SME CORPORATE GOVERNANCE GUIDELINES

UNLOCKING THE SECRETS TO BUSINESS EXCELLENCE

MAY 2024

TABLE OF CONTENT

FOREWARD

BY DR. RABIU OLOWO, **EXECUTIVE SECRETARY/CEO, FINANCIAL REPORTING COUNCIL OF NIGERIA (FRC)**

Small and Medium-sized Enterprises (SMEs) in Nigeria make up about 96% of businesses and create about 84% of employment in the private sector. Small businesses therefore play a crucial role and are the engine of future economic growth as Nigeria strives to diversify and expand its economy.

Thus, all stakeholders in the economy – regulators, financial services firms, business membership organisations (BMOs), and SME service providers – must collaborate to enable the growth and sustainability of our SMEs.

One critical enabling factor for SME development is corporate governance. This helps SMEs to establish robust business processes and prepare them for future expansion. Corporate governance lays the foundation for SMEs to be more accountable and transparent in their operations, thus enabling them to be more bankable and investable.

This SME Corporate Governance Guidelines contains six (6) sections and eleven (11) principles that our SMEs should be aware of, and adopt in line with their readiness and stage of development. It is not prescriptive. It serves as a reference and framework for understanding and practicing good corporate governance.

I congratulate all partners that supported the development and launch of the SME Corporate Governance Guidelines. We look forward to more such initiatives to further develop the SME sector in Nigeria.

INTRODUCTION

The Financial Reporting Council (FRC) issued the Nigerian Code of Corporate Governance (NCCG) 2018, pursuant to its powers under Sections 11c and 51c of the Financial Reporting Council of Nigeria Act (FRC Act) No. 6 of 2011 (amended).

The NCCG seeks to institutionalise corporate governance best practices in Nigerian entities. The NCCG also seeks to promote public awareness of essential corporate values and ethical practices that will enhance the integrity of the business environment. However, the NCCG is aimed at entities of varying sizes and complexities as defined in the Regulation that set it up and excludes Micro, Small, and Medium-Sized Enterprises (MSMEs) that represent 96% of all businesses in Nigeria, account for 84% of national employment, and represent 48% of Nigeria's GDP.

In an effort to make the principles of good corporate governance and ethical business administration accessible and operational by these MSMEs, the FRC has adapted the principles and tenets of the NCCG into the following SME Corporate Governance Guidelines (SME-CGG).

AIMS & OBJECTIVES

The objectives of the Guidelines are to improve Nigeria's business environment, increase the longevity and sustainability of Micro, Small and Medium-Sized Enterprises (MSMEs) while increasing business confidence and access to capital and trade for adhering entities. Added benefits such as greater success achieving business goals, reduced exposure to unethical practices, and respectable contribution to society are natural outcomes of good corporate governance practices.

BACKGROUND

Around the world, a great deal of attention has been paid to corporate governance over the last two decades. For entities that operate in zones of weak governance such as Nigeria, growing pressures caused by market competition, consumer expectations and a volatile macro-economic environment, compounded by regulatory risks, means that the standards required for success are rising. In response, corporate governance rules, guidelines and recommended practices, if applied appropriately, can provide practical assistance to enterprises, and make a substantial contribution to the health of the national economy.

Practising good corporate governance will help MSMEs to establish robust business processes and prepare for future expansion; because it lays the foundation for MSMEs to be more accountable and transparent in their operations, thus enabling them to be more bankable and investable.

While there is no single right way to govern entities, there are certain universal fundamental principles which will assist all enterprises to survive and succeed. These include:

- Compliance with the law.
- Building trust through effective communications with key stakeholders (customers, creditors, employees, suppliers, and the communities) relevant to MSMEs' operations.
- Optimising capital by establishing and maintaining a sound reputation as an enterprise worth receiving investment.
- Identifying and managing business-related risks.
- Adopting and developing systems which enhance the quality of decision making.

It is important to note that good corporate governance goes beyond compliance with legislative and regulatory requirements. It is about embedding the principles of accountability throughout an enterprise and creating a mechanism of checks and balances. The understanding and implementation of a good corporate governance framework will present MSMEs with a structured path to infusing better management practices, effective oversight and control mechanisms which lead to opportunities for growth, financing, exit strategies and improved performance.

