

CORPORATE GOVERNANCE AND CONTROL IN NIGERIAN BANKING INSTITUTIONS: MATTERS ARISING

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Abstract

This paper identifies 'weak corporate governance' as the major cause of crises in Nigerian banking institutions. It contends that corporate governance is an innovative alternative banking practice that caters appropriately for the needs of all stakeholders in sharp contrast to the conventional banking, which often marginalizes most of the essential stakeholders, as well as vitiates their corporate control. The paper argues that the existing banking reforms, though potentially worthwhile, may even be harmful if corporate governance and control principles are misplaced or misapplied. It therefore cautions that in today's borderless economy, purposeful corporate governance is not an option but a necessity; and recommends that regulations should fill in the existing slit to synchronize diversity, dissent and differences in corporate governance for a robust banking sector.

Keywords: corporate governance; corporate control; banking institutions; stakeholders; essential publics; external mechanisms; employees; depositors; regulations; Central Bank of Nigeria

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I. Introduction

Banking institutions exercise significant influence in the society. This requires assurance that the significant power is not exercised arbitrary but in a manner that can be rationally related to the legitimate purpose of the society. However, banks in Nigeria have, for quite some time now, been facing growing criticisms (Ford, 2006) from customers, interest groups, shareholders, communities, the government and the general public on such issues as abuse of directors' powers, abusive ownerships, weak corporate governance and internal controls, banks' legitimacy as economic drivers, as well as social institutions (Ogunleye, 2000). These criticisms have extended to include the extent of duties and responsibilities of directors, shareholders and other stakeholders in corporate decision-making.

Between 1994 and 2003, the Nigeria Deposit Insurance Corporation (NDIC) liquidated 36 banks in Nigeria. As at the end of March 2004, 62 out of the 89 surviving banks were sound, 14 were on borderline, and 11 were unsound, while 2 rendered no accounts. A number of the ailing banks were said to have overdrawn their positions with the CBN. The unsound banks accounted for 19.5% of the total assets of Nigerian banks, 17.2% of deposits, and 19.5% of non-performing loans. On January 3 2006, the number of banks eventually shrunk to 25. Soludo (2004) summarized "the major problems of many Nigerian banks" as including "weak corporate governance". His predecessor had earlier noted that "no one single

factor contributes more to institutional problems than poor corporate governance" (Sanusi, 2002p.2). "Poor corporate governance has been identified as one of the major factors in virtually all known instances of financial sector distress. It is therefore crucial that financial institutions observe a strong corporate governance ethos." (CBN, 2003).

Consequently, the Central Bank of Nigeria came up with "Corporate Governance Code for Banks and Other Financial Institutions in Nigeria" in August 2004 as a self-regulatory measure. At the international scene, the Basel Committee on Banking Supervision had drawn from the experiences of its members and other supervisors to issue papers on supervisory guidance to foster safe and sound banking practices with the main objective of reinforcing the importance of corporate governance and control principles as issued by the Organization for Economic Co-operation and Development (OECD).

However, the emphasis on corporate governance in Nigerian banks seems to tilt towards enhancing the role and importance of the board of directors at the expense of other stakeholders. For instance, the Securities and Exchange Commission (SEC) in collaboration with the Corporate Affairs Commission (CAC) adopted "Code of Corporate Governance in Nigeria" as the code of best practice for corporate governance in October 2003. The two regulatory institutions maintain that "the main target of the Code is the Board of Directors as leaders of corporate governance." They however added, "we believe that one of the ways to improve the standard of corporate

governance is to ensure that all stakeholders have a clear understanding of their roles.” In spite of this believe, the Code merely interprets “stakeholders” which “means but not limited to directors, employees, creditors, customers, depositors, distributors, regulatory authorities, and the host community(s).” This paper, while not trivializing the importance of the board of directors, argues in favor of a structure that inclusively accommodates all stakeholders as “essential publics” in corporate governance equitably.

