governance as well as developing new codes of best practices.

## Subject Areas

Business Analysis, Economic System

## Keywords

Corporate Affairs Commission(CAC) in Sierra Leone, Corporate Governance, Board Members, National Public Procurement Authority (NPPA), Anti-Corruption Commission (ACC), Millennium Challenge Corporation's (MCC)

## 1. Introduction

The Corporate Governance (CG) practice has been in existence but became topical and the focus of the limelight interest of study when for instance Enron and Lehman Brothers in the United States of America (USA), Barings Bank in the United Kingdom (UK), Parmalat, Tyco, WorldCom and Volkswagen crashed. The collapse of these organizations brought waves of panic to shareholders, stakeholders, and governments, resulting in the establishment of well-developed corporate codes of governance in Europe and the USA. However, this has not been the case in most emerging economies, including Sierra Leone.

Good corporate governance has become essential for improving firm performances, ensuring investor rights, enhancing the investment atmosphere, and encouraging economic development (Braga-Alves & Shastri, 2011 [1]; Price, Roman & Rountree, 2010 [2]; Otman, 2014 [3]). Although attention has been given to corporate governance in developing countries, many of these countries still suffer from a lack of appropriate governance (Otman, 2014) [3]. The Codes of Best Practice in Corporate Governance reveal the best ways or approaches through which corporate entities can be effectively managed. Many Countries including Sierra Leone have companies Acts that direct and control the Affairs of Companies. However, most countries including Sierra Leone are yet to specifically develop realistic rules or codes to govern the best practice standards needed to direct and control companies. In Sierra Leone, attempts have been made to develop realistic codes to help direct and control corporate entities in Sierra Leone.

The Institute of Chartered Accountants of Sierra Leone (ICASL) had been the pioneer to initiate such a plan to help develop not only such codes but local Accounting Standards. However, the ICASL had been confronted with lots of problems, including an acute shortage of the needed personnel to drive the production of the relevant codes of Best Practices and local Accounting Standards. However, the Government of Sierra Leone in collaboration with the International Finance Corporation-World Bank Group has developed the National Corporate Governance Code 2018.

Corporate Governance reform has become a global issue over the last decades. Countries around the world have been amending their legal systems and stock exchange listing requirements to reform corporate governance as well as developing new codes of best practices. There has been a growing realization that in order for companies in countries across the world to become internationally competitive and able to attract foreign capital, they need to adopt commonly accepted standards of corporate governance. Scandals such as Enron and Worldcom in the United States have raised global awareness of corporate governance problems. The international financial markets require the lowest common denominator of corporate governance standards which is best described in the Organisation for Economic Co-operation and Developments (OECD, 2004) [4] international corporate governance code. The OECD Principles of Corporate Governance were endorsed by OECD Ministers in 1999 and have since become an internationally recognized standard for corporate governance. These principles provide guidance for policymakers, investors, corporations, and other stakeholders to promote transparency, accountability, and ethical behavior in corporate practices. The Financial Stability Forum has designated the Principles as one of the 12 key standards for sound financial systems, and they underpin the corporate governance component of World Bank/IMF Reports on the Observance of Standards and Codes (ROSC). The Principles have also led to an extensive program of cooperation between OECD and non-OECD countries, contributing to the global advancement of corporate governance practices (OECD, 2004) [4].

Greater accountability and transparency are essential if companies are going to attract foreign institutional investors. More equitable treatment of shareholders, greater accountability of directors and management to shareholders and stakeholders, improved transparency of financial reporting, and enforcement of corporate governance code of best practices are areas where there appears to be an international consensus (Solomon *et al.*, 2003) [5]. Corporate governance has been acknowledged by relatively many countries around the world, with companies being widely associated with creative accounting and lack of transparency in their operations, as well as notorious and frequent cases of fraud by company management (Solomon *et al.*, 2003) [5]. President Bio's speech during his first State Opening of the Sierra Leone Parliament articulated governance issues that require investigation. Hence, the Sierra Leone Government set up a new Corporate Affairs Commission under the Office of the President to draft regulations for the purpose of giving effect to the provisions of the act and in particular, make regulations to enhance corporate governance that will help prevent organizational collapses and promote the interests of shareholders, stakeholders, and the government.

The role of the board of directors in corporate governance is crucial, and its effectiveness is influenced by its size and composition. While some research, such as Pearce and Zahra (1991) [6], suggests that large, powerful boards are necessary for organizational effectiveness, other studies, including Yermack (1996) [7], Eisenberg *et al.* (1998) [8], and Beiner *et al.* (2004) [9], indicate that large boards may be less effective than smaller ones. The reason for this disparity in findings is that large boards can make coordination, communication, and decision-making more difficult than it is in smaller groups. Therefore, the optimal board size may depend on the specific needs and circumstances of a company, and a balance must be struck between having enough directors to provide diverse perspectives and having too many to facilitate effective decision-making (Florackis & Ozkan, 2006 [10]; Fama & Jensen, 1983 [11]; Weisbach, 1988 [12]). Additionally, board composition, such as the diversity of skills and experience of directors, can also impact the effectiveness of the board. A diverse board can provide a broader range of perspectives and ideas, leading to better decision-making. However, it is essential to ensure that there is still a sufficient level of expertise and knowledge in the boardroom to make informed decisions. The size and composition of a board of directors can significantly affect its effectiveness in monitoring management and contributing to the success of a company.