STRUCTURE & SCOPE OF THE GUIDELINES

The Guidelines consist of six (6) sections and eleven (11) principles together with practices recommended by the Guidelines for the implementation of each principle. The Guidelines apply to all MSMEs operating in Nigeria as at the effective date decided by Council.

According to the National Policy on SMEs issued by the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), an SME is defined by the following characteristics:

SIZE CATEGORY	EMPLOYMENT	ASSETS (N million) (excluding land and buildings)
Micro enterprise	Less than 10	Less than 5
Small enterprise	10 - 49	5 - less than 50
Medium enterprise	50 -199	50 – less than 500

GOVERNANCE PRACTICES FOR MSMEs IN NIGERIA

These SME Corporate Governance Guidelines recognise that the governance arrangements recommended for small enterprises must be much simpler than those required by larger SMEs. This is because MSMEs in Nigeria fall into three broad categories as classified and defined by SMEDAN and as outlined in the Structure and Scope of the Guideline.

THE APPROACH

These Corporate Governance Guidelines should be viewed as a set of recommendations as well as a benchmark of best practices. The Nigerian MSME environment covers a wide spectrum of entities which vary in terms of size, management model, maturity, ownership structure, operations, and sponsorship requirements. The FRC believes that the principles laid out in this document represent corporate governance best practices and are applicable to all MSMEs, while bearing in mind that the implementation of the principles will have to be adapted to the unique circumstances of each MSME taking into account their stage of growth and development. These Guidelines also include a section on family-run enterprises, which represent a significant portion of the Nigerian MSME community, taking into account their own peculiarities.

The Guidelines has six (6) sections set out into eleven (11) principles of corporate governance for MSMEs.

The sections and Principles covered are:

A. Corporate Governance Policies and Procedures
B. Board of Directors
C. Control Environment (internal controls, audit, and risk management)
D. Stakeholder Relations
E. Family Governance
F. Environment, Social and Governance Considerations

These key Principles are drawn from the Nigerian Code of Corporate Governance (NCCG) 2018 and international best practices. It is important that MSMEs view corporate governance as a journey, with the Guidelines providing a roadmap of the areas in which entities should seek to develop as they grow. Under each Principle, the Guidelines lay out the practical steps an entity should consider taking as it begins its gradual process of implementing corporate governance.

The Guidelines will assist MSMEs to achieve structures that will facilitate and enhance growth, profitability and sustainability. It also serves as a benchmark against which entities can self-assess their current practices. However, corporate governance is not a box-ticking exercise. The onus will be on the entities to implement these Principles in a manner that is practicable, taking into account their own individual circumstances and needs.

SECTION A: CORPORATE GOVERNANCE POLICIES AND PROCEDURES

01

Principle 1: Adopt a formal corporate governance framework outlining the roles of the key stakeholders such as partners, shareholders, board of directors and management.

In the same way that an entity needs to have a clear vision, mission and business plan, there needs to be clarity on what the purpose of the entity is and how it is to be governed. The governance framework should be closely related to the MSMEs mission, vision and values and the expectations of its owners and key stakeholders.

RECOMMENDED PRACTICES:

1.1: Partners' and shareholders' rights and obligations should be clearly set out and documented.

From the very outset, all shareholders need to be clear about their rights and obligations. The MSMEs share structure and ownership should be disclosed including voting rights and other rights attached to each class of shares.

1.2: Delegation of authority should be formalized in writing defining the role of the management and specifying matters reserved for shareholders and the board of directors.

This is essential for establishing an effective governance framework. In all entities, various parties such as shareholders, directors and managers need to be clear about their roles and responsibilities, and this is particularly true in MSMEs where there are often no clear boundaries between ownership, management and the board of directors or where the entity has reached a stage in its development where the owner-manager is no longer able to fulfil the roles of shareholder, director and manager simultaneously. A formal governance framework will facilitate the development and growth of a 'one-man business' into a larger institution, and will enable effective monitoring of the entity.

1.2.1: The MSME should determine the decisions that require approval from partners, shareholders, the directors, and managers (setting parameters such as financial thresholds and approval mandates) and formalize this in writing.

1.2.2: Delegated authorities should be reviewed periodically to ensure that they remain appropriate given the structure, size, scope, and complexity of the entity as it grows.