II. An Overview of Corporate Governance

Some management literatures have confused the distinction between ‘management of a company’ and ‘governance of a company’. Essentially, *The management role is primarily perceived to be running the business operations efficiently and effectively which includes the product design, procurement, personnel management, and production, marketing and finance functions within the boundaries of the company under which it trades.*

By contrast, however, the governance role is not concerned with the business of running the company, per se, but with the directors giving overall direction to the enterprises, with overseeing and controlling the executive actions of management and with satisfying legitimate expectations for accountability and regulation by interests beyond the corporate boundaries: ‘If management is about running business; governance is about seeing it is run properly. All companies need governing as well as managing’ (Sheikh & Chatterjee, 2000p.6).

Corporate governance is therefore “the nuts-and-bolts of how a public company fulfils its responsibilities to investors and other stakeholders” (McRichie, 1997p.1). The need for corporate

governance stemmed from “expectation gap” problem which arises when the behaviour of corporate enterprises falls short of the shareholders’ and other stakeholders’ expectations. Consequently, it becomes necessary that these interest groups take actions to address this inadequacy. According to Oboh (2004p.4), what constitutes the quintessential of corporate governance is “the exercise of power over an enterprise’s direction, concern for the effects of the enterprise on other parties and especially the environment and the acceptance of a fiduciary duty to be accountable.” Effective governance should necessarily involve a system, which links the supplementary roles of all the stakeholders (World Bank, 1999), as shown in Table 1.

Corporate governance embodies the legal and regulatory framework governing the actions of companies, their policies and controls. It has to do with decision-making at the heart and highest level of an organization. Good corporate governance consists of a system of structuring, operating and controlling a company in order to achieve the following objectives:

- Fulfilling the long-term strategic goals of owners;
- Considering and caring for the interests of employees;
- Taking accounts of the needs of the environment and the local community;
- Working to maintain excellent relations with both customers and suppliers; and
- Complying with all the applicable legal and regulatory requirements.

In effect, corporate governance has to do with giving answers to the questions of what, when, where, and how authority should be exercised by any of these identified stakeholders.

Nos.	Key Players	Roles
1	Shareholders	Responsible for appointing good and competent directors.
2	Board of Directors	Sets policy and appoints good & competent management.
3	Management	Carries on business with established policy.
4	Audit Committee/ Internal Audit	Tests compliance with policy.
5	External Auditors	Express opinion and evaluate risk management policies.
6	Outside Shareholders:	
	The Public	Understands responsibility and insists on proper disclosure.
	Donors & Creditors	Assess financial conditions & operating results.
	Investors/Depositors	Responsible for own decisions.
	Analysts	Analyze performance and advice investors & depositors.
	Credit Rating Agencies	Carry out fair & impartial rating. Point out downside risk.
	Media	Inform the public.
7	Regulators	Create regulatory framework to optimize risk management.

Source: Adapted from World Bank Research Working Paper, No. 2061, 1999.

The basic issue in this contemporary management technique pertains to how much authority should be retained by any of the stakeholders and when and

where the brakes should be applied in the exercise of the authority. Corporate governance is also a ‘social contract’ between the company and the wider

constituencies of the corporation which morally obliges the corporation and its directors to take account of the interests embracing wider constituents in relation to the entire corporation such as employees, creditors, consumers, suppliers, the government and the broader community. It is also concerned with the ethics, values and morals of a corporation and its directors (Sheikh and Chatterjee, 2000). It has been widely argued that corporate governance greatly reduces agency costs (agency costs refers to "the loss incurred by the shareholders as a result of management behaviour which deviates from the maximization of shareholders' wealth plus the costs of mechanisms which is employed to control such behaviour" (Parkinson, 2000p.81), which threatens corporate efficiency (Parkinson, 2000). Under the agency principle, the directors' topmost priority is the maximization of shareholders' wealth, which minimizes the sacrifice of profit for 'socially responsible' purposes. However, corporate governance is designed for the efficient operation of the enterprise by giving due considerations to the shareholders while at the same time being responsive to desirable profit-sacrificing socially responsible requirements.