Corporate governance has become a concern in developed and emerging economies since the financial scandals in the past, which have resulted in demands for improved corporate governance practices (Baydoun *et al.*, 2013 [13]; Otman, 2014 [3]). Hence, it is worthwhile to conduct empirical research to search for codes of Best Practices in Corporate Governance in Sierra Leone and this research focuses on a search for the implementation of codes of best practices as best codes of practice are pivotal in attracting corporate investors and economic development. The effective and efficient implementation of corporate governance codes of best practice will create the needed enhanced employment, increase national revenue generation, a favourable balance of payments, and enhance economic growth. In addition, the implementation of effective corporate governance practices can also lead to better firm performance, while the lack of such practices can result in agency problems and value destruction. Overall, this research will contribute to the development of robust Corporate Governance Codes of Best Practice in Sierra Leone, which can help prevent organizational collapses and promote the interests of shareholders, stakeholders, and the government.

## 2. Research Aims, Objectives, and Questions

### 2.1. Aim

The research aim is to contribute to the suggestion of specific codes of best practice in Corporate Governance for Sierra Leone, based on good practices adopted in developed economies that have successfully implemented Corporate Governance codes.

### 2.2. Research Objective

This research is expected to achieve the following objectives.

1) Investigate and assess the existence of the Code of Best Practice in Corporate Governance in Sierra Leone.

2) Determine whether good corporate governance practice in developed economies is adaptable in Sierra Leone.

### 2.3. Research Questions

1) How appropriate and effective are the laws governing Corporate Governance in Sierra Leone?

2) Are the codes of Best Practices in Corporate Governance in Sierra Leone adequate?

3) Is any of the existing code(s) of Best Practice in Corporate Governance realistic (*i.e.* Acceptable internationally)?

4) Does the appointment of Academic Board members improve corporate governance performance?

## 3. Research Methodology

The research design plays a crucial role in ensuring that the research problem is effectively addressed. In this work, the exploratory research design is adopted. Exploratory research, also known as case study research, is useful in obtaining information about the current status of a phenomenon and describing what exists with respect to variables in a situation. This approach is suitable for challenging accepted assumptions about the way things are and can provoke further explanatory studies into the phenomenon. The justification for using this research design is that the study investigates details of a real-life situation using multiple sources of evidence, including literature review, observations, and documentary analysis. By using an exploratory research design, the study can explore the research problem in-depth, gather information from multiple sources, and generate a comprehensive understanding of the phenomenon under investigation. The data collected through literature review, observations, and documentary analysis will provide rich insights into the research problem and enable the researcher to develop a more profound understanding of the issue. Overall, the exploratory research design is an effective approach for addressing the research problem, providing a comprehensive understanding of the phenomenon, and generating insights that can inform future research in this area.

## 4. Literature Review

Corporate governance refers to the system of rules, practices, and processes by which a company is directed and controlled. It involves balancing the interests of a company's many stakeholders, such as shareholders, management, customers, suppliers, financiers, government, and the community. The ultimate objective of corporate governance is to enhance long-term shareholder value while also addressing the needs of other stakeholders and the goal of corporate governance is to ensure that a company operates in a responsible and ethical manner while maximizing value for its shareholders. The OECD (2015) [14] Principles of Corporate Governance take a broader perspective, describing corporate governance as a set of relationships between a company's board, its shareholders, and stakeholders; the OECD principles are intended to help policymakers evaluate and improve the legal, regulatory, and institutional framework for corporate governance, with a view to supporting economic efficiency, sustainable growth, and financial stability. Hence, effective corporate governance helps to build trust and confidence among stakeholders, including shareholders, employees, customers, and the broader community. One key aspect of corporate governance is the role of the board of directors. The board is responsible for overseeing the company's management and ensuring that it operates in accordance with the company's strategic goals and values. The board is also responsible for ensuring that the company complies with relevant laws and regulations and that it manages risk effectively. In addition to the board of directors, other key stakeholders in corporate governance include shareholders, who own the company and have a vested interest in its success, and employees, who are responsible for executing the company's strategy and delivering value to customers. Other stakeholders, such as customers, suppliers, and the broader community, also have an interest in the company's governance practices and may exert influence through various means, such as boycotts or advocacy campaigns. Corporate governance reforms have been driven by a number of factors, including the need to restore public trust in the wake of financial scandals, the increasing complexity of business operations, and the growing recognition of the importance of environmental, social, and governance (ESG) factors in corporate decision-making (Johnson *et al.*, 2000 [15]; Millar *et al.*, 2005 [16]; Vagneur, 2003 [17]). Effective corporate governance is critical to the long-term success of any company, and it is important for companies to continually evaluate and improve their governance practices to ensure that they are aligned with evolving best practices and stakeholder expectations. The implementation of corporate governance in monitoring management is vitally important to reduce information asymmetry between management and shareholders (Jensen & Meckling, 1976) [18].

McKnight & Weir (2009) [19], find that the changes in board structures that have occurred in the post-Cadbury period have not, generally, affected agency costs and questions the usefulness of the information sent to shareholders when firms adopt a recommended governance framework this suggests a range of mechanisms are consistent with firm value maximization. In addition, their finding reveals having a nomination committee increases agency costs, which indicates that there are costs associated with certain governance mechanisms on the other hand increasing board ownership and debt also helps to reduce agency costs. The empirical literature on the role of corporate governance in mitigating agency costs is very limited, however, it is suggested that agency costs can be reduced by internal governance mechanisms and there is empirical evidence in support of this argument (Gul *et al.*, 2004 [20]; Vagneur, 2003 [17]). Ang *et al.* (2000) [21] and Sign and Davidson (2003) [22] findings on the other hand are in agreement with prior research that managerial ownership aligns the interests of managers and shareholders and this alignment reduces the agency cost.