02

Principle 2: Create a succession plan and establish the process

Succession planning is particularly critical for growing entities and family businesses. Lack of succession planning represents a risk to the business both in terms of business continuity and survival. A succession plan allows the MSME to develop and facilitate change leadership in a progressive, planned and non-disruptive manner, assuring shareholders, employees, customers and other stakeholders on the longevity of the entity, preserving its reputation and brand value.s.

RECOMMENDED PRACTICES:

2.1: Succession planning is a long-term process, and it should be aligned with the entity's business objectives, growth and potential exit strategies of owners.

An entity's strategic planning should encompass succession issues – addressing both managerial succession and ownership succession. Succession planning should be aligned with the entity's business objectives and potential exit strategies of its owner. This is particularly important in owner-managed entities where the owner-manager needs to define his, her or their future involvement in the daily running of the business, whether to pass on the business to a family member or business partner, or to seek an exit from the business through a trade sale or public listing.

2.2: Entities should have a rigorous succession planning methodology in place providing for both planned and emergency scenarios.

MSMEs should have plans in place for orderly succession and consider appointments to the board and to senior management as a way to maintain an appropriate balance of skills and experience within the entity

2.2.1: As part of succession planning, entities should identify the skill sets necessary for appointments to various positions within the MSME, develop a skills matrix and ensure the provision of adequate training and skills acquisition to allow for a smooth transition of roles.

SECTION B: BOARD OF DIRECTORS

Principle 3: Endeavor to set up a formal Board of Directors to accompany the growth of the entity. The board is the cornerstone of good corporate governance. Although many Nigerian MSMEs do not fully recognise the benefits of a board and typically do not set up boards from the very onset, the need for a board becomes more pronounced for MSMEs when they reach a certain point in their growth path. A board formalises the decision-making process within the entity, adding a layer of necessary checks and balances, facilitating better strategic thinking, while also providing support and guidance to management.

RECOMMENDED PRACTICES:

3.1: Smaller entities may wish to set up an "advisory" board with no formal decision-making powers, but which offers its expertise and networks to guide and support the business.

3.1.1: In the initial stages, entities that do not have a board of directors and may feel uncomfortable with the idea of a formal board may consider forming an advisory board with no formal decision-making powers.

3.1.2: For entrepreneurs looking for strategic advice, the appointment of 'outside' or independent non-executive directors can be a fast track to commercial wisdom and insights, an introduction to business networks, experienced guidance and constructive criticism of the entities' strategy. Having the right board members can also add credibility ahead of a major deal or prospective investment round.

3.1.3: Two to three people is a sufficient size for an advisory board for a small business.

3.2: A formal board of directors should be established with formal procedures.

3.2.1: A board formalises the decision-making process within entities. The board should adopt formal procedures for board meetings including working through a formal agenda, addressing strategic as opposed to more operational issues, and ensuring that minutes taken include all items discussed and resolutions adopted, indicating voting results.

3.2.2: When creating a board, the owner(s) must decide whether to appoint "inside" or "outside" directors. Although, SMEs would benefit from having "outside" directors on their boards from the outset, many SME owners initially choose "inside" directors such as members of the management team, shareholders or shareholder representatives, family members, and friends.

3.2.3: The appropriate number of members should be determined by the size of the entity, but a good practice for SMEs would be between five and ten members. Many businesses keep the number odd so they can hold votes without ties.

3.3: Entities should consider appointing Independent Board Members

3.3.1: Medium-sized Entities should have an effective Board with an appropriate balance of skills, experience, independence and knowledge of the entity and its industry. As entities evolve, they may find it useful to appoint "outside" or Independent Non-Executive Directors to their Boards. Independent Directors give Investors assurance that the interests of all shareholders, rather than the interests of a particular group, are being protected and represented at the Board level. They also bring fresh views and more objective thinking into the boardroom. Independent non-executive directors use their experience and expertise to provide advice and objectivity, and they are usually appointed for their expertise in specific areas/fields.

3.3.2: A committed, and effective Board with Independent Non-Executive Directors adds value by setting the broad parameters within which the management team operates, by monitoring and assessing performance, and by providing assurance to all stakeholders about the integrity of the entity's reported financial performance.