III. The Features and Significance of Corporate Governance and Control in Banking Institutions

Corporate governance is culture-specific and, indeed, industry-specific. The Basel Committee "encourages practices which can strengthen corporate governance under diverse structures". While there are several corporate governance issues that are common to both non-banking and banking institutions, there are several reasons to justify separate handling of corporate governance in banking institutions. Liu (2002) lists the predominance of depositors' funds (see the Nigerian example in table 2), which have priority claim in liquidation, and bank runs, as reasons requiring distinctive corporate governance approach in banks. Another argument by Rajan & Zingales (2000) maintains that service organizations such as software, advertising agencies, consultancy and financial institutions require human capital far more than physical assets. It is not the ownership, but access to these critical resources that is more important. Such organizations would therefore require different approaches to corporate governance.

Table 2. Critical Corporate Governance Ratios in Nigerian Banking Institutions

	Funds Ratios		Assets Ratios
	Deposits:Equity	Deposits:Total	Fixed:Total
Commercial Banks	2.45	0.45	0.07
Merchant Banks	1.44	0.30	0.08
Community Banks	2.58	0.56	0.11

Note:

- Data was obtained from the 2002 Statistical Bulletin of Central Bank of Nigeria.
- Data on commercial banks, except for *deposits: total funds* ratios which is for 2000 fiscal year only, are aggregated over 2000, 2001 and 2002 fiscal years.
- Data for merchant and community banks are in respect of 2000 fiscal year only.
- All data relate to aggregates in the entire sector.

Furthermore, by their nature, banks are semi-public institutions. Banking is essentially a service business of intermediation. Consequently, banking strives on trust and confidence, which can be easily eroded by unethical practices. It is for this reason that banking is the most regulated industry in the economy, be it market or command (Ogunleye, 2000). In Nigeria for instance, the CBN can purchase any distressed bank with just one Naira! In essence, external governance mechanisms have a profound influence on corporate governance of banks. Table 3

illustrates some of these basic differences between banks and non-bank institutions in Nigeria.

It follows therefore that the tripartite relationship between a company's directors, its shareholders and auditors, which has existed for long to the exclusion of other stakeholders in corporate governance, would no longer be effective in modern banking institution. Depositors, employees, and the communities have attained a rising importance in corporate governance of financial institutions, which must not only be recognized but must also be reflected in corporate governance and control.

Table 3. Critical Corporate Governance Issues in Banks and Non-Banks

Critical Issues	Critical Differences	
	Banks	Non-Banks
Nature	Semi-Public	Either Public or Private
Regulations	Heavily Regulated	Regulated Ordinarily
Predominant Capital	Human	Fixed
Deposits	Predominant	Uncommon
Prior Claim in Liquidation	Depositors	Secured/Preferred Creditors
Deposit Insurance	Common	Uncommon
Products	Services	Tangibles/Services

Thus, Williams' (1996) stakeholders' model appears to be the most appealing to the banking industry today. This view is supported by the Basel Committee, which maintains that sound corporate governance considers the interest of all stakeholders, including depositors, whose interest may not always be recognized. From the banking perspective, corporate governance aligns corporate activities and behaviours with the expectation that banks will operate in a safe and sound manner, and in compliance with applicable laws and regulations while protecting the interests of all stakeholders. The Basel Committee has issued several papers on topics that can be of great assistance in carrying out these activities¹⁶. These codes of best practice are important tools in corporate management reforms as they raise awareness and build consensus on issues relating to corporate governance (Oboh, 2004).