The management of organizations can either be centralized or decentralized or both. A centralized organization will typically place decision-making authority with those who are in high-level positions and the structure of the organization is a vertical hierarchy where decision-making takes the top-down approach and the junior employees receive orders from executives who are the planners and the junior employees are implementers. The decentralized corporations, on the other hand, give front-line employees and managers the authority to make and execute strategic decisions and have the benefit of horizontal and vertical free flow of information (Vagneur, 2019) [23]. Both centralized and decentralized corporate governance structures have their own advantages and disadvantages. Centralized structures provide a clear chain of command and ensure consistent decision-making, but they can also lead to bureaucracy and slow decision-making processes. Decentralized structures, on the other hand, can foster innovation and quick decision-making, but may also result in inconsistent decision-making and lack of oversight. Regardless of the structure, effective corporate governance requires clear objectives and well-defined roles and responsibilities for all stakeholders. It also requires transparency and accountability in decision-making processes and outcomes. In addition, corporate governance should align with the values and expectations of society, shareholders, and other stakeholders. Corporate governance, therefore, is a complex and dynamic system that evolves over time (Vagneur, 2019) [23]. It is important for corporations to regularly review and adapt their governance structures and processes to ensure that they continue to deliver value to all stakeholders.

Effective governance operations require the role of executive directors and non-executive directors. The executive directors are involved with the day to operations of the business whilst non-executive directors who may also be referred to as outside board members are instrumental in monitoring the operations of the business through committees such as audit committees, salaries and bonus committees, and the like. However, concerns have been raised about the agency conflict-resolving role of "outsider board members" (Singh & Davidson, (2003) [22]); Fama (1980) [24], Fama and Jensen (1983) [11] argued that non-executive directors, by providing expert knowledge and monitoring services, add value to firms. Outside directors are supposed to be guardians of the shareholders' interests through monitoring. Empirical results support the argument that outside directors are more effective monitors and critical disciplining devices for managers (Singh & Davidson, 2003 [22]; Coughlan & Schmidt, 1985 [25]; Hermalin & Weisbach, 1988 [26]).

Corporate governance is pivotal in the effective management of companies and government parastatal, however, there are mixed theories and models on the appropriateness of corporate governance (Vagneur, 2019 [23]; Letza, Sun & Kirkbride, 2004 [27]). The disagreement in theories and models has resulted in different definitions proffered by researchers in different disciplines such as finance, economics, sociology, and psychology hence proposing different theoretical views (Vagneur, 2019) [23]. that are all aimed at understanding the complex nature of the concept (Abdullah & Valentine, 2009) [28] A number of diverse fundamental theories underline corporate governance, including the original agency theory, stewardship theory, stakeholder theory, resource dependency theory, transaction cost theory, and political theory (Lawal, 2012) [29] have all played a role in the development of corporate governance; however, the search for best practice codes remains very deeply and strongly needed.

The theoretical review indicates that there are various theoretical models that have been proposed to understand corporate governance. The agency theory, for example, focuses on the relationship between principals (shareholders) and agents (management) and suggests that conflicts of interest may arise when agents act in their own self-interest rather than in the best interest of the principals. The stewardship theory, on the other hand, emphasizes the alignment of interests between managers and shareholders and the importance of managers' sense of responsibility towards the company's long-term goals. Stakeholder theory expands the scope of corporate governance beyond just shareholders, recognizing the interests of all stakeholders in the company. Resource dependency theory suggests that companies need to manage their relationships with external suppliers, customers, and other organizations to ensure a stable supply of resources. Transaction cost theory suggests that companies need to minimize the costs of transactions with external partners. Political theory, meanwhile, emphasizes the role of power and politics in corporate governance and suggests that the interests of powerful stakeholders (such as government regulators) can have a significant impact on corporate decision-making. Despite the diversity of these theoretical models, there is a need for a consensus on best practices in corporate governance. This is because effective corporate governance can enhance a company's reputation, attract investment, and reduce the risk of legal and ethical issues. In recent years, various codes of best practices have been developed, such as the UK Corporate Governance Code and the OECD Principles of Corporate Governance, which provide guidance on issues such as board composition, executive remuneration, and risk management.

Corporate governance is a crucial aspect of a company's operations, as it affects the firm's ability to create value for its stakeholders and the literature on the topic suggests that there is a positive relationship between good corporate governance and firm value (McKnight & Weir, 2009) [19]. The implementation of effective governance mechanisms can help prevent agency problems and reduce the associated costs, which can lead to better economic development and the closely related to these governance-value studies are governance-prediction studies (Klapper & Love, 2004 [30]; Doidge *et al.*, 2007 [31]; Black *et al.*, 2006 [32]). According to Core *et al.* (1999) [33] weak structure of corporate governance leads to high agency costs as managers will be self-seeking when the value of the firm is maximized. The governance-prediction literature emphasizes the shift toward an examination of the dynamic nature of the principal-agent relationship by exploring how corporate governance quality changes within firms over the corporate life cycle (O'Connell, & Cramer, 2010) [34]. However, the enforcement of such mechanisms is closely linked to the general enforcement environment in a country, and political economy constraints can hinder the adoption and implementation of public laws (Berglof & Claessens, 2004) [35]. Private and public enforcement tools can help reduce agency problems, but private tools have been found to be more effective in developing and transitioning countries. Ultimately, the implementation of effective corporate governance practices can lead to better firm performance, while the lack of such practices can result in agency problems and value destruction.

The increasing focus on corporate social responsibility, corporate governance, transparency, and legitimacy has led to the recognition of the influence that secondary stakeholders, such as Non-Governmental Organisations (NGOs), civil society groups, and social movements, have on corporate decision-making. It has become strategically important to understand how such groups can influence companies, and stakeholder management theory is well-positioned to contribute to this analysis. However, there has been limited research on how secondary stakeholders actually influence firms, and thus the need to extend stakeholder theory in this direction (de Bakker & den Hond, 2008) [36]. Traditionally, the role of directors in boardrooms has been focused on "getting along" and building consensus, rather than challenging or questioning decisions. Financial literacy and critical thinking were not emphasized as important qualities for directors. The conflict was seen as a sign of failure, and those who asked difficult questions were often marginalized. The focus has been on the status and prestige of being a director, rather than the actual practice of directing.