3.4: New directors should undergo a tailored induction programme

3.4.1: To better utilize the expertise of the independent non-executive directors, SMEs should provide a tailored induction process for all directors, but especially the "outside" directors. The induction process should include meeting major shareholders, senior and middle management and visiting sites where applicable.

Principle 4:

Develop a clear mandate for its Board of Directors to oversee the operational performance of the business as well as evaluate and improve on business strategies, making clear the fiduciary duties of Board Members.

Building an effective board takes time and patience and requires the entrepreneur or founder to have a clear vision of what to expect from the Board and how it can add value. SMEs should have a proper board charter and a statement of reserved matters and powers for the board. The board charter should clearly express the fiduciary duties (care, loyalty, obedience, and transparency) of the Board, and include values and principles such as good faith, anti-corruption, etc. The Board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.

05

The Board mandate and objectives should be aligned with the business goals, and the various individual roles (Chairman, Chief Executive, Executive and Non-Executive Directors) should be clearly identified and understood.

RECOMMENDED PRACTICES:

4.1: The role of the Board should be defined in clear terms.

The Board should be given the correct resources and information it requires to fulfil its role. The Board Charter should have a clear definition of the role of the Board. The Board should meet as frequently as necessary for the discharge of its obligations and the agenda topics should include all items it is expected to discuss.

4.2: A professional board with independent non-executive directors should meet on a regular basis to oversee the operations of the entity and monitor and evaluate management's performance in meeting the objectives and goals set by the Board.

The Board should provide entrepreneurial leadership to the entity within a framework of prudent and effective controls which enables risk to be assessed and managed. It should be the board's responsibility to foster the long-term success of the entity, overseeing the operations and performance of the business; evaluating and approving sound business strategies; and ensuring that management maintains an effective system of internal control.

4.3: The Board should undergo a regular performance evaluation process which includes a review of the composition of the board.

To ensure its effectiveness, the board should undergo a regular performance evaluation process. This may take the form of a self-assessment, or an independent Board Evaluation carried out by a third party. The structure, size and composition (including the skills, knowledge and experience) of the Board should be kept under regular review. As the entity's business evolves, so should the Board. Effective Boards ensure that they have the right people at the right time.

4.4: Medium-sized Entities should consider separating the roles of the Chairman and the Chief Executive.

For the Board oversight over management to be truly effective, the roles of the Chairman of the Board and the Chief Executive should be separate. In smaller entities, such a separation may not always be possible or feasible.

SECTION C: CONTROL ENVIRONMENT

Principle 5:

Maintain credible books of accounts, which are free from material misstatements and reflect a true and fair view of the financial performance of the entity which shall be prepared in accordance with the financial reporting framework issued, pronounced and/or adopted by the Financial Reporting Council of Nigeria (FRC).

The quality, timeliness, comprehensiveness, and integrity of corporate financial statements – the assurance that they provide a complete and accurate picture of entity operations – are critical to financial stability.

Accurate accounting information is important for the successful management of a business whether it is large or small. An entity's credit or investment worthiness is often based on its books of accounts. The entity should utilize the applicable accounting standards in Nigeria as issued, pronounced and/or adopted by FRC. Where the accounts are externally prepared and/or audited, they should use credible independent accounting firms. The entity must also ensure the independence of its external auditor, where applicable.

RECOMMENDED PRACTICES:

5.1: All entities should establish and follow credible accounting practices from day one. Medium-sized entities should prepare a complete set of financial statements including a statement of financial position, comprehensive income, cash flows and changes in equity statement. Any changes in accounting policies should be disclosed and justified in the financial statements. Micro and Small-sized entities can prepare reliable statements necessary for operations and need not undergo external audit reporting unless statutorily required.

5.1.1 It is crucial for Internal Audit officers to be afforded and retain a certain level of independence in their reporting duty to the Board. This independence ensures objective reporting and unbiased evaluation, which are vital for robust internal control systems.

5.1.2 MSMEs should be aware of their tax obligations to the government, including accurate computation of affected taxes, timely remittance, and annual filing. Engaging the services of a tax consultant can greatly aid in meeting these requirements.