IV. Shareholders' Role in Corporate Governance

Shareholders have ownership stake in a corporate organization. However, ownership became so dispersed over time that control was shifted to managers. This has restricted the traditional role of shareholders to appointing the directors and auditors and to satisfying themselves that an appropriate governance structure is in place. Not only has this made the shareholders passive, it has also made the alignment of the Chief Executive Officers' (CEOs) interests with those of the shareholders very difficult. Literature discusses that the shareholders are less sensitive to corporate governance, especially in monitoring the firm to ensure that benefits are not diverted to the managers (Aggrawal and Klapper, 2003). These issues become even more relevant in the Nigerian environment with its weak legal enforcement of shareholder protection law. Unfortunately, the shareholder is told by the system to love it or leave it; "hold your nose or sell out" (McRichie, 1997). This has given the directors a free ride while the shareholders' control remains only in theory. Sheikh and Chatterjee (1995) observed that:

The illusory nature of the control theoretically exercised by shareholders over directors has been accentuated by the dispersion of capital among an increasing number of small shareholders who pay little attention to their investments, so long as satisfactory dividends are forthcoming, who lack sufficient time, money and experience to make full use of their rights as occasions arise and who are, in

many cases, too numerous and too dispersed to be able to organize themselves" (p.10).

The law does not consider the ultimate power of corporate control to rest with individual shareholders but only with the collective body of shareholders at a properly convened meeting. There is a particular problem that derives from this requirement – opportunities for shareholders to exercise their voting rights are often missed. Thus, the organizational task in the exercise of the right to franchise is more complicated than enthusiasts for shareholder participation in corporate governance and control realize it. It is doubtful today if the maxim of shareholder democracy is achievable in spite of the normative appeal. In Nigeria, the concept of shareholder democracy is an anachronism in that individual shareholders are hardly able to influence corporate direction unless they have sufficient and dominant shareholdings (Yakasai, 2001). The much talked about protection of the shareholders' interest, for instance, starts and ends in the boardroom (Phan, 2001).

With the shrinkage of 89 banks to 25 through consolidations and mergers on January 2006 in Nigeria, the banks' ownership structure is more than ever before widely spread and diversified. This is consistent with Aggrawal and Klapper's (2003) report that the studies of industry and ownership structure in Western Europe have revealed that shareholdings in large firms and financial firms tend to be more widely held. Separation of ownership from control is expected to manifest more and hence increasing agency costs and directors' dominance. In an environment where a large portion of ownership is disinterested, the CEOs are apt to take advantage by improper actions to benefit themselves at the expenses of the other stakeholders. Although the Failed Bank Act of 1994 attempts to prevent directors from evading justice by exploiting technicalities, inefficiencies and loopholes in the legal system, a more proactive action is needed to protect the shareholders' interests against domineering and dubious directors. The current legal impediments imposed by the Companies and Allied Matters Act (CAMA) of 1990 on shareholders participation in corporate governance should be revisited with an aim to make monitoring of management more feasible by shareholders and to ensure that directors' actions reflect all stakeholders' interests. In doing this, a leave could be borrowed from the Employment Retirement Income Securities Act (ERISA) of 1974 in America where owners are legally required to follow issues of corporate policies and influence same, as they may desire without legal constraints. However, the experience of abusive ownership that caused polarization, lack of cohesion and exhibited disharmony of perception to the management team (Ogunleye, 2000), must be given adequate consideration.

1. These include Principles for Management of Interest Rate Risk (September, 1997), Framework for Internal Control Systems in Banking Organizations (September 1998), Enhancing Bank Transparency (1998), and Principles for the Management of Credit Risk (Issued as a consultative document in July 1999).

V. Employees and Corporate Governance in Banks

It has been estimated that employees' knowledge comprises 70% of all corporate assets and that the resources contributed by employees are greater than the financial investments of shareholders by roughly a factor of ten (Mehra, n.d.₁). The livelihood of most employees depends on the enterprise. Some may have made a greater investment than that of the shareholders in the business and may be regarded as having a greater interest in the future of the business for the same reasons. It is also a widely held notion in corporate circles today that human resource is the most valuable asset in an enterprise because it is impossible to convert "money capital" into products or services without "human capital". Employees in "knowledge" industries, such as banks, hold the key to additional wealth capacity in their training, skills and information networks (Blair, 1995). The success of a bank depends more on how the resources at its disposal are managed than the resources itself. It is human assets that produce superior market value (Financial Standard, 2005). In recognition of these facts, the involvement of employees (individuals and groups) in decision-making and the use of progressive human resources management practices and policies such as profit sharing and wage reward have become essential.