The relationship between managerial ownership and agency costs can be non-monotonic (Florackis & Ozkan, 2006) [10]. The ultimate effect of managerial ownership on agency costs depends upon the trade-off between the alignment and entrenchment effects (Florackis & Ozkan, 2006) [10]. The argument put forth by Kole (1995) [37] regarding the differential impact of managerial ownership on large and small firms highlights the need to investigate how agency costs may vary across firms of different sizes. This is an important issue, as agency costs can have a significant impact on firm performance and value. One way in which firms may seek to mitigate agency costs is by appointing academic and skilled directors to oversee management and serve on key committees (White *et al.*, 2013) [38] as more skilled workers allocate resources more effectively across tasks and are more able to adapt to change and respond to new opportunities (Kamara & Momoh, 2023) [39]. Existing literature suggests that the effectiveness of monitoring increases with factors such as the ability to process information (Lehn *et al.*, 2009) [40], fewer conflicts of interest (Brickley *et al.*, 1994) [41], and greater access to non-public information (Ravina & Sapienza, 2010) [42]. While business ties can help with accessing and processing information, they can also result in conflicts of interest. Audretsch and Stephan (1996) [43] and Audretsch and Lehmann (2006) [44] argue that academics, who have the capacity to process complex information without requiring business ties, may be selected to serve on key oversight committees based on their expertise. However, there may be some challenges associated with appointing academics as monitors. Shareholders may not value academics as monitors if they are perceived as lacking industry experience or being less familiar with current business practices. Moreover, academics may be located farther away from the firm, and they may be perceived as having social or financial ties that could impact their ability to act independently. The appointment of academic directors as monitors can be an effective way for firms to mitigate agency costs. However, it is important for firms to carefully consider the selection of academic directors and to address any concerns that shareholders and other stakeholders such as the government may have regarding their expertise, location, and potential conflicts of interest (White *et al.*, 2013) [38].

The roles of academic directors in the boardroom have played a vital role in enhancing the performance of the boardroom through their expertise and serving as a lobbyist for the institutions they served. However, it has been argued that they are not too close to the institutions they serve and lack the requisite knowledge to serve as board members. There have been mixed views on the role of academic directors within the literature. However, the appointment of academic directors to the board of directors can bring several benefits to the firm such as performing an advisory role or providing expertise, depending on firm and board characteristics (White *et al.*, 2013) [38]. They can also enhance the advisory role of the board, particularly in complex firms (Boone *et al.*, 2007 [45]; Linck *et al.*, 2008 [46]; Coles *et al.*, 2008 [47]), by introducing a wider range of ideas and providing additional external expertise in the boardroom (Anderson *et al.*, 2011) [48]. Academic directors can also bring specialized knowledge that is valuable for Research &Development-intensive and highly asymmetric information firms (Linck *et al.*, 2008 [46]; Coles *et al.*, 2008 [47]) [48]. Consistent with this notion, Audretsch and Lehmann (2006) [44] find science- and technology-based firms frequently appoint academics to the board of directors to remedy deficiencies in specialized knowledge. Furthermore, they may contribute to greater coordination costs among directors (White *et al.* 2013) [38]. However, the potential advisory benefits from diverse perspectives such as from women will have a positive impact on a company's success. (Liu *et al.* 2013) [49], and the coordination costs can outweigh the benefits of increased director heterogeneity at high levels of board heterogeneity (Knyazeva *et al.*, 2013) [50]. Therefore, firms and boards need to carefully consider the characteristics of the company and the board when appointing academic directors to ensure that they bring value to the board and the firm.

The appointment of academic directors based on social connections can have both positive and negative implications. For small businesses that are not well-established, social connections may be an important factor in attracting board members (Chahine & Goergen, 2013) [51], especially when the company is unable to attract experienced executives to its board (Trautman, 2012) [52]. Shareholders may view such appointments positively if they are seen as facilitating the recruitment of qualified directors or improving board dynamics (White *et al.*, 2013) [38]. However, the appointment of academic directors with social ties can also have negative consequences. Shareholders may view such appointments negatively if they perceive that the social ties decrease the likelihood of board dissent (Hwang & Kim, 2009) [53], potentially leading to groupthink and a lack of diversity of thought on the board. It is important for companies to strike a balance between appointing directors based on their qualifications and experience while also considering the importance of social connections and their potential impact on board dynamics.

It is a common phenomenon for firms to appoint academics to gain access to networks that can help them access external resources such as loans, social networks, or knowledge transfer. This is because academics often have strong ties to external networks and can provide firms with valuable connections to these resources. For example, as noted in Guner *et al.* (2008) [54], academics can help firms gain access to loans by introducing them to lenders and helping them develop relationships with these lenders. Similarly, Lynall *et al.* (2003) [55] note that academics can help firms access social networks by introducing them to key individuals and organizations that can provide them with valuable connections and resources. Moreover, as noted in Audretsch and Stephen (1996) [43], academics can also facilitate knowledge transfer between firms and external networks. By sharing their research findings and expertise, academics can help firms stay up-to-date with the latest developments in their industry and provide them with valuable insights that can inform their strategic decision-making. The appointment of academics can be an effective strategy for firms looking to gain access to external networks and resources that can help them succeed in their business operations.