5.2: For Medium-sized Entities, the entity should utilize the services of a reputable independent accounting firm in the audit of its financial statements. Medium-sized Entities should formally evaluate the effectiveness of the external auditor and formulate policies to preserve the independence of both the internal and external audit function

5.2.1: Medium-sized Entities should review the effectiveness of their audit process. The auditors should be able to show that they are thinking about key issues and that they can interact effectively with the management team while challenging them, if required, on contentious issues.

5.2.2: The auditors should not audit their own firm's work in an entity where they provide accounting services and entities should formulate policies excluding external auditors from undertaking non-audit work on behalf of the entity which may compromise their independence.

5.3: Boards should create an IT Governance framework that considers the performance of entity information systems and have an adequate management system to address the risks posed by the technology in use.

5.3.1: Boards must understand and assess the risks posed by social media and manage them appropriately.

5.3.2: Management with the approval of the Board should establish an IT Governance framework which is communicated in simple and clear language to all employees, integrated into the day- to-day operations of the business, with clear and guidelines and standards for managing key risks.

5.3.3: Conduct at least annually, or more often in Medium-sized Entities with complex operations, a thorough IT risk assessment covering all aspects of the Entity's business, headed by a member of senior management who is a professional with relevant qualifications, competence, objectivity, and experience to ensure that mitigating strategies are put in place to manage identified risks.

Principle 6:

Ensure that an Internal Control Framework is in place and a regular review of risk is conducted.

Good internal control structures are a prerequisite for good business, safeguarding the shareholders' investment and the entity's assets. It is important from the onset to identify, select and adopt an appropriate internal control framework that takes into account the size and complexity of the business and apply that framework consistently and effectively. If applicable, the internal control framework adopted should include due diligence over sources of wealth and investment to prevent and detect illicit financial flows (IFFs).

08

RECOMMENDED PRACTICES:

6.1: SMEs should document a formal process for identifying significant business risks and management should adopt formal control mechanisms.

All enterprises face a considerable number of risks and most businesspeople have an instinctive understanding of the more common risks they face, and will have taken mitigating action, often without even realising it. However, it is useful to document and regularly review the risks facing the entity, particularly in the case of growing SMEs which are likely to face new sets of risks as they expand.

Risk should be defined in the broadest terms, encompassing not just financial matters, but also operational, strategic, and regulatory matters, covering areas such as health and safety, human resources, operations, the environment, IT security, and corporate reputation. SMEs should also bear in mind that being risk averse may stifle innovation and creativity, and that risk taking is an essential element in entrepreneurship.

6.2: More developed SMEs should set up a specialized Board-level committee to monitor the overall control environment of the entity.

The Board should make its risk management expectations explicit. Managers must be clear as to what is expected of them. It is important that the Board and Management have a common understanding and are aligned regarding their risk tolerance levels.

6.3: SMEs should consider establishing an internal audit function.

An effective internal audit function can help provide assurance that there are appropriate governance processes and controls in place to effectively eliminate or mitigate key risks to the business. Internal audit's primary responsibility should be to ensure that the risk management approach is being followed throughout the entity, and that appropriate internal controls are in place and are operating effectively.

09

SECTION D:
STAKEHOLDER ENGAGEMENT

Principle 7: **Recognise the Needs of Stakeholders**

Stakeholders are understood to mean regulators, shareholders, employees, customers, suppliers, creditors, the community, the environment, and generally any party enjoying relations with the enterprise. It is important that an entity views itself as an integral part of the community in which it operates and is committed to a sound relationship built on respect, trust, honesty and fairness.

There is increasing recognition that managing stakeholder relations and issues can have business benefits. A better understanding of employee attitudes, customer perspectives and impacts on communities will not only aid in reducing risks but also help to identify value-enhancing opportunities for the future.

RECOMMENDED PRACTICES:

7.1: Policies should be formulated governing the entity's relationships with its stakeholders.

Entities should formulate policies outlining their values and objectives in relation to all areas of stakeholder engagement, such as shareholder and customer satisfaction, sound regulatory compliance, product safety, employee relations, health and safety, the environment, and the community in which the entity operates.

7.2: Targets relating to the management of stakeholder relationships should be set and progress against the targets monitored and measured.

MSMEs should identify appropriate key performance indicators relating to their stakeholder engagement activities and should implement appropriate policies, set targets and monitor the progress made against identified targets.