These practices focus on optimal integration of corporate and employees' needs.... If HR [Human Resource] management policies and processes are misaligned, failing to reinforce and synergize business rewarding strategy with corporate rhetoric, the performance of the employees would suffer (Oboh, 2004pp.10 & 11).

Green (2000p.147) advises that "the employees contributions to, and participation in, governance should be embraced in and through the executive route." He also warns that anything else amounts to undermining the importance of the workforce. The practical results of this approach is evident in the payoffs in some of the new generation banks in Nigeria, which have seen younger executives moving away from the uncompetitive, wasteful and unsustainable bureaucracy to sustainable good governance practices.

This calls for regulations that will enhance more employees' empowerment in the banks' corporate governance. Achua's (2005) call for the incorporation of inputs from the America's Sarbanes-Oxley Act of 2002 to enhance employees' empowerment in corporate governance in Nigeria is pertinent here. For instance, the Sarbanes-Oxley Act mandates audit committees to provide employees with the opportunity to submit confidential and anonymous concerns regarding questionable accounting or auditing matters. The Act also protects whistleblowers (also known as squealers) at public companies by granting statutory rights to informants and imposes criminal penalties (fines or imprisonment) for

retaliating against informants. This could support responsible behaviour and build environments in which employees take initiatives to address misconduct rather than waiting until after the damage has been done.

Productivity was the sole concern of the industrial economy. This has changed. Diversity, dissent and difference are prominent features of the modern economy. It is the clash of ideas that sparks creativity and innovation. This requires industrial harmony in the face of the fast growing well-enlightened workforce, hard economic conditions and technological breakthroughs.

An aggrieved workforce could be dangerous to banks. This calls to mind the collapse of Baring Brothers (a British merchant bank that was over 200 years old), through the mindless dealings of a 28-year old Nick Leeson at the bank's Singapore outpost! (Adedipe, 2004). Thus, a deliberate policy for the Nigerian banks to establish effective industrial relations machinery such as collective bargaining, grievances procedures, joint consultation and statutory channels is imperative. This necessitates the deliberate recognition and integration of the two frontline industrial unions – Association of Senior Staff of Banks, Insurance and Financial Institutions Employees (ASSBIFI) and National Union of Banks, Insurance and Financial Institutions Employees (NUBIFIE) – in the corporate governance of the emerging mega banks for industrial peace in the sector.

Managing human resource for optimum productivity in the banking industry requires appropriate training to harness dissent. In a heterogeneous society like Nigeria, the composition of the employees, and even the boards, should take care of diversity in experience, skill, gender, age and ethnic background to be more innovative. This approach combines the array of progressive human resource in certain patterns to attain synergistic benefits through an attractive and mutually reinforcing impact. Corporate governance is concerned with empowering people, spurring and pursuing innovation and improving efficiency (Mehra,n.d.₂).

VI. Corporate Governance and Depositors

The basic function of banks is financing. Depositors' funds constitute about the most important resource in the success of any bank and provide the needed liquidity for financing operations. In almost all banking organizations, equity and creditors' funds are negligible in comparison to depositors' funds (see table 2). Customers of Nigerian banks, in aggregate, accounted for between 83.75 per cent and 97.82 per cent of banks' business volume in the 1900s and early 2000 (Adedipe, 2004p.56). The depositors are therefore indispensable stakeholders in banking organizations and hence deserve their rightful place in the scheme of corporate governance and control.