Hambrick and D'Aveni (1992) [56] argued that firms may appoint outside directors to improve their reputation. Singh *et al.* (2008) [57] also suggested that academic directors from prestigious universities may enhance the reputational capital of the firm. Moreover, academic directors may serve as a signal of firm quality, as suggested by White *et al.* (2013) [38] and Audretsch and Stephan (1996) [43].

The "boards-as-monitors" view suggests that independent non-executive directors (NEDs) play a crucial role in mitigating agency problems between managers and shareholders. This view emphasizes the importance of having a board of directors that is independent of management and has the expertise to monitor the actions of the executives. Proponents of this view argue that NEDs can provide a more objective and critical assessment of management decisions, and can act as a check on any potential conflicts of interest that may arise (Young, 2000 [58]; Fama & Jensen, 1983, p. 311 [11]). They can also bring new perspectives and diverse experiences to the board, which can help to ensure that the board is making informed and effective decisions.

Rosenstein and Wyatt's (1990) [59] study found that the appointment of NEDs in US firms was associated with significant increases in shareholder wealth. This suggests that having independent NEDs on the board can have a positive impact on firm performance, and may help to align the interests of managers with those of shareholders. The board-as-monitors view highlights the importance of having an independent and effective board of directors in ensuring good corporate governance and protecting the interests of shareholders. However, the Role of corporate boards has been questioned as their day-to-day impact is difficult to observe (Adams *et al.*, 2008) [60].

Managing stakeholders involves attention to more than simply maximizing shareholder wealth. Attention to the interests and well-being of those who can assist or hinder the achievement of the organization's objectives is the central admonition of the theory (Phillips *et al.*, 2005) [61]. In this way, stakeholder theory is similar in a large degree to alternative models of strategic management such as resource dependence theory (Frooman, 1999 [62]; Pfeffer & Salancik, 1978 [63]). However, for stakeholder theory, attention to the interests and well-being of some non-shareholders is obligatory for more than the prudential and instrumental purposes of wealth maximization of equity shareholders. While there are still some stakeholder groups whose relationship with the organization remains instrumental (due largely to the power they wield) there are other normatively legitimate stakeholders than simply equity shareholders alone.

The Enron, Worldcom, and Parmalat scandals are prime examples of how corporate boards can become the center of attention when things go wrong. These scandals highlighted the importance of effective corporate governance and the role of corporate boards in ensuring that companies act in the best interests of their stakeholders. In the case of Enron and Worldcom, the directors were held liable for the fraud that occurred, and they had to pay significant amounts of money to investor plaintiffs. Enron directors had to pay $168 million to investor plaintiffs, of which $13 million was out of pocket (not covered by insurance); and Worldcom directors had to pay $36 million, of which $18 million was out of pocket (Klausner, 2005) [64]. This illustrates that corporate boards have a legal responsibility to ensure that their companies operate ethically and in compliance with relevant laws and regulations that resonate with good corporate governance. In response to these scandals and ongoing concerns about corporate governance, boards have been the focus of considerable academic research and policy debate concerning governance reform. This has led to the development of various guidelines, regulations, and best practices to help ensure that corporate boards are effective in their oversight role. Overall, the Enron, Worldcom, and Parmalat scandals serve as a reminder of the importance of effective corporate governance and the vital role that corporate boards play in ensuring that companies act in the best interests of their stakeholders (Brian *et al.*, 2005) [64].

## 5. Transparency and Accountability in Sierra Leone

The 2019 Anti-Corruption Act was fully operational and includes strengthening the Anti-Corruption Commission's prosecutorial powers and ensuring mandatory recovery of alleged misappropriated monies upon conviction. In addition to the reforms, a new anti-corruption court has been established. The court is a new division of the High Court, with five judges who sit purely on corruption cases. Sierra Leone has made significant progress in its fight against corruption. The country is a signatory to the UN Convention against Corruption and the African Union Convention on Preventing and Combating Corruption and has established the National Anti-Corruption Commission to investigate allegations of corruption and educate the public on the issues. Sierra Leone's anti-corruption efforts have yielded positive results, with the country for instance reporting a 100% conviction rate and recovering over US$876,000 of funds lost through corrupt practices in 2018. The country has also seen improvement in its rankings in global anti-graft assessments, including the Millennium Challenge Corporation's Control of Corruption indicator, the Afro barometer rating, and the Transparency International Corruption Perceptions Index. In addition, the country has made significant progress in anti-corruption efforts, as demonstrated by its improved scores in major global anti-graft assessments and rankings. For instance, in the Millennium Challenge Corporation's (MCC) Control of Corruption indicator, Sierra Leone scored 83% in 2021, a significant improvement from a failing position of 49% in 2017. Similarly, the Afro barometer rating for 2020 reported that the prevalence of corruption in Sierra Leone had reduced from 70% in 2015 to 40% in 2020. In the 2021 TI-CPI Report, Sierra Leone jumped two additional spaces from 117 in 2020 to 115 in 2021, with an increased score of 34, above the Sub-Saharan average. Transparency International (TI), a global civil society organization that has been leading the fight against corruption for over 25 years, conducts the Corruption Perceptions Index (CPI), which ranks countries based on public sector corruption through a series of metrics placed Sierra Leone performance in a high bracket. Sierra Leone's continued improvement in the CPI is a testament to its commitment to combating corruption (Anti-Corruption Commission of Sierra Leone) [65]. These achievements can be attributed to the astute and transformational leadership of the Anti-Corruption boss Francis Ben Kaifala ESQ in Sierra Leone, as well as the concerted efforts of the government in providing the political will to support the fight against corruption. The country's continued success in combating corruption is a significant achievement and highlights the importance of sustained efforts to address this critical issue in the fight against corrupt practices.

