



## **#EMBRACEEQUITY: THE RELEVANCE OF BOARD DIVERSITY TO ENHANCE CORPORATE GOVERNANCE**

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### **THE NEED FOR BOARD DIVERSITY IN NIGERIA: EXPLORING THE CURRENT STATE OF CORPORATE GOVERNANCE**

The Organisation for Economic Co-operation and Development (OECD) defines corporate governance as a set of relationships between a company's management, its board, its shareholders, and all its stakeholders. Corporate Governance also provides structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Corporate Governance is a critical element of any business and or entity, and in Nigeria, it's even more important. Despite the country's immense economic potential and its vast natural resources, Nigeria's corporate

governance practices still lag behind many of its peers in Africa and the world at large. This lack of corporate governance has resulted in poor decision-making, regulatory compliance failures, and weak financial controls. One way to improve corporate governance is by increasing board diversity in Nigeria. In this article, we'll look at the importance of board diversity in Nigeria and explore some ways companies can increase their own board diversity to benefit their employees, shareholders, and community. The Organisation for Economic Co-operation and Development (OECD) defines corporate governance as a set of relationships between a company's management, its board, its shareholders, and all its stakeholders. Corporate Governance also provides structure

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## **DEFINING BOARD DIVERSITY: WHAT IS IT AND WHAT DOES IT MEAN?**

Board diversity has its roots in the resource dependency theory which views board members as strategic resources and opines that their main function is to bring resources and contribute important human capital resource which promotes company performance.

Board diversity encompasses more than just gender or ethnicity—it also includes skillsets, age, educational backgrounds, perspectives, professional background, and

culture. The focus for this article is Board gender diversity. Board gender diversity is defined as the presence of female directors on the board of directors of companies. While there is still a gender gap in board representation in Nigeria, the country has made some strides in increasing the number of women on boards.

For example, the Nigeria Code of Corporate Governance, 2018 (NCCG) provides - *The effective discharge of the responsibilities of the Board and its committees is assured by an appropriate balance of skills and diversity (including experience and gender) without compromising competence, independence, and integrity.*

It further recommends that Boards should promote diversity in their memberships, highlighting gender as a key attribute to be considered.

## **THE COMPOSITION OF BOARDS – THE WORLD VS NIGERIA**

Despite the increased labour market participation of women and the immeasurable value they contribute to boardroom discussions, they continue to be underrepresented in leadership positions globally, holding less than 20% of board seats among listed companies.

In Nigeria, the composition is quite varied, with a mix of public and private sector representatives. However, the majority of members are typically male and from the business or financial sector. There is no

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Nigerian law that provides for a quota system. According to the 2021 NGX 50 Index Board Composition, out of 511 board seats, with 135 being female; 7 out of 50 boards were chaired by women and 5 out of 50 CEOs were female.

There is a growing trend towards gender diversity on boards, with a number of initiatives underway to increase the representation of women. For example, the Central Bank of Nigeria (CBN) in a 2012 circular provided that commercial banks should have a minimum female representation of 30 percent.

## **WHY BOARD GENDER DIVERSITY IS IMPORTANT FOR CORPORATE GOVERNANCE IN NIGERIA**

Board gender diversity is essential in Nigeria to ensure that companies remain competitive and stay relevant. Some arguments in favour of board gender diversity include:

### **a) Enhanced decision-making**

According to Harvard Business Review, male CEOs are often overconfident which often results in overestimation of returns, underestimation of risk and/or bad acquisitions. The board, which has the responsibility of supervising CEOs, can mitigate the excessive self-assurance of male CEOs and have better risk management by including women.

### **b) Variety of perspectives**

Female directors are more independent in their thinking because they do not belong to any “old boys club”. This is particularly important when dealing with complex issues,

as diverse viewpoints can expand the pool of available information. The result is that traditional thinking is challenged, which can lead to innovative ideas.

### **c) Better crisis management**

Female board representation is found to reduce the negative impact of crises on a company’s performance because companies with female directors are less likely to adopt aggressive strategies which can make the business vulnerable. Diverse boards also have fewer cases of fraud, corruption, and bribery.

### **a) Better performance**

There is a growing body of evidence that suggests organizations with diverse boards outperform those without. A study by Credit Suisse found that companies with at least one woman on their board outperformed those without any women by 26% over a six-year period.

## **BARRIERS TO ACHIEVING BOARD GENDER DIVERSITY: IDENTIFYING AND OVERCOMING THE CHALLENGES**

Nigeria is a country with a very diverse population, with over 250 ethnic groups and over 500 languages spoken. As a result of this diversity, there are certain cultural sentiments or stereotypes that relegate women as second place and to the background while men dominate. Another challenge is that the country's corporate governance framework is based on the Anglo-Saxon model, which means that board members are typically appointed by the shareholders. This can make it difficult for

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minority groups to get represented on boards, as they may not have the same level of access to capital or networks as the majority shareholders.

There have been some initiatives to increase board diversity in Nigeria, such as the introduction of quotas for women and minorities on listed companies' boards. However, these have not been effective in increasing overall board diversity. One reason for this is that many listed companies are family-owned businesses, which means that the appointing shareholder may be reluctant to give up their power to appoint board members.

This means that there is still a long way to go in terms of increasing board diversity in Nigeria. To truly make progress, there needs to be a change in mindset from both listed companies and investors, who need to see the value in having a more diverse range of perspectives around the table. Only then will we start to see real change in terms of board compositions in Nigeria.

### **RECOMMENDATIONS FOR IMPROVING BOARD GENDER DIVERSITY IN NIGERIA.**

There is no one-size-fits-all answer to the question of how to improve board diversity in Nigeria. However, there are a number of recommendations that can be made based on the specific circumstances and needs of Nigerian companies.

1. Boards should be more representative of the diversity of the Nigerian population. This can be achieved by increasing the

representation of women and minorities on boards.

2. Board recruitment should transcend traditional networks and focus on finding qualified individuals who can contribute to the board's deliberations in a constructive and helpful manner. This may require looking beyond traditional sources for potential board members.

3. Companies should develop and implement policies that ensure a work-life balance that can accommodate women and enable them to function efficiently and successfully combine work.

4. Companies can provide diversity training for the board and ensure that board members understand the importance of diversity in enhancing corporate governance. They can review their board's composition regularly and ensure that it remains diverse.

5. Corporations should develop policies and procedures that promote transparency and accountability in board decision-making. These measures will help ensure that all stakeholders have confidence in the fairness and integrity of corporate governance in Nigeria.

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Nigerian businesses that embrace board diversity can leverage the diverse range of opinions, ideas, and perspectives to improve their bottom line and meet the needs of their stakeholders. The Nigerian government has taken steps to encourage greater board diversification through policies like the National Gender Policy Act, and the CBN circular mandating a 30% quota, but more guidance is needed to ensure that board diversity becomes standard practice in Nigeria's corporate world. Companies should take advantage of this opportunity to improve their practices by actively pursuing more diverse boards, which will ultimately benefit all stakeholders involved.

## **CONCLUSION: WHY BOARD DIVERSITY IS CRITICAL FOR CORPORATE GOVERNANCE IN NIGERIA'S FUTURE**

Board diversity is increasingly becoming a critical aspect of corporate governance in Nigeria, as it promotes innovation and enhances decision-making.