Unfortunately, depositors' voice seems to be the least heard in banks' governance. As a consequence, they usually resort to massive withdrawals to register their protests when they are dissatisfied with the bank's performance. This is akin to shareholders selling off their shares when they are not satisfied with the corporate governance. Unlike shareholders, such depositors' actions almost always lead to bank runs with the consequences of bank distress. A frustrated depositor once lamented that "the banking system will never take you to paradise, but it can bury you in hell in an afternoon." (Carstens, Hardy & Pazarbasioglu, 2004). This is understood, especially in the Nigerian environment, where the laws have done so little to protect depositors. In 2004, the CBN Governor condemned the unethical manner in which the Nigerian banking system was being governed at the detriment of the depositors noting that:

A situation where a bank collapses due to negligence and mismanagement and the bank directors move about in their limousines while the poor depositors languish in pains is unjust and unfair (Soludo, 2004p. B4).

Perhaps in response to Uche and Osho's (1997) call, among others, for a rethink, the new NDIC Act of 2006, which repealed that of 1989, is a welcome development as it is intended to enhance depositors' protection. However, only time can attest to its efficacy. Corporate governance also demands an adequate, accurate, transparent and timely dissemination of information to depositors to enable them make informed decisions (Holland, 2000). Directors must also live up to their responsibilities of ensuring an effective risk management of depositors' funds in such a manner that optimum returns are achieved. Overemphasis on increasing shareholders' returns and directors' remunerations at the risk of depositors' funds is not a good corporate governance practice. This re-emphasizes the pertinence of adopting, and adapting, the Sarbanes-Oxley Act of 2002 into the Nigeria's corporate governance machinery as a whole, and the banking sub-sector in particular. Adeyemi (2005) has succinctly prescribed that "identifying what your customers want and giving it to them is what business is all about." In the same vein, Ehinlaiye (2005) has solicited that not only should customers be treated as kings, but as guests to make them feel wanted by banks at all times. This will evolve contented and happy customership while placing the bank on a pedestal of friendliness. After all, the intense competition in the banking sector has made it a buyers market.

VII. The Community and Corporate Governance in Banks

Banks operate within the community. These communities are becoming more enlightened and are constantly demanding to exercise their corporate governance rights. This is because "banking is too important and sensitive to be left to bankers alone –

the business strives only on public trust and confidence" (Okeke, 2004p.75). More so, with the "Soludo solution", the role of the emerging mega banks will certainly become so important to its operating communities. The way in which these banks discharge their social responsibilities is of immediate concern to everybody. To be socially responsible and relevant requires corporate social responsibility, which is an organization's commitment to operate in an economically and environmentally sustainable manner while recognizing the interests of all its stakeholders (Carrol, 1991).

Corporate social responsibility includes corporate activities such as cash donations to charities, sponsorships, job creation programs, protecting the environment, and the likes. Corporate social responsibility also demands effective public relations. The relevance of public relations in banks is obvious. Public relations are relevant to banking because the public demands it (Nwankwo, 1991). For a more positive impact, corporate social responsibility must be integrated into the strategic objectives of the organizations. It is instructive to note that corporate social responsibility is an indispensable component of corporate governance.

The key players in the banking sector are expected to go beyond mere compliance with existing regulations and impose self-regulatory systems on themselves in order to satisfy the diverse expectations of banks' local communities, and indeed, their entire environment. The relationship between the success of a bank and friendliness with its environment is highly correlated. The ugliest truth is that banks cannot continue to increase in value in an environment that is suspicious, hostile and threatening (Monks, 2002). This is an agenda for corporate governance of the new structured banks in Nigeria for the future.

VIII. The External Mechanisms of Corporate Governance in Nigerian Banks

Governance mechanisms are institutions, which facilitate coordination of economic behaviour (Thomsen, 2001). By their nature, banks are heavily regulated. Regulation and supervision are the most effective factors affecting corporate governance. In Nigeria, this has become a predominant factor because of reforms aimed at curbing the protracted banks' distress that began in 1986 with the introduction of Structural Adjustment Program (SAP), which consequently proliferated the number of banks. The CBN, as part of its several reforms of the banking industry, affects corporate governance in banks tremendously. This pertains to board composition, qualification for board appointment and clearly spelt out consequences for lack of transparency, accountability and responsibility. The CBN therefore regulates those who manage the banks. It is instructive; therefore, that CBN takes the effects of its decisions on banks into consideration. Linah Moholo, the Botswana's award-winning central banker, puts it

succinctly that “decisions taking in central banking have to be definitive since they affect the entire nation” (Irving, 2004p.4). In the same vein, “Bank of America respects the rights of indigenous communities whose livelihoods or cultural integrity could be adversely impacted” (Baue, 2004p.2).