Sierra Leone has made significant efforts to regulate the procurement process to ensure transparency and accountability in public procurement. The National Public Procurement Authority(NPPA), was established under the Public Procurement Act of 2004 (repealed and replaced with the Public Procurement Act of 2016), is mandated with the task of overseeing and monitoring procurement across Ministries Departments and Agencies (MDAs) and local councils, building capacity and assisting with policy formulation. The NPPA has made significant reforms to the public procurement system, creating regulations to support the implementation of the Public Procurement Act, developing user-friendly manuals for compliance with the regulations, and producing standard bidding documents and requests for proposals. The NPPA does not have enforcement powers however it can refer any cases of non-compliance with procurement laws to the ACC.

Sierra Leone's Audit Service, established in 1998, works to ensure greater accountability, efficiency, and effectiveness in the distribution and use of public funds. In 2014, the Audit Service had its mandate to audit and report on all public accounts of Sierra Leone extended. Its remit covers all public bodies including central and local government and the judiciary. The Service has the power to disallow unlawful expenditure and recover monies due through litigation.

## Structure of Corporate Affairs Commission in Sierra Leone

With the growing demand on public and private entities to be transparent and embrace corporate governance codes in order to increase the trust of shareholders, and stakeholders, Sierra Leone has launched the new National Corporate Governance Code that will guide and improve the way businesses are governed in the country, through transparency and accountability; the document was launched at the Bintumani International Conference Centre in Aberdeen, Freetown on 25 January 2019 by His Excellence the Vice President of Sierra Leone—Dr. Mohamed Juldeh Jalloh (National Corporate Governance Code, 2019) [66]. The new Corporate Governance Code would help to diversify the country's economy. For the past decades, Sierra Leone's economy has been running on a single track mineral export. The government is confident that the new codes in place and under the watch of the Corporate Affairs Commission (CAC) functions, would create a credible enabling investments environment in Sierra Leone, as well as ensure that government institutions and the environment for trade and investments are simple, predictable and favourable. With the growing demand on public and private entities to be more accountable and transparent to the people of Sierra Leone, and the need to address challenges that impede efforts to promote governance, the National Corporate Governance Code would provide guidance to private sector leaders on their governance functions, roles, and responsibilities.

## 6. Discussions

The Government of Sierra Leone in collaboration with the International Finance Corporation-World Bank Group has developed the National Corporate Governance Code 2018 and it is expected that the National Corporate Governance Code will guide and improve the way businesses are governed in the country, through transparency and accountability. The separation of responsibilities between the CEO and the Chairman of the Board, Human Resource Committee, Finance Committee, and Audit Committee within the National Corporate Governance Code resonates with sound corporate governance acceptable standards that would attract the stakeholder's and investors' confidence and give an indication of appropriate and effective laws governing Corporate Governance in Sierra Leone.

The role of the board of directors in corporate governance as related to the context of Sierra Leone which also mirrors internationally acceptable standards is such that governing board should ensure that arrangements are in place to enable it to discharge its responsibilities effectively, including: (National Corporate Governance Code, 2019) [66]

- Formal procedures for the appointment of new board members, tenure, and succession planning for both board members and senior officials.
- Allowing sufficient time for the board to discharge its collective responsibilities effectively.
- Induction on joining the board, supplemented by regular updates to keep board members' skills and knowledge up-to-date.
- Timely provision of information in a form and of a quality that enables the board to discharge its duties effectively.
- A mechanism for learning from past successes and failures within the departmental units and relevant external organizations.
- A formal annual evaluation of the board's performance and that of its committees, and of individual board members.
- A secretariat with dedicated personnel with the appropriate skills and experience remuneration of Board Members.
- The CEO of the organization should not be appointed or serve as the Chairman of the Board.

The general attitude towards corporate governance in Sierra Leone has moved from the implied to theoretical emphasis of corporate governance. In time past the legal practitioners had been handy to assist the establishment of companies by putting together the Memorandum of Association and Articles of Association of Companies whose value is not minimized; as the memorandum of association and articles of association are the two charter documents, for setting up of the company and its operations and its relevance cannot be understated.

Based on the data collected there is a National Governance Code in place although there are weaknesses identified; however, one of the fundamental instruments in corporate governance is having in place governance codes of corporate governance to which Sierra Leone accentuated and achieved.

The enforcement and institutionalization in general are in transition in developing countries. However, significant progress has been made in Sierra Leone in the enforcement and institutionalization of corporate governance as follows:

- Setting up of Corporate Affairs Commission with a clear mandate as articulated in the Vision, Mission, and Values of the Commission.
- Launching of the National Corporate Governance Code.
- The 2019 Anti-Corruption Act is operational and includes strengthening the Anti-Corruption Commission's prosecutorial powers and ensuring mandatory recovery of alleged misappropriated monies upon conviction.
- A new anti-corruption court has been established. The court is a new division of the High Court, with five judges who sit purely on corruption cases.
- Rule of Law accompanied with Companies Act 2009 in place.

The current trend of improvement would create stakeholders' and institutional investor confidence in establishing businesses in Sierra Leone and would have a ripple effect of a booming economy for instance through increased tax revenue collection. The establishment of a new firm as the result of the confidence placed in the governance systems of firms in Sierra Leone is a golden opportunity for increased revenue collections through taxes imposed on firms/companies as the political, economic, and social development of any country depends on the amount of revenue generated for the provision of infrastructure (Kamara, Kamara & Koroma, 2022) [67]. Well-structured governance systems can also attract foreign aid investments in governments' parastatal and such foreign aid flows into a country are expected to positively contribute to the economic growth of that country as foreign aid has a positive and significant impact on economic growth (Kamara, Momoh, & Koroma, 2022) [68].