10

SECTION E: FAMILY-RUN ENTITIES

A high proportion of MSMEs in Nigeria are family-run. Such enterprises are often complex in terms of governance than non-family-run enterprises because of the family component. The concern, particularly in later generations, is that complex family issues/difficulties may interfere with the family business. Family-run enterprises nevertheless enjoy several advantages, principally:

- Since there is little or no separation of ownership from control, decision making can be streamlined and faster.
- The personal incentives of those involved are usually very strong.
- The loyalty of family workers can increase stability.

Family-run enterprises however, come with their unique challenges. Rapid technological or social change, increasing competition, and macro-economic volatility can present significant challenges across the generations but also present potential opportunities. As a result, family-run enterprises often face certain risks that make it difficult for such enterprises to survive the first generation. Thus, prudent entity controllers need to consider the following:

1. Succession. It is becoming difficult to find second generation family members who are sufficiently able, well trained, and willing to bide their time working in the entity whilst waiting patiently to take over the leadership of the family entity at suitable time and effect changes that the previous generation may have been resistant to. The challenges in the transfer from the second to the third generation can be even greater as old ways of doing things become entrenched. Careful planning for succession is therefore essential.

2. Diverging interests. It is common for family considerations to diverge from entity interests, particularly in such areas as the appointment and positioning of incompetent family members within the entity. It is prudent to identify possible points of divergence and to deal with them before they become damaging.

3. Non-family executives. The growing importance of specialist skills requires the recruitment of non-family executives who frequently are reluctant to be subordinate to less competent family members. Well thought out and credible personnel policies are important.

4. Narrow perspectives. In a fast-changing competitive environment, it is valuable to introduce broad perspectives into the entity's decision-making process which sometimes tests the flexibility of family entrepreneurs, especially where a measure of success has been attained.

5. Shortage of capital. Family entities frequently find it difficult to provide sufficient capital to take advantage of innovations without diluting family control. Careful financial planning is vital.

Prudent and early consideration of the appropriate governance structures and mechanisms best suited to the growth and sustainability of the MSME will contribute substantially to the satisfactory resolution of these issues.

Principle 8: Family Governance Formulate a framework setting out the family's relationship with the business.

RECOMMENDED PRACTICES:

8.1: A Constitution should be formulated setting out the vision, values and policies regulating the family's relationship with the business.

If family members are to be engaged in the business, clear lines of authority and decision-making, policies on employing family members, and clarifying the separation of the family business and the business of the family should be developed.

8.2: A Family Governance structure with written procedures should be established to facilitate effective communication and coordination between family members and the other stakeholders of the business.

In later generations as the family and business get more complex, families should consider establishing a family governance structure such as a "family council", which institutionalizes cooperation in large families and serves as the link between the family and the business. It should have clear written procedures reflecting its role as a forum for keeping all family members informed of developments in the business and allowing them to voice their opinions.

12

SECTION F: ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) CONSIDERATIONS

Principle 9 : Sustainability is now business-critical for every entity, whether large or small, bringing challenges with it but also opportunities. MSMEs should be sensitive to the effect of their business on the Environment that they operate in as well as to how they engage and influence a wide range of stakeholders from diverse backgrounds within their communities.

Sustainability is now business-critical for every entity, whether large or small, bringing challenges with it but also opportunities. MSMEs should be sensitive to the effect of their business on the Environment that they operate in as well as to how they engage and influence a wide range of stakeholders from diverse backgrounds within their communities. It is expected that all MSMEs will operate ethically and put in place governance mechanisms that will see them develop into strong sustainable institutions. Every entity needs to address adaptation and build resiliency into their business and their strategy as a means of future-proofing their business and building sustainability and a competitive edge into their operations.

RECOMMENDED PRACTICES:

9.1: SMEs should align their activities to be environmentally friendly by reducing, reusing, and recycling to promote efficiency and reduce waste.

9.1.1 MSMEs should not employ children under the age of 15 and must not engage any children under their employ in any form of labour that is detrimental to their development in accordance with the Child Rights Act of 2003.

9.1.2 MSMEs should comply with the Nigerian Labour Act and provide pregnant employees with 6 weeks maternity leave before delivery, and 6 weeks leave after delivery of the child. Such employees are also entitled to at least 50% of their total wages during this time.

9.1.3 SMEs are advised to provide 14 days (paid) leave for fathers of newborn children as approved by the Cabinet of Nigeria in 2021.

9.2: SMEs should ensure to align their strategies and activities to be socially conscious and responsible; for example, showing appreciation towards the community and stakeholders to cultivate good relationships.

9.2.1 MSMEs should consider air and water quality preservation, habitat protection, and emissions reduction in their waste management from business activities. Such activities must provide no harm to the environment, human health, natural resources, or wildlife in accordance with the National Environmental Standards and Regulations Enforcement Act, the Harmful Waste Act, Federal Environmental Protection Act and all other environmental laws in Nigeria.

9.2.2 MSMEs are required to manage their use of natural resources in a sustainable manner. This includes acquiring raw materials responsibly, using energy, water, and other resources efficiently, and producing less waste so that civil, residential, local, and indigenous communities and livelihoods will not be negatively affected as a result of business activities.

9.2.3 Medium sized enterprises should vet the quality of their supply chains as they may legally be considered liable for supplied products which are deemed dangerous to the general public or do not meet accurate labelling specifications and environmental laws.

9.3: Maintain the highest standards of governance, which is systematically reviewed and improved to comply with regulatory expectations.

9.3.1 A systematic approach towards the continuous review of ESG responsibilities should be clearly stipulated and implemented with a given timeframe for each appraisal.

9.4: SMEs should commit to relevant best practice standards and initiatives (e.g the United Nations Global Compact) to build their capacity and demonstrate their commitment to ESG. Section G: Transparency and Shareholder Relations

Principle 10: Establish a timely, open, and transparent flow of information with investors and shareholders.

RECOMMENDED PRACTICES:

10.1: All shareholders should be treated equitably, and entities should establish clear lines of communication with their investors.

SMEs should establish clear lines of communication with their investors/shareholders ensuring timely and accurate disclosure of information on the entity's activities, including the financial situation, performance, ownership, and governance of the entity.

10.2: An effective engagement mechanism to gauge the views of shareholders should be established.

10.2.1: For Medium-sized Entities, an Annual General Meeting (AGM) provides the forum for the board to meet with shareholders to discuss the performance of the entity and allow investors/shareholders a chance to participate in key governance decisions of the entity. It is meaningful to seek the engagement of these partners in areas such as business strategy. The AGM should be seen as an opportunity for strategic thinking.

Principle 11: Full and comprehensive disclosure of all matters material to investors and stakeholders, and of matters set out in this Code, ensures proper monitoring of its implementation which engenders good corporate governance practice..

RECOMMENDED PRACTICES:

11.1 The Board especially of Medium-sized Entities should ensure that the company's annual report includes a corporate governance report that provides clear information on the company's governance structure, policies, practices, environmental/social risk and opportunities, addressing amongst others:

- Board appointment process including Directors standing for re-election together with a summary statement on induction and training of Board members.
- Evaluation process for the Board, its Committees and individual Director, as well as the assessment of the corporate governance practices in the company.

- Composition of Board Committees, including names of Chairman and Members of Committee. Description of the roles and responsibilities of the board committees and how the committees have discharged those responsibilities.

- The number of meetings held by the Board and its committees during the year, and the attendance of individual Directors at those meetings

11.2: The report should specify nature of related party relationship and transaction as follows:

a) Any Director’s direct or indirect interest in contracts with the company, its subsidiaries and holding companies.

b) The name of parties, nature of transaction, and value (monetary or other value) involved in the transaction.

11.3 Any unreported cases of conflicts of interest, insider trading, related party transactions, fraud or any illegal or suspected illegal activities.

11.4 The impairment of the external auditor’s independence and objectivity, or failure to approach his work with an acceptable degree of professional scepticism.

11.5 Any violation of this code, extant law and regulations, and disregard for accounting standards, auditing standards or financial reporting requirements .

11.6 The annual report should contain a statement by the Board on the company’s ESG activities. This should be reviewed by the appropriate Board committee and may be subjected to independent review.

11.7 The company should establish policies and procedures for the identification, communication and response to concerns from stakeholders.

SME CORPORATE GOVERNANCE GUIDELINES 2024

MacArthur Foundation

integrity

Global Compact Network Nigeria