The CBN is supported in its role of external corporate control of the banking industry by laws and agencies such as the Banks and Other Financial Institutions Act of 1991, Nigerian Deposit Insurance Corporation Act of 2006, Money Laundering Act of 1995, Nigerian Drug Law Enforcing Agency, and Economic and Financial Crime Commission, among others. Oboh (2004p.16) notes that this development has “salutary effects in the management, discipline and good governance of banks while increasing the shareholders wealth in the process.”

However, external influences could as well constitute a cog in the wheel of good corporate governance in banks. For instance, Orsaah (2005) has attributed the collapse of ICON Limited (Merchant Bank) to excessive regulation by the CBN. This supports the view of Sheikh and Chatterjee (2000) that control and regulations carried to excess may defeat their own object and hence their emphasis on the importance of not placing unreasonable fetters upon business which is conducted in an efficient manner. They further argue that mere compliance with regulations does not necessarily make a good citizen or company. Institutional features that interfere with good banking practices may be one reason why certain countries tend to have repeated crises (Carstens, Hardy & Pazarbasioglu, 2004). We need to move away from the prescriptive rule making to the ground realities of business (Mehra, n.d.₃). Supervision and regulation must adapt to new challenges by evolving marketing practices and by pursuing policies that foster financial sector soundness by enshrining a broad consensus of all stakeholders’ interests. This could be achieved through self-regulation.³ It is the more desirable approach since those responsible for enforcement would have greater power and authority, better access to information and detection of violations, easier interpretation of violated rules and more natural definition and execution of punitive measures to suit violations (Osaze, 1983).

IX. Conclusion and Suggestions

The Nigerian banking institutions have been striving in a turbulent macroeconomic environment since the

³ Self-regulation is defined narrowly as the system of checks and reviews put in place by an institution to ensure that no party diverts corporate resources for private gain. Broadly, it can be defined to include private-member organizations, called Self-Regulatory Organizations (SROs), which aim at maintaining high standards of integrity and fair dealing amongst its members (Umoh, 2000p.44)

introduction of SAP in 1986. Many of these banks have given up at the detriment of the economy. The attendant reforms made so far in this sub-sector will yield positive results only if these institutions astutely understand, and articulately apply, the concept of corporate governance and control as it affects all stakeholders. This is an innovative alternative banking practice that caters appropriately for the needs of all stakeholders in sharp contrast to the conventional banking that often marginalizes most stakeholders. The existing reforms, though potentially worthwhile (Ford, 2006), may even be harmful if corporate governance and control is missing. It is instructive to heed to Soludo’s (2005) warning that Nigerian banks cannot afford to slip off on any area of corporate governance. In today’s borderless economy, this is not an option. It is a necessity. Gone are the days when only the shareholders and the directors held sway in corporate governance and control. In today’s business, corporate governance and control is a complex chain of interrelationships⁴ that can be ignored only at great costs.

The following suggestions are pertinent in rectifying the existing corporate governance anomalies in the Nigerian banking industry:

- a. The Companies and Allied Matters Act of 1990 and the Banks and Other Financial Institutions Act of 1991 should be reviewed with the aim of giving due recognition to all the stakeholders and adequately empowering them. The Code of Corporate Governance in Nigeria and the Corporate Governance Code for Banks and Other Financial Institutions in Nigeria should be reviewed to include clearly spelt out the importance and roles all the essential publics in corporate governance: directors, employees, creditors, customers, depositors, distributors, regulatory authorities, and the host community(s).
- b. The role of the Nigerian Stock Exchange should be strengthened to impose stricter requirements to maintain maximum transparency, accountability and due disclosure by banks. This is healthier than administrative controls by fiat.
- c. For corporate governance to be effective, there has to be a culture that goes beyond mere compliance with regulations by banking organizations. Banks should therefore establish their ethical business

⁴ In the banking institutions, for instance, shareholders invest their funds and appoint directors. Directors in turn engage the employees who generate revenue, under the directors’ supervision, from the spreads and fees accruing from the customers for the value they receive. The community provides the shareholders, directors, employees, the value system, patronage, hospitality, clemency and other services. The government directs and protects everybody as well as makes the environment conducive for business. The government in turn collects taxes from all the other stakeholders.

codes as a self-regulation in order to influence their behaviour. External mechanisms should be confined to general social ethical code while self-regulation takes care of firm-specific codes in order to attain socially optimum outcomes (Thomsen, 2001).

- d. More and more of the banking environment is coming to realize that corporate governance and control should be a daily concern, a measurement of investment risks as well as corporate reputation, and not just something to be examined retrospectively when things go wrong (Sherman, 2004). It therefore behooves on consulting firms to establish an appropriate mechanism of conducting meaningful “corporate governance

scoring”. The aim should not be just “rating” but “indexing”⁵ Rating essentially depends on analysis of financial data to evaluate company’s credit risks while indexing consists of analysis of non-financial factors to appraise company’s risks. Also, rating tends to imply discriminating companies’ while indexing puts emphasis on differentiating companies) of the banks as well (Okumura, 2004,).

- e. There is an urgent need for international organizations such as International Corporate Governance Network (ICGN) to facilitate a combined action of major institutions worldwide so that a global voice can reach the ears of corporate executives more easily and effectively. This is a challenge to CBN and NDIC.

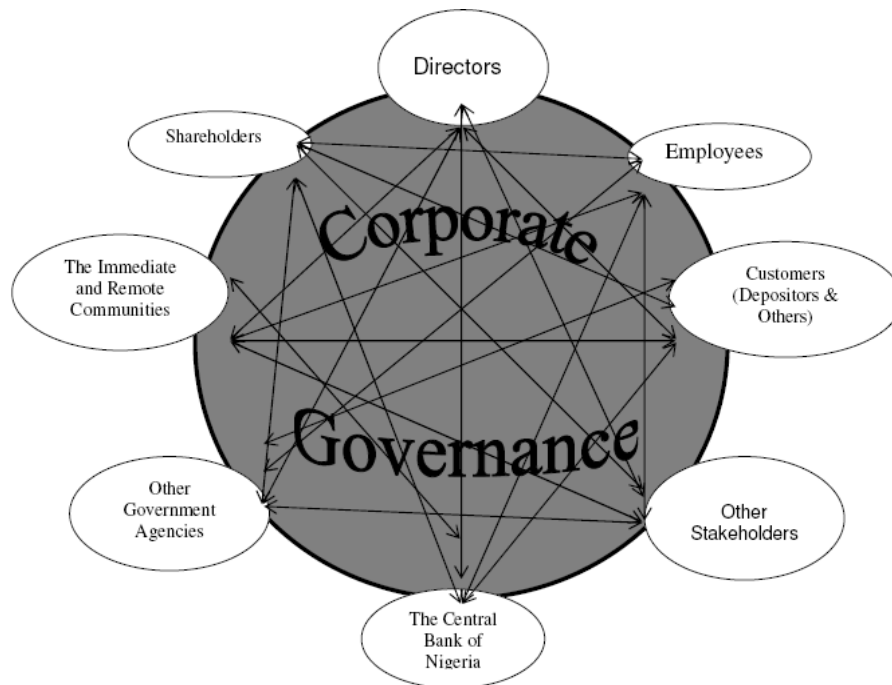


Figure 1. Corporate Governance Interrelationships in Nigerian Banking Institutions

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