## 7. Recommendations to Strengthen the Corporate Governance Codes in Sierra Leone

Although in Section B.9.4 of the National Corporate Governance Code, 2018 mentioned Independent Directors that the board should identify in the organizational annual report and each non-executive director it considers to be independent. In addition, the board should ensure that these directors meet the test of "independence" as laid down in the organization's governing document. This test would include criteria relating to current and previous personal and professional relationships or circumstances which are likely to affect the director's judgment.

However, there are no general guidelines of who should be a non-executive but relied on the various organizations to determine who should be a non-executive director or explain. This limitation within the National Corporate Governance should be addressed by providing general guidelines clearly stating who should be a non-executive director.

The governing document of the organization should set out the general criteria for the appointment of Board Directors. The Board should ensure that the laid down criteria are complied with in all instances. In addition, the Board as part of its policies and practices should set out relevant skills, experiences, and appropriate qualifications that it considers necessary to enable the Board to maximize its effectiveness. The laid down policies and practices should be reviewed from time to time to ensure that they reflect the current stage of development of the organization and take into account relevant national and international standards. The Board recruitment process should be used as an opportunity to determine any skill gaps on the Board, and thus focus on identifying potential board members that can fill the identified skill gaps. The following attributes shall be taken into consideration in appointing Board Members:

Strategic competence—a major function of a Board deals with strategy. The Board/Council shall constitute a "think-tank" that provides strategic direction for the organization.

1) Financial literacy—it is the responsibility of Boards to review and approve financial statements prepared by management. At least a member must possess analytical skills and be able to interpret financial statements and comment on them intelligently to ensure that all actions were taken by management result in the good financial health of the organization.

2) Communication and interaction skills—a Board member must be able to articulate their opinion and listen with empathy.

3) Professional qualifications, knowledge, and experience should include collectively:

a) Human resource management

b) Law

c) Financial management

d) General management

e) Information and communication technology

f) Other relevant competencies related to the organization

g) Balance of skills—even though it is unlikely to have individuals possessing all the qualifications listed above, there should be a balance of individuals whose strengths and weaknesses are complementary.

h) Character—Board Members must be individuals who have consistently exhibited high values in society. Each member should sign up to upholding the following basic seven principles of public life:

- Selflessness
- Integrity
- Objectivity
- Accountability
- Transparency
- Honesty
- Leadership

i) Commitment—making oneself available for Board/Commission meetings and other activities is essential

j) Gender balance shall be imperative; there should be a minimum representation in the region of 30%. Organizations should be required to disclose the split of men/women on their Boards, as part of their annual report.

The board composition as laid down in Section B.9 National Corporate Governance Code 2018 is as follows:

- The chairman—with clear responsibilities of the chairman stated.
- The Chief Executive—with clear core functions stated
- The Board Secretary—with clear functions stated.
- Independent Director—with no clear general role and responsibility, however, the organizations are required to:

1) The board should identify in the organization's annual report each non-executive director it considers to be independent.

2) The board should ensure that these directors meet the test of "independence" as laid down in the organization's governing document. This test would include criteria relating to current and previous personal and professional relationships or circumstances which are likely to affect the director's judgment.

Although there is a standing committee whose independency may not be questioned except proven to be otherwise; clearly stating the generally accepted standard of roles and responsibilities within the National Corporate Governance Code 2018 would enhance the separation of the roles and responsibilities of Executive Directors and Non-Executive directors and is a missing link that should the addressed.

The general functions and composition of audit committees for instance are not clearly stated in the National Corporate Governance Code 2018. However, The Sarbanes-Oxley Act of 2002 [69] enacted six requirements for audit committees:

1) The audit committee should be composed entirely of independent members of the board of directors;

2) The audit committee should be directly responsible for the appointment, compensation, and oversight of the work of external auditors;

3) The audit committee should have the authority to engage advisors;

4) The audit committee should be properly funded to effectively carry out its duties;

5) Auditors must report to the audit committee all "critical accounting policies and practices" used by the client;

6) The Security and Exchange Commission should issue rules to require public companies to disclose whether at least one member of their audit committee is a "financial expert".

The role of audit committees has developed over the years to meet the challenges of changing business, social and economic environments. The Smith Report (2003) [70] in the UK identifies the role of audit committees as ensuring that the interests of shareholders are properly protected in relation to financial reporting and internal control. It further recommends audit committees review the significant financial reporting issues and judgments made in connection with the preparation of the company's financial statements, interim reports, preliminary announcements, and related formal statements, such as the operating and financial review and the release of price-sensitive information. As such, audit committees can be expected to have a significant impact on value-relevant information disclosure, of which intellectual capital forms a large element in many firms.

Although, Mangena and Pike (2005) [71] find no relationship between audit committee size and the extent of voluntary disclosure in interim reports. However, found a significant positive association between interim disclosure and audit committee financial expertise, and their results also suggest that audit committee characteristics have an impact on its monitoring effectiveness of the financial reporting process. There have been concerns about the effectiveness of audit committees in the financial reporting process, particularly in cases where there have been corporate failures and accounting irregularities. Audit committees are responsible for overseeing the financial reporting process and ensuring that it is accurate and reliable, but in some cases, they have been criticized for not being effective enough in fulfilling this role. It is therefore imperative for audit committees to be guided by minimum acceptable general guidelines and not to assume that audit committees or organizations should know what is required of audit committee roles and responsibilities.

Public Service Organizations exist for a purpose and to achieve determined objectives; private sector organizations are similarly set up for specific reasons, usually to make a profit through trading in goods or services. Achieving these objectives is surrounded by much uncertainty which poses threats to success and at the same time offers opportunities for increasing success provided the risks are properly managed. In the National Corporate Governance Code, it is stated that the board shall ensure that the risks of the organization are identified and measures are taken to manage them (National Corporate Governance Code, 2019) [66].

Risk management is enunciated in the National Corporate Governance Code under the following headlines:

1) Section D.4.2. Consequences of Poor Risk Management
2) D.4.3. Well Managed Risk
3) D.4.4. The Responsibilities of Board and Management
4) D.4.5. Risk Management Process
5) D.4.6. Exposures

However, risk evaluation and risk management instruments are difficult to use and monitor. Understanding them often requires a good grasp of mathematics and statistics this requires an appointment of academic non-executive directors. Academics can facilitate knowledge transfer between firms and external networks. By sharing their research findings and expertise, academics can help firms stay up-to-date with the latest developments in their industry and provide them with valuable insights that can inform their strategic decision-making. The appointment of academics can be an effective strategy for firms looking to gain access to external networks and resources that can help them succeed in their business operations. It is, consequently, not clear that audit-committee members without specialized training would be up to monitoring the in-and-outs of coverage and even speculations presented to them, often in a rapid and much-summarised fashion.

Nevertheless, with the clear outline of risk management processes in the National Corporate Governance Code, this would serve as a general risk mitigation framework and the consequences of risk may be low as risk cannot be eradicated. The appointment of academic directors plays an important role in meeting the skills and specialist gaps within an organization.

The appointment of academic directors to a firm's board of directors can have various potential benefits and drawbacks, depending on the firm's characteristics and objectives. Some potential benefits include improved monitoring effectiveness, enhanced advisory roles, specialized knowledge, greater coordination among directors, social connections, access to networks, and enhanced reputation. However, there may also be potential drawbacks, such as a perceived lack of industry experience, conflicts of interest, social or financial ties, coordination costs, or reduced likelihood of board dissent. Therefore, firms should carefully consider the potential benefits and drawbacks of appointing academic directors to their board, and ensure that the academic directors chosen possess the necessary expertise and qualifications for their particular firm and industry. Additionally, shareholders and other stakeholders such as government should be informed of the reasons behind academic appointments and the potential benefits they may bring to the firm.

## 8. Conclusions and Recommendations

The purpose of this exploratory research was to understand if there are realistic codes of best practices in corporate governance in Sierra Leone. Qualitative data was collected to determine realistic codes of best practices in corporate governance. The data set was analyzed to answer qualitative research questions.

The major findings from the qualitative research questions were compared with the literature that pointed out the discussions on recommendations to strengthen the corporate governance codes in Sierra Leone and its contributions to the understanding of the existence of the realistic codes of best practice in corporate governance in Sierra Leone, and ultimately, the implication of this research and recommendations of future research was presented. The findings of this research indicated that Corporate Governance is at its embryonic stage with the governance code coming into being in 2018. The realistic application of these codes is yet to be tried and tested in order to show its effectiveness. In addition, the newly formed National Corporate Affairs is yet to show realistic performance on the ground to be assessed in the short-term, medium-term, and long-term.

### 8.1. Recommendations to the Management of Corporate Affairs Commission

The Board recruitment process should be used as an opportunity to determine any skill gaps on the Board, and thus focus on identifying potential board members that can fill the identified skill gaps. Forming a board specialist team that is made up of representatives from the Sierra Leone Bar Association, Institute of Chartered Accountants of Sierra Leone, seasoned mathematicians and statisticians, and academic board members is imperative to tap into the professional skills of the team. The benefits of having these teams as board members are as follows:

1) The enforcement of the Codes of Corporate Governance and the CAC regulations can be done through the assistance of the Bar Association being a legally minded professional body.

2) Professional advice on financial, risk management, and administration can be provided by ICASL. In addition, the ICASL member can also be on the audit committee.

3) Having an experienced mathematician and statistician would provide the services directed to risk evaluation and risk management instruments.

4) The appointment of academic directors will improve monitoring effectiveness, enhance advisory roles, bring in specialized knowledge, benefit greater coordination among directors, and social connections, provide access to networks, and enhance reputation.

The international guiding principles such as the G20/ OECD, Sarbanes-Oxley Act of 2002, and Smith Report monitored and used to enhance corporate governance codes in Sierra Leone. The G20/OECD Principles of Corporate Governance serve as a framework for policymakers to evaluate and improve the legal, regulatory, and institutional framework for corporate governance. The Principles aim to promote transparency, accountability, and stakeholder participation in corporate decision-making, as well as to support economic efficiency, sustainable growth, and financial stability. The Principles were first issued in 1999 and have since been revised twice, with the latest revision being in 2015 (OECD, 2015) [14]. The G20 Leaders endorsed the Principles in 2015 as part of their commitment to promoting good governance and responsible business conduct. The Principles are currently under review, and the OECD is expected to release a revised version in 2023. The review aims to ensure that the Principles remain relevant and effective in addressing emerging issues and challenges in corporate governance, such as environmental, social, and governance (ESG) considerations, digital transformation, and the role of boards in overseeing corporate culture and ethics.

### 8.2. Recommendations to Future Researchers

Future research calls for the following:

1) An assessment of the performance of the CAC in the short term, medium term, and long term and the impact on the economic growth of Sierra Leone.

2) The study of the relationship between the professional bodies in the CAC (*i.e.* professional bodies defined as Bar Association, ICASL, and Statistic Sierra Leone) and the impact on the performance of CAC.

3) The study of the relationship between management and board members and the impact on organizational performance.

4) An exploratory study of the financial controls and applications of the codes of governance and the impact on firms' financial performance.

## Conflicts of Interest

The author declares no conflicts of interest